Improving Pakistan’s Political Economy: What Foreign Assistance Should Contribute

Executive Summary

Pakistan’s two most critical problems are feckless leaders and a feeble state, according to this report on what foreign assistance should contribute to getting the country’s political economy moving in the right direction. The report summarises the thinking of a working group of leading Pakistani development professionals and outside experts, brought together by the Global Economic Symposium (GES) to discuss priorities for Western aid.

Many of Pakistan’s problems are self-inflicted, the GES working group concludes – the result of its weak state and a long history of ineffective leadership. Given different circumstances and different leadership, Pakistan could have developed differently; given different policies now, the working group argues, it could yet transform itself into a vigorous state with a vigorous economy similar to India.

The GES working group has analysed the major obstacles to the development that Pakistan needs to build prosperity and security, and produced a series of project recommendations for aid agencies. To replicate the financial constraints that those agencies face, the working group has prioritised the projects based on a $100 million budget.

Although foreign agencies have somewhat limited means to influence how Pakistani politicians behave and how effectively the sprawling Pakistani state operates, there are several initiatives that can have an impact.

At the heart of the working group’s recommendations is the use of aid to train the judiciary and civil service, to upgrade the policy-making infrastructure, to create institutions that can increase the accountability of politicians and to encourage Pakistan’s intellectuals to contribute to a more pragmatic problem-solving environment within the country.

The GES working group has identified six relatively low-cost projects that could start to improve Pakistan’s political economy and inspire similar initiatives. A much greater share of aid budgets should be spent on strengthening the institutions that play pivotal roles in influencing how the state works. Right now, these play a very small role on donor agendas even though they are the crucial drivers of how the Pakistani state performs.

Spending a much greater share of aid budgets than the current miniscule amounts on building the institutions that empower citizens to manage their own affairs is likely to have the biggest impact. Such institutions include universities, thinktanks, rule of law watchdogs, citizen pressure groups, teacher training colleges and civil service academies.

The greater the capacity to run a ministry, to build a company, to provide quality education, to organise NGOs and to hold officials accountable, the more likely it is that those in charge will do better – both because they will be more qualified and because those out of power will have a greater ability to monitor the performance of those in power.
While Pakistanis must by definition be in the lead in establishing such institutions, donors can play an important role catalysing the efforts of local people. Donors have access to far greater resources and can bring together people and organisations from inside and outside the country in ways that domestic agencies may not be able to do.

The GES working group believes that such an effort promises to reshape the dynamics of Pakistan’s governance – albeit over a long time horizon. Better politics will spur a more constructive state, which in turn can play a more constructive role in promoting broad-based development.
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Effective governance is what makes the difference between successful states and struggling states. Improving the quality of governance is therefore central to the effort to move Pakistan beyond the ‘crisis state’.

– Dr Maleeha Lodhi, former Pakistani Ambassador to the United States

Introduction

Unlike some Western aid officials, Pakistani development professionals have clear ideas about how foreign assistance to their country should be spent. Instead of seeing billions of dollars allocated to shifting priorities and short-term programmes, they want to see a lot more aid focused consistently on Pakistan’s two biggest problems: a weak state and ineffective leadership.

Fixing these problems will get the country’s political economy moving in the right direction for a change, nurturing the kind of self-sustaining development needed to build both security and prosperity.

It is no secret that Pakistan needs extensive foreign assistance to overcome its myriad development problems and bolster its ability to confront internal and regional threats from jihadists. But few policy-makers within the US State Department, the European Community Humanitarian Office, the World Bank or other Western development agencies seem to know how to turn that aid from a temporary fix into a programme of long-term therapy and rehabilitation.

The West is now spending more on Pakistan than ever before – but it is not spending it any more wisely. Getting a much bigger bang for the development buck requires, first of all, learning much more about Pakistan’s complex internal dynamics. And no one is better placed to teach that lesson than Pakistanis who know the development machinery as well as they know their homeland.

Last year, the Kiel Institute’s Global Economic Symposium (GES) brought together a working group of leading Pakistani development professionals to discuss targeting priorities for Western aid. The group’s members hailed from the World Bank, a major aid agency, a major poverty-fighting non-governmental organisation (NGO) and academia.

Focusing on Pakistan’s idiosyncratic political economy, the working group analysed the country’s myriad development challenges and produced a series of project recommendations for aid agencies. To replicate the same financial constraints that those agencies face, it also prioritised a list of projects based on a $100 million budget.

In total, the GES working group identified 14 major obstacles to development and recommended specific projects to address each of them. But it also focused on the two most critical problems: feckless leaders and a feeble state.

Too many politicians and top government officials protect their own interests at the expense of the country’s interests. Too many talented people leave the country. And the media and top intellectuals peddle simplistic diagnoses of Pakistan’s problems and unrealistic prescriptions.

At the same time, public services are woefully inadequate in many sectors and locations. Where public services do exist, they are typically staffed by officials with inadequate training and poor attitudes. And the organisation and management of most state institutions is poor.
How to remedy this? By using Western aid to train the judiciary and civil service, to upgrade the policy-making infrastructure, to create institutions that can increase the accountability of politicians and to encourage Pakistan’s intellectuals to contribute to a more pragmatic problem-solving environment within the country.

The working group identified six relatively low cost projects – two each in the education, judicial and NGO sectors – that could start to turn the situation around and inspire similar initiatives.

Understanding the Context

Socio-political Dynamics

Pakistan’s political economy is one of the most difficult to understand in the world. A complex mix of competing and overlapping clans, sects, tribes, beliefs and practices, it defies any easy description or analysis. If anything it is a mix of contradictory groups, forces and ideas that balance each other in various ways such that dramatic change – for better or worse – is hard to bring about.

A strong society and a weak state define the country, giving it incredible resilience but holding back progress in innumerable ways. Social development indicators are among the lowest in the world, especially for women. Fewer than six in ten people – and fewer than half of women (and roughly one-third in rural areas) – can read.3

The country ranks 145th worldwide in the Human Development Index of the United Nations Development Programme (UNDP), a composite measure of education and health indicators.4 Yet strong social networks mean that there is little of the destitution commonly seen in large cities in Africa or India. Inequity is remarkably low, far less than in the United States and most other developing countries.5

Although the country has oscillated between military and civilian rule throughout its history, the nature of government has for the most part changed little between these two different regimes. In both cases, rulers have acted rather meekly, especially in contrast with leaders in more robust states and from more authoritarian heritages (such as those in Central Asia and the Middle East).

Politics is more a matter of patronage than ideology, with weak coalitions forming the basis of power over a highly fractured population. General promises of higher living standards for the population and specific promises to particular politicians, families and districts are necessary to

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5 The Gini coefficient is 30.6 in Pakistan compared with 36.8 in India, 40.8 in the United States and 43.7 in Nigeria. Anatol Lieven, Pakistan: A Hard Country (New York: Public Affairs, 2011).
claim power. But power is hard to keep because the government lacks the financial resources and
the capacity to deliver on the promises, making any government unstable by definition.⁶

Yet the country has some surprisingly strengths, as Pakistan’s celebrated diplomat and journalist
Dr Maleeha Lodhi describes:

Its promising potential lies in a number of attributes: an able pool of professionals and technically trained peo-
ple, a hardworking labour force, a growing middle class, an enterprising business community, an energetic free
media and a lively arts, literature and music scene. Pakistan’s cultural plurality and open society are sinews of
its strength. It has a significant industrial base, an elaborate infrastructure of roads and communication links, a
modern banking system, a large domestic market and a thriving informal economy – factors that have averted
a national breakdown even when in the throes of severe financial crisis.

The country has produced high rates of growth at times, though not enough to keep up with its
exploding population. Its problems are rooted in poor state management:

Poor governance, rule without law and shortsighted leadership have mired the country in layers of crises that
have gravely retarded Pakistan’s progress and development.⁷

The power of patronage politics and the overbearing hold of the army over government exacer-
bate the weaknesses of the state. Tax revenues are less than 10% of GDP, one of the lowest rates
in the world.⁸ Courts and the police are often beholden to powerful interests. Corruption pervades
administrative and judicial organs of government.

As a result, the average Pakistani faces a far greater threat from the weak rule of law than from
violence, which is arguably less common than in neighbouring countries. For example, India has
had a number of bloody secessionist movements in its history and currently faces an insurgency
in over one-eighth of its districts.⁹

But Pakistan’s growth spurt between 2000 and 2007 – when GDP grew at an average of 6-7%
per year – set off a number of structural changes that might, given enough time, rework the power
dynamics that drive the country. The boom increased urbanisation (to over half the population),
expanded the middle class (to an estimated 30 million) and was accompanied by exponential
expansions in independent media (to over 100 channels), telecommunications (to 120 million cell
phone subscribers in 2010) and consumer spending.

Together, these developments have created a larger, more ‘connected’ and empowered middle
class, more ready to challenge the political status quo. The protests that have periodically erupted
since 2007 (such as those that forced Pervez Musharraf from the presidency) reflect a changing

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⁷ Lodhi, ‘Introduction’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’
⁸ http://www.businessweek.com/articles/2012-04-05/the-secret-strength-of-pakistans-economy
balance of forces within the country, which could lead to a more inclusive economic and political system.\textsuperscript{10}

Pakistan ought to be an important emerging market. Its current population of 185 million will rise to well over 300 million by mid-century, which will make it the world’s fourth most populous country, not too far behind the United States.

With the right leadership and policies, it could become another Indonesia, now considered to be a rising star of the developing world. Indeed, Goldman Sachs lists Pakistan as one of its ‘next eleven’ group of important emerging economies alongside such countries as Mexico, South Korea, Turkey and Vietnam.\textsuperscript{11}

The many commonalities that Pakistan shares with its democratic and rapidly developing neighbour India offer some grounds for hope that the country can indeed work its way through its current problems.

Although the growing importance of Islam since 1979 has made the country seem increasingly Middle Eastern in orientation, Pakistan remains fundamentally a South Asian state, dominated by a plateau region – consisting of its two most populous provinces – that shares a cultural and institutional legacy with the northwest region of its democratic neighbour, India. As King’s College London professor Anatol Lieven says:

\begin{quote}
Pakistan is in fact a great deal more like India – or India like Pakistan – than either country would wish to admit. If Pakistan were an Indian state, then in terms of development, order and per capita income it would find itself somewhere in the middle, considerably below Karnataka but considerably above Bihar.\textsuperscript{12}
\end{quote}

Indeed, all of Pakistan’s difficulties with security, the rule of law, social development, a weak state and democratisation are mirrored to a great extent elsewhere on the subcontinent.

Like its neighbours to the east, Pakistan has significant experience with competitive elections, a court system and legal profession that prize their independence, a reasonably free and critical media, a strong political opposition and a moderate population (religious parties have always performed miserably in free elections) – most of which its neighbours to the north and west lack.

Many of Pakistan’s problems are therefore self-inflicted (albeit reinforced by how outsiders have dealt with it). Given different circumstances (and different leadership), it could have developed differently; given different policies now, it could yet transform itself into a vigorous country with a vigorous economy similar to India.

\textsuperscript{10} Lodhi, ‘Beyond the Crisis State’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State
\textsuperscript{11} http://www.goldmansachs.com/gsam/individuals/products/growth_markets/n11/index.html
\textsuperscript{12} Lieven, Pakistan: A Hard Country
Comparing Pakistan with similar developing Countries

Pakistan can be grouped with a number of other highly populated developing countries in Asia and the Middle East, including Bangladesh, China, Egypt, India, Indonesia, Iran and Turkey (see Table 1).

All face similar challenges – and opportunities. Many are Muslim. All are based on ancient civilisations and are in the middle of a decades-long process of modernising their institutions and economies so as to raise the living standards of their peoples and gain a greater position in the world.

Table 1: Comparing Pakistan with similar countries

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita</th>
<th>Population</th>
<th>Literacy rate</th>
<th>Mortality rate</th>
<th>Enrolment in tertiary education</th>
<th>Fixed investment to GDP</th>
<th>Exports to GDP</th>
<th>Ease of doing business ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>$673</td>
<td>149m</td>
<td>56%</td>
<td>48</td>
<td>8%</td>
<td>25%</td>
<td>19%</td>
<td>107</td>
</tr>
<tr>
<td>China</td>
<td>$4,393</td>
<td>1.3bn</td>
<td>94%</td>
<td>18</td>
<td>25%</td>
<td>43%</td>
<td>29%</td>
<td>79</td>
</tr>
<tr>
<td>Egypt</td>
<td>$2,699</td>
<td>81m</td>
<td>66%</td>
<td>22</td>
<td>28%</td>
<td>19%</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>$1,477</td>
<td>1.2bn</td>
<td>62%</td>
<td>63</td>
<td>13%</td>
<td>31%</td>
<td>18%</td>
<td>134</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$2,946</td>
<td>240m</td>
<td>92%</td>
<td>35</td>
<td>24%</td>
<td>32%</td>
<td>25%</td>
<td>121</td>
</tr>
<tr>
<td>Iran</td>
<td>$4,520</td>
<td>74m</td>
<td>85%</td>
<td>26</td>
<td>43%</td>
<td>26%</td>
<td>32%</td>
<td>144</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$1,007</td>
<td>174m</td>
<td>56%</td>
<td>87</td>
<td>5%</td>
<td>15%</td>
<td>13%</td>
<td>83</td>
</tr>
<tr>
<td>Turkey</td>
<td>$10,106</td>
<td>73m</td>
<td>91%</td>
<td>18</td>
<td>38%</td>
<td>19%</td>
<td>23%</td>
<td>60</td>
</tr>
</tbody>
</table>


Compared with this peer group, Pakistan’s weaknesses become apparent. The state has noticeably underperformed, hurting the country in innumerable ways. The mortality rate – one of the better indicators of a government’ effectiveness in delivering public services – is substantially worse than in any other country. It is almost five times worse than in China and twice that of Bangladesh.

Education levels are miserable. The literacy rate is on a par with Bangladesh even though the latter is much poorer, and well behind China and Indonesia. Pakistan’s post-secondary enrolment levels are even worse: just one out of every 20 Pakistanis attends university or equivalent, far below any other country. In India, the figure is more than one in seven; in Indonesia, one in every four.

These figures partly explain why Pakistan’s economy is less competitive than it should be. Despite low wages and a relatively easy environment in which to do business, investment is low, especially compared with much more dynamic economies such as China, India and Indonesia. The country’s exports are far below their potential.

High population growth rates – at almost 2% per annum, higher than all its peers – increase the burden on the state, reducing the chance that it will be able to keep up with the needs of its people anytime soon.
Two ‘Macro’ Obstacles Block Progress

The GES working group identified 14 major obstacles to development in Pakistan and proposed specific aid projects for each of them (see Table 2). Although many of these challenges will be familiar to those well versed in the country, the list of recommended projects ought to be new.

But debating these obstacles one by one made it clear that two ‘macro’ issues matter more than all the rest: the country’s leadership crisis; and the country’s weak state. As in many struggling countries, Pakistan is beset with difficulties that these two problems cause and exacerbate. Unless they are addressed, it is likely that the country will continue to stagnate, with many of the other problems growing worse.

The Leadership Crisis

The leadership crisis (Problem 1) is multifaceted and goes well beyond the political arena, with deep implications for how people think about the country and its future.

A small elite (by some estimates consisting of as few as a thousand people13) has long used its power in a self-serving way, starving the government of revenue, undermining the rule of law and caring little for how most of the population live.

Although the military has exacerbated these tendencies by how it has used its influence, civilians have not acted much differently. Both have used their control over resources to serve their own interests and both have rarely showed leadership on some of the country’s most important problems. As Nazim Haji, a Karachi businessman, says: ‘We’re not a poor country. We’re a poorly managed country.’

The failures are partly due to the structure of politics in Pakistan. The weakness of politicians and political parties greatly limit the capacity of governments to push through much needed reforms in areas such as taxation, energy and public administration. Dependent on placating a wide number of actors through patronage, too many top officials prefer to act to protect their own interests – or that of their clansmen and supporters – at the expense of the country.14

As a result, important legislation often does not get passed. Problems that should be high priorities – such as energy – go years without a concerted government effort to fix them. And proposals to increase tax revenues – which the government desperately needs passed if it is to improve public services – fail.

Such problems are exacerbated by the intellectual and media climate. Too many influential people promote ideas – about the country’s problems, economy, neighbours and so on – that encourage ‘a negative direction for the country’, as the working group framed it.

The media’s need to push up ratings and general lack of responsibility in how issues are reported encourage a sense of paranoia at the expense of reasoned debate on the country’s problems. As historian Dr Ayesha Jalal says:

Whether in private discussion, public fora, newspapers, or back-to-back talk shows hosted on private television channels, a cross-section of Pakistanis are displaying a penchant for conspiracy theories over reasoned arguments supported by hard evidence. Instead of reporting bare facts and letting people draw their own conclusions, the media’s opinion managers, assisted by a string of ‘experts’, are burnishing the old narrative of national insecurity with apocalyptic fear… Call it paranoia, denial or intellectual paralysis, but Pakistanis are groping for a magical formula to evade responsibility for their failure to gel as a nation.15

The ability of military and religious leaders to silence opposition when it affects their most cherished interests or beliefs prevents debate on certain issues. Reducing the privileges of the military, liberalising trade with India or introducing laws that reduce discrimination may all have the support of a majority of citizens. But they are held back by the influence and ideology of certain important groups.

Weak leadership, a stagnant economy (at least since 2007) and a media that thrives on negativity have combined to generate a general sense of hopelessness. As a 2010 survey showed, few Pakistanis are happy with the state of their country – just 14% are satisfied with national conditions while 84% say they are dissatisfied. More than three in four (78%) say that the economy is in bad shape.16

Given this environment, talented people prefer to leave than plant roots in the country. The middle class, exasperated with power outages and the actions of the political elite, increasingly takes to the streets to protest. Businesses refrain from investing, exacerbating the economic malaise.

**The Governance Crisis**

Such problems are paralleled by gross deficiencies in the way government works (Problem 2). Limited capacity (combined with inadequate funding in some cases) has yielded derisory public services across broad swathes of the country and in many sectors vital to the country’s future, such as education (see Table 2).

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16 Almost all Pakistanis say the lack of jobs is a major problem and vast majorities characterise terrorism, crime, illegal drugs, political corruption, the situation in Kashmir and environmental issues as very big problems. http://pewresearch.org/pubs/1683/pakistan-opinion-less-concern-extremists-america-image-poor-india-threat-support-harsh-laws
Governance was not always this bad in Pakistan. There has been a gradual deterioration in the quality of key institutions over the past few decades, most notably after the civil service’s independence was removed in a 1973 constitutional change.\textsuperscript{17}

Patronage now triumphs over merit in many hiring and promotion decisions. Fewer of the brightest and the best choose public service as a career. Lower level bureaucrats, who often come from the lower middle class and have few of the qualifications of their more well off superiors and predecessors, receive little if any training.

Chronic political instability, conflict between different organs of the state (such as between the military and the civilian leadership) and a tendency to discontinue or slow down the implementation of policies and projects initiated by predecessors have had disastrous consequences.

Part of the problem is rooted in the elitist nature of society. Bureaucratic deference to the well to do and powerful – especially at lower levels of government – undermines equality and justice and allows elites to exploit everyone else. In contrast, officials are notorious for their poor attitudes towards ordinary citizens, especially those from the lower classes.\textsuperscript{18} The poor are often excluded from public services.

Attempts to improve the independence of the judiciary at the highest levels in recent years has had little impact on deeply entrenched patterns elsewhere. The common person is greatly disadvantaged in gaining access to justice, the speedy redressal of grievances and help enforcing contracts and property rights.\textsuperscript{19}

In fact, discrimination against the poor, against women and against minorities in how public services are delivered is rampant, especially in less developed areas where the state itself may not even be present. For example, in the tribal regions, just one in ten women can read. Pashtunwali, the tribal code used in some Pashtun areas, allows girls to be given away to settle disputes.

Indeed, Pakistan’s weak state has produced a country where government institutions work very differently for different people. There is no equality before the law, in the voting booth or in the classroom. This weakens national cohesion, disadvantages tens of millions of people and creates a powerful interest group working to counter any effort at improvement.\textsuperscript{20}

A shortage of funds starves many officials of the manpower and equipment necessary to do their jobs. For example, Pakistan’s state judicial system is starved of every imaginable resource. As of

\textsuperscript{17} Andrew Wilder, ‘The Politics of Civil Service Reform in Pakistan’, Journal of International Affairs 63(1) (Fall/Winter 2009): 22

\textsuperscript{18} As the International Crisis Group notes, ‘the country’s 2.4 million civil servants are widely seen as unresponsive and corrupt and bureaucratic procedures cumbersome and exploitative.’ International Crisis Group, Reforming Pakistan’s Civil Service, Asia Report no. 185 (Brussels: ICG, February 16, 2010)

\textsuperscript{19} Ishrat Hussain, ‘Retooling Institutions’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State

\textsuperscript{20} Clare Castillejo, ‘Exclusion: A Hidden Driver of Pakistan’s Fragility’, NOREF Policy Brief (Oslo: Norwegian Peacebuilding Resource Centre, April 2012)
May 2009, the 17 million people living in Karachi had just 110 judges to try the more than 100,000 cases pending. Some of the courts are supposed to handle more than 100 cases a day.

In the whole of the Khyber Pakhtunkhwa (KPK), a province of 20 million people, there was exactly one fingerprinting machine available to the police as of mid-2008 – and this is the area where the government faces the largest threat of unrest from the Pakistan Taliban.21

These government deficiencies have immense consequences for the economy. Inadequate regulation, inefficient public sector management and heavy-handed government intervention in some industries all reduce investment.

Six in ten firms identify corruption as a major constraint on business performance. Companies report much longer delays in obtaining electricity connections and water connections than in comparable countries. Around 10% of sales are lost due to power outages.22 As a Pakistan Institute of Development Economics report on the economy concluded:

Governance failure and institutional shortcomings are the heart of the matter: corruption is rampant, judicial independence is low, educational institutions do not furnish the right kind of labour force, legal institutions do not protect the lenders against loan defaults, ambiguous land titles constrain mortgage financing and construction activity, labour market institutions restrict hiring/firing, State Bank of Pakistan (SBP) has not done its duty to contain the rising interest spread and SECP/stock market has not played its due role in the transfer of funds from savers to investors… Without improving the state of governance and that of institutions, sustainable growth cannot occur even if other factors, like a reasonable savings rate, are put in place.23

Similarly, the growth strategy of the country’s Planning Commission notes:

While hardware of growth cannot be ignored given the current infrastructure shortages in the country, the point is of relative weakness – Pakistan is much weaker in software than in hardware... The software of economic growth includes the organisation of institutions, incentives, markets, cities and communities.24

21 Lieven, Pakistan: A Hard Country
24 Planning Commission Government of Pakistan
The World Economic Forum's Global Competitiveness Report echoes these sentiments (see Box 1). Many of the main problems identified by companies relate to government stability, corruption and management.

### Box 1: The most problematic factors for doing business in Pakistan

(Percentage of respondents)

- Government instability/coups: 19.2%
- Policy instability: 13.3%
- Corruption: 11.5%
- Inflation: 9.3%
- Access to financing: 8.7%
- Inefficient government bureaucracy: 8.0%
- Inadequate supply of infrastructure: 7.5%
- Crime and theft: 5.4%
- Inadequately educated workforce: 3.9%
- Tax rates: 3.6%
- Tax regulations: 3.3%
- Poor work ethic in national labour force: 2.5%
- Foreign currency regulations: 1.5%
- Restrictive labour regulations: 1.4%
- Poor public health: 0.8%

Pakistan’s two macro level problems feed on each other in a vicious circle, reducing the chance that either will be ameliorated. A weak state reduces the ability – and incentive – for leaders to act boldly on reform (because state organs may be ill-equipped to carry out any policy). The intellectual crisis reduces the chance that a consensus behind reform can be built, posing risks to anyone who tries to push change on their own. The long time period required to reform the civil service discourages politicians with a short time horizon from trying, even though improvement is essential to the country’s future.

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How Aid can improve Pakistan’s Political Economy

The importance of these macro level factors to each other and to most of the remaining obstacles ought to make tackling them a high priority for aid agencies. Improvements here can bring major improvements elsewhere.

Although foreign actors have somewhat limited means to influence how Pakistani politicians behave and how effectively the sprawling Pakistani state operates (especially in the short term), there are a number of initiatives that can have an impact. Their effectiveness will be increased if undertaken simultaneously and continued over a number of years.

Projects aimed at the two Main Obstacles

The GES working group proposed a number of projects in each of the two areas. To address the leadership and intellectual crisis, many more Pakistanis – especially possible ‘change agents’ and future leaders – should be given the chance to spend time overseas, furthering their education so as to increase their understanding of and ability to push for the reforms that Pakistan needs.

Expanding scholarship programmes would provide many prominent people in government and civil society with an opportunity to learn new skills and ways of thinking. Convening on a regular basis diverse groups of people from across the country to discuss Pakistan’s key challenges might help foster a broader consensus for reform while bridging some of the divisions that plague society.

Creating mechanisms to learn from similar countries that have been more successful in implementing reforms – such as Turkey and Malaysia, two economically successful Muslim countries that have many admirers in Pakistan – might provide an important impetus for action (as well as a way to transfer knowledge). This could be done by organising various types of events or creating various types of networks and partnerships that enable politicians, business people, academics and journalists to learn from their counterparts overseas.

For example, the Pakistan-Turkey and Malaysia-Pakistan business councils could expand their focus from the promotion of trade to include educational and capacity-building elements that would promote more investment. Turkey and Pakistan’s joint military training could be expanded to include other parts of their governments.

The media were repeatedly highlighted as important shapers of public opinion. Creating opportunities for key reporters, editors and station managers to learn first-hand – through scholarships, exchanges, visits, conferences and so on – the importance of public responsibility in how events are reported and analysed would help to professionalise the industry.

Foreign aid that once targeted the development of a more independent and open media (the US aid agency, USAID, among others, has invested in such projects in the past) should now aim at
developing a responsible media committed to promoting healthy public debate on the country’s problems.

Promoting sports and culture could indirectly influence people’s attitudes, especially youth. Norway’s ‘Right to Play’ programme, which uses sports and play as a means to promote children’s physical and mental development, was praised. Investing in Pakistani culture and even the development of national teams could help contribute to a greater feeling of nationhood and more public-spirited attitudes.

The working group spent a long time discussing ways to change the calculus of politicians and elites. One way is through the business sector.

Encouraging corporate leaders to press harder for reform – possibly promising a certain amount of investment if particular legislation is passed – might create incentives for politicians to act in ways they currently do not. Establishing new ways for businesses to present their case – by strengthening existing associations or starting new ones (such as an International Business Council, which would include multinationals) – would increase their leverage.

Creating new mechanisms for constituents – especially among the poor – to lobby or pressure their representatives ought to increase the responsiveness of leaders to the needs of the general public. Strengthening political parties – which are now mainly personality-driven and managed as feudal fiefdoms – will make politics more accountable.

For example, the National Democratic Institute in Washington has sought to develop parliamentarians and party leaders into more effective party caucuses, modernise party secretariats, help political parties to engage in local governance better and increase the political participation of youth and women.26

Investments in constituency relationship groups (in which both the British and Dutch aid agencies have invested), grassroots organisation initiatives and citizen pressure groups will all pay dividends, especially if they can be repeated in many areas across the country.

Improving the workings of the state requires a wide range of measures to upgrade both key people in the top echelons of government as well as the hundreds of thousands of officials spread across the country (millions if all public servants are counted).

Some of the steps necessary were outlined in the 2008 report of the National Commission on Government Reforms (the sixth such report prepared by a government committee or commission since 1996).27 The report recommended administrative restructuring, human resource management changes, a simplification of existing rules and procedures, and improvements in service delivery.28

26 http://www.ndi.org/pakistan
27 Wilder, ‘The Politics of Civil Service Reform in Pakistan’
28 ICG, Reforming Pakistan’s Civil Service
Pushing for this report to be implemented would be one of better ways for foreign governments to use whatever leverage they have on Pakistan’s leaders. But this will not be easy, as many politicians and military officers prefer to have a weak and subservient civil service rather than a strong and independent one.  

Much more aid money could be invested in training officials and even politicians to improve how they handle their jobs. As the former head of the World Bank in Pakistan, John Wall, said in a November 2011 interview, a critical mass of key officials in a particular ministry could be targeted for special training to upgrade how a few critical areas of government work.

Specialised training to help fill the Pakistani government’s most critical expertise gaps at the federal and provincial levels – in fields such as energy, agriculture and finance – could also be provided. In either case, beneficiaries should commit to working for a set period of time to ensure no one used the training immediately to get a better job in the private sector.

Civil service academies could be substantially improved and expanded. An independent research organisation could be established to provide members of the legislature with short courses on how to handle their responsibilities and with the research support to help them make better decisions (as is done by the Parliamentary Research Service in New Delhi). This would help make the legislative process better informed, more transparent and participatory.

Lower level officials – which account for as much as 90% of all government employees and which currently receive no training – could be served by newly established public administration academies. Spreading a series of these across the country is probably the only way to reach the masses of underskilled, underprepared and undermotivated public servants that struggle to do their jobs.

Finally, funding – or ideally, endowing – existing or newly established thinktanks, independent monitoring organisations (IMOs), academic research centres and the like would both increase the quality of policy debates and potentially increase the organised support promoting reforms.

Thinktanks could help write new legislation and then lobby politicians – either directly or through the media – to pass it. IMOs could break new ground assessing the quality of public services, providing a better understanding of weaknesses in public services and giving independent actors a tool to press for change. Investing more in local expertise in key areas (such as energy, water, etc.) would provide the government with more resources to draw on in formulating policy and managing key institutions.

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29 Wilder, ‘The Politics of Civil Service Reform in Pakistan’
30 Interviewed by Seth Kaplan in Washington, DC, in November 2011
32 http://www.prsindia.org/aboutus/objectives/
### Table 2: 14 Problem areas identified by the GES working group

| 1) Leadership/intellectual crisis | • Top political leadership with little commitment to reform  
• Brain drain of educated people  
• Leaders very protective of own interests/supporters  
• Media/academia/writers do not promote positive direction  
• General sense of hopelessness/lack of confidence in future | • Offer education/international experience to possible ‘change agents’  
• Strengthen political party organisation and ties to grassroots  
• Convene diverse groups of people to discuss key issues  
• Educate media on responsible reporting; overseas trips  
• Invest in sports/culture |
|---|---|---|
| 2) Government capacity | • Public services inadequate across all sectors/locations  
• Poor often excluded from services; institutions serve rich  
• Poor attitude of officials; widespread corruption  
• Human resources, organisation, training all poor | • Push implementation of Ishrat Hussain government reform report  
• Enhance civil service academies  
• Create academies to train lower level officials (none now)  
• Convene conferences to transfer know-how within country  
• Endow/fund thinktanks and IMOs |
| 3) Electoral reform | • Current system favours rural elites  
• Electoral Commission not autonomous  
• Some regions excluded from electoral process  
• Political parties not democratic/run in feudalistic way  
• Not one country/one system for all | • Fund credible census  
• Improve autonomy/capacity of Electoral Commission  
• Convene all-party conference on electoral reform |
| 4) Judicial reform | • Supply of well trained judges inadequate  
• Professional training of existing judges poor  
• Courts not independent/too corrupt  
• Immense backlog of cases  
• Not one country/one law for all | • Create arbitration system to quicken settlement dispensation  
• Establish training institute for lower level judges/officials  
• Establish rule of law IMOs to monitor quality of courts  
• Make better use of traditional courts/integrate with Western |
| 5) Education (health, other social sectors similar) | • State delivery/oversight of education poor  
  • Great inequity: three tier system divides and disadvantages  
  • Poor quality in most schools  
  • Employable skills not taught in most schools  
  • Not one country/equal access for all | • Use more outcome-based aid, especially at provincial level  
  • Invest in teacher training institutes/ministry training  
  • Provide training to teachers in madrasas  
  • Fund provincial education sector plan (only KPK has)  
  • Invest in youth scholarships/strengthen higher education links |
| 6) Tax reform | • Not equitable/narrow tax base/few pay taxes  
  • Too low revenues  
  • No land tax  
  • Cronyism, corruption, bad administration allow tax evasion | • Work with Business Council, etc. to promote its five reforms  
  • Income in whatever form needs to be taxed  
  • Aid needs to match Pakistan’s own efforts to boost revenue  
  • Aid conditionality can promote 2009 tax reform that failed |
| 7) Security (broadly defined) | • Too many weapons  
  • Sectarianism (Sunni-Sunni, Sunni-Shiite) worsening  
  • Unaccountable security system (army and police)  
  • Army has too much power and too many resources  
  • Police corrupt, ineffective | • Run projects that help ‘de-weaponise’ society  
  • Provide technical support and more resources to police  
  • Promote Afghan-Pakistani joint projects across border region  
  • Focus on less secure regions (Baluchistan, KPK)  
  • Be more transparent in funding |
| 8) Investment climate (and employment opportunities) | • High cost to do business, transport goods, etc.  
  • Weak capacity to innovate, make use of technology  
  • Limited supply of quality human resources  
  • State too involved in business/bad regulatory framework  
  • Uncompetitive markets/subsidies to state-owned enterprises | • Technical and vocational school reforms  
  • Promote implementation of Planning Commission report  
  • Establish International Business Council to promote reform  
  • Promote trade fairs, delegations, etc.  
  • Establish innovation centres/export zones/etc. |
| 9) Access to international markets | • EU/NAFTA access for exports, especially textiles | • US open markets for Pakistani goods, especially textiles |
| 10) Energy | • Inconsistent/limited supply  
  • Lack of political will to deal with problems  
  • Poor excluded from service  
  • Poor legal framework to promote investment  
  • Public administration poor | • Invest in one big energy project  
  • Use conditionality to promote reform passage  
  • Promote alternative energy  
  • Promote rural electrification projects  
  • Promote regional projects to connect grids, etc. |
|---|---|---|
| 11) Water | • Highly water stressed country  
  • Improper pricing/many do not pay  
  • Immense waste in agricultural sector  
  • Inadequate drainage/flood prevention measures  
  • Public administration poor | • Invest in water storage  
  • Push World Bank report on water sector  
  • Invest in capacity-building in sector  
  • Invest in drainage/flood protection  
  • Invest in measures that push efficiency |
| 12) Enhance inclusiveness of society | • Women/minorities/poor social exclusion acute  
  • Poor often lack access to basic services/institutions  
  • Legal discrimination in some cases  
  • State limited presence in some areas  
  • Women especially disadvantaged where state is weak | • Invest in Pakistan Poverty Alleviation Fund, etc. that build institutions for the poor  
  • Strengthen constituency groups ability to pressure politicians  
  • Investing in the state can only help the poor  
  • Encourage equality before the law, anti-discrimination rules |
| 13) Improve relationships with other countries | • Very limited economic ties with neighbours  
  • Bad relations especially with India and Afghanistan  
  • Bad relations with the United States  
  • Saudi political and education influence negative factor  
  • Potential as regional economic/energy hub unexploited | • Promote more trade with neighbours  
  • Give Pakistan the confidence to compromise with neighbours  
  • Support democratic control of security apparatus  
  • Promote regional organisations  
  • Strengthen ties with Afghanistan and Central Asia |
14) Reduce population growth

- Demographic growth overburdening state resources
- Overpopulation creating negative dynamic in society
- Unemployment problems worsening
- Overpopulation depleting limited water resources
- Demography encouraging extremist tendencies in youth

- Invest in family planning
- Invest in education of women

Projects for other Macro Obstacles

Three other obstacles discussed by the GES working group could also be classified as macro because they relate to one of these two areas in some way.

Reforming the current electoral system (Problem 3) should produce governments more open to reform. A key reason why the conservative rural elite still dominates polls in spite of greater urbanisation is because constituencies are organised on the basis of old data and boundary demarcations reflect the distribution of kinship groups.

The last election was based on the 1998 census, which does not take account of the dramatic social and economic changes that have taken place since then. The major parties, which are led by and depend on such elites, see little reason to change.33

In fact, discrimination pervades the electoral process in Pakistan. Qualification requirements prevent some candidates from running. Some regions – such as the tribal regions – are completely excluded. Inaccurate voter lists disenfranchise millions. The Electoral Commission of Pakistan (ECP) is not sufficiently autonomous and is poorly managed, inadequately resourced, understaffed and undertrained – all of which allows elites the chance to manipulate it to gain advantage (as the Musharraf regime repeatedly did).

To fix such problems, the working group emphasised the need to increase the independence and capacity of the ECP. Ensuring that the commission’s strategic five-year plan, which was produced in May 2010 and includes 15 broad electoral reform goals, is implemented and properly funded should be a high priority for donors. If the main political parties could be encouraged to work together to push these reforms – perhaps by convening an all-party conference on electoral reform – it would improve the chances that future elections are credible.34

Supporting the Population Census Organisation’s effort to undertake a new census (something that the UNDP, the United Nations Population Fund and other UN agencies are doing) and en-

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33 Lodhi, ‘Beyond the Crisis State’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’
Courting the large-scale redistricting that should follow would correct some of the larger distortions that currently plague how political leaders are chosen. It would also help shift electoral politics from personality-driven affairs that cater to elites to policy-driven affairs that debate policies and cater to the rising middle classes, which are more likely to be found in cities.

Reforming the judiciary (Problem 4) should complement other steps to improve the overall functioning of government. There is wide dissatisfaction about the level of access to the law, the speed of the law and who gets to enforce the law. Some of this can be explained by the large shortage of well-trained judges, which has produced an immense backlog of cases. Professional training, especially of lower level officials, is either of inferior quality or non-existent. And like all other arms of government, the courts are beholden to the powerful and rich, disadvantaging everyone else.

These problems matter a lot to the average Pakistani. As Imran Aslam, president of GEO TV, says, ‘Ask ordinary people here about democracy and they can’t get really explain it; but ask them about justice and they understand it well, because unlike democracy, issues of justice are part of their daily lives.’

Such sentiment helps to explain why so many Pakistanis end up using customary law (such as the Pashtun pashtunwali) to solve disputes and support the introduction of sharia. As Anatol Lieven explains:

> Fear and even hatred of the state judicial system is general among the mass of the population – even among those who are exploiting the system assiduously to attack their enemies… Yet at the same time… there exists among Pakistanis a deeply felt desire for a better form of justice. This has led to admiration in the education classes for courageous human rights lawyers… and to the (alas, exaggerated) hopes attached to the Lawyers’ Movement… For many ordinary Pakistanis, however, this hunger for justice focuses on the Islamic code of Shariah.

The working group especially liked the idea of creating a new arbitration system to quicken the settlement of disputes, especially in the commercial sector. According to one source, contract enforcement in Pakistan takes an average of 47 procedures and 976 days of litigation (spread over five to ten years). Because of this, dispute resolution has become a costly and hazardous exercise – especially for the small and medium-sized enterprises that make up 90% of all companies in the country.

New arbitration courts have been introduced in Karachi and Lahore with the backing of the International Finance Corporation (IFC) and could be expanded to other cities across the country. For example, the Karachi Centre for Dispute Resolution offers an alternative dispute resolution

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35 Lieven, Pakistan: A Hard Country
36 Lieven, Pakistan: A Hard Country
mechanism for organisations whose commercial cases are either pending before a court or have not yet been filed.\textsuperscript{38}

Establishing new training institutes for lower level judges and other officials responsible for the rule of law (such as the police, prosecutors, court workers, etc.) could have an immense impact. Establishing an IMO specifically focused on the judicial system could markedly increase the amount of information available to the public and higher level officials, providing an important mechanism to improve performance.

For example, such an IMO could regularly survey popular opinion in various parts of the country on how secure people feel, how the police in their district treat them and how local judges and other officials act. It could also give more detail about how small companies are affected by the legal system, pinpoint especially corrupt areas and provide more information on delays. It could even seek to analyse the country’s multiple, competing legal systems (the Western, tribal and Islamic systems) and seek ways to integrate them (which would probably improve the rule of law better than simply seeking to override the latter two with the former).

Reforming the tax code (Problem 5) so that it is both more equitable and brings in more money for the government to invest in public services is essential. Current tax revenues are exceptionally low.

Less than 1% of the population pays direct tax because their income and wealth are not included in the narrow tax base or because they are able to evade collectors through cronyism, corruption or simply mismanagement. Despite accounting for 22% of GDP, the agricultural sector contributes just 1% of tax revenues. Half of all taxes due never reach the treasury. The poor naturally suffer, having to pay substantially more in sales taxes and other indirect taxes.\textsuperscript{39}

Broadening the tax base so that income in whatever form is taxed is essential to this effort. This will require ensuring that a much greater proportion of the economy is documented – roughly half now operates completely outside the realm of the state. Out of an estimated one million retail outlets, just 160,000 are registered to collect the general sales tax.\textsuperscript{40}

All of this reduces the ability of the government to perform its most basic tasks (such as providing education), increases its dependence on foreign aid and reduces the sustainability of whatever growth is produced.

As the Musharraf administration’s task force of tax reform put it starkly:

\begin{quote}
Pakistan’s fiscal crisis is deep… taxes are insufficient for debt service and defence. If the tax to GDP ratio does not increase significantly, Pakistan cannot be governed effectively, essential public services cannot be deliv-
\end{quote}

\textsuperscript{38} See http://www.kcdr.org/
\textsuperscript{39} Lodhi, ‘Beyond the Crisis State’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’.
\textsuperscript{40} Lodhi, ‘Beyond the Crisis State’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’
ered and high inflation is inevitable. Reform of the tax administration is the single most important economic task for the government.\textsuperscript{41}

Mohsin Hamid, a well-known Pakistani intellectual, gets to the heart of the situation:

Why is Pakistan not delivering what we hope for?... These days a large part of the reason is this: we citizens aren’t paying enough for Pakistan to flourish... Taxes are the big hope for Pakistan. It isn’t complicated. Anyone who says we can’t solve our problems or afford to give our people a decent standard of living isn’t telling the truth. We can afford it. We’ve just chosen not to.\textsuperscript{42}

The working group stressed that donors need to calibrate their aid in ways that encourage the Pakistani government to increase its tax revenues.

How to spend $100 million

To establish priorities among the many ideas it produced, the GES working group decided to assume it had limited resources available – $100 million – with which to make as large an impact as possible.

It recommended six high value added, relatively low cost projects to spend with this money, two each related to improving government performance, education and the judiciary (see Table 3). The first of these areas was considered both the most important – in line with the analysis above – and the least expensive field in which to make a difference with a small budget.

The first suggestion was to establish a new IMO focused on tracking and evaluating the quality of public services. Education, healthcare, public safety and the rule of law, among other areas, all would benefit from an independent evaluation of government performance.

The feedback could be used to change policy, decide where new investments are required or launch investigations into malfeasance and misconduct. The information would give citizens a new tool to assess the performance of their representatives and to pressure officials to do better.

Pratham, an Indian NGO started by Madhav Chavan, a US-educated chemical engineer, could be used as a model if the education sector were to be targeted. It has transformed attitudes among policy-makers by simply providing much better information on what students are actually learning in schools. Under the banner of the Annual State of Education Report, Pratham has evaluated learning outcomes in every one of the country’s 700 districts by testing 700,000 children.

The results – much worse than anyone imagined – have become so closely watched that their annual announcements have become something of a ritual, attracting much public coverage. In fact, the methodology used – and Pratham’s own efforts to fix the deficiencies exposed – have

\textsuperscript{41} Report of the Task Force on Reform of Tax Administration (14 April 2001)

\textsuperscript{42} Mohsin Hamid, ‘Why Pakistan Will Survive’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’
received so much attention that school systems from around the world (including from Mali and Senegal) have sought to learn from them.\textsuperscript{43}

As its second suggestion, the working group recommended establishing a new thinktank focused on the energy sector, the largest economic bottleneck that the country currently faces. To be successful, it would have to have an especially strong public relations arm that could influence the willingness of the government to act since the problem is more one of politics and capacity than any insight into policy.

As the former Director of Operations for the World Bank, Ziad Alahdad, writes: ‘The problem is not a lack of clarity on what needs to be done but how it is to be done.’\textsuperscript{44} In fact, there have been many papers and reports written on how to reform the energy sector, but these produce little change. This is at least partly because there is no permanent institution within Pakistan to lobby for reform (except possibly the Pakistan Business Council to some degree).

This new thinktank would have to do its own research and publish various policy papers. But its main aim in the short term would be to lobby officials, to engage the media and to energise the public in ways that could promote the reforms that the country needs.

None of this would be unusual: the success of IMOs and thinktanks generally depends to a great extent on their ability to work with government officials open to their ideas. Longer-term, its research would become more valuable as new areas required greater insight. It could also focus on launching a number of capacity-building initiatives (such as research centres) that support the development of the energy sector.

Establishing an endowment (the working group’s preference was to set up two endowments of $5 million each) or a long-term funding commitment is essential if these organisations are to develop their capacities. They would also go some way to reducing the chance that the organisations end up simply focusing on projects that donors prefer but that have little impact on society, a common problem in the developing world. An endowment could be provided with conditions on use and transparency.

The working group suggested that 60% of the money – $60 million – be invested in two education projects.

Half the money would go on creating an education innovation fund to experiment with various management models, curriculum, teacher programmes, incentive schemes and so on. A series of small investments would yield information on what might work on a larger scale. The results could be publicised to encourage fast adoption and used as the basis of a much larger project funded by a donor.

\textsuperscript{43} Abhijit Banerjee and Esther Duflo, Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty (New York: Public Affairs, 2011)

\textsuperscript{44} Ziad Alahdad, ‘Turning Energy Around’, in Lodhi (ed.), Pakistan: Beyond the ‘Crisis State’
Experimentation is something that aid agencies have generally avoided because of their highly risk-averse nature. This is unfortunate because countries that have unique challenges (such as Pakistan) require unique solutions that cannot simply be extrapolated from elsewhere. Learning by trail and error and testing what works first are likely to do better than simply reproducing a boilerplate programme used in another country.

The need for innovation has been widely recognised by reform advocates. In 2010, both USAID and the Department for International Development (DFID, the British aid agency) announced new funds to try out creative solutions, though how well these will work in practice is unknown at this point. USAID announced the creation of a Development Innovation Ventures Fund, ‘where creative solutions can be funded, piloted and brought to scale.’\(^{45}\) DFID launched an innovation fund focusing on operational strategies to deliver aid more effectively.\(^{46}\)

The education sector cries out for this type of approach because it is a critical sector that everyone agrees needs help, but is held back by poor management (as well as funding) and organisation, which are not well understood nor easily fixed. There is a lot of foreign aid aimed at the sector (DFID has made it its top priority), but there is limited knowledge about how to make it work better. An innovation fund would allow a wide number of pilot programmes to run simultaneously so as to find out what works best, making larger investments much more productive.

The other half would go on strengthening university preparatory colleges that serve 17-18 year-olds. In contrast to vocational schools, which have received much attention from donors in recent years – and funding from the Asian Development Bank, the German government, the Dutch embassy and others – no aid agency has focused on students on the university track in the equivalent of grades 11 and 12. (In Pakistan’s education system, high school ends at grade 10: students that want to attend university must go to a two-year preparatory college first.)

This is somewhat surprising because students on the university track are more susceptible to joining extremist groups (according to the working group). They are also more likely to play important roles in politics or business if they receive the right training than those going to vocational schools. The 17-18 year old transition period is important to determining what path they choose and how they are to contribute to the country’s future, but it has been neglected.

Finally, the working group recommended that $30 million be invested in two projects related to the judiciary, both of which were touched on above. One would expand arbitration courts to new cities beyond Karachi and Lahore, where they operate now so as to quicken the pace of court cases and improve the overall functioning of the judiciary. The other would establish or strengthen training institutions specifically aimed at lower level judiciary officials that all too often receive little or no training today.

\(^{46}\) http://www.fastcompany.com/1695862/uk-launches-innovation-fund-for-international-development-and-aid
Table 3: Recommended projects given a $100 million budget

<table>
<thead>
<tr>
<th>Area</th>
<th>Amount</th>
<th>Programme</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Thinktank/IMOs</td>
<td>$10m</td>
<td>Endow two existing or new institutions</td>
<td>Instead of just funding projects, invest $5m to endow two institutions so they will have independence and capacity to build for the long term</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Recommend focus on one thinktank for the energy sector and one IMO focused on tracking and evaluating the quality of public services (the second being higher priority)</td>
</tr>
<tr>
<td>2) Education</td>
<td>$60m</td>
<td>Create an education innovation fund</td>
<td>Experiment with new management models, curriculum, teacher programmes, incentives, etc.; scale up those that work</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strengthen grade 11-14 colleges</td>
<td>These are for 17-20 year olds before university; aid going to technical/vocational schools now, but none going to this sector; these youth susceptible to extremism</td>
</tr>
<tr>
<td>3) Judiciary</td>
<td>$30m</td>
<td>Expand arbitration courts to new cities</td>
<td>Now just in Karachi and Lahore only (IFC funded)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strengthen judiciary training institutions</td>
<td>Expand coverage of these to lower level officials</td>
</tr>
</tbody>
</table>

**Conclusion: Strengthen a Governance-enhancing Ecosystem**

A much greater share of aid budgets should be spent on strengthening the institutions that play pivotal roles in influencing how the state works. Right now, these play a very small role on donor agendas even though they are the crucial drivers of how the Pakistani state performs in the long term.

Spending a much greater share of budgets than the current miniscule amounts on building the institutions – things like universities, thinktanks, rule of law watchdogs, citizen pressure groups, teacher training colleges and civil service academies – that empower citizens to manage their own affairs is likely to have the largest impact.

The greater the capacity to run a ministry, to build a company, to provide quality education, to organise NGOs and to hold officials accountable, the more likely it is that those in charge will do better – both because they will be more qualified and because those out of power will have a greater ability to monitor their performance.

Trying to change Pakistan’s political culture and government capacity indirectly stands a much better chance of success than past attempts to deal directly with these issues. Extensive research over the past decade shows how difficult it can be for outsiders to build better state institutions. Donor technical advice and tutoring have generally done little to foster better governance, though part of the problem may be with how the international community itself has attempted to help.
In contrast, building up local institutions that operate independently of the state and that aim to raise the number of high-quality human resources across a broad front ought to, over a long enough period, change the dynamics of how the state operates. Such a strategy also works better because it allows local people, who are much more effective in navigating the local terrain, to play leading roles instead of foreigners who often know little about the country.

Improving the quality of these institutions is especially important in Pakistan because the country suffers from a shortage of good ones. Few government workers get adequately trained, few IMOs effectively monitor state performance and few organisations exist to aggregate and leverage the political power of the masses of Pakistani citizens excluded from the current political framework. In addition, few NGOs can step in to replace the state where it is deficient.

The contrast with Bangladesh – the former East Pakistan – is illuminating. Whereas NGOs are considered highly influential in Bangladesh and a major factor in the country’s impressive social development gains in recent decades (partly because the government has been so inadequate), in Pakistan they are relatively weak and highly limited in their reach.

According to the Asian Development Bank, despite a generally positive government attitude, there are few Pakistani success stories in social development. The Canadian International Development Agency estimated a decade ago that ‘there are less than 100 effective NGOs in Pakistan’, and improvements since still leave many sectors and regions lacking.

Whether because of the country’s elite culture, ethnic and religious divisions or clan-oriented social structure (or some other unknown factor), NGOs outside of the business sector have rarely thrived in Pakistan. For example, the country has few thinktanks, IMOs and other entities that might monitor or advise the government despite having 180 million people. There are only four or five respectable thinktanks, none of any scale. IMOs are so uncommon that members of the working group could not identify a single one.

Although there are a number of institutions that prepare people for high-level jobs in the public and private sector, these are lacking in many respects. Government academies are outdated. Many believe the universities have declined in quality in recent decades, partly because of Islamist influence.

In any case, only one out of every 20 Pakistanis attends university, few of which provide the training in technology, engineering and agriculture that are likely to foster the kind of innovation Pakistan needs if it is ever to reform government and create wealth for its growing population.

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47 Asian Development Bank (ADB), A Study of NGOs – Pakistan (Manila: ADB, 1999)
48 ADB, A Study of NGOs – Pakistan
50 Interview with Pervez Houdbouy, January 2007
 Institutions that cater to lower level workers are in worse shape in many cases. There are few entities that train the hundreds of thousands of lower level people – including teachers, policemen and local officials – that staff the majority of government offices. Basic technical and mechanical skills training are in short supply. And there are few opportunities to upgrade the skills of those unable to gain white-collar employment.51

While Pakistanis must by definition be in the lead in establishing such entities, donors can play an important role catalysing such efforts. They have access to far greater resources and can bring together people and organisations from inside and outside the country in ways that domestic actors may not be able to do.

Such an effort promises – albeit over a long time horizon – to reshape the dynamics of Pakistan’s governance. Better politics will spur a more constructive state that can play a more constructive role in promoting broad-based development.

51 Wilson Center Working Group on Pakistan, ‘Aiding Without Abetting’
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