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DISCOURSE

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VOLUME III ISSUE III

IN THIS ISSUE

COVER STORY
REAL STATE
IN PAKISTAN

EXCLUSIVE INTERVIEW
WITH
DR. NADEEM UL HAQUE



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

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DISCOURSE

VOLUME III - ISSUE III



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Discourse is PIDE's flagship magazine that offers insight into social and economic issues on local and international levels. The bi-monthly publication provides a general insight into the Pakistani economy, identifies key areas of concern for policymakers, and suggests policy action.

The publication offers a quick orbit of the country's economy and is a hands-on and precise go-to document for the policymaker, businessperson, academic, researcher, or student who seeks to remain updated and informed. This issue is themed around Pakistan's Real Estate sector and includes abstracts from the first RASTA conference. We welcome contributions from within PIDE as well as from any external contributors.

Disclaimer:

The views expressed by the contributors do not reflect the official perspectives of PIDE.

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The Real Estate Price Quandary

ISSUES AND WAY FORWARD

Ahmed Waqar Qasim



As argued in PIDE Reform Agenda for Accelerated and Sustained Growth (2021), the pricing system in the real estate market of Pakistan is not efficient. The availability of information related to the price and characteristics of a property is either insufficient or vague. As a result, the price system in the real estate market does not perform its functions of coordination and efficient allocation of resources in the economy.

One of the factors contributing to the inefficiency in the real estate market is the information asymmetry created by the existence of different property rates defined by different entities. Currently, at least three property rates are operational in the market and that includes:

- The Federal Board of Revenue (FBR) immovable property evaluation.
- The District Collector (DC) rate.
- The market rate.

The existence of multiple rates in the real estate market is due to the revenue considerations of the agencies. Although the actual transaction happens at the market rate, the recorded price varies as per the need and suitability of buyers and sellers.

Due to these factors, the price system of the real estate market is not producing the desired signals. Resultantly, efficient allocation of resources within the sector as well as across sectors is not happening. The real estate sector is heavily over-invested and the real estate is out of reach to the lower-middle and middle class.

The inefficiencies created by multiple rates are far more damaging than the revenue generated from the market. Main distortions created by multiple pricing include:

- Increased transaction cost
- Information asymmetries
- Distorted pricing system
- Increased chances of fraudulent transaction
- A source of whitening black money
- Realized tax yield much lower than the potential.

There are four types of taxes/duties applicable to real estate transactions:

The Provincial Government collects stamp duty and capital value tax. **The Federal Government** collects the capital gain tax and withholding tax.

1. District Collector (DC) Rate

Provincial governments use the District Collector (DC) rate to calculate the stamp duty and Capital Value Tax (CVT). Section 27-A of the Stamp Act (1899) states that the duty on the immovable property shall be charged according to the value of the property, and for the valuation of the property DC notified value table/rate shall be used.

The district collector announces the valuation of properties based on the characteristics of properties that include location (district, tehsil), type (urban, rural), and nature

(the classification of land) of the property. The practice of applying the DC rate at the time of mutation was formally adopted during the 1980s with the following objectives:

- To make the sector more efficient.
- To maximize the tax revenue.
- To control price fall.

Afterward, the stamp duty and CVT, which fall under the provincial jurisdictions, are calculated based on DC rates at the time of mutation.

Initially, the Federal Government also adopted DC rates to calculate both capital gain and withholding taxes. However, in Income Tax Ordinance 2001, the power to determine the property price was given to the commissioner. The Income Tax Rules 2002 also prescribed the mechanism for the commissioner to determine the fair market price.

Currently, provinces charge stamp duty at a rate of 3% for rural immovable property and 1% for urban properties evaluated at DC rates. While the capital value tax rate is 2% for the urban property evaluated the DC rate.

2. The Federal Bureau of Revenue Valuation of Immovable Property

Issues in the adoption of the DC rate for charging taxes emerged in the mid-1990s when the DC rates were far below the market rates. Moreover, the revision of the DC rates was not carried out periodically. Resultantly, the real estate sector became a favorite sector to park black money.

To tackle the valuation gap between the DC rate and market rate, the FBR started the practice of issuing the valuation of immovable property for different cities of Pakistan in 2016. These valuation tables are meant to be at par with the market rate, and the FBR has revised these tables two times, i.e., in 2019 and 2022, so far. Now the capital gain tax and withholding tax on the sale of immovable property are calculated based on FBR immovable property tables in localities where the tables are notified, while for all other localities, the DC rate is still applicable.

However, the market rate often varies from both the FBR valuation and the DC rate. The market rate (the actual rate at which transactions are happening in the real estate market) is roughly 5 to 10 times higher than the DC rate and 2 to 4 times higher than the FBR rate.

3. Comparing Different Rates

To highlight the difference in these rates, and show the anomalies in the objective for which DC rate and the FBR were introduced, we performed a small exercise. We selected two properties from Rawalpindi city (Satellite Town) and compared the market rates of these properties with the DC rate and the FBR valuation.²

There exists a huge gap between the valuation of these

properties at different rates. This valuation gap leads to a tax gap as well. The tables below show the magnitude of the valuation and the tax gap.

4. Multiple Listing: A Panacea

To overcome the problem of information asymmetry in general and to ensure the availability of price-related information in particular, one of the possible solutions is the introduction of multiple listing services in the real estate sector. The introduction of multiple listing services would also enable the real estate market to get rid of the obsolete official pricing mechanisms that include the DC rates and the FBR valuation tables. The price information available or given in the listing service can be used for recording the transaction and for calculating tax liabilities.

The key points to keep in mind while designing these services are:

- i. the fair market price is revealed during the auction
- ii. there is fair bidding without rigging
- iii. who will regulate the services and who can participate
- iv. How do the listing services get integrated with the mutation process

Table 1: A comparison between different rates valued by different institutes (Rs. Million)

PROPERTY	MARKET VALUE (ASKED PRICE)	FBR EVALUATED PRICE	DC RATE PRICE
Property-1 (Block A)	41.50	19.80	6.12
Property-2 (Block D)	16.50	8.66	2.67

Table 2: The gap in valuations (Rs. Million)

PROPERTY	MARKET VALUE AND FBR VALUE	MARKET VALUE AND DC VALUE
Property-1 (Block A)	21.70	35.37
Property-2 (Block D)	7.83	13.82

Table 4: Tax Gap (Rs. Million)

PROPERTY	POTENTIAL REVENUE	REALIZED REVENUE	TAX GAP
Property-1 (Block A)	2.61	0.83	1.77
Property-2 (Block D)	1.03	0.36	0.67

Assumption: the transaction price is 90% of the asked price, the property float for sale after 4 years of purchase

² These properties are listed for sale at zameen.com, and we used asked price as the market rate. The calculation of the FBR valuation and the DC rates are based on the values given in respective tables.

Property Agents & THE QUESTION OF REAL ESTATE MARKET

Mohammad Shaaf Najib
& Raja Rafi Ullah



Outlining the Issue: Purchasing a vehicle from another individual owner (or second hand vehicle as we commonly call it) has become a rather easy process in Pakistan. Displaying a small paper on the vehicle back windscreen with "For Sale" written on it along with the owner's contact information though is still practiced by a few people, but has at large gone out of fashion. But Why?

The reason is the emergence of alternate platforms for buying and selling of vehicles. A significant number of car dealers now exist in all urban areas of the country who have the vehicles at display and present and available for inspection by potential buyers round the clock. Additionally, multiple online market places exist where sellers can enlist their vehicles and buyers can view all vehicle details and owner information. Such an increased level of information availability as well as large number of buyers and sellers means no one individual, group or party is able to manipulate the prices, instead the market forces of demand and supply act as the primary determinants of transaction price.

No Practical Way to Escape a Real Estate Agent!

On the contrary, the real estate market is the complete opposite. Significant information asymmetries exist in the market which has meant that the real estate agents wield too much power when it comes to setting prices and facilitating transactions. This often is at the disadvantage of the main transacting parties, who in the absence of market information have to resort to working through the real estate agents.

Wait, Don't We Have Online Platforms Now?

Recently alternative platforms, particularly online ones have surfaced, but even a layman's view of the listings on these platforms reveals that most of the listings are posted and managed by real estate agents and not them property owners/sellers themselves. Although there is no restriction on who can or not post of these platforms, but having the same real estate agents



involved in most of the transactions on these platforms very often defeats that main philosophical reasoning for having them: these online platforms connecting sellers and buyers directly without the need for a middleman i.e. a real estate agent.

How Real Estate Agents Influence Prices and Market Trends?

To think that every real estate broker is capable of manipulating the market trends would be equally foolish though. Instead, the entire market has been captured by only a handful of brokers. These brokers are backed by rich investors who buy multiple properties, usually as soon as they are launched. Then based on their own interests, the supply and demand of these real estate properties is manipulated through putting more earlier bought properties on sale and increased marketing of these properties via the same real estate brokers. This way they are also able to dictate the market prices of the real estate properties, thus, becoming price setters in the real estate markets.

This price setting powers of the brokers makes it even more difficult for the individual buyer and sellers to conduct a transaction. Without the advice and help of these real estate brokers, no buyer is able to sell their property and no seller is able to buy. The information asymmetry about the property and the buyer intention initially always remains a cause of distrust among the buyer and seller. Other inefficiencies in the entire system also add importance to the role of real estate brokers.

Real Estate Agents Also Perform Critical Functions

There exists no mechanism for buyers to be able to verify the ownership details and property history, while the sellers are provided with no protection in case the potential buyer turns out to be a fraudster or for any other reason does not live up to their end of the deal. In such a scenario, the role of real estate brokers is further enhanced. This is why we see brokers not only connecting buyers and sellers and helping them negotiate a deal, but also performing other duties. The presence of brokers adds the factor of trust among the parties involved, who also help in completing through the entire transfer process which has been made too document oriented and complex for a common person to understand and give time to complete. The broker takes upon the responsibility of fulfilling all the prior requirements of the notifying authority allowing the buyer and seller to show up only to sign the transfer papers and making the payment.

Who is to Blame more – Real Estate Agents, or Poor Institutions and Governance?

It is not all evil on the side of real estate brokers. In fact, it is not them who might have managed to strong arm the system into caving in to their antics. Instead, it is the responsibility of the policy makers and regulators to develop effective and efficient market mechanisms that prepare a level playing field for all parties involved and does not allow any one agent or party involved to gain the price setting and market manipulation powers. It is of utmost importance that regulatory authorities must act immediately to remove the information asymmetry in the real estate market by digitizing the real estate ownership record and making the data publicly available. Multiple listing system must be introduced and made mandatory for real estate transactions. This will allow all parties to perform their role efficiently while not being under threat of being overpowered or deceived by another. Market will be driven through the demand and supply forces which shall also become the price determinants.



PAKISTAN OR PLOTISTAN?

Originally Published in DAWN on September 24, 2021

Shahid Mehmood

The recent furore over plot allotments to bureaucrats and judges has again brought to the fore a dark aspect of governance in Pakistan — the practice of gifting away valuable land at subsidized rates. Although the allotment has been cancelled, it is unlikely to stop a malpractice that has already cost Pakistan a huge fortune since its creation.

More important than random outbursts of anger is the need to understand the basis of this uncalled-for generosity. Till now, there has not been much information and research on the antecedents of land giveaways and related matters. That should change with an upcoming PIDE study, co-authored by the institution's vice chancellor Dr Nadeem who coined the term 'Plotistan'. Although the topic is public wealth, land-related issues have received extensive coverage since land is the most sought-after asset in Pakistan. What follows is a recap of the findings.

First, a word about the importance of this issue. From a purely social justice perspective, it is downright abhorrent that in a country where a major portion of the population

finds it difficult to buy their own chunk of land for building a shelter, extremely valuable land is gifted to a select group of people at ridiculously low prices. Additionally, if assets like public land are professionally and properly managed, there might not arise the need for extractive taxation and taking recourse to expensive loans for financing development work.

Let's revert to the question of historical antecedents for which we'll have to traverse back to the times of British rule. The Empire had its own priorities and ambitions, and gifting 'crown' land at extremely low rates (or for free) was one major avenue of ensuring that official goals were met. The establishment of canal colonies like Lyallpur (Faisalabad), for example, would not only bring in revenue, but also help win loyalties and establish denser settlements on the western side of British India. The best way to do it, they reasoned, would be to offer land (and private entitlements) at extremely low rates or as an incentive. Policies like the provision of land to martyrs of the armed forces, harken back to that time when military personnel died serving the Empire.

RERA



Another Regulatory Authority

**Ahmed Waqar Qasim
& Mohsin Latif Kayani**

The Islamabad Real Estate (Regulation and Development) Act, 2020 was enacted by Pakistan's National Assembly. The Act's purpose is to create the Real Estate Regulatory Authority (RERA), which will regulate and develop Islamabad's real estate market. The authority will protect buyer rights, improve transaction efficiency and transparency, regulate mages projects, and settle disputes expeditiously. Real Estate Authority and Appellate Tribunal, on the other hand, have yet to be established. Therefore, the evaluation of the act will look into the relevance of the objective with prevailing market fundamentals and requirements.

As highlighted by the PIDE Reform Agenda for Accelerated and Sustained Growth (2021), the real estate market in Pakistan is marked with insufficient information regarding the price and characteristics of the property. Land titles and rights in the real estate sector are vague and enforcement of rights is unsatisfactory. The formal dispute settlement mechanism is complicated with huge compliance costs. Many potential market participants, especially overseas Pakistanis, fearing getting an unfair deal may refrain from trading in the sector.

The evaluation of government intervention can be performed by either of the following criteria i.e., relevance, efficiency or effectiveness criteria. We have focused on the "relevance criteria" to assess the prospect of the real estate promotion through the RERA Act. Our evaluation procedure has covered the following essential issues, according to

Husain (2010).

- *Whether the proposed RERA would be able to eliminate the real estate market inefficiencies and to promote basic market characteristics?*
- *What are the prospects that the RERA will address the prevailing problems in the real estate sector?*
- *How much extra regulatory burden will be imposed on the real estate market by the proposed RERA?*
- *Do we need to establish a new Authority given the basic infrastructure is already in place?*

To identify the major problem faced by different stakeholders, we surveyed the real estate market of Islamabad. The survey involved in-depth interviews with key stakeholders. The leading concerns are as follows:

1. Transparency deficiencies in the market promote a corruption culture.
2. Dormant behavior of concerned authorities towards the implementation of rules and regulations.
3. Transactions and procedures are time-consuming.
4. Non-professional behavior of the real estate agents due to lack of training.
5. Existence of considerable illegal housing societies.
6. Fraudulent transactions due to file trading culture.
7. Prolonged trials in the court due to vague titles.
8. Price instability and recent price hike in construction industry due to inflation.

9. Complicated and inefficient tax mechanism.
10. Borrowing constraints.

The proposed RERA Act has addressed some inefficiencies, however, the approach is restricted. For instance, the Act remains silent on the key issue of price (mis)information. One potential way to address this issue could be to add a clause related to the provision of price information. RERA will facilitate the digitization process of land records. In some provinces, the practice of digitization performed in provincial jurisdictions is sub-contracted to the local governments by the federal government. The Act has also overlooked the importance of transaction technology as well. Starting with automation and moving towards block chain technology would address vague and unenforced rights issues. There are many examples around the world where formal training is required before getting the license for a real estate agent. Also the Act has not addressed the unique practice of file trading in Pakistan, which is one of the primary sources for fraudulent transactions.

The establishment of the RERA and the Appellate tribunal through the Islamabad Real Estate Act, 2020, will surely increase the regulatory burden in the real estate market. The Web listing of all approved real estate projects, developers, and real estate agents will reduce learning costs for the buyers to a degree. The objective of the Real Estate Appellate Tribunal is to provide swift dispute resolution. However, the actual impact of the Tribunal on the reduction of the litigation processing time may be marginal. The real benefits to society due to the RERA most likely be outweighed by the administrative burdens of the intervention. The Act identified that the Federal government would provide the seed money for the establishment of the Authority. Therefore, the minimal financial burden carried by the RERA is around Rs. 427.53 million annually, which ultimately falls on the shoulders of the buyers. In conclusion, the establishment of RERA will not be a turning point for the real estate sector in Pakistan. Instead, it will add more regulatory burden on the market. The more efficient way to achieve the desired goal could be to focus on implementation issues by nudging CDA.

THE ASSUMED SHORTAGE OF HOUSING IN PAKISTAN

Durr-e-Nayab





“We are short of 10 million housing units” has been the clarion cry in politics, media and the donor-driven research for the last 10 years. Given an average household size of well over six persons[1], this means that nearly one-third of the population is without housing. Do we see such a huge number of people living on footpaths, side of roads, under bridges or in any open area? Thankfully, NO!

We cannot find any clarity on where this huge figure of 10 million housing shortage came from!

- Media (print, electronic and social) uses it referring to it as a World Bank estimate, while various World Bank[2],[3] publications quote a report submitted to the State Bank as the source, along with a study done by the International Growth Centre (IGC)[4] (a DFID funded global research effort out of the LSE and Oxford).
- The IGC report cites a SBP[5] report, but interestingly, the said report gives a lower per annum figure than the one quoted by the IGC.
- A more recent State Bank document[6] gives no

source and just cites the number as a given.

- Some WB documents refer to a House Building Finance Company Limited’s presentation[7] as the source but nowhere does one find the exact method used to reach the oft-repeated number.

The worst part is that the government also uses this estimate without ever questioning its validity. And sadly we have based policy on this assumption and initiated a large public housing effort at considerable cost.

A few indicators to judge the housing conditions include congestion or crowding, security of tenure, provision of civic amenities, structural quality and cultural adequacy.[8] The Pakistan Social and Living Measurement (PSLM) survey, conducted by the Pakistan Bureau of Statistics (PBS), provides us with the opportunity to look into most of these factors, and we do so using its 2019-2020 round. Since urban and rural Pakistan exhibit quite different trends we look at them separately, along with some provincial patterns.

Is Congestion the source of “Housing Shortage”?

Using the definition given by the UN-Habitat[9], “a house is considered to have a sufficient living area for the household members if not more than 3 people share the habitable room that is a minimum of 4m² in area”. The 4m² was rightly upgraded to 9m², as the measurement was too small.

We do not get room sizes in the PSLM, but the number of living rooms is covered in the survey. Since 9 sq² is a typical size even in informal settlements so we would go by the number of persons per room to estimate congestion.

Our estimates suggest that 4.37 million households, equaling 12.3% of the total households, live in congested conditions, with over two-thirds of these in rural areas (3.04 million), as shown in Table 1. Young children generally live/sleep in their parents’ room so we do not include children aged under 5 years, and half-count those under 12 years, while estimating occupancy per room.

So, if congestion is the rationale behind the 10 million housing deficit, our estimates give a much lower number.

Table 1: Number and Proportion of Households Living in Congested Conditions

	Total number of households (million)	Households with occupancy of over 3 persons per room (million)	Proportion living in crowded conditions (%)
Rural	21.8	3.04	14.0
Urban	13.7	1.33	9.8
Pakistan	35.5	4.37	12.3

Source: Author’s estimation using the PSLM 2019-2020 dataset.

Some inter-provincial differences are also found (see Table 2)

Table 2: Proportion of Households Living in Crowded Conditions (%)

	Rural	Urban	Total	Number of HH living in crowded conditions (millions)
KPK	11.1	12.0	11.2	0.58
Punjab	12.8	10.8	12.0	2.28
Sindh	21.7	8.1	14.2	1.33
Balochistan	10.1	7.8	9.5	0.18

Source: Author’s estimation using the PSLM 2019-2020 dataset.

Unlike many countries, joint/extended families are still prevalent in Pakistan, with strong cultural values attached to it. The rates, however, are not as high as one would think as 74% of the households have nuclear set-ups, with not very divergent trends exhibited by rural and urban Pakistan (see Table 3).

Table 3: Family Structure in Pakistan (%)

	Nuclear	Extended/Joint	Total
Rural	72.4	27.6	100.0
Urban	75.8	24.2	100.0
Pakistan	73.7	26.3	100.0

Source: Author's estimation using the PSLM 2019-2020 dataset.

Is the extended/joint family structure the reason behind this congestion? Table 4 shows that joint/extended households do have a larger size (i.e. average household members) and a slightly higher rate for congestion, but the living arrangement is not exactly a huge factor in determining congestion.

Table 4: Living Arrangement, Mean Household Size and Prevalence of Congestion

Living Arrangement	Mean number of household members	Proportion living in congested conditions (%)
Nuclear	5.53	11.8
Joint/Extended	8.51	13.8
All	6.56	12.3

Source: Author's estimation using the PSLM 2019-2020 dataset.

Is the occupancy status leading to the notion of "Deficit"?

Security of tenure, gauged by the occupancy status in the PSLM, show that this cannot be the case either as Pakistanis predominantly live in owned houses. As Table 5 shows, only a small proportion (11%) lives in rented houses. The sensational deficit estimate makes no mention of the fact that the ownership of dwellings is as much as 82% in Pakistan and rented space is only 11%. In any case, living in rented houses does not represent a 'deficit'.

Table 5: Occupancy Status

	Rural	Urban	Pakistan
Owner	89.1	70.1	81.8
Rented	3.3	23.6	11.2
Rent free	7.5	6.2	7.0
Total	100.0	100.0	100.0

Source: Author's estimation using the PSLM 2019-2020 dataset.

Are the houses structurally stable and have access to amenities?

This is where the concern should be. The quality of structure and access to civic amenities need to improve. Table 6 shows that access to basic civic services, like waste disposal, clean drinking water, safe fuel for cooking and a much-improved sewerage system are the issues that need attention to alleviate the quality of housing. Even the very high access to electricity (for light source) does not mean an uninterrupted supply.

Table 6: Quality of Structure and Access to Amenities (%)

	Floor	Roof	Walls	Fuel for cooking	Source of light	Waste disposal	Drinking water	Toilet
Standard¹	63.0	77.1	83.1	48.5	96.0	23.6	67.2	72.5
Sub-standard	37.0	22.9	16.9	51.5	4.6	76.4	32.8	27.5

Source: Author's estimation using the PSLM 2019-2020 dataset. Note: 1. Refers to better/preferred option for the particular characteristics, and not the actual standard of material/service being used/availed.

So, what about the deficit?

There is certainly not a “deficit of 10 million housing units” in Pakistan. There may be “inadequate housing” in the country, but not “housing shortage”. The deficit is in the quality of life in the houses, not the absence of housing units. Even if we take into account the high fertility rate and rising population in the country, an additional demand of 0.7 million households every year, as suggested by the IGC study (2016)[10], is very high. Going by the mean household size, it means an additional 4.5 million people needing accommodation- an estimate that appears far from reality. The mean age of the head of the household in Pakistan is 44 years[11]. Given the cultural milieu, young adults do not generally live on their own, thus suppressing the demand for additional housing that could have been there because of the youth bulge.

Conclusion

The notion of housing shortage, and the belief that it creates employment, have led the government to push for and subsidise the construction sector. Along with fiscal pressure, it has created an unnatural demand in the real estate market. And while the ‘shortage’ is more in the rural areas, all the housing initiatives are taking place in the urban areas. A forthcoming PIDE study on sectoral productivity over the last decade also shows the construction industry to be among the least productive ones. Any protected/subsidised industry remains unproductive, and the construction industry proves to be no exception.

Migration from rural areas is given as another reason for increased housing demand in urban areas. It is a movement that we at PIDE support, instead of considering it as a problem, we believe that it is through cities that growth happens[12]. Better urban planning, supporting large-scale, mixed-use housing, can go a long way in providing quality affordable accommodation to people. Doing so would deal with whatever housing shortage is there, and more importantly, tackle the quality issue.

PIDE has also shown that the housing shortage arises from the harsh zoning laws and building regulations that favour cars and single-family homes[13]. In addition, PIDE has shown that the shortage of opportunities and high rates of sub-optimal

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REAL ESTATE MYTHS IN PAKISTAN AND THE TRUTH BEHIND THEM

Ahmad Fraz



Our Future and the Real Estate Sector

General perception among people to make their future secure drives them to invest in the real estate sector in Pakistan. However, due to heavy taxes imposed on the real estate sector by the previous government, investment trends in real estate have shrunk, resulting in a complete obliteration of this sector. Pakistan's real estate market has a large contribution in economic growth, posting growth even as foreign direct investment falls or infrastructure spending remains stingy. The real estate sector assets contribute from 60 – 70% of the country's wealth – approximately, USD 300 to USD 400 billion as estimated by the World Bank.

It is the second largest employment-generation sector in Pakistan after agriculture. Apart from direct employment, it also stimulates the demand of more than 400 industries of the economy from construction (cement, steel, paint, building material, architects, and urban planners) to financial services (house financing). As the government has increased amounts of various taxes, especially in terms of sale and purchase, strict measures were introduced to prove the money-trail behind the investments within the last three years. Consequently, this sector has suffered from a severe economic crisis, many offices of real estate consultants are closed, and millions of people affiliated to this sector are now starving.

Over-Regulation of the Market

FBR's strict regulations (ban on non-filers, compulsory registrations when buying property of more than PKR 5 million and levying high taxes on property transfer) has discouraged investors in this sector. Although, financial markets are experiencing volatility, it's not the economic indicator you might think. But as an investment option, a myth prevails that real estate sector makes a lot of money is not true. In most countries where financial markets are not playing a key role in economic growth, the real estate sector steps in. Unfortunately, this sector is not able to do so because of over-

regulation by the government and the FBR. Consider the housing price index and KSE-100 index (Figure 1 below). Between 2011 and 2019, cumulative return of housing prices has been high compared to KSE-100 for only 3 years. In the same period, the KSE-100 index has increased by 230 percent versus 147 percent for housing prices.

There are occasionally certain cycles in investments, and it has also occurred in real estate sector of Pakistan from 2012 to 2015, where yearly returns were 16 percent, 25 percent and 14 percent respectively. In all other years, return for housing index are in single digit from 1 percent to 9 percent. Whereas, the KSE-100 index is more volatile and offers high returns and high losses; the highest return earned by KSE-100 was 42 percent in 2016 and reported 19 percent loss in 2017.

The Post 2018 Real Estate Market

Real estate market has had a very difficult time after the change of regime in 2018. It has faced financial, economic, political challenges, a number of policy issues and lack of confidence. It barely managed to survive the earlier recession, mainly due to massive investments by overseas Pakistanis. Depreciation of the Pakistani rupee made property investment cheaper due to exchange rate benefits for overseas investors.

According to Zameen.com, over 30% of traffic on their site is from overseas Pakistanis looking for investment. But investing in the real estate market is already risky, as Pakistan currently ranks 120th out of 129 countries (scoring just 3.9/10). This type of ranking is an important consideration for overseas investors. In the presence of such uncertainty and tax policies, thousands of the overseas investors have diverted their investments elsewhere. These countries (e.g. UAE and UK) are offering better incentives so the volume of foreign exchange for real estate investment has dropped.

SBP has reported that Pakistan received USD 21.84 billion remittance during 2019-20. Most of the overseas investments are in the real estate sector

because they face restrictions in doing other businesses. Over-regulation of the real estate sector discourages overseas investors and may cause a reduction of remittances in Pakistan. Further the policy of non-utilization of development budgets by the government causes the contraction of the activities of this sector.

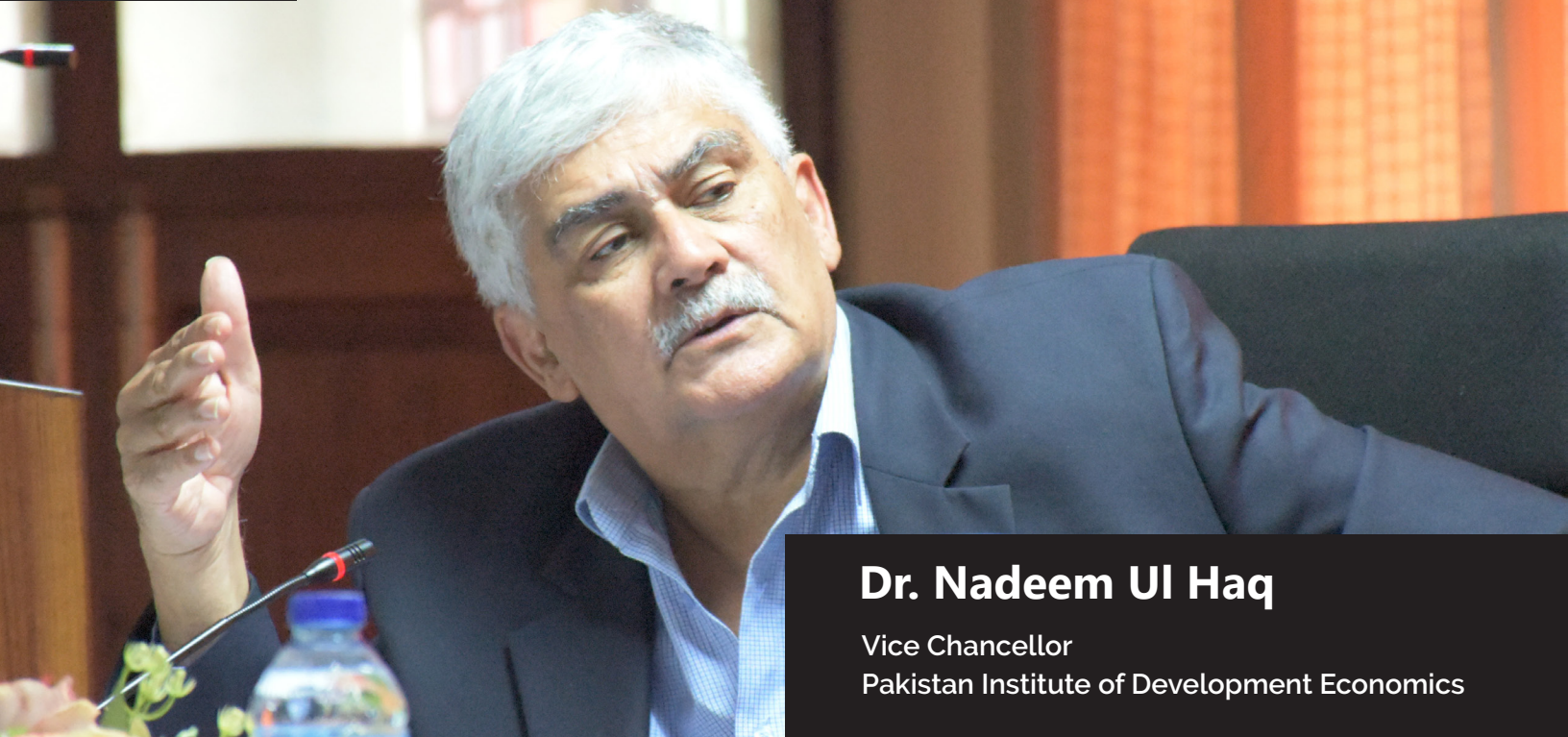
The Future of Real Estate

Apart from all the decisions taken by the authorities, there were high hopes that this sector will have high growth in 2020. But the issue is much bigger this time that can potentially cause a serious crisis in the real estate markets across all big cities specifically Islamabad, Rawalpindi, Lahore and Karachi.

Increasing the tax for a potentially growing sector contributing to the economic growth like real estate sector can be damaging. Government should broaden the tax net by incentivizing the sector first. In the current situation, the government should form a revised policy for the real estate sector.

Points to Ponder

Government must bring a well-structured, transparent and centralized system for investors as compared to the current complicated procedures of documentation and doubtful legal support. After giving the industry status to that industry, the government should establish an industry regulator, approve rules regarding land acquisition and ownership and all property consultants and projects should be registered.



Dr. Nadeem Ul Haq

Vice Chancellor

Pakistan Institute of Development Economics

QUESTION 1: How do you define the real estate industry? Is there a difference between the construction sector and the real estate industry?

Real estate is by definition land that has been developed, land that has created value attached to it. Land is available all over the world but it does not automatically become 'real estate'. But if we do not allow construction, that too complex construction, the land itself cannot be called 'real estate'.

For instance, we have historically never allowed city centers to develop. Our preference instead has been to develop blocks outside cities. Over the past 70 years we have prioritized suburban growth and have practically killed the downtowns in the process.

In most of the world the value is created in downtowns. We don't want to develop value in downtown. We want to create blocks outside the city, which I call 'Plotistan'. Bare plots without attached complex construction is the cheapest and the worst form of real estate development that has little economic value. Real estate development that creates economic value are the likes of Rockefeller Center, Times Square etc. Here, unfortunately, for some strange reason, probably tied into the fact that government officials get plots, the emphasis is on plots and not on real estate construction.

QUESTION 2: In your opinion what the significance of real estate industry to the economy and whether it has the potential to support economic revival in Pakistan?

Real estate is the leading sector of the economy everywhere in the world. If you look at the US, one of the big things that NBI did a long time ago was develop leading indicators of the economy. Leading indicators are the ones that are

key throughout the business cycle. Of these indicators Real Estate perhaps is the leading one. The reason being very simple i.e. for humans to function, we need real estate. For me to function I need a house, for you to function you need an office, for us to shop we need retail, for us to travel we need transportation stations and hotels. Everything is real estate. Even construction of factories is a form of real estate.

All human activity begins with real estate. Real estate must be allowed to develop. Nobody is saying that real estate is the only thing that you develop. But if you handicap the real estate sector like we have for the last three years, you cripple the economy. For balanced development, we must give real estate the same space. Real estate development, which is construction, should not be just block making. We must give it the same space as we give every other sector in the country. For quite some time we here have argued that real estate is not an industry. Every activity that human being engages in is industry. By that I mean it is "industrial" on the part of individuals to make things happen.

QUESTION 3: What do you think are the major issues affecting the Real Estate Market in Pakistan; and whether it can even be called a 'Market'?

Right now in Pakistan, there is hardly a properly existing real estate market, because it's heavily overregulated due of the greed of officials to get plots or because of some strange thinking. We have crippled our downtowns and have built suburban sprawls. We have made our city's car dependent. We have forbidden the development of, for example, high-rise buildings. We have a huge excess demand, as we have noted in many PIDE publications, for real estate space. One might ask – What kind of space? There's a huge demand, let's say, for example, for retail space. People can't

get enough shopping malls. Shopping malls have been suppressed for 30 to 40 years. Shopping malls have only given permissions in recent years. PIDE has been talking about it for the last 30 years. There are hardly any cinemas in most cities. Playgrounds! – Again, hardly any playgrounds. We do have large stadiums, but no sport. So you can think of many real estate demands that are not fulfilled. So there is a Master Planning issue of social spaces or public spaces. The market will not provide them unless priorities first are set right. The second thing is the height restrictions. Apart from Karachi, there are abnormal height restrictions in every other Pakistani city. High restrictions are 30 or 40ft, which is crazy! It took me about 20 years of fighting with the bureaucracy to get to Lahore to have somewhat of our real estate in terms of building, but then what they did was they make it very difficult to get permissions. There is a mindset in our bureaucracy that we can't live in flats, we can't live in high rises and there will not be any mixed use of space. So we want to put people in separate compartments, taking up more space, away from downtowns, meaning in addition to taking up more space per person, they also have to be reliant on cars and other motor vehicles for mobility.

That's one part of your question. The second part of your question is in terms of market, there's no proper real estate market in the country and it is a huge problem. Whatever little real estate market exists, is over-regulated and complex construction is not allowed to happen.

Another important issue affecting real estate in Pakistan is that there are only two or three places/localities where people trust the titles. People trust the title in DHA, Bahria or CDA territories for instance. In other places the title is always suspicious and the government can also change the title whenever it likes as the supreme court did in terms of Nasla Tower where they killed down the tower. The Supreme

Court can change the character of many places so people are unclear about the title.

Another issue pertains to high transaction costs in terms of time and money when it comes to selling or buying property. It is easy to buy and sell property in DHA and Islamabad for instance, but not in other areas. Finally, the most important issue is perhaps the one of 'lack of information' – what is selling on the market? What is not selling on the market? What is a fair price? There different rates and prices. There are the market rates and then the government decided rates, which are in effect meaningless prices, but serve the purpose of confusing the market and unnecessarily complicate the transactions.

So overall it's a very complex situation with reference to the real estate industry owing to over-regulation, lack of imagination and pure bureaucratic inertia. Nobody wants to imagine how a market can be made. PIDE has just done some research on this. We are putting it out so that the market so a proper market can be setup, but ultimately it's the government and institution of the state that have to implement research findings.

QUESTION 4: How do you see the extent of locked or dead capital in the real estate industry or the real estate market and its economic consequences?

Well, again, PIDE has been writing about it for a long time, since 2005-06, there's a huge amount of dead capital in the country. I remember the the Prime Minister called me once and he said, I am going to pick this up. I'm going to do this, but I don't think he got any traction. Dead capital is the capital that is lying around without being developed. So let's put it this way. There's a piece of land that maybe was worth nothing 30 years ago, but today it's worth millions of



dollars. That value has been created. For instance, Mall Road in Lahore is not allowed to develop. It was the downtown of Lahore for many years. It was the downtown that naturally emerged. But it was not allowed to develop into a proper downtown with a thriving commerce scene. I ask, Why? – Now they are trying to develop a new downtown outside Lahore. So it's quite fabling!

It's like having your heart outside your body, not inside your body. So we would have a central business district ordained by the government on the outskirts of the Lahore, not on the inside Lahore, but that's how the bureaucratic mindset works!

QUESTION 5: What are a few steps that we should take to modernize our real estate industry so that it can develop to reach the global standards?

First of all, deregulate and accept downtown areas, don't bend to the opposite side. Allow high rise construction along with mixed-use of space. Secondly, restrict the cars! We at PIDE have developed a model for developing parking. Parking is a revenue item, but can also serve to restrict motor vehicle based/car congestion. Right now we have prioritized the car, restricted walking, restricted bicycling, restricted all other forms of transport. Suburban development is very costly. It takes DHA 20 years to develop the sector. Other housing societies take 30 years to develop the sector. That is extremely costly. So instead of accepting that cost, they've changed the paradigm about real estate.

Real estate should be about inner city development and not suburban development. It's inner city development that leads the way. Our paradigm has been that we freeze inner city and downtown development. Again coming to the question of dead capital. For example, the whole Secretariat is a huge area which used to be a rural area. It's a huge, sprawling Secretariat, which is no longer necessary. We could actually build something there.

We could build a huge building there and yet save land and put the government in there. Similarly, if you think about it, there's a huge area around the Lahore Museum and it is being wasted. So we can use that land better.

Another important part of that dead capital is which somebody should research. There are two agencies that control a lot of land. For example, the evacuee property. Evacuee property was the property that Hindus and Sikhs left here in 1947. As of now that is 75 years ago! That property still exists, and there is an agency that controls it. Why are we not converting that property? We talk about privatization. Why don't we privatize that property and convert it into value? Right now that property is dead. There are people who are paying rent on these properties, which is peanuts. Similarly, there's another one called AUQAF. AUQAF has a large amount of inner city land also, that is underutilized in the sense that this land is given out at very cheap prices. Are not these all examples of debilitating real estate development and preventing cities to grow.





Question 6: How do you see the importance of more educated people being involved in the real estate industry, especially the real estate agents and their trainings?

No point if we educate people without a purpose. We can have educated real estate brokers, but we first need to get a market going. Remember, there are still no reliable titles in the country. When I own a real estate, any property, it is on the basis of a revenue record. I don't have a title. The title exchange process still relies on a cumbersome process and we need to change that. Secondly, information on sales is not available. The government has these fictional prices that are destroying the market. So unless we deregulate the market, unless we allow it to be properly structured, unless we allow some flexibility in real estate, curb the endless processes of permissions & NOCs, what's the point of just educating people?

Question 7: So what was the idea behind the recently launched real estate training course by PIDE? What will it help achieve in the long run?

I think this country needs a lot of education when it comes to real estate. We need to ask questions and not rely on foreign donors' consultants to dictate our policymaking. For instance, donors' consultants claimed that there is a shortage of 10 million housing units in Pakistan. This is not true at all. There indeed is some housing shortage, but it's not as large as 10 million. So there's a huge lack of understanding. The Prime Minister also believes in giving people subsidized housing. I would argue instead of focusing on subsidized housing we should first focus on creating employment and facilitating savings. Only then comes housing! Government has got the sequence wrong. How can you build houses without jobs? I don't know what you're giving people. It costs money to run a house. It costs money to pay your electricity bill. Our purpose of setting up the course is to try and tell people what real estate is because right now we don't know what real estate is. We think a plot is real estate. We think buying a file and waiting 20 years for that file to mature is investment. That is the most arcade form of investment in the world. If we had real estate, we would have value in the country.

We would add value, we would add jobs, we would add creativity. There would be so many followers because remember, your whole life revolves around real estate. From the time you wake up in the morning, you wake up in your bedroom to the time you go do your other functions. Everything is linked with real estate.



Housing, **HOUSING!**

Originally Published in DAWN on September 24, 2021

Abida Naurin

What is the problem with our cities? Can these tiny geographical locations be termed as cities, as burgeoning housing societies are encroaching the city spaces more than ever? Who is going to stop this unguided fascination with lavish housing madness? Cities are shrinking, housing societies are sprawling? Does this mean economic activity is also being squeezed? Let me explain. Cities are powerhouses of growth, innovation, and prosperity. Yet, in Pakistan, research on cities management is scarce.

Dr. Nadeem ul Haq, the Pakistan Institute of Development Economics (PIDE) vice-chancellor, has been investigating the land model maintained by societies such as DHA Lahore, in which land is created by the public sector and handed to officials as a kind of compensation for service and the like. This is a hindrance to the development of competitive real estate markets. DHA Lahore was originally intended for army officials, but it quickly became a public housing society. Society was always intended to be a prestigious area, but it has become much more than that; collateral of growing urbanization. Gentrification has essentially taken away any area that was previously available to the upper-middle-class or middle-class aspirants. As a result, the nominal space has reduced even further.

The issue raised by this understanding is: why is the government able to get away with it? A famous British economic geographer Prof. David Harvey, has an answer. He claims that "quality of urban life has increasingly become a commodity for those with money," successfully insulating people from the disparities at play. This permits communities to maintain their exclusive ethos because, according to Zukin, "Pacification by Cappuccino" keeps them engaged. This smart expression is used to describe how materialism keeps people entertained and diverted from actual concerns, and this is especially true in form of housing societies in Pakistan.

Perhaps a literal pacification by cappuccino is at play with gentrified coffee shops in every sector, blinding inhabitants to the difficulties within and the distinct reality that exists and is maintained firmly outside the society. In Pakistan's context, the vast wealth divide is "indelibly inscribed into the physical patterns of our cities, which are progressively becoming cities of fortified shards of gated enclaves and private-public places maintained under continual surveillance," as Prof. David Harvey describes. This portrays housing society accurately and may be utilized to comprehend why such a culture survives.

Dr. Durre Nayab, Joint-Director at PIDE, recently wrote a PIDE Policy viewpoint on "The Assumed Shortage of Housing in Pakistan". For the past ten years, the rallying cry in politics, the media, and donor-funded research have been "We are short of 10 million housing units." Given the average household size of well over six people, this equates to approximately one-third of the population living in poverty. Do we witness such a large number of people living on sidewalks, roadside, beneath bridges, or in any other open space? Thankfully, the answer is no! We can't figure out where this massive housing shortfall of ten million people came from. Worst of all, the

government relies on this estimate without ever questioning its accuracy. Regrettably, the policy has been built on this premise, and a large-scale public housing endeavor has been launched at tremendous expense.

Dr. Haq, recently also wrote a Twitter thread on the issue. The points mentioned are briefly explained here. Pakistan is perhaps the only country where housing societies exist on such a scale. They're the result of the British passing down a PLOT culture to us. Those that were faithful to the colonial authorities would be given land as a gift. Corporate is a legal structure designed to assist poor farmers in banding together to do tasks that would be more difficult if they were working alone. Soon after the petition was filed, officials began forming housing societies under the cooperatives law. Pakistan is a very strange country in the sense that every government organization is into real estate development. City administrations run by District Management Group (DMG) have through history forbidden real estate high-rise and mixed-use construction inside cities. Since we continued the British tradition of gifting plots to govt officials' suburban development was favored on basis of housing societies. It is a scheme for self-enrichment at the cost of the suckers who buy into those societies. It is time to allow high-rise and mixed-use are liberalized. It is time government including governor houses move out of cities leaving commerce to take over. Not allowing high-rise and city center redevelopment will slow down country development.

The PIDE Reforms Agenda 2021-22, focuses upon reforming almost every area that directly or indirectly influences economic growth. Cities are seen to be the driving force behind economic development. Dense, high-rise, mixed-use, and inclusive cities are conducive to economic development. Work, home, markets, school, hospital, and entertainment are all conveniently located in these cities. These cities produce knowledge spillovers on the one hand and lower transaction costs on the other by concentrating economic activity. This is a favorable climate for innovation, which is necessary for economic progress. The existing regulatory structure prohibits the establishment of such cities.

The PIDE Agenda also aims for revisiting the regulatory framework around city planning, construction rules, automobile usage, and public spaces, among other things, to release communities that maximize economic activity. To make true progress toward the right to housing in Pakistan, we must rethink our unhealthy, unequal, and toxic relationship with the land and establish an urban development model that prioritizes our economic, social, and ecological needs over unbridled profit. We need city libraries, proper school buildings, footpaths, cycling lanes, studio apartments, offices, and shopping in our neighborhood. Finally, the PIDE suggestion that local universities and think tanks be active in policy, policy research, and policymaking should be taken seriously by the government. Nothing should be brought to the policy table without first being properly evaluated. Our experience has shown us that relying on consultants without domestic oversight has been expensive far too frequently. Let's reclaim our cities!

BLOCKCHAIN TECHNOLOGY & PAKISTAN'S REAL ESTATE MARKET



While the Blockchain technology was formed to enable the first ever cryptocurrency, it has expanded its usefulness to areas much beyond the crypto world. One sector where Pakistan can and must utilize the benefits of Blockchain technology is the real estate market. It is important to mention at this point that this by no means proposes the use of crypto currency in real estate market, and therefore, it is essential to begin by understanding what Blockchain technology really is.

Blockchain technology is a digital system of information recording and storing by a third party making it unable to be modified thus preventing against hacking or cheating the system. One may call it as a digital ledger that stores transactions and other relevant details across the entire network of computer systems on the Blockchain. This data security enables Blockchain technology to be a legitimate, reliable and trustworthy technology for various industries requiring high level of cybersecurity and that include significant financial transactions. In summation, Blockchain technology allows information to be digitally recorded and distributed but not edited.

Pakistan's real estate industry is marred with multiple significant issues. One major issue on the transaction side of the real estate market is the information asymmetry. Lack

What Is a Blockchain?

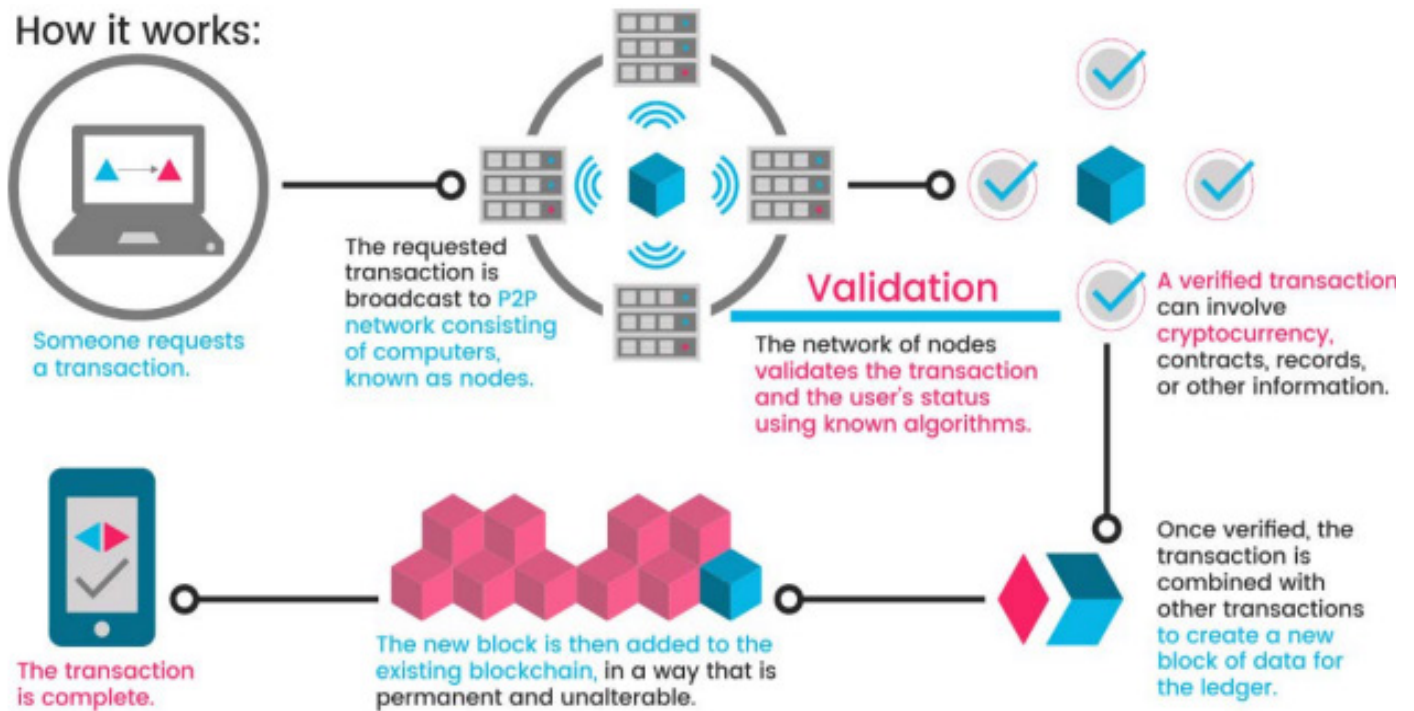
"A blockchain is a distributed database that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format. Blockchains are best known for their crucial role in cryptocurrency systems, such as Bitcoin, for maintaining a secure and decentralized record of transactions. The innovation with a blockchain is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party."

Source: Investopedia, <https://www.investopedia.com/terms/b/blockchain.asp>

of knowledge about presence of sellers, potential buyers, the correct market price form the basis of this information asymmetry. Moreover, no online database or any other mechanism is present to verify the information or credibility of the other party involved. This has then enhanced the role of real estate agents in the market, allowing them to evolve into price setters as well through market manipulation with support of investors. On the contrary, use of Blockchain technology will go a long way in resolving these issues. Digital storing and availability of information will mean

the issue of information asymmetry will to a large extent be resolved. It will enable buyers to view available properties and relevant information round the clock and also add credibility to the data available. The trust deficit will naturally be removed. Moreover, buyers and sellers will both be able to see the transaction prices of similar properties in the present and past market conditions thus be able to not only analyze the price trends but also have real time knowledge of the current trading price of property. This will take back the price setting powers from any party and instead have the prices be led by the market forces of demand and supply. Blockchain will surely help remove massive inefficiencies of the real estate market. While some might assume based on the above information that this could mean the role of real estate agents could be eliminated, but that is not the case. Instead, it will help the agents in better performing their responsibilities as defined in the Islamabad Real Estate Agents and Motor Vehicles Dealers (Regulation of Business) Rules 1984 and now in the Real Estate Regulatory Authority Act. Introduction of Blockchain technology will remove the additional burden on the real estate agents of verifying information, ensuring credibility of buyer and seller as well as ensuring protection against fraudulent transaction by any side and complete transaction. These all that are not the responsibilities of the agents but due to market inefficiencies have to be taken up by them will not be needed once Blockchain technology is introduced. Given the nature of the transactions through blockchain technology¹, the transactions between buyers and sellers can be made more secure (See below).

How it works:



¹ Blockchain and Suitability for Government Applications (2018), Analytics Exchange Program

POSSIBLE

No confidence in
NO CONFIDENCE

Abbas Moosvi



As mainstream political parties gear up to advance what they believe will be curtains for Prime Minister Imran Khan – once, of course, the OIC Conference is over – it is worth reflecting upon Pakistan's political trajectory, or lack thereof. Islamabad seems to be bracing for impact in what promises to be an eventful, and potentially turbulent end to the month of March as momentum builds towards the No Confidence Motion. Despite all the hullabaloo, however, a cursory look underneath the surface suggests little to no fundamental changes. An entire political 'moment' in the works with virtually no participation from ordinary folks... is this a 'movement' or mere theatrics from the powers that be?

Pakistan's history has been mired by a wide array of problems, but perhaps most significantly by the phenomenon known as elite capture. Defined as, "actors who have disproportionate influence on the development process as a result of their superior social, political or economic status," elite capture can be seen as the prime symptom of a deeper, more pathological problem: that of perverse incentives within the country's major institutions – which have largely remained unchanged from colonial times. This is important because the governance mechanisms which defined that period were designed for two primary purposes: control and extraction.

The power elite within Pakistan, including feudalists, big corporations, exporters, high net worth individuals, and top-brass within the military, are all responsible for losses of approximately Rs. 2.7 trillion to the economy on an annual basis according to a report by the UNDP. This is achieved through three primary means: favourable prices, low rates of taxation (particularly on income), and preferential access to spaces, people, and resources in order to 'get things done' – largely in pursuit of personal objectives. Even when it comes to government expenditures in areas such as social services, economic services, subsidies, social protection, etc., benefits largely accrue to the most affluent, i.e. the 5th quintile in terms of income – signalling widespread capture of the state by propertied classes.

On the other hand, Pakistan's political parties seem to have operated throughout the country's history in a myopic, opportunistic manner – looking to maximize their hold over power while ensuring little to no accountability to voters. Since 2002, for instance, the Pakistan People's Party has won 229 out of 1081 seats in the National Assembly – approximately 22 percent. The Pakistan Muslim League N, on the other hand, has held approximately 25 percent. In more recent years, the Pakistan Tehreek e Insaaf has entered the fold, winning about 27 percent of total seats over the previous two electoral cycles.

What is interesting to note here is that despite this dominance, each of these parties have had to resort to forming coalition governments in alliance with smaller parties – thus resulting in having to dilute their ideologies and overarching principles in order to accommodate new friends, something that naturally slows down the decision making process and leaving the playing field ripe for corruption, petty gamesmanship, and little incentive for service delivery – external meddling notwithstanding.

Rather than delving into these fundamental questions – of democratic representation, institutional reform, rule of law, inclusive cities, national sovereignty, etc. – Pakistan's parties are more than

content with the current status quo. One scathing example of the perverse nature of governance in Pakistan is the constant emphasis on 'national security' – for which the government recently put out a 'National Security Policy 2022-26' outlining its allegedly unconventional, multipronged approach to tackling external as well as internal threats. However, perhaps the most glaring danger of all – that of indebtedness to international financial institutions, which have played a leading role in formulating the country's economic policy since the first structural adjustment program under General Zia – was left out of the discussion entirely.

As things currently stand, entrenched political elites have little incentive to pursue radical structural reform at any level – largely because even when out of power, they remain connected to the corridors in some capacity, serving an assigned purpose and constantly posturing for attention from the king maker. If this were not the case, simple political moves such as pursuing empowered local government, ensuring frequent intra party elections, and maintaining transparency in terms of financial flows, to name but a few, would have been non-controversial issues with unanimous backing. Not so, unfortunately. Instead, parties spend months (and inordinate amounts of resources) on policies such as the mandatory use of electronic voting machines in polling stations – something rare even in the most developed parts of the world due to the possibility of gamification.

Percentage share of benefits under different types of expenditures, by income quintile, (2018-2019)

Type of expenditure	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total	Palma ratio
Social services	20.9	22.9	20.9	21.2	14.1	100	0.7
Economic services	7.9	11.6	15.8	21.2	43.5	100	5.5
Subsidies and social protection	31.6	20.9	14.1	15.8	17.6	100	0.6
General expenditure	9.6	11.4	13.9	18.9	46.2	100	4.8
Total public expenditure	14.2	14.5	15.1	19	37.2	100	2.6
Income	9.2	12.9	13.6	21	43.3	100	4.7

Source: *Three Ps of Inequality – UNDP*

While mainstream parties engage in lining their pockets, ordinary citizens are left to fend for themselves, everybody from women, religious minorities, and the poor are constantly under threat from patriarchal norms, religious fundamentalism, and an economic system designed to divide and marginalize. In the words of academic and political activist Dr. Ammar Ali Jan in his book, *Rule by Fear*, "... it would be fair to say that [the elites] are heading the most successful 'separatist movement' in the country, a movement that seeks to insulate itself from the squalor and abandonment reflected in the experience of millions of Pakistanis."

In a seminal paper by Dr. Daron Acemoglu titled, 'Institutions as the Fundamental Cause of Long-run Growth,' he states the following. "Economic institutions encouraging economic growth emerge when political institutions allocate power to groups with interests in broad-based property rights enforcement, when they create effective constraints on power-holders, and when there are relatively few rents to be captured by power-holders." In other words, societies cannot possibly progress unless the incentive structures that govern its primary institutions are geared to promoting efficiency, cooperation, and inclusivity. In Pakistan, our setup is ripe for rent-seeking, elite capture, corrupt practices, and vulnerabilities to external influences loaded with political intent.

Regardless of what comes to pass over the next couple of weeks, the struggle for the strengthening of civil society must continue. Faces occupying important government offices are constantly in flux. Real lasting change can only come when those in power are aware that underperformance will mean its ouster: which only true democracy can ensure. Without the right to speech, to assembly, to trade, and to association, no number of policy prescriptions will suffice to help propel Pakistan forward. Source:

2002			2008			2013			2018		
Party	Vote share	Number of seats	Party	Vote share	Number of seats	Party	Vote share	Number of seats	Party	Vote share	Number of seats
PPP	26.05%	63	PPP	30.87%	89	PML-N	32.53%	127	PTI	31.89%	116
PML-Q	25.66%	79	PML-Q	23.18%	42	PTI	16.92%	28	PML-N	24.41%	64
PML-N	11.66%	15	PML-N	19.64%	68	PPP	15.42%	34	PPP	13.07%	43
MMA	11.41%	44	IND	10.95%	29	IND	13.08%	28	IND	11.41%	13
IND	9.31%	28	MQM	7.45%	19	MQM	5.39%	18	MMA	4.85%	12
NA	4.77%	13	MMA	2.22%	6	JUI-F	3.25%	11	GDA	2.38%	2
MQM	3.19%	13	PML-F	2.04%	4	PML-Q	3.08%	2	ANP	1.54%	1
ANP	1.03%	0	ANP	2.04%	10	PML-F	2.34%	5	MQM	1.38%	6
PML-F	1.00%	4	NPP	0.43%	1	JI	2.11%	3	PML-Q	0.98%	4
PML-J	0.97%	3	PPP-S	0.41%	1	ANP	1.03%	1	BAP	0.51%	4
PTI	0.83%	1	BNP-A	0.21%	1	PKMAP	0.47%	3	BNP	0.41%	3
PAT	0.69%	1	Other (32)	0.57%	0	NPP	0.43%	2	AMLP	0.23%	1
PPP-S	0.34%	2	Total	100.00%	270	PML-Z	0.28%	1	JWP	0.04%	1
PKMAP	0.33%	1				AMLP	0.20%	1	Other (73)	6.90%	0
JWP	0.33%	1				AJIP	0.16%	1	Total	100.00%	270
PML-Z	0.27%	1				BNP	0.16%	1			
BNP	0.27%	1				NP	0.13%	1			
MQMP	0.18%	1				All PML	0.12%	1			
PSPP	0.15%	1				QWP	0.10%	1			
Other (41)	1.56%	0				Other (91)	0.60%	0			
Total	100.00%	272				Total	100.00%	269			

Source: Pakistan's Political Parties

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Prime Minister's Construction Package

Hafeez ur Rehman Hadi

Introduction

The Pakistan Institute of Development Economics (PIDE) organized a webinar on the recently announced incentive package for the construction industry by Imran Khan, the Prime Minister of Pakistan. The representation from contractors, federal housing authorities, LDA, architects, urban planners, and academic researchers made it a viable dialogue between stakeholders and indicates the importance of the subject.

Key Messages

- Defining the construction industry, the panelists agreed on the broader definition of construction that recently assumed in media and policy circles. The construction industry, as per participants, must include the simultaneous planning of non-constructed amenities including having public spaces.
- Dr. Noman Ahmad, an academic Urban planner from Karachi, noted that the package clearly lacked the ideas about geographic spread as a result of construction. He further warned against the auxiliary concentration in 10 large cities having more than 54% of the urban population of the country. Abdul Hafeez Sheikh Pasha of Bismillah Group welcomed the announcement with careful anecdote that the package is a 'time bomb', and most projects shall not be completed in the discounted time by 2022. He also emphasized the need of installing loan packages by financial institutions for daily-wage workers of industry through their contractors as custodians.
- The Director General of Federal Government Housing authority Wasim Hayat Bajwa clarified that, through its various initiatives, the Naya Pakistan Housing Authority is open to





collaborations such as to provide land for construction; get land from private partners for construction and building its own projects.

- The fixed taxation regime shall encourage the investors to invest in the construction industry with per square feet tax-surcharge and withholding taxes only for the large corporations or suppliers including that of steel. However, the double tier taxation regime of provincial ticketing and federal taxation must be addressed as to bring clarity to developers.
- The participants however dismayed over the timeframe needed to get the necessary approvals and preparedness of FBR to green-signal the investments.
- With respect to the efficiency of the package, the participants raised the pertinent question of construction value chain; the extent to which the effects of this package be rippled into affiliate industries.
- 'We're in desperate need to deregulate the construction industry, along with reducing the number of regulatory authorities which impeded ease-of-doing business.' Said Dr. Nadeem ul Haque, the Vice Chancellor at PIDE. 'There is obfuscation in the commercial usage of resident properties and vice-versa; and needs to develop mixed use buildings to address this undeserved dichotomy.'
- Like most markets in Pakistan archaic regulations have seldom been reviewed and. The PIDE has long maintained that we need to re-imagine our markets. The construction industry is a very good example of how what is a leading sector in other countries has been killed by excessive regulation. PIDE has also argued (and in 2011 PC accepted this argument in FEG) that the path to high sustainable growth has to include a period of building in Pakistani cities. And this building has to be complex construction within cities not sprawl.
- To make this happen several ideas that we have examined and proposed are:
 - Make cities cohesive and defined. The promise of local government eludes us. But even with local government we have to ensure that cities have coherent jurisdictions and even defined areas. Lahore for example is divided into almost 5 overlapping jurisdictions (CHECK) and Karachi into 7 (CHECK). Moreover, there are no defined city limits and mere plot making stretches cities in strange directions.
 - Flat is the unit of living in large cities: Whereas in all large cities, the unit of living is a flat, in most of our cities (except perhaps Karachi) planners are holding on to the notion of a single-family home with a garden to be the norm. Surprisingly these planners remain unaware that with city sizes running into millions the poor cannot be accommodated in such single-family homes. It is for this reason that they developed a social housing program for the poor in the rural areas around Lahore (Ashaina). The same mistake is now being made in the NPHA.
 - Density gradients: Let city centers densify through development of flat living in high (10 or more floors) or midrise (less than 10 floors) buildings. And allow for mixed use there. Density gradually reduces as distance from city centers.
 - Deregulation of cities. It should be emphasized that contrary to popular belief the planner has not tools to develop clarity on where and what to build. Worldwide people are moving away from rigid planning of cities that is happening in Pakistan. More and more cities are now developing loose guidelines that allow markets to take decisions on usage, height and cityscape.
 - Mobile cities with limited cars: the planners have for decades favored cars making poor mobility almost impossible. If we want serious development and construction, our paradigm on how city mobility has to change. The current paradigm of excluding the poor is based on the use of cars and the paradigm of the suburbia.

Construction Permits & Housing Loans

Zahra Butt

Introduction

The webinar highlights the difficulty of doing business in Pakistan specifically in the construction and housing sector. It further highlights the concept of sludge and the cost associated with it. Sludge is the hindrances or obstacles in doing business and they impose a high cost on the economy as it mainly delays the investment and lowers productivity. The webinar mainly discusses the sludge involved in obtaining construction permits of single-unit residential construction as well as for high rise with housing loans. The objective of the sludge series is to highlight the sludge involved in different activities and to pin down areas where it can be reduced.

Key Messages

Nadeem ul Haque:

- The name of Pakistan should be "Permissionistan" or "NOCistan" as one is stuck in a lethal process or sludge of NOCs and permissions while doing a business investment.
- In Pakistan still, the system poses a cost on the economy in terms of delayed working. One has to wait for long hours and has to visit the offices time and again for the NOCs. In the rest of the world, the cost or ease of doing business is enhanced as the system is mostly run online.

Ahmed Waqar Qasim:

- The sludge involved in high-rise construction permits from the capital development authority summarized the three points i.e. the time, monetary cost, and stress involved in getting the permit. The total time is four and half years and the financial cost is more than two million.
- Obtaining NOC from the environmental protection agency is the highest time-consuming step followed by





NOC from the civil aviation authorities.

- The sludge involved in single-unit residential construction permits from the capital development authority requires a total time of nine months and financial cost is more than one hundred and eighty-five thousand rupees.
- The steps involved in processing residential construction permits from CDA require a total time of 15 to 20 working days as per the official claim as there is a stark difference between the official claim and the time people experience.
- Getting housing finance from banks takes more than four months and costs more than 15,000 rupees.

Faisal Jamal:

- A lot of time is consumed in getting permission for the camping facilities and approval of all maps and designs from the CDA, civil aviation, and other security agencies.
- Another restraint is the long duration of the review by Design Vetting Committee arrangement by CDA, usually multiple projects piled up to be reviewed together which delay the overall progress.
- All projects coming under Prime Minister Amnesty scheme have now a deadline to complete it before July 2023 otherwise they will not be able to benefit from this scheme, such an amnesty scheme where the project completion deadline is in place definitely will be ramped up quickly.

Engr Khizar Hayat Asghar:

- Most projects were delayed due to changes in regulations and requirements by CDA. Public office staff should be held accountable for wasting contractor and employer time and there should be internal audit mechanisms, checks, and weekly report analysis by the administration of these Public offices to track down performance and targets.
- Secondly, processes related to utilities and services connections provided to construction sites need to speed up, most projects are not occupied as completion certificate issuance from ministry/CDA is delaying overall project completion status.

Mian Muhammad Faraz Khalid:

- The time concerned for the gathering of information: all the information is available on the website of the bank for the housing construction for the customer to save time. But as the customers are new they prefer to visit the bank. Customers can download the application form as well. The photograph is not a mandatory requirement as well as the reference's signature.
- The approval of the loans is not delayed as customers complain while the main problem that the banks or customers face is the identification of the properties and the documentation related to the properties.

Conclusion: *The stakeholders interviewed portrayed a very different situation than what was present in the actual market. The lengthy documentation process involved in the construction of high rise results in limiting the new investors, however, the sector has a lot of potential to grow and provide jobs. The housing finance information is readily available online but due to the lack of familiarity and ease of our people, this process also becomes a lengthy one.*

Under-Developed Real Estate Industry in Pakistan

**Lubna Hasan, Aqeel Anwer
& Adnan Saqib**

Introduction

Real Estate Development is an important part of economic activity and wealth creation the world over.

Real estate is a huge market in every country. More millionaires were being made by real estate till 1980. Real estate activity drives the GDP of a country, especially in its early stages of growth, and provides ample employment opportunities.

Questions to Ponder

1. Pakistan's real estate is fragmented and underdeveloped. Why is real estate development confined to 'plots' and houses in Pakistan?
2. What is the regulatory framework for the sector? Is this sector over-regulated or not regulated at all?
3. What are the processes that a Real Estate Developer must go through in Pakistan in doing his/her business?
4. How does this sector finance itself and why REITs are not common in Pakistan?

Key Messages

- Real estate is a major sector of an economy, like the United States, where the market is around \$30 trillion which is 150% of the GDP.
- In contrast, real estate is considered unproductive and a cesspool of black money in Pakistan. Pakistan is often alluded to as Plotistan.
- Pakistani peoples are being brainwashed that real estate is the epicenter of wealth. They should invest in real estate and wait for the astronomical return to materialize.





- In reality, our markets, including the real estate market, do not function well because of inconsistent policies, high transaction costs, and the 'seth' mentality of the businessmen.
- Mr. Adil from Zameen.com contextualized the high returns associated with the real estate with the historical phenomenon where land was bought at a minimal price by ancestors, which were later sold at huge profits by their next generations. In his view, upward soaring prices of land was a historical trend.
- The real estate market is a cash-based market, and not based on supply and demand. In Pakistan, anyone with cash in hand wants to save that money in the best possible option, and often finds investing in plot as the most profitable. This dilemma exists because of lack of awareness about other investment opportunities like the stock market.
- Mr. Rashid Bashir highlighted the unskillfulness of the real estate agents by emphasizing the lack of training and guidelines for the realtors. The realtors don't have knowledge about the residential and the commercial area bylaws, which creates problems for the investors and buyers equally. It is essential to train realtors before they step into this profession, the way it happens in developed countries.
- There is no mechanism for pricing the real estate market. In the 21st century, we are still following medieval pricing mechanisms where price is set by the Deputy Commissioner office called DC Rate. Mr. Bashir quoted an example where a plot in Karachi is worth around Rs. 28 Billion and the price which is given by the Deputy Commissioner office is Rs. 0.2 million which is astonishing. This difference between the market rate and DC rate provides an avenue to whiten the black money.
- Pakistan, with a burgeoning population has an unmet demand for land/plots. A deeper issue plaguing the sector is the complex land ownership structure. Mr. Adil identified uncertainties on account of clear land titling as a major hurdle in development of the real estate market.
- Development authorities across the country have different procedures. Cantonment areas have different rules and regulations for purchase of land. Civic authorities have a different system altogether. A person interested in buying land has to obtain an allotment letter issued by the Divisional Authority. The process can take ages due to the outdated system of the 'Patwari' who keeps the land records in books. Since all the land records in Pakistan are not computerized, manual checking of records is a tedious and time-consuming process. Once, the record is checked, the next step is to get NOC from the courts to make sure there is no case filed against that land, which then allows the prospective buyer to purchase a piece of land.
- Another problem with the real estate market in Pakistan is that it predominantly builds single-family houses. Investment in vertical housing is little, which has led to an extreme shortage of affordable housing. The "Naya Pakistan Housing Package" has incentivized vertical buildings. It remains to be seen how it pans out in the near future.
- Former Chairman FBR, Mr. Shabbar Zaidi pointed out that a large portion of our economy is undocumented, and these undocumented taxpayers are the potential buyers/investors of high-end commercial property, but due to undeclared income, they do not participate in the healthy real estate market.
- Mr. Shabbar Zaidi elucidated the mechanized mafia systems which never let the system to digitize the real estate market. We will not have a healthy and prosperous market unless and until we eliminate the registry system. The government has spent billions of funds to digitize the system but could not succeed due to the mafias.
- On licensing of realtors, it was mentioned that there is no licensing system from the government side in America. There is a self-licensing mechanism in the brokerage market. Companies like Zillow serve the full lifecycle of owning and living in a home:

buying, selling, renting, financing, remodeling and more. Zillow has a living database of more than 110 million U.S. homes – including homes for sale, homes for rent and homes not currently on the market, as well as estimated home values, rent estimates, and other home-related information. Why can't we have such a system in Pakistan?

The next part of the discussion was regarding the formal Mortgage sector. Where is the banking sector which caters to genuine buyer and what about the mortgage finances?

- Interesting data was shared by Zameen.com that they tried to be a catalyst between potential buyers/customers and the bank. Initially, they referred 19,000 potential cases to banks that were interested in mortgaging their properties, out of which 6,400 files were qualified but eventually only 1 file was granted loan for the housing finance. These laws and regulations are so harsh and strict, which monstrously margin out the end user who ultimately changes his or her preferences at the end.
- The mortgage financing to GDP ratio in Pakistan is only 0.5%, which is 4% in the neighboring countries, and is highest in India where it stands at 10%. This low percentage is because nowhere in the world housing finance is done by the commercial banks, which is the case in Pakistan. House Building Finance Corporation (HBFC) is a specialized unit which deals with mortgage finance in Pakistan but is working sub-par as compared to its counterpart in India.

When discussing the black money parked in the real-estate sector some important points were made.

- One way to improve land utilization is that if a person is holding a land and no construction or productive work had taken place in two or three years, a channel should be set in motion so that he should be liable to sell that land or start some productive work on it which will help to maintain the supply side.
- Offline payment systems are missing in Pakistan mortgage financing, which means if apartments or flats planned to be built in a certain area, our banks show no interest in financing such projects until some real construction takes place.
- The question of 100 million worth of buildings was put in front of the speakers. Why does Pakistan not have a building worth \$100 million?
- The speakers opined that we cannot have high-worth buildings in Pakistan unless we have confidence in policies, regulations, and the businesses which can absorb such investment. The dilemma with the real estate market in Pakistan is that due to cumbersome laws, the land developers hesitate from investing in large commercial buildings like Burj Khalifa. There is little demand for such projects and hence no development. For example, the Coke factory is set up in a house, our schools and offices are in houses, they do not demand modern setups. In this scenario, how can buildings be built?
- Shifting from a 'plot market' to real estate development lies with the government. They have to intervene and facilitate the market. Like in Morocco, the city of Casablanca was expanding like Lahore. To control the horizontal expansion, the government incentivized the builders by reducing the taxes on vertical construction so much so that vertical construction started on every main avenue to curb the demand for space.
- Thinking that we can grow without a real estate market is a big myth and Pakistan has been living with myths for the past 50, 60 years. Real estate will always be there because people need to live and work and that needs spaces. The problem with our society is that we don't have space for offices, houses, schools, clinics and so and so forth.
- We build our offices, schools, clinics in houses because our planning system has failed. Regulation is the problem, not the market.

The important points highlighted in the webinar are that the 'Patwar' system should be abolished, DC rate should be abolished too. Let the market set the price. The role of commercial banks should be limited in mortgage financing and institutes like HBFC should be revived and incentivized for mortgage loans and a stimulus package for housing finance. The builder should invest 30 to 40% of his money in the project which will guarantee the success of the project.

Real Estate Regulation and Development: A case of Gated Housing in Pakistan

Adnan Saqib

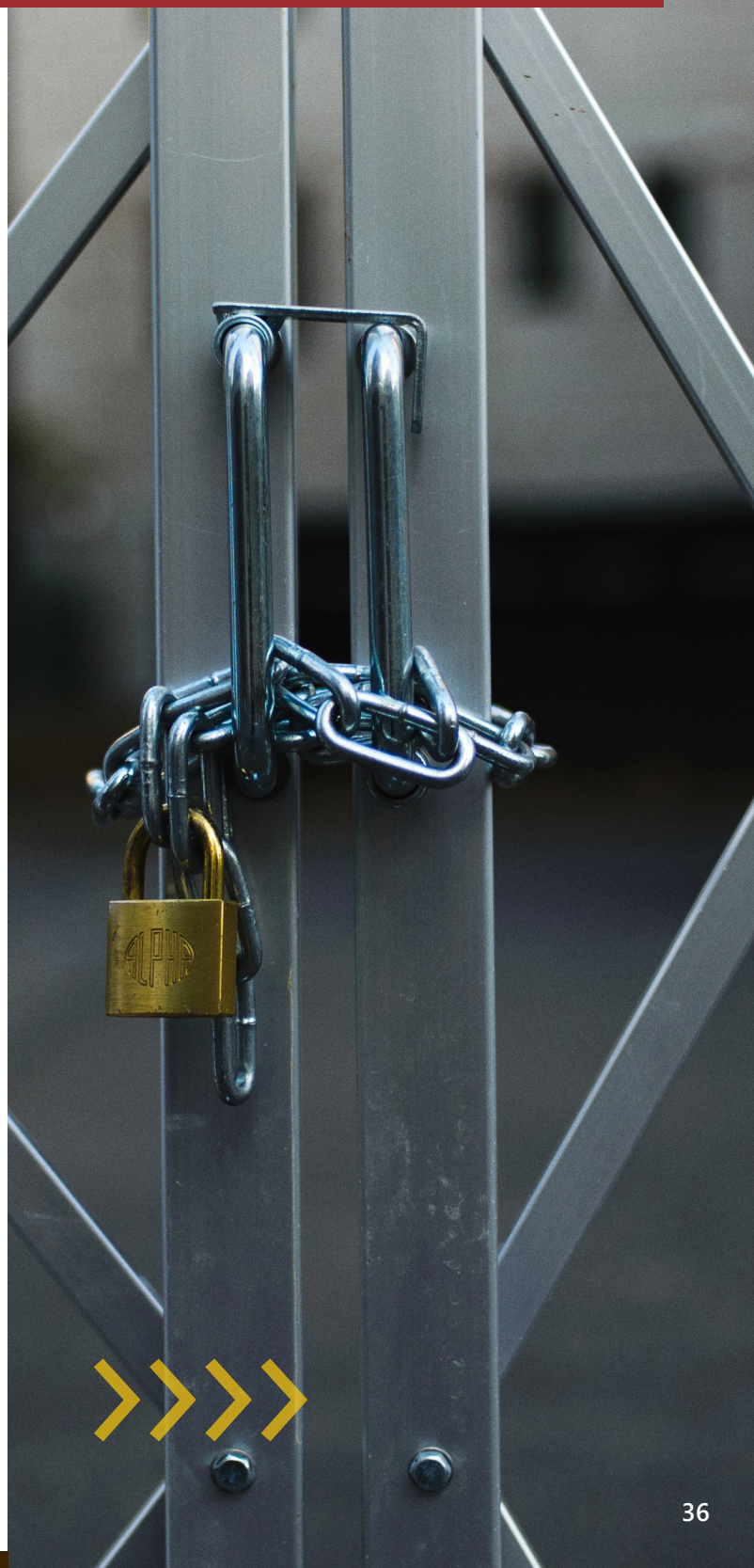
Introduction

Housing Societies have gained immense importance overtime as they provide shelter to the urban dwellers. However, these Societies have to work under the ambit of Local Development Authorities, who have a stringent regime for granting approvals. Same is the case with Capital Development Authority (CDA), which manages development of Islamabad in its retrospection with the Master Plan. It has divided Islamabad into five zones i.e., Zone 1, Zone 2, Zone 3, Zone 4 and Zone 5, each with an area of 54,958, 9,804, 50,398, 69,814 and 39,029 acres, respectively. Zone 1-2 are classified as Municipal Area and zone 4-5 as rural area, whereas zone 3 is reserved forest area. Zone-1 is exclusive to CDA for any development activities in accordance to the master plan whereas zone 2, 4, and 5 are open for private developers, subjected to the preliminary approvals from CDA.

Private housing societies make headlines in the news from time to time and not for the good reasons always. For example, in last 25 years, no completion certificate is being issued by CDA, means a person who invest his live-long saving in a plot to build a house, he won't be able to get it in at least 25 years, as is the case of Islamabad. Pakistan Institute of Development Economics (PIDE) has organized a webinar titled "Paradox of Housing Societies in Pakistan" to understand the issue and hurdles faced by various stakeholders. The webinar started with a brief presentation by Ms. Lubna Hasan, Senior Research Economist at PIDE regarding illegal housing societies in Islamabad, coauthored with Mr. Aqeel Anwar and Mr. Hanzala Jalil. The presentation was followed by a discussion on key points with Mr. Farhan Javed, Group Director Graana.com and Malik Tariq Hussein, Vice President Media Town Islamabad.

Key Messages

Pakistan has the potential to become a top real estate investment destination due to its high housing demand. According to conservative figures, the housing backlog



stands at 9 million units, and it is growing at a rate of 300,000 units per year due to unmet demand.

The real estate market has the potential to be the country's largest growth driver. Glass manufacturing, wood, furniture, steel, plastics, paint, electricity cables, cement, electronics, and other industries are all directly related to real estate. As a result, an increase in construction activity would inevitably result in more jobs and economic activity.

Gated Communities

- In recent years there has been a rise in gated communities. Typically, a gated community is a set-up that offers a cohesive social life coupled with a quality residential experience. It encompasses various independent residential properties enclosed within a boundary.
- Gated communities are famous for a safe and secure environment, comfort and luxury, good management, opportunities for social interaction, and higher property values.

Development of Gated Communities & Delivery time

- It takes years and years of development in the gated community and delivery to the general public. It all starts with land and real estate revolves around land.
- The land acquisition process is complex because one cannot get land on hard cash. Future contracts are associated with land acquisition, and most of the time complications are associated with the involvement of future contracts and the problem goes into litigation, which itself is a complex phenomenon.
- What happens is that whenever a developer launches a housing scheme, they never have enough investment to buy a large enough tract of land to impress possible buyers.
- They go on a marketing campaign in which they announce a new housing scheme, often getting celebrity endorsement. They offer the public to reserve their booking in the new society at a cheaper rate. They will get enough capital from these bookings, which enables them to purchase the required land for the project. The developer always told the initial investors that their plots are still in the development stage and will be updated once the technical aspects of mapping and zoning are figured out. The truth is that the land has not yet been purchased by the real estate developer.
- In developed countries, real estate projects are delivered in a specified time while in Pakistan it takes decades to develop a project. Why is such a period required in building such a project? Is it a scam? Is it a tactic of

cartels for monetary benefits?

- Panelists respond that developers launch a project on financial planning and financial planning is based on equity and sales proceeds. Buyers do not comply with the terms and conditions signed on day one of the project. The buyer signs the agreement to sell but in the end, they are unable to pay the installments fee. Businesses run on planning and anything which maneuvers the proposed planning cause damage to the business.
- The real estate industry is largely unregulated, and those who engage in frivolous lawsuits face few consequences. Real estate-related court proceedings take a long time to resolve. People are misinformed, and they heed the advice of real estate agents who are inexperienced. Oftentimes, worried government officials say that some housing societies are illegal years after residents have purchased plots and constructed structures.
- It is essential to update the laws. Real estate education should include certifications and degrees. Real estate cases should be settled quickly, and anyone who engages in frivolous lawsuits should be disciplined. To provide deterrence, those who have been wronged should be compensated by the former. The government's plans to establish special tribunals, as stated above, is a positive step, but more is needed to deter property fraud at the outset. This can be accomplished by establishing a team of lawyers who can screen assets for sale to ensure that they are free of any violations or anomalies.

Escrow Account

- The escrow account in our financial system ensures that funds that are collected for development purposes should be used for that particular purpose. The common practice observed in Pakistan, that whenever massive funds are collected from the general public in the name of real estate development their focus starts to shift to other activities, in short, they are used for personal gains. Moreover, the complex and lengthy procedure of the court system provides a kind of facilitation to cartels to deceive the general public funds.
- We have the demand out there, we have the spaces out there, but the people who seem to be delivering the solution are not the one exactly the ones who should be doing it.
- FBR's stringent regulations on banking transactions for non-filers, high property tax charges, deter investors from putting their money into the market, due to the lack of incentives for investors, a prohibition on non-filers for purchasing a property value over \$5 million without registering in the Federal Board Revenue (FBR).

Conclusion: *There is no doubt the real estate sector can play a game-changer role in boosting Pakistan's economy, but*

The Paradox of Housing Societies in Pakistan

Syed Saddam Haider

Introduction

In recent years, gated communities have grown in popularity in Pakistan, with a rise in the number of such communities. According to the Federal Board of Revenue, the real estate industry in Pakistan is worth about 700 billion dollars, and it accounts for nearly 2% of Pakistan's total GDP. It not only creates a large number of direct jobs but also stimulates demand in over 250 different industries. In 2015-16, construction in gated communities increased by 15 to 20%, with 20 to 25 large projects completed during that period. Despite its rapid growth and strong job demand, the real estate market is still being under-researched and unexplored.

Key Messages

1. CDA takes on average two and half years to approve an NOC.



2.5 years
is an average time taken by CDA for NOC approval



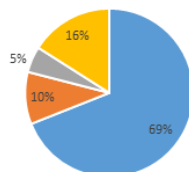
12 years
is an average time since NOC approval



25 years
no certificate was issued by CDA

2. Out of total housing societies in Islamabad, only 10% are approved, whereas a major proportion (69%) has not approached CDA for approvals.

Percentage Distribution of Private Housing Societies (by NOC)



3. Moreover, only 10% of housing societies have proper documents (LOP, NOC).
4. CDA has issued only 22 NOCs in the past 30 years.
5. These housing societies cover 6.8% of the total area in zone 2, 4, and 5.
6. More than 90% of the area in these zones (1.26 million kanals) is under illegal occupation.
7. 99% of housing societies are incomplete.

Salient points from discussion

1. Dr. Nadeem ul Haque started the discussion by inquiring if the legal status of the society mattered for the end consumer? Lubna Hasan responded by saying that the end consumer is directly affected. For example, they may be sold fake plots, or face long delays due to housing societies being involved in litigations over land.
2. According to an audit carried out by the Auditor General of Pakistan, irregularities at the CDA housing directorate have created a loss of PKR 5200 billion. Further, a typical housing society takes at least 15-20 years to develop. An idea of the situation can be drawn from the fact that over the past 25 years CDA has not issued even a single completion certificate to any housing society, which in itself is a great loss to the consumer as they have to wait a long time to get their plot.
3. Farhan Javed, Group Director GRAANA.COM & Imarat also substantiated the facts and said that a similar kind of situation is present in the vertical buildings i.e. 65% of vertical development does not have any clearance. Furthermore, answering the question about the intentions of developers, Mr. Farhan said obviously some developers come into the market with different intent but even a genuine developer faces difficulties and red tape at the hand of the regulator. Moreover, Mr. Farhan also identified the current land record system as a major obstacle, which in essence is the root cause of the majority of litigations in the housing societies.
4. Having identified the land record system as a major hurdle, what adds to this problem is that in Pakistan, and by large in India or the subcontinent, the land ownership document and land possession document are two different things. The land titling system is archaic and was last updated in 1956, which is more or less the same as the original one drafted in 1906. So, for example, a family that owns

a large chunk of land, now six to seven generations down, the land has a number of owners and anyone can take a stay-order from court when that land is sold.

5. There are two modes of finance for a housing society in Pakistan i) equity base finance or ii) client advancement. The developer, who has invested huge amounts in advertising, suffers when the project lingers due to stay/litigation.
6. The real estate sector in Pakistan has not evolved as a real corporate sector despite contributing greatly to the labor market and GDP of the country.
7. In Pakistan, developers at times advertise housing societies having little or no land. Anecdotal evidence suggests that 80% of developer in Pakistan fails to deliver.
8. Pakistan has a huge deficit of housing in the country. There is a demand for 7-10 million houses but, unfortunately, the supply is very poor due to the focus is on luxury apartments, villas, etc.
9. A good amount of remittance from abroad goes into real estate, which essentially has made the real estate of Pakistan a place where files are bought and sold, making the sector investment-driven not demand-driven.
10. No verification/qualification is required to become a developer or real estate agent. Anyone with access to some parcel of land or capital is a developer in this country.

Conclusion: It was concluded that the real estate sector in Pakistan is real in name only as a large part of it is based on virtual documents/files whose value is speculated based on the advertisement campaign and background of the developer. The sector doesn't generate much real value in terms of fulfilling the housing demand or even return on investment. Moreover, land distribution at extremely low rates has become a well-entrenched culture in the public sector i.e. housing societies for judges, lawyers, armed forces personnel, even for journalists. In addition, the regulator also fails to regulate the market in a professional manner due to lack of capacity, corruption, etc. The speakers suggested that the onus of bringing efficient equilibrium cannot be put on a regulator, developer, or for that matter on any stakeholder alone. Rules and regulations need to facilitate efficient working of the real sector. Digitization of land records and one window operation is essential. Middle-income housing, along with low-income housing, should be a priority. For this to happen, all stakeholders must come together and share the responsibility so that the developer can deliver and the regulator can regulate avoiding unnecessary red-tapes.

INTRODUCING DEBATES

ABBAS MOOSVI

As we gear up to transition from 'Policy and Research' to 'Discourse', one of the key additions to our catalogue is the Debates series! A culture of intellectual vibrancy and exchange is what

fuelled the Renaissance in Europe, whereby novel, profound, and provocative ideas were painstakingly introduced to the mix – inviting communities to reflect and to challenge established norms and structures. This was true even in the Muslim world during the Golden Ages, when scholars were constantly churning out new perspectives to enhance their understanding of the world around them and pursue progress – seeing it as a religious duty to do so. If that were the case then, why not now?

In Pakistan, this phenomenon has systematically been clamped down upon due to the insecurities of those occupying the corridors of power, whether that be civilian governments or military dictatorships. The beauty of insightful thought, however, is that it only gains momentum with every subsequent attempt at squashing it: particularly in the age of the interwebs!

In lieu of this, we intend on kick-starting a series of debates in these pages over the coming months – engaging a diverse range of perspectives from everyone including but not limited to academics, activists, politicians, bureaucrats, policy analysts, development practitioners, and corporate sector professionals. One pressing issue – based on emergent socio-political and economic developments – will be selected for each edition, along with a proposition and opposition stance. Two experts will then be nominated to present the strongest possible argument for each side, and you – the audience – will be free to decide which comes out on top!

In lieu of this, we intend on kick-starting a series of debates in these pages over the coming months – engaging a diverse range of perspectives from everyone including but not limited to academics, activists, politicians, bureaucrats, policy analysts, development practitioners, and corporate sector professionals. One pressing issue – based on emergent socio-political and economic developments – will be selected for each edition, along with a proposition and opposition stance. Two experts will then be

nominated to present the strongest possible argument for each side, and you – the audience – will be free to decide which comes out on top!

In the next issue, we intend on covering electoral reform – a talking point that has dominated public discourse since the ouster of Imran Khan as Prime Minister. The two primary hot topics of this debate are, of course, electronic voting machines and the participation of overseas Pakistanis – and while those two will certainly form the central theme, we will encourage critical takes on the framing of the debate question itself for an added dose of flavour and nuance to the discussion. In other words, a subtheme animating the exchange will be whether technical interventions into the manner in which the electoral system functions can suffice to address the larger pathologies of governance that characterize Pakistan's political landscape.

But that's not all! In addition, we intend on bringing our material to you on social media – where each debate will be followed by a Twitter Space on the same topic, where we will welcome your opinions on the two viewpoints presented. We are a think-tank, but we don't like the way our 'sector' is structured. We wish to democratize rather than preach from pulpits, and credentials – while important – should have no influence in determining access to platforms. Policy can never be a one-way street, and an organic, bottom-up, decentralized approach to progress and development is what we ultimately believe in and promote: because no 'expert' can ever truly know what the intricate dynamics on the ground are. Only the people living that reality can. And we will amplify their voices.

We look forward to your support and interest in this ambitious new venture, hoping that it sparks a much needed dose of inquisitiveness and critical thinking among the general public – by far the most important stakeholder in all things relating to policy decisions.



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Section 1

Energy Issues



Techno-Economic Analysis Of Widespread Microgrid/Minigrid (Mg) Deployment In Pakistan's Electrical Power Sector

Danial Saleem

The Government of Pakistan has taken appreciable initiatives in the Electrical Power Sector which is undergoing an extensive reform and restructuring process, especially in the fields of de-carbonization and deregulation. However, a significant percentage of population is yet to be electrified in Pakistan though the country has been bestowed with huge natural energy resources. Due to various reasons such as limited financial resources, scattered population, etc., expansion of centralized grid is not economically viable in most of the remote unelectrified locations. In this regard, Micro/Mini Grids deployment offer an excellent opportunity to address this problem and to improve the life quality of people of Pakistan and complement the economy thereof. The study is based on simulation and analysis based research methods, wherein the techno-economic evaluation is performed for the potential regions of Pakistan modelled with their associated characteristics. As per the study findings, Renewable Energy dominated Micro/Mini Grids presents much more financial viability as compared to fossil-fuel based Micro/Mini Grids, which will also help in reducing detrimental effects on the environment. At the same time, they

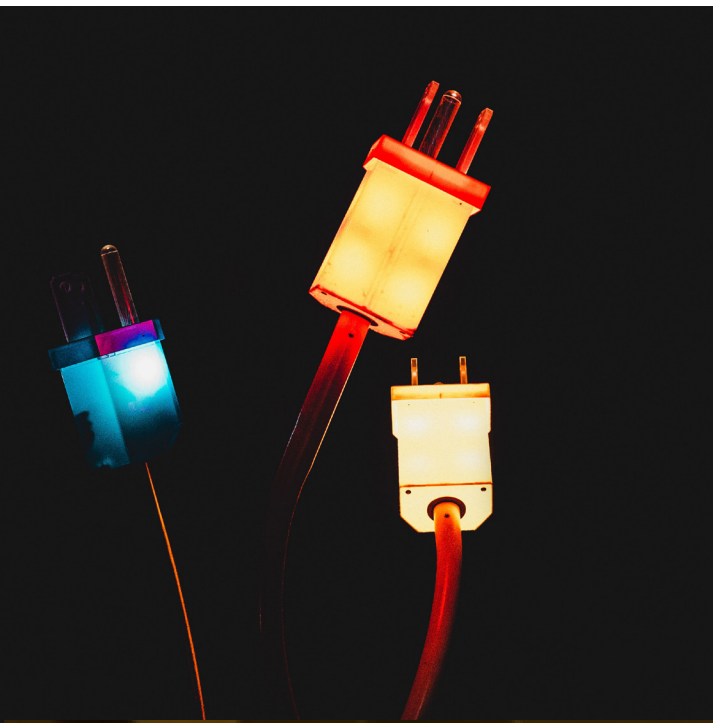
offer a lucrative investment opportunity for the investors. Although Micro/Mini Grids present a very cost-effective solution for remote unelectrified areas of Pakistan, however, they may face technical issues if not properly designed. Direct Current Micro/Mini Grids and the application of Micro/Mini Grids for irrigation purposes present interesting cases, reducing the overall cost of energy. Some of the important factors to be considered to evaluate the feasibility of Micro/Mini Grids are electricity demand pattern, supply reliability requirement, discount rate and the project lifetime. There is an urgent need of dedicated and comprehensive policy and regulatory framework, since the existing one is insufficient to effectively upscale Micro/Mini Grids deployment in Pakistan. While assessing electricity provision options for remote unelectrified areas of Pakistan, it is imperative for the electricity planners to consider and evaluate Micro/Mini Grids before proposing huge investments for transmission and distribution infrastructure. One of the important considerations is to align the design of Micro/Mini Grids with the affordability of the customers in the specific geographical area, to create a win-win situation for all the stakeholders.

Reducing Weighted Average Cost Of Generation In Pakistan Through Time Of Use (Tou) Pricing Models Of Flexible Electric Loads

Naveed Arshad

Pakistan has faced under and over supply of electricity over the past decades. Historically Pakistan has faced a shortfall of upto 7000 MW but at present the country has 12000 MW of excess capacity even after meeting the peak summer demand. The undersupply curtailed the GDP growth and is a major cause of industrial slow down, but the present oversupply is constantly causing an incremental rise in electricity prices and circular debt. Intelligent management of electricity demand may help reduce electricity prices and may also curtail the circular debt accumulation.

Demand Side Management (DSM) techniques allow intelligent management of electricity load where electricity distribution companies provide various financial incentives to shift demand from peak to off-peak times to reduce the Weighted Average Cost of Generation (WACG). In this report we present a DSM tool that performs in-depth data analytics to assess the impact of demand shifts at hourly basis. Using authentic and verified data from the power sector the tool provides impact of demand shifts on WACG. The tool encodes not only the tariffs of all generating units operating of Pakistan but also considers other financial conditions including mandatory capacity and energy payments from IPP agreements in calculating its results. The tool also incorporates the technical parameters of all generating units to create a digital twin of the generation sector. Moreover, the tool also calculates the impact on environment through operating various sets of generation units.



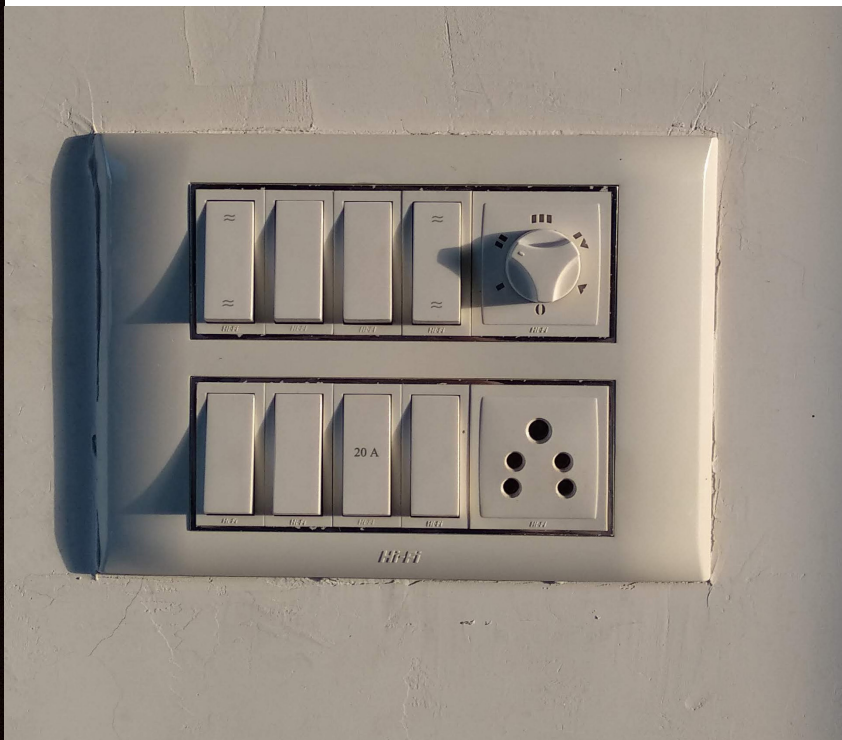


Household Energy Poverty In Pakistan

Fouzia Sohail & Ambreen Fatima

This research study examines the impact of electricity sector reforms on the household welfare of the country. The ongoing reform process gradually eases the fiscal burden by eliminating subsidies. However, an increase in electricity prices reduces poor households' affordability and is thus believed to increase energy poverty in Pakistan.

This study found that increasing electricity prices burdened the limited household resources and thus altered their budgetary allocation by employing secondary data. Further, it is found that without undertaking appropriate measures of compensation, a substantial proportion of poor households would be dragged below the poverty line. The study suggests that successful reforms should be accompanied by compensation packages for the poor and increased service quality and reliability for households paying higher prices. The study also conducted a household survey of Karachi city as a case study to obtain in-depth information on the energy situation. Findings from the survey data show that although tariff rates are still subsidized for lower consumption households, additional charges like government charges, TVL fees, fuel adjustment charges etc., constitute a significant proportion of total electricity bills. The study also recognizes households' cognitive and behavioural aspects in energy use by incorporating these modules in the survey questionnaire. Hence, numerous viable policy options are recommended in the study to successfully implement reforms without compromising the social aspects.



Section 2

Urban Development



Adoption Of A Performance Evaluation Technique For The Development Of A Framework For The Climatic Responsive Urban Design (Crud)

Salma Sherbaz & Humera Mughal

The study investigates the effects of urban design elements i.e. street canyon geometry (Canyon length, width, height, orientation, and SVF) and greenery on the urban microclimate using remote sensing and computational fluid dynamics-based techniques. The important conclusion derived from the current research can be used by designers for climate-responsive urban design in case of the future extension of these cities. The important results of the current research are: a) LCZ based LULC classification of the twin cities revealed that the residential area of Islamabad mostly consists of open low-rise buildings. Whereas Rawalpindi residential area is dominated by compact low-rise infrastructure; b) Being highly urbanized regions, most of the urban areas in twin cities are associated with high LST; and c) According to the regression analysis result, canyon height, width, length have a significant inverse correlation with LST for both cities. This implies that increasing the values of these parameters will bring a prominent cooling effect. The skyview factor is has a significant positive correlation with LST in both cities. So by decreasing skyview factors either by (i) introducing the deep street canyons or (i) increasing the greenery inside the wide canyon will reduce the LST intensity inside these street canyons.

Prospects For The Development Of Solid Waste Management System: A Case Study Of Metropolitan City Karachi

Shaista Alam (Late) & Ambreen Fatima

The study aims to explore the public and private institutional structure, its weaknesses and obstacles it

faces in managing the solid waste system in Karachi. Specifically, the study aims to make (1) capacity assessment of the public sector in providing the service, (2) assessment of the role of the private sector and workers managing Solid Waste formally or informally and (3) estimation of households' Willingness to Pay and Ability to Pay for the better management of the solid waste in Karachi. For assessment purposes, the study conducted a comprehensive household survey and interviews of key players involved in the management of solid waste. The study covers all the 6 DMCs and 18 towns of Karachi. Based on the information collected from the secondary reports shared by the SSWMB and other officials of KMC, a detailed descriptive assessment is done regarding (i) generation, (ii) collection, (iii) cost of collection, and (iv) human and physical input involved. In order to explore the role of private contractors and informal players, separate interviews (KIs) are conducted. Information collected from the private contractors not only helps us to understand the system hierarchy in managing the solid waste but also the cost and profit involved in each step – a kind of value chain analysis. The study also developed a detailed Household questionnaire to evaluate (i) the current practices in handling solid waste by household, (ii) the perception regarding the clean environment, and (iii) household willingness and ability to pay in managing the solid waste in Karachi. The study summarizes all the findings by conducting a SWOT analysis.

Choice Modelling Of Public Transport To Design Transport Policies For Urban Mobility In Pakistan

Ajaz Ahmed & David Palma

Public transport is vital for socioeconomic development as it allows citizens to access opportunities, including, markets, social interaction, education, and other services, enabling them to rise out of poverty and overcome social exclusion (GOP, 2018). However, Pakistan lacks a decent and affordable public transport system for its citizens. This issue is particularly serious in urban areas due to the expansion in urbanisation, cities economic potential, generation of greater economic activity and subsequent need for mobility and commuting. Using choice modelling and primary surveys, this study investigates commuters' preferences for different attributes or features of public transport and their willingness to pay for fare in three main cities of Pakistan (Islamabad, Lahore and Karachi).



Section 3

Technology and Public Service Delivery

Electronic Voting Machines For Pakistan: Opportunities, Challenges, And The Way Forward

Hina Binte Haq & Syed Taha Ali

This paper is an attempt to structure the ongoing debate around Electronic Voting Machines (EVMs) and election technology in Pakistan and ground the discourse in research, international best practices, and expert guidelines. EVMs have been used in different countries since the 1960s and have proved highly controversial. A concerning trend has emerged over the last two decades in those various developed countries, including Ireland, the Netherlands, and Germany, have phased out or terminated their EVM deployments over concerns of voter privacy and election integrity. At the same time, deployment of EVMs in developing countries, such as India, Brazil, Venezuela, and Philippines, has yielded mixed results. There is therefore an urgent need to decipher this trend such that we may maximize the gains of these technologies and avoid mistakes made by other countries.

Moreover, revolutionary new technologies have emerged in recent years which enable citizens and observers to verify and audit election results. Technologies such as end-to-end verifiable voting and risk limiting audits are being developed and piloted in the West, but there is as such, little recognition of the unique challenges in adapting these methodologies in developing countries like Pakistan. There is a need to make these technologies accessible to election stakeholders and to precisely identify the critical research gaps and challenges we need to address in Pakistan. This paper draws together these complementary lines of inquiry and provides a comprehensive vision for election technology in Pakistan. We also present recommendations to address these challenges at every stage. The accompanying roadmap spells out these recommendations in the



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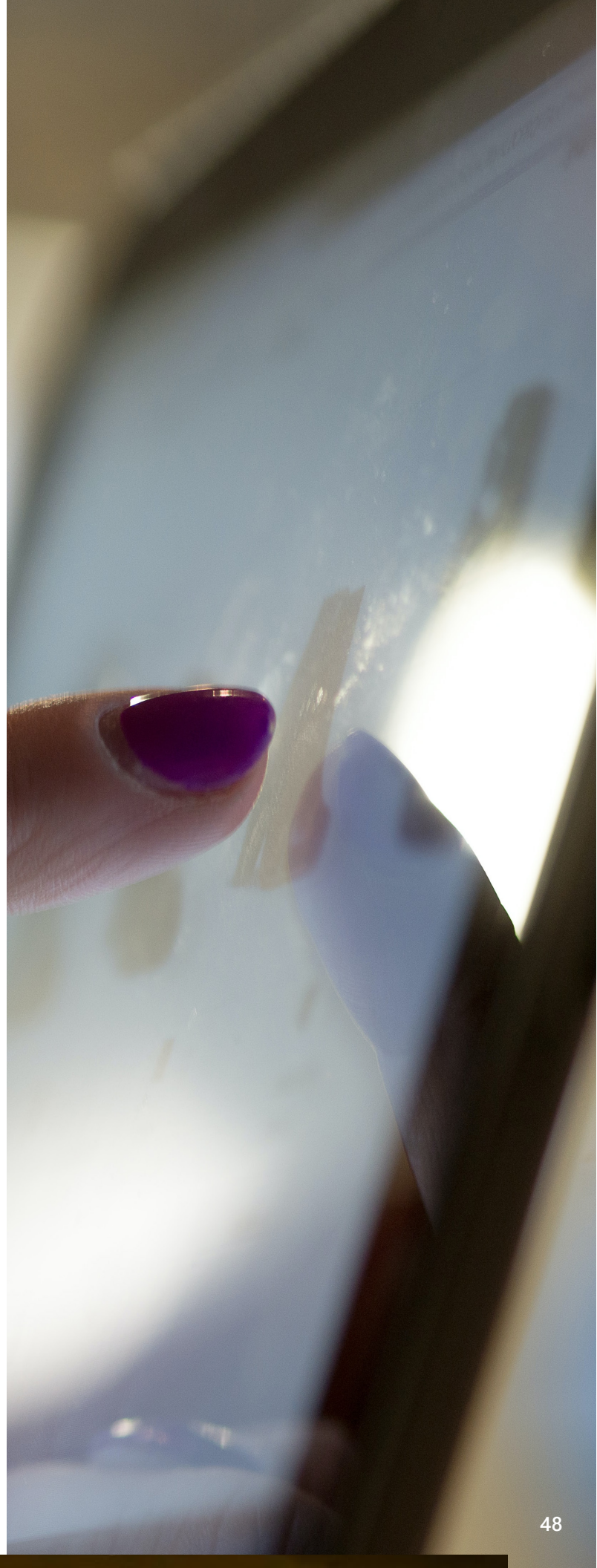
form of concrete detailed steps that stakeholders need to take. This paper provides a framework for such efforts and is supported by a detailed roadmap which describes the key steps that stakeholders need to take to successfully deploy EVMs and election technology in Pakistan.

Transforming Public Sector Through Digital Governance Initiatives In Khyber Pakhtunkhwa: Bureaucratic Conduct, Transparency In Service Delivery And Citizen Centric E-Governance

Shagufta Aman

Under the motto, 'Technology is Our New Ideology,' the Khyber Pakhtunkhwa's two-time elected Pakistan Tehreek-e Insaaf (PTI) provincial government is undertaking a number of key governance reforms focused on digitizing public service delivery in various provincial government departments. This research attempts to investigate how digitization is affecting bureaucratic efficiency, transparency and inclusivity in public service delivery in education and health and what impacts are resultantly generated on organizational culture. Further, whether digitalization has affected citizen's trust in the provincial government. It attempts to do so from the perspective of public service providers, i.e., the bureaucracy and end users, i.e., the public (school and college students and hospital patients). The study employs both qualitative and quantitative methods to reach its findings.

The findings of the study suggest that significant digital interventions were made by the provincial government in both education and health sectors and the Covid emergency provided a big push to digitalization of government services. These interventions are driven by the desire to generate policies based on evidence-based data and to optimize efficiency, transparency and accessibility of services. However, the ICT induced impacts on service delivery varied depending on the nature and the context of digitization interventions, which resultantly had differing results. In the context of most notably the education sector, for example, access to online tele-learning services were limited by student's economic background and paucity of funding, inhibiting IT infrastructure in public schools. Most of the health and education e-initiatives focus on registering online complaints, applying for e-transfers, online admissions, or printing online forms, which makes it a managerial type of government, as Chadwick and May suggest, measures that steered towards greater government control and less public participation in policy making. Additionally, the propensity of significant groups being left out, either due to the non-availability of resources, such as computers, internet, feedback booths or accessibility being limited to ICT literate population only, leaves the aspect of biased data a greater possibility. Since there is very little political deliberation and discussion in a 'cyber virtual civil society' group, therefore,



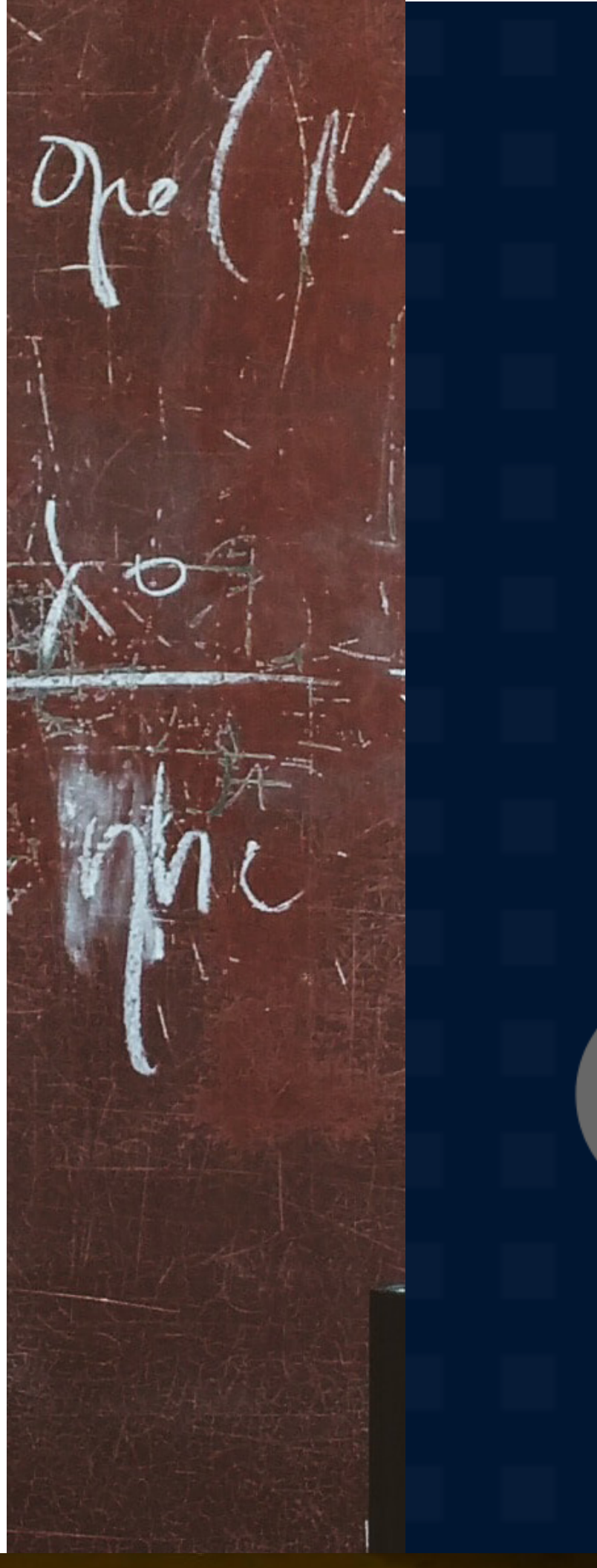
the prospect of ICT governance being 'participatory' is even less visible. The findings also suggest that ICT induced transformations in bureaucracy's organizational culture in terms of its values, expectations and practices also gives rise to bureaucratic resistance and skepticism of ICT introduced reforms. Such limitations may prove a big stumble in the Khyber Pakhtunkhwa government's vision to provide speedy, efficient, accountable, and inclusive services to the public.

Cost-Benefit Analysis Of Parallel Education Streams In The Public Sector

Muhammad Jehangir Khan

In this study, we tried to assess the Islamabad Model Colleges and Cadet Colleges on three dimensions: in producing earning benefits, in producing better academic grades, and in getting things done. For this purpose, we applied a mixed-method approach to compare both streams of education. This implies that this study has approached the research problem from both quantitative and qualitative dimensions. In the quantitative domain, we covered the Cost-Benefit Analysis (CBA) and Pooled Regression Analysis (PRA). Whereas in the qualitative domain, we focused on comparing the delivery approach of both school systems.

The cost-benefit analysis has shown that investment in both streams is beneficial for the economy in the long run. However, considering the cost to the government only, the cadet colleges are producing more benefits than Islamabad Model Colleges, while considering the overall cost (including cost to the government, private cost, and opportunity cost) Islamabad Model Colleges are slightly ahead of cadet colleges not because higher-earning but because of lower private cost. On the other hand, Pooled regression analysis showed that Cadet colleges are producing higher academic grades than Islamabad Model Colleges. Further in this study, we found that, currently, the delivery approach of cadet colleges is relatively better than the delivery approach of Islamabad Model Colleges, however, in the last few years FDE has taken some admirable steps to strengthen its education delivery system.



Section 4 Social Sector Development



Improving Public Sector Development Programme Allocations In Clientelistic Environment Of Balochistan: A Political Economy Analysis

Mir Sadaat Baloch & Nadir Khan

Successive governments in Balochistan have failed to streamline the Public Sector Development Programme (PSDP) despite repeated directions from the High Court and Supreme Court to plan it in an effective manner. This study discusses how political clientelism is influencing the process of PSDP by diverting scarce resources to create incentives for powerful political actors to keep the public dependent and poor. As a result, it is feeding extreme levels of exploitation and corruption in Balochistan. An analysis of the disbursement of PSDP in the 10 districts in last ten years clearly shows some districts with more population and area have been receiving less funds as compared to less populated and smaller districts. To over this inefficiency this research has formulated a mathematical model that estimates the amount to be allocated to each district, where the amount to be allocated to each district is a function of the total PSDP and the weights of population and area for that district. Then to further prioritise the projects of any department a performance matrix is developed. The matrix ranks the public sector development projects. The criteria used in the matrix are the themes obtained from the interviews and focus group discussions with the personnel of the relevant departments. Finally, this study suggests that a single approach for budgeting would make it difficult for government. The government must use a formulaic approach along with a participatory approach for effective PSDP allocation in the clientelistic environment of Balochistan.

Public-Private Partnerships In Education: Evaluating The Education Management Organizations Program In Sindh, Pakistan

Gul Muhammad Rinda & Dhani Bux Shah

The focus of this study was to investigate public-private partnerships (PPPs) in education, in this instance by evaluating the Educational Management Organizations (EMOs) Program in Sindh, Pakistan. The study is guided by the research questions which were intended to evaluate to what extent, how, in what way, and for whom PPP mode of education through EMOs improve access to education, ensure quality and equity in education, and sustainability in the context of Sindh, Pakistan? We have chosen the Realist

Evaluation as a methodological approach, applied New Public Management as a theoretical framework to answer the research questions, and adopted a mixed methods research design. The data collection includes EMOs policy documents, PSLM survey, SEMIS, and SAT data sets. Moreover, we have conducted 37 semi-structured interviews and FGDs with the EMO stakeholders, including policy developers, school operators, managers, headteachers, teachers, and parents. The findings indicate that PPPs through EMOs have some advantages in better governance of schools through autonomy and decentralization. The schools' accountability, monitoring, and evaluation have been somehow improved. However, the broader impact of EMOs reform still does not reflect in increasing access, overall quality, and ensuring equity; also, the sustainability of these schools after EMOs contractual period remained unpredicted. This study may open a window for policymakers and concerned stakeholders to better understand what works, for whom, in what circumstances and design a better regulatory framework of PPPs beyond the piecemeal approach to education reform.

An Impact Evaluation Of Government Scholarships On Students Success: A Case Study Of University Of Turbat

Riaz Ahmed

This study tries to investigate the short to medium term impact of government sponsored scholarships on undergrad students' academic performance and other success outcomes. Taking advantage of the recent initiatives of governments at both federal and provincial level for introducing undergrad scholarship programs that provide us a quasi-natural experimental research design, this study utilizes a difference-in-differences (DID) approach to estimate the impact of scholarships on students' academic and success outcomes. Using University of Turbat as a case study, we compare academic performance outcomes — Percentage marks, GPA, or CGPA — of students who held scholarships with academic performance outcomes of those in the same sessions, departments and degree programs without having scholarships before, during and after the awards. Our results show that, the HEC Ehsaas scholarship program—which is designed to support financially the needy students' — seemingly increased the academic performance of male students only with a percentage point of 4.10 in their semesters' marks. This improvement is significant economically because an additional of 4.10 percent marks could secure a student from dropping out at the university's enrolment or change the grade of a student from B to B+. In order to tracing out channels through which this impact could possibly happen, this study tests a number of hypotheses to validate the

findings. These findings indicate that male students when obtained scholarships are less likely to depend on their parental income for the university related expenses than female students. Also, they are more likely to focus in their study by taking class notes seriously in the class compared to their counterpart male students who did not hold scholarships. The positive impact of scholarship on students' others success outcomes (e.g. students' retention, engagement and satisfaction, acquisition of skills and competences, and career success) particularly for male is also validated in a number of t-tests by using our survey data. Surprisingly, this did not find any evidence on the impact of merit based scholarships on students' academic performances.

Skill Mapping And Human Resource Planning For Proposed Special Economic Zones: Job Creation For Unemployed Youth Of Pakistan

Aziz Ahmed

The TVET system of Balochistan is highlighted to give starting point mapping of TVET skills for human resource planning in this study. The study reveals that human resource planning through TVET composed of B-TEVTA, skills allied provincial departments, NAVTTC skills sets, the provision of skills by national and international NGOs, and private sector skills provision including apprenticeships in existing industrial set-ups for SEZs/EPZs that ensure job creations for provincial labor force. The strength of skills mapping for human resource planning are based on these institutional frameworks of TVET system in Balochistan. The skills dissemination through public and private sectors institutions rely upon TVET policies, laws, protocols and standards of provincial and national qualification frameworks to ensure quality skills provision for skilling the provincial labor force. The guidelines given by NAVTTC, ILO and UNESCO documents for skills provisions in the province recognize the testing and relevancy of TVET skills mostly concerned with fulfilling the common sets of demand-driven TVET skills for the requirements of industrial labor market needs in the province. The study also reveals deficiencies in the categories of mapped lists of skills for vocational, technical and specific skills sets required for the existing, proposed and potential industries focused in this study. There are traces of legal, administrative, coordination, cascading, not specific to industrial needs, highly imbalanced skills sets provision among vocational and technical skills, gender-biased, quality compromises, non-alliance of provincial TVET provisions, and deficiencies in specific technical and vocational skills are issues that are identified for skills mapping and human resource planning to effectively ensure job creation for unemployed labor force to be employed in SEZs/EPZs of Balochistan. Low skills formations and shortages of technical and vocational skills are deficient areas mapped in this study. To cope with the problem of skills deficiency in technical

and vocational skills for the needs of SEZs/EPZs and their industrial labor demands justify the case for devising human resource planning to ensure employment and job creation for unemployed youth of Balochistan. The policy options are given below for human resource planning pertaining to skills development that could justify the following policy recommendation in the context of the findings and discussions of this study.



Section 5 Markets and Regulations



Informal Markets And Competition: An Analysis Of Barriers To Entry Of Legal Framework And Behavioral Attitude Towards Khokha Markets In Pakistan

Anwar Shah & Tehseen Ahmed Qureshi

Khokhas are one of the key segments of informal economy in Pakistan. Khokhas provide jobs to many people and provide easy access to consumers for doing various types of transactions. However, on average one observes a very unorganized and shabby structure of the Khokhas across Pakistan. This creates a question in mind of everyone that why this is the case. Is everyone allowed to start khokhas in any market of Pakistan or there exist some legal framework? We aim to provide answer of this question. The analysis of legal framework is important for understanding the barriers to entry and thus competition in the khokha markets of Pakistan. In addition, we examine the behavioural side of the people associated in some capacity with the khokha markets. We aim to test whether legal side is more deterring than behavioural side of the associated people for entering to khokha market. For this purpose, we review the available legal framework and collect primary data from the owners of Khokhas in 5 cities of Pakistan. We find that the barriers to entry aspects of legal framework are more dominant than the barriers to entry aspects of behavior of people towards khokhas. There exists no legal framework to obtain a license for establishing khokha in our sample cities. People enter the khokha market with the constant risk and fear of demolition, fines, confiscations and arrest. We find that the absence of legal framework is one of the major cause of constant harassment of current vendors by public authorities. Hence, is a major behavioral barrier for prospective entrants. Based on regional comparison of laws related to khokhas, we propose a detailed set of policy that could be adopted for creating a formal legal framework for Khokhas across Pakistan.

Revitalization Of Street Economy In Pakistan: The Case Of Islamabad

Nasir Iqbal & Saima Nawaz

The study aims to provide an economic analysis of the street economy in the twin cities of Pakistan. The survey-based analysis of 1,863 fixed street vendors working in twin cities shows that lack of formal education and unemployment inclined individuals to choose street vending business as a profession. The analysis reveals formal-informal solid economic linkages, beneficial for shop owners and street vendors. The formal business (shops) benefits from the pedestrian traffic street vendors attract by selling low-cost products. At the same time, street vendors use the formal sector to buy a product and use storage spaces. The average monthly revenue of street vendors is Rs. 114,708 (US\$ 740) and, on average, earns a significant profit amounted to US\$ 212 per month (29% of total monthly revenue). The street vendor made, on average, US\$ 571 investment to run vending business and around 60% of SVs use their own money to start a street vending business. A street vendor pays around US\$ 107 monthly as an operational cost, and more than 51% of the total operating cost incurred by the street vendors falls under the category of rent paid to the owner of the shop. The total number of street vendors in Pakistan is 753,690, and the annual national contribution of street vendors in the GDP of Pakistan is Rs.1,037.45 billion (US\$6.69 Billion) based on revenue data we collected from our survey, which is still underreported due to the nature of the informality of the sector. The lack of legal protection is one of the significant challenges faced by street vendors. We find that 98% of SVs operate without any legal protection in the market. The reported economic loss due to informality constitutes around 62% of monthly revenue, 215% of net monthly profits. The multidimensional vulnerability index (MVI) shows that approximately 21% of street vendors are acute vulnerable, while more than 25% of SVs are vulnerable. The multivariate analysis shows that socioeconomic vulnerability has a negative and significant impact on monthly profits. Around 57% of SVs fall below the poverty line, being treated as poor. The economic analysis of street vending provides numerous insights for policymakers and other stakeholders, including businessmen, market associations, regulatory authorities, administrative bodies, and social protection agencies.

Regulatory Environment Of The Professions In Pakistan: An Outline

Umer Ijaz Gillani

This study aims to provide, firstly, an accurate description of the law which govern the professions and set up their regulatory structures. Second, this study puts together, for the first time ever, some basic demographics of the profes-

sions - for instance, the total number of lawyers, doctors and auditors etc., their gender breakdowns and, in some case, their growth rates too. Finally, based on the study, I have charted out an agenda for policy debate which is informed by legal and demographic realities, not just anecdotes and personal whims.

This is primarily a descriptive piece rather than a prescriptive one. However, the aim of this descriptive research is to provide a basis for having a more informed policy debate on proposals for reform of the professional regulators. This is a structure which rests upon almost one dozen primary statutes and even more voluminous delegated legislation. The history, structure, powers and behaviour of each of the regulators – Bar Councils, Nursing Councils, Engineering Council etc. – is unique; but there are also some commonalities. Effective public critique and reform of the professions is not possible without taking stock of this complex regulatory structure. The study confirms the general impression that the regulatory framework of the professions in Pakistan is based entirely upon the model of “self-regulation”.

Section 6

Political Economy of Development and Reform



Political Dynasties And Local Economic Development In Pakistan

Faizur Rehman, Noman Ahmed & Muhammad Nasir

Political dynasties are entrenched in Pakistan's political system. Dynastic legislatures constitute more than 50% of elected politicians in Pakistan. However, until recently, no scientific study was conducted to evaluate the economic performance of dynastic parliamentarians. This study explores the effect of political dynasties on local economic development at the constituency level across Pakistan. More specifically, the objective is to examine whether constituencies with dynastic persistence are significantly different from the rest in terms of economic activities and public good provisioning. To measure political dynasties, data on elected politicians who won 2002, 2008, & 2013 general elections are utilized to extract information about a politician's family background. This information is then matched with the constituency level indicators of economic development and public goods. The findings show that dynastic legislature underperforms relative to non-dynast in terms of local economic development and public good provision. Constituencies with non-dynast winners have improved water and sanitation facilities, better infrastructure, and significantly higher access to public services such as electricity, gas, and telephone. The study recommends that limiting the role of parliamentarians in discretionary funds and development spending, and empowering the local government system would minimize the performance differences across constituencies.

'Protection For Sale': The Political Economy Of Trade Protection In Pakistan

Adeel Malik

This paper examines the impact of political influence on trade protection in Pakistan. Using the classic Grossman-Helpman model with an innovative dataset on political influence and trade protectionism, we are able to examine determinants of trade policy.

We use a granular dataset on political connections including trade associations, parliamentarians and their business interests, and politically powerful business families in Pakistan. This 'political connections' dataset is combined with data on tariffs, non-tariff measures, and regulatory duties in Pakistan to form a complete picture of trade policy in the country. We extend the methodology traditionally used in the Grossman-Helpman literature by using a synthetic control model to construct the main instruments used in estimating the parameters in the Grossman-Helpman model.

Our empirical analysis is focused on two areas of enquiry. Firstly, we probe whether special interest groups represented by strong business lobbies or politically connected firms were able to secure higher levels of non-tariff protection in the wake of the 2013 trade policy shock. Our second objective is to estimate a structural political economy model of trade protection that accounts for government-industry interaction (Grossman and Helpman, 1992). This allows us to take a broader sweep on the political economy determinants of overall trade protection using a well-established structural model. This study is the first of its kind in the Pakistani context, where both cronyism and trade policy have emerged as key markers of public policy debates but where rigorous empirical research is seriously lacking. Beyond its relevance for Pakistan, our research contributes to the literature that studies the domestic political foundations of trade policy. Our contribution is to go beyond tariffs to include a variety of other trade policy instruments, including non-tariff measures and regulatory duties. A second point of departure from prior work is that we will develop a more precise and direct proxy of politically connected sectors that is based on more granular information on the presence, number, and type of political connections.

The Perspective Of Native People Regarding Developmental Projects Of China Pakistan Economic Corridor (CPEC) In Gwadar, Balochistan

Zahid Ali

Gwadar's economic potential has become a center of debate in national and international media. However, less discussed are the people living there, especially the native communities who are mostly dependent on fishing as a source of livelihood. Moreover, most of the available studies have taken a quantitative approach, obscuring the genuine voices of the local people. This study takes a people-centric approach by employing qualitative method with grounded theory as a research design. The study has primarily explored the perspectives of native dwellers of Gwadar regarding the positive and negative impacts of CPEC projects. Intensive fieldwork has been carried out in Gwadar city to collect data from various groups including fishermen community, people displaced/ re-located by the CPEC projects, daily wage laborers, local community leaders/influential, the micro-business community, government officials, and students. Both male and female members of these communities have been interviewed for a better understanding of how different groups are affected differently by executed projects. The findings reveal that the local people had a lot of expectations from the CPEC projects, but overtime these expectations have changed into concerns and frustrations. Most people acknowledged and appreciated the development of infrastructure in Gwadar as several mega projects have been executed in the city as part of CPEC. However, the locals have been feeling discriminated against as they are facing water

scarcity, long hours of electricity load shedding, few employment opportunities, etc. They also fear that they should be relocated by the government from the land of their forefathers and the city. The local people, especially the fishing communities have been feeling restrictions on their movement and access to the sea which has affected their fishing business. This research has also attempted to arrive at a theory to interpret, predict and manage the attitude of the local people towards mega development projects. Policy recommendations have been provided at the end of this report to make CPEC more meaningful for the local people of Gwadar and to (re)gain their trust and confidence in the government, which is currently at stake.

Exploring The Water Governance Policy Framework For Improving Participatory Irrigation Management Reforms

Muhammad Arfan

Participatory Irrigation Management (PIM) reforms was introduced to mitigate the inept management of the traditional irrigation bureaucracy. It was hypothesized that these reforms would leave a positive impact on crop productivity and enhance the distributional equity of water among its users. The present study tried to compare the PIM and Non-PIM irrigation schemes under almost the same cropping systems of Sindh and Punjab provinces of Pakistan—link it to farm sizes, irrigation management practices, institutional arrangements, and governance structures. Both qualitative and quantitative research methods were used for studying different aspects of irrigation management and reform process. It was concluded that canal water distributional inequity offspring economic inequity along the spatial position of the canal and tail user significantly under perform its actual potential. Reform unable to generate hydro-solidarity between head and tail sections of the canal and thus farmers managed institutions—FOs and AWBs, unable to check the rent-seeking behavior of irrigation bureaucracy. Level of participation in WUAs activities don't have a significant impact on the farm level productivity but the Institutional Performance of AWBs (IPAWB) have significant positive impact on the Composite Irrigation Management Performance (CIMP). Community cooperation and WUAs maturity have a significant positive impact on community participation in WUAs activities. Moreover, land asymmetry having significant negative relationship with land productivity, CIMP, IPAWB, and level of participation in WUAs activities. It has also been seen that irrigation bureaucracy only does an institutional mimicry under externally assisted push because there is substantial evidence that the PIM model was never adequately tested and implemented. Without active farmers' agency—small and landless peasants, these paper organizations are unable to create multi-level accountability in irrigation management.

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