

Capacity to reform

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The writer is author of *Governing the Ungovernable* and *CPEC and Pakistani Economy*.

COMMITMENT to reform goes hand in hand with the capacity to reform, as together they lead to the implementation of reforms. The capacity of state-centred institutions responsible for implementation of public policies, programmes and projects has eroded over time. Tangible results can be achieved with political commitment, but only when these institutions are revitalised. Simultaneous and sweeping reform of all institutions is neither politically feasible nor practicable given current capacity constraints. A selective and incremental approach is therefore recommended.

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What would be the criteria for selecting such institutions? They must address each of the four national objectives — security, growth, equity and accountability. They ought to be aligned with the priorities set by the incoming government, such as improved governance, poverty alleviation,

access to public services by weaker segments of the population and tackling of corruption. Security of person and property and the rule of law are the overarching themes that enable these priorities to actualise. Finally, there must be possible spillover effects on other institutions. A full analysis of the 24 institutions that meet these criteria is beyond the scope of this article, but some illustrative examples would be useful.

Public-sector institutions must be revitalised for the incoming government to fulfil its promises.

The most pressing problems are persistent fiscal stress and external imbalances. Large government 'dissavings' by the public sector in the form of fiscal deficit, substantial losses of state-owned enterprises (SOEs), commodity operations, waste, leakages and inefficiencies in energy and water sectors, have reduced the country's capacity to invest, forcing large amounts of external and domestic borrowing. Higher cost of doing business, circular debt and liquidity problems, crowding out of private credit and misallocation of scarce resources are the economic effects of fiscal distress.

The PTI has already committed to taking all SOEs out of the line ministries' direct control and placing them under a holding company run by professionals and experts in their respective fields. Most of the resistance to this proposal would come from the ministries and the employees of these enterprises, and the test for the new government is whether it would be able to translate its manifesto promise into deliverable action.

Most interaction between ordinary citizens and government functionaries takes place at the local level. Except in Khyber Pakhtunkhwa, the local government system under which 12 departments such as education, health, drinking water and sanitation, etc were devolved to the district governments, has been replaced by a highly centralised system in which the provincial governments enjoy enormous powers, resources and discretion. The other provinces ought to devolve powers, authority and finances for operating these departments to the district governments. The provincial finance commissions should allocate the provincial revenues among districts based on deprivation index, relative poverty, geographic disadvantages, etc. The promise of the ruling party to ensure that weaker sections of society benefit from public expenditures would remain unfulfilled until this structural deformity is removed.

Administration of justice and rule of law pivots around the police. Most of the provinces have rolled back the police reforms of 2002 and reverted to the 19th century police dispensation that has proved to be totally inadequate and oppressive. The merger of Fata with KP is a welcome move but the continuation of B-class districts in Balochistan which lie outside provincial police jurisdiction remains an aberration. Recruitment, training, mobility and welfare of the police needs overhauling. Investigation and prosecution agencies have to be reorganised and modernised and the 2002 police reforms introduced in the three provinces.

The Federal Board of Revenue and provincial revenue authorities and departments, if restructured, can also ease the fiscal stress. The present tax system is highly inefficient, inequitable and full of leakages, penalising only those already in the tax net. Disincentives for remaining outside the tax net are at present quite strong as enforcement against non-filers is

weak and harassment of filers quite common. Even under direct taxes, presumptive and withholding taxes form the bulk of tax collection and are considered full and final settlement of tax liability. Over-invoicing and under-invoicing and misclassification of goods have promoted trading at the expense of the tax compliant and heavily burdened manufacturing sector, which is at a competitive disadvantage.

Estimates show that tax code simplification, automation of processes, integrated databases, reducing physical contact between tax collectors and taxpayers, strong audit and enforcement, accountability of tax collectors, market valuation of urban immovable property, and regular surveys and assessment of potential taxpayers can push tax collection by at least two to three per cent of GDP.

Pakistan's declining export competitiveness has created the recent crises in the balance of payments. Overtaxation, overregulation, absence of a level playing field and high cost of doing business have partially contributed to this situation. Equally, the low risk-taking capacity of our businesses in undertaking innovation, reluctance towards new product development and entering new markets, paying little attention to international branding and marketing, failure to open up to foreign companies for establishing joint ventures and negligence in upgrading the quality of human resources have also been responsible for low productivity and low-tech exports of Pakistan. The boards of investment, the research and development organisations in industry and agriculture and export promotion bodies have to be reorganised and mandated to work together with private businesses to restore export competitiveness.

Finally, the federal and provincial public service commissions can play a salient role in upgrading the quality of human resources in the public sector. Competent individuals enjoying the reputation of unimpeachable integrity should be appointed as chairpersons and members of these commissions with expert staff and enabled by ICT tools. Recruitment of officers and promotions through an open, transparent competitive process should be under these commissions' control. As these appointees do not owe any obligations to the politicians for their jobs or promotions, they would act in a highly impartial and neutral manner in the delivery of public services. Once they are assigned to head key institutions they would induct people who are competent and honest. This slow and gradual process would transform the whole cadre of public servants over an extended period of time.

These institutional reforms to build capacity, along with firm political commitment to reform, should be able to set the economy on the right path.

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