

DEVELOPMENT ADVOCATE PAKISTAN

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Financing for Development

**DEVELOPMENT ADVOCATE
PAKISTAN**



Pakistan



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

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Financing the Sustainable Development Agenda

In 2015, the international community adopted the Sustainable Development Goals (SDGs) as a new global development agenda, encompassing the economic, social and environmental dimensions of sustainable development for all. For the goals to be met requires international, national and local commitments, partnerships and innovative thinking. But it also requires money. To achieve the ambitious targets, estimates suggest that USD 5–7 trillion per year will be needed globally. Pakistan also requires phenomenal resources given its population and development status, and funds are needed from multiple sources including the government, private sector, international development partners and local philanthropy, who must all come together and coordinate to find the funds.

Pakistan has already shown strong commitment to the SDGs, adopting them as Pakistan's National Development Goals. National and sub-national planning and financing frameworks are being aligned to the SDG agenda. New frameworks are being established to track related expenditures, while district-level frameworks are being piloted to highlight priorities, especially those related to health and education.

Official Development Assistance (ODA) was the cornerstone of earlier development agendas. Yet, while developed countries agreed to allocate 0.7 percent of their gross national incomes (GNI) to developing countries, in reality their contributions reached merely 0.32 percent in 2016. Pakistan is amongst the top ten ODA recipients globally, but ODA only accounts for 1.3 percent of its GNI. While ODA will remain critical to achieving the SDGs, relying on international aid will not help Pakistan achieve its ambitious objectives. Domestic resources need to be mobilized more by policymakers to finance development.

This poses a major challenge. Despite recent improvements, Pakistan's tax to GDP ratio is only 12.6 percent, amongst the lowest in South Asia. This narrow tax base, a large untaxed informal sector (which could potentially contribute an additional USD 8 billion), a partially taxed agriculture sector (contributing one percent of tax receipts), and preferential treatment (benefiting specific taxpayers through targeted deductions or exemptions) continue to hamper revenue mobilization. By addressing these, Pakistan can take the lead in financing its own development.

Pakistan has historically maintained high fiscal deficits. Public debt servicing stands at 40.4 percent of revenue, constraining its capacity to finance SDG achievement. Thus, the private sector must step up to meet this national challenge. Through public-private partnerships, the private sector can become a true partner, complementing government efforts to provide essential infrastructure and public services, without increasing the government's fiscal burden. With responsible and sustainable business practices, the private sector can contribute to inclusive growth; creating livelihoods, reducing poverty, generating taxes, introducing innovations and reducing reliance on imports. The private sector can also provide pro-poor products and services such as access to credit through micro-finance as in the case of Grameen Bank in Bangladesh. Other examples from across the world where private sector has contributed to sustainable development and has potential to be replicated in Pakistan includes

crop insurance for small-scale farmers (Sompo Japan), low-cost housing (Echale a tu casa Mexico), and affordable clean energy (D light in Kenya), to name a few. Considering the generous nature of the Pakistani population and millions generated in philanthropy, it is an emerging and important component of the SDG agenda that can help mobilize resources for SDG initiatives.

Cooperation among countries of the Global South can help finance development by exchanging low-cost solutions, with mutual benefits for both lender and recipient. Through the China-Pakistan Economic Corridor (CPEC), for example, China is investing USD 46 billion to address Pakistan's infrastructural bottlenecks whilst promoting its own strategic and economic interests.

Innovative development financing can help achieve sustainable development. In Bangladesh, microcredit has accounted for a 10 percent (2.5 million people) reduction in rural poverty over the past two decades. Microfinance there covers 32 million recipients, extending USD 7.2 billion annually. In contrast, Pakistan has only 3.6 million microfinance borrowers. With a supportive policy environment and strong regulation, microfinance can be expanded to accelerate Pakistan's progress towards achieving many SDGs: reducing poverty and hunger, achieving good health and quality education, promoting gender equality and access to water, sanitation and energy, amongst others.

While additional resources are required, there is also a need to improve planning, budgeting and resource allocation, to target long-ignored social sectors such as education and health, geographical areas, and disadvantaged groups. Historically, Pakistan has allocated limited resources towards social sector development expenditures: for example, in FY 2015–2016, allocating 2.3 percent for education and 0.76 percent for health. Preliminary estimates from the federal and provincial budgets 2016–17 reflect improved allocations; 9.11 percent for education and 5.63 percent for health. The Planning Commission's Multi-dimensional Poverty Index (MPI) reveals that whilst poverty has declined overall, there are wide disparities between districts. District-level analysis through the MPI gives us a tool to influence National and Provincial Finance Commissions to increase allocations to lagging districts. In the past twenty years, outcome-based and participatory budgeting has been used globally to ensure that budgeted funds achieve their intended results. Such instruments can achieve the transformation in governance that is necessary to achieve the SDGs.

The world community has realized the need for holistic efforts to finance and adopt the SDG agenda. The Addis Ababa Action Agenda (2015) provides a foundation for implementing this roadmap, collecting more than 100 concrete measures to support financing for development, including domestic resource mobilization, private investment and improved policy and regulatory frameworks for effective resource utilization. In view of the magnitude of resources required to attain SDGs, now is a good time for Pakistan to develop a multi-pronged financing approach, harnessing the potential that exists in both public and non-public sectors.

Financing for Development

Note: Main Analysis has been conducted by Dr. Ishrat Hussain, Former Governor of the State Bank of Pakistan, Former Dean and Director of the Institute of Business Administration, leading economist and author of several books, monographs and articles.

The Addis Ababa Action Agenda (AAAA) provides a comprehensive financing framework aimed at realigning financial flows and policies with economic, social and environmental priorities.¹ These priorities have been subsequently refined and reaffirmed by the Summit for the Sustainable Development Goals (SDGs)² and the Paris Conference on Climate change (CoP21).³ The new Social Compact enshrined in the Action Agenda would provide social protection, essential public services and infrastructure for all. There is also a shift in the approach from official aid to domestic resource mobilization, to private sector for financing development. This shift became a necessity following the continued fall in Official Development Assistance (ODA)⁴, high debt burden and widening gap between needs and resources available.

In order to understand financing for development (ffd) in the context of Pakistan, a broader discussion of changes that have recently occurred in the international economic arena and the current thrust of domestic policy stance, governance structure and institutional capacity, is imperative.

When compared to the buoyant and upbeat days of the late 1990s and early 2000s when the MDGs were first announced, the prevalent international economic environment today is more unfavourable. The global recession of 2008, the slowdown of economic activity throughout the world, the refugee and immigration crises, Brexit and stresses on the European Union, the popular perception that jobs in advanced countries are lost because of trade, the rise of nationalist sentiments in Europe and the US, and the shifting economic balance in favour of China and Asia, are pushing political leaders of these countries (US and European countries) to move away from

greater integration with the rest of the world, thereby adopting an insular outlook.

Given this environment, resource availability to invest and finance these highly ambitious, costly and complex SDGs, appears to be a major constraint. In 2015, ODA as well as private capital flows to developing countries declined. The political pressures are to help the poor and less privileged communities in their own countries rather than finance the kleptocratic regimes and tax evading elites of developing countries. The bill for implementing the SDGs over the next 15 years would spill into trillions of dollars and the political mood in the US, Europe and Japan does not augur well for raising such large sums of money to assist other countries. The Trump Administration proposed a 29 percent cut in the 2017 budget for foreign aid, Climate Change Initiative and the Green Climate Fund. There will be reduced contribution to multilateral institutions such as the World Bank. Polls spectators in France, Netherlands and Germany discern a swing away from helping the developing countries through traditional foreign aid instruments. The prospects that the commitments of USD 100 billion pledged at the Paris Climate Change Conference in December 2015 would be easily fulfilled, does not look very promising at the moment.

International Trade has served as an engine of growth for many developing and emerging economies since the end of World War II. The share of these economies collectively reached to about 46 percent of the world market of goods. World trade grew at twice the rate of world output. But this trend has decreased momentum post the global financial crisis and the volume of world exports plunged 12 percent in 2009, while world GDP dropped by two percent. Since then, trade is either lagging or

equaling the rate of output growth.⁵ The ascendancy of political leaders in advanced economies elected on the agenda of anti-globalization, protectionism and creating barriers for imports from poor countries, would cause a further set back to international trade with adverse consequences for inclusive growth, employment and social protection.

The diaspora in the US, Europe and Middle East has been a stable and growing source of financing for poor countries in the last decade, in the form of remittances that they send back to their home countries. For quite different reasons, there is a lot of uncertainty associated with this particular source of financing. Mexico and the Central American Republics were the main beneficiaries of employment in the US. The clamp down on illegal immigrants, the prospect of a wall being constructed between Mexico and the US on its border and strict control on the entry of refugees, have all dampened the prospects of the continuation of these remittances out of the US. In European countries, even leaders are very cautious in welcoming economic refugees. In the oil rich middle income countries, the decline in their revenues is forcing them to abandon several projects thus reducing the demand for overseas workers. South Asian countries are already experiencing a decline in the amounts that are being sent back home by their nationals. In Pakistan, remittances are equivalent to almost 80 percent of export earnings.

Although Foreign Direct Investments (FDIs) continued to expand over the last decade or so, yet it appears that these would remain concentrated in well off and stable countries such as China and India, where the returns are quite attractive, the market size is enormous and the purchasing power is rising. The only exception to this trend is

1 United Nations, 'Addis Ababa Action Agenda of the Third International Conference on Financing for Development'. Available at <https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda>

2 United Nations, 'Sustainable Development Goals'. Available at <http://www.un.org/sustainabledevelopment/>

3 United Nations Framework Convention on Climate Change. 'Paris Climate Change Conference 2015'. Available at http://unfccc.int/meetings/paris_nov_2015/meeting/8926.php

4 OECD. 'Official Development Assistance'. Available at <data/oecd.org/oda/net-oda.htm>

5 World Trade Report (2013). 'B. Trends in International trade'. Available at https://www.wto.org/english/res_e/booksp_e/wtr13-2b_e.pdf

the Chinese investment which is driven by several other considerations such as 'One Belt One Road Initiative'.⁶ In Africa, South and Central Asia, the investment by the Chinese Government and companies may aid in building infrastructure, albeit with a lengthy time horizon.

The above developments do affirm the approach adopted in AAAAA. It therefore becomes necessary to examine the landscape of Pakistan and its capacity and constraints to mobilize these resources.

Pakistan's Landscape

Pakistan's landscape for ffd has not been robust and the macroeconomic indicators have shown little improvement (Table 1.1). The country has been relying on foreign savings to supplement its meager national

years, recourse was made to international bond and equity markets for raising resources to meet the external account obligations in addition to heavy draw down from the IMF.

One of the redeeming features of Pakistan's foreign exchange reserves build up after meeting its debt servicing obligations, has been the workers' remittances sent by more than nine million nationals employed mainly in the Gulf states.⁸ There has been a gradual build up from less than one billion dollars through official channels in 2001, to almost 20 billion by 2016. This source of financing in the wake of declining exports has helped the country in averting external payment difficulties.

A more disconcerting feature has been the setback in Pakistan's market share in world

Bangladesh have more than doubled their shares.⁹ Over the last decade, Pakistan's exports have grown by four percent compared to 12 percent in Bangladesh and 10 percent in India, and are on a declining path for the last two years. Exports used to finance 80 percent of imports in the early 2000s, but this ratio has declined to less than 50 percent in recent years. Global commodity prices are partially responsible, but it is the loss of competitiveness because of a penal tax regime, energy shortages, difficulties in doing business, bureaucratic hassles, high import tariffs and lack of coordination among various government tiers and departments, that have hurt the exports.

Public Sector

Fiscal policy, as discerned from the fiscal

Table 1.1 : Pakistan Macroeconomic Indicators

	2013/14	2014/15	2015/16	2016/17
GDP Growth	4.1	4.0	4.7	5.0
Inflation %	8.6	4.5	2.9	5.2
Investment / GDP (%)	14.6	15.5	15.2	15.7
National Savings / GDP (%)	13.4	14.5	14.3	14.2
Current Account / GDP (%)	(1.3)	(1.0)	(1.1)	(1.5)

Source: IMF Country Report No. 16/235 October 2016

savings for investment purposes and therefore, the investment rates are almost one half of those in India and Bangladesh, thus constraining growth.⁷ Political instability, associated economic uncertainty and unpredictability, and poor governance have pushed the country on many occasions to face financial and economic crises and subsequent bail outs by the International Monetary Fund (IMF). In their parlance, Pakistan has become a prolonged user of fund resources. Large volumes of multilateral loans and bilateral grants also came to the rescue. The burden of external indebtedness became so unbearable that the Paris Club had to be approached in 2001 for restructuring and re-profiling of its bilateral external debt. There was a perceptible decline in the debt burden between 2002 to 2008, but the situation has once again worsened since then. For the past several years, the country has consistently exceeded the limits provided under the Fiscal Responsibility and Debt Limitation Act. In the last few

Table 1.2 Fiscal Trends (% of GDP)

	2013/2014	2014/2015	2015/2016	2016/2017
Total Revenue	15.2	14.5	15.9	16.0
Tax Revenue	10.5	11.0	12.4	12.9
Total Expenditure	20.1	19.7	20.2	19.8
Current Expenditure	16.4	16.6	15.9	14.9
> Defense	2.5	2.5	2.6	2.3
> Interest	4.6	4.7	4.4	3.6
> Subsidies	1.3	1.0	0.7	0.5
Development	4.0	3.8	4.3	4.7
Overall Fiscal Deficit	-4.9	-5.2	-4.3	-3.8

Source: IMF Country Report No. 16/235, October 2016 Budget-in-Brief, Ministry of Finance, 2016/17

exports. While there has been an overall buoyancy in global markets, Pakistan has lost its share from 0.15 percent to 0.12 percent while its competitors-India and

trends (Table 1.2) has not helped in meeting the objectives of inclusive growth, equity, social protection or environmental sustainability. It has been driven largely by

6 The Silk Road Economic Belt and the 21st-century Maritime Silk Road, also known as The Belt and Road (abbreviated B&R), One Belt, One Road (abbreviated OBOR) or the Belt and Road Initiative is a development strategy and framework, proposed by Chinese paramount leader Xi Jinping that focuses on connectivity and cooperation among countries primarily between the People's Republic of China and the rest of Eurasia, which consists of two main components, the land-based "Silk Road Economic Belt" (SREB) and oceangoing "Maritime Silk Road" (MSR).

7 International Monetary Fund (IMF) Country Report No. 16/235, October 2016

8 Dilip Ratha, Workers' remittances: An important and Stable source of External Development Finance; Economics seminar series 2005. Available at <http://siteresources.worldbank.org/INTRGDF/Resources/GDF2003-Chapter7.pdf>

9 UNCTAD, Trade and Development Report (2016). Available at http://unctad.org/en/PublicationsLibrary/trdr2016_en.pdf

Table 1.3 : Transfer to the Provinces

	PKR Billion			% of FBR Tax Revenue
	From Dividends Pool	Straight Transfers, Grants	Total	
Pro 7th NFC				
2008/2009	559	73	632	53.5
2009/2010	655	98	753	50.4
Post 7th NFC				
2010/2011	835	217	1052	67.1
2011/2012	1065	226	1291	66.6
2012/2013	1134	161	1295	65.1
2013/2014	1278	186	1464	64.7
2014/2015	1581	172	1753	64.8
2015/2016	1752	165	1917	61.6
2016/2017	2044	93	2137	59.0

Source: Ministry of Finance, Pakistan. Budget-in-Brief 2009 to 2016

short term crisis management considerations as the economic managers were faced with persistently high fiscal deficits, and resources had to be found to finance these deficits. Except in the years 2002-08 when fiscal deficits were brought down and Debt-GDP ratio was cut down by almost one half, large deficits have resulted in buildup of domestic and external public debt. Consequently, debt servicing preempts almost 34 percent of tax revenues displacing the allocations that should have gone for financing development expenditures. The election year dynamics of 2007-08 did not allow an adequate response to the external shock and the four to five fold increase in the prices of oil and other commodities was not passed on to the end users. The exchequer was forced to pick up the subsidies for meeting the differential in prices leading to a fiscal crisis. The incoming government had to approach the IMF for seeking financial resources to tide over the crisis. A similar situation emerged in 2012-13 and the present government had to enter into a three year program of stabilization with the Fund once again. To meet the IMF programme's quarterly targets, tax revenue collection by any means became the primary preoccupation. This single-point agenda distorted the investment and business climate as those in the formal sector and tax net were squeezed so that collection targets could be met. Refunds were withheld, advance taxes recovered, surcharges imposed and rates raised. Expansion of currency in circulation and

rising employment in the unorganized sector testify to the flight to 'informality'. Most of the taxes collected are indirect taxes including taxes withheld under the Income Tax Law. Indirect taxes through presumptive and withholding taxes are not only regressive and inequitable, they are also inefficient. Amnesty schemes to appease traders and retailers have created a perverse incentive to resist inclusion in the tax base. Tax to GDP ratio has hovered around 10 percent and it is estimated that almost five percent of GDP can be realized if strong measures are taken to simplify tax code, and achieve better tax administration, improved tax audits, effective tax compliance and elimination of protracted appellate and legal processes. This boost in revenues would obviate the need for heavy borrowings domestically and externally while meeting the funding requirements for infrastructure and human capital investment.

On the expenditure side, the 18th amendment to the Constitution and the 7th National Finance Commission award have exacerbated the difficulties in maintaining fiscal discipline. While the federal government is saddled with inflexible expenditure items such as debt servicing, defence, pensions and salaries, it is assigned only 40 percent of taxable revenues to take care of this huge expenditure. The provincial governments have, on an average, control over 60 percent of the FBR collected taxes (Table 1.3) and therefore have no incentive to mobilize

taxes from their own resources such as on agriculture incomes, immovable property etc. Table 1.4 shows that the provinces have not utilized these additional resources to boost much needed expenditures on education and health. Although some progress has been made especially in Punjab, but the latest report by the Ministry of Education indicates that as many as 23 million children are still out of school.¹⁰ The capacity of the provinces to spend is impaired because they have concentrated all administrative and financial authority in their hands, refused to devolve functions of the delivery of basic public services and refused to allocate sufficient resources and powers to the district governments. As most of the interaction takes place between the state and the citizen at the local level, the result is a dissatisfied citizenry that has no access or control over decision making and the provincial governments engaged in top down activities with consequential waste and inefficient use of resources. Khyber Pakhtunkhwa (KP) appears to be the exception to this generalization as their Local Government Law has empowered the local governments. Punjab is making headway in education but it is driven by the dynamic personality of the Chief Minister and is not firmly rooted in institutional settings. Punjab has been most reluctant in devolving powers to the local governments and even the district education and health authorities are placed directly under the provincial departments.

10 Academy of Educational Planning and Management, Pakistan Education Statistics 2015-16 (AEPAM Publication No. 278). Available at <http://library.aepam.edu.pk/Books/Pakistan%20Education%20Statistics%202015-16.pdf>

Table 1.4 : Public Spending on Education and Health (% of GDP)

	Education			Health			Education & Health		
	Federal	Provincial	Total	Federal	Provincial	Total	Federal	Provincial	Total
2006-07	0.39	1.16	1.57	0.13	0.37	0.50	0.52	1.53	2.05
2007-08	0.40	1.39	1.79	0.16	0.44	0.60	0.56	1.83	2.39
2008-09	0.34	1.50	1.84	0.13	0.51	0.64	0.47	2.01	2.48
2009-10	0.32	1.45	1.77	0.16	0.49	0.65	0.48	2.04	2.52
Pre-7th NFC Average	0.36	1.37	1.73	0.14	0.45	0.59	0.50	1.82	2.32
2010-11	0.33	1.45	1.78	0.13	0.46	0.59	0.46	1.91	2.37
2011-12	0.28	1.63	1.91	0.05	0.60	0.65	0.33	2.23	2.56
2012-13	0.13	1.78	2.09	0.05	0.65	0.70	0.36	2.43	2.79
2013-14	0.34	1.77	2.11	0.14	0.66	0.70	0.48	2.43	2.91
Post 7th NFC Average	0.32	1.66	1.98	0.09	0.59	0.68	0.41	2.25	2.66
2015-16	0.37	1.82	2.19	0.13	0.61	0.73	0.50	2.43	2.93

Source: SPDC (2014) Policy Paper 25 ; Economic Survey of Pakistan 2015-16

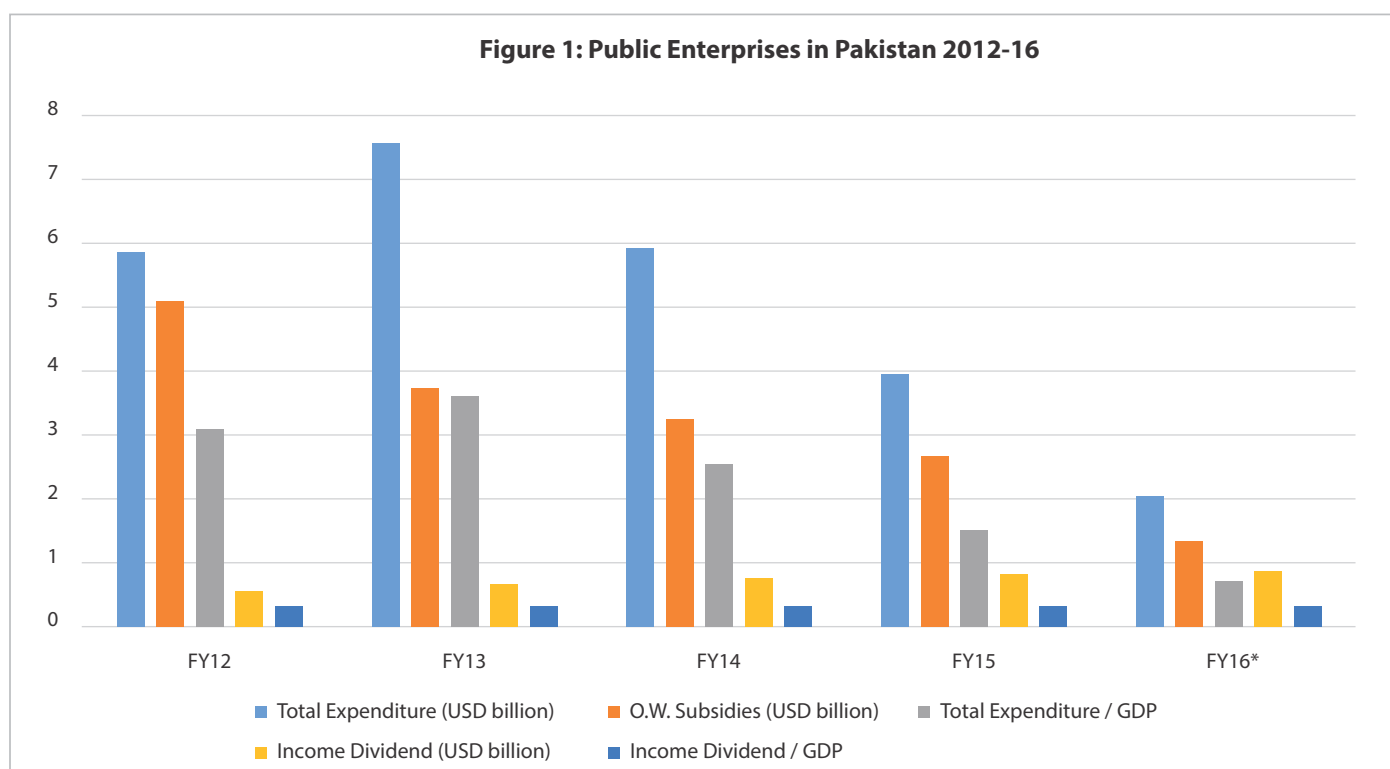
One of the reasons for persistent fiscal deficits and thus, increased indebtedness and inadequacy in the quantum of resources for development expenditure, is the recurring losses and accumulated liabilities of state owned enterprises (Figure 1). The planned retreat from the sale of non-strategic public enterprises has fortified the hands of those who think they can stall the

resistance. When the opposition party takes over the reins of the government, the roles are reversed. Meanwhile, the damage to the economy gets worse with the passage of time. Outstanding debts and liabilities already amount to more than two percent of GDP and will continue to accumulate further if left unattended. Increased dividends and taxes have added to the no-

shut down, losses are being incurred and foreign exchange is spent on importing steel products.

Presently, Pakistan spends less than one percent on social protection mainly through the Benazir Income Support Program (BISP). The program chiefly provides unconditional cash transfer to

Figure 1: Public Enterprises in Pakistan 2012-16



Source: Ministry of Finance, Pakistan

*Excluding power sector

process through agitation. Privatization has been on the agenda of every major political party. The irony is that when one party comes to power and attempts to pursue this, the opposition parties offer enormous

tax revenue stream of the government illustrated well through the example of banks in losses being privatized. Pakistan Steel is a glaring example of dillydallying in the decision-making process-with the plant

more than five million families supplemented by some conditional transfers for girls' education. The relaxation of public finance constraint would also help in increased allocation for social protection

and social safety nets for the vulnerable segments of the population.

Private Sector

Almost 90 percent of the national income is generated by the private sector, that also happens to be the main contributor to production, distribution, exchange and trade of goods and services. Private investment has fueled the economy whenever the government has played a facilitating and supportive role. Privatization of state owned enterprises (SOEs), initiated in the 1990s, has transferred many of the assets to strategic investors in the private sector. However, when compared to other countries in the region, the private investment ratio in the last decade has remained sluggish and much below the level it was in the early 2000s. Declining growth, depressed aggregate demand, energy shortages and the fragile security situation has dampened investor confidence. However, the large commitment of over 50 billion dollars in energy projects and infrastructure under the China-Pakistan Economic Corridor (CPEC), along with stable macroeconomic indicators and improved security situation, has given a big boost in the last two years. Growth rates for the next few years look promising unless they are marred by some unforeseen shocks to the economy. Investment in cement, steel, construction and automobile industries has begun to pick up pace. Several multinationals have acquired domestic assets or announced plans to set up greenfield projects. Foreign and domestic private investment rates are therefore likely to pick up as the demand from a significantly large middle class with adequate purchasing power continues to expand. Rates of return on consumer goods production are relatively high.

Another vehicle for stepping up private investment is through Public-Private Partnership (PPP) in infrastructure and social sectors, which offers a very attractive mechanism for pooling resources and burden sharing. Build-operate-transfer (BOT)¹¹ and several other such variants have been brought into play in financing infrastructure projects, but the scale of operations remains limited. Risk allocation and sharing arrangements have not been fully developed and the assignment of roles of public and private partners is unclear. Dispute resolution mechanisms are arduous and time consuming. However, energy projects have attracted infusion of private money as the government assures a guaranteed rate of return on equity and

enters into a purchase agreement as the sole buyer. Upfront tariffs are determined according to the fuel source by an independent regulator.

One other positive trend that has been discerned in recent years is the role of philanthropy and charity in areas of education and health care, particularly for the poor and lower income groups. A number of non-governmental organizations (NGOs) formed for channeling philanthropy and corporate social responsibility funds are not only supplementing the government and private resources, but also filling in the gaps in service provision where they exist. Rough estimates show that at least 1-1.5 percent of GDP is contributed by the philanthropists for various social and religious causes. This is in addition to 'Zakat'¹² collected by the government or doled out by individuals.

According to the 2015 Access to Finance Survey carried out by the State Bank of Pakistan (SBP)¹³, only 16 percent of the adult population had banking accounts while seven percent had access to other formal financial services. Another quarter of the population was served by informal providers thus leaving almost half of the population financially excluded. The National Financial Inclusion Strategy¹⁴ is aimed at bringing at least 50 percent of the adult population under the ambit of the formal financial sector. This kind of outreach has become possible due to the high rate of mobile phone subscriptions which cover almost 70 percent of the population. Mobile wallets are rapidly gaining traction. The number of Branchless Banking accounts has risen to 14.5 million—almost three times of the amount in 2014—with an annual value of transactions reaching one trillion rupees annually. Similarly, microfinance loan borrowers have gone up to 4.3 million with the target to reach 10 million by 2020. These initiatives to expand access to financial services to those who have so far been excluded, would have a far reaching impact on poverty reduction, decent jobs and employment, as well as inclusive growth goals.

The Way Forward

In case of Pakistan, the immediate domestic scene becomes extremely crucial with the upcoming general elections in early 2018. With the previous two election years—2007-08 and 2012-13—culminating at a serious economic crisis, Pakistan was forced to approach the IMF for a bail out. This renders

2017-18 as 'make or break' years for the economy, with repercussions for the future. The economy has stabilized and macroeconomic indicators, aided in part by descending international oil and commodity prices, are looking much better. The free fall of the rupee has been arrested and foreign exchange reserves have been built up to cover four month imports. International financial markets are now looking at Pakistani paper favorably and credit agencies and international lenders have taken a more positive view of country risk. Agreement with the IMF has successfully completed. The security situation in Karachi has significantly improved providing much needed relief to businesses and citizens. With multiple infrastructure related initiatives being undertaken, CPEC also appears encouraging. Power load shedding and gas shortages, are on a receding path and LNG imports have somewhat eased the pressure for industrial houses.

Having achieved macroeconomic stability, there are two paths available—either consolidate and build upon these gains to undertake policy reforms that would help in speeding up economic growth to reach six to seven percent a year; or, fritter away these gains and pursue populist measures, appeasing powerful interest groups, backtracking on reforms and yielding to pressures. To accomplish the goals of inclusive growth, social protection, equity and sustainable environment, the pre dominant constraints facing the economy have to be tackled forcefully. Consequently, in order to mobilize domestic resources either through public finances or private investment, focus has to be placed on revitalizing the real sectors of the economy which are not doing well, but are critical for the general wellbeing of the population and sustained growth of the economy. Unless the real sectors are revitalized, growth would remain elusive, unemployment would rise, living standards would decline, and thus the capacity to generate resources for financing development and social protection would remain highly constrained.

The starting point for the way forward therefore, should be the kind of strategic interventions that would boost the performance of the real sectors of the economy and lay the foundations for inclusive growth in the future.

Agriculture, that provides livelihood to 45 percent of the population and has the highest proportion of poor dependents on it, is in doldrums both due to fall in

11 Build-operate-transfer (BOT) or build-own-operate-transfer (BOOT) is a form of project financing, wherein a private entity receives a concession from the private or public sector to finance, design, construct, and operate a facility stated in the concession contract.

12 Zakat is a form of alms-giving treated in Islam as a religious obligation or tax.

13 'State Bank of Pakistan and Gallup Pakistan (2015). 'Access to Finance Survey 2015'. Available at <https://www.a2f2015.com/>

14 State Bank of Pakistan. 'National Financial Inclusion Strategy'. Read more at https://etouches-appfiles.s3.amazonaws.com/html_file_uploads/89b3a3d1f16c1c57ddc131e3396a02d1_Oct27-1430-SessionA-WaseemMalik.pdf?response-content-disposition=inline%3Bfilename%3D%22Waseem_Malik%22&response-content-type=application%2Fpdf&AWSAccessKeyId=AKIAJ6CRYNXDRDHQCUQ&Expires=1490700453&Signature=XNAU6s8DhNdk6du0rQ52Bz%2Bd%2F2k%3D

international commodity prices, and domestic policy and institutional constraints. Cotton production has fallen from an average of 14 million bales to 11 million bales and the demand has to be met by importing cotton from India and other surplus producing countries. The Plant Breeders Bill, pending for such a long time, has finally been approved by the Parliament. This should pave the way for the introduction of genetically modified (GM)

is unavailable but it moves in tandem with the LSM. Financing needs of the Small and Medium Sized Enterprises (SME) sector remain a major problem as far as its capacity for expansion, assimilation of technology, product innovation and quality control is concerned. Sub-contracting arrangements with the LSM industries can help in this regard. This sector is an essential ingredient for the strategy aimed at promoting inclusive growth, labor force absorption

non-clearance of inter-company liabilities led to accumulation of Circular Debt amounting at times to as much as two percent of GDP. Although investments in new energy generation projects under CPEC would alleviate the demand-supply gap, but unless inefficiencies of the DISCOs are set right, fiscal losses would continue unabated. Privatization or restructuring of these companies therefore, becomes a policy imperative.

Table 1.5 : Pakistan HDI Trends

	HID Value	Life Expectancy	Expected Years of Schooling	Mean Years of Schooling	GNI per capita (PPP 2011 in USD)
1980	0.353	-	3.7	1.8	2,437
1990	0.399	55.0	4.4	2.3	3,094
2000	0.444	63.0	5.2	3.3	3,324
2010	0.522	65.0	7.4	4.6	4,380
2015	0.538	66.0	7.8	4.8	4,866

Source: United Nations Development Program (UNDP)

cotton that has doubled production in India. Cotton is a cash crop and does a lot to add to the disposable incomes of the farmers giving a flip to the non-agricultural activities in the rural areas. Livestock and dairy products are also a source of cash income to small farmers but public policy along with investment and incentive structures have to be realigned to spread the benefits among a larger segment of the rural population. The challenges of malnutrition and hunger can be tackled by raising the productivity of small holders through equitable access to irrigation water, marketing of produce and provision of credit for purchasing inputs. Growing water scarcity and climate change effects should be factored in volumetric pricing of water which would also make a substantial addition to provincial revenues.

Large Scale Manufacturing (LSM), with a few exceptions, is inching forward albeit gradually, and with a lot of hiccups. Traditional sectors such as textiles, leather goods, food and beverage and cement, have dominated the LSM sector for a very long time. Diversification away from low technology and resource intensive sectors, into medium and high technology products for which there is a heavy demand in global and local markets, has not yet made any headway. Innovation and entrepreneurship, which are driving forces for new industries, are still at early stages and integration into global supply chains has bypassed the Pakistani industry so far. Data on Small and Medium Manufacturing

and removing inequity.

Some of the problems faced by the industry have to do with the enabling environment. Pakistan ranks 144 out of 190 on the Ease of Doing Business index.¹⁵ The government has begun examination of its processes and should take further measures for the removal of unnecessary procedures whilst also controlling arbitrary intrusion by government functionaries at the lower level. This requires a proactive, coordinated, problem solving and consultative approach in which producers and potential investors in each sector are brought together with all the government officials of the federal, provincial and local governments and decisions are taken on basis of a consensus. The present fragmented set up whereby investors have to run from pillar to post to obtain various clearances and NOCs, secure land, get connections for power, water, gas etc. has to be reviewed and streamlined. The successful examples of Andhra Pradesh, Tamil Nadu and Gujrat in neighboring India, can serve as the model for emulation and adaptation.

Energy shortages have been responsible for many of the malaises suffered by the economy since 2008. Industrial production and exports could not keep up with their trend growth rates; public finances were under stress because of subsidies and losses of the Distribution Companies (DISCOs); and, Oil and Gas companies and refineries who supplied fuel for generation were faced with cash flow problems and

The other key area that harnesses the capacity to make a difference in achieving the aforementioned goals and also improve the plight of the common citizen, is to do with governance at the local government level. The existing laws pertaining to local governments, particularly in Sindh and Punjab, need to be revised to devolve authority and administrative powers to the district governments along the lines of the rescinded 2001 Local Government Ordinance. There was a great ray of hope that the devolution process from the federal to the provincial level post the 18th amendment and the 7th NFC award would be pushed down all the way to the local governments. But there has been a reversal and the provincial departments have assumed administrative, legal and financial powers that belonged to local governments in the last decade. This retrogressive step needs to be done away with as the citizens would face difficulty in acquiring basic public goods and services.

Pakistan's poor record in literacy, net enrolment ratios, quality of learning, high dropout rates, poor skills of the labor force, gender disparity, malnutrition, disease, lack of safe drinking water and sanitation can be ascribed to the weak governance and poor management of the social sectors (see Table 1.5 that summarizes the HDI trends for Pakistan). The centralized control from the provincial headquarters has made the provision and access to these services highly untenable. It is impossible to supervise, monitor and solve problems for

¹⁵ World Bank (2017), 'Ease Of Doing Business Index'. Available at <http://www.doingbusiness.org/rankings>

such a vast and expansive set of activities unless the local governments are given the authority, autonomy and resources to manage them. The provincial governments can set the policies, standards and parameters for evaluation and carry out periodic inspection and monitoring in regard to the given targets and indicators. Community involvement is much easier to achieve at the grass root level and citizen feedback can be effective only under a decentralized and devolved system.

While agenda items such as CPEC and energy crises occupy the attention of policy makers, the empowerment of local governments does not appear on their radar screen at present. Empirical evidence depicts that the access of common citizens to their local elected representatives is much easier than members of the provincial and national assemblies. These representatives, who would be well aware of the realities on ground, act as the intermediary between the citizens and the government departments providing basic public goods and services. Such a system would ensure effective allocation and utilization of resources for development projects in those areas. This efficiency in resource use would free up resources for financing other goals such as social protection.

Once the constraints facing the real sectors of the economy are relaxed, there would be an upturn in the real economy as the existing excess capacity would be put to use. This upturn would generate increased resources—higher level of public, corporate and household savings—that would become available for development financing and a virtuous cycle would kick in. Higher amounts of domestic savings from rising national income achieved through better resource use in the first instance, would result in higher levels of investment. Higher investment, inter alia, with sound policies and better governance would lead to larger output, incomes and employment, thus raising tax and non-tax revenues for the government. These additional tax revenues along with the widening of the tax net rather than penalizing those who are already in the tax net, would reduce the need for recourse to bank borrowing by the government. Financial sector would thus be able to cater to the requirements of the domestic private sector without exposing them to foreign currency risk. Investment by the government in infrastructure such as energy, roads and highways, railways and ports and human resource development including skills training, financed by higher tax and non-tax revenues rather than domestic or external borrowing, would reduce the cost of production in industry and services sectors. This cost competitiveness along with a favorable enabling environment for business would attract FDI flows and also increase exports of goods

and services. Exports should be able to finance most of the imports and thus reduce the current account deficits and along with non-debt creating flows such as FDI, obviate the need for external borrowing on account of balance of payments pressure. Everyone in Pakistan seems to be concerned about indebtedness and rising allocation for Debt Servicing in the budget. The apprehensions about the rising debt, so widely discussed and disseminated in the popular media and public fora, act as a deterrent and dampener on business confidence. The debt burden would gradually taper off as the additional external borrowing levels recede and these apprehensions would be allayed.

Decentralization and devolution of education, health, water supply, sanitation and solid waste disposal along with a system of accountability for results would also improve efficiency in resource allocation and utilization, affect savings in expenditures and ensure better outcomes in meeting the SDGs. External donor assistance flowing into these sectors would become redundant and can be diverted to meet tough challenges such as environmental sustainability, renewable energy and pursuit of climate change agenda, for which there is not much appetite at present amongst policy makers.

The above sketched scenario can only materialize if the steps outlined to remove the constraints facing the real economy are implemented by taking tough and timely decisions which are not back tracked under the pressure of vested interest groups. Each one of the measures is doable provided there is a visionary leadership with strong political will and a commitment to get things done.

Ffd in the current situation of Pakistan is critically dependent upon prudent management of external accounts. As remittances and oil imports are negatively correlated, the former would no longer be dependable if oil prices remain low. Oil-producing countries would cut down investment projects and retrench foreign workers. Repatriation of profits and dividends, external debt servicing on existing loans and disappearance of Coalition Support Funds inflows would amplify the deficit. Therefore, reliance has to be placed on boosting exports of goods and services and inflows of FDIs. If Pakistan is able to regain its lost market share in the world market or attain the Export/GDP ratio of 10 percent only (it has done better than that in the past), it would be able to cut down its external borrowing requirements by at least one half and manage its external accounts without any stress. Increasing exports by expanding the product mix and penetrating into new markets and integrating into global value chains, should therefore, take precedence over all other

policy measures. Import substitution can also become feasible in some sectors if the trade and tariff regime are relaxed, liberalized and rationalized. Along with it, exports of services such as information communication technologies (ICT) offer a very promising outlook as Pakistan has the requisite talent that can be supplied at a price much lower than that of India. Pakistani professionals are relatively more reliable as their demand exists at the lower end presently. The current account deficit, after the reduced trade deficit on account of goods and services, should be filled by non-debt-creating flows such as FDI, failing which the reserves have to be drawn down.

In regard to domestic resource mobilization, it must be realized that the linkage between higher growth and tax revenues is not automatic. For deriving the benefits from growth, the taxation structure, policy and administrative machinery must be re-hauled. Pakistan's tax capacity is 22.3 percent of GDP while it is collecting 11 percent. Sales and corporate tax rates can be brought down to provide incentives to the private sector for expansion and new investment if the tax net is widened and eligible tax payers are brought within it. The existing database of 3.2 million potential taxpayers should be used to bring them into the net. This can be possible if the tax code is simplified, tax administration made hassle and corruption free, audit strengthened and improved, tax facilitation made tax payer centric and alternative dispute resolution put in place.

Provincial governments are mainly preoccupied with GST on services levying high rates and are totally neglecting agriculture incomes, irrigation water user charges and immovable property. In Punjab and Sindh, all these sources have a significant potential to generate at least another one percent of GDP. Local governments, if empowered, can also contribute towards revenue mobilization as empirical evidence shows that the beneficiaries of public expenditures who are able to see tangible and visible results in their areas and communities, are more willing to pay fees, user charges and taxes. There is greater reluctance if their payments end up in a black box at some far off place and they are unable to attain a clear picture regarding the utilization of the payments they have made in the form of taxes and fees. The dividends, profits and interest payments by state owned enterprises, which are foregone in many cases, can also become an additional source of revenue for the government.

In the realm of private sector financing, the untapped potential of private equity funds, insurance companies, pension, provident and endowment funds should be mobilized for long gestation infrastructure projects. These institutional investors are

looking for reasonably higher returns to meet their contractual obligations and have long term time horizon. Infrastructure projects start yielding returns after an interval of three to four years post construction but those returns can be realized over the next 25 to 30 years. This matching of assets and liabilities is not available in banking transactions and therefore recourse to capital markets and private equity should be able to raise funds for large dams and reservoirs, pipelines, terminals, highways, ports and airports. The financing structure of projects should be

designed in a way that the risks are allocated according to the capacity to bear risks at different intervals of time.

Pakistan is once again on an upward moving trajectory for economic growth and this should not be allowed to be interrupted. External and domestic shocks, if any, would have to be managed in a way that this upward movement is not disrupted. The impending elections in 2018 do pose such a risk. There would be many attempts and pressures on the ruling political parties for appeasing powerful

lobbies and groups who would assure their support at the time of elections in exchange for favors to them. Whether the present incumbents come back to power or their opponents are installed, the repercussions of populist policies in 2017 would be highly pernicious and detrimental for the economy. Thoughtful and prudent handling of economic management in 2017 and early 2018 would make the task of the incoming governments much easier and avoid the recurring pattern of approaching the IMF in the post-election period.



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Improving Lives: Public Sector's Role in Financing for Development



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The main goal of a development programme is improving lives. It is situated in an economic and social policy framework which pursues the twin objective of growth and equity. The programme thus emanates from policy and aims at providing a regulatory and enabling environment for private, public, and private-public-partnership investments. In a market economy, private investment is the prime driver of growth. Public investments should therefore be directed for provision of core public goods, either provided by public agencies or purchased from private entities. In the continuum between public and private is a large space for partnerships which can not only augment resources for provision of public goods, but also enhance the space for private enterprise and efficiency in operations.

Public investments hence have the greatest impact in contributing to advancing the wellbeing of citizens: accelerating economic growth; leading to inclusive, balanced and sustainable development, protecting the disadvantaged; and adding value for money. These investments crowd in private capital and enterprise, and yet provide public services on affordable and durable terms. Poor investment



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choices can then waste scarce and precious resources while a weak regulatory environment creates obstacles for growth and can generate inequities.

Public Sector – Dominant Source of Financing for Development

There is global consensus that public goods ought to be provided by government—however, the scope and extent varies. Security, justice, basic healthcare, education, sanitation, clean drinking water, and infrastructure constitute core public goods. Public investment is then used for expenditure in social infrastructure (e.g. schools and hospitals) and economic infrastructure (e.g. electricity and roads) as well as soft infrastructure (e.g. human capital and Research and Development).

Public financing has been the largest and fastest growing source of development financing in low and middle-income countries. "In 2011, developing countries mobilized around USD 2.8 trillion of development financing of which USD 2.3 trillion was through the domestic revenue mobilization of their own governments".¹ As economies grow, the share of external financing (loans and grants) for develop-

ment decreases further. Low income countries that relied on external financing saw a decrease in its share as they graduated to middle income status—development financing came down from about 50 percent to under 25 percent.²

Data indicates that this trend should continue owing to strong economic growth in most developing countries. Pakistan has been rated among the top ten fastest growing economies in the world (5.7 percent GDP).³ However, the tax-to-GDP ratio is abysmally low, 9.4 percent⁴ in 2014-15. With appropriate reforms, Pakistan should be able to generate substantially more revenues for sustainable financial base for public sector investment programmes. Right investment choices should further enhance the GDP which has the potential to grow.

Planning Disrupted

Financing for development, as well as expenditures more broadly, critically depends on the policy and regulatory framework. In the late 1950s and throughout the 1960s, Pakistan had nationwide centralized economic planning under the Five Year Plans guiding public investments with a strictly technically thought-out set of priority areas. The central planning machinery at the Planning Commission and the Harvard Group were at the helm of affairs. This era was followed by a gradual move away from central planning to annual planning, three-year plans and mid-term frameworks. All these have been plagued by weak implementation and application.

Post-1985 party-less polls introduced a new governance and development paradigm in Pakistan. While the capacity of elected institutions, private sector, and civil service had depleted in the preceding years, the new development model further weakened technical capacities in the public sector, especially for growth oriented programmes and projects. There was a shift towards constituency based development

1 Kharas, Homi. "Financing for Development: International Financial Flows after 2015", April 2014. Available at https://www.irforum.org/sites/default/files/publications/Retreat%20%234_BP_1_Brookings_draft.pdf.

2 ibid

3 Economist. Available at <http://www.economist.com/indicators>

4 Fiscal Policy Statement 2015-16. Available at http://www.finance.gov.pk/publications/FPS_2015_16.pdf

which led to micro-planning and non-integrated solutions. While development spending as part of public expenditure lessened in past decades (from 5.5 percent of GDP in Fiscal Year (FY) 1985-1989 to 3.2 percent in FY 2009-2015),⁵ an acute deficit in public infrastructure as well as human development ensued. The situation was compounded by reckless changes in policies and abandonment of projects after a change in regime.

Fiscal Federalism: More Resources for Provinces

Historically, provinces relied on the federal government for public investments through Cash Development Loans. Post-7th National Finance Commission (NFC) Award, provinces have more fiscal resources and avenues to tax. In the 7th NFC Award, the share of provinces in the Federal Divisible Pool increased from 46.25 percent to 57.50 percent. The provincial share has since seen a steady rise each year, for instance it increased from PKR 835 billion in 2010-2011 to PKR 2044 billion in 2016-2017.⁶ Provinces were also empowered to collect GST on services which has seen a steep rise in collection (from less than 0.1 percent of GDP in FY 2009 to 0.4 percent of GDP in FY 2014).⁷

The devolution through the 18th Constitutional Amendment has further authorized the provinces in a number of areas which directly impact the life and wellbeing of the citizen. This fiscal federalism provides leeway to the provinces to generate and allocate finances for public investment that could accelerate economic development and provide services to the citizens.

These changes were made to provide fiscal space for the provinces and to encourage the federal government to improve its revenue generating capacity. However, current and development expenditures have risen more than revenue generation, resulting in budget deficits at both the federal and provincial levels. The majority of provincial revenues remained unchanged⁸ and relied heavily on federal revenues instead of shifting to domestic tax revenues. The rising trend of fiscal deficits and fiscal consolidation contracts the resources for public investment.

Punjab's Development Plan

Punjab's development programmes are enshrined in its Annual Development Programme (ADP) and Medium Term Development Framework (MTDF). To

inform and guide ADP 2017-18, Government of Punjab (GoPb) has formulated an ADP Formulation Strategy to examine the current challenges and opportunities. The Planning and Development Department (P&D) launched its first ADP formulation strategy at the beginning of 2016 titled, 'Smarter Investments'. This year's strategy takes impetus from last year's with an added emphasis on private sector development and is appropriately titled, 'Catalytic Investments to Trigger Private Sector Growth'.

Punjab's social sector development spending has consistently increased and currently has development programmes and projects worth PKR 550 billion, comprising 38 percent of the total provincial budget. Investment in social services has increased, transforming public spending. Health received 9 percent of provincial development budget during FY 2016-17, education received 19 percent, agriculture/irrigation received 7 percent, drinking water supply and sanitation received 3 percent, and infrastructure received 3 percent. Conducting sensitive budgeting, the ADP will continue to be gender focused and finance gender-mainstreaming programmes. Continuing into FY 2017-18, there will be a stronger tilt towards spending in education, health, water and sanitation services.

At the same time, GoPb has undertaken a painstaking examination of its development framework. This involves analyzing Punjab's efforts to advance the development agenda and improving the management of the development portfolio. The conventional policy cycle demands four steps: 1. Policy formulation, 2. Pushing for legislation and regulation, 3. Formulation of programmes, and, 4. Designing projects. Currently, the entire planning machine is tilted towards the last step of designing development projects, which is a faulty strategy since projects in isolation are more likely to not deliver the desired results of a panoramic development. In addition to starting new projects, it is equally important to focus on asset management and finding efficiency gains, of being cognizant of high operations and maintenance and repair costs due to past infrastructure investments.

GoPb has a new governance model with an increased focus on engaging with private sector experts, academia, business leaders and civil society in policy dialogue. Sourcing global knowledge and expertise while using ICT for citizen empowerment

and efficiency gains, and establishing a new institutional framework with Companies, Authorities, Trusts and Partnerships.

An IMF study finds that about 30 percent of the potential benefits of public investment are lost due to inefficiencies in investment process on average. For this reason, GoPb emphasizes on transparency, disclosure and public right to information. According to an external assessment of PILDAT, Punjab's governance is rated highest in public opinion. A report by Transparency International also marked Pakistan's improved position.⁹

Propelling Private Investment

Public investment shapes the nature and size of private financing. Creating an investment climate that allows the private sector to take risks, innovate, and get an attractive Return On Investment is crucial. The golden rule of financing dictates that whatever can be done in and by the private sector, must not be done by the public sector. If private sector is not investing in certain sectors and goods, it becomes the responsibility of the government to lessen their risks. For example, when the private sector in Pakistan was not ready to risk entering the solar market, GoPb used its resources to establish the first utility scale 100 MW solar power plant, an initiative that required multiple lengthy steps including attaining security documents, tariff award, etc. After the successful grid-connection of the project, the solar market in Punjab was flooded with international and national private solar companies. Since then, 300 MW have been installed in the solar power park in Bahawalpur.

Punjab Growth Strategy aims to double private sector investment by 2018. The private sector already generates around 90 percent of Punjab's output of goods and services.¹⁰ The public investment programme of PKR 550 billion will not be sufficient to meet the needs of the rapidly growing population and so must support the private sector to grow. Government funds can then be used as a catalyst. To meet Punjab's development goals, GoPb has to aggressively enhance the capabilities of the private sector. This involves policy and regulatory reforms to facilitate the private sector and enhance their contribution to the provincial economy.

China Pakistan Economic Corridor (CPEC), with projects worth PKR 600 billion, provides excellent opportunities for development of trade channels, energy

5 Nabi, Ijaz, Dr. "Pakistan's Public Expenditures, Insights & Reflections." Available at <http://www.raftaar.pk/includes/assets/img/Public-Expenditure.pdf>.

6 Ministry of Finance, Pakistan. Budget-in-Brief 2009 to 2016

7 Controller General of Accounts, Government of Pakistan

8 Report of the National Finance Commission 2009 and Pakistan Fiscal Operation (various issues) corroborates this trend.

9 Corruption Perceptions Index 2016. Available at http://www.transparency.org/news/feature/corruption_perceptions_index_2016

10 Punjab Growth Strategy. Available at http://www.pndpunjab.gov.pk/economic_growth_strategy

corridors and associated businesses. Punjab has developed industrial parks with attractive incentives and policies for foreign investors, for instance the Quaid-e-Azam Apparel Park. Strengthening trade routes for better regional integration, securing business linkages with neighboring countries and enhancing export competitiveness under GSP-Plus will also enhance the private sector under the state's supportive policies.

Punjab has also set Public-Private Partnership (PPP) as a priority model for large infrastructure projects, with projects worth PKR 250 billion under PPP mode. Multiple channels of financing are required to provide public goods and PPPs can be an efficient way to deliver these public services such as roads, hospitals and bridges. The ADP Guideline 2017-18 has made it mandatory for each line department to suggest at least one project in PPP mode. The bigger departments such as Education, Health, and Agriculture are encouraged to bring a much larger number of PPP mode projects. It has been reiterated that departments should spend on pure public goods or where initial investment is required to lower the risk of private sector entry.

Beyond Aid – More Expertise

Punjab's stance vis-à-vis donor agencies has evolved in recent years to focus more on getting technical expertise and sector specialists rather than aid money. Sub-national governments can lack the knowledge on how to make the best use of investments.¹¹ Multi-lateral donor agencies are then most useful in sharing their global

knowledge of best practices and collaborate with public institutions in applying them in a local setting.

While foreign financing for development can help, it crucially depends on the strong collaboration with public institutions. As an example, the implementation strategy for the Sustainable Development Goals (SDGs) is purposely starkly different from that of the Millennium Development Goals (MDGs): creating strong partnership between UNDP and provincial governments and local governments. As Punjab monitors its ADP, the new framework will track expenditure to SDGs. Co-financing increases the commitment and involvement of both parties to the success of achieving the Global Goals. As SDGs are more ambitious than the MDGs, it requires more finances and efforts to achieve the targets. These additional finances can come from the private sector, donor agencies, as well as public sector. UNDP is assisting provincial governments implement SDGs under its programme Mainstreaming, Acceleration, and Policy Support (MAPS). For this, UNDP and Planning and Development Department have jointly established Punjab-SDGs Unit to effectively coordinate efforts of implementing the SDGs with all stakeholders from the provincial and district government, private organizations, and other international development partners including DFID, World Bank, Asian Development Bank, GIZ, and other UN organizations.

Stepping Up

Moving forward, we must strengthen our foundations by going back to the basics:

having a strong strategic planning machinery. More focus needs to be consciously given to the first three steps of public policy: policymaking, legislation and regulation, and programmes, before moving to projects. This will result in a withdrawal from ad-hoc investments in projects and public financing choices can be better aligned with a larger well-thought out development strategy. The goal is to have a panoramic approach to development, making use of all available resources in the country.

For this, the public sector must enhance its capacities to design investment strategies that are well informed and forward-looking. Putting more focus on research and development; performing better analysis of data to inform investment strategy; and having a strong mechanism to do asset management of existing structures including Repair and Maintenance as well as Monitoring and Evaluation. Additionally, public sector must strengthen its framework conditions: a strong regulatory framework including public procurement, public financial management, etc.

We must also mobilize greater long-term financing. The different sources of financing for development (Public sector, FDI, aid, trade, loans etc) are complementary rather than substitutes. For this reason, there is a need to shift the narrative towards one that calls for better integration and coordination between all actors. In this development discourse, we should then increase focus on the type of financing that each source is best able to do and has the most value-add.



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¹¹ "Recommendation of the Council on Effective Public Investment Across Levels of Government." March 12, 2014. Available at <http://www.oecd.org/gov/regional-policy/Principles-Public-Investment.pdf>.

Debt and Debt Sustainability of Pakistan



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Pakistan's economic outlook today appears somewhat promising, though not entirely optimistic and can be summarized in terms of moderate GDP growth, low inflation, sluggish but rising investment, overvalued rupee, easing out of energy-sector crisis and poor but slightly improved governance indicators. One of the great challenges that the country faces is to strike a sustained balance in current account transactions with the rest of the world, and between public and private sectors within the country. Despite the fact that resource deficiency and the resulting debt crisis during the 1990s had placed Pakistan in quite a difficult position, it appears that economic planning is still constrained owing to a lack of proper understanding of the problem and reluctance to accept the hard facts that lie at the core. In order to search for sustainable solutions to the debt problem, it is essential to focus on structural elements in the economy and the nature of economic dynamics that generate the need to borrow in the first place. Most often, foreign debt is created to support a growth target, which is not feasible within the given resources domestically available and with the given saving propensities, level of technology and economic management practices. Foreign debt can, therefore, be interpreted as the price of economic growth when a country is unable or unwilling to improve domestic saving rate,

productivity and resource allocative efficiency through better economic management. Thus, for a meaningful analysis of the problem, it is essential to study the nature of resource deficiency, saving propensity and productivity within the country. It also follows, therefore, that the external debt situation of a country is closely linked to its position with respect to domestic debt. Since the entire domestic debts and the major portion of foreign debt are liabilities on the public sector, the total (foreign plus domestic) debt can also be interpreted as the cost of maintaining a large and inefficient public sector.

Historically, Pakistan started to receive foreign aid, grants and soft loans soon after its independence in 1947. During the 1950s when external loans were generously available on easy terms and conditions, Pakistan availed the opportunity of improving its economic conditions with the help of external borrowing. The prevalent economic growth models, such as Harrod-Domar model, also supported debt-financing for better growth outcomes. The idea was that the increased national income in future would ultimately generate sufficient savings and exportable surplus to retire the debt. The growth experience in the 1960s remained quite successful in raising GDP growth rate to the tune of more than six percent per annum. Although the absolute magnitude of debt continues to increase, yet in relation to rising GDP, it remained within acceptable limits. However, the improved growth performance could not translate into better socioeconomic conditions of the masses during the 1960s. By the end of the decade, total outstanding external debt was slightly less than three billion dollars. In any case, had the same pace of growth been sustained in subsequent years, it might have been possible to reverse the trend in debt accumulation in later years.

The debt situation in the 1970s remained sustainable despite a significant growth in external debt and reduction in growth rate of the economy, mainly because the absolute size of external debt was still small

with favorable terms and conditions (interest rate and amortization period). In addition, nationalization of profit-making industries during this decade helped strengthen the financial position of the public sector, though temporarily. Furthermore, a significant increase in the inflow of foreign remittances during the last three years of the decade mostly offset the current account external imbalance that could otherwise have resulted in further external borrowing.

During the 1980s, American aid to Pakistan for its role in the Afghan war helped Pakistan postpone any potential financial crisis. During this period, however, the composition of external debt changed gradually from long-term to short-term, with higher rates of interest. Internal debt also became costly with rising real interest rates. Pakistan's total debt jumped from 54 percent of GDP in 1985, to 62 percent in 1986 and 70 percent in 1990.¹ This was an alarming situation at a time when American aid was drying up as the Afghan war entered into its conclusive phase. Around the same time, a disproportional increase in public sector employment that continued in the subsequent decades, as well as mismanagement and misappropriation of national resources, transformed most of the public sector units from profit-making enterprises into slums of financial disaster. While public sector enterprises were burdened with over-employment, the financial sector was ruined by loan write-offs and defaults. The economic crisis that followed in the next decade was now inevitable.

Successive governments during the 1990s attempted to postpone the debt crisis by rolling-over the existing debt. Government agencies focused mainly on negotiating loan agreements with the IMF and other donor agencies and meeting, though often unsuccessfully, the targets imposed by the donor agencies. By the end of the millennium, Pakistan was at the verge of default.

The unfortunate incident of 9/11 and the consequent curb on informal financial

¹ Estimates are derived from the data on public and publically guaranteed debt reported in Economic Survey, Ministry of Finance, Government of Pakistan and Annual Report, State Bank of Pakistan.

flows across the globe resulted in an unprecedented increase in private financial inflow, especially remittances, to Pakistan through official channels. This eased the burden of debt to a great extent. Foreign debt declined sharply from 44 percent of GDP in 2001, to 28 percent in 2007; while domestic debt declined from 43 percent to 31 percent. The total debt shrunk to about 59 percent, the lowest level achieved since the year 1986. Thereafter, debt again started to increase till it reached to about 68 percent of GDP in 2016. A striking aspect of the latest trend is that foreign debt decreased further to 23 percent of GDP in 2016 after climbing to 35 percent in 2009, while domestic debt continued to increase and reached to 45 percent in 2016.²

Pakistan's growth strategy based on borrowing had mixed outcomes. On one hand GDP increased by a compound annual growth rate of about five percent during 1960 to 2016, translating into 3.9 times increase in per capita income. On the other hand, social living conditions (like poverty, education, health and basic civic facilities) of the masses did not show substantial improvements. One of the reasons was that with increased debt burden, the cost of debt servicing squeezed the range of budgetary options for the government. Since the establishment and debt servicing expenditures were quite inelastic, governments had to curtail development expenditures. In particular, expenditure on social sector development was severely curtailed.

Failure to maintain debt within safe limits during the 1990s had been an expected outcome given that no serious effort was made to address core issues in planning, implementation, management and governance. Successive governments also lacked courage and confidence in their abilities of meeting the challenge. However, Pakistan did learn a few lessons from the 1990s debt crisis and made certain concrete attempts to bring debt within manageable limits. The Debt Management Committee formed by President Musharraf proposed a number of steps for better understanding of the measurement of debt, its monitoring and management.³ The Debt Committee Report pointed out several problems including the weak institutional arrangement of debt-fragmentation of information, poor coordination among the key departments and shortage of trained staff. The report recommended adoption of a formal debt strategy, debt management guidelines and limitations on debt and foreign exchange reserves. This report became the basis of the Fiscal Responsibility and Debt Limitation Act 2005, which subscribes statutory limits on debt.

Currently, debt management is mainly the responsibility of the Ministry of Finance (MOF) with its Economic Affairs Divisions (EAD) monitoring and keeping track of the inflow of borrowed funds, debt servicing, allocation of the funds and technical assistance for implementation of funds disbursement. Debt policy-making is done in the Finance Division (FD). Its Export Finance Wing plays a key role in designing medium/long-term policies, keeping in view the inter-linkages between debt related variables and the Balance of Payments (BOP) accounts. Thus, the EAD performs the task of implementation, monitoring and record keeping under the policy framework designed by the FD. The State Bank of Pakistan (SBP) keeps record of debt-related data. The Central Directorate of National Savings records information on public debt raised by National Savings Schemes. Debt management, planning and policies at the MOF are coordinated with the SBP in order to look into the financial side of the matter, and with the Planning Commission of Pakistan to seek economic advice.

Despite this elaborate set up, debt management in Pakistan is lacking in many respects such as weak coordination across debt management agencies, lack of feasibility analysis and long-term planning and piecemeal approach. Solution strategies often seek quick results that in most cases are infeasible. Decision-making rests on personal intelligence, rather than objective analysis. As always, political motives and vested interests stand above socioeconomic considerations. Since political factors in Pakistan are volatile, long-term plans and feasibility reports, even when they exist, are not given due importance at the level of policy making and implementation. Another shortcoming in the debt management practices seldom highlighted in policy-making circles in Pakistan is the weak coordination between domestic and foreign debt management. Even academic studies, with only a few exceptions, analyze foreign debt as an issue unrelated to domestic debt.

Along with poor debt management within Pakistan, the donor agencies also have their share in aggravating the crisis. One of the reasons is that some of the conditionalities attached to aid packages tend to neutralize the intended outcomes. For example, the policies of removing subsidy on electricity and natural gas and partially replacing of income tax by goods and services tax lacked human touch and are likely to have had adverse effects on the welfare of the poor.

Some initiatives to improve the budgetary position of the government for instance,

cap on deficit to GDP ratio, implementation of GST, withholding tax and tax-filing drive, were not too successful. First, such supply side policies had recessionary impacts on the economy. Second, with weak implementation of the rule of law, most of the tax collection drives remained unsuccessful. In fact, tax-to-GDP ratio declined to around 10 percent after rising to 12 percent in the mid-1980s and mid-1990s. Institutions responsible to enforce tax laws did not keep pace with the stated reforms in the taxation structure. Lack of uniformity in taxes across the economy and presence of unfair tax exemptions encourages under-invoicing of taxed activities and over-invoicing of non-taxed activities. Potential tax payers could easily hide their taxable transactions in the presence of distortionary tax structure and weak institutions.

The point that is being missed is that slippage in targets occurs not as much due to shirking on the part of policy making, as it does due to institutional weaknesses. The question of governance and institution building needs to be brought under direct focus as intermediate targets with the ultimate aim to achieve the prescribed economic goals. For example, the donor agencies may try to fix targets on institutional reforms along with quantitative targets such as tax-to-GDP ratio, budget deficit, etc. It is also to be understood that the government is to be relieved from such economic activities where there is no strong case of market failure and not for the sake of using the privatization proceeds for debt retirement so as to improve economic efficiency and thereby to curtail the need for further borrowing.

Whether or not the debt burden in Pakistan is sustainable depends on how stringent the criteria of sustainability is applied. If the criterion is the risk of default, Pakistan could sustain and has been sustaining over the past 30 years, debt burden over the statutory limit of 60 percent imposed after the debt crisis of the 1990s. On the other hand, more rigid criteria like limits on foreign debt-servicing to exports ratio or total debt servicing to government revenue ratio could make the same amount of debt unsustainable. Since total debt servicing in Pakistan has exceeded 50 percent of the federal government's tax receipts since 1989 (except for the year 2006), one may argue that this situation was not realistically sustainable given the huge burden of establishment expenditure and losses to public sector enterprises.

Different debt sustainability criteria have different implications for the stakeholders involved. For example, a cap on debt-to-GDP ratio does not suit and neither has popular appeal for politically elected

2 Estimates based on the data in Economic Survey, Ministry of Finance, Government of Pakistan and Annual Report, State Bank of Pakistan.

3 See Debt Committee Report, Ministry of Finance.

governments. Debt sustainability criteria that require additional taxes would be opposed by the potential tax payers like industrialists, importers, etc. Therefore, as part of solutions, all stakeholders need to be involved to identify issues in national debt restructuring that need policy action to make crisis prevention and management more effective and ensure debt sustainability and orderly functioning of financial markets.

In fact, debt sustainability tools have to be custom designed for the specific situation of a country. Pakistan's debt is almost entirely the consequence of public borrowing. This essentially means that the year to year changes in debt do not come as shocks. All debt is created with deliberate planning by the government. One of the problems in debt management in Pakistan is that borrowing is not always directly linked to specific projects, especially in case of domestic borrowing. Since money is fungible, there is no guarantee that even the external borrowing for a specific purpose will be used one-to-one for the said purpose. To avoid excessive borrowing, it is essential to restrict the government to specify the exact purpose of borrowing every rupee. In addition, it is also desirable that there is an upper limit on the proportion of each specific expenditure category to be met from borrowing. It is highly desirable that before it is too late, a standing committee of experts is constituted to develop and propose debt management and sustainability tools.

In practice, the sustainability of debt is not necessarily a solution to the debt problem because sustainability does not reduce the cost of debt servicing. In the final analysis, what matters is the cost of carrying debt rather than the country's ability to sustain the debt. If the cost is too high compared to benefits, debt would be undesirable even if it is considered sustainable. The statutory limit on debt has been abused and it will continue to be abused unless the focus is redirected to fixing and meeting specific goals on shrinking the size of public sector and reforming its institutions to regain efficiency and credibility. Unless the public trusts its institutions and is assured of efficient and socially desirable allocation of public resources, no legislative measure or drive to enhance the pool of these resources for economic growth can succeed.



Role of The Private Sector in Development Financing



Fiza Farhan

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While it is evident in researches conducted around the world, that public financing can pave way for development, it should be noted that such a strategy cannot always be an ideal policy for developing countries since they are usually running budget deficits. Thus, in order to alleviate the economic burden on the government and allow them to utilize the money for alternate purposes, it is imperative that the private sector steps in to finance households and projects with a direct focus on sustainable development for the Bottom of the Pyramid (BoP) on behalf of the government. The private sector can, then, offer a lending hand by either extending its profits for the development of the society as part of Corporate Social Responsibility (CSR), or take it a step further by engaging in development investment and identifying ways in which they can invest in sustainable development while enhancing their business profitability. The latter renders a more long term approach to engaging the private sector in development, as compared to philanthropic interests or CSR projects which have historically only justified a small portion of private investments.

The private sector holds great potential as it contributes a significant proportion to a country's economy. Taking the example of Pakistan, the private sector within Pakistan has been a strong player in the production of goods and services, especially since the 1970s when Pakistan experienced a brief period of nationalization.¹

According to an assessment carried out by the Asian Development Bank (ADB), private sector's GDP contribution at factor cost is approximately around 84 percent of the total GDP.² Furthermore, if weight is given to the informal economy, this GDP contribution would amount up to an even higher percentage. ADB further adds that 20.9 percent GDP contribution through the agriculture sector is also almost completely owned by the private sector in Pakistan. Additionally, 100 percent of the textile sector which adds 46 percent to the manufacturing sector, is under the private sector of Pakistan. The private sector also owns over 77 percent of the commercial banking sector.³ Hence, it is obvious that the private sector has significant footprints in the economy of Pakistan and houses the potential to contribute towards the sustainable development agenda being pursued.

Private sector organizations are also generally well equipped with technology and are consistently working towards innovation and efficient use of resources. The most important role that the private sector's financial investment in development stems from the fact that big corporations are strong actors in setting trends and standards of good practices, also referred to as the concept of 'Social Entrepreneurship'. As Seelos and Mair (2005) put it, "*The term social entrepreneurship (SE) is used to refer to the rapidly growing number of organizations that have created models for efficiently catering to basic human needs that existing markets and institutions have failed to satisfy. Social entrepreneurship combines the*

resourcefulness of traditional entrepreneurship with a mission to change society."

In this context, Grameen Bank in Bangladesh is a prominent case study representing the most direct private sector engagement towards development through interest bearing financial instruments for the underprivileged. This micro financing bank shows exactly how private financial institutions can finance individuals and households with the goal of empowering communities while simultaneously generating profits. Furthermore, there is now a move towards for-profit microfinance, being embraced by the corporations. The largest of these corporations, in terms of total assets, is Bank Rakyat of Indonesia (BRI). BRI has more than USD three billion in total assets devoted to microfinance.⁴ It is essential that our commercial banks learn from such a business model as they have a bigger retail market presence, and can use their outreach to reach out to the lower tiers of the population while still making profits.

Another example, which reflects the positive correlation between private sector financing and economic development, is that of the business community in Sialkot, Pakistan. The private sector of the city pooled its resources together to build an international airport for the city with a view of expanding its share of global trade nationally. Today, the city is one of the biggest export hubs of Pakistan. These are just a few of the many examples that show how development financing and investment by the private community has been able to stimulate greater economic development.

Given the complementary role it can play by assisting the government with its welfare initiatives, the role of the private sector in development should not be overlooked anymore. Rather, it is essential for us to recognize the barriers, which

1 ADB, Pakistan Country Partnership Strategy. "Country Partnership Strategy: Pakistan, 2015–2019". Available at <https://www.adb.org/sites/default/files/institutional-document/171824/cps-pak-2015-2019.pdf>
2 ADB, Pakistan Country Partnership Strategy. "Country Partnership Strategy: Pakistan, 2015–2019". Available at <https://www.adb.org/sites/default/files/institutional-document/171824/cps-pak-2015-2019.pdf>
3 ADB, Pakistan Country Partnership Strategy. "Country Partnership Strategy: Pakistan, 2015–2019". Available at <https://www.adb.org/sites/default/files/institutional-document/171824/cps-pak-2015-2019.pdf>
4 Marguerite S. Robinson (2005). "Why the Bank Rakyat Indonesia has the world's largest sustainable microfinancing system." Available at <https://www.microfinancegateway.org/sites/default/files/mfg-en-case-study-why-the-bank-rakyat-indonesia-has-the-worlds-largest-sustainable-microbanking-system-2005.pdf>

prevent many private sector corporations from engaging in development investment, facilitate these organizations in overcoming the limitations and encourage private sector initiatives, which contribute to development investment.

In a study conducted with certain private sector companies in Pakistan including Engro Corporation, Engro Foods, Nestle Pakistan Limited, Chanar Sugar Mills Limited, Telenor and Unilever, it was gathered that there is willingness on part of private sector organizations to work towards the SDGs, but there is a lack of incentive to do so. Private sector companies

IKEA, an exceptional example to look at in terms of sustainable development through the private sector. IKEA Social Entrepreneurship Initiative has encouraged many partnerships to be formed, leading to a lot of social entrepreneurs to set their businesses in motion. This has allowed IKEA to increase employment opportunities and economic growth. Alongside this, since social entrepreneurship is geared towards social benefit and change – it has led to other social advantages in areas like health and education.

were often unaware of the commercial benefits of development investment, and simply understood them as part of CSR. It is important to ensure that businesses recognized that investment in SDG projects as part of a change in the core business model would eventually reap benefits for the business itself. It was understood that the philanthropy model of business has become outdated in the realm of private sector initiatives; rather the focus is primarily on profitability and sustainability. Therefore, each business needs to be engaged in developing economically feasible and profitable business models which simultaneously invest in the development of the country in general, as well as profitability for the business itself. There is lack of awareness of the potential that a business holds to simultaneously do so.

Furthermore, corporations are willing to invest resources in development but financial constraints are often seen as a point of withdrawal. There is a need for organizations like the UN, World Bank and DFID to step in and form a bridge between private sector businesses and private financial institutions. The simple solution is for these organizations to act as guarantors of development for the businesses, therefore reassuring the financing body that if there shall be any default on their

social investment, it would be covered by these organizations.

Taking it a step further, engaging private sector organizations in eventually investing their own finances in projects has to be driven by incentives. One of the strongest incentives recognized for private sector engagement is that corporations are willing to invest in development financing if a significant proportion of tax incentives are provided. Furthermore, there is a need to endorse such financial investment through brand recognition and other instruments of positive reinforcement. One such instance might be an Annual SDG Ceremony gathering representatives from various private sector corporations, as well as recognition of investment through an SDG seal. These forms of recognition are vital to ensure that such investment and engagement is recognized as a prestige for the respective organization. Forming such trends would ensure that other businesses strive to match up to honored businesses by following their practices.

The role of Development Finance Institutes (DFIs) in the private sector also needs to be modified to demonstrate that they are willing to invest and facilitate those investors that are working with a developmental cause. If DFIs are able to push forth the idea that businesses actively engaged with the development agenda are not only supported, but are a priority for DFIs, more businesses will be confident in adopting models that can incorporate this kind of development financing.

Perhaps the most essential thing that needs to be done is to engage the private sector with active players in the development sector, to work together towards strategizing working business models that are both commercially viable and profitable, as well as contribute to development financing. Projects must be directed in such a way that they are in line with core business values and practices, and are simultaneously working in the development arena of the economy. Cadbury's partnership to enhance the lives of Ghana Cocoa Farmers is a global example of how a business model can be modified towards both profitability and sustainable development. There has recently been a decline in cocoa productivity and wage rates have been declining as well, resulting in lesser motivation of the new generation to join cocoa farming. As a win-win business model, Cadbury has initiated a cocoa farming partnership whereby they aim to resolve the issue of productivity by implementing development investments focusing on enhanced infrastructure, education and general livelihoods of the

Ghana community.⁵ Through this initiative, the company hopes to increase productivity from current levels of 400 kg of cocoa per hectare to 1,000 kg per hectare by 2018. The Cocoa Partnership investment in fairtrade cocoa production is expected to earn USD 350 million per year in additional revenues. In terms of the development impact, 10,000 farmers and their families in 100 cocoa-farming communities, as well as 55,000 members of the Kuapa Kokoo farmer's cooperative in Ghana, are already impacted from this business model. Such business models exemplify that the nexus of sustainability and profitability is possible with a direct impact on commercial value chains and the communities at large.

It is also integral to move our youth towards business models, which bring social value and business profitability together. The best business model for such an endeavor is that of a "Social Enterprise". Our youth needs to focus on businesses that create social value for the society and underprivileged while financial profitability for the shareholders. An example is Buksh Energy Private Limited, that focused on providing sustainable renewable energy solutions for the masses while simultaneously ensuring that the shareholders were receiving returns on their investment.

Such social enterprises are the future of the nexus between sustainability and profitability. Furthermore, incorporating research and development within the undertakings of the private sector is also an essential step which shall utilize the innovative and technical expertise of the sector to build up socially beneficial projects while promoting economic growth and development. Pakistani startups especially, hold the potential to bring these aspects together. They have the creativity, the skills and technology—there is just the need to direct them towards a vision of a sustainable economy and an inclusive business environment, for all.

5 Cadbury Cocoa Partnership: Improving Productivity and Farmer's Incomes. "Business Call to Action". Available at http://www.businesscalltoaction.org/wp-content/files_mf/1286825168BctACadburyCocoaPartnershipCaseStudy.10.10.2010ForWeb.pdf

Innovative Financing for Development



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Historically, development funding has included overseas development assistance, sovereign loans by banking syndicates and foreign direct investment. However, these options have not kept up with the demand for development finance. There is no doubt that currently, development finance falls far short of internationally agreed benchmarks and there is a need to have an “all hands on the deck” approach when it comes to enhancing financial flows to meet development objectives such as the Sustainable Development Goals. In this context, innovative financing that includes non-traditional mechanisms to raise more funds provides a plausible option to help meet development funding needs.

Over the last two decades, the two most important innovative financial tools developed that have the potential for reaping benefits are 'impact investing' and 'gender lens investing'. Acumen Fund has been a fore-runner in this space of impact investing, which is defined as long term debt and equity investments in early stage companies focusing on providing quality education, clean energy, health care services and safe drinking water. The investment is measured both in terms of addressing a market failure and reaping

long-term benefits to both the investee and the investor, and in the end, resolving a social problem, for instance providing safe drinking water to low income customers. Impact investing therefore straddles traditional capital market solutions for addressing social problems in a sustainable way. A great example is Acumen's investment in D.Light in Kenya in 2007, which has resulted in D.Light bringing affordable clean light to over 50 million users in 62 countries. In Pakistan in particular, there has been a move to set up angel funds and equity funds for the Micro, Small and Medium Enterprises (MSME) sector, the results of which are still awaited. A USD 100 million Pakistan Private Investment Initiative has been established by USAID in 2016, which includes three funds that are privately managed in order to invest in promising MSMEs in the country. The purpose of the fund is to overcome financial barriers that startup companies face, while creating job opportunities for individuals across the board.

Furthermore, 'gender lens' investing is an important measure or tool for positively impacting the SDGs. To emphasize this point further, without investing in the productivity and livelihood of women, poverty alleviation cannot be achieved. Over the past couple of decades there has been a feminization of poverty, given the fact that women earn less than men, are less likely to be part of the formal labor force and are less likely to have access to education or technical skills. Looking at current labor participation rates in Pakistan, which stand at 24.6 percent for women and 82.9 percent for men, implies that women are 3.3 times less likely to be employed than men.¹ This is compounded by the fact that women's control and ownership of physical assets, particularly land is skewed, while their choices are curtailed more from cultural and social biases. A study undertaken in 2012 has revealed that if female employment rates matched those of men, GDP could increase by over 30 percent in many developing countries.² Creating and

investing in economic opportunities for women across the board can be one way of achieving economic parity for women.

The same gender lens approach needs to be applied to the remaining SDGs. As identified in the Gender Gap Report 2016 of the World Economic Forum: “There is a clear values-based case for promoting gender parity: women are one-half of the world's population and evidently deserve equal access to health, education, economic participation and earning potential, and political decision-making power.” Unfortunately, Pakistan ranks 143rd on the overall index out of 144 countries in the Gender Gap Report, and is 143rd on the economic participation index as well, while educational attainment and health index are slightly better at 135th and 124th respectively.³

The above analysis is therefore important from both, a normative and a practical aspect, to establish a distinct measure for investing in the lives of women and girls. The concept of 'gender lens' investing becomes relevant today. There is no doubt that women have less access to capital across the globe. When I started working in the field of access to finance in 1995 in order to establish the first specialized microfinance institution targeting female micro-entrepreneurs, for every dollar being invested in small loans, only 20 percent was going towards funding women led micro-enterprises. The concept of women friendly financial services was not considered essential, as it was believed that women's contribution to family income was marginal. It was against this setting that the Kashf Foundation was launched, albeit replete with challenges in the first few months, not only in terms of convincing communities but women themselves that they could 'take money to earn money'. The financial inclusion of women is a complex issue; our research delineated that even though the majority of low-income women were gainfully employed, their returns were low and their control over income

1 Table 5, Gender Equality Index, Page 226, Human Development Report 2015. Available at http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf

2 Booz & Company, “Empowering the Third Billion: Women and the World of Work in 2012”. Available at http://www.hrtdoday.ch/sites/hrtdoday.ch/files/article_inline_images/BoozCo_Empowering-the-Third-Billion_Full-Report.pdf

3 World Economic Forum, Global Gender Gap report, 2015. Available at <http://reports.weforum.org/global-gender-gap-report-2015/>

Financial Inclusion and Economic Growth

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Sustained and inclusive economic growth is the result of marginalised groups being lifted from low productivity to high productivity activity. Financial inclusion that aims to provide finance to marginalised and excluded groups is argued to be an important policy intervention to that end. The Pakistan programme of the International Growth Centre conducts research that focuses on improving access to finance for marginalized groups that are largely unbanked by formal banking institutions and establishes the link between access to finance and sustainable economic growth. The following case study is one such example:

Title of study:

"Who is the 'arhi': Understanding the commission agent's role in the agriculture supply chain" (F-37042-PAK-1).

Authors:

Aban Haq, Amal Aslam, Aqeel A. Chaudhry, Asad Naseer, Kabeer Muhammad, Khalid Mushtaq and Maheen S. Farooqi.

Background:

The Agriculture sector plays a critical role in Pakistan's economy – it contributes to about 24 percent of the GDP, accounts for half of the employed labour force and remains the largest source of foreign exchange earnings (PBS, 2017). However, over the past few years, yields of most crops have stagnated and the productivity gap with high performing countries has widened. In addition, the flow of formal credit to agriculture is not aligned to this sector's contribution to the economy with

only 39 percent of the need being met by formal institutions. The remainder of the demand for credit is met by informal financiers or arthis (middle-men). Over time, the arthi system has evolved to effectively manage risk and earn substantial profits in a market that is avoided by formal banks for being high risk. The National Institute of Banking and Finance (NIBAF) and Pakistan Microfinance Network (PMN) came together on an IGC-supported study to understand the arthi system in Punjab and its role in the agriculture supply chain. The study used field interviews to map the arthi's network, operations, finances and risk management techniques to draw lessons from the arthi model and suggest sustainable techniques for channeling institutional credit to the agriculture sector.

Research findings:

The arthi provides two main services: bridge financing at the time of sowing and later acts as an agent to facilitate the sale of the crop at harvest. The farmer is bound to sell his produce through the same arthi he borrows from, thus giving the arthi control over his cash flows. In addition, with operational costs lower than 2.5 percent of the total volume of lending, nominal write-offs and interest rates ranging between 62 and 80 percent, profit margins for the arthi remain exceptionally high. Unlike commercial banks, arthis manage their risks by providing a 'customised' service. By identifying the right borrower, ascertaining credit needs accurately and controlling the borrower's cash flows, only eight percent of the loans, on average, run into problems;

and even for these, the arthi is sensitive to the farmer and is open to rolling over the loan. He only extends the loan through personal reference without demanding any collateral like commercial banks. The study finds that despite awareness and experience with traditional or specialised banks, such as Zarai Taraqati Bank Limited (ZTBL), most farmers prefer to engage with arthis for the benefits they provide, including relaxed documentation and collateral requirements. A farmer, on average, spends nearly 70 percent of his farming life with the same arthi.

Policy recommendations:

Learning from the role of the arthis, this study recommends a model that is a win-win for both small farmers and banks, whereby an 'intermediary' connects the bank with clients and plays the role of an arthi, with value-added services to introduce the latest farming techniques, modern farm equipment and inputs that will enhance yield and productivity. Though the arthi diversifies his risk, he is also uniquely invested in the cash flows of the farmer. As a result, the arthi understands and caters to the needs of the small farmers in a way that traditional banking does not. While arthis are able to minimise risks, they are limited in their resources and are not averse to linking up with formal banks. In times of rising agriculture prices spurring demand for credit, the proposed model with financial intermediaries could help integrate mainstream banks into rural finance, empower small farmers and spur economic growth via efficient use of capital in the agriculture sector.

generated was even lower.

Designing an innovative financial strategy to tackle both women's risk aversion and society's general perception about their role, meant not only providing affordable financial products, but also investing in the self-esteem and confidence building of women. In many ways, access to finance was superseded by financial education and business management and also required advocacy of women's economic rights at the level of the household. It also meant designing a holistic approach, which provided a suite of financial products like credit, life insurance, health insurance and ultimately micro-savings as well. In fact, innovative financing requires a deeper analysis of the financial needs of low-income families and women in particular. "Portfolios of Poor";⁴ a study undertaken with 250 poor families, highlights that such

families have "intense financial lives". The poor use multiple financial 'products' to manage their monthly and annual cash-flows, which includes loans, both formal and informal, savings usually through committees or savings at home, and in the case if formal finance is available, they will also access insurance and formal savings. In other words, serving the poor implies developing more innovative financial products that are both affordable and impactful.

A prime example of this is Kashf's health insurance product, which is innovative as it not only provides full cover to the family for PKR 150 per month, but also has no pre-conditions, while also accounting for women's health. Additionally, it also includes an income-compensation aspect, where households are provided a cash payout for the number of days that either

the husband or the wife is hospitalized. Initially, explaining the tangible value of health insurance to low-income families, especially women, was difficult and required a consistent investment in financial education of households. However, as claims started to emerge, families at the community level realized the importance of the health insurance. Today, Kashf's health insurance programme, which is in partnership with Jubilee Insurance, covers over 1.16 million individuals, and has cumulatively processed 27,000 claims of which 69 percent of the claims were from women. The above analysis reveals that if the right products are designed, innovation in financing has the potential to address a large array of social issues. As a Kashf client testified, "I rushed my 16 year old daughter to the closest panel hospital in the emergency when she complained of unbearable abdominal pain.

4 Daryl, Jonathan & Stuart, "Portfolios of the Poor: How the world's poor live on \$2 a day", Princeton University Press, 2009.5 5.

I was told that she needed urgent appendix surgery. After the surgery, the doctor told us that we had brought her to the hospital in the nick of time. Without the insurance, I would have never thought of bringing her to a private hospital.”

Another avenue for innovative financing is in the domain of education. Pakistan suffers from a huge deficit when it comes to the provision of education at all levels. In fact, the country has one of the highest levels of out of school children, which is twinned with low levels of literacy especially for women. The female literacy rate in the country is 63 percent with the overall mean years in school for females at three years, while the rate for males is 78 percent with mean years at six years.⁵ These numbers state that there is a huge need to invest in schools and more innovative solutions need to be tried and tested when it comes to the financing of education. There have been different government programmes

that have been put into place like the Punjab Education Foundation (PEF) that pays fees directly to schools and the government sponsored conditional cash transfer programmes to promote the enrollment of girls in schools. Another aspect is the growth of the low cost private schools (LCPS), which now account for over 30 percent of enrollment in the sector.⁶ However, majority of such schools are self funded, hence they have limitations both in terms of growth and in terms of quality. Keeping this in view, Kashf Foundation has designed a holistic approach for meeting both the financial and quality needs of LCPS, by offering tailored loans that go up to 18 months and which are twinned with school management training and teacher training on the pedagogy of learning. This project is funded through long term debt support from the Acumen Fund. To date, Kashf has invested in over a 1,000 schools through its school finance programme. Of these, over 69 percent schools have

increased their enrollment by almost 37 students on average.

In conclusion, innovative financing requires a holistic approach, where both financial and social impact needs to be reflected. Designing and offering suitable products to the bottom of the pyramid cannot succeed without investing in the capacity of such clients to effectively utilize these services. In Kashf's experience, providing loans was the easier part, the bigger challenge has been about changing mindsets and enhancing financial management capacity at the level of the clients. Relying just on numbers will only give part of the picture, it is also important to document the human impact of development financing, for that is the true test of any innovation.



5 Table 4, Gender Development Index, Page 222, Human Development Report, 2015. Available at http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf

6 Access to Finance for Low Cost private schools, ILM IDEAS & DFID, 2014

Aid and Development



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Aid Inflows in Pakistan

Historically, the distribution of foreign aid to Pakistan has been of two major types—project aid and non-project aid. Non-project aid further sub-divides into food, non-food, Balance of Payments (BOP) and relief aid. Table 1 presents the distribution of total foreign aid disbursement to Pakistan by types.

As the table depicts, the country has witnessed several fluctuations in foreign aid over the years. The highest volume of foreign aid reached was in 2013-14 at USD 6,840 million. It has continued to drop from then onwards and as of 2015-16, it stood at USD 5,441 million. Disbursement of project aid also depicts a similar fluctuating trend—in 2015-16, project aid amounted to USD 2,184 million, equivalent to roughly 40

percent of the total disbursements. An amount of USD 3,256 million was disbursed for non-project aid claiming about 60 percent of total disbursements, with BOP occupying the highest share.

Official Development Assistance (ODA) stood at 1.3 percent of the Gross National Income in 2015 whereas share of bilateral ODA declined from 67.7 percent in 2013 to 45.5 percent of the total aid inflows by 2015 (Table 2). The total net receipts were USD 3,576 million in 2015.

A sector wise examination of bilateral aid inflows depicts that the major share of aid inflow has been received for economic infrastructure and services, whilst program assistance lies at the bottom end of the spectrum with a meagre share of two percent (Figure 1).

Table 1 : Aid Disbursement to Pakistan (2000-2016) by Type (in USD millions)

Fiscal year	Project Aid	Non Project Aid					Grand Total
		Non-Food	Food	BOP	Relief	Total	
2000-01	1,030	-	23	1,128	5	1156	2,186
2001-02	741	-	114	1,880	21	2015	2,756
2002-03	846	-	9	1,057	8	1074	1,920
2003-04	622	-	-	755	3	758	1,380
2004-05	918	-	-	1,803	2	1805	2,723
2005-06	2,084	-	10	1,262	1	1273	3,357
2006-07	1,308	-	12	2,058	3	2073	3,381
2007-08	1,565	80	-	2,013	2	2095	3,660
2008-09	1,272	175	-	3,238	2	3415	4,688
2009-10	1,213	100	-	2,305	49	2454	3,668
2010-11	1,076	-	-	648	895	1543	2,620
2011-12	1,753	73	-	949	314	1336	3,089
2012-13	2,071	51	-	466	268	785	2,855
2013-14	2,015	80	-	4,612	133	4825	6,840
2014-15	2,449	10	-	3,163	134	3307	5,756
2015-16 (July-March)	2,184	-	-	3,242	14	3256	5,441

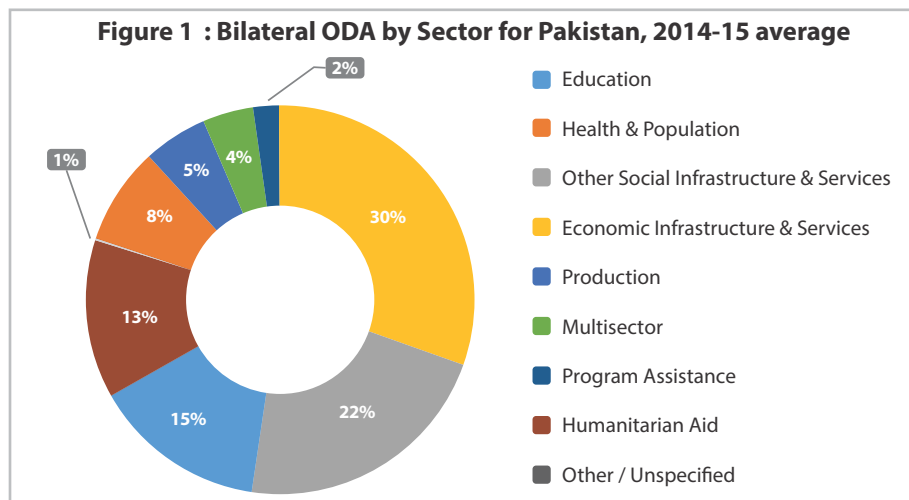
Source: Government of Pakistan (2016)¹

¹ Government of Pakistan (2016). Economic Survey of Pakistan (2015-16). Islamabad: Economic Advisory Wing, Ministry of Finance.

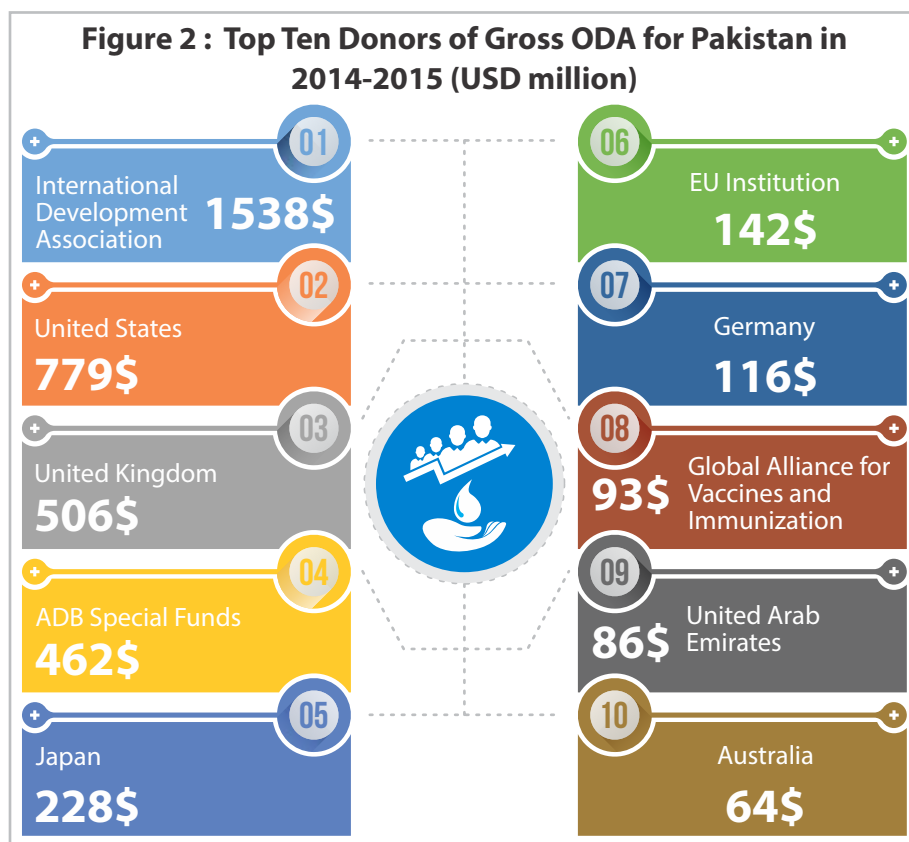
Table 2 : ODA Receipts for Pakistan (2013-15)

Description (with Unit)	2013	2014	2015
Net ODA (USD million)	2,194.50	3,614.80	3,790.40
Net ODA/GNI (%)	0.9	1.4	1.3
Gross ODA (USD million)	3,077.90	4,378.50	4,359.20
Bilateral share (Gross ODA) (%)	67.7	46.6	45.5
Net Private flows (USD million)	-549.8	82.6	45.5
Total net receipts (USD million)	1,786.30	3,672.40	3,576.10

Source: OECD-DAC (2016)²



Data Source: OECD-DAC (2016) Data



Data Source: OECD-DAC (2016) Data

Aid Delivery, Transparency and Effectiveness in Pakistan

History is proof to the fact that Pakistan received maximum amounts of aid during the times of military regimes-1960-66, 1978-88 and 2000 onwards. Hence, it would be safe to suggest that the amount of aid depends on political considerations rather than economic ones.³ Similarly, Saeed (2013) also pointed out that Pakistan hardly received any assistance in the 1950s. However, foreign aid increased substantially in the first half of the 1960s because of mutual defence agreements (SEATO and CENTO). Following the 1965 war, the assistance was substantially reduced, and remained so till the beginning of the Soviet-Afghan war, when it picked up again and continued till the conclusion of the war, after which it was abruptly stopped and remained so till 9/11 happened. Post 9/11, Pakistan has been a substantial recipient of foreign aid.⁴

In terms of aid effectiveness, there are two sides to the story. At one end, foreign aid has aided in boosting GDP growth through structural transformation of the economy, laid foundations of the industrial and agricultural sectors, provided technical assistance, policy advice and modern technology, assisted in overcoming the budget deficits and BOP deficits, and has also funded social sector development projects.⁵

However, on the other end, aid appears to have substituted for domestic savings thereby increasing the debt burden. Unless the macroeconomic management, foreign trade and domestic saving policies are designed and implemented appropriately, the country will continue to face an increasing debt burden as well as an increasing lack of aid effectiveness.⁶ To add to this bleak situation, the handling and utilization of foreign aid does not present a favourable outlook either. Harsh covenants from donors, fiscal imprudence and weak governance/management of aid flows may actually turn foreign aid into a curse.⁷

Professor Deaton, an expert on global poverty and foreign aid and 2015 recipient of the Economic Science Prize in Memory of Alfred Nobel for his analysis of consumption, poverty, and welfare, considers foreign aid to developing nations a curse.⁸ In the context of Pakistan, poor governance and specifically weak mechanism of accountability impedes effective utilization of aid

² OECD-DAC (2016). Aid at Glance. Accessed Online from <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm>

³ Mohey-ud-din, Ghulam (2005). Impact of Foreign Aid on Economic Development in Pakistan [1960-2002]. MPRA Paper, No. 1211. Accessed online from <<http://mpra.ub.uni-muenchen.de/1211/>>.

⁴ Saeed, Ahmad (2013). Can Pakistan do without foreign economic aid? The Dawn, Accessed Online from <<https://www.dawn.com/news/1053902>>

⁵ Mohey-ud-din (2005), op. cit.

⁶ Khan, M. A., & Ahmed, A. (2007). Foreign aid—Blessing or curse: Evidence from Pakistan. The Pakistan Development Review, 215-240.

⁷ Ibid.

⁸ Council on Foreign Relations (CFR) (2016). Event on 'Angus Deaton on Foreign Aid and Inequality'. Available at <http://www.cfr.org/economics/angus-deaton-foreign-aid-inequality/p37546>

How Aid Now Works and Why It Still Matters

By : Haoliang Xu, Head of UNDP Asia-Pacific

When I joined the UN in 1994, aid from rich countries to Asia-Pacific nations accounted for more than 10 percent of all money in the region. Today that figure is less than one percent – but aid is still indispensable.

Drastic donor funding cuts, reportedly under consideration, would limit our ability to help build a safer and more sustainable world.

Here is why aid still matters.

For decades, international development cooperation was a one-way system providing funds and experts to poorer countries. It catalyzed enormous advances.

We at the United Nations Development Programme (UNDP) specialized in building government, parliamentary and judicial institutions. We trained officials, organized expert exchanges and designed processes.

These institutions then unleashed economic growth. The region's GDP has shot up from about 10 percent of the global figure in the 1950s to nearly 40 percent today.

As economies grew, countries' own resources dwarfed the inflow of foreign aid. This is a seismic shift in the global development system and means our role has changed.

Our new purpose is to help Asia-Pacific governments spend their own money in the best way for their own development.

And big challenges remain – some 300 million people still live in poverty.

Rising inequality, rapid urbanization, aging

population, migration, extremism and environmental disasters all require sophisticated solutions.

Some of these issues can have a destabilizing effect much further afield, including on countries in North America and Europe.

UNDP is tackling these challenges. Our USD one billion portfolio of development projects in Asia-Pacific – largely funded by aid – allows us to design and test solutions that countries can then turn into national development programs.

We have identified five key ways to promote sustainable development.

Our experts are helping countries plan, budget and implement projects they are funding themselves. In Pakistan, we are helping the government embed the sustainable development goals in its plans and budget. Pakistan is committing its own resources to creating jobs and providing access to clean water and quality education. This creates positive and long-lasting change with benefits beyond the country's borders.

We are investing in innovation. We want to design new and more effective solutions to old problems. An example of this is our Phones Against Corruption project in Papua New Guinea, which began as a pilot project in the Ministry of Finance but is now being scaled up to cover more and more government offices in the country. We have seen so many successes that we are opening an innovation lab this year.

We are helping countries access new sources of financing. Sophisticated UNDP

climate change projects have attracted more than USD 200 million in new resources from the Green Climate Fund for six countries in the region. We are also exploring ways of engaging private capital. One such way is social impact investing, which creates measurable social or environmental benefit as well as profit.

We are bringing together governments, business, civil society, philanthropists, communities, volunteers and international partners so all their formidable skills can be used. One such example is the Responsible Business Forum, which has established a network of 700 influencers in the Asia-Pacific region.

Lastly, we have restructured our offices so that they are equipped to provide the support and expertise needed in the twenty-first century. On one hand, we have cut 500 jobs; on the other, we are investing in expertise and activities that help countries cope with new issues such as extremism, migration and jobs for young people.

When I joined the UN, Asia-Pacific governments did not fund our projects and partners such as business, think tanks and philanthropists were rarely involved in our work. Today, money and expertise flows in many directions.

Yet, aid remains vital to ensure the new resources are used to the best effect. It helps make development work. Aid gives governments the tools to tackle risks that threaten their own societies and – in the shape of militancy and the movement of people across borders – are of critical concern far beyond Asia-Pacific.

Source: The Huffington Post (2017), 'How Aid Now Works and Why It Still Matters.' Available at http://www.huffingtonpost.com/entry/how-aid-now-works-and-why-it-still-matters_us_58b7115ae4b0ddf65424628e

inflows.⁹ Despite receiving huge amounts of foreign aid, Pakistan has been unable to become self-sustainable in terms of economic growth. In fact, most of the economic aid was used to pay off debts, for instance, it has been estimated that out of the total disbursement of USD 77.78 billion to Pakistan during 1961-2009, USD 45.05 billion (58 percent) were returned to donors as payments of previous debts.¹⁰

Significance of Foreign Assistance vs Aid dependency

Foreign assistance is significant for

developing countries on two grounds; Firstly, it helps bridge the gap between the amount of investment necessary to attain a certain rate of growth and the available domestic savings (the saving gap). It also helps provide the necessary foreign exchange and fills the gap between import requirements and foreign exchange earnings in a country (balance of payment gap). Second, the external assistance is also assumed to facilitate and accelerate the process of development by generating additional domestic savings because of the higher growth rates (that is presumed to be induced by the accurate utilization of

foreign aid). Eventually, it is hoped that the need for concessional aid will diminish as indigenous resources become self-sustainable. Has this happened, is open to debate and analysis.

Despite the importance of foreign aid, some other aspects also need to be kept in mind: foreign financial assistance is often supplemented by technical assistance in the form of high-level worker transfer to ensure that the aided funds are utilized most efficiently. While this contributes to aid efficiency, it also leads to repatriation of aid money back to developed countries,

9 Sarwar, A., Hassan, M., & Mahmood, T. (2015). Foreign Aid and Governance in Pakistan. *Pakistan Economic and Social Review*, 53(2), 149.
10 Saeed (2013), op. cit.

thereby questioning the efficacy of aid.

The burden of excessive dependence on foreign aid can result in excessive debt burden. In the case of Pakistan, the shift in the composition of foreign aid from grants to hard loans has, over time, taken up a relatively large share of the gross aid for debt servicing thereby reducing the amount of net aid available for financing the imports and investments. Moreover, the terms and conditions attached to tied credits have imposed both economic as well as political costs on the country.¹¹

Conclusion

In Pakistan, there is a need to enhance the

efficacy and delivery of foreign aid. To make aid more effective, Pakistan might need to rethink its macroeconomic policies, strengthen related institutions, improve governance and reduce corruption. These are various factors which can help in improving aid delivery in Pakistan. For example, good fiscal, monetary, and trade policies can help improve effectiveness of aid by contributing towards economic growth. Accordingly, there is a need of not only substantive policies, but also the thorough implementation of these policies including proper monitoring and complete transparency in terms of aid utilization.¹²

Moreover, to make the aid delivery system work better, an enlightened donor

approach based on more demand-driven economic and technical assistance is required. An indigenous version of the "foundation model" could make development aid efforts more productive under the provincial devolution and localization of the Sustainable Development Goals. Nevertheless, the federal and provincial governments need to work on formulating policy frameworks under their respective development agendas and to build public sector capacity in a bid to make aid efforts more productive in Pakistan.¹³

11 Mohey-ud-din (2005), op. cit.

12 Mohey-ud-din (2005), op. cit.

13 Jehangir, Faheem (2017). The aid policy network in Pakistan. Accessed from <http://devpolicy.org/the-aid-policy-network-in-pakistan-20170214/>.

The Scope of South-South Cooperation

South-South Trade Cooperation

Given geographical proximity, and growing complementarities among the countries of the South, there is great potential for further deepening regional integration through South-South Regional Trade and Integration Agreements. Regional trade liberalization needs to be complemented by a provision of finance and capital for

building the required air, rail, road and maritime transport infrastructures, as well as market entry-enhancing measures such as those for standards, testing and conformity assessments, and mutual recognition of qualifications.

An UNCTAD study suggests that a 50

percent intra-GSTP linear tariff cut can generate welfare gains of as much as 20 billion USD both from trade creation and trade diversion. It is therefore important that developing countries consider further intra-GSTP tariff cuts with special support and appropriate safeguard mechanisms for LDCs.

South-South Foreign Direct Investment

LDCs and the countries of the South can make necessary efforts to increase the development impact of South-South FDI by means of home- and host- country policies and through different collaborative agreements between TNCs from the South and LDC host Governments. LDCs should use present FDI inflows to strengthen infrastructure as well as productive

capacity development in LDCs and to take full advantage of the potential in knowledge and capital gains.

LDCs may build the necessary economic infrastructure to take advantage of the economic potential offered by FDI. Infrastructure in the areas of transport, energy, communication etc. is a precondition

for production and access to domestic and international markets. For instance, developing countries such as China and Middle Eastern oil producers are increasingly piling up financial reserves and have set up sovereign funds available for investment abroad. In this respect, ways should be established to stimulate investments from these funds in the LDCs.

South-South Technical and Technological Cooperation

The current economic and social environment provides opportunities to foster mutual learning across all partners. South-South learning for all countries in all phases of development is key to capacity development through the sharing of experience and learning, knowledge exchange, and technology and skills transfers, all of which are important components of South-South cooperation. Southern-based practitioners and technical experts need to share their experience not only at the country level,

but also at the regional and global levels, to facilitate mutual learning and capacity development.

The countries of the South can share and replicate each other's experiences in finding a southern solution which would complement relevant global solutions and would be designed to cater to the South's specific needs and circumstances, e.g. environmental degradation, health care, food and energy security, and the digital

divide. Establishment of effective institutions such as regional and sub-regional technological and technical hubs for sharing experiences and models at the regional and interregional levels would be required and would involve government, private sector and civil society participation. For instance, while solving the health care problem in a developing region, a single, integrated South-South knowledge base can pull together expertise in India on low-cost pharmaceuticals.

South-South Development Cooperation Assistance

Though several developing countries have augmented their development assistance, it is still quite low. Developing countries therefore should scale-up their financial flows to LDCs by diversifying funding sources. Developing countries can also set aside a major share of the official financial

flows for LDCs and prioritize the LDCs in such cooperation.

Developing countries can actively participate in innovative sources of funding mechanisms as a number of them are already active partners in some voluntary

initiatives. Such initiatives include the Global Action Initiative against Hunger and Poverty, the Leading Group on Solidarity Levies to Fund Development, and the India Brazil-South Africa Fund.

Source: Excerpts from; UN (2011). "Harnessing the Positive Contribution of South-South Co-operation for Least Developed Countries' Development". Background Paper, presented on 18-19 February 2011 at New Delhi. Online available at <http://www.un.org/en/conf/ldc/pdf/background%20paper%20on%20south-south%20cooperation%20for%20ldcs%20development-final.pdf>



Interview



Patchamuthu Illangovan

Country Director
World Bank Pakistan

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

Pakistan has successfully responded to macroeconomic challenges by implementing a series of structural reforms with significant gains in macroeconomic stability. However, more is needed on human development. The country confronts many serious challenges, including, insecurity; insufficient progress in achieving human development and SDG targets; slow economic development and the energy crisis etc. The tax to GDP ratio is one of the lowest in the world. If you add Pakistan's rapidly increasing population, the current resources are not sufficient to address a myriad of human development concerns.

However, it is important to acknowledge that we have seen increased spending by provinces on key priority areas post the 18th amendment and the 7th NFC award. Nonetheless, the challenge is huge. Millions of children are still out of school and health outcomes are not very impressive. The slow improvement in social outcomes despite increased spending on health and education points towards poor allocative and operational efficiency. Government capacity to deliver quality services remains low. While increasing resources for the development sector is a necessary condition, it is not sufficient to improve outcomes. Strengthening needs-based resource allocations and focusing on value for money is imperative.

The government must build a narrative where tax paying is encouraged and connect this with development outcomes. It is also necessary that the government engages with the private sector, takes on the role of financier and enables the private sector to deliver services.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

Poor tax collection constrains government's ability to spend more on the development sector. This is true for both federal and provincial levels. In addition to focusing on collection, the government should also build a narrative where tax payment should be a social and national responsibility. Without increasing taxes, the government

say that again

"...Development partners can be catalysts to support innovation and to provide support to areas of low human development or fragility."

will not be able to allocate the required resources to improve development outcomes. At the same time, the government will also need to examine the quality of its spending and how it prioritizes areas of support. Due to fiscal constraints, the government should encourage private sector to participate, especially in areas where opportunities are the highest, thereby redirecting scarce resources where they are most needed.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

Pakistan's ability to become a successful middle income country requires a robust and dynamic private sector that creates millions of jobs needed annually. This could boost growth, raise household incomes, and increase tax payment. The private sector's role in development and associated private financing is huge and growing. This puts on the table a new set of opportunities for developing countries including Pakistan, to explore and put to use private finance in development. With CPEC, Pakistan is also experiencing the growth of private finance (although small at this stage). Development partners can be catalysts to support innovation and to provide support to areas of low human development or fragility. Government, development partners and private sector need to explore innovative financing mechanisms including Public Private Partnerships and other blended financing options. This could give us huge resources with potentially large development dividends.

say that again

"...If the country has a conducive investment climate then that attracts international markets which will aid Pakistan in faring better in the global value chain."



Dr. Werner Leipach

Country Director
Pakistan Resident Mission
Asian Development Bank (ADB)

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

Pakistan is not allocating sufficient resources to address its development challenges. Although the country is trying its level best in achieving this, however it is nowhere near to addressing this challenge. Pakistan is not alone in this challenge as it is in the nature of developing countries, that in order to maintain the economic balance, there have to be controls on spending. In terms of the social sector, Pakistan is committed to spending four percent of the gross domestic product (GDP), however it is not even spending half of that at present. The infrastructure sector provides a similar situation. So clearly there are deficits that require addressal as the gap continues to grow. The question then remains is how to address this gap and where the ADB can play its part.

There are, broadly speaking, three resources for development funds. The first is resource generation, which the government does by itself, primarily in the form of taxes. Tax collection is a big challenge. In Europe for instance, hospital, education and other civic facilities etc are paid for through taxes as that is the mechanism there, as a result of which the public does not have to individually pay for each service. On part of the government here, resource mobilization is insufficient.

The second source is grant contributions that can either be from charitable organizations or from international donors. In the case of Pakistan, where although there may be a lag in paying taxes, people are generous in terms of giving charity etc, hence rendering this source as an effective one. The challenge is how to effectively utilize this grant money and of course, there is a limit to what grants can do.

The final source is financing loans. This makes up for a large chunk of the financing gap. In a theoretic world, loans should be done in a manner that they are economically and socially sustainable. So as long as loans are utilized in an effective way, it makes perfect sense to take a loan. This is where organizations like the ADB and the private sector come in.

Overall, the allocation is not optimal. There needs to be more emphasis on identification of priorities with the highest development impact. We have to realize that we live in a political environ-

ment as a result of which there are certain political imperatives that in turn determine the spending allocations. In Pakistan, the accountability mechanism is not as sophisticated as in more developed countries. In this respect, one needs to look at the key agencies and assess what priorities should be given due importance. In Pakistan, building roads and bus systems etc is considered development but then the question to be asked is who is benefiting from these things? What is the impact on the lives of the poor? What subsidies are needed going forward? It is one thing to aspire and another to actually do what is needed.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

Transparency and predictability is certainly one challenge. Overall investment environment in Pakistan has improved a lot in terms of economic stability, policy environment and security. So the country has positioned itself much better in terms of attracting the private sector. However, it is a competitive world and one cannot afford slips. For instance, in the business rankings conducted by the IFC and World Bank, Pakistan has not improved in these rankings whereas in comparison, other countries have improved.

A big challenge for Pakistan is that the tax to GDP ratio appears to be relatively low in comparison to other countries. Although recognition has gone up but when compared to other countries at that level of development, Pakistan is at the low end. The tax system is also very unevenly spread with a few people paying tax. Hence, tax systems need to be improved and made more effective.

There is also a lot of scope for local and provincial governments to raise money. The tax potential is something that should be looked into, ranging from, for instance agriculture, property tax etc, to parking fees and so on and so forth. And I find that people do not mind paying as long as the service they receive is good.

As far as ADB is concerned, we have expanded our operations quite a bit over recent years. We have also observed utilization from aid over the past few years. The main component is really not about commitment but about utilization and Pakistan has indeed improved in that regard.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

There was a lot of hope that the private sector would be more proactive, particularly in the late 90's, but owing to multiple financial crises, the private sector has shied away. There is increasing recognition that the private sector needs to be brought in, however, it alone is insufficient to solve the problem. Therefore, multilateral organizations like the ADB and others are required now more than ever, to fill the gap that cannot be filled alone by other available resources.

Other than money, ADB brings 'effective implementation' to the table. We try to ensure value for money and try to avoid corruption to the maximum possible level. There is no compromise from our end. Moreover, ADB brings benchmarking and standards as a result of which it is preferred by the government. So, ADB tries to ensure that the money is used for what it is intended for and second, it is in line with the economic, social and environmental sustainability of investment. We also try to bring in ideas and sponsor concepts and technologies that have not been introduced before, share knowledge from within the region, have knowledge transfer and facilitation.

The private sector wants to have a certain degree of stability and predictability-in terms of economics, rule of law and security, along with a certain degree of financial return. So both these factors need to work simultaneously. There is a lot of competition which is why an environment that is conducive and attractive for the private sector needs to be created. Organizations like the ADB can offer support in terms of enhancing economic stability and predictability in contractual enforcements etc and protection of investments through instruments that are designed to bring in the private sector. So, in addition to bringing our own money, ADB has the tools to leverage more investment and that is what makes ADB quite unique.

The private sector has a big role to play in all sectors and the question is as to what role you expect from the private sector: do you expect them to provide the financing or the implementation? Effective utilization of funds may be one of the suitable roles for the private sector. The financing role of the private sector is linked to risk taking. Investments that generate high financial returns should be looked into. In this respect, encouraging the private sector to invest in business and promoting business activity can also boost development and create employment opportunities for people trained locally and discourage 'brain drain' to the international market. If the country has a conducive investment climate, it attracts international markets which will aid Pakistan in faring better in the global value chain. At the end of the day, employment generation comes all out of economic business activity. So the private sector really has to be the engine of economic activity in the country. This would in turn generate taxes and employment.

say that again

"...The time is ripe to develop resources and attract investments, both internally and from abroad."



Credits: www.gov.pk

Qaiser Ahmed Sheikh

Member National Assembly

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

Sufficient resources are not being allocated to address the development challenges. Key challenges of the country include improvement in education, health, infrastructure, agriculture yield and quality, services and industry-particularly value added industry. Creating a facilitating environment of foreign direct investment and ease of doing business is also challenging.

However the Pakistan is not generating sufficient resources internally to cater to its development needs. At 11 percent, Pakistan's tax to GDP ratio is hanging on the lower side compared to its regional counterparts.

However, there have been some improvements as Federal Bureau of Revenue (FBR) collections increased from PKR 1950 billion in 2012-13 to PKR 3100 in 2015-16, an increase of 37 percent over three years.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

More funds are required in order to meet the development challenges. Government envisages to increase tax revenue to 15 percent of GDP in the future. There is more emphasis on direct taxes vis-a-vis indirect taxation. The government and Finance Committee has implemented the following measures of direct taxations:

- a. Majority of the Statutory Regulatory Orders benefitting a select number of industries and businesses, have been deleted;
- b. 0.4 percent tax on bank transactions of non filers has been imposed, and;
- c. Value of properties to assess for registration and also to access market values by FBR have been increased manifold in order to bring valuation near market prices and to enhance taxations.

A series of meetings of the National Assembly's Finance Committee have been scheduled in order to deliberate and suggest measures to enhance revenues, particularly direct taxation in order to fill the

resource gap.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

International development institutions have very major roles to play, especially in focusing on education, particularly engineering and technology related institutions. In addition, setting up and facilitating value added and export oriented industries and infrastructure developments are also areas where the private sector can contribute.

The private sector should take on the role of developing and managing agro-based businesses and invest in industry. It should be a motivating factor for foreign direct investment and transfer of technology in the country, through joint ventures with foreign partners so as to attract resources. Pakistan houses a very attractive profit percentage in equity. The law and order situation is improving. The time is ripe to develop resources and attract investments, both internally and from abroad. The private sector houses immense potential to foster development in several sectors of the economy.

Interview



Dr. Abid Suleri

Executive Director
Sustainable Development Policy Institute (SDPI)

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

The challenges facing Pakistan are huge and resources are limited. In the competing and contested world for limited resources, certain other expenditures take priority over development expenditures and the latter remains inadequately addressed. Mere allocation is not sufficient, historical trends inform us that development allocations are either not released in time, or get curtailed due to shortfall in revenue collection/receipt of financing. Due to this structural problem and an imbalance between the revenue and expenditures in Pakistan, allocation for development remains compromised and one finds the federal government firefighting in trying to thinly spread the available resources on too many fronts. This makes it difficult to achieve the desired development outcomes.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

The major challenge for the Government of Pakistan is to allocate money for the four competing “Ds” i.e., debt, defence, day to day running of government, and development. Net federal revenue is always insufficient to take care of the first three “Ds”. Resultantly, there is nothing left for the fourth D-development. One can argue that debt payment and defence expenditures cannot be compromised and so is the running of the civil government. Thus, every year the development allocations have to be linked with some external or internal financing/assistance, which may or may not come through. Thus, development financing remains uncertain.

The example of the allocations from current federal budget will clearly elucidate further: Net Federal Revenue is budgeted as PKR 2779.7 billion whereby PKR 2572.97 billion have been allocated for the above mentioned 3Ds (Debt, Defence, Day to day running of Government) in current account expenditures. If the remaining components of current account expenditures, i.e., pensions, grants and transfers, and subsidies are also included, then the total current account expenditures would soar up to PKR 3400.1 billion and the deficit between net federal revenue and current expenditure would be PKR 620.4 billion. Development expenditures, within the Public Sector Development Program (PSDP) and outside PSDP are budgeted at PKR 956 billion. But Net Federal Revenue is already short for meeting the current expenditures. Thus, there is no cushion for development expenditure. Due to a low tax to GDP ratio, low share of provinces in total tax revenue, and failure of successive governments in privatizing the ‘loss making’ public sector enterprises, the revenue cannot be enhanced and fiscal deficit is met through loans

say that again

“...International development partners can bridge the gap between public and private Sector through taking initiatives like technology transfer, where global solutions for local problems may be allowed to replicate in a customized intellectual property rights regime.”

and financing.

Public debt was 64.8 percent of GDP in 2015-16. This figure is not alarming when compared to other contemporary economies. However, the fundamentals of our economy are not resilient enough to bear any external and internal shocks. For instance, the foreign exchange reserves are not built through foreign direct investment or export proceeds but through borrowing. This can lead to a potential balance of payment problem. Likewise, trade deficit especially in the context of increasing oil prices in the international market can be another threat to our debt sustainability. The approach to pay off foreign loans and rely on domestic borrowing has its cons too. This approach has crowded out the private sector which is facing a liquidity crunch. All of these factors are leading to a scenario where strong macro-economic indicators do not get manifested at the micro-economic level.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

The government is trying to improve its revenue stream through different initiatives. It is pursuing to get the economy documented so that part of wealth circulating in the informal economy (which is estimated to be almost equivalent to the formal economy) may be brought in tax net. Likewise, attempts are also being made to overcome one of the major bottlenecks for economic growth i.e., energy shortage. Governance reforms is another ongoing initiative. Although we are not at an ideal place when it comes to better governance, yet there is improvement compared to our recent past. Early Harvest Components of China Pakistan Economic Corridor, although slightly over sold by the Government of Pakistan, would also have some positive effect on revenue generation. It is assumed that in the run up to general elections 2018, the government of Pakistan would try to improve its development spending. One is mindful that after the 2015 Addis Ababa Financing for Development Summit, it is quite clear that developing economies would have to use their indigenous resources to finance their development. However, international development partners may support the Government of Pakistan in strengthening the above mentioned initiatives, i.e., governance reforms, getting the economy documented, and overcoming the energy deficit. Private sector can play an important role in financing for development, not only through direct investment but also social services provider in partnership with the government at all tiers. International development partners can bridge the gap between public and private sector through taking initiatives like technology transfer, where global solutions for local problems may be allowed to replicate in a customized intellectual property rights regime.

say that again

"...Oxfam has always advocated for tax justice and raised its voice against tax heavens and illicit financial flows."



Mr. Mohammad Qazilbash

Country Director
Oxfam in Pakistan

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

Pakistan is not allocating sufficient resources to address its development challenges. As a result, the country is seeking foreign assistance in the form of loans and grants etc. So, although the finances might be flowing in, however the question that remains is regarding the effective utilization of this finance, and whether the spending is properly or poorly planned.

Resource allocations for overcoming the development challenges have increased over the last decade but still lags behind what is needed. Based on the Vision 2025 assessment on the analysis of past resource allocations for development, "one can easily assess that Pakistan has overlooked the significance of human and social development" is correct because Pakistan is one of the most populous countries of the world. It also has a youth bulge, with 64 percent of its population below the age of 30. This is both an opportunity and a challenge for the country. Opportunity in terms of human capital which if developed appropriately can go a long way in helping Pakistan become a progressive and prosperous country. It is also a challenge as the issues and problems facing Pakistan for providing quality education, health facilities and social protection is manifold and in some aspects, unique as compared to other developing countries.

Extreme inequality is holding back inclusive growth and development in Pakistan. It plagues Pakistani society in many dimensions and is fueling a destructive, self-perpetrating spiral of social polarization that is hindering economic growth and realization of basic rights for every citizen of Pakistan. According to the National Nutrition Survey 2011, 58 percent of households are insecure in Pakistan, whereas on the other hand, the richest ten percent of Pakistanis have accumulated colossal assets in the last three decades and the poorest 72 million people are struggling for land entitlement, access to financial services, education, health facilities and every basic right that has been promised in the constitution of Pakistan. The situation of poor women is the worst with no access to land, unfair wages, fewer employment opportunities and no access to financial services. Many believe that inequality is somehow inevitable, or is a necessary consequence of globalization and technological progress. But Oxfam's study in Pakistan and experiences from the ground have shown that, in fact, deliberate political and economic choices by the "powerful" has led to greater inequality.

The inability of Pakistan to meet most of the MDG's, its low Human Development ranking, along with its ranking of 113th out of 120

countries in UNESCO's Education Development Index and the second highest number of out of school children in the world, are just some of the indicators which indicate that the current resource allocations have not resulted in providing the desired development outcomes. Spending figures from the Economic Survey 2015-16 contain consolidated data for 2014-15, in which expenditure on education is PKR 598,315 (2.25 of GDP), PKR 199.32 (0.73 percent of GDP) on health and nutrition and PKR 124,910 (0.45 of GDP) for social security and welfare (Including BISP).

Pakistan has, however, witnessed a marked change over the past few years. For example, the number of universities, both public and private, has increased significantly and so has the level of enrolment. Recent years have also seen a splurge in female enrolment, a trend that was unheard of back in the 60's and 70's. The quality of education, however, is debatable. As the Confucius Theory asserts, if you want to plan for a hundred years, educate your children. Hence, whilst educating the population is paramount, but it is the quality of education that tends to be overlooked and that is where a greater amount of time, effort and resources needs to be invested. Investment into teacher training is also vital if we want the education system to improve. In addition, civic and moral education is also something that needs to be given due importance in the education system. That 'whole of humanity' has been denuded from our education system and needs to be bought back else the result will be production of educated people who will be social outcasts, something a nation cannot afford. Moreover, do the female graduates actually end up applying the knowledge they have gained and take up employment? In such a scenario, what would be the benefit of the government spending so much time and money on their education. Therefore, it is important to understand the full picture before being able to assert as to whether we have too much or too little resources for our development needs.

Pakistan needs to double its expenditure on education, health and social protection from the current four percent to eight percent of the GDP in the next one or two years. This is a minimum requirement as even more will be needed if Pakistan is serious in meeting its Sustainable Development Goals. In addition, unless or until these resource allocations are designed and executed with a pro-poor gender sensitive perspective, the desired impact will not be achieved. In this regard Oxfam's 'Finance for Development' project among other interventions, is also working to facilitate governments to improve service delivery in education, health and social protection by conducting and coordinating researches like preparation of 'Shadow district budget'. Nevertheless, the government needs to allocate proper resources in institutions in order to ensure effective service delivery. It should also inform the donors and private sector, and especially, the Pakistani diaspora, of such investment opportu-

nities.

Keeping in line with this sense of duty, paying one's due share of taxes is the responsibility of every citizen. Out of 200 million people, only a million pay taxes and 80 percent of those file nil. A common argument is that one receives no return on paying taxes. Agreed. But let's tend to the first argument first i.e. of paying our rightful share. As for the second part of the argument as to where these taxes be spent, there are pro-poor policies regarding this.

From Oxfam's perspective, financing for development is critical and it is a hallmark of the country's integrity and in ensuring that the country's integrity is adequate and enhanced, there needs to be financing for development. This begins from one's own self in the form of paying taxes, an inherent duty that you have towards your country.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

Pakistan faces a number of key challenges in terms of financing for development. Its needs to make fundamental and concrete changes in its governance, policies and mechanisms so that it can mobilize all available domestic, international, public, private and commercial resources for financing its development. In short, this would mean unlocking the financing potential of the country itself to eradicate economic inequality and poverty and not depending on external aid (which is never going to be enough for this purpose anyway) to do the job. Pakistan is not prepared as the system is not in place since day one. The elite want policies that favour them, so does the government. As a result, there is retaliation to bring in pro-poor policies.

The biggest challenge would be the reform of fiscal policies and system for which political will would be required and the government would have to overcome a number of vested interests in this regard. On the revenue side, these reforms would include converting the present regressive system of taxation based on indirect taxation and withholding mechanism, into a progressive and fair one, thereby restoring the taxes that are due and ensuring that everyone should pay taxes according to their wealth and income. Eliminating the SRO (Statutory regulatory orders) culture and the practice of giving tax exemptions to the elite is a must as they cause nearly PKR 600 billion worth of losses to the national exchequer every year. Increased documentation of the economy, reducing illicit financing flows and efficient utilization of existing resources, are other challenges which Pakistan would need to overcome in this regard. On the spending side, changes would include ensuring that government expenditure is made with a pro-poor and gender sensitive perspective and in an accountable, participatory and transparent manner. The state must spend on those who need it most.

Another key challenge would be ensuring that the private sector plays its due role in financing development in a responsible manner. The government would need to place proper safeguards to ensure that public money is not squandered on public-private initiatives with dubious outcomes. Protection of rights of the workers will also be a big challenge in this regard. The government and the people of Pakistan obviously recognize the need of bridging the resource gap and as Vision 2025 reflects, there are also a number of concrete plans and measures in place to achieve this important task. The issue is more of political will required for translating these plans into action. It is necessary for the citizens of the country to play an active role for demanding and generating the required political will for radically overhauling the entire political and economic system. That is why Oxfam's 'Finance for Development' project is concentrating on awareness raising and capacity building of the civil society and citizens so that they can play their role in creating demand for the

required changes.

Pakistan should be self-sufficient in eradicating the resource gap instead of looking towards the international community to assist. Nations were built on self-help basis. And that is why the Pakistani diaspora prefers to fund money to private companies like Oxfam because that money will actually reach the intended beneficiaries. Once you are able to get your own house in order and prove to your citizenry that you are a fair and just system, people will start paying taxes and will start investing back into their country. The onus falls squarely on the leadership and the governance of the country and where there is strong leadership, strong rule of law, and people feel confident that their voice is heard and they are able to demand rightful space for themselves, then they will be willing to invest.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

The International development partners have a very big role to play in this regard. They must help in improving governance structures, particularly fiscal policy and governance in developing countries, and to drastically restructure the global financial structure to stop tax evasion, and avoidance and illicit flight of capital to tax heavens. Their role in generating investments for tackling a range of economic, social and environmental challenges by ensuring that developed countries fulfill their ODA/GNI commitments in a time-bound and actionable manner is also important. Capacity building of local civil society in developing countries is also integral, so that they play a major role in promoting fiscal and financial justice, enhancing financial inclusion, monitoring government spending. Holding the government, the private sector and international institutions to account, is also an important role for international development partners.

While the private sector could be another force, we have to understand that the private sector has its own agenda. If the environment is conducive enough, the private sector will invest in the country. However, you cannot rely on them completely as they are part of the puzzle but not the only part. They, combined with the government and other sources of income all together, can fill the hole. There needs to be a marriage of all sectors in order for the system to work and function. Therefore, there is no doubt that private sector has an important role to play if we are to achieve the ambitious sustainable development goals. However, Oxfam and likeminded individuals and organizations do not agree with the strategy of merely handing over development to the private sector without proper safeguards. There is no evidence that this strategy delivers the right results.

Oxfam believes that the most important role of the private sector must be of responsible tax payers. The private sector, particularly the MNC's, must pay their taxes where they earn them and the use of tax heavens as tax shelters must come to an end. At the moment, the private sector avoids paying billions of dollars of taxes by using aggressive tax avoidance and evasion strategies. That money could be used to change the lives of millions of poor people. Oxfam is not opposed to private sector financing development priorities but has pointed out the hazards of private finance and advocated for the need to put in place the safeguards needed to ensure public money is not squandered on public-private initiatives that have dubious outcomes for poor people.

Finally, innovation does not work the same everywhere. However, it is important no doubt. An important example is the Grameen bank in Bangladesh whose pro-poor policies enabled the poor to pick themselves up and create sustainable lifestyles for themselves based on minor amounts initially funded to them by the Bank. The point is, if you support a poor person and give them sufficient tools, then you will see a return eventually. As long as the innovation is pro-poor, it will and should play a role.

say that again

"...Support programmes demonstrating verifiable outcomes in the areas of sustainable livelihoods, gender mainstreaming, decent work and market relevant vocational training are required."



Ahsanullah Khan

President, U.N. Global Compact Pakistan Network (UNGCP),
Chairman, Workers Employers Bilateral Council of Pakistan (WEBCOP)

In your opinion, is Pakistan allocating sufficient resources to address its development challenges? How are the resources allocated translating in terms of enhancing development outcomes?

The industry and trade in Pakistan largely perceives misconceived development priorities, sub-optimal allocation of scarce financial resources and misdirected spending as the major flaws in public policy. This generalization, unfortunate though, holds true for successive governments, the incumbent being no exception. Development projects with longer gestation period are badly needed, such as, qualitative aspects of education and market relevant vocational training along with quantitative dimensions, ensuring universal primary education coexisting with access to it; health, nutrition and sanitation; old age care and sustainable livelihoods to name a few, are largely found getting 'cosmetic' treatment. These critical factors to sustainable development are largely overlooked in our desire for easily 'visible' projects. Metro buses, orange trains, etc. consuming hundreds of billions of rupees either needing subsidy or exorbitantly priced projects, such as of electricity and power generation through an extremely sub-optimal energy mix, all point towards ill-conceived development priorities raising debt and consequent vulnerabilities. Sadly, development priorities change with a change in government according to their political interest negating actual needs.

The "constant" nevertheless in terms of development outcomes is creating dire impacts on literacy, employment, agriculture produce and industry. Such assertions notwithstanding, we are also cognizant of a continued public policy focus on harnessing the potential of 'connectivity' through the strategically placed locational advantage. The benefits that we hope to achieve from various projects especially the development of Gwadar port, motorways, dualization and improvement of railway tracks, and various power generation projects under the overall umbrella of China Pakistan Economic Corridor (CPEC) are enormous. Besides promoting regional connectivity, the backward and forward linkages are expected to be very significant.

The Economic Cooperation Organization (ECO) summit that took place on the 1st of March also laid great stress on promoting connectivity and the consequent role of infrastructure, particularly roads and communications. Timely implementation of Vision 2025 agreed by the summit does point towards significant development, employment and income outcomes for the population of participating countries.

What are the key challenges Pakistan is facing in terms of financing for development? How do you think Pakistan is prepared to address resource gap needed to finance development?

Resource gap is a perennial issue in the country with savings falling (far) short of investments. This situation is aggravated further by fiscal extravagancy and indiscipline. This only adversely affects years of hard work in bringing fiscal discipline and in meeting prescribed conditions of the international financial institutions (IFIs). In our history of economic management, seldom we have been able to continue with the IFI's stabilization and structural reforms programmes, with disruptions only bringing disrepute to the country. The recent completion of the IMF programme, no doubt, is among the few exceptions.

However, failure to ensure generating sufficient revenue resources, even by the current government coexisting with activities where political considerations take precedence over economic rationale and justification, enhances the country's vulnerability. Pakistan, as yet, has not only been unable to raise its revenue to GDP ratio, but also the proportion of direct taxes to revenues. Export proceeds harness the capacity to almost always cover 50-60 percent of imports. Recourse to indirect taxes, though providing some relief nevertheless, has adverse bearing on the masses as well as the financial health of the country.

The widening fiscal gap and depleting foreign exchange revenues quite often lands fiscal managers to opt for short-term maturity 'bond' markets with the offer always significantly higher than LIBOR. These foreign currency denominated bonds, providing temporary respite from financial woes, nonetheless adds to the vulnerability of the economy further.

Recent efforts to attract foreign (read mainly Chinese) investment for the CPEC project is also termed by us in the business community as having serious issues with regards to meeting repatriation of profits and principal amount.

Domestic manufacturing, a source of generating revenues, income and employment, is being crippled due to a host of factors ranging from energy shortages, law and order as well as the low quality and influx of imported commodities.

Banking and financial institutions, a source of capital for private sector entities, are found too eager in meeting the governmental

demand for credit thus crowding out the private sector.

To sum up, successive failures to generate tax revenues, raising tax to GDP ratio and bringing fiscal discipline in the backdrop of debt servicing and security related (including defense) expenditures consuming three-fifths of the overall governmental income, leaves little room for financial managers. The overall conclusion, discomfoting though, is nonetheless than pointing towards the ill-preparedness in addressing the resource gap.

In terms of new and additional non-governmental revenue streams to finance development, what role do you envisage for international development partners? How can private sector be leveraged to contribute towards financing for development?

The individual philanthropy in Pakistan stood at about PKR 240 billion in 2015. It is important to point out that this estimated amount given by individuals as charity to NGOs of repute, such as EDHI foundation, Shaukat Khanum, etc. or directly to persons in need could be safely assumed to be significantly higher if the corporate/private sector philanthropy is accounted for. This is the area that international development partners need to carefully articulate in their respective development program commitments and disbursements. Let me hasten to point out that I am not arguing for imposition of 'conditionalities' and 'prior' action. Motivation, persuasion and replication of best practices could be the ideal instruments in this regard. Support programmes demonstrating verifiable outcomes in the areas of sustainable livelihoods, gender mainstreaming, decent work and market relevant vocational training are required. In such a development paradigm, a readily available support from the private sector is ensured. Workable Public Private Partnership has to be established and strengthened for the maturity of good governance ensuring a productive, prosperous and peaceful Pakistan.



Fatima Habib

Research Associate
Consortium for Development
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The role innovative financing plays can be substantial. Public-private partnerships (PPPs), for instance, can allow for greater expertise, accountability and timely provision of services in the sector this model is employed in. One example of innovative financing through PPPs is the partnership between the Bank of Punjab and cellular network provider, Zong, where branchless banking has been initiated to save costs and provide access to people living in remote and rural areas. The ability of PPPs to deliver results for development (ease of access to finance in this case) exemplifies the potential of innovative financing to be sustainable over the long term.

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If there is any hope of achieving SDGs then we require additional, sustainable, impact-driven funds dedicated to these goals. Fortunately, innovative ideas like solidarity taxes on airlines and advance market commitments are on the rise and doing just that, at a time when traditional official development assistance is drying up. Less reliance on donor countries and generation of viable and predictable funds ensure their sustainability in the long run.

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Muhammad Karim

Research Associate
Center for Economic Research in
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In today's technology driven world, the private sector is more informed and more actively engaged in what was traditionally thought to be public domain. Thus, these new methods of financing are closing the gap between public and private domain and can be instrumental in meeting development goals in a more efficient manner. But this is only possible if regulatory frameworks to support these instruments evolve, as they evolve. Otherwise vulnerable groups that innovative finance aims to protect may become prey to its unpredictability and hence, these methods would not be sustainable in the long run.

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Zara Salman

Senior Research Associate
Consortium for Development Policy
Research (CDPR)

Youth Voices



Innovative financing serves the purpose of bridging the gap between the traditional sources of financing and the growing financial needs of the development world. For innovative financing to have development results over long term, it is vital to have country level ownership over its sources. In addition, local capacities need to be strengthened as well so development results achieved through innovative financing can be sustained in the long term. In short, innovative financing can undoubtedly set up the initial stage for developing countries but it needs to be complimented with the advancement in local technologies and improved capacity building exercises along with stronger local institutions.



Fizza Raza

Research Associate
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Shahan Shahid

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As the wide popularity of Kenyan mPesa (and products closer to home such as Easypaisa) shows, non-traditional finance mechanisms hold key potential for the developing world. One could even argue that the no-frills experience (unbounded by the 9-5 limitations of brick and mortar banks) these solutions provide should have been the default. However, at least in Pakistan, higher end features such as the ability to purchase commodities and to participate in crowd-funding initiatives are still in development. Therefore, only when initiatives such as Easypaisa can transcend beyond only allowing transfers of cash and serve as an end-to-end system also featuring income generation, will the true developmental potential of these innovative approaches be realized.



With a few exceptions, developing countries are heavily reliant on external sources and international aid to fund development projects aimed at promoting innovation, job creation and combating climate change. Innovative financing for the generation of funds for development has largely been limited to the developed countries where the system of checks and balances creates a network of mutual trust that caters to both the investors' concerns and recipients' financial needs, while addressing concerns posed by society. The main challenge faced by developing countries is to ensure that resources accumulated through innovative finance are managed with transparency and allocated equitably with clear policy goals and objectives. In order to foster development through innovative, yet sustainable means, introduction of crowd-funding and microfinance programs should be in conjunction with national fiscal policies, involvement of sub-national and local governing bodies and technological advancements in order to ensure efficient and effective delivery of services, and aid the dissemination of information that is vital to the success and take-up of development programs.



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Innovative Financing has enabled novel solutions to come to life and scale. Crowdfunding, for example, has given life to many new approaches that are now tackling some of the world's most pressing problems. More importantly, this form of financing has been able to effectively bridge the gap between what the public sector can deliver and what the private sector chooses to provide. Sustainability, however, depends on the comprehensive financial design and must be mindfully built in. The world is yet to see the full potential of this instrument.

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In my opinion, innovative financing is an excellent thing given that the objective of such schemes is to encourage individuals and nations to become self-sustainable. Such schemes provide a strong launchpad, thereby setting concrete foundations to further build upon.

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Attique Ur Rehman

Project Coordinator
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Ravale Mohyidin

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Center for Economic Research in
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Innovative finance can be thought of as a 'bridge' between the public and private sectors, especially when it comes to education delivery, my area of expertise. Whether it is a Punjab Education Foundation school, which is publicly funded but privately run, or Tameer Microfinance Bank tailoring a loan product for the low cost private school sector, innovative financing has made a positive impact in the education landscape in Pakistan. It is important to continue to build on what has been achieved through innovative development financing. This includes greater, and more deliberate, cooperation between private and public sectors, which must continue to seek new solutions to old issues.

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DEVELOPMENT ADVOCATE
PAKISTAN