DEVELOPMENT ADVOCATE
PAKISTAN

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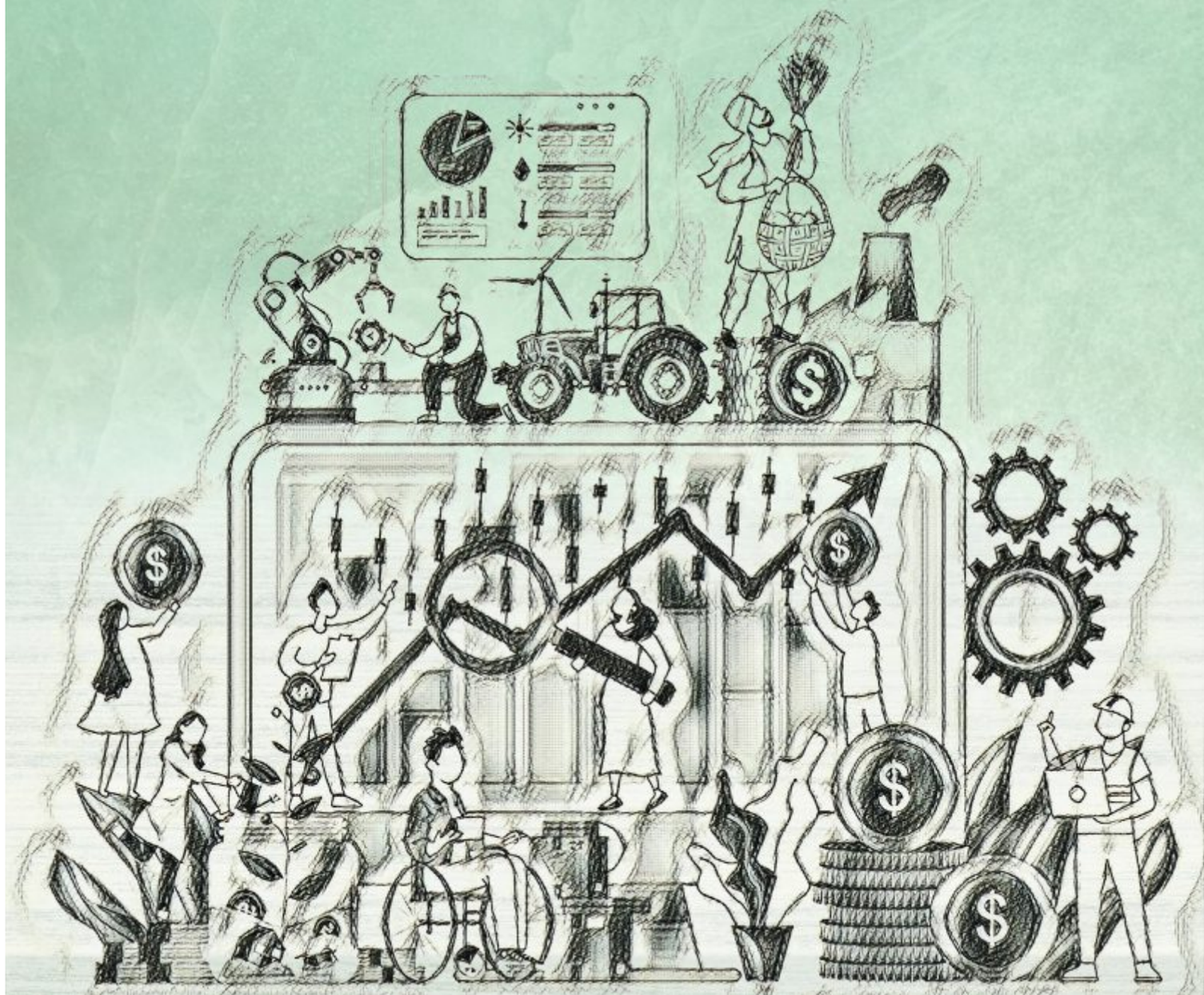
Inclusive Growth in Times of Uncertainty



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Development Advocate Pakistan provides a platform for the exchange of ideas on key development issues and challenges in Pakistan. Focusing on a specific development theme in each edition, this quarterly publication fosters public discourse and presents varying perspectives from civil society, academia, government and development partners. The publication makes an explicit effort to include the voices of women and youth in the ongoing discourse. A combination of analysis and public opinion articles promote and inform debate on development ideas while presenting up-to-date information.

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CONTENTS

Changing Gears on Economic Policy

"Innovations in economic foresight point towards a fundamental emerging need to align economic growth with diversified development outcomes. With other vital components impacting economic progress, it is time to look beyond GDP and reposition Pakistan's economic model."

By

Aliona Niculita

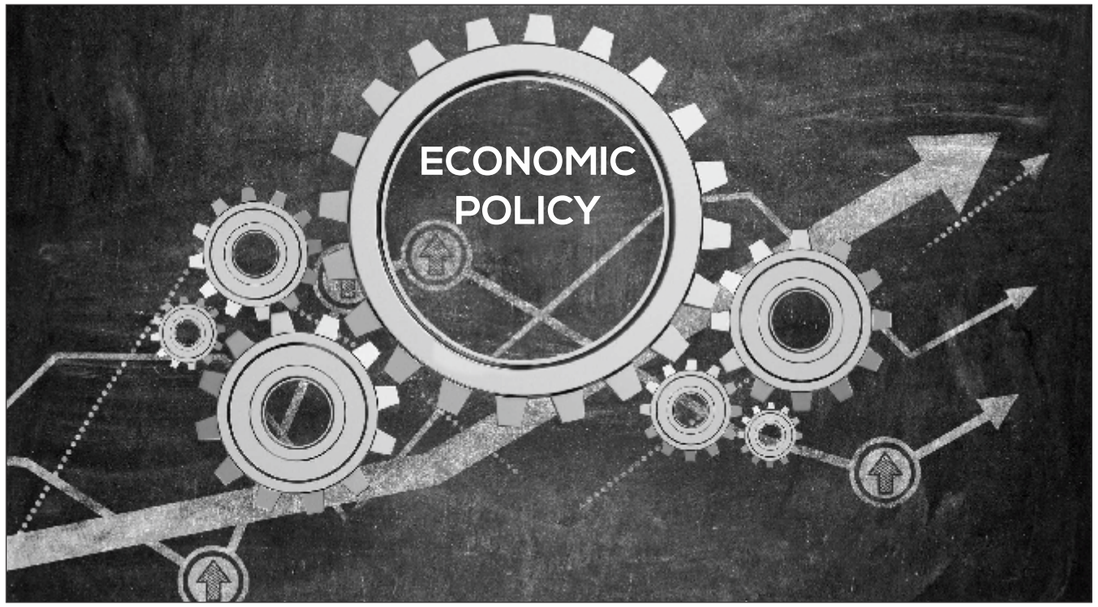
Resident Representative a.i.
UNDP Pakistan

While a series of setbacks have affected the progress on global sustainable development during 2021-2022 – pandemic and lockdowns, debt crises, inflation, food insecurity and conflict – there have also been gains in health, climate change, technology, and energy, among other areas. For instance, several countries' handling of the pandemic has produced significant health breakthroughs in vaccine development and revolutionised the world into a more tech savvy space. Today, one of the biggest challenges for policy and thought leaders is to configure innovative ways for managing/overcoming multiple challenges while also leveraging the many opportunities they offer.

The domino effects of the pandemic and its concurrence with the ongoing conflict in Ukraine have created a looming global economic crisis, upending the world order as we have known it. The pandemic deepened the cracks of inequality, leading several countries down the treacherous path of borrowing to salvage economic solvency. The global scenario appears bleak, with even developed countries now reeling from its after-effects.

In the Asia-Pacific for example, countries like Sri Lanka, Afghanistan and Pakistan are facing a grave 'debt distress' and forced to make difficult decisions of budget cuts on critically needed development spending. As UNDP's recent policy analyses show, Sri Lanka's prolonged external borrowing, a deteriorating social sector, rising inflation, and indefinite negotiations with the IMF brought the country to the state of economic default. With its gross foreign exchange reserves only enough to procure less than 1.5 months of imports, and a massive debt and fiscal crisis characterised by a unique twin challenge of illiquidity and insolvency, Sri Lanka needs an extensive systematic rollout focused on mitigating the downward economic spiral as quickly as possible. Meanwhile, moderating its human development impacts is also critical. Similarly, UNDP's research on Afghanistan shows that the ongoing humanitarian and economic emergency in the country is located in deep structural and policy imbalances, that need to be corrected to preserve the gains made in the last two decades. An estimated 97 percent of Afghans could be living in poverty by mid-2022, and with commodities pricing skyrocketing globally, sustaining even basic needs such as food, healthcare, and education, have become an everyday battle for locals/people of Afghanistan.

Pakistan is currently facing similar economic challenges. While it witnessed a growth of 5.97 percent in FY2022 – the second highest in the last 14 years – it is currently faced with a debt excess of approximately USD 250 billion, rising from 57.9 percent of the GDP in 2013, to 74 percent of the GDP in 2021. It is experiencing soaring inflation (increased to 13.8 percent in May 2022 from 12.7 percent in March 2022, the highest in the last two years). The country is also facing a stubborn twin burden of Current Account Deficit (USD 13.2 billion for FY2022 as compared to USD 543 million in FY2021), and fiscal deficit is forecasted to increase to 6.3 percent of the GDP in FY22. Additionally, Pakistan faces a trade imbalance, with the trade deficit (July-April FY2022) reaching USD 32.9 billion as compared to USD 22.0 billion in FY2021, and depleting foreign exchange reserves resulting in currency devaluation. The national tax base remains very narrow, resulting in a low tax-to-GDP ratio: in FY2022 (Budget estimate) taxes formed only 12 percent of the GDP, depicting the huge revenue gap that is required to meet public expenditures.



For developing countries like Pakistan, political stability combined with good governance and a dynamic strategy for managing sovereign debt and public finance with support from development partners, is the minimalist formula required to overcome these financial and economic challenges. There is a dire need for home-grown solutions that are centred around the principle of sustainability and self-sufficiency.

UNDP's Pakistan National Human Development Report 2020 on the 'Three P's of Inequality: Power, People, and Policy' establishes the need for increasing outlays on human development and social protection, creating policies and reforms to bridge socio-economic gaps, and promoting decent work and gender equality, as essential levers to mitigate effects of inequality in promoting sustainable development. Broadening the tax-net, rationalizing government expenditure, and increasing productivity to boost exports and curtail non-essential imports are viable alternates to address the burgeoning debt crises.

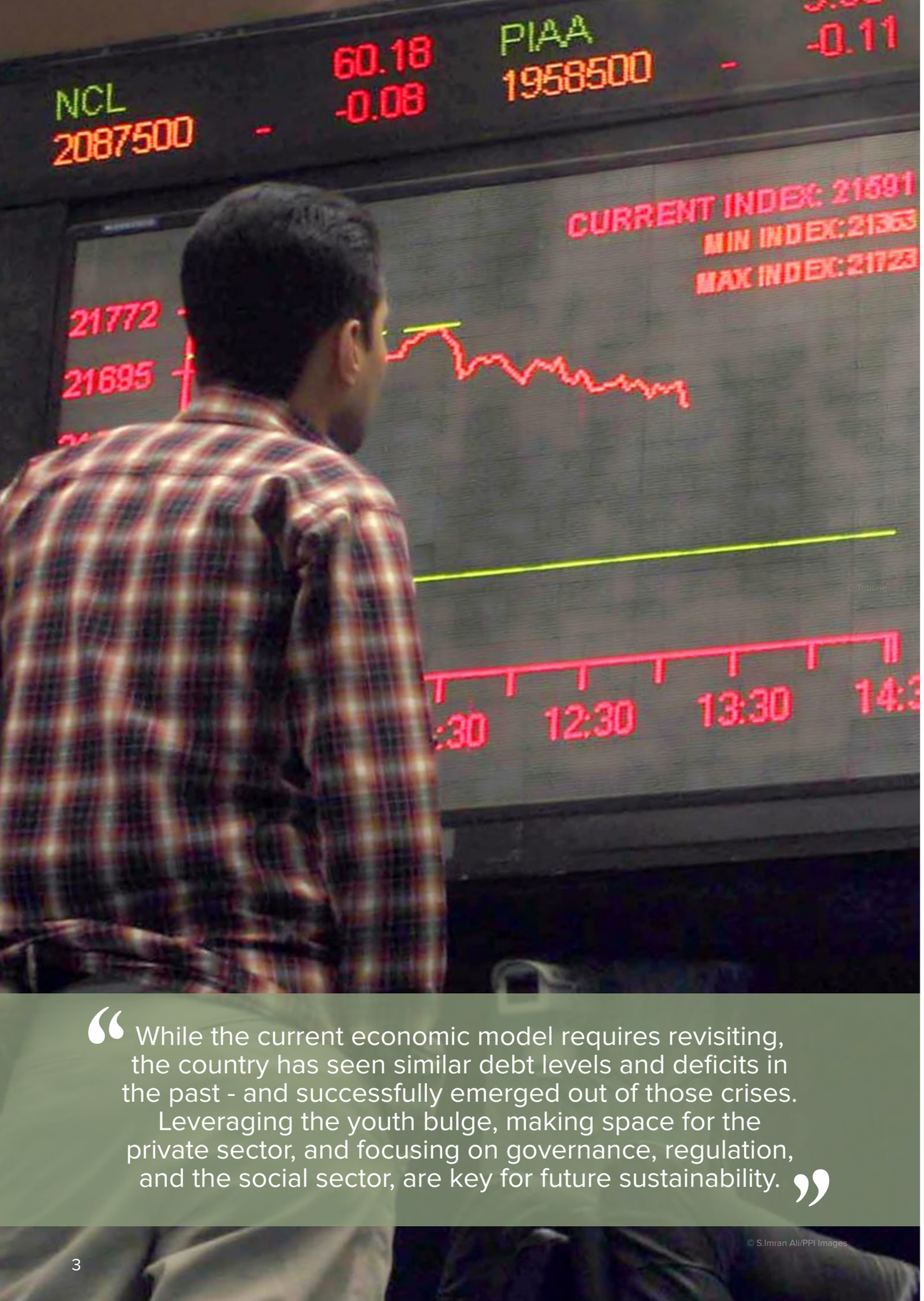
Leveraging alternative financing mechanisms, including private sector investments in SDGs-aligned development projects and climate financing instruments such as green bonds, can help to decrease reliance on external borrowing and avoid the current account deficit. Provision of incentives to the private sector, with allowance for the sector to manage supply in major industries, such as electricity, and encouraging local investments from individual small-time investors is crucial to creating a sustainable investment model. Leveraging climate financing instruments and tapping green and blue economies through employment and expanding their product base, can be core pillars of a sustainable economy.

Pakistan offers multi-billion-dollar investment opportunities in transport and logistics, renewables and alternative energy, healthcare, education, technology, and communication. The country has implemented key reforms to improve ease of doing business, encouraged public-private partnerships, and hails a market size of roughly 220 million people.

With the Agenda 2030 clock ticking, Pakistan is faced with an urgency to optimise the quality and structure of its economic stabilisation and growth policies, if it aims to be one of the top ten economies of the world by 2047. It needs to move towards investment-based export-led growth powered by renewable energy. Such growth needs to be supplanted by a high productivity services sector and a flourishing agriculture sector, that may help import substitution of essential food items.

This would only be possible through investments in human capital and aligning the national economic policies to the globally accredited Financing for Development paradigm. Fully utilising youth potential, positioning women as power-agents of economic growth and prosperity, and channelling marginalised segments of society into sustainable and community-driven social safety nets, can reduce burdens on the state and accrue overall benefits for the economy.

Innovations in global economic foresight point towards a fundamental emerging need to align economic growth with diversified development outcomes. For decades, GDP has been viewed as the sole indicator of economic growth. However, now with other vital components such as environment, social sector dynamics and inclusion directly or indirectly impacting economic progress, it is time to reimagine and reposition Pakistan's economic model. This is where the transition to robust economies centred on Financing for Development comes into motion, and where social impact-led investments can power economic growth.



"While the current economic model requires revisiting, the country has seen similar debt levels and deficits in the past - and successfully emerged out of those crises. Leveraging the youth bulge, making space for the private sector, and focusing on governance, regulation, and the social sector, are key for future sustainability."

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The Economic Journey: Muddling Through

"Pakistan has been experiencing an economic downfall post the 1980s. With the average growth rate starting to decline continuously, the balance of payment crisis has been frequent; and today, the country is on the verge of a default-like situation for the second time in three decades."

By

Ali Khizar

Journalist and Economist

When Pakistan came into being in 1947, it did not have any manufacturing base and had to import most food. Nevertheless, the country progressed significantly in the first four decades, with an average GDP growth rate of 5.2 percent. The industrial base developed in the 1960s, and two major dams were built simultaneously. The nationalization spree in the 1970s regressed industrial development, but growth momentum peaked in the 1980s with an average GDP growth rate of 6.4 percent. Ever since then, there has been an economic downfall. With the average growth rate starting to decline continuously, the balance of payment crisis has been frequent; and today, the country is on the verge of a default-like situation for the second time in three decades.

The country progressed on the external money flowing to support the consumption needs of a growing population, while its export base could never lift off. Earlier, it was geopolitical rent in the shape of aid and development loans that fueled growth. And in the last two decades, remittances became the prime financier of the growing import demand. In both cases, foreign capital is being deployed in consumption and unproductive assets (like real estate), while economic productivity did not grow in tandem. As a result, with the growing population and demand in absolute terms, the balance of payment crisis has frequented, and the constrained growth levels have come down to below four percent.

Financially empowering the fiscal federating units in the last decade (after the 18th amendment and 7th NFC award) has further weakened the federal fiscal position, which has resulted in the higher accumulation of debt. The responsibilities of energy and other subsidies, support of marginalized populations (through Ehsaas/BISP), defence, and debt servicing rely solely on the federal government. At the same time, the provinces get the lion's share of tax revenues without assuming any responsibility for prudence. Meanwhile, the political divide amongst provinces has exacerbated the situation.

> Energy is a key challenge: The power sector circular debt has grown to unmanageable levels in the process, whereas gas circular debt is building on a similar trajectory, with supply increasingly being shifted towards the imported RLNG.

This is the stock of the situation at a broad level. The country has digressed towards an unsustainable economic path for the past thirty-five years. First, there is a case of institutional decay and nepotism that has derailed economic and social governance. Then, the government's footprint has increased in food and energy markets, which has created circular debts in both markets. Two out of the three recent balance of payment crises have been worsened by the respective federal government not passing on the increase in the international petroleum prices to the consumers. In reality, the politics of petroleum prices have accelerated the crises - evident in what happened in 2008, and now in 2022.

In the power sector, the government is the sole buyer and seller of grid electricity. The structure of Independent Power Producers (IPPs) is lopsided with guaranteed returns for investors, while the risk of pricing and demand is being shifted to the government. Had the government not been the sole buyer of electricity, it could have moved the risk towards the IPPs. However, that never happened. Since the government could not pay the IPPs on time due to growing gaps in costs and revenues, the risk of IPPs kept on increasing, and the return on IPPs increased with every successive power policy. The power sector circular debt has grown to unmanageable levels in the process. The story of gas circular debt is building similarly where the supply is increasingly being shifted towards the imported Re-Gasified Liquefied Natural Gas (RLNG), while buyers are not willing to pay the premium.

Another circular debt brewing is that of wheat. Again, the government is in the business of setting prices and procurement. With demand growing amid stagnating production, the indigenous supply is insufficient to feed. The gap between the cost and sale is leading to another circular debt.

The problem today is the growing debt (both above and below the line), and its servicing. The overall fiscal structure is unsustainable, where the federating units have to share the gaps in energy and food commodities.

The federal and provincial governments should move away from setting prices in energy and food markets. It will provide space for private sector companies to come in, and overall economic competitiveness can improve with private efficiencies.

Today, the economic fundamentals are weak, and the current model is not sustainable. However, the country has seen similar debt levels and deficits in the past - and has come out of these crises too. Today's situation is not much different from what was

> Growing debt and its servicing is a huge challenge. The overall fiscal structure is unsustainable, where the federating units have to share the gaps in energy and food commodities.

in the late 1990s. Change in the geopolitical situation after 9/11 created an opportunity, and the then government's privatization and deregulation policies (in telecom and banking sectors) paid dividends. Today, similar policies are required in the energy and food markets. Then, governance can improve using technology.

Pakistan is a vast and diversified market. There is immense potential due to its youth bulge. However, the country needs to bring the fiscal house to push investors to finance the current account deficit, which is necessary for a sustainable growth path. In addition, the government should focus on governance, regulation, social sectors (health, education, and environment), and tax collection. It should also let the private sector run markets and lure investment in industries where the country has a comparative and competitive edge to bring the economy back on a sustainable growth track.

Leaving No Stone Unturned: Towards Sustainable and Inclusive Growth

> “Serious challenges of current account deficit, depleting foreign exchange reserves, massive devaluation, and high inflation require immediate short- and long-term interventions.”

By

Miftah Ismail

Federal Minister for Finance and Revenue

Pakistan has a thriving and resilient economy. Over the past several years, it encountered several challenges, of which terrorism was a major one. This severely deteriorated the economic, social, and political fabric of the country. Such consistent large-scale losses require years to recover and achieve sustained growth. While Pakistan's economy was on the path to recovery, COVID-19 struck and adversely affected the economic stability of the country. Nonetheless, Pakistan's economy has improved significantly at the macro level due to well-coordinated fiscal and monetary policies, and the resilience of the people of Pakistan. However, there is always room for improvement, especially when a country is faced with serious challenges of current account deficit, depleting foreign exchange reserves, massive devaluation, and high inflation.

Given the structural issues faced by Pakistan's economy, there is no single policy reform or easy solution that could help transform the country into economically stable and prosperous in the short term. Pakistan's economy needs both short as well as long term measures for proactively tackling the current economic impediments. Some of the major areas in which policy interventions are required include structural reforms, improving the investment climate, and facilitating universal financial inclusion.

There are a number of structural issues in the economy of Pakistan that slow down the overall growth rate. Reforms are required in different segments of the economy including the export sector, regulatory environment, privatization and de-regularization of State-Owned Enterprises (SOEs), tax administration,

Priority Areas

- Need for structural reforms.
- Facilitating financial inclusion.
- Improving the investment climate.
- Prioritizing the digital economy.

> “The present government is focusing on a new economic model based on structural reforms, improving the investment climate, and financial inclusion, through collaboration with Micro-Finance Institutions, for achieving inclusive and sustainable economic growth.”

inclusion of the informal economy, and more focus on the digital economy. Post-pandemic era calls for prioritizing the digital economy to aid sustainable growth in the modern world. The digital economy has the ability to significantly reduce transaction cost by facilitating remote work that will not only improve efficiency and productivity, but will also reduce the demand of fuel to a significant extent. Furthermore, a technology based local network of agriculture producers and agriculture markets with the objective of reducing the 'information asymmetry', and for doing away with 'middle-men', is also imperative. On the whole, such reforms would inculcate improvement in human resource development, innovation, employment rate, foreign direct investment, and growth of the digital economy.

Pakistan is dealing with the challenge of high debt. Improving the investment climate through reform policies is necessary. Fiscal management reforms will ensure generation of higher tax revenues leading to an increase in tax-to-GDP ratio. Well-developed taxation infrastructure is necessary for ensuring equity, inclusivity, and sustainability. On the same lines, tax reforms should focus on shifting towards direct rather than indirect taxation, simplification of the tax management system, and broadening of tax base through use of technology, for undertaking inclusive economic growth.

Financial inclusion is essential for strengthening financial institutions, efficient allocation of capital, improved access to credit, and sound risk management. The overall goal of financial inclusion is to ensure inclusive economic growth, and improving the incomes and livelihood opportunities for the lower strata of the country. Through social empowerment, financial inclusion has the strength to enhance gender-inclusive economic empowerment. Lack of access to financial facilities also cultivate the tendency of the larger informal economy, which not only leads to lower tax revenue collection, but also negatively impacts the productivity and transparency of economic growth.

Therefore, the present government is focusing on a new economic model based on structural reforms, and improving investment climate and financial inclusion, through collaboration with Micro-Finance Institutions (MFIs), for achieving inclusive and sustainable economic growth.

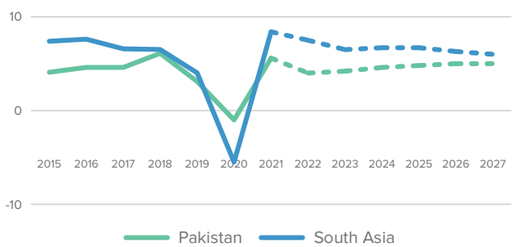
INFOGRAPHICS

Pakistan Fact Sheet

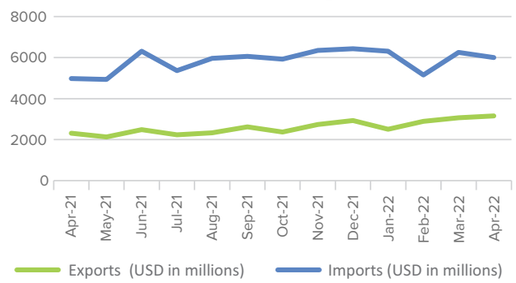
This Pakistan Fact Sheet captures the intricacies of the country's macroeconomic position and highlights the daunting challenges it faces. These include rising dependence on borrowing; narrow tax base with sluggish revenue generation; surging trade deficit; lack of investment in Pakistan; soaring inflation coupled with high-interest rates and plunging currency; elevated energy prices and subsidies denting the national exchequer; and rising food insecurity.

Time Trends and Forecast

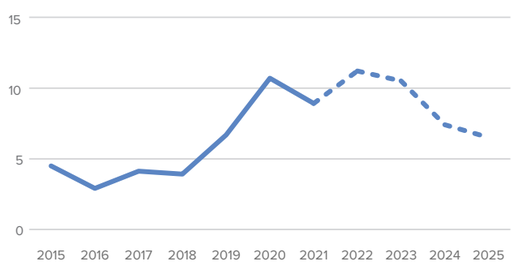
Real GDP growth recovered despite the pandemic, however another dip is expected in near future (Annual % and forecast)



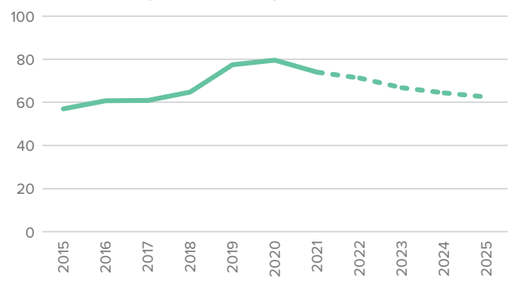
Despite sluggish growth of exports, the trade balance remains negative



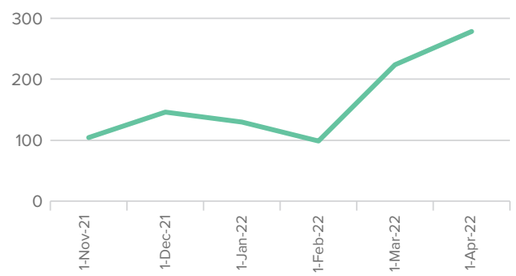
Pakistan is witnessing the highest inflation rate (annual percent change)



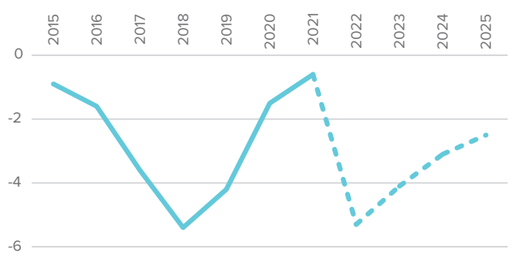
Almost 74% of GDP is financed by general government gross debt



Economic Policy Uncertainity Index: Pakistan's rank continues to rise



Despite improvement in the current account balance (as a percent of GDP), it is expected to decline



MACROECONOMY

GDP at Current Prices
347.74 (USD in billion) in 2022

Real GDP Growth Rate
4% in 2022

Total Debt & Liabilities
53544.3 (PKR in billions) Quarter 3-FY22

Fiscal Deficit
4% (as a % of GDP) Julu-March FY2022

FBR TAX Collection
4,375.6 (PKR in millions) Julu-March FY2022

Annual Inflation Rate
13.4% April 2022

Subsidies
459,289 (PKR in millions) 2021-22

Tax Revenue
12 (as a % of GDP) FY2022 B.E.

Forex Reserves
17,426.4 (USD in billions) March 2022

Current Account Deficit
13.2 (USD in billion) July-March FY2022

Foreign Direct Investment
2,161.9 (USD in million) July-March FY2022

Worker Remittances
2810.28 March 2022

BALANCE OF TRADE

Exports (BOP)
3154 (USD in millions) April 2022

Imports (BOP)
6001 (USD in millions) April 2022

Balance of Trade (BOP)
-2,847 (USD in millions) April 2022

INFLATION (ANNUAL %)

National	Food and Non-Alcoholic Beverages	Housing, Water, Electricity, Gas, and Other Fuels	Furnishing and Household Equipment Maintenance	Transport
13.8	17	7.1	14.7	28.3
2%	1%	-3%	4%	13%
Annual Compound Growth (April 2021-April 2022)	Annual Compound Growth (April 2021-April 2022)	Annual Compound Growth (April 2021-April 2022)	Annual Compound Growth (April 2021-April 2022)	Annual Compound Growth (April 2021-April 2022)

Major Challenges

Although the economy of Pakistan achieved a GDP growth of 5.6 percent in FY2021, the fiscal situation and external sector performance are making it difficult to sustain and are impacting growth outlook. The country faces several challenges:

RISING DEPENDENCE ON BORROWING

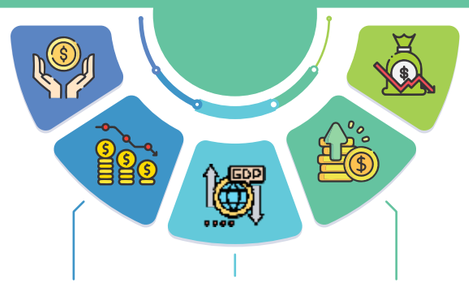
Over the years the main revenue generating source, **taxes, have improved only minimally with a compound annual growth of 5%**, because Pakistan's tax base continues to be narrow.

As per recent data, **in 2021-2022 taxes were only 8% of the GDP,** depicting the huge revenue gap that will be required to meet government expenditures.

As per IMF projections, the **country's current gross financing needs** are at least **27.7**% of GDP in 2022.

RISING DEPENDENCE ON BORROWING

Government borrowing remains an essential part of the financing mechanism for Pakistan. **Total debt and liabilities have increased over the years and reached more than 85%** of the GDP in FY21, reflecting decreased ability of the country to pay back its debts.



The **country's fiscal deficit** excluding grants is forecasted to **increase to 6.3% of GDP** in FY22.

The **increasing current account deficit** (CAD) imperils the economy's sustainability as higher CAD reflects the increasing dependence of the country on debt for financing its expenditures.

The current account deficit as a percentage of GDP is expected to widen sharply in FY22, **going from -0.6% in 2021 to -5.3%**, heightening external sustainability risks.

The CAD has grown from USD -543 million in FY21 to USD -13,779 million in FY22 (July-April) which currently is more than 25 times the value of last year, depicting the gravity of the situation.

SURGING TRADE DEFICIT

While exports and imports have both increased, the imports grew more than exports. Consequently the trade deficit (Jul-Apr FY2022) reached USD 32.9 billion as compared to USD 22.0 billion last year.

This imbalance was because of higher import growth of 39 percent as compared to export growth of 27.8 percent in FY22 (July – April), and the devaluation of Pakistan's currency.

LACK OF INVESTMENT IN PAKISTAN

Given the net international **investment outflow** recorded at **USD 30.4** million, on account of political instability, the country is likely to experience more outflow of investment if the political instability continues.

Given the lack of trust of investors in Pakistan, the **KSE 100 decreased** by **3172 points** or **7.11 percent** since the beginning of 2022, and is likely to fall further given the current political turmoil.

Extensive government borrowing from the financial sector has deterred greater intermediation of resources to the private sector in Pakistan.

RISING FOOD INSECURITY

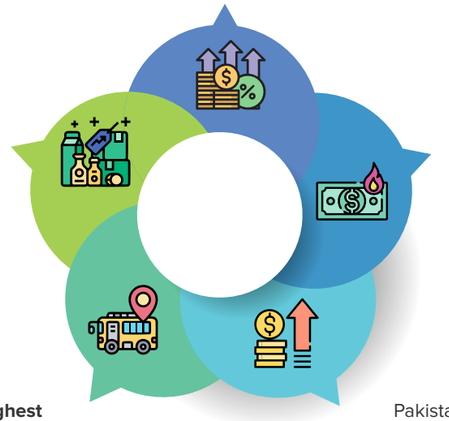
Owing to climate change impacts, the **rising food insecurity** is likely to raise the demand to import food products for meeting the local demand.

Additionally, given a shortfall of **15 percent** in local wheat yield, estimates suggest that Pakistan may need to import four million tonnes of grain to meet the local demand, raising the import bill to a record high of **USD 4 billion** during FY23.

SOARING INFLATION COUPLED WITH HIGH-INTEREST RATES AND PLUNGING CURRENCY

Along with inflationary pressures, **interest rates have continued to grow** as well.

Pakistan has continued to grapple with rising inflation for months. In January the country's **consumer price index rose to 13 percent**, the **highest ever in the last two years**.



Rising food and energy prices are likely to decrease the real purchasing power of households, disproportionately affect poor and vulnerable households, and result in increased poverty and inequality.

The country faces the **highest transport inflation** followed by inflation in food and non-alcoholic beverages, health, and education.

Pakistan's currency has shown a continuous downward trend. Currently, **1 USD is equivalent to 200 PKR** (June 2022) and is expected to be devalued further.

ELEVATED ENERGY PRICES AND SUBSIDIES DENTING THE NATIONAL EXCHEQUER

Higher energy, fuel, and transportation prices are likely to impact food and other commodity prices:

- Increase in metal prices have increased manufacturing costs and end-consumer products.
- Increase in electricity prices have increased input prices in most industries using different types of machinery.

Additionally, increased imports and a rise in oil prices are likely to widen the current account deficit further.

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Federal Budget 2022-2023

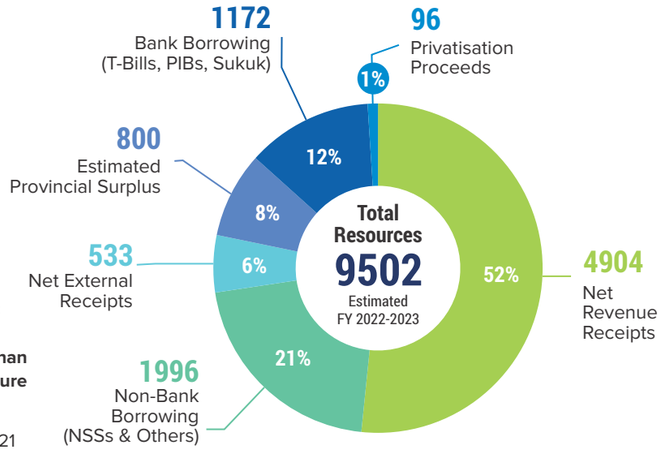
Snapshot

ANNUAL BUDGET **9502** PKR billion

FY2022-2023

Spending Enhanced **12%** from last fiscal year

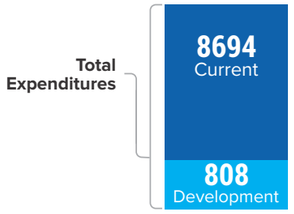
Current Expenditure **9 times** higher than development expenditure as compared to **8 times** in FY2020-2021



The fiscal deficit is expected to be financed by increasing multilateral & bilateral sources, **commercial sources, privatisation proceeds**, and **net external receipts**.

estimated FISCAL DEFICIT **4598** PKR billion

1% increase from last fiscal year

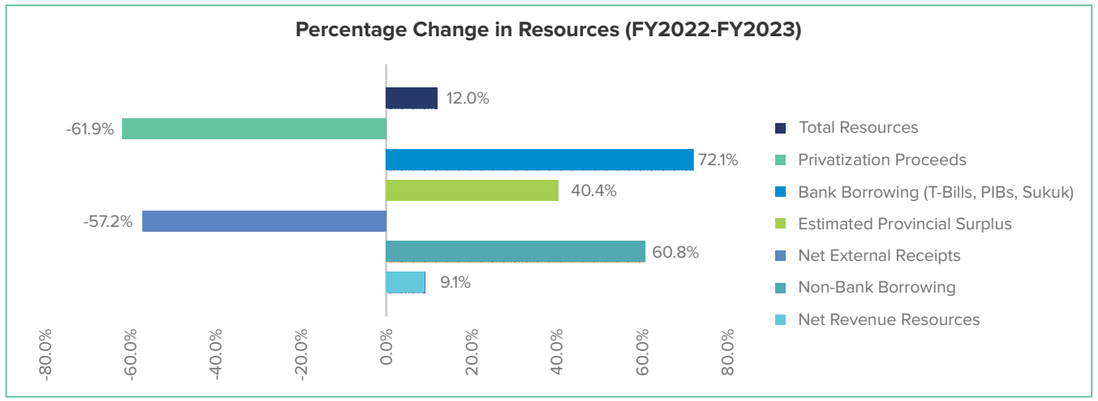


Highlights

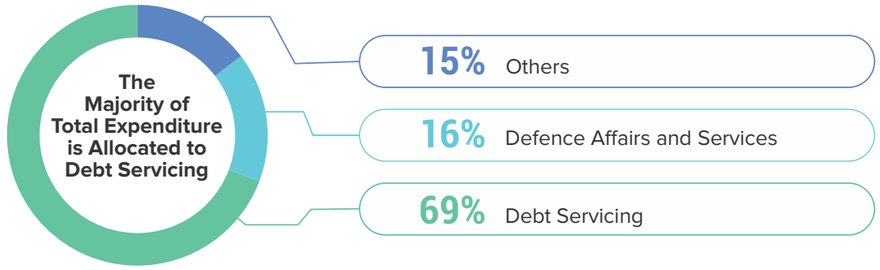
Dependency on **domestic bank borrowing and non-bank borrowing** is expected to increase by **72.1% & 60.8%** respectively, as compared to a **decline of 23% and 11%, respectively, in the previous fiscal year.**

Increased spending will be supported by a minimal **9% increase in net revenue receipts** as compared to **22% increase** **in the previous fiscal year.**

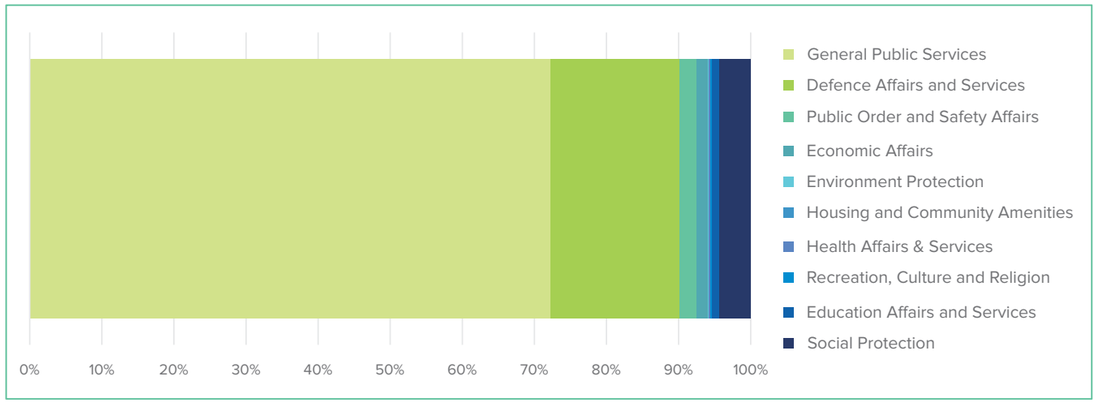
Enhanced expenditure is expected to be majorly financed by the increase in domestic bank borrowing and non-bank borrowing.

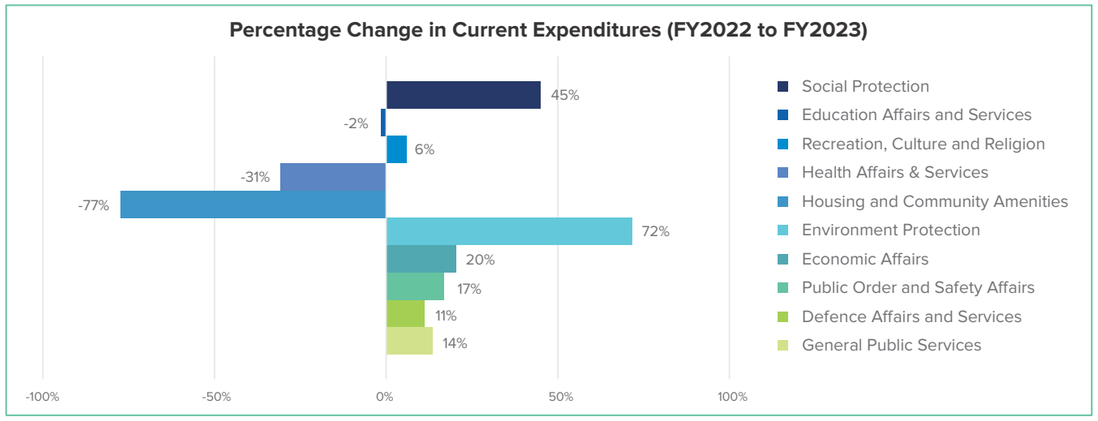


Total Expenditures



Current Expenditure FY2023





Budget Allocation to Social Sector Projects

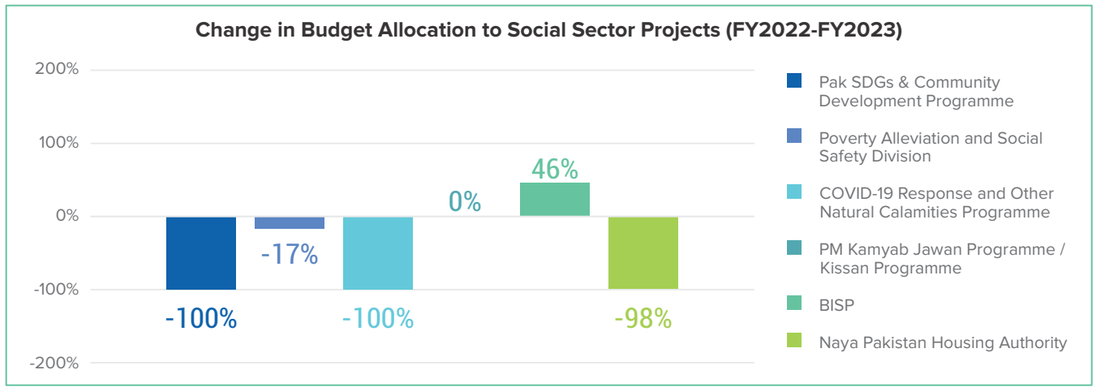
Allocation to **Pak SDGs & Community Development Programme** was not listed.

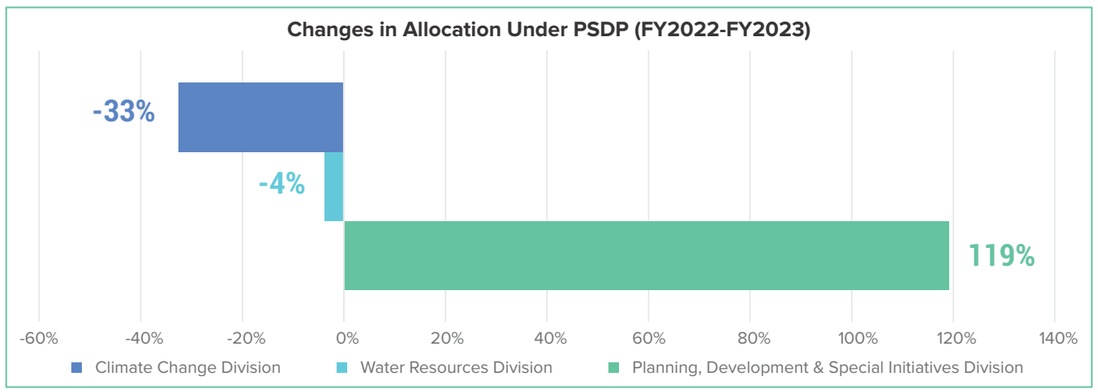
Climate Change Division's budget reduced from PKR 14 billion in FY22 to PKR 9.6 billion FY23, and . Water Resources Division fell from PKR 103 billion in FY22 to 99.6 billion in FY23.

The overall Public Sector Development Programme (PSDP) increased by 1% since the last fiscal year.

Within PSDP, Planning, Development, and Special Initiatives was given one of the highest budget increases raising it to PKR 42.2 billion.

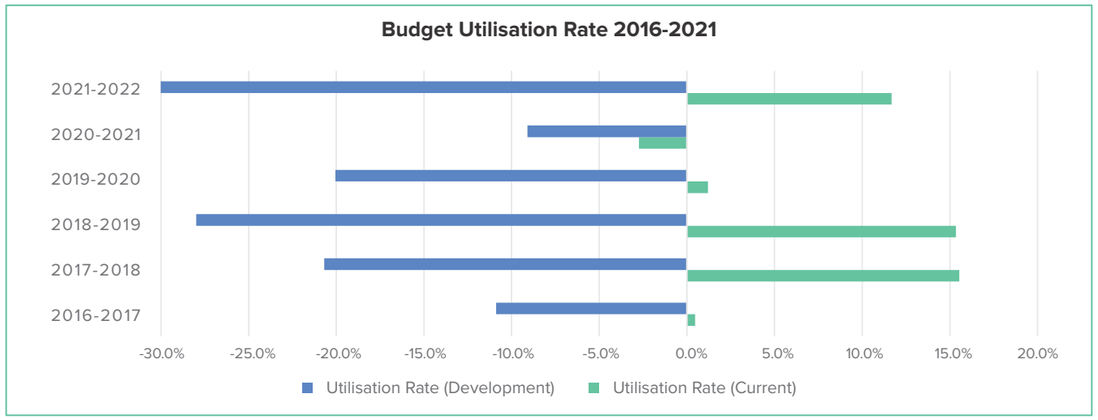
Provincial PSDP increased by 16% whereas the Federal PSDP declined by 19%.



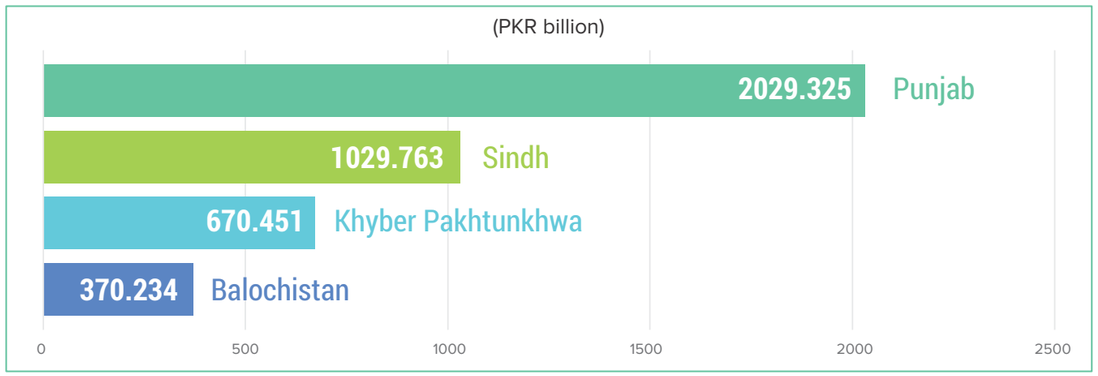


Implications for Sustainable Development

- **Budget utilisation** has always remained **an issue: development expenditure** is being **under-utilised**, and **current expenditure** is mostly **over-utilised**.
- Amongst various **social sector programmes, BISP** received the highest increase in allocation hence highlighting the importance of social protection in times of taking austerity measures.
- The **budget for COVID-19** and the health sector have both been **reduced**.
- **Subsidies** have increased by **2%** only, as compared to **226% increase** in the previous fiscal year.
- There was in **increase in subsidies for petroleum, utility stores, fertilizers and metro bus**, while all other subsidies reduced.



Provincial Share in Federal Budget



Targets: Key Medium Term Macroeconomic & Budgetary Indicators

	Revised Estimate 2021-2022	Budget Estimate 2022-2023
Real GDP Growth (%)	5.97	5
Inflation (%)	11.7	11.5
As % of GDP		
Total Federal Revenue	8.96	9
Fiscal Deficit	-6.3%	-4.9%

Strategy

1. Stabilisation in Economic Growth
2. Control the Increasing Inflation
3. Increase in Revenue
4. Enhancement in Exports
5. Protect the Vulnerable Segments of Society
6. Maximum Relief Measures
7. Control Tax Leakages
8. Incentives to Tax Collection Agencies

Reimagining Pakistan's Economic Model:

DEFINING VISIONS

Reducing Deficits through Structural Reform

By

Dr. Hafiz A. Pasha

Former Federal Minister for Commerce

Former Advisor to the Prime Minister for Finance and Economic Affairs/Federal Minister

Former Deputy Chairman, Planning Commission

Former UN Assistant Secretary General

Pakistan finds itself on the verge of a financial crisis whereby it may be increasingly unable to honour its external payment obligations on imports and external debt repayments. The foreign exchange reserves stand at close to USD 9 billion while the external financing requirement in 2022-23 is as much as USD 37 billion.

There is likely to be a current account deficit of almost USD 16 billion this year, the highest since 2017-18. The other deficit is the budget deficit, which is likely to approach the highest ever level of 7.8 percent of the GDP, and the level of public debt will approach 73 percent of the GDP by the end of 2021-22.

The time has come for deep and wide-ranging structural reforms to sharply reduce these deficits within a short time frame. The opportunity for taking the necessary steps lies in the Federal and Provincial budgets for 2022-23.[1]

The critical steps to be included in the budgets for containment, first of the trade deficit, are as follows:

- The level of import tariffs is very low in Pakistan, currently at the average of only eight percent, as compared to 11 percent five years ago. In particular, import tariffs on agricultural products are exceptionally low. For example, there is a zero duty on cotton imports. Consequently, not only are imports relatively cheap, the Pakistani farmers and many industries, especially SMEs, receive little or no protection. Pakistan has four import duty slabs ranging from three percent to 20 percent. These will have to be raised to five and 30 percent, respectively, with the exception of basic food and medicine imports.

- Pakistan has multiple export incentives ranging from very low-rate income tax, lower electricity tariffs, concessional terms of financing, sales tax refunds, duty drawbacks etc. This regime of incentives is prone to high transaction costs, misuse, and corruption. The time has come to develop a simple cash incentive scheme along with the receipt of export earnings. This is the approach adopted by Bangladesh which now has exports over twice that of Pakistan. For equivalence with the existing incentives, the rate of the cash incentive could be set at 12 percent to 15 percent, depending on the extent of value added. Emerging exports may be given a higher incentive of 20 percent.

Priority Areas

- Better management of public finances of the country through progressive direct tax reforms.
- Containment of the Trade Deficits.
- Better management of public expenditure.

Turning next to better management of public finances of the country, there is a dire need for very progressive direct tax reforms. The latest UNDP country Human Development Report for Pakistan on Inequality has vividly highlighted the extent of state capture by the elite of Pakistan of the tax system. Large farmers, corporations, property owners, financial entities, big traders, etc., all enjoy wide-ranging tax breaks, reliefs, exemptions, concessions, and engage in some cases, in large-scale tax evasion.

1. At the time this article was written, the budgets were due to be released in another 2 weeks.

The value of these tax benefits is almost four percent of the GDP, equivalent to PKR 2500 billion in 2021-22. There is no option but to withdraw these tax expenditures in the Federal and Provincial budgets of 2022-23. This will add over 40 percent to the existing tax revenues and contribute to a quantum reduction in the budget deficit. It will lead to containment of aggregate demand in the economy and thereby, also to lower imports.

The third area is better management of public expenditure. The quality of debt management needs to improve, mechanisms found for reducing the large pension bill, downsizing of the federal government by a comprehensive exercise of 'zero-based budgeting', lower subsidies to the power sector and other SOEs by reduction in losses and privatization, and finally, by avoiding the 'spreading thin' of the development program by allocations only to mature on-going projects.

This is not the time in Pakistan's history for 'business as usual'. We do not want to see a financial crisis of unprecedented magnitude which will endanger the lives of millions of our citizens, and lead to a massive increase in poverty and unemployment.

VISION STATEMENT

A Shared Growth Model for Pakistan

By
Dr. Ishrat Hussain
Former Governor,
State Bank of Pakistan

Pakistan has followed not one but a diverse set of economic models during its 75-year history. From a state-controlled and directed economy in the 1950s, to a mixed one led by private entrepreneurs in the 1960s, to nationalization of large-scale industries and financial institutions in the 1970s, coupled with some partial liberalization, deregulation and privatization, and the common overarching feature of the domination of decision making by a narrow band of elites, Pakistan's economic journey has been eventful.

The country recorded periods of boom in the 1960s, 1980s and early to mid-2000s, and bursts in the 1950s, 1970s, 1990s and 2008 onwards, with blips once again in 2016-2018, and 2020-22. The elites who governed the country, whether civilians or the military, pursued ad-hoc short-term policies for their own sustenance but did not create space for long term structural transformation of the economy, or for distribution of benefits of growth among the majority of the population. The country was confronted with major crises on several occasions particularly since 1988, when it had to approach the International Monetary Fund (IMF) for bail out. While receiving relief, the government in power did not feel any urgency for undertaking fundamental reforms, and the country was back to business as usual until the next crisis hit under some other political regime.

Learning from the past, Pakistan must turn its attention towards an inclusive, sustainable growth model that can be succinctly termed as the 'Shared Growth Model'. East Asian countries are a living example of the prosperity they have gained during the last 60 years by following this model.

Priority Areas

- Maintain macroeconomic stability by following prudent fiscal policy, non-inflationary monetary policy, realistic exchange rate, and outward oriented trade policy.
- Invest in human capital particularly females, and physical infrastructure.
- Provide assistance to the poor and low-income segments of the population.
- Devolve legal and administrative powers and financial resources to local governments.

The main challenge that has emerged from the diagnosis of the ills of the last 75 years is how to revive and accelerate the rate of growth without creating pressure on balance of payments, keeping inflationary expectations subdued, generating maximum employment opportunities, and assisting the poor segments of the population.

To address this, Pakistan has to rethink its economic strategy which should have a short-term, medium-term and long-term execution plan. What should this plan consist of? While there are many interventions that would be required, the four priority areas are:

- Maintain macroeconomic stability by following prudent fiscal policy, non-inflationary monetary policy, realistic exchange rate, and outward oriented trade policy. This, in turn, would require political stability as a sine qua non.

- Invest in human capital particularly women and physical infrastructure to enhance the productivity of real sectors, and thus make Pakistan competitive in world markets, as well as reduce the imbalance between the rising aggregate demand and the stagnant domestic production capacity.

- Provide assistance to the poor and low-income segments of the population through unconditional cash transfers, targeted subsidies for farm inputs, girls education, vocational and technical skills acquisition.

- Devolve legal and administrative powers and financial resources to the local governments empowering them to take decisions pertaining to access to basic services, strengthen the institutions of governance to make them effective, and allow the private sector to produce and distribute trade goods and services.

These four priority areas are interlinked and have positive mutually reinforcing relationships. Prudent fiscal policy that mobilizes broad-based and progressive tax revenues from well to do businesses and households would not only reduce fiscal deficit and burden of domestic and external debt, but would also be able to provide resources for financial assistance to the poor and low income groups. Lower demand from the financial institutions by the public sector would free up resources for private sector credit to invest in productive sectors of the economy, and thus expand the domestic capacity. Targeted subsidies to the deserving would lower public budgetary expenditures compared to the present across-the-board blanket subsidies enjoyed by everyone, especially for wheat, fertilizers, electricity, and fuel. Monetary policy would no longer remain subservient to public sector demand for banking deposits, and the levels of interest rate and exchange rate would largely be determined by the supply and demand of the productive sectors of the economy.

Improvement in the quality of an educated, trained and skills equipped labour – particularly women – and efficient logistics services provided by roads, railways, ports, airports etc., would enhance productivity and lower the costs of doing business. This would serve to enable new Pakistani products to penetrate and enter new world markets.

Out-migration of skilled and semi – skilled workers would ease the pressure on employment in Pakistan while also raise per worker remittance flows. This increase in export revenues for goods and services would minimize trade imbalance and thus current account deficit, vitiating the need for excessive external borrowing. The reduced burden of debt servicing would free up budgetary resources for higher level of public investment, which in turn would contribute to accelerated growth rate.

It is now well established that rapid economic growth and poverty reduction are positively correlated, and so is employment generation. An emerging middle class transiting from poverty is the backbone of a prosperous economy, provided the country diligently empowers the communities at grassroot level to design, develop, and deliver basic public services. Concurrently the institution of governance – Civil Services, Judiciary, Legislature – should be given autonomy to operate without any extraneous influence and interventions.

The above agenda would require, first, a broad political consensus followed by careful design, sequencing, phasing, assignment of responsibilities, collaboration among the public, private, nonprofit sectors, monitoring, and corrective actions. By no means is this an easy task, but sincerity of purpose and commitment would take us to the desired destination.

A Roadmap for Inclusive Growth

By
Dr. Aisha Ghaus Pasha
Minister of State for Finance and Revenue

Pakistan is one of the most resource-rich countries in the world, housing abundant reserves of coal, gas, gemstones, copper, salt, minerals, and the gold economy. Its economy is the world's 23rd largest in terms of purchasing power parity, and 43rd in terms of nominal GDP. Currently, the economy is moving on a high growth trajectory with estimated growth of 6.0 percent, while the size of the economy increased to USD 382.8 billion in FY 2022.

Our population stands at approximately 222.4 million with 71.8 million in the labour force. Pakistan's middle class is growing on one hand, while on the other, skilled and relatively cheap labour is accessible.

Above all, Pakistan's increasing youth bulge possesses diverse capabilities. The country bears tremendous potential and promising prospects of becoming an economically viable and prosperous state, given its resilient and young population, economic endowments, strategic location, and cultural diversity.

Unfortunately, the pandemic raised serious concerns about the long-term sustainability of the current economic model as it failed to meet the needs of people and exposed its resilience. By revealing its flaws, it presented an opportunity to revisit the economic model in promoting inclusive development.

The government of Pakistan has a very clear roadmap for higher, inclusive, and sustainable economic growth. The focus is on improving the real sector through inclusive growth in agriculture, industrial, and services sectors, increasing the productivity of labour, developing human capital through skill development, and encouraging investment in technology and innovation. To realize these objectives, four key areas have been identified to ensure sustainable and inclusive growth.

The agriculture sector is critical to achieving sustainable development and poverty reduction. Because it dominates the rural economy, therefore, increased productivity in the sector will remain a key driver and critical component of inclusive growth. The agriculture sector employs 37.4 percent of the workforce. It also generates significant foreign exchange earnings and stimulates growth in other sectors.

To promote growth in this sector, the government is focusing on supporting small and marginalized farmers and promoting small-scale innovative technologies. Together with the provinces, the government aims to increase agriculture productivity and provision of agri-loans to ensure food security.

Priority Areas

- Inclusive growth in agriculture through supporting small and marginalized farmers, and promoting small-scale innovative technologies.
- Industrialization and export promotion through diversifying local production base and strengthening a localized supply chain to reduce reliance on imports, while focusing on export-oriented industries.
- Leveraging the youth bulge: creating employment and enhancing the youth's role in decision-making.
- Increased focus on technological advancement and innovation.

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Similarly, efforts are underway to provide support from water to seeds, fertilizer, agri-credit, tractors and machinery, commodity warehousing, cold storage, and the food processing industry.

The need for Pakistan is to diversify its local production base and strengthen a localized supply chain to reduce reliance on imports, while focusing on export-oriented industries. This envisioned plan aims at product diversification-making a shift from lower value-added products to higher value-added products aligned with emerging market trends of development. Apart from self-sufficiency, this would be an opportunity to obtain access to international markets in value-added products. For this purpose, more focus will be given to Small and Medium Enterprises and Construction sectors by improving efficiency, increasing productivity, increasing investment, and creating wealth by unleashing the entrepreneurial energies of the private sector.

The government has accorded the highest priority in its manifesto to youth empowerment at the national level. Investing in young people would be an opportunity to transform the youth "bulge" into a powerhouse of innovation, opportunity, and social change. Empowering 'Youth for Work' in Pakistan aims to increase youth employment and the role of young people in decision-making.

Advancement in technology is a development pre-requisite. As innovation and technology connect all the sectors of the economy, it gives momentum to growth. It is a cost-effective and more efficient way of utilizing resources.

It is now imperative to recognize the symbiotic relationship between economic, human, and traditional security for Pakistan's long-term growth. The government is well aware of the nexus between economic and national security i.e. "Strengthening National Security requires Strengthening Economic Security". Pakistan's first comprehensive National Security Policy is an important milestone in this regard.

The Long Haul: Employment for All

By

Dr. Pervez Tahir

Former Chief Economist, Planning Commission of Pakistan
President, Council of Social Sciences (COSS), Pakistan

Before we reimagine and reframe Pakistan's economic model or vision, an idea of the present and previous vision exercises will be useful. The first exercise in 1965, the Perspective Plan, imagined a high growing economy with full employment, regional equity, universal literacy, and elimination of dependence on foreign assistance by 1985. Except for achieving foreign-assisted growth, the imagination was a bit of a stretch. Another Perspective Plan in 1988 visualized that in 2003, Pakistan will achieve high growth, but with only marginal changes in socio-economic character. In 1993, the Perspective Plan became a rolling vision for a liberalized, privatized and deregulated economy by 2008.

Since 1998, visions have replaced perspective plans. Vision 2010 focused on strategic interventions in productive sectors, exports, science and technology, social services, and governance. Vision 2030, adopted in 2005, envisaged a 'Developed, industrialized, just and prosperous Pakistan through rapid and sustainable development in a resource constrained economy by deploying knowledge inputs'. By 2014, Vision 2025 took over 'to create a robust platform and to place Pakistan in the league of upper middle income countries by 2025' and the 'ultimate destination is to see Pakistan among the top ten economies of the world by 2047.'

None of the visions outlasted its framers and the economic model has throughout been a simplistic growth equation for the formal, albeit smaller, sector of the economy. Massive exclusion is, thus, built into the economic model. As late as in 2006-07, the share of informal sector in non-agricultural employment was as high as 71.5 percent. It continued to increase until 2010-11 when it peaked to 73.5 percent. The share has been declining since, reaching 72.5 percent in 2020-21. In a reframed economic model, the inclusion of the informal sector through carefully targeted policies must be the top of the list of interventions. As employment is the most productive means of equitable development, a focus on the largest sector of employment (45.3 percent) will promote this objective. It also has a gender dimension, as women employment in the informal non-agriculture sector is twice their number in the formal (non-agriculture) sector.

Priority Areas

- Inclusion of the informal sector in employment through carefully targeted policies.
- Shifting public policy attention towards water and land distribution, besides enforcing proper crop zoning, in the agriculture sector.
- Investment in the relevant human capital be adequately resourced, and its utilization monitored effectively to encourage productivity and innovation.

Consistently, the next key intervention should be in the agriculture sector, the second largest employer with a share of 37.4 percent. Again, 67.9 percent of the total employed women are in this sector. Climate change, water scarcity, urban encroachment of fertile lands, and the greater incentivization of cash relative to food crops, has increased food shortages, hunger, and vulnerability. Public policy attention must shift to water and land distribution, besides enforcing proper crop zoning.

Finally, investment in the relevant human capital is required to be adequately resourced and its utilization monitored effectively to encourage productivity and innovation. Informal employment in the non-agriculture sector and the agriculture sector are sources of resilience in the economy against financial crises. To sustain it, priority investments include, in that order, children out of school, skill formation and agricultural research.

Our past is a graveyard of grand designs. The above interventions add up to a modest, self-sustained vision of a fully employed economy over the long term, in the hope that the whole will exceed the sum of the parts.

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Beyond Wishful Thinking:
Building Back Better

By
Dr. Sania Nishtar
Former Special Assistant to the Prime Minister on Poverty Alleviation
Former Federal Minister for Science and Technology, Education and Trainings, and Information Technology and Telcom

To reimagine and reframe the country's economic model for the 21st century, there are three things that need to happen in parallel with sound economic management.

First, it is now well established that for countries everywhere to thrive and build back better, women and girls must be given the same opportunities to grow, learn and contribute to the workforce as their male counterparts. Women's inequality has remained entrenched in the economic, social, and political fabric of Pakistan. With existence of gender inequities in Pakistan, sustained development remains at risk. We must not disregard what women and girls—50 percent of our population—can bring to the table in terms of talents, skills, productive potential, and leadership acumen.

Secondly, we need to address corruption and collusion in all its forms. There seems to be a growing realization that corruption is not just about kickbacks, embezzlement, and fraud, but that with its complex fiscal, intellectual, and ethical ramifications, it has far-reaching consequences. From endangering life, hurting prospects for development and economic growth, and widening inequalities, to weakening the social fabric, fostering terrorism, imperiling the environment, risking national sovereignty, and threatening peace and security, corruption's dangerous footprint is everywhere.

It is not just individuals, but the national system that suffers as well, with dire economic and societal consequences. Studies have shown that corruption increases poverty and income inequality, and negatively impacts growth. By clouding the business environment, impeding development of fair market structures and distorting competition, corruption creates obstacles for investment and trade.

Priority Areas

- Women Empowerment and Equality.
- Address corruption and collusion in all its forms.
- Prioritizing social protection alongside economic growth.

Third, there is a need to prioritize social protection alongside measures aimed at economic growth. Too often, social protection has been portrayed as a "cost", or a mere expenditure item directed to passive "recipients". A paradigm shift is now emerging on the horizon: grounded in evidence and innovative practices, a new vision for social protection systems underscores that supporting people with transfers, insurance, training, and services represents a direct investment in the economy. When participating in programmes like cash transfers, for instance, people spend, consume, save, and reinvest those resources, hence strengthening local economies and enhancing the adaptability of communities. It is no accident that central banks and governments across the globe have used cash transfers as the surest route to reignite pandemic-stricken economies.


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Ehsaas' Vision 2047, which is on the anvil for release, focuses on all these three points with data and digitation as enablers. The system Ehsaas has established is inclusive and resilient, objective and transparent, as well as data driven and digitized; by 2047 it aims to achieve social protection for all those who need it.

It is in times of crisis that the true character of a nation is tested. The COVID-19 pandemic shed light on the ability of the Pakistani people, communities, and institutions to bring out the best from themselves when challenges are the most extreme: through concerted efforts, the country ramped up one of the world's most effective social protection responses and emerged as a beacon of innovation for others. An opportunity is within reach to leverage the crisis as a platform for radical change in the way the state conceives and provides social protection. The facts are clear: the social protection of today is the human capital, the resilience, and the economic inclusion of tomorrow. Investing in social protection is both a response to current needs as well as preparedness for, and insurance against future crises. This is not wishful thinking, but solid public policy rooted in robust empirical evidence.

Investing in Future-Ready Human Capital

By
Dr. Abid Suleri
Executive Director,
Sustainable Development and Policy Institute (SDPI)
Former Member, Prime Minister's Economic Advisory Council

The good news is that, as per the national accounts committee's numbers, the provisional GDP growth rate for the current fiscal year (2021-22) is 5.97 percent. The bad news is that despite this healthy growth amidst the 3C's (Covid-19, Climate Change, and Conflict[1]), Pakistan is once again facing the menace of a twin deficit, i.e., dollars deficit (current account deficit-CAD) and rupees deficit (fiscal deficit). Some argue that economic growth of five-plus percentage points for a few years always ends up overheating Pakistan's economy, where its CAD turns unsustainable. This argument is supported by the vast gap between the country's productive capacity and aggregate demand, particularly when per capita incomes rise. To me, the fiscal deficit, the public debt, the CAD, etc., are not the 'reasons for lower growth'; they are the 'outcome of poor quality/structure of economic growth'.

Let us explore the structure of Pakistan's economic growth. First, 95 percent of Pakistan's growth is consumption-led, resulting in low savings and a low investment to GDP ratio. Most importantly, 86 percent of consumption comes from households, making them highly vulnerable to any shock or reduced supply of resources. Second, more than 90 percent of Pakistan's growth is imports based, increasing its CAD. Third, the productivity of the three pillars of growth, i.e., agriculture, industry and manufacturing, and services, is below the optimal level of its peer economies. And finally, there is a mismatch between Pakistan's GDP contributing sectors and the available human resources.

Priority Areas

- Decrease the mismatch in demand and supply between the services sector and agriculture sector.
- Move towards investment-based export-led growth powered by renewable energy.
- Investment in human capital with skill sets of the future, with focus on youth and women.
- Inclusive growth through mitigating disparities within and across regions.

The agriculture sector can absorb all sorts of workforce; skilled-semiskilled-unskilled, literate-semi-literate, as well as those with no formal education. Industry and manufacturing require a workforce with some skill set and/or literacy.

1. Ukraine conflict


© World Bank

Whereas the services sector requires a highly skilled and/or highly qualified workforce. For decades, Pakistan was considered an agro-based economy. It took a quantum leap and, bypassing the industry and manufacturing, became a services-based economy. However, this evolution from agriculture to services was without a transformation in its human capital. Resultantly in Pakistan, the services sector contributes more than half of the GDP, whereas the agriculture sector employs more than half of the workforce. This mismatch results in huge income inequalities (between highly skilled/highly qualified, and those not that skilled/qualified), low efficiency, and low productivity, thereby haunting Pakistan's vision of achieving inclusive growth.

Pakistan must change the quality and structure of its economic growth if it wants to be one of the top ten economies by the year 2047 (centenary of its foundation). It must move towards investment-based export-led growth powered by renewable energy. Such growth needs to be supplanted by a high productivity services sector and a flourishing agriculture sector, that may help import substitution of essential food items.

This would only be possible through investment in human capital. An investment that may transform the youthful labour force into a trained, stable, skilled workforce with greater emphasis on female participation. While investing in human capital, the government also needs to consider the 'future of jobs', which is rapidly transforming due to technological adoption after COVID-19. The World Economic Forum (WEF) foresees that by 2025, the time spent on current tasks at work by humans and machines, will be equal.

While investing in Pakistan's human capital, attention should be given to imparting the workforce with skill sets in demand five years from now. According to the WEF, critical thinking and analysis, problem-solving and self-management skills such as active learning, resilience, stress tolerance, and flexibility will be the most sought-after skills in the near future.

Finally, Pakistan cannot achieve inclusive and sustainable growth until it overcomes existing inequalities both within and across regions. To be among the world's top economies by 2047, it must ensure that no one within its geographical boundaries is left behind. It should take a proactive approach to mitigate existing disparities in marginalized districts, areas most vulnerable to climate change, and among the marginalized segments of communities, especially religious minorities, women and girl children, transgender people, people with disabilities, and elderlies throughout the country.

Improving revenues by expanding the tax base, reducing non-productive expenditures, and investing in strong social safety nets, technical know-how, infrastructure and connectivity, and financial resources to mitigate the existing disparities, would lead Pakistan onto a sustainable, inclusive growth pathway.

Slumps and Growth: Addressing Economic Ambiguity

By
Safiya Aftab
Executive Director,
Verso Consulting

Pakistan's economy has exhibited cycles of boom and bust for the last three to four decades. Short periods of relatively high growth, inevitably leading to a balance of payments crisis and unsustainable fiscal deficit, are followed by a slump. To address this, the government enters into an International Monetary Fund (IMF) program, which usually calls for fiscal discipline and reforms in tax collection, among other measures. But before long, the current account deficit begins to veer towards unsustainability, and the cycle repeats itself. As of the middle of 2022, the slow growth period is well underway, and yet another new government is keen to start negotiations with the IMF to revive a stalled program.

If Pakistan is to take its place amongst the large economies of the world in another 25 years, it will have to break out of this vicious cycle. This will require difficult decisions with long term impacts, which may have a negative shortfall in the immediate future. Three crucial policy interventions are as follows.

Priorities

- Controlling the twin deficits.
- Acknowledge the significant long-term opportunity cost associated with a lack of investment in social services, particularly health and education, by policy makers.
- Implement plans to deal with loss-making state-owned enterprises, whether in the form of restructuring, resizing, privatization or liquidation.

First, a hackneyed prescription, but there is no getting away from it. Pakistan will have to control the twin deficits, i.e., fiscal and current account. The two years of the pandemic have seen fiscal deficits rising to nearly eight percent of the GDP,[1] while the current account deficit is expected to hit five percent of the GDP by the end of June 2022. For the short term, the deficit reduction strategy should focus on expenditure rather than revenue. On the domestic front, tax collection has grown significantly in the last two years, exceeding the nine-month target in the current fiscal year, despite sales tax exemptions on fuel, fertilizers, cooking oil and some other items. Reducing the fiscal deficit, therefore, requires a serious review of expenditure, including the public sector development program. Cuts in public investment do not bode well for human development, but neither does a fiscal crisis, and it is necessary to pick the lesser of the two evils. Similarly for the current account, there is only so much to be done to increase exports in the short to medium-term. There is a need to institute stringent controls on imports of luxury consumer items.

Second, policymakers need to acknowledge the significant long-term opportunity cost associated with a lack of investment in social services, particularly health and education. As a first step, the solution is not to hike budgets for these sectors, clearly not possible in a fiscal crunch. But, it is necessary to review policy and administration to see where gains can be made without a significant resource outlay. This could be as simple as giving head teachers more powers for hiring and firing; or more complex, like exploring online examination and diagnosis systems for remote health facilities. But it is crucial to commit to using limited resources as innovatively as possible in the medium-term.

Third, policymakers need to implement plans to deal with loss-making state-owned enterprises, whether in the form of restructuring, resizing, privatization or liquidation. Successive governments have announced that the spadework for such an effort is in place, but plans tend to stall. Solutions (golden handshakes and re-training programs) may be expensive in the short-term, but will have long term dividends.

1. Not accounting for the National Income rebasing exercise that the government is currently undertaking, and which has not been finalized yet.

The Uncertain Future: A World in Crises

> "The increasing uncertainty is thrusting the world into a rare confluence of geopolitical realignment, supply disruptions, food and energy insecurity, and more volatile financial markets."

By

Aarathi Krishnan

Strategic Foresight Advisor
UNDP Asia Pacific

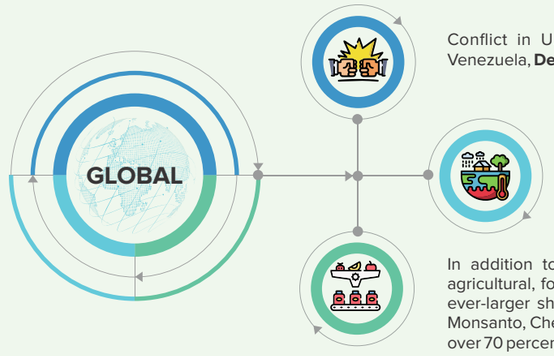
At the start of 2020, Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), Peterson Institute for International Economics, stated, "If I had to identify a theme at the outset of the new decade it would be increasing uncertainty". Uncertainty is a nebulous concept because it reflects uncertainties in the minds of people about future events that may or may not happen. It has been traditionally broad since it relates to phenomena like GDP growth, growth rate of firms, as well as elections, wars, and climate change.

The World Uncertainty Index[1] (WUI) covers 143 countries (with populations of at least two million), and captures uncertainty related to economic and political events in both the near- and long-term. For the first quarter of 2022, the WUI was globally on par with the second and third quarters, and higher than it had been over 2021. The same WUI trend follows for Asia Pacific, with IMF further stating in April 2022 that, "As the war in Ukraine unfolds, global uncertainty has surged...Based on our estimates, the rise in uncertainty in the first quarter could be enough to reduce full-year global growth by up to 0.35 percentage points".[2] It is thrusting the world into a rare confluence of geopolitical realignment, supply disruptions, food and energy insecurity, and more volatile financial markets. IMF further describes a geopolitical shift that reveals hidden underlying fault lines – with the possibility of the world fragmenting into 'distinct economic blocs with different ideologies, political systems, technology standards, cross-border payments and trade systems, and reserve currencies".[3]

The increasing levels of uncertainty match increasing global risks in the same period, with the same ratio applied in Asia Pacific. The political crisis in Pakistan, ongoing economic crisis in Sri Lanka, China's renewed COVID-19 restrictions, and closure of major manufacturing hubs remained major risk factors in the first quarter of 2022, with Pakistan (alongside Myanmar and Turkmenistan) remaining the highest risk nations.[4]

1. Produced by the International Monetary Foundation
2. IMF Blog (2022), "Global Economic Uncertainty, Surging Amid War, May Slow Growth." Available at https://blogs.imf.org/2022/04/15/global-economic-uncertainty-surging-amid-war-may-slow-growth/
3. IMF (2022), "Shifting geo-political tectonic plates." Available at https://www.imf.org/en/Publications/fandd/issues/2022/06/Shifting-geopolitical-tectonic-plates-straight-talk
4. Business Review (2022), "Global risk rises in Q1 2022 with fears of stagflation amid Russia-Ukraine conflict, says GlobalData." Available at https://business-review.eu/money/global-risk-rises-in-q1-2022-with-fears-of-stagflation-amid-russia-ukraine-conflict-says-globaldata-231120

Drivers Compounding Uncertainty



Conflict in Ukraine, Yemen, Myanmar, Ethiopia, Venezuela, **Democratic Republic of the Congo.**

Climate extremes reducing crop yields, increasing food loss, and damaging ecosystems. In the coming years, nighttime temperatures could well decrease yields of rice and wheat in some regions, and the nutritional content in many crops is likely to deteriorate due to increased carbon dioxide levels.[5]

In addition to concentration of production, a small number of agricultural, food trading, processing, and retail companies control ever-larger shares of global markets. Four corporations — Bayer-Monsanto, ChemChina-Syngenta, DowDuPont, and BASF — control[6] over 70 percent of global agrochemicals and commercial seeds.[7]

Economic

- Pakistan **credit rating downgraded** due to uncertainty around IMF bailout as well as 'heightened external vulnerability risk'[8] - which is amplified by rising inflation, and heightened political and social risks.
- Uncertainty remains around **future direction of Pakistan macroeconomic** policy due to weak institutions and governance strength, including whether the country will complete the current IMF program.[9]
- Pakistan's **rupee decline** in more than two years due to uncertainty around the IMF bailou.[10]

Energy

- Power sector **dependance on imported gas and fuel oil**[11] makes it particularly vulnerable for importing countries in the Asia-Pacific due to the Ukraine-Russia war and impacts on supply chains. Regional supply deficits are likely to become more common.[12]
- Pakistan is **cutting energy supplies to households** as it cannot afford to import in coal or LNG.[13]
- Intersecting with **hours-long power shortages** has compounded the soaring heat in country with temperatures soaring to over 50 degrees celsius,[14] making homes unbearable, and crops and food production impacted significantly.

Climate and Food

- The Global Climate Risk Index ranks Pakistan as **the 8th most affected country** to the impacts of climate change.[15]
- **Exceedingly high temperatures** (topping 50 degrees Celsius) have not only made unpredictable heatwaves disrupting work and livelihoods, but also the accelerated melting of Pakistan's glaciers - a perfect climate storm.
- With a high share (39 percent) of wheat imports from Ukraine - Pakistan now faces a **severe wheat import shortage** as a result of the war.[16]

Social Factors

- Global **social unrest** is rising – leading to risks for economies globally. **Rising food and fuel prices** are likely to lead to increasing civil unrest – particularly in Pakistan with levels of dependency on food and energy imports (now being disrupted).[17]
- A **tense political climate** has also seen a recent spate of protests aimed at increasing political polarization and fueling anti-government sentiment.[18]

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6. Focus on the Global South, The Alternative Law Forum & Rosa Luxemburg Stiftung, "Corportae Concerntration in Agriculture and Food." Available at https://focusweb.org/wp-content/uploads/2020/07/CorpConAg_Dossier_FocusJuly2020-1.pdf
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8. Bloomberg (2022), "Moody's Lowers Pakistan Outlook to Negative Over IMF Delay." Available at https://www.bloomberg.com/news/articles/2022-06-02/moody-s-downgrades-pakistan-outlook-to-negative-after-imf-delay
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13. Bloomberg (2022), "Cash-Strapped Pakistan Cuts Power to Households on Fuel Shortage." Available at https://www.bloomberg.com/news/articles/2022-04-18/cash-strapped-pakistan-cuts-power-to-households-on-fuel-shortage#xj4y7vzkg
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15. Al Jazeera (2022), "'Perfect climate storm': Pakistan reels from extreme heat." Available at https://www.aljazeera.com/news/2022/5/21/hold-heatwave-in-pakistan-and-climate-change
16. The Print (2022), "Pakistan faces severe wheat crisis due to Russia-Ukraine war." Available at https://theprint.in/world/pakistan-faces-severe-wheat-crisis-due-to-russia-ukraine-war/930276/
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18. The Washington Post (2022), "Imran Khan is pushing Pakistan to the brink." Available at https://www.washingtonpost.com/opinions/2022/05/11/imran-khan-pakistan-civil-war-long-march-conflict-no-confidence-sharif/

People queue to buy kerosene in Colombo, Sri Lanka.

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UNDP Policy Analysis on Sri Lanka's Economic Urgency[1]

© AFP via Getty Images

A woman carrying food bags walks pasts people queuing outside a state-run supermarket in Sri Lanka.

© Reuters

Following the end of a devastating civil war in 2009, Sri Lanka's annual economic growth peaked at nine percent. Its citizens enjoyed sizeable incomes, and efficient social services. Unfortunately, with its massive debt and fiscal crisis characterized by a unique twin challenge of illiquidity and insolvency, and an imbalance of expenses versus revenue, all its hard-earned success is rapidly spiraling down.

In April 2022, Sri Lanka's gross foreign exchange reserves stood at less than USD two billion, enough to procure less than 1.5 months of imports. With the devaluation of the Sri Lankan rupee by over 40 percent in March 2022, inflation has reached alarming levels. Sri Lanka is also experiencing significant losses in agriculture output owing to the unavailability of fertilizers. Medicine prices have soared by nearly 30 percent and the level of people living below the poverty line has sharply risen following the pandemic.

In such a situation of economic peril, safeguarding the people must be a key focus. A comprehensive strategy for creating a 'human security' entry point that would prioritize energy and food, safeguarding investments in human development, and strengthening social safety nets in supporting the most vulnerable households with an immediate social protection flow, would work towards easing challenges for the local population. It is also important to focus on reprofiling and/or taking in some new debt to not only reduce interest payments, but also direct resources to prioritize human development needs.

In addition to ongoing IMF negotiations, it is imperative for the country to look at alternative financing mechanisms. Debt for Nature swaps, bridging loans, SDG/Social/Sustainability bonds, and engaging international private companies for investment, are some plausible options. Tax reforms working towards restoring the withholding tax system, and eventual restoration of the Nation Building Tax, are some key areas of focus. Digitalization of trade facilitation procedures can work towards reviving export competitiveness.

All in all, managing the overall debt stock; addressing human hardship and ensuring business continuity; and negotiating with the International Monetary Fund are key areas that are needed to mitigate the downward economic spiral as quickly as possible.

1. This summary is based on UNDP Sri Lanka's Policy Memorandum: Urgent Macroeconomic and Human Development Priorities in Sri Lanka (April 2022).

Tsunami preparedness drill exercise in a school in Samoa.

> Debt service is beginning to have adverse impact on human development in Sri Lanka, Lao People's Democratic Republic, Pakistan, Maldives, Mongolia and the Pacific Island states.

© UNDP Asia Pacific

THOUGHT PIECE

Stability, Inclusion and Human Development: The Asia-Pacific Scenario

> Investment in human development in times of austerity is a key policy lever for addressing and removing structural inequalities over a lifecycle, ultimately contributing towards global commitment on inclusive growth with social cohesion and political stability.

By

Mizuho Okimoto-Kaewtathip

Regional Team Leader - Inclusive Growth and Prosperity Advisor

UNDP Bangkok Regional Hub

Just as economic growth prospects were picking up in the Asia Pacific region after prolonged effects of COVID-19, the region plunged into volatility with Russia-Ukraine's war uncovering the fragile economy. Growth in the Asia Pacific region is now projected at 4.9 percent in 2022, down 0.5 percentage points from the projection at the start of the year.[1] The unsustainable debt levels before entering the pandemic, the shift from multilateral concessional loans to bilateral creditors at a higher interest rate, trade deficits, and suboptimal policy reform have led to depletion of foreign reserves essential for debt repayment and fiscal deficits to finance the most basic services. In the Asia Pacific region, the meltdown first hit Sri Lanka leading to default, with debt distress also being felt in other countries such as Lao People's Democratic Republic, Pakistan, Maldives, Mongolia, and the Pacific Island states.

Most crucially, debt service is beginning to have adverse impact on human development in the aforementioned countries. First, debt service is crowding out core social spending. Public expenditures have inevitably increased due to the expansion of fiscal packages for COVID-19 response and recovery including additional health related expenditures, stimulus for businesses and individuals, cash and in-kind transfers, and pro-poor measures including social transfers,[2] the cumulative impact of debt distress leaves limited options for countries to import essential food, fuel and medicines, let alone sustain investments in health and education. Second, fiscal imbalances potentially jeopardize the hard-earned development gains, particularly among the net importers of commodities, subject to increase in global prices, especially food and fuel. Third, job rich growth has been modest, despite the rapid structural transformation over the past decade in the Asia Pacific region. High prevalence of informality, skills gaps and rural-urban divide,[3] thereby exposing the near poor to acute macroeconomic stressors.

Pakistan is at a critical juncture. Although its Human Development Index (HDI) improved over the years, it still has the second lowest HDI among the South Asian countries, with significant disparities across and within provinces, and stagnating social indicators owing

1. IMF (2022). Regional Economic Outlook: Asia. Read more at https://www.imf.org/en/Publications/REO/APAC/Issues/2022/04/25/regional-economic-outlook-for-asia-and-pacific-april-2022
2. IMF (2022). Fiscal Monitor. Read more at https://www.imf.org/en/Publications/FM/Issues/2022/04/12/fiscal-monitor-april-2022
3. ILO (2022). World Social and Employment Outlook Trends 2022. Read more at https://www.ilo.org/global/research/global-reports/weso/trends2022/WCMS_834081/lang--en/index.htm

Disaster preparedness education through folk games in Ha Noi city.

© UNDP Asia Pacific

to limited investment in basic social services such as education and health.[4] Its FDI-driven economy has been beneficial to overall growth, but also coincided with modest diversification as well as foreign outflow of profits and dividends. Combined with limited export incentives, upgrading of local MSMEs for higher value activities, and reinvesting the profits into research, technology diffusion, public education and skills development.[5] As such, Pakistan's employment remained concentrated in the agricultural and service sectors with the pervasive informal sector at 71 percent,[6] while labour productivity grew at an average rate of 1.5 percent annually since 2000, at a pace lower than its neighbours.[7] Gender disparities are striking with women's labour participation, at only 22.8 per compared to 81.1 percent of men.

Alongside macroeconomic policy reforms, Pakistan could make prudent investments to scale up measures to safeguard human development thresholds, including through the Ehsaas Programme, that set a promising case in the Asia Pacific region to advance social inclusion and economic empowerment objectives enshrined in the SDGs. This includes registration of informal workers, expansion of the registration of informal workers and enterprises, supporting job placements and skills development among young people and women, and enabling access to cash assistance. Investment in human development in times of austerity is a key policy lever for removing structural inequalities over a lifecycle, ultimately contributing towards global commitment on inclusive and sustainable growth.

4. UNDP (2021). Pakistan National Human Development Report. The three Ps of inequality: Power, People, and Policy. Available at https://www.undp.org/pakistan/publications/pakistan-national-human-development-report-inequality#:~:text=The%20three%20Ps%20of%20inequality%3A%20Power%2C%20People%2C%20and%20Policy&text=Fundamentally%2C%20it%20is%20about%20advancing,%2C%20safe%2C%20and%20content%20lives.
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6. ILO (2019). Pakistan Decent Work Country Profile. Read more at https://www.ilo.org/islamabad/whatwedo/publications/WCMS_771785/lang--en/index.htm#:~:text=This%20report%20is%20part%20of,sustainability%20toward%20achieving%20decent%20work.
7. Lovo, S. & Varela,G. (2020) "Internationally Linked Firms, Integration Reforms and Productivity: Evidence from Pakistan." Policy research working paper,no. WPS 9349 Washington, D.C. : World Bank Group. Available at https://documents1.worldbank.org/curated/en/441121596474893570/pdf/Internationally-Linked-Firms-Integration-Reforms-and-Productivity-Evidence-from-Pakistan.pdf

Responsible Business Forum 2018 in Singapore.

© UNDP Asia Pacific

The picture is the cover page for the 'Leveraging Private Investments for Pakistan's Sustainable Development: Pakistan SDG Investment Report 2021', a joint venture between UNDP Pakistan and the Ministry of Foreign Affairs.

> “The way forward for Pakistan is to develop an economic value proposition that creates incentives for financial markets and private investors to participate in sustainable development through a strategic partnership, and innovative financial instruments supported by a conducive policy framework.”

‘Future Thinking’ Pakistan’s SDG Investments

> “With a huge population base comprising of over one hundred million young aspirants to make a dignified living, it is time for a structural shift towards innovative financing approaches for sustaining, and eventually expanding the much-needed targeted investments in SDGs, to improve the lives of people.”

By

Haroon Sharif

Former Minister of State for Investment

Senior Advisor on Financing for Development,

UNDP Pakistan

Sustained economic growth, continuity of policy, and financing for development have emerged as the major development challenges for transition economies like Pakistan in the post COVID-19 scenario. Pakistan is facing severe financial crisis due to its chronic macro-economic imbalances and rather erratic policy making. The current coalition government is struggling to revive the IMF’s Extended Fund Facility to support the dwindling reserves which are barely enough to provide cover for four to six weeks of imports. The economy is likely to shrink due to double digit inflation and high interest rate in the coming year. Similarly, shrinking fiscal space poses a major challenge to even maintain the already low level of public investment in initiatives that contribute towards the Sustainable Development Goals (SDGs). With a huge population base comprising of over one hundred million young aspirants to make a dignified living, it is time for a structural shift towards innovative financing approaches for sustaining, and eventually expanding the much-needed targeted investments in SDGs, to improve the lives of people.

Traditionally, Pakistan has been financing its Public Sector Development Programme (PSDP) through its budgetary resources that have been financed through revenue collection, which is less than 11 percent of GDP, and borrowing from multi-lateral banks. There has been a cut in the development budget during the past few years, mainly due to diversion of funds towards COVID-19 response, and for balancing the large fiscal gap between revenues and expenditures. Debt servicing alone now takes over 55 percent of Pakistan’s budgetary resources. The way forward for Pakistan is to develop an economic value proposition that creates incentives for financial markets and private investors to participate in sustainable development through a strategic partnership, and innovative financial instruments supported by a conducive policy framework. Pakistan’s financial sector is dominated by commercial banks where development financing is subsidized by the state through priority lending schemes managed by the State Bank of Pakistan. There is a huge need to organize and manage the demand side to demonstrate the potential of impact investments for building climate resilience, technology adoption, connecting markets, and expanding outreach of health and educational services.

UNDP Pakistan is leading this effort and in collaboration with the government of Pakistan, has set up an SDG Project Development Facility to develop debt

Government of Pakistan and UNDP Pakistan organized 'Pedal for a Green Pakistan' cycling event in Islamabad as a prequel to World Environment Day 2021 celebrations. With the government's keen focus on climate change mitigation, Pakistan is now on an environmentally resilient pathway towards sustainable growth.

> “It is time to work on a strategic partnership among policy makers, the private sector and international development institutions to expand the pool of development financing, and to reach out to the marginalized segments of society.”

and equity financing instruments for selected sectors and projects. The aim is to reach out to both local financial institutions and international impact investors with a solid value proposition to tap into the multi-billion dollars investment pool which can support lives of millions of marginalized people. Impact investors look for financially viable businesses that have clear, defined and above all, measurable social and/or environmental outcome targets. To succeed with impact investors, impact metrics need to be prominent in the business plan and investment pitch. The priority sectors for impact investors are varied but usually include renewable energy, micro-finance, digital connectivity, agriculture, education, and healthcare. The SDGs offer an ideal framework for such investors seeking a thematic approach.

At the international level, Global Investors for Sustainable Development (GISD) Alliance members offer access to mobilizing finances and investment, helping countries scale up existing investments, and managerial support for creating social impact. This group of investors is clearly looking for ripe investment deals with an exit strategy through capital market or legal structuring of the transactions. Institutional investors look for near market rate returns on their investment combined with a fair assessment of social impact aligned with SDGs. The corporate investors bring in expertise of floating bonds at global capital markets, arranging structured finances for infrastructure projects with predictable risk adjusted cash flow, and possible equity financing in projects with strong track record and corporate governance.

Pakistan’s financial market is reasonably liquid, private sector-led, and offers possibilities of professionally raising capital for SDG investments. If technical

A telemedicine facility at the Aga Khan Medical Centre in Gilgit, Pakistan.

> “A blended financing model with investments from multi-lateral banks, government, and private investors will not only reduce risks, but will also provide shared spaces for mutual learning for future expansion in this area.”

assistance is provided and meaningful partnerships facilitated between the GISD Alliance and leading local financial institutions, there is potential to structure debt and equity funds up to USD one billion to finance sustainable projects in priority areas with a direct impact on SDGs. In Pakistan, the supporting regulation for debt instruments, sukuks, securitization of cashflows is reasonably developed, and a group of financial institutions can provide technical support to global financiers.

Going forward, it is time to work on a strategic partnership among policy makers, the private sector and international development institutions to expand the pool of development financing, and to reach out to the marginalized segments of society . The best way to enter informal or formal strategic partnership is to structure these partnerships around viable transactions and outcomes. A blended financing model with investments from multi-lateral banks, government, and private investors will not only reduce risks, but will also provide shared spaces for mutual learning for future expansion in this area.

Pakistan could convert the dire need of investments in sustainable development to a great opportunity for the global pool of socially driven impact financiers in partnership with UNDP and leading institutional investors. However, expectations will have to be managed and flexible financial structuring will have to be incorporated in the list of projects to be showcased. Therefore, it will be important to have a clear structure of policy support, possible guarantees, and demonstrated track record of projects to be financed through innovative transactions.

> “The promise of financial innovation is not that it will be a problem-free “silver bullet” solution, but that we can add to the set of innovative solutions – especially those that take advantage of the exponential increase in digitized information, technological advances, and our ability to process data far better than ever before.”

World's highest ATM on the Pakistan-China Border Khunjerab Pass, Pakistan.

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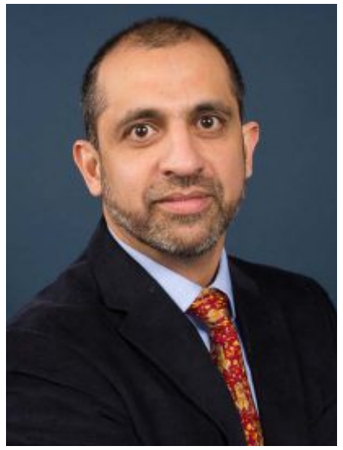
THOUGHT PIECE

Democratizing Lending in Pakistan

> “Financial innovation has the power to truly unleash Pakistan’s entrepreneurial potential – to truly democratize finance – but only if we innovate systematically, thoughtfully, and with a passion for positive impact.”



By

Dr. Asim Ijaz Khwaja

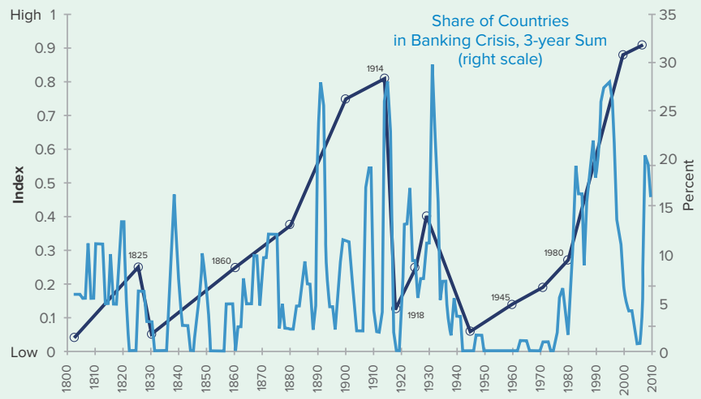
Director, Center for International Development at Harvard University
Professor of International Finance and Development, Harvard Kennedy School of Government
Co-founder and Director, Centre for Economic Research in Pakistan

Finance can be an important enabler of growth provided we are able to fund those who have productive ideas and ventures. Doing so requires both having sufficient funds available and being able to find and manage the right investments.

A lot of the development has focused on the first problem – the availability of funds – by raising domestic savings, attracting foreign domestic investment, encouraging remittances, and seeking development aid. Pakistan has had its fair share of these attempts. However, global and local evidence suggests that simply raising funds is not sufficient and, rather than facilitating entrepreneurship, it may lead to misappropriation and speculation with associated financial bubbles. Periods of high capital mobility have historically been associated with greater financial crises (see figure 1).[1]

In the case of Pakistan, despite the large liquidity influx that followed 9/11 (see

Figure 1: Capital Mobility and the Incidence of Banking Crisis: All Countries, 1800-2007



1. Carmen M. Reinhart & Kenneth S. Rogoff, (2009), “This Time Is Different: Eight Centuries of Financial Folly.” Princeton University Press. Available at https://doi.org/10.2307/j.ctvcm4gqx

> Despite the information and technology revolution, financial markets and banks have yet to fully embrace innovative financial solutions. Efforts like digital banking and micro-finance have been important attempts, but need to go a lot further to truly unleash their potential.

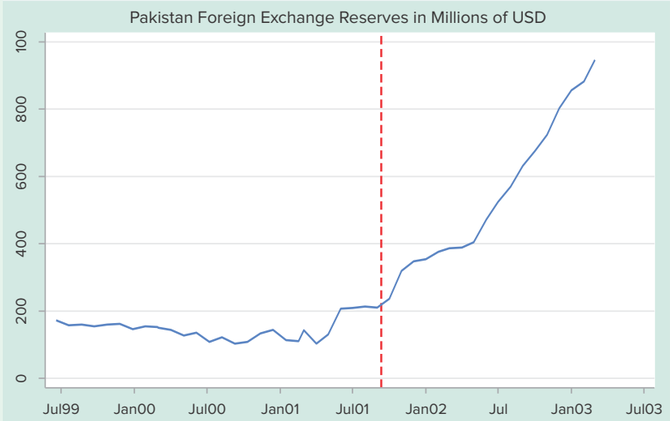
figure 2), there was no increase in lending to firms (see figure 3), with the increased liquidity likely moving into land and stock market speculation, and fueling consumer finance.[2]

In contrast, less attention has been paid to the second condition needed to promote inclusive entrepreneurship – matching money to good ideas and helping these ideas flourish. Despite the information and technology revolution, financial markets and banks have yet to fully embrace innovative financial solutions. Efforts like digital banking and micro-finance have been important attempts, but need to go a lot further to truly unleash their potential.

Before we can understand how best to "democratize finance" so it becomes an enabler for all – we need to understand and evaluate what is needed for impactful lending. At its essence effective financial intermediation is simply about two things: (i) selection and (ii) monitoring. Before the loan is made, one must select the right idea/person to invest in. And once the money is lent, it helps to monitor the investment to ensure it is spent in a way that maximizes the desired return, and the borrower does not default/siphon off the funds. Not only are these two dimensions critical, but one can judge how well any financial institution does by evaluating how well they do on these dimensions.

For example, traditional banks address the selection problem by screening borrowers who have good credit scores, and the monitoring problem by requiring borrowers to post collateral. But both factors are exclusionary. Poor but promising entrepreneurs may not have credit histories (because no one lent to them as they did not have a credit history to begin with), and often lack the collateral they are asked to provide. Venture capitalists and angel investors address selection by conducting extensive due diligence on the idea/entrepreneur and monitor their investment by gaining control rights. But their due diligence can be costly, making it less feasible for smaller investments, suffers from human bias (lend only to the "privileged"), and the desire to seek large exits forces entrepreneurs to take undue risks ("go big or go home"). While micro-finance uses joint liability and group lending as a means of potentially addressing both the selection (a group may know which one of their members is

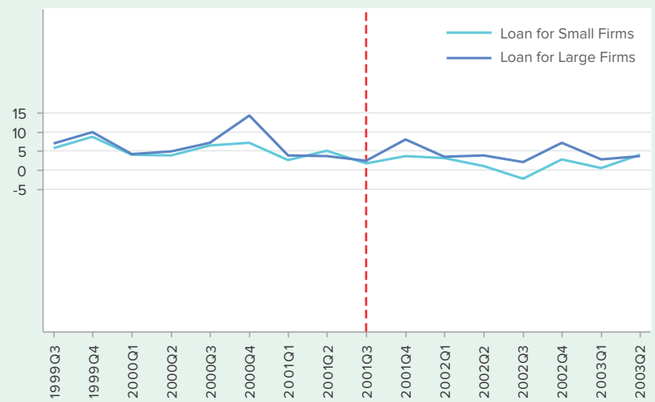
Figure 2: Increase in FX Reserves in Pakistan post 9/11



Note: The redline is Sept 2001

Figure 3: Lending to Small or Large Firms post 9/11

Quarter Percentage loan Growth - Firm Level Aggregated by Size



Note: The lines show little to no change in lending to small or large firms after 9/11 despite there being such an increase in reserves and generally more liquidity in the market.

2. Oxford Journals: Asim Ijaz Khwaja, Atif Mian and Bilal Zia (2008), "Dollars Dollars Everywhere, Nor Any Dime to Lend: Credit Limit Constraints on Financial Sector Absorptive Capacity." Review of Financial Studies. Vol. 23(12): 4281-4323. Available at https://khwaja.scholar.harvard.edu/files/asimkhwaja/files/dime_to_lend.pdf

> At its essence, effective financial intermediation is about selection and monitoring.

a good entrepreneur) and monitoring (group members can monitor each other), evaluations of microfinance raise concerns about whether borrowers actually benefitted or were forced to repay due to social pressure regardless of how well their businesses did.[3]

This critique of existing lending models is not simply to criticize, but to highlight that solving the screening and monitoring problem is not easy. But existing solutions, while partly successful, come with their own sets of problems. The promise of financial innovation is not that it will be a problem-free "silver bullet" solution, but that we can add to the set of innovative solutions – especially those that take advantage of the exponential increase in digitized information, technological advances, and our ability to process data far better than ever before.

To illustrate, I draw on two examples in the financial technology ("fintech") space – one that I researched and the other, a startup that I helped co-found. For the former, we found that peer-to-peer (p2p) lending markets, where a set of individuals "bid" on loans, can outperform traditional lending.[4] Specifically, we show that individual lenders on Prosper, a prominent p2p lending site which "crowd-sourced" funding to individual borrowers, does an almost 50 percent better job at predicting default than the individual's credit score. Presumably, these individual lenders are able to extract valuable information about the borrower that goes beyond their credit and financial history. Similarly, over a decade ago I co-founded the Entrepreneurial Finance Lab (EFL), a for-profit company that lent money to people without any collateral or credit history simply on the basis of their "personality". EFL addresses selection by directly measuring

3. Bauchet, Jonathan; Marshall, Cristobal; Starita, Laura; Thomas, Jeanette; Yalouris, Anna (2011) "Latest Findings from Randomized Evaluations of Microfinance." FORUM No. 2. World Bank, Washington, DC. © World Bank. Available at https://openknowledge.worldbank.org/handle/10986/26892
4. Rajkamal Iyer, Asim Ijaz Khwaja, Erzo F. P. Luttmer, Kelly Shue (2015), "Screening Peers Softly: Inferring the Quality of Small Borrowers." Management Science 62(6):1554-1577. Available at https://khwaja.scholar.harvard.edu/files/asimkhwaja/files/screening_peers_softly_khwaja.pdf

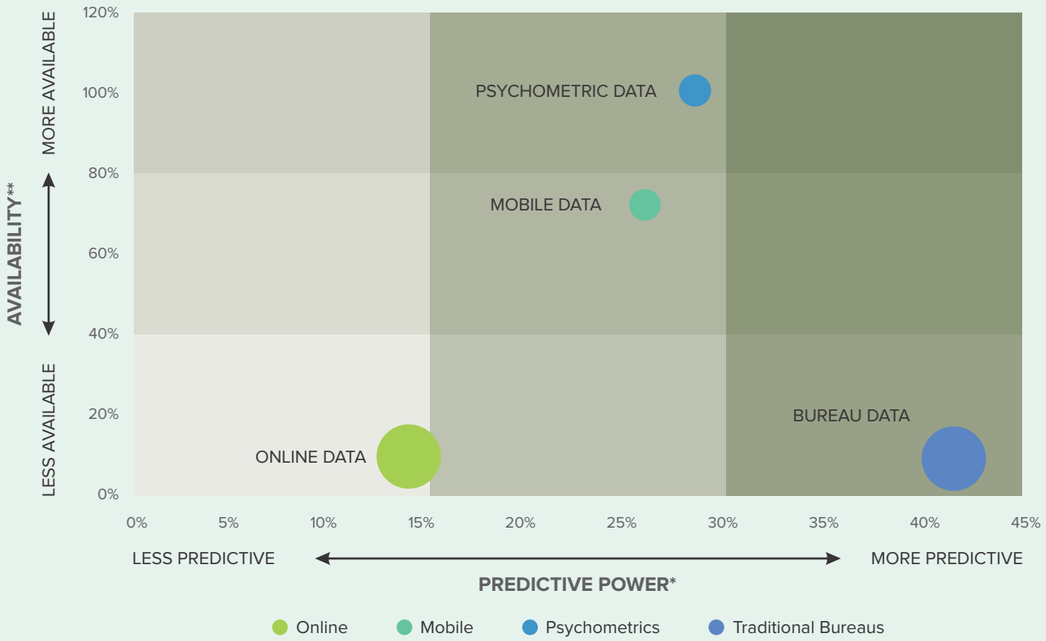
attributes of the entrepreneur (fluid and business intelligence, grit, and perseverance etc.) that map into greater business success. Moreover, instead of monitoring through checks or collateral requirements, EFL measures a borrower's inherent honesty directly through tests shown to reveal honest behavior, in the employment screening industry. The idea being that by selecting individuals who are both high ability and honest, the lending return would be high because the borrowers are both able and willing to repay the loan. EFL subsequently merged with another fintech lender using social media data, but even before that, it was working in nearly 30 countries across Africa, Asia and Latin America, and had facilitated over USD 1.5 billion of lending and processed over one million applicants with EFL's model outperforming traditional scoring methods. These ideas are simply the beginning. In ongoing work with DigiServ, a fintech in Pakistan, we are working with Bank Alfalah on leveraging alternative data to improve credit scoring for SMEs under a project supported by Karandaaz Pakistan.[5]

As Pakistan seeks to enter the digital lending space, there is both great potential but also some important cautionary notes. There is a lot of buzz around alternative financial models, fintech, data science and machine learning. This is accompanied by excitement about different data sources –cell phone records, social media, bill payment and commercial transaction-level data. But ultimately for any given modelling technique, the data source used will have to tradeoff data availability with predictive power (see figure 4). Financial data will remain some of the most predictive of sources but has limited availability. Psychometric/personality and cell-phone data is more widely available but has less predictive power. Ultimately – whatever approach we use – it is important to always go back to the basics. How well are we addressing the selection and monitoring problem, and can we do so in a way that works for all and increases inclusion?

Financial innovation has the potential to truly unleash Pakistan's entrepreneurial potential – to truly democratize finance - but only if we innovate systematically, thoughtfully, and with a passion for positive impact.

> "As Pakistan seeks to enter the digital lending space, there is great potential, but also some important cautionary notes."

Figure 4: Data Availability against Predictive Power



Size of bubble approximates ease of implementation. Bigger bubble = Lower costs

*out of sample gini coefficient with comparable model & sample
**Hit rate on sample of low-income applicants in emerigng markets

Note: Internal analysis by The Entrepreneurial Finance Lab

5. Karandaaz Pakistan (2019), "Karandaaz Joins Hands with Bank Alfalah and DigiServ to develop an Innovative Credit Scoring Model for SMEs." Available at https://karandaaz.com.pk/media-center/news-events/karandaaz-joins-hands-bank-alfalah-digiserv-develop-innovative-credit-scoring-model-smes/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Rethinking Economics: Provocations from Leading Economists

> Social and political scientists have widely criticized the use of GDP as a proxy for economic development, given its narrow focus on growth that ignores costs to the planet and individuals, the value of unpaid labour, and rising inequality due to unequal distribution of wealth.

By

Beenisch Tahir

Head, Innovation AccLab, UNDP Pakistan

Economics is getting a shake up from bold economists who are challenging definitions of growth and rethinking the role of government. Scholars like Kate Rayworth and Marianna Muzzacato are redefining the field, and have seen their messages gain more urgency since the pandemic.[1]

Old ideas no doubt die hard. GDP is still applied as a measure of growth to economies that are ten times larger than in the 1930s, when the concept first gained prominence.[2] Social and political scientists have widely criticized the use of GDP as a proxy for economic development, given its narrow focus on growth that ignores costs to the planet and individuals, the value of unpaid labour, and rising inequality due to unequal distribution of wealth. In an increasingly relevant example of these blind-spots, when people choose to work part-time for a better work-life balance, GDP declines.[3]

Facing what we call wicked problems – complex and uncertain challenges like climate change – GDP not only loses its relevance, but in encouraging a fixation on growth, becomes detrimental. It is, for example, precisely the patterns of constant and often unregulated economic growth that led to the level of environmental degradation we see today.[4]

'Renegade Economist' Kate Rayworth[5], is the author of Doughnut Economics. Doughnut Economics brings humanity into the discussion, arguing that economic growth should be circumscribed within environmental boundaries. She calls for moving away from a linear idea of progress, ''turning today's degenerative economies into regenerative ones, and divisive economies into far more distributive ones''.[6] In other words: growth at the cost of the planet, should not be considered growth at all.

A transition towards a regenerative system of growth constitutes what social scientists call a paradigm shift that requires, according to Rayworth, big picture thinking and a systems lens.

1. Forbes (2020), "5 Economists Redefining... Everything. Oh Yes, And They're Women." Available at https://www.forbes.com/sites/avivahwittenbergcox/2020/05/31/5-economists-redefining-everything--oh-yes-and-theyre-women/?sh=2769adb2714a
2. Forbes (2020), "5 Economists Redefining... Everything. Oh Yes, And They're Women." Available at https://www.forbes.com/sites/avivahwittenbergcox/2020/05/31/5-economists-redefining-everything--oh-yes-and-theyre-women/?sh=2769adb2714a
3. Business Standard (2017), "How and why we are moving beyond GDP as a measure of human progress." Available at https://www.business-standard.com/article/economy-policy/how-and-why-we-are-moving-beyond-gdp-as-a-measure-of-human-progress-117010400951_1.html
4. ECD (2019), "beyond Growth: Towards A New Economic Approach." Available at https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SG/NAEC(2019)3&docLanguage=En
5. Senior Research Associate at Oxford University's Environmental Change Institute.
6. Doughnut Economics Action Lab 2022. Read more at https://doughnuteconomics.org/about-doughnut-economics

©INP/ Sh Faisal

A robot waiter serves in a restaurant in Multan.

> Having governments lead bold visions and innovation is what is needed today, if we are to achieve growth that is smart and inclusive.

For Marianna Muzzacato[7], making the shift means big ambitions and bold directions led by governments. Muzzacato debunks the theory that innovation is led by the private sector. It is the government that de-risks investments in innovations for the private sector and not the other way around. Having governments leading bold visions and innovation is what is needed today, if we are to achieve growth that is smart and inclusive.[8]

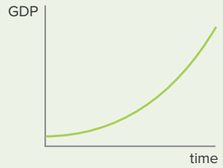
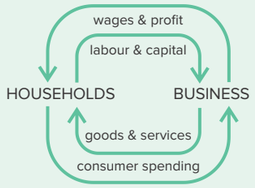
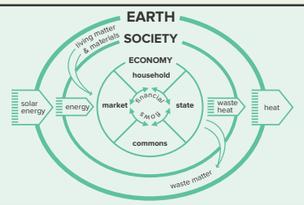
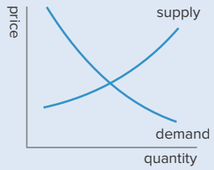
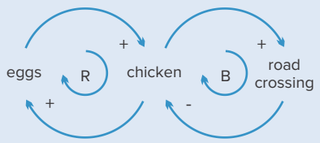
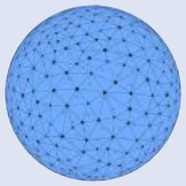
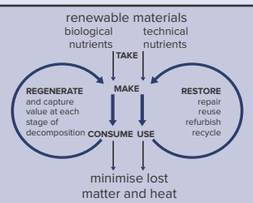
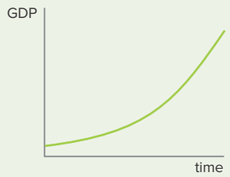
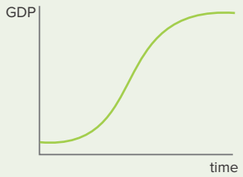
To realize grand ambitions, governments must take the lead, articulating a clear vision of the problem and devising a mission-driven policy – 'put missions at the heart of innovation and growth policies', as she puts it.[9]

The Sustainable Development Goals provide an example of such a mission, setting a direction for the global community towards specific targets, and organizing public and private partnerships, and resources to achieve them. Similarly, governments should address today's grand social and economic challenges through what she defines as mission-oriented innovation policy,[10] assuming the lead in defining the problems, and then to creating new markets and investing in technological change. This requires a fundamental shift from short-term spending cycles, the default mode for governments to set priorities.

Rayworth and Muzzacato represent a new thinking in economics towards inclusivity and sustainability. But embracing their bold visions requires the state to turn away from the business-as-usual design of policymaking.

7. Founding director of the UCL Institute for Innovation and Public Purpose.
8. Mariana Mazzucato, "The Entrepreneurial State." Available at https://marianamazzucato.com/books/the-entrepreneurial-state
9. UCL Institute for Innovation and Public Purpose, Policy Brief. Read more at https://www.ucl.ac.uk/bartlett/public-purpose/sites/public purpose/files/iipp_policy_brief_09_missions_a_beginners_guide.pdf
10. UCL Institute for Innovation and Public Purpose, Action and Research Center, "Mission-Oriented Innovation Policy." Available at https://www.thersa.org/globalassets/pdfs/reports/mission-oriented-policy-innovation-report.pdf

Seven Ways to Think Like a 21st Century Economist

Seven Ways to Think:	From 20th-Century Economics		To 21st-Century Economics	
1. Change the Goal		GDP		the Doughnut
2. See the Big Picture		self-contained market		embedded economy
3. Nurture Human Nature		rational economic man		social adaptable humans
4. Get Savvy with Systems		mechanical equilibrium		dynamic complexity
5. Design to Distribute		growth will even it up again		distributive by design
6. Create to Regenerate		growth will clean it up again		regenerative by design
7. Be Agnostic about Growth		growth addicted		growth agnostic

Source: Doughnut Economics Action Lab. Introduction to Doughnut Economics. Read more at https://doughnuteconomics.org/about-doughnut-economics

UN and Cambridge University:

Redefining the Equation for Inclusive Economic Growth

For eons, GDP has been the master measure of a country's economy. Nations have eliminated vast amounts of green lands with the aim of boosting this economic indicator, and the focus on goods and services has been driving global inequality for decades.

While poverty and child mortality have seen major reductions against a measure of this indicator, GDP alone has now become inefficient and insufficient in achieving true economic prosperity. The reason? With ecologies becoming a key factor in evolving development paradigms, global economies are now aligning more and more with overall development outcomes, especially those linked with climate and environment, inclusion, innovation, and social sector dynamics (including health and skills).

According to Prof. Sir Partha Dasgupta[2], "Ecosystems services are absent from most national statistics...Vast intellectual energy is given to estimating GDP, but there is little data on the biosphere's capacity to meet human demand for natural goods."

For instance, while building a commercial enterprise by eradicating natural land may add value to produced capital, however, the hidden costs of losing out on 'natural capital' may surpass the gains made .

Source: University of Cambridge, "Building Forward: Investing in a Resilient Recovery." Available at: https://www.bennettinstitute.cam.ac.uk/wp-


© Bennett Institute for Public Policy, University of Cambridge

Moreover, with the pandemic reversing several gains made in the past decades, the reality to the consequences of neglecting societal resilience have etched even more: inequalities have exacerbated and there has been no buffer to match the 'loss-loss' equation at both ends.

The key to a sustainable future lies in curating holistic statistics for navigating future uncertainties. Things that may be hard to measure, but are vital to economic growth, must be brought into the equation. This must be supplemented with policies that ensure all areas are thriving, not just a select few.

1. This piece presents a summary of the research in Cambridge University's study entitled, 'Beyond GDP. Time to measure inclusive wealth and revolutionize economics," which informed a series of 'Inclusive Wealth' reports produced by the United Nations.
2. Served as Chief Scientific Advisor to a series of United Nations reports on 'inclusive wealth' over the last decade, and published a report on the 'Economics of Biodiversity' in 2021.

"Governments are increasingly adopting behavioral science techniques for changing individual behavior in pursuit of policy objectives to create sustainable impact in economic growth and development."

© Edmund Lowe

THOUGHT PIECE

Nudging for Development

"For long, nudges have been an effective medium in creating change, and have also played an instrumental role in informing policies during and post the pandemic."

By

Dr. Fadi Makki

Behavioural Economist
Head, B4Development
Founder, Nudge Lebanon

In 2016, the Supreme Committee for Delivery and Legacy (SC) launched the first Nudge Unit in the Arab world and Middle East, later incorporated as a foundation under the name of B4Development (B4D).

The unit uses insights from behavioural science derived from fields such as psychology, sociology, neuroscience, and behavioural economics, to better inform policy makers about why people act in the way they do, and allow them to design "nudges" and other behavioural interventions that steer people gently in the right direction.

For long, nudges have been an effective medium in creating change and also played an instrumental role in informing policies during and post the pandemic, especially in terms of facilitating compliance with restrictiveness measures, mitigating impact of lock-down measures for example through increasing trust in online mental health services, and finally through encouraging vaccine uptake.

Governments are increasingly adopting behavioural science techniques for changing individual behaviour in pursuit of policy objectives to create sustainable impact in economic growth and development. Integration of nudges in developmental work by the United Nations, aid organizations, and their implementation partners is also happening fast, for instance in fields of education, health, energy, labour, and public finance management, etc. It is in the latter area, namely public finance management, that much of the early successes of nudging have been documented. Some of the most effective trials were done by the UK Behavioural Insights Team (BIT) to promote timely submission of tax returns, where the use of social norms messaging through reminder letters from the Queen, helped collect more than nine million GBP over a period of 23 days. These tax revenues were injected as funding for promoting socio-economic uplift through providing health, education, infrastructure, and other services, to spur economic growth and development.[1]

Likewise, in Guatemala, BIT developed behavioural interventions that did not just ensure tax payment, but also permanently raised compliance levels. In working with the tax authority, tax reminders were sent via three types of letters – one with a social norms message, one that emphasized national pride, and one that highlighted non-declaration as a deliberate choice. While all the letters were effective, the social norms and deliberate choice letters increased the average amount paid per taxpayer by 210 percent and 269 percent, respectively.[2] For Pakistan,

1. UNDP Pakistan (2019), "Development Advocate Paksitan: Nudging for Development" Available at https://www.pk.undp.org/content/pakistan/en/home/library/development_policy/dap-vol6-issue2-nudging-for-development.html
2. UNDP Pakistan (2019), "Development Advocate Pakistan: Nudging for Development" Available at https://www.pk.undp.org/content/pakistan/en/home/library/development_policy/dap-vol6-issue2-nudging-for-development.html

Adherence to COVID-19 vaccine intake has been hugely powered through social nudges. © REUTERS/Akhtar Soomro

national pride or deliberate choice could also be employed to increase tax collection. It is to be noted in this regard, that the Government of Khyber Pakhtunkhwa launched the MindLab Behavioural Insights Unit within its Department of Finance, after receiving technical assistance from B4D. The unit seeks to leverage behavioural science tools for cost-effective, citizen-centred and easily implementable solutions to modern policy programmes, focusing on change in the way policy issues are defined, approached and resolved.[3]

Away from public finance management, there has also been a growing integration of behavioural insights in international sports tournaments. For instance, in preparation for the FIFA World Cup Qatar 2022™, recent behavioural interventions have been carried out by B4Development in various test tournaments, including the FIFA Club World Cup and Arab Cup™, for instance, to improve recycling in stadiums, reduce littering and encourage use of public transports. There are many lessons learnt: for instance, we know that updating people's perception of current trends is a powerful nudge. As such, communicating recent increase in metro ridership could increase people's willingness to take metro. Using salient floor tickers as reminders for people to take their trash with them after a game is effective. Also, highlighting the moral value of recycling: using signs that read, "Do good! Recycle right," reduced the number of incorrect disposals in non-recyclable bins by almost 36 percent, and increased the number of correct disposals by 11 percent.

It is important to note, that this is going to be the first time that behavioural insights are being used systematically in a FIFA World Cup. This is an amazing legacy, not only for this World Cup, but for future mega sports events. Exciting times indeed for behavioral science in pushing boundaries in the use of this field for greater social impact.

Henceforth, whether in development, public finance or in mega sports events, the use of nudges is limitless. The trick lies in identifying challenges that have behavioural roots, dissecting them to better understand the context, designing the type of nudge needed to create the biggest impact, and then developing an execution strategy to fully augment the aim, including experimentation components to allow confirmation of what works and what does not. Nudges can be a powerful tool to achieve the Sustainable Development Goals, but more research and innovation is needed to streamline this instrument of change into policy making and national development interventions in a systematic way.

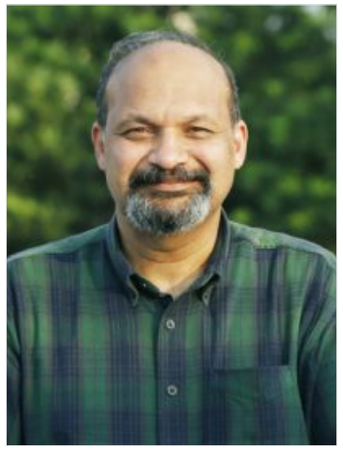
> "The trick lies in identifying challenges that have behavioural roots, dissecting them to better understand the context, designing the type of nudge needed to create the biggest impact, and then developing an execution strategy to fully augment the aim."

3. https://www.asiantelegraphqatar.com/sports/qatar-kpk-govt-in-pakistan-to-get-the-first-nudge-model-unit-b4development-program/

THOUGHT PIECE

Agents of Tomorrow: Investing in a Young Future

“The youth must be equipped with renewed skills of literacy, numeracy and, communication, to be able to steer the economy of the future.”



By

Dr. Faisal Bari

Associate Professor of Economics, LUMS
Senior Research Fellow, IDEAS

Pakistan is a ‘young’ nation in the sense that we have a larger proportion of youth in the population. This has generated a lot of talk about the ‘youth dividend’: since there are a lot of young people who are going to be entering the labour force for many years to come, Pakistan has a large and ready supply of labour for creating the productive capacity that will be needed for sustaining a high growth trajectory.

Simultaneously, this large and fast growing young population is also a ‘ticking time bomb’. If we are not able to give gainful and meaningful employment to the millions entering the labour market every year, how is Pakistan going to manage growth? The ‘time bomb’ reading becomes more realistic when we see that we do not have 100 percent enrolment of children even in primary schooling. Only an estimated eight percent of children who enroll at the primary level make it to higher education (92-93 percent of the children ‘drop’ out before they have a Bachelors degree), and we are not able to provide vocational training to the majority of the children who do not make it to tertiary education. If the young are not literate, not educated, and not skilled, what sort of economy will be able to absorb them? How will these young people be able to have meaningful/gainful employment? How will they be able to contribute to the high growth trajectory that Pakistan wants to steer on?

Trends in the current economy indicate that returns to education, for primary level education, have gone down. Even matriculation (10 years of education) is not deemed to be enough for most jobs that might be interesting or that might be able to provide meaningful career paths. This has been the experience of other countries as well.

The economy of the future will become even more computerized, mechanized and interaction – dependent so that the ‘labour’ that will be needed, for future economies, will need to have higher and more sophisticated literacy, numeracy, communication, and people skills to be able to command any returns for their effort. How will Pakistani youth fare in such times and in such economies?

The pattern of job creation in Pakistan over the last couple of decades delineates highest employability in the service sector. Service sector jobs, by and large, depend on literacy, numeracy, and people skills. Employers complain that the young people they hire, even if they come with degrees, lack basic communication and people skills. They do not know how to effectively deal with customers or fellow employees, how to lead, how to be effective team players, how to use their emotional intelligence, and lack the necessary skills to effectively communicate verbally or in writing. These skills are now a basic prerequisite for most entry level jobs as well.

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> “Where other countries are worrying about aging populations, Pakistan houses the young power needed to shape the world of tomorrow.”

While we were collecting data for the UNDP National Human Development Report on Youth in 2017, a majority of our survey respondents, focus group participants and interviewees expressed the desire to complete their education, if given the chance. Most of them, irrespective of where they were, felt they needed more education. This is the reality for the youth currently.

Our education system is very rigid and inflexible. It does not allow second or multiple chances to people. There are restrictions of format, age, gender, and location that make it very difficult for a person to re-enter if they have dropped out once or missed the optimal window for entry.

Our biggest asset, as a country, is our youth. But it can also be the albatross around our neck. Where other countries are worrying about aging populations, Pakistan houses the young power needed to shape the world of tomorrow. But for this, they need to be educated and possess the requisite skills. In providing these, we are failing miserably. If we manage the education/skill provision well, the youth in Pakistan will have tremendous opportunities tomorrow. But if the status quo prevails, most of the youth, their families, and Pakistan will suffer. The choice, today, lies with the government and the society: For a better tomorrow, are we willing to invest in our youth today?

© UNDP Pakistan

“Gender inclusive budgeting and planning must integrate with digital inclusion and technological innovations, to reap long term dividends for Womenomics.”

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THOUGHT PIECE

Womenomics: Powering the Economy

“With women transitioning from traditional roles in the economic sector to more robust and varied penetration, they are increasingly becoming key in driving global and regional knowledge economies.”

By

Development Advocate Pakistan (DAP) Team

Development Policy Unit
UNDP Pakistan

Women account for nearly half of the world's population. The magnitude of global economic prosperity if this half is allowed to maximize its potential, is staggering: Advancing women's equality could add USD 12 trillion to global growth.[1] When more women enter the workforce, it benefits the economy.

This idea of women as drivers of a nation's economy can be understood by the term 'Womenomics' - coined by Goldman Sachs strategist Kathy Matsui and launched by Japan's Prime Minister Shinzo Abe in 2013 to stimulate his country's economic growth, and promote gender equality in the workforce.

A more gender inclusive workforce where women occupy a multitude of positions leads to increased productivity at the national level, a rise in living standards, as well as increased household incomes, purchasing power, and spending on goods and services. At the global level, women currently represent 46 percent of the labour force, while in Pakistan, the number stands at just 21 percent.[2]

Nepal is leading with highest gender parity in the region followed by India, Sri Lanka, Bangladesh, and Pakistan (Table 1). Within Pakistan, the Women Economic Empowerment Index places Punjab's performance as leading (0.52), followed by Sindh (0.38), Khyber Pakhtunkhwa (0.35), and finally Balochistan (0.26). The national figure stands at 0.39. While the results are in line with the distribution of resources in the provinces, it is nonetheless a glass half empty situation for Pakistan, and a lot more needs to be done to reach the finish line with others.

Lack of gender sensitive policies and lack of gendered infrastructures severely inhibit women from realizing their full economic potential (see Figure 1). While Pakistan has made significant efforts to create an enabling environment for women in the workplace and to reduce structural barriers, the follow up to such initiatives loses momentum and casts a shadow on progress.

The 'invisible' labour of women aggravates their 'time poverty'. While many women are not even accounted for in the workforce, those who contribute towards the care economy are largely undocumented: Out of the total women in the labour force, 55.9 percent fall under the category of contributing family workers and remain unrecog-

1. Mckinsey Global Institute (2015), "The Power of Parity." Available at https://www.mckinsey.com/~/media/mckinsey/industries/public%20and%20social%20sector/our%20insights/how%20advancing%20womens%20equality%20can%20add%2012%20trillion%20to%20global%20growth/mgi%20power%20of%20parity_full%20report_september%202015.pdf
2. World Bank Development Indicators (as of 2021). Available at https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?locations=PK

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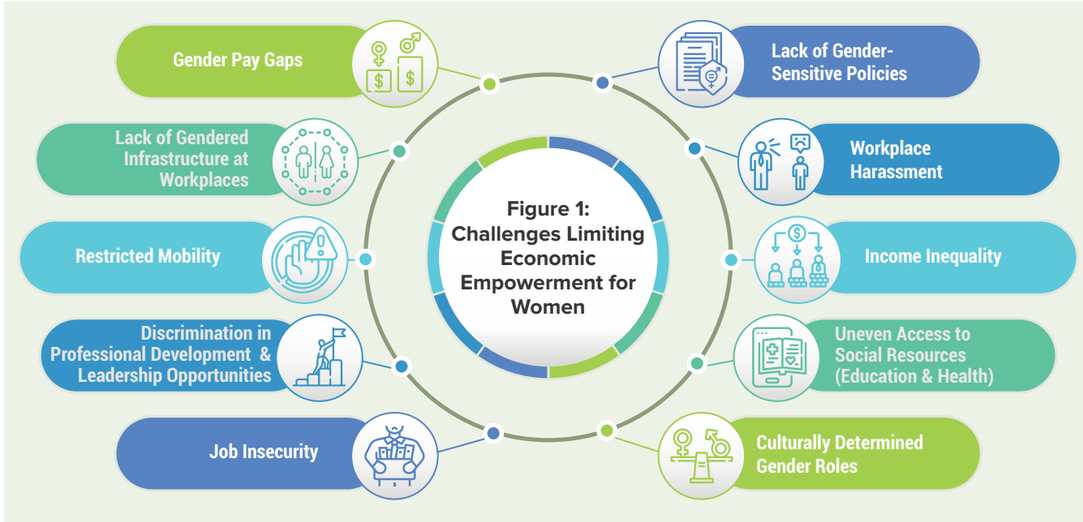
> A more gender inclusive workforce where women occupy a multitude of positions leads to increased productivity at the national level.

Table 1: Women in Workforce: South Asian Countries (in %)

	Pakistan	Bangladesh	Nepal	India	Sri Lanka
GDP Gain by 2025 (if Women's Participation is fully Equal to Men's)	60	28	15	60	69
Gender Equality in Work	48	58	65	59	58
Gender Equality in Essential Services	55	81	76	75	95
Gender Equality in Legal Protection and Political Voice	16	35	38	40	29
Gender Equality in Physical Security and Autonomy	77	60	77	73	77
Gender Parity	37	48	58	48	58
Gender Equality in Education	75	81	73	76	99
Gender Equality in Financial Inclusion	17	83	74	66	96
Gender Equality Female Labour Force Participation	21.7	36.4	81.5	20.8	33.5

Source: McKinsey Global Institute (2015), "The Power of Parity: How Advancing Women's Equality can Add $12 Trillion to Global Growth" and ILO data sets 2019



> Lack of gender sensitive policies and lack of gendered infrastructures severely inhibit women from realizing their full economic potential.

> Countries that invest in women and increase their employment opportunities show higher GDP growth rates.

nized and unpaid.[3] Women in Pakistan spend nearly 10 times as much time as men in unpaid care work. Dependency upon male family members perpetuates a vicious cycle of silent exploitation and abuse: women are compelled to hand over all their earnings to their family at the cost of losing all financial independence and the freedom to spend.

Countries that invest in women and increase their employment opportunities show higher Gross Domestic Product (GDP) growth rates. Bangladesh, for instance, started with a GDP rate of negative 14 percent. During the 1990s, the country focused on gender inclusive policies, particularly in health and education. Since then, it has steadily increased female employment in the last decade while cutting the wage gap between men and women. Currently, 80 percent of the workforce in its exports-based garment industry are women. The government facilitates women's participation in cottage, micro, small and medium enterprises, and women have been empowered in micro financing and equipped with skills for sustainable, living. Given nearly a billion of the world's poor rely on livestock for food, income, and work, livestock development participation is a smart economic growth strategy. Therefore, focus on provision of quality education to women – both formal and informal – as well as financial empowerment, seem to play instrumental roles for womenomics to work.

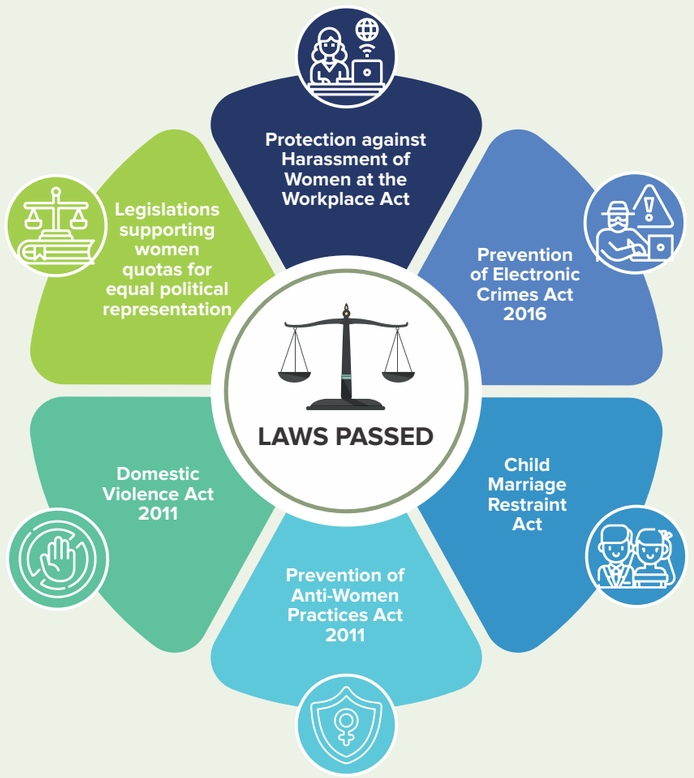
Following COVID-19, engagement and reliance on technology has increased massively. Mobile access can transform economic isolation into connectivity, thereby empowering women in rural areas and inhibiting social environments. Unfortunately, with a 33 percent gender gap in mobile usage in Pakistan, there is still some time before the many benefits of technology can truly be utilized for the social and economic empowerment of women.

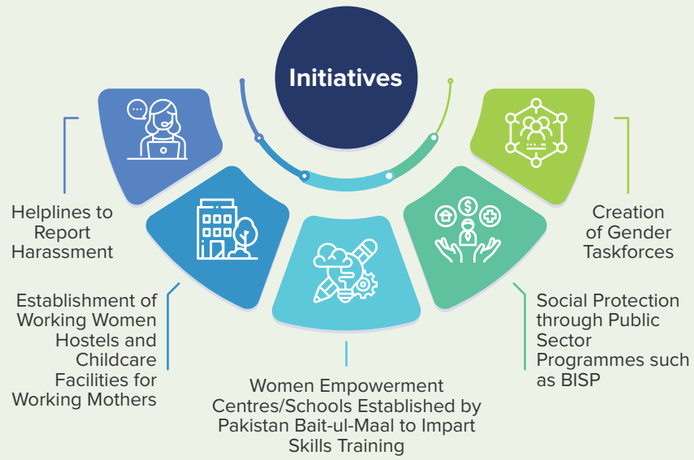
Likewise, while advancements in branchless banking and digital tools have played a significant role in improving overall growth in financial inclusion, the gender gap has continued to persist. Only 14.5 million active accounts are owned by women, compared to 38.7 million active accounts owned by men.[4] Several recent initiatives are working towards addressing this, including those geared towards improving the financial literacy of women under the State Bank of Pakistan's National Financial Literacy Program; adoption of targets for

3. Pakistan Bureau of Statistics, Labour Force Survey 2020-2021. Available at https://www.pbs.gov.pk/sites/default/files//Labour%20Force/publications/lfs2020_21/Key_Findings_of_Labour_Force_Survey_2020-21.pdf
4. State Bank of Pakistan, "Banking on Equality." Available at https://www.sbp.org.pk/BOE/BankingonEquality.pdf

> The ‘invisible’ labour of women aggravates their ‘time poverty’. Out of the total women in the labour force, 55.9 percent fall under the category of contributing family workers and remain unrecognized and unpaid.

Figure 2: What Has Been Done?





improving access to bank accounts (at least 20 million adult women should have an active bank account by 2023); and, the provision of loans of up to PKR five million for women entrepreneurs under the Refinance and Credit Guarantee Scheme.[5]

With new innovations in the works, the gap between research and application is increasing. Imparting skills training and leveraging digital transformation is essential to benefit from the linkages between innovation, growth, and women’s economic participation, to demonstrate their direct contribution to the national GDP.

With women transitioning from traditional roles in the economic sector to more robust and varied penetration, they are increasingly becoming key in driving global and regional knowledge economies. As part of Pakistan’s national commitment to ‘Leave No One Behind’ by achieving Agenda 2030, championing women presents an excellent opportunity to not just achieve SDG 5 of Gender Equality, but to also align development outcomes with economic prosperity. Gender inclusive budgeting and planning must integrate with digital inclusion and technological innovations, to reap long term dividends for womenomics.

> Mobile access can transform economic isolation into connectivity, thereby empowering women in rural areas and inhibiting social environments.

5. State Bank of Pakistan, “Banking on Equality.” Available at https://www.sbp.org.pk/BOE/BankingonEquality.pdf

> Imparting skills training and leveraging digital transformation is essential to benefit from the linkages between innovation, growth, and women’s economic participation, in order to demonstrate their direct contribution to the national GDP.

"Digitization and technology are key primers for growth."

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THOUGHT PIECE

Digital Investments for Growth

"The increasing digitization of a society leads to easier access and transparency of processes, which emerging economies like Pakistan require to accelerate socio-economic activity and development."

By
Jehan Ara

Founder & CEO
Katalyst Labs

There is a great deal of talk these days about how to grow and energize the economy of Pakistan. We must understand that no one sector is likely to make that happen. There is no magic bullet. However, if we were to focus on some of the key things that are needed for a positive push, then digitalization and technology would be the areas to zone in on.

At present, there are around 193 million cellular subscribers in Pakistan.[2] Of these, 113 million are 3G/4G users, 116 million are broadband subscribers, and two million are basic telephony users.

Some digitization has begun but there is a lot that remains to be done. Investing in technology and the upskilling of people is important for socio-economic development. With the increase in the number of mobile phones, and with NADRA being in possession of a database of almost all citizens in the country, there are a large number of government services that can be provided.

As was seen during the COVID-19 crisis, data was used to create awareness and keep tabs on the number of people who were vaccinated. The Ehsaas program saw successful use of government data to provide relief to the poorest of the poor.

It is important to realize that a lot more investment needs to be made into building and improving technology infrastructure, and in the spreading of digital literacy, so that people are aware of how they can use technology to access available services. Privacy, security, lack of relevant content as well as cost, are additional barriers that need to be addressed.

To attract more foreign investment into the technology sector, the government needs to ensure that there is stability and consistency in policy. As was seen when the State Bank of Pakistan brought about new policies allowing holding companies to be settled outside Pakistan and the easy flow of investment funds to and from Pakistan, investors responded by bringing in more capital to invest in startups and small companies, thereby bringing much-needed investment and creating jobs. There is nothing that makes investors more nervous than 'U-turns' in policy.

Digitization and technology are key primers for the growth of startups and small businesses. Access to small or large amounts of relevant data, and being able to use it to create products and offer services that solve the problems of a significant segment of society, has been seen to benefit both startups and SMEs in Pakistan and

1. Pakistan Telecommunication Authority, Telecom Indicators. Available at https://www.pta.gov.pk/en/telecom-indicators

Bazaar is an online grocery platform.

© Bazaar

> “It is important to realize that a lot more investment needs to be made into building and improving technology infrastructure, and in the spreading of digital literacy, so that people are aware of how they can use technology to access available services.”

elsewhere. Being able to register a company online, open an account online, enjoy transparency, and have free and immediate access to services remotely without needing external assistance, are all beneficial for the functioning and growth of the economy.

Interaction between government, businesses, and citizens in the provision of public and financial services digitally has made the transactions process much simpler. It is fast leading to a digital lifestyle using an increasing number of smart devices to access locally relevant content, and core and non-core communication services. And when you look at the growing e-commerce landscape, it is apparent that technology simplifies and allows easy access to expanding commerce activity via marketplaces and online stores, through online payments, and through the processing and delivery of orders via digital channels. This holds truer for services which do not require the involvement of any physical logistics.

The increasing digitization of a society leads to easier access and transparency of processes, which emerging economies like Pakistan require to accelerate socio economic activity and development. This results in social and financial inclusion, and easier access to essential services like healthcare, education and financial services, which are otherwise not available due to insufficient existing infrastructure.

> “The impact investing sector has come a long way from its early days when the concepts of ‘profit’ or ‘commercial viability’ were considered almost taboo, and sponsors were happy just supporting ‘sustainable’ businesses.”

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THOUGHT PIECE

Anchoring Impact Investing for Economic Value

> “Impact startups are not really expected to become massive economic value engines for their stakeholders. This needs to change.”

By

Shehryar Hydri

Managing Partner
Deosai Ventures

Even though the commercial side is a key part of the equation now, it is still cloaked behind higher priority goals including the Sustainable Development Goals (SDGs), or part of a broader push around environmental, social and corporate governance (ESG), which is why impact startups are not really expected to become massive economic value engines for their stakeholders.

Pakistan has had its fair share of impact investing experiments with billions of dollars spent in trying to crack this model with limited success. Interestingly, there is a new unique opportunity to leverage the impact investing space, and benefit from the current economic slowdown, as well as the massive interest in the startup ecosystem over the last two years.

There have been many reasons for impact investing’s lukewarm success in Pakistan. One of the core issues was that startups were operating in a pampered bubble, without connecting with market dynamics. There were also a lot of ‘cookie cutter’ models imported and applied here without the required localization. A graveyard of such startups can be seen where EdTech’s, HealthTechs and AgriTechs survived from one grant to another micro-investment, and then just fell off a cliff. The handful that made it were the ones that were smart enough to use those funds to crack their product market fit and unit economics, and then scaled up using commercial funding via the Venture capital (VC) market and Mergers and Acquisitions (M&A).

As the global markets begin a rocky two-year journey and VC funding dries up, there is a huge opportunity for impact investing to fill the early-stage space in Pakistan, which just needs to be done with a commercial end in mind.

The context for this vacuum in early-stage investing is that despite a historic year of VC investments exceeding USD 375 million in 2021, Pakistan has failed to develop a structured network of angel investor syndicates over the last decade. The normal funding stages for startups move from friends and family rounds to angels, and then to pre-seed VC rounds. In our ecosystem, that critical angel investing stage has been missing and is still very fragmented, so a lot of great startups do not get funded in their first year, and implode without reaching

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> “With the massive build-up of interest in the startup ecosystem over the last two years, and the current economic slowdown, there is now a unique opportunity to leverage the impact investing space.”

the VC funding stage. This will get worse over the next two years leaving a huge gap for impact investors to come in and support early-stage startups until they can tap commercial funding down the road.

There have been recent cases where entities like the International Finance Corporation (IFC) have become Limited Partners (LP's) in VC's, while the Asian Development Bank (ADB) and others have started to invest directly in Pakistani startups – but most of these are post revenue and later stage deals. The real gap and the maximum commercial and impact Return on Investment (ROI) lies in the early stages before these investors bet on the startups, and that is where impact investors can truly shine.

This will not only bring their funds out of the silos they have been stuck in, but will give them front seat control over creating the deal flow and pipeline for commercial investors. Even from the VC side, impact investing has always been a 'nonprofit' zone for them, and they have not tapped that for their pipeline due to vastly different DNA's. The current scenario provides a once in a decade chance to connect these two worlds in an organic way, that can greatly benefit both sides.

Woman entrepreneur at her general store in Gujar Khan, Pakistan.

© Visual News Associates/World Bank

"The existence of fintech enhances financial capability by simplifying how money is managed."

© Saiyna Bashir for Rest of World

The Future is Fintech

"At a time when financial inclusion does not seem to be a top priority in the banking system, the only ray of hope for Pakistan is fintech."

By

Ariba Shahid

Economics and Business Journalist

In today's world, being connected is increasingly important. Not just socially, but also financially. To support this, financial inclusion becomes of utmost importance. Incumbents in Pakistan, primarily the banking system, have somewhat failed at driving financial inclusion. This, therefore, has presented an opportunity for new age fintech to step in.

Pakistan has the third largest unbanked adult population globally. Around 100 million adults across Pakistan do not have a bank account.[1] Women make up 82 percent of the unbanked population. Furthermore, nearly half of all unbanked adults live in just seven economies, including Pakistan, China, India, Bangladesh, Indonesia, Mexico, and Nigeria. Pakistan accounts for six percent of the world's unbanked population.[2]

While there are several reasons to account for this, the biggest one remains the old-school, non-inclusive banking system in the country. Banks earn most revenue from their investment in government paper such as Treasury Bills (tbills) and Pakistan Investment Bonds (PIBs). With the option of such a safe investment, why bother with small retail investors, considering the cost of onboarding?

In such a climate, where financial inclusion does not seem to be a top priority at banks, unless forced to by the State Bank of Pakistan, the only ray of hope is fintech in Pakistan, and startups entering the segment.

Financial inclusion is important to increase documentation of the economy and regularize the grey economy. It is also a key mode for individuals to access credit.

Informal credit in Pakistan is usually predatory. The terms are too difficult while the dynamics are such that the lender has more power and leverage over the borrower. As a result, upward social mobility remains a challenge considering individuals are unable to access credit to start their own venture or meet obligations.

With the digital banking licenses being rolled out, this may soon change. The State Bank of Pakistan is going forward with the licenses in hopes that this new solution to an old problem will help bank the unbanked. It will also provide the most vulnerable unbanked segments like women, farmers, and other members of the informal economy, access to safe credit.

The existence of fintech also enhances financial capability . It helps simplify how money is managed. Globally, apps such as Robinhood and Chime while operating, also promote financial literacy. As a result, this enables individuals to make better financial decisions.

The importance of fintech in Pakistan can be gauged by the fact that in 2021, USD 95 million was raised by the sector, making it the second most funded sector for the year.[3]

The number of fintech players in the country is also increasing. There are around 255 fintechs registered in Pakistan. The future is definitely young, where growth is going to be driven by fintech. The question now is whether fintech will play its role in financial inclusion.

1. World Bank, The Global Findex Database 2017: The Unbanked. Available at https://globalfindex.worldbank.org/chapters/unbanked
2. World Bank, The Global Findex Database 2017: The Unbanked. Available at https://globalfindex.worldbank.org/chapters/unbanked
3. DAWN (2022), "Startups raise $350m in October-December." Available at https://www.dawn.com/news/1671026

> With more robust data, Pakistan can host a greater number of indigenoaus trials to embed innovative and home-grown solutions, to solve local problems.

© Asad Zaidi

Deconstructing Data: Pakistan After COVID-19

> Increased production and enhanced usability of data will make it easier to furnish quick analysis that can produce actionable insights for policymakers.

By

Maha Rehman

Development Economist

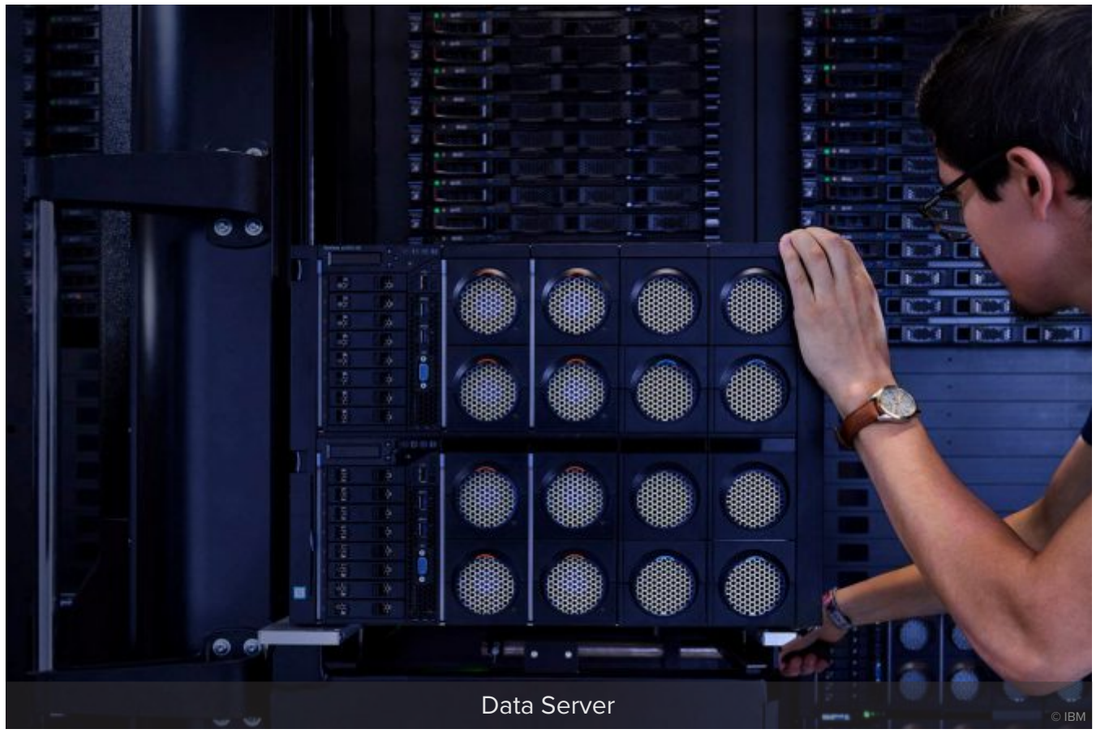
Director, Mahbub ul Haq Research Centre-LUMS

Two years of COVID-19 have transformed policymaking in Pakistan. One key change is the increased demand and appetite for data from the federal, provincial and district governments. This is a positive change and must be sustained for improved decision making in the country. What does sustaining this momentum entail?

To meet the increased demand and need for data, public institutions must take stock of data generation in the country. What are the gaps? What survey needs to be conducted and at what frequency? What should the level of aggregation be? And how can the gaps be met in a technically robust way? It is not only necessary to meet the gaps, but to do so in a robust fashion so that the datasets are integrable, detailed and usable to produce consumable insights.

In undertaking this stock take, it would be prudent to align partners from academia, public institutions, and relevant private sector players to accelerate the process and increase accuracy and usability.

Once the data production process is underway, it will be crucial to integrate data structures at the federal and provincial levels, and allow secure access to all players who can use the data to improve decision making and knowledge generation processes in the country. As I designed a trial to increase mask wearing in Lahore last summer, we ran into a range of challenges. From the addresses sourced from LESCO that could not be mapped onto Union Councils, to sourcing a reliable directory of mosques and markets, data was unorganized and not readily usable.



Data Server

© IBM

> To meet the increased demand and need for data, public institutions must take stock of data generation in the country. What are the gaps? And how can they be bridged in a technically robust way?

Moreover, data from the health department had to be requested multiple times and that too was not available in a disaggregated format. Increased data availability and usability will also increase experimentation to improve policy. As a result, Pakistan can host greater number of indigenous trials to embed innovative and home-grown solutions to solve local problems.

Having said that, there is also a glimmer of hope. Post the mask trial, I then delved into designing COVID-19 vaccine trials for Lahore and rural Bihar. This required mapping health centres and vaccine clinics so that encouragement strategies could be randomized. While this data was readily available and organized by the Health Department in Lahore, the governments from across the border were unable to put this together. Hence for Bihar, we had to rely on the next best solution of scraping addresses from Google, and then mapping them using Google Maps.

While I do lament the data non-usability, Pakistan is strides ahead in some dimensions which should be appreciated.

Increased production and enhanced usability of data will make it easier to furnish quick analysis that can produce actionable insights for policymakers. However, this will require beefing up intellectual capacity of public sector data cells, as well as partnerships with academics and the private sector. Simultaneously, data literacy across hierarchies will have to be improved, not only by providing the right training, but also creating incentives for officers across hierarchies to be able to interpret and utilize the generated insights in decision making.

Gradual, small tweaks over the next three years will make Pakistan proficient in data and its use in designing policies, provided the right incentives are created across hierarchies.

© Proofhub

> Sensitizing the need to shift away from fossil fuels to aid social welfare and favourably impact conventional production models, is imperative.

© Lahore Mirror

THOUGHT PIECE

Renewable Energy, Renewed Growth

By
Vaqar Ahmed
Joint Executive Director, Sustainable Development Policy Institute

By
Ubaid ur Rehman Zia
Research Associate, Sustainable Development Policy Institute

> Given the climate threat and fast depletion of natural resource endowments, federal and provincial governments are supporting a just and clean energy transition in Pakistan.

"Solar and wind power should be urgently expanded to at least 30 percent of Pakistan's total electricity generation capacity by 2030, equivalent to around 24,000 Megawatts. Expanding renewable energy can make electricity cheaper, achieve greater energy security, reduce carbon emissions, and help Pakistan save up to USD five billion over the next 20 years. Many sources of fossil fuel generation such as domestic and imported coal are no longer competitive and should be retired or significantly reduced."[1]

Given the climate threat and fast depletion of natural resource endowments, federal and provincial governments are supporting a just and clean energy transition in Pakistan. A strong ownership from all stakeholders is required to support 30 percent electricity generation from variable renewable energy (including solar and wind) resources by 2030. The Nationally Determined Contributions (NDCs) also prescribe that to achieve an emissions reduction target of 50 percent, a total of 60 percent energy may be derived from clean sources by 2030.[2]

While supply-side efforts by the government are important, an equal emphasis on the demand-side is required to decarbonize the industrial and transport sector through various measures, including less carbon intensive technology and rapid transformation towards electro mobility (e-mobility).

A deeper public-private dialogue followed by time bound actions will mobilize the cost-effective utilization of clean energy resources, improvements in green energy infrastructure (e.g., grid, climate smart houses, etc.), green financing, energy efficiency, and access to clean energy for marginalized communities.

In this regard, and to complement supply-side with demand-side efforts, think tank communities have come forward to strengthen the public sector's efforts. To start with, several local institutions have come together to help in synchronizing policy actions at federal and provincial levels. This has resulted in the establishment of a national Network for Clean Energy Transition in Pakistan (NCETP).[3] This network now hosts over 100 public and private institutions. Sustainable Development Policy Institute (SDPI) acts as the secretariat for this network. The network members are providing research, outreach, and capacity building services to expedite reforms for clean energy and climate action in Pakistan.

1. The World Bank (2020), "Expanding Renewable Energy in Pakistan's Electricity Mix." Feature Story. Available at https://www.worldbank.org/en/news/feature/2020/11/09/a-renewable-energy-future-for-pakistans-power-system. See also, State Bank of Pakistan's Revised Financing Scheme for Renewable Energy, available at https://www.aedb.org/ae-policies/revised-ssp-financing-scheme-for-renewable-energy
2. Government of Pakistan (2021), "Updated Nationally Determined Contributions 2021". Available at https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Pakistan%20First/Pakistan%20Updated%20NDC%202021.pdf.
3. SDPI, "Network for Clean Energy Transition in Pakistan: Research and Advocacy." Read more at https://energy.sdpipk.org/.

'Dynasty IT' electric vehicle by Karakoram Motors Pakistan.

© Wikipedia

Sub-groups and teams within the network are also providing evidence-based proposals to shift away from the long-term use of coal in power generation. As a result, Pakistan's power capacity expansion plans have been revised to have an increased reliance on clean energy initiatives. The share of clean energy in the revised Indicative Generation Capacity Expansion Plan (IGCEP)[4] has now been increased to more than 60 percent by 2030.

This initiative has also benefited ongoing projects under the China Pakistan Economic Corridor (CPEC) programme. Following research conducted to assess the socio-economic impacts of coal powerplants in Pakistan's Thar region, Chinese leadership has also been forthcoming and announced[5] that they will not build any new coal fired powerplants, and will extend support for green and low carbon projects.

Most measures under the energy transition planning require strong support from political leadership. In this regard, the establishment of Renewable Energy Parliamentary Caucus[6] in Pakistan is a noteworthy development. This change coalition could mobilize political consensus towards improved legislation and financing for renewable energy, policy oversight, collaboration and coordination within the government, and ensure support to non-government organizations promoting the clean energy transition.[7]

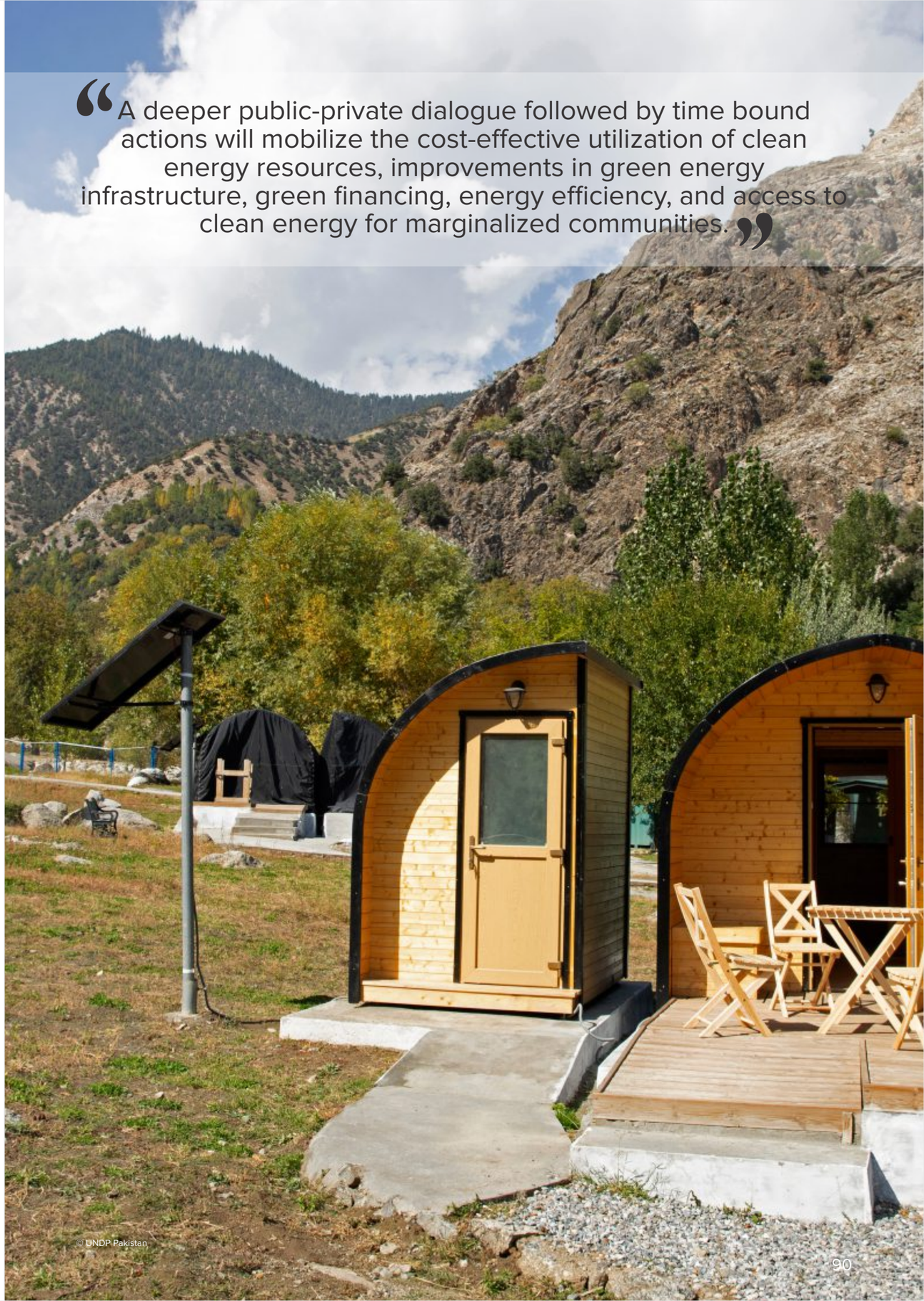
Regional cooperation could also generate momentum for resource mobilization in the renewable energy space. Pakistan could easily become a conduit of clean energy in the region if transboundary agreements with neighbouring countries are envisaged and implemented. Some homework on this subject has been completed by secretariats of South Asian Association for Regional Cooperation (SAARC), Economic Cooperation Organization (ECO), and Shanghai Cooperation Organization (SCO). Technical assistance is also available under Central Asia Regional Economic Cooperation (CAREC) Programme.

Going forward, an important initiative that could be organized under the auspices of federal and provincial Planning Commission and planning and development departm ents, is to regularly update the potential of renewable energy for Pakistan's economic growth including the need, challenges and benefits it may bring. These planning entities also need to sensitize other line ministries and departments on how shifting away from fossil fuels can aid social welfare, and favourably impact the conventional production models.

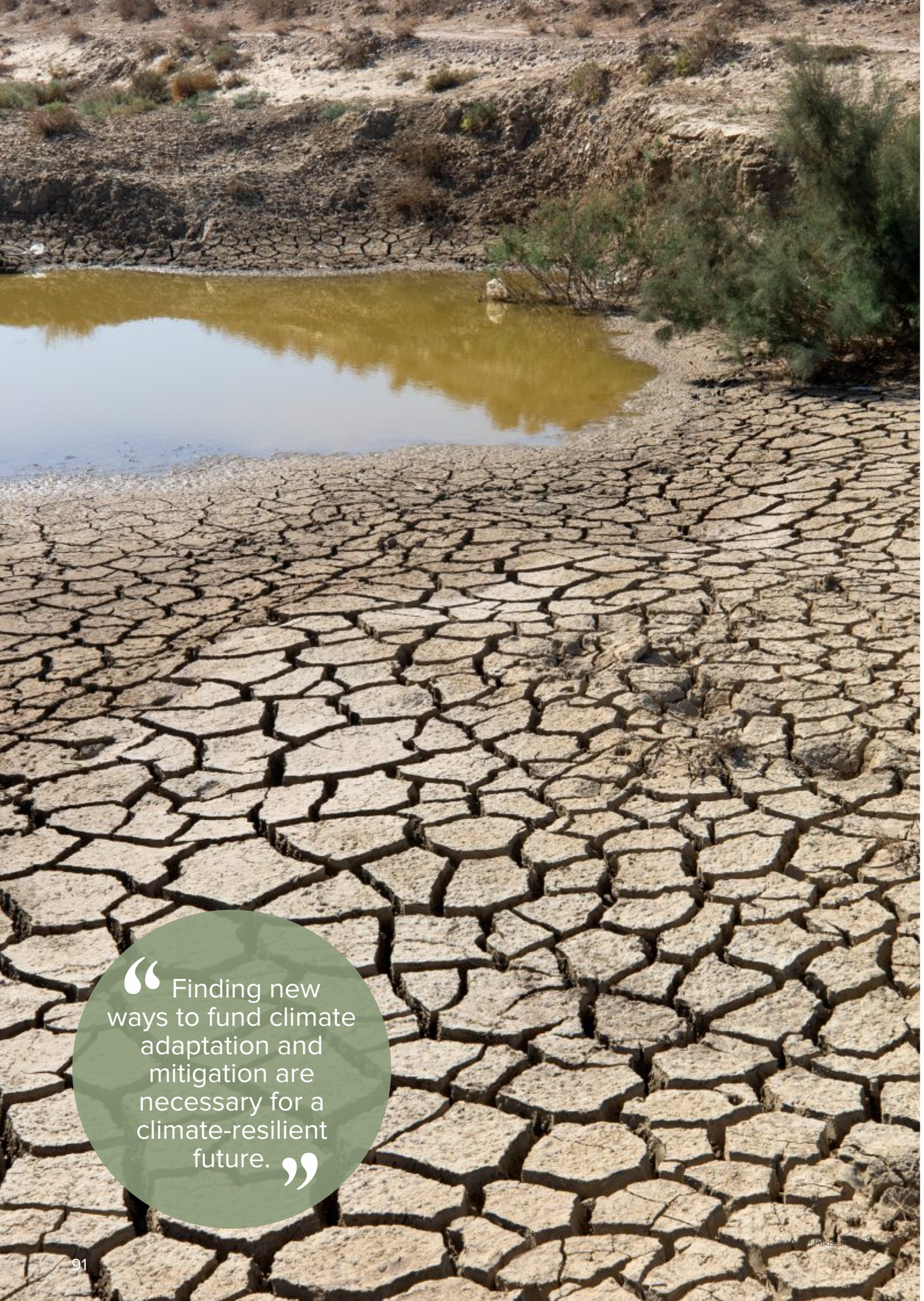
> "Pakistan could easily become a conduit of clean energy in the region if transboundary agreements with neighbouring countries are envisaged and implemented."

4. National Transmission and Dispatch Company (2021), "Indicative Generation Capacity Expansion Plan (IGCEP) 2021-30." Available at https://nepra.org.pk/Admission%20Notices/2021/06%20June/IGCEP%202021.pdf.
5. REUTERS (2021), "In climate pledge, Xi says China will not build new coal-fired power projects abroad". Available at https://www.reuters.com/world/china/xi-says-china-aims-provide-2-bln-vaccine-doses-by-year-end-2021-09-21/
6. SDTV Documentary (2021), "Green Energy Caucus! A discussion with our worthy Parliamentarians." Available at https://sdpi.tv/show.php?cat=gov&id=1328.
7. Also see: Khan, Huma and Ahmed, Vaqar, (2017), "Fund-Raising For Energy Projects In Pakistan," Working Papers, eSocialSciences. Available at https://EconPapers.repec.org/RePEc:ess:wpaper:id:12268.

> "A deeper public-private dialogue followed by time bound actions will mobilize the cost-effective utilization of clean energy resources, improvements in green energy infrastructure, green financing, energy efficiency, and access to clean energy for marginalized communities."



© UNDP Pakistan



> Finding new ways to fund climate adaptation and mitigation are necessary for a climate-resilient future.

THOUGHT PIECE

Financing Climate Action in Pakistan

By

Kirthisri Rajatha Wijeweera

Advisor Nature Performance Debt Instruments, Bureau of Policy and Program Support, UNDP

By

Kamal Ali

Senior Expert,
Nature Capital and Financing
UNDP Pakistan

> In an environment of moderating overseas development assistance, Pakistan would increasingly need to explore innovative financing measures leveraging on development partners, private sector, and international capital markets.

Climate change is the gravest challenge of our time and how fast and extensively it is transforming the world does not need to be substantiated. Some of this change is due to natural variations that have been taking place for millions of years, but increasingly, human activities that release heat-trapping gases into the atmosphere are warming the planet by contributing to the "greenhouse effect." Even after introducing significant measures to reduce greenhouse gas (GHG) emissions, some additional degree of climate change is unavoidable and will have significant economic, social and environmental impacts on communities across the globe. To reduce the negative impacts of this change and to take advantage of new opportunities, climate change adaptation has become increasingly urgent. Adaptation (responding to climate impacts) and mitigation (reducing GHG emissions) are necessary complements in addressing climate change.

Climate change is increasingly at the forefront of international discussion. It is vital that governments are able to implement the policies and investments required to adapt to the effects of climate change, build resilience to cope with climate-related disasters, and seize low-carbon growth opportunities. Finance has a critical role to play in enabling a transition to a low-carbon, climate-resilient economy. Several governments have made use of thematic financial instruments to address climate change. Many others are exploring options.

Pakistan's Commitment to Sustainable Development

Pakistan affirmed its commitment to the 2030 Agenda for Sustainable Development by adopting the Sustainable Development Goals (SDGs) in its national development agenda in 2016. Since then, the country has made considerable progress by mainstreaming these goals in national policies and strategies, and developing an institutional framework for SDGs implementation. SDGs support units have been established at federal and provincial levels to guide SDGs implementation and for monitoring progress.

As per Pakistan's updated Nationally Determined Contributions (NDCs) 2021, being cognizant of the socio-economic challenges posed by COVID-19, high priority actions include reduction of GHG emissions from shelving plans for new coal fired power plants, transition to electric vehicles, generating energy from renewable energy resources including hydropower, and investments in nature-based solutions through the largest ever afforestation program.

Climate Finance Instruments for Pakistan

New financial mechanisms and instruments have been deployed globally that could help countries adapt their national financial architecture and attain their climate goals.

Pakistan can finance its climate actions through several channels, including:

Concessional Finance, i.e., below market rate finance provided by major financial institutions such as development banks and multilateral funds. Concessional finance can be applied as grants, funding technical assistance and

capacity building in key climate related interventions. Pakistan is already availing numerous grant financed support measures in addressing climate action.

Green Bonds are increasingly used globally to address nature and climate related interventions. Green bonds are effectively 'use-of-proceeds' bonds where the proceeds are ring-fenced for use in identified green projects. Water and Power Development Authority (WAPDA) in Pakistan issued an international Green Bond worth USD 500 million in 2021, in pursuit of green objectives of renewable energy and climate change adaptation.

Debt for Climate Swap is a financial mechanism that allows portion of a developing country's foreign debt to be forgiven, in exchange for commitments to invest in nature and climate related interventions such as, biodiversity conservation and environmental policy measures. Sustainability-Linked Bond (SLB) is an instrument where the financing or structuring of the bond's coupon is linked to the issuer's achievement of stipulated key performance indicators linked to environmental and/or ESG objectives. As such, SLB's embody a 'pay for performance' structure where issuers pay a lower coupon upon the achievement of the key performance indicators (KPI's). An example of a sustainability-linked bond is a Nature Performance Bond.

Catastrophe Bond is a high-yield debt instrument designed to raise money for companies in the insurance industry in the event of a natural disaster. In anticipation of potential disasters, the government of Pakistan can consider taking out catastrophe bonds to manage risks associated with such catastrophic events.

Parametric Insurance is the solution in a situation where the limited resources of many developing countries can leave them unable to finance disaster recovery efforts in the aftermath of natural disasters. Parametric risk insurance uses environmental measurements, such as wind speed or the amount of rainfall, to trigger an immediate payout, thereby reducing the risks of climate change.

Carbon Offsets fund specific projects that either lower carbon emissions or sequester carbon. Some common examples of projects include reforestation, building renewable energy, and waste and landfill management. In its ambitious efforts toward afforestation through the Ten Billion Tree Tsunami Program, Pakistan expects significant carbon sequestration which can potentially be sold to third parties as carbon credits, earning substantial income for the country.

Way Forward

In Pakistan, implementation of the 2030 Agenda and meeting Paris Agreement commitments will require considerable external means of financing. However, in an environment of moderating overseas development assistance, the country would increasingly need to explore innovative financing measures leveraging on development partners, private sector, and international capital markets. The scope is relatively large – providing a wide spectrum of possible instruments that Pakistan could deploy based on careful analysis and suitability considerations.

> "In Pakistan, implementation of the 2030 Agenda and meeting Paris Agreement commitments will require considerable external means of financing."

INFOGRAPHICS

Alternate Financial Instruments

> Regional connectivity is vital for sustainable economic growth in the 21st century. Without joint cooperation or economic interdependence, sustainable progress in Asia and beyond is unimaginable.

THOUGHT PIECE

Beyond Borders: The Economics of Regional Connectivity

> The future belongs to economics and connectivity. Contemporary politics should plug into modern necessities including dynamics of connectivity, cooperation, and inter-dependence.

By

Saddam Hussein

Research Economist

Pakistan Institute of Development Economics

Following the Cold War, the era of economic globalization emerged. Geostrategic interests were sketched on economic synergies and joint collaborations to mitigate socioeconomic issues.

In the wake of changing regional and global trends towards enhanced economic cooperation, Pakistan also started realigning itself. A key feature of this paradigm shift was in the transition from conventional security to broader economic security, given its strategic location.

China's relationship with Pakistan stems decades back. Since 2000, Islamabad and Beijing have been working towards strengthening their economic ties. For Pakistan, this strategic partnership would provide an opportunity to engage regionally with other markets and enhance its position economically, whereas China's position as the new economic engine, particularly within the region and across the globe in general, would be further cemented. A key landmark agreement, the China Pakistan Economic Corridor (CPEC), was signed in 2013 to bring this shared vision to reality. CPEC is the cornerstone of China's Belt and Road Initiative (BRI) – Beijing's global vision for infrastructure connectivity, and its conception of 21st century multi-polarity.

BRI is China's international stimulus package. It aims to reshape the global economic setup, grounded in the ideas of cooperation, rather than competition. It is Beijing's ambitious effort to improve cooperation and connectivity on a regional and trans-continental scale. It would not be an exaggeration to state that it is one of the most significant game-changing endeavours ever attempted in contemporary times. The economic scope of the BRI has the potential to weave together South Asia, Central Asia, Africa, the Middle East, and Europe.

Geographically speaking, Pakistan is capable of facilitating the Central, West, and South Asian nations to benefit from the BRI via CPEC. While there has been some degree of reluctance from some regional states, Pakistani and Chinese leadership are determined to engage the South Asian countries for the prosperity of the entire region. This catalytic project will help form a conglomerate for the geo-economic interests of the regional countries. The resultant economic connectivity would augment regional dynamics and relationships.

The only roadblock to these ambitions was Afghanistan. Islamabad played a key role in pursuing stability in the war-torn country, and Beijing and Moscow provided immense support in the whole process for the same reasons – to safeguard their economic interests in

> “Different countries in South Asia have expertise in different services, and growth and development of all can be ensured through cross-border trade of such services.”

the region and push towards collective growth. Now, with the Taliban in power, it seems if recognized, other regional countries and major powers would soon start working relationships with Kabul. This would pave way for sustainable stability and perhaps eventual recognition, and enhance Pakistan's access to Central Asian markets.

Connectivity through the corridor would also nourish people-to-people contact. This would solidify bonds across borders, enhancing shared interests, and fostering more collective approach towards growth and development of the region.

Another critical aspect for regional connectivity is the services sector. Central Asia, an important player in this regard, provides various services including transport, hospitality, tourism etc. Regional connectivity helps to offer services and resources to countries physically at a distance from regional production and consumption centers, and opens new opportunities for labour migration which helps in revenue generation. The origin and destination countries of migrants need to work together to take meaningful advantage of labour flows and mitigate the risks which may accompany greater labour mobility. Besides, different countries in South Asia have expertise in different services, and growth and development of all can be ensured through cross-border trade of such services.

The corridor envisages all this and represents Islamabad's and Beijing's commitment to fashion a win-win partnership that threatens none and benefits all. Given the BRI's almost negligible benefits for the West, time and again there have been several apprehensions on China's growing economic and political influence. It is evident that this corridor has the potential to alter the global economic trajectory.

The impacts of the COVID-19 pandemic and the recent Russia-Ukraine war, among others, have fueled economic meltdowns across the globe. Nations can truly succeed when united. Moscow and Kiev have consolidated new emerging structures based on regionalism. Times to come will witness the emergence of regional blocs. Pakistan and other regional countries in this part of the world must follow suit. Together, we can rise or perish collectively in the pages of history.

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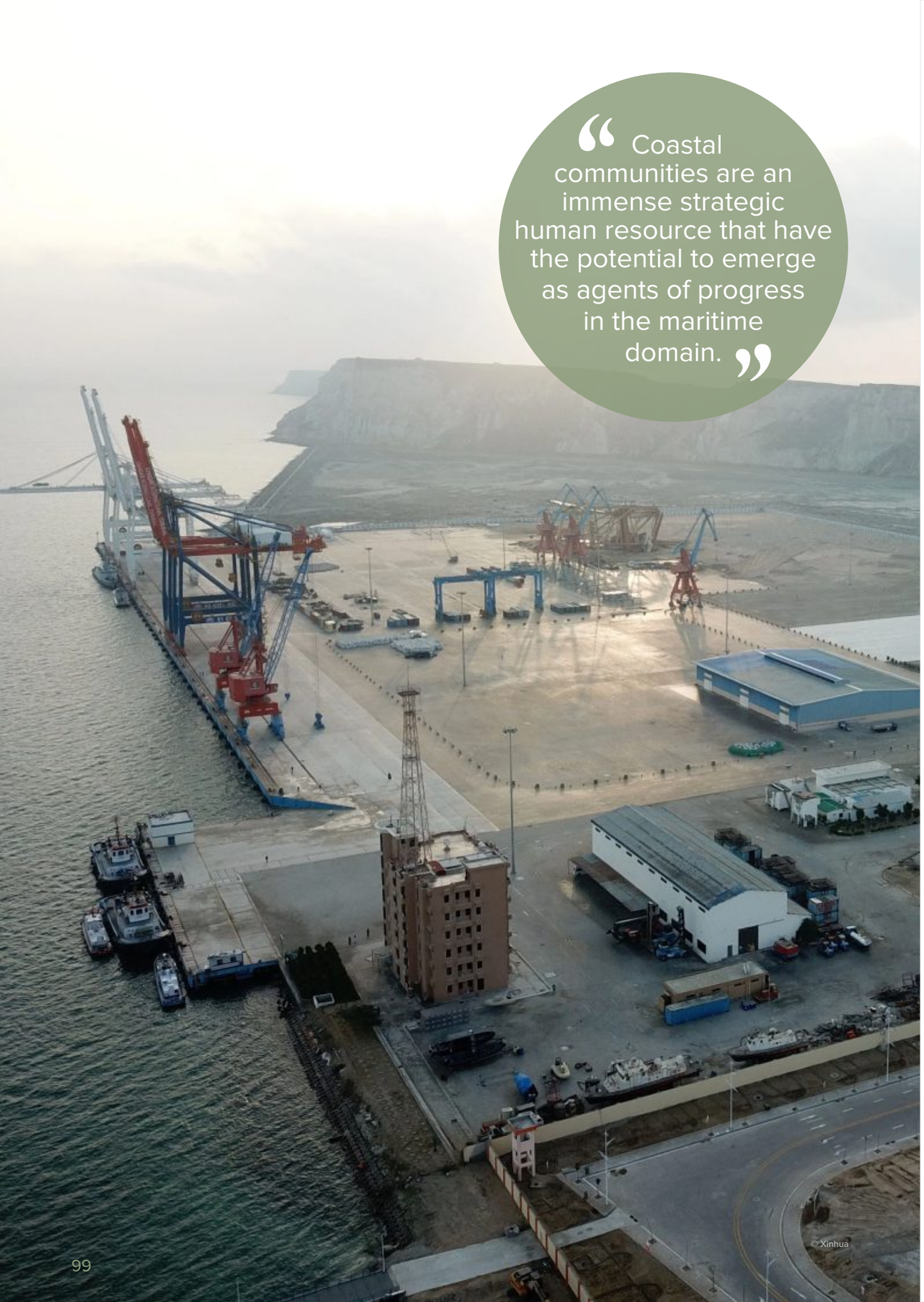

> Coastal communities are an immense strategic human resource that have the potential to emerge as agents of progress in the maritime domain.

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The Hidden Gem: Leveraging Coastal Communities

> Maritime development as an enabler of economic growth has never been a focus of our policy and strategy.

By

Naufil Shahrukh

Co-founder
Maritime Study Forum (MSF)

General Manager Operations
Institute of Policy Studies
(IPS)

The coasts of Makran and Sindh in Pakistan are inhabited by indigenous maritime communities since long. Their encounters, exchanges, and connections with other maritime nations across the seas and from coast to coast in South Asia, the Middle East, Africa, and even Europe, have hardly ever been studied. This aspect has also never been a focus of our policy and strategy .

Who are Meds or Paddis? Ever heard of the Kalmatis of Makran and Karachi, Gadurs of Lasbela, Machhis, Mohannas, Mir Bahars, or Jatts dwelling across the creeks and wetlands of Thatta and Badin? It is unfortunate that even those who are educated, would be unaware of the existence of these varied coastal communities.

Alongside formal sea trade, ports, fisheries, shipbreaking, coastal tourism, and other sectors of the maritime economy, there is a huge informal economy in the country linked to the sea. Pakistan's more than 1,000 kilometers long coastline is inhabited by families whose livelihood depends on the sea and its resources.

In addition to the indigenous coastal population, several 'irregular' economic immigrants from Bangladesh and Myanmar – rendered stateless owing to illegal national identification cards – have lived along the coast for many decades. These maritime migrations can be found near the West Wharf at 'Machar Colony' or in shanty settlements at Ibrahim Hyderi in Karachi. Their living conditions are deplorable yet, they are making contributions to fisheries and allied sea trade. The State must address this problem that has critical humanitarian, security, socioeconomic, and political dimensions.

Another challenge grappling the coasts is the irregular fish trade with neighbouring littoral states. Several fishermen, especially in seawaters more than 700 kilometers along the Makran coast, trade their 'fish-catch' across borders. If Pakistan documents just the illegal seafood export, its value will stand to at least USD three billion.[1]

Despite the huge potential of the sector, Pakistan is trailing behind its neighbours in fully utilizing the blue economy. Pakistan earned USD 450 million from the blue economy in 2020, while the actual potential is estimated at over USD 100 billion. Meanwhile, the sector's contribution to India's GDP is USD 107 billion, while Bangladesh earns a revenue of around USD six billion annually.[2]

1. Interview from a retired senior official of the Pakistan Fisheries Department.
2. European Journal of Social Sciences; Indian Ministry of Earth Sciences; and United Nations Food and Agriculture Organization.

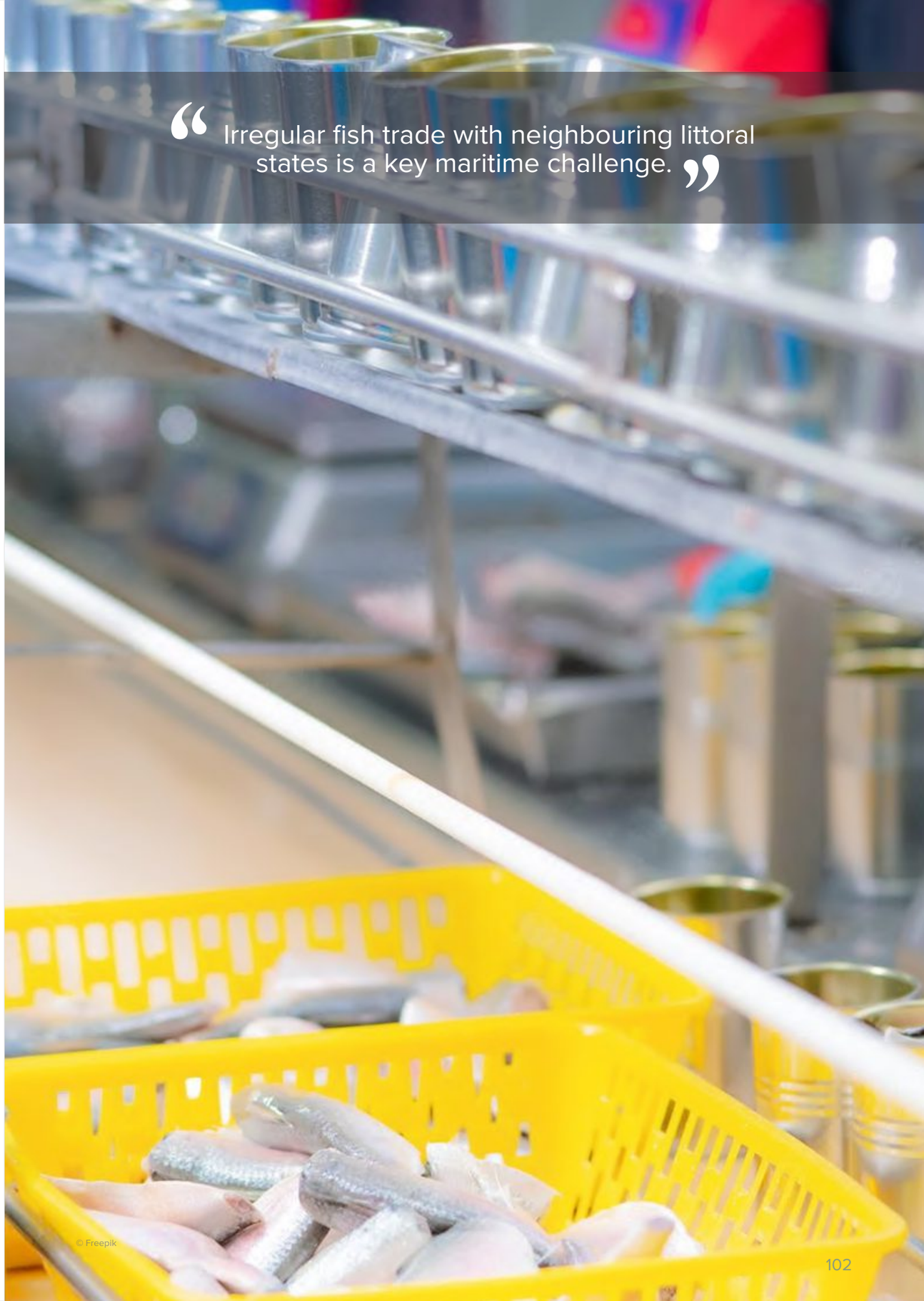
From Jati to Jiwani, a comprehensive survey of the coastal communities, their habitat, and livelihoods is a critical first step that needs to be taken to plan their inclusion in the development of the blue economy. Sustainable development of the blue economy also requires harnessing the traditional knowledge and skills that indigenous fisherfolk possess. If equipped with modern education, tools and techniques, and provided opportunities to contribute to the growth of the blue economy, this immense strategic human resource has the potential to emerge as primary agents of progress in the maritime domain. This is especially true of fisheries, coastal tourism, aquaculture, fabrication of boats, dhows, fishing nets, etc., and even sea trade and inland water transportation, which will boost the development of small and medium sector enterprises (SME).

These bona-fide fisherfolk are also excellent caretakers of sea resources, environment, and the ecosystem, unlike entrepreneurs who invest in the marine fisheries sector to mint money.[3] The increasing number of seabed trawlers, mostly built in Karachi, and rampant use of illegal fishing nets, especially in the creek areas of Sindh, has almost destroyed the breeding areas of fish, shrimps, lobsters, crabs, etc., in provincial waters. They are now bent on destroying the maritime environment and fish breeding grounds across Lasbela and Gwadar coasts. Resistance by local fisherfolk of Balochistan against trawlers invading from Sindh is an indicator of this dire situation, which needs to be checked in order to ensure sustainability.

Meanwhile Pakistan's media, civil society, and academia have generated considerable knowledge-base to build upon a comprehensive strategy to promote and develop blue economy through the active participation of our indigenous fisherfolk, seafarers, and coastal communities. However, catering to their basic needs, their mainstreaming and capacity-building to enable them to play a leading role in leveraging the blue economy, should be a policy priority at both the federal and provincial levels. Considerable time has already been wasted owing to a lack of policy focus in this significant growth enabler, and the negligible role of coastal communities in governance and electoral politics. It is no more a matter of choice to include them in our development planning when the concept of a blue economy has become a slogan at the national level, with 2020 was declared as the 'year of blue economy' in Pakistan.

> "Sustainable development of the blue economy requires harnessing the traditional knowledge and skills that indigenous fisherfolk possess."

3. Based on personal experience and research.



> "Irregular fish trade with neighbouring littoral states is a key maritime challenge."

> “The informal economy is not only a source of employment and cheap input, but also of cheaper goods and services for many.”

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THOUGHT PIECE

A Second Wind: Harnessing the Informal Economy

> “Persistent fiscal deficits, rising inflation, rapid devaluation, lackluster export performance, energy shortages, a weak regulatory environment, and lack of employment opportunities, are all leading to an increased reliance and shift towards the informal economy.”

By

Dr. Lalarukh Ejaz

Assistant Professor
Institute of Business Administration (IBA)

Pakistan is projected to become the world's 20th largest economy by 2030, and the 16th largest by 2050.[1] It has the ninth largest labour force in the world.[2] With per capita gross national income of around USD 1,188 in 2020,[3] Pakistan was ranked 108th out of 190 economies for ease of doing business.[4]

Persistent fiscal deficits, rising inflation, rapid devaluation, lackluster export performance, energy shortages, and a weak regulatory environment add to Pakistan's woes. Pakistan also suffers from a chronic inability to collect income tax, and hence remains reliant on foreign aid to finance its fiscal deficits. These challenges accompanied with a lack of employment opportunities for Pakistan's growing population, are leading to an increased reliance and shift towards the informal sector.

Over the last two decades, Pakistan's informal sector has grown, prompting alarm bells to go off, given its impact on potential tax collection. According to the International Labour Organization (ILO), Pakistan's informal economy is a primary source of employment for manufacturing, whole and retail sectors, transportation, personal care, and cottage and handicrafts industries. Despite being neglected by Pakistan's policymakers, the informal and small-scale sector's contribution to the country's output is almost 56 percent.[5] The informal sector makes up 72 percent of employment outside the agricultural sector in Pakistan. The documentation of the informal sector remains a significant challenge for planners in Pakistan, with implications for the regulation of business and labour, as well as the collection of taxes and revenue.

Efforts to improve revenue collection are impeded by challenges in documentation given the depth, width, and magnitude of the informal economy, as well as the constraints imposed by powerful, organized interest groups. Documentation is further hindered by firms' characteristics where they are neither wholly formal or informal, and work on a continuum of the dichotomy of formal and informal divide. For instance, formal companies outsource work to informal businesses, formal firms hire people on a seasonal basis or through a contract for a short period of time, and some further subcontract the work to

1. PricewaterhouseCoopers (2017), “The Long View How will the global economic order change by 2050?” Available at https://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf
2. DAWN (2020), “Number of jobless people to reach 6.65m in 2020-21.” Available at https://www.dawn.com/news/1564053
3. World Bank Indicators, ‘GDP per capita-Pakistan.” Available at https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=PK
4. World Bank, “Doing Business 2020 Report.” Available a https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf
5. DAWN (2021), “Informal Economy.” Available at https://www.dawn.com/news/1610606


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home-based workers etc. In most of these instances, the workers are not given the protection and security of service, or perks and benefits, that their counterparts in the formal sector receive.

The informal economy is not only a source of employment and cheap input, but also of cheaper goods and services for many. The informal economy also thrives on the border – specifically the western border – through a barter system. Trade reportedly occurs between Iran and Pakistan, and between Afghanistan and Pakistan. In case of Iran, the informal cross border trade results in cheaper petrol for Pakistani consumers than that of the more expensive, formally imported petrol. However, since the Iranian petrol is 'smuggled' into Pakistan, there is no quality control. Since it exists outside the documented economy, the end user can suffer. The need for deeper understanding on these legal and illegal informal sector operations, is requisite on part of policy makers.

There are reasons that many operating in Pakistan's informal economy may not want to become part of the documented sector. The most obvious is having to pay income tax to a state that is generally seen as not making efficient use of tax revenue, and because of corruption within official channels. The other reason is more intense scrutiny by government officials after coming under the documented radar. At the same time, this also opens doors for harassment by officials, as well as the possibility of graft and bribes in return for certifying that a business in in compliance. In the informal sector, this is less likely to happen, simply because it operates outside the gaze of the state and its sprawling bureaucracy.

Hence, documenting the informal economy, especially for Pakistan, is a necessary task, as it will help raise tax revenue. However, it must be accompanied by increased monitoring of the official bureaucracy, in particular, the tax and licensing apparatus which overseas business and commercial activity, so that those who undertake it can contribute to the national economy without any hindrance or red tape. Furthermore, a balanced approach must be taken; along with enforcing compliance, there also must be penalties for increasing voluntary compliance to formalize businesses. This is only possible if the state machinery works on improving vertical trust, i.e., trust in the processes and procedures, and horizontal trust to improve the tax morale.

> "The documentation of the informal sector remains a significant challenge for planners in Pakistan, with implications for the regulation of business and labour, as well as the collection of taxes and revenue."


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Halima owns a roadside clothing stall in Azam Basti, Karachi.

> “Lacking access to basic amenities and opportunities, slum dwellers continue to struggle economically and socially to break the cycle of poverty.”

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THOUGHT PIECE

Catalysts for Change: Spurring Informal Settlements

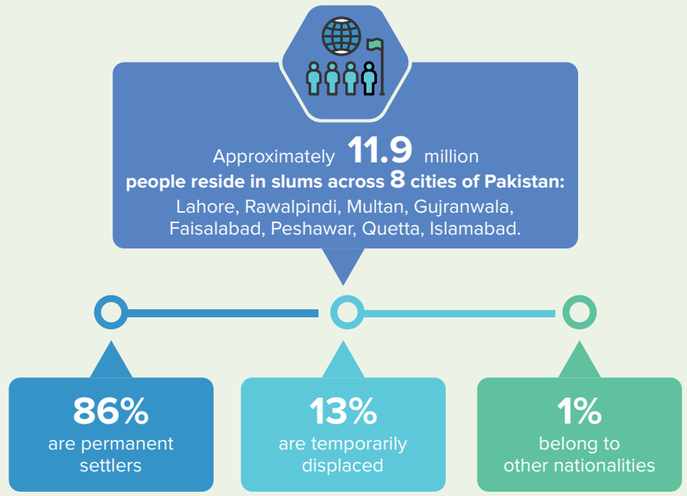
> “With the potential to become ‘poverty traps’ for its inhabitants, slums are exacerbating existing inequalities, whilst limiting economic potential.”

By
Hina Shaikh

Country Economist
International Growth Center

The growth of informal settlements as slums or poor residential neighbourhoods is a global phenomenon that accompanies rapid population growth and urbanization. Today, an estimated 29 percent of the world’s urban population lives in informal settlements.[1] In Pakistan , 40 percent of its population resides in slums.

The United Nations defines slum dwellers as inhabitants deprived in five essential factors – strong walls, ample living space, clean drinking water, sanitation, and a secure title.[2] In Pakistan, slums are often referred to as



Source: UNICEF, GAVI, CHIP (2020), “Report of Profiles of Slums/Underserved Areas of 08 Largest Cities of Pakistan.” Available at https://www.unicef.org/pakistan/media/2926/file/Profiles%20of%20Underserved%20Areas%20of%2008%20Largest%20Cities%20of%20Pakistan.pdf

1. World Bank Development Indicators - Population Living in Slums. Available at https://data.worldbank.org/indicator/EN.POP.SLUM.UR.ZS
2. UN Stats - SDG indicator metadata. Available at https://unstats.un.org/sdgs/metadata/files/Metadata-11-01-01.pdf

UNDP Pakistan and IBA Karachi's Urban Resilience project highlights the need for recreational areas vital for the well-being of children living in informal settlements.

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> Lack of formal job opportunities is pushing many urban workers to seek informal employment. Hence, many people living in slums and informal settlements are associated with the informal economy.

'Kachi Abadis' or 'squatter settlements' lacking proper land tenure, 'informal settlements' lacking formal/legal control of land use and planning, or, 'slums' defined by an absence of basic amenities such as access to water, electricity, and sewage/sanitation facilities.

Informal settlements depict how densely populated urban centres without complementary infrastructure and coordination are likely to lead to crowding, congestion, and environmental hazards. These causalities have been further exposed by COVID-19. Informal settlements remain some of the most at-risk populations and potential hotspots for spreading COVID-19, as the density is often considerably above the threshold needed for social distancing.[3]

Drivers of Informal Settlements

Informal settlements are a common sight across urban Pakistan. Not only do these settlements lack access to basic amenities, the quality of housing is extremely poor - 36 percent of the housing is either Kacha or Kacha-Pacca (crudely constructed). Their proliferation remains a key reflection of the lack of basic urban infrastructure and housing, and inability of cities to absorb the increasing urban population. Factors of population growth, rural-urban migration, lack of affordable housing, weak governance (particularly in policy, planning and urban management), economic vulnerability and low-paid work, and marginalization and displacement caused by conflict, natural disasters and climate change, has led to a surge in such urban settlements.

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> Governments should develop a broader integrated framework to help plan urban development, institutional support, legislation and finance arrangements, and simultaneously ensure inclusion of marginalized groups and key stakeholders.

Slums and Poverty

Economists have long argued that informal settlements are a transitory phenomenon which provide rural-urban migrants a steppingstone to enter urban life and eventually contribute to the urban economy. However, slums can also become "poverty traps" for their residents as poor health and sanitation infrastructure, and overcrowded households, can lead to poor health outcomes, and eat into incomes and savings. In the absence of adequate options for affordable low-cost housing, these dwellers have minimal chance of upward mobility. Lack of adequate public services also implies that millions residing in such informal settlements are deprived of basic education and health services, and handicapped from contributing in any meaningful manner to their own personal growth or the society. Being a young country, with over 50 percent of its population under the age of 25, a similar proportion in slums, Pakistan and its youth will continue to struggle economically and socially to break the cycle of poverty.

The Nexus Between Informal Economy and Informal Settlements

Almost 1.1 million people each year enter the workforce as Pakistan continues to experience a 'youth bulge'. However, lack of formal job opportunities pushes many urban workers to seek informal employment, often as daily wagers. In the absence of affordable housing, many of these workers choose to reside in informal settlements. Hence, many people living in slums and informal settlements are associated with the

3. International Growth Centre (2020), "Rethinking regulations: Informal settlements in the time of COVID-19." Available at https://www.theigc.org/blog/rethinking-regulations-informal-settlements-in-the-time-of-covid-19/

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informal economy.

Furthermore, local economies in informal settlements are also closely linked to the wider urban economy, and sometimes even international networks, by supplying goods or labour to prominent industries. Therefore eviction/relocation of informal settlement dwellers as an urban renewal strategy can disrupt these networks, be detrimental for the workers and their livelihoods, and be counter-productive to growth. Many slum dwellers buy from other locals in turn empowering the community. In Dhaka, slums contribute eight percent to the GDP, whereas in New Delhi, they contribute over seven percent.[4]

What Can Be Done?

- Recognize Informal Settlements: One way to improve the quality of informal housing in Pakistan is by giving people official land deeds for their houses. Guaranteed tenure security is more likely to push municipal authorities to cooperate with these settlements while the community is also better incentivized to seek improvements in service delivery. Currently, 36 percent slums are found to be unregistered and lack access to basic amenities such as adequate water supply and sanitation systems, as well as fully functional health systems.[5]

- Affordable Low-Cost Housing: Underlying institutional constraint often leads to inadequate and/or costly formal housing supply which encourages the proliferation of urban slums. For example, Karachi can formally supply only 42,000 units and 32,000 via the informal sector, against a demand of 120,000 units per year.[6] Policymakers must plan ahead for urban expansion to reduce housing costs by making more land available for urban growth, improve urban governance institutions, such as land rights and construction regulations, and provide public housing.

- Leveraging the Private Sector: Most governments do not have the budget or capacity to build houses for everyone coming to the cities. As an alternative to investing in public housing, governments can provide the core infrastructure around which private development can occur. The Naya Pakistan Housing Programme and the various sub-initiatives taken under it committed to building five million houses, but the government was only to act an "enabler and facilitator," and investments would be made by the private sector. Several housing projects catering to middle and low-income households were launched attempting to make the ownership of a home possible for workers and labourers.

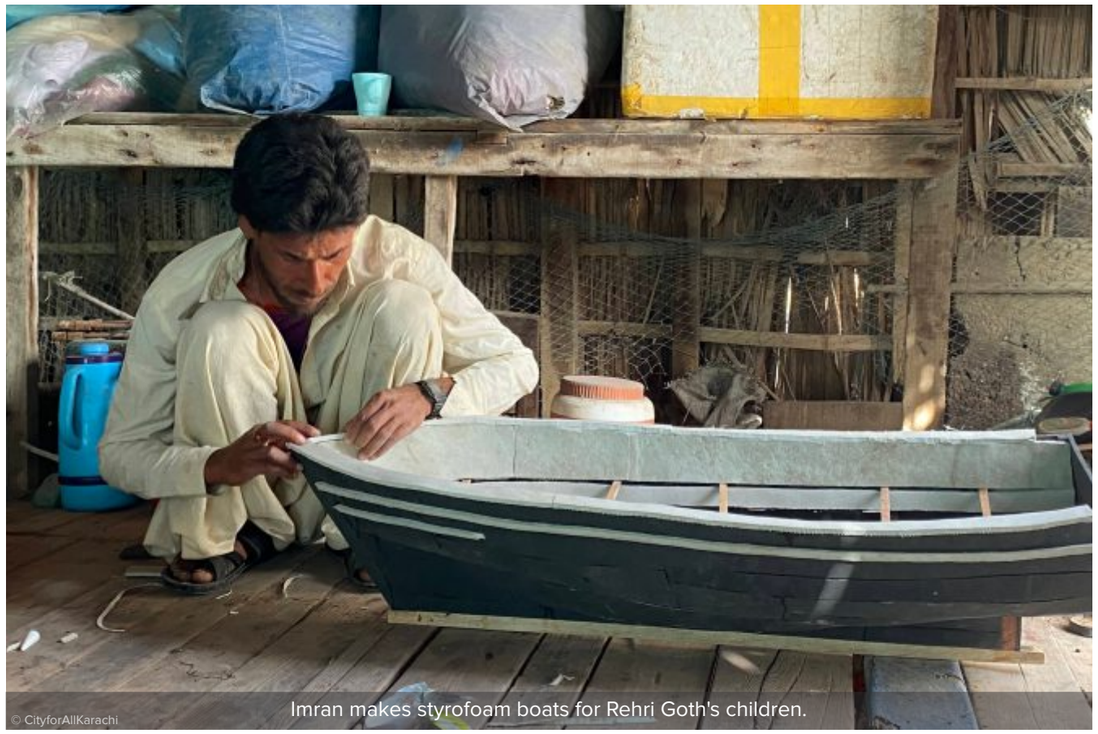
- Management of Existing Settlements: The quality of informal settlements can be improved by improving the provision of services to residents on the same land they are currently residing on, rather than destroying communities and building them elsewhere. This can be done by providing tenure security to residents, improving basic public infrastructure such as water pipelines, paved roads, and sewerage systems to the settlement, while also providing targeted development assistance such as microfinance to expand local businesses and acquire new skills.

- Resettlement: Relocation of people to green field sites is another option. However, it is important that these sites have been planned and serviced before people are asked to move as was done in several Tanzanian cities in the 1970s and 1980s. However, moving people to another site may not always be feasible, as land may not be available or residents may not want to move.

- Developing Standardized and Computerized Data Collection: Residents of informal settlements can be engaged in local data collection that is standardized, and linked to city, regional, national and global comparative indicators, and can be used for monitoring.

Overall, governments should develop a broader integrated framework to help plan urban development, institutional support, legislation and finance arrangements, and simultaneously ensure inclusion of marginalized groups and key stakeholders. Participation should be at the heart of this approach to better understanding economic and social community dynamics. Most importantly, the value of any home is beyond just brick and mortar. It is determined by its accessibility to opportunities and economic activity. Therefore, the government needs to understand the priorities of the slum dwellers and factor that into policy design.

4. Rethinking the Future, "The economic impact of slums in cities." Available at https://www.re-thinkingthefuture.com/city-and-architecture/a4146-the-economic-impact-of-slums-in-cities/#:~:text=A%20lot%20of%20natural%20produce,their%20living%20conditions%20can%20be.
5. UNICEF, GAVI, CHIP (2020), "Report of Profiles of Slums/Underserved Areas of 08 Largest Cities of Pakistan." Available at https://www.unicef.org/pakistan/media/2926/file/Profiles%20of%20Underserved%20Areas%20of%2008%20Largest%20Cities%20of%20Pakistan.pdf
6. Hasan, Arif & Arif, Hamze (2018), "Pakistan: Urban Housing Issues." Available at http://arifhasan.org/wp-content/uploads/2018/08/PakistanUrbanHousingIssues180905.pdf



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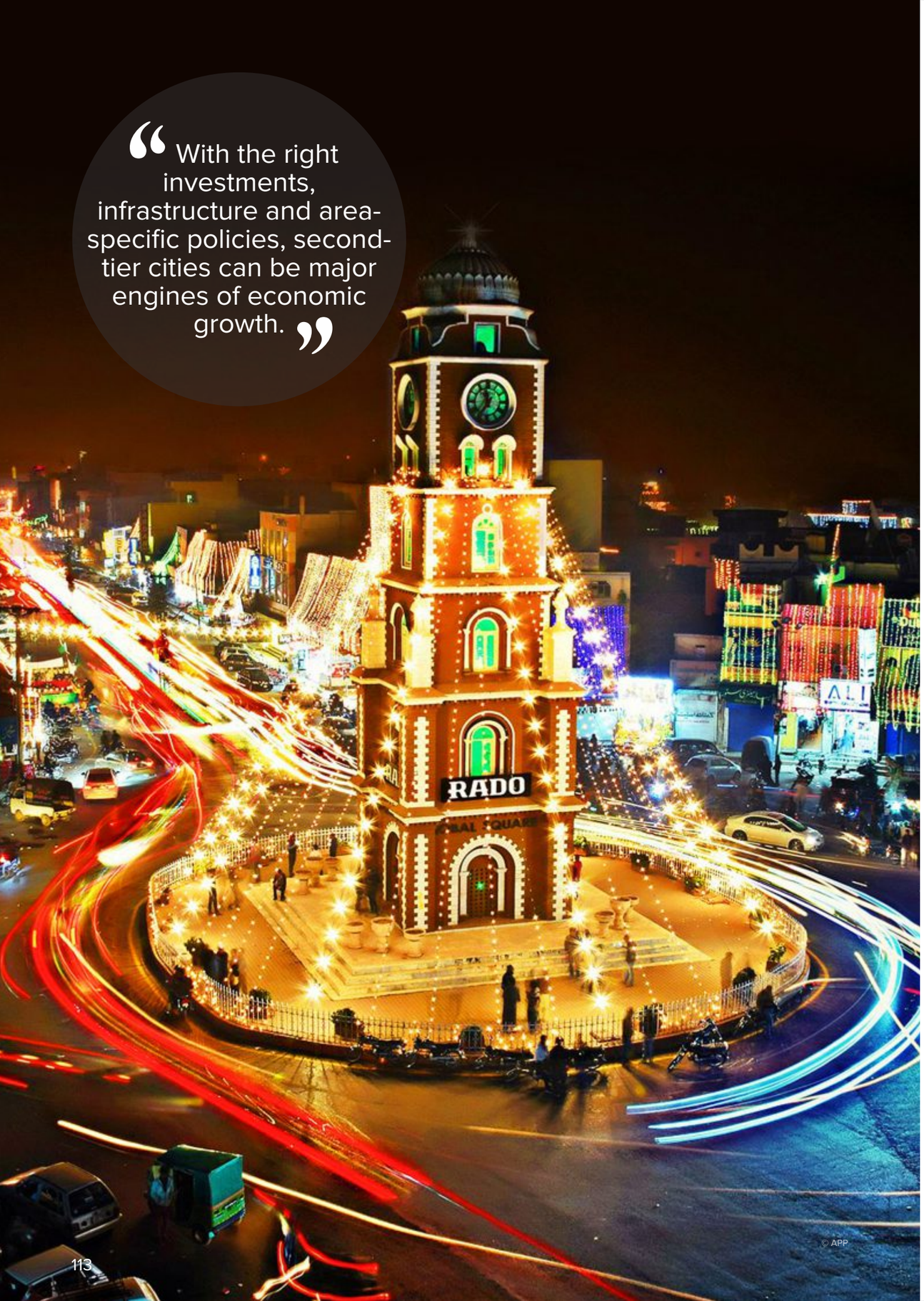
Imran makes styrofoam boats for Rehri Goth's children.

"The value of any home is beyond just brick and mortar. It is determined by its accessibility to opportunities and economic activity. Therefore, the government needs to understand the priorities of the slum dwellers, and factor that into policy design."



> With the right investments, infrastructure and area-specific policies, second-tier cities can be major engines of economic growth.

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Shrinking the Gap: Empowering the Second-Tier

> Pakistan needs to act on reducing the socio-economic gap between prime and second-tier cities, to truly harness the growth potential of the latter.

By

Dr. Durre Nayab

Joint Director
Pakistan Institute of Development Economics (PIDE)

Sialkot, Sukkur, Larkana, Bahawalpur, Sargodha, Rahim Yar Khan — just some of the Pakistani cities that have a population of under a million but well over 400,000 people.[1] This would mean that cities like Canberra, New Orleans, Perth, Kansas City, Bradford, Nice, The Hague and Christchurch are all smaller than, or about the size of our mid-sized secondary cities. Food for thought!

Nearly 60 cities in Pakistan are defined 'large' as per international standards, with huge investment potential. These cities have populations ranging between 150,000-1,000,000.

Sadly, the urbanization of Pakistan remains an oft-neglected story because, like most things, our statistics remain shrouded in archaic rules and definitions, and our policy narratives in outdated ideas and over-regulation.

Cities are engines of growth, and development is strongly correlated with urbanization.[2] Increased GDP growth, as well as productivity, comes from urban centres. 80 percent of the world's output is generated from cities.[3] Cities have been shown to grow faster as compared to other areas. Innovation happens in cities. Consumer demand emanates from cities.

There is huge potential in the urban centres of Pakistan. Yet, growth rates show a declining trend for the last 40 years, and the investment to GDP levels have remained virtually flat for decades. Why is this so?

A chief reason is the 'type' of growth. Choked agglomeration leading to congestion and pollution can retard growth and investment. Similarly, sprawls with no city centres and fragmented labour market leads to low productivity and limited investment opportunities.

In a country where the prime cities are a combination of sprawls and congested old towns, giving attention to second-tier cities is not a priority. Pakistani cities, irrespective of size, are poorly governed, as local government remains a dream. Administratively, they are fragmented with traditional systems managing old dilapidated congested cities, and sprawling suburbs with little control.[4] City zoning, city services and city management all present a dismal picture. People are forced to convert

1. Figures according to the 2017 census. With five years gone by, the population in each city would be much higher. The 2017 Census can be viewed at https://www.pbs.gov.pk/content/final-results-census-2017
2. Nadeem ul Haque and Durre Nayab (2020), "Cities- Engines of Growth", Pakistan Institute of Development Economics (PIDE). Available at https://pide.org.pk/research/cities-engines-of-growth/
3. The World Bank, 'Urban Development'. Available at https://www.worldbank.org/en/topic/urbandevelopment/overview#1
4. Nadeem ul Haque and Durre Nayab (2020), "Cities- Engines of Growth", Pakistan Institute of Development Economics (PIDE). Available at https://pide.org.pk/research/cities-engines-of-growth/

Sialkot harbours a vibrant sports goods industry.

single-family homes to schools, shops, and showrooms because dedicated space is virtually disallowed by regulation.

There lies a huge opportunity in developing second-tier cities in Pakistan. Evidence suggests that a more equitable distribution of investments within a country leads to a stronger economic performance of second-tier cities. For these cities to flourish, we need city-specific policy formulation taking into account the regional/provincial and national context. Successful national economies today are those where the difference between the socio-economic status of the prime and second-tier cities is small, and Pakistan needs to act on this.

Second-tier cities of Pakistan can do much better if they have the right infrastructure and facilities. Good accessibility is a necessary, though not sufficient, condition for improving the economic performance of these cities. Any investment in the transport network is to be accompanied by other development measures for economic development in second-tier cities. Our current focus on just building roads[5] is not enough to develop these cities. These roads must also attract investors and create opportunities for trade and employment.

The current heavily regulated, suburban-oriented approach to city development is holding back investment in second-tier cities. Density, commercial activity, walkability, rejuvenation of old neighbourhoods, and innovative development have been severely restricted by regulation. Without deregulation, there is no room for investment in our cities, prime or second-tier.[6]

The agglomeration effect in cities makes them a major source of growth.[7] The concentration of economic activity and employment in large cities, however, leads to increasing inter-city inequalities due to growth in specific areas only. Evidence suggests that second-tier cities too can fulfil most of this effect when supported by policies specific to the area.[8] Pressure on the prime cities in Pakistan can be reduced by looking towards the second-tier cities. This would help the economy to grow, and that too in a more equitable way!

It would not be wrong to conclude that there is a huge opportunity in our second-tier cities. An opportunity that needs to be fast-tracked. It is even more important given the huge economic crisis, and the unemployment that prevails currently.

> “The current heavily regulated, suburban-oriented approach to city development is holding back investment in second-tier cities.”

5. PIDE (2021), “The PIDE Reform Agenda for Accelerated and Sustained Growth.” Available at https://pide.org.pk/Research/PIDE-Reform-Agenda-Report.pdf
6. Ibid
7. Durre Nayab (2020), The City in Human Life, in “Cities- Engines of Growth.” Available at https://pide.org.pk/research/cities-engines-of-growth/
8. Camagni, R., P. D. Milano, R. Capello, and A. Caragliu (2014), “The Rise of Second-Rank Cities: What Role for Agglomeration Economies?”, European Planning Studies 23(6):1-21.

Multan’s colourful pottery and handicrafts industry.

Participants visiting a project to meet with the community on a field visit, during the South Punjab Deep Dive 2022 organized by the United Nations Pakistan.

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> "With its strategic location right in the center of Pakistan, South Punjab can play an important role as a catalyst and secondary hub in facilitating trade, development, and investment with other parts of the country."

South Punjab Secretariat in Multan.

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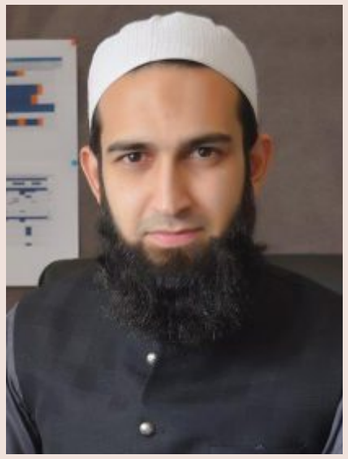
A Potential Powerhouse: Exploring South Punjab



By

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South Punjab[1] is a land of opportunity. Its potential has mostly been neglected in national and provincial development policies, public investment, and infrastructure provision. This has resulted in inequities in the growth and development of the region.

On virtually every development metric, South Punjab[1] fares worse as compared to the rest of the province. 31 percent of the population lives below the national poverty line, while 55 percent live below half of Pakistan's median per capita income.[2] South Punjab also has the lowest rates of literacy, skilled birth attendance, household use of gas as a cooking fuel, households with internet access, access to clean water and sanitation, and the use of clean energy, as compared to the rest of the province. Data from official surveys confirm that South Punjab is the most deprived part of the province in terms of basic services.[3]

While the challenges it faces are great, the opportunities for development are greater. Government investments in security and the Asian Development Bank's investments in road infrastructure have paved way for economic transformation. The Southern Punjab region can play an important role as a catalyst and secondary hub in facilitating trade, development, and investment with other parts of the country.

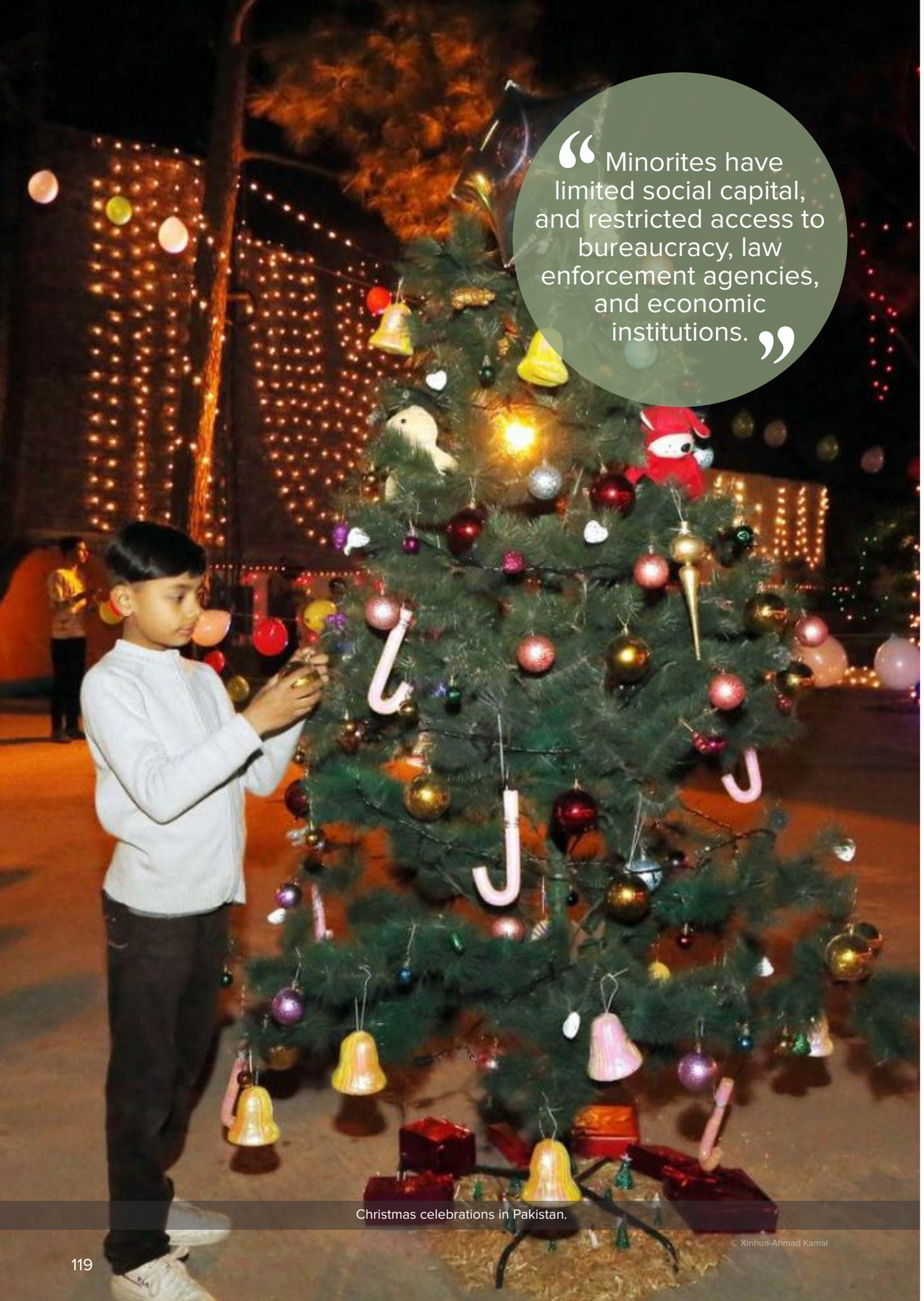
The establishment of the South Punjab Secretariat is a huge step forward, as its financial and administrative autonomy stand to enable effective and responsive local decision-making. Ring-fencing 35 percent of the development budget for South Punjab allows for realistic, evidence-based, tailored regional policymaking and implementation. Regional connectivity is improving, with an expanding road network, increasing internet connectivity, and the expansion of railways. For instance, Main Line-1 linking Karachi to Peshawar has been upgraded, cutting across the entire length of South Punjab under the China-Pakistan Economic Corridor (CPEC). This builds on South Punjab's strategic location at the centre of Pakistan, in a prime position to partake in the movement of goods and services to and from Pakistan's three other provinces.

South Punjab is a priority region for many development partners as well. United Nations (UN) in Pakistan is now in the process of finalizing the next five-year program called the 'United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023-27', which aims to support inclusive strategies for economic growth in disadvantaged geographic areas.

In March this year, the UN in Pakistan, in collaboration with the Government of Punjab and the South Punjab Secretariat, brought together government officials, elected representatives, donors, development partners, civil society and academia for a High-level Deep Dive on South Punjab, which included two days of frank discussions and field visits. The Deep Dive on South Punjab was a watershed moment – the first high-level conference to put sustainable development in South Punjab front and centre. Development partners have agreed to work together and explore avenues to deliver technical assistance and build the capacities of the South Punjab Secretariat and attached departments, among other interventions.[4]

Jointly, we must come together to harness the opportunities and transform South Punjab's immense potential into gains on the ground. We must see challenges as opportunities, and make sustainable development a reality in this vibrant part of Pakistan.

1. South Punjab consists of the three divisions (Bahawalpur, Dera Ghazi Khan and Multan) encompassing 11 districts in the southern-most reaches of the province of Punjab. It is home to 32% of Punjab's population (34.7 million people) and covers 45% of province's land area (roughly 91,998 km2).
2. Planning and Development Department of South Punjab & UNDP Pakistan, "South Punjab SDGs Indicators Report."
3. For more information, read Government of Pakistan, Bureau of Statistics, "Key Findings Report based on Pakistan Social and Living Standards Measurement 2019-20." Available at https://www.pbs.gov.pk/sites/default/files/pslm/publications/pslm_district_2019-20/Key_Finding_Report_of_PSLM_District_Level_Survey_2019-20.pdf
4. For further reading, please visit "South Punjab Deep Dive Report" available at: https://pakistan.un.org/en/177830-south-punjab-deep-dive-report



> Minorites have limited social capital, and restricted access to bureaucracy, law enforcement agencies, and economic institutions.

Christmas celebrations in Pakistan.

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THOUGHT PIECE

The Political Economy of Minorities in Pakistan

By

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> Despite being founded on a vision of inclusivity, Pakistan still has a long way to go for the socio-economic uplift of minorities.

Politics shapes our concept of freedom and equality in social, economic, and legal spheres. These concepts must be built on inputs from those impacted the most – the local population. But do minorities have a fair share in power distribution, goal setting and decision-making? Are their economic decisions and transactions affected by their identity? Does their faith make any difference to their social status and everyday interaction with other communities?

The state of Pakistan was founded on a vision of inclusivity and tolerance for all minorities. Contrary to this vision, minorities have been systematically barred from playing their role in the political life of society. Since the country's creation, the imbalance of social status and economic freedom has led to the migration of religious minorities to developed countries. They have limited social capital, and restricted access to bureaucracy, law enforcement agencies, and economic institutions.

Religious minorities constitute approximately three percent of the total population.[1] Before the creation of Pakistan, about 44 percent of the population living in these areas were non-Muslims. Due to the large migration of Hindus, Sikhs and Muslims from India following partition, the number of minorities dramatically decreased.

Unfortunately, despite contributing to the economy and society in general, there is still a great deal of prejudice when it comes to minorities. From 1985 till 2002, religious minorities could vote only for their coreligionists who had no role in the business of the assemblies. In 2002, the joint electoral system was restored, but the Ahmadi sect was still allowed to vote only for their coreligionist, and not a candidate for a general seat. This minority representation is often toothless, except in a few instances.

Minorites in the country also face discrimination in employment and business activities. They are either seen in low income occupations (such as janitorial jobs and sanitation work etc.), menial jobs, or remain unemployed. In 2009, the government released a notification instructing both federal and provincial government offices, that five percent of all government positions would be reserved for religious minorities. However, according to latest available data, only 2.8 percent of public sector employees are minorities (See Figure 1). And within this, over 80 percent are engaged in low paid work.[2]

1. National Commission for Human Rights (2022), "Unequal Citizens: Ending Discrimination against Minorities. NCHR Fact Finding Report." Available at https://www.nchr.gov.pk/wp-content/uploads/2022/05/Minority-Report-compressed.pdf
2. National Commission for Human Rights (2022), "Unequal Citizens: Ending Discrimination against Minorities. NCHR Fact Finding Report." Available at https://www.nchr.gov.pk/wp-content/uploads/2022/05/Minority-Report-compressed.pdf

Sikh Gurdwara (temple) in Kartarpur, Pakistan.

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> “Minority communities are either seen in low income occuptaions, menial jobs, or remain unemployed.”

Minorities also face immense challenges in establishing a business of their own, especially one that requires interaction with the public. They are generally left with business options that are ‘default’. For instance, Parsi and Upper Caste Hindu communities own liquor companies because Article 37 of the Constitution of Pakistan bans liquor business, except for religious minorities. Likewise, several Upper Caste Hindus in Sindh grow rice, pulses, and vegetables. In both instances, the businesses and land are inherited from pre-partition times. Moreover, many minority communities face daily impediments in running smooth business activities and such challenges often result in dire circumstances.

Living conditions reflect human development. Unfortunately, minorities’ worship places, graveyards, and segregated neighbourhoods are largely excluded from any development work.

There is an urgent need to improve the socio-economic conditions of minorities in Pakistan, for them to be able to contribute more effectively to society. Policies for their safety and to end discrimination, are needed. Following are some specific recommendations for uplifting minorities in the country.

- A competitive workplace with a favourable environment for minority workers;
- The Politics of majoritarianism arising from religious identity needs to be revisited.
- Inclusive politics that includes minorities in decision-making needs to be promoted.
- The role of religious minorities in nation-building needs to be highlighted.
- Properties/land of non-Muslims need to be brought under self-ownership.

Holi celebration in Pakistan.

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> Inclusion of all groups in a population – especially women and other marginalized individuals – is key to promoting shared prosperity and economic development.

Levers of Economic Prosperity: The Case of Transgenders

> In order to leverage economic benefits from this segment of the population, it is imperative to first uplift them socially and economically.

By

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"What is economic prosperity and decent living? This is not for us...we were born for mockery and rejection," says Bublee, a transgender in Pakistan.

Inclusion of all groups in a population – especially women and other marginalized individuals – is key to promoting shared prosperity and economic development. Transgenders are about twice as likely to be socially excluded the world over. This is a major reason why most of them flee from their families to areas where transgender communities live.

According to a 2019 Supreme Court census, the estimated population of transgender people in Pakistan is around 300,000, although the actual number could be higher.[1] Official sources indicate nearly 10,418 transgenders living across Pakistan.[2] Unfortunately, there is no targeted survey for the transgender community at both provincial and national levels. The need for authentic updated data at the national level to inform policy, cannot be understated.

The socio-economic situation of the transgender community is not pleasant. Majority are illiterate or have limited access to education facilities. Only 20 percent have been able to pursue higher secondary education and above, and nearly 39 percent are literate.[3]

The Sustainable Development Goals (SDGs) identify low education standards, restricted access to civic amenities and poor housing conditions as challenges for human development. For transgenders where societal norms are already tough, such conditions, especially post-pandemic, further exacerbate inequalities. Though more than a decade has passed since the legalization of an identity card for transgenders, yet they are still struggling to prove their identity. In such a scenario, there is a need for several interconnected policies to empower transgenders as economic enablers . A few recommendations include:

- Admission quota for transgenders in educational institutions of good repute must be established and defined according to their skills and qualifications.
- Awareness campaigns to redefine attitudes and perceptions regarding

1. DW News (2020), "Coronavirus makes life more difficult for Pakistan's transgender community." Available at https://www.dw.com/en/pakistan-transgender-coronavirus/a-54817362
2. As of 2017: Federal Bureau of Statistics, "Population Census of Pakistan 2017." Available at https://www.pbs.gov.pk/content/final-results-census-2017
3. As of 2017: Federal Bureau of Statistics, "Population Census of Pakistan 2017." Available at https://www.pbs.gov.pk/content/final-results-census-2017

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> “There is a need for several interconnected policies to empower transgenders as economic enablers including setting quotas, imparting skills trainings, redefining perceptions, and financial empowerment.”

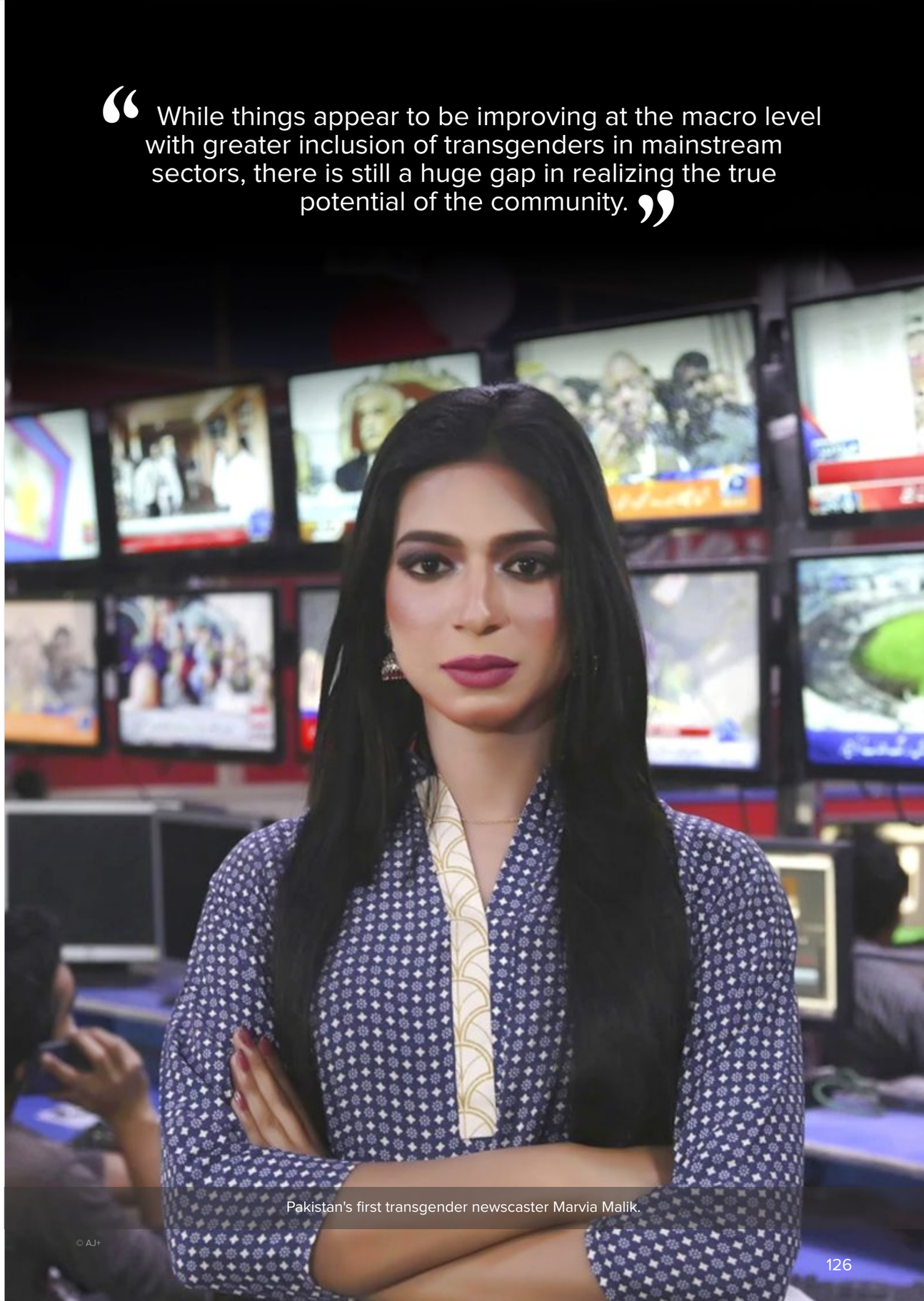
transgenders must be rigorous.

- The Technical Education and Vocational Training Authority (TEVTA) must initiative short-term courses for transgenders, and define quota in their regular programs.
- National and provincial surveys must have mandatory data on transgenders as a separate gender entity.
- Microfinance institutions should depute special quota for financial inclusion of the transgender community.

In principle, denying the transgender community full participation in society owing to their identity, means a violation of their human rights. These exclusions and violations are, in turn, likely to have an adverse impact on a country's level of economic development. With limited freedom, there is a huge price paid in terms of economic inefficiencies including lost labour time, reduced productivity, underinvestment in human capital, and the suboptimal allocation of human resources through discrimination. The decreased investment in human capital and inefficient use of human resources, in turn, may dampen growth at the broader level of the macroeconomy.

While things appear to be improving at the macro level with greater inclusion of transgenders in mainstream sectors, there is still a huge gap in realizing the true potential of the community. To leverage economic benefits from this segment of the population, it is imperative to first uplift them socially and economically. Only then, can they provide the horsepower needed to power the engine of economic growth.

> “While things appear to be improving at the macro level with greater inclusion of transgenders in mainstream sectors, there is still a huge gap in realizing the true potential of the community.”



Pakistan's first transgender newscaster Marvia Malik.

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