DEVELOPMENT ADVOCATE Pakistan

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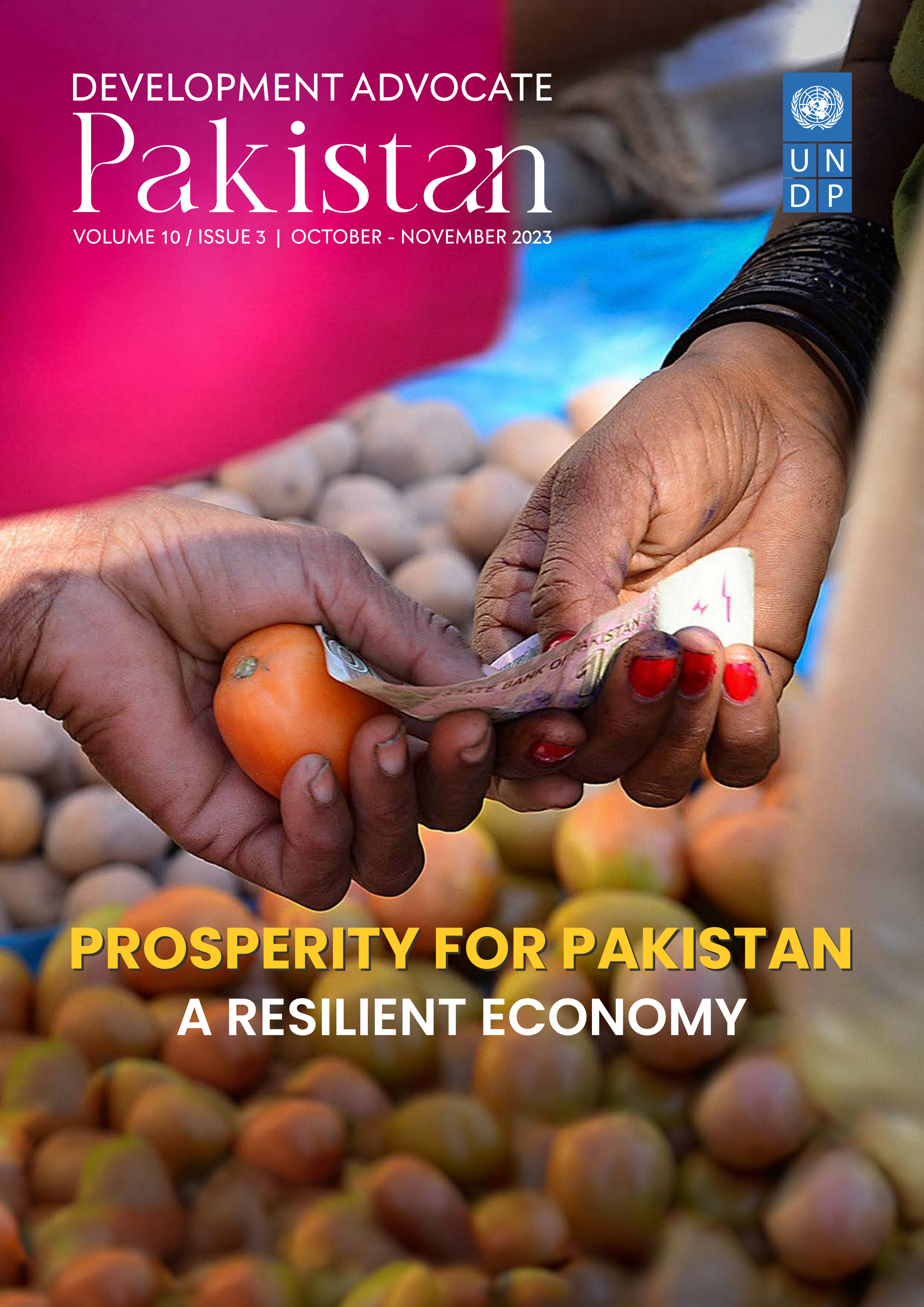
UNDP



PROSPERITY FOR PAKISTAN
A RESILIENT ECONOMY

DEVELOPMENT ADVOCATE

Pakistan

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

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Reform or Rupture: A Resilient Economy for Pakistan

The choice may appear clear between 'reform or rupture,' but it must be translated into bold and decisive action to pave the way for a prosperous, resilient Pakistan.

At the 78th U.N. General Assembly (UNGA) held in September this year, Secretary-General, Mr. António Guterres put forward a critical decision facing the world today. "It is reform or rupture," he said, outlining unfolding fractures in global economic and financial systems. The Secretary General stressed the need to redesign the international financial architecture for it to become truly inclusive and serve as a safety net for developing countries. Our UNDP Administrator, Achim Steiner, has also raised the alarm about the widening gap between 'the growth we get' – dominated by extraction, surging commodity prices, and unsustainable debt – and 'the development we want', which is driven by human-centered growth and innovation.

This rupture manifests itself in Pakistan in the evolving socio-economic, financial and development policy landscape saddled by a myriad of fast-converging challenges. Launched in September on the side-lines of the UNGA, UNDP's Integrated SDG Insights Report 2023 for Pakistan shows that the country is on track to achieve only 35 out of 169 SDG targets. As a policy prescription, the report proposes that if Pakistan is to reduce the number of people living in poverty from 6.1 million to 3.9 million by 2030, it will need a comprehensive 'SDG Push' of high-intensity economic reforms and accelerator pathways in priority policy areas such as taxation and revenue, sustainable debt management and climate finance.

For much of 2023, Pakistan's economic trajectory has fluctuated between default panic to mitigation mode. Political uncertainty, rising global commodity prices, and the tightening of external and domestic financing conditions have led to less than favourable economic forecasts for 2024, with the Asian Development Bank projecting a 1.9 percent GDP growth, the World Bank projecting 1.7 percent, and the IMF estimating a growth of 2.5 percent.

Any silver lining? Yes. This year the government's prudent budget revisions cut spending and raised taxes, while successfully negotiating with the IMF to resume and extend its stalled $3 billion loan programme till April 2024, thus pulling the country back from an economic cliff's edge. In its review this month, the IMF has commended Pakistan for its successful progress in achieving quantitative targets during the first quarter of this year. Media reports suggest that while the ongoing review of the current programme may conclude successfully with the release of the final tranche, transition to the next programme will be essential for continued stabilisation but it will not be easy. Interestingly, in its latest long-term outlook, the IMF has projected an optimistic five percent growth in 2028.

By
Dr. Samuel Rizk
Resident Representative,
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Pakistan is not out of the woods yet. Beyond the life of the current IMF programme, the scale and source of financing required for Pakistan's siseable external payments remain concerning. The country needs to repay $77 billion in external debt between 2023 to 2026 -- a hefty amount for a $350 billion economy. The road to 2028 will be long and tough. Achieving an ambitious growth target of five percent will require steadfast political will, consistency in policy reforms, and innovative policy solutions with an eye toward enhancing productivity, revenue and financing. It is critical that Pakistan urgently shifts its economic and financial policy paradigm from mitigation to enduring resilience.

Published this month, the 2024 UNDP Asia-Pacific Regional Human Development Report (Pakistan included) tells us that the region's human development story is one of 'progress, disparity, and disruption'. To unlock new drivers of growth in Pakistan, the report calls for recalibrating and pivoting growth strategies to focus more on fintech and agri-tech. Reform must be seen as the lynchpin of economic resilience. It fortifies crucial components of the economic system, adapts them to changing times, and equips them to weather shocks and uncertainties. For a country like Pakistan facing complex, multidimensional challenges across the domains of climate, economy, politics and security, achieving economic resilience requires a comprehensive and coordinated approach.

A robust architecture for innovative Financing for Development frameworks and solutions, covering both the public and the private sectors, and aligned with the U.N.'s Integrated National Financing Framework, can be a step in that direction. Some countries are already succeeding with thematic SDG sovereign bonds for the public sector, and blended finance and crowd-funding for the private sector. For Pakistan, interventions could include providing access to capital markets for debt issuance, linking sovereign wealth funds to SDG-aligned projects, providing support for social protection programmes such as BISP, strengthening risk insurance to protect critical assets and livelihoods, as well as enhancing public finance management, governance modernisation, and improved data analytics.

The private sector should actively be engaged to mobilise development and climate financing in public-private projects to reduce reliance on conventional sources of finance. Pakistan's new finance instruments, for example the Special Investments Facilitation Council (SIFC) are part finance puzzle, tackling challenging issues such as business efficiency and transparency, as well as the enabling environment in which investments would land. On this front, proactive dialogue and engagement with Pakistan's development partners, with our own instruments such as the UNDP SDG Investments & Climate Financing Facility (established last year in partnership with the Government of Pakistan) and others is critical.

This issue of DAP will address all of the above and more, with a view towards building a resilient economy that deliberately chooses innovation and reform or risk stagnation. As such, the choice may appear clear between 'reform or rupture,' but it must be translated into bold and decisive action to pave the way for a prosperous, resilient Pakistan.

From Debt Crisis to Solvency: Mid-Term Outlook for Pakistan

A well thought out, well planned, and effectively implemented set of structural reforms is the only option for solvency in Pakistan.

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One of the primary drivers of Pakistan's debt challenges arises from the ineffective handling of public finances.

The debt crisis at hand

The likelihood of Pakistan's debt crisis worsening in medium term is high. The country is in a sovereign debt trap due to upcoming debt repayments, low foreign exchange reserves, high interest rates, and inadequate non-debt external inflows. This situation makes it difficult for the country to meet the principal as well as the interest payments during the next two to three years.

The external debt reached around USD 124.3 billion in June 2023, which is 42.5 percent of the GDP.[1] The overall debt-to-GDP ratio has also been rising over the last decade, reaching 78 percent in 2022. From 2000 until 2007, there was some drop in the debt-to-GDP ratio, whereas after 2007 it started to rise again and in fact skyrocketed from 2015 onwards.[2]

Putting problems into context

Political uncertainty, lowering of trust with global lenders, challenges in keeping the programme with International Monetary Fund (IMF) on track, and subdued overall economic activity has accentuated Pakistan's debt crisis. The short-tenor debt and its repayments are making the task of overall debt management difficult for the federal government. The country has to make repayments of USD 77.5 billion by June 2026. It is more than one fifth, 22 percent to be exact, of the country's GDP.

This challenge is rooted in the structures of economy and economic governance. One of the primary drivers of Pakistan's debt challenges is the ineffective handling of public finances. The government's weak capacities to allocate and utilise its resources efficiently have resulted in fiscal imbalances. This mismanagement frequently necessitates excessive borrowing to bridge budget shortfalls. Moreover, the absence of transparency and accountability in public financial administration exacerbates the issue, creating difficulties in monitoring how funds are allocated and utilised at the national and sub-national level.

Another substantial contributor to Pakistan's debt difficulties is the persistent problem of generating adequate revenue. Pakistan has struggled to enhance its tax revenue collection, and tax evasion remains a widespread issue. A significant portion of the population operates within the informal economy, making it challenging for the government to levy taxes on their income. This constrained revenue collection compels the government to rely on borrowing to finance its operations, consequently amplifying the national debt burden.

Pakistan's debt dilemma is aggravated by a deficiency in fiscal discipline, marked by a noticeable lack of oversight over government expenditures. Frequently, governments embark on costly initiatives without conducting thorough evaluations of their financial feasibility or taking into account their implications on the national debt. This absence of fiscal restraint in handling government spending leads to the accrual of debt without simultaneous economic growth. Consequently, Pakistan grapples with the predicament of escalating debt burdens that do not align with its objectives for economic expansion and development as often envisaged by the Planning Commission. The parliament's role in providing the oversight of government public finances is crucial but often missing.

As of now, Pakistan's debt crises can only be managed rather than solved completely. Fresh borrowing and the rollover of past debts are the main options in the immediate- to short-run. Pakistan will be relying mainly on China and the Gulf countries for these rollovers. We have seen Beijing rolling over USD 2.4 billion in July 2023 for another two years. Similarly, friendly cash deposits from Gulf countries have been rolled over in the past.

The country is also working on additional borrowing to finance its existing debt payments. But this will require not only the successful completion of the ongoing Standby Agreement (SBA) of the IMF, but another fresh programme of three years. This is essential, as we have seen external bilateral

1. https://www.sbp.org.pk/ecodata/pakdebt.pdf
2. https://www.worldeconomics.com/GrossDomesticProduct/Debt-to-GDP-Ratio/Pakistan.aspx

A broker at the Karachi Stock Exchange.

The adoption of modern financial management systems and the reinforcement of government capabilities can play a substantial role in advancing public finance management.

and multilateral finance contingent upon Pakistan's engagement with the fund. Unseen earlier, China and the Gulf lenders in 2022 and 2023 also pushed the then governments to fulfil commitments with IMF before seeking any new assistance in the form of further friendly deposits and rollovers.

Solvency will require work on economic fundamentals

While opinion is divided, the government formed after the elections of 2024 may have to make a serious assessment of its options for debt management. Short-term rollovers will not release the pressures on the fast-piling debt burden for current and future generations. They will only provide, at best, a breathing space for one to two quarters. But expectedly, the new government is likely to be hesitant on a large-scale debt restructuring for political reasons. The IMF, however, will encourage the government to design the new programme facility, keeping debt levels sustainable. This design phase could take some time, but it is advised that to give markets the right confidence, the waiting period before which a new programme is signed with the fund should be kept as short as possible.

Debt solvency will require a working economy which attracts net positive inflows of foreign currency including exports, foreign investments, and remittances. During 2024-25 and 2025-26, the projected debt servicing is expected to be around USD 25 billion and 23 billion respectively. For this, Pakistan will need a plan that attracts non-debt creating inflows. However, it is doubtful that all three of these sources (exports, foreign investment, and remittances) will be able to keep up with the country's growing import expenses and the mounting pressure of debt repayments. The direction of global oil and commodity prices will also play a role in determining pressures on Pakistan's external account.

Most importantly, the new government has to correct the faultiness underlying the chronic debt problem. A well thought out, well planned, and effectively implemented set

Debt solvency will require a working economy which attracts net positive inflows of foreign currency including exports, foreign investments, and remittances.

of structural reforms is the only option for solvency. To address the challenge of inadequate management of public finances, Pakistan should give top priority to enhancing transparency, accountability, and efficiency in its financial procedures.

The implementation of strict budgetary controls, regular audit practices, and the encouragement of fiscal responsibility can be crucial in ensuring the careful allocation and effective utilisation of public funds. Additionally, the adoption of modern financial management systems and the reinforcement of government institutions' capabilities can play a substantial role in advancing public finance management.

To tackle the revenue challenge, Pakistan should prioritise tax reforms aimed at expanding the tax base and curbing tax evasion. This may entail simplifying the tax code, adopting technology-driven tax collection methods, and providing incentives for informal sector participants to transition into the formal economy. Promoting compliance and discouraging tax evasion through more rigorous enforcement measures can also contribute to the strengthening of government revenue.

Upholding the fiscal responsibility is the most critical driver towards debt solvency. Fiscal accountability will require compliance with the Public Finance Act. Pakistan should implement stringent budget controls and adhere to clearly-defined fiscal targets, which is also in the spirit of the Fiscal Responsibility and Debt Limitation Act. It is crucial to ensure that projects undergo comprehensive assessments of their economic viability and that their funding is sustainable. All projects funded through the Public Sector Development Program or provincial Annual Development Plans should be critically appraised and monitored for timely completion and results. A commitment to fiscal prudence can help avert irresponsible borrowing and the unsustainable accumulation of debt.

In the longer term, to reduce its reliance on external borrowing, Pakistan should explore a range of financing options. This could involve promoting domestic savings, attracting foreign direct investment, and participating in public-private partnerships for infrastructure development. Diversifying funding sources can help mitigate the risks associated with excessive dependence on external loans and grants. A long-term pool of capital for development projects can be set up in the form of a sovereign wealth fund, which will carry and

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A commitment to fiscal prudence can help avert irresponsible borrowing and the unsustainable accumulation of debt.

invest revenues from natural reserves and other sources. Pakistan also needs to quickly move towards accessing funds aimed at addressing climate change and environmental sustainability. These include climate-related grants, loans, and investments from international organisations and funds.

The conclusions

Overall, Pakistan's options to resolve the ongoing debt crisis are very limited. The country is likely to continue relying on short term measures of rollovers, along with additional external borrowing, to ease debt pressure. After the ongoing SBA with IMF, a fresh 3 to 5 year programme will have to be negotiated, which could then unlock longer-term funds from multilaterals. But without correcting the underlying systemic faults producing debt crises, the country will just be delaying the problem rather than solving it.

Pakistan should embrace open budgets and participate in the Open Government Partnership (OGP), as these initiatives promote transparency, accountability, and citizen engagement in public financial management. By adopting open budgets, Pakistan can enhance fiscal transparency, providing citizens with access to detailed information on government revenues, expenditures, and allocation of resources. This empowers citizens to hold the government accountable, fosters trust in public institutions, and reduces corruption. Additionally, OGP membership offers a platform for collaborative efforts with other countries, fostering innovative solutions, sharing best practices, and working towards greater efficiency and effectiveness in governance.

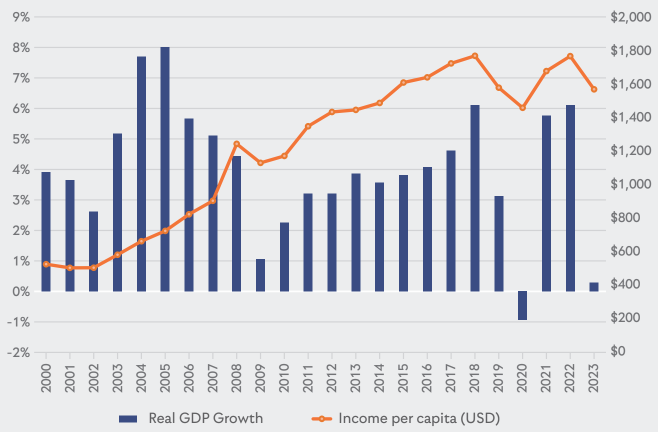
The newly-elected government must have a plan to tackle the debt challenge. It means a reform agenda enhancing financial management, increasing revenue, enforcing fiscal discipline, diversifying funding sources, and effectively managing debt. The parliament should provide regular oversight of treasury operations. By putting these measures into action, Pakistan can work towards achieving fiscal sustainability, diminishing its dependency on external borrowing, and ultimately fostering economic stability and growth.

Socioeconomic Profile of Pakistan 2023

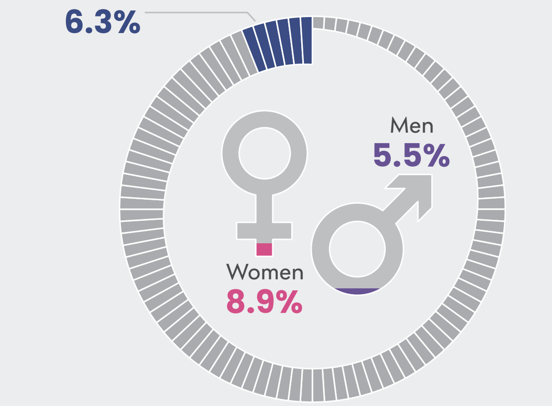
Pakistan's socioeconomic profile is showcased through the five pillars of the 2030 Agenda: **Prosperity, People, Planet, Peace, and Partnerships.** These 5 Ps highlight the interlinked nature of the 17 SDGs; progress on one P must balance and support progress on the others.

PROSPERITY

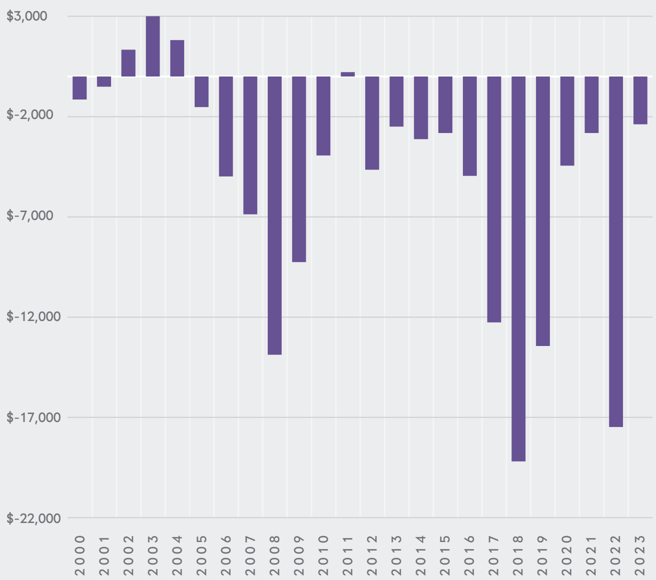
Economic Growth



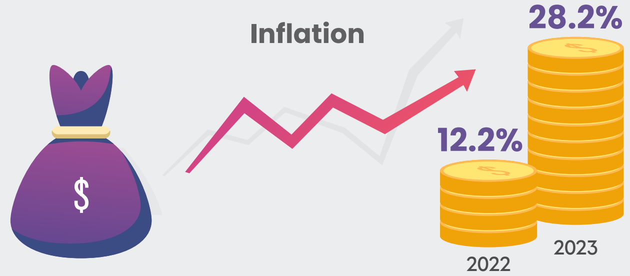
National Unemployment Rate (2021)



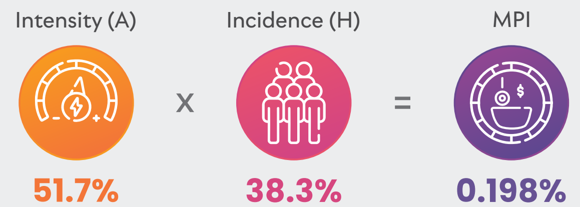
Current Account Balance (million USD)



Inflation



Multidimensional Poverty (2018)



Note: The MPI is the product of the incidence of multidimensional poverty (proportion of people who are multidimensionally poor) and the intensity of multidimensional poverty (average deprivation score among multidimensionally poor people).

Sources:
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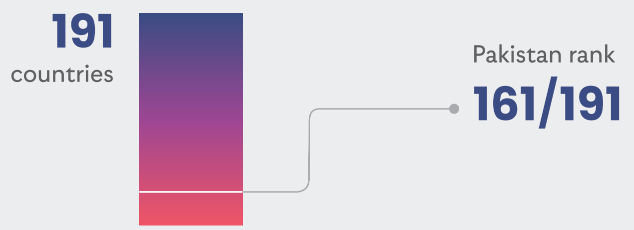
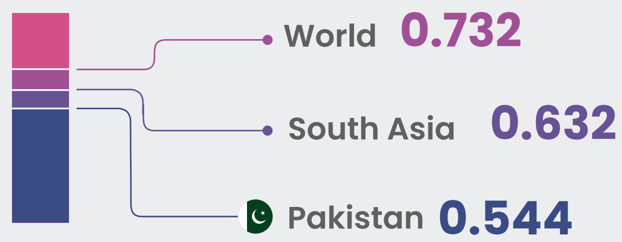
- UNDP. 2023. 2023 Global Multidimensional Poverty Index (MPI): Unstacking global poverty: Data for high impact action. New York. Retrieved from https://hdr.undp.org/content/2023-global-multidimensional-poverty-index-mpi#/indicies/MPI

PEOPLE

Human Development Index Rank 2021



Human Development Index Score 2021



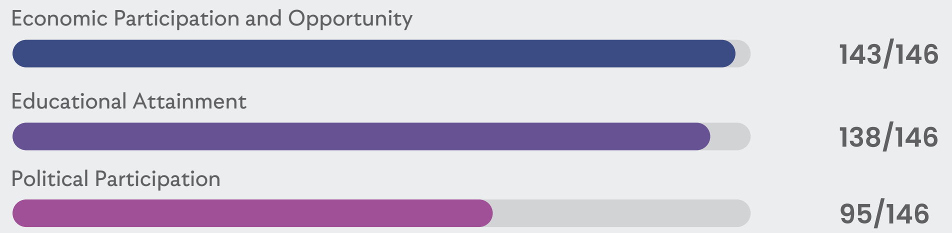
Human Development Index Components

Life Expectancy at Birth	Expected years of schooling	Mean Years of Schooling	Gross National Income (GNI) per capita 2017
66.1	8.7	4.5	$ 4,624

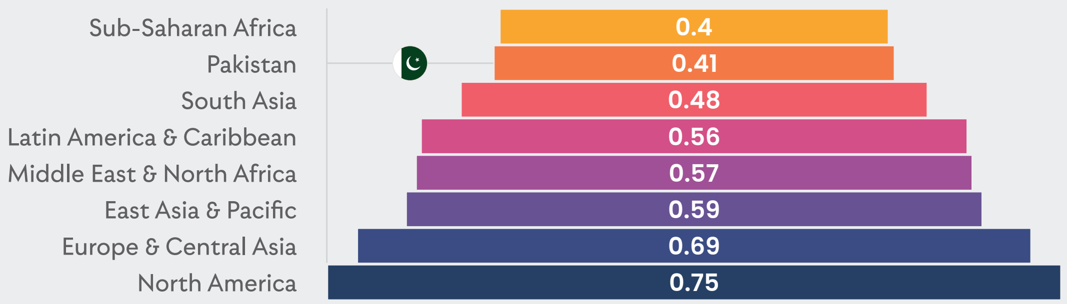
Global Gender Gap Index 2023

Global Gender Gap Index in 2023

142/146



Human Capital Index 2020



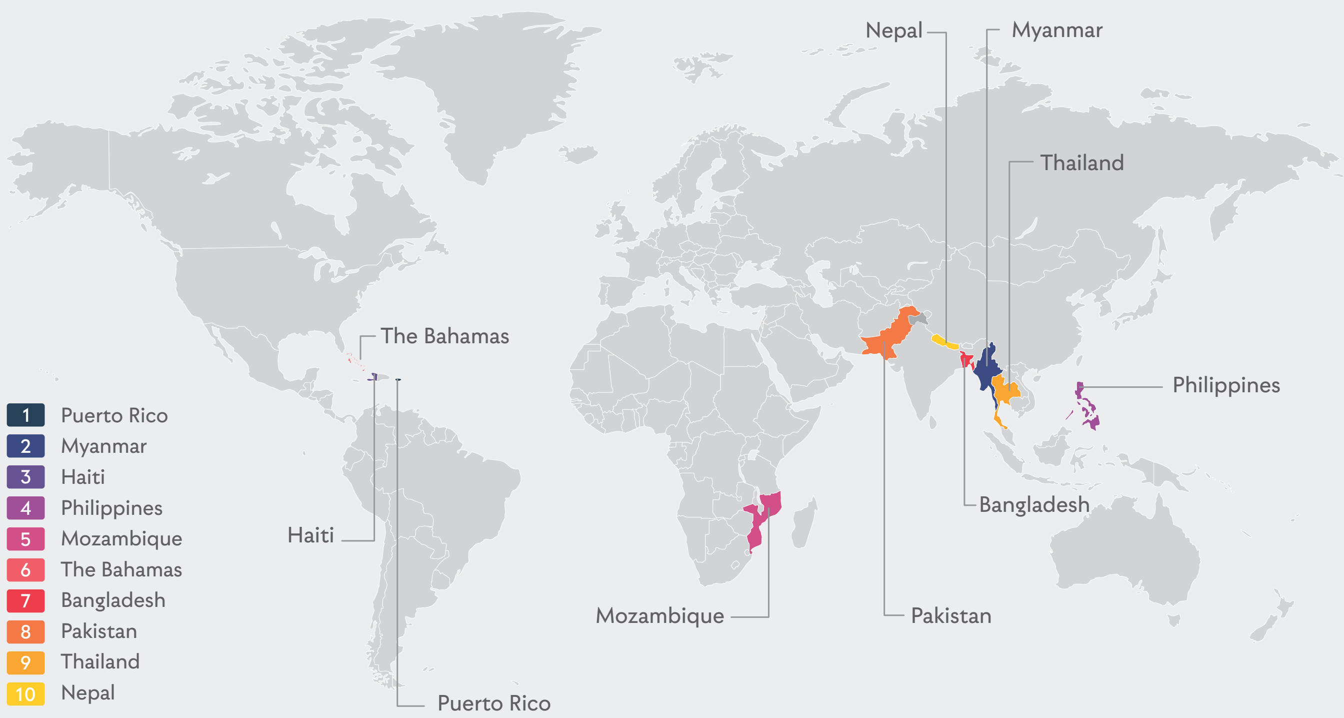
The Human Capital Index (HCI) combines indicators of health and education into a measure of the human capital that a child born today can expect to obtain by their 18th birthday, on a scale from 0 to 1.

Sources:
- UNDP. 2022. Human Development Report 2021-22: Uncertain Times, Unsettled Lives: Shaping our Future in a Transforming World. New York.
- World Economic Forum. 2023. Global Gender Gap Report 2023. Geneva, Switzerland.
- The World Bank. 2023. Pakistan human capital review: Building capabilities throughout. Washington.

PLANET

Global Climate Risk Index 2000-2019

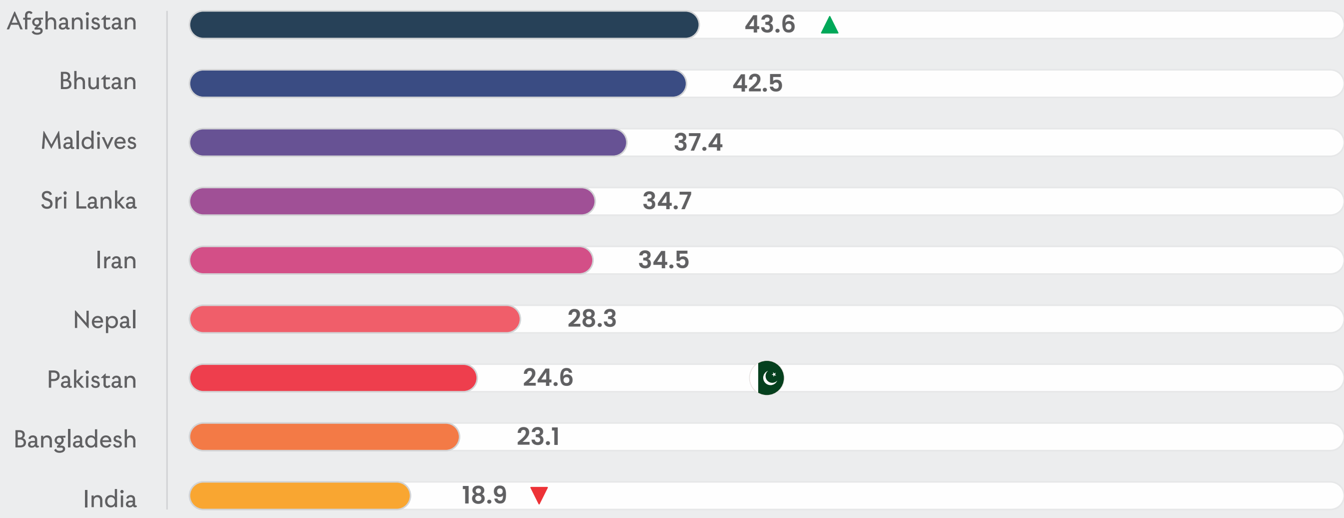
Pakistan is the 8th most vulnerable country to the impacts of climate change.



The 2022 Floods

Damages	Losses	Needs
USD 14,906 million	USD 15,233 million	USD 16,261 million

Environmental Performance Index Rank 2022



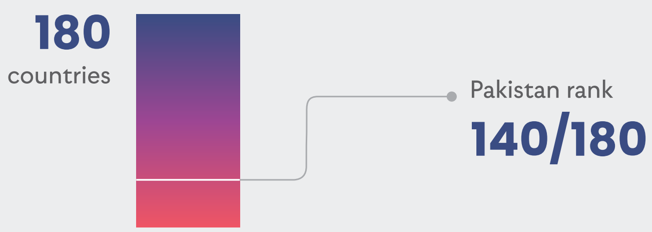
Sources:
Germanwatch. 2021. Global Climate Risk Index 2021. Berlin. Retrieved from https://www.germanwatch.org/en/19777
Pakistan Floods 2022: Post-Disaster Needs Assessment, Ministry of Planning, Development & Special Initiatives, October 28, 2022. Retreived from: https://www.undp.org/pakistan/publications/pakistan-floods-2022-post-disaster-needs-assessment-pdna
Wolf, M. J., Emerson, J. W., Esty, D. C., Sherbinin, A. d., & Wendling, Z. A. 2022. 2022 Environmental Performance Index. New Haven, CT: Yale Center for Environmental Law & Policy, Center for International Earth Science Information Network.

PEACE

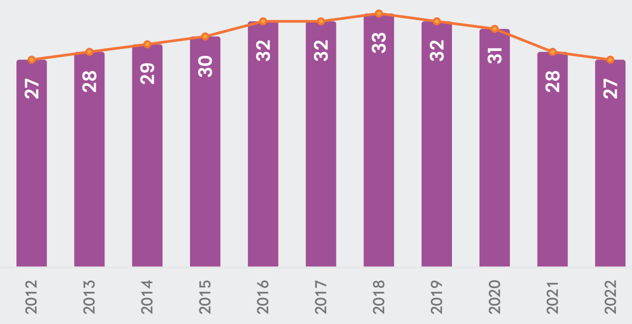
Rule of Law Index 2022

Regional Rank	Country	Global Rank	Score
1	Nepal	69/140	0.52
2	Sri Lanka	74/140	0.50
3	India	77/140	0.50
4	Bangladesh	127/140	0.39
5	Pakistan	129/140	0.39
6	Afghanistan	138/140	0.33

Corruption Perception Index 2022

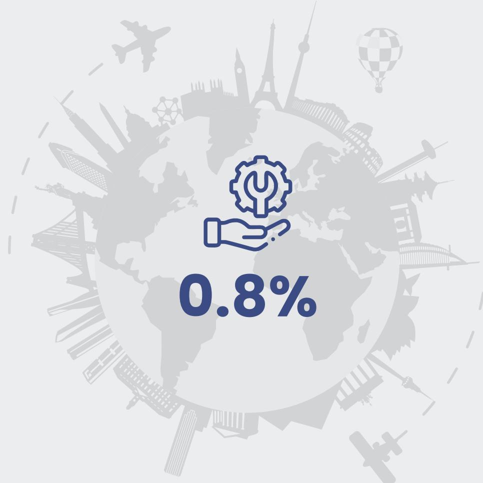


Corruption Perception Score

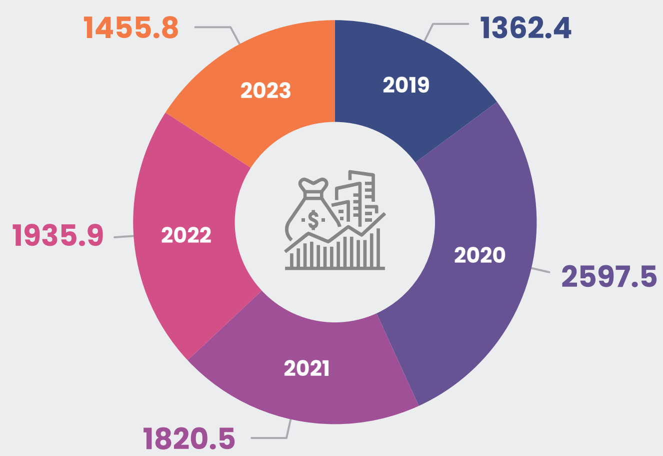


PARTNERSHIPS

Overseas Development Assistance
(Net ODA received (% of GNI) - 2021)



Foreign Direct Investment
(Million USD)



SDG Investment by Government

Pakistan is one of top 10 countries with Government financing in SDGs.

USD 15.5 million

Sources:
World Justice Project. 2022. Rule of Law Index 2022. Washington. Retrieved from https://worldjusticeproject.org/rule-of-law-index/downloads/WJPIndex2022.pdf
Transparency International. 2023. Corruption Perception Index 2022. Retrieved from https://www.transparency.org/en/cpi/2022/index/pak
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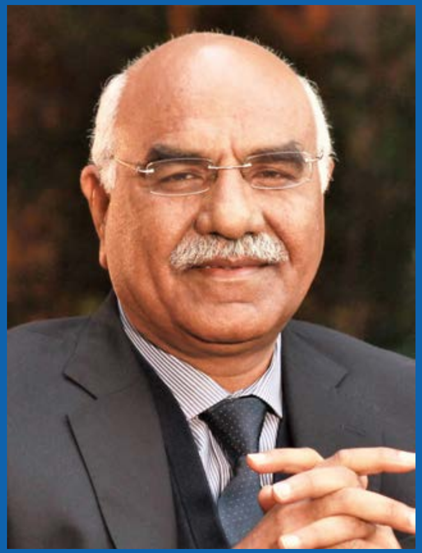

> "Access to education, gender equality, and employment are not only indicative of what development should look like; they are what drives and sustains development itself."

Dr. Muhammad Amjad Saqib

Chairperson, BISP

The people of Pakistan have shown tremendous resilience and unprecedented courage as the country navigates through economic and climate crises. As we seek to carve a pathway to sustainable development, it is the people and their voices that should remain at the forefront.

This entails that we invest in education, reaffirm our commitment to gender equality, and focus on reducing unemployment and underemployment. Today in Pakistan, 5.6 million people are unemployed, at least 20 million children are out of school, and Pakistan ranks 142 out of 146 countries in the Global Gender Gap report - with rural Pakistan faring much poorer than its urban counterparts on all accounts. However, these numbers do not reveal the entire story. Over the years, across all indicators, Pakistan has been making progress. Our challenge now is to accelerate that process. The role of investing in people should not be relegated to the State alone, as has been traditionally done. The challenges before us require partnerships across sectors and local solutions to complement the State's efforts.

Access to education, gender equality, and employment are not only indicative of what development should look like; they are what drives and sustains development itself. We must put the people of Pakistan first, and while doing so, we can ensure Leave No One Behind.

Pakistan's rural communities, women and girls, people with disabilities, and people of all religions must be a part of the development process to make it inclusive and transform our communities and economies for the better. The lines of division drawn by prejudice and ignorance in our communities only weaken us. Thus, the heart of our vision for an inclusive and resilient economy should be nestled in solidarity and compassion.

The Vision for a Resilient Economy

- Investing in education
- Reaffirming our commitment to gender equality
- Focusing on reducing unemployment and underemployment
- Strengthen partnerships across sectors
- Emphasising local solutions
- People-centric development

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"Durably addressing structural macroeconomic imbalances, particularly on the fiscal, will remain a prerequisite to ensure a more stable economic environment to attract investors."

Najy Benhassine

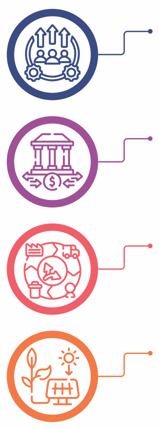
Country Director for Pakistan, World Bank

Pakistan's current economic model is not working. It has fallen behind its peers, significant progress with poverty reduction has now started to reverse, and the benefits of growth have accrued to a narrow elite. Pakistan is heavily exposed to climate change, with the potentially devastating impacts of climate shocks and natural disasters already apparent. There is broad consensus that action is needed to change policies that have plagued development, benefitted only a few, and led to very volatile and low growth.

Most economic crises get wasted. But many countries, including Indonesia, Thailand, India, Vietnam and others, have emerged from crisis through deep and sustained changes in their policies, resulting in step changes in growth, and sustainable improvements in living standards. Pakistan could do the same, but this will require major policy shifts in key areas.

First and foremost, Pakistan's persistently low quality of basic services for human development must be addressed. Forty percent of children under five suffer from stunted growth - this rate exceeds 55 percent in the poorest districts and has declined very little over the years. A major coordinated effort is needed to address the core drivers of stunting: low access to water, waste and sanitation services, basic health and nutrition services during the first 1000 days of life, etc. 79 percent of ten-year-old children cannot read; access to quality education is low and Pakistan's public spending in the sector is around half what it should be to close the gap. Nearly seven percent of children do not survive until their fifth birthday. Reforms are

The Vision for a Resilient Economy



- Improve basic services for human development
- Strengthen fiscal management
- A more dynamic and open economy
- Reform agri-food and energy sectors

required to expand access to water and sanitation in the face of climate change, enhance the coverage, adequacy, and efficiency of the social protection system, and address policy and institutional constraints to effective service delivery.

Second, fiscal management must be drastically improved. Debt servicing costs and domestic revenue mobilisation are at unsustainable levels, leaving inadequate resources to invest in human development and infrastructure, address economic challenges, and adapt to a changing climate. Reforms are required to consolidate and improve the quality of government spending, including by cutting regressive and distortionary subsidies, and reduce losses

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from inefficient state-owned enterprises, including in the energy sector. More revenue must be raised from the better-off, through increased progressive taxation of property and environmentally-damaging activities, as well as reducing tax exemptions.

Thirdly, improved living standards will require stronger growth and a more dynamic and open economy. Protection of inward-oriented sectors, or distortions in taxation that favor non-tradables, all need to be reduced to encourage exports. The overall business environment needs to improve, especially for smaller firms; cutting red tape as well as opportunities for costly discretion in the government's dealing with businesses is paramount. Durably addressing structural macroeconomic imbalances, particularly on the fiscal, will remain a prerequisite to ensure a more stable economic environment to attract investors.

Finally, policy failures and distortions in the critical agri-food and energy sectors must be addressed. In agriculture, reforms are required to unwind the subsidies and price restrictions that lock smallholder farmers into a low-value farming system and encourage resource-intensive and environmentally damaging production practices. Reforms in the energy sector should consolidate progress towards financial sustainability, improve the efficiency of distribution companies (including through increased private participation), and address the very high costs of electricity generation through increased renewable generation.

The need for such policy shifts has been well established. But experience shows that any reform efforts will face contestation and opposition. The question is whether those with power and influence will take the opportunity arising from the current crisis to do what is needed. It is time for Pakistan to come together in the interests of a brighter, more prosperous, and more sustainable future.

"Consistent country policies and uninterrupted reform momentum are necessary conditions to provide a conducive environment to address Pakistan's complex economic challenges."

Yong Ye

Country Director, ADB Pakistan

Located at the juncture of South and West Asia, Pakistan has substantial natural and human resources - fertile land in a variety of climatic zones, a rich biodiversity, and a large population youth bulge - underscoring its potential for rapid and sustained development. However, the economy exhibits an episodic growth pattern characterized by boom-and-bust periods. A narrow production and export base makes it less resilient to adverse economic shocks and results in a binding balance-of-payment constraint. A large fiscal deficit, a weak external position, and eroded macroeconomic buffers reflect structural weaknesses in economic management. The high cost of doing business, among other factors, restricts private sector growth and international competitiveness. While persistent governance bottlenecks and institutional capacity deficits add to these challenges, the increasing intensity and frequency of natural disasters and climate change-associated risks increasingly threaten sustainability.

In the past few decades, Pakistan, a lower middle-income country, has made reasonable strides on the socio-economic front. With GDP growth averaging around 5 percent since the 1960s and a per capita income that almost quadrupled over the same period, it had significantly reduced poverty prior to COVID-19. Yet, the country needs to accelerate its efforts to achieve its targets of achieving the Sustainable Development Goals (SDGs), while overcoming immediate and long-term structural challenges to sustainable and inclusive growth.

More recently, successive internal and external shocks, including the COVID-19 pandemic, rising global commodity prices, and devastating floods in 2022 have caused further economic contractions and exacerbated the country's macroeconomic vulnerabilities. These fragilities reflect the structural constraints embedded in the economy, which hamper investment, undermine human and capital development, and lower productivity and growth.

The Vision for a Resilient Economy

- Improving economic management
- Building resilience through human capital development
- Boosting competitiveness and private sector development
- Supporting gender equality
- Advancing climate action and disaster resilience
- Strengthening governance
- Amplifying regional cooperation and integration

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The Asian Development Bank (ADB) has been a key partner in the transformation of the country. It is committed to continue serving in the next phase of Pakistan's development - with a vision to promote prosperity, inclusiveness, resilience, and sustainability, under the ADB Strategy 2030. Under its Country Partnership Strategy (CPS), 2021–2025, ADB is currently working to help Pakistan address persistent structural economic constraints and to lift growth, build resilience, and foster competitiveness. The CPS, fully aligned with the Government of Pakistan's development agenda, ADB's Strategy 2030, and the SDGs, prioritizes ADB support under three interlinked strategic pillars: (i) improving economic management to restore stability and growth, (ii) building resilience through human capital development to enhance productivity, and (iii) boosting competitiveness and private sector development to support job creation and economic opportunities. Considerations of gender equality, climate change and disaster resilience, governance, and regional cooperation and integration cut across these pillars.

Consistent with the CPS, ADB's ongoing assistance focuses on developing synergies between institutional reforms and infrastructure development, while effectively responding to Pakistan's large and at times urgent development needs. In response to the devastating July 2022 floods, ADB has pledged a USD 1.5 billion financing package, and has been working on it with the government to support recovery and reconstruction efforts and strengthen the country's disaster and climate resilience. Likewise, under ADB's recently introduced operating model, the OneADB approach allows ADB's assistance to draw upon diverse expertise to provide high-quality advice for preparing and implementing investment projects and institutional reforms, shift focus to greater quality and integrated solutions, serve as a catalyst for private sector development, and incorporate climate into sector and country operations. Finally, ADB considers consistent country policies and an uninterrupted reform momentum as necessary conditions to provide a conducive environment for addressing the complex economic challenges that limit long-term growth and achieving effective outcomes from development assistance.

"Almost 25 years into the 21st century, Pakistan's literacy rate can't seem to cross 60 percent."

Safiya Aftab

Executive Director, Verso Consulting

In the current atmosphere of doom and gloom, and an economy that is in the doldrums, it is hard to think of things that have worked in Pakistan. Nevertheless, policymakers deserve credit for some structural reforms that have persisted over time. These include the 7th National Finance Commission (NFC) Award passed in 2010, and the passage of the subsequent 18th amendment to the Constitution, which essentially redefined the division of power between the provinces and the center.

The 7th NFC Award increased the share of provinces in the federal divisible pool of taxes from 49 to 56 percent (with percentage point increases stipulated each year till 2015). Further, it introduced new criteria for the horizontal distribution of resources across provinces. Thus, the population remains a major determinant (accounting for a share of 82 percent in the weightage), but criteria like poverty, inverse population ratio, and revenue generation were added to the mix so that provinces are compensated according to some unique features – the inverse population ratio, for example, helps Balochistan which is scarcely populated, but is in need of substantial public investment.

The same year saw the passage of the 18th amendment, which served to clarify many anomalies in Pakistan's Constitution, and changed the structure of the government from a semi-presidential one (which it had become after the passage of the 8th Amendment in 1985), to a parliamentary democracy. It also abolished the Concurrent List and devolved key sectors to the provincial governments. These reforms set the stage for Pakistan to develop as a federation, with the federating units having substantial powers.

The Vision for a Resilient Economy

- Building human capital
- Enabling local governments to institutionalise and operate freely
- Improving the literacy rate
- Expanding provision of basic public services
- Accelerating human development

Currently, Pakistan faces several economic and development challenges. Earlier this year, there were fears that the country would default on foreign loan repayments. Perhaps the primary concern is the possibility of a balance of payments crisis and an ongoing debt crisis. But among the many challenges, two repeated failures are: a) Pakistan's inability to build human capital; and b) the short-sightedness of national and provincial governments who do not let local governments institutionalize and operate freely.

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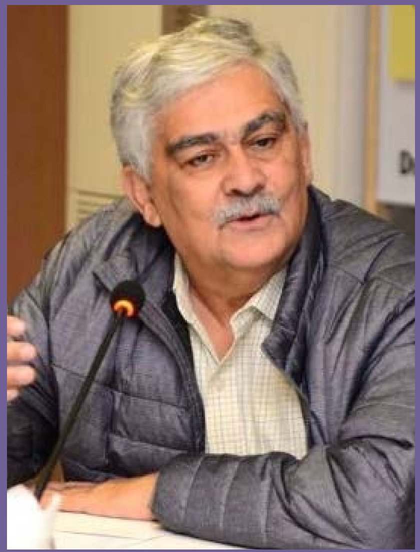
On human development, Pakistan's position is not only amongst the worst in South Asia, but it has been left far behind by two countries with which it shares a common history; India and Bangladesh. Almost 25 years into the 21st century, Pakistan's literacy rate can't seem to cross 60 percent.[1] The provision of basic public services is generally of poor quality, but the larger issue is that services are simply non-existent, particularly in small towns and rural areas. This is partly the result of a clampdown on local governments.

So, what needs to change? In short - everything. But for the short term, one can only hope that there is political stability and that a new government has the courage and understanding to take difficult decisions.

1. Pakistan's overall literacy rate for persons aged over 15 was 57 percent as per the Pakistan Social and Living Standards Measurement Survey (PSLM) 2019-20.



> Pakistan must develop the organic capacity to change with the times, adopt technology, and remain competitive.

Dr. Nadeem ul Haque

Economist & Vice Chancellor,
Pakistan Institute of Development Economics (PIDE)

The economic mess in Pakistan continues. 24 IMF programs later, the economy remains close to default, without investment and expectations of continuing current account and fiscal deficits.

Investment in the country remains very low - almost negligible - reflecting the confidence of investors. Only the informal market works to provide investment, employment, and other market opportunities.

The formal market is extremely highly, as well as unintelligently, regulated. PIDE estimates that the footprint of the government is as much as 75 percent, because of the excessive interference by the colonial bureaucracy through controls on market entry and development.

PIDE also estimates that the cost of this 'permission culture' and extensive regulation may amount to as much as 60 to 70 percent of the GDP. Looked at this way, there is little room to invest in the economy.

Continuing the colonial tradition, the Government we have preserved during our 75 years of independence remains extremely suspicious of wealth-making.

Meanwhile, the democratic system has evolved around the colonial mandate of 'civilising the natives' and patrimonialism. This results in votes being given not based on ideologies or ideas, but based on expected giveaways, as well as the provision of rights through official largesse! This immature democracy regards elections only as a means of gaining unchecked power to control the country's resources. The waste of this imperial democracy has led to unsustainable levels of debt.

The Vision for a Resilient Economy

- Decolonising governance structures
- Adopting technology
- Encouraging competitiveness
- Implementing pro-youth reforms

The continued colonial system also places huge impediments in modernising society and accepting globalisation. Inheritors of the colonial system continue to expand the colonial lifestyle at huge cost to the budget of the use of assets.

In short, officialdom preys upon transactions and markets. In addition, the colonial structures have been captured by various mafias, and have lost the ability to be an independent operator of claims.

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As Pakistan lurches from one crisis to another, the ruling and controlling colonial structures remain talent-repellent. Any innovative, entrepreneurial, and research skill has no opportunity here, and is forced to leave. The colonial structures are further reinforced as they have no challenge to their authority. However, this also means antiquated institutions have no capacity to deal with the current 21st century's global economic environment.

The huge aid and lending institutions pretend as if Pakistan is a modernised economy. They merely add burdens on to the 19th century colonial structure. Loans are too easily given. Organic thought and research remain stunted as international consultants allow no room for research.

This is a recipe for disaster. And this explains why for the last 75 years, Pakistan is lurching from crisis to crisis, and is now considered to be a candidate for default in the global marketplace.

There is hope, however.

Pakistan has a young population that is scrambling to get out of the country to escape the inept, leftover colonial structures. Yet this may be the strength for the future of Pakistan. In my book, 'Looking Back: How Pakistan Became an Asian Tiger by 2050', I have outlined the deep reforms that could allow this youth advantage to be reaped. This will happen only if we can re-engineer the entire governance system - the bureaucracy, judiciary, and the democratic structures - to fit the needs of the 21st century, to allow markets to work, and to nurture and use the talent of the population instead of forcing it to leave.

Like other countries, Pakistan must develop the organic capacity to change with the times, adopt technology, and remain competitive. Eventually, it must discover its niche and lead the world in some areas to be able to export enough to step off further crises.

> We need to move beyond piecemeal efforts and act collectively, adopting a whole-of-government, whole-of-policy, and whole-of society approach.

Dr. Abid Qaiyum Suleri

Executive Director, Senior Research Fellow, SDPI

Despite multiple challenges that hinder Pakistan's economic and social development, we should remember that it is a country with immense potential and diverse opportunities. This potential can be realised to achieve a resilient economy that can withstand shocks and uncertainties. However, to do the needful, Pakistan needs to pursue a vision that is based on the principles of equity, social justice, sustainability, and innovation, among others.

UNDP's flagship National Human Development Report (NHDR) 2020 has made it crystal clear that inequity and inequality are the two major barriers to Pakistan's progress. No attempt to pursue economic growth in Pakistan sans equity and equality has worked. Instead, the outcome of such attempts was the strengthening of elite capture that, in turn, is eroding social cohesion and systematically excluding millions from availing themselves of any opportunity for socioeconomic growth. The net result is that economic injustice has minimized the chances of turning the country's potential into reality.

Equity means ensuring that all segments of society, especially the poor, women, and marginalised groups, have access to the resources, opportunities, and services that they need to improve their well-being and livelihoods. Equity also means reducing the gaps and disparities that exist between regions, sectors, and classes in terms of income, wealth, health, education, and social protection. Equity requires strengthening the institutions and policies that promote good governance, accountability, transparency, and inclusion so that prevailing opportunities in Pakistan can be utilised to build a resilient economy.

The Vision for a Resilient Economy

- Equitable distribution of resources and opportunities
- Amplifying innovation ecosystems
- Prioritizing sustainability

Equity and social justice are related but not identical concepts. Social justice means ensuring that all people are treated fairly and with respect, regardless of their social, economic, or political status. Equity is often a means to achieve social justice, but it is not enough by itself. Social justice also requires addressing the root causes of inequality and oppression, such as all forms of discrimination and marginalisation. No country could build a resilient economy by tailoring policies and pursuing practices that discriminate among its citizens or administrative units. We, in the past, have been pursuing that pathway, building resilience among a few in certain areas at the cost of marginalising a majority. For instance, according to the NHDR 2020, the richest 20 percent of the population consume seven times more than the poorest 20 percent, the gender gap in labour force participation is 50 percent, and only 60 percent of the population has access to improved sanitation facilities. Likewise, in its report 'Pakistan@100: From Poverty to Equity', the World Bank states that reducing inequality in Pakistan by one Gini point could increase

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GDP growth by 0.5 percentage points and reduce poverty by 0.7 percentage points. Addressing these gaps is necessary to build a resilient economy in Pakistan.

Sustainability means managing the natural and human capital of the country in a way that preserves the environment, enhances resilience, and ensures intergenerational justice. Sustainability also means diversifying the sources of growth and revenue, reducing the dependence on imports and external financing, making optimal use of existing resources, and increasing the productivity and competitiveness of the economy. Sustainability not only requires investing in renewable energy, green infrastructure, circular economy, and low-carbon development, but also changing the policies and procedures that hinder socioeconomic justice.

Innovation means fostering a culture of creativity, entrepreneurship, and problem-solving that can generate new ideas and solutions for the economic, environmental, and social challenges the country faces. Innovation also means leveraging the potential of digital technology, science, and research to improve productivity (such as in agriculture through precision agriculture techniques), quality and efficiency of public services (such as e-governance), private sector activities (such as e-commerce), and civil society initiatives. Innovation requires enhancing the skills and capabilities of the workforce, promoting the use of new technological solutions, improving the quality and relevance of education, creating an enabling environment for innovation ecosystems, reducing the digital divide, and data triangulation. In a rapidly changing world faced with multiple crises, innovation is a constant ingredient for building resilient economies.

To realize the vision stated above, Pakistan needs to implement a comprehensive and coherent reform agenda.

First, efforts should be focused on ensuring equity and inclusivity by implementing policies that distribute resources and opportunities equitably among all segments of society, with particular attention to marginalised groups. Addressing regional, sectoral, and class-based disparities in income, wealth, health, education, and social protection through targeted interventions is imperative. Strengthening institutions that promote good governance, transparency, accountability, and inclusion is essential to ensure that opportunities are accessible to all. In parallel, it is critical to promote a culture of respect and fairness for all citizens, regardless of their social, economic, or political status.

Sustainability can be ensured to build a resilient economy in Pakistan by diversifying the economy, managing natural and human resources, and expanding the access and quality of public services. These measures can balance the economic, social, and environmental dimensions of development, and improve the well-being and livelihoods of all.

An enabling environment for innovation ecosystems, including regulatory reforms and access to financing, is pivotal. Bridging the digital divide by enhancing digital literacy and expanding technology access is also essential.

The root causes of Pakistan's economic woes, as well as their solutions, have long been diagnosed. Many of those solutions have been tested and tried in piecemeal forms, with some of those yielding good results. However, to realize a resilient economy in Pakistan, we need to move beyond piecemeal efforts and act collectively, adopting a whole-of-government, whole-of-policy, and whole-of-society approach.

> In order to build a resilient economy, Pakistan must invest in its human capital by providing quality education and training opportunities.

Geir Thomas Tonstol

Director, ILO Country Office for Pakistan

The ILO's vision for Pakistan's resilient economy is anchored in the principle of inclusive growth. Economic development should benefit all segments of society, particularly vulnerable and marginalized groups. 65 percent of Pakistan's population is under 30 years of age. Through the right mix of policies and programmes, Pakistan can leverage this youth dividend to promote job creation, reduce income inequality, and ensure that economic gains are distributed equitably.

Decent work is central to ILO's vision for Pakistan. Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income; security in the workplace; social protection for all; better prospects for personal development and social integration; freedom for people to express their concerns, organise, and participate in the decisions that affect their lives; and equality of opportunity and treatment for all women and men.

Formalisation and extension of social protection are essential components of Pakistan's decent work ambitions. If agricultural employment is included, the share of informal employment out of total employment in Pakistan reaches 84.3 percent. Informality in Pakistan is characterised by no, or low, levels of legal coverage. Informal economy workers are deprived of protection, access to benefits, and become heavily dependent on social assistance in the event of an emergency or crisis. Hence, ILO's vision is a robust mechanism for formalisation of informal economy workers through coordinated social protection systems that can act as a safety net for individuals and families during times of economic hardship or crisis. This includes access to healthcare, unemployment benefits, and pensions.

The Vision for a Resilient Economy

- Promoting decent work
- Formalising and extending social protection
- Advancing education and skill development
- Encouraging women's participation in the economy
- Pursuit of environmentally-friendly initiatives

Education and skills development are also central to decent work. In order to build a resilient economy, Pakistan must invest in its human capital by providing quality education and training opportunities. The current rate of NEET (those Not in Employment, Education or Training) stood at 32.5 percent in 2021. A skilled workforce is essential for attracting investment, fostering innovation, and driving economic growth. Furthermore, educational opportunities should be accessible to all, regardless of gender or socioeconomic background.

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Women make up half of Pakistan's population but only 21.4 percent of the labour force of the country. The ILO recognizes that women's full participation in the economy is vital for sustainable development. Policies and programmes need to eliminate gender-based discrimination and provide equal opportunities for women in the workforce, including by promoting safe and inclusive workplaces. These aspirations are pronounced in the Decent Work Country Programme for Pakistan, which sets out the direction for the Government of Pakistan, and employers' and workers' organizations, in pursuing the goal of social justice for all.

Additionally, a 'just transition' approach to Pakistan's pursuit of environmentally-friendly industries, energy efficiency, and responsible natural resource management is crucial to strike a balance between economic growth, environmental protection, and the well-being of workers and communities.

Aligning the Economy with the SDGs

Realizing the SDGs necessitates a profound and substantive transformation in the way nations approach their economic strategies and policies. This transformation involves not only a re-evaluation of priorities but also the implementation of concrete actions that align with the SDGs' principles and objectives.

By

Professor Dr. Nooreen Mujahid

Director,

Applied Economics Research Centre, University of Karachi

The Sustainable Development Goals (SDGs), a set of 17 global objectives, were officially adopted by the United Nations in 2015. These goals serve as a broad and inclusive framework aimed at addressing pressing global challenges and fostering a more sustainable and equitable future for people worldwide. Pakistan, like numerous other nations, has made a commitment to achieving these ambitious goals by the target year of 2030. However, it is vital to recognize that transforming these commitments into tangible achievements goes beyond mere good intentions. Realizing the SDGs necessitates a profound and substantive transformation in the way nations approach their economic strategies and policies. This transformation involves not only a re-evaluation of priorities but also the implementation of concrete actions that align with the SDGs' principles and objectives.

The alignment of Pakistan's economy with the SDGs is not merely a moral imperative, although it undeniably reflects a commitment to global sustainability and social equity. It is also a pragmatic pathway towards a series of outcomes that can mutually benefit the nation and its people in numerous ways.

By integrating the SDGs into its economic strategies, Pakistan can foster economic growth that is not only sustainable but also more inclusive. This shift can lead to the creation of opportunities for marginalised communities, and reduce poverty and income inequality. Furthermore, investments in education, healthcare, and environmental sustainability, as advocated for by the SDGs, can enhance the overall quality of life for Pakistan's citizens. Aligning the economy with the SDGs can create resilience in the face of global challenges, such as climate change and economic fluctuations. Sustainable practices and green technologies can reduce vulnerability to environmental hazards while promoting economic

By integrating the SDGs into its economic strategies, Pakistan can foster economic growth that is not only sustainable but also more inclusive.

stability.

In this regard, the Federal SDGs Support Unit has established three sets of SDG priorities. Pakistan's priority-I goals - encompassing SDGs 2, 3, 4, 6, 7, 8 - are undeniably crucial for the human development and overall well-being of its citizens. However, there is a concerning gap between the significance of these priorities and the allocation of government resources in these areas. For example, according to the Integrated Food Security Phase Classification (IPC), around 29 percent of the analyzed population from Sindh, Balochistan and Khyber Pakhtunkhwa is experiencing acute food insecurity in 2023, with malnutrition remaining a pervasive issue. Pakistan's healthcare system is also struggling, particularly after the COVID-19 pandemic. The country's healthcare spending as a percentage of GDP has historically been low, hovering around 2-3 percent, while the recommended proportion is 6 percent. Furthermore, while some progress has been made in reducing wasting, with only 7.1 percent of children under 5 years old affected, the figures are still lower than Asia's regional average of 8.9 percent. As with health, Government expenditures on education remain below the recommended 4-6 percent of GDP. Succeeding on these SDGs is not only a matter of social well-being, but also a critical determinant of economic growth, as they can produce a population that is more productive, resilient, and better positioned to drive sustainable economic development.

Pakistan is also facing similar challenges in achieving several Priority-II SDGs, comprising of goals 1, 5, 9, 10, 11, and 17. Poverty, gender inequality, infrastructure deficits, income disparities, urbanization issues, and the need for stronger international partnerships all demand focused attention. For instance, Pakistan Social and Living Standards Measurement Survey (PSLM) for 2020-2021 reports that approximately 24.3 percent of the population lives below the national poverty line, while the Gender Gap Index 2023 ranks Pakistan at 142 out of 146 countries. In Goal 9 of Industry, Innovation and Infrastructure, Pakistan's shortcomings, particularly in transportation and energy, continue to hinder economic growth through increased costs, limited market access, and deterring investments, with the World Bank estimating an annual infrastructure gap of USD 45 billion.

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Aligning Pakistan's economy with the SDGs is not just a matter of international commitment; it is a strategic imperative for the nation's sustainable development.

Despite being less prioritized, goals under Priority-III, which include SDGs 12, 13, 14, and 15, hold paramount importance in the broader context of ensuring a resilient and environmentally conscious future for Pakistan. For instance, Pakistan faces challenges related to responsible consumption and production. Waste generation and inefficient resource use are prevalent issues. According to a report by the Pakistan Environmental Protection Agency, the country generates over 48 million tons of solid waste annually, with inadequate recycling and waste management infrastructure in place. Similarly, Pakistan is highly vulnerable to climate change impacts, including extreme weather events. This has been evident in the catastrophic floods of 2022. While the Government of Pakistan has initiated projects like the 10 Billion Tree Tsunami and climate-resilient infrastructure development, climate action remains a significant challenge. According to the Global Climate Risk Index, Pakistan ranks among the top ten countries most affected by climate change-induced disasters. This could significantly hinder economic growth, by disrupting supply chains, damaging infrastructure, and affecting the productivity of the population.

To conclude, aligning Pakistan's economy with the SDGs is not just a matter of international commitment; it is a strategic imperative for the nation's sustainable development. The mutually reinforcing outcomes of such an alignment can lead to poverty reduction, economic growth, improved education, climate resilience, improved health, and gender equality. It requires a coordinated effort involving government, private sector, civil society, and international partners. As Pakistan moves forward on its journey to achieve the SDGs, integrating these goals into economic policies and strategies is essential for a brighter and more sustainable future for all its citizens.

Women as Drivers of Growth

The question is: how do we reduce inequalities while ensuring economic opportunities so that all citizens may enjoy dignified and productive lives?

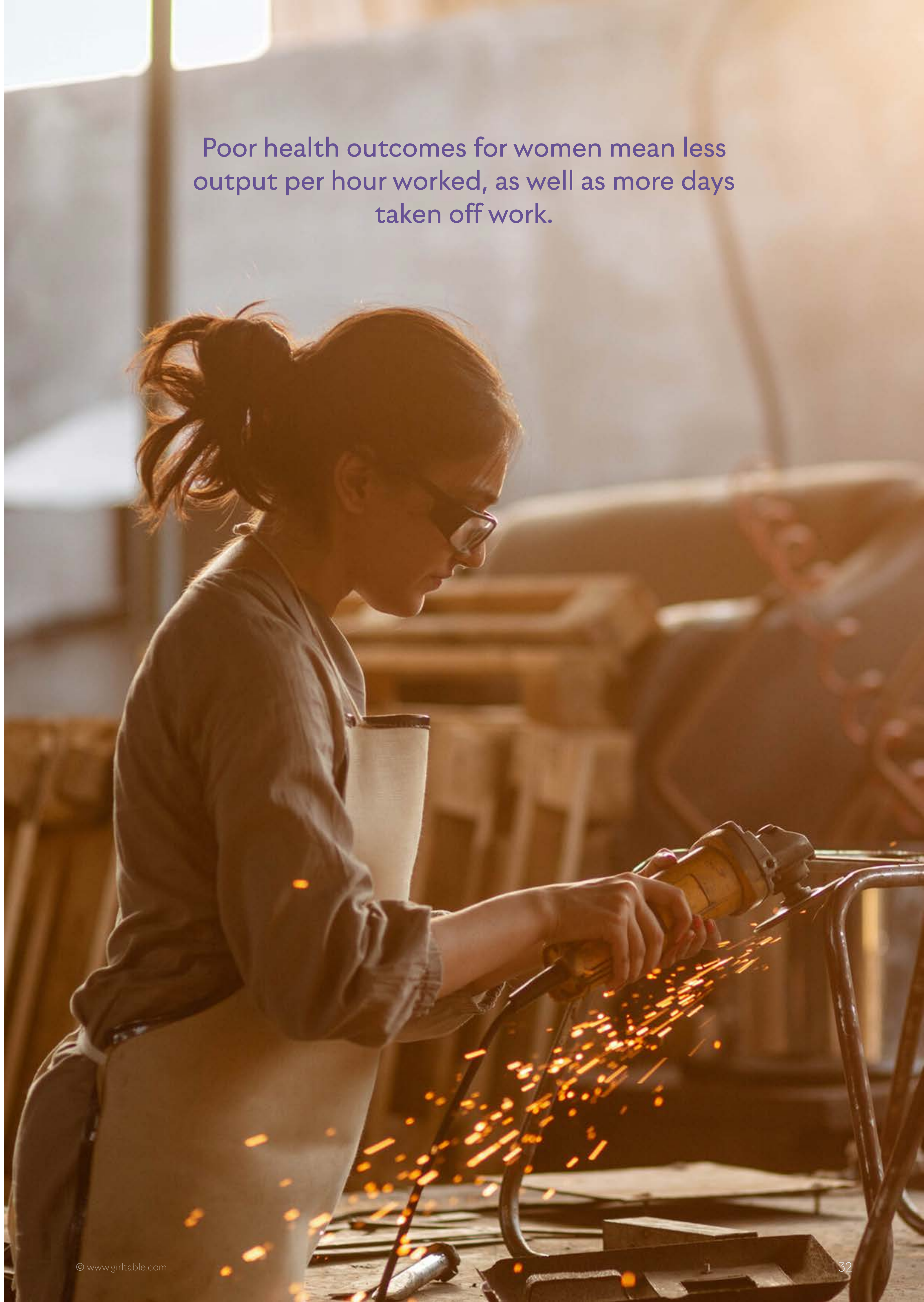
By
Dr. Hadia Majid
Chair of Economics and Co-Director of GenTech at LUMS

Pakistan's persistent gender gaps in economic participation, education and health outcomes remain a cause for deep concern. Not only do these imply a large productivity deficit for half of our population leading to a lower income at the household and country levels, but they also amount to violations in fundamental citizen rights.

This is not to say that there has been no progress on indicators of health, education and economic participation. Maternal mortality rates have gone down from 387 deaths per 100,000 live births in 2000 to 154 in 2020. Literacy for women has seen about a 15 percentage point rise, while women's labour force participation has increased by 8 percentage points in the same time period. Yet, the last 20-odd years have seen countries that were lagging behind surpassing us. Our progress has been slow and, in many cases, has stagnated. So, what are the barriers to progress and how do these relate to economic justice?

There are both demand and supply side issues when we consider our education, health and labour sectors. There are simply not enough schools, nor enough hospitals. Where we have buildings, there is a shortage of qualified staff as well as of general equipment. Boundary walls and toilets need to be built; we need boards, books, tables and chairs. We have a mere 0.67 beds per 1,000 people. The list goes on and on. On the demand side, mobility restrictions and conservative attitudes couple with large distances to schools and hospitals as well as lack of female staff to reduce access, particularly for girls. Furthermore, there is the issue of finances, which prevents households from investing in human capital

Poor health outcomes for women mean less output per hour worked, as well as more days taken off work.



By bringing the classroom, doctor, training, and labour market within the home, online solutions can help close gaps for women.

beyond a point. Even where school and health facilities may be affordable, quality is often poor. In the case of education for example, faced with deep quality issues, parents prefer to pull their children out of school considering indirect costs in terms of lost wages. Here, investing in vocational training, apprenticeships, or just having the child help out at home or the family business becomes a more attractive option. This has serious consequences for productivity levels and on lifetime earnings notwithstanding violating fundamental child rights to education.

In labour, supply is restricted by high reproductive burdens and mobility restrictions, which ultimately reduce not just the hours that women can spend on productive activities but also constrain the places and types of work available to them. Demand for women's labour is further depressed by low educational achievement and training. Similarly, poor health outcomes for women mean less output per hour worked, as well as more days taken off work. Hence, we find that issues in the education and health markets translate into gendered productivity differences and poor earning opportunities and outcomes for women. Add to this a hostile public and workspace as well as wage discrimination, and women have little incentive to join the labour market even when other constraints are relaxed. Reduced earning capacities in turn translate into lower affordability of and ability to invest in health and education, not just for the women themselves but also for their children, especially girls.

Clearly, then, issues in one sector exacerbate and compound problems in others, often with multi-generational effects. The question is: how do we reduce inequalities while

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Demand for women's labour is depressed by low educational achievement and training.

ensuring economic opportunities so that all citizens may enjoy dignified and productive lives?

In health and education, there has been a mushrooming of private schools and clinics in areas where the public sector has failed to meet demand. In this, the low-cost private school cadre is especially interesting, as it also employs young women, often from within the community. This however means that these schools usually only come up where public schools at the higher level are in close proximity, hence providing a supply of teachers. They are also often of as poor quality as public schools. A particularly interesting recent development in the closing of the quality gap though is the use of technology to connect classrooms to teachers remotely. This not only brings students in contact with more qualified teachers, but subject-specific focus can also be emphasised. The same technology-based solutions have been applied in the health sector: connecting doctors to under-supplied communities. Even when it comes to the labour market, digital trainings and increased use of online spaces allow women to upskill and access broader markets while working from home.

All of the digital solutions that I highlight above address one of the most persistent constraints affecting women's productivity and earning potentials – mobility restrictions. By bringing the classroom, doctor, training, and labour market within the home, online solutions can help close gaps for women. Of course, these solutions assume that access to and use of digital technologies is possible, which is often not the case. Moreover, what use is an internet connection if there is no classroom, or a doctor's consult if there is no pharmacy? The digital solutions then build on existing infrastructure. Our first order of business has to be to increase GDP spending on education and health; we need to invest in trainings, internet connections, and mobile broadband. Until there is a systematic and systemic commitment to invest in our country's human capital and reduce gender gaps in economic opportunities, we cannot hope to achieve economic justice.

Pakistan's Social Welfare Revolution

History shows us that disasters, and their tragic consequences, tend to catalyse social change. This is the time to reimagine social welfare in a post COVID-19 world.

By

Dr. Sania Nishtar

Senator and Former Chairperson, BISP and Special Assistant to the Prime Minister on Social Protection

Poverty is pervasive in Pakistan. During the term of our Government (August 2018 - April 2022), we committed to addressing this challenge and began a journey towards establishing a welfare state through the Ehsaas programme, which was launched in 2019. Four agencies under the Poverty Alleviation and Social Safety Ministry were assigned different programmatic mandates to execute 16 Ehsaas programmes in the Core Ehsaas Framework. Programmes were assigned based on each organisation's mandate and execution capacity. The Benazir Income Support programme was mandated to deliver Ehsaas' cash transfer programmes (Ehsaas Emergency Cash, Ehsaas School Stipends, Ehsaas Nashonuma, Ehsaas Kafaalat). Pakistan Bait ul Mal was tasked to establish and run Ehsaas' care services (Ehsaas Langars and Ehsaas Panahgahs). The Pakistan Poverty Alleviation Fund was given the mandate to run Ehsaas' poverty graduation initiatives (Ehsaas Amdan and Ehsaas loans). The Trust for Voluntary Organizations was allocated work to coordinate the civil society response to Social Protection. Special Project Management Units were set up within the Ministry for implementing other Ehsaas programmes (Ehsaas Rashan Riayat, Ehsaas Tahafuz, Ehsaas Rehriban). Other initiatives in the Ehsaas framework were implemented by 34 ministries other than the Poverty Alleviation and Social Safety Ministry (e.g., Sehat Sahulat, low-cost housing).

The Ehsaas programme envisioned achieving Social Protection for all who need it by 2047, the 100th anniversary of Pakistan's creation.

The number of families receiving social protection and the budget were trebled under Ehsaas. The programme reached 15 million families. This expansion went alongside governance reforms executed under the Building and Rebuilding Institutions Initiative, the completion of a digital survey covering 34 million households, and the fastest cash distribution globally under the COVID-19-related Ehsaas Emergency Cash operation.

During execution, low digital literacy amongst beneficiaries of Ehsaas, capacity issues within government, resource constraints, and vested interests remained obstacles. A range of new challenges were encountered and important lessons were learned with respect to the implementation of social protection programmes.

The COVID-19 pandemic, recent recessionary trends, unprecedented inflation, climate change, as well as conflicts and displacements have unearthed an opportunity to recast the role of the welfare state.

The COVID-19 pandemic, recent recessionary trends, unprecedented inflation, climate change, as well as conflicts and displacements have unearthed an opportunity to recast the role of the welfare state and to leverage these crises as a platform for radical change in the way the state conceives and provides social welfare and protection. We clearly have an opportunity to create an historic inflection point. Lessons from the three-and-a-half-year experience in rolling out Ehsaas, the largest social protection programme in Pakistan's history, show that it is possible to institutionalise large-scale welfare programmes despite fiscal constraints and execution challenges in low-resource settings. Data, digitisation, and rule-based governance are important enablers in this regard.

The multicomponent Ehsaas was initially rolled out during the COVID crisis. Ehsaas' emergency cash operations generated know-how in designing and implementing a massive national programme in real-time in a context of complexity and uncertainty with speed. It also enabled us to institutionalise innovation. End-to-end digitisation made the Government's delivery agile, data-driven, experimental, and ambitious. It was also an opportunity to further trust between the government and people and structure new whole-of-government coordination platforms.

During the execution of Ehsaas' several initiatives, important insights were gained about ways in which digitisation and rule-based processes could help protect social protection operations from elite and political capture.

Important lessons were learned while building a digital ecosystem through digitisation of the retail sector, and the parallel drive to open bank accounts of social protection recipients. Implemented at scale, this can be a game changer for digital and financial inclusion.

We learned that investments in welfare can also impact several other objectives, such as resilience-building through an adaptive social protection system, establishment of infrastructure to targeted subsides, human capital formation, livelihood promotion, gender empowerment, achievement of universal health coverage, and promoting the local economy.

Moreover, Ehsaas' execution also demonstrated our government's commitment to reform and governance improvements. The biggest lesson however related to the lack of accountability for policy vacillation within the government system, which could be detrimental to welfare outcomes.

History shows us that disasters, and their tragic consequences, tend to catalyse social change. This is the time to reimagine social welfare in a post COVID-19 world.

Devolution for Development: The Case of Sindh

The Sindh Government has focused on institutional innovations which have helped create the possibility of fiscal consolidation at the provincial level, to improve the developmental profile of the province.

By

Dr. Asad Sayeed

Director,

Collective for Social Science Research (CSSR)

Sub-national or regional development in federal states is contingent on a number of factors. Most important perhaps is the space and functions that are assigned to sub-national units for social and economic development and the resources for it. The 18th Constitutional Amendment and the 7th NFC Award agreed upon in 2010 provided that opportunity to provincial governments in Pakistan. In this article, we will show how Sindh has used this window of opportunity to navigate through a host of socio-political hurdles to improve its institutional capacity and take effective initiatives towards inclusive development.

The abolishment of the concurrent list through the 18th Constitutional Amendments meant that responsibilities of the provincial government increased but the 7th NFC award enhanced the resource share of the provinces also. In that sense, enhanced responsibilities were complimented with an increase in the resource envelope of the provinces.

It is important to contextualise that the window created by the deepening of federalism came in the aftermath of a decade long dictatorship. In the case of Sindh, in particular, the political fallout from that period in the shape of violence and ethnic strife provided the backdrop in which this window of opportunity was to be capitalised. The elected government also inherited a bureaucracy which was ossified in its working and was also fragmented by the overall political milieu of the time.

Given this mix of opportunities and constraints, the Sindh Government focused on two institutional innovations which have helped create the possibility of fiscal consolidation at the provincial level, to improve the

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Public-Private Partnerships have been instrumental in providing quality tertiary health care in Sindh.

developmental profile of the province.

The first is the creation of Sindh Revenue Board (henceforth SRB). The General Sales Tax on Services (GST) on services was always constitutionally mandated as a provincial tax but up until the 7th NFC Award, it was collected by the Federal Government and then transferred to the provinces after deducting a collection fee of 5 percent. For the first time, the 7th NFC Award allowed the provinces to collect the GST on services itself and Sindh was the first province to take up the challenge. The choice before the political decision makers at the time was to assign the collection of this tax to the existing Excise & Taxation Department, with all its bureaucratic inefficiencies, or to create a new entity with an autonomous status unencumbered by the usual bureaucratic strangle-hold. The political leadership opted for the latter as it was determined to make this hard-earned concession obtained from the Centre to succeed. The SRB was given autonomy in the recruitment of staff, to determine their salary structure, develop performance indicators, and given the power to hire and fire.[1]

From its initiation in 2011 to date, the SRB has proven to be an effective institution. In the very first year - 2011/2012 - it collected 45 percent more revenue than what was passed on to the province by the FBR in the previous year. SRB's initial success thus prompted other provinces to also create their own revenue entities to collect this tax. This initiative by the Sindh Government thus became a trail blazer for institutional strengthening on the revenue side for all provinces. The outcome a decade and a half later is that the rate of growth of GST on services (collected by provinces) is 26 percent per annum while the per annum growth of GST on goods (collected by the Federal government) is a mere 12.2 percent for the same period.[2]

© Cyberknife Robotic Radiosurgery, JPMC Karachi

Cyberknife Robotic Radiosurgery at Jinnah Hospital. Karachi.

The second institutional innovation to capitalize on the space created by the 18th Amendment and the 7th NFC was to effectively legislate on Public-Private Partnerships (henceforth PPP) in 2010. The PPP framework has enabled the Government of Sindh to deliver significant outcomes, mainly in the health sector but also in education, transport and infrastructure, conservation, and climate change mitigation.

The PPP framework has been used most effectively across the primary and tertiary tiers of the health sector. An agreement with the People's Primary Health Initiative (PPHI), a private company to operate the Basic Health Units (BHUs), has resulted in making 1174 facilities across 22 districts in rural Sindh fully functional.[3]

The 18th Amendment devolved previously federally operated tertiary health facilities to the provinces. This brought the hitherto federally administered National Institute for Cardio-Vascular Diseases (NICVD) and the Jinnah hospital in Karachi in the domain of the provincial government. Using the PPP framework, the Sindh Government reformed the NICVD by appointing a professional management structure and apportioning a much larger budget than what the Federal government was providing before devolution. The new management first streamlined the facilities and services at the NICVD and then expanded its outreach to eight more districts in the province.[4] Moreover, Public Private Partnerships have also been instrumental in providing quality tertiary health care through cyberknife treatment at Jinnah hospital in Karachi and the creation of a state of the art kidney transplant facility (GIMS) in the Gambat Taluka in District Khairpur.[5] Enhanced funding through the 7th NFC also enabled the Sindh Government to provide substantial funding to the Sindh Institute of Urology and Transplantation (SIUT) in Karachi and provide for the entire capital and operation cost of its satellite facility in Sukkur. A similar initiative has been launched with the Indus Hospital, which has also taken over the management of the Badin district headquarter hospital.[6]

1. Dawani, Kabeer (2018). 'Why do Pockets of Effectiveness Develop in Weak States? Evidence from the Tax Bureaucracy in Pakistan.' Master's Dissertation, London School of Economics, London, UK.
2. Author's own calculation based on Budget Statements of the Federal and provincial Governments.
3. https://pphisindh.org/home/
4. Satellite facilities of NICVD have been established in Lyari (Karachi), Hyderabad, Tando Mohammad Khan, Khairpur, Sukkur, Larkana, Sehwan, Nawabshah and Mithi.
5. http://www.gims.edu.pk/index.html
6. https://indushospital.org.pk/partnerships-for-sustainable-resource-generation/ihhn-sindh-government/

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Since social and economic progress is, by definition, a continuous process, there are still many gaps to be plugged and issues of governance to be resolved.

The PPP framework has also enabled the Sindh government to partner with private groups to harness the coal reserves in the Tharparkar district and contribute to plugging the energy shortfall in the country. The People's bus service launched in Karachi initially and then in other districts of Sindh is also the outcome of the provincial government partnering with a state organisation to upgrade the public transport infrastructure in the province. In the education sector, the Sindh government partnered with a private education institution to conduct objective testing for the recruitment of 60,000 school teachers.

The effective use of the PPP framework as well as the reduction in violence and ethnic strife brought the attention of international development partners back to supporting initiatives of the Sindh government. The Karachi Transformation Project by the World Bank has been the most salient in this regard.[7] In response to the 2022 floods, the World Bank and other development partners are working with the provincial government to launch an ambitious housing project for the flood affectees through the launch of a USD 1.5 billion project to construct 2.1 million houses. A special vehicle organization (SPHF) has been created for this purpose.[8]

Since social and economic progress is, by definition, a continuous process, there are still many gaps to be plugged and issues of governance to be resolved. The pension bill of the province is a threat to public finances. It is also time that the Sindh Government builds on the success of the SRB to improve its revenue effort on property and agricultural taxes. More importantly, Sindh's human capital indicators are still abysmal.[9] The incoming elected government will have to focus on coming up with policy initiatives as well as improve its governance to further build on its effective use of the window that devolution has created so far.

7. This is a World Bank sponsored project to upgrade Karachi's civic infrastructure with a provision of US $ 838 Million. https://www.worldbank.org/en/news/factsheet/2021/03/29/fact-sheet-world-bank-engagement-in-karachi
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Balochistan: Locating the Economy in the Political

Balochistan's substantial economic potential remains largely untapped. Over the past few decades, the province has witnessed the slowest economic growth among all Pakistani provinces, with its contribution to the national GDP hovering at approximately 4 percent.

By
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Balochistan is Pakistan's largest province in terms of land mass but has the lowest share in the country's population. Endowed with abundant natural resources, vast rangelands, and an extensive 750 kilometre coastal belt constituting nearly two-thirds of Pakistan's coastline, Balochistan holds immense promise for economic growth. Furthermore, the province possesses significant potential for harnessing wind and solar energy, along with its strategic location that positions it as a regional trade hub, connecting South Asia to the strategically vital regions of Central Asia and the Middle East.

However, Balochistan's substantial economic potential remains largely untapped. Over the past few decades, the province has witnessed the slowest economic growth among all Pakistani provinces, with its contribution to the national GDP hovering at approximately 4 percent. Moreover, Balochistan lags behind other provinces across various socioeconomic development indicators. According to UNDP's Human Development Index (HDI), Balochistan ranks lowest among the provinces of Pakistan, equating to Sierra Leone in West Africa which ranked 181 out of 189 countries in 2019. Similarly, the recent Human Capital Index (HCI) developed by the World Bank reveals that Balochistan finds itself at the global bottom, registering an HCI value of 0.32. What is more concerning is the widening disparity between Balochistan and the rest of Pakistan. In 2000, Balochistan boasted the second-highest Gross Regional Product (GRP) per capita in the country. In 2019, it plummeted to the lowest, nearly 24 percent below the national average.

Proximate causes of economic under-performance

Historically, Balochistan has faced several immediate impediments to economic growth, including security concerns, low population density, weak fiscal base, unreliable and limited water supplies, limited access to finance, a feeble private sector, and deficiencies in institutional and human resources. The province's rugged terrain and a population density of just 36 people per square kilometre, compared to the national average of 216, result in

Gwadar, a port city in Balochistan, with huge marine and economic potential.

In 2022-2023, Balochistan spent more funds on law and order than it did on health, secondary education, or social protection.

significantly higher unit costs for public service delivery compared to other provinces. This predicament is further exacerbated by the persistent security challenges stemming from recurring violent conflicts.

The 18th Constitutional Amendment and the 7th National Finance Commission (NFC) Award were expected to unlock economic opportunities in Balochistan by devolving authority and expanding fiscal space. However, more than a decade since their implementation, their potential to enhance service delivery remains largely under-realised. This can be attributed primarily to the enduring conflicts and diminishing efficiency and effectiveness of public expenditure. Prolonged violent conflicts have escalated the cost of conducting business, discouraged private investments and strained the provincial exchequer through rising security expenditures. In the fiscal year 2022-2023, Balochistan spent more funds on law and order (excluding federal expenditures on security) than it did on health, secondary education, or social protection. Additionally, violent conflict has overshadowed crucial service delivery issues in public discourse. Consequently, the focus on issues around the right to life has dominated policy discussions, leaving the articulation of public service delivery preferences and demands nearly absent and resulting in weakened public accountability in this regard.

Moreover, the growing inefficiency and ineffectiveness of public expenditures have eroded the potential benefits of increased fiscal and administrative autonomy. While Balochistan's development budget has expanded nearly seventeen-fold in nominal terms between 2009 and 2023, socioeconomic indicators have either stagnated or improved only marginally. Although poverty rates have decreased, the pace of decline remains slower than the national average, exacerbating inter-provincial disparities. The percentage of out-of-school children in Balochistan has also risen over the past decade.

A major driver behind the inefficiency and ineffectiveness of public expenditures lies in the highly centralized, opaque, discretionary, and politically-driven public investment system. Unlike other provinces, more than four-fifths of the development budget in Balochistan is allocated based on the preferences of Members of Provincial Assembly (MPAs). From identifying needs to formulating and executing public investment projects, MPAs wield ultimate authority. They exercise this influence informally, as MPA schemes have been prohibited by both the High Court and the Supreme Court. Consequently, public investment proposals are often approved without proper need assessments and due diligence. Funds are frequently disbursed in sectors and regions with the least necessity, perpetuating inefficient resource allocation. The undue influence of MPAs over

Both the Balochistan and Federal governments must strategically prioritise investments in sectors that align with the province's comparative advantages.

project identification and execution has further spawned the MPA-contractor nexus, whereby MPAs ensure that construction contracts are awarded to their preferred bidders. This cumulative outcome results in public investment expenditure failing to address pressing socioeconomic needs.

Political economy explanations

While Balochistan's unique demographics and challenging geography pose certain limitations on economic growth, they do not provide a comprehensive explanation for its economic under-performance. Instead, deeper determinants of weak economic growth are rooted in the flawed institutional structure. Notably, Pakistan's majoritarian federal design institutionalises Balochistan's marginalised status, with limited influence in federal power distribution. The extreme asymmetry in provincial sizes, coupled with imbalanced policy scope and powers between lower and upper houses of Parliament, render Balochistan the least rewarding constituency for political parties aspiring to gain federal power. This skewed incentive structure is the primary driver behind the lopsided and inequitable distribution of resources among provinces. It also clarifies why population remained the sole criterion for inter-provincial resource distribution for decades, and why it continues to be the most significant parameter for fiscal resource allocation. Furthermore, the majoritarian federal design exacerbates the state's proclivity for resorting to authoritarian measures in Balochistan, rendering the province more susceptible to violent conflicts than the rest of the country.

The second significant political economy driver of poor economic performance is the prevalence of clientelism and elite capture. Balochistan boasts an extensive tribal system characterized by clear leadership structures, lineage patterns, strong affiliations, and well-defined dispute resolution mechanisms. Tribal social organization prevails in most areas of Balochistan, excluding the Makran division and urban centres such as Quetta. Tribal networks often serve as the default units for political mobilisation and collective action management. The ubiquity of tribal social organization profoundly impacts politics and service delivery. First, the tribal social organization, as a vertically-aligned social network, discourages inclusive and horizontally-based political mobilisation, instead favouring targeted public goods provision through patron-client networks. Second, tribal norms of in-group solidarity, reciprocity, and credible threat of social sanctions often shape individual behaviour, fostering disregard for and poor compliance with formal rules and processes. This has severe implications for management

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and accountability processes associated with public goods provision, particularly at the local level where tribalism has weakened formal accountability mechanisms.

Although the roots of clientelism can be traced to the province's tribal structure, it morphed into feudalism in certain regions of Balochistan during the colonial period when tribal chiefs (Sardars) were empowered at the expense of people. The State-Sardar alliance, established during the colonial era, continued post-independence, with the state engaging citizens primarily through a group of pliant Sardars. This State-Sardar has not only encouraged targeted provision of public goods, but also weakened the polity.

Way forward

In addressing the multifaceted challenges that have hindered Balochistan's economic development, several key strategies emerge as imperative. First, the establishment of durable peace and stability stands as a fundamental prerequisite for fostering economic growth. Therefore, concerted efforts must be made to achieve and sustain peace in the region.

Second, both the Balochistan and Federal governments must strategically prioritise investments in sectors that align with the province's comparative advantages. These sectors encompass land-intensive industrial activities, harnessing renewable energy sources, mineral exploration, petrochemical industries, the development of agri- and livestock value chains, and the promotion of coastal tourism.

Furthermore, a comprehensive reform of Balochistan's public investment management framework is essential. Implementing a rules-based public investment planning system, which incorporates multifactorial criteria for the allocation of development funds among districts, can promote fair and efficient resource distribution. Additionally, acknowledging the reality of MPA funds, it is advisable to reserve a designated portion of the development budget, not exceeding 30 percent, for MPAs. To enhance oversight and improve planning processes, the establishment of a 'Planning and Development Board' staffed by sectoral experts, recruited through competitive processes, can significantly contribute to effective public investment management. Lastly, the practice of monitoring large-scale projects through independent third-party entities should be institutionalized to ensure transparency and accountability.

Finally, addressing the constraints faced by Small and Medium Enterprises (SMEs) in accessing finance is crucial, given their substantial role in generating employment. Banks' reluctance to lend to SMEs in Balochistan necessitates proactive intervention by the provincial government. Establishing a public sector entity dedicated to promoting venture capital funds and providing subsidies for value-chain development in agriculture and livestock can alleviate these challenges. By prioritising inclusive development, Balochistan can pave the way towards overcoming its challenges, fostering prosperity, and ensuring that no one is left behind in the pursuit of a brighter future for all.

Financing the Future

To increase infrastructure development and spending, consistent policies are needed to incentivise private sector financing. However, a clear assessment of where infrastructure spending would be most beneficial, particularly to marginalised communities, is crucial to lift our development indicators.

By
Maheen Rahman
CEO, InfraZamin

Infrastructure development requires careful long-term planning around all aspects, including financing. In Pakistan, we have issues in both upstream development of projects as well as in execution and financing of the same. We have had some successes, in particular, our road networks as well as our energy generation capacity has developed considerably; however, other areas related to electricity transmission, water irrigation, warehousing, supply chains, agriculture, health, and education remain vastly underdeveloped. These gaps affect the poorest in our society, as access to basic needs such as clean drinking water, affordable housing, health, and education are limited, thereby pushing Pakistan's human development and economic indicators towards the bottom for South Asia.

Consistent government focus, especially in the face of persistent political instability and policy changes has been challenging to maintain, while private sector efforts have remained in the industry, manufacturing, and services sectors, or on unproductive assets or rent seeking. Efforts to develop projects under Public-Private Partnership models is the need of the hour.

To increase infrastructure development and spending, consistent policies are needed to incentivise private sector financing. However, a clear assessment of where infrastructure spending would be most beneficial, particularly to marginalised communities, is crucial to lift our development indicators. Further, it is vital to embed the principles of sustainability – climate resilience, community benefit, women empowerment, and human development into our projects to ensure those that need to benefit from new infrastructure actually do so.

A good example of innovation in infra-financing is the two projects recently undertaken by InfraZamin via credit guarantee frameworks. The first involved access to banking lines for a fibre-optic player that used the credit guarantee to raise financing for additional capital expenditure that would enable internet

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We do not need to reinvent the wheel – there are enough examples in our neighbourhood and region on how infrastructure development vehicles have been created by the state to crowd in private sector participation.

and data services at higher speed, and with greater outreach to SME businesses and rural areas. The projects also included governance changes within the project company as well as development indicators on health and safety of workers and gender diversity.

The second example involved a microfinance institution, Kashf Foundation, looking to raise financing from the capital markets via a bond issue. A key component of InfraZamin's intervention was to credit enhance the bond from A (minus) to AAA, and establish commercial terms in a number of institutional investors such as mutual funds, pension funds, insurance, and corporates. Further, as the development aspect of micro infrastructure had to be clearly established, the use of proceeds had to be earmarked 100 percent for women borrowers for use in home reconstruction post the 2022 floods in Sindh, (re)building of livestock sheds, small business upgrades, and school expansions. With these development parameters, Kashf Foundation was able to raise South Asia's first 'Gender Bond', subscribing fully to the United Nation's SGD goals of poverty alleviation, women empowerment, and financial inclusion. This Gender Bond is expected to positively impact over 30,000 women and additional livelihoods, and remains a prime example of how private capital can be mobilised commercially for development impact.

Unfortunately, a number of challenges and limitations exist with respect to private sector crowding-in. With the largest borrower as the government itself in the financial markets, fiscal space creation to reduce the government's borrowing need is fundamental in the form of structural reform that includes wider tax participation, privatization of SOEs, and elimination of subsidies. At the same time, private sector fears of persistent policy changes are real, and government assurances of long-term policy consistency (and a decoupling of the economic agenda from the political one) is needed to build confidence. Focused steps can be taken on the following:

- Five-year plans to incentivise the private sector to develop and invest in infrastructure development.
- Focus on the Public-Private Partnership model.
- Promote projects of national importance, such as Energy, Agriculture, Technology, Trade, Health, and Education.
- Develop capital markets and funds that can support infrastructure development.

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Efforts to develop projects under Public-Private Partnership models is the need of the hour.

We do not need to reinvent the wheel – there are enough examples in our neighbourhood and region on how infrastructure development vehicles have been created by the state to crowd in private sector participation. We should learn from those examples and work towards customising them for our own benefit.

This benefit would be most apparent in one of our most neglected sectors which hires some of our poorest population. Despite being more food secure than many other developing countries due to our agrarian base, we are behind other developing countries due to our per acre yield in almost every crop. Low mechanisation, poor seed development and storage, and recently variations in rainfall due to climate change all contribute to vulnerabilities in agricultural output. Our irrigation system, one of the largest in the world, has not been upgraded since the 1960s. And while India and Bangladesh have invested in sophisticated flood protection, our plans gather dust on government shelves. Very few farms in Pakistan have the facilities of grain silos, which is why farmers are forced to sell their crops to middlemen who have access to grain silos and other storage facilities in order to keep the crop safe. Middlemen, while indispensable to farmers, also pocket considerable profits – which could stay in the hands of small farmers with viable storage and supply chains. Some advancement has been made here with 'e-warehousing' – a plan that should be scaled up as much as possible but still does not eliminate the need for a supply chain backbone across the country.

We can also significantly reduce our agricultural imports such as palm oil and dry milk via better investments in our oil seed producing and refining capability, as well as milk collection, processing, and storage. We also have considerable benefit we can derive from technology, particularly ag-tech developments that can help farmers study the soil, determine correct fertilizer, pre-empt the weather conditions, and improve yields via better farming techniques.

InfraZamin and the Private Infrastructure Development Group can provide substantial support in the form of feasibilities, grants, and blended finance solutions to crowd in private sector investments towards infrastructure projects. This is our primary function and over the last twenty years, we have supported over USD 37 billion in infrastructure investments across South and South East Asia and Sub Saharan Africa, and provided access to new and improved infrastructure to over 200 million people. We plan to do the same in Pakistan via credit enhancement through InfraZamin and GuarantCo and early stage equity via InfraCo Asia.

The Digital as the Engine of Growth

Nasruminallah Mian

Senior Programs Officer/ Lead Digital ICT Sector, Asian Development Bank

Khayyam Abassi

TA consultant, Pakistan's Transformative Digital Future: Growth Strategy and Roadmap, Asian Development Bank

Digital skills are the cornerstone of economic growth in our world, and Pakistan must invest in enhancing proficiency in these skills.

In the ever-evolving landscape of the global economy, digital skills have emerged as a catalyst for growth, transcending traditional boundaries and reshaping the dynamics of developed and developing nations alike. The transformative power of Information and Communication Technology (ICT) is undeniably a driving force behind economic prosperity, bringing forth opportunities that extend far beyond conventional trade models. In Pakistan, where a sizable portion of the population is young and eager to embrace the digital era, investing in digital skills is imperative for unleashing the youth's full potential.

Pakistan boasts a demographic dividend, with approximately 65 percent of its population under the age of 30, and 29 percent aged between 15 and 29. This youthful population is a valuable resource that can be harnessed to boost youth employment through the digitisation of the economy. Presently, the country's IT sector employs around 625,000 individuals, including a robust community of over 300,000 freelancers. Moreover, Pakistani universities produce an impressive 25,000 IT graduates annually, while Technical & Vocational Education Training (TVET) Centers contribute by training over 20,000 graduates each year. The Federal Government has also taken significant strides with initiatives like IGNITE and DigiSkills, which aim to equip youth with the digital skills necessary to thrive in the job market.

While Pakistan has made substantial progress in nurturing its digital ecosystem, there is a palpable gap in digital prowess when compared to global leaders. According to the Digital Skills Gap Index (DSGI), Pakistan currently ranks 94 out of 134 countries, trailing behind countries such as the UAE and Malaysia, which hold the second and tenth posi-

Pakistan currently ranks 94th on the Digital Skills Gap Index (DSGI).

While Pakistan has made commendable strides in the IT sector, challenges persist. The recent dip in IT exports due to macroeconomic issues highlights the need for a comprehensive and long-term strategy.

tions, respectively. Striving to close this gap requires a multifaceted approach, including:

- **Digital curriculum development:** Collaboration among educational institutions, industry stakeholders, and policymakers is essential to update curricula, introducing digital skills from primary schools to universities.

- **Infrastructure and technology:** A robust IT infrastructure, encompassing secure and reliable high-speed internet, data centers, cloud computing, and incubation centers, is pivotal in supporting digital skills development.

- **Partnerships with industry:** Collaborating with businesses and industries to identify in-demand digital skills and involving them in curriculum development can ensure that graduates are job-ready. Internships and on-job training can further enhance skills and job prospects.

- **Research and innovation:** Investing in research within the digital education realm can identify best practices and continually improve teaching methods. Establishing innovation labs and incubation centers can spur incremental output.

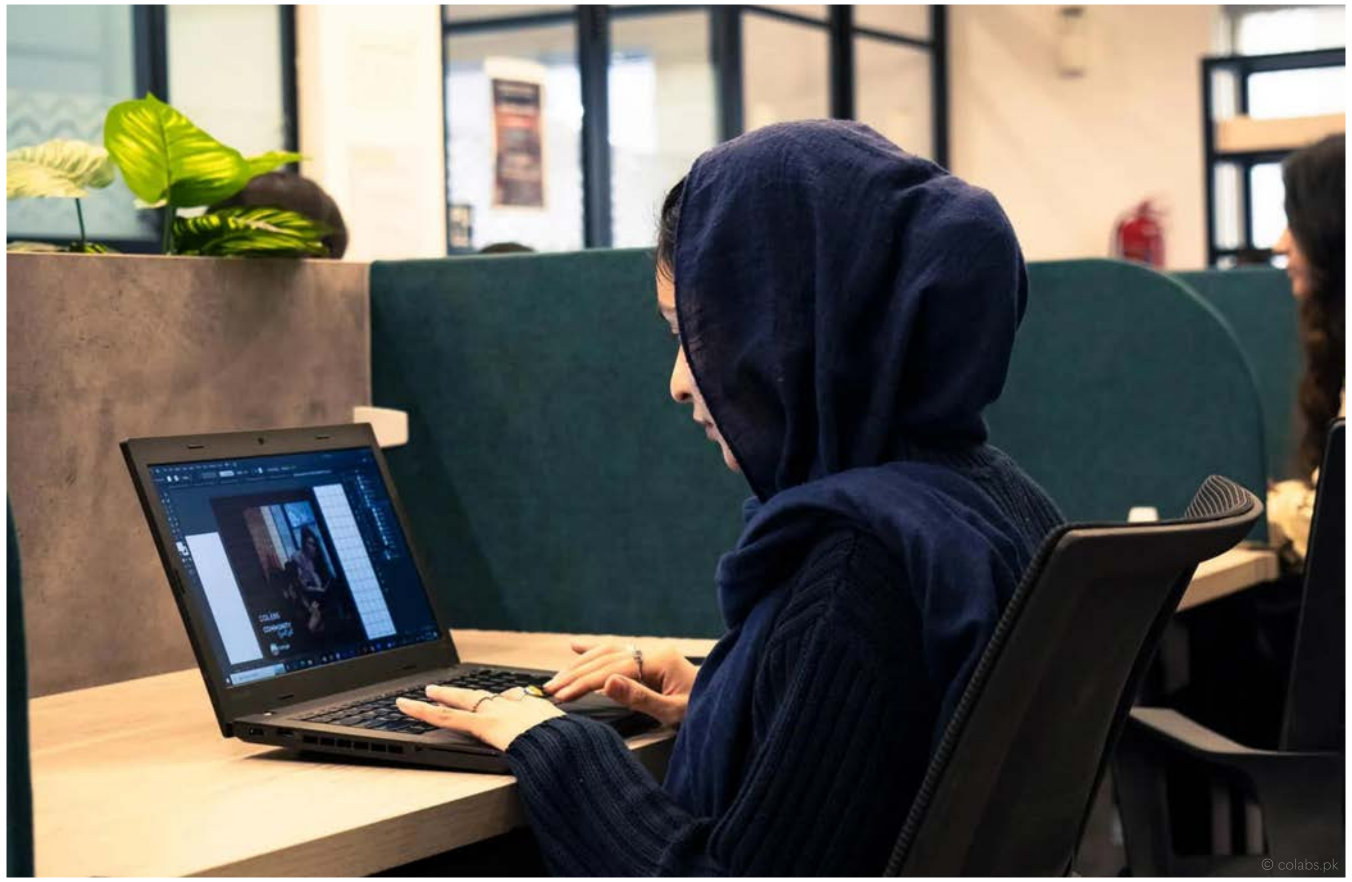
- **Government support:** Advocating for government policies that promote digital education, including funding initiatives and incentives for educational institutions, is vital for sustained growth. Support for Digital Public Infrastructure can be a key to supporting a nurturing ecosystem.

One sector poised to reap substantial benefits from the proliferation of digital skills is the services-based export industry. Pakistan has already established itself as a global contender in freelancing, ranking fourth worldwide. Expanding and advancing these digital skills can significantly boost the services sector:

- **Efficiency and productivity:** Digitally skilled employees can streamline operations, automate repetitive tasks, and improve efficiency, leading to faster service delivery.

- **Data analysis:** Digital skills empower service providers to collect and analyze customer data effectively. This data-driven approach enables businesses to tailor their services to meet specific needs and market trends.

- **Adaptability and innovation:** Digital skills empower service providers to stay up to date with the latest technologies, fostering adaptability and innovation that can set them apart in a competitive global market.



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A school in Faisalabad using solar power to run night classes.

© World Economic Forum

Pakistan has established itself as a global contender in freelancing, ranking fourth worldwide.

- **Remote work and collaboration:** Digital skills facilitate remote work and collaboration, reducing the need for physical office space, lowering overhead costs, and enabling a more flexible workforce.

While Pakistan has made commendable strides in the IT sector, challenges persist. The recent dip in IT exports due to macroeconomic issues highlights the need for a comprehensive and long-term strategy. To unlock the full potential of Pakistan's service sector and digital trade, the following steps are essential:

- **Robust regulatory and policy framework:** Formulate a comprehensive regulatory and policy framework accompanied by an actionable plan to guide the digital transformation.

- **Digital infrastructure development:** Invest in digital infrastructure to ensure secure, reliable, and high-speed internet access across the nation at affordable prices.

- **Promoting digital literacy and skill development:** Prioritize digital literacy and skill development programmes to equip the workforce with necessary skills.

- **Supporting startups:** Foster an ecosystem conducive to startups, encouraging innovation and entrepreneurship.

- **Cross-border trade facilitation:** Facilitate cross-border trade in services and integrate payment systems to promote international collaboration.

With its growing broadband userbase, thriving entrepreneurship, tech hubs, a robust banking sector, and efficient digital payment systems, Pakistan is well-positioned to play a pivotal role in enhancing regional digital trade. Digital skills are the cornerstone of economic growth in our world, and Pakistan must invest in enhancing proficiency in these skills. By allocating more resources to inclusive education, infrastructure development, fostering partnerships between industry and academia, and advocating for lifelong learning, Pakistan can empower its young workforce to excel in the digital age. The journey toward economic growth through digital skills is underway, and Pakistan is poised to seize the opportunities that lie ahead.

Pakistan's Green Growth: Balancing Prosperity and Planet

What does Pakistan have at its disposal to lead the climate agenda globally?

By
Kashmala Kakakhel
Climate Finance Expert

If it wasn't previously clear, last year's super floods - estimated to have cost the economy up to USD 30 billion and impacting over 30 million Pakistanis - should leave no doubt in anyone's mind; Pakistan's economic development model needs to factor the climate risks the country faces, because such floods, heatwaves, droughts, and progressive water scarcity are realities we will increasingly see in the years to come.

Yes, we could hide behind the excuse that Pakistan is one of the most climate vulnerable countries in the world. We could also hide behind the excuse that the responsibility of climate change must lie with those industrialized countries in the Global North whose per capita emissions exceed countries like ours by an order of magnitude. Pakistan, for example, contributes 0.8 percent to the global carbon footprint, with 250 million people. USA contributes 14 percent, with just over 300 million.

But while both statements above are true, simply stating and waiting for the developed world to finance the impact of climate change in countries like Pakistan has not worked. Disasters arrive on their own time, with tens of millions of our people suffering through every flood, every heatwave, and every drought.

So, what can we do?

We certainly cannot compromise on our ambition for prosperity. At a time when Pakistanis are facing the excruciating impact of inflation and a stagnant economy that has driven 12.5 million

Contributing to global efforts towards containing climate emissions has a clear business case for Pakistan's economic growth.

people into poverty over the last year alone, what is clear is that we need an economic reform roadmap that changes the future of our next generations. But that roadmap must balance prosperity and the planet.

Pakistan can do this in three ways.

First, we must reprioritise national spending with real commitment to combatting climate change in mind. Adaptation and mitigation efforts are central and building back in a more resilient fashion from the 2022 floods is a great place to start. For example, in Khyber Pakhtunkhwa, where I come from, this is being done through the flood embankments in Nowshera; the impact of the Billion Tree Tsunami plantation programme in reducing soil erosion; more proactive evacuations; and a Rescue 1122 service available in all districts. All investments made in the last ten years converged to make the 2022 floods less severe in their impact than the 2010 floods. We must expand on this to really ensure that our development plans, both short and long term, have resilience built into them. Additionally, we also need to realise that contributing to global efforts towards containing climate emissions also has a clear business case for Pakistan's economic growth. For example, by using the domestic demand for solar energy as an opportunity to develop an indigenous industry, as opposed to suddenly disincentivising the users of solar energy, as has recently been done by the Government, Pakistan can position itself as an exporter of solar innovation.

Second, we must take on the role of a global climate change champion, to drive the agenda of climate vulnerable countries in the Global South. In the last five years, Pakistan has started to do this, both through initiatives such as the ten billion tree plantation campaign which garnered much global praise despite being criticized nationally, and also through efforts at last year's COP27, the UN climate change conference, where for the first time the developed world accepted the need to establish new loss and damage funding arrangements to support the most vulnerable countries. But this is only the beginning; we can do significantly more. Given the size of Pakistan and its climate vulnerability, it is well-positioned to lead on the agenda of economic justice and equitable access to the crucially-reducing carbon space.

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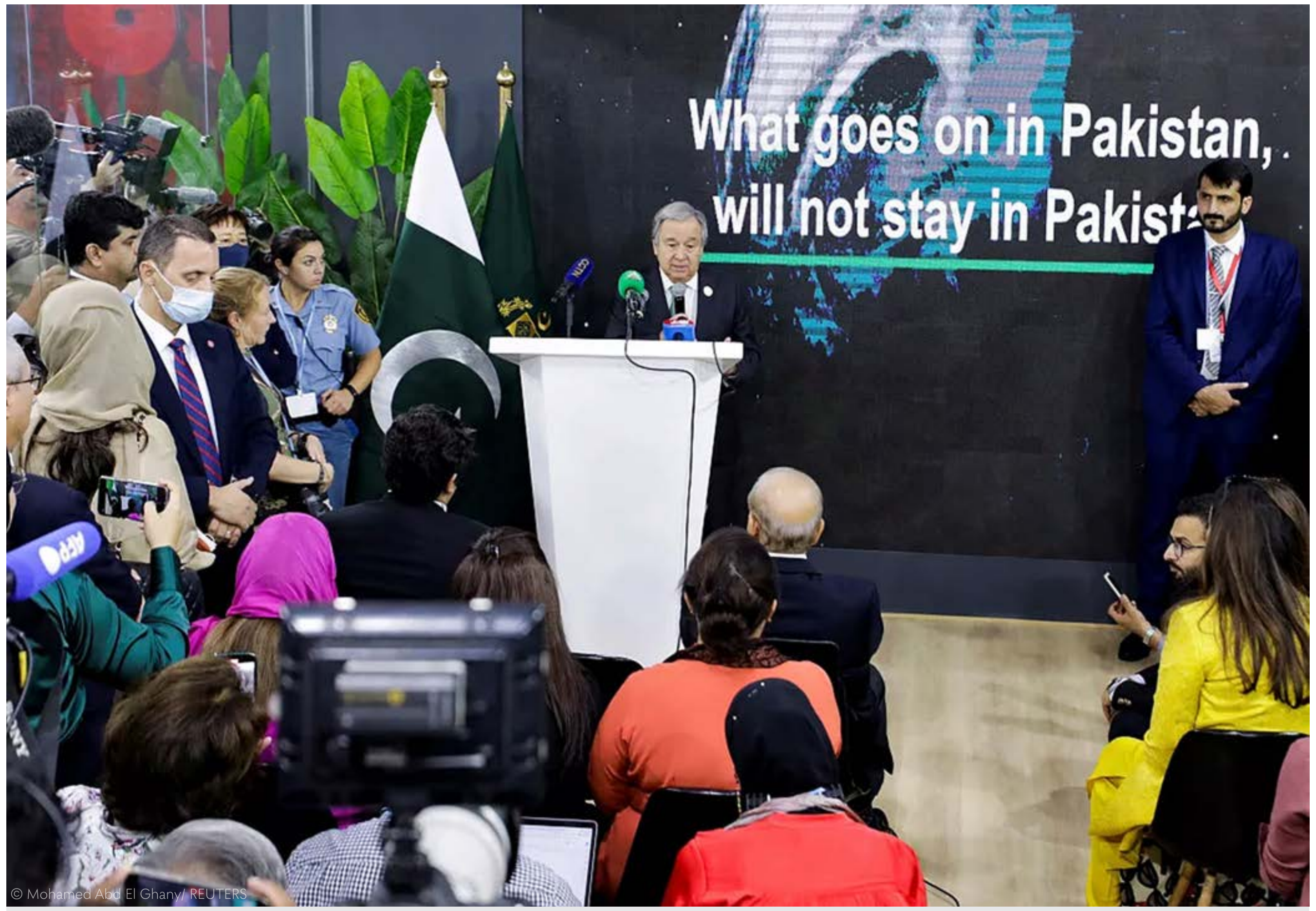

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Sharm el-Sheikh, Egypt, November 7, 2022: UN Secretary-General António Guterres at COP27, appealing for debt relief for countries impacted by natural disasters, including Pakistan.

To reap the benefits of tomorrow, Pakistan must make clear choices today.

Third, green growth requires additional financing. Contrary to popular opinion, financing isn't necessarily available in the shape of grants. Generally, that additionality is covered through the innovative use of blended finance, which means coupling other financial instruments (such as guarantee, equity, and concessional debt) using the right mix to make green interventions viable for potential investors. Pakistan continues to miss that detail when it thinks about accessing climate finance. For that alignment to materialise, we need to pivot to a partnership mindset from a recipient mindset.

To do all this, Pakistan must make a choice. Does it pay lip service to climate change leadership, as it does to so many reform efforts? Or, does it really believe that it can be a climate change champion globally, and that it can pioneer a blueprint for green development for the world? This is possible, but it cannot be the responsibility of the Ministry of Climate Change alone. For this to happen, it must be the Prime Minister's Office, the Chief Ministers, and forums such as the Special Investment Facilitation Council (SIFC) that integrate a climate change lens into Pakistan's strategic planning and investment priorities.

© Billion Tree Tsunami

An aerial view of the Billion Tree Tsunami programme in Khyber Pakhtunkhwa.

Viet Nam's Economic Rise

By

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UNDP officially recognized Viet Nam as a High Human Development country in 2019, ten years after graduation from the World Bank's low-income category. What accounts for this radical change in trajectory?

By most measures, Viet Nam was one of the poorest countries in the world in the early 1980s. Decades of war had left millions dead and millions more wounded and disabled. The physical landscape was devastated after years of intensive bombing and chemical defoliation. Hundreds of thousands left the country fleeing war and persecution. A trade embargo imposed by the United States cut the country off from the international and development financing it needed to begin reconstruction. The government's ill-fated attempt to collectivise agriculture left the country heavily dependent on aid from the Soviet Union for essential goods, including food. Trade deficits contributed to a chronic shortage of foreign exchange and hyperinflation. Repeated efforts to stabilize the system collapsed as the fundamental causes of low productivity and shortage were not resolved.

Fast-forward ten years and the situation could not have been more different. The economy grew at an annual rate of 9 percent from 1992 to 1996, and exports grew by 20 percent per year over the same period. From a food deficit country, Viet Nam emerged as a major exporter of rice, coffee, fruit, vegetables, and spices. Prices and the exchange rate stabilized, and foreign investors queued for permits to build factories and other businesses. Although Viet Nam has suffered a few setbacks along the way, growth has averaged 6.5 percent over three decades, and the country has succeeded in eliminating extreme poverty. UNDP officially recognized Viet Nam as a High Human Development country in 2019, ten years after graduation from the World Bank's low-income category.

What accounts for this radical change in trajectory? In the

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The story of Viet Nam's economic rise can best be understood as a marriage of the market with a strong commitment to human development, especially in rural and remote parts of the country.

simple version of events, central planning was replaced by markets, which matched supply and demand and helped Viet Nam realize its comparative advantage in the production of agricultural commodities and labour-intensive manufactures. There is some truth to this account, but it is incomplete. Markets operate largely without impediment in many poor countries that never achieve the kinds of growth rates recorded by Viet Nam. Many of the conditions required for growth were the result of far-sighted government policies and an unwavering commitment to extend the benefits of growth to rural and remote areas of the country.

Decollectivisation — returning control over land to farmers — removed a major obstacle to agricultural exports and increasing the domestic food supply. However, the positive supply response from farmers was contingent upon the provision of public goods, notably irrigation and drainage, rural roads and, crucially, electrification. Viet Nam's commitment to universal access to education and healthcare were also important factors. Near-universal access to primary school and child immunization were achieved before the reforms were launched.

Another key factor in Viet Nam is the country's exceptionally high female labour force participation rate. Three-quarters of women and girls fifteen years old and above were employed in 1990, the highest rate in Asia. Corresponding figures for Pakistan, India and Bangladesh were 11, 28, and 26 percent respectively. Female adult literacy in 1989 was 83 percent, higher than Malaysia, China, and every other country in developing Asia, except for the Philippines and Singapore.

Viet Nam has maintained a consistent outward orientation during the reform period, which has helped the country

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If what's past is prologue, Viet Nam will find a way to capitalise on its advantages and to find new ways to thrive in a changing international environment.

achieve an average export growth rate of 7 percent over the three decades from 1992. Beginning with the ASEAN Free Trade Area in that year, Viet Nam has sought export markets through multilateral and bilateral trade and investment deals, the most important of which were the US Bilateral Trade Agreement in 2000, accession to the World Trade Organization in 2007, and the Viet Nam-European Union Free Trade Agreement of 2019. As in the case of agriculture, opening markets was a necessary but not sufficient condition for growth. Roads, ports and airports were upgraded to handle the growing traffic, and electricity generation, transmission, and distribution increased at exponential rates.

The story of Viet Nam's economic rise can best be understood as a marriage of the market with a strong commitment to human development, especially in rural and remote parts of the country. Viet Nam's farmers and factories took full advantage of export opportunities and growing domestic demand for goods and services. At the same time, the Government has maintained its focus on universal access to infrastructure, education and healthcare, which has contributed to building a sense of social solidarity that has helped Viet Nam maintain political stability and policy consistency during hard times.

These factors will remain important as Viet Nam confronts new challenges, for example the negative effects of climate change and the transition from fossil fuels to renewable energy. As a country with a long coast and two densely populated, low-lying delta regions, Viet Nam is exceptionally vulnerable to rising sea levels and extreme weather events. It is expected that millions of people will leave the Mekong Delta in response to flooding and salinisation. This will put pressure on urban infrastructure and public services, especially in Ho Chi Minh City. At the same time, Viet Nam needs to mobilize upwards of USD 500 billion to replace coal-fired power plants with renewable sources, and to upgrade electrical distribution and transmission systems.

Meeting these challenges will require more than letting the market work its magic. But if what's past is prologue, Viet Nam will find a way to capitalise on its advantages and to find new ways to thrive in a changing international environment.

Innovative Financing in Pakistan

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The Government of Pakistan affirmed its commitment to the 2030 Agenda for Sustainable Development in 2015. Since then, it has made considerable progress on mainstreaming the SDGs through national policies and strategies. However, financing the SDGs is becoming a challenge due to the shrinking global financing landscape. For developing countries, the annual financing gap towards SDGs is estimated to have increased by USD 1.7 trillion in 2020 - a 70 percent rise on pre-pandemic levels. Pakistan requires 16.1 percent of its GDP (USD 3.72 billion)[1] in 2030 to fill its financing gap to achieve the SDGs, and USD 7 billion to 14 billion to finance its climate mitigation and adaptation targets. Moreover, trailing development expenditures, low levels of investments, exports, productivity growth, an energy sector crisis (circular debt in the power sector), and debt distress is burdening the already ailing economy.

UNDP is enabling Financing for Development by partnering with governments and the private sector to align public and private capital flows with the SDGs and mobilise finance at scale. Since 2021, it has been providing policy advisory and technical support to the Government of Pakistan and has recently established an SDG Investments and Climate Financing Facility to identify, develop, and leverage high-impact SDG-aligned and climate financing projects and innovative financial tools with the potential to attract investments from a variety of national and international investors, including financial markets.

The Facility has adopted a portfolio approach to support the Government of Pakistan with the development and presentation of multi-billion-dollar country portfolios at international platforms, Pakistan's first ever SDG Investor Map, structuring sustainability linked climate resilient market instruments, climate mitigation and adaptation project pipelines, a post-floods private sector climate resilient investment portfolio, disaster insurance & risk financing programming, and facilitation to provincial governments in building climate resilient investment propositions. The impactful implementation of these interventions is intertwined with an Integrated National Financing Framework (INFF) - which Pakistan does not currently have. To advocate for, support implementation of, and build the capacity of public sector stakeholders for INFF, UNDP is partnering with UNESCAP to localise UNDP's SDG Finance Academy in Pakistan.

Under this overall vision to support the Government of Pakistan, UNDP is also providing technical assistance and policy advisory to the Economic Affairs Division to strengthen its climate change-responsive debt management and financial resilience mechanisms.

Pakistan's external debt situation has become a major concern for the country's economic stability. As of FY22, the country's total external debt was 32.1 percent of the GDP, which is projected to rise to 36.4 percent in FY23. Meanwhile, the macroeconomic conditions are also troubling, as the country is facing a current account deficit of -4.6 percent of the GDP (projected in FY23 to be -1.2 percent), a budget deficit of 7.9 percent (projected to be 7.6 percent in FY23), and depleting foreign exchange reserves which are projected to be at USD 4.1 billion in FY23. This has resulted in a decline in the country's exchange rate, high rates of inflation (21.3 percent as of FY22)[2], as well as higher costs of borrowing with interest rates reaching 22 percent.[3]

With a difficult macroeconomic scenario playing out in the background, risks to debt sustainability are high, given the scarcity of external financing as well as the large gross financing needs of Pakistan. UNDP will provide technical assistance to the Economic Affairs Division through a four-tiered strategy to strengthen its climate change-responsive debt management and financial resilience mechanisms. This is being done through (i) Upgrading of debt inflows, outflows, and debt data processing and data governance systems; (ii) Enhancement of macro-economic, analytical, and monitoring and reporting capabilities and knowledge products; (iii) Review and improvement of institutional debt management policies and SOPs; and (iv) Operational support for setting up a Debt Management & Financial Resilience Lab for the above functions on a sustainable basis. UNDP is also leveraging its technical expertise from the Country Office SDG Investments and Climate Financing Facility, Sustainable Finance Hub, HQ, NY, and Bangkok Regional Hub.

Through its technical assistance support to Government, development partners and International Financial Institutions (IFIs), as well as the private sector, UNDP envisions to mobilise SDG investments and climate financing partnerships and strengthen economic and financial resilience through debt management solutions and disaster insurance and risk financing. The USD 350 billion economy requires a crowding-in of local and international private capital and hard reforms, particularly with an eye on minimising impact on the poor. These bold and innovative approaches will enable it to bridge its financing gap and Leave No One Behind.

1. Pakistan: Spending Needs for Reaching the Sustainable Development Goals (SDGs), IMF Working Paper WP/21/108.

2. IMF Staff report July 2018: https://www.imf.org/en/Publications/CR/Issues/2023/07/17/Pakistan-Request-for-a-Stand-by-Arrangement-Press-Release-Staff-Report-Staff-Statement-and-536494
3. State Bank of Pakistan: https://www.sbp.org.pk/ecodata/sir.pdf

Rebuilding Hope:
Post-Flood Livelihood Recovery

By
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The summer of 2022 bore witness to a stark and sobering reality as Pakistan grappled with unprecedented rainfall, resulting in devastating floods. Despite the country's minimal greenhouse gas emissions, these floods inflicted a staggering economic loss exceeding USD 30 billion, necessitating a USD 16 billion investment for resilient recovery and reconstruction.

Agriculture, fundamental to livelihoods in Sindh and Balochistan, suffered greatly, with 2.6 million hectares of land adversely affected. This catastrophe in turn pushed an additional nine million people below the poverty line and raised the national poverty rate from 2.5 percent to 4 percent. The agricultural sector alone suffered losses exceeding USD 13 billion, including substantial livestock casualties, disproportionately impacting women and their well-being.

In the aftermath of these devastating floods, UNDP is playing a pivotal role in facilitating recovery efforts. Through its Flood Recovery Programme, UNDP is restoring infrastructure, reviving livelihoods, and enhancing governance functions in the flood-affected areas. In Khoundi village, Sindh, 180 beneficiaries received a substantial cash grant of PKR 60,000 each, empowering them to invest in livestock or small grocery stores. This strategic support enabled families to generate daily incomes ranging from PKR 500 to PKR 1500, catalysing a surge in economic activity, amounting to approximately PKR 5,400,000 in just one month. Meanwhile, in Kachhi district, UNDP disbursed PKR 60,000 each to 400 families, fostering sustainable income streams through businesses like fruit or vegetable shops and auto spare parts stores, generating PKR 480,000 per month. UNDP's commitment to resilient recovery and community empowerment shines through, promising a brighter and more promising future for all.

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Rashid with his newly acquired soup stand in district Dadu.

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Sughra Bibi in her grocery shop in district Kachhi.

These pilot interventions will inform a comprehensive, integrated, resilient, and sustainable recovery programme by UNDP. With assistance from development partners, these interventions have already been expanded and upscaled to other flood-affected areas in Sindh, Balochistan, and Khyber Pakhtunkhwa provinces.

Localising Livelihoods in Khyber Pakhtunkhwa and Merged Areas

By
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Khyber Pakhtunkhwa has confronted a series of political, economic, and security challenges over the past two decades, which has adversely affected the socioeconomic conditions of its people. A decade-long conflict, followed by COVID-19 and the devastating 2022 floods have resulted in a decline of the GDP growth rate, which plummeted to 1.98 percent in FY 2022-2023 compared to 3.98 percent in FY 2020-2021.

UNDP's Stabilization and Inclusive Development Programme (SIDP), with assistance from development partners, is supporting the Government of Khyber Pakhtunkhwa to create a more resilient economy, boost the growth rate, and achieve sustainable development goals. We are implementing innovative interventions to create equitable economic opportunities (especially for women), create an enabling business environment, develop value chains, and find solutions for sustainable livelihoods.

The programme is supporting economic resilience through a series of interventions ranging from community grassroots work to sustainable economic growth. To restore the livelihoods of the people in Merged Areas, the programme rehabilitated 90 markets and supported 5,280 innovative and conventional (M)SMEs, including providing support to 2,063 women entrepreneurs through business management trainings, incubation support, and startup grants. To provide decent work opportunities to youth and ensure gender inclusivity, SIDP will also equip 3,800 young men and women with digital skills and entrepreneurship trainings.

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The programme has provided technical assistance to the Khyber Pakhtunkhwa government, devising the first Access to Finance Strategy for the SME sector. The implementation of the strategy will facilitate easier access to financial solutions and products to around five million SMEs. In parallel, financial literacy trainings were provided to 4,000 MSMEs in Khyber Pakhtunkhwa and the Merged Areas, half of which were women-led. Building on these activities, six women desks were also established in banks to facilitate access to financial services.

Investing in livelihoods for underserved areas will not only uplift communities, but will also create a ripple effect of positive change, fostering economic empowerment, social progress, and a brighter future for all.

Leveraging Islamic Finance

By
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One of the most salient factors that challenge the achievement of the SDGs by 2030 is the shortage of financial resources. Several reports have stated that around USD 5-7 trillion dollars are required every year to achieve the SDGs, which cannot be obtained from governments or even from donor agencies alone, creating ample opportunity for philanthropic giving, private sector investment, and Islamic finance.

Striking commonalities exist between Islamic Finance and the SDGs, with their common focus on alleviating poverty and hunger and reducing inequality by redistributing wealth. The natural alignment between the SDGs and Islamic principles, together with the size of the industry (currently in excess of USD 4 trillion)[1], means that Islamic finance is well placed to create instruments that drive significant capital towards the SDGs.

The Islamic finance industry continued to expand in 2022, with assets up by 9.4 percent compared to 12.2 percent in 2021[2], supported by growth in banking assets and the Sukuk industry. From a holistic perspective, Islamic finance instruments need to be viewed through a complementary lens, with Zakat giving an initial lift, and then other instruments such as Waqf, Microfinance and Sukuk promoting inclusive and sustainable economic growth as depicted in the figure below.

KEY INSIGHTS

Leading Sector in Islamic Finance	**Islamic Banking**
Leading country in Islamic finance sector by value	**Iran**
Leading region for the Islamic finance sector	**GCC**

In this context, UNDP aims to forge partnerships with Islamic finance organizations to design impactful projects for which zakat, waqf, and other forms of financing could be deployed. This will include identifying communities and households in greatest need, identifying key vulnerabilities, and laying out recommendations on how to overcome them in a sustainable manner. As Waqf and Zakat organizations make a move to more productive approaches towards poverty alleviation, UNDP can help identify sustainable and inclusive interventions that promote entrepreneurship and local economic development.

The Complementarity Scheme of Islamic Finance Instruments

Initial lift →	Help people move beyond survival to grow →	Revolving fund for the micro-enterprises →	Promote inclusive, sustainable economic growth
Zakat	**Islamic Microfinance**	**Cash Waqf**	**Sukuk**

1. Mordor Intelligence . (2023). Islamic Financial Market - Size, Report & Growth. Retrieved from https://www.mordorintelligence.com/industry-reports/global-islamic-finance-market
2. Global Islamic Finance Industry Landscape, 2022.

Promoting Regional Equalisation in South Punjab

By
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Despite a higher per capita income than the national average, there are considerable disparities in the poverty rates of Punjab's urban and rural areas, with the Southern districts being hit the hardest.[1] According to the Punjab Growth Strategy 2023, the incidence of poverty in South Punjab is 2.5 times that of the rest of Punjab, while the Human Development Index value is 32 percent lower. Findings from UNDP's High-Level Deep Dive on South Punjab also highlight that 44 percent of children experience stunted growth in South Punjab, 61 percent fewer hospital beds are available, the literacy rate is 16 percent lower, the number of out-of-school children is 2.2 times higher, and access to piped water facilities is 40 percent lower. In this context, addressing the core dimensions of sustainable development and integrating South Punjab's economy into the provincial and national economy is pivotal to inclusive and resilient economic growth in Punjab.

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Aligned with the development vision of the Government of Punjab, UNDP Pakistan, through its Punjab SDG Unit, has been closely collaborating with the Planning & Development Board, Punjab and South Punjab Secretariat to implement several development initiatives. The South Punjab Regional Plan for Sustainable Development is a testament to the institutional and strategic support provided by UNDP to augment the existing regional equalisation work of the Government of Punjab. It provides a strategic guide to policymakers for informed development planning and public sector investments. Focusing on local needs and sectoral strengths, it outlines five main thematic areas of transformation, including Road Infrastructure and Regional Connectivity; Human Development and Social Protection; Industrial and Value Chain Development; Local Governance; Climate Resilience and Disaster Management; as well as a cross-cutting focus on gender and digital dividends. The plan also features implementation and donor monitoring frameworks, and aligns existing development projects with proposed strategies to identify niche areas to avoid duplicate interventions.

© Sahar Zafar

Rural women in Bahawalpur, South Punjab, attending a training on hand embroidery.

Given the significant challenges of South Punjab, such innovative development initiatives can transform the region's vast untapped potential into economic gains, ensuring equitable development and resilient economic growth to Leave No One Behind.

1. UNDP Regional SDGs Indicators: A Comparison of South Punjab and Rest of Punjab, 2022

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