Striving towards a more equitable Pakistan

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The concept of 'Striving towards a more equitable Pakistan' is one which is fundamental to the stability of our country. It is not only a potentially effective concept but is a vision that is close to every Pakistani's heart.

Global environment, policies and frameworks have begun to reveal changes that have deep implications on our economy – these changes have become more visible and unfolding at a faster pace post 9/11 than we can adjust and absorb. We now live in a globally connected world – a world that has come closer due to the ICT (Information and Communication Technology) revolution and a world where exploding populations continue to pose a challenge to economic resources and environment. We can no longer afford to live in the bliss of ignorance nor isolate ourselves from what is happening around the world and in our region. These factors have brought about a realization that a connected world is a more aware world, hence a more competitive world and it is imperative that we face up to these realities and come up with appropriate solutions in order to survive the prevalent cut throat competition.

Pakistan is at a critical juncture; where there are great expectations for economic reform based on equity and social justice and the public is hopeful that the reforms set forth will centre around the less privileged. It is a time when the global frameworks and priorities are beginning to have serious implications for economic realities and our capacities to comprehend and overcome these challenges as a nation is coming under serious stress. It is important to realize that while our ability to influence policy and change at the global level may be limited, our endeavors to look for new and innovative ways to address the situation at home, can and will bear fruit.

At this point in time it is important that Pakistan leverage upon its strengths and hedge against its weaknesses, which requires effective policies and incentive mechanisms. Additionally, a glance on the more immediate repercussions that are unfolding reveals a major source of concern stemming from the ever growing income disparities. This issue definitely calls for immediate attention; it needs to be addressed at every level beginning with the question of how parity between incomes across population segments can be maintained.

The answer lies in ensuring that we have mechanisms that attract greater investments for sectors that serve the needs of the economically more vulnerable segments of the population and transfer mechanisms that facilitate the flow of greater resources to them. Beyond these, the mechanisms and institutions must be effective in targeting the lower strata of the economy whilst being transparent and accountable. While on the face of it this falls exclusively within the ambit of public policy, if the right fiscal incentives exist, its implementation can be fostered for the private sector to be roped into the process of development through public-private partnership models in order to supplement the efforts of the state. However, it will be incumbent upon the business and the private sector to come up with programs that are effective in targeting the economically vulnerable people and have the necessary accountability and transparency.

The concept that follows is that of driving development not just through public expenditure and philanthropy but through profits. It is about encouraging a new class of entrepreneurs in our society – a society that is socially responsible and able to make socially responsible investment (SRI's). SRI is not a totally new concept and ranks high on investors' agenda today, across more developed regions of the world. According to one estimate, SRIs have risen to USD 2.3 trillion in the US and EUR 1.0 trillion in Europe in recent years. In essence SRIs strive to consider both the financial return on the investment along with its social, environmental and ethical consequences.

Basically, there are three overall investment strategies that include screening, shareholder advocacy and community investing. While a large majority of assets are held in socially screened investment funds or managed accounts, community investments such as microfinance enjoy strong growth rates. Social investors not only include foundations and NGOs but also Individual Investors and increasingly, professional institutional investors, including pension funds, insurance companies, universities and religious institutions.

In the case of Pakistan we have witnessed rapid economic growth in recent years as well as substantial improvement in business and profit across sectors such as banking, Telecom, Oil and Gas and several others that are reflective in a robust stock market. Despite this we have not been able to offer the right incentives for domestic and overseas investments towards opportunities that benefit the more vulnerable population segments of the market, particularly social sectors. While it is acknowledged that the state has demonstrated its commitment as well as resource toward these segments, it must be appreciated that it is not just about allocating higher state resources but also honing the ability to deliver services effectively. The private sector may have the ability to do both provided they see a market and the right incentive structure.

This is something which is beginning to happen within our region. In the context of Pakistan the financial services sector's ability to deliver services to low income households compounded several times through the microfinance initiatives driven by the private sector, but given the right policy environment and incentives by the state. The state need not provide tax holidays and perpetual subsidies and relief but may simply create sustainable mechanisms and provide incentives for effective targeting, transparency, accountably and taxation across the board which in effect will help create a conducive environment.

As markets establish and expand, they provide greater opportunity for wider and greater revenue collection for the state. In terms of the private sector it provides a greater business opportunity through capitalizing upon expanding markets and leveraging upon economies of scale. Hence, making it evident that due importance needs be given to investment in market development.

Incentives need to be provided to institutions that are committed to sustainability and provide equitable quality service delivery. On the one hand we can take the case of microfinance, a commercial for profit sector, but where prudential regulations ensure targeting to low income households. On the other hand we have the social sector like education and health that have a wide market and are profitable ventures and should be fully taxed unless these are able to target low income households to assist the state in meeting the equity objective.

The FBR has surely set a great example over the last few years not only in terms of transforming itself but being receptive to the needs of the market. Its efforts are commendable and the support it extends to the microfinance sector is praiseworthy. Additionally it is also imperative that the FBR must make a business case for incentivizing priority initiatives that impact low income households through investment in scale and efficient service delivery.

Interestingly there is a realization today that collectively the billions of poor and low income households have immense entrepreneurial capability and buying power. They represent a most exciting and fastest growing new market. The name of the game is about creating an inclusive society and a taxation system that promotes inclusion and equity while striving towards social order and a more equitable Pakistan.