



# Reforms in Pakistan: WHERE TO START?

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“Good governance is the art of putting wise thought into prudent action in a way that advances the well-being of those governed.”

Diane Kalen-Sukra

As is pointed out in Diane Kalen-Sukra's quote, governance is a synthesis of laws and regulations and their effective enforcement, both arising from ideas and a well thought out debate. This, in other words, implies that, in good governance, the affairs of state are structured honestly, with every system in place, where merit is never ignored, rules are meticulously followed and where everyone is equal before the law. Pakistan has been confronted with a deepening crisis of governance since its inception. The symptoms of the crisis are starkly reflected in terms of lapses in service delivery, prevalence of corruption, administrative complexities, and a sense of uncertainty or despair amongst the majority of the general public. Before digging deeper into its causes or suggesting some pragmatic reforms henceforth, let me take

an academic input from what governance means to economists.

To Friedrich A. Hayek (1899-1992), market economy is an information processing system characterized by spontaneous order – the emergence of coherence through the independent actions of large numbers of individuals, each with limited and local knowledge, coordinated by price messages that arise from a decentralized process of competition. Though Hayek was not clearly elaborative on the role of government but his thoughts reflect that the central concern of formal order should be to reduce uncertainty or ensure information in case of any incompleteness or asymmetry of information that might arise from the decentralized decision making. Likewise, Ronald H. Coase (1910-2013) argues, in his famous Coase Theorem, that in the absence of transaction costs, an efficient solution to any economic conflict arising from an externality could be arrived at regardless of the initial distribution of property rights. Alternatively, as long as the transactions are costless, there is no need for

government's direct regulation. However, once the transactions are costly, then government needs to reduce transaction costs or impose a solution through regulation, taxation or subsidy. Further, to Douglas C. North (1920-2015), institutions, including both informal (sanctions, taboos, customs, traditions, and codes of conduct) and formal (constitutions, laws, property rights), and the effectiveness of enforcement (together with the technology employed) determine transaction and production costs and hence the profitability and feasibility of engaging in economic activities. By combining these three thoughts, we come to the point that the major functions of institutional framework are to reduce uncertainty and transaction costs, on one hand, and incentivize partaking in economic activities, on the other.

Given this framework, governance in Pakistan has been eliciting uncertainty, inefficiency, exclusiveness, and non-responsiveness of institutions. A bunch of factors can be attributed to bad governance in Pakistan but, amongst these, socio-economic structure in the country, lack of democratic norms, inefficient civil service, absence of accountability, nonexistence of public participation, and dearth of transparency are the most obvious ones. This, alternatively, calls for substantial institutional reforms, ranging from broad-based constitutional reforms to electoral reforms, from market-friendly legislations to day-to-day procedural reforms, and from administrative simplicities to effective enforcement of rules.

However, bringing reforms in abrupt manner has always been challenging as they usually entail some losers along with a wide cross-section of beneficiaries. In other words, it would be long-lasting to bring in reforms in an incremental way. Where to start from then? I would like to propose beginning from the basics of inclusivity. Inclusive institutions maintain an open access order whereby the majority of the populace have a participatory role in the political and economic affairs of society, guided largely by principles like transparency, accountability, and simplicity of the procedures. In this regard, the first and foremost step would be the provision of access to government data for debate and research. Open data would not only ensure public oversight of governments but it would also highlight or control frictions or leakages in the governance. Alternatively, by opening ways for accountability and ensuring transparency, open data would augment public awareness and participation in the affairs of the state.

Similarly, research or debate on government data would encourage thought-provoking policy making in the country by highlighting deficiencies in policies and their implementations. A corollary to these points is that it would determine the cost effectiveness of any particular policy by comparing its net benefits or accruals with its total costs. For instance, analysing the data of Public Sector Development Programme (PSDP) would not only highlight the priorities of incumbent governments, but it would also make them accountable before the public in their future election cycles. Likewise, digging deeper into the data of National Accountability Bureau (NAB) would pave the way to determining the cost effectiveness of the process of accountability. Similar would be the case with other departments where open data would make it easier to evaluate various government programs or policy packages and, thereby, would give us policy prescriptions for future endeavours.

Second, why are we still stuck with paper for record keeping despite the huge digital transformation across the globe? Electronic record keeping is more secure than paper record keeping because there is always the risk of a paper document being lost, misplaced, or destroyed by accident or disasters like fires etc. Likewise, electronic record keeping, along with ensuring administrative comfort, guarantees easiness in audit trail, especially in tracking those who have accessed them. In addition to electronic record keeping, the use of information and communication technology (ICT) warrants efficiency, effectiveness, and transparency by providing high-quality services to citizens, businesses, and governmental personnel. Though hurdles like lack of awareness, low literacy rates, poverty, heterogeneity in languages and culture are perturbing the efforts towards digitalization, but the hurdles in any way don't infer that improvements should not be made in this regard. In other words, computerization of government records and e-governance is the second essential reform that can be initiated with low costs.

Third, administrative procedures in Pakistan are cumbersome. Why can't we make it one-window for applications, processing, and approvals? According to PIDE Sludge Audit Volume 1, which highlights excessive and unjustified frictions that make it difficult for people to achieve what they want to or to do as they wish, there are 46 steps to obtain a trade license, with a monetary cost of Rs. 80,185 and a time cost of around 160 days. Likewise, setting up a petrol pump requires 58 steps, with a monetary cost of 8.2% of the investment and a time cost of around 14 months. Further, obtaining permission for a high-rise building from the Capital Development Authority (CDA) requires four years, with procedures comprising 104 steps and a monetary cost of 77 percent of the project value. All these sum up to a regulatory cost of around 39 percent of GDP in Pakistan, as is estimated in the Report. If we add the costs of bargaining and information to it, it surges the total transactions cost to above 50 percent of GDP. Thus, simplification of the procedures would be a significant factor in reducing the overall cost of transactions in the country.

Fourth, records of the National Database and Registration Authority (NADRA) provides an ample opportunity for digitalization and documentation of the economy. Almost one third of the economy is still undocumented. Informal economy, though an important contributor to employment in the country, has been creating hurdles with respect to competition in the market, availability of credits to businesses, and revenue collection. Around 13% of the companies in Pakistan have been complaining about unfair competition from informal competitors. Likewise, unregistered firms are unable to access the formal credit market, causing them to remain small indefinitely. Revenue losses is yet another concern which, largely caused by lower levels of registration of businesses. Here, using NADRA records would not only help in documentation of the economy but also boost domestic revenue mobilization. All of these reforms would serve as a preamble to the larger institutional reforms in the country.

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