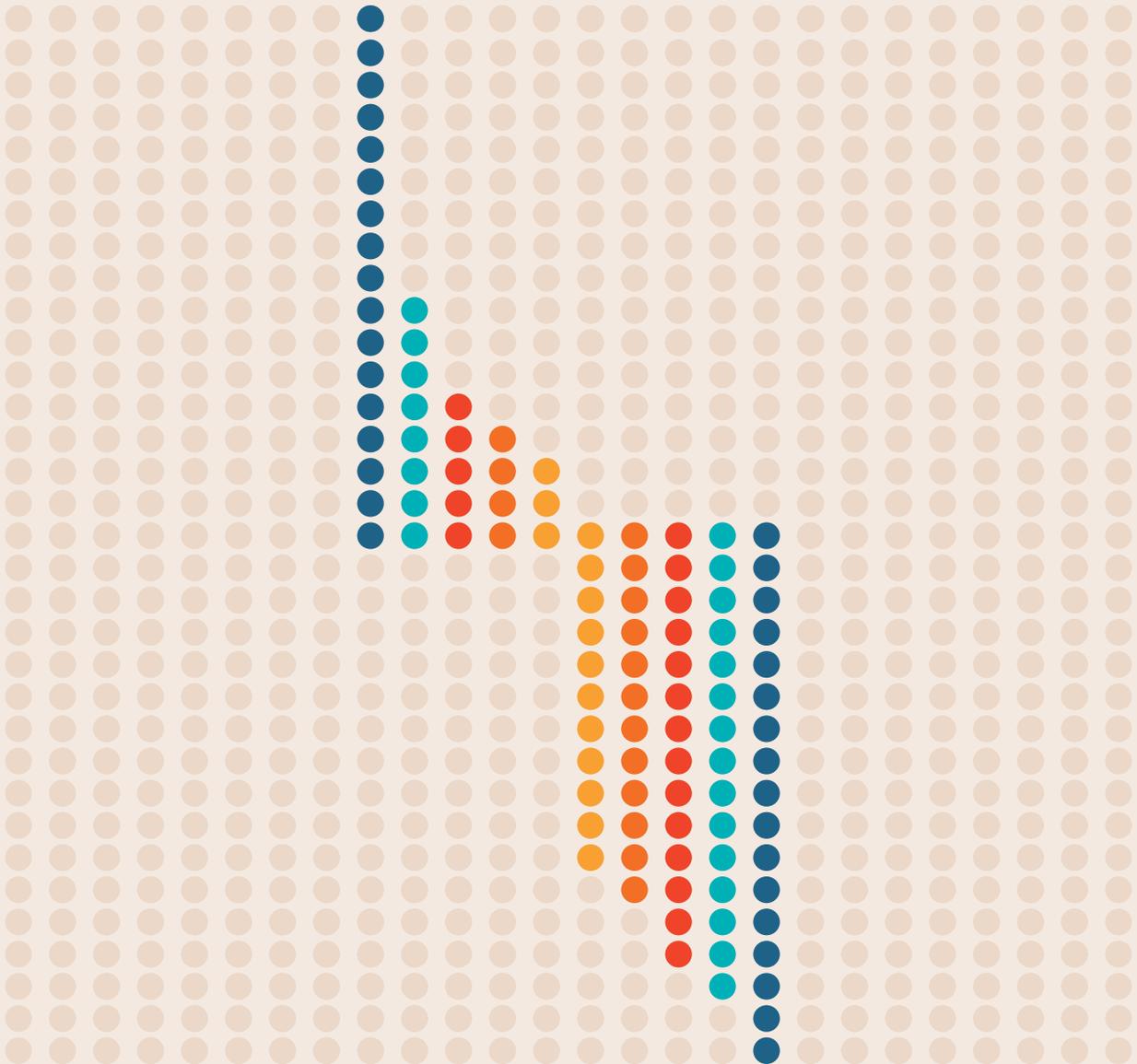


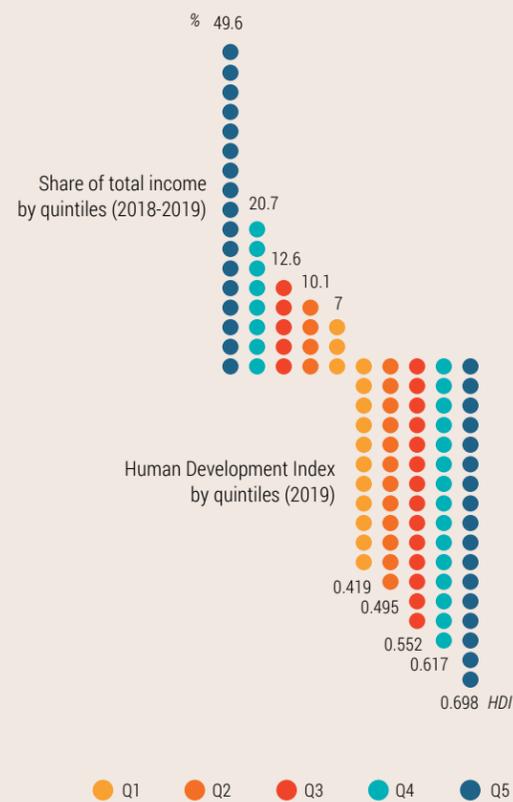
Overview

Pakistan National Human Development Report 2020



The three Ps of inequality: Power, People, and Policy





Source

UNDP calculations based on latest data of the Pakistan Economic Survey, 2016-2017; Labour Force Survey, 2017-2018; and multiple years of the Household Integrated Economic Survey data.

The NHDR 2020 highlights inequality in its various forms. The front cover of this report represents two critical measures of inequality, that of income and human development.

This is done by showing income and human development values for each of Pakistan's five income quintiles (equal population groups categorized from richest to poorest). This is because while a country may perform relatively well overall in terms of HDI or income equality, it could still be home to huge inequalities between its richest and poorest groups.

The five lines at the top represent the difference in income across quintiles after adjusting for underreporting of income, from the richest group (dark blue) to the poorest (yellow). This shows that the richest quintile has almost 50 percent of the country's total income, while the poorest quintile only has seven percent of it.

Similarly, the five lines at the bottom represent the difference in human development across quintiles, from the poorest group (yellow) to the richest (dark blue). While human development for the poorest quintile is as low as 0.419, falling in the low human development category, the corresponding value for the country's richest is 0.698, falling in the high human development category.

These stark differences show the huge divisions cleaving the country into two different Pakistans, and highlight the urgency of addressing these disparities to create a more equal Pakistan.

Overview



Pakistan National Human Development Report 2020

The three Ps of inequality: Power, People, and Policy



Published for the United Nations Development Programme (UNDP)

Human Development Reports: In 1990, Dr. Mahbub ul Haq produced the first Human Development Report, introducing a new concept of human development focusing on expanding people's opportunities and choices, and measuring a country's development progress through the richness of human life rather than simply the wealth of its economy. The report featured a Human Development Index (HDI) created to assess the people's capabilities. The HDI measures achievements in key dimensions of human development: individuals enabled to live long and healthy lives, to be knowledgeable, and have a decent standard of living. Subsequent Human Development Reports (HDRs) released most years have explored different themes using the human development approach. These Reports, produced by the UNDP's Human Development Report Office and ensured editorial independence by UNGA, have extensively influenced the development debate worldwide.

National Human Development Reports: Since the first national Human Development Reports (NHDRs) were released in 1992, local editorial teams in 135 countries have produced over 700 NHDRs with UNDP support. These reports bring a human development perspective to national policy concerns through local consultations and research. National HDRs have covered key development issues ranging from climate change to youth employment, to inequalities driven by gender or ethnicity. Pakistan's third National Human Development Report is on the topic of inequality. The first, in 2003, was on the topic of Poverty, Growth, and Governance, and the second, in 2018, focused on Unleashing the Potential of a Young Pakistan.

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Special message

Social and economic inequality threatens the foundations of a just society. It hinders progress by restricting the opportunities available to its citizens. Bridging the gap between the two different Pakistans – the country’s richest and poorest people – is one of the key priorities of our Government. This has always been an important element of our manifesto, for which we have been actively advocating. After assuming charge, our Government has made meaningful efforts towards this goal by launching initiatives to uplift the poor, develop rural areas, empower women, enable our youth to thrive, and ensure the universal delivery of essential services to the public. The Prime Minister’s Ehsaas programme, a multisectoral initiative to provide social services and protection to the most vulnerable groups in Pakistan, is a testament to our commitment and resolve in this context. Against this backdrop, the Pakistan National Human Development Report on inequality (NHDR 2020) is a welcome contribution to our work in this domain, as it highlights challenges, outlines progress, and identifies high-impact areas.

Over the years, Pakistan has seen progress on its Human Development Index (HDI) value, which increased from 0.400 in 1990 to 0.560 in 2018. This means a higher life expectancy at birth for Pakistani children, more years of schooling, and higher income for families. However, there remains much to be done, as Pakistan’s HDI value is lower than both the average HDI value of countries in the medium human development group (0.630), as well as our neighbours in South Asia (0.640). The COVID-19 pandemic has further aggravated this challenge by threatening to undo past progress, and further widen the economic and social inequalities in the country through its disproportionate effect on the poorest segments of society. This is an un-

precedented challenge for the Government of Pakistan, and one that we are working tirelessly to overcome. However, it can also be seen as an opportunity for us to rebuild better than before, and to alleviate inequalities between the two extremes of Pakistan – one that caters only to the privileged, and the other that relates to the country’s poor, downtrodden, and vulnerable groups. It is for this reason that the insights of this report are extremely meaningful to us at this critical juncture.

Inequality is a complex phenomenon; it spans diverse groups of people who are vulnerable because of their income, gender, religion, region of residence, and other characteristics. This report addresses the complexity of inequality by unpacking the nuances and engaging in an insightful discussion with precision and clarity. Dr. Hafiz A. Pasha’s expertise in translating Pakistan’s HDI scores into the human impact on the ground is extremely valuable to readers looking to understand the current situation. The framework of the ‘three Ps’ of inequality – Power, People, and Policy – is also a useful tool for deconstructing challenges and carefully analysing inequality in detail. The report is aligned with Government’s national agenda, which seeks to reduce inequality in all its forms and manifestations. Prime Minister Imran Khan’s Government is committed to building a ‘welfare state’ where rule of law, meritocracy and transparency are guaranteed to all citizens and a social safety net is provided to the marginalized segments. It is also committed to ensure equal opportunities for all citizens in all fields – from health to education to security of life and property. The Government also seeks to address disparities between different regions of the country, by introducing integrated regional development initiatives for regions and areas which have lagged behind in terms of

socio-economic development.

The Report is also in line with the global commitments espoused by Sustainable Development Goal 10, ‘Reduce inequality within and between countries’. The topics discussed in the following chapters, and the recommendations emanating from this discussion, chart out a roadmap for addressing critical human development challenges – such as eliminating poverty, mitigating gender-based discrimination, bridging the digital divide, and limiting the risks of climate change.

It has been a privilege to be part of the Advisory Council for the Pakistan NHDR 2020, and to have benefited from the feedback and insight of our fastidious council members. They include some of the country’s most celebrated academics, technical experts, development practitioners, and policy makers – both from across and within party lines.

I warmly congratulate UNDP for this incredible effort at deconstructing inequality and creating evidence-based, contextual, and actionable recommendations to improve human development in Pakistan. I have no doubt that the insights of this report will help many of the country’s most vulnerable communities, and move us towards a more equal Pakistan.



Asad Umar

Minister, Ministry of Planning, Development & Special Initiatives, Pakistan.

Chair, NHDR 2020 Advisory Council

Foreword

Towards expanding choices

Inequality, in its essence, is about constrained choices. A low-income young person from Sindh may have to choose to earn an income over attending school. A person with disabilities may have to choose a job that he or she is overqualified for, over unemployment. A woman may have to choose safety over freedom.

The question that the National Human Development Report on inequality (NHDR 2020) attempts to answer is this: How do we increase and expand the choices, avenues, possibilities, and opportunities for Pakistan's marginalized communities?

Focusing on the vulnerable is a core aspect of this report – that is, on those experiencing the extremes of inequality.

In 1990, Pakistani economist Mahbub ul Haq had said, *“People are the real wealth of a nation”*. With these words, he drastically shifted the axes of global development discourse. His Human Development Index (HDI) measures the success of a nation not in terms of economic growth, but based on social justice, opportunity, and potential. This is extremely relevant to conversations on inequality.

Traditionally, the development narrative has been dominated by income-level analyses of inequality. However, inequality is as much a product of access to services, social capital and inclusion, peace and security, as it is the result of poverty and a lack of resources.

The NHDR 2020 takes precisely this approach to deconstructing inequality in Pakistan. It shows, for example, that the richest 1 percent of Pakistanis have access to 9 percent of the country's income, and that this inequality goes far beyond income and wealth. The poorest and richest Pakistanis effectively live in completely different countries, with literacy levels, health outcomes, and living standards that are

poles apart.

In pursuit of this difference, the author of the report identifies three primary drivers of inequality in Pakistan: Power, People, and Policy.

The author argues that Power, the first driver of inequality, relates to groups who take advantage of loopholes, networks, and policies. This highlights the need to recognize and account for privileges and redress the imbalances of power.

People, the second driver of inequality, refers to the deeply embedded belief systems that encourage bias against marginalized groups. For the country to be more equal, a culture of empathy wherein people are not discriminated against just for being ‘different’ needs to be created.

Policy, the third driver of inequality, speaks to the systems and strategies that are either ineffective, or at odds with the principles of social justice. In addressing this, the report lays out a reform agenda to guide Pakistan's laws and policies towards a more equitable path.

The overwhelming takeaway of this report is the need to advocate for Pakistan's vulnerable communities, and to unravel the Gordian knot of Power, People, and Policy to alleviate inequality in the country.

The complexity of this task demands a well-rounded, evidence-based, and contextual analysis of the problem of inequality. Therefore, the NHDR 2020 looks at this issue from a multidimensional perspective, examining aspects that run the gamut from wealth and income to education, health, and social mobility in the context of inequalities across Pakistan. The report also focuses on climate change, technology, taxation, access to – and the quality of – public services, and much more, to get a holistic picture of inequality in Pakistan. This analysis has been undertaken at the nation-

al and provincial levels, while spanning the country's rural and urban divide.

The NHDR 2020 adds to the conversation on inequality with several new measures and indices that are crucial to addressing inequality in Pakistan. They include:

- a first-time quantification of privileges;
- a new Macroeconomic Model for Pakistan that focuses on the relationship between growth and inequality;
- the Pashum ratio, a new, more nuanced measure of inequality;
- a first-time quintile-wise Human Development Index and region-wise Inequality-adjusted Human Development Index;
- three new development and inequality indices for children, youth, labour, and their gender-based indices; and
- an assessment of COVID-19's economic impact on growth, employment, inequality, and poverty.

In keeping with the traditional emphasis of UNDP's National Human Development Reports on the grassroots level, the Pakistan NHDR 2020 team held 38 consultations around the country with marginalized communities. These engaged the transgender community, refugees, persons with disabilities, religious and ethnic minorities, women in marginalized jobs, informal workers, farmers, youth, and many others. The report, therefore, gives voice to the hopes, perceptions, and lived experiences of Pakistan's vulnerable communities.

In handling this crucial issue of inequality, lead author Dr. Hafiz A. Pasha and his team have crafted a report that is inclusive, collaborative, meticulously researched, and extremely comprehensive. We would like to recognize the efforts of the NHDR team for their tireless work on the stories of inequality contained in these pages.

The report has also benefited from the skills and expertise of an Advisory Council, comprising academics, policy makers, technical experts, and others. We are grateful for their guidance and feedback on the report.

With the Pakistan NHDR 2020, we dare to dream of a world where no one dies because they are unable to afford health care, where families educate their daughters because girls' schools are not an hour's walk away, and where youth are not disenfranchised or radicalized. Mahbub ul Haq wanted to create a context where people could live long, healthy, and creative lives, full of opportunity and potential. The Pakistan NHDR on inequality has similar goals, with the hope that the people of Pakistan can live, and choose, as they please.

Aliona Niculita

Resident Representative a.i., United Nations Development Programme, Pakistan

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This report is the sum of the efforts and expertise of hundreds of individuals and institutions, and particularly of the insights of Pakistanis who face relentless inequalities in their lives.

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We are especially grateful to the hundreds of Pakistanis who participated in the 38 focus group discussions conducted with marginalized communities, to those who filled out our Inequality Perception Survey, and who spoke to us so sincerely about their lives and experiences. Their inputs provide depth and nuance to our report. These focus groups were made possible by the support of UN agencies, civil society, and private sector organizations. Thanks are due to the following institutions and individuals for helping us to organize these consultations: Qamar Naseem at Blue Veins; Dr. Zia Ur Rehman of the National Integrated Development Association (NIDA-Pakistan); Akbar Zeb of the Environmental Protection Society (EPS); Ayub Khan of Khwendo Kor; the UNDP sub-offices in Peshawar, especially Nadir Khan, Tanya Rzehak, and Muhammad Rohail, and in Quetta, especially Zulfiqar Durrani, Saman Bakhtawar, Tanveer Ahmed, Zahoor Taran, Muhammad Marri, Habibullah Nasar, Shumaila Kamil, Sohail Khan, and Dawood Nangyal; Islamic Relief; Zehrish Khan of the Gender Interactive Alliance (GIA); Irfan Abdullah of Rajby Industries; Naheen Syed of HomeNet; Javed Raees of the Disabled Welfare Association; UNICEF Pakistan, especially Muhammad Asim Khan; Dr. Ashok Bakhtani of the Thar Foundation; Zulfiqar Shah of PILER; the SDGs Unit of the Planning & Development Department of Azad Jammu and Kashmir, especially Syed Ali Husnain Gillani. Moin Zaidi, Fahad Khan, Amrozia Khan, Usman Manzoor, Shahzad Khalil, and Fahim Raza also provided invaluable help with the focus group discussions, as did Alauddin Maqbool of Sudhaar. We must also thank Shuja Hakim for capturing the stories of these communities across Pakistan through

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It has been an honour to work on this report with a vibrant and dynamic team of young people, and attempt to contribute, in

small part, to alleviating the disparities and inequalities that are such a distinct feature of Pakistani life today. I hope the insights contained in this report can be used to shape a Pakistan that is more equitable for all of its people, regardless of their ethnicity, gender, or social class.



Dr. Hafiz A. Pasha
Lead author of the Pakistan National Human Development Report 2020

Contents

Special message	iv
Foreword	vi
Acknowledgements	viii
PART I	
A case of two different Pakistans	
National inequality	1
Inequality in income	2
Inequality in wealth	4
Inequality in human development	5
Provincial and regional inequality	6
Inequality between provinces	6
Inequality within provinces	9
Special measures of inequality	11
Child Development Index (CDI)	11
Youth Development Index (YDI)	12
Labour Development Index (LDI)	14
Gender Development Index (GDI) and Gender Inequality Index (GII)	15
Bridging the gap between the two different Pakistans	16
PART II	
The NHDR's three Ps of inequality	
Power: The political economy of inequality	21
Powerful groups and their privileges	21
The total cost of privileges	24
Taxation in Pakistan: Progressive or regressive?	24
Public expenditure and access to services	24
Moving forward: Improving governance and institutional capacity	27
People: Perceptions of inequality	28
NHDR 2020 focus groups	28
Five axes of inequality	28
Social markers and inequality	31
People's perception of inequality: Optimism or fatalism?	34
Policy: Tackling inequality	35
Growth and inequality	35
The NHDR 2020 reform agenda	37
Towards an equal Pakistan	38
References	40

MAPS

1	Pakistan Child Development Index, (2018–2019)	12
2	Pakistan Youth Development Index, (2017–2018)	13
3	Pakistan Labour Development Index, (2017–2018)	14
4	Pakistan Gender Inequality Index, (2018–2019)	16

FIGURES

1	Annual growth rate of real per capita income: Poorest 40 percent compared to the total population	2
2	Comparison of key measures of income inequality, (2018–2019)	3
3	Robin Hood Ratio: Take from the rich, give to the poor	3
4	Long-term trend in income inequality in Pakistan, (1990–2019)	4
5	Share of the richest 1 percent of Pakistan's population	4
6	Pakistan ranks 2nd last among South Asian countries in its HDI value, (2019)	5
7	HDI by quintiles at the national level and by inequality measures, (2006–2019)	6
8	Trend in interprovincial income inequality, (1999–2000 and 2016–2017)	7
9	Provincial Human Development Index, (2018–2019)	7
10	Human Development Index trends in Pakistan, (2006–2016)	8
11	Khyber Pakhtunkhwa's income inequality has improved significantly compared to other provinces, (2006–2019)	10
12	The gap between rural and urban HDIs is highest in Sindh and lowest in Khyber Pakhtunkhwa, (2018–2019)	11
13	Wider gap in female and male earnings, (2006–2019)	15
14	Sources of the privileges of different vested interests	22
15	Ranking of vested interests in terms of the magnitude of benefits and privileges enjoyed by each, out of total PKR 2,660 billion	24
16	Incidence of taxes by quintile, (2017–2018)	24
17	Countries with higher investment in education, health and social protection as % of GDP tend to have a higher HDI	25
18	Ownership of mobile phones and access to the internet (% of the population), (2018–2019)	27
19	Number of times various industries were identified as potential cartels, (2007–2018)	28
20	The five axes of inequality of NHDR 2020	29
21	Educational attainment of different social groups, (2020)	29
22	Wealth of different social groups, (2020)	30
23	The perception of inequality of different social groups, (2020)	32
24	Access to a laptop or computer among different social groups, (2020)	33

25	House ownership of different social groups, (2020)	34		
26	Modules of the Macroeconomic Model	35		
27	Impact of change in policy and exogenous variables on GDP growth, inequality and poverty	36		
28	Projected index of quarterly GDP (average quarterly GDP, 2019–2021 = 100), (2019–2020 and 2020–2021)	37		

	<u>TABLES</u>		
1	Percentage share of benefits under different types of expenditure, by income quintile, (2018–2019)	26	
2	Fiscal cost of relief, incentive and development package (PKR billion), (2020–2021)	37	

PART 1

A case of two different Pakistans





PART I

A case of two different Pakistans

This is a highly unequal world. More than 734 million people around the globe live in extreme poverty, surviving on less than US\$1.90 a day, while a handful of billionaires get richer by the day.¹ The wealth of global billionaires reached US\$8.5 trillion by 2018, marking an increase of 34.5 percent since 2013.² Growing awareness of inequality is catalysing resistance, with millions taking to the streets worldwide to protest against extreme poverty, the scrapping of fuel subsidies, and rising transport costs.³

Inequality is based on disparities in terms of assets, income, status, education, health, rights, decent work and other opportunities; discrimination on the basis of gender, religion, caste, or other identity markers; and the manipulation of policies by those in power. The concept of inequality lies at the heart of the human development theory coined by Pakistani economist Dr. Mahbub ul Haq, who advocated for economic growth accompanied by an equitable distribution of income as the most effective path towards sustained human development.⁴ This forms the basis of UNDP's global Human Development Reports (HDR), the most recent of which (HDR 2019) focused on the theme of inequality.

Realizing the need to address inequality in Pakistan, Prime Minister Imran Khan launched the Ehsaas strategy in 2018, an overarching umbrella to create a welfare state by lifting up marginalized communities and areas that are lagging behind. This has acquired particular importance in the short-term, as the COVID-19 pandemic plunges vulnerable groups deeper into poverty, unemployment, and food and housing insecurity. Inequality has, therefore, acquired a major global and national focus in recent years.

The dichotomy between the rich and

poor will only become more extreme if inequality, in its multidimensional forms, is allowed to persist. This is why it is crucial to unpack the notion of the two different Pakistans – one with little income and opportunity, and the other with more than its fair share. In line with these global and national concerns, the Pakistan National Human Development Report (NHDR) 2020 focuses on the inequality that has birthed the two different Pakistans.

A major motivation behind studying this theme lies in the Constitution of Pakistan 1973, which affirms the equal rights of all citizens. Another motivation is the United Nations 2030 Agenda for Sustainable Development, which Pakistan has adopted. Sustainable Development Goal (SDG) 10, in particular, focuses on reducing inequality within and between countries.⁵

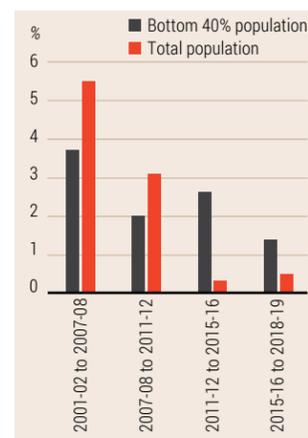
The NHDR 2020 first examines inequality in Pakistan by exploring the two different Pakistans through different measures of inequality at the national and provincial levels. Next, the report outlines its framework for analysing the drivers of inequality, also called the three Ps: Power, People, and Policy. The report concludes by highlighting some crucial steps that must be taken by different stakeholders to pave the way towards a more equal Pakistan.

National inequality

The idea of the two different Pakistans evokes images of the country's richest and poorest groups – one with a multitude of opportunities to pursue quality education, secure responsive health care, and live off generational wealth; and the other, without. To what extent is this a reality? Exploring the notion of the two different

FIGURE 1

Annual growth rate of real per capita income: Poorest 40 percent compared to the total population



Source: UNDP calculations based on HIES, multiple years, 2018-2019.

Income inequality fluctuates with the rate of growth.

Pakistan requires an understanding of the extent of inequality in the country from multiple lenses, such as economic measures that include income and wealth, as well as measures that go beyond income, such as human development. This section analyses each of these in turn, in order to trace the contours of inequality in Pakistan today.

Inequality in income

The stark reality of inequality in Pakistan is revealed by disparities in income – among the most visible forms of inequality in the country. The poorest 1 percent of the population holds only 0.15 percent of national income, compared to the richest 1 percent, which held 9 percent of national income in 2018–2019.⁶

To reduce income inequality, the real per capita income of the poorest 40 percent of Pakistanis must grow at a rate that exceeds the income growth rate of the total population. To unpack this finding, the NHDR 2020 examines developments in income distribution since the turn of the century, divided into four periods (shown in figure 1).⁷

Between 2001 and 2012, the growth rate of per capita income of the poorest 40 percent was lower than that of the total population. The gap was larger during the first part of this period (2001–2008), a time of relatively rapid growth in gross domestic product (GDP). Between 2011 and 2019, the poorest 40 percent of Pakistanis saw their per capita income grow at a faster rate than the overall population, while the economy witnessed relatively low growth, at just above 4 percent. This implies that income distribution may tend to deteriorate during periods of relatively fast economic growth. Part II below analyses the relationship between growth and inequality more closely.

Where does this leave Pakistan in terms of income inequality today? Over the last two decades, Pakistan’s performance on inequality indicators such as the Gini coefficient and Palma ratio has been mixed.

The NHDR 2020, therefore, uses several methods to measure income inequality and paint a conclusive picture of the two different Pakistans.

The **Gini coefficient** measures the degree of concentration in a country’s income distribution. A value of 0 percent represents perfect equality, while 100 percent represents the total concentration of income. Pakistan has a Gini coefficient of 30 percent, signalling low inequality overall. However, this value may be low due to the Gini coefficient’s lack of sensitivity to the entire income distribution, or because the country’s richest quintiles tend to underreport their income in the Household Integrated Economic Surveys (HIES).

The **modified Palma ratio** measures the ratio between the richest 20 percent of the population, also called quintile 5 (Q5), and the poorest 20 percent, called quintile 1 (Q1). Pakistan has a modified Palma ratio of 4.7, meaning that the richest quintile has 4.7 times the income of the poorest quintile.

The **Pashum ratio** is a new and more sensitive measure of inequality specially created for the NHDR 2020 to compensate for the shortcomings of the Gini coefficient and the Palma ratio.⁸ The Pashum ratio moves beyond measuring inequality in terms of just quintiles or deciles. Instead, it captures the extent of inequality across the entire population distribution, including middle-income groups. Pakistan’s Pashum ratio stands at 0.50, deviating from a value of 0, which would signify perfect equality. An examination of the Pashum ratio across quintiles also shows that income inequality is relatively less pronounced between the three poorest quintiles, but rises sharply between the country’s two richest quintiles.

Analysing all three measures of inequality reveals that Pakistan has a low to moderate level of income inequality (figure 2).

However, this picture changes considerably when we adjust for the underreporting of income, a typical trait in national surveys. In 2018–2019, the Household Inte-

grated Economic Survey only captured 41 percent of household income estimated from Pakistan’s GDP. The measures of income inequality adjusted for underreporting change to 7.08 for the Palma ratio, 38 percent for the Gini coefficient, and 0.68 for the Pashum ratio. These signal high levels of income inequality.

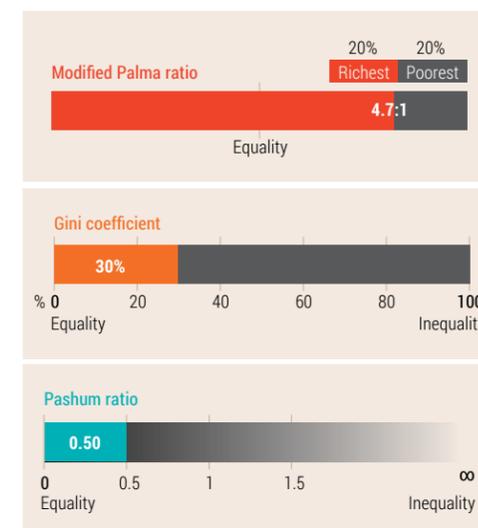
The **Robin Hood ratio** is another measure of income inequality, indicating the proportion of income in the richest quintiles that must be transferred to poorer quintiles to ensure perfect equality among all five quintiles. According to this ratio, 23 percent of the income of Pakistan’s two richest quintiles must be redistributed among the other three quintiles to achieve perfect income equality (figure 3). This highlights the extent of income inequality between the two different Pakistans, and is a framework to consider for redistributive policies in the future.

Overall, income inequality in Pakistan decreased in the 1990s, rose until the mid-2000s, and decreased again until the middle of the 2010s. Between 2016 and 2019, Pakistan saw a particular reduction in the difference between the incomes of the richest and poorest 20 percent of the population, as well a generally lower rate of income inequality across all income quintiles (figure 4). However, the NHDR 2020’s analysis shows that the plight of Pakistan’s middle class is worsening. Based on per capita expenditure, only 36 percent of the population was middle class in 2018–2019, down from 42 percent 10 years earlier. The pressure of inflation, unemployment among educated workers, and decreasing purchasing power parity is ‘squeezing’ the middle class, so much so that it is pushing them to the bottom of pyramid over time.

Foreign remittances and income from property are two major sources that underlie income inequality in Pakistan. It is, therefore, no surprise that incomes generated through wealth can have a significant impact on income inequality. This is why an analysis of wealth disparities in the country is just as important as examining

FIGURE 2

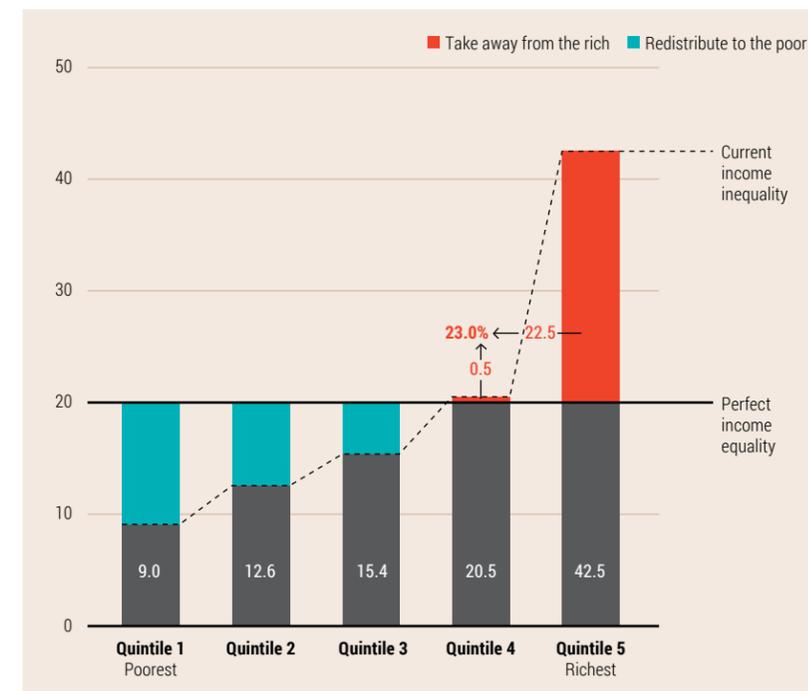
Comparison of key measures of income inequality, (2018-2019)



Source: UNDP calculations based on HIES, 2018-2019.

FIGURE 3

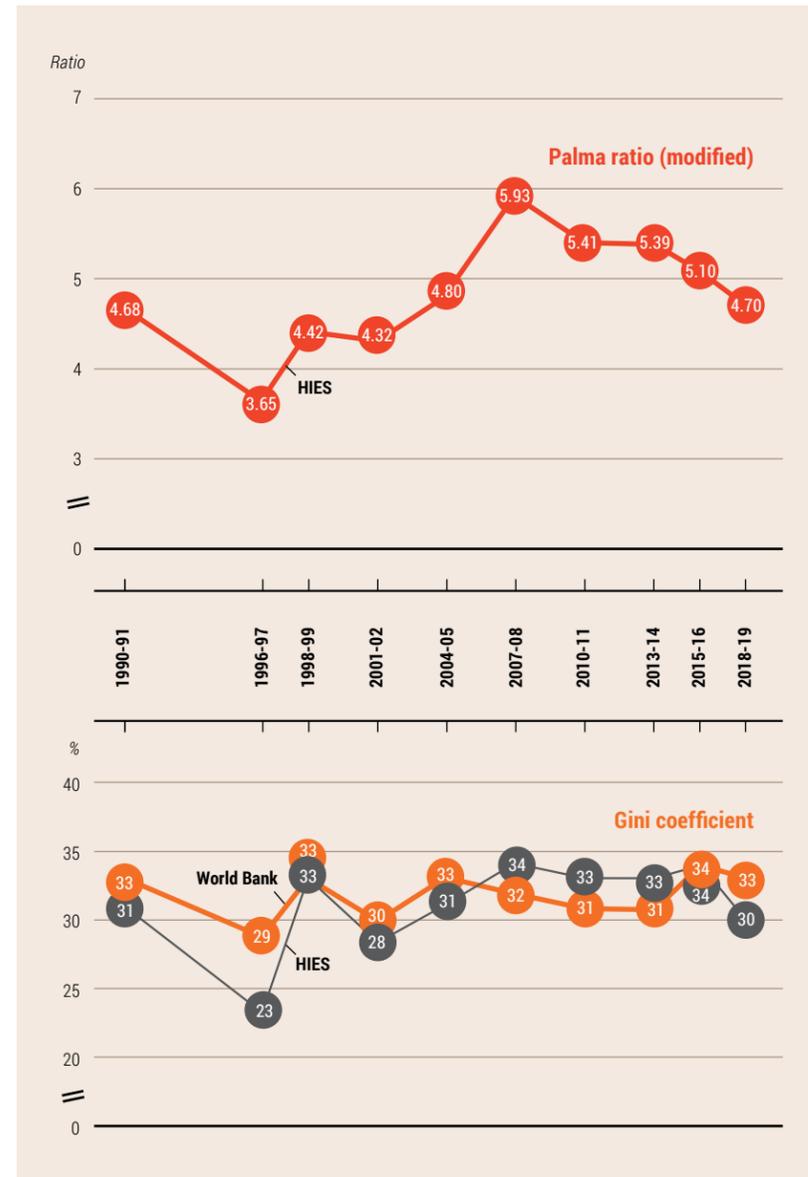
Robin Hood Ratio: Take from the rich, give to the poor



Note: To have an equal level of income in all quintiles, need to take additional income above 20% from Q5 and Q4 to transfer to Q1, Q2, and Q3.
 In this case Transfer = (42.5-20)+(20.5-20) = 23.0% of the income [The Robin Hood Ratio]
 Source: UNDP calculations based on HIES, 2018-2019.

FIGURE 4

Long-term trend in income inequality in Pakistan, (1990-2019)



Source: World Bank 2019C and UNDP's own calculations using multiple years of HIES data.

disparities in income.

Pakistan has high income and wealth inequality.

Inequality in wealth

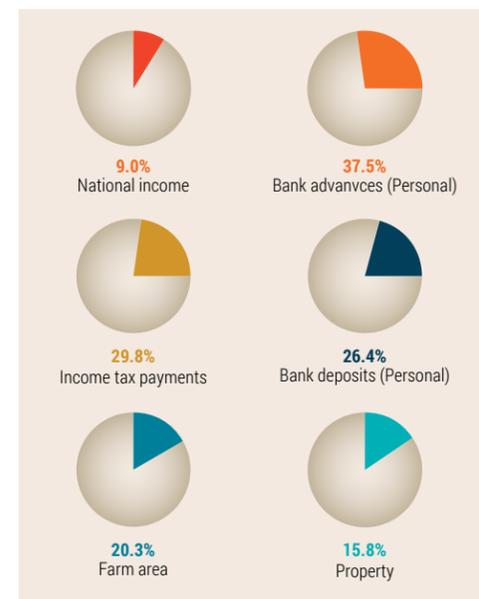
Measuring wealth inequality – based on the magnitude of cash, assets, farmland, and other property – reveals an even greater divide between Pakistan's rich and poor than income inequality alone. As per re-

cent estimates, just 1 percent of the country's richest people hold 26.4 percent of all personal bank deposits, over 20 percent of farmland, and almost 16 percent of residential property (figure 5). Income tax payments also reveal high levels of wealth inequality, with 1 percent of the population possessing enough wealth and income to pay 29.8 percent of the total personal income tax collected in Pakistan.

These inequities have either improved little over the years, or have become even more pronounced. For example, while inequality in property ownership experienced no significant improvement in the last two decades, bank deposits became more skewed in favour of the richest 20 percent of Pakistanis between 2001 and 2016. While the country's farm area has not increased significantly over the last 40 years, its ownership has become more concentrated, with fewer people owning larger landholdings. This is unusual, as farm fragmentation or the redistribution of ownership is the most common outcome of the

FIGURE 5

Share of the richest 1 percent of Pakistan's population



Source: UNDP calculation based on HIES, 2018-2019; Agricultural Census, 2010; FBR Tax Directory, 2018; and SBP, 2018.

division of land among inheritors – something that has not happened in Pakistan.⁹ Consequently, Pakistan has high levels of both wealth and income inequality.

With this trend of increasing wealth inequality, the divisions between the two different Pakistans seem to be widening. This will lead to greater inequalities in the provision of resources, access to services, and income generation, translating into a negative long-term impact on human development.

Inequality in human development

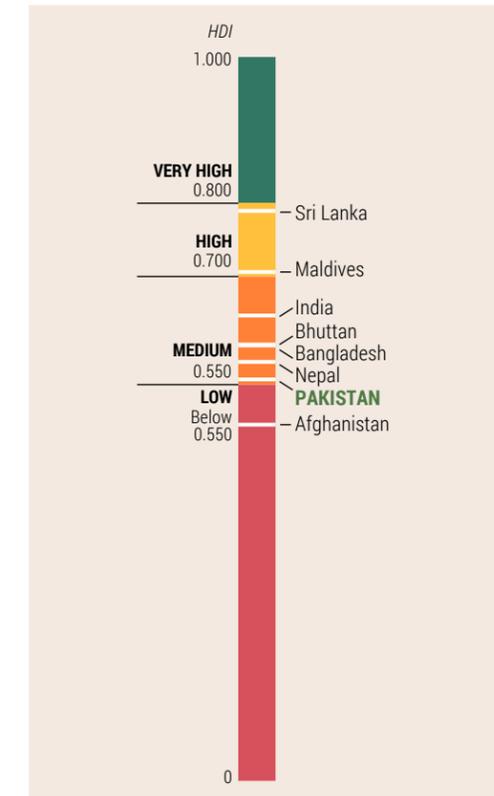
While examining inequality in income and wealth is a meaningful way to highlight the differences between the two different Pakistans, it is important to place people at the centre of this discussion. A multidimensional approach to inequality demands that we go beyond purely economic outcomes. The Human Development Index provides a valuable framework to do so, based as it is on indicators related to income, health, and education.¹⁰

Pakistan had a Human Development Index value of 0.570 in 2018–2019. Its value has improved somewhat over the years, placing the country in the medium human development category. However, Pakistan's HDI value has only increased by 39 percent in the past 27 years, considerably less than the improvements achieved by Bangladesh (59 percent) and India (52 percent). In fact, Pakistan has the second lowest HDI value among South Asian countries (figure 6).

Improving human development means enhancing the choices available to everyone. Expanding choices translates into better opportunities for education, health care, and income generation. Although inequality is intrinsically tied to the concept of human development, the Human Development Index does not specifically capture inequality across the population. To this end, the NHDR 2020 constructs Pakistan's first-ever Inequality-adjusted Human Development Index (IHDI), as

FIGURE 6

Pakistan ranks 2nd last among South Asian countries in its HDI value, (2019)



Source: UNDP 2019.

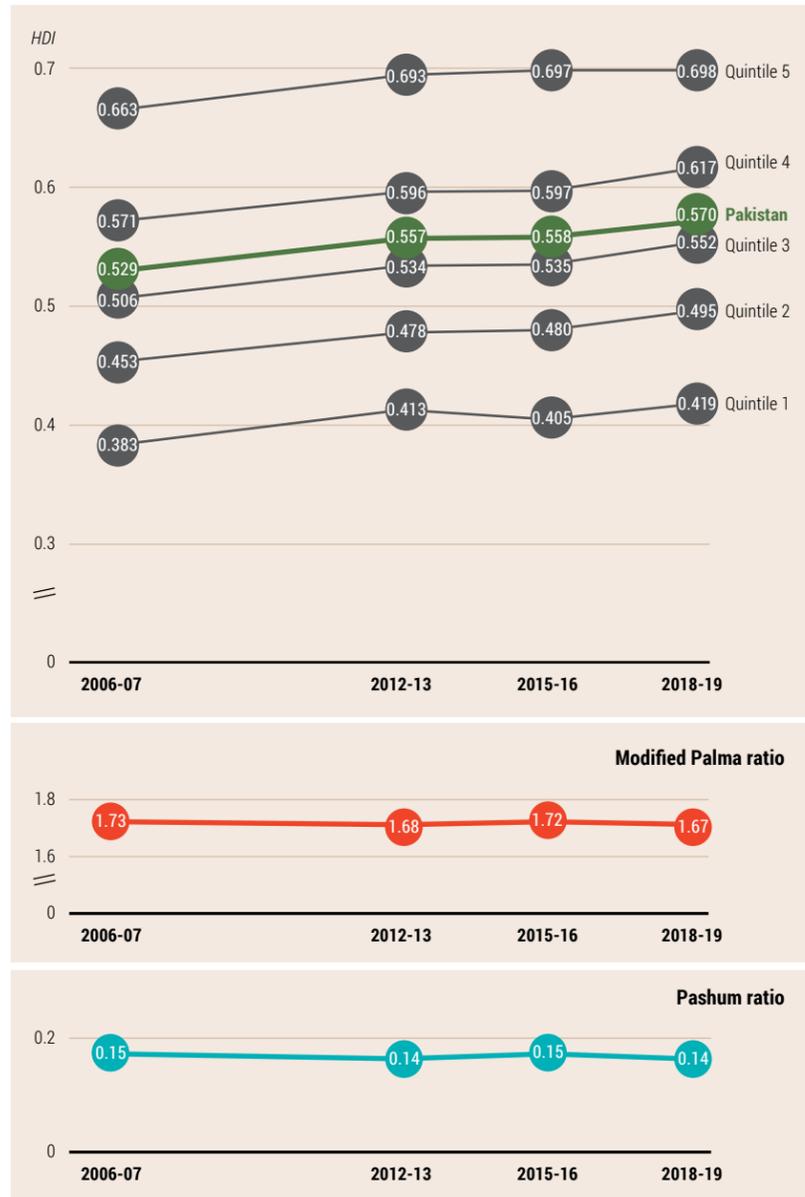
well as a Human Development Index by quintile¹¹ which highlights the depth of inequality in dimensions like education and health between different income groups.

When Pakistan's Human Development Index value of 0.570 is adjusted for inequality using the IHDI, its HDI value falls even lower, to 0.534. This demonstrates that inequality causes a significant loss of human development in Pakistan. Inequality in the country is especially pronounced when you look at the differences in human development between its five income quintiles (figure 7).

The HDI value of the richest 20 percent of Pakistanis is 0.698, falling in the high human development category. By contrast, the HDI value of the poorest 20 percent is just 0.419, corresponding to the low hu-

FIGURE 7

HDI by quintiles at the national level and by inequality measures, (2006-2019)



Note: The inequality measures for HDI are approximate in character.
Source: UNDP calculations based on Pasha 2019 and multiple years of HIES and PDHS data.

Pakistan has experienced rising interprovincial income inequality.

man development category.¹² Moreover, the modified Palma and Pashum ratios show that, over the past 10 years, the gap between Pakistan's rich and poor has decreased insignificantly. For all intents and purposes, Pakistan's richest and poorest groups virtually live in different countries.

The case for the two different Pakistans, then, seems stronger than ever.

Provincial and regional inequality

Spatial inequality in human development and economic growth is an extremely relevant issue for Pakistan. In many ways, the geographical boundaries of districts and provinces have come to define inequality, both in terms of income and opportunity. How does the narrative of the two different Pakistans evolve when viewed through a regional lens? To explore this, the NHDR 2020 analyses disparities between and within the country's four provinces – Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan.¹³

Inequality between provinces

Pakistan has experienced uneven regional development over the years, with some provinces making huge strides while others lag behind. The National Finance Commission (NFC) Awards have recently aimed to redress regional inequality through a process of fiscal equalization, with a view to increasing the per capita transfer of revenue to Balochistan and Khyber Pakhtunkhwa – the two provinces that have not kept pace with the rest. The analysis below explores the state of inequality across Pakistan's different regions as it relates to income and human development.

Inequality in income

Pakistan's provinces have varying levels of development, with Punjab and Sindh dominating in terms of their shares in the national economy. Per capita gross regional product (GRP) has increased for all provinces except for Balochistan.¹⁴ Since 1999–2000, Balochistan has fallen from second place to last place among the country's provinces, with a 7 percent decrease in its real per capita income. While Khyber

Pakhtunkhwa has been improving due to growing remittances and recent trade developments, Balochistan continues to lag behind given a decrease in the annual production of natural gas, severe water constraints, and a steady influx of migrants.

Analysing the provincial composition of Pakistan's quintiles paints a slightly different picture. Balochistan and Sindh are more widely represented among the poorest 20 percent compared to their share in the overall national population distribution. Khyber Pakhtunkhwa is better represented among the lower-middle classes, and Punjab among the two richest quintiles.

These differences have only become more pronounced with time. As shown by the Pashum ratio and the Gini coefficient, the extent of interprovincial income inequality in Pakistan has increased (figure 8). It appears that the process of fiscal equalization initiated by the 7th NFC Award has been unable to bridge the gaps

in per capita income across the country's provinces. The story of the two different Pakistans seems to be reinforced even at the regional level, with some provinces far outstripping the rest, and others unable to keep pace.

Inequality in human development

Placing people back at the centre of the debate on inequality, the NHDR 2020 analyses regional inequality in human development. This multifaceted approach aims to capture inequality in access to education and health care, alongside trends in income. At present, Sindh is ahead of Pakistan's other provinces, with the highest provincial HDI value of 0.574 (figure 9). This is because of its leading position in terms of GDP per capita and its relative-

Balochistan has fallen behind in terms of human development, while Khyber Pakhtunkhwa is rapidly catching up.

FIGURE 8

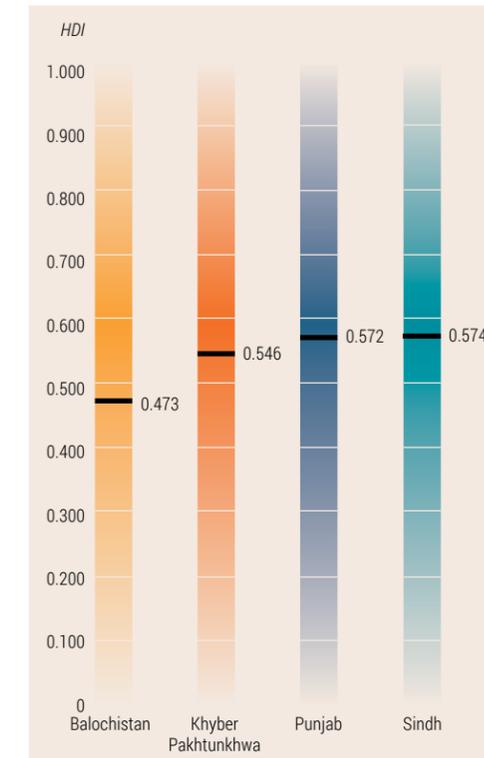
Trend in interprovincial income inequality, (1999-2000 and 2016-2017)



Source: UNDP calculations based on HIES, 2005-2006, 2011-2012, 2015-2016, and 2018-2019.

FIGURE 9

Provincial Human Development Index, (2018-2019)



Source: UNDP calculations based on HIES, 2018-2019; PDHS, 2017-2018; and Pasha, 2019.

Azad Jammu and Kashmir is the most developed region in Pakistan.

ly better progress on life expectancy. Punjab follows close behind with the second highest provincial HDI value. It leads on education, with the country's highest net enrolment ratio and literacy rate. Khyber Pakhtunkhwa and Balochistan rank third and fourth, respectively. The provinces have held on to their rankings since 2006–2007, with Khyber Pakhtunkhwa experiencing the greatest growth in human development in this period. Balochistan, on the other hand, has experienced the least improvement in its HDI value between 2006–2007 and 2018–2019.

Taking Pakistan's special regions into account reveals that Azad Jammu and Kashmir is ahead of all other parts of the

country, with an HDI value of 0.621 in 2015–2016. It is followed by Sindh, Punjab, Khyber Pakhtunkhwa, Gilgit-Baltistan, the Newly Merged Districts of Khyber Pakhtunkhwa (formerly known as the Federally Administered Tribal Areas), and finally Balochistan, with an HDI value of 0.465.¹⁵

In fact, Azad Jammu and Kashmir is Pakistan's most developed region. Its literacy rate of 76.8 percent is considerably higher than the national average of 57.4 percent in 2018–2019, and its infant mortality rate of 58 deaths for every 1,000 live births is lower than the Pakistani average of 66 deaths.¹⁶ Figure 10 shows human development trends in Pakistan, including across

its provinces and special regions.

When HDI values are adjusted for inequality to construct IHDI values, provincial rankings change. Punjab comes out on top, followed by Sindh, Khyber Pakhtunkhwa, and then Balochistan. This analysis shows that Khyber Pakhtunkhwa experiences the smallest loss to human development due to inequality. While Sindh has the highest HDI value in Pakistan, its IHDI value means that the province experiences the greatest loss in human development due to inequality.¹⁷

This underscores the importance of accounting for inequality when analysing human development values. It also shows that the story of the two different Pakistans may not be as simple as identifying which provinces have the highest income, wealth, or human development levels; instead, it is about the ways in which inequality affects these indicators. This makes it imperative to deconstruct inequality *within* provinces, as well as between them.

Inequality within provinces

Inequality within Pakistan's provinces varies hugely. While federal policies seek to alleviate inequality nationwide, understanding inequities within provinces is a critical step to inform well-grounded, contextualized provincial action plans that can root out inequality, from the bottom up.

Punjab

Pakistan's most populous province, Punjab, is home to some of the country's best education and health facilities.¹⁸ With its large population, productive agriculture and livestock sector, and large concentration of small and medium-sized enterprises (SMEs), Punjab is a major driver of, and contributor to, Pakistan's economy.

The richest 20 percent of people in Punjab have a GDP per capita that is 5.2 times greater, and an HDI value that is 1.6 times greater, than the poorest 20 percent. Between 2006 and 2019, the gap between

rich and poor increased slightly in Punjab in terms of GDP per capita. While income inequality has always been high, the province also has relatively high levels of inequality in education, especially in terms of adult literacy.

Sindh

Sindh is Pakistan's third largest province in land area, and the second largest with respect to its share of the national population. It is a major centre of economic activity; with its coastline and seaports, it has traditionally been a trading hub.

The richest 20 percent of Sindh's population have a GDP per capita that is 5.3 times greater, and an HDI value that is 1.8 times greater, than the poorest 20 percent. The province experienced a pronounced increase in income inequality from 2006 to 2016, after which the difference between its richest and poorest quintiles decreased. Sindh also has high levels of inequality in education, especially in adult literacy. On the other hand, life expectancy seems to be much more equal within Sindh.

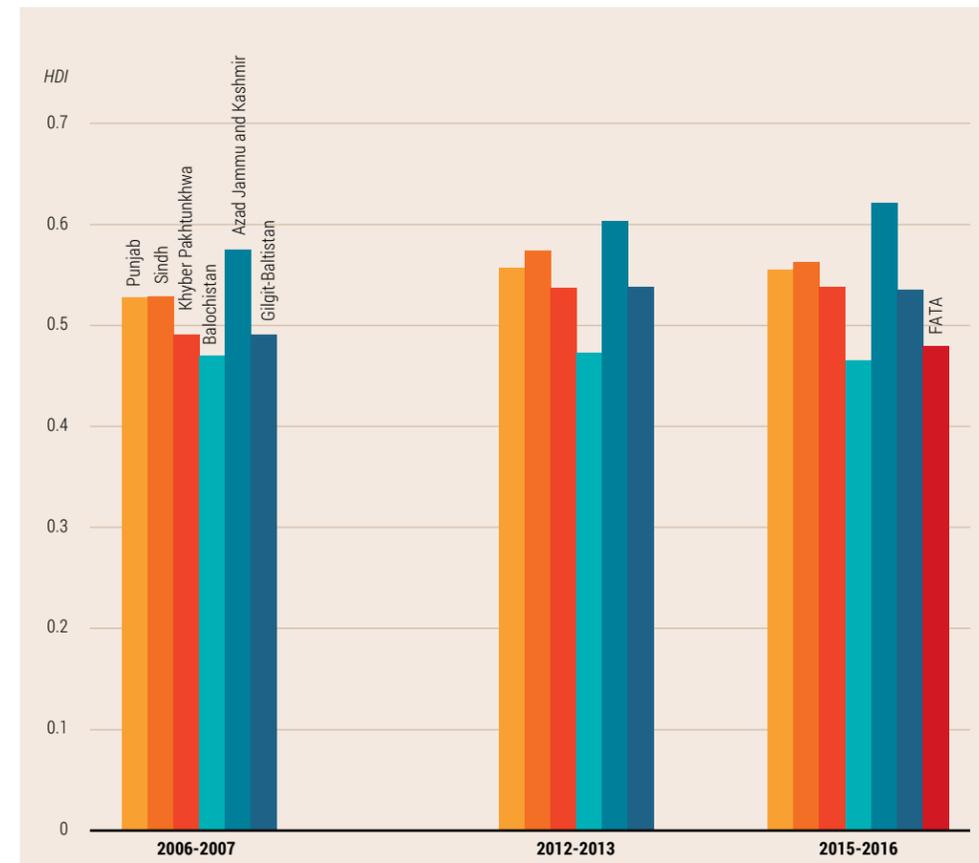
Khyber Pakhtunkhwa

Pakistan's third largest province in terms of population, Khyber Pakhtunkhwa has experienced substantial human development in recent years. The merger of the former Federally Administered Tribal Areas (FATA), now called the Newly Merged Districts, into Khyber Pakhtunkhwa in May 2018 added another 5 million people to its population of 30.5 million.

The richest 20 percent of people in Khyber Pakhtunkhwa have a GDP per capita that is almost four times greater, and an HDI value that is 1.4 times greater, than the poorest 20 percent. Income inequality has been steadily decreasing in the province since 2006. Inequality in human development in the province primarily stems from inequalities in education, followed by income.

FIGURE 10

Human Development Index trends in Pakistan, (2006-2016)



Note: Data for the Newly Merged Districts of Khyber Pakhtunkhwa were not available for 2018–2019. Therefore, the comparison of the special regions with Pakistan's provinces is only conducted until 2015–2016.

Source: UNDP calculations based on Pasha, 2019; multiple years of HIES and PDHS.

Balochistan

Pakistan's largest province in terms of land mass, Balochistan had a per capita income second only to Sindh at the turn of the century. Today, it has the lowest share of the country's population, and the lowest performance on human development indicators.

The richest 20 percent of Balochistan's population have a GDP per capita that is 3.7 times greater, and an HDI value that is 1.8 times greater, than the poorest 20 percent. Over the years, income inequality in Balochistan has shown no substantial change, but the province faces the most pronounced inequalities in education and living standards in the country. Inequalities in health are less marked. However, this is not good news – it reflects the fact that almost everyone in the province has equally poor access to health care.

Comparing inequalities within the provinces

How do intraregional inequalities compare across Pakistan's provinces? Analysing long-term trends in income inequality shows that Punjab had the highest average annual increase in income inequality between 2006 and 2019. While overall inequality in Balochistan declined slightly, inequality between its richest and poorest households, and between each successive quintile, continued to increase from 2006 to 2019. This is the only case recorded by the NHDR 2020 where different measures of inequality provide conflicting findings on the status of inequality in a province.

In the same period, income inequality decreased in Sindh and Khyber Pakhtunkhwa, with Khyber Pakhtunkhwa experiencing the greatest reduction in inequality in the country (figure 11). At the regional level, at least, the two different Pakistans – of the 'haves' and the 'have nots' – seem to be continually evolving.

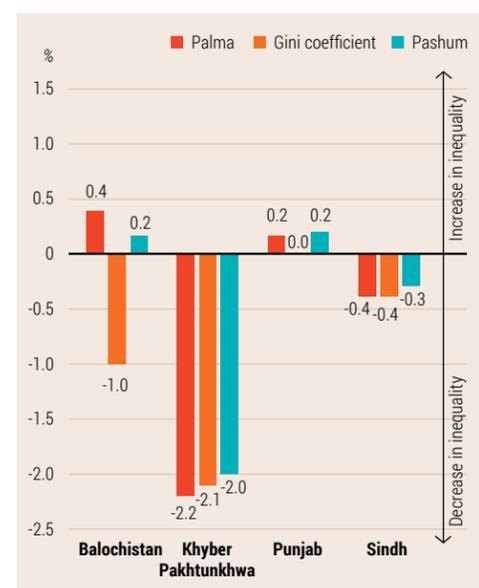
Urban-rural divide

Income inequality within provinces is determined, in no small part, by the divide between rural and urban areas. These vary significantly in terms of income, poverty, and human development. In all provinces, urban areas have a higher GDP per capita (PPP\$) than rural areas, but they are also characterized by higher levels of income inequality. Urban income inequality is greatest in Balochistan, demonstrating high levels of urban-rural inequality, and smallest in Khyber Pakhtunkhwa.¹⁹

Unsurprisingly, the HDI values of rural areas are also lower than those of urban centres across the country. In terms of HDI indicators, disparities in health between rural and urban areas are not as pronounced as disparities in education and income. Comparing urban-rural divides across provinces shows that the gap in HDI values is greatest in Sindh and smallest in Khyber Pakhtunkhwa (figure 12).

FIGURE 11

Khyber Pakhtunkhwa's income inequality has improved significantly compared to other provinces, (2006-2019)



Note: This figure is based on the average annual rate of change in income inequality, as measured by the Palma, Gini coefficient, and Pashum ratio.

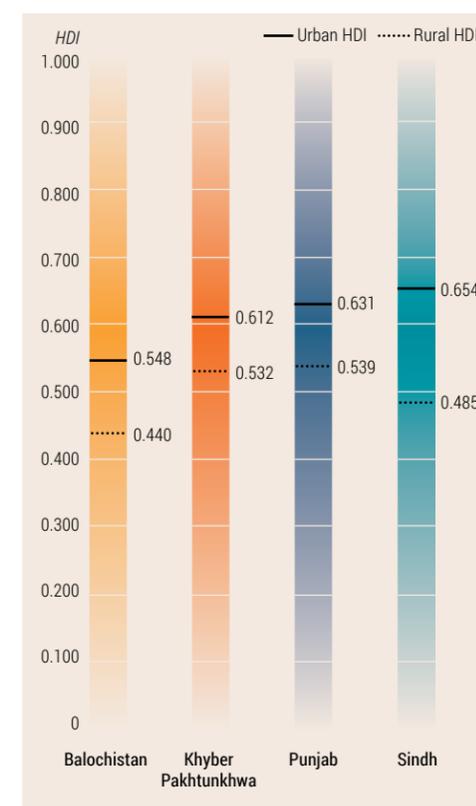
Source: UNDP calculations based on multiple years of HIES data.

est in Khyber Pakhtunkhwa (figure 12).

All of the measures discussed above go a long way towards unpacking the two different Pakistans – whether characterized by a developed province compared to an underdeveloped one, by the richest quintiles within a province over its poorest quintiles, or even at the level of urban-rural divides in the country. However, the dichotomy of the two different Pakistans also operates along axes that are not geographically based.

FIGURE 12

The gap between rural and urban HDIs is highest in Sindh and lowest in Khyber Pakhtunkhwa, (2018-2019)



Source: UNDP calculations based on Pasha, 2019; PDHS, 2017-2018; multiple years of HIES data.

Special measures of inequality

The multidimensional inequality that cleaves the country into two different Pa-

kistans cannot be properly understood without analysing its impact on key groups in society like children, young people, workers, and women. Tracing the contours of inequality through their perspectives reveals important insights for policy makers, especially as it relates to their interplay with the three Ps of inequality: People, Power, and Policy, discussed at length below. Therefore, in addition to income, wealth, and human development, the NHDR 2020 analyses four other measures of inequality that lay bare the existence of a segregated and unequal Pakistan.

Child Development Index (CDI)

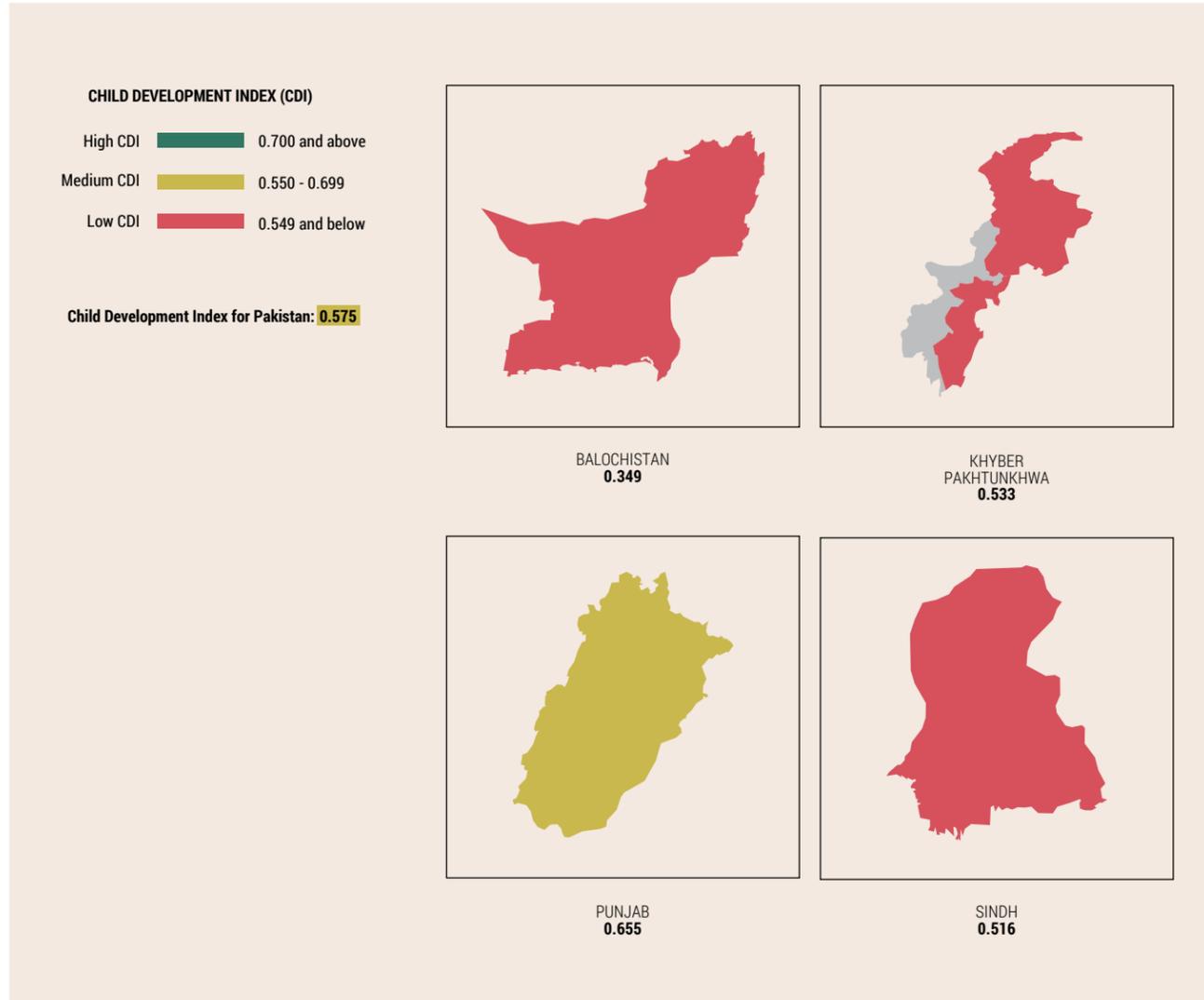
Conversations on inequality – particularly in Pakistan – have often neglected to include children. To address this gap, the NHDR 2020 constructs, perhaps for the first time, a Child Development Index (CDI) in the Pakistani context.²⁰

Pakistan has a CDI value of 0.575, out of a potential maximum of 1. The indicators that fare best are the number of children who do not suffer from wasting, and the proportion of fully-immunized children. The indicators that fare worst include the net enrolment rate at the middle school and matric levels. Overall, Pakistan's CDI value has improved over time. The trends in this improvement reveal that, while the country does relatively better on providing primary health care for children, much more needs to be done to make education more accessible.

Among Pakistan's provinces, Punjab has the highest CDI value, followed by Khyber Pakhtunkhwa, Sindh, and then Balochistan (map 1). Unfortunately, all provinces except Punjab fall below the national average, with children in Sindh and Balochistan facing huge challenges, particularly in terms of nutrition.

To improve Pakistan's performance on the Child Development Index, social protection programmes for child development should focus on food supplements and immunization coverage in Balochistan and

Pakistan Child Development Index, (2018-2019)



Source: UNDP calculations based on the HIES 2018–2019, the PSLM 2018–2019, and the PDHS 2017–2018.

Sindh. Enrolment rates at the middle and matric levels must be enhanced nationwide.

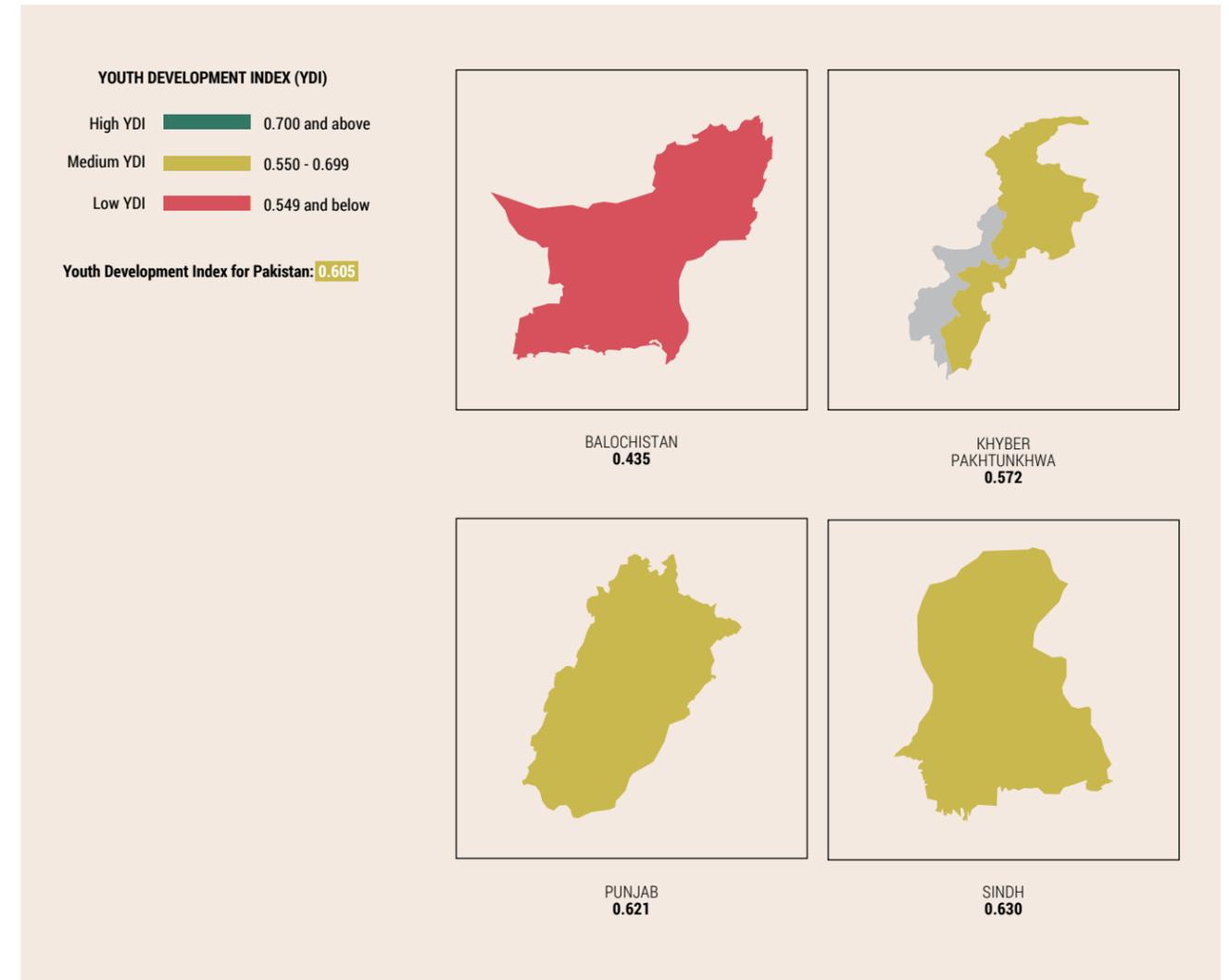
Youth Development Index (YDI)

Pakistan is one of the world’s youngest countries. Its burgeoning population of youth between 15 and 29 years of age will be a potentially vital factor in accelerating the pace of both economic growth and human development. However, progress will

depend on whether young people are able to access skills and opportunities that can unlock their potential and improve their well-being.

Pakistan has a Youth Development Index (YDI) value of 0.605, out of a potential maximum of 1.²¹ The indicators that have improved over time include years of schooling, enrolment in higher education, and the youth survival rate. However, other indicators seem to be worsening, most notably youth’s employment-to-population

Pakistan Youth Development Index, (2017-2018)



Source: UNDP calculations based on LFS 2017-2018 and PMMS, 2019.

ratio and the percentage of fully-employed youth. Overall, Pakistan’s YDI value has improved slowly over time. A major concern is that the male YDI value is twice the female YDI value. Young women seem to fare worst in employment-related indicators, meaning that educated women are choosing not to seek employment, or are unable to secure decent work.

Sindh has the highest YDI value among Pakistan’s provinces, followed by Punjab, Khyber Pakhtunkhwa, and finally Baloch-

istan (map 2). Sindh and Punjab both perform better than the national average on this index.

The fact remains that there are 27 million ‘idle’ or unemployed youth in Pakistan. This could lead to an increased risk of crime and violence, cloaked in the garb of ethnicity, sectarianism, or religion. Therefore, addressing youth development should rank high among government priorities to prevent rising frustration and disengagement among the country’s youth.

Labour Development Index (LDI)

Pakistan is home to what Karl Marx dubbed an ‘industrial reserve army’ – workers who are irregularly employed. A lack of education and skills, coupled with limited alternative livelihood opportunities, makes these workers easily exploitable. Pakistan has a Labour Development Index (LDI_{DW}) value of 0.442 when the incidence of decent work is considered (map

3).²² Pakistan’s LDI value – both with and without the inclusion of decent work – has improved slowly over the years.

Unfortunately, the labour force participation rate has decreased over time, as have returns on education – meaning that an increase in skills has not translated into improved employment opportunities. While decent work conditions have improved overall, they have likely been restricted to the formal sector, rather than the more ex-

exploitative agricultural or informal sectors which employ the bulk of Pakistan’s workers. For example, Khyber Pakhtunkhwa has the highest share of labour income among Pakistan’s provinces. However, this growth in labour income is largely led by a flourishing informal market wherein labour rights are entirely unprotected – a worrying situation.

Given its status as Pakistan’s foremost economic hub, Sindh has the highest levels of labour development (including decent work indicators) in the country. It is followed by Punjab, Khyber Pakhtunkhwa, and then Balochistan. Although Balochistan ranks last, it experienced the second-highest increase in its Labour Development Index in the past decades.

Appropriate policy measures are urgently needed to address challenges to decent work which hamper Pakistan’s overall human development and economic growth. In 2018, 53 percent of the country’s employed population was not being paid the minimum wage, and around 83 percent of workers are unprotected by labour laws.²³ To overcome inequality in this domain, Pakistan must establish the grounds for decent work for all, and pass labour protection laws on minimum wages, social security, and working hours, especially in the informal sector.

Gender Development Index (GDI) and Gender Inequality Index (GII)

Gender equality is at the heart of the Sustainable Development Goals, adopted by all UN Member States. Not only are gender equality and women’s empowerment a standalone goal in themselves (SDG 5), they are also a cross-cutting issue across all 17 global goals.

The Gender Development Index (GDI), derived by calculating the ratio between female and male HDI values, is one way of measuring gender inequality.²⁴ Pakistan has a GDI value of 0.777, putting it in the lowest of the index’s five categories. This category signifies ‘low equality

in HDI achievements between women and men’, with an absolute deviation from gender parity that is greater than 10 percent. This perfectly reflects the context of women in the country. For example, the gap in women’s and men’s earnings clearly increased between 2006 and 2019 (figure 13).

The Gender Inequality Index (GII) is another important measure, highlighting the loss in human development caused by gender inequality. In 2017, Pakistan ranked 133rd on the Gender Inequality Index among medium human development countries.²⁵ Pakistan’s GII value is 0.548, reflecting an improvement until 2015–2016 and a slight deterioration thereafter. This is largely due to a decrease in women’s labour force participation and an increase in the percentage of women between the ages of 15 and 19 who have ever been married.²⁶

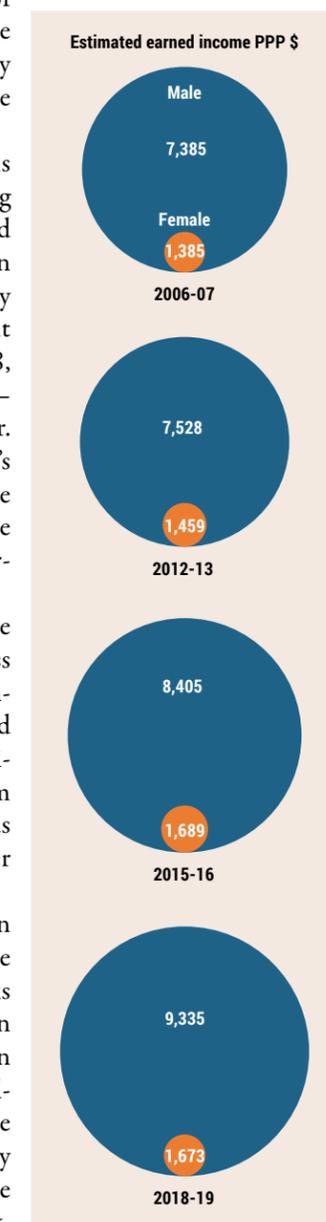
Among the provinces, Punjab has the lowest GII value, meaning that the loss in human development due to gender inequality is lowest in Punjab. It is followed by Sindh, Khyber Pakhtunkhwa, and finally Balochistan (map 4). Long-term trends suggest that gender inequality has decreased in all provinces except Khyber Pakhtunkhwa.

Despite mild improvements, Pakistan ranks 151st out of 153 countries on the Global Gender Gap Index. It also ranks lowest among South Asian countries on the index. Pakistan’s 9.1 million women agricultural workers are particularly vulnerable. While they play a substantial role in food production and food security, they are largely unpaid, suffer from greater time poverty, and are far more vulnerable to exploitation than men.

Efforts are urgently needed to bridge the chasm of gender inequality in Pakistan by focusing on women’s reproductive health, political empowerment, and participation in the labour force, while making education far more accessible to them.

The NHDR 2020’s four major indices of inequality – related to child, labour,

FIGURE 13
Wider gap in female and male earnings, (2006-2019)

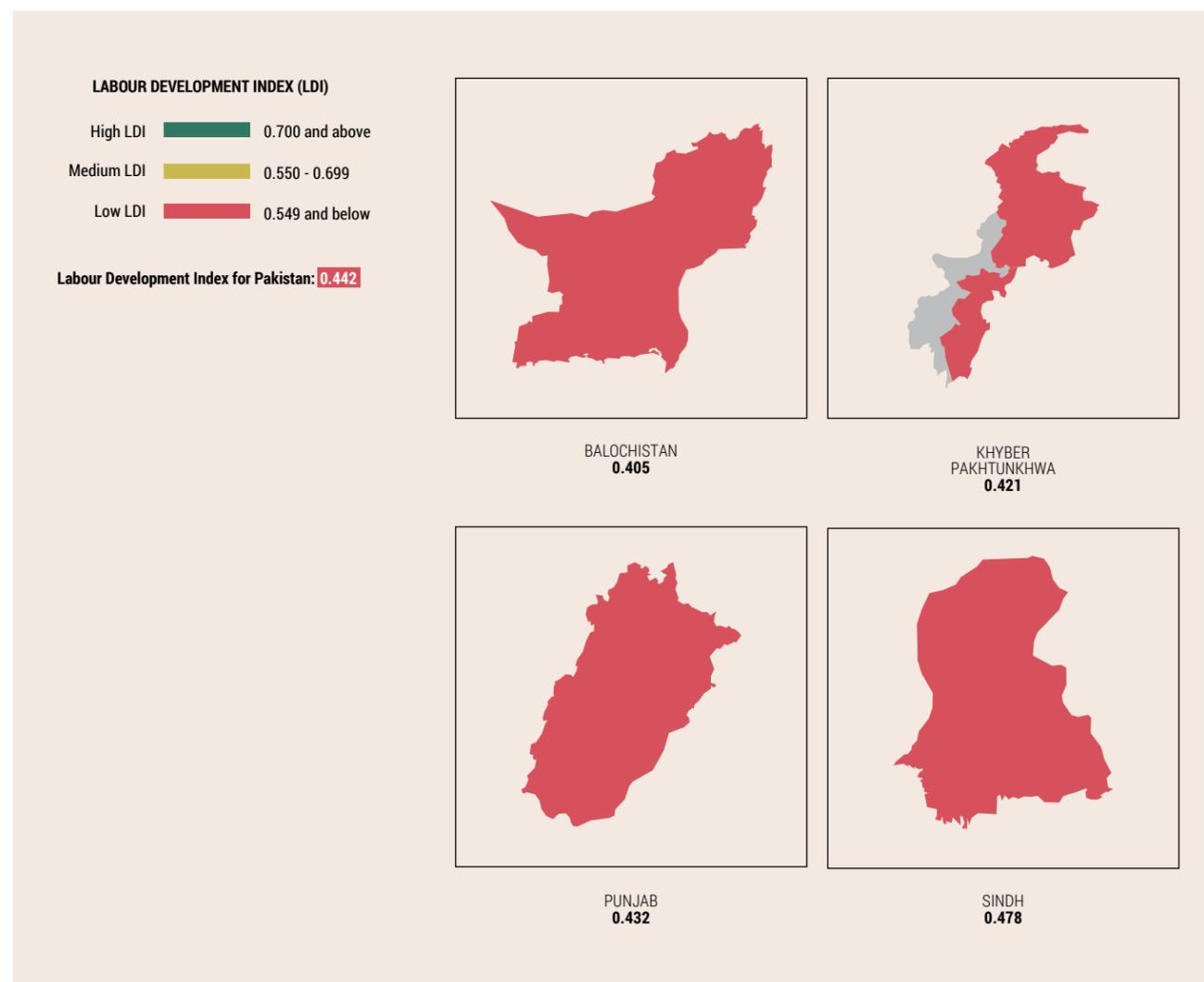


Source: UNDP calculations based on multiple years of National Accounts, LFS, and Population Census, 2017.

Pakistan performs poorly in child development, labour development, and gender development.

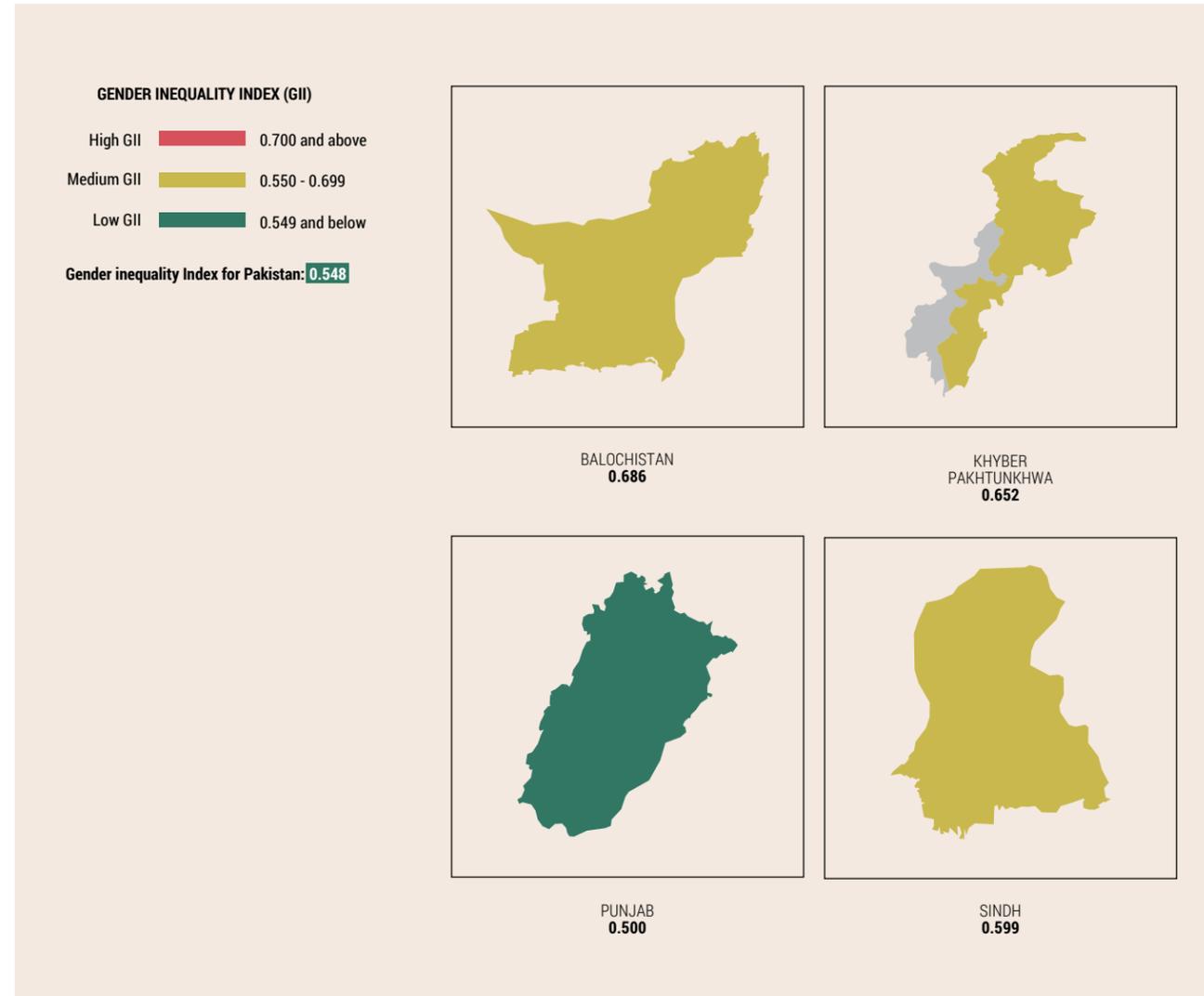
MAP 3

Pakistan Labour Development Index, (2017-2018)



Source: UNDP calculations based on Pasha 2019 and LFS, 2017-2018.

Pakistan Gender Inequality Index, (2018-2019)



Note: The closer the GII is to 0, the better. See GII technical notes for more details.
Source: UNDP calculations based on PSLM, 2018-2019; LFS, 2017-2018; and Khan, A., & Naqvi, S., 2018.

youth, and gender development – highlight both programmatic and regional priorities for development. Overall, the report finds that Pakistan performs particularly poorly in child, labour, and gender development. For holistic progress, there is a need to focus specifically on certain social and demographic axes in framing human development policy.

Bridging the gap between the two different Pakistans

The idea of the two different Pakistans is strongly reinforced by the measures of inequality in income, wealth, and human development at the national and provincial levels, as well as by the four indices of child, youth, labour, and gender development calculated by the NHDR 2020.

Whether these fault lines of inequality are understood to be geographical in nature, or are informed by social and demographic groups, the takeaway is the same: There is a critical need to understand the processes and mechanisms that have birthed the two different Pakistans, and to use this as a foundation to bridge the gaps between them. To do this, the NHDR 2020 proposes its framework of the three Ps: Power, People, and Policy.

Notes

- World Bank 2018.
- UBS and PwC 2019.
- Such protests have been reported over the past years in countries including Ecuador, Bolivia, Chile, and Lebanon.
- For further reading on the human development paradigm, see Reflections on Human Development by Mahub ul Haq (1995).
- The Inter-Agency and Expert Group on SDG Indicators developed the indicator framework for SDG 10 on inequality, which was adopted at the 47th session of the UN Statistical Commission in March 2016.
- Government of Pakistan 2020a.
- Based on data from Household Integrated Economic Surveys between 2001–2002 and 2018–2019. See Government of Pakistan 2003, 2006, 2012, 2016b, and 2020a.
- The Gini coefficient is a less sensitive measure with a maximum value of one, while the Palma ratio ignores developments in the middle classes and can only be quantified if information is available by deciles (10 equal groups of the population) or quintiles (five equal groups of the population). For the methodology used to compute this ratio, see Technical note 2 on the Pashum ratio in the NHDR 2020.
- Government of Pakistan 1972 and 2010a.
- UNDP 2019.
- The IHDI was developed in 2010, based on measures examined by Foster and others 2005. See the standard methodology for IHDI quantification development in the global Human Development Reports. The calculations for the country's HDI value by quintile use the standard indicators used to construct the HDI. Refer to the standard methodology for HDI quantification in the global Human Development Reports.
- UNDP 2019.
- Pakistan's provinces are consistently discussed in this

order in the NHDR 2020, listed according to their share of the national population, from the largest (Punjab) to the smallest (Balochistan).

- Pasha 2019. For details, see Technical note 3 on the estimation of gross regional product in the NHDR 2020.
- Azad Jammu and Kashmir has an HDI value of 0.632 in 2018–2019. However, for comparability across regions, the 2015–2016 value of 0.621 is used, based on latest data available for other regions. Similarly, the latest available data for Gilgit-Baltistan's HDI indicators are from 2014–2015. However, for comparison with other provinces and special regions, the NHDR refers to this data as 2015–2016 data.
- Government of Azad Jammu and Kashmir 2018.
- Due to unavailability of data, the IHDI of Pakistan's special regions could not be calculated.
- In 2015, the year used for this analysis, Punjab had a population of 110 million people, representing 54 percent of Pakistan's total population. Sindh had a population of 48.8 million, accounting for 23 percent of Pakistan's total population. Khyber Pakhtunkhwa's population was 30.5 million, representing 15 percent of Pakistan's total population. After the 2018 merger of the Federally Administered Tribal Areas (FATA), now known as the Newly Merged Districts, into the province, Khyber Pakhtunkhwa's population increased to 35.5 million, or 17 percent of Pakistan's population. Balochistan's population was 11.9 million, accounting for just 6 percent of Pakistan's total population. These figures were calculated using data from the National Population Census of 1998 and of 2017. Government of Pakistan 1998 and 2018c.
- For details see Technical note 5 in the NHDR 2020 on the derivation of income inequality in urban and rural areas.
- Technical note 6 in the NHDR 2020 outlines the methodology used by the NHDR 2020 to derive the overall Child Development Index.
- See Technical note 7 of the NHDR 2020 for details on the methodology used to construct the Youth Development Index.
- LDI_{dw} denotes the Labour Development Index with the inclusion of the incidence of decent work. See Technical note 8 for the detailed calculations and methodology used.
- The minimum wage is the wage level appropriated by the Government in consultation with relevant stakeholders.
- Refer to the standard methodology for GDI quantification in UNDP's global Human Development Reports.
- UNDP 2018.
- As opposed to the Gender Development Index, the lower the value of the Gender Inequality Index, the better the situation is as it indicates low levels of inequality between women and men.

PART 2

The NHDR 2020's three Ps of inequality





PART II

The NHDR 2020's three Ps of inequality

Inequality is a cross-cutting phenomenon, affecting people's ability to live life on their own terms. It is the product of a broad range of structures, processes, and actions, including corruption, prejudice, politics, taxation, development priorities, and others. In deconstructing the causes of inequality, the NHDR 2020 examines a host of drivers that create, maintain, and exacerbate disparities in the country.

Based on this analysis, the NHDR 2020 identifies three primary drivers of inequality in Pakistan: Power, People, and Policy. Powerful groups use their privilege to capture more than their fair share, people perpetuate structural discrimination through prejudice against others based on social characteristics, and policies are often unsuccessful at addressing the resulting inequity, or may even contribute to it. The overwhelming takeaway of the NHDR 2020 is this: We must advocate for Pakistan's vulnerable communities, and unravel the Gordian knot of Power, People, and Policy to alleviate inequality nationwide.

Power: The political economy of inequality

'Power' as a contributor to inequality refers to the groups that exploit loopholes, networks, and policies for their benefit. In many ways, structural inequality in Pakistan is both exacerbated and reinforced by these groups, whose aim is to accumulate wealth, power, and privilege at the expense of others. This driver of inequality reflects the alignment of powerful forces. It tends to persist, and even to grow, unless fundamental changes are made in the power structure and a radical transformation takes place in political ideology towards a

more egalitarian system.

This section outlines the three main ways that Power – the first 'P' of inequality – manifests in Pakistan. First, it discusses the country's most powerful groups, estimating the monetary value of the privileges they have accumulated through lobbying, connections, and legal loopholes. Second, it examines the incidence of taxes to analyse the progressivity of Pakistan's tax system. This shows whether extreme wealth is being redistributed equitably in the country. Third, it looks at public expenditure priorities to determine what the state spends on public services and social protection programmes compared to the resources pre-empted by vested interests.

Powerful groups and their privileges

Many groups in Pakistan exploit their power to gain preferential treatment in laws, rules, and regulations. In doing so, they maintain or increase inequality. The ways in which they accumulate power and privilege include the taxation system (through tax exemptions, low effective tax rates, and tax evasion), cheaper inputs (such as energy and water, intermediate inputs, or machinery), higher output prices (such as favourable pricing formulas, high levels of effective protection, or the ability to form monopolies or cartels), and preferential access (in terms of land, capital, and infrastructure/services). Figure 14 classifies the various types of privileges and special treatment that characterize state capture by the elite, highlighting the different special interests that benefit most from these privileges. The privileges of these groups are explored below.¹

FIGURE 14

Sources of privileges of different vested interests

Types of privilege	Feudal class	Corporate sector	Exporters	Large traders	High net worth individuals	Military establishment	State owned enterprises	Total
TAX SYSTEM								12
· Tax exemptions								4
· Low effective tax rates								5
· Tax evasion								3
CHEAPER INPUTS								7
· Energy, water								2
· Intermediate inputs								2
· Machinery								3
HIGHER OUTPUT PRICES								6
· Favourable pricing formula								3
· High effective protection								1
· Monopoly / cartel								2
PREFERENTIAL ACCESS								7
· Land								1
· Capital								5
· Infrastructure/ services								1
TOTAL	6	8	6	2	3	4	3	32

Source: UNDP calculations based on sources mentioned in text and footnotes.

The corporate sector is the greatest beneficiary of privileges in Pakistan, followed by the feudal elite.

The feudal class

Pakistan’s feudal elite constitute just 1.1 percent of its population, but own 22 percent of its farm area. They have disproportionate access to political representation in National and Provincial Assemblies, enabling them to safeguard the tax benefits and special concessions they are granted. These benefits include favoured tax treatment for agricultural income and land revenues, low irrigation water charges despite Pakistan’s water-stressed status, preferential access to bank credit, and subsidies for fertilizers and the provision of electricity for tube wells.

Overall, in 2017–2018, Pakistan’s feudal class enjoyed privileges totalling PKR 370 billion.

The corporate sector

The corporate sector encompasses Pakistan’s growing number of business owners and shareholders. Businesspersons are often members of federal and provincial cabinets. Moreover, large associations and embassies protect the interests of multinational corporations that operate in the country. Overall, the corporate sector benefits from a host of privileges, such as the recent reduction of corporate tax on profits, the withdrawal of the Super Tax (meant for the extremely wealthy), and industry-specific concessions such as lower sales tax rates on production and sales, exorbitant import duties, and more.²

Overall, in 2017–2018, Pakistan’s corporate sector enjoyed privileges totalling

PKR 724 billion.

Exporters

In an attempt to redress Pakistan’s increased trade deficit and the worrying fall in reserves, exporters have benefitted from growing incentives in recent years. These include tax breaks, with the presumptive income tax on the value of export earnings fixed at just 1 percent. They also enjoy reductions in sales tax liabilities, as well as zero import duties on the raw materials and intermediate goods they use. Exporters also have access to a special credit line from the State Bank of Pakistan, with an interest rate substantially lower than prevailing market rates.

Overall, in 2017–2018, exporters in Pakistan enjoyed privileges totalling PKR 248 billion.

Large-scale traders

Large-scale trades include commercial importers, wholesalers, and retailers in the domestic market. Given the trading community’s large size and key role in sustaining day-to-day activities, especially in Pakistan’s metropolitan cities, traders have acquired a measure of political power that they have translated into substantial privileges. These include paying presumptive income taxes on their electricity bills, under-invoicing (frequently with the help of customs authorities), and withholding taxes set as low as 1 to 5 percent.

Overall, in 2017–2018, large-scale traders in Pakistan enjoyed privileges totalling PKR 348 billion.

High net worth individuals

The top 1 percent of Pakistan’s population has 9 percent of the country’s total personal income.³ The average income of high net worth households is six times the income of an average Pakistani household. Despite this, high net worth individuals evade taxes worth PKR 168 billion. They also enjoy

substantial concessions, such as tax credit provisions which reduce their personal income tax liability, and the separation of taxes into different types of income (from securities, shares, and bank deposits, etc.) which reduces the progressivity of the tax system.

Overall, in 2017–2018, high net worth individuals in Pakistan enjoyed privileges totalling PKR 368 billion.

The military establishment

Today, the military establishment represents the largest conglomerate of business entities in Pakistan, besides being the country’s biggest urban real estate developer and manager, with wide-ranging involvement in the construction of public projects. The military’s business activities are essentially run through two entities, the Fauji Foundation (FF) and the Army Welfare Trust (AWF), with high net profits and rapid growth. The military’s Defence Housing Authorities (DHAs) also enjoy significant privileges in terms of federal sales tax exemptions and the earmarking of property tax, which goes solely to cantonment boards.

Overall, in 2017–2018, Pakistan’s military establishment enjoyed privileges totalling PKR 257 billion.

State-owned enterprises

State-owned enterprises (SOEs) benefit from immense privileges in Pakistan as they have strong trade unions with political links, and enjoy the support of a compliant bureaucracy in various ministries. These enterprises receive subsidies worth PKR 120 billion from the federal budget, the largest share of which goes to the power sector. They also receive various grants in the form of support transfers to cover operational costs, among other privileges. Unfortunately, the federal budget’s other relatively large transfers to state-owned enterprises remain non-transparent in nature.

Overall, in 2017–2018, Pakistan’s state-

owned enterprises enjoyed privileges totaling PKR 345 billion.

The total cost of privileges

Figure 15 ranks the different vested interests in Pakistan in terms of the benefits and privileges they enjoy. The corporate sector is the beneficiary of the greatest privileges, including both industry and the banking sector. The feudal class is next, followed by high net worth individuals.

Overall, the total privileges enjoyed by Pakistan's most powerful groups amounted to PKR 2,660 billion in 2017–2018. Equivalent to 7 percent of the country's GDP, these privileges can be broken down into favourable pricing, lower taxation, and preferential access. The corresponding cost of social protection programmes estimated by Pasha (2019) was PKR 624 billion. Therefore, diverting just 24 percent of these privileges to the poor could double the benefits available to them. To alleviate inequality, redistribution along these lines is a crucial first step.

The value of the privileges of Pakistan's vested interests adds up to PKR 2,660 billion.

Pakistan's tax system is only mildly progressive.

Taxation in Pakistan: Progressive or regressive?

Pakistan's tax system does not contribute significantly to reducing inequality in the

country. The primary reason for this is the low share of direct taxation, which is under 20 percent. As figure 16 shows, the burden of taxes rises gradually with income, making the country's tax system only mildly progressive. In essence, this is because special interest groups have successfully manipulated the system to seek and obtain a host of tax breaks and exemptions. Thus, taxes have played a very limited role in reducing inequality or making income distribution less skewed in favour of the rich.

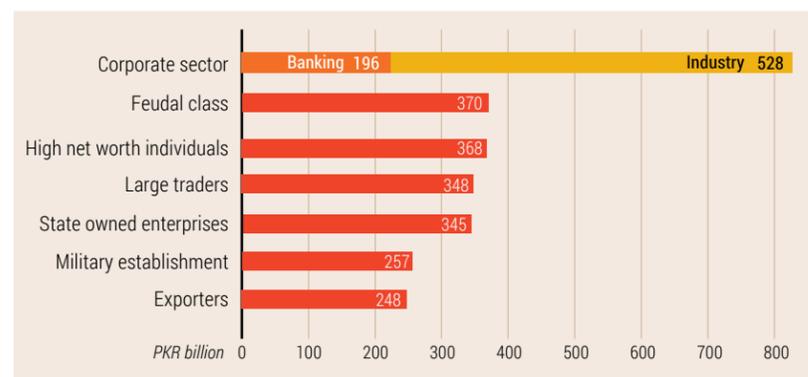
There is a clear need both to move towards a more progressive tax system, as well as to generate more tax revenue by withdrawing special treatment, plugging loopholes, and reducing tax evasion. As only 20 percent of public expenditure is spent on human development, tax revenue should also be used more efficiently to provide basic services like quality health care and education.

Public expenditure and access to services

Achieving inclusivity in opportunities for growth depends on two key factors: the ability of state expenditure to deliver affordable and quality public services, and people's ability to access these services. Understanding public expenditure on services

FIGURE 15

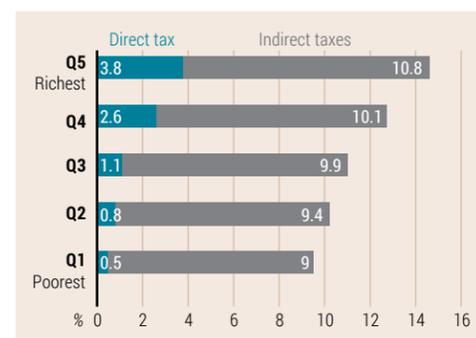
Ranking of vested interests in terms of the magnitude of benefits and privileges enjoyed by each, out of total PKR 2,660 billion



Source: UNDP calculations based on sources mentioned in text and footnotes.

FIGURE 16

Incidence of taxes by quintile, (2017-2018)



Source: UNDP calculations based on sources mentioned in text and footnotes.

helps us understand how best to reorient spending priorities to alleviate inequality and provide equal opportunities for all.

Public expenditure priorities

Over the years, Pakistan has invested less than the optimal amount in delivering public services. In fact, it spends a smaller proportion of its GDP on social services to improve human development indicators – such as health, education, and social protection – than most countries in the region, including Nepal, Sri Lanka, and India. It is little surprise, then, that Pakistan ranks lower on the Human Development Index than neighbouring countries (figure 17). Limited investment in services is driven by fiscal limitations, as well as by priorities that have not always been aligned with human development.

In terms of Pakistan's total expenditure on social services, education receives the largest share (64 percent), followed by health (31 percent). Other services lag far behind – the environment, water supply and sanitation sector receives just 4 percent, and population planning a meagre 1 percent. This does not bode well for a country with surging climate change-related vulnerabilities, an increasingly scarce and unsafe water supply, and a high unmet need for family planning despite an unsustainably high population growth rate.

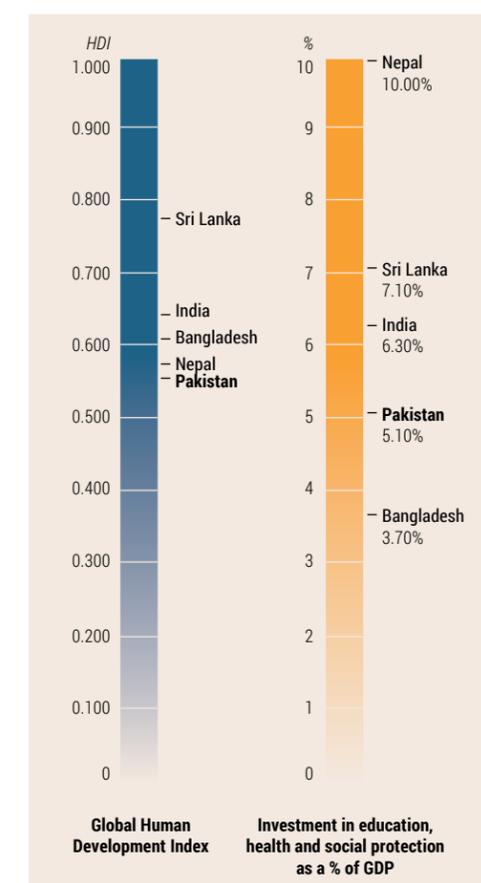
Breaking down public expenditure further reveals that primary and secondary education receive the largest allocations from provincial education budgets, with the focus on secondary schooling growing in recent years. Even so, there are 23 million out-of-school children in Pakistan, alongside 22 million enrolled in low quality government schools. Poor quality education is partly due to a lack of investment in teacher training and vocational training – the facet of education that receives the smallest allocations.

The greatest share of provincial health expenditure is spent on general hospitals

and clinics, while maternal and child health care receives a negligible share. In addition, access to drinking water, basic vaccination coverage, and child delivery capacities in health facilities vary widely across income quintiles. For example, around 21 million people in Pakistan have no access to clean drinking water near their homes.⁴

FIGURE 17

Countries with higher investment in education, health and social protection as % of GDP tend to have a higher HDI



Source: Government expenditure on education as percentage of GDP and domestic general government health expenditure as percentage of GDP are sourced from Data Bank of The World Bank. The years on which data is reported for education expenditure in this table vary for each country based on the most recent data available. However, the year for health expenditure is 2016 for all countries. The expenditure on social protection as a percentage of GDP was taken from the 2016 report of Asian Development Bank. Social protection includes expenditure on social insurance, social assistance and labour market programmes, with the most recent data reported for 2012. The data provided in this table varies slightly from the information given in this chapter for Pakistan, as international sources comparable across countries are often updated but not regularly.

Pakistan's richest quintile benefits the most from public expenditure.

TABLE 1

Percentage share of benefits under different types of expenditures, by income quintile, (2018-2019)

Type of expenditure	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total	Palma ratio
Social services	20.9	22.9	20.9	21.2	14.1	100	0.7
Economic services	7.9	11.6	15.8	21.2	43.5	100	5.5
Subsidies and social protection	31.6	20.9	14.1	15.8	17.6	100	0.6
General expenditure	9.6	11.4	13.9	18.9	46.2	100	4.8
Total public expenditure	14.2	14.5	15.1	19	37.2	100	2.6
Income	9.2	12.9	13.6	21	43.3	100	4.7

Source: UNDP calculations based on sources mentioned in text and footnotes.

Perhaps most importantly, the NHDR 2020 reveals that Pakistan's people do not benefit equally from public expenditure. The overall share is 14.2 percent for the poorest income quintile, compared to 37.2 percent for the richest quintile (table 1).⁵ This means that Pakistan's richest quintile benefits most from public expenditure.

Fortunately, the distribution of public expenditure is less unequal than the distribution of income in the country. Thus, public expenditure does contribute to reducing inequality. However, attempts are urgently needed to increase this contribution by raising basic social services' share in public expenditure, increasing cash transfers, and widening the coverage of pension schemes.

Access to public services

Beyond public expenditure, inequality is also determined by access to services. If anyone remains deprived of access to public services, they face a key form of inequality: inequality of opportunity. This prevents people from reaching their full potential and keeps them from improving their own, and their families', well-being.

Despite a growing number of public and private schools in Pakistan, access to education is not uniform across all income groups. Net enrolment rates are far high-

er among richer income quintiles. There is also a quality dimension to consider in terms of access to education. Poor families are only able to spend up to a maximum of 2 percent of their income on their children's education, relegating them to the domain of poorer quality public education, and limiting their choices for work in the future. In effect, this means that the world of the two different Pakistans will continue in the next generation.

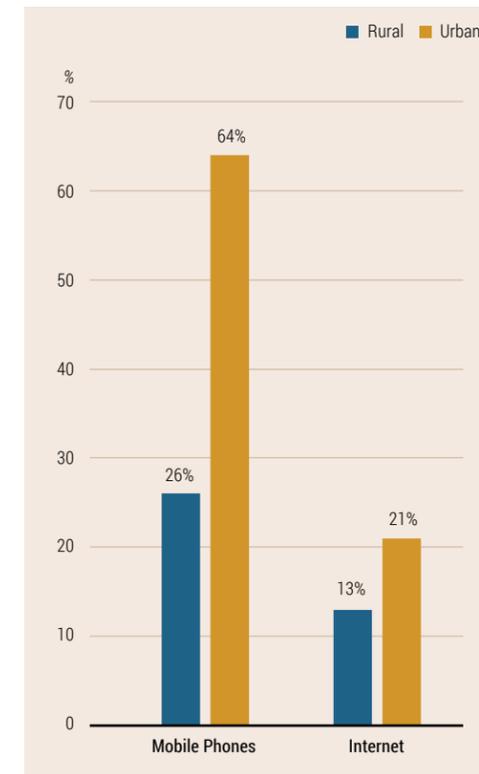
Access to basic health services is similarly limited and highly unequal. Low-income families have little or no access to the health care they need; if they face a major illness, they are often compelled to take out loans to pay for health care. Ill-health can cause heads of households to lose their jobs or suffer a permanent loss of income, with catastrophic consequences for themselves and their dependants. As expected, access to health care varies significantly with the distribution of wealth. In Pakistan, the richer you are, the better your access to health services.

Another important factor affecting access to opportunity is infrastructure, including the water supply for irrigation, housing and shelter, and the road network. Infrastructure facilities are not equitably distributed in Pakistan. Large-scale farmers pre-empt most of the water available for irrigation. Some 28 percent of poor households each live in a single room, frequently with as many as eight family members. The National Highway Authority routinely neglects farm-to-market roads which are essential for linking farmers and small-scale producers with work and livelihood opportunities.

Access to digital services in Pakistan is also low, with a 'digital divide' that spans across income quintiles, rural and urban areas, and even gender. Only 45 percent of people own mobile phones, and just 17 percent use the internet (figure 18). Overall, this divide is the result of digital monopolies, language barriers, and existing inequalities in affordability and accessibility.

FIGURE 18

Ownership of mobile phones and access to the internet (% of the population), (2018-2019)



Source: PSLM 2018-2019.

The underlying lesson here is that both public expenditure and access to services must be reoriented if Pakistan is to improve its levels of human development and overcome entrenched inequality.

Moving forward: Improving governance and institutional capacity

Powerful groups' accumulation of wealth and privilege maintains inequality and, in many cases, infringes on the rights others, thereby creating new inequalities. Taxes do little to redress inequality, the coverage of social protection and poverty alleviation programmes is very limited, and public sector priorities are not as focused on human development as they should be.

These themes are intrinsically tied to

issues of governance and institutional capacity. For example, despite the importance of the rule of law, Pakistan's justice system is highly skewed towards the rich and powerful. A lack of equitable access to justice is a huge source of inequality in the country. The formal justice system fails to reach low-income and disadvantaged groups, especially those living below the poverty line. Factors behind this include an extreme backlog of court cases, the inadequate number of judges, high costs associated with accessing justice, a lack of public awareness about existing legal aid and its poor implementation, and the inefficient enforcement of contracts. For instance, just over 3,000 judges in Pakistan are responsible for handling over 1.7 million pending court cases.

Poor regulation by the National Electric Power Regulatory Authority (NEPRA) and the Oil & Gas Regulatory Authority (OGRA) increases the cost burden on end consumers and hinders socio-economic development. The State Bank of Pakistan has been unable to control the build-up of a credit monopoly in the financial sector. As a result, low-income individuals are denied access to credit. The Securities and Exchange Commission of Pakistan (SECP) has been unable to perform its core function of creating confidence in the stock market and raising enough capital for new listings. The Competition Commission of Pakistan (CCP), too, remains relatively inactive in ensuring competitive pricing and fair trade practices. Consequently, there is evidence of major regulatory failures to break monopolies and cartels in the country. In fact, from 2007 to 2018, the NHDR 2020 identifies an average of six industries per year that are either potential cartels, or practice deceptive market practices. The most egregious of these are the cement, sugar, and motor industries (figure 19).⁶

These findings demonstrate how powerful groups and weak governance ultimately increase inequality in Pakistan. Alleviating the situation demands a comprehensive approach. Strict measures of accountability

The lack of access to justice is a huge source of inequality in Pakistan.

There is evidence of major regulatory failures to break monopolies and cartels in Pakistan.

FIGURE 19

Number of times various industries were identified as potential cartels, (2007-2018)



Source: UNDP calculations based multiple years of SBP data.

ity and transparency can bring crumbling public systems to life. The Public Financial Management Act 2019 and the Right to Information Act 2017 can help to reduce inequalities, but only if federal and provincial departments adopt them and monitor their implementation in both letter and spirit. At the same time, good governance at all levels of policy formulation, administration, and implementation is vital to conduct public affairs effectively, to manage public resources, and to tackle different forms of the abuse of power.

People: Perceptions of inequality

People are contributors to inequality in terms of how they treat a community or individual based on sociocultural markers – for example, investing less in a girl’s education, refusing to employ a Christian professional, or denying service to a transgender person. Such differences in treatment are often expressed as bias, prejudice, or discrimination against vulnerable social groups, which impact their income, access to opportunities, and general quality of life. This ultimately exacerbates inequality.

It is important to note that individuals have multifaceted, complex, and fluid identities. While a woman may generally have access to fewer opportunities compared to a man in Pakistan, a wealthy female landowner is likely to have a better

quality of life than a poor male farmer. This is where intersectionality comes into play. It helps us analyse how social, cultural, or political identities overlap to create complex discriminatory reactions. Such analysis, in turn, provides the opportunity to develop effective recommendations to counter inequality. This is the perspective that the NHDR 2020 takes in speaking of ‘People’ as drivers of inequality.

NHDR 2020 focus groups

To offer an inclusive, participatory perspective of inequality in Pakistan, the NHDR 2020 team spoke to people who experience inequality on a daily basis. We conducted 38 focus group discussions (FGDs) with marginalized groups across the country, affording access to human stories behind the statistics of inequality. Most consultations involved 10 to 20 people at a time, with a community contact present to act as an intermediary and ensure participants’ comfort. Focus group discussions were held with gender minorities, persons with disabilities, informal workers, displaced persons, religious and ethnic minorities, people living in poverty, underprivileged children, bonded labourers, refugees, youth not in education, employment or training, young mothers, white-collar workers, the upper classes, and workers engaged in particularly marginalized professions like farmers in Punjab, miners in Balochistan, and textile workers in Sindh.^{7 8}

The main goal of these focus group discussions was to enable vulnerable groups in Pakistan to give voice to their lived experiences in their own words. This section presents major insights from these discussions, alongside the results of the NHDR 2020’s Inequality Perception Survey, conducted with 386 participants from our 38 focus groups.

Five axes of inequality

The NHDR 2020’s focus groups were

structured around five axes of inequality in Pakistan – that is, five ways through which inequality might manifest itself in the country (figure 20).

Identity and representation

Our consultations show that greater representation can create positive change in people’s lives. One example is of women parliamentarians in Quetta, who banded together to demand day care facilities after

one woman was told she could not bring her child to a session of the Provincial Assembly.⁹ Another insight is that meaningful education often helps groups to overcome prejudices, or even learn to advocate for themselves. This was the case for transgender women in Karachi, who began to stand up for themselves after working with a non-governmental organization that champions transgender rights. Figure 21 presents levels of educational attainment by social marker, based on the NHDR 2020’s Inequality Perception Survey.

Social mobility

Individuals and groups who experience inequality tend to enjoy limited social mobility. This begins at an early age, with poor foundational education, and greater instances of child labour and early marriage. For example, all 14 women we spoke to in Mithi, in Sindh’s district of Tharparkar, were married before the age of 16. As a result, they could not attain higher education, which could have helped them achieve social mobility. Social mobility appears easier in Khyber Pakhtunkhwa, where remittances have contributed to far-reaching economic improvements for many fam-

FIGURE 20

The five axes of inequality of NHDR 2020

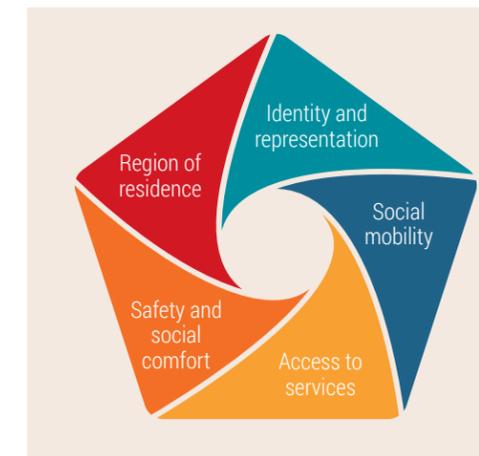
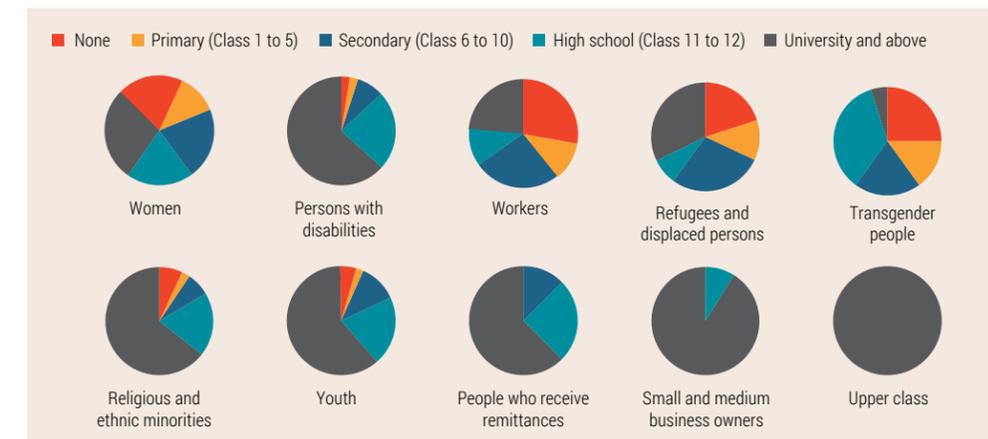


FIGURE 21

Educational attainment of different social groups, (2020)



Note: The confidence interval for any point estimate in the above figure is +/- 20 percent of the reported magnitude. Source: UNDP calculations based on the NHDR 2020 Inequality Perception Survey.

ilies. Figure 22 presents data on wealth by social marker, based on the NHDR 2020's Inequality Perception Survey.

Access to services

One of the main ways in which inequality impacts individuals is by limiting their access to basic services. The NHDR 2020's focus groups demonstrate just how common 'ghost' schools and health facilities are in Pakistan; their existence on paper paints a deceptive picture of progress. Youth from Bara in the Newly Merged Districts of Khyber Pakhtunkhwa told us they have to travel to Peshawar even for minor surgeries. At the same time, access is sometimes restricted for cultural reasons. Parents in rural areas may not send their daughters to school because these are located far away, may be unsafe, or do not have covered toilets. Therefore, a nuanced intersectional perspective is required to improve access to services.

Safety and social comfort

A core aspect of living as a minority in Pakistan is negotiating the dangers that come with it. The Hazara community we

spoke to said that the fear of violence prevents them from leaving Hazara Town in Quetta, whether for work, education, or to pursue better opportunities. In a different vein, militancy continues to be a part of Pakistani life. We spoke with people from the Newly Merged Districts whose lives were overturned by terrorism and subsequent military operations to stem the tide of militancy. This kind of violence, and the resulting displacement and destruction of people's homes and possessions, no doubt contributes to inequality.

Region of residence

Pakistan's regions embody inequality in different ways. The variety of languages, ethnicities, and cultures in the country can contribute to discrimination based on these identity markers. As an example, Afghan refugees in Swat prefer to remain in this district of Khyber Pakhtunkhwa – with its language, culture, and ethnic makeup so close to their own – because they fear being treated poorly in culturally distant places like Punjab or Sindh. Another aspect of region-based inequality is evident in the popularly-held belief that 'poor' regions are intentionally ignored by

the Government. This narrative of neglect can severely, perhaps irreparably, damage people's trust in the Government.

Social markers and inequality

The NHDR 2020's focus group discussions engaged marginalized and vulnerable groups from all over the country, showing us the many different ways in which different groups experience inequality. Figure 23 presents the results of the NHDR 2020's Inequality Perception Survey, highlighting the extent to which different social groups are happy or unhappy with certain themes related to inequality.

The survey highlights some interesting findings – both obvious and surprising. The upper classes and owners of small and medium-sized businesses appear content with their access to public utilities, education, and health care. On the other hand, women, persons with disabilities, labourers, refugees, displaced persons, and the transgender community all express dissatisfaction with their access to public services.

The transgender community and persons with disabilities are unhappy with issues of 'identity and representation', as they feel that they are not treated equally in society. An interesting finding is that the upper classes are also dissatisfied with how they are treated, perhaps underscoring the importance of cross-cutting identity markers (such as gender, age, and caste, among others) in determining the way people feel about their place in society. Safety is understandably a concern for the transgender community, labourers, and persons with disabilities, while women cite a lack of employment opportunities as one of their biggest concerns. Unsurprisingly, people who receive remittances all believe that they have a better quality of life than their parents. Labourers and youth feel differently, expressing unhappiness with opportunities for social mobility.

In fact, youth generally score far low-

er in terms of happiness than most other groups, regardless of income, indicating a fatalistic attitude towards their futures. Similarly, the upper classes have happiness scores that are lower than expected across the board. Groups that may be expected to be less satisfied with the state of things, such as religious and ethnic minorities, generally score higher – especially in the categories of identity and representation, and safety. The NHDR 2020's Inequality Perception Survey, therefore, reveals the complexities of people's perceptions of inequality, and underscores the importance of this perception in expanding human potential and happiness.

Having discussed people's perceptions of inequality across multiple axes, the next section delves into different social groups' particular experiences of inequality.

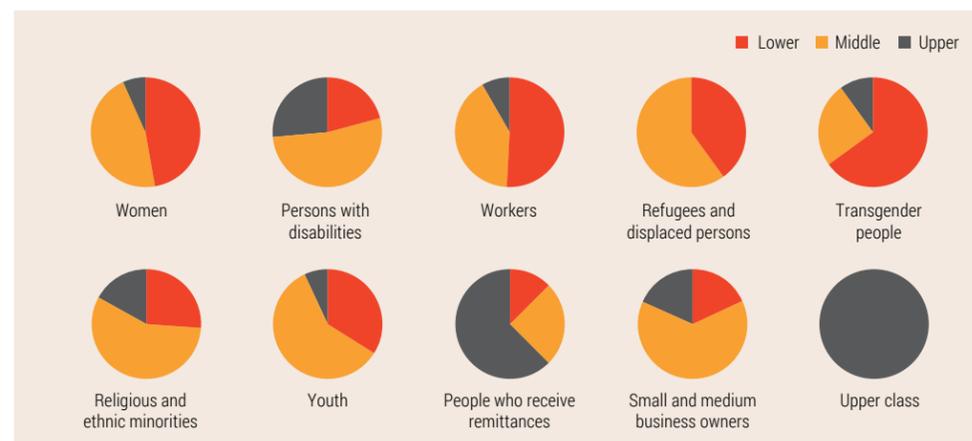
Women

Women in Pakistan have historically had fewer opportunities than men, and face a dual burden of work even if they find employment. The working women we spoke to still perform all the chores in their households, with no help from their husbands or families. In essence, they do twice the work performed by men, without remuneration or recognition for domestic work. We heard harrowing tales of violence – sexual and otherwise – carried out against women for disagreeing with their husbands, for example, or for refusing to hand over the government cash grants they receive to their families.

Women also have more restricted access to technology in general, which limits their earning potential. Figure 24 (p. 33) presents data on the ownership of a computer or laptop by social marker, based on the NHDR 2020's Inequality Perception Survey. This shows that women are the least likely to personally own a laptop or computer among all the groups surveyed.

FIGURE 22

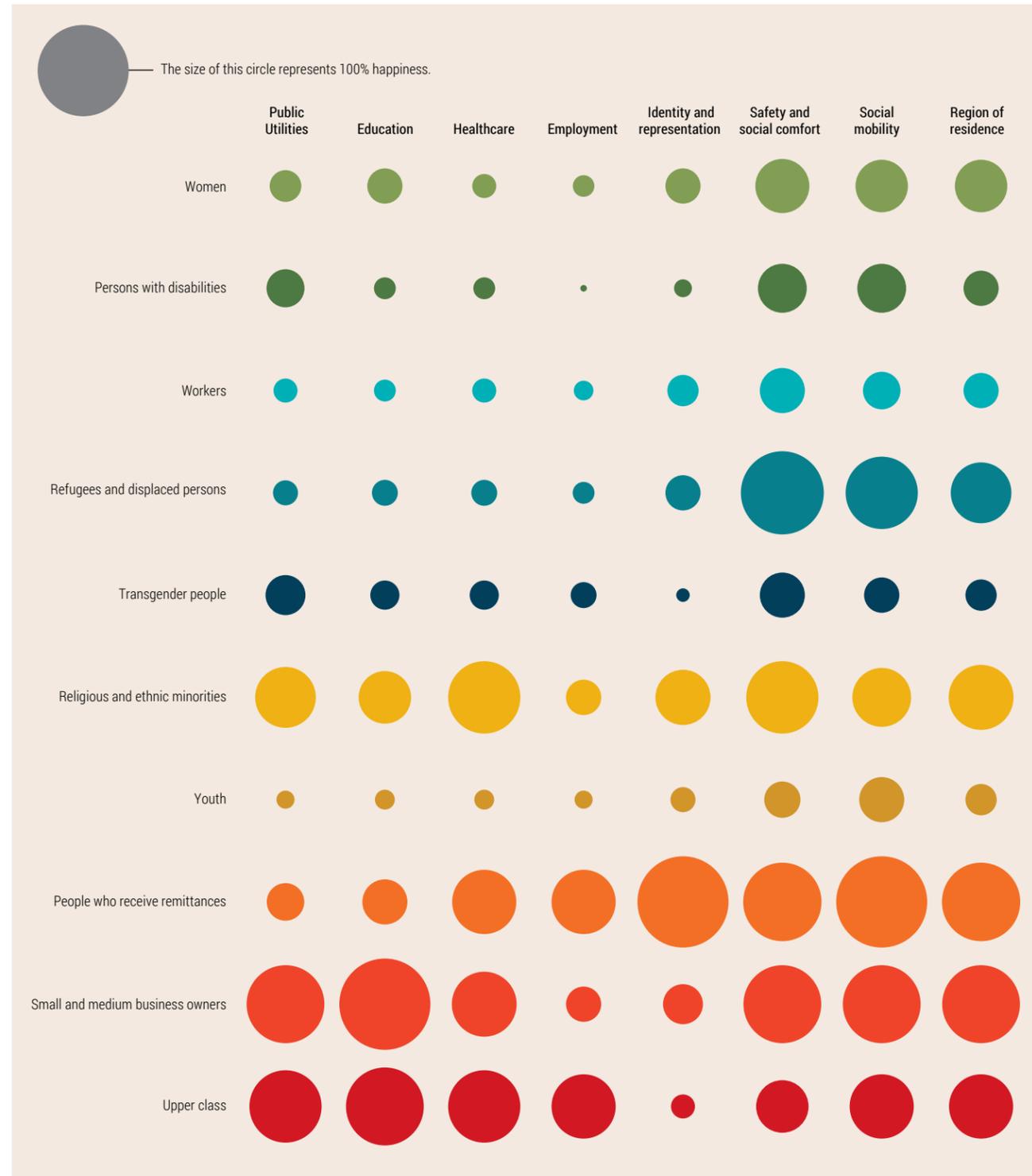
Wealth of different social groups, (2020)



Note: The confidence interval for any point estimate in the above figure is + 20 percent of the reported magnitude. Source: UNDP calculations based on the NHDR 2020 Inequality Perception Survey.

FIGURE 23

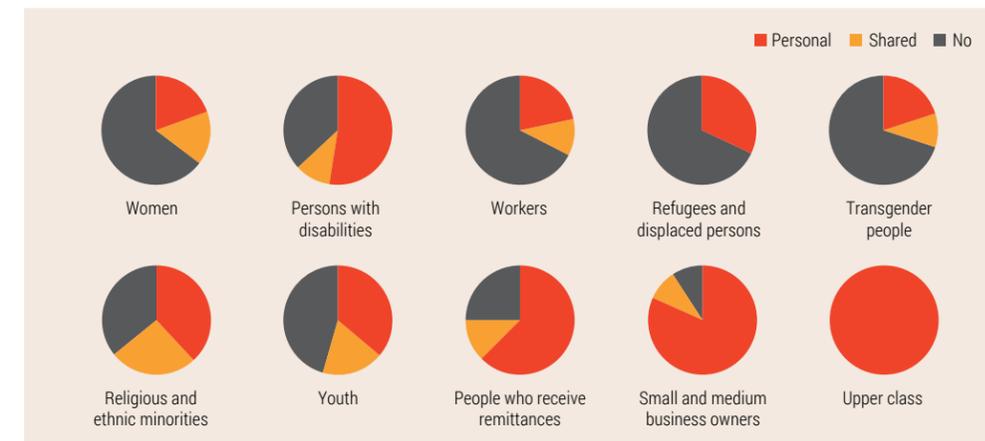
The perception of inequality of different social groups, (2020)



Note: The size of the circle represents groups' happiness with the key themes outlined above, out of 100%. Responses of 'unhappy' and 'neutral' are not included in the graph. The confidence interval for any point estimate in the above figure is + 20 percent of the reported magnitude. Source: UNDP calculations based on the NHDR 2020 Inequality Perception Survey.

FIGURE 24

Access to a laptop or computer among different social groups, (2020)



Note: The confidence interval for any point estimate in the above figure is + 20 percent of the reported magnitude. Source: UNDP calculations based on the NHDR 2020 Inequality Perception Survey.

Person with disabilities

About 6.2 percent of the people in Pakistan have some form of disability.¹⁰ The Disabled Persons (Employment and Rehabilitation) Ordinance of 1981 was amended as recently as 2015, but the people we spoke to highlight the inadequacy of its implementation. Pakistan has performed poorly on making public and private spaces accessible to persons with disabilities, making it that much harder for them to participate in public life and public spaces. Women with disabilities have additional vulnerabilities, such as increased vulnerability to sexual harassment, forced sterilization or menstrual suppression, and greater discrimination when seeking marriage compared to men with disabilities.

Labour

Many workers in Pakistan are not protected by its labour laws. Currently, 9.9 percent of children between 10 and 15 years old are engaged in work, while around 3 million people live in modern slavery as bonded labourers.¹¹ Most of the country's women workers are concentrated in marginalized professions, while women with higher edu-

cational qualifications often choose not to enter the labour market at all.

Unemployment and underemployment complicate things further. Many informal workers we spoke to work 12 hours each day, usually without knowing how much money they will make on a given day. Many youths who took part in the focus groups are college graduates; some even have Master's degrees. Yet most are unable to find decent work in their hometowns, villages, or cities.

Refugees and displaced persons

Afghan migration to Pakistan began during the Soviet-Afghan war in the late 1970s, followed by another huge wave of refugees driven out of their homes by American operations in Afghanistan after 9/11. Militancy and military operations in Pakistan's north-west also provoked a surge in the number of internally displaced persons (IDPs) within the country.

Afghan refugees living in Pakistan feel ostracized. They are often unable to open bank accounts, own property, or even send their children to government schools. Many displaced persons from the Newly Merged Districts are still waiting for

Religious minorities are relatively satisfied with public services in Pakistan, while labourers, refugees, transgender people, and persons with disabilities are not.

the compensation they were promised to rebuild their homes and livelihoods destroyed by violence in the mid-2010s. Both communities feel short-changed and uncertain living in Pakistan today.

Transgender persons

Pakistan's transgender community is among its most marginalized. Transgender persons have to negotiate a life of ridicule, violence, and sexual abuse. Awareness is crucial, not just for the rest of Pakistan, but also for the transgender population. We spoke with transgender women who were not aware of the Transgender Persons (Protection of Rights) Act of 2018, which lays out their legal rights in the form of key anti-discrimination policies. They also have trouble accessing the most basic services – such as health care, education, and even transport – because of familial or societal attitudes. Transgender persons find it exceptionally difficult to rent houses at fair rates, or to own their own homes. Figure 25 presents home ownership by social marker, based on the NHDR 2020's Inequality Perception Survey. It shows that transgender persons are the least likely to

own homes among all of the groups surveyed.

Religious and ethnic minorities

Pakistan is home to several religious and ethnic groups, adding diversity to the country's sociocultural landscape. The focus group participants we spoke to reveal the systemic discrimination that minorities often face, such as water tankers costing more in Hazara colonies, or government hospitals being a fair distance away from them. They can also face more 'subtle' forms of discrimination, such as Sikh children being forced to recite the *Kalimah* in class.¹² At the same time, however, some religious minorities reported no experiences of discrimination, such as the Hindu community in Mithi, in Sindh's district of Tharparkar. Muslims in the area respect them, they said, and even participate in their festivals and visit their temples.

People's perception of inequality: Optimism or fatalism?

The NHDR 2020's focus groups demonstrate that people contribute to inequality

when they base their perceptions of others on deeply embedded discriminatory belief systems. This leaves us with an important concluding question: What do marginalized Pakistanis feel about the status of inequality in the country?

Many participants feel that the situation is improving, including religious minorities, some of whom are relatively well-off, and mid-level career women in positions of some authority. People who have experienced significant intergenerational upward mobility are another sizeable group that is optimistic about the future. Other groups are less optimistic, most notably women domestic workers, the Hazara community, the transgender community, and persons with disabilities. It seems that these vulnerable groups – who have the greatest need for changes in social attitudes, investments in infrastructure, and political reform – do not see much progress in Pakistani society.

The NHDR 2020's findings point to a clear conclusion: to solve people-centric inequality, Pakistan needs a people-centric response.

Policy: Tackling inequality

Policy is the third driver of inequality identified by the NHDR 2020. It refers to policies that are either ineffective, or opposed to the principles of social justice. In many ways, policies that reinforce or create inequality can be affected by, and affect, the first two Ps: Power and People. Powerful groups can ensure that their interests are protected, either by being part of the policy-making class, or by exploiting their networks and wealth to lobby for policies that are favourable to them. Certain policies can be unfair to specific sociocultural groups, either by not protecting their rights, or by lacking frameworks to effectively implement existing policies to protect them properly.

Policies to alleviate inequality, therefore, need to be grounded in a nuanced

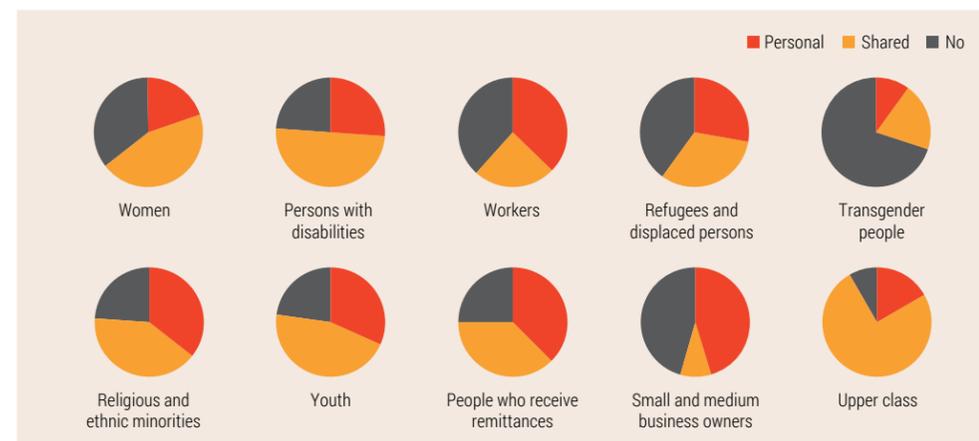
understanding of the first two Ps, as well as of Pakistan's macroeconomic context. This section first outlines the theoretical grounding that informs the NHDR 2020's reform agenda. It analyses the relationship between inequality and growth, before examining the macroeconomic impact of the COVID-19 pandemic on the country. Building on this theoretical framework, the section ends by offering targeted recommendations to reduce inequality in Pakistan.

Growth and inequality

The NHDR 2020 examines various ways of measuring inequality, but the question still stands: Can low levels of inequality lead to higher economic growth? The report's Macroeconomic Model of Pakistan is the first attempt at empirically determining the bidirectional relationship between inequality and growth. Its modules include equations on the different components of GDP related to the demand side, the balance of payments, public finances, employment, and inflation. It also includes special modules on the determinants of corporate profitability, inequality, and poverty (figure 26).

FIGURE 25

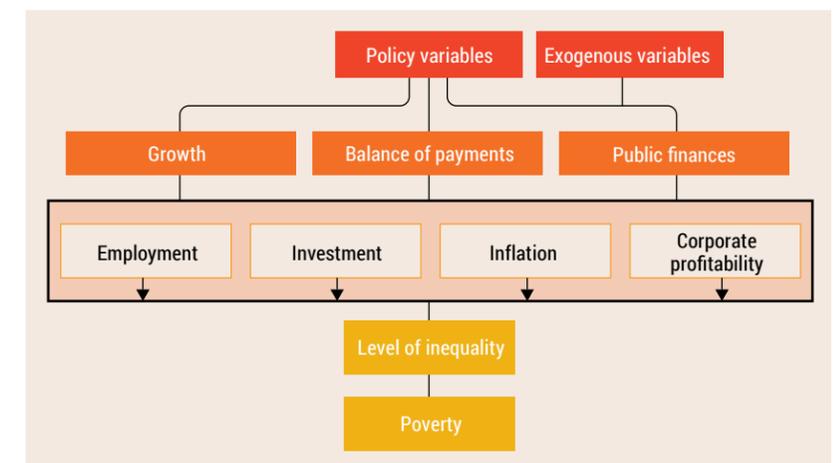
House ownership of different social groups, (2020)



Note: The confidence interval for any point estimate in the above figure is + 20 percent of the reported magnitude. Source: UNDP calculations based on the NHDR 2020 Inequality Perception Survey.

FIGURE 26

Modules of the Macroeconomic Model



Source: Developed by NHDR 2020, UNDP.

COVID-19 has left 5 million people unemployed as of June 2020. It will lead to an additional 28 million people living below the poverty line by the end of 2021.

A relief, development, and incentive package of PKR 1.2 trillion is proposed for economic revival in response to COVID-19.

The Macroeconomic Model yields important conclusions on the determinants of GDP growth, inequality, and poverty (figure 27). It concludes that it is possible to achieve higher and more inclusive growth while simultaneously reducing inequality. This can be done through a greater level of fiscal effort, higher development spending, relatively lower nominal interest rates, and more expenditure on human development and social protection.

Lower levels of inequality achieved by these means will have a twofold effect. On the demand side, they will raise consumer expenditure, thereby stimulating growth. Less inequality will also, perhaps surprisingly, lead to higher tax revenues and greater public spending. Thus, lower levels of inequality do more than just improving prospects for Pakistan's most vulnerable people; lower inequality improves pros-

pects for the country as a whole.

The Macroeconomic Model also simulates the impact of external and domestic shocks prompted by the COVID-19 pandemic. Fortunately, the incidence curve of the virus has flattened out since 20 July 2020 in Pakistan. The quarterly growth rates presented below indicate that the economy will start recovering from the first quarter of 2020–2021 (figure 28). Even so, both Pakistan's balance of payments and its budgetary position are expected to come under pressure in 2020–2021. Overall, the negative impact of COVID-19 is expected to be greater in urban areas and in the regional economies of Punjab and Sindh.

The pandemic's effect on employment and poverty is substantial. As of the end of June 2020, an estimated 5 million workers in Pakistan have lost their jobs. Before the pandemic, the incidence of poverty in Pa-

kistan was estimated at 37 percent. This implies that 11.4 million households, with an average household size of seven, earned incomes that were below the poverty line. Projections using the Macroeconomic Model suggest that there will be a huge increase in the number of households below the poverty line. By the third and fourth quarters of 2019–2020, their number will reach 14 million, before swelling to 15.4 million by the end of 2020–2021. In essence, the pandemic will add another 28 million people to Pakistan's poor.

In light of its impacts on the economy, employment, and poverty, COVID-19 will have far-reaching consequences for the state of inequality in Pakistan. Alongside the recommendations presented below, there is an urgent need for an immediate relief, incentive, and development package. This is vital to facilitate the early revival of the economy, while protecting the poor and unemployed from a worsening economic plight. The NHDR 2020 proposes a PKR 1.2 trillion package that includes an enhanced development allocation for the health sector, tax relief and incentives, and the wider coverage of social protection instruments – especially as these relate to the Ehsaas programme – to mitigate the fallout from the pandemic. Table 2 highlights the overall financial outlay proposed for this package.

The NHDR 2020 reform agenda

Inequality is a complex phenomenon that has been entrenched for decades in the systems, structures, and mindsets of Pakistani society. It is naïve to expect a magic bullet solution that creates lasting and sustainable change. To deal with Policy as a driver of inequality, we must address three major domains in order to alleviate inequality in the country. Below, we present the highlights of the NHDR 2020's reform agenda aimed at revitalizing regions that are lagging behind, empowering the country's most vulnerable groups, and bridging the gap between the two different Pakistans.

FIGURE 27

Impact of change in policy and exogenous variables on GDP growth, inequality and poverty

Change in	Impact		
	Impact on growth	Impact on inequality	Impact on poverty
Policy variables			
Higher fiscal effort	Increase	Decrease	Decrease
Higher development spending	Increase	Little change	Decrease
Higher current expenditure	Increase	Decrease	Decrease
Lower nominal interest rate	Increase	Decrease	Decrease
Lower exchange rate depreciation	Decrease	Decrease	Decrease
Higher expenditure on human development and social protection	Increase	Decrease	Decrease
Exogenous variable			
Faster growth in world trade	Increase	Increase	Decrease
Faster growth in remittances	Increase	Increase	Decrease
Lower oil prices	Increase	Increase	Decrease

Note: With respect to the level assumed in the base scenario.
Source: Simulations of the Macroeconomic Model, NHDR 2020.

FIGURE 28

Projected index of quarterly GDP (average quarterly GDP, 2019-2021 = 100), (2019-2020 and 2020-2021)



Source: UNDP NHDR 2020 Macroeconomic Model simulations.

TABLE 2

Fiscal cost of relief, incentive and development package (PKR billion), (2020-2021)

	Cost PKR billion
Social protection	690
Transfer of PKR 12,000 per family to 2.0 million families twice in 2020-2021	480
Subsidy to the Utility Stores Corporation	50
Reduction in petrol levy	60
Special Flood Relief Program	100
Tax relief and incentives	210
Reduction in sales tax and excise duty rates on selected industries	40
Restoration of the zero-rating facility to exports for six months	40
Restoration of full investment allowances	60
Enhancement in personal income tax exemption limit	20
Increased tax deductibility on health insurance, charitable contributions and introduction of deductibility on housing loan repayments	50
Special development package	300
Enhanced development allocation for the health sector	150
Special Development Program of small, labour-intensive projects with youth involvement	150
Total package	1,200

Source: NHDR 2020 suggestions based on Macroeconomic model.

Policies and reforms to tackle inequality must withdraw the privileges of the elite, promote more decent work and gender equality, and increase outlays on human development and social protection.

Reducing the privileges of the elite

As the NHDR 2020 shows, elite capture has shaped the social, political, and economic contours of Pakistan today. Reducing unfair privileges is a prerequisite for achieving equality. This will involve wide-ranging tax reforms, the elimination of subsidies, changes in the pricing policy, and measures to ensure equitable access to land and capital. Overall, this could yield up to PKR 500 billion in savings and revenue generation.

Spending more on human development and social protection

The funds gained by reducing the privileges of the elite must be redistributed to the country's poorest and most vulnerable, and geared towards redressing regional inequality. They can be used to increase public expenditure in the critical areas of health and education, as well as expanding social protection, such as through the Ehsaas programme. This will lay the necessary foundation for expanding human capabilities, bridging regional disparities, and reducing inequality of opportunity.

Improving conditions of work and providing employment

While direct assistance for the marginalized is crucial, it is equally important to empower people with the tools they need for growth and self-sufficiency. This is why it is essential to provide decent work for all. This means enhancing the rights of workers, raising the minimum wage and ensuring its full coverage, increasing non-marginal work opportunities for women, and leveraging Pakistan's youth bulge to advance technology-led development.

The NHDR 2020's framework for tackling inequality provides a sustainable blueprint for the creation of equal opportunities nationwide. It is important to note, however, that tackling inequality must be a

continuous process, and one that must begin immediately if Pakistan hopes to compete with its global partners in the race to attain equality in opportunities, capabilities, and outcomes.

Towards an equal Pakistan

The NHDR 2020 demonstrates that immense inequality exists among and between Pakistan's provinces and special regions, across the urban-rural divide, and within marginalized and underprivileged segments of the population – such as children, youth, labourers, and women. The various indices and measures used, both conventional and developed specifically for the NDHR 2020, provide a quantitative grounding for the report's analysis. This analysis is enriched by the lived experiences of the NHDR 2020's focus group participants from all over the country, representing particularly vulnerable communities who face inequality in their daily lives.

The report highlights why studying inequality is important for Pakistan, and how this issue has plagued the country's economic and social progress. It discusses how, despite the Constitution of Pakistan upholding equality and despite global commitments such as the Sustainable Development Goals, the nation is still grappling with the reality of the two different Pakistans – one for the rich, with access to the best avenues and opportunities, and one for the poor, forced to eke out a living from a narrow pool of choices.

The report outlines its framework of analysis, examining the three Ps driving inequality in Pakistan: Power, People, and Policy. It shows how they interact to create myriad inequalities in the country; some overt and structural, others subtle and social. The NHDR 2020 aims to unravel the Gordian knot of constrained choices propelled by the three Ps, culminating in a reform agenda to tackle inequality and

bridge the gap between the two different Pakistans.

If the real wealth of a country is its people, Pakistan faces an embarrassment of riches. It is because of this that the work of the report culminates in you, the reader. Each and every one of you has a part to play in taking forward the findings of the NHDR 2020. Those of you in the media can disseminate the reform agenda contained within this report. Those of you

in academia can improve on the ideas we have outlined. Those of you who are policy makers can translate the NHDR's recommendations into actionable policy. And all of you, the people of Pakistan, can extend tolerance and acceptance towards those who are different, in fundamental ways, from yourselves. Together, we can move away from the two different Pakistans – of the haves and the have nots – and build a more inclusive, equal nation.

Notes

- 1 See Chapter 5: The political economy of inequality in the NHDR 2020 for detailed footnotes regarding privileges of groups.
- 2 Data on the Super Tax extracted from the Financial Statement Analysis of Companies (Non-Financial), SBP 2019a.
- 3 Government of Pakistan 2020a.
- 4 Water Aid 2018.
- 5 For more detail, see Chapter 5: The political economy of inequality in the NHDR 2020.
- 6 For a more detailed analysis, see Chapter 6: Governance and institutional capacity in the NHDR 2020.
- 7 Discussions took place in Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan, and with people from the Newly Merged Districts, in 2019. Consultations planned for Azad Jammu and Kashmir had to be postponed due to tensions at the border and could not be held until early March 2020. Due to logistical constraints, the NHDR team was unable to hold consultations in Gilgit-Baltistan.
- 8 Wealth is computed through an additive score index. Participants chose from a list of 12 assets in the NHDR 2020's Inequality Perception Survey. Each asset that they ticked received a score of one point. The points were then sorted into three wealth categories: 'lower class' for 0–4 assets, 'middle class' for 5–8 assets, and 'upper class' for 9–12 assets.
- 9 Dawn 2019.
- 10 Government of Pakistan 2019a.
- 11 Government of Pakistan 2018b; Minderoo Foundation 2019.
- 12 The Kalimah, often recited by South Asian Muslims, are the formal declaration of a Muslim's faith.

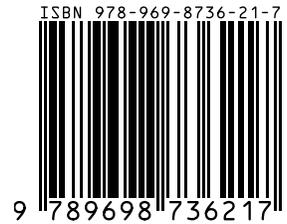
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The richest 20 percent of Pakistan's population has an HDI of 0.698, falling in the high human development category, while the poorest 20 percent has an HDI of only 0.419, falling in the low human development category. It seems the country is split into the two different Pakistans - one with a multitude of opportunities to pursue quality education, secure responsive health care, and live off generational wealth; and the other, without. Exploring this dichotomy requires an understanding of the extent of inequality in the country from multiple lenses, such as economic measures that include income and wealth, as well as measures that go beyond income, such as human development.

The National Human Development Report 2020 focuses on these measures of inequality, and the mechanisms that have allowed it to persist. To do this, it uses its framework of the three Ps of inequality: Power, People, and Policy, examining the ways in which each of these enable wealth, privilege, and development to be concentrated in the hands of the few, at the expense of the many.

To this end, the report undertakes exhaustive statistical analysis at national and provincial levels, and includes new inequality indices for child development, youth, labour and gender. Additionally, a more nuanced measure of inequality, the Pashum ratio, has also been developed for the report, to deconstruct income inequality in the country. Qualitative research, through focus groups with marginalized communities, has been conducted all over the country, enabling vulnerable groups to share their lived experiences and highlight what living with inequality is really like.

If the real wealth of a country is its people, Pakistan faces an embarrassment of riches. However, despite the Constitution of Pakistan upholding equality and despite global commitments such as the Sustainable Development Goals, the nation is still grappling with the reality of the two different Pakistans. It is our hope that the NHDR 2020's framework to tackle inequality provides a sustainable blueprint that can help us alleviate disparities, bridge gaps, and pave the way towards a more equal Pakistan.

"Sustainable human development is not possible in the absence of equality. Tackling inequality must therefore be a continuous process, and one that has to begin immediately if Pakistan hopes to compete with other countries in the race to providing equality in opportunities, capabilities and outcomes."

– **Dr. Hafiz A. Pasha**, lead author of the NHDR 2020

"The worst form of inequality is depriving people of opportunities to participate in social and economic activities. In the long run, this only worsens their vulnerabilities. This is why Pakistan must collectively work towards inclusion through participation, social acceptability, and policy reforms to ensure and enforce the rights of all individuals."

– **Nayyab Ali**, transgender politician and gender expert.

"Inequality not only hurts individuals but also communities and nations. It makes people desperate for their rights and, in their struggle for survival, creates an imbalance. We all need a society where people, no matter what their race, gender, or religion, are treated as equal human beings and there are ample opportunities for education, employment, and growth."

– **Faiza Yousuf**, Founder, WomenInTechPK, and Co-founder, CodeGirls, Technologist

"Inequality is a product of myriad factors and must be challenged from the ground up. Education is a particularly great equalizer, especially for marginalized sections of society. It can help communities exercise their rights as citizens and pave the way towards further social mobility."

– **Muhammad Sabir**, education activist and founder of Slumabad