

# Socio-economic reforms and good governance

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The World Bank (WB) has recently shelved the \$350 million structural adjustment credit (SAC-III) to Pakistan which was meant for the reform process proposed by them. The step has been taken as the WB feels that there is no headway in reforms in governance, taxation, devolution and decentralisation of power, financial management, civil administration, public access to information and the delivery of social services. The IMF has also revised its conditionalities for release of \$109 million out of the \$1.3 billion Poverty Reduction Growth Facility (PRGF) as they are not being met.

Foreign aid to countries was initiated after the World War II with a twofold objective. It was meant to reduce poverty and enhance growth but its main purpose was to further the economic, strategic and political interests of the donor nations. The Structural Adjustment Facility (SAF) given to the developing nations in the last two decades failed to achieve the first part of the objective. In most of these countries there was hardly any reduction in poverty or improvement in growth although their aim of globalising corporate, financial and economic power was certainly achieved. However its failure to achieve the primary objective of poverty reduction, has prompted the donors to reassess their philosophy and strategies of aid.

The fancy term Structural Adjustment Facility later called the Extended Structural Adjustment Facility (ESAF) was primarily a policy-based aid by the donors. But the International Financial Institutions (IFIs) have realised that disbursement of money under their policy guidelines did not bear fruit, and in two decades one of the recipients viz. Pakistan amassed 37 billion dollars in debt at high commercial interest rates. Real GDP growth and investment fell, inflation remained high, saving and

in countries which in their opinion are not performing well, appointing and propping up leaders who suit them though their political legitimacy might be dubious, are all meant to maintain their hegemony around the world and to promote their own commercial interests. They undertake all possible initiatives at their command to achieve this end. A recent example is the US Middle East Road Map. The plan envisages sweeping geo-political and economic changes in the region. The decree bears vast similarity to the PRSP now being dictated by the multilateral donors to the recipient countries.

The basic reason for the impecunious conditions of the developing world including most of the Muslim states is faulty governance which in turn is due to illiteracy and divisive religious, ethnic, parochial and tribal tendencies. Population explosion is draining their resources to the limit. The human and political rights of the people are suppressed in most of these countries. Many have no democratic political system and are ruled by autocratic and dictatorial regimes. The issue of reforms and good governance in the developing countries is now a central theme of the multilateral donor agencies under PRSP which in broad term envisages the following. A) Aid works in good policy environment, b) improvement in institutions and economic management are key to poverty reduction, c) effective aid complements private sector investments, d) project based lending strengthens the reform effort, e) an active civil society improves public service, f) in distorted environments aid can nurture reform by ideas and not by money. In the new WB formula the guidelines have been changed, the control is more stringent and the required results cover more than economic outcomes. It is important to note that during the

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threat, and our defence spending is unsupportable. Social sector especially education, health and human resource development have been neglected. Law and order situation is far from satisfactory and the public has lost confidence in state institutions especially judiciary and revenue department.

Our economy is now on the crutches of deferred payment of high domestic and foreign debt. Total domestic debt which at present stands at Rs 1.72 trillion would increase to Rs. 2.206 trillion in 2007-8 while estimated borrowing of \$4.5 billion dollars during the next five years as envisaged in PRSP would increase our foreign debt to \$38.6 billion. The GDP growth rates continue to remain low and Pakistan has one of the lowest per capita incomes at \$440. The percentage of people below the poverty line is at an alarming level. The WB Vice-President in her recent address to Pakistan Development Forum (PDF) has described this situation as "a threat to national security". The President of Pakistan has repeatedly voiced his concern about the despondency among the public which he terms as uncalled for. However the public opinion must be based on their perception of the bleak socio-economic scenario and the seemingly uphill task to change it.

counts, management information systems, external public audit, legislative scrutiny and monitoring capability of the society.

Radical reforms are needed in the SOEs and the civil administration to improve delivery of services to people and curtail input costs. In this regard personnel policy, including recruitment, promotions and salaries are vital issues. Public sector pay structure in Pakistan has collapsed since the 1980s making corruption a part of the official routine. A proper monetisation of facilities and perks enjoyed by the government servants is necessary. The whole structure of bureaucracy at every level needs revamping. The era of civil servants being masters of all trades is long over. They can only meet the demands of the modern challenges through proficiency and specialisation. Savings rate remains stagnant at 12-13 percent because little is left in a household after paying for the high cost of utilities, transport, education and health. The private sector investment remained at a low level of 4.7 percent of the GDP in the fiscal year 2001-2.

The social sector is plagued by the inability of the state to delineate the roles of the private and public sector. All regimes to date have shied away from defining the exact role of the state. Murky policies and half-hearted implementation has left the country with poor quality of education and health services. Money is no doubt crucial but precise policy planning is the key to bringing about change. Efficiency will not come by the government removing itself from the scene, but rather by the government developing the capability to make a positive contribution in its stewardship.

Democratisation, devolution of power and basic reforms are evolu-

agent, it is the ideas and know which bring the change. Reforms begin by creating a transparent system for appointment and removal of judges on criteria of merit only, compensating them adequately and improving their training programmes. A new system of court administration and case-flow management may be needed to ensure speedy disposals. Procedural measures, such as reduction of *ex parte* communication between the judge and litigants, better access to justice through small claims courts, alternative dispute resolution mechanisms and legal aids are necessary to restore the credibility of the august pillar of the state.

Pakistan's policy of macroeconomic stabilisation is basically sound and must continue but it alone cannot lead to investment, growth and creation of employment nor can it ensure improvement in the public sector service delivery or social sector indicators. The present policy structure with its exceptions is still one of adhocism, strategic interference, partial framing and slow implementation. A passing policies in every sphere with set targets of execution, outcomes and performance alone can initiate sustainable development.

To achieve growth rate of 5 percent, the savings rate must rise to 13.7 percent for the Fiscal Year 2003-4. This seems like asking for the impossible. However market activity will help people develop confidence in the performance of the public sector. The state in turn must show visible indicators of moving towards a developed economy and taking steps to improve social opportunities.

Any addition in funding of the Public Sector Development Programme (PSDP) with borrowed money or from within the budget shall have a nominal effect in the social sector as a one

mercial interest rates. Real GDP growth and investment fell, inflation remained high, saving and investment rates stagnated while imports and government consumption increased. In addition, debt in absolute terms, the debt/GDP and debt service/export ratios also increased in Pakistan. There was minimal development and the social indicators remained poor because the need to curtail fiscal deficit led to a cut in public sector spending. The IFIs have therefore scrapped ESAF as they now believe that policy-based aid cannot nurture reforms. The basic message is that aid cannot induce unwilling governments to implement good governance and reforms and aid has had a positive outcome only in countries with sustainable policies and sound institutional structures. Therefore the new direction is Poverty Reduction Strategy Paper (PRSP) which is a reform based programme initiated by the World Bank and now mandated by all donors.

The new approach of the donors to be reformers and proponents of good governance through a tightened control and stricter vigilance for greater outcomes is in harmony with their strategic objectives. The preemptive interventions of US, toppling regimes

cover more than economic outcomes. It is important to note that during the course of 1980s the conditionalities attached to the WB loans rose from an average of 21 per loan in 1980s to 55 in 1990, falling gradually to 33 in 2000.

Pakistan has been on the WB and International Monetary Fund (IMF) programmes for the past five decades. It had started borrowing under Stand By Agreement for budgetary support and then under Extended Structural Fund Facility to solve its structural and economic problems. Recently it procured credit under Poverty Reduction and Growth Facility (PRGF) meant for the poorest countries facing prolonged balance of payment problems. The country strategy is now formulated under the PRSP made by the Finance Ministry under guideline of the World Bank.

The state of affairs in Pakistan is not much different than those of the developing world. A stable political system has eluded the country since its independence. The very ideology of Pakistan is being debated, the country was broken into two and a variety of divisive forces are still operating making it a fragmented society. Our eastern and western borders as well as our nuclear capability are under constant

it.

The reform effort of the last three years has had insignificant effect across the board on working of the government and has been a complete failure in the highly inefficient and mismanaged energy sector predominantly controlled by the state owned enterprises (SOEs). The SOEs continue to be a burden on the Federal budget in terms of losses to the tune of 100 billion rupees a year while raising the input cost to industry and agriculture sky high thus rendering them internationally non-competitive.

Technical departments like WAPDA, revenue and financial management have been the loci of incompetence and corruption. WAPDA and Karachi Electric Supply Corporation would need 54 billion rupees in the financial 2002-3 to plug their shortfall. The government is forced to budget this money otherwise electricity charges would rise to astronomical levels. Ad hoc external monitoring has not produced worthwhile results, instead the system of internal scrutiny should be strengthened. A turn around can be brought about by introducing improvement in budgeting, financial and performance management, procurement regimes, public sector ac-

counts, decentralisation, devolution of power and basic reforms are evolutionary processes which cannot be thrust by means of external pressures. Institution building in Pakistan needs to start with building strong political institutions and the change has to come from within. Pakistan must evolve a stable political structure which can deliver. It must be initiated by the political parties, which should evolve democratic traditions within the party system to make a meaningful change in the society.

Civil society and media are crucial for creating and maintaining checks and balances on the government. But this can only happen in a representative government. The intellectuals, professionals, religious leaders and other civil groups should play the role of watchdogs of public sector integrity and there is certainly a need to expand this role.

An independent, impartial and efficient judicial system alone can be a check on the government and act as a confidence building measure for the people. It is not understood how a \$350 million loan from the Asian Development Bank can improve the delivery of justice in Pakistan. According to the new research at WB, aid in terms of money is not itself a change

nal effect in the social sector as a one rupee investment in the education sector raises the actual school spending by 10 paisas only. Currently out of the 241 PSDP projects, 127 are moving on a slow pace, 60 are satisfactory and 3 are sick. Pakistan must come out of the borrowing syndrome. The \$2.724 billion dollars being asked by the health and education ministries in the recently conducted Pakistan Development Forum will lead to another undue increase in the debt burden.

Pakistan has to move in the direction of becoming an equal opportunity country for all its citizens by first and foremost providing a uniform system of education from the remotest village to the capital. Pakistan must develop durable political institutions answerable to the electorate, independent judiciary, professional bureaucracy, public accountability, transparency, supremacy of the writ of the state, decentralisation and finally a monitoring role of the society replacing the bureaucratic hegemony over state institutions. All this will come when the leadership can sell their reform agenda to 148 million people of Pakistan. The people must buy and own the agenda and participate in its implementation.