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# NEWSLETTER

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Editor: Asad Ejaz Butt  
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## From the Desk of the Chairman

***Relations with the neighbors:*** Pakistan's relations with its four neighbors did not figure much in the election campaign. But whichever government comes to power after July 25, will need to focus a great deal of its attention on working with the four countries with which the country shares its borders. Afghanistan, the neighbor to the northwest, has always drawn a great deal of attention of the policymakers not only in Islamabad but also in the capitals of the provinces. Relations between the two countries have not been easy in part because the Pakhtun ethnic group is divided between the two. Of the 48-50 million people belonging to this group, 30 million live in Pakistan and sixteen in Afghanistan Pakistan's "all weather" relations

with China have been important for decades and now, with the multibillion-dollar investment in improving the country's infrastructure, Beijing has a large footprint on Pakistan's economic soil. The "all weather" description of these relations is meant to distinguish them from those with the United States that have been off-and-on for decades. At the time of this writing, the relationship is in the "off" mode. Relations with India, Pakistan's sister state, to the south have always been uneasy. The two countries have fought four wars since they became independent in 1947. Three of these were about Kashmir, the only Muslim-majority state in India,

## Previous Publications



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and the fourth over East Pakistan, Pakistan's "eastern wing" that India helped in 1971 to secede and become independent Bangladesh. The rise of Hindu nationalism has complicated relations between the two countries. Iran, the fourth neighbor, to the west has not been prominent in Pakistan's thinking about foreign affairs. But that may change with the growing rivalry between the Sunni Kingdom of Saudi Arabia and the predominantly Shiite Iran. The former has the support of the United States under President Donald J. Trump. Any escalation of the conflict between these two Muslim states will have enormous consequences for Pakistan that has the world's second largest Shiite population. Most worrying for the administration that takes office in

Islamabad following the elections of July 25 is the relationship with the United States. Although not a neighbor, Washington's approach to world politics is deeply affecting the Pakistani neighborhood, negatively in the case of all four neighbors. The recent Trump outburst directed at the rulers in Iran is one example of what could happen in the region of which Pakistan is a part. policymakers in Pakistan.

The growing hostility between Washington and Tehran would be exceptionally troubling for the new Late on the night of July 23, President Trump wrote a tweet in which he threatened that Iran would "suffer consequences the likes of which few throughout history have ever suffered before. We are no longer a country that will stand for your demented words of violence & death. Be cautious."

The tweet, written in capital letters, was sent out at midnight. It was said to be a response to the statement by President Hassan Rouhani about a direct confrontation between the

Trump administration and its chief adversary in the Middle East. The Iranian president said that a confrontation with his country would be "the mother of all wars" and suggested that Tehran might flex its military might in the Middle Eastern waterways that are crucial to global commerce, in particular the flow of oil to the West. Tehran was quick to respond to the Trump tweet. Iranian Foreign Minister Mohammad Javad Zarif who negotiated the nuclear deal with the United States and other great world powers out of which Trump walked out posted a tweet using capital letters and sending similar warning as the one delivered by President Trump. "Color us unimpressed," he wrote. "The world heard even harsher words a few months ago. We've been around for millennia & seen fall of empires, including our own, which lasted more than the life of some countries. Be cautious." This tweet war brought the possibility of a large conflict right to the Pakistani border.

**Shahid Javed Burki**

Chairman

The Shahid Javed Burki Institute of  
Public Policy at NetSol, Pakistan



## From the Desk of the VICE Chairman

### **The Legacy Accounts:**

Even a cursory glance at the track record of my generation of youth of 70s reveals successive and sordid sagas of failures and blunders in almost all walks of life which we witnessed like a petrified-resigned-to-fate-directionless aggregate of people.

We inherited a truncated and defeated Pakistan. Instead of learning lesson, we continued vainly meandering in a quest for national identity while avariciously joined the rat race for amassing personal wealth and riches. We acquiesced to the plunder, pillage and pilferage of national exchequer; submitted to the dictatorial regimes; and tolerated gross governance dysfunction.

We allowed ourselves to become an integral part of the rotten system which rewarded sycophancy and mediocrity and sacrificed merit and integrity. The decade of 70s was marked by ill conceived economic policies, incoherent spate of "reforms", and contamination of democratic order by political absolutism.

The decade of 70s was marked by ill conceived economic policies, incoherent spate of "reforms", and contamination of democratic order by political absolutism. The 1977-1988 era was characterized by erosion of the political system; introduction of gun and drug culture; institutionalized expression of political interest on ethnic and linguistic basis; and proliferation of breeds of Mullahs in the name of "Islamization" to foment religious intolerance and fanaticism. The democratic period of 1988-1999 witnessed the injection of craft and money into politics and intrigue and manipulation by the military establishment. During 1999-2008, the nation *sans* protest, accepted the blatant violation of the constitution, the submissiveness

of judiciary and the dirty politics of "NROs" besides plunge into a proxy war on terror. The post 2008 period exemplified the political culture of "tour de passé passé", the unprecedented external borrowing, mega corruption and wanton money laundering.

The sorrowful outcome is that we rank 147 out of 189 countries on HDI, 132 out of 142 on education attainment, 128 out of 142 on healthy life, 141 out of 142 on economic opportunities for women, 138 out of 176 on global competitiveness and 144 out of 189 on ease of doing business (2016) with borrowing standing at 64.1% of the GDP and US \$91761 million (external).

While there is a huge list of valid unpardonable indictments, towards the fag-end of our generation, there are a few accomplishments that we feel a bit

redeemed and relieved. CPEC, if managed prudently, could really be a game changer economically linking Pakistan to the Global Production Network and Value Chains. The accountability process has brought the highest and the most powerful office to the book. The 2018 elections, after decades of political engineering and mismanagement, seem to have restored the "respect of ballot" and paved the way for strengthening democratic, inclusive and pluralist traditions in Pakistan.

It is now for the youth to ensure that these processes are not rolled back. Their real success will hinge upon the legacy, they bequeath to the future generation- a Pakistan which ensures peace and security, embarks on inclusive development, and, pursues people centered, transparent, accountable and rights based approach to governance for sustainable development.

**Shahid Najam,**

Vice Chairman

The Shahid Javed Burki Institute of Public Policy at NetSol Pakistan



## Message of the Month

Forman Christian College is a legacy spread over 154 years and the Department of Economics at FCCU has a history of excellence and dedicated services of 103 years. Forman Christian College became a chartered university in 2004 and has been offering high quality education both at graduate and undergraduate levels.

The core values of the university are the guiding forces for students, faculty and administration to follow the university motto "by love, serve one another".

Promoting the cause and culture of learning cannot be left to the classroom lectures alone; therefore, the department takes a lot of pride in exposing its students to a wide range of activities like educational trips to places like stock exchanges

or chambers of commerce etc.; guest speakers to deliver lectures on economic issues of contemporary importance; and inter and intra university competitions among the students.

The true contribution of a university, however, is measured by its research contributions. Forman Journal of Economics is an HEC recognized Y-category peer reviewed research publication of the department



since 2005 and thirteen issues of the journal have been published up till now.

Moreover, a morning and an evening M. Phil. programs in Economics have been producing mandatory research dissertations every year; and the faculty of the department continue to get their research published in different national and international journals.

The department held its first national research conference titled “Economy of Pakistan – Vulnerabilities & opportunities” in 2017 and it was very well received. The second conference was held under the theme of “Growth, Governance and Socio-Economic Gaps” on 10<sup>th</sup> of May 2018 and it was appreciated by the guests as well as panelists both for logistic arrangements and higher quality standards. The department looks forward to hold a research conference on a theme of economic importance every year. I hope and pray for the successful continuation of this tradition.

The department believes in the spirit of plurality and celebrates diversity of its student body. We receive our students from the plains of Punjab to the peaks of Khyber Pukhtunkhwa and from the breadth of Baluchistan in the South to border regions of Gilgit & Baltistan in the North. We wish to further improve this diversity in our student body.

The faculty members of department believe in evidenced based public policy. Over the years, the department has shifted its focus towards inclusive growth and development of the Pakistan economy.

The real purpose to the right to development is to ensure the harmonization of the aspirations towards the material improvement of the human condition with the aspirations of freedom and dignity. Neither objective is possible under conditions of inequality and poverty.

The issue of inequality in variously often results from willful neglect and discrimination. The development that permits exclusion and discrimination in access to allocation of resources paves the way to increased social disintegration. Such inequalities lead to create differences in access to political power, justice, health, education and employment. Access to these human requirements is the basis to materialize the basic human rights. The true essence of development can never be judged from the material resources but from the sustained socio-economic aspects and as well as cultural, civil and political rules and norms in practice. The equitable access, availability and provision of justice, health, education and employment to common person provide a socio-economic structure that leads to political integration and social cohesiveness. The idea of equitable growth and sustainable development seems not achievable

without reducing the socio-economic inequalities.

Good Governance is synonymous with sound development management. Development and improved governance tend to go hand in hand. But, contrary to popular belief, there is little evidence that success in implementing governance reforms leads to more rapid and inclusive economic and social development. In fact, it may be the other way around. The World Bank, using well over 100 indicators, introduced a composite index of good governance, based on perceptions of voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, the rule of law, and levels of corruption. By claiming that it had found a strong correlation between its governance indicators and economic performance, the Bank fueled hope that the key to economic progress had been found. To be sure that governance is effective, legitimate, and responsive provides untold benefits, especially when compared to the alternative: inefficient governance, cronyism, and corruption.

**Dr. Shabib Haider, Syed**

Professor & Chairman  
Department of Economics  
Forman Christian College (A  
Chartered University), Lahore



## Knowledge Management Wing

### Devaluation of Pakistani Rupee:

Pakistan is in the grip of serious uncertainty regarding the fate of valuation of Pak Rupee (PR) in the international market. Since 1955 to date, depreciation and devaluation of PR has been a constant phenomenon primarily because of successive mismanagement of the economy. The gravity of the current problem could be well judged by the fact that PR devalued for the fourth time since December 2017 and reached an all time level PR 128: \$1 on July 16, 2018. This represents the worst performance in the entire Asian

region in terms of dropping almost by 14 percent during the current year followed by the Indian rupee's 6.9 percent, according to IMF Bloomberg. The main reason of recent depreciation of rupee is the balance of payment crises and depletion of foreign-exchange reserves. Pakistan's foreign exchange reserves have dropped at the fastest pace (34%) than any other country in Asia region during the past year followed by Azerbaijan (8%), Kazakhstan (6%), Fiji (6%) and Bangladesh (4%).

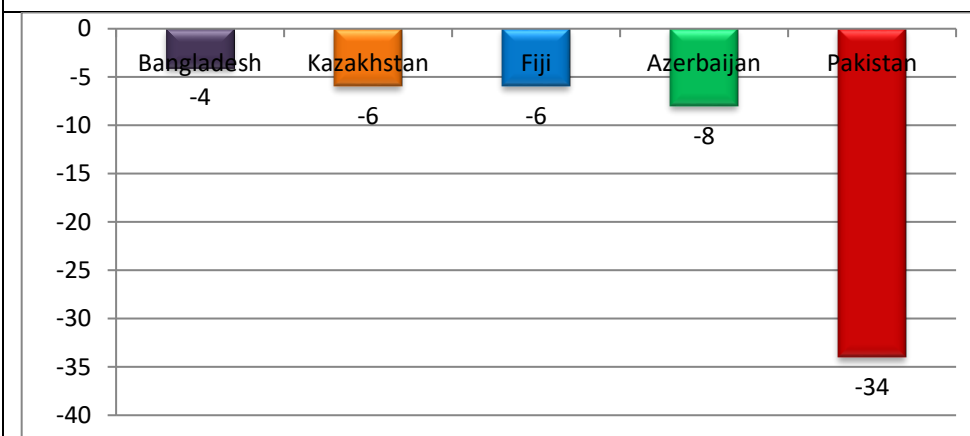
It is interesting to look at the currency behavior and foreign exchange reserves of Pakistan during the pre-general elections period. Before 2008 elections, PR dropped its value by 33 percent while the foreign exchange reserves depleted to \$2 billion which gradually and progressively

recovered to \$ 17 billion in February 2011. The average fiscal deficit was 4 percent of GDP during 2004-7 which rose to 7.6 percent in 2008.

The rupee was relatively stable during the 2013 pre-election period as it depreciated by only 1.3 percent. The average fiscal deficit was 6.1 percent during 2009-12 but rose to 8.6 percent in 2013. However, the elections of 2018 witnessed a drop of 22% in PR value on July 16, 2018. The fiscal deficit has been somewhat lower in first half year of 2018 at 2.2 percent of GDP compared to 2.5 percent in first half year of 2017. The foreign exchange reserves fell by 22 percent since December 2017 to \$ 15.682 billion.

Pakistan is experiencing serious balance of payments crises due to depleting foreign exchange reserves and devaluation of currency. The new government needs to comprehensively explore various options to solve the immediate crises as well as putting the economy on an even keel for sustainable economic growth and development. This will certainly entail seeking immediate financial assistance from the friendly countries as well as approaching the international lenders especially IMF and IFIs to arrest the widening imbalance and improve the foreign reserves.

**Figure 1: Biggest Foreign Reserves Erosion in Asia**



Data track reserves for 12 months till May or Latest available  
Source: International Monetary Fund, Bloomberg

**Atr Un Nisa**  
Research Associate  
The Shahid Javed Burki Institute of  
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## From Education and Learning wing

Ms. Maham Asif conducted a training session on "Water Scarcity in Pakistan - A Bigger Threat than Terrorism" in a workshop organized by the Centre for Research and Security Studies (CRSS) for their Pakistan Centre of Excellence (PACE) Collaborative Workshop at Islamabad on 14 July 2018. The workshop was a part of the major "Countering Violent Extremism" initiative financed by the Netherlands to trigger critical thinking and sensitize the cadre of future leaders about the fundamental global

values and concepts such as socio-political diversity, respect for diversity

and mutual co-existence, rule of law and equal citizenry.

Her session was contextualized within the overall ambit of the following inter-related concepts: leadership and motivation, equal citizenry and respect for rule of law, fundamentals of democracy, governance and accountability and respect for diversity, opinions and rights.

Ms. Asif in her presentation talked about the critical issue of water scarcity in Pakistan, an issue of which most citizens are uninformed about. Even the public sector authorities seem to be either oblivious of or lack expertise to gauge the enormity of impending challenge which water crisis poses to the country's stability not to speak of its extremely deleterious economic and environmental implications.

Pakistan's main sources of water include surface water obtained from melting of glaciers, rainfall and groundwater. The latter is being over exploited with the result that the aquifers do not get adequately replenished.

The situation is further aggravated by climate change especially the recent phenomenon of rapid glaciers' melting which is already affecting agriculture, drinking water supplies, hydro-electric power, and ecological habitats. Pakistan became "water stress country" in 1990 and "water scarce" in 2005. The experts, notably Pakistan Council of Research in Water Resources (PCRWR) predict that if corrective action in terms of coherent set of policies and operational plan is not undertaken with urgency and speed, the country is likely to dry up by 2025.



**Maham Asif**  
Research Associate  
The Shahid Javed Burki Institute  
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Pakistan



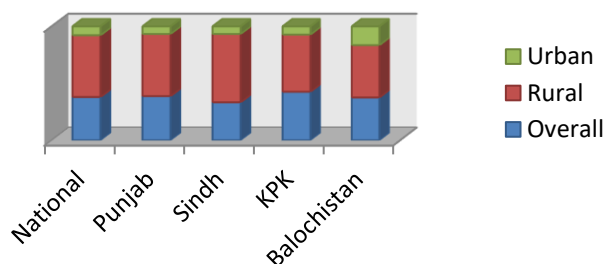


## From Knowledge Management Wing

Over the last decade, Pakistan has made constant progress in reducing absolute poverty. As per Multidimensional Poverty in Pakistan 2016 Report, National Poverty rates showed a sharp decline from 2004 to 2015. The MPI for 2014/15 yielded a value of 0.197 which means that poor people in Pakistan experience 19.7 percent of the multiple deprivations. At provincial level, Balochistan has the highest MPI while Punjab has the lowest, 0.394 and 0.152 respectively

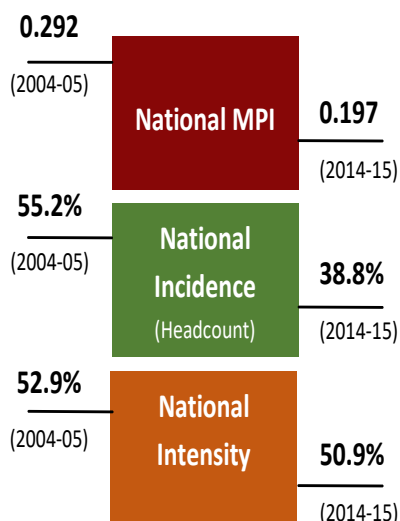
For all the four provinces, rural areas have more poverty than urban areas. As per the report, 54.6% of rural population lives in absolute poverty while this ratio is only 9.4% in urban areas. It further states, Karachi, Lahore, Attock, Rawalpindi, Jhelum and Islamabad have incidence of poverty below 10%. The people around urban areas are relatively better off than people living in the rural areas which are afflicted with the higher incidence and intensity of poverty.

MPI 2014-15

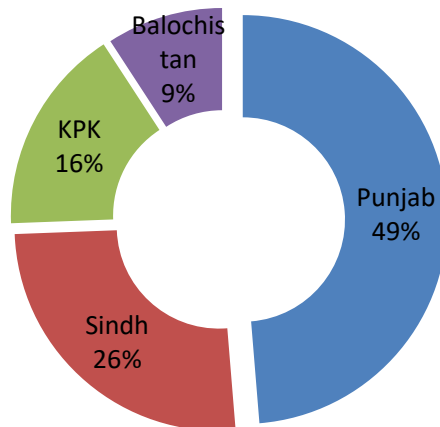


While the poverty profile has been well documented and portrayed, the budget allocation in terms of shares of provinces in Federal Taxes for 2017-18 does not seem to adequately address the state of deprivations. Inequitable distribution of resources between the provinces to the neglect of poverty and regional disparity seems to perpetuate the poverty disparities in the country.

Unequal distribution of income among people in the economy is also one of the reasons which creates variations in the poverty among people and regions. Rich are getting richer and poor poorer. To sum up, generalizations that people are better off and experience less deprivations are true only for the few percentage of people in Pakistan. The new government has to address the poverty and income inequality problems as a matter of urgency through appropriate and value weighted budgetary and fiscal instruments.



Provisional Share in Federal Taxes



**Tabeer Riaz**

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## Research and Consultancy Wing

### Saving and investment:

Saving and investment are two macro variables which play an important role in the economic growth, inflation stability and increase in employment especially in the developing countries. The situation in Pakistan on these variables, however, has been quite worrying. By the end of financial year 2017-18, the private investment is likely to fall to the lowest level ever since 2013. The investment to GDP ratio stood at just 16.4% while the previous government failed to achieve the desired target of 17.2%.

The graph below depicts the savings- investment gap which continue to pose a major challenge during the last five years.

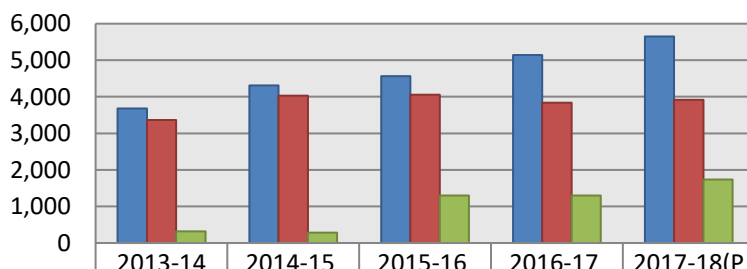
Pakistan seems to be stuck in a low investment and low savings trap which has seriously affected the growth potential. Low saving rate cuts down the funds available for investment while low investments fail to harness the full potential for sustainable growth. Indeed Pakistan's economy has been confronting with this structural problem since a long time. Even the periods of high growth which the economy witnessed were primarily owing to the abundant inflow of external loans, grants and remittances and not due to high savings rates that culminated into higher levels of investment in the economy.

The country has not been able to promote or nurture a "savings and robust investment culture"

because of, inter alia, the fragile business environment, uncertain and instable policy frameworks, lack of commitment and poor governance. The security issues over an extended period of time, energy crises and low public sector investments further aggravated the situation in attracting local and foreign investment.

The upcoming government has to negotiate with and address these challenges as a matter of urgency to pave the way for sustainable growth and development and to honor the pre-election commitment for economic upturn. The major focus should be on giving further boost to the operations aimed at improving the security situation in the country, creating conducive business environment and pursuing technology driven value addition entrepreneurial economy. To promote savings, the on-going savings schemes e.g., pension, provident fund, gratuity, old age benefit schemes, national savings etc., need to be augmented by well thought out, easy to access and credible contractual saving scheme and small scale saving plans both in the public as well as private sector as an integral part of the formal financial system.

### Saving-Investment Gap



	2013-14	2014-15	2015-16	2016-17	2017-18(P)
investments	3,684	4,310	4,561	5,144	5,649
national saving	3,362	4,027	4,054	3,842	3,916
Saving Investment Gap	322	283	1,302	1,302	1,733

**Ali Gill**

Research Associate  
The Shahid Javed Burki  
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## From Think Tank wing

A senior-level delegation of World Bank, Pakistan comprising Dr. Hans and Mr. Wajid Rana visited BIPP to explore and gain insights into the interventions that BIPP was making in doing the performance appraisal of the agriculture department, particularly of its policies and programs and to assist the exercise as key informants. The BIPP team apprised the World Bank delegation on the methodology they had devised to conduct the appraisal and how the field visits for primary data collection were a key component of the methodology and like expected, yielded fairly consistent and useful insights into the level of satisfaction of the local farmers with projects currently implemented jointly by the WB/DA.

The relevance of the WB team in informing the appraisal of the agriculture department, typically the project analysis component, was that two of the 5 core projects currently run by the department are funded by the WB on a P for R basis. One of them is SMART which seeks to introduce ICT-based technologies for smart functioning of the agriculture sector typically to enhance monitoring of the work done by the agriculture authorities in the districts; the other is PIPIP which promises improvements in irrigation efficiency in province.

The following discussion items from the meeting deserve to be highlighted:

- ❖ The WB team was also informed of the local perspectives that were received from the field, especially those that pertained to the two projects that the WB was funding on a P for R basis;

- ❖ They were informed how some farmers had reported that instead of bringing close, SMART project of WB and DA had driven the extension workers and agriculture officers away from them and the subsidy available under the Kissanpackage was not distributed on an equitable basis.

- ❖ Some discussion was made regarding the compatibility of the agriculture policy of Punjab with the SMART project and the WB team informed that both are entirely compatible in fact, both are centered on each other. WB was a stakeholder in the formulation process of Ag. Policy and it was made sure that SMART draws on findings and recommendations of the Ag. Policy while the Ag. Policy also relied upon lessons learnt from the field during the early phase of the implementation of SMART.



- ❖ The reconfiguration of the small farmer category to include famers with a holding of less than 75 acres from less than 25 acres in the past and renaming it to small commercial farmer to facilitate the change was also taken up with the WB delegations.

They thought the change was necessary include farmers whose holding was greater than 25 acres but could be categorized as small for low farm incomes owing to high costs or low productivity.

- ❖ Similarly, the extension workers, agriculture officers and field assistants complained that there's a growing trust deficit between them and the farmers since the famers believes that we aren't there to solve their farming problems but to fulfill our administrative duties like filling in online forms and taking pictures. Such activities, they thought, also increased their response times and efficiency on the field.
- ❖ In response, the WB team mentioned that famers complain against the interventions of SMART since we are steering them clear of the subsidies while extension workers and agriculture officers are principally against ICT-drive interventions because

they really have to work in the field since monitoring and tracking mechanisms under SMART are so robust that it is nearly impossible for the extension workers to escape their duties. They mentioned how effective tracking has significantly improved response times which have now decreased from several months to a few days now.

- ❖ The WB team congratulated BIPP on conducting such a useful exercise that could really enhance their knowledge on how the projects are faring in the districts.
- ❖ They were interested in receiving copies of the report from the purpose of incorporating some of the evidence that BIPP had collected to inform their future policies and planning.



## From Finance and Administrative Wing

### New Hiring:

Mr. Irfan Ismail who has joined the BIPP's team as Assistant Manager IT on 6<sup>th</sup> June 2018. Mr. Irfan will work in the IT department under the overall guidance of Chairman/Vice Chairmen and the direct supervision of Director Coordination & Research.

### New Intern Announcement:

Ms. Memuna Aslam And Ms. Areej Mahmood who have joined BIPP in June 2018. Both are students of Lahore University of Management Sciences and taking specialization courses in research and development. Recently Ms. Ameera Khan also joined us as a new intern. She is a student of LSE doing specialization in Economics and Finance.

### Financial Year 2019:

Book keeping for the financial year 2019 has been started since 1<sup>st</sup> July- 2018 and updates about income tax, sale tax, and accounts related matters have been circulated for accounts and finance department.

### **Awais Khalid**

Manger Finance  
The Shahid Javed Burki Institute of Public Policy at NetSol, Pakistan



## Mission Statement

IPP's mission is to improve welfare of the citizenry with particular emphasis on identifying policy measures that will lead to inclusive growth, socio-economic stability and sustainable development, besides fully harnessing the potential for regional and global integration.

## Partners

District Delivery



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