

CHALLENGES AND THE FUTURE OF POVERTY AND INEQUALITY IN PAKISTAN

Reema Rehman^{*1}, Dr. Mirza Nasir Jahan Mehdi², Muhammad Ammar Khan³,
Dr. Naveed Ahmad⁴

¹MPhil GPP, Department of Government and Public Policy, National Defence University, Islamabad, Pakistan

²Assistant Professor, Faculty of Management Sciences, Muslim Youth University, Islamabad, Pakistan

³Elementary School Teacher, Elementary & Secondary Education Department, Azad Jammu & Kashmir(AJ&K)

⁴Assistant Professor, Faculty of Engineering & computing, National University of Modern Languages Islamabad, Pakistan

¹reemarehman1@gmail.com, ²dr.nasirmirza@myu.edu.pk, ³ammarkhan9366@gmail.com,
⁴nahmed@numl.edu.pk

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Corresponding Author: *
Reema Rehman

Abstract

Poverty and inequality particularly in Pakistan are among the most controversial ones. Inequality and poverty force poor people to pass by several difficulties. The percentage of persons who live below the national poverty line, which is 1745 Rupees a month, and the number of people who earn less than 1.25 US dollars per day are used to calculate poverty. The Gini Coefficient is used to quantify inequality. Thirty-one observations from 1984 to 2024 make up the time series secondary data used in this quantitative study. The results of this study show that the national poverty line is strongly and negatively impacted by inflation, government spending, remittances, and literacy rates in the first regression model. This is not dependent on the impact of the level of development and foreign direct investment on the national poverty. Equation two illustrates the positive correlation between inequality and growth, with inflation and growth showing positive signs and remittances showing negative signs. The relationship between inequality and government spending, foreign direct investment, and literacy is also not very strong. In this research, the findings of the study will be applicable in offsetting policy implication. Poverty and inequality can be alleviated by ensuring that education is offered which will result into more jobs and income distribution.

INTRODUCTION

Poverty in Pakistan:

Poverty in Pakistan is assumed to be one of the upfront problem and primary issue. In Pakistan there are two indices Food Energy Intake (FEI) and Cost of Basic Needs (CBN) which determines the abundance of absolute poverty. Currently, the food energy intake is regulated by the minimum calories per day of 2350 calories per day by the government Pakistan. One of

the above has been discussed earlier: minimum calories taken had to be obtained with the amount of money or rupees required. The ensuing cost of basic necessity, however, does not only entail the money that is used in the consumption of calorie, but also encompasses the non fooded expenditure such as clothing and education. According to Pakistan Social and Living Standards Measurement Survey of 2010-

11 and 2013-14, the poverty line in Pakistan is 1745 per capita and 3030.22 respectively. The following trend of poverty through giving implies consumption based on 1970 poverty level of 46.5 percent, 1980 level at 30.68 percent and 1990 level at 26.6 percent, 2000 level at 32.6 percent and 2010 level at 12.24

percent. Existing population in old poverty line 9.31%. And 29.5 percent of the people in the new poverty line which is 3030.22 rs below in 2013-14.

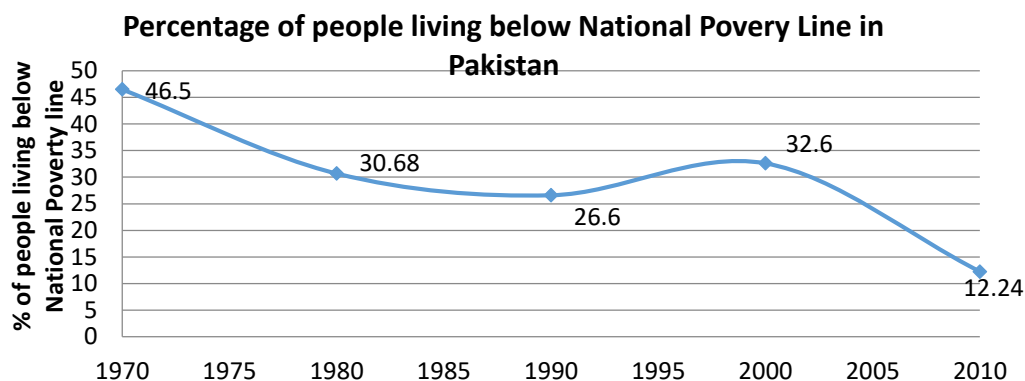


Figure 1.1: Source: Pakistan Economic Survey: % of people living below National Poverty Line.

Income Disparity in Pakistan:

The consumption pattern is also assisting in determining the income inequality in such surveys. Nowadays however, the income inequality is quantified based on the Pakistan Living Standard Measurement. The case of Pakistan reduction in poverty has been iconic as we consider the economic trend but income inequality continues to worsen with the lapse of time. A report issued by UNDP titled Development Advocate Pakistan stated that seven times more is used up by the wealthiest 20 percent of

the population in Pakistan than by a poor 20 percent of the population.

Increase in income is being witnessed by the Pakistani urban population as compared to the people in the country living in villages. There are people who are unemployed in country and earning people in lacs creating a gap in the society. The variation is what causes proliferation of the social evils e.g. high rate of crime, terrorism, which in turn results in a decline in foreign investment and, as well, in economic growth.

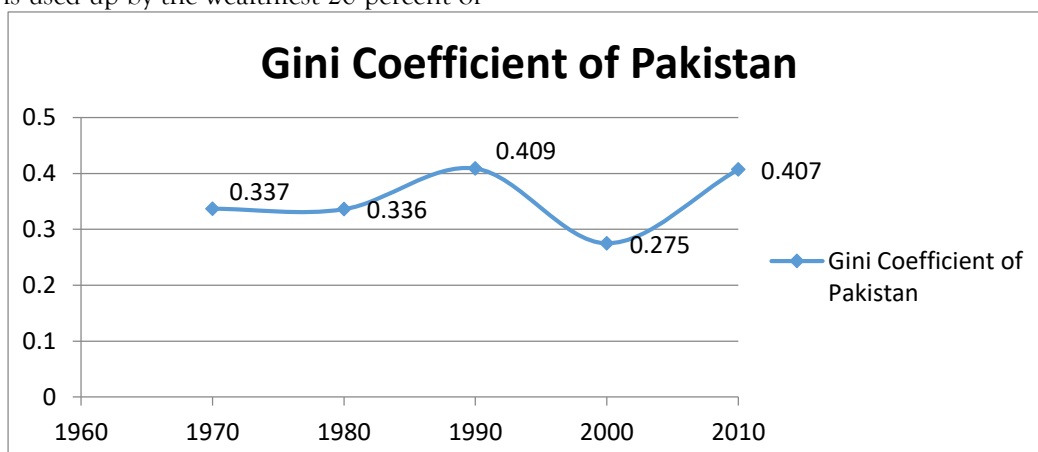


Figure: 1.2: Source Pakistan Economic Survey: Gini Coefficient of Pakistan

II. Literature Review

Pakistan must utilize a multi-pronged strategy to attain SDG 1 that is an increase in social protection, healthcare, education, employment, and gender equality (Ayesha and Ali, 2025). The war on poverty in Pakistan is a very challenging one despite the numerous efforts made by the government and the individuals due to the economic constraints and the gaps in development in the country. Nevertheless, it is possible to reduce the poverty significantly with the help of certain investments, better governance, and policy that are inclusive and enable the citizens of Pakistan to live a better life. To attain these objectives, the government, other internationalists and the local community must always strive to devise policies that would result into sustainable and equitable development.

In accordance with the Sustainable Development Goal (SDG) 1 "No Poverty", Pakistan is aiming to implement the goal of eliminating poverty of all types by 2030 (Rasul, G., & Karki Nepal, A., 2024). Although there have been a number of efforts that the government has made in combating extreme poverty, it is still exceedingly difficult to eliminate poverty in the world. Malnutrition and food insecurity are still severe issues and there is still poverty despite myriad attempts.

This is evidently seen because the Pakistani economy would be under a strain with the fact that the country is highly inclined to imports, and with the domestic demand making 90 percent of the GDP, and with the domestic production making up only 10 percent of the economy, stagnant exports are inevitable.

report Pakistan 100: Shaping the Future, their banking system, is not regulated in the right way and this convenience causes people not to pay their taxes and this contributes greatly to the deposit of deficit in the country. (Jaffar, 2024)

Ashraf, Ashraf, Abbas, and Sheikh, 2023 Foreign resources play a great role in the development of a particular country. The developing countries have experienced the processes of slow growth, high poverty, and inequality; the rich countries like Japan, USA, UAE, Germany, France, and Austria are enjoying better standards of living and leave only a quarter of the world population in these states. On the one hand, three-fourth of the whole world population is languishing in poverty in the developing

countries like Pakistan, India, Bangladesh, Africa etc. Poverty has become very high in such countries; illiteracy and malnourishment is a very common phenomenon. All the developing countries are languishing on the trap of poverty. The underdeveloped country needs to improve the quality of lives of their citizens that will be achieved through providing them with employment and income. In other words, the nation and its population are supposed to be developed to accomplish the process of development and to alleviate poverty.

Sikander and Syad (2014) studied the factors which cause poverty in Pakistan. Poverty is generally the case of the life of people in Africa or Asia. The country under analysis is the Pakistan country and 1980-2024 is the time series analysis. The explanation variables in this study will comprise of agriculture, remittances, inflation, trade, employment and foreign direct investment. And the aim of the proposed study is to establish a correlation of these variables and poverty. Results of this paper have shown that, there is a high correlation between poverty and all variables except the GDP. Poverty is the only variable that shows the negative value of all the variables. Poverty is a good indicator and it implies that the greater the poverty, the greater the level of inflation. Therefore, the researchers suggested that the government ought to put more investment on agriculture. Those who are in the rural poor sector are involved in the agricultural field. And by furnishing education to the farmers, which should lead to the development of economy of the country. Inequity is also among other vices being experienced in Pakistan. A large number of determinants provide inequality.

Matthew and Jeffery (2001) highlight such situations that cause inequality to be experienced in the African states. Secondly author talk regarding the rise of inequality and how it contributed to increase and the mode of such increase. The research under consideration is based on the statistics of 35 nations. Inequality in which growth is less is also an adversely affected issue. The reduction of the amount of expenditure on education, high fertility rate and political instability is the mechanism with which inequality effect decreases the growth. The inequality does not depend on saving, investment, government spending as well as taxation. The government expenditure is significantly correlated with inequality

that has negative and positive correlation indicators. There is not much correlation between inflation and inequality as the rise in inflation does not lead to the inequality of wealth but the inequality of income. Trade has both positive and negative effects to inequality. The inequality is also significant to the illiteracy, and positively. Inequality as it is applied in this paper when it comes to government spending and education is not taken into account. Increase in inequality is caused by the reduction in investment on education. The increasing inequality in the country is a contributing factor to the cause of increasing political instability that is the basis of poor economic growth. Fertility and inequality are in a positive relationship. The increase in inequality also leads to increase in the fertility rate and those living below poverty line will start living below poverty line and this will decrease the growth rate. The African countries will need to reflect on the policies of income distribution to reduce the disparity. The identical policies of income distribution is also being implemented in Pakistan where poor people are getting conditional and unconditional cash. Proper policies of income distribution that will prevent corruption will be implemented to meet the need of reducing poverty and inequality. Pilot need of similar time is to identify the contributing factors which act as determinants of the poverty and inequality and then eliminate them.

Philip (1998) explains the actual reality of Philippines. Poverty level in Philippines and the rate of inflation is very high. The bad government policies are credited with the low economical growth. Among the causes of income inequality in relation to other Asian countries is a low growth rate of the income compared to those of other countries. Due to the absence of investments in health and education, poor people are becoming vulnerable. The economic policies that are applied by the wealthy of the society that are not benefiting economic change. Unhealthy policies within the classes are not promoted and discourage advancement in agriculture where the poor class has made cash. Philippine has the problem of unequal distribution of income. The results indicate that it is unemployment, rise in prices and government spending that augments inequality.

It is poor due to low income occasioned by inflation. Government expenditure impact directly on the poor

because an increase in government expenditure will translate to an increase in tax which will decrease income of poor. It disillusion the importation by implementing policies, but measures are taken to promote agricultural exporting where the poor are hired to make sure they gain. Spend more on health and education to improve the quality of life of poor. Increases interest rate since poor cannot borrow and rich borrow dollars. This is so during expansion in interest rate as an indicator of advancement in the income distribution. Individuals can avoid monopoly by boycotting their products and electing a member who is the true representative of poor. The good policies will be made by people representative because they can make policies that favour poor people and will accommodate their interest rather than the rich people. Instead there is an option of other factors which determine inequality and poverty as opposed to political stability, growth, inflation and fertility rate there. Trade is one of the other aspects. Combination Trading An exportation and importation. Export creates inflow of money in the economy which causes poverty and inequality to be eliminated. The imports open up new technology in the nation that enhances the economy.

In their research study on relationship between poverty, inequality and growth, Ahmed and Maqbool (2012) have employed the pool regression analysis. The researchers sampled eight households that are linked to the four provinces with rural and urban areas. And conduct the analysis of eight years in Pakistan 1992-93 to 2007-08. In some cases, researchers will append that growth rise with inequality but in the event where gains of growth are realized by the poor; growth decreases inequality. The findings indicate that in the equation of growth and inequality has high degree relationship with positive value. The first equation describes how Inequality grows at a faster rate by increasing growth but pattern of inequality grows at a slower rate in urban area than in rural area. In the second equation, there is a high degree of association of growth and poverty with negative value implying growth and reduction in poverty. The gap in the Pakistani research is that, there are very few individuals who work on the analysis of poverty, income inequality and growth in long term. The response of poverty and inequality to growth is different. More inequality exists in the event

where the economy is doing well and the rich, are being awarded the benefits at the moment. Poverty and inequality would be avoided in case growth benefits are passed to the poor.

The article of Tahir et al. (2014) explores the dimension of the growth rate and its impact on poverty in Pakistan. Pakistan occupies the 146th position out of 177 nations with respect to human development index. Poverty is a kind of sickness and it cripples many individuals simultaneously. The depressions experienced in the world are mostly in the developing economies such as Asia and Africa where most citizens live below the poverty threshold. The finding implies that the influence of the GDP on the Pakistani poverty is also important but negative. Author came to a conclusion that economic growth that are economical do not help in reducing poverty as the government is not able to develop good policies. The income policy formulated is not fairing well in regard to distribution. Growth and decline of poverty in the international level due to numerous factors such as power crisis, inflations terrorism and political instability among others.

The causes of poverty and inequality in Pakistan are many, the inflation is one of the frontline causes that continue deteriorating with time. The correlation between the economic growth, inflation, investment as well as trade openness and the poverty will be described as suggested by Chani et al. (2011). All the fundamental needs, rights and political authority are not available to the oppressed persons. Economic shocks other than environment shocks are also experienced in Pakistan. Similarly to environmental shocks Economic shocks also have influence on long term in economy. The economic shocks that involved price rise and alteration in the economic growth had a negative impact on the people. Reduction in the turnover in both the government and the private investment causes low economic growth. The inflation with the consumer price index increases the number of consumers ratio of the number of consumers which is an increase in the number of consumers. The outcome of this study is as follows: the economic growth and investments have considerable and negative impacts on the poverty and the inflation and the openness to trade had no considerable impacts on the poverty. The role of trade in alleviating poverty in Pakistan was insignificant

neither due to the poor trade policy. Researcher came to a conclusion that they should be good in trade policy, which will favour poor. The growth turns the poor less poor, but growth of equality, equity and integrity. The other way of being affected by inflation is not through poverty, there is inequality.

Stefania (2002) studies the dependence of inequality and inflation. This analysis will be trying to quantify the correlation between inequality and inflation. The poor are subjected to income tax imposed by the government. Income tax aggravates the inflation rate to such households. They are undermined by the low income taxed and the high inflation weakens them. This tax of income and inflation places people in state of poverty and contributes to the rise in income inequality. The empirical information explains that the relationship between inequality and inflation is positive and of a significant level. Other than inflation, there is also the foreign direct investment and other factors that dictate the poverty and inequality.

Hyejoon and John (2015) elaborate on the correlation of foreign direct investments, inequality and poverty. Research involves the usage of panel data. These are the instruments that are affecting foreign direct investment as identified by researchers. Three instruments are described in this study. Among them is the oil discovery in other countries that make it the attraction to other countries to invest in it. Second is an unwanted and untimed shock, that is disaster, economic crisis and wars between neighboring states. Third is the intensified investment in the host country in which the company operate in. Without these tools there is no significance in the effect of inequality on the foreign direct investment and positive but not significant effect on poverty. The effects of the inflow of foreign direct investments in form of money are growth in industries, job increase and even salary increase. Capital and the skilled as well as the unskilled labour were needed in all the industries. The labour skills are in demand, hence making the labour wages high in comparison with the unskilled labour which is counterpart to the labour skills. The discovered oil countries require the technology to pump out the oil and this requires skilled labour and consumption of oil depletes the unskilled labour and further depletes their wages increasing further division of labour and unemployment.

Chiara and Elisa (2012) talk about the effect of trade and foreign direct investment in 18 countries in terms of inequality. The transition economies are defined by theorists who conclude that once the failure of socialism is achieved, economies reduce their productivity and hence, unemployment and inflation rise resulting in the rise of inequality within the economies. The trade and foreign direct investment are the two sources of money inflow in economy. Trade is open and helps in importation and exportation. The goods and products produced in the developed countries are of high quality, long life long lasting and durable in nature, and expensive. The manufacturing products of the developing countries are also cheap as compared to the developed countries; this is another factor that contributes to inequality. The findings have indicated that economic growth shifts income inequality to a substantial decline and foreign direct investment, as well as trade, enhance inequality, are not significant. With education, the degree of inequality is very low. The high rate of literacy rate means that high technology can comfortably run with high income by the skilled labour. The authors proposed that government ought to do better on education policies and offer technological skills and training to implement such technology that minimizes the disparity.

The foreign direct investment, aid, export and remittances are all forms of inflow of foreign currency in Pakistan. John and Richard (2005) had the empirical analysis of 71 developing countries. The research question that researchers put across is that, International Migration and Remittances can alleviate poverty in the developing countries. The findings indicate that remittances and migrants will decrease poverty. The growth in remittances will result in reduction in poverty. Researcher theorized that IMF are constrained to estimate remittances money which are remitted both formally and informally. That researcher would then be in a position to quantify the effect of remittances in poverty in a more exact manner. Author conjectured that there is necessary to lower the transaction cost on remittances to make sure that poor will gain as much as possible on remittances. And migrants are more comfortable in sending money through use of formal way compared to informal way. Richard (1998) researches interventions of remittances over inequality. Researcher goes on to

clarify that other studies have reached different conclusions on some finding that there exist negative relationship between remittance and inequality and some that there exist positive relationship between the two. The research area in this case study is the state of Mexico known as Zacatecas. It was a study that was based on the data gathered by the researcher in 1988 in households. Author came to the conclusion that remittances decreases the inequality in the countryside setting and heightens the poor living standard, as compared to the urban setting. The remittances also offer the migrant an opportunity to invest in farming activities, education and business that may have long term implications on them. The problem area that is being discussed in the literature is on the subjects of poverty and inequality, determinants and factors influencing poverty and inequality. However, education is the greatest resource that can be used to mitigate poverty and inequality.

Education elevates the livelihood of individuals and makes them to come out of the poverty and makes the inequality less. Government also spends more on education and even make it affordable also. Kevin (2001) is concerned with the amount of money that is to be used in education to alleviate inequality. The outcomes reveal that the income inequality rate has declined in the nations where education spending takes a significant part of the GDP. With the building of education stimulated and inequality diminished. Neither is expenditure spending in too little education. The former will be the education level followed by optimal allocation of resources utilized. It is not only in increasing expenditure on education, but also other sectors, which are used to alleviate poverty and inequality.

The article by Fan et al. (2004) explores how government spending affects the development of agricultural and rural poverty in Uganda. The government spending is allocated in research, extension and rural road of agriculture which are incorporated in the poverty reduction. The government also spends that also on the education sector to alleviate poverty in Uganda. The government interference in the market will be operating at an unprofitable level in case of market failures. The government can achieve this by making sure that it corrects the negative factors as well as amplifying the

positive factors in the form of tax and subsidies. The government should encourage anti poverty program and higher investment by the citizens. Investment of the government is critical as it is what achieves the development both presently and in poverty alleviation. The health effect of an investment does not exist in growth and alleviating poverty and is long run in character. The Pakistani government should embark on social safety net within the government and rising investments in the development sector which generate jobs rather than welfare program.

III. Research Objectives

The paper will offer the following objectives:

To compose the issue of poverty and inequality.

The main part of the study is the argumentation with regard to the question that defines inequality and poverty in Pakistan.

To provide policy implications in discovery towards this study in poverty and inequality reduction.

IV. Methodological Issues

A. Empirical Study:

In the application of the absolute poverty in the empirical analysis of the work, the concept of poverty in case of the given research is implementing the head count ratio of expenditure base otherwise known as Cost of Basic Need. It is poverty line that is used in Pakistan and also known as national poverty line by Government of Pakistan.

Second the income inequality is also a dependent variable in this study that is in this case measured in the terms of the Gini coefficient.

B. Type of Study:

It is a descriptive research that is conducted in the quantitative method. The secondary data that will be used in the execution of this study to explore the impact of poverty and inequality in Pakistan is the secondary data and they will be assembled using different sources e.g. Pakistan economic survey, published articles. Data analysis is conducted through analysis of regression and unit root test.

C. Data Sources:

The article relates to finding their cause and effect in terms of poverty and inequality in Pakistan through six variables. The information of the National Poverty and Gini coefficient is obtained through Abu Dhabi

Economic Survey of Pakistan and published article by A.R. Kemal. It is secondary data of time series and a sample of such data will consist of 31 observations in the year 1984-2015. Not all the years exhibit the data of the variables hence, in this research, the missing data are represented with the help of SPSS. These variables are varying in their measures, as discussed below:

Dependent Variables

Dependent will be poverty that will take the form of head count ratio.

Measures of National poverty line Food and non food expenditure 1745 per person per month expenditure on basic needs.

The inequality is in terms of 0.00 -100.

Independent Variables

In GDP growth rate (GDPGR), Economy Growth.

Consumer price index (CPI) Inflation.

The Government Consumption Percentage on the GDP (GEXP).

Percent GDP Foreign Direct Investment.

Remittance as % of GDP (REM)

Literacy Rate (LR)

D. Population Frame work:

Pakistan has the poor population as its population structure.

E. Hypotheses:

The hypotheses of the study are the following:

H 1: Economic Growth will lead to decrease in poverty and inequality.

H2: Poverty and inequality increase in regard to rise in prices.

H3: Poverty and inequality is reduced due to government expenditure.

H4: The remittance will become their motivating force in an effort to minimize the levels of poverty and inequality.

H5: Poverty and inequality are declining as the Foreign Direct investment is increasing.

H 6: The level of literacy was the result of the decreasing poverty and inequality.

V. Results and Discussion

Estimation of Model:

In this study, it has utilized the help of the software known as Statistical Package of social Science (SPSS) in carrying out all the estimations. Ordinary Least

Square Technique (OLS) was employed in estimating equation in this area and the result interpreted as well. First, it has been discussed to estimation unit root characteristics of the time series data. This direction has been made in the application of Augmented Dickey Fuller (ADF) test.

Unit Root Test:

Unit root test is applied when one is doing research on whether or not the series he is applying has been

stochastic or non- stochastic. All the variables are regressed to constant, linear trend, and lagged dependent variable as well as lags of first difference to augmented fuller test. The tests are presented in Table 5.1 as unit root tests.

Data analysis is done through a regression analysis. Level of statistical test 1% and 5 and 10 percent.

Table 5.1: Unit Root Test

Variables	t-Statistics level	Prob.	Conclusion
NatPov	-7.874	0.000	I(1)
Gini	-2.961	0.050	I(0)
GDP	-3.860	0.006	I(0)
INF	2.572	0.10	I(0)
GovtExp	-5.958	0.000	I(1)
Remit	-4.334	0.00	I(1)
ForgnDIv	-2.650	0.09	I(0)
LitR	-8.891	0.00	I(0)

Augmented Dickey Fuller test was chosen in this research to ensure that the variables were stationary. Significant level of variables, which are stationary at 1, 5 and 10 percent with t value are also indicated. ADF test indicates that the national poverty level, GDP, government expenditure, remittance and literacy level of 1%. The Gini coefficient stands at a significant level (5 percent). The foreign direct investment and

the rate of inflation are high with the level being 10%. In a nutshell, the analysis of the stationarity is significant in all the variables with an order of integration of zero I (0) and order of integration I (1). These two give an assurance that the stationarity and the integrated of order 2 I (2) does not have to be analysed.

Equation 1:

$$\text{NatPov} = \alpha + b_1\text{GDP} + b_2\text{INF} + b_3\text{GovExp} + b_4\text{Remit} + b_5\text{ForegnDIv} + b_6\text{LitR} + \mu$$

Table 5.2: National Poverty Line and Key Variables

Equation 1		
Dependent Variable NatPov	Observations=31	
Variable	Coefficient	t-statistics
Constant	97.066***	6.192
GDP	-0.573	-1.216
INF	-0.454**	-1.980
GovtExp	-1.154***	-2.761
Remit	-1.233**	-2.346
ForegnDIv	1.039	0.910
LitR	-0.803***	-4.482
Rsq=0.739	F=11.34	D.W= 1.995
AdjRsq=0.674		

***=Significant 1%

**=Significant 5%

*=Significant 10%

First Model:

The model is a rough effect of poverty in the country on individual variables. There are six explanatory variables in this research. They are five important variables with intercept.

Literatures illustrate a positive and negative relationship that exists between growth and poverty. These findings have shown that there is no significant relationship between GDP and poverty. The share of GDP indicates that -0.573 percent reduction in poverty was as a result of growth in the GDP by a percentage. Their relationship is of value 0.236 which is not significant. The Pakistani growth fails to percolate to the poor in the country.

The outcome of the given research indicates that the two variables are negatively correlated and the level of the same is pronounced ($r = -0.05$). Coefficient of inflation is indicative of the fact that increase in inflation by one percent translated into -0.454 percent decline in poverty. It is also hypothetically assuming that at an instance making the increase in price of goods not only increases the profit, but profit is the source of increase in income. This poverty being reduced, as soon as possible.

The value of the coefficient of government expenditure = -1.154. An example of 1 percent growth in the size of government spending is that it will reduce poverty by 1.154 percent. The value of poverty and the government spending is negative with significant value of 1.

The money spent by government is enhanced and this suppresses poverty. The cost of education and employment provided by the government alleviates poverty and adds to income of poor in country.

The effect is high and gigantic on the poverty remittances. The value of the coefficient is -1.234 indicating that a one percent change in the remittances will lead to a change in poverty by 1.234 percent. The value of 0.027 with 5% is very important.

Increase in inflow of remittances money leads to an increase in saving hence increasing demand and alleviating poverty.

The correlation between the poverty and foreign direct investment is not significant and indeed positive. The value of FDI coefficient is 1.040 and high value of 0.372 indicating that it does not significantly affect poverty. The money that enters the economy as a result of the foreign direct investment money is in the hands of the rich more than the poor and this further worsens poverty.

Literacy rate is negatively, but significantly affecting poverty level. The coefficient of literacy rate is of -0.804 meaning that one unit change in literacy rate will decrease poverty by 0.804. The significant value is 0.000. Education alleviates poverty through a business opportunity and a means of attaining better jobs.

The adjusted R square of the first multiple regression equation is 0.674 with the R square of 0.739. More than one explanatory variable will be necessary in this regression equation hence R square will be represented as multiple coefficient of determination. R square provides goodness of fit and variation of equation. This implies that 73.9 percent of the dependence variable that is poverty that varies due to the independent variables in which the variation of the dependent variable by 26.1 percent is influenced by other factors. Adjusted R square is indicating the improvement of model with excellent predictor (independent variable) which has significant effect on dependent variable. The significance of the equation is that, the f statistic value of 11.349 and t statistic value of 6.193 are greater than the value of 1.725 that indicates the level of significance is below 0.000. This model is suitable in accordance with this equation. Durbin -Watson = 1.995 that is almost similar to 2 that indicates that there is no omission of serial correlation.

Equation2

$$\text{Gini} = \alpha + b_1\text{GDP} + b_2\text{INF} + b_3\text{GovExp} + b_4\text{Remit} + b_5\text{ForeignDInv} + b_6\text{LitR} + \mu$$

Table 5.3: Gini Coefficient and Key Variables

Equation 2		
Dependent Variable= Inequality (Gini)	No of Observation=31	
Variable	Coefficient	t-Statistic
Constant	27.139**	2.380
GDP	0.990***	2.888
INF	0.457***	2.742
GovtExp	0.306	1.184
Remit	-1.137***	-2.976
ForeignDInv	-1.233	-1.484
LitR	-0.049	-0.376
R-squared=0.664	Durbin-Watson =2.18	
Adjusted R-sq=0.580	F-statistics=7.90	
***=Significant 1%	**=Significant 5%	*=Significant 10%

Second Model:

The second equation is a measure of inequality association with the remaining six important variables and this is with the intention of the researcher to employ regression equation. There are four significant coefficients, including intercept. The coefficient of GDP in this regression model is set to be 0.990 and it is achieving a significant outcome which is positive in Pakistan. This 1 per cent growth in the GDP will cause inequality growth of 0.990 percent. This growth of economy raises inequality since the rich people gain as the economy grows and concentration of wealth is left in the hands of the rich people thus raising the inequality.

Its coefficient of inflation is 0.457 that is, a one percent increase in the inflation level leads to an increase of 0.457 per cent in the inequality. There is a positive and significant impact of the inflation on inequality. The significant value is 0.011. It is experiencing rising inflation rates and growing inequality where the poor citizens are forced to spend more money to buy products. They are susceptible to inflation particularly to the temporarily sourced income earners and low-income disadvantaged individuals whose income and benefit is short-lived and disfavor those with permanent business, creating an unequal situation in society.

There is a positive yet non significant relationship between the government expenditure and inequality. The high value is 0.248 exceeding 10%. The

coefficient has a value of 0.360 which implies that a 1-percent rise in government expenditure will raise the inequality by 0.360 percent. Increase of government spending has no relation with inequality. In Pakistan, the poor people did not benefit the income redistribution program because poor income redistribution programs are instituted based on corruption.

The remittance coefficient = -1.137 such that an increase in remittance by 1 per cent reduces inequality by 1.137 per cent -1. This contribution of the remittance to the inequality is enormous and negative. The significant value is 0.007. Remittances augment inequality reduction. The migrant repatriates their families that are invested back to boost their living standard. Their salaries are high in the foreign countries compared to the home country. The funds they spent enabled them to get education and the business and agriculture was viable to them in the long run.

The relationship between foreign direct investment and inequality is rather negative and insignificant. The coefficient of investment is -1.233 and the inequality will fall by 1.233 when there is a one percent growth in investment. The significant value is 0.15 and t-value is 1.48 that ought to be 1.725 or higher than 1.725. Increase in investment, development which can offer jobs to the poor and at the same time offer them money which result into decline in inequality. Pakistan investment on the

other hand does not bring much influence on inequality.

Literacy rate is an issue that affects the inequality in an undesirable insignificant manner. The significant value is 0.709. The coefficient of literacy in the estimated equation is not significant and it does not affect inequality. It also experienced inequality that was brought about in the literacy rate though the effect in this equation is not so strong. The skilled labour is paid more than the unskilled labour so that the inequality can be increased.

General finding indicates that the explanatory variables and other 33.6 percent of change in inequality are explained by other factors e.g. trade as opposed to the explanatory variables and adjusted R 2.

The value of 0.000 is significant as the significance value is 7.905 and the t statistics value is 2.383 which has a significant value of 0.025. The outcome of regression equations is an implication of a good fit of the model. Durbin Watson = 2.17 therefore satisfactory.

Challenges

Among the critical issues that most of the population in Pakistan experiences include poverty and inequality. Poverty and inequality expose Pakistan residents to myriads of problems. Inflation is one of the challenges: over the past 30 years, Pakistan has to struggle with the inflation with the scope of figures in most of the years. Growth in oil prices, the inaccessibility of wheat and growth in money supply are some of the factors that lead to rising inflation. In Pakistan, poverty and inequality makes access to food product challenging to the poorer segment of the population since they are expensive. There is a high positive relationship between inflation and inequality. The disparity in income is very high in the event of inflation and the poor are more affected than the rich. It is by the inflation that the people lose savings, and place themselves in an awkward position. This is so because the level of income inequality whereby the earnings of the people with higher purchasing power also rise and the demand also rises thus leading to the rise in inflation that was experienced in the poor side of the society. The government tried to reduce the income inequality by introducing the income redistribution policy known as Zakat and Benazir

income support program. The Zakat and Ushar is cash given to the needy Muslim segment of the society. Another cash transfer programme is known as Benazir income support programme which will give 1500 Rs money to the women whose name will be enrolled under the Poverty Score card. The inflation impact on poverty is great on the analysis and is negative indicating that the greater is the inflation the smaller the poverty. This is explained by the fact that Pakistan is an agrarian nation the majority of its citizens live in the rural environment and not in the city. Agriculture sector includes people of rural areas. Another way through which agriculture earns them more employment is that they are able to afford the inflation.

The other issue is illiteracy. The poor population sends their children to school since they lack funds to pay their school fee. Instead, they favored participation of children in the procedure of begging and selling something in the streets and roads. It is established that people value education and poor ignore long run gain because they are aware that education is short term gain. More probably, they will make money at the cost of the children rather than sending them to school. According to the reports made by the Human rights Commission, eleven million children are under child labour and half of them are below the age of 10. The Pakistani government has initiated numerous programs to educate the children which they are Parah Likha Punjab, Danish school and the current Waseela-e-Taleem running on basis of Benazir Income Support Program which aims at educating children between the age of 5 to 12 years. This programme does not just offer free education to children but it also offers money on attendance basis. The literacy of the research will ease poverty because learning will offer individuals a chance to obtain a job and open business to a superior level of living. Health care and education cannot be afforded to poor people due to lack of resources. And the correlation between literacy and inequality is little and negative. The inequality in Pakistan does not rely on education. However, education without work and opportunities to conduct business will not decrease the inequality but also will decrease the economic growth.

VI. Implications and Conclusions.

This paper will conduct research on the topic of poverty and inequality in Pakistan and what are the challenges people face when subjected to the two conditions. The bad ones comprise inflation and illiteracy that people are grappling with courtesy of poverty and inequality. The correlation between national poverty line and increase in GDP rate has a negative value that is not significant. As is explained by Toseef Azid and Mohammad Azeem the impact of the economic development on the degree of poverty is not negative to the poor part of the society. In presenting his study, Constantine (2008) explains that the estimation by world bank estimated that more or less 900 million people living in rural part of developing nations are trapped in agriculture that yields to them which would give them a chance to get out of poverty.

The country has a negative and significant correlation between government expenditure and poverty line. The government spending contributes to poverty. Fan et al. in their research note that under the conditions of an increase in the state burden on the education budget, the improvement of rural areas, poverty suppressing agriculture. The negative implication of remittances on the poverty lines of the country is quite high. The results of Sikander Pervez and Syad Badar-ul-Husnain indicate the fact that the higher remittance, the lower level of poverty. It is expounded on the basis of him by the fact that the remittances cause an increase in wealth of people and that is why increases in saving increases investment also increases the aggregate demand which process reduces poverty. The outcome is, there is the insignificance of relation to poverty and positive correlation to foreign direct investment. The investors exploit the poor by paying less and putting them in poor working conditions that aggravate their conditions. And this, in this case only, investor who reaping benefit of investment. And those are not working towards alleviating poverty since poor can not benefit out of it. The impact of foreign direct investment is very minimal and it contributes to poverty.

The impact of literacy is immense and the impact is detrimental to the lines of poverty. The results of Francis Musa Boakari indicate that education minimizes poverty and education offers opportunity to people to obtain the essential needs and better life.

Aglemering inequality is the other dependent variable of this study. The upward change suggests growth and increment on the increase in the inequality. The findings contained by Ahmed Raza Cheema and Maqbool H. Sial show that the growth is a source of inequality because in Pakistan the rich were enjoying the fruits of economic growth and the poor were not enjoying the same. The result of such a concentration of money in the hands of the few is that they enhance inequality in the society. The relation between inflation and inequality of Stefania Albanesi study is positive. According to researchers, the inflation decreases the incomes of individuals. The already low-income do not take the inflation. Inflation is horrible to poor compared to rich income and enhances inequality. The government spending has a positive but insignificant influence in inequality. The government expenditure in Pakistan has been increasing both in terms of taxes increment and by regressive taxes increment in inequality increment is also increased but not significantly. There exists a negative relationship between inequality and remittance and foreign direct investment. According to a study conducted by Richard C. Jones, the migrants are sending money to their relatives which supplements their income and helps them live better lives which result in the inequality being narrowed down. The implication of foreign direct investment and inequality is inconsequential. Hypothetically, it is concluded that foreign direct investment minimizes the income inequality as the money entering in the form of wages to the people is increased, individuals invest in human resources and education and minimizes inequality. The effect of FDI is to increase the revenue of poor and such an effect cannot be significant. The correlation between inequality and the literacy level is not considerable and negative. In Pakistan, inequality is not a major problem in the education rate because the poor people have no money to invest on education and vice versa people are educated and fail to secure employment. The study will be founded on its finding to create the policy implications.

- Besides the existence of subsidies, it is argued that the government must raise the taxes on the richer levels of the society via raising regressive tax. And this will also see the

minimization of the gap between the poor and the rich.

- The manipulation of the overall control money supply and food supply at subsidize rate to those people who have been affected by the rising food prices.
- To prevent the poverty, it is calculated that the government must have to allocate more on agriculture and development and also more pro poor budgetary expenditure which helps to increase the growing economic growth.
- The government should have an eye channel and transfer mechanisms to augment cash flow in form of remittances. People should have control over illegal way because it is characterized by low transaction cost and high tax tariffs.
- It is because terrorists are more foreign and no other foreign investor invests in Pakistan due to political stability, social and financial security. As government regulator organization ensure that poor citizens have jobs, receive benefit and investigate whether they employ people under better terms or not.
- The greatest one is the cost effectiveness of education that will be made as affordable as possible to everyone. Education turns out to be one of the fundamental rights and not only assists in receiving a job, but also creating a new business, earning more and making the world better.
- Poverty can be quantified using different ways such as multi dimension poverty and calculated in calories and 1.25 dollar but in this analysis only one aspect of the poverty has been known and this is in terms of the cost of the basic needs.

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