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QUAID-E-AZAM LECTURES

INSTITUTIONS FOR GROWTH, EQUITY AND SECURITY [1]

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Pakistan was one of the top ten economic performers among the developing countries in the world during the first forty years of its existence. These forty years were tumultuous in the history of the nation but .the record of achievements was impressive. Starting with a very weak economic base at the time of independence in 1947, followed by nation building, continuing political instability in the aftermath of the death of its founder. It successfully absorbed and rehabilitated 8 million refugees or one fourth of the total population, fought a war with a much larger and powerful neighbor India in 1965, and went through a painful and traumatic dismemberment of the country in 1971. The emergence of a populist political regime that indulged in massive nationalization of private assets in the 1970s accompanied by an external shock of major oil price increases gave a big blow to business confidence and dislocation of the economy. Close involvement with the US in the Afghan War to oust the Soviet Union in the 1980s and the associated fall out i.e., spread of sectarian violence, drugs and Kalashnikovs shook the social fabric of the country. Despite these and many other challenges, internal and external, the country was able to register 6 per cent average annual growth rate during the first forty years of its existence. Pakistan was ahead of India and Bangladesh in all economic and social indicators.

Since 1990, the country has fallen behind its neighboring countries and has had a decline in the growth rate from 6.5 per cent to 4.5 per cent with booms and busts. The booms were short lived and could not be sustained over extended periods of time. Political instability and frequent changes in governments in the 1990s may have created uncertainty for investors thus slowing down the pace of economic activity .While there has been smooth and orderly transition of power from one elected government to another twice since 2008 , economic and social indicators have not shown much improvement either.

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This paper attempts to examine several alternative hypotheses that can explain this slow down, volatile and inequitable growth of the last twenty five years and through a process of elimination advances theoretical and empirical evidence to show that the most powerful explanatory hypothesis lies in the decay of institutions of governance. The paper also suggests a selective and incremental approach of restructuring some key public institutions that pertain to accountability, transparency, security, economic growth and equity.

The popular image of Pakistan externally is that of a fragile or failed state with a large and expanding arsenal of nuclear weapons encircled by Islamic extremists, and a safe haven for nurturing and training terrorists who pose a threat to other countries. There is considerable unease in the international community about the unending rivalry and hostility between nuclear armed India and Pakistan, who have fought three wars. Kashmir continues to remain a highly contentious and volatile powder keg. Relations with Afghanistan remain tense and mutual recriminations and mistrust has vitiated the atmosphere. Though Pakistan is a non-NATO ally of the United States, the popular sentiment in both countries about each other is largely unfavorable. The US considers Pakistan duplicitous in its dealings with the Afghan Taliban and Haqqani network while Pakistan is bitter that despite incurring such huge losses and sacrificing hundreds of thousands of lives, its role in the War against Terror is not fully appreciated. Pakistan is perceived by outsiders a source of regional instability, an ungovernable country.

Therefore, the popular hypothesis about Pakistan's economic drift is explained by this increasing influence of religious extremists, and terrorists who have threatened law and order and disturbed the peace and security. Economic agents are reluctant to undertake new investments under this kind of environment. This hypothesis may be partially valid, but the economic decline started in the 1990s, well before the country got embroiled in the war against terror in the post-2001 period. The average growth rate in the 1990s when the country was relatively peaceful and tranquil was already down from 6.5 per cent in the 1980s to 4 per cent. Investment ratios, export growth, and social indicators all took a dip in the 1990s. Poverty that was showing a downward decline until the 1980s worsened by the end of the 1990s. On the contrary, in 2002-08 period that was a period of violence and terror activity in the country including assassination attempts and terrorist attacks on the sitting President and the Prime Minister. Even so, the country recorded a remarkable turnaround. The growth rate touched 6 to 7 per cent on average, Investment/ GDP ratio peaked to 23 per cent and Foreign Direct Investment flows reached above US$ 5 billion.

The recent experience of 2013-16 period is illuminating. Macroeconomic stability has been achieved, economic growth rates are moving in an upward direction. Confidence of domestic and international investors (Pakistan has been upgraded to the MSCI EM Index from the FM Index and its credit ratings by Moody's and Standard and Poor have also improved) has been regained . These recent developments also negate the view that Pakistan's security situation and particularly its deep involvement in war against terrorism is responsible for its poor economic and social performance. Therefore, the security deficit hypothesis does not stand up to serious scrutiny.

Another group of analysts argues that the availability of generous foreign assistance has been the main determinant of Pakistan's economic success or failure and the country's fortunes vacillate with the ebb and rise of the flows from external donors. It has been argued that the three periods of economic spurts in the history of Pakistan i.e. the 1960s, 1980s and early 2000s can be ascribed to the heavy infusion of this money into the country. Pakistan was a recipient of large military and economic assistance and that was the major reason for the turnaround in these three periods of growth spurts. Despite this popular perception, the empirical evidence does not prove this assertion.

Let us examine the data on the foreign capital flows in the slow growth periods of the 1950s, 1970s, 1990s and post 2008 period. In the 1950s, Pakistan received huge amounts of military, civilian and food aid. It was the PL 480 imports of food from the US that kept Pakistan away from hunger. In the 1970s, Western aid amounted to $700 million annually but on the top of it, official grants and concessional loans (some of which were subsequently transformed in grants or waived off) from oil rich Arab countries and workers remittances did not pose major problems and financed the huge imbalances in current account. During 1973-74 to 1977-78, commitments of assistance from Iran and Arab countries totalled $ 1.2 billion, mostly on concessional terms. Parvez Hasan has calculated that aid disbursements during mid 1970s were at a level far above that reached during the 1965-70 period (average $600 million annually that included flows to East Pakistan) after allowing for international inflation. In the 1990s, foreign currency deposits of resident and nonresident Pakistanis in Pakistani banks amounting to $11 billion were utilized to finance external payments. The IMF, World Bank and Asian Development Bank continued to make loans amounting to several billion dollars between 1988 to 1998 while Japan was the largest bilateral provider of concessional loans and grants. In the post 2008 period, the Kerry Lugar Act authorized $ 7.5 billion of economic and military assistance from the US to Pakistan for a five year period. Multilateral banks and the IMF increased the quantum of their support while Pakistan became the largest recipient of UK Aid of 1 billion pounds for five years. Thus, despite higher volumes of foreign assistance the average growth rate has hovered around 3 to 4 per cent. It can thus be seen that there was no significant difference in the availability of foreign capital flows between the periods of high and low growth rates thus the hypothesis of high foreign assistance resulting in high economic performance is not validated by the facts.

Coterminous with the foreign aid dependence syndrome is the widespread belief that the Americans and the Western countries have supported the Military dictators at the expense of the democratic regimes. They are able to twist and turn the arms of the strong man running the country to follow their agenda and interests. So Pakistan's economy has done well only under the autocratic regimes with the blessings of the US. The frequent dismissal of elected regimes in the 1990s, the suspension of US aid under the Pressler amendment in the early 1990s and later after the Nuclear testing of 1998, the coup to overthrow ZA Bhutto in 1977 were all engineered under this compact and the drop in economic performance was caused by the consequential political instability. It must be recalled that the US suspended or curtailed economic and military assistance at crucial times in Pakistan's history when the military dictators were still in power. US aid was suspended soon after the 1965 war with India, after the 1971 separation of East Pakistan, and the early period of Zia ul Haq's rule, and sanctions were imposed in 1999 when General Musharraf took over the reigns of the Government. Whenever the US interests converged with those of Pakistan (1950s--SEATO/CENTO; 1980s -- ousting the Soviets from Afghanistan and 2001- 2016-- War in Afghanistan) the US, despite irritations and quibbles on both sides, chose to assist Pakistan irrespective of the nature of the regime in power.

We then examine another factor i.e., global economic conditions that may have played a negative role in this poor economic performance of Pakistan. The fact of the matter is that the external environment between 1990 and 2008 was highly favorable. Most emerging and developing countries have made great strides as chronicled by Steve Radelet in his recent book "The Great Surge". Per capita incomes in the Emerging and Developing Countries (EDCs) increased by more than 70 per cent between 1995-2013. The number of poor halved from 2 billion in 1990 to 897 million by 2012 bringing down the share of poor people in the total population from 37 to 13 per cent in 2012. The share of EDCs in the world exports rose from 24 to 41 per cent in this period. International capital flows jumped from $91 billion to $1145 billion. Bangladesh and India tripled and quadrupled their market share in the global markets during this period while Pakistan's share declined. All social indicators including Life Expectancy, Maternal Mortality, Infant Mortality, Adult Literacy, Net Enrolment ratios, and Average Years of Schooling showed significant improvement for developing countries as a group. So, the external economic environment cannot be blamed for Pakistan's poor performance.

Some analysts have attributed the overall poor performance of Pakistan to the "Garrison State" syndrome. As Pakistan has been obsessed with confronting a much larger archrival - India - since its formation, it has had to allocate a much larger proportion of its resources to Defence expenditure and to preserve and expand the corporate interests of the Military. Therefore the neglect of education, health, human Development in general and diversion of resources to meet the demands of defence, nuclear capability, and other security related expenditures has led to the present economic and social outcomes. In actual fact, the ratio of Defence expenditure to GDP was consistently high in the first forty years but is now 2.9 per cent of GDP - falling from the average of 6 to 7 per cent in the 1980s and earlier years. Most of the nuclear related expenditure was also incurred in the 1970s and 1980s. In FY 2016 the budgetary allocation for Education was 2.7 per cent of GDP. Combining Health and Education together, the budgetary allocation is 3.7 per cent - higher than that of Defence and Internal Security but certainly lower than what is required to fill in the huge gap in enrolment and primary health care services. In Education and Health sectors it is the governance and management issues that are impediments in the delivery of these services, not budgetary allocations. A popular myth that has now become quite entrenched and almost accepted as gospel truth in many circles is that of large corporate interests of the Military.

It is true that the Armed Forces have established Foundations and trusts that run enterprises but the proceeds and profits they earn are utilized for the welfare of the Army pensioners particularly the soldiers who retire at an early average age ranging from 45 to 50. The education and health care of their families are financed by the income generated by these Foundations and Trusts. To put this in perspective, the total market cap in November 2016 of all the listed companies owned by the Fauji Foundation, Army Welfare Trust, Shaheen Foundation and Bahria Foundation together was only 4.5 per cent of the total market cap of the companies listed on Pakistan Stock Exchange. Ayesha Siddiqa had claimed in her book "that the military has arrived at the point where its business today control about 23 per cent assets of the corporate sector with two foundations--Fauji Foundation and the Army Welfare Trust representing two of the largest conglomerates in the country." It is true that the listed companies owned by the FF, AWT etc are big players in Fertilizer sector but they have equally large conglomerates competing with them such as Engro and Fatima Group. All of these companies pay full taxes on their income, sales and imports and do not enjoy any exemptions or concessions of a preferential nature. The share of other unlisted companies owned by these Foundations and Trusts in the total assets of unlisted companies is not known but it would be quite insignificant as the universe of privately owned enterprises and businesses is substantial. Therefore the Garrison State hypothesis, despite its highly attractive appeal, also does not meet the test of evidentiary confirmation.

Having ruled out factors such as Security and Terrorism, Inflow of Foreign assistance, Preference for military rule, external economic environment, and diversion of public expenditures towards Defence which may have all played some role but were not the main determinant of the poor performance, we turn our attention to the Institutions of Governance.

An IMF empirical study (2003), found that governance has a statistically significant impact on GDP per capita across ninety-three countries and governance explains nearly 75 per cent of the cross country variations in income per head. An Asian Bank empirical study (2010) shows that developing Asian economies with government effectiveness, regulatory quality, and rule of law scoring above the global mean (after controlling for per capita income) grew faster on average during 1998-2008 than those economies scoring below the global mean. The authors conclude that good governance is associated with both a higher level of per capita GDP as well as higher rates of GDP growth over time.

Numerous other studies have demonstrated the linkages between good governance and healthy economic growth. Daron Acemogluand Robinson in their study “Why Nations Fail” demonstrate that it is the institutions that determine the fate of nations. Success comes when political and economic institutions are "inclusive" and pluralistic, creating incentives for everyone to invest in the future. Nations fail when institutions are "extractive", protecting the political and economic power of only a small elite that takes income from everyone else. Institutions that promote good governance and facilitate broad based and inclusive growth have come to occupy the current consensus on development strategy. According to Acemoglu and Johnson, (2003) good institutions ensure two desirable outcomes - that -- relatively equal access to economic opportunity (a level playing field), and the likelihood that those who provide labor or capital are appropriately rewarded and their property rights are protected.

Rashida Haq and Uzma Zia have explored linkages between governance and pro-poor growth in Pakistan for the period 1996 to 2005. The analysis indicates that governance indicators have low scores and rank at the lowest possible percentile as compared to other countries.. The results of their study show a strong link between governance indicators and pro-poor growth. Their econometric analysis shows a strong relationship between good governance and reduction in poverty and income inequality.

The reasons for the poor governance can be explained with the help of the model of an elitist economy that was articulated in “Pakistan: The Economy of an Elitist State” whichsets out the politics of patronage as the main driver of the capture of the state and rigging of markets in Pakistan. It is postulated that a narrow elite constituting about 1-2 per cent of the population has used state and markets for their political power and self enrichment to the neglect of the majority of the population, particularly the poor and the less privileged segments of the society. This small minority was thus able to enjoy this unjust accumulation of wealth in the midst of widespread poverty and squalor. In the absence of a neutral umpire, markets are rigged by the elites for their own advantage and thus market outcomes and resource allocation are inefficient. The State which has to ensure equitable distribution of gains from economic growth is also controlled by the same elite that evades taxes and appropriates the public expenditures for its own benefits. Inequities - interpersonal, regional, gender - become commonplace in such an environment. Access to the institutions that deliver public goods and services is intermediated by the elite through a patronage- based system.

Thus both theoretical as well as cross country empirical evidence and Pakistan’s own experience lend a lot of weight in support of the argument that poor governance manifested in weak institutions, could be the predominant influence in the unsatisfactory economic and social performance of Pakistan in the last quarter century relative to both its own previous four decades and other countries in the region. The evidence to substantiate this point of view is the gradual decline in Pakistan’s ranking and score on the following Indices compiled by international and multilateral bodies, independent think tanks, academics, researchers, Non governmental organizations NGOS etc.:

- World Bank, World Governance Indicators
- World Economic Forum, Global Competitiveness Report
- UNDP, Human Development Index
- Freedom House, Economic Freedom Index
- Transparency International, Corruption Perception Index
- International Country Risk Guide
- UNESCO, Education for All Index
- Legatum Prosperity Index

Sakib Sherani (2017) has reviewed the World Governance indicators for the period 1996-2015. His analysis shows that Pakistan has performed poorly in all six sub-components of Governance. The average percentile rank for the 16 years, excluding political stability and absence of violence (extremely low), ranges from 18 to 32. He notes that in four out of the six parameters - Government Effectiveness, Control of Corruption, Regulatory Quality, and Political Stability and Absence of Violence - the best scores were recorded under President Musharraf (a period in which economic growth was also averaging 6-7 per cent annually). Again there was some modest improvement in World Governance Indicators, Ease of Doing Business and Corruption Perception Index for 2015 and 2016 when the economy was beginning to perform well. The same picture emerges by examining other Indicators and Indices compared to India and Bangladesh. Pakistan has fallen below these countries in the Human Development Index, Corruption Perception Index, and Legatum Prosperity Index and continues to lag behind India and Bangladesh in Education for All, Economic Freedom Index. Diagnostic studies, particularly the Conference volumes based on the Annual Conferences on Pakistan organized by Woodrow Wilson Center at Washington suggest that every single crisis faced by the country – low tax-mobilization, energy shortages, unsatisfactory law and order situation, losses of public sector enterprises, poor delivery of education and health services, stagnating trade - can be traced back to this governance deficit, institutional weaknesses, exacerbated by the military rule that did nothing to strengthen the institutions. Tax collectors enjoy wide discretionary powers that they use to extort money and enrich themselves rather than raise additional revenues for the exchequer. Power and Gas companies find a huge gap between the sales revenues they assess, bill and collect and the purchases of units which they have to pay for. Law and order suffers and the common citizen feels insecure because the Police officials are appointed on the recommendations of the elected members of the Parliament and Assemblies in exchange for outright payment rather than on their professional capabilities. Public sector enterprises naturally face losses when they become the dumping ground to accommodate thousands of unneeded employees at the behest of the ruling party. In competitive markets they lose market share and in public monopolies they fleece the consumers but still incur losses due to inefficiency, waste and corruption. There is a general consensus in Pakistan endorsed by the international organizations that the civilian institutions have decayed over time.

World Bank in one of its policy notes stated in 2013, "In a recent analysis of binding constraints to Pakistan's economy, bad governance and a poor civil service appear to be undermining economic growth. Without improving governance, other efforts in realizing the country's growth potential are destined to be less effective than they would be otherwise."

What can be done to redress this situation? The National Commission for Government Reforms (NCGR) consisting of members drawn from both private and public sectors travelled throughout Pakistan during 2006-2008, consulted with different stakeholders, carried out field studies, made on the spot observations about the delivery of public services, reviewed research work and compiled its report. The Commission made exhaustive recommendations in the structure, human resource policies, business process reengineering of the Federal, Provincial and Local governments, public enterprises and corporations, autonomous bodies etc. The recommendations of the Commission have been welcomed by the previous and the current governments but have not been formally accepted or implemented. Based on this record, it seems unrealisticto expect that a comprehensive reform of the Civil Services and of all the civilian institutions of governance is feasible under the given political realities.

The dilemma facing academics and technocratic policy reformers is that inefficient policies and institutions exist and status quo is defended because it suits the politically influential elites but the constituency and coalitions for efficient policies and strong institutions do not exist. If the first best solution of across the board and comprehensive reforms is not feasible, can a second or third best solution of selective and incremental approach by taking up a few key institutions of democratic governance be designed expecting that it may not meet the same kind of fierce resistance as those affected by these reforms would be a miniscule of the entire population of the civil servants. The choice of institutions should be driven by consideration of powerful spillover effects gradually engulfing a larger space over time.

These reforms of institutions should form part of along term governance reform agenda that is spelled out below:

A Long Term Governance Reform Agenda

The long-term roadmap to achieve a better and enduring system of democratic governance would have to contain certain essential ingredients. Their pace, sequencing, and implementation would depend upon a consensus among the major political parties, as the time horizon would cover several electoral cycles. No government in power can afford to take upon itself the sole responsibility to carry this forward, knowing full well that there would be resistance by their opponents or that the process would be disrupted after a change in government. Partial, incomplete, and half-hearted actions would not alter the course set out.

First, there is a need to reform the electoral process whereby constituencies are delimited afresh on the basis of the new population census. Electoral rolls should be prepared from the new data generated through this census. The Election Commission and the chief election commissioner should be given unfettered powers to organize the elections by directly taking over the administrative apparatus of the provincial and district governments. Electronic machines should be used for voting. After careful screening, candidates for the national and provincial assemblies who do not meet the eligibility criteria should be disqualified by the Election Commission from contesting elections. This weeding out process would improve the quality of elected representatives.

Second, political parties should institute more democracy within. In the 1950s, for example, elections for party office bearers were held at the grassroots level. This process has been substituted by the discretionary choices conferred upon the powerful top party leader, who selects office bearers of the party at all levels, nominates central working committee members, and allocates party tickets for the national and provincial assemblies along with the Senate. This leader also chooses ministers for federal and provincial governments if the party gains power. Such high concentrations of power in the hands of a single individual are inimical to the essence of democratic governance, which is based on debate, consultation, and consensus. Thus, dissent and difference of opinions within the party have given way to sycophancy and pleasing the boss at all costs. Furthermore, the combination of the offices of the party chief and chief executive in the same person has withered away what little accountability could otherwise be expected.

Third, the 18th amendment to the Constitution and the 7th National Finance Commission have very rightly devolved administrative, legal, and financial powers and authority from the federal to the provincial Governments. However, this devolution remains incomplete. The provinces have not transferred powers and resources further down to local governments, where most of the interaction between an ordinary citizen and the government takes place. Since 2008, the powers of local governments have been assumed by provincial governments. With the exception of the Khyber Pakhtunkhwa administration, provincial governments enjoy tremendous power under newly enacted laws making elected local governments subservient to them. This disconnect between the wishes of provincial governments to centralize power in their own hands and the aspirations of the people to access basic public services at their doorsteps needs to be resolved. Attempts to strengthen democratic governance are bound to fail in the absence of the decentralization of decision making, of the delegation of powers, and of the devolution of authority and deconcentration of resources.

Fourth, the administrative machinery of the civil services as a whole has broken down. Reforms in the police, administrative services, land management, the judiciary, and the delivery of social services need to be undertaken to set the country in the right direction. The capacity of civil servants to remain neutral and objective, which used to be their hallmark, has to be rebuilt and their morale and motivation revitalized so that they are able to once again assume their lost space in the country's governance structure and processes. Institutions that promote skill formation, higher education, scientific research, and technology transfer have to be brought to the front burner.

Fifth, the dispensation of justice in Pakistan has become time consuming, expensive, convoluted, and unnecessarily layered. A backlog of millions of cases pending in the lower courts has taken away the deterrent effect of punishment from criminals, defaulters, and other violators of laws. State revenues and bank loans, amounting to hundreds of billions of rupees, are held up due to litigation. Property titles and exchanges of deed have lost their sanctity because of prolonged disputes and complex processes prescribed by courts. Detection, investigation, and prosecution of cases are sloppy, making conviction rates too low. The whole value chain of the administration of justice needs to be overhauled.

Sixth, the federal government's Freedom of Information Act does nothing to facilitate the flow of information into public hands. The Right to Information Act in India has played a major role in keeping public servants and political leaders on their toes, because their actions and deeds could become the object of public knowledge and thereby lead to embarrassment. Civil society organizations and the media in India have played a critical role in accessing information and data under the Act. Similarly effective legislation in Pakistan, coupled with the curtailment of the Official Secrets Act—which vitiates open government—could go a long way toward ensuring transparency in government affairs. Provincial legislation, particularly in Khyber Pakhtunkhwa and Punjab, has sought to bring improvements. However, the requisite institutional arrangements have not yet been put in place.

Seventh, Parliament is supposed to provide checks and balances to counteract the excesses of the executive branch. But this is hardly the case in Pakistan. There is little legislative accountability to citizens, weak market oversight, and indifference in responsiveness to citizen demands. Parliamentary committees such as the Public Accounts Committee can, through public hearings, exert a sobering preemptive influence on government departments, ministries, and agencies by ensuring that waste, inefficiencies, and irregularities are minimized. However, the partisanship exhibited in the committees' deliberations and the lacks of technical expertise among the staff assigned to these committees have weakened their watchdog and oversight functions. Strengthening these committees would help place effective controls over the misuse of power and resources by the executive branch.

Finally, management practices in the government need to be modernized and overhauled. Over centralization and the concentration of power in the hands of the prime minister and provincial chief ministers have resulted in diffused responsibility, an absence of clear accountability, inertia, and a lack of commitment. Overly long hierarchical chains, consultation for the sake of form and procedure rather than substance, turf building and turf protection, and the tendency to pass the buck have created a big gap between promises and performance. The rules of business have to be rewritten to assign clear responsibilities to ministries, giving them the requisite authority and resources to fulfill their obligations and holding them accountable for results. Interministerial coordination and conflict resolution should take place at the level of the cabinet secretary, secretaries' committees, cabinet subcommittees, and the cabinet itself. E-government tools would help ensure transparency and the expeditious pursuit of business and coordination efforts.

This paper proposes an incremental and selective reform of some of the key institutions that can help in moving towards the goal of restoring the efficacy, efficiency and effectiveness of democratic governance. It is proposed that these institutions get back on the same pathway – merit, integrity, dedicated service and problem solving – that was their main asset historically. There are already many examples of successful institutions working quite well in the midst of this general atmosphere of institutional decay and their success reflects adherence to the same principles. The performance of Punjab Government in many respects is much better than that of other provinces and it can be attributed to a strong exemplary leadership but its sustainability would be assured if its institutional infrastructure is also strengthened.

Key Institutions Proposed for Restructuring and Strengthening

Any schema of selection from a large universe is bound to meet with skepticism. Therefore it is important to lay down the criteria against which the screening has been done and selection of these key institutions (listed below) made. The criteria are:

1. Institutions of Market governance: Whether they would enable the private businesses to operate without hassle or high costs of transactions in a competitive environment observing standards of corporate governance while protecting the interests of consumers and minority shareholders.
2. Institutions for delivery of services: Whether they would be able to improve efficient and non discriminatory access to basic public goods and services such as Education, Health, Water and sanitation.
3. Institutions for Administration of Justice: Whether they would be able to provide security of life and property of the citizens and ensure expeditious and cheap justice and dispute resolution.
4. Institutions of Accountability, Transparency and Oversight: Whether they would be able to take timely action without fear or favor against those indulging in malfeasance, corruption, or misuse of public office for personal gains.
5. Institutions for promoting equity : Whether they would be able to strengthen the capacity of those who do not have assets or skills to fully participate in market - based economic activities.

Another dimension that has been taken into account in the choice of these institutions is the relative strength of their knock-on spillover and crossover effects to other sectors and institutions. For example, the reform of the Public Service Commissions would be able to attract, and retain talented young men and women into the civil services based on open, merit- based, fair competitive processes. The higher quality of the civil servants would, in turn, uplift the performance of the institutions that deal with service delivery, market governance and administration of justice.

In the light of their linkages and synergies with the long term agenda outlined above we identify about two dozen key state institutions that would help in meeting the development objectives of Security, Growth and Equity for Pakistan. They have been chosen because of their inherent constitutional or legal standing, their possible positive impact on other sectors and spillovers to other institutions. We have relied upon the existing institutions except for a new National Science and Technology Commission to be set up on the lines of the Higher Education Commission. Some of these institutions would require reform lite i.e. some adjustments, incentive alignments and business process reengineering while others may have to undergo major surgical operations.

The institutions are grouped together below according to their possible contribution towards achieving the development goals of Security, Growth and Equity. In addition, there are cross cutting institutions that directly or indirectly impact all the three objectives and are mainly concerned with Accountability, Transparency, Standard Setting etc.

Accountability/Transparency/Oversight

- Parliamentary Committees
- Local Governments
- Auditor General of Pakistan (AG), and the Public Accounts Committees
- National Accountability Bureau (NAB)/Provincial Anti Corruption Departments
- Election Commission of Pakistan (ECP)
- Public Service Commissions (FPSC)/Provincial (PSCs)
- Information Commissioners under the Freedom of Information Act
- E-Government Directorate General/Provincial IT Boards

Security
- Lower Judiciary
- Police including Investigation and Intelligence agencies
- Federal Investigation Agency (FIA)
- National Counterterrorism Agency (NACTA)
- Prosecution Departments

Growth
- State Bank of Pakistan (SBP)
- Securities and Exchange Commission of Pakistan (SECP)
- Higher Education Commission (HEC)
- National Science and Technology Commission (NSTC)

- Federal Board of Revenue (FBR)
- Trade Development Authority of Pakistan (TDAP)
- Board of Investment (BOI)
- Competition Commission of Pakistan (CCP)

Equity
- Pakistan Agriculture Research Council (PARC)/Provincial Research Institutes
- Local Governments
- State Bank of Pakistan (SBP)
- HEC Needs Based Scholarship Program
- Benazir Income Support Program (BISP)/Zakat Committees/BaitulMaal
- Irrigation Authorities
- Urban Development Authorities
- National Vocational and Technical Education Commission (NAVTEC)

Conclusion

This paper examines several alternative hypotheses in an attempt to explain Pakistan's declining economic growth rate and weak social indicators for the last twenty five years. The most satisfactory explanation lies in the decay of the institutions of governance that have failed to achieve the interrelated development outcomes of security, growth and equity.

Comprehensive reforms are unlikely to be introduced in one go as it is neither practicable nor feasible to do so, both due to absence of political .will and capacity constraints. The first best solution, sweeping reform throughout the institutions of governance, is therefore ruled out. This paper therefore proposes a second or third best solution that targets a subset of key institutions which, if set right, can make a substantial improvement in the governance landscape of Pakistan over time. The spill over and knock on effects of these institutions over others would enlarge the space for beneficial outcomes over time. What needs to be done to set them on the right course is well known and documented and is therefore not repeated here. The challenge of reforming even this subset is formidable as the vested interests wishing to perpetuate the status quo are politically powerful and the coalition and alliances between the political leadership and the beneficiaries of the existing system are so strong that they cannot be easily ruptured. The elected governments with an eye on the short term electoral cycles are not in a position to incur the pains of these reforms upfront while the gains accrue later on to a different political party. The authoritarian governments are not effective as they do not enjoy legitimacy for sustaining reforms. Changing institutions is a slow and difficult process requiring, in addition to significant political will, fundamental measures to reduce the opportunity and incentives for particular groups to capture economic rents.

The exact steps required for restructuring these institutions have already been developed, some in conjunction with the World Bank, and are fully documented. A synopsis of these plans can be found in several publications. Lessons learnt from the neighboring countries outlined in this paper, if adapted and applied, can further refine and reinforce this restructuring effort.

It would not be possible to execute these reforms unless all the major political parties agree and reach a consensus so that partisanship and point scoring do not come in the way of the implementation of these reforms. Civil Servants who have retreated in a passive mode can be reactivated, if they know that the risks of retribution and penalties involved in implementing these reforms would be minimal. The politicians of all persuasions have to realize that the growing disaffection for political parties and leaders in the country, the quickening spread of violence and intolerance, the rising popularity and respect for the Armed forces and the widening gap between expectations of the general populace and delivery by Government are indeed a wakeup call for altering their past conduct, practices and behavior. A growing educated urban middle class, information and communication revolution permeating even in the rural areas through electronic and social media should act as catalysts for this change. The ultimate beneficiaries of such altered behavior would not only be the citizens of Pakistan but also the political parties themselves. The cynicism and wide distrust of politicians among the society at large would be replaced by improved access and delivery of essential basic services thus bolstering the confidence in the politicians.