Inclusive Growth in Times of Uncertainty
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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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.

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 human 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 aftershocks.

In the Asia-Pacific for example, countries like Sri Lanka, Afghanistan, 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 how it is an 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 withstood 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 alternatives 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 economic instruments such as green bonds, 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.
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.

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.

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.

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 industrialization wave 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.

By

Ali Khizar
Journalist and Economist
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.

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.

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.

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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.

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."

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, 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, improving the investment climate, and financial inclusion, through collaboration with Micro-Finance Institutions (MFIs), for achieving inclusive and sustainable economic growth.

"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."

By Miftah Ismail
Federal Minister for Finance and Revenue
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.

### 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.
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 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 country’s fiscal deficit excluding grants is forecasted to increase to 6.3% of GDP in FY22.

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.

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

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 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.

Given the lack of trust of investors in Pakistan, the KSE 100 decreased by 3172 points or 711 percent since the beginning of 2022, and is likely to fall further given the current political turmoil.

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.

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.

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

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, 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.

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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.
Federal Budget 2022-2023

Snapshot

- **Total Resources**: 9,502 billion PKR
- **Net Revenue Receipts**: 5,490 billion PKR
- **Bank Borrowing (T-Bills, PIBs, Sukuk)**: 884 billion PKR
- **Privatisation Proceeds**: 800 billion PKR
- **Net External Receipts**: 76 billion PKR

**Percentage Change in Resources (FY2022-FY2023)**

- Total Resources: -11.9%
- Privatisation Proceeds: 12.0%
- Bank Borrowing (T-Bills, PIBs, Sukuk): 40.4%
- Net External Receipts: 60.8%
- Non-Bank Borrowing: 9.1%
- Net Revenue Resources: 72.1%

**Total Expenditures**

- The Majority of Total Expenditure is Allocated to Debt Servicing
  - Debt Servicing: 69%
  - Defence Affairs and Services: 16%
  - Others: 15%

**Current Expenditure FY2023**

- Total Expenditures: 8,694 billion PKR
- Current Expenditure: 808 billion PKR

**Percentage Change in Current Expenditures (FY2022 to FY2023)**

- Development: -2%
- Social Protection: -31%
- Education Affairs and Services: -77%
- Environment Protection: -53%
- Economic Affairs: -7%
- Public Order and Safety Affairs: 20%
- Housing and Community Amenities: 17%
- Health Affairs & Services: 14%
- Recreational, Culture and Religion: 13%
- General Public Services: 12%
- Defence Affairs and Services: 11%
- Economic Affairs: 7%
- Public Order and Safety Affairs: 5%
- Recreational, Culture and Religion: 5%
- General Public Services: 4%
- Social Protection: 3%
- Education Affairs and Services: 2%
- Environment Protection: 1%
- Economic Affairs: 1%
- Public Order and Safety Affairs: 1%
- Housing and Community Amenities: 1%
- Health Affairs & Services: 1%
- Recreational, Culture and Religion: 1%
- General Public Services: 1%
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- Economic Affairs: 1%
- Public Order and Safety Affairs: 1%
Budget Allocation to Social Sector Projects

- 119% increase in Budget allocation to Social Sector Projects
- 20% increase in Allocation to Pak SDGs & Community Development Programme
- 60% increase in Allocation to Poverty Alleviation and Social Safety Division
- 46% increase in Allocation to COVID-19 Response and Other Natural Calamities Programme
- 17% increase in Allocation to PM Kamyab Jawan Programme / Kissan Programme
- 100% increase in Allocation to BISP
- 100% increase in Allocation to Naya Pakistan Housing Authority

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 measures.
- The budget for COVID-19 and the health sector have both been reduced.
- Subsidies have increased by 2% only, as compared to 266% 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.

Budget Utilisation Rate 2016-2021

- 2016-2017: -25.0%
- 2017-2018: -20.0%
- 2018-2019: -15.0%
- 2019-2020: -10.0%
- 2020-2021: -5.0%
- 2021-2022: 0.0%

Provincial Share in Federal Budget

- Punjab: PKR 2029.325
- Sindh: PKR 1029.763
- Khyber Pakhtunkhwa: PKR 670.451
- Balochistan: PKR 370.234

Targets: Key Medium Term Macroeconomic & Budgetary Indicators

- Real GDP Growth (%): Revised Estimate 2021-2022: 5.97, Budget Estimate 2022-2023: 5
- Fiscal Deficit: Revised Estimate 2021-2022: -6.3%, Budget Estimate 2022-2023: -4.9%
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:

1. 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.

2. 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.

3. 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.

The third area is better management of public expenditure.

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.

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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.

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.

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

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.

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 VISION STATEMENT
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.

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.

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.

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.

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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.

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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 visible 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 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.

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.

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.
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 1981. 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.

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, in the agriculture sector.

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.
Beyond Wishful Thinking: Building Back Better

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.

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 programs 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.

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.

Ehsaas’ Vision 2047, which is on the anvil for release, focuses on all these three points with data and digitization as enablers.

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.
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 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. 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.

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 Conflict¹), 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.

¹ Ukraine conflict
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.

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.

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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 elders 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.

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.

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.

At the start of 2020, Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), Pearson 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 forms, as well as elections, wars, and climate change.

The World Uncertainty Index (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 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.” 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.¹²

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

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
- **Economic**
  - Pakistan credit rating downgraded due to uncertainty around IMF bailout as well as heightened external vulnerability risk⁶ - 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 program⁷
  - Pakistan’s rupee decline in more than two years due to uncertainty around the IMF bailout.⁸
- **Energy**
  - Power sector dependence on imported gas and fuel oil⁹ 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.¹⁰
  - Pakistan is cutting energy supplies to households as it cannot afford to import oil in LPG.¹¹
  - Intersecting with longer-term power shortages has composed the soaring heat in country with temperatures soaring to over 50 degrees celsius,¹² making homes unlivable, and crops and food production impacted significantly.
- **Social Factors**
  - Global social unrest is rising – leading to risks for economies globally. Rising fuel and food prices are likely to lead to increasing civil unrest – particularly in Pakistan with levels of dependency on food and energy imports (now being disrupted).¹³
  - A tense political climate has also seen a recent spate of protests aimed at increasing political polarization and fuelling anti-government sentiment.¹⁴

10. The Washington Post (2022), “Pakistan’s Political Crisis Has Been an Energy Crisis, Too.” Available at https://www.washingtonpost.com/business/energy/pakistan-political-crisis-has-been-an-energy-crisis-2022/05/05/1b7f86b-2be2-9c658f
18. The Global Climate Risk Index ranks Pakistan as the 8th most affected country to the impacts of climate change.⁴⁶
19. 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
20. 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.⁴⁷

³ crops and food production impacted significantly.

¹² Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), Pearson Institute for International Economics, said, “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 forms, as well as elections, wars, and climate change.

¹³ The Washington Post (2022), “Pakistan’s Political Crisis Has Been an Energy Crisis, Too.” Available at https://www.washingtonpost.com/business/energy/pakistan-political-crisis-has-been-an-energy-crisis-2022/05/05/1b7f86b-2be2-9c658f

¹⁴ The Guardian (2022), “It seems this heat will take our lives: Pakistan city near 51C after hitting 50C.” Available at https://www.theguardian.com/environment/2022/may/25/this-heat-will-take-our-lives-pakistan-city-near-51c-heatwave-posted-after-heatwave-50c


DATA TRENDS

UNDP Policy Analysis on Sri Lanka’s Economic Urgency

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).
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.

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.

By Mizuho Okimoto-Kaewtathip
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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.¹ As such, Pakistan’s employment remained concentrated in the agricultural and service sectors with the pervasive informal sector at 71 percent,² while labour productivity grew at an average rate of 1.9 percent annually since 2000, at a pace lower than its neighbours.³ Gender disparities are striking with women’s labour participation, at only 22.8 per compared to 81.1 percent of men.⁶

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.


⁴tegory=


⁴tegory=


© UNDP Asia Pacific

Disaster preparedness education through folk games in Ha Noi city. © UNDP Asia Pacific
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.

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 macroeconomic 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.

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.

THOUGHT PIECE

‘Future Thinking’

Pakistan’s SDG Investments

By
Haroon Sharif

Former Minister of State for Investment
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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.
Pakistan’s financial market is reasonably liquid, private sector-led, and offers possibilities of professionally raising capital for SDG investments. If technical 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, sukuk, securitization of cashflows is reasonably developed, and a group of financial institutions can provide technical support to global financiers.

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.

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.

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.

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, microfinance, 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 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, sukuk, 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.

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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.

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).

In the case of Pakistan, despite the large liquidity influx that followed 9/11 (see figure 1), much 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).

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

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.

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 the 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 ( lends 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 which may know which one of their members is a good entrepreneur) and monitoring (group members can monitor each other), evaluations of microfinance raise concerns about whether borrowers actually benefited or were forced to repay due to social pressure regardless of how well their businesses did.²

This critique of existing lending models is not simply to criticize, but to highlight 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.³ 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

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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 trade-off 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.


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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.

Economics is getting a shake up from bold economists who are challenging definitions of growth and rethinking the role of government. Scholars like Kate Raworth and Marianna Muzzacato are reddefining 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

‘Renegeade Economist’ Kate Raworth⁵ is the author of Doughnut Economics. Doughnut Economics brings humanity into the discussion, arguing that economic growth should be circum-scribed within environmental bound-aries. She calls for moving away from a linear idea of progress, “turning today’s degenerative economies into regenera-tive 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.⁷

For Marianna Muzzacato⁸, 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.⁹

To realize grand ambitions, govern-ments 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.¹⁰ 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 partner-ships, 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,¹¹ 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.

By Beenisch Tahir
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unable to extract citation details from the image.
Seven Ways to Think Like a 21st Century Economist

1. Change the Goal
   - GDP over time
   - Doughnut framework

2. See the Big Picture
   - Households and Business
   - Embedded economy

3. Nurture Human Nature
   - Rational economic man
   - Social adaptable humans

4. Get Savvy with Systems
   - Supply and demand
   - Mechanical equilibrium

5. Design to Distribute
   - Growth in income per capita
   - Distributive by design

6. Create to Regenerate
   - Growth in income per capita
   - Regenerative by design

7. Be Agnostic about Growth
   - GDP over time
   - Agnostic growth

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 Dasgupta², “Ecosystem 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.

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 UN and Cambridge University: Beyond GDP. Time to measure inclusive wealth and revolutionize economics.
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.

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 behavioral science derived from fields such as psychology, sociology, neuroscience, and behavioral 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 lockdown measures for example through increasing trust in online mental health services, and finally through encouraging vaccine uptake.

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,

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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.

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.

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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. 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.”

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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?

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.

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 they 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?

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.

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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.
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?

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.

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

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.

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

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.

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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: Of the total women in the labour force, 55.9 percent fall under the category of contributing family workers and remain unreg-
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. 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

| Table 1: Women in Workforce: South Asian Countries (in %) |
|-----------------|--------|--------|--------|--------|--------|
| GDP Gain by 2025 [if Women’s Participation is fully Equal to Men’s] | Pakistan | Bangladesh | Nepal | India | Sri Lanka |
| 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 Party | 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 |


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

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

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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.

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.


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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.

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. 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.

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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

Digitization and technology are key primers for growth. 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...
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.

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.
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.

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.

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By Shehryar Hydri
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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.
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 (t-bills) 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.

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

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.

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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.


By

Ariba Shahid

Economics and Business Journalist
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.

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.

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

With more robust data, Pakistan can host a greater number of indigenous trials to embed innovative and home-grown solutions, to solve local problems.
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.
Renewable Energy, Renewed Growth

By Vaqar Ahmed
Joint Executive Director, Sustainable Development Policy Institute

“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. 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 electrot 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.

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

2. Government of Pakistan (2021), “Updated Nationally Determined Contributions 2021.” Available at https://www.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.sdpi.org/
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) 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 announced⁵ 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 Caucus⁶ 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 departments, 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 sanitize other line ministries and departments on how shifting away from fossil fuels can aid social welfare, and favourably impact the conventional production models.

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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.

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 achievements 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.

“... In Pakistan, implementation of the 2030 Agenda and meeting Paris Agreement commitments will require considerable external means of financing. ...”
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. Geoeconomic interests were sketched on economic synergies and joint collaborations to mitigate socio-economic 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 the region.
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 fuelled 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.

"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."
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.

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.

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 Kalmats of Makran and Karachi, Gadurs of Lasbela, Machhis, Mohannas, Mr. 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.

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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

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The Hidden Gem: Leveraging Coastal Communities

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

Co-founder
Maritime Study Forum (MSF)
General Manager Operations
Institute of Policy Studies (IPS)

By Naufil Shahrukh

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

1. Interview from a retired senior official of the Pakistan Fisheries Department.
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. 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.
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, lacklustre 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.⁵

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

A Second Wind: Harnessing the Informal Economy

By Dr. Lalarukh Ejaz
Assistant Professor
Institute of Business Administration (IBA)

Persistent fiscal deficits, rising inflation, rapid devaluation, lacklustre 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.⁶

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 others.

By the end of 2020, Pakistan’s informal sector had 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, transport, 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.⁷ 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.

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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 is 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 oversees 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.
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

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

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Catalysts for Change: Spurring Informal Settlements

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

Approximately 11.9 million people reside in slums across 8 cities of Pakistan: Lahore, Rawalpindi, Multan, Gujranwala, Faisalabad, Peshawar, Quetta, Islamabad.

By Hina Shaikh
Country Economist
International Growth Center

86% are permanent settlers
13% are temporarily displaced
1% belong to other nationalities


© CityforAllKrachi

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

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 11 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 informal economy.

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.

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.

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.


“...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.”
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. 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!

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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.

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

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

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
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Pakistan Institute of Development Economics (PIDE)

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/files/results-census-2017
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

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 roads⁵ is not enough to develop these cities. These roads must also attract investors and create opportunities for trade and employment.

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 agglomeration effect in cities makes them a major source of growth.¹ 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.² 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.⁷

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.

6. Ibid
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.

By
Shah Muhammad Azhar
Development Coordination Officer-Economist
United Nations Resident Coordinator’s Office, Pakistan

South Punjab 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 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. 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.

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 fiscal 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.

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 31,938 km2).
2. Planning and Development Department of South Punjab & UNDP Pakistan, “South Punjab SDGs Indicators Report.”
The Political Economy of Minorities in Pakistan

By Mary James Gill
Former Member,
Provincial Assembly of the Punjab
Executive Director,
Center for Law and Justice

“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?

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.

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.

Minorities 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


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

By Asif Aqeel
Researcher and Academic

Christmas celebrations in Pakistan.
Inclusive politics that includes minorities in decision-making needs to be promoted.

Properties/land of non-Muslims need to be brought under self-ownership.

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.

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 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.
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.

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 worldwide. This is a major reason why most of them flee from their families to areas where transgender communities live.

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 35 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:

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

“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.

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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.

National and provincial surveys must have mandatory data on transgenders as a separate gender entity. The Technical Education and Vocational Training Authority (TEVTA) must initiate short-term courses for transgenders, and define quota in their regular programs. 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.

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 initiate 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.

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