The taxonomy within FoDP

Dr. Sania Nishtar

Members of the forum of Friends of Democratic Pakistan (FoDP) have been convened for the fourth time since the announcement, which led to the creation of the forum in September 2008 on the sidelines of the UN General Assembly. Whilst the initial meetings in New York, Tokyo and Istanbul were framed in the traditional mode with bilateral and multilateral development agencies and countries dominating, the fourth has taken a slight deviation from what is the norm in diplomatic-development-engagement in Pakistan's history to also focus on public-private partnerships. This was evident in the theme of the fourth conference, which was hosted by the Government of UAE and was convened by Pakistan's foreign office on January 26 in Dubai.

The relationships that determine the structure of FoPD and its diplomatic connotations are somewhat tenuous. The rate at which pledges have realized are a further bone of contention. These limitations notwithstanding, FoDP can be a useful forum if friends' support is strategically harnessed.

Through this comment I would like to flag a taxonomy of opportunities that could be explored through this arrangement. Essentially, there are three areas of engagement within the FoPD's remit. For each, there are a different set of stakeholders, relevant institutional points of interface, a set of objectives that can be relevant for persual and imperatives with regard to what the government needs to do. Given this diverse landscape, there are often overlaps. It is important to bring clarity to the dynamics within each space.

The first is the traditional space of bilateral and multilateral assistance. Here, donors usually want to contribute towards achieving specific targets or outcomes. The government on the other hand, would rather have aid 'on-budget' to ease its fiscal constraints. However, the pledges so far, under the rubric of FoDP have not been fulfilled and the word has it that donors are skeptical about transparency within the government system, and are hence, holding back from disbursing or allocating monies. The challenge for the government within this space of engagement would be to signal confidence by demonstrating transparent use of resources and clearly laying out areas for which resources would be utilized. In this regard, the government can offer third party-audits of projects developed through funds from FODP countries. Line ministries, the Planning Commission and the Economic Affairs Division can work together to outline areas, develop feasibilities and maximize mobilization of resources through existing and new windows, with particular attention to debt swaps, amongst other instruments. However, the overarching objective should be to channel assistance to help strengthen domestic systems and mechanisms with a view to ultimately transition away from support.

The second point of interface is with the investor. Theoretically speaking, a diplomatic effort can help bring investments into Pakistan. On the one hand, there are many odds against investments given the overall law and order and security situation. However, by far the greatest enemy of investments is uncertainty of policy, and gaps in mechanisms to facilitate incoming investments. Lack of efficient mechanisms to dispense justice are a further complicating factor—debacles such as a recent real estate crisis in Karachi do very little to inspire confidence in that respect. If Pakistan wants to use the governments on the FoDP forum to access their business communities, and present the country as a destination for investments, then it will have to make the environment facilitative for businesses to operate. Here we need to be mindful of the fact that there are competing areas in our geographic neighborhood, where economies of scale, one-window operations and better governance are far more appealing to the investor. Improving governance is key to catalyzing investments—donors can also provide assistance within this space by supporting public sector reforms. However, in addition, there is also the need for mobilizing other stakeholders. Beyond the Board of Investment, honorary Consul Generals, bilateral business forums, and currently operating business and trading communities are important in this regard.

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Governance

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The relationships that determine the structure of FoPD and its diplomatic connotations are somewhat tenuous. The rate at which pledges have been realised so far is yet another bone of contention. These limitations notwithstanding, FoDP can be a useful forum and many opportunities could be explored through this arrangement if the support of the countries on board is strategically harnessed.

Essentially, there are three areas of engagement within the FoPD's remit. For each, there are different sets of stakeholders with objectives and imperatives with regard to what the government needs to do along with relevant institutional points of interface. Given this diverse landscape, there are often overlaps. It is important to bring clarity to the dynamics within each space.

The first is the traditional space of bilateral and multilateral assistance. Here, donors usually want to contribute towards achieving specific targets or outcomes. The government on the other hand, would rather have aid 'on-budget' to ease its fiscal constraints. However, the pledges so far, under the rubric of FoDP have not been fulfilled and the word has it that donors are skeptical about transparency within the government system, and are hence, holding back from disbursing or allocating monies. The challenge for the government within this space of engagement would be to signal confidence by demonstrating transparent use of resources and clearly laying out areas for which resources would be utilised. In this regard, the government can offer third party audits of projects developed through funds from FoDP countries. Line ministries, the Planning Commission and the Economic Affairs Division can work together to outline areas, develop feasibilities and maximise mobilisation of resources through existing and new windows, with particular attention to debt swaps, amongst other instruments. However, the overarching objective should be to channel assistance to help strengthen domestic systems and mechanisms.

The second point of interface is with the investor. Theoretically speaking, a diplomatic effort can help bring investments into Pakistan. On the one hand, there are many odds against investments given the overall law and order and security situation. However, by far the greatest enemy of investments is uncertainty of policies and gaps in mechanisms to facilitate incoming investments. The lack of efficient mechanisms to dispense justice is a further complicating factor. Also, debacles such as a recent real estate crisis in Karachi do very little to inspire confidence in that respect as well. If Pakistan wants to use the countries on the FoDP forum to convince their business communities to invest in Pakistan and present it as an ideal destination for investments, then it will have to make the environment facilitative for businesses to operate. Here, we need to keep in mind the fact that there are competing areas in our geographic neighbourhood with sound economies, offering one-window operations and better governance to the investors, making those areas far more appealing to the investors. Improving governance is the key to catalysing investments. Donors can also provide assistance within this space by supporting public sector reforms. However, in addition, there is also the need for mobilising other stakeholders. Beyond the Board of Investment, honorary Consul Generals, bilateral business forums, and currently operating business and trading communities are important in this regard.

Public-private partnerships (PPP) present the third point of engagement. In addition to public-private resonance, an ideal PPP should present an opportunity for investment whilst at the same time should maintain a level of trust by protecting public interest. These arrangements can be defined as 'cooperative ventures, or risk sharing relationship between the public and private sectors, built upon the expertise of each partner that best meets clearly defined public needs through appropriate allocation of resources, risks and rewards'. Through this approach, a number of diverse arrangements can be created such as private money can be used to undertake projects normally in the realm of the public sector, or public money can be used to undertake projects with management expertise of the private sector. In between there are many hybrid models that combine a bit of both. In fact, in some public-private ventures, the contribution of the government can be in the form of real estate, tax and regulatory incentives, permissions, licenses or subsidised debt. The latest PPP policy which has been recently approved by Economic Coordination Committee of the Cabinet provides the over-all framework for all these arrangements.

There is indeed significant potential within these models to contribute towards meeting infrastructure needs of the country, but that potential has not been tapped despite the existence of an institutional backbone that could have played an important role, if it was empowered.

There is need for massive investment in infrastructure in Pakistan. According to the Asian Development Bank, the government needs US$13 billion annually over the next five years in order to meet its infrastructure requirements and be able to generate and sustain a desired growth rate. The government's spending on infrastructure is nowhere close to this—Rs646 billion for the current fiscal year—and will be further compromised with the impending 40 per cent cuts in the Public Sector Development Programme. Pakistan, therefore, has no option but to resort to the PPP route. According to the Infrastructure Project Development Facility (IPDF)—a company established by the Ministry of Finance—the existing PPP opportunities in infrastructure in Pakistan amount to around US$2 billion. These exist in various sectors: mass transit, communications, highways, railways, ports, logistics, and social sector infrastructure. Additional opportunities also exist in power and energy sectors.

Whilst PPPs are an attractive route to attract investments, it must be realised that these are complex arrangements. On the one hand, these entail a transformational change in the manner in which the government envisages undertaking infrastructure projects; this has implications for human resource capacity and changes in institutional norms, in general. On the other hand, it entails a specific role for several government agencies.

The Planning Commission needs to have the capacity and the mandate to define projects, which should be taken through the PPP route. For the transaction structuring phase, the role of IPDF becomes important. In addition a PPP law needs to be enacted and windows for viability gap funding need to be initialised. It is only once these gaps are bridged that the FoDP forum can be helpful in identifying potential partners and contributing towards project development.

In sum, there are three points of engagement with stakeholders within the space of the FoDP's remit, where objectives, stakeholders and institutional points of interface need to be clearly defined. Most importantly, beyond these areas, the forum must be capitalised to secure better market access and debt forgiveness. These can have a more pronounced and sustained impact on development as compared to traditional modes of assistance.

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Public-private partnership was the theme of the Dubai conference. There is indeed significant potential within these models to contribute towards meeting infrastructure needs of the country, but that potential has not been tapped, despite the existence of an institutional backbone that could have played an enabling role, if it was empowered.

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