Economic Governance and Institutional Reforms

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# Theoretical and Empirical Insights

The link between good governance and economic and social development has been well established in the last few decades. There is a wide consensus that good governance must lead to broad-based, inclusive economic growth and social development. It must enable the state, civil society, and the private sector to enhance the wellbeing of a large segment of the population. Economic policies, however sound or benign, cannot disperse their gains widely unless the institutions intermediating these policies are strong, efficient, and effective.

There is no precise definition of governance but a number of attempts have been made to define it. According to the World Bank (1992), governance refers to the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services. Institutions establish formal and informal rules that determine whether the public sector acts in its own interests or on behalf of all citizens. Corruption is one outcome of poor governance involving the abuse of public office for private gain. The World Bank’s (2012a) Governance and Anticorruption Strategy of 2012 surmises that governance is about what the state can do and how it does it—what the state can do is determined by its capacity, legitimacy, and authority:

Capacity is the availability of the state to procure and deliver goods and services, design and implement policies, build infrastructure, collect revenue dispense justice and maintain a conducive environment for the private sector. Legitimacy is simply whether citizens feel the government has the right to govern and whether they trust the government. Authority is the ability of the state to govern its territory effectively, reach all citizens regardless of their location, gender or ethnicity, maintain law and order and protect citizens from predation and violence. It is the ability of the laws and rules of the state to trump all other laws and rules (World Bank, 2012a).

The Asian Development Bank (1997) considers the essence of governance to be sound development management. The key dimensions of governance in this context are public sector management, accountability, the legal framework for development, and information and transparency. The Overseas Development Institute (2006) identifies historical context, previous regime, sociocultural context, economic system, and international environment as the main determinants of governance and development. The six core principles identified by Hyden, Court, and Mease (2004) that relate to good governance are (i) participation, (ii) fairness, (iii) decency, (iv) accountability, (v) transparency, and (vi) efficiency.

Governance assumed importance in the 1980s when developing countries began to feel the adverse effects of the state’s extension to functions beyond its capacity. The earlier concept of “modernization” that was propagated in the 1950s and 1960s was synonymous with state-led development. It was argued that, where market institutions and local entrepreneurs were weak, only state-owned enterprises were capable of investing in and expanding the economy. The import substitution-industrialization strategy provided the intellectual underpinning to this argument, and state intervention in the choice of industries, choice of production technologies, level of employment, and determination of inputs, output, and prices became widely accepted policy instruments. Protection against imports insulated the state-owned enterprises from the competitive pressures of the market and generated substantial revenues for the governments of poor countries through high tariffs. This “inward-looking” strategy was pursued vigorously by many countries in Asia, Latin America, and Africa during the 1950s, 1960s, and 1970s.

Empirical academic research evaluating the experience of these countries during this period presented persuasive evidence that this “statist” model, based on an import substitution-industrialization strategy, had done developing countries more harm than good. “Government failure” rather than “market failure” was found to be a more pervasive phenomenon in the developing world. It was argued that public bureaucracies were driven by their own narrow and parochial interests rather than by the larger goals of development. The “soft state” syndrome articulated by Myrdal (1968) for Asia and the “weak state” phenomenon applicable to sub-Saharan Africa debunked the myth of a neutral, competent, and legitimate state capable of enforcing policy or managing the enterprise to maximize the collective good of society.

By the end of the 1970s, a serious debt crisis in Latin America, dictatorial regimes’ mismanagement of the African economies, and economic stagnation in India—a pioneer in practicing the “statist” model—had forced economists to rethink the larger role of the state. In the meanwhile, the success stories of newly industrializing countries such as the Republic of Korea, Taiwan, Singapore, and Hong Kong demonstrated that opening up the economy to the rest of the world and an “outward” export-oriented strategy could bring about rapid, sustained, and shared growth for the majority of people.

Although the state played a proactive role in these countries and intervened selectively, it avoided the mistakes made by proponents of the “statist” model, which entailed the government’s widespread involvement through political leaders and the bureaucracy in its pursuit to control the “commanding heights” of the economy. The “heavy and overextended state” model was gradually replaced by an approach where the state acted more as a strategist, guide, facilitator, provider of infrastructure, and promoter of human development, facilitating market competition among the private sector rather than occupying directly the economic space of production, exchange, and distribution of goods and services. The domestic private sector was allowed to compete with industrial export markets while protection was avoided. Wade (1990) characterizes the experience of the East Asian economies under the rubric of “governed market” rather than either a free market or command economy.

The governance structure in East Asia that led to these impressive outcomes was characterized by a public bureaucracy that was, by and large, meritocratic, performance-oriented, and free from political interference. Evans (1995) uses the term “embedded autonomy” to describe these states. While keeping strong contact with social groups crucial to development, these bureaucracies had sufficient authority to maintain a distance from social pressures. Public-private consultations, networks, and partnerships formed the bedrock of their mode of functioning. Rodrik (1997) shows convincingly that the bureaucratic quality explains much of the difference between the most and least successful East Asian economies.

It also became obvious that high rates of economic growth can take place without benefiting large segments of the population. Growth spurts that do not yield any enduring benefits for a country’s population are to be shunned for their inimical effects on social cohesion and the political unity of the subgroups of a country’s population. Therefore, the two characteristics of a successful and desirable development model, i.e., inclusive growth and sustained growth, will spread the benefits of high economic growth among a vast majority of the population over an extended period of time. Governance is the glue that binds these two characteristics with economic growth to produce sustained and inclusive development. If we accept this definition of development, then we must consider how such an outcome can be achieved. This question can be addressed by exploring the ways in which governance and institutions interact.

How do governance and institutions interact? Governance refers to the manner in which power is exercised in the management of a country’s economic and social resources. Good governance requires checks and balances in a country’s institutional infrastructure, such that politicians and bureaucrats have the flexibility to pursue the common good, while restraining arbitrary action and corruption. According to Acemoglu and Johnson (2003), good institutions ensure two desirable outcomes: (i) that there is relatively equal access to economic opportunity (a level playing field), and (ii) those who provide labor or capital are appropriately rewarded and their property rights protected.

The risk is that the state’s monopoly on coercion, coupled with access to information not available to the public, creates opportunities for public officials to promote their own interests or those of friends or allies, at the expense of the common interest. The possibilities for rent seeking and corruption are considerable. This tension between the potential that institutions offer as instruments of good governance and the incentives for state functionaries leading and working in these institutions to hijack them for their narrow self-interest is the major challenge that developing countries face.

A variety of institutional mechanisms can provide the checks and balances necessary that will lead to good governance and reduce corruption. To be enduring and credible, these mechanisms need to be anchored in core state institutions. Power can be divided horizontally among the judiciary, legislative, and executive, and vertically among the central, provincial, and local authorities. This balancing act between the different power structures ultimately determines the governance outcomes for a particular country. If there is collusion among these countervailing forces, the result is disastrous.

# Pakistan’s Experience

Against this background of theoretical and empirical evidence, we now review Pakistan’s experience with respect to governance. Recapitulating a brief history of governance in Pakistan provides the context in which reforms will be rooted. Next, the rationale for these reforms is spelled out. Finally, we ask what can be done to improve governance and strengthen institutions in Pakistan to promote the welfare of the majority.

## History of Governance in Pakistan

Pakistan inherited a well-functioning judiciary, civil service, and military structure but relatively weak legislative oversight at the time of independence. Over time, the domination of the civil service and military over the affairs of the state disrupted the evolution of the democratic political process and further weakened the state’s legislative organ. The judicial arm, with a few exceptions, plodded along, sanctifying the dominant role of the military and civil service.

The institutions inherited from the British rule more or less suited the needs of the rulers at the time. Following independence, these requirements expanded in scope and content while the expectations of the public and their elected representatives grew. These inherited institutions failed to adapt to meet the new challenges of development and social change, and to respond to the heightened expectations and aspirations of a free people. The “business-as-usual” mode of functioning, and the approach and attitudes of incumbents holding top and middle positions in the bureaucracy and operating these institutions did not endear them either to political leaders or to the public.

Several commissions and committees were formed over the first 25 years after independence to reform the administrative structure and civil services. Some changes were introduced during Ayub Khan’s regime in the 1960s to improve the efficiency of the secretariats, but the tendency toward centralized control and personalized decision-making worsened in this period. The reluctance to grant provincial autonomy to East Pakistan—the country’s most populous province—so remote physically from the hub of decision making, i.e., Islamabad, led to serious political backlash and the eventual breakup of the country into two independent nations.

Pakistan continued to suffer from what has been termed “confused federalism”, in which weak local and provincial bodies are unable to match the ability of the central government to mobilize resources and provide services. Whether it is health or education, highways or agriculture, the federal government has much larger programs under implementation than the provincial or local governments. Although the money is spent in the provinces or districts, their inability to identify, design, approve, and implement these projects caused resentment among the provincial governments.

In 1973, a populist government headed by Z. A. Bhutto took the first step in breaking the steel frame of the civil services by taking away the constitutional guarantee of job security. He also demolished the exclusive and privileged role of the Civil Service of Pakistan within the overall structure of the public service.

The next 25 years witnessed a significant decline in the quality of new civil service recruits as the implicit tradeoff between job security and low compensation ceased to operate, and the expanding private sector, including multinational corporations, offered more attractive career opportunities. The erosion of real wages in the public sector over time also led to low morale, demotivation, and inefficiency, and encouraged civil servants at all levels to resort to corrupt practices. The abuse of discretionary powers, bureaucratic obstruction, and delaying tactics adopted by government functionaries were all part of the maneuvering to extract rents to supplement their pay.

In real terms, the compensation paid to higher civil servants had declined by 2004 to only one half of the 1994 package. The lower wages meant that the civil service no longer attracted the most talented young men and women. Some civil service incumbents, in their instinct for self-preservation, fell prey to the machinations of the political regimes in power and many started to identify with one political party or the other.

They also benefited from the culture of patronage practiced by politicians. During the 1990s, the replacement of one political party by the other in the corridors of power was followed by changes in the top bureaucracy. This growing tendency toward informal political affiliation in order to tenaciously hold on to key jobs was also responsible for the end of an impartial, neutral, and competent civil service responsive to the needs of the common person. Loyalty to ministers, chief ministers, and the Prime Minister took ascendancy over accountability to the public. Frequent takeovers by military regimes and the consequential screening of hundreds of civil servants made the civil service subservient to the military rulers, eroded the authority of traditional institutions of governance, and led to loss of initiative among the higher bureaucracy.

The 2001 devolution plan dealt another major blow to the Civil Service of Pakistan when the posts of commissioner, deputy commissioner, and assistant commissioner were abolished, and the reins of the district administration were transferred to elected *nazims* (mayors). For ordinary citizens, the government was tangibly embodied in these civil servants, whom they approached on a daily basis. The substitution of civil servants by elected heads of the administration upset the checks and balances implicit in the previous administrative setup, and concentrated too much discretionary power in the hands of indirectly elected individuals.

The police assumed greater clout as a coercive force. Opportunities for collusion between nazims and the police multiplied and, in many instances, alienated the common citizen and diluted the impartiality of the administration at a grassroots level. The sanctity of private property rights was threatened in several cases where nazims had ordered unauthorized changes to be made to rural land records in collusion with revenue department functionaries to benefit themselves and their cronies. The district administration, which was the pivot for most citizens, therefore, lost its impartiality and neutrality.

Most observers and analysts within and outside Pakistan firmly believe that the quality of economic governance and decision making and the capacity of the country’s key institutions have gradually deteriorated over time.[[2]](#footnote-2) Pakistan’s main problem in maintaining macroeconomic stability, sustaining economic growth, and delivering public services to the poor is weak governance and the gradual but perceptible decline in institutional capacity. The elitist nature of the state and society, and both the conflict and collusion among the country’s various power structures can explain this phenomenon (see Husain, 1999).

Acemoglu and Robinson’s (2011) recent study on extractive institutions as compared to inclusive ones corroborates this observation. The military governments that took power at various times were forced to make serious compromises to establish their legitimacy. The elected leadership, when their turn came to assume power, lacked not only the vision to help the divergent forces in society coalesce, but also promoted individual self-interest rather than collective public interest. Along with the decline in civil servants’ competence, this led to the gradual erosion of public institutions’ capabilities. The state’s authority to govern its territory effectively was, therefore, badly impaired.

Improved economic governance was not pursued faithfully in Pakistan; its implementation would have spanned several decades while the elected and military governments that took power have had short time horizons. The elected governments, in their quest to win the next election, and the military governments, in their attempt to gain legitimacy became involved in ad-hoc and, at times, populist measures without addressing the root cause, i.e., building institutional capacity to deliver improved living standards for the majority of the population and setting up a viable governance structure. Decision making according to the whims and caprices of individuals in power therefore displaced informed and well thought-out institutionalized processes.

Chronic political instability and the frequent changes in political regimes have also had disastrous consequences for economic governance in Pakistan. During the 1990s, there were too many changes marked by too much chaos. Invariably, incoming governments abruptly abandoned, discontinued, or slowed down the implementation of policies, projects, and programs inherited from the previous regime. Given that institutions take a long time to nurture, the implementation of projects is spread over many years, and the impact of policies is considerably lagged, this premature abandonment caused more harm than good. Starting all over again and before the benefits had begun to accrue, the government was either overthrown or had to step down before completing its tenure. The incoming government would begin the cycle afresh.

In 2001, the Musharraf government introduced a local government system with the objective of decentralizing authority, delegating power, and deconcentrating decision-making. Although the system had some weakness (as outlined earlier) that could have been rectified, the new government that took office in 2008 completely abandoned the system, creating a vacuum. The resumption of powers by the provincial governments has once again made ordinary citizens’ lives miserable since they cannot access services at the grassroots level or have their problems resolved. The situation is quite the opposite in India, as aptly summed up by Shourie (2010):

In India, there is a consensus in practice so that whenever a group is in office, wherever it is in office, it attempts to do the same sorts of things. But when it is in opposition, where it is in opposition, it strains to block the same measures. We have the Communists in West Bengal garnering credit for implementing reforms in the State that they are blocking at the Centre.

What has been the effect of this unending cycle of politically motivated, poor economic governance on the majority of the population? A sense of deprivation and the denial of basic economic rights create cynicism, negativism, and frustration. The credibility of governments in power—any government—is completely eroded. Distrust of ‘the government’ becomes so widespread and its credibility so low that unsubstantiated rumors, mudslinging, and suspicion about their motives assume a momentum of their own.

In the last six to seven years, the media, taking advantage of this widespread lack of government credibility, has assumed the role of the opposition party and accentuated the negativism. Markets, on the other hand, function on sentiment. If market participants have confidence in the government and its institutions, the overall result is stability in the markets, but if there is lack of credibility, an air of uncertainty, and a crisis of confidence, markets are apt to become nervous and volatile. However sound a government’s policies may be, in circumstances of low credibility and mistrust, private investment is hampered and the economy suffers. Credibility is a fragile thing, and once lost takes a long time to re-establish.

A society with a positive attitude gives enterprises far greater freedom to compete than a society that perceives businesses as unethical or in cahoots with the government for their personal gains. Patronage and cronyism in the form of licenses, tariff concessions, and tax exemptions for a select few, the sale of public assets to rulers’ favorites, and appointments to key public offices not on merit but on the basis of loyalty, affiliation, and friendship sharpen the negative sentiment. This is why, for instance, the program to privatize public enterprises—economically desirable and badly needed—has almost been abandoned ever since the perception, right or wrong, gained currency that Pakistan Steel Mills was being sold for too low a price to cronies of the government.

Alesina’s survey of the literature (1997) suggests that, when we compare the values of political-institutional variables for the ten slowest and the ten fastest growing economies in the study’s sample, the slowest countries tend to be more ethnically fractionalized and more politically unstable. They also tend to have much poorer indicators for the rule of law and institutional quality, a much higher black market premium, and greater income inequality. Alesina, Özler, Roubini, and Swagel (1996) find that political instability, government fragility (the frequency of government changes and coup d’états), and sociopolitical instability (political assassinations, riots, and revolutions) have a negative effect on growth. Pakistan fits this model quite well, given that episodes of frequent changes in government and socioeconomic instability have been associated with low growth and macroeconomic turbulence.

## Rationale for Reforms

It must be conceded at the outset that the time horizon for the consummation and impact of the proposed reforms is long-term, i.e., the next 10 to 20 years, and not immediate- or short-term. The rationale for this plan should, therefore, be viewed in the context of a long-term vision for Pakistan, the external environment in which it operates as a country, lessons learnt from other successful developing countries, diagnostic studies including public opinion polls on government performance in Pakistan, and the public’s growing expectations overall.

### Long-Term Vision and External Environment

The New Economic Growth Framework prepared by the Planning Commission (2011) envisages Pakistan as a developed, industrialized, just, and prosperous nation by the end of the next 20–25 years. This vision is to be achieved through rapid and sustainable development in a resource-constrained economy by deploying knowledge inputs. The framework proposes that the transition for achieving this objective be managed by intelligently and efficiently exploiting globalization through competitiveness, and that Pakistan should, therefore, opt to become an active participant in the globalized economy for goods, labor, capital, technology, and services.

This option has serious consequences for the future of governance in the country. The imperative of integrating Pakistan in the larger global economy places certain essential demands on the country, one of which is that state structures and the instruments of government are redesigned to use knowledge and technology inputs to create opportunities for increased productivity and competitiveness within the constraints imposed by dwindling resources. Among the world’s 180 nations who are Pakistan’s competitors for market share in an expanding global economy, only those will survive that remain agile and can adapt to changing demand patterns, supply value chains, and technological upgrades. The main actors in a country that, together, impinge on its competitiveness and productivity are the state, market, and civil society. Their respective roles and interrelationships have to be, therefore, redefined and recalibrated.

Structural economic reforms to improve Pakistan’s prospects for competing in the globalized economy require stable, functioning, competent, and responsive institutions for implementation. Unfortunately, at present, the country is caught in a difficult logjam. While economic reforms create displacements in the transition period, strong working institutions provide the resources and armory to withstand these shocks, thus minimizing the costs of adjustment and maximizing the benefits to the poor and marginalized. The urgency of building strong institutions to implement these structural reforms is, therefore, quite obvious.

Following this logical sequence, the state’s various organs—the executive, judiciary, and legislature—need to be assessed and evaluated to determine whether they are capable of meeting this new challenge or if they need to be revamped to develop new response capacities.

### Lessons from Other Developing Countries

The role and limitations of governments in various types of developing countries have been analyzed at great length. The majority view is that governments should do what they are capable of doing better than in the past. A strong and effective government is needed rather than weak and expansive government. An all-encompassing government is too cumbersome and centralized with overlapping and competing interests, making it inefficient and unresponsive to the emerging needs of the public. Civil servants are poorly trained, sub-optimally utilized, unmotivated, and indifferent. Development economists have argued that effective government in developing countries was not only necessary due to abundant market failures, but also possibly even sufficient to achieve economic development.

A number of developing countries have successfully reformed their governments and tackled market failures as well as achieved rapid economic development. How have they managed to transform expansive governments into effective, well-focused, well-functioning, and result-oriented ones? Interpreting the success of East Asian countries, such as the newly industrializing countries, Asian countries, and China is a matter for serious debate. Neoclassical economists attribute their success to market-friendly, private sector-led growth and openness to trade, with their governments providing macroeconomic stability, security of person and property, and infrastructure services, while promoting research and development, and investing in education, health, science, and technical training. Others such as Wade (1990) and Amsden (1989) argue that an interventionist state that steered a proactive industrial policy and picked its winners was largely responsible for these countries’ success.

By now, there is some consensus that, if labels and ideologies are set aside, the evidence suggests that relatively successful countries have tended to promote competition and avoid monopolies or oligopolies; ensured a level playing field and the entry of newcomers in the market; made privatized firms face competition; exercised regulatory vigilance (but eliminated inefficient and outdated regulations); opened up the economy to international trade; provided the way for judicial independence; provided dispute resolution mechanisms and enforced contracts; promoted transparency; and observed the rule of law. In short, their governments have provided an enabling environment for private businesses in which to carry out the production, distribution, and trade of goods and services without indulging directly in these activities.

The other piece of empirical evidence that is beginning to gain wide acceptance is that decentralization and greater devolution of power, authority, and resources to lower tiers of government also makes a difference through better allocation and the more efficient utilization of resources. Devolution also helps in moving toward a relatively more egalitarian outcome in the provision of basic public goods services.

Another effective way to promote human development and deliver social services to poor segments of the population is through the wider participation of the private sector, communities, and civil society organizations. Participation, besides being considered a means to further human capabilities a la Sen, is also a way of choosing the right kind of projects and ensuring that development funds are used more judiciously. Many countries successfully use private-public partnerships and public-nongovernment organization (NGO) or civil society organization partnerships to provide infrastructure, education, health, and other social services. These partnerships not only supplement limited public resources and counter governance issues through monitoring, evaluation, and corrective actions, they also enable local communities to participate in decision making through their organizations. The reduced efficiency of public sector expenditure can also be corrected through such partnerships.

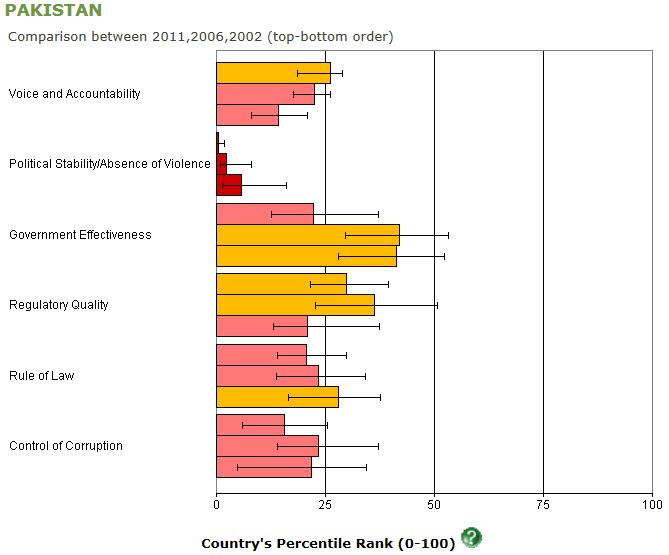
### Changes in the Pakistani Scene

In addition to historical reasons, the changes that have taken place in Pakistan over the last several years and that are also likely to affect the functioning of the government in the future, clearly point to the need for reform. There are at least seven new developments that warrant serious consideration.

First, it is becoming increasingly apparent that the benefits of economic growth have not been distributed equitably among lower-income groups, backward districts, rural areas, and women. Although the government has used the channels of devolution and targeted poverty interventions to spread these benefits, the results have been less than satisfactory. Almost all studies point out that governance institutions, i.e., the governmental machinery at the federal, provincial, and local level, have become largely dysfunctional due to protracted neglect.

Almost all comparative country rankings, whether originating from the World Bank’s governance indicators, the World Economic Forum’s Global Competitiveness Report, or other think-tanks and institutions have consistently rated Pakistan fairly low in terms of public sector management, institutions, and governance. The World Bank has been compiling governance indicators for its member countries for the last 15 years. These include (i) voice and accountability, (ii) political stability, (iii) government effectiveness, (iv) regulatory burden, (v) rule of law, and (vi) corruption. The World Bank’s (2012b) governance indicators for Pakistan are reproduced in Figure 10.1.

Figure 10.1: Pakistan’s ranking in governance indicators



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| http://info.worldbank.org/governance/wgi/images/green_px.png | **90th-100th percentile** | http://info.worldbank.org/governance/wgi/images/yellow_px.png | **50th-75th percentile** | **http://info.worldbank.org/governance/wgi/images/pink_px.png** | **10th-25th percentile** |
| http://info.worldbank.org/governance/wgi/images/lgreen_px.png | **75th-90th  percentile** | http://info.worldbank.org/governance/wgi/images/orange_px.png | **25th-50th percentile** | **http://info.worldbank.org/governance/wgi/images/red_px.png** | **0th-10th percentile** |

*Source:* Kaufmann, Kraay, and Mastruzzi (2010).

Along with its low human development indicators, this weak institutional dimension makes the task of poverty reduction, income distribution, and delivery of public services considerably difficult. The impact of good economic policies on the lower strata of Pakistan’s society, particularly those who are illiterate and not well connected, is thus muted. The widespread hue and cry about the absence of the trickledown effect of good economic policies is a manifestation of the country’s dysfunctional public sector governance. Government institutions have to be strengthened to meet this challenge.

Second, the government’s responsibilities in the field of owning, managing, and operating public enterprises and corporations have undergone a significant change both in thinking as well as action over the last 16 years. A large number of government-owned corporations, businesses, industrial units, banks and financial institutions, and service providers have either been privatized or ought to be privatized. This will reduce the burden on the administrative apparatus at all levels of the government. Shedding these activities also has serious implications for the oversight function of ministries/departments in the post-privatization period.

Third, the devolution of administrative, operational, and financial powers to the provincial governments has introduced a completely new element to the governance structure that will require suitable modifications in other tiers of the government. The federal government has already transferred all the functions in the Constitution’s concurrent list to the provincial governments. The actual and projected increase in financial resources to the provinces under the National Finance Commission awards has significantly expanded the fiscal space available to them for directly carrying out essential public services. However, the devolution remains incomplete because the next logical step of reallocating administrative resources and strengthening the local government’s capacity has not yet been taken; moreover, it has met fierce resistance from provincial ministers and legislators. The unfortunate past association of local government systems with military regimes has given rise to much apprehension, especially in the multi-ethnic provinces of Sindh and Balochistan.

Fourth, the unbundling of the policy, regulatory, and operational responsibilities under these functions remains incomplete, uneven, and mixed across the ministries and needs to be firmly rooted. Addressing the lack of competence and adequate knowledge of regulatory functions will require the development of expertise in this field as well as in policy formulation, implementation, and evaluation. The experience with the regulatory agencies has not been very encouraging and has led to unproductive confrontation between the ministries and regulators. The thrust has been on grabbing power rather than finding solutions to the problems faced by the industry or consumers.

Fifth, some limited success has been achieved by fostering private-public partnerships in infrastructure, education, and health, but these partnerships can only be nurtured if the government departments and ministries concerned have adequate skills to design concession agreements, build-operate-transfer (BOT) or contractual arrangements, monitoring and evaluation tools, and legal recourse to enforce the obligations and stipulations agreed to by their private sector partners. Similarly, NGOs and community organizations such as the Rural Support Program have been actively engaged in public service delivery in the education, health, and water supply, etc. The government departments and ministries concerned need to be reconfigured to develop their capacity to design and operate such partnerships.

Sixth, there is a great deal of uncertainty and anxiety among members of the civil services concerning their career prospects. Specialists serving in ex-cadre jobs such as scientists, engineers, medical doctors, and accountants, are demoralized because they have limited opportunities for career progression. They also feel that they are not treated at par with cadre service officers in matters of promotion and advancement.

Seventh, the switchover from manual to automated processes and the government’s commitment to move toward e-government will require an assessment of the skill mix and training requirements of existing and future civil servants throughout the hierarchy. E-government will itself flatten the hierarchical texture and expose redundancies in the system. At the same time, it will involve the need for basic computer literacy at all levels and grades, digital archiving, storage, and document retrieval. Consequently, only a few clerical and subordinate staff positions can be utilized in the government’s future organization.

### Expectations-Delivery Gap

South Asia’s recent political history clearly points to the failure of successive governments to meet the expectations of the majority of their population. This trend has become even more acute in the last decade or so with the advent and spread of the electronic media. Although all the countries in the region have performed well and attained respectable rates of economic growth, every incumbent government has been voted out of power at the time of election. The benefits of growth may have filtered down but their speed and distribution have not satisfied the electorate.

The information and communication technology (ICT) revolution that has touched even remote areas in these countries has tended to exaggerate the disparities and led to higher expectations from the government. On one hand, the capacity of government institutions responsible for the delivery of public goods and services has been rapidly eroded while the large variety of goods and services available and advertised by the electronic media has whetted the appetite of the poor. These low-income groups believe that the means through which they can acquire these goods and services for themselves and their children is via public sector employment, education and training, and government transfers.

In practice, the allocation of public goods, services, employment, and subsidies is rationed by access to government functionaries or the payment of bribes. Since these groups have neither the access nor the money to pay bribes, they suffer from a relative sense of deprivation while observing the influential and well-to-do segments of the population preempt and enjoy the benefits of government jobs, contracts, permits, and land, etc. Large untaxed incomes also accrue to the same privileged groups and individuals. The resentment of this poor and unconnected population is conveyed through the only instrument they possess, i.e., their vote at the time of an election. This gap between expectations and delivery is also one of Pakistan’s biggest challenges.

Popular perceptions expressed in public opinion polls, media commentaries, academic forums, and the observations of politicians and civil society actors all convey, with a few honorable exceptions, a negative image of civil servants in Pakistan and a high level of dissatisfaction with the functioning of ministries and other government bodies at different tiers of the government. These perceptions are in contrast to civil servants’ views, who see themselves as poorly paid, highly demoralized, and under immense stress. They feel they have been unfairly treated by their political masters and are unappreciated by the public. Empirical studies and casual observations show that the root cause of this disillusionment can be traced to the structural, procedural, and motivational deficiencies in the overall system of governance. Any attempts to treat the symptoms in an isolated manner without coming to grips with the root causes will be counterproductive. A proposed reform package should be comprehensive with a clear blueprint but the introduction of each set of reforms could be phased and sequenced.

Nowhere is this gap more glaring than in the government’s failure to protect the lives and property of its citizens. Acts of terrorism, violence, and extremism have become so commonplace over the last several years that the writ of the state does not appear to exist any longer. State functionaries are either reluctant or incapable of taking serious action against perpetrators and arrests and apprehensions are rare. Known perpetrators are seldom convicted by the courts because eye-witnesses are liable to retract their statements for fear of retribution by those accused. Investigators and judges avoid getting involved in such cases. Under these circumstances, the cost of crime is virtually zero while the gains are enormous and almost guaranteed.

In light of this changing landscape, the role and functions of the government need to be redefined. The government has to: (i) provide external and internal security for its people, (ii) collect taxes, (iii) manage public finances, (iv) conduct foreign affairs, (v) maintain a stable macroeconomic environment including a sound financial system, (vi) make available basic infrastructure facilities, (vii) develop an education and training system capable of supplying skilled human resources, (viii) encourage and undertake research and development, and (ix) ensure an enabling regulatory framework for private sector and community participation in development. The plan for future restructuring should, therefore, be guided by these functions.

## Proposed Reform Agenda

The governance reform agenda for the future should, therefore, be designed to restructure and revitalize government institutions to deliver the core functions of the state, i.e., the provision of basic services—education, health, water and sanitation, and security—to common citizens effectively and efficiently, and to promote inclusive markets through which all citizens have an equal opportunity to participate in the economy. The restructuring should lower transaction costs and provide access without friction by curtailing the arbitrary exercise of discretionary powers; reducing over-taxation; minimizing corruption, cronyism, and collusion; and ensuring public order and security of life and property. The proposed reforms should take place along the lines discussed below.

### Fostering the Private Sector

To achieve sustained economic growth, a competitive private sector has to be nurtured and relied on. A major area of reforms in Pakistan should, therefore, be the creation of space for the growth of new entrants in the private sector by removing state-created constraints to their entry and operation. Despite the pursuit of liberalization, deregulation, de-licensing, and disinvestment policies over the last 20 years, the overbearing burden of government interventions in the business lifecycle looms large. New businesses still face dire problems in acquiring, titling, pricing, transferring, and possessing land; obtaining no-objection certificates from various agencies; acquiring water and gas connections, sewerage facilities, a reliable electricity supply, and access roads; and securing finances for greenfield projects or new enterprises using emerging technologies. The considerable powers of petty inspectors from various departments/agencies can either make or break a business.

The growing trend toward the “informalization” of the economy, particularly by small and medium enterprises, is testimony to the still-dominant nature of the government. Over 96 percent of the establishments reported in the economic census for 2005 fall in this category. The attitude of middle and lower government functionaries in the provinces and districts toward private business remains ambivalent—they may be inclined to harass a business to extract pecuniary and nonpecuniary benefits for themselves or simply remain distrustful, hostile, or hesitant toward private entrepreneurs. The involvement of multiple agencies, the need for too many clearances, and avoidable delays at every level raise transaction costs for new entrants. Unless the government facilitates firm entry and exit, competitive forces will remain at bay and the collusive and monopolistic practices of large businesses will continue to hurt consumers and common citizens.

### Federal and Provincial Restructuring

Federal-provincial interaction in formulating national policy matters has no formal anchor after the 18th Amendment. The National Council of Ministers, consisting of federal and provincial ministers working under the aegis of the Council for Common Interests should formulate national policies for the transferred subjects. The federal government should remain responsible for international relations and interprovincial coordination in these subjects.

In view of the fresh challenges that face the country, we propose that the following new ministries be set up within the revised structure by merging some existing ministries and replacing others: ministries for energy, technology development, regulatory affairs, human resource development, social protection, infrastructure development, and special and underdeveloped areas. The existing autonomous bodies and attached departments, corporations, companies, councils, institutes, and subordinate offices at the federal government level should either be retained, regrouped, merged, privatized, wound up, liquidated, or where appropriate, transferred to the provinces.

### Civil Service Reforms

A lingering legacy that has contributed to the sub-optimal utilization of civil servants and demoralized the majority among them has to do with the existence of superior and nonsuperior services. The concept of the superior services should be discarded so that all services at the national, federal, and provincial levels are considered equal. Their terms and conditions in matters of recruitment, promotion, career progression, and compensation should be similar. Specialists and professionals working in ex-cadre positions should be brought at par with the cadre services in terms of promotion and career advancement.

To provide equality of opportunity to all deserving civil servants, a National Executive Service (NES) and Provincial Executive Services (PES) should be constituted to staff all federal and provincial secretarial positions. Under this reform, any Grade 19 (or equivalent) officer serving the government at the federal or provincial level or autonomous body level and other eligible professionals will be allowed to sit the competitive examination held by the federal or provincial Public Service Commission. Those who qualify will be selected for the NES. To redress the grievances of the smaller provinces concerning their lack of representation at higher decision-making levels, provincial and regional quotas will be introduced for entry to the NES. The NES will comprise two streams—general and economic—thus promoting some limited specialization among civil servants.

Given that most government interaction with ordinary citizens takes place at the district level and that the present stock of functionaries are ill-trained, poorly paid, unhelpful, and discourteous individuals with arbitrary powers, a new setup is required at the district level. A District Service should be constituted for each district government. All employees serving in Grades 1–16 will become part of the District Service and serve in districts of their choice throughout their careers. Direct recruitment to Grades 11 and above will be made on merit through the provincial Public Service Commission. The District Service will consist of two cadres—generalist and technical. This will minimize political pressure for transfers and postings since two thirds of the 2 million employees working in the provinces will remain under their respective district governments.

Training in technical and soft skills will be made mandatory for all members of the District Services. The district governments will need to be strengthened by establishing administrative linkages between union councils, town committees/tehsil councils, and district governments. The office of executive magistrate will need to be revived. In case the system of district nazims is revived, which ought to be, law and order, disaster management, and land record management should be removed from the nazims’ purview and transferred to the deputy commissioners. The office of deputy commissioner should be transformed into that of a district chief operating officer with an enlarged scope of duties. The devolution of development activities, projects, programs, and departments was working satisfactorily and should have remained with the district governments.

All-Pakistan services should consist of the proposed NES, a Pakistan Administrative Service (presently the District Management Group), and the Police Service of Pakistan. The federal services should comprise the Pakistan Foreign Service, Pakistan Audit and Accounts Service, and Pakistan Taxation Service. Direct recruitment to other existing services through the Central Superior Services examination should be discontinued in a phased manner. The proposed provincial services will include the PES, Provincial Management Service, Provincial Technical Services, and Provincial Judicial Service. All direct recruitment to positions at Grade 17 and above will be merit-based with due representation for regional and women’s quotas. Recruitment in all cases will be made only by the federal and provincial Public Service Commissions through an open, transparent, competitive examination and interview process.

One of the main weaknesses of the present system is that civil servants who enter the service at a young age are not compelled to upgrade their skills or knowledge. Career advancement is divorced from skill and knowledge acquisition and application. Promotion and placement policies should be aimed at rewarding those who perform well and demonstrate potential for shouldering higher responsibilities. The promotion policy should lay down criteria for each level including the weight given to the performance evaluation report (PER), training and skills acquisition, rotation of assignments, diversity of experience, and complexity of jobs, etc. Training for all civil servants at all levels—cadre or ex-cadre—should be mandatory and linked explicitly to promotion to the next grade. For this purpose, the existing training institutions should be made autonomous and provided the requisite human and professional training for engineers, scientists, accountants, health experts, educators, and economists, etc., while new institutions could be established to fill any gaps.

A fair and equitable compensation system cannot work well unless it is accompanied by an objective performance appraisal system. The current system of annual confidential reports has outlived its utility and should be replaced by an open PER system in which goals and targets are agreed on at the beginning of the year, key performance indicators to measure achievements are established, and an open discussion is held between the appraisee and supervisor to identify further development needs.

A mid-year review should be held to assess progress and provide feedback, and an annual evaluation held jointly through a discussion between the appraisee and his/her supervisor. The appraisee can then sign the report or appeal to the supervisor next in line against his/her immediate supervisor’s findings if need be. This way, the PER will be used mostly as a tool for the development of the individual to meet the needs of the organization. The system should focus on poor or underperformers in particular to facilitate them in achieving better performance outcomes.

About 100 key public sector institutions in the country such as Pakistan International Airlines, the Water and Power Development Authority, Pakistan State Oil, the Oil and Gas Development Company, and Pakistan Railways, etc., have a critical impact on economic and social outcomes. There have been serious questions about the appointment of these organizations’ chief executives. Even when competent individuals have been appointed, their detractors or other aspirants have carried out malicious media campaigns and virtually paralyzed the chief executive from making effective decisions.

To overcome this tendency, the governance structure has to be made more transparent and merit-based so that the right candidate is chosen as chief executive of an organization through a well laid-out process. A special selection board should screen and interview all candidates, and prepare a shortlist for consideration by the Prime Minister. This process will minimize arbitrary use of discretionary powers in appointments, attract capable candidates for these key jobs, and discourage the trend of making frivolous charges against the selected candidates.

Corruption among the majority of civil servants cannot be curbed by moral persuasion but instead by providing them with adequate compensation packages. The present compensation structure under which officers are grossly underpaid in relation to their comparators and do not earn a decent living wage has given rise to poor morale and a sense of professional apathy. None of the reforms proposed above will succeed unless the compensation package offered to the officer cadre is substantially upgraded.

To keep the government’s wage bill within the limits of the fiscal deficit, we propose imposing a freeze on fresh recruitment to lower grades, except for teachers, health workers, and police officers. Although this is likely to prove a politically difficult decision, it should also be remembered that high fiscal deficits result in high rates of inflation that undermine popular support for the political party in power. After all, government employment accounts for less than 6 percent of total employment in the country, and makeshift employment in the public sector will not satisfy voters.

### Information and Communication Technology

The world is moving swiftly toward ICT, which benefits the lives of common citizens. E-government tools and developments in digital technology offer promising prospects for improving government efficiency, reducing transaction costs, making ordinary citizens’ lives more convenient, introducing transparency and reducing discretionary powers and corruption, and tracking performance and output. Despite the potentially powerful impact of e-government, it has met with fierce resistance and contrived delays in adoption. A modest beginning has been made in an ad hoc manner but the process still lacks a concerted effort steered by the top leadership in the federal and provincial governments.

Without serious attention from the country’s leadership, the pace will remain uneven, the impact will be marginal, and the opportunities foregone will be tremendous. Training current government employees in e-filing, messaging, document sharing and retrieval, reporting, and archiving will smooth the transition from a paper-based environment. The transparency achieved through e-government will also help curb corruption and the exercise of arbitrary discretionary powers by government functionaries.

### Government Rules and Regulations

Another public grievance is the uneven and discriminatory application of government rules, regulations, and instructions. The limited number of lower functionaries familiar with these rules—of which most other people are unaware—tend to exploit their power by hoarding this knowledge for their own benefit. Multiple rules exist on the same subject where no systematic exercise has been undertaken to remove them. All such instances of multiple rules, regulations, instructions, and circulars in manuals should be removed, updated, and compiled in the form of a concise and accurate manual. The establishment and finance manuals deserve priority attention. After being updated and revised, these manuals should then be uploaded to the Government of Pakistan’s websites so that they are accessible to the public.

One reason for the inefficient disposal of government business is the concentration of powers in the hands of the finance and law ministries, the Establishment Division, and Planning Commission. The Ministry of Finance had agreed to replace the outdated concept of a financial advisory organization with a chief financial and accounts officer in each ministry directly answerable to the principal accounting officer, who is the secretary of the division. The full powers for reappropriation within the approved budget should be delegated to the secretary of the division, who can further delegate some financial powers to the head of executive departments or other officers in the ministry.

Ministries/divisions should bear full responsibility and accountability for their actions, achievements, and failures, and thus exercise their power to deploy financial and human resources in the most effective manner possible. The line ministries should be fully empowered to spend their budgetary allocations subject to the rules of the Public Procurement Regulatory Authority, with internal controls and audits duly carried out and the support ministries ensuring that the rules and procedures are complied with.

### Education, Health, the Police, and Land Administration

In addition to these medium- and long-term reforms in governance structure, processes, and policies, four areas that affect people’s daily lives the most—education, health, the police, and land administration—should also be reformed as discussed below.

Governance reforms in education are badly needed to uplift the state of literacy in Pakistan. These reforms should begin with a clear division of responsibilities between the federal, provincial, and district governments in service delivery. The federal government should focus on higher education financing, regulations and standards, and curricula, while the provincial governments are responsible for college, technical, and vocational education. The district governments should have exclusive power to manage and operate primary and secondary education up to matriculation level. Examination reforms should be carried out to bring the standards of various boards up to par. The management and teaching cadres should be separated and career paths for the two cadres should not discriminate against teachers.

A district education board should be established in each district to bring about better coordination and ensure uniform standards for public, private, and not-for-profit schools. Each board should consist of eminent, reputable persons with the district education officer as its secretary. The board will be assisted by a school management committee empowered to oversee the school’s functioning. Head teachers will have more administrative authority in running schools and disciplining teachers, while arranging periodic school inspections.

The management and teaching cadres should be separated, and career paths for the two cadres should not discriminate against teachers. Endowments funds at the provincial government level should be augmented every year out of the budget to fund talented students to pursue their education at the country’s best institutions. Student vouchers or stipends should be available for meritorious children from poor families to attend private schools of their choice. Private-public partnerships in the form of “adopt-a-school” programs should be encouraged and given incentives. Female teachers should be employed in primary schools as far as possible to promote girls’ enrollment.

Most of the problems in healthcare delivery arise not from financial constraints but due to poor management practices. The health management cadre should, therefore, be separated from teaching and service providers in each province and the federal government. Only those with the necessary aptitude should be recruited as health managers and trained at the national and provincial health academies. District, teaching, and other specialized hospitals should have their own independent board of directors and be given autonomy in administrative, financial, legal, and human resource matters. Health human resources and development, particularly in the nursing and paramedical professions, require urgent attention to improve their quality and volume. The health regulatory framework should be made more effective and also set up at the provincial level.

There is near-consensus that law and order and security problems have worsened in recent years due to the inefficiency, corruption, and politicization of the police force. The original Police Order 2002 was compromised by amendments that weakened the functioning and accountability of the police. Legislative amendments and revised disciplinary rules are needed to allow police officers to perform their duties in accordance with the Police Order and to remove their discretionary powers. The reversal to the earlier Police Act after 2008 has only aggravated the situation by highly politicizing the police. The police force should not fall under the purview of the Civil Servants Act (except those belonging to the Police Service of Pakistan) since it impedes internal accountability.

Disciplinary rules should be framed under the Police Order. Provincial police offices should be organized along functional lines and their powers delegated according to the Police Order. Police stations should be merged, upgraded, and headed by directly recruited Grade 17 officers with full responsibility for watch and ward, investigation, and operations. The police force’s training, allowances, mobility, logistics support, board and lodging, medical facilities, and welfare fall short of their requirements and create demoralization; these should be reviewed and strengthened. The traffic police in all large cities should be reorganized to operate on the lines of the motorway police.

Land records as maintained by *patwaris* are the largest source of disputes and litigation in the country. Attempts to create a digital database of land records have remained halfhearted except in Punjab where some progress has been made. Land revenue assessment and collection, adjudication, and dispute resolution should remain the responsibility of the district governments but the maintenance and update of land records should be removed from their purview and placed directly under the Board of Revenue. *Patwaris* should be replaced by revenue assistants at BS 11 and above and recruited through the provincial Public Service Commissions. The Colonization of Government Lands Act 1912 should be revised to ensure better and more transparent allocation and utilization of state land.

### Accountability of Government Bodies

Another area that needs to be addressed is the absence of effective accountability for results. There is both too much and too little accountability of those involved in public affairs in Pakistan. On one hand, the plethora of laws and institutions such as anti-corruption bureaus, the National Accountability Bureau (NAB), auditor general’s reports, public accounts committees of the legislature, parliamentary oversight, judicial activism, and the ombudsman system have created an atmosphere of fear and inertia, and hindered decision-making among civil servants. On the other hand, instances of rampant corruption, malpractices, nepotism and favoritism, and waste and inefficiency are common folklore in the country’s administrative culture.

An over-emphasis on ritualistic compliance with procedures, rules, and form has taken the place of substantive concern with results and outcomes for welfare and justice. The NAB should be an independent body reporting directly to the Prime Minister, and chaired by a candidate selected jointly by the Prime Minister and leader of the opposition on the basis of competence, integrity, and independence. The investigation and prosecution of white-collar financial crimes and corruption should be entrusted to the NAB. Accountability courts should be staffed by honest judges who are free from influences and pressure. The provincial anti-corruption establishments should also be reorganized on the lines of NAB.

Introducing transparency by simplifying, codifying, and upgrading rules and regulations and disseminating them widely through e-governance tools such as a dynamic website, information kiosks, and online access to government functionaries would help enforce internal accountability standards. At the same time, this would make it easier for citizens to carry out hassle-free transactions. Strong pressure from organized civil society advocacy groups in specific sectors or action by the media, political parties, the private sector, and think-tanks can also compel government departments and ministries to become more accountable for the results they produce.

The governance agenda outlined above should not be considered a technocratic exercise; it is essentially a political one that takes into account the existing power relationships in which the polity is rooted. Balancing the diverse interests of the various stakeholders concerned will involve many politically tough choices, which cannot be made by technocrats.

The sustainability of these reforms requires broad consultation, consensus building, and communication to articulate a long-term vision. People must see beyond the immediate horizon and buy into future changes. Concerns, criticism, and skepticism should be addressed. The scope, phasing, timing, implementation strategies, and mitigation measures involving those who will lose as a result of the reforms should be widely discussed and debated. If things do not proceed the way they were conceptualized, corrective action should be taken in the light of the feedback received. Citizens’ charters, surveys and report cards, panels, and focus groups should be used as instruments to collect regular feedback on the impact of reforms on different segments of society.

If implemented earnestly, these recommendations will generate a much-needed sense of confidence among ordinary citizens in the country, relieve undue pressure on politicians to chase officers from various departments, and yield dividends to the political parties in power in the federal and provincial governments.

# Conclusion

Our survey of Pakistan’s governance structure and institutional infrastructure amply confirms the validity of the theoretical literature and empirical evidence on governance in developing countries. The elitist capture of the state, excessive centralization of power both by elected and military rulers, chronic political instability, politicization of the civil services and, until recently, collusion between the power structures—the politicians, the army, and the judiciary—have reinforced the tendency toward institutional decay and huge governance deficits. Conflict between these power structures is not rooted in a benign balancing act for the collective good of society, but in the assertion of authority by different actors advancing their own parochial interests. Unlike other societies, the cost that Pakistan is paying for poor governance and institutional decay is relatively high and poses an existential threat to the country.

This agenda for reforms draws on Pakistan’s experience, lessons drawn from other successful examples of developing countries, the changing nature of Pakistan’s sociopolitical landscape, best practices, and characteristics peculiar to the country’s situation. It forms a logical sequence to the 18th Amendment to the Constitution and the recent National Finance Commission award. It is now essential to realize that the value chain can be completed only by taking this reform agenda to culmination over the next five years.

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***Appendix***

**Summary of Recommendations**

*Civil Services*

1. Ensure open, transparent, merit-based recruitment to all levels and grades of public services with regional representation as laid down in the Constitution.
2. Institute performance-based promotions and career progression for all public sector employees with compulsory training at post-induction, mid-career, and senior management levels.
3. Ensure equal opportunities for career advancement for all employees without preference or reservations for any particular class.
4. Replace the concept of the superior services with equality among all cadres and noncadres of public servants.
5. Grant a living wage and compensation package, including decent retirement benefits, to all civil servants.
6. Observe strictly the security of tenure of office for a specified period of time.
7. Establish a separate cadre of regular civil services at the federal, provincial, and district levels coexisting with contractual appointments.
8. Create an all-Pakistan National Executive Service (NES) for senior management positions drawn through a competitive process from among federal, provincial, and district-level civil servants and external professionals.
9. Introduce three specialized cadres under the NES for economic management, social sector management, and general management.

*Structure of Federal, Provincial, and District Governments*

1. Devolve powers, responsibilities, and resources from the federal to the provincial governments, and from the provincial to the local governments.
2. Establish intergovernmental structures with adequate authority and powers to formulate and monitor policy.
3. Clearly separate the policymaking, regulatory, and operational responsibilities of different ministries/provincial departments.
4. Empower each ministry/provincial department to make decisions and be held accountable for their results, while ensuring they are adequately resourced to do so.
5. Streamline, rationalize, and transform the attached departments/autonomous bodies/subordinate offices/field offices, etc., into fully functional arms of the ministries in order to carry out operational and executive functions.
6. Reduce the number of layers in the hierarchy of each ministry/provincial department.
7. Designate the cabinet secretary as the main coordinator among the federal secretaries on the lines of the provincial chief secretaries.
8. Revive and strengthen secretaries’ committees at the federal/provincial level as the main vehicles for inter-ministerial coordination and dispute resolution among various ministries.
9. District-level officers interacting with the public in day-to-day affairs should have adequate powers, authority, status, and privileges to be able to resolve citizens’ problems and redress their grievances.
10. The police, revenue, education, water supply, and health departments are highly relevant to ordinary citizens’ daily lives. Accordingly, the internal governance structure of these departments, public grievance redressal systems, and checks and balances on officials’ discretionary powers need to be introduced.

*Business Process Reengineering*

1. All laws, rules, regulations, circulars, and guidelines issued by any government ministry/department/agency should be available to the public in updated form, free of cost, and in a user-friendly format both in electronic and print forms at public places.
2. Service standards with timelines for each type of service rendered at the district, *thana*, and union level should be developed, disseminated, and posted at public places in each department.
3. The rules of business at the federal, provincial, and district government levels should be revised and simplified to empower secretaries/heads of department/deputy commissioners to make decisions without need for multiple references, clearances, and the back-and-forth movement of files. Decisions made should be post-audited to ensure accountability rather than requiring prior clearance.
4. The delegation of financial, administrative, procurement, and human resource management powers should be revisited, and adequate powers commensurate with the authority should be delegated at each tier of the hierarchy.
5. Estacode, the financial rules, accounting and audit rules, fundamental rules, and all other rules in force should be reviewed systematically and revised to bring them in line with modern management practices.
6. E-government should be introduced gradually and in phases. Technological solutions and hardware and software applications are easy to institute but the most difficult aspect is training users and incorporating a change in their culture, attitude, and practices. E-government should be driven by business needs rather than crafted as an elegant technical solution.

**Institutions of Economic Governance in Pakistan**

*Federal Government*

1. Finance Division
2. Planning Commission
3. Economic Affairs Division
4. Pakistan Bureau of Statistics
5. Commerce Division
6. Privatization Commission
7. State Bank of Pakistan
8. Securities and Exchange Commission of Pakistan (SECP)
9. Federal Board of Revenue (FBR)
10. Auditor General of Pakistan
11. Board of Investment
12. Trade Development Authority of Pakistan (TDAP)
13. Competition Commission of Pakistan (CCP)
14. Pakistan Telecommunication Authority (PTA)
15. Oil and Gas Regulatory Authority (OGRA)
16. National Electric Power Regulatory Authority (NEPRA)
17. Indus River System Authority (IRSA)
18. Engineering Development Board (EDB)
19. Private Power Infrastructure Board (PPIB)
20. Alternate Energy Development Board (AEDB)
21. Pakistan Standards and Quality Control Authority (PSQCA)

*Provincial Governments*

1. Finance Department
2. Planning and Development Department
3. Board of Revenue
4. Excise and Taxation Departments
5. Revenue Boards

1. \* The author is former governor of the State Bank of Pakistan, prior to which he held a number of senior positions in the World Bank, including that of chief economist for the Bank’s East Asia and Pacific Region. [↑](#footnote-ref-1)
2. Transparency International, which carries out perception surveys on corruption across a large cross-section of countries, has consistently ranked Pakistan among the most corrupt countries. Although the actual ranking has varied, the direction remains unchanged. World Bank governance indicators, the Economist Intelligence Unit index, the failed state index, international country risk guide, Heritage Foundation, and Economic Forum index all corroborate the decline in various indicators of governance and institutional strength. [↑](#footnote-ref-2)