Governance—through the sugar crisis lens

Dr. Sania Nishtar

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Governance

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The heartbreaking scene of 18 women trying to get a bag of free sugar dying in a stampede in Karachi shows the gravity of the ongoing commodity crisis. Such crises provide an insight into the regulatory capacity of governments and the level of governance effectiveness. Examination of the causes of the present sugar crisis can help in analysing how that is the case.

Even under normal circumstances, sugar is a difficult domain to govern, with frequent tugs of war between the government, the sugar-millers and sugarcane growers. The constituency of growers demands higher price for raw material—their crop. The millers, on the other hand, complain about cost of production, other production related challenges, such as constraints imposed by the recent energy crisis and expect the government to protect them from sugar imports. Depending on who is stronger in the corridors of power—Pakistan's feudal and elite dominated politics ensures representation of both groups—the decision-making equation ends up favouring one, more than the other, but generally benefiting both. In addition to this complex interaction, inelastic demand of sugar is highly exploitable by collusion between interest groups and regulators in food departments. All these factors lead to a price increase, which is generally passed on to the consumer. When governments try to intervene and arbitrate by importing sugar, there is usually outrage by the manufactures and their dealers. As an outcome, governments often end up imposing higher tariffs.

The snapshot of this cycle shows that even under normal circumstances, when there are no crop catastrophes or any other supply disturbance, there is significant complexity in this area. This year, however, there were additional complicating factors. To begin with there was a shortfall in domestic production of the sugarcane crop. The government had no option but to plan for imports, albeit with much delay. It is widely believed that this was the result of undue influence of vested-interest groups who could benefit from shortages in the market. The delay in importing sugar resulted not just in shortage in the domestic market and poor availability but also led to loss of foreign exchange, as by the time sugar was procured in the international market, its price had soared. Increase in the price of sugar in international markets was due to poor crop yields in major sugar producing countries, such as India and Brazil, due to adverse weather conditions. As a result, the supply of sugar fell, which resulted in a price upsurge all over the world. International price trends impacted price in Pakistan in a major way and exacerbated existing supply issues.

A closer examination reveals that the crisis is a manifestation of governance shortfalls at various stages in the governance cycle—at the level of setting policy directions, ensuring implementation of policies, exercising oversight, compelling accountability, effectively regulating and antecedent capacity deficits at all levels.

First, lack of transparency is manifest at various levels. Although there appears to be an interest in promoting integrity in the public sector at the bureaucratic level—the recent anti-corruption drive was a case in point—due attention is not paid to conflict of interests in terms of major business involvement of cabinet ministers vis-à-vis the respective ministries. The story of sugar is particularly illustrative in this respect. Many examples can be cited of ministers themselves landlord and/or miller swinging decisions, or subverting the implementation of decisions for personal gains and/or patronising interest groups. This factor is a critical impediment in the decision-making cycle, and adversely affects regulation. Institutionalised collusion between regulators and interest groups, and the resulting systemic manipulation further adds to the regulatory challenges.

In many ways, the sugar crisis is a classical example of state capture, where vested interest groups threaten the impartiality of public policy decisions; their undue influence in shaping state policies, furthered by patronage through political links diverts resources to the resourceful. The resulting outcomes can be devastating in the long term; state resources get channelled to the well connected, the rich poor divide is augmented, governance and regulatory capacity is exploited and attempts aimed at reform are systematically sabotaged. With respect to the present sugar crisis, the Competition Commission, has recently rightly emphasised that the government "must not provide any patronage to anti-competitive practices and measures encouraging 'collusive behaviour."

The system has limited accountability to hold functionaries accountable for undue actions. Accountability of politicians in Pakistan's political system—where people are meant to hold politicians accountable for actions—can hardly bear fruit, owing to rampant illiteracy, poor awareness of civic issues, or lack of it, and the weak societal political culture. Poor, illiterate people coming from areas which are feudal strongholds—where most of the decision-makers hail from—can hardly assess the impact of conflict of interest and regulatory collusion on public-policy outcomes. Peer accountability in the Parliament on the other hand has also not been the norm unless motivated by personalised political objectives and seldom, if ever, comes to fruition with corrective measures of relevance to institutional strengthening. If enacted in its present form, the new accountability framework embodied in the Holders of Public Offices Act, 2009, will bring no additional value to institutionalizing accountability and is likely to weaken existing mechanisms to compel accountability.

The accountability deficit exists not just for politicians, but also at the level of the techno-bureaucrats. For example, there can be many other causes of failure to take timely action to procure sugar in time. Today, with real-time information available online, inability to take timely action raises many questions. Was the gap at the capacity level within the ministry and departments to ascertain the brevity of the looming crisis? Or did the magnitude of the hurdles created by vested-interest groups outweigh capacity and commitment within state agencies, interfering with their ability to perform? If the latter was the case, surely there is the need to analyse the impact of the current political dispensation on institutional performance and the decision making cycle. Although one is tempted to conclude that this factor is critical, the importance of other bureaucratic challenges should not be underestimated—in particular, lack of decision-making prerogatives at the mid-tier level, longwinded procedures, the general lack of motivation to perform as a result of a number of disenabling institutional factors and rampant regulatory corruption. All of these are manifestations of poor governance.

Secondly, the other governance shortfall apparent in this crisis is the limitation of the government to take the economic measures concerned and its resorting to stopgap arrangements, instead. It is accepted that these may be desperate well-intentioned moves; nevertheless, their impact has been negative—the crackdown on the industry has disrupted the supply chain even further and the attempt to heavily subsidise sugar, is inadvertently furthering collusion. Thirdly, the intervention of the judiciary to benchmark price of sugar and the subsequent inability of the executive to implement the decision represents another unprecedented complexity in governance. Some may say that the judiciary should not involve itself in a purely economic mater; others will state this is a matter of access to essential commodities, and therefore rights, and hence within the Supreme Court's purview.

In sum, therefore, this crisis has unveiled many governance challenges, which need to be addressed coherently. Capacity to analyse the impact of policy decisions is critical to effectively managing such a complex process. Adequate capacity is also a prerequisite for assessing the feasibility of alternative policy approaches, which experts have been raising in these columns lately. More importantly, however, unless transparency-promoting reforms are streamlined, sustained improvements cannot be expected. The writer has attempted to address the dimensions of such reform in these columns on August 15.

The writer is founding-president of *Heartfile*. Email: sania@heartfile.org

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The accountability deficit exists not just for politicians, but also at the level of the techno-bureaucrats. For example, there can be many other causes of failure to take timely action to procure sugar in time. In today's environment where information is available on a real time basis online, inability to take timely action raises many questions. Was the gap at the capacity level within the Ministry and departments to ascertain the brevity of the looming crisis? Or did the magnitude of the hurdles created by vested interest groups outweigh capacity and commitment within state agencies, interfering with their ability to perform? If the latter was the case, surely there is the need to analyze the impact of the current political dispensation on institutional performance and the decision making cycle. Although one is tempted to conclude that this factor is critical, the importance of other bureaucratic challenges should not be underestimated—in particular lack of decision-making prerogatives at mid-tier level, long winded procedures, the general lack of motivation to perform as a result of a number of disenabling institutional factors and rampant regulatory corruption. All of these are manifestations of poor governance.

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