

Governance Challenges in Pakistan

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DIAGNOSIS OF THE PROBLEM

DIAGNOSIS OF THE PROBLEM -- continued

- Pakistan's Governance model is that of an Elitist Economy where a small fraction consisting of feudal landlords, tribal and clan chiefs, large businesses, civil and military leaders, religious leaders, media tycoons, and politicians pre-empt most of the gains from economic growth by rigging the markets and at the same time hijacking the state. The same class therefore preserves influence and control over the resources.
- The East Asian model, in contrast, is that of shared growth where the benefits are widely distributed among the majority of the population. Both growth rates and income distribution are relatively robust and social cohesion is at prime.

DIAGNOSIS OF THE PROBLEM -- continued

- Why is this contrast? The elites in Japan, Singapore, Korea, China, Viet Nam , ASEAN countries lead by example . Discipline, Accountability , Compliance and Performance based privilege were modeled from the top and permeated throughout the system. A large and growing pie leads to progress and prosperity.
- Elites in Pakistan extract more than they contribute, evade taxes, invest in unproductive and speculative activities, move capital abroad shrinking the size of the pie. General dissatisfaction and polarization result.

DIAGNOSIS OF THE PROBLEM -- continued

- The key is as to how effective the Institutions of Governance are. Pakistan had strong and effective institutions that led to rapid industrialization, Green Revolution, Indus Basin works etc. . This indeed was the case in the first forty years of Pakistan when it was among one of top developing countries recording high growth rate and poverty reduction. Appointments to these institutions were not made on loyalty to the ruling class but on competence and integrity. Decisions were not personalized but collectively arrived and responsibility was not diffused. Since 1990 the same institutions have become dysfunctional .
- In China , all appointments right from the Mayor of Village and town to the Politburo are made on merit rewarding those who perform well and superseding or removing the poor performers.

DIAGNOSIS OF THE PROBLEM -- continued

- Weak and dysfunctional institutions create cascading crises as structural vulnerabilities converge . For example, Climate change risks are not properly addressed because poor management of water, energy and water resources of the country. Demographic pressures cannot be tackled because of low female labour force participation rates, high infant and mortality rates, low literacy rate. In Bangladesh , fertility rates have decline to below replacement rate because of female empowerment and investment in social development.

ACTIONS REQUIRED –Devolution of powers

- The question that arises is that these challenges are well known but what can be done in practical terms to overcome these challenges.
- First, the highly overcentralized dynastic and clan based political system where the top leader is powerful and all others dare not displease him has to be replaced by devolving administrative , legal powers to deliver basic public services to empowered , fully resourced , directly elected local governments . Communities at grass roots know their problems better , can mobilize resources and spend them efficiently. The level of satisfaction of ordinary citizens in Pakistan was the highest in 2002-2007 period when we had elected local governments from Union Council to District Council and Metropolitan Corporations.

ACTIONS REQUIRED ...Private sector

- Unshackle the entrepreneurial energies of the private sector through regulatory guillotine removing the multiple layers of NOCs, clearance certificates , Permits, licences, inspections by low level public functionaries . Provide incentives to export oriented sectors , reduce the cost of doing business especially energy, logistics, cesses, fees, surcharges, so that they can compete in the global economy , Strengthen the Competition Commission to protect consumer interests and curb malpractices and market manipulations.

ACTIONS REQUIRED—Skill sets

- Introduce STEM subjects right from the middle school, Branch off to Technical and Vocational Training after high school, entrust the design and delivery of training to the relevant business associations, increase the allocations for competitive research and development grants to reorient the universities and research institutes to work on socio economic problems of the country especially in Agriculture, industry and emerging technologies. Align skill upgradation with the changing demands of the producers of goods and services both locally as well as internationally.

ACTIONS REQUIRED—Civil Services

- Institutions are led and managed by civil services. The old model of civil services whereby a person passes an examination at a young age and then moves up the ladder without any barriers or criteria has outlived its utility and is partially responsible for some of the deficiencies of these institutions. The whole value chain from induction and recruitment, training and development, career progression, performance management, compensation and severance has to be completely revamped . Merit, good performance, Integrity and delivery should be the evaluation criteria. As the world is becoming quite complex specialists have to be brought in to assist and advise the generalists heads .

ACTIONS REQUIRED- E governance and Digitization and

- The current efforts to digitize the economy have to be stepped up by giving priority to E governance where all government departments and agencies can be accessed electronically, upload their applications along with the requisite supporting documents through a portal , obtain data and information about rules, regulations , instructions from a central integrated data base. Not only this would reduce rent seeking and introduce transparency and efficiency but also trim the elongated hierarchical chain in the Government ministries , make the huge army of messengers, clerks and record keepers, Receipt and dispatch redundant helping in the rightsizing of Government . The savings can be used for increasing the number of teachers, health workers, technical experts and also paying the professionals and higher civil servants market compensation.

ACTIONS REQUIRED—Coordination

- The present fragmentation and silos between different ministries and departments of Government, lack of clear delegation to autonomous bodies and attached departments, lack of coordination between the federal and provincial governments and between Government and the private sector have cost the economy in terms of timely decisions and cost overruns. Inertia and delay in decision making have become the norm as nobody has held accountable for acts of omission. Constitutional bodies such as NEC and CCI and Inter Ministerial coordination councils are not used for this purpose both in policy formulation as well as implementation. Harmonization and facilitation after devolution to the local government would become even more necessary. For example, businesses have to file five different tax returns to the FBR and the four provincial revenue authorities separately. These coordinating bodies have to be rejuvenated and put to work.

ACTIONS REQUIRED–

Administration of Justice

- Reform the Administration of Justice from Police, Investigation, Prosecution, and judiciary to expedite disposal of cases and enforcement of judgments. Establish commercial courts to adjudicate commercial disputes and contract enforcement; Make the appeal system for tax, financial, commercial disputes simple and remove the additional layer of specialized tribunals. Promote Alternate Dispute Resolution as an integral part of the judicial system. Establish Small causes courts at the local level. Fully digitized titled based land registration would not only reduce the work load of the courts but also enable the banks to provide mortgage loans and agriculture credit.

ACTIONS REQUIRED- Taxation Reform

- The present system of extortionary taxation has been one of the main hurdles for capital formation and investment in this country. The formal corporate and industrial sectors, salaried class and the consumers of goods carrying GST weight are bearing disproportionate burden while agriculture, wholesale and retail trade, transport, professionals are either outside the net or paying negligible amounts. By broadening the tax net the burden on compliant tax payers and the formal sectors would be considerably reduced and also documentation of the economy facilitated. Digital processing and payments, Faceless tax assessments, integrated data bases, monitoring production are the steps in the right direction but have to be brought to fruition soon to have a meaningful impact.

ACTIONS REQUIRED– Energy sector

- One of the major hurdles in Pakistan's journey towards exports and a source of dissatisfaction by the public at large is the non competitive and unaffordable prices of energy. The annual losses, subsidies, higher tariff payments, Circular Debt of Power and Gas sectors have created an unsustainable situation for the firms as well as households. Dismantling the monopoly of DISCOs and Sui Gas companies and opening up the retail distribution to private sector competition would be the way out of the present difficult situation

ACTIONS REQUIRED—State owned Reforms

- 85 commercial enterprises have been divided into four categories (a) those to be retained in the public sector for strategic reasons (b) those which have to be restructured and retained (c) those which have to be restructured before privatization and (d) those which have to be privatized.
- A SOE Policy and SOE law have been enacted to provide the framework and a Central Monitoring unit established to prepare half yearly reports on the performance
- A long list of entities are in the pipeline for privatization. PIA has recently been sold to a consortium of private sector business groups.