



REFORMS FOR
A BRIGHTER
FUTURE
TIME TO DECIDE

POLICY NOTE 8

STRENGTHENING INSTITUTIONS FOR EFFECTIVE IMPLEMENTATION

Towards Accountability and Transparency



WORLD BANK GROUP

TIME TO DECIDE:

Pakistan is at a critical decision point. “Muddling through” the current economic crisis, and continuing to avoid urgent, fundamental, and long overdue policy shifts will bring major costs and risks. If the political will for once-in-a-generation changes does not materialize, this crisis could “go to waste”, as many have before. The same old pattern of slow development and recurrent crises would be repeated, as climate and other shocks mount in severity and frequency.

Alternatively, the current crisis could be a turning point, if it leads stakeholders and decision makers to realize that the current model of development has failed, leaving a large proportion of the population behind.

At this critical juncture, and as a long-standing partner of Pakistan, the World Bank has a responsibility to recommend a set of fundamental policy shifts that we believe are required to durably change Pakistan’s development course. These policy notes outline required policy shifts and are intended to steer debate and build consensus around the urgent adoption of a new development framework. Recommended policy shifts would require those who have gained from the status quo to give up undue benefits, through eliminating distortions that favor a minority while muting broad-based growth, and mobilizing resources from the wealthy to finance much needed expansions of basic services for those most deprived (including education, health, and access to water). These changes would ultimately benefit all, leading to faster and more sustainable and inclusive growth and development, and allowing Pakistan to realize its potential to reach upper-middle income status by its centennial in 2047.

The World Bank, December 2023.

Towards Accountability and Transparency

Effective implementation of the reforms proposed in these policy notes will depend on addressing critical underlying institutional and governance constraints. These constraints include: i) perverse political economy incentives and elite capture, with policy decisions heavily influenced by vested interests, including those of military, political, and business leaders; ii) an incomplete devolution agenda that leads to overlaps and gaps in service delivery, increases fiscal costs, and blurs accountabilities; and iii) structural and institutional constraints in the public sector, including unclear or duplicative responsibilities and weak incentives for public sector performance. Institutional reform is a long-term challenge. Critical measures to strengthen accountability, counteract elite capture, and build the administrative capacity of government to deliver critical reforms and investments should be pursued. These include

- Reviving and strengthening institutions for effective national policy coordination between federal and provincial governments (including the Council of Common Interest and National Economic Council) to ensure policy coherence and effective implementation;
- Improving processes for public sector appointment, performance management, and tenure to enhance incentives for delivery;
- Enhancing digitalization and e-government to improve efficiency and reduce opportunities for corruption; and
- Increasing e-government transparency through improved availability of information and the establishment of performance targets for key government entities.

In parallel, the incomplete devolution agenda should be further progressed to strengthen local-level accountability. A clear vision for effective devolution should be developed and implemented, including through reforms to government financing and structure.



The Problem

Institutional constraints to implementation

This series of policy notes recommends a broad range of critical reforms for sustainable economic development. Effective implementation of these reforms will present a major challenge, in the context of important governance and institutional constraints. These constraints include:

- **Perverse political economy incentives and elite capture.** Pakistan's politics remains dominated by patronage, with political elites mobilizing support through the direction of regulatory concessions, public sector rent flows, and private goods to constituents and allies, rather than through improved service delivery and economy performance. Policy decisions are heavily influenced by strong vested interests (Kaplan, 2013; Husain, 2018; Hasnain 2008; Ahmad 2010). Critical reforms have limited prospect of effective implementation in a context where many policymakers are accountable to special interests rather than the broader public.

- **An incomplete devolution agenda.** Devolution can theoretically support effective reform implementation, by ensuring closer accountability linkages and feedback mechanisms between service providers and citizens. The 18th Constitutional Amendment saw a major devolution of service delivery responsibilities to provinces, presenting opportunities for stronger accountability. The devolution process has not been effectively implemented, however. Federal government continues to deliver many devolved functions, creating overlaps in service delivery, increasing fiscal costs, and blurring accountabilities. Financing arrangements are not informed by current service delivery responsibilities.¹ Fiscal arrangements (under which provinces depend heavily on federal transfers and important tax bases are split between provinces and the center) weaken accountability for revenue collection and complicate tax administration. While protected under the constitution, local governments have limited power or resources in practice. Local government appointments and budgets remain controlled by the provincial governments, leaving decision-making centralized in provincial capitals and Islamabad.
- **Structural and institutional constraints in the public sector.** The structure of government is extremely complex, while incentives for performance are often weak, limiting implementation capacity. Pakistan has around one million public servants across federal and provincial levels, spread across hundreds of departments, agencies, and State-Owned Enterprises (there are currently around 200 SOEs at the federal level alone, among around 340 autonomous agencies). The large number of government entities at federal, provincial, and local levels leads to continuous coordination problems, with unclear mandates causing overlaps and gaps in service delivery. Unclear or duplicative responsibilities undermine accountability. Performance management of staff is weak. Performance reviews are rare and incentives reward adherence to the rules rather than good operational performance. Promotions are largely based on seniority and informal networks, and do not ensure that those most qualified for leadership end up in senior positions. Rapid turnover of officials in senior government positions weakens institutional capacity and undermines continuity in reform implementation.

Opportunities for change

The current juncture presents potential for overdue reform. International evidence shows that institutional reform is a long-term process, heavily dependent on a conducive political context. While technocratic interventions are unlikely to transform Pakistan's institutional environment in the short-term, current contextual factors may present some windows of opportunity for positive change. These factors include:

- **Deteriorating economic conditions.** Current weak economic performance and the potential for continued macroeconomic crises present threats to the economic interests of elites. Recognition of the extent and severity of current challenges may broaden support for required economic and institutional reforms.
- **Demographic change.** Pakistan has a young and fast-growing population, with among the largest proportional youth populations in the world. A growing share of the population is urban, relatively educated, and insulated from traditional rural patronage structures. Recent research has argued that young urban voters are more likely to vote based on the perceived performance of government in effective economic management and service delivery, potentially strengthening political incentives for improved policy (Mahar and Malik 2021).

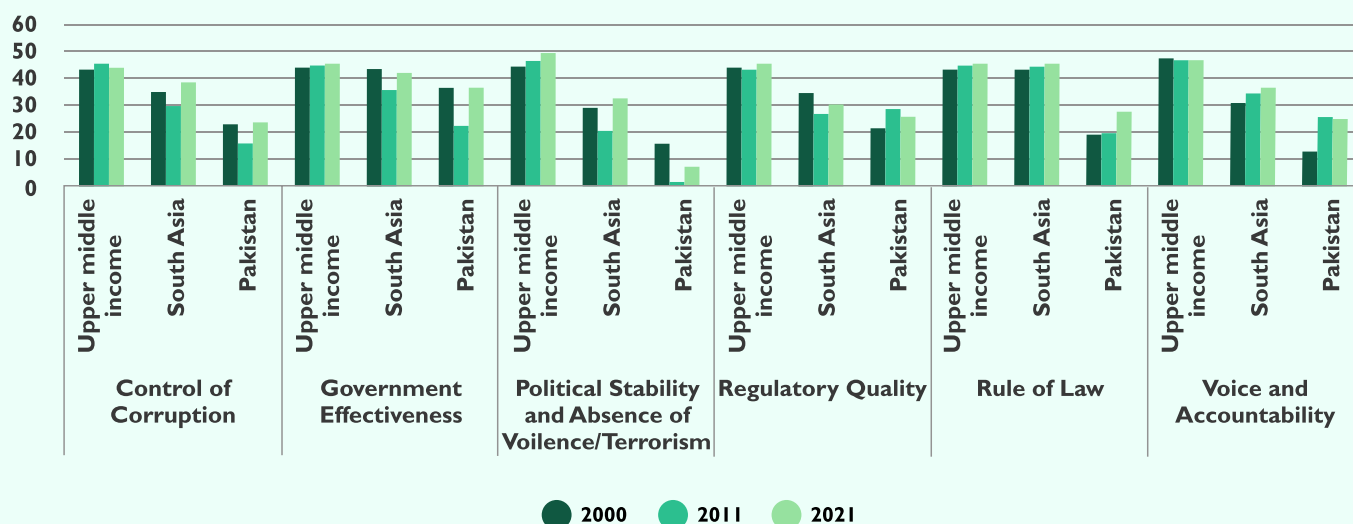
¹ The 18th Constitutional Amendment of 2010 allocated responsibility for almost all public services to provinces, along with control over all local government institutions. The center mostly retained functions relating to defense, foreign affairs, natural resources, electricity, communications, regulatory frameworks and cross border relationships of trade and finance. The Amendment also expanded the taxation powers of the provinces to include the sales tax on services, taxes on agricultural income, immovable property, estate and inheritance, and zakat and usher (religious taxes). The 7th National Finance Commission Award of 2009 increased the provincial revenue share from 47.5 percent to 56 percent in the first year of the award and 57.5 percent in the remaining years of the award. The NFC award also introduced a multifactor formula for horizontal distribution of resources to the provinces taking account of population, poverty, resource mobilization, and population density.

- Emerging technologies.** Pakistan has experienced rapid increases in access to digital technology and social media². Social media has become an important site for political and policy discourse. Recent analysis shows that economic issues were among those most frequently discussed by actively political social media users in the lead-up to the 2018 elections (Mir, Mitts, and Staniland 2022). Digital technologies, including social media, have been posited as an important mechanism for political awareness and mobilization, and as a tool through which the public sector can be held to account for service delivery performance (World Bank 2018).

Box: Pakistan’s institutional performance over time and in comparison

International indicators highlight Pakistan’s overall poor institutional and governance performance. World Governance Indicators, derived from a range of surveys and benchmark measures, show Pakistan ranked below the average for South Asia and Upper Middle-Income countries against all indicators. Pakistan is ranked in the bottom 3rd of all countries against five of six indicators. There has been mixed progress over the past two decades. While Pakistan’s return to democracy has driven an improvement in percentile ranking against “Voice and Accountability”, there has been relatively minor improvement against only two of the remaining five indicators since 2001. Other indicators and sources paint a similar picture. The World Bank’s Country Policy and Institutional Assessment data shows Pakistan performing slightly worse than the average for lower middle-income countries, with deterioration against two of three governance indicators since 2005 (“protection of property rights and rules-based governance” and “quality of public administration”), and only slight improvements in scores for “transparency, accountability, and corruption in the public sector”. Pakistan is currently ranked 140 th of 180 countries in Transparency International’s Perceptions of Corruption Index, with continuous declines in performance and rank since 2018.

Figure 1: World Governance Indicators – Percentile Rank for Pakistan and Comparators



² Pakistan now has over 194 million mobile phone subscribers and more than 124 million broadband subscribers (Pakistan Telecommunication Authority 2022). Pakistan had 37 million social media users in 2020. This included 36 million Facebook users and 1.26 million Twitter users. Users of social media tend to be younger, with 41% users are between (18 and 24) years and 36% people are between 25 and 34-years-old (Shafaq, Li, and Dong 2022).



Recommendations

Several measures should be prioritized to strengthen institutions and support implementation of critical reforms.

Immediate measures should be taken to improve coordination between different layers of government. Current constitutional arrangements require coordination on national policy between federal and provincial governments. Decisions made by the Economic Coordination Committee or the Federal Cabinet are no longer binding on the provinces. The Council of Common Interest and National Economic Council must therefore play a critical role in supporting national policy coordination and coherence. A National Council of Ministers, consisting of the Federal and Provincial Ministers working under the aegis of the Council for Common Interests (CCI) should formulate and monitor the implementation of key national policies, including in education, health, food security and agriculture, water and sanitation, and transport. Strengthened federal-provincial fiscal coordination should be pursued in parallel, including further efforts to harmonize tax policy and administration, and ensure the effective implementation of a national medium-term fiscal framework, in line with new federal and provincial fiscal responsibility legislation.

Processes for public sector appointment, performance management, and tenure should be improved. Implementation of public sector reforms is being impeded by the vested interests of senior bureaucrats in maintaining the status quo. Strong political leadership will be required to change incentive structures within the public service. Firstly, a Performance Management System (PMS) should be implemented across the public sector, under which public servants are assessed against the achievement of agreed performance indicators (linked to ministry functions under the Rules of Business), with performance assessment feeding into career progression, salary increases, and (in cases of persistent poor performance) early retirement. Secondly, security of tenure should be strengthened for all government officers, including secretaries. Any decision to remove a government officer from their position before the end of an appointment term should require a written justification, with the affected person provided the right to challenge this decision through an independent, formal process. Thirdly, recently introduced processes for the open, competitive appointment of Chief Executives to public sector agencies with critical economic and social functions should be strengthened and maintained. Chief Executive appointments should be safeguarded from political interference. Chief Executives should be provided with operational autonomy and a fixed tenure and held accountable for results against a set of clearly defined objectives and goals. Finally, in-service training of government officers should be strengthened to close important skills gaps, while recruitment should be recalibrated to focus on key relevant skills and expertise, rather than strong performance against the public service exam.

Digitalization should be implemented across government to increase efficiency and reduce opportunities for corruption.

- **Digitalization should be pursued to increase efficiency and reduce opportunities for corruption.** Pakistan has most of the prerequisites in place for an aggressive program of digitalization, including a national identity system covering nearly half of the adult population, significant penetration of smart mobile phones, many electronic data bases, computerized land records, automated banking apps, a vast fiber-optic network, and a burgeoning IT industry. Electronic platforms and e-service centers should be established to provide a single platform for all forms, clearances, NOCs, and seeking rulings.

Digital platforms should also be increasingly used for revenue administration, including the single GST portal, and to facilitate citizen feedback on government performance (e.g., teacher attendance) and submission and tracking of citizen grievances and complaints.

- **E-government should be accelerated to improve efficiency and effectiveness.** Existing efforts to introduce e-government at federal and provincial levels should be intensified and accelerated. Business processes should be revised to take maximum advantage of electronic systems and reduce the need for paper-based approvals. These revisions should empower secretaries, heads of departments, and district officers to take decisions without multiple clearances. Initiatives towards e-procurement should be pursued at provincial and federal levels.

Transparency should be significantly improved. Transparency is a critical tool for increasing the accountability of policymakers to citizens. Government agencies should be required to establish and report against service standards and outputs, including in budget documentation. Audit capacities across government should be strengthened, including increased use of performance audits. Further progress should be made with the publication of government financial information, including in-year budget reports, external audit reports, reporting on guarantees and contingent liabilities, and the audited financial statements of SOEs. Revised manuals, rules, regulations, statutory orders, circulars, guidelines, and codes should be published on the websites of public sector entities. Cabinet meeting minutes and proceedings should be made public, except in specific cases where there is a strong public good rationale for confidentiality.

Combined, these measures can help to strengthen accountability and counteract elite capture, while building the administrative capacity of government to deliver critical reforms and investments. These measures may also have important impacts on private sector confidence and investment, by improving the quality of public services, addressing policy instability and corruption, and better aligning policies with the interests of citizens and firms.

In parallel, a clear vision for effective devolution should be developed and implemented, including through reforms to government financing and structure.

The following steps should be taken:

- **Develop a clear vision for decentralization.** The design of any decentralized system, including expenditure, tax and revenue assignments as well as transfer of functions and tax instruments, depends on the agreed objective of the reform process. The first step in reviving Pakistan's decentralization agenda should be to develop a common/joint vision of decentralization, potentially including maintaining national unity, increasing accountability of service providers, or better tailoring service provision to the demands of citizens. This vision is required to inform the further decentralization process, including at the local government level.
- **Build consensus around technical implementation arrangements.** An appropriate constitutional body (likely the Council of Common Interests) should develop an implementation plan based on the agreed vision, through a consultative process with broad public participation. This plan should provide: i) clear and mutually agreed division of responsibilities between federal, provincial, and local governments; ii) arrangements for tax devolution, grants, and subnational revenue collection to ensure that each level of government has adequate resources to finance its respective responsibilities (based on costing of service delivery responsibilities and assessment of revenue potential at each level, and likely necessitating revisions to the 7th NFC award); and iii) an assignment of functional responsibilities for implementation.
- **Empower local governments in accordance with assigned responsibilities.** Devolving administrative autonomy, finances and expenditure responsibilities to elected local governments is necessary to enhance accountability.

A legal framework establishing LGAs and defining their functions needs to be developed. Provincial finance commissions must be strengthened ensure greater fiscal autonomy of LGAs including strengthened powers of resource allocation and revenue collection. Mechanisms to enhance local-level accountability must be established, for example through community-based consultations, deliberations, and participation in decision-making.

- **Restructure and streamline government agencies to address overlaps and redundancies.** Federal and provincial departments that are already redundant or would become so under the proposed devolution to the local governments should be abolished. The recent exercise to rationalize federal autonomous bodies and attached departments, corporations, companies, councils, institutes, subordinate offices at the Federal Government should be repeated in line with newly delineated responsibilities and fully implemented; and duplicated at the provincial level. Federal spending on provincial mandates, including through the government ministries, vertical programs, and the development budget, should be ceased, delivering significant potential fiscal savings (see Policy Note 7: Rationalizing government expenditures).

ABOUT THE “REFORMS FOR A BRIGHTER FUTURE” POLICY NOTES:

“Reforms for a Brighter Future” is an initiative of the World Bank, aimed at fostering debate and dialogue on critical economic development policy issues facing Pakistan. Further information is available from the WorldBank Pakistan website at <https://www.worldbank.org/en/country/pakistan/brief/reforms-for-a-brighter-future-time-to-decide>. This note was prepared by Tobias Haque (Lead Country Economist) with inputs from Ishrat Husain (Consultant) and Akmal Minallah (Senior Financial Management Specialist).