[**Defining challenges**](https://www.dawn.com/news/1604242/defining-challenges)

[Sakib Sherani](https://www.dawn.com/authors/436/sakib-sherani)Published January 29, 2021

The writer is a former member of the prime minister’s economic advisory council, and heads a macroeconomic consultancy based in Islamabad.

PAKISTAN is faced with a number of severe challenges that have been left unaddressed for far too long. The impact of these development challenges started becoming visible in linear increments in the 1990s, but now their impact is agglomerating. A thumbnail sketch of the main ones is presented below.

**Population growth:** Pakistan adds approximately 4.4 million people to its population each year, at the current growth rate. The annual addition is equivalent to the combined population of 40 of the smallest countries of the world, or the equivalent of the combined population of Slovenia, Latvia and Iceland each year. The country’s population has doubled in the last 29 years (since 1991), and it is estimated by the UN that there will be 403m inhabitants by 2050, keeping Pakistan at fifth place in the world by population size.

Its high fertility rate, of over 3.5 births per woman compared to 2.4 for South Asia combined, has declined at a more modest pace than most of its developing country peers, and is propelling population growth. The rate of increase is untenable. The pressure rapid population growth is exerting on urban density, public services and physical infrastructure, quality of life, resources, availability of water etc. is becoming increasingly clear with every passing year.

It is propelling a dynamic of poverty, a poor quality of life, water stress, pollution and environmental degradation that is unsustainable.

Several critical development challenges stalk Pakistan’s longer-term prospects.

**Water:** Pakistan’s annual per capita water availability has declined to nearly 1,000 cubic metres — at just about the ‘scarcity’ threshold. In 2009, the per capita water availability in the country was around 1,500 cubic metres. Rising water scarcity is the most existential of all the challenges facing Pakistan. According to the World Resources Institute’s ‘Aqueduct Water Risk Atlas’, Pakistan ranks 14th in terms of countries facing extremely high water risk (with India at number 13).

A large part of the decline in per capita availability is due to population growth and urbanisation, and at this rate, it is expected that per capita water availability will continue to drop precipitously unless urgent and concerted action is taken to rein in the runaway growth in population, promote the judicious and efficient use of water, and address the lack of water storage capacity.

The impact of water stress will not only be potentially debilitating due to lack of availability for everyday use, but also due to its potentially large economic impact. The country’s economy is heavily water-reliant, with Pakistan’s water intensity rate — the amount of water, in cubic metres, used per unit of GDP — thought to be the world’s highest. In other words, no economy in the world is more water-intensive than Pakistan’s.

To compound matters, no large-sized country appears to have invested less in water storage than Pakistan. Its water storage capacity is less than 30 days, while India stores almost 200 days of water in its major peninsular rivers and the US can hold 900 days of river run-off, according to the World Bank.

**Power:** The country has been facing a crippling power crisis since the 1990s which has worsened since around 2007. Protracted rolling blackouts across the country have cost over two per cent of GDP annually in lost output alone, leading to anaemic growth in investment and jobs, while stunting industry as well as exports.

The nature of the crisis has evolved over the years from one of chronic power supply deficits to one where there is excess installed capacity but not enough cash flow in the system to run it. The latter gives rise to the so-called ‘circular debt’ issue. Circular debt, or the cash flow shortfall in the power sector from the non-payment of obligations by consumers, distribution companies, and the government, has increased from 1.6pc of GDP (Rs 161 billion) in 2008, to 5.2pc of GDP (Rs2,150bn) as of end June 2020. It has risen since to Rs2,300bn as of end November.

The circular debt issue threatens the viability of the country’s energy supply chain. It has also destabilised Pakistan’s fiscal management and imposed prohibitive opportunity costs in terms of pre-empting government spending from critical expenditure on infrastructure and social spending. Given its linkages with the rest of the economy and large negative externalities, in conjunction with its magnitude and trend, this issue can rightly be termed as one of Pakistan’s foremost macroeconomic challenges.

**Productivity:** From the agriculture sector to industry to exporter firms, from the public sector to services, Pakistan faces a huge productivity challenge. According to ILO estimations, between 2010 and 2019, output per worker grew less than 20pc in the case of Pakistan, compared to an 86pc increase in China, 68pc in India, and 50pc in Bangladesh.

A large part of the problem is that due to low educational attainment, the workforce structure is predominantly skewed towards unskilled labour. Improving access to education and outcomes in the sector, while scaling up efforts to skill the labour force, are urgent priorities.

**Politics:** Unsettled issues in the political structure, such as power sharing, centre-province relations, dynastic and corrupt politics, the absence of commitment by any stakeholder to genuine constitutional democracy, and, institutional checks and balances, are all hindering the development path and the fight against rising inequality.

The challenge for Pakistan is not just ‘everyday’ politics but ‘identity’ politics too. If Pakistan’s attempts to reintroduce pluralism with respect to its minorities and marginalised communities are successful, it will go a long way in producing a stable polity and a dynamic of development.

**Fiscal:** All roads lead to the fiscal framework — Pakistan’s weakest link. The state’s foundations are built on its fiscal capacity. Without addressing its growing fiscal challenges — inadequate revenue mobilisation, rising debt burden, falling expenditure efficiency, a growing unfunded pension liability obligation, keeping the energy supply chain afloat, and vertical distribution issues — Pakistan cannot hope to meet the near-existential development challenges listed above.

Each of these development challenges will be given fuller treatment in subsequent articles.

*The writer is a former member of the prime minister’s economic advisory council, and heads a macroeconomic consultancy based in Islamabad.*

*Published in Dawn, January 29th, 2021*