

International Aid and Policy Freedom for Small Open Economies

WEBINAR BRIEF
50:2021



PAKISTAN INSTITUTE OF
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LIVE WEBINAR ON ZOOM

INTERNATIONAL AID AND POLICY FREEDOM FOR SMALL OPEN ECONOMIES



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Meeting ID: 986 3023 1695

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JUNE 28, 2021
06:00 PM. (PST)

SPEAKER

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Preamble

In this webinar, Prof. Jeffrey D. Sachs mainly focused, what is essential for government policies and how we make them effective in achieving sustainable Development Goals (SDGs) in small open economies like Pakistan. This webinar also assesses the additional spending required to make substantial progress towards achieving the SDGs. The additional spending is explained by using the IMF SDG costing methodology. Accordingly, to achieve the SDGs Pakistan would require additional annual spending of about 16 percent of GDP in 2030 from the public and private sectors. He further focuses on critical areas of human (education and health) and physical (electricity, roads, and water and sanitation) capital.

Key Messages

- The COVID-19 pandemic is a setback for sustainable development everywhere. For the first time since the adoption of the Social Development Goals (SDGs) in 2015, the global average social development goal Index score for 2020 has decreased from the previous year. A decline was driven to a large extent by increased poverty rates and unemployment following the outbreak of the COVID-19 pandemic. The pandemic has impacted all three dimensions of sustainable development: economic, social, and environmental.

- The highest priority of every government must remain the suppression of the pandemic, through non-pharmaceutical interventions and global access to vaccines. There can be no sustainable development and economic recovery while the pandemic is raging.
- At the same time, there is a lot of discussion and debate about what to do and how do we get out of this mess in a way that pushes the sustainable development goals rather than widens the gap between rich and poor in the world not only was COVID-19 a huge setback and continues to be but it was a major source of growing inequalities and injustices.
- The governments of high-income countries like the USA have borrowed heavily in response to the pandemic. High-income countries have a higher debt to GDP ratio and large deficits than poor countries. Less-income countries have been unable to do so because of their lower market creditworthiness. The short-term implication of the difference in fiscal space of high-income and low-income countries is that rich countries are likely to recover from the pandemic more quickly than poor countries.
- The main purpose of these globally agreed goals is to ensure economic rights for all that is the escape from deprivations such as poverty, hunger, lack of access to health care, lack of access to classrooms, lack of access to safe water and sanitation, and lack of access to electrification. We need to ensure social inclusion and narrower inequalities of wealth and income especially on gender equality and on income and wealth inequalities.
- SDGs along with the 2030 Agenda and the Paris Climate Agreement provide the right extent for "building forward better". Before the pandemic triumph, significant progress had been achieved on the SDGs in many regions and on many goals, especially in East and South Asia, which has progressed more on the SDG Index than any other region since the goals' adoption in 2015. At the national level like Pakistan has an aggregate score of 57.7 that is meant to be a quick and rough indicator that Pakistan has achieved 57 of the way from the worst case to SDG achievement more than half but still putting Pakistan 129th of the 165 countries.
- In Pakistan, a severe gap with SDG goals on many dimensions when it comes to hunger there is a high level of child stunting in the health goal SDG 3, there is still a high under-5 mortalities, in SDG 4 on education there is still a low secondary school completion rate and that's low even at the lower secondary level but the SDG 4 calls for universal completion at the upper secondary level, therefore, Pakistan has a significant education challenge on gender. Girls' education remains problematic, a large gap between boys and girls in school enrollments and completion rates.
- There is still poor access to sanitation, low access to clean fuels for cooking and electricity. As far as the digital economy is concerned, Pakistan is lagged far behind in internet use and mobile phone subscription. Similarly, when we turn to the final categories, we found insufficient protection of marine and terrestrial sites, low recorded access affordability of justice and Pakistan is very low on the aggregate of spending on health and education just four percent of GDP which is unusually low.
- The main reason for developing countries is the lack of adequate fiscal space to carry out the SDG agenda, the fiscal space issue is paramount but also the domestic budgetary space is extremely limited because the government revenues as a share of the gross domestic product are very low in Pakistan somewhere around 15 of GDP. Pakistan is a low tax country it means that the outlays on challenges like health and education are commensurately very low and ultimately it means that the performance on the SDGs is equally very much delayed or weak so this is one major issue.
- Working paper of 108 of 2021 called "Pakistan's spending needs for reaching the sustainable development goals" Pakistan spends 2.4 percent of GDP on public education, IMF says that needs to be at least 7.7 of GDP in 2030. In the public sector, the IMF says it should be a minimum of 4.3 of GDP. Also the health care spending needs to rise from 2.8 percent of GDP. Similarly, on water and sanitation, the IMF calculates that an incremental 2 percent of GDP outlay on electricity but they claim only on added 0.7 of GDP and then on roads an incremental 2.3 of GDP this is per year to meet basic infrastructure requirements. Overall, the IMF concludes total additional spending needs in Pakistan are substantial at around 16 additional spending needs for education and healthcare, especially large while the estimates refer to spending requirements for 2030 given the size of the spending needs and the challenges that must be addressed the scale-up of spending should start well before 2030.

Concluding Remarks

- Financing the SDGs will be challenging and requires a multifaceted approach. The high fiscal deficit and the need for fiscal consolidation to reduce public debt limit the availability of resources to move towards achieving the SDGs in the short run. Pakistan's tax-to-GDP ratio, at 11 percent, is low compared to its peers. A medium-term revenue strategy with structural tax reforms is crucial to create space for SDG spending. Private financing is also critical while development assistance may also be needed to fill remaining gaps. Strong national ownership and strong governance frameworks are necessary, requiring other key aspects of public financial management such as sectoral planning, public investment management, and spending reviews.
- Structural reforms to boost growth and increase efficiency have a role to play to mobilize these financing sources and ensure their optimal use in achieving a high SDG performance. Beyond resources, institutional and capacity constraints need to be addressed to increase spending efficiency.
- Strengthening coordination between the federal and provincial governments will be essential for meeting the SDGs. Further strengthened, notably in collecting data to monitor progress towards the SDG targets. Better coordination is also essential on the revenue side, as greater harmonization of tax regulations and procedures will improve the efficiency and transparency of the tax system as a whole, reduce the administrative burden for taxpayers, and improve revenue performance.



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