World Bank and reforms

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SOUTH ASIA is a complex and geopolitically sensitive grouping of eight countries. These are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. As a whole, the region houses over 1.4 billion people, of whom more than one-third live in extreme poverty on less than one dollar a day.

This conglomerate of teeming humanity faces numerous challenges, the foremost amongst which is rapid and sustained economic growth to make a notable dent in the incidence of poverty. Despite its human potential, the region's social indicators remain pitiful. Corruption is endemic. Most countries in the region are found leading the corruption lists compiled by organizations such as Transparency International (Pakistan once achieved the distinction of being placed second in its rankings of corrupt countries).

There is a serious deterioration in public security and safety. This is compounded by weak law enforcement and political interference with the judiciary. Centralization of power and corruption often make strange bedfellows. South Asia has one of the most centralized public administrations in the world — a legacy of colonialism that persists despite more than half a century of independence.

The countries of the region have been unkind to nature in abusing the bountiful resources it has placed at their disposal. They suffer from arguably the most polluted environment in the world. Their major rivers in long stretches (especially in and around urban areas)

Mr. Praful Patel, visited us not so long ago. Our government has requested him to raise the current average funding to Pakistan from $600 million a year to one billion dollar.

We require additional funding for the second phase of reforms under WB tutelage, with a focus on investment in three sectors: water and power, roads, and human development. Without investment in improvement of absent or deteriorated infrastructure, we have little chance of achieving what the WB considers a necessary GDP growth rate of six to eight percent in order to halt the rising trend of poverty. But the WB has made it clear that the levels of funding will depend on performance.

The biggest culprit from amongst the public sector units that swallow some Rs 100 billion a year from the budget and continue to drag us back are the electricity utilities — Wapda and

> Even if the WB's objective of a growth rate of six to eight per cent were to be achieved somehow, would this mean a decline in poverty? A great deal depends on how the rise in national income is distributed. Given the reliance of our economic managers on the private sector, the likelihood is that the overwhelming bulk of the incremental national income would go into the pockets of those who least need it — our moneybags.

rooted in reality. It is time for the men in uniform who have so signally failed to turn the utilities around in over four years to go back to their real duties and hand Wapda and the KESC over to civilian professional management. The much vaunted military discipline is clearly not what the utilities require.

The government continues to claim (including to the WB) that it achieved a GDP growth rate of 5.1 per cent in the last financial year despite the contradiction of this claim by none other than the governor of the State Bank, who told us it was actually 4.6 per cent. This year's target is pitched at 5.3 per cent. In the absence of meaningful investment, this target seems difficult to achieve, let alone the 6-8 per cent the WB would like. The WB and our government are wedded to the second phase of reforms, including reforms in the capital sector, human development and governance. These reforms are to be carried out at the federal, provincial and district levels.

The capacity to implement the desired reforms would have to be improved at all three levels if they are to have any chance of success. Only if this condition is realized will the growth of the order of six to eight per cent become a realistic hope. Higher rates of growth are required if the accelerating rate of growth of poverty is to decline, let alone be reversed.

The government claims 32.1 per cent of people in Pakistan live below the poverty line. Independent economists and analysts dispute this figure, arguing that those living below the poverty line constitute 40 per cent of our population. Poverty has increased since General Musharraf took over, the relative economic stabilization achieved durstretches (especially in and around urban areas) appear to be open sewers. Their rapidly expanding cities and towns (often in an unplanned urban sprawl) lack basic public amenities and services. Their villages remain isolated and backward.

Travel between these countries is subject to a restrictive regional visa regime, particularly where citizens of Pakistan and India wish to visit each other's countries. The year-long military standoff between the two South Asian rivals has made travel in South Asia prohibitively expensive and time consuming. Cultural exchanges between the countries of South Asia are still pitifully few.

It is a region of extreme contrasts. It abounds in contradictions, mutual mistrust and suspicions. Every layer of history can be found in the same societies, ranging from the ancient and medieval to the modern and thriving. It boasts one of the largest pools of technical talent in the world but remains technologically backward. It has one of the largest hydroelectric potentials in the world, yet suffers from an acute shortage of energy. The majority of its villages still lack electricity.

Mutual acrimony and failure to realize natural advantages have overshadowed what could be potentially one of the most lucrative and thriving regional trade regimes in the world. Informal and illegal trade continues to the detriment of governments. One estimate places the unrecorded trade between Pakistan and India alone at five billion dollars a year through third country and smuggling channels. South Asia has to learn from the experience of regional trade and economic groupings such as the European Union and ASEAN.

the KESC. Last year they ate up between them some Rs 76 billion; this year's budget allocates a Rs 54 billion bailout for these white elephants.

Sadly, the tall claims that attended the takeover of the electricity utilities by the military during Nawaz Sharif's last term have been found to be misplaced. The electricity utilities continue to blunder along much the same path, except that the military management at the top level constantly tries to justify its continued existence by making unsubstantiated assertions of 'progress'. Wapda and the KESC have one of the highest rates of line losses in the world, with the former at 26 per cent and the latter a whopping 42 per cent. To add to technical losses because of degraded infrastructure we have the persistent phenomenon of theft, obviously with the collaboration of line staff.

The WB is least impressed with our power sector. It sees it as the critical obstacle to growth. The utilities' financial improvement plan (FIP), which Water and Power Minister Aftab Sherpao tried to present to the WB vice-president with a shiny gloss, does not inspire confidence. The finance ministry and Wapda blame each other for non-observance of the FIP. Wapda and KESC continue to pile up huge losses. The electricity utilities are nowhere near making an appreciable dent in collecting public sector defaulted dues. This outstanding debt is arguably equivalent to Wapda's annual deficit. What a travesty! The government cuts its nose to spite its face.

The failure to act against delinquent government departments and ministries that do not pay their electricity bills has landed Wapda and the KESC in the

took over, the relative economic stabilization achieved during the last three and a half years notwithstanding. This is understandable, since the shyness of capital has meant slower growth, fewer jobs, and therefore economic distress at a mass level.

Even if the WB's objective of a growth rate of six to eight per cent were to be achieved somehow, would this automatically and meaningfully translate into a decline in poverty? A great deal depends on how the rise in national income is distributed. Given the reliance of our economic managers on the private sector, the likelihood is that the overwhelming bulk of the incremental national income would go into the pockets of those who least need it — our moneybags. The ordinary citizen would still be looking up for crumbs to 'trickle down' from the high table.

Investment and its concomitant effect on growth is unlikely to accelerate dramatically in the midst of the kind of political uncertainty that has the country in its grip since the October 2002 elections. With each passing day, the costs of lost investment are rising. The government must follow up on the betterment of management in units like Pakistan Steel by instituting turnaround management by professionals in all the public sector units, especially the power utilities. Investment in public infrastructure can act as a Keynesian fillip to stimulating demand, something the economy dearly lacks because of the erosion of the purchasing power of large sections of the people.

The private sector, foreign and domestic (apart from those with capital already invested on the ground, such as the textile industry), is unlikely to bail out the economy by putting its money where its mouth is unless politi-

Where does Pakistan stand in this sketch of the regional scenario? We have only in recent years embarked on economic liberalization and reform. We still have a long way to go. International donor agencies have been engaged in funding our reform efforts. Notable amongst these is the World Bank (WB). The WB's new regional vice-president for South Asia, soup. Wapda has revealed through its head that it has moved Nepra for a tariff reduction of 60-70 paisa per unit. How will this sit with the IMF, which has imposed the conditionality that without the FIP showing that the utilities are in, or nearly in, the black, no tariff reduction is permitted?

The claim seems far-fetched, and more of a PR exercise than cal stability through a viable and sustainable system is ensured. Therefore, painful as it may be, the logic of the situation suggests that the 'doctored' democracy of General Musharraf, which promises soon to make the appellation military-mullah alliance a reality, is not a long-term bet for the economic goals the WB and our government agree on, but are unlikely to get to.