

Beyond the IMF

By Ishrat Husain

In November 2008, Pakistan entered into a stand by arrangement with the IMF to support the country's stabilization program and fill in the external financing gap. Pakistan has successfully drawn down the first two tranches of this loan. Most of the stabilization indicators are showing improvement and if the present efforts to maintain the fiscal discipline, curtail borrowings from the State Bank of Pakistan and build up foreign exchange reserves remain intact it is likely that IMF will be able to complete the forthcoming reviews successfully and the agreement should reach an orderly termination point by June 2010.

While the implementation of the on-going program of IMF proceeds during the next 18 months we must prepare the grounds for the transition from the current stabilization to the next growth resumption phase. This transition will not take place automatically but will require public policy measures of a different kind. Macro-economic stability attained through the IMF program will, of course, lubricate this transition by allowing the government some degree of freedom that it does not enjoy at present. But the biggest challenge is Restoration of Confidence in the economy.

The year 2009 will be a difficult year for Pakistan. The international economic environment is far worse than anticipated. The global recession will certainly affect the exports, workers' remittances and external capital flows. The present confrontation between the two major political parties of the country would further add to investor uncertainty. The growing negative image of Pakistan reinforced by the most recent attack on the Sri Lankan cricketers in Lahore would scare even the most favorably inclined foreigners away.

This highly harsh and onerous environment makes it extremely difficult to steer the course towards higher production, growth and employment. However, several measures initiated and sustained over the coming years can mitigate some of the adversity.

First, the incentives provided to the wheat farmers by paying them above the world prices should indeed be translated into benefits for the widest segment of the rural population. Assuming that 6.5 million tons of wheat is procured by the public agencies the rural areas will witness a cash injection of Rs.156 billion this year. This boost in the purchasing power of rural households will have a multiplier effect on consumer oriented manufactured goods produced domestically and arrest the declining trend in manufacturing sector. The demand from the rural households is not leaked into imports but domestic labour intensive goods and services creating a positive impact on the GDP and employment. The danger is that the food department officials may misuse their huge discretionary powers in this state of glut to enrich themselves, buy from politically influential and well-to-do farmers and short change the small and poor farmers. It is to be ensured that such corrupt practices do not occur.

Second, the export industries have been hit hard by energy shortages. As Pakistan exports have become relatively competitive due to a 25 percent depreciation of currency, production has been constrained due to non availability of power and gas supplies. There is an immediate need to reconsider the allocation of shortages policy. Political expedience will dictate that the household consumers should be given preference but economic prudence demands that exports industries in particular and manufacturing sector in general should be accorded priority. After all, they earn the foreign exchange for the country. Instead of approaching the donors for financial aid the same amount can be raised by taking care of the genuine problems faced by the exporters.

Third, higher education and scientific research sectors were given some serious attention in the past six to seven years. These sectors take much longer time to produce perceptible results. If there are weaknesses or shortcomings in their management these should be addressed. If there was a lack of trust in the previous managers they can be replaced by equally competent and dedicated persons of the choice of the present government. But to interrupt the process of human capital formation in the mid-stream would enhance the costs pushing the benefits back to the distant future. In a globalized economy that is driven by knowledge, innovation and human ingenuity the back tracking from the path of investment in higher education and scientific education needs to be reversed sooner than later.

Fourth, as the fiscal deficit targets are achieved the cutback on development expenditures, while totally justified and understandable in the present stabilization phase, has to be reinstated beginning FY 2010 budget. A modest increase in energy, education and health sectors in the coming year followed by sizable allocations for the coming three years is warranted so that the ministries can plan their investments ahead of time. Along with these allocations from the public sector the Public-Private partnerships should be intensified in real earnest. There are many private investors scared of the complex bureaucratic entanglements who will draw comfort by entering into a partnership with the Government. This is a win-win situation in which private capital and management are blended with public sector facilitation and support.

Fifth, social protection to the poor claims only a very tiny fraction of the national income. The Benazir Income Support Program, the Baitul Mal, the Zakat and Microfinance, etc. are the right types of interventions. The poverty surveys will identify the poor, but there are two areas of concern that need to be addressed. The quantum of allocations for Social Protection programs has to be raised to reach out the majority of the households living below the poverty line. The production capacity of the target groups has to be raised to enable them to move out of the poverty line. Technical and vocational training, public works programs, Small rural infrastructure projects, Guaranteed Employment programs and conditional cash transfer schemes are some of the instruments that have been successfully tested and tried elsewhere.

Lastly, there is an urgent need to devolve financial and administrative powers to the provinces and the districts. Provincial autonomy, decentralization and delegation of powers to the local governments, transfer of law and order and revenue functions to Civil servants from Nazims form the agenda of Governance reforms. These reforms will take a much longer span of time but initiating the process of their implementation will repose confidence among the provinces, reduce the polarization, improve the law and order and empower the communities and people. These reforms have to be accompanied by early decisions on the allocation of financial resources between the Federal and Provincial Governments by the National Finance Commission. A better enforcement and management of the 1991 Water Accord will also remove mistrust between the provinces.

The above agenda may appear formidable but what needs to be done is clear but not easy. All that is required is a political will and the implementation capacity to plan, manage and execute them in a steadfast manner.