FRIENDS, DIALOGUES, POVERTY AND PRAGMATISM

July 24, 2010: The United States has pledged support to alleviate poverty and improve development outcomes in Pakistan. The comment explores the extent to which such expectations are justified and the prerequisites for leveraging the potential within development assistance.

Poverty and pragmatism

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Some of the statements in wake of the recent meeting of Friends of Democratic Pakistan and strategic dialogues aimed at defining areas of priority for the use of incoming bilateral assistance from Untied States have been positive and encouraging, including the bold admission by Secretary of State ìwe have not done a good job of connecting our partnership with concrete improvements in the lives of Pakistanisówith this dialogue we are working to change thatî. However, when such statements are accompanied by others from the Pakistani side, which label these dialogues ìtransformationalî in relation to breaking new grounds in poverty reduction they usher in expectations, which must be analyzed in the right perspective. Within this context, the comment attempts to explore where the country stands with regard to poverty eradication, the extent to which such expectations are justified, the prerequisites for leveraging the potential within development assistance and the impediments that exist in Pakistan in this regard.

Aid must not be viewed as a magic bullet. However, experiences from many countries, especially in the post World-War II setting show that when it is deployed in the appropriate context and is strategically harnessed it can be a catalyst for change and can help build productive assets and strengthen institutions with a sustainable knock-on effect on poverty eradication. There are many factors which stand in the way of enabling that in Pakistan. This package cannot be regarded a Marshall Plan for reasons argued in these columns on April 29, 2009. These constraints must bring to bear to temper our expectations vis-‡-vis the impact on poverty. Four points are being outlined in this regard.

First, it must be appreciated that several conditions play a significant role in reducing poverty and improving development outcomes. Of these sustained growth, with resulting increase in employment, per-capita income and physical, human, and technological capital are the most important. Sound, consistent and effective policies, good governance, and an environment where peace, security, law and order and justice attract investments are critical for enabling such a transformation. In such an environment sizable poverty reduction becomes achievable when a redistributive hand of the government ensures economic opportunities for the pooróland rights and access to financial servicesóand where impartial oversight attempts to counter organized vested interests and disparities of power, money and resources, to a certain extent. Good governance is the critical enabling factor in this entire equation. Pakistanís constraints with regard to internal security, law and order and governance place it in a position of disadvantage. The latter also undermine the potential impact of traditional targeted interventionsósubsidies, income support, safety nets etc.ówhether they are financed with indigenous revenues or external aid. It is no wondering therefore, that more than a quarter of Pakistanís population is below the poverty line of $1 day, current controversy over poverty empirics

notwithstanding.
Secondly, in addition to being critical for national development, the quality of governance also determines the extent to which aid can be effective, per se. To put this statement in perspective, the key inference of an important aid effectiveness monitoring survey with generalizable conclusions should be brought to bear. Two rounds of surveys (in 2006 and 2008) were conducted by the Organization for Economic Cooperation and Development (OECD), to measure the impact of the Paris Principles on Aid Effectiveness. The two monitoring rounds pertinently pointed out that ìin order to change practices in international aid, there is the need to shape deep seated behaviors; these changes in the process of development and the nature of aid relationship require time focused attention and determined political will. It is not easy to change laws, regulations, practices and mindsetsî. The results drive home the point that when there are underlying systemic constraints, the impact of aid is seriously diluted and that the effectiveness of governance in its own right is an important determinant of aid effectiveness.

Thirdly, lessons from the past should be factored into planning as the purse strings are loosened. It is critical that we doní t repeat past mistakes. There have been ëthree decades of surgesí in aid in Pakistan in the 1960s, 1980s and 2001-to-date, each time with a strong correlation between geo-political motivations and the volume of aid channeled. On every occasion development assistance is packaged alongside a more substantial chunk of military assistance. Each time, Pakistan enabled its allies to pursue foreign policy objectives but failed to use aid as a strategic input into the system, when viewed from the development and governance perspective. Productive assets, which could generate resources necessary to pay back loans and capacity to mobilize domestic savings and raise revenue, were not built. Grants were used to repay debts. Systemic governance constraints also remained unaddressed. As a result, Pakistanís debt burden and fiscal deficit increased, which is now having a domino effect in many spheres. From these insights some common sense lessons are evidentóin particular, the risk of integrating development and foreign policy objectives, the cost of inattention to substantive long term investments in productive assets, and the short-sighted approach to the use of development assistance.

This time there appears to be an effort not to repeat past mistakes from both sides. But there is just too wide a gap to bridge and too many systemic hurdles in the way. There are some allocations which can be systems strengthening, as in the area of water and energy, but their impact could be mitigated by institutionalized graft and pilferage. Both sides have expressed an interest in negotiating bilateral investment, through the Friends of Democratic Pakistan channel with public private partnerships as a modality, but sophisticated institutional capacity and consistency in policy direction are needed to make use of these channelsóboth of which are non-existent in the country. The new envelope is trying various funding approaches (support for indigenous civil society, program, project and sector-wide approaches, on-budget support and a new multi-donor trust fund) in an attempt to circumvent existing public finance management bottlenecks, but the latter are far too pervasive with very few in the public sector who are challenging status quo. In any case, Pakistanís fiscal crunch means the on-budget component will be substantial, channeled through the existing system with antecedent opportunities for collusion very much at play. There will be an appalling crowding out effect in social sector allocations, unacceptable by aid effectiveness standards.

Lastly, it should be appreciated that development assistance ëas aidí per se, is a small component of ëexternal assistanceí that has helped countries make quantum leaps in development and poverty eradication. The example in our neighborhood is illustrative. At a time when the superpower is signaling good will, an astute government should negotiate better market access, get favorable terms of trade and debt relief. They should focus on their strategic relationship with friends to widen the definition of public goods in the domain of technological solutions, ease impediments on development posed by Intellectual Property Rights and get fairer deals in relation to human resources migration and their working conditions, as the approach can enable earning foreign remittances.

Pakistan should use its strategic position in ways that can benefit its own people, whilst at the same time play a positive role in a globalized world. We need astute capacity, transparent hands, and an unwavering commitment in order to achieve these goals.

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Population denominator

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July 11, World Population Day, holds special significance for Pakistan, the sixth most populous country in the world where the importance of Population as the denominator for planning and development must be clearly appreciated. In a country where food, water, energy, education, healthcare, social welfare, and job opportunities are already scarce for the existing population of 173.5 million, the addition of another 173.5 million over the next 34 years will pose a crippling burden in view of prevailing resource constraints. Population therefore, is a true denominator for development. Additionally, a burgeoning young population with limited economic opportunities and social welfare means fuelling the fire of extremism, given that these ‘bleak youths’ would be the perfect targets for exploitation in extremists’ hands. For Pakistan population is also, therefore, the denominator for internal security.

We tend to place the responsibility for rising population on the population welfare program. That shouldn’t be the case. International experiences show that fertility decline is correlated with the level of socioeconomic development in a society. In other countries where it has been achieved, regulatory measures—as in the case of China’s one child policy—have been at play. The former is not the context in Pakistan and the latter not possible owing to the mistaken notion by the masses that family planning is forbidden by religion. All hopes are therefore pinned on the performance of the country’s population program. This perhaps, is also the reason for the current interest in the National Population Policy 2010, which is in the final stages of review. The policy is important as it will come at a time when many structural changes are taking shape. In essence, therefore, the policy will be indicative of how the state system is adapting. With resources now shifted to the provinces, the 18th Amendment calling for wrapping up the Ministry of Population Welfare (MoPW) after abolishing the concurrent list and IMF’s conditionality stipulating likewise, a policy issued from a federal level in a domain which is normatively and fiscally provincial will have to make very good sense in order for it to be palatable. These points are likely to be raised at the next meeting of the National Commission on Population Welfare (NCPW), the inter-provincial forum where the policy is likely to be discussed prior to Cabinet’s review.

Within this context, this comment outlines three areas, an emphasis on which may enhance the policy’s relevance.

First, the policy should be commensurate with stipulated mandates in the sector; it must garner provincial ownership and clearly outline roles and responsibilities. With population as a sector now completely in the provincial domain, would it be possible to carve out a role to justify MoPW's existence? The answer to this can be in the affirmative if the MoPW devolves its service delivery responsibilities and focuses on a normative role. The MoPW has an untapped potential to assume a leadership role in the population-development paradigm, which remained overshadowed because service delivery responsibilities had previously crowded out the space for normative functions. A new transformed, albeit lean and competent MoPW could be a good economic investment even in today's resource-challenged environment given the strategic importance of population control.

A service delivery mandate doesn't mean provinces shouldn't pay heed to evidence. An earlier, pre-18th Amendment draft of the policy—the current draft is not in the public domain—had outlined an ambitious plan for increasing infrastructure with targets outlined for increase in the number of Family Welfare Centres and Reproductive Health Centres. Even if this has provincial consent, the strategy needs revisiting for a number of reasons: there is currently a moratorium on new infrastructure in many government polices, with which this clearly conflicts. Additionally, there is no convincing evidence of existing arrangements being efficient, which is why the fundamental premise of 'state owned and operated infrastructure' is under question. This is evidenced by reform initiatives mushrooming. A policy should outline evidence-based innovations to improve performance rather than signalling intent to increase numbers.

Secondly, the policy should be clear on one of the burning governance issues in the population/health sectors, relating to the standalone status of respective ministries. Pakistan is one of the two countries in the world—Egypt being the other—where the health and population ministries are separate. Several attempts have been made by the government in the past to merge both the institutional hierarchies. When this didn’t appear feasible, UNFPA coined the term ‘functional integration’ in 1998 which then became the mantra and endpoint in efforts to achieve institutional collaboration. However, reluctance on part of both sides—federal and provincial—has been evident with many directives remaining unimplemented, including directives of the Executive Committee of the National Economic Council, Federal Cabinet and NCPW in 1985, 1991, and 2006 respectively. The rationale for functional integration is strong. Health and population have shared agendas, as also emphasized by the International Conference on Population and Development (ICPD), which aimed at a paradigm shift from family planning being a demographic target to a reproductive health end-point. Current fiscal constraints also create an imperative.

A special supplement of the Journal of the Pakistan Medical Association featured an analysis on this subject last year outlining actions that could be taken to bridge the health-population disconnect (http://www.heartfile.org/pdf/SHPP-JPMA.pdf). It would be an imperative for a new policy to come out loud and clear with the specifics of ‘what’, ‘how’ and ‘when’ to eliminate duplications and maximize synergies. Since changes are also happening simultaneously in the health sector it appears that the sustainable long-term solution to the existing population-health disconnect centers on strengthening capacity of both the Ministries for normative and oversight functions and grouping and benchmarking health and family planning as essential services to be provided through reconstituted service delivery arrangements.

Thirdly, the policy should adequately recognize existing inefficiencies in the population program. MoPW functionaries are well aware of the pervasive collusion in field operations of the population program; as a result, commodities are pilfered, fees are charged for services that are meant to be provided for free and there is deliberate inattention to oversight to compel accountability—state resources are wasted as a result and service delivery is undermined. Changes within the existing payment and incentive systems to remedy these fault lines should be a priority for the new policy.

In a way this links to the critical question in governance—one relating to implementation of policies. There has been no dearth of population ‘policy instruments’ in Pakistan. The work of the Family Planning Association of Pakistan, an NGO, which predated the governments program, was supported officially by the government in the early 1950s. Since the early 1960’s every Five Year Plan has made allocations for the sector regardless of whether ‘population’ was housed under Ministry of Health and Labour (as during the First Four Plans) or the Planning Commission and later when it was a given the status of a ministry in 1990. Additionally, the Population Policy was enunciated in 2002 and the NCPW was created in 2006. Furthermore, all health policies, enunciated to date in 1990, 1997 and 2001 have focused on the population issue to some extent. However one view (utilitarian) on a policy is centred not on what a policy states but on what it delivers and on that score, all the previous policy instruments have performed poorly.

In theory, the Population Policy 2010 has been well articulated especially with respect to the domains, which needed to be covered in a policy document. However, this framework must be more than stated rhetoric. It must empower institutions to ‘do more’ so that the systemic constraints that stand in the way of implementing the policy can be overcome.

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COMMENT TO MARK WORLD POPULATION DAY

July 10, 2010: The comment frames population as the denominator of development. It focuses on the potential within the forthcoming Population Policy 2010 to impact outcomes in view of institutional changes introduced by the 18th Constitutional Amendment and the Finance Commission Award.

BUDGET'S SOCIAL FOOTPRINT

July 3, 2010: The comment explores the potential within the macroeconomic strategies pursued through the Finance Bill 2010/11 – just passed by the parliament – to accrue benefits to the common man. Full text is accessible at Viewpoints

POVERTY AND PRAGMATISM
Sania Nishtar

The budget's 'social footprint'

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There was a misplaced euphoria in some social sector circles last year over the expansionary fiscal policy evidenced in Budget 2009/10 and the increase in allocations for the social sectors indicated therein. However, as months unfolded, budgetary cutbacks became apparent owing to grinding fiscal constraints and the donor pledges upon which initial social sector projections were hinged remained unrealized.

Learning from this example, not many rational analysts were perturbed by the scale of outlay this time round in the 2010/11 budget books, given that it appeared comparatively more realistic. In any case, the impact of a budget on social outcomes is not an exclusive function of aggregate social sector allocations, as broader fiscal drivers and other factors can also play an important role.

For example, this year the government's attempt to achieve macroeconomic stability as a priority in the budget is important as that is a precondition for generating growth, which can have a positive knock-on effect on employment with a direct bearing on socio-economic outcomes. A concerted attempt aimed at reducing the budget deficit and debt burden can lower interest rates, thereby facilitating access of businesses to finance, with the resulting increase in economic activity generating employment. The important emphatic focus on reforming Public Sector Enterprises (PSE) in the budget speech, if implemented effectively could ease the burden on the national exchequer by rationalizing subsidies, which have crowded out the space for productive investments and redistributive allocations—fiscal space could be freed up as a consequence, which could then be used for social sector programs. The proverbial example of the subsidy to one PSE amounting to more than the entire Public Sector Development Program (PSDP) budget of the federal government outlined in the budget speech helps to put things in perspective. Similarly, with the envisaged VAT tax reform commencing in October 2010, it is projected that the tax base and hence the volume of revenues will increase with the expectation that allocations towards development expenditures would be enhanced.

Whilst all these broader economic measures hold promise, there are many caveats in relation to pinning hopes on them. Beyond achieving macroeconomic outcomes, which by themselves are also not straightforward, the success of these measures in terms of accruing equitable benefits depends on a number of institutional, political and geo-strategic factors independent of fiscal handles—there are just too many unanswered questions within that space.

Would the government be able to restructure/privatize PSEs effectively? That too when every restructuring option would involve tough decisions with job layoffs? Would it be possible for a political government to opt for such decisions when they are resorting to massive public sector job reinstatements in other areas? Would there be a way to counter the culture of collusion in big ticket public procurements in PSEs? Which by the way are the most expedient way of recovering election 'investments', albeit at the cost of massive fiscal hemorrhage of public resources.

With provincial governments presenting deficit or balanced budgets (for 2010/011) in the midst of massive transfer of resources from the center under the National Finance Commission Award and with them signaling lack of commitment to mobilize their own resources through the 'tax-free-budget' rhetoric, would it actually be possible to curtail fiscal deficit within prescribed limits and ingrain fiscal discipline—critical elements of macroeconomic stability? Would the investment climate vis-à-vis the internal security situation be facilitative for businesses to prosper even if policy changes are able to bring interest rates down? Most importantly is there any hope of the energy crisis relenting? As of now, the domino effect of the latter has had catastrophic consequences at the economic and social levels. Would the government be able to successfully implement VAT as a replacement of GST and get past provincial sensitivities and technical issues with implementing the reform? Even if these bottlenecks are overcome and the base of revenue is broadened, the priority it seems, for the use of these additional revenues would be to balance budget books. There is a risk that people may end up regressively paying for public sector inefficiencies and pervasive rent seeking. There are no guarantees that the additional resources would be made available for social sector services such as health and education or that they would be effectively allocated towards grass roots projects which impact the lives of poor. Then is the question of epochal significance related to the quality of overall governance—with elite capture deeply entrenched over the last six decades, the chances of accruing benefits of any positive macroeconomic change equitably to the masses would be limited in any case.

Secondly, concerns about allocations for the social sectors per se, also remain important in their own right. This time round also there is reliance on Official Development Assistance to fund social sector projects, which can be risky if it is outside the tested and committed traditional bilateral and multilateral channels. There are no guarantees that the additional revenues forthcoming would be provided as budget support or under sector-wide approaches thereby being of help to the government vis-à-vis easing pressure on the PSDP. Concerns have also been raised that scaling down of federal allocations for the social sectors might not be covered up, by the provinces correspondingly increasing allocations on their side. Whist this may be true there is no way of documenting this owing to paucity of data in the public domain.

Most importantly, issues of resource utilization will continue to persist. In today's resource-challenged environment getting the best value for money through measures aimed at cost control, plugging pilferages in the system, limiting abuse, and maximizing efficiencies should be a priority. It appears that the potential impact of these measures is not being fully appreciated. The federal government tends to view the National Finance Commission Award as a way of passing on the responsibility of utilizing resources transparently to the provinces. Provinces, however, are plagued by the same, if not more severe public finance management constraints as the federal government. Without recourse to needed reform in this area that institutionalizes transparency and efficiency, the full potential of additional resources will not be actualized. Moreover, there are issues in relation to priority areas towards which allocations have been earmarked, as for example, in the case of the approach through which health coverage is being structured for BISP families, a discussion around which has appeared in these columns on June 19.

Lastly, the impact of polices outside of the budget on social outcomes merit attention. Two of the expenditure heads that are backbreaking for the common man these days are inflation and power tariffs. Both are influenced by polices outside of the budget. Inflation has complex determinants outside of fiscal and monetary factors. As far as power tariffs are concerned, regulatory agencies have been created, so that oil prices and power tariffs can be changed outside the budget framework, all year through as and when the need arises.

In sum, it is accepted that there are indeed some measures for social relief in the budget, especially the income support safety net program and revision of pubic sector remuneration. However their impact could be offset by withdrawal of subsidies, indirect taxation, and impact of policies outside the budget. Governance constraints and institutional factors may also undermine the impact of macroeconomic measures pursued through the budget instrument on the equity objective. Broader macroeconomic and fiscal measures may have potential, but their impact depends on many factors, which are not technocratic but largely political in nature. Only time will tell if the well-intentioned policy pursued through the budget instrument has had any impact on the life of a common man.

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