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# NEWSLETTER

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## From the Desk of the Chairman

### *Political Modernization in the Muslim World*

One major difference between authoritarian political systems and those that have some degree of popular representation is the way people's grievances get to be aired. The unhappiness against those who occupy the seats of power can bring about difficult-to-solve crises. Take the example of the "atta crisis" in Pakistan and the crisis in the Middle East caused by the United States' murder of the popular Iranian General Qasem Soleimani. The shortage of wheat flower in Pakistan was the result of poor management by the government.

The government said it was the result of hoarding by wholesale dealers in the market. They were not releasing their stocks to the retailers expecting to benefit from the likely rise in price. Had the market been allowed to work its course, imports would have come in to balance demand with supply. This is the course the government ultimately adopted and the wholesalers will lose out when imports arrive. The people's despair did not bring them out in the streets; it was expressed by their political representatives and a reasonably open press. The government, it is hoped, would have learnt a lesson: do not use the state to manage the markets, leave that to the market

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itself. During the colonial era, the state was heavily involved in guiding the market in managing supplies to and from the sector of agriculture. That approach resulted in retarding market development.

A different thing happened in the troubled Middle East. Those who know the region well are of the view that the Iran-U.S. conflict has hastened the process of political modernization in the area. This is the case in particular in the countries that were directly involved in the 2020 crisis. "From the streets of Beirut to the streets of Baghdad to streets all across Iran, Middle Easterners are demanding to be treated as citizens with rights, and not just members of a sect or tribe with passions to be manipulated," wrote Thomas L. Friedman of *The New York Times* in a column for his newspaper. He has covered the Middle East his entire life and was now seeing some trends emerging that he had never seen before. He saw the people "clamoring for non-corrupt institutions -- a deep state -- and the rule of law, not just the arbitrary rule of militias, thugs or autocrats."

The Middle Easterners are now engaged in a political process that would possibly rid the system of leaders who shirk the rule of law,

nurture personality cults manipulate the media, and surround themselves with sycophants, conmen, and conspiracy buffs. One other example would help to highlight the difference between Pakistan and Middle East. A few months ago, a cleric brought his followers to a public square in Islamabad and attempted to throw the elected government out of office. He said he was giving the elected prime minister twenty-four hours to vacate his seat. That, of course did not happen. This was the case of choosing the street as an instrument of political change rather than political institutions to accomplish that task. Another Middle Eastern expert, Christine McCaffray van den Toorn described the happenings in Tahrir Square in Baghdad, the epicenter of demonstrations there for a nonsectarian, civil state in Iraq. "Protesters are seizing their country, which was wrenched from them by a corrupt government. In doing so they are reaffirming their Iraqiness in the most positive ways."

The Muslim world has been left behind in terms of modernization. The only way it can close the gap between itself and the rest of the world is to build and sustain institutions in which all citizens can participate.

**Shahid Javed Burki**

The Shahid Javed Burki Institute of  
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## Message of the Month

Economic diplomacy is the main pillar of a state's diplomatic relations especially for a developing country like Pakistan. It is critical for Pakistan to have a stable economic future in order to remain

relevant on the global chessboard. The changing geopolitical and geostrategic dynamics in our region, with Pakistan at its epicenter, therefore, demand clear priorities and strategies. Pakistan must develop its economic diplomacy with the aim to promote trade, encourage growth, attract Foreign Direct Investment (FDI), and support public-private partnerships to assist business. Pakistan's economic diplomacy agenda therefore must raise prominence of Pakistan's economic interests in sync with Pakistan's international engagement. Trade, growth,

investment, and business need to become the building blocks of prosperity in Pakistan whereby we leverage international networks through our global diplomatic assets.

**Awais Raooof**  
Chairman Board of Governors  
University of Lahore



## The Digital Divide and Inequality

There has been a phenomenal increase in the digitalization of the world in recent years. It is estimated that by the end of 2020, almost 44 trillion gigabytes of data will be available in the world- 90% of which will be created in just last two years. The rapid pace of data assimilation, increasingly high demand for digital technologies in the wake of globalization and the surging need for cost effective service delivery are, among others, the major drivers of this phenomenon.

Despite the widespread technological growth and

accessibility to innovative applications through internet across the world, the adoption and use of modern Information and Communication Technologies (ICTs) is distributed unevenly in the world.

The digital divide between the developed and developing world and indeed within the developing countries between the privileged and the poor and the urban and the rural also leads to the digital inequality, i.e., the burgeoning socio-economic disparities within the digitalized population across the globe. The United States and China between the two account for 75% of all patents related to block-chain technologies, 50% of global spending on the "Internet of Things" (IoT), more than 75% of the cloud computing market and as much as 90% of the market capitalization value of the world's 70 largest digital platform

companies. The rest of the world, particularly many countries in Asia, Africa and Latin America, are significantly behind and have failed to bridge the digital divide and inequalities with consequent negative impact on learning, education, skills and opportunity (social, economic & cultural). These inequalities include: lack of access to powerful and usually expensive technical means; the geo-location constraints in terms of access time, the content itself and the quality of the internet connection; insufficient level of expertise, education, and technical skills; absence of conducive social milieu and culture; and inequality with regard to purpose of use: entertainment versus the complicated tasks. The changing demographics—aging populations, bulging youth work force and the mass movement of people both across borders and

rural-urban migration further aggravates the enormity of the challenges.

The developing countries need to harness ICTs use for the socio-economic empowerment and development of people especially in the areas of communication and exchange, education and

learning, commerce and trade, and entertainment and cultural interaction to enrich people's lives and livelihoods, upward social mobility and economic growth.

**Shahid Najam**  
**Vice Chairman**

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



## Research and Consultancy Wing

### Measuring Wealth Inequality

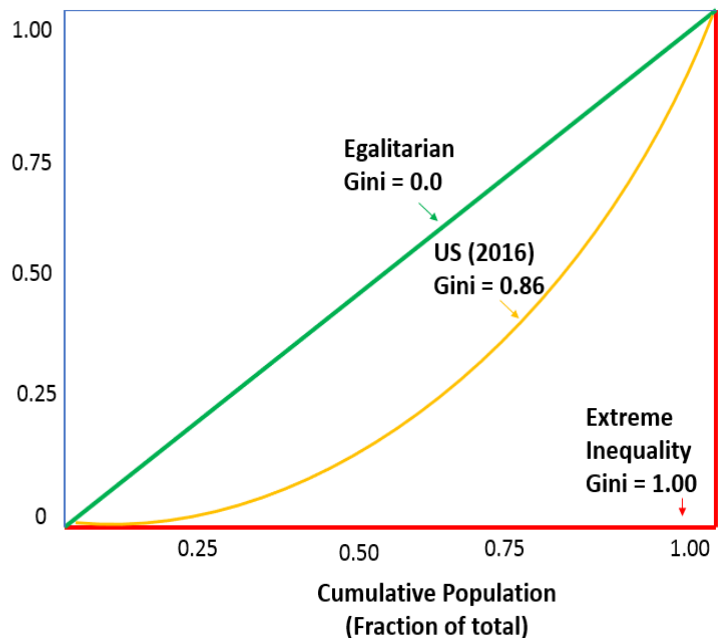
About a hundred years ago Dr. Max O. Lorenz designed an easy to understand graph to describe wealth (or/any) inequality by what he called the **Lorenz Curve**. This curve was created for measuring wealth by plotting the fraction of wealth held by individuals with less wealth than “X” against the fraction of individuals with less wealth than “X”. As defined, such a plot will fit in a **unit square**. Twice the area between the Lorenz Curve (Diagram 1) and the diagonal is the well-known **Gini Coefficient**.

Cumulative Wealth  
(Fraction of total)

In the **egalitarian** case each individual will have the same wealth and so the Lorenz Curve will be the diagonal (green line) of the unit square- the Gini Coefficient will be zero.

**Diagram 1**

### Generic Lorenz Curve



In the case of **extreme inequality** one individual will have all the wealth while the rest (Fraction “Y”) of the population will have zero wealth. The Lorenz Curve is the right end of the unit square (red line).

For the fraction of the population “Y” the Gini Coefficient will be zero, but when one wealthy individual is added, the Gini Coefficient of the entire population (Y+1) will become 1 because the area between the red line and the diagonal is half the square, so the **Gini Coefficient** is twice that IE One.

In the real world the Gini Coefficient will lie between zero and one—the US 2016 curve for wealth in Diagram 1. The wealth Gini Coefficients for USA in 1979 and 2016 were 0.79 and 0.86 respectively. The US 2016 wealth Gini Coefficient is the highest level of wealth inequality in the world (in 2016) and has increased from 1979. In 2020 it remains among the highest.

The 2018 Wealth Gini coefficients<sup>1</sup> for a few other countries are:



Pakistan seems significantly more egalitarian than its Muslim counterpart countries. It may be partially due to the underreporting of wealth. Sweden, as a Scandinavian country is surprisingly at the high end of wealth inequality. Its income inequality Gini (not reported above) is, however, near the egalitarian end of its Lorenz curve. For India, the wealth inequality is very high.

#### Note

1 Source for Wealth Gini Coefficients—Global Wealth Data Book 2018 by Credit Suisse

**Tariq Husain**  
Member, BOD

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



## Education and Learning wing

### Child Support-Elephant in the Room

Family is described as the **building block** of society. George Murdock went on to define its four functions as follows; sexual regulations, reproduction, economic cooperation, and

socialization/education. Others have been more critical of the skewed power structures of this building block e.g. **patriarchy**. Despite the differences in opinions, there is a consensus that the kinship units play a role in nourishing and supporting children.

In Pakistan the institution of the family is sacred. Like many traditional societies, it uses an array of social values and norms to shape and control an archetype of a family. However, the twenty

- first century is showing signs of increased nonconformity from the traditional family structure. The following chart shows *Within a span of three years, a 17% rise in divorce has been witnessed in Punjab alone.*

This continued trend brings to light a crucial issue that is currently absent from the discussions of civil society organizations and government forums- **child support**.

In theory, fathers are liable to pay **child maintenance** (to boys usually till the age of 18 years of age and to girls until they are married). This, however, does not adequately address the issue.

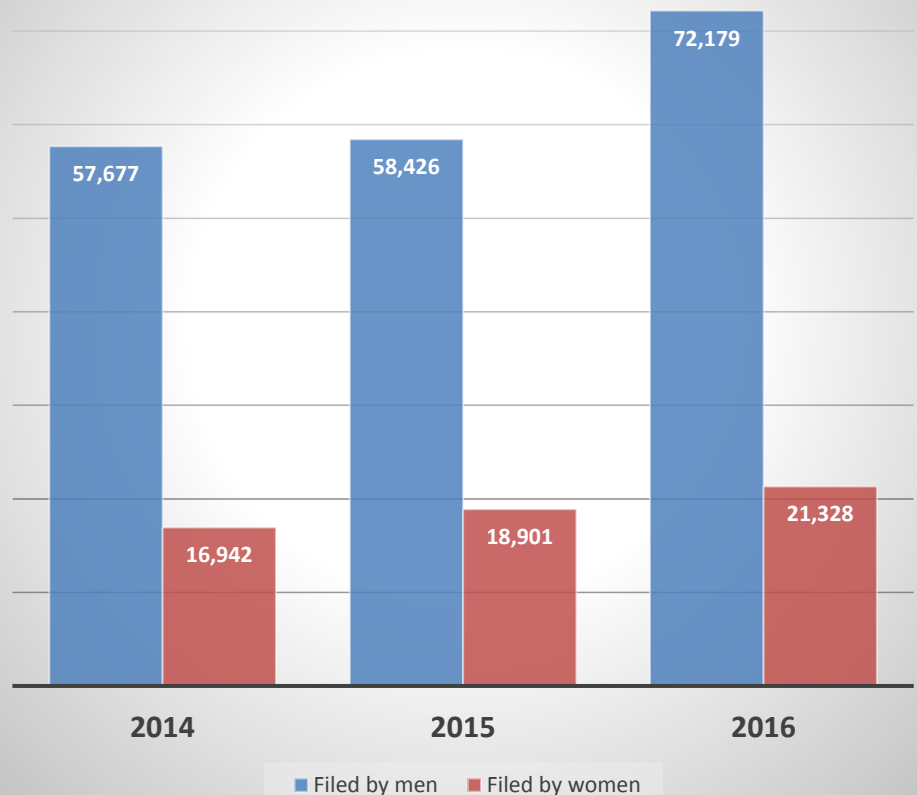
Family courts much like the rest of the legal system are plagued with delay and corruption meaning it can take years for a father to pay for child maintenance. Secondly, determining the amount for child support is highly ambiguous as hiding assets and owning informal assets (non-registered assets) is common in Pakistan- the payment, if made, is lower than it should be. Also, the stigma associated with a divorce particularly for women and the hostile court environment hinders their ability to seek their child's rights. Lastly, with very few deterrents to prevent fathers from opting not to pay the maintenance allowance most children are reliant on meager resources or family members for supporting their children.

Creation of legal-aid and support groups is essential so that children and the single-parents have awareness and have the required psychological and social support for braving the judicial

system; expanding the role of entities such as the Child Protection & Welfare Bureau to aid and support children and single-mothers for the period of court cases is essential, and implementation of stricter sentences for fathers in cases of non-compliance is needed.

Change in the social fabric is inevitable, in a dynamic environment such as our world today. However, without foresight and planning changes can have highly negative impacts on society. There is a need to urgently discuss the precarious **child maintenance** laws and procedures.

## Divorce Trends in Punjab, Pakistan



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## Research and Consultancy Wing

### Engaging with Pakistani Expatriates

Prime Minister Imran Khan aims to increase foreign remittance to US\$40 billion in coming years. Overseas Pakistanis form almost 3% of total population but contribute disproportionately high towards economy of their country of origin. In December 2019, Pakistan expatriates recorded a sharp increase in remittance of 15%. According to the State Bank of Pakistan (SBP), in December 2019 alone, Pakistan received remittance of US \$2.09 billion. Overall, remittance in last fiscal year amounted to US\$ 21.84 billion out of which, experts estimate, nearly US\$ 9 billion is channeled through illegal or informal means annually, like other sectors this area is infiltrated with informality.

There are number of options for the state to positively engage with expatriates. The government should not have

a beseeching or supplicating approach. Rather, it should form a win-win relationship to create a mutually beneficial engagement. For the purpose, the government should create conducive and incentives-based framework for the transfer of remittance. Firstly, the remittance should be sent through legal and formal channels e.g. opening of bank account a pre-condition for passport issuance/renewal. Secondly, expatriates generally suffer from issues like 'land grabbing' which discourage potential investment in the home country. The government needs to regulate and provide expeditious remedial mechanisms. Thirdly, the Federal Board of Revenue (FBR) should not create unnecessary hurdles in exchange of pecuniary benefits e.g., many developed countries do not bother much about source of income of the inflow of funds to facilitate investments. Institutional support should be extended to the expatriates to aid them in navigating the complex system of finances for business investments. Further, there are more than 13,000 outlets of Pakistan Post which act as a primary buffer to send remittance to rural places in Pakistan. The overall governance of Pakistan Post is ignored by policy makers in terms of financial inclusiveness in policy frameworks.

In order to reap the full benefits of these measures, a well-orchestrated

communication and information campaign should be launched to generate awareness among the expatriates about the plethora of investment and development opportunities in Pakistan.

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## From Education and Learning Wing

### Water Scarcity and Insecurity

#### Global Facts of Water Scarcity

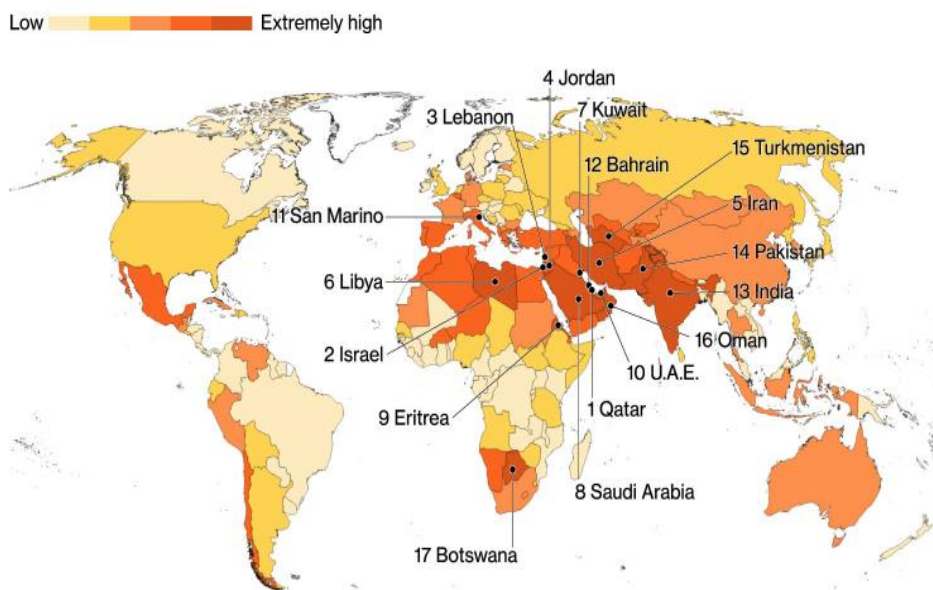
Water is essential for life and maintains the ecological balance of the world. It is critical for socio-economic development, energy generation, food production, and healthy ecosystems. Water use has been growing at more than twice the rate of the human population. Currently, water scarcity affects more than 40 percent of the global population and the total estimated cost of water insecurity to the global economy is US\$ 500 billion annually. By 2030, water demand is expected to grow by 50 percent while the gap between water demand and availability would be of the order of 40 percent. Water scarcity, exacerbated by climate change, could cost some regions up to 6 percent of their GDP. The 5th assessment of the Intergovernmental Panel on Climate Change (IPCC)

projects that for each degree of global warming, approximately 7 percent of the global population will be exposed to a decrease of renewable water resources of at least 20 percent. The studies also reveal that around 1.8 billion people in seventeen countries (25 percent

of world's population) are potentially exposed to water crisis.

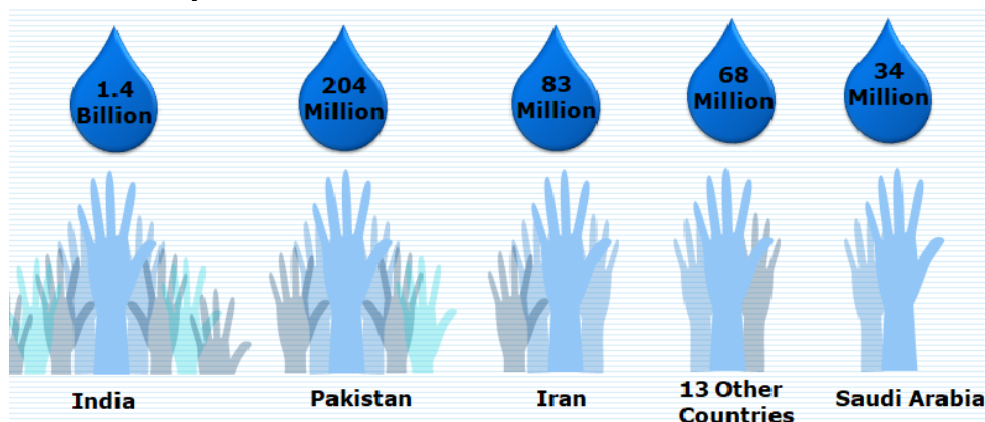
The World Resources Institute Aqueduct Water Risk Atlas has identified that 17 countries which are experiencing "extremely high" levels of baseline water stress. Twelve out of these are in the Middle East and North Africa (see the figure below)

### Countries with High level of Water Stress



India is at the top with 1.4 billion populations at risk among the highly stressed water countries as is evident from the figure below.

### Population at risk in water stressed countries



## Water Vulnerability Assessment of Pakistan

Pakistan Council of Research in Water Resources (PCRWR) reported that Pakistan touched the "water stress line" in 1990 and crossed the "water scarcity line" in 2005. It could "run dry" by 2025 as its water shortage is reaching an alarming level.

According to International Monetary Fund (IMF), Pakistan is the 3<sup>rd</sup> most affected country in the world by acute water shortage.

Pakistan's 204 million people thus face serious risk of water crisis with ever declining water availability per person year by year. Its water storage capacity is also limited to a maximum 30-day supply, far below the 1,000-day storage capacity

recommended for a country.

The key issues and challenges which need to be addressed as a matter of urgency and priority to ensure rational and sustainable utilization and management of water resources include:

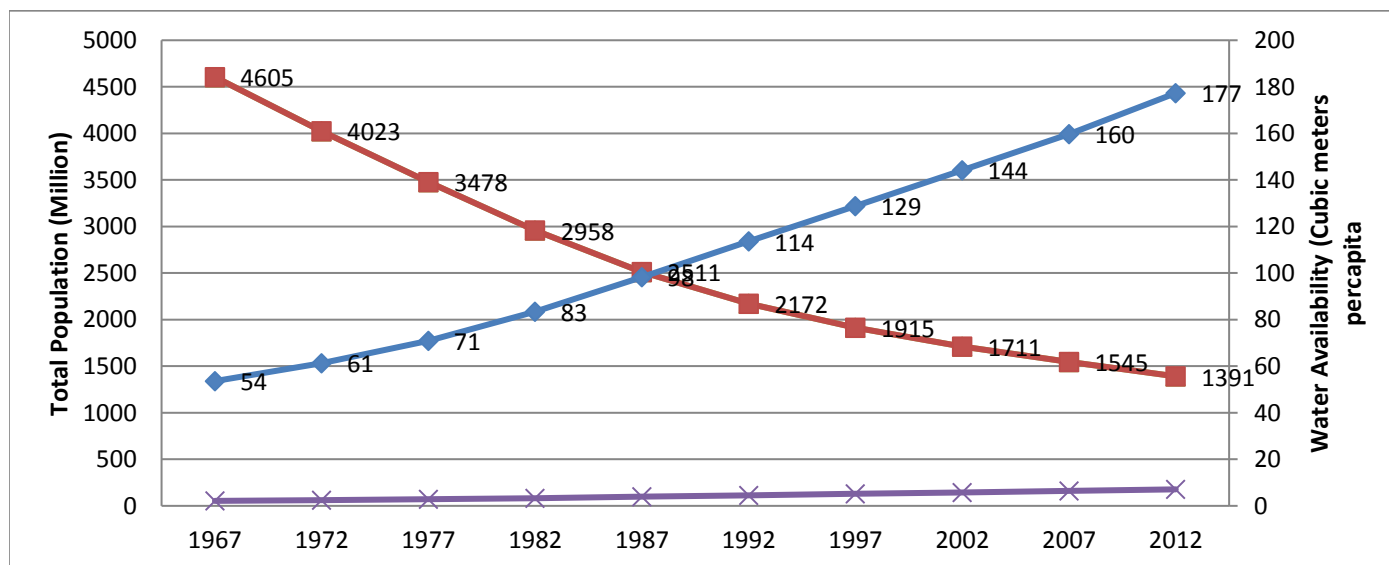
- Increasing scarcity resulting from rapidly rising demand and diminishing reservoir capacity.
- High cost of financing operations and maintenance and new infrastructure.
- Excessive/unregulated and unsustainable use of ground water resulting in falling water table and related salinity problems,
- Excessive (nearly 60%) losses in water conveyance system.
- Low water productivity.
- Deteriorating condition of infrastructure due to inadequate

maintenance.

- Low cost recovery and lack of water pricing policy to discourage unsustainable irrigation practices.
- Environmental degradation.
- Dependence on single river system.

The following recommendations, both supply side and demand side are made to resolve the water crises:

- Increase in water storage capacity.
- Minimizing water wastages at various levels.
- Increasing water productivity.
- Rationalizing pricing structure for water usage in all sectors.
- Awareness raising.
- Water conservation strategies.
- Development of appropriate regulatory framework for surface and groundwater management.
- Devising and implementing appropriate cropping zones and cropping pattern.



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## From Education & Learning Wing

### The Role of Intrapersonal Skills in Human Capital Development

*"Mohabbat Mojhe Un Jawanon Se  
Hai  
Sitaron Pe Jo Dalte Hain Kamand"*

*-Allama M. Iqbal*

Pakistan has around 54 million youth in the age group 15-29 years which represents 29% of the total population. The country is in the midst of a demographic phenomenon described as the youth dividend.

This vast human resource provides the country with an invaluable opportunity to harness its full potential and embark on sustainable development to bestow a prosperous future for the posterity. However, if left unattended, this huge segment could become a threatening liability for the country.

Youth unemployment in Pakistan has already exceeded the overall rate of unemployment. Labour Force Survey (2014-15) shows around 4 million people aged 15-24

as unemployed. This number is expected to rise by 2020 to 8.6 million. With only 2% of Gross Domestic Product (GDP) spending on education and 12% students gaining education beyond grade 12, it is hard to create an environment where the young population could develop the right kind of skills-competence mix to seek entrepreneurial and employment opportunities. In fact, skill acquisition to offset educational deficits and ensure gainful employment remains a major challenge for youth especially those without formal schooling. The predicament is that only 1.3% of those entering the job market each year have vocational training.

In addition to vocational development and education, the youth need to be imparted training and coaching to ensure development of interpersonal and communications skills to be able to respond to the rapidly changing, multi-faceted and multi-cultural globalized world.



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Research Trainee**

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**From  
Think Tank  
Wing**

## A New Social Contract

The emergence of fresh democratic wave in the aftermath of 2008 general elections and lawyers' movement rekindled the hope that Pakistan will witness the deepening of democratic and constitutional roots. However, the three consecutive successful democratic elections failed to divest the country from well entrenched '*historical constants*' such as institutional crisis, imbalanced relationship between state and society, fragile civilian frameworks, centralization of power, poor rule of law and governance, and fractured economic performance. The empty slogans of democratic regimes thwarted the yearning of the people to exercise and expand their choices and fulfill even their very basic needs and freedoms.

Currently, there exists a general discontentment between the state and the masses. The civic and intellectual environment is stifled- making dissent and debate a rarity. The ongoing economic

recession, high rates of inflation and unemployment, troubled civil military relations, radical compartmentalization of politics, unfair treatment of ethno-nationalist voices, and curtailed freedom of media are few of the factors which testify to a turbulent state and society relationship. A new social contract between the people and the state needs to be articulated to resuscitate a democratic order based, *inter alia*, on the following:

1. The sanctity and supremacy of principle of constitutionalism and rule of law.
2. Allegiance and commitment to federalism and provincial autonomy in letter and spirit.
3. A new development paradigm based on inclusive and pro-people agenda to uplift the marginalized and deprived.
4. The functioning of the state institutions and organs including judiciary, executive, military and legislature strictly as per their respective constitutional role and space.
5. A tolerant culture of dissent and discourse with freedom of media and speech as imperatives for democratic society.

6. Democratization of political parties of the country to effectively shun dynastic, parochial and personal interests.
7. An explicit and complementary espousal of the fundamental duties of the citizens along with the fundamental rights.
8. Punitive measures and sanctions to effectively guard against any prejudice based on religion, sect, ethnicity, provincialism, and gender.
9. State citizen synergy based on trust and canons of equality of citizenship, individual liberty, justice and judicious treatment of individuals.

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## From Finance & Administrative Wing

### State Bank Interest Rate & Macro-Environment Review

The State Bank of Pakistan (SBP) maintained interest rate at 13.25% on January 28th, 2020. Economic indicators kept on improving as the current account deficit clocked in at PKR 319 million in the month of November 2019 down by -73% YoY. Imports nosedived by 13.18% while exports increased by 11.22% during the month of December 2019.

Consumer Price Index is expected to average -11.4% in the current fiscal year owing to lagged impact of currency depreciation along with likely rise in food price inflation. However, with a stable currency and high base effect, the inflation rate in the next year is expected to decline to around -8.9%.

As for the year 2020, investment environment has shown considerable improvement compared to the last year. Balance of payment is also

exhibiting a positive trend, while the current account deficit on average has declined from USD -1,100 million per month last year to USE -350 million per month this year (Average of 5 MFY 19).

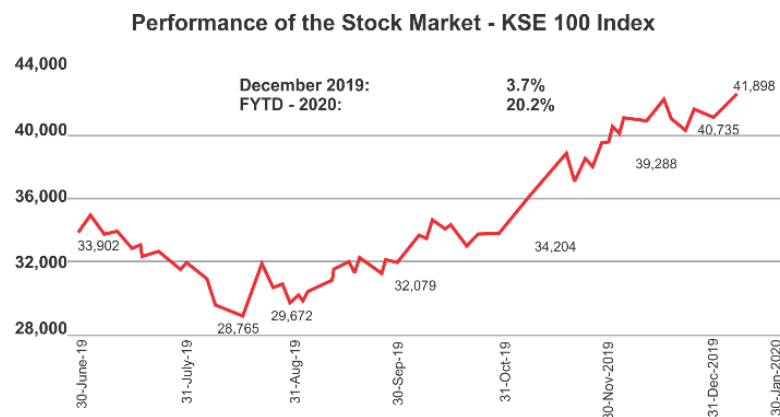
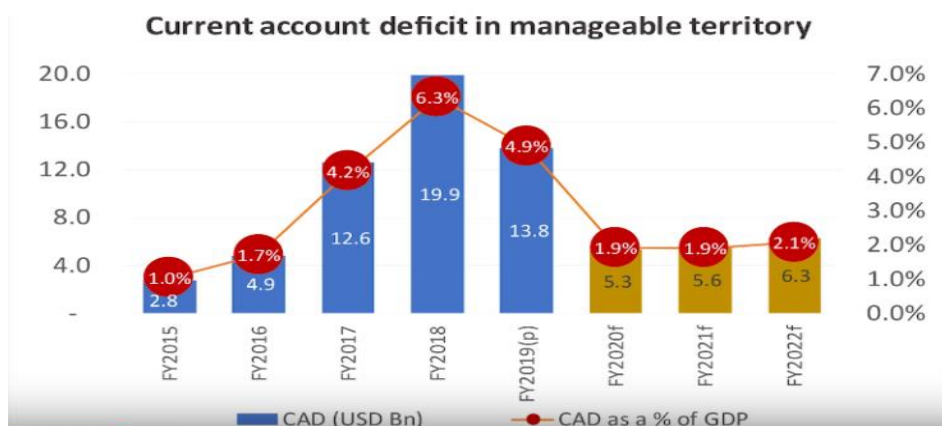
### Stock Market Review regarding BI PP' Investment

The KSE 100 Index continued its positive momentum from the last month and posted a return of 3.5% for the period of 30<sup>th</sup> December 2019 to January 29<sup>th</sup> 2020, closing at 41,898 points on January 29<sup>th</sup>, 2020. BIPP's Finance committee reviewing investment portfolio, on weekly

basis has decided to make investment in T-Bills and redeem the total investment from stock market.

### Money Market Review Regarding BIPP' Investment

Apart from improvement in macroeconomic outlook, foreign inflows in local debt market has shown a significant improvement in last couple of months mostly concentrated in Treasury Bills. Latest January 29 auction sheet shows 13.38% Weighted Average Yield on 3-month tenor. Therefore, BIPP's management decided to take 38% exposure of total portfolio in money market and 23% in TDR's of AA+ credit rating commercial banks.



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## 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.*

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