



Pakistan Institute of Development Economics

37TH ANNUAL GENERAL MEETING & CONFERENCE OF THE PSDE

BREAKING THE AID-DEBT CHAINS

NOVEMBER
20-23, 2023

Key Takeaways

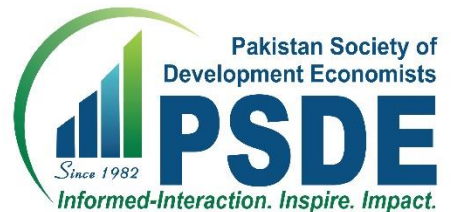
ORGANIZERS

PAKISTAN INSTITUTE OF DEVELOPMENT
ECONOMICS (PIDE), ISLAMABAD

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BAHAUDDIN ZAKARIYA UNIVERSITY, MULTAN

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Inaugural Session

SECRETARY'S REPORT

Dr Iftikhar Ahmad¹

PSDE was established in 1982 and has so far organised 36 Annual Conferences on the burning issues of Pakistan. Over the last one year, Pakistan has been passing through very depressing times given our economic situation. Pakistan is addicted to borrowed prescription and economic advice from outside having little emphasis on indigenous solutions, which is not sustainable. Therefore, for the 37th PSDE conference, we have chosen the theme “**Breaking the Aid-Debt Chains**” to deliberate upon solutions and to sensitise our research and policy-making. As you might notice, the title in itself carries a challenge as: Firstly, why is it important to break the Aid-Debt chains and once obvious, then How to do it with home-grown solutions, as indigenous solutions can make the results sustainable.

Carrying multiple dimensions, the 4 days' proceedings circle around three main concepts i.e. 'Debt structure and debt sustainability'; 'Aid effectiveness and efficiency' and 'Ensuring Fiscal Discipline'. These dimensions not only were investigated but in fact, we went deeper into the causes, consequences and possible policy solution which reflect our ground realities. For this purpose, four distinguished lectures were delivered by: Prof. Jeffrey Sachs (University of Columbia), Prof. William Easterly (New York University), Prof. Ashfaq Hassan Khan (DG, NUST Institute of Policy Studies) and Prof. Abid Aman Burki (LUMS). In addition, we have one Debate, eight Panel discussions and twenty-six Technical Research papers. This year, we also introduced Book Talks including by Dr Ishrat Hussain and by Dr. Syed Ali Abbas (Mission Chief, IMF), to dig deeper into the issues.

With this four days' conference, the contribution as well as the potential of South Punjab was also discussed in two panel discussions. The experts speaking on the topics not only came from academia but we have practitioners and business persons as well, so that we can had common-man's perspective. The learned presence and participation of the audiences through questions also pushed the debate further. In addition, PSDE is committed to bring innovation and inclusivity through this forum. This year, we have brought the conference to Multan, after very successful engagements in Peshawar and Quetta over the last two years. Moreover, PSDE also organised the regional conferences in Gilgit and Malakand

¹ Dr Iftikhar Ahmad is an Associate Professor at Pakistan Institute of Development Economics, Islamabad.

to bring the discussion near to the people. For the third consecutive year, we took the PSDE conference out of Islamabad to the regional centres, to add local context to our policy debates.

We are thankful to Bahauddin Zakariya University for hosting the 37th PSDE conference in Multan. We are also thankful to the Universities, Faculty and students from all over Pakistan for contributing to this cause. We believe such efforts help in building networks, develop long lasting relationships and much-needed academia-policymaker linkages, to put our country on the path of development. I am happy to report that this year too we brought 20 nominated students from across Punjab while the World Bank's financed Youth Competition, where the 6 finalists presented their ideas and won cash prizes. All these students were provided with lodging and boarding facilities. Lastly, we are thankful to our sponsors for their continued trust and collaboration with PSDE. Sponsors' contribution played a critical part in arranging this conference and we are thankful for their support.

YouTube Link: <https://www.youtube.com/watch?v=gY8KIWGKoIQ>



PRESIDENTIAL ADDRESS:

Dr Nadeem UI Haque²

In the inaugural session of the 37th Annual PSDE conference, Dr. Nadeem UI Haque, President PSDE and the Vice-Chancellor, PIDE, acknowledged the monumental contributions of Mahbub UI Haq to the Pakistan Institute of Development Economics (PIDE). Haq's influence on PIDE has been transformative, leaving an enduring legacy that has significantly shaped the institution's trajectory in addressing socio-economic issues. PIDE, in tandem with the PSDE, emerges as a vital player in our nation's quest for progress. These institutions actively engage in asking probing questions and conducting impactful research, unravelling the complexities of a myriad of socio-economic issues prevalent in our country. Their concerted efforts underscore the importance of fostering a paradigm shift in our thinking, urging us to pose critical questions that challenge existing norms and perspectives.

Dr. Nadeem emphasised the need for a paradigm shift in thinking and the importance of posing critical questions. He expressed a concern that the economic system in Pakistan is currently on a "life support system". According to Dr. Nadeem, the landscape of economic challenges encompasses issues ranging from fluctuating exchange rates to persistent unemployment and the looming threat of the aid-debt trap. It is within this complex tapestry that the need for investment emerges as a clarion call. Distinctly, the emphasis is placed on investment as the primary concern over poverty, marking a departure from the conventional narrative that often revolves around accumulating more debt. The President PSDE stressed the necessity for a renewed focus on investment, asserting that in Pakistan, investment is often overshadowed by the predominant concern of poverty. Thus, he advocated for a shift in attention towards fostering and increasing investment in the country.

He challenged the narrative that increasing debt is the panacea for our economic quagmire. Critiquing the overreliance on loans, particularly those procured from institutions like the International Monetary Fund (IMF), does little to address the underlying causes of our economic challenges, resembling a short-term fix rather than a sustainable solution. He also addressed the irony of having numerous plans but witnessing limited development. This disjunction prompts us to question the efficacy of raising taxes and the apparent absence of challenges posed to consultants in the development process.

² Dr. Nadeem is the Vice Chancellor, Pakistan Institute of Development Economics, Islamabad.

Addressing the existing economic and development plans in Pakistan, Dr. Nadeem highlighted the paradox of having numerous plans but witnessing limited development outcomes. He argued that acquiring more debt is not the solution to the economic challenges that the country faces. Dr. Nadeem criticised the overreliance on loans, especially from institutions like the IMF, likening the repetitive engagement with the IMF to visiting an emergency ward regularly. He pointed out that Pakistan is caught in a perpetual cycle of aid-debt traps involving the IMF, donors and consultants. Dr. Nadeem also raised questions about the effectiveness of consistently raising taxes and expressed skepticism about the role and challenges posed by consultants in the overall development process. In conclusion, there is need for a collective reimagining of our economic trajectory, steering away from the worn paths of reliance on loans and short-term fixes for true economic transformation, laying the foundation for a prosperous and resilient future for Pakistan.

YouTube Link: <https://www.youtube.com/watch?v=WKRyWtaAwVY>



Quaid-i-Azam Lecture

BREAKING THE AID DEBT CHAINS

Prof. Jaffery Sachs³

Introduction

Professor Jaffery Sachs, begins by emphasising the crucial connection between sustainable development and peace. Prof. Sachs notes that the economic crisis in Pakistan is significant in the current year, with projections indicating a decline in the aggregate economy. This decline is expected to result in rising poverty levels and *increased* distress in the country. The immediate concern is the lack of a comprehensive development strategy, particularly critiquing the recent IMF agreement as being more of an austerity programme with fiscal cuts than a genuine development strategy.

Current Economic Crisis in Pakistan: A Closer Look

Several key figures and facts are highlighted by him to underscore the severity of the economic challenges in Pakistan. First, the investment rate in Pakistan, measured as domestic investment as a percentage of GDP, is only around 13 percent, far below the desired rate for a country with a per capita income of \$1,000 to \$2,000. He also emphasises that Pakistan should aim for an investment rate of 30 percent to 40 percent to make essential investments in human capital, infrastructure, and business development for sustained economic growth. He also quoted another alarming figure is the school enrolment and life expectancy rates in Pakistan, which is stated to be just eight years. This statistic highlights the need for increased investment in human capital, especially in education and skills, as a crucial factor for economic development. Prof. Sachs argues that this investment is fundamental for economic growth, as higher skills lead to higher opportunities for business development and increased investment rates. Furthermore, government revenues in Pakistan are cited as another concern, with the current share of GDP at around 12 percent. This low level of government revenue limits the country's capacity to make necessary investments in education, healthcare, and infrastructure describes a “low-level macroeconomic trap” characterised by low government revenue, low public investment, low school completion rates, weak infrastructure, and chronically low growth.

³ Professor Jaffery Sachs serves as the Professor and Director of the Centre for Sustainable Development at Columbia University, USA

Pakistan Economic Crisis And IMF Programme

Prof. Sachs contends that the IMF programme, with its emphasis on austerity, will not overcome this economic trap but rather exacerbate it. The proposal put forth involves a long-term development strategy, relying on higher rates of both public and private investment. This strategy includes raising government revenues to at least 25 percent to 30 percent of GDP over the next 10 to 20 years and concurrently increasing the investment rate. The environmental catastrophe faced by Pakistan, including the devastating floods attributed to global climate change, is brought into the narrative. He emphasises the inadequacy of international response and the resulting economic losses estimated to be between 30 and 50 billion. This environmental crisis is said to contribute to Pakistan's fiscal crisis in 2023.

The Proposed Solution

Prof. Sachs proposed solution involves a two-pronged approach. First, long-term fiscal management is essential, focusing on raising government revenues as a share of the gross national product. Second, during this period of fiscal strengthening, Pakistan should also increase its investment rate by securing long-term financing at low interest rates. He argues that this approach, despite involving more debt, is sustainable with maturities of 30 to 40 years, providing the necessary space for economic growth. China is suggested as a potential development partner through the Belt and Road Initiative, emphasising the importance of financing with long maturities and low-interest rates. International finance institutions, particularly multilateral development banks like the Asian Development Bank and the Islamic Development Bank, are also proposed as sources of long-term financing. He also advocates for a collaborative effort with Pakistan's economists to develop a 20-year economic strategy that quantifies the proposed development plan. The goal is to achieve rapid economic growth through increased investment rates, which would, in turn, lead to higher domestic saving rates and better budget revenues. The envisioned result is a shift from the current low-growth and environmental crisis trap to the potential for sustained economic development in Pakistan.

YouTube Link: <https://www.youtube.com/watch?v=yDUUnvJTKJ0Q>



[21st November, 2023]

Debate

FOREIGN AID: BOON OR BANE

Panel Details:

- Mian Asad Hayauddin (Ex-Economic Affairs Division),
- Tobias Haque (World Bank),
- Naveed Aziz (FCDO).
- Moderator: Mr. Shahi Mehmood (PIDE).

Foreign Aid Overview:

- Pakistan has received over USD 200 billion in foreign aid since 1950.
- Concerns raised due to outflows with a significant portion in the form of loans.

Tied Aid Issues:

- Concerns about tied aid influencing policymaking without thorough cost-benefit analysis.
- Highlighted the negative impact on projects resulting from tied aid.

Human Development Indicators:

- Abysmal human development indicators despite extensive aid programmes.
- Noted a negative trend in net resource transfer, especially in recent decades.

Government's Lack of Future Plan:

- Criticism of the Pakistani government for not having a clear future plan.
- Dependency on donors for development direction highlighted.

Importance of Aid Utilisation:

- Emphasis on the need for effective aid utilisation.
- Urged Pakistan to develop an indigenous development plan to engage donors meaningfully.

Macroeconomic Balances and Governance Issues:

- Panel highlighted disastrous impacts of unproductive aid utilisation on macroeconomic balances.

- Called for addressing governance issues and institutional capacity bottlenecks.

Aid as a Tool, Not a Solution:

- Acknowledgment that aid has not been entirely ineffective.
- Emphasised the need for Pakistan to develop a long-term plan and recognise aid as a facilitator, not a solution, for sustainable development.

Consensus and Recommendations:

- Consensus among panellists that Pakistan must improve debt utilisation.
- Urged the development of a comprehensive long-term plan.
- Recognition of aid's role as a facilitator in achieving sustainable development.

YouTube Link: <https://www.youtube.com/watch?v=ibjIOIfUaI4>



Allama Iqbal Lecture

A FRAMEWORK OF DEBT RELIEF FOR LOW INCOME DEVELOPING COUNTRIES

Dr Ashfaque Hassan Khan⁴

Understanding Global Economic Challenges

In the presentation titled “Addressing Global Economic Challenges: A Framework for Comprehensive Debt Relief,” Dr. Ashfaque Khan delves into the critical issues facing the current global economic landscape, placing a primary focus on the escalating global debt situation and its repercussions, particularly for low-income countries.

Analysing Escalating Global Debt: Trends and Influencing Factors

Dr. Khan provides a thorough overview of the turbulent economic environment, exploring various contributing factors such as inflation, high-interest rates, slowing economic growth, job creation concerns, and geopolitical events. The presentation examines global debt trends over two decades, dissecting the factors influencing debt accumulation, including limited access to financing, rising borrowing costs, currency devaluation, and poor growth performance.

Debt Challenges Faced by Nations: Sustainability and Disparities

Dr. Khan sheds light on the challenges faced by nations, emphasising the impact on debt sustainability, resource allocation, and disparities in debt burden among developing nations. The precarious external debt situation, increasing debt distress risks, and average debt burden statistics are underscored, with a specific focus on Low-Income Developing Countries (LIDCs). The presentation provides an in-depth overview of Pakistan's external debt scenario, outlining factors contributing to the debt surge and misalignment with G-20 debt relief initiatives.

⁴Dr Ashfaque Hassan Khan is currently serving as Director General NUST Institute of Policy Studies (NIPS)

Proposing a Comprehensive Debt Relief Framework

Dr. Khan proposed a “Framework for Debt Relief”. It highlights the background of debt relief initiatives, acknowledges the limitations of existing frameworks, and introduces a Comprehensive Debt Relief Framework. This framework includes specific measures for bilateral creditors, such as a 10-year debt repayment suspension, multilateral creditors with an 8 to 10-year debt repayment suspension, and private creditors encouraged to extend the bond repayment schedule. Implementation challenges and solutions are also discussed, emphasising a case-by-case approach and collaboration between international institutions and individual countries. The presentation concluded with an emphasis on the necessity of a cooperative global environment, the importance of dialogue and engagement between economic blocs, and a call for a comprehensive approach to minimise economic fragmentation and support debt relief initiatives.

YouTube Link: <https://www.youtube.com/watch?v=4XI2uTBBKE>



Special Invited Lecture-I

SOCIAL EQUITY AND ECONOMIC REFORMS

Luis Felipe López-Calva⁵

Introduction: Exploring Poverty and Economic Growth

In special invited lecture by Luis Felipe Lopez-Calva delves into the pressing issue of poverty in Pakistan, contextualising it within the global landscape. He identifies the aftermath of the 2009 financial crisis and the subsequent COVID-19 pandemic as contributing factors to what he terms a “lost decade” marked by a decline in economic growth. Lopez-Calva emphasises the World Bank’s commitment to eradicating poverty, aligning with the Sustainable Development Goals (SDGs) embraced by 115 countries.

Challenges in Pakistan's Growth Trajectory: Human Capital and Rural-Urban Disparities

Luis Felipe Lopez-Calva points out that economic growth remains a major concern globally and underscores the World Bank’s mission to eradicate poverty, with 115 countries committed to the Sustainable Development Goals (SDGs). The speaker shares the challenges posed by a volatile growth trajectory in Pakistan, contributing to an increase in poverty. The importance of human capital for long-term growth is highlighted, along with the significant rural-urban divide in poverty incidence. A significant concern highlighted in the discussion is the volatile growth trajectory in Pakistan, contributing to an increase in poverty levels. The speaker underscores the pivotal role of human capital in fostering long-term growth and draws attention to the substantial rural-urban disparity in poverty incidence within the country.

Equitable Reforms: Objectives and Strategies

To address these issues, the article outlines objectives for equitable reforms. It suggests that growing incomes at the bottom requires investment in the productive capacity of the poor, considering various forms of capital, including human, financial, natural, physical, and social capital. The article emphasises the need to

⁵ Luis Felipe López-Calva is the Global Director for the World Bank Group’s Poverty and Equity Global Practice (GP) in the Equitable Growth, Finance, and Institutions (EFI) Vice Presidency

identify opportunities and constraints for more equitable reforms. Furthermore, the author discusses the role of taxes and transfers in shaping the pattern of benefits derived from economic growth. Drawing a comparison with high-income countries, the article suggests that a productive and efficient system of taxes and transfers is crucial for income redistribution, highlighting the importance of direct transfers over subsidies for equitable reform.

Linking Economic Growth, Poverty, and Reforms in Pakistan

Overall, the article presents a coherent discussion on the link between economic growth, poverty, and the need for reforms in Pakistan. It effectively touches on global perspectives, challenges specific to Pakistan, and potential objectives for promoting social equity.

YouTube Link: https://www.youtube.com/watch?v=5km-U6_Innw



Technical Session-I

POWER, POLITICS & PEOPLE

Evaluating Confidence in Government and its Determining and Contributing Factors; a Case Study of Pakistan using World Value Survey by Yasir Zada Khan & Muhammad Azmat Hayat

The first paper dives into a comprehensive examination of public confidence in the government of Pakistan, utilising data from the 7th wave of the World Value Survey conducted between 2018 and 2020. The study employs GIS Mapping to visually represent the distribution of average confidence levels in various dimensions, including government, armed forces, judiciary, political systems, business ownership preferences, and overall happiness. Ordered-logistic regression analysis is then applied to quantify coefficient values for determinants of confidence levels, revealing the significant influence of public institutions, income levels, education, health, job security, and perceptions about corruption on government confidence. The findings underscore the intricate web of factors shaping public sentiment towards governance.

Women's Empowerment: A Barrier or a Catalyst for Income Poverty and Time Poverty in Rural Pakistan by Shahzad Kouser, Rajendra Adhikari & Kuntala Lahiri-Dutt

The second paper shifts focus to women's empowerment within rural agriculture, specifically within the pulses value chain in three tehsils of Chakwal district, Punjab. Employing a Women Empowerment in Agriculture Index (WEAI), the study assesses the impact of women's involvement in the pulses value chain on income and time poverty. The results indicate a nuanced scenario where while women's empowerment has significantly alleviated income poverty, it has simultaneously exacerbated time poverty due to their dual roles in productive and reproductive tasks. The study concludes by emphasising the need for policymakers to address this delicate balance and compensate for the increased labour contributions of women.

Unveiling Food Pricing Policy Challenges in Pakistan by Abedullah & Farah Naz

The third paper investigates the role of food pricing policy in Pakistan, delving into the dynamics between farm gate prices, Deputy Commissioner Office (DCO) fixed retail prices, and the under-reporting of retail prices by the Pakistan Bureau of Statistics (PBS). The study reveals a variance between farm gate and DCO prices insufficient to cover retailers' costs, leading to a suggestion that PBS under-reports

retail prices to manage inflation. Furthermore, the paper scrutinises the government's role in wheat marketing, highlighting a significant cost of Rs. 131 billion in 2021-22. The study proposes that adopting a free-market mechanism could redirect additional profits to consumers, emphasising the need for transparent and market-driven pricing policies.

Political Risk, Capital Inflows and Inclusive Growth in Pakistan by Amna Tanwir & Hamad Manzoor

The fourth paper delves into an empirical investigation of the impact of political risk and capital inflows on inclusive growth in Pakistan. A composite inclusive growth index, comprising economic, social, accessibility, and financial dimensions, is constructed. The study employs ARDL bound test and ARDL model for empirical analysis to obtain long-run and short-run estimates. Results indicate that political risk diminishes inclusive growth and dampens the positive effects of capital inflows. While foreign direct investment and aid positively impact inclusive growth, political risk undermines these positive effects. The study recommends managing political risk, increasing remittances, and ensuring efficient utilisation of capital inflows to foster inclusive growth. Together, these four papers offer a nuanced exploration of critical issues spanning public confidence, women's empowerment, food pricing policies, and the interplay of political risk and capital inflows in the context of Pakistan's socio-economic landscape.

Technical Session-II

PUBLIC POLICY AND MARKET EFFICIENCY

An Examination of Industrial Policy: Strategies, Impact, and Global Perspectives by Usman Qadir & Saddam Hussein

The first paper delves into Pakistan's economic landscape, characterising it by cyclical growth patterns and identifying industrialisation as a potential stabilising force. Drawing lessons from global industrial policy strategies, the paper emphasises the absence of a one-size-fits-all solution, asserting that effective policies vary by country. Examining international experiences, the cases of South Korea and South Africa stand out, illustrating that government intervention can catalyse early-stage economic growth. Export-oriented industrialisation is highlighted as a successful approach, particularly when focusing on high-demand global goods. The paper underscores the importance of long-term dedication to industrial policy and emphasises the pivotal role of investing in education and skills for sustained economic growth.

Evolving Market Efficiency Test: Evidence from an Emerging Stock Market by Abid Hameed

The second paper shifts focus to the evaluation of Pakistan's stock market efficiency, employing an evolving market efficiency methodology. The study utilises a model comprising time-varying autoregressive stock returns with errors modelled as a GARCH process. The results indicate evidence of time-varying predictability over the sample period. However, confirming convergence towards weak-form efficiency remains inconclusive, as the Karachi Stock Exchange (KSE) experiences alternating periods of efficiency and inefficiency. Notably, during the latter part of the sample period, the stock market moves towards an inefficient state with increasing predictability. The study's implications for regulators involve assessing market efficiency, while investors are advised that short-term gains can be pursued with an active investment strategy, accounting for transaction costs.

Foreign Aid vs. Trade by Mohammad Zeshan

The third paper investigates the impact of foreign aid and trade reforms on Pakistan's economy, employing a CGE model. In scenario 1, import tariffs on major items are eliminated, resulting in varied effects on domestic production across sectors. The mining, textile, and chemical industries experience moderate growth,

while other sectors witness an increase, signifying enhanced access to economic intermediate inputs. In scenario 2, a foreign aid injection of USD 10 billion from the USA is introduced. The simulation results show a reduction in domestic production across all sectors, an increase in inflation, and a decrease in exports. The study sheds light on the complex interactions between foreign aid, trade reforms, and sectoral impacts on Pakistan's economic dynamics.

Book Talk

DEVELOPMENT PATHWAYS—INDIA, PAKISTAN, BANGLADESH (1947–2022)

Speaker: Dr Ishrat Hussain⁶

This volume presents for the first time a data driven evidence based comparative analysis of economic and social developments that have taken place in three major countries of South Asia –India, Pakistan and Bangladesh—since they got independence from the British in 1947. India which was governed by the British as a single political entity was divided in two independent countries—India and Pakistan—and the partition witnessed one of the largest movement of population from one country to the other and deaths of estimated one million people. Pakistan was further sub divided in 1971 when its Eastern province became an independent country---Bangladesh. At the time of independence these countries were mired in poverty, illiteracy, poor health status, underemployment, and rudimentary infrastructure. There was a lot of pessimism about the future economic sustenance of these countries. The development pathways adopted by each of these countries differed a lot but also went through paradigm shifts in their policies in the period 1990 onwards compared to the earlier period 1947-90 period. Indian leaders, soon after independence, chose to follow a centrally planned state control of command heights of economy model until 1991 with some incremental changes. Economic growth remained stagnant, stuck at 3.5 percent in the first forty years while the incidence of poverty remained quite high. A serious balance of payments crisis in 1991 forced India to abandon the old model and Prime minister Narasimha Rao decided to change the gears and switched to an outward looking strategy. Licence Raj was dismantled, international trade was liberalised, private sector and foreign direct investment were attracted and the role of Public sector enterprises was curtailed. Since then the economy has been growing at a rapid rate of 6 to 7 percent annually and 415 million people were lifted out of multidimensional poverty between 2005- 2020.

Pakistan was a star performer and one of the fastest growing economy among the developing countries with 6 percent average growth rate during 1950-90. Incidence

⁶ Dr. Ishrat Hussain was the Advisor to the Prime Minister on Institutional Reforms and Austerity with the status of Federal Minister and led the Government efforts to reform the Civil Services and restructure the Federal Government.

of Poverty was brought down significantly. However, the tables have turned since then and Pakistan has lagged behind its two peer countries in most of social and economic indicators. The factors behind this regression are frequent changes in political regimes—civil and military—with reversal of policies, programmes and projects of the preceding governments causing uncertainty for investors, and weakening of institutions of governance. Despite the boom burst cycle through which the economy went through in the last thirty-two years Pakistan met its millennium development goal in 2015 of reducing poverty by half. Bangladesh also started its development journey by following a state controlled model and witnessed economic stagnation and high incidence of poverty. However, political stability post 1990 and liberalisation along with larger role for the private sector and continuity in economic policies and incentive structure under alternating political parties moved the growth trajectory significantly upwards. Bangladesh has now overtaken India in per capita income. What was remarkable was reduction in poverty headcount ratio from 60- 80 percent range in 1971 to 20 percent five decades later. Bangladesh has also excelled in social indicators compared to India and Pakistan particularly in female empowerment signified by high female labour force participation rate.

YouTube Link: <https://www.youtube.com/watch?v=ux6FGdgwk-Q>



Panel Discussion-I

REFORMS FOR A BRIGHTER FUTURE

Panel Details:

- Presenters: Izza Farrakh (World Bank), Olivier Durand (World Bank),
- Discussants: Khuwaja Mazhar ul Haq, Mohsin Hasan (Engro Eximp)
- Moderator: Tobias Haque (World Bank).

World Bank's Reform Initiative:

- Tobias Haque presented "Reforms for a Brighter Future" initiative by the World Bank for Pakistan.
- Emphasised the need for comprehensive reforms due to a decline in per capita income and persistent macroeconomic crisis.

Education System Challenges:

- Izza Farrukh addressed challenges in Pakistan's education system.
- Highlighted learning poverty, with many children out of school and struggling with basic reading.
- Advocated for strategic enrolment campaigns, infrastructure improvements, mother tongue teaching, cash transfers, daily reading lessons, and increased investment in teacher quality.
- Stressed the importance of localised educational policies and political consensus to eradicate learning poverty.

Efforts in Education:

- Khawaja Mazhar acknowledged learning poverty and a shortage of teachers.
- Government efforts include school upgradation, digital tools, transgender schools, and early morning schools in South Punjab for marginalised and economically disadvantaged children.

Challenges in Agriculture Sector:

- Olivier Durrant discussed challenges in Pakistan's agriculture sector.
- Noted government intervention, subsidies, and market distortions, especially in the wheat market.
- Emphasised shifting focus from food security to increased ambition in agriculture exports.

- Recommended reforms like repurposing public spending, encouraging private investment, modernising the wheat sector, improving water management, and developing a market-driven agricultural reform vision for the next two decades.

Structural Reforms in Agriculture:

- Mohsin Hassan highlighted two critical areas for immediate structural reforms in agriculture.
- Identified financing as a major issue for small farmers, suggesting better access to finance to encourage a shift towards high-value sub-sectors.
- Pointed out the lack of investment in agricultural research, emphasising the need for increased public spending to develop climate-resilient seed varieties and protect competitiveness.

YouTube Link: https://www.youtube.com/watch?v=7H3q_ZLebu0



Mahbub ul Haq Lecture

PATERNALISM VERSUS SELF-DETERMINATION IN ECONOMIC DEVELOPMENT

Prof. William Easterly⁷

Historical Perspectives: Colonisation to Enlightenment Ideals

Professor William starts the lecture by developing a discourse on agency in development serves as a critical lens through which the complexities of leadership, growth, and the interplay between external donors and local populations are examined. This comprehensive exploration, with a particular focus on the World Bank, extends beyond the conventional metrics of development, urging a broader perspective that includes non-material dimensions alongside traditional indicators like GDP and consumption.

Prof. William initiates its narrative with a profound historical example—the colonisation of North America, which delves in to an illustrative backdrop to emphasise the divergence between promises of material progress and the erosion of agency experienced by the colonised. The ethical considerations embedded in development are unpacked, challenging the prevailing notion that material gains alone ensure overall well-being further in his lecture. A poignant observation is made: even as societies advance economically, the violation of human rights remains a grim reality. This ethical inquiry draws parallels between historical injustices and contemporary challenges, highlighting the enduring importance of safeguarding agency in the development discourse. The discussion seamlessly transitions to the Enlightenment era, a period marked by a clash between paternalism and the ideals of self-determination. He posits that trade and voluntary exchanges, in contrast to paternalistic approaches, can effectively meet the demand for agency. The principles of consent, self-determination, and equality are emphasised, drawing on historical instances such as the debates over Indian Removal and the abolition of slavery.

Challenges Rooted in Paternalism and Racial Injustice

Prof. William further zooms in on Frederick Douglass's critique of paternalism, revealing how paternalistic justifications were often employed as excuses to deny rights to black Americans. This historical perspective brings forth the enduring struggle against

⁷ Professor William Easterly is Professor of Economics at New York University and Co-director of the NYU Development Research Institute.

paternalistic attitudes, demonstrating that the denial of agency has deep historical roots, particularly in the context of racial injustice. Expanding the historical canvas, he gave examples such as Leopold's policies in Africa and the partitioning of the continent at the Berlin Conference in 1884-85 illustrate how colonial powers justified their actions under the banner of development. The consequences, however, included forced labour, land confiscation, and egregious human rights violations, starkly revealing the dissonance between rhetoric and reality in the pursuit of progress.

Colonial Legacy to Modern Dilemmas in Development

Then Prof. William shifts to contemporary times, scrutinizing the world of aid and questioning whether modern development efforts genuinely respect the agency of the poor. A notable concern raised by him highlights a significant increase in aid to less free countries, prompting reflection on the potential disregard for political and economic freedom. This prompts a call for a shift from coercive approaches to those grounded in consent and self-determination. The discussion deepens as Prof. William elaborates the neglect of human rights and the demand for agency in modern development practices. A disconcerting trend is identified wherein aid is disproportionately directed towards autocratic regimes. The argument is advanced that human rights should not be treated as a separate issue but integrated into the very definition of development. In reflecting on the progress made over time, the Prof. William acknowledges the decline of extreme autocracy and the increasing prevalence of liberal democracies. Economic freedom emerges as a growing trend, and a compelling argument is made to replace aid with trade, emphasising consensual exchanges over paternalistic charity. This forward-looking perspective aligns with the evolving dynamics of global governance and economic relationships.

Towards a New Paradigm: Balancing Progress and Ethical Considerations

While recognising progress, the Prof. William candidly acknowledges that challenges persist in the modern era. Issues such as forced labour and ethnic cleansing are not swept under the rug but are confronted head-on. The complexity of balancing individual and collective demands for self-determination is underscored, emphasising the intricate nature of the ongoing struggle for agency in the development narrative. By integrating ethical considerations, historical lessons, and forward-looking propositions, the discourse compels us to envision a development paradigm that not only advances material well-being but also safeguards the inherent agency of individuals and communities. As we navigate the complex terrain of global development, this nuanced understanding becomes paramount for shaping a more equitable and sustainable future.

YouTube Link: <https://www.youtube.com/watch?v=YaMeHI2wzsY>



[22nd November, 2023]

Panel Discussion-II

IS TAXING MORE THE ONLY SOLUTION?

Panel Details:

- Mukaram Jah Ansari (FBR),
- Asim Saeed (Planning Commission),
- Omer Siddique (PIDE), Abdul Jalil (NDU)
- Moderator: Mehmood Khalid (PIDE).

Panel Session Overview:

- Title: “Is Taxing More the Only Option”
- Speakers: Mr. Mukarram Jah Ansari (FBR), Mr. Asim Saeed (Planning Commission), Dr. Abdul Jalil (NDU), Mr. Omer Siddique (PIDE).

Introduction by Dr. Mahmood Khalid (PIDE):

- Emphasised the need to consider the burden of increased taxation.
- Highlighted the importance of incorporating the Laffer curve into the discourse.
- Advocated for addressing tax system complexities and regulatory landscape before considering additional taxes.

Insights from Mr. Mukarram Ansari (FBR):

- Underscored the annual rise in tax collection targets given to FBR.
- Noted a significant portion of collection from customs and withholding agents.
- Cautioned against taxing at the import stage, as it can impede businesses by limiting their cash flow.

Perspective from Mr. Asim Saeed (Planning Commission):

- Questioned the purpose of taxation – whether to cover expenditures or enforce fiscal discipline.
- Critiqued the focus on tax-to-GDP ratio and suggested a shift towards improving direct taxes.
- Highlighted the weakened social contract in Pakistan.

Insights from Dr. Abdul Jalil (NDU):

- Explained tax-to-GDP ratio and criticised the portrayal of Pakistan as a nation of tax evaders.
- Emphasised the need to build a narrative focused on growth, stating that tax collection does not drive growth.
- Cited examples from China and India.

Perspective from Mr. Omer Siddique (PIDE):

- Explored whether increased taxation is a comprehensive solution, acknowledging that taxes can distort economic activity.
- Discussed PIDE's research on heavy taxation burden affecting the retail sector.

Way Forward Recommendations:

- Mr. Mukarram Ansari: Recommended reforming FBR by separating the regulator from the tax collector. Advocated for tax policies promoting growth and investment, digitisation, and addressing HR issues.
- Mr. Asim Saeed: Called for short-term focus on reducing expenditures, reviewing subsidies, and taxing untaxed sectors.
- Dr. Jalil: Suggested encouraging transactions and taxing once the economy is in motion, aligning with Adam Smith's perspective.
- Mr. Omer Siddique: Urged moving away from anomalies and ad-hocism detrimental to the economy.

YouTube Link: <https://www.youtube.com/watch?v=2X523-17Ny8>



Panel Discussion-III

EVALUATING PAKISTAN'S PUBLIC DEBT MANAGEMENT POLICIES AND PRACTICES

Panel Details:

- Muhammad Arshad (MoC),
- Ashfaque Hassan Khan (NUST).
- Haider Ali (PIDE)
- Moderator: Nasir Iqbal (PIDE).

Session Overview:

- Title: "Evaluating Pakistan Public Debt Management Policies and Practices"
- Moderator: Nasir Iqbal

Debt-to-GDP Ratio Concerns:

- Haider Ali highlighted the alarming rise in Pakistan's debt-to-GDP ratio.
- Contributing factors: fiscal imbalances, high exchange rate, neglect of various borrowing instruments.
- Breach of fiscal rule (capped at 60 percent debt-to-GDP ratio) attributed to domestic and external debt issues.

Absence of Formal Policy:

- Muhammad Arshad pointed out the absence of a formal policy on debt management in Pakistan.
- Emphasised the fragmented nature of institutions handling debt with poor coordination.
- Concerns about the lack of a legal framework for external public debt, citing inadequacy of the Fiscal Responsibility and Debt Limitation Act of 2005.
- Highlighted distinctions between external and external public debt and lack of a unified definition for debt collection.

Institutional Inefficiencies:

- Arshad discussed institutional aspects of debt management, involving the Ministry of Finance, Ministry of Economic Affairs, Planning Commission, provincial government, and State Bank of Pakistan.

- Identified lack of coordination among these institutions leading to inefficiencies in debt management.

Need for Debt Office and Law:

- Ashfaque Hassan Khan emphasised the need for a debt office and law to ensure fiscal prudence.
- Criticised the violation of the law, particularly Article 6, for over a decade.
- Advocated for a single definition to unify debt collection.
- Stressed the importance of a strong debt office reporting directly to the minister.

Concerns about Institutional Disconnect:

- Nasir Iqbal raised concerns about the disconnect between institutions, including the debt management office.
- Questioned the responsible party for this situation.
- Panel collectively shed light on complexities and shortcomings in Pakistan's public debt management policies.

Panel Discussion-IV

GROWING PAKISTAN: FDI, DOMESTIC INVESTMENT AND FOREIGN AID

Panel Details:

- Ashfaq Hassan Khan (NUST),
- Abid Aman Burki (LUMS),
- Shahid Kardar (Ex – G – SBP),
- Sheikh Asim Saeed (VP-MCCI)
- Moderator: Ahmed Waqar Qasim (PIDE).

Panel Discussion Overview:

- Topic: Growing Pakistan: FDI, Domestic Investment, and Foreign Aid – Investment Challenges

Dr. Ashfaq Hassan Khan's Points:

- Emphasised political stability as a prerequisite for attracting foreign investment.
- Recurrent political instability in Pakistan identified as a deterrent.

Law and Order:

- Stressed the significance of maintaining law and order for a conducive investment environment.
- Comparison with India:
- Highlighted India's economic growth and a large market with a significant middle class as compelling attractions for investors.

High-Interest Rates:

- Criticised Pakistan's high-interest rates, deeming it irrational to expect foreign investors in such an environment.

Bureaucratic Reform:

- Advocated for bureaucratic reform to facilitate investment.

Cultural Openness:

- Addressed the need for cultural openness, suggesting biases against foreigners negatively impact investment.

Foreign Exchange Reserves:

- Raised concerns about low foreign exchange reserves, increasing the risk of currency depreciation and reducing investor confidence.

Other Panelists' Perspectives:

Shahid Kardar:

- Identified policy unpredictability and sentiments as core reasons for the low level of investment.

Abid Burki:

- Pointed out high corporate tax rates in Pakistan as a significant hurdle to investment.

Sheikh Asim Saeed:

- Highlighted factors dramatically reducing cotton production output in Pakistan, including the paucity of laws, volatility in exchange rates, and the lack of good industrial policies.

Overall Panel Insights:

- Panelists collectively provided a comprehensive overview of multifaceted challenges hindering investment in the country.
- Challenges encompass political, economic, and structural dimensions.

YouTube Link: <https://www.youtube.com/watch?v=ORLN4aKuh0s>



Panel Discussion-V

AID AND DEVELOPMENT IN SOUTH PUNJAB

Panel Details:

- Shah Nawaz Khan (SPO),
- Ghulam Mustafa (FDO),
- Ammarah Manzoor (Small Industries),
- Sajida Haider Vandal (THAAP)
- Moderator: Asim Saeed (Planning Commission)

Session Overview: Aid and Development in South Punjab

- Aim: Delve into supply-side impacts of foreign aid on South Punjab's development.

Asim Saeed's Opening Points:

- Highlights agri-based economic ecosystem in South Punjab.
- Advocates diversification into other sectors.

Shahnawaz Khan's Insights:

- Addresses paradox of South Punjab having political capital but containing some of Pakistan's poorest districts.
- Identifies developmental challenges in health, education, and infrastructure, with limited national representation.

Ghulam Mustafa's Points:

- Emphasises lackluster macroeconomic performance and poor fiscal management hindering development.
- Stresses the need for localised policy-making and implementation.

Ammara's Key Points:

- Highlights importance of need assessment and readiness checks before initiating projects, especially those funded by donors.
- Underscores potential for development in agriculture, arts, and culture.
- Emphasises necessity of engaging with local players for effective outcomes.

Sajida's Discussion:

- Examines power dynamics, noting influence of feudal and Pirs.

- Emphasises need for community involvement in planning and execution for successful projects.

Collective Panel Agreements:

- Stresses inefficacy of aid in the region.
- Emphasises importance of collective efforts, local empowerment, and effective local government system for sustainable development.
- Envisions agriculture and livestock as catalysts for transformation.
- Advocates for empowering the region to formulate and implement its policies.
- Calls for the creation of a separate South Punjab province.

Panel Discussion-VI

UNDERSTANDING THE ECONOMY OF SOUTH PUNJAB

Panel Details:

- Major Rtd. Tariq Khan (Mango Exporter),
- Asif Hayat Tipu (Green Agriculture),
- Irfan Baig (MNSUoA)
- Moderator: Omer Chaudhary (BZU).

Panel Discussion Overview: Understanding the Economy of South Punjab

- Dr. Muhammad Omer Chaudhry highlights substantial contributions to the economy, particularly in agriculture and manpower.

Disparities in South Punjab:

- Dr. Chaudhry underscores existing disparities compared to Central and Northern Punjab.
 - Higher multidimensional poverty.
 - Stunted growth in children.
 - Greater number of out-of-school children.
 - Lower literacy rates.
 - Weaker infrastructure.

Panelists and Their Insights:

Mr. Tariq:

- Acknowledges historical decline in crop production.
- Emphasises necessity for proactive measures to stimulate production.
- Points out challenges like ineffective delivery of research benefits to small farmers and resistance to change.

Mr. Rana Asif Hayat Tipu:

- Identifies untapped opportunities in agriculture.
- Suggests translating university research into practical applications at the cottage level.
- Focuses on value-added products, reducing wastage, and enhancing exports.

Discussion Highlights:

- Delves into challenges related to labour migration.
- Emphasises the need for image transformation to attract investment.
- Discusses the crucial role of research and development.

Government Initiatives and Future Outlook:

- Panel addresses questions on government initiatives and the future outlook for Multan.
- Overarching theme emphasises the importance of holistic strategies, local engagement in research, and adaptation to new techniques for sustainable economic growth in South Punjab.

Technical Session-III

MACROECONOMIC POLICIES AND INSTITUTIONS

The limit of monetary policy: A trivariate analysis of inflation, policy rate, and economic growth in Pakistan by Ashfaque Hassan Khan

The study reveals that inflation in these contexts, primarily driven by supply-side factors such as food and energy prices, cannot be effectively addressed by maintaining a high-interest rate. The paper argues against a one-size-fits-all monetary policy approach, emphasising the importance of identifying the root causes of inflation. In cases where inflation results from supply-side factors, such as in Pakistan, the study suggests alternative strategies such as improving food supply and exercising caution in raising energy prices instead of relying on interest rate adjustments.

Tax Morale, Trust in Institutions and the Role of Governance by Muhammad Nadeem Sarwar & Asma Hyder

The second paper delves into the relationship between trust in institutions and tax morale, with a specific focus on governance quality. The study draws on empirical analysis using the World Values Survey and World Governance Indicators, revealing that trust in institutions predicts tax morale in countries with higher governance quality. However, in countries with lower governance quality, trust does not necessarily lead to increased tax morale. The findings have implications for understanding tax compliance, institutional trust, and reciprocity in pro-social behaviours.

From Boom to Bust: The Perils of Pro-Cyclicality in Fiscal Policy by Muhammad Nadeem Sarwar, Shahzad Ahmad & Shagufta Shabbar

The third paper explores the dynamics of fiscal policy in the context of developing economies, using Pakistan as a case study. It examines the pro-cyclical nature of fiscal policy and its impacts on economic indicators. The study highlights the challenges posed by pro-cyclical fiscal policies, including increased public debt and inflation, and analyses their consequences over two decades. The findings emphasise the need to address structural issues and adopt evidence-based policies for sustained and robust economic growth, considering the complexities associated with fiscal policy in developing nations.

Technical Session-IV

HUMAN CAPITAL INVESTMENT AND WORKER'S EFFICIENCY

Information Technology, Firm Efficiency, and Foreign Outsourcing Collaboration in Production Processes: A Developing Economy Firm's Perspective by Irfan Ali & Zafar Mahmood

The first paper addresses foreign outsourcing collaboration (FOC) from the perspective of developing economy firms, aiming to fill the gap in existing literature. Focusing on 217 textile and apparel firms in Faisalabad, Pakistan, during the fiscal year 2022, the study investigates the impact of investment in information technology (IT) on firm performance. The analysis involves the strategic integration of FOC in firms' policies, including goals and competitive strategy. The results, obtained through SmartPLS 4, indicate that IT investment enhances efficiency and product quality, contributing to overall firm performance. Additionally, FOC in processes is found to enhance product quality, and investment in IT fosters FOC in processes.

Human Capital Investment, Family Structure and Demographic Dividend: Preliminary Evidence from Pakistan by Sajjad Akhtar

The second paper empirically documents and analyses the inter-relationship between human capital investment, family structure, and demographic dividend in Pakistan during the demographic transition period from 1992 to 2018. Based on three rounds of primary Household Income and Expenditure data, the study incorporates various elements of the transition phenomena, such as child and elderly dependency, youth earners, and family structure. Using the Two-stage Least Squares technique separately for urban and rural areas, the research assesses the impact of these factors on demographic dividend and includes conventional arguments as determinants of augmented household savings.

Analysing the Productive Mechanism of Human Capital for TFP in Pakistan: New Insights from Women's Empowerment by Bushra Mushtaq & Muhammad Afzal

The third paper examines the role of women empowerment (WE) in promoting human capital development (HCD) and total factor productivity (TFP) in Pakistan from 1990 to 2022. Employing co-integration analysis based on the Autoregressive Distributed Lag (ARDL) model, the study tests two hypotheses: the moderating

effect of WE on TFP and the mediating impact of HCD on TFP. The results demonstrate positive and significant impacts of WE and HCD on TFP in both the short and long run. The study suggests that Pakistan can enhance its human capital by empowering women, emphasising the crucial role of WE and HCD in fostering economic productivity.

Technical Session-V

WORK ENVIRONMENT, PRODUCTIVITY AND INCENTIVES

Supply Responses of Major Crops of Punjab, Pakistan: Translog Profit Function Approach by Mushtaq A. Khan, Osama Khan & Hamza Sohail

The first paper focuses on estimating elasticities for wheat, cotton, rice, and sugarcane using farm-level data from Punjab. Utilising a trans-log profit function approach, the study considers variations in weather patterns, specifically mean temperature and precipitation during different phenological stages of crops. The findings reveal complementarity between inputs like seed and fertiliser across all crops, indicating a net substitution effect between variable inputs and fixed inputs (land). Notably, temperature and precipitation changes during harvesting impact farmers' profits, with sugarcane showing a contrary relationship compared to wheat, rice, and cotton.

Values, Women's Autonomy and Workforce Participation in Pakistan: Evidence from the World Values Survey by Mannan Hassan Khan

The second paper delves into the relationship between values, societal norms, and women's economic engagement in Pakistan. Using microdata from the 6th and 7th waves of the World Value Survey, the research explores how cultural values influence women's labour force participation and income-generating activities. The regression results emphasise the significance of values supporting women's work, along with factors like self-reported social class, age, children, and improved social cohesion. The study underscores the role of regressive values in explaining low levels of female labour force participation in Pakistan, emphasising the need for inclusive policies and gender balance.

Budgeting for the Future: Estimating the Lifetime Cost and Services Length of Public Sector Employees in Pakistan by Nadeem UI Haque, Muhammad Ajmal Khan, Nadeem Ahmed Khan & Muhammad Jehangir Khan

The third paper anticipates the future lifetime cost and length of public sector employees in Pakistan. Using primary and secondary data, the study estimates the lifetime cost for three cases, encompassing salaries, commuted pensions, monthly pensions to employees, and pensions for spouses and unmarried daughters. The findings highlight variations in costs based on retirement scenarios and employee categories. For instance, the discounted lifetime cost of supporting

staff increases from case one to case three. Additionally, the study notes that the anticipated lifetime cost of higher-grade employees (BPS-17 & above) is substantially higher than that of lower-grade employees, emphasising the financial implications for the government in supporting public sector employees.

Book Talk

SOVEREIGN DEBT: A GUIDE FOR ECONOMISTS AND PRACTITIONERS

Syed Ali Abbas⁸

The last time global sovereign debt reached the level seen today was at the end of the Second World War, and this shaped a generation of economic policymaking. International institutions were transformed, country policies were often draconian and distortive, and many crises ensued. By the early 1970s, when debt fell back to pre-war levels, the world was radically different. It is likely that changes of a similar magnitude—for better or for worse—will play out over the coming decades. This book is an attempt to build some structure around the issues of sovereign debt to help guide economists, practitioners, and policymakers through this complicated, but not intractable, subject. The book brings together some of the world's leading researchers and specialists in sovereign debt. Such a mix of skills and disciplines allows the cross-pollination of ideas, leading to new perspectives and ensuring that ideas are accessible to readers of all backgrounds. The purpose of this book is not to be an encyclopaedia, where all issues are covered in exhaustive detail, but to ensure that the various sub-disciplines of this vast topic are connected—debt management with debt sustainability; debt reduction policies with crisis prevention policies, sovereign default with the restructuring process; and the history of debt with the current landscape. The aim of this book is to be a foundation text for all those interested in sovereign debt, with a focus on real world examples and issues.

YouTube Link: <https://www.youtube.com/watch?v=Ih3sm3wqAYY>



⁸ Syed Ali Abbas is Advisor and Mission Chief for the United Kingdom, European Department, International Monetary Fund.

[23rd November, 2023]

Special Lecture

FISCAL MANAGEMENT FOR REVIVAL OF THE ECONOMY

Faisal Rashid⁹

Challenges in Pakistan's Fiscal Management

In special lecture by Faisal Rashid on Fiscal Management for Revival of the Economy. He highlighted the formidable challenges facing Pakistan's economy, characterised by substantial debt reliance to cover fiscal deficits due to insufficient revenues against escalating expenditures. The low tax-GDP ratio, rising circular debt in the energy sector, and unsustainable pension schemes further compound the economic strain. Additionally, the federal government burdens itself with development projects outside its purview.

Immediate Actions for Short to Medium Term

In addressing these challenges, Rashid emphasised the need for immediate considerations. In the short to medium term, seeking support from the International Monetary Fund (IMF) becomes imperative. An IMF programme typically involves reducing fiscal deficits, implementing tight monetary policies, and prioritising governance reforms in state-owned enterprises and the energy sector.

Medium to Long Term Economic Reform Plan

Looking ahead to the medium to long term, Pakistan must formulate a comprehensive economic reform plan. This entails exploring untapped sectors to boost revenue and urgently reforming the energy sector. Privatising distribution companies (DISCOs) and minimising transmission and distribution losses are vital steps. State-owned enterprises (SOEs) represent another crucial area for immediate reform to yield lasting benefits.

Mitigating Impending Burdens: Pensions, Grants, and Sustainable Management

The issue of pensions looms large, with the present value of future pensions reaching PKR 10 trillion. Urgent action is required to mitigate this impending burden, including reducing beneficiaries from a single employee. Rationalising

⁹ Faisal Rashid is Principal Consultant, Public Finance at Oxford Policy Management.

untargeted grants and subsidies, along with a comprehensive overhaul of development expenditure decision-making, is essential. Implementing the Public Financial Management Act of 2019 and making post-completion monitoring and evaluation mandatory are crucial steps for sustainable economic management.

YouTube Link: <https://www.youtube.com/watch?v=7uH1ejgS4ps>



Panel Discussion-VII

UNICEF SPECIAL SESSION—IMPROVING THE QUALITY OF PUBLIC SPENDING

Panel Details:

- Manzoor Ahmed (Expert Trade),
- Asim Bashir Khan (UNICEF),
- Talat Anwar (BZU)
- Moderator: Shaaf Najib (PIDE).

Discussion Initiation:

- Shaaf Najib questions whether revenue or expenditure is to blame for debt.
- Highlights debt servicing as the largest portion of government expenditures.
- Emphasises three major federal government liabilities.

Government Subsidies and Fiscal Space:

- Discussion on the impact of generous subsidies without adequate fiscal space.
- Significance on the economy and crowding out of the private sector highlighted.

Consequences of Loanable Funds Allocation:

- Ahmed Waqar Qasim discusses the diversion of 87 percent of loanable funds to the government, leaving only 13 percent for the private sector.
- Limited financial deepening observed, with established businesses favoured over smaller firms.
- Private businesses resort to informal borrowing, hindering growth.

Government's Emphasis on International Trade:

- Government's emphasis on international trade over domestic commerce is highlighted.

Government Distorting the Playing Field:

- Manzoor Ahmad argues that the government distorts the playing field, promoting inefficiencies.
- Criticises outdated PEPRA rules and audit objections for not addressing staffing feasibility and efficacy.
- Notes resource allocation and policy focus influenced by lobby strength.

Debt-Based Development and Interest Rate Reduction:

- Asim Bashir emphasises Pakistan's debt-based development, lacking concern for performance and efficiency in service delivery.
- Talat Anwar proposes that reducing the interest rate could improve the unsustainable debt situation.

Addressing Demand-Side Problem in Service Delivery:

- Asim Bashir addresses the demand-side problem in service delivery, emphasising the need for rational decision-making.

Critiques and Suggestions from the Floor:

- Manzoor Ahmad recommends automation, simplified regulatory oversight, and active promotion of trade with neighbours to create a favourable environment.
- Shahid Kardar questions the government's role, suggesting a re-evaluation of its functions, especially in areas like education and health spending.
- Criticises unquestioned investments in infrastructure for the privileged few.

YouTube Link: <https://www.youtube.com/watch?v=KIUpGKboQEg>



Special Invited Lecture

AID EFFECTIVENESS REVISITED IN THE CONTEXT OF PAKISTAN

Dr. Abid Aman Burki¹⁰

Overview of Aid Effectiveness in Pakistan

In special invited lecture by Abid Aman Burki on Aid Effectiveness Revisited in the Context of Pakistan. He provided a comprehensive analysis of aid's impact on economic growth, shedding light on key factors and the evolving aid-growth literature. The discussion drew attention in Europe and America, focusing particularly on Pakistan's GDP per capita and delving into the intricacies of aid effectiveness.

Dynamics of Aid: Historical Context and Nuanced Exploration

Dr. Burki commenced the presentation with a historical backdrop, unravelling aid effectiveness estimation methods and definitions. The context of Asia and Europe highlighted taxpayers' scrutiny regarding aid's impact on recipient countries' GDP, poverty reduction, and overall economic well-being. This set the stage for a nuanced exploration of aid's dynamics and its implications for economic development.

Distinguishing Economic and Non-Economic Aid

Distinguishing between economic and non-economic aid, Dr. Burki underscored the direct economic benefits of the former, drawing a contrast with non-economic aid, such as military assistance. He emphasised aid's potential impact on balance of payments, GDP, and poverty reduction through strategic investments. This distinction laid the foundation for understanding the diverse forms and implications of aid in the context of economic development.

Assessing Aid's Impact: Global Literature, Findings, and Challenges

The presentation also showcased the evolution of aid-effectiveness literature and its influence on policy-making in recipient countries. Notably, Dr. Burki shared findings from Raguram G RajaN and Arvind Subramaniam's work, indicating no

¹⁰ Dr. Abid Aman Burki is a Professor Emeritus in the Department of Economics at the Lahore University of Management Sciences (LUMS).

positive impact of aid on growth across countries. Furthermore, he presented his own findings, revealing a weak impact on economic growth in Pakistan, suggesting a lag of 5 to 7 years for observable effects. Identifying key contributors to this ineffectiveness, Dr. Burki pointed to the absence of well-defined policies, governance challenges, policy conditionality, and the political and strategic interests of donors. This critical analysis shed light on the multifaceted challenges that impede aid from achieving its intended impact on economic growth.

YouTube Link: https://www.youtube.com/watch?v=uSLyRr_8SUK



Technical Session-VI

PUBLIC FINANCIAL MANAGEMENT

Adequacy of PSDP Public Sector Development Programme of Pakistan: Facts, Problems and Solutions by Shukat Ali Randhawa

The first paper discusses the role of the government in market economies, particularly in developing countries like Pakistan, where private sector participation in development may be limited due to governance challenges. The paper outlines a historical perspective and situational analysis of the Public Sector Development Programme (PSDP), critically assessing fiscal discipline, adequacy in execution, and governance issues in its management. Case studies from various economic sectors are analysed to provide a comprehensive view. The paper also explores the status and prospects of incorporating the private sector in development, mainly through Public-Private Partnership (PPP), concluding with pragmatic suggestions for strengthening the development budgeting process.

Public Financial Management in Pakistan: An Emerging Architecture Perspective by Nooreen Mujahid, Nargis Noman & Muhammad Noman

The second paper focuses on Public Financial Management (PFM) and its impact on socio-economic growth. It emphasises the need for an efficient PFM system in Pakistan, assessing its components as an emerging architecture through Structural Equation Modelling. The study spans the period of 1979-2022, addressing public revenues, expenditures, and debt management. The findings stress the importance of policy innovations and structural reforms to optimise fiscal policies, macroeconomic stability, and resource allocation.

Migrant Remittances and Economic Complexity: Evidence from Panel Data Approach by Naseem Nasar

In the third paper, the role of migrant remittances in economic complexity is explored in the context of development economics. Using the economic complexity index (ECI) and migrant remittances data from 2005 to 2020, the study employs system GMM for econometric analysis. The results reveal a negative link between economic complexity and migrant remittances but highlight a positive interaction between remittances and education in enhancing economic complexity. The study suggests that while remittances alone may not lead to economic complexity, combining them with higher education levels can contribute to economic development. The findings underscore the importance of education in maximising the positive impact of remittances on economic development.

Technical Session-VII

DEBT MANAGEMENT AND SUSTAINABILITY

Debt a Threat to Economic Growth: An Evidence from Extreme Bound Analysis by Ayesha Tariq & Iftikhar Hussain Adil

The first paper explores the relationship between public debt and economic growth in Pakistan, aiming to identify the threshold level of public debt to GDP at which economic growth turns negative. Utilising extreme bound analysis, the study finds that the threshold level is 69 percent, higher than in previous studies. The study advises governments to exercise caution in letting public debt exceed 69 percent of GDP to sustain economic growth. These insights have significant implications for policymakers, guiding the development of effective debt management strategies.

Factors Affecting External Debt & Liabilities in Pakistan by Talat Anwar & Zahir Faridi

The second paper investigates the unprecedented rise in Pakistan's external debt, addressing the country's debt trap and default situation. Using the ARDL model and time series data from 1994 to 2022, the study reveals key insights. The current account deficit, fiscal deficits, foreign aid, and exchange rate depreciation contribute to the escalation of external debt and liabilities. The study suggests policy implications, emphasising the need for exchange rate stability, internal resource dependence, and measures to enhance foreign exchange earnings through exports and attracting foreign direct investment (FDI).

Subnational Debt in Pakistan: Role of Fiscal Imbalances, Economic Growth and Rule-Based Debt Policy by Asim Bashir Khan

The third paper focuses on subnational public debt and fiscal solvency in Pakistan. The rising government debt is examined, with particular attention to subnational debts. The study reveals that low tax effort, large non-development expenditures, and weak debt repayment capacity contribute to subnational debts. The analysis emphasises the relevance of Vertical Fiscal Imbalances (VFIs) in explaining public debt, with VFIs, expenditure decentralisation, and population density positively related to public debt. The study suggests the need for comprehensive subnational fiscal reforms, targeting untapped revenue sources, and improving efficiency in non-tax revenue collection and expenditure management.

Technical Session-VIII

INSTITUTIONS AND GOVERNANCE REFORMS

Preferred Habitat and Monetary Policy Spillovers: Evidence from Inter-Market Dynamics in Pakistan by Abdul Wahid, Oskar Kowalewski & Edmund H Mantell

In Institutions and Governance Reforms two papers were presented. The first study focuses on the applicability of a preferred habitat model to describe inter-market transmissions of mean returns and price volatility in the context of regional equity markets in Pakistan. The preferred habitat, representing the regional market for equities, is explored in relation to changing interest rate policies, US dollar exchange rates, and local inflation. The study employs the GARCH-DCC and a Markov Switching Model to investigate inter-market transmissions of mean returns and variances of returns. Significant interlinkages between monetary policy and stock market performance are found, providing insights for regulatory authorities concerned with understanding and influencing the systematic relationship between monetary policy and inter-market transmissions.

Critical Examination of NTDC Electricity Demand Forecasting Techniques by Shafqat Abbass

The second paper addresses the National Transmission and Dispatch Company's (NTDC) Indicative Generation Capacity Expansion Plan (IGCEP) for planning future electricity generation capacity in Pakistan. The study critiques the reliance on annual demand projections, which overlook daily and seasonal demand trends, leading to imbalanced energy supply and inefficiencies. The paper proposes alternative forecasting techniques for accurate projections of daily electricity sales and peak demand, aiming to optimise infrastructure to meet consumer demand effectively.



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