

Ethics: Key Pillar for Reshaping Pakistan's Future

Chief Guest address at the ACCA and CFA Society on Global Ethics Day 2019 on October 16, 2019.

Distinguished ladies and gentlemen, I want to thank ACCA and CFA Society, for organizing this particular event and inviting me to share my thoughts with you.

2. What I would like to do is to divide my remarks to address four different audiences at the micro level, public servants, private firms and individual professions on the value of ethics, how they interact and are linked with each other. We tend to think about ethics as something additional to whatever we are doing but my submission is that ethical values have to be embedded not only in your mission statement but in the actual practice, in your day to day life. That means you have to walk the talk rather than pretend that by celebrating these kind of events or tick marking some boxes in the code of ethics you have actually done your job. I beg to differ with that approach. I want ethics to be firmly ingrained in your day to day practice as a government official, as a private professional or as an employee of a firm.

3. First, what is the rationale and value of ethics at the macro level. We all know that in the 1960s it was physical capital and labor which were the factors of production for economic growth. Then we realized that despite accumulation of capital and labour force expansion, we were not able to unravel the large residue which remained unexplained. So, economists substituted pure labor by human capital, and governance was added in the equation as another factor of production. Even these additions were inadequate and therefore research had to focus attention on other missing factor which turned out to be social capital. A lot of people have talked about social

capital in an oblique and indirect way but it is actually the trust among the individuals carrying out exchange of goods and services between themselves. In countries where social capital is high, you trust the people with whom you are transacting business and therefore your transaction cost goes down. Where trust is lacking or is inadequate, you have to demand complex legal documents that adds both to the cost as well as time taken to complete the transaction. If you want to see what the banks insist as loan documents is a larger pile of papers which you have to fill in and sign but don't know what you are signing. These documents are to cater to a situation when there is litigation they can use those documents against the borrower. That is in my view an imperfect substitute for social capital or trust. You are actually creating barriers to entry for those who cannot bear this extra cost thus diluting forces of competition. Large borrowers can engage top lawyers to defend themselves but the small and medium entrepreneurs cannot afford to do so.

4. Social capital thus plays a critical role in boosting economic growth of any country at the macro level by reducing transaction costs. So, we must realize that is not by simply creating infrastructure or human capital or investing in machinery and equipment that a country can progress. We have come to the conclusion that what is going to do the trick is to nurture social capital. China is a very good example where litigation is low relative to the size of its population. Japan has more engineers per capita compared to US which has more lawyers per capita. That shows you two different sides of social capital. Japan, as you know has been one of the most efficient producers of goods and this is the case of China. So, at Macro level we have to build social capital. In Pakistan, unfortunately, social capital has not only eroded overtime but in my view, it has gone to the negative side of the curve. Suspicion

and mistrust reign a galore. The government blames the private sector, the private sector blames the government, the civil society blames both, and if you listen to the talk shows, you will find a validation of this particular hypothesis which I have put before you. I haven't come across a country which indulges so strongly in self-flagellation and negativity. Believing anything on face value has become a taboo and conspiracy theories to explain the motives behind the stated fact dominate our thinking. These attributes are antithesis of social capital, so the reason we are not making any progress is because we don't trust each other. The Balochis don't like Punjabis, Punjabis don't like Muhajirs and the Muhajirs don't like Pakhtuns and we are always embroiled in these kinds of battles.

5. You must have seen a lot of analysis where the people say investment is not coming into Pakistan and therefore we are not progressing. But investment is propelled by trust among other factors. Ease of doing Business Index shows that Pakistan is ranked quite low because the Government agencies do not trust the private sector businesses and therefore create enormous hurdles in their way. How can we attract investment under such adversarial relationship? Overseas Pakistanis have invested in real estate property here for their transition to relocation back home. When they come back they have to run from pillar to post because their legitimately acquired property has been illegally occupied by their own relatives but are now refusing to vacate. So, there is now a reluctance on the part of overseas Pakistani towards investing in real estate or building sector.

6. My second audience which plays a great role in ethical values and practices is the Government or the public sector. Now all of you are familiar with World Bank's six Governances indicators. This is

very well informed audience but just to recapitulate these are voice and accountability, political stability, rule of law, Government effectiveness, control of corruption and regulatory quality. Take these six indicators and I leave it to your judgment as to where we stand against each of these indicators. Our Governance has actually been sliding down and I have attempted to demonstrate in my book that there was strong correlation between governance indicators and quality of institutions and economic growth. So, if you have robust Institutions then the quality of governance improves and these indicators improve and that is where public sector comes in. These six indicators for Pakistan have been sliding down since 2007. We also do not fare well on Transparency International index of corruption.

7. The media has promoted a growing mistrust of citizens about the government. Whatever the government may announce people discount it and they believe exactly opposite of what the Government has said. The government announced our current accounts deficit has gone down. The cynic would say what have you done? You have compressed imports but that's not a big deal as it would slow down the economy. Our pundits would not tell you that the decline in the current account deficit from 19 billion dollars to 6 billion dollars has actually reduced our external borrowing requirements and stopped depletion of foreign exchange reserves. Nobody not even a Pakistani what to talk about foreigners, would ever put-in a single penny in Pakistan if they are not sure whether the country would have the repayment capacity as uncertainty is created in their minds by such irresponsible talk. In our desire to discredit the government we do not realize we are discrediting the country and doing a big disservice.

8. My third audience is the private business including the multinational companies. There is a new realization which was articulated at the World economic forum last year. A numbers of chief executives of the multinational corporations were asking the question; What is the social purpose of our existence as a Corporation? That was never a question which was asked before. It was assumed that their purpose was profit maximization and shareholder value enhancement but today you have at least a realization that this is not the sole purpose. So, the word today is to look at the triple bottom line. In addition to profits we have to care for people and planet. The source of profits in future would evaporate if the production capacity of the planet is impaired or the purchasing power of the people is eroded. There are inter linkages between the three. Fossil fuels may raise profits of the oil companies in the short run but global warming due to CO₂ emissions may reduce food production and hence the incomes of the poor who are both the future producers and consumers of food.

9. Hence, having ethical value in your mission statement or having a written code of ethics or showing that you are fulfilling corporate social responsibility is not enough. You may feel happy that you have done whatever code of ethics required you to do but the practice of transfer pricing, tax evasion, paying inadequate wages to labour, wasting scarce resources are all in my view, a deviation from the ethical values you have to display.

10. Allegations of corruption, bribery and under hand payments have rocked may well established and previously respected banks and corporations. Enron and Arthur Andersen have disappeared but others still exist. So how do we reconcile the beautiful mission statement these companies put out in public domain with the actual outcomes. Drugs

are being distributed among the young students. Firms manufacturing and selling spurious drugs do not realize the damage they are doing to the person who is sick and whose life is in danger. We have food adulteration going around and becoming a burden on the society because the health costs are either borne by the state or by the household. So let's not pretend by writing a beautiful code of ethics and tick marking the boxes and earmarking one percent of our profits for corporate social responsibility we have met our ethical obligations. We have to practice what we are preaching so that's the formula for reshaping Pakistan's future.

11. And for this it has to begin at the individual level which is my fourth audiences. I used to tell my students at the beginning of the term as they came in and the end of the term that a professional has to have four attributes. If you don't have these four attributes, you are not a professional. First develop competence in your own domain so if you are an ACCA member or a CFA member you should be coming up to the standards of competence set by your professional bodies. The second is your character which includes your integrity as part of that character. Suppose a situation arise when you have placed a tender out for procuring some goods for your company. At that time, your wife is admitted in a private hospital and she is struggling for life and death. One of the companies bidding for the tender approaches you and offers to take care of all the expenses of your wife's disease. You will say oh this is the only infraction I am going to indulge in for saving the life of my wife and the rest of my life I would always avoid all such temptation. Ladies and gentlemen that one infraction ever done in your life creates a chain and what you have done once would haunt you throughout your life. Not only you have lost you reputation but also respect among the society. Once you lose your reputation, you may make some

progress in the short run but in a long term you will be exposed. You will never be able to rise to top position because this one infraction has actually completely ruined your worth. This is the ethical dilemma which we teach at Business schools. The third attribute is commitment. If you do nine to five job and you don't have a strong commitment, I don't think you will ever be able to become a good professional in the industry or in the private sector or government sector. So sense of commitment and passion, if these are missing then it is unlikely you would succeed in your professional career. The fourth one is compassion. Compassion means that you must realize you are a lucky individual having acquired best education in the country. Ninety-two percent of your cohorts never get a chance to go to the university or college. It is your responsibility to help them and to look after them. And don't say that I have worked so hard why should I care for these who could not make it. Income disparities where Karachi, Lahore and Islamabad have only five to ten percent poor while backward areas like Musa Khel have ninety-five percent poor, are not going to nurture and sustain social capital.

12. Now a lot of people say that we have self-regulation for our professions. I went to ICAP once and I asked them how many people have you actually removed from profession for unethical practices. The answer I got is: we send their cases to high courts, where they are pending. What can we do? The follow up question is; have you taken any follow up on those cases? When I was the Governor, we categorized all the audit firms into three categories A, B and C. I found out one of the firms in A Category had committed malfeasance by certifying the accounts of a bank which was finally closed. We blacklisted the company from auditing any bank but in actual fact other non-bank companies also stopped hiring them. Unless you have a system of

reward and punishment, I am sorry to say that self-regulation is not going to work. How can you regulate medical colleges and their mushroom growth if the people sitting in the regulatory body of PMDC themselves own private medical colleges? These colleges may not have attached hospitals, teaching faculty on other pre requisites but they are granted accreditation on reciprocal basis. If you vote for my college I would vote for yours. Pakistan Bar Council is also self-regulatory body and look at the behavior of some of the lawyers. Have they taken any action against them? It comes from within yourself, not from outside, if you are not convinced yourself then you will face difficulties.

13. To conclude the bottom line is that it is indeed a struggle for establishing ethics as a day to day manifestation of your own practices. But it has to be at the macro level, government level, firm level and the individual level.

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