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2015 On Post-MDG International Development Goals

Development Policy Failure in Pakistan
Institutional and Governance Challenges

Shehryar Khan Toru

DEVELOPMENT POLICY FAILURE IN PAKISTAN
Institutional and Governance Challenges

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Preface

The *Southern Voice on Post-MDG International Development Goals* works as an open platform, and is a network of 48 think tanks from Africa, Latin America and Asia that seeks to contribute to the global post-2015 dialogue. Motivated by the spirit of wide academic inquiry, the initiative is committed to provide quality data, empirical evidence and policy analyses, derived from research in the countries of global South. Through strategic engagements, *Southern Voice* aspires to address the existing 'knowledge asymmetry' and 'participation deficit' afflicting the global discourse on post-2015 agenda.

With these goals in mind, *Southern Voice* launched a call for papers among its members to inform the global debate based on promoting original research on new issues that have emerged from various reports, structured conversations concerning the post-2015 agenda as well as from the discussions around them and beyond. Eleven research grants were offered during this phase.

In response to the call, we received numerous proposals which were reviewed by *Southern Voice* members. The research papers were also peer reviewed, and the revised drafts were later validated by the reviewer.

The resulting collection of papers highlights some of the most pressing concerns for the countries of the global South. In doing so, they explore a variety of topics including social, governance, economic and environmental concerns. Each paper demonstrates the challenges of building an international agenda which responds to the specificities of each country, while also being internationally relevant. It is by acknowledging and analysing these challenges that the research from the global South supports the objective of a meaningful post-2015 agenda.

In connection with the ongoing debates on post-2015 international development goals, **Development Policy Failure in Pakistan: Institutional and Governance Challenges** by *Dr Shehryar Khan Toru*, Research Fellow, Sustainable Development Policy Institute (SDPI), Pakistan examines the determinants of policy failure in Pakistan through governance and institutional lenses.

Contributions of *Ms Andrea Ordóñez*, Research Coordinator of the initiative and *Ms Mahenaw Ummul Wara* (Research Associate, Centre for Policy Dialogue (CPD) and Focal Point at the *Southern Voice* Secretariat) in managing and organising the smooth implementation of the research programme are gratefully acknowledged.

I would also like to thank *Dr Muhammed Muqtada,* Former Director, Policy Planning Employment Sector, International Labour Organization (ILO), Geneva, for peer reviewing, and *Dr Oliver Turner* for copy editing the paper. I would like to take this opportunity to recognise the support of Think Tank Initiative (TTI) towards *Southern Voice*, particularly that of *Dr Peter Taylor*, Programme Leader, TTI.

I hope the engaged readership will find the paper stimulating.

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Abstract

This study attempts to understand the determinants of development policy failure in Pakistan through governance and institutional lenses. By adopting a framework proposed by North *et al.* (2009), the analysis suggests that Pakistan is a state characterised by the elite-capture of state resources, patron-client relationships, and rent-seeking obligations and objectives. However, despite these characteristics formal institutions remain intact. The study further notes that development policies fail in Pakistan because the state and society do not operate according to the principles of modern Western rational states. The study employs qualitative research tools, such as key informant interviews with the leading political experts, politicians and bureaucrats with ample experience and exposure to policy making and implementation.

Contents

Acronyms

FBR	Federal Board of Revenue
IFI	International Financial Institution
IMF	International Monetary Fund
LAO	Limited Access Order
MDG	Millennium Development Goal
MNA	Members of National Assembly
MPA	Member of Provincial Assembly
NIE	New Institutional Economics
OAO	Open Access Order
SRO	Self-Regulatory Organisations
UN	United Nations

Development Policy Failure in Pakistan
*Institutional and Governance Challenges**

Shehryar Khan Toru

1. Introduction

The basic purpose of this study is to investigate the institutional and governance dynamics and sources of development policy failure in Pakistan. The theoretical setting is borrowed from the New Institutional Economics (NIE) line of thought broadly, and from a collaborative framework proposed by Douglass North, John Joseph Wallis, Steven B. Webb and Barry R. Weingast in particular. These authors present a model which they claim is a radical departure from the previous models of institutional change in developing countries. The central premise of the framework is that the socio-cultural dynamics of developing countries differ considerably from those of developed ones. According to Khan (2003) the development agendas and experiences of developed countries have not paid sufficient attention to institutional and political capacities in developing countries. Leftwich and Wheeler (2011) argue that formal institutions and the policy environment in developing countries must be understood through political processes and coalitions. Their key point of departure is the interplay between formal and informal institutions. These ideas and perspectives at an abstract level suggest an understanding of the failure of institutional reforms in developing countries with reference to the social order within which they are embedded. This paper is divided into three sections. The first section provides a brief description of the framework proposed by North *et al*. It outlines the characteristics of Limited Access Order (LAO) and Open Access Order (OAO), and focuses on the former as a continuum. The second section reviews the literature related to the framework, as well as that on policy failure and discrepancies. The final section presents research methodology, analysis and conclusion.

2. Introduction to Social Orders

North *et al*. (2009) propose a framework that attempts to explain policy failure in developing countries on the basis of socio-cultural and institutional characteristics of states. They categorise the entire history of human kind into three social orders of a self-sustaining and internally consistent nature: primitive order reflective of hunter-gatherer societies. The next, LAO is primarily characterised by limited access to political and economic resources and creating economic rents[1] distributed amongst powerful groups and individuals. In LAO states, rent-seeking activities, obligations and patron-client relationships are sustained by limiting competition among political parties and civil society organisations on the one hand, and the formation of perpetual organisations on the other. OAO states are characterised by open access to organisations, the rule of law and competition. These social orders are described in more detail below.

2.1 Limited Access Order (LAO)

The ultimate objective for the survival of a society is to establish peace by avoiding violence. Societies in LAO states tackle internal and external threats of violence by allowing individuals and groups with the potential to commit violence to form a dominant coalition. Participation within this coalition is, thus, restricted to the elites with political and economic resources. The major

[1]Rent creation does not simply mean distribution and controlling of resources in LAO states; it is an essential means of controlling violence (North *et al*. 2009).

objective of this coalition is to create rents and refrain from exercising violence, which would limit the potential for rent creation. Hence, the LAO is mainly characterised by the following dynamics:

i.   Limited access to resources
ii.   Coalition building among elites
iii. Patron-client relationships among the dominant coalition
iv.   Rent creation as the prime objective

Access to political and economic resources, such as land, labour, capital, contract enforcement, property right enforcement, trade, worship, education, and the capacity to form organisations (such as corporations, labour unions, political parties and civil society organisations) is kept limited to societal elites. These elites form a coalition which operates along the principles of cooperation and patron-client relationships. The major purpose of the dominant coalition is to create rents and maintain the *status quo*. Rents are created through the controlled allotment of resources and economic/political privileges to individuals and groups within the coalition. The limited access to organisation formation and contractual enforcement is an important characteristic of LAO states, which generates rents through exclusive privileges and enhances the value of privileges by making elites more productive through their organisations (North *et al.* 2007). Rent creation is central to LAO societies, keeping the coalition intact by forcing elites to make credible commitments to one another, thus supporting the prevalent regime (North *et al.* 2009: 73). This is particularly a function of the personal identity of elites. For instance, organisations in fragile natural states are usually tied to powerful individuals. But, "as societies move towards basic natural states, these identities become less associated with specific individuals and more with social personas that become associated with powerful organisations and coalitions."

Rents are directly associated with the stability of the coalition, which in turn, depends on access to rent creation opportunities. The targeted distribution of rents keeps the coalition together, where elites are motivated enough to stay loyal to the system. The coalition functions on the principles of patron-client relationships. This arrangement creates a degree of social equilibrium which prevents disorder and limits violence, and thus, keeps the society functional. Therefore, institutions under LAO are not malfunctioning but are actually operating normally in the context of developing societies. Appreciation of LAO as a valid and functional social order is crucial in understanding the argument of policy failure under this framework. North *et al.* (2009) outline three processes which indicate the maturity of an LAO state, hence identifying its rationale as a functional order:

1.   Bringing all (or at least many) of the organisations with violence potential into relationship with each other, thus giving them the incentive to minimise actual violence.
2.   Increasing the scope of relationships in which the rule of law is effectively maintained.
3.   Increasing reliability over time with which the state provides support to the organisations and enforces agreements between them.

The LAO is not explicit in nature. Rather, it should be considered as a spectrum. North *et al.* (2009) divide this spectrum into three categories: fragile LAO, basic LAO, and mature LAO. These stages, again, are not distinct but a continuum of societies with different organisational structures, violence-control mechanisms and rule-enforcement efficiencies. In the fragile LAO, the dominant coalition of elites is weaker and thus struggles to control violence both internally and externally. Heavily conflict-ridden, less developed countries fall into this category. These may include Iraq, Afghanistan, DR Congo, Haiti, etc. This stage is characterised by the presence of a government as a distinct organisation, but one which fails to maintain a monopoly over violence. All factions within this coalition have direct access to violence and this capacity is the sole determinant of the distribution of rents and resources.

In contrast to the fragile LAO, the basic LAO has a wider variety of institutional arrangements and stronger, more durable and formal governments. Sanctioned organisations in the basic LAO are

mainly factions of the state itself. One-party states, such as Soviet bloc countries, North Korea, Mexico, Cuba, etc. fall into this category of LAO. Access to rents is transferred to the lower levels of the elite, allowing competition among them. The dominant elite—in most cases, the army—ensures that no organisations grow strong enough to pose a threat to the *status quo*. The violence capacity is spread among state organisations (police, secret services, military, etc.), thus ensuring rent accumulation through corruption, threats and monopolies. The mature LAO stage has comparably higher institutional durability with the characteristic of limited competition where the state supports most organisations. However, the right to organisation requires the approval of the state, and this is how the dominant coalition creates rents and maintains the *status quo*. Wealthier countries such as China, India and Brazil, are some examples of mature LAO states.

2.2 Open Access Order (OAO)

An understanding of OAO is supplementary to an understanding of LAO. The states under OAO operate along the principles of political competition, centralised control of violence, and distribution of power across society. The policy failure rationale suggests that the development agenda of OAO is incompatible to the institutional forms and systems of LAOs. In OAO, the rule of law maintains control over violence, the military and the police service, and other organisations are not allowed to practice violence. The sustainability of OAO is ensured by the organisation, reorganisation and reformulation of socio-economic and political groups who defend their interest by acting as pressure groups to government policies and change (North *et al.* 2011). Unlike LAO, the entry to economic or political organisations is open to all citizens and the state does not control or distribute economic resources. Hence, resource manipulation and restricted access is absent in OAOs. The following Table, adopted from North *et al.* (2011), summarises the difference between LAO continuum and OAO in terms of the nature of economic and political organisation and capacity of violence.

Table 1: Features of LAO and OAO

Type (Examples)	Economic Organisations (EOs)	Political Organisations (POs)	Violence Capacity (VC)
Fragile LAO (Afghanistan, DR Congo, Haiti, Mozambique 1980s)	- EOs and POs are not clearly distinguishable, except perhaps for multi-national firms present in fragile LAOs		- All organisations have VC. Civilian and military not clearly distinguished
Basic LAO Autoritarian (USSR, Korea with military government, Mexico 1940s-80s)	- All major EOs public or 'private' are linked with the central state; some are linked with multi-nationals	- Most POs are controlled by the state, e.g. one-party state or dictatorship. Opposition parties are under threat	- Most VC organisations are part of state, yet some may compete with or threaten the civilian state
Basic LAO Competitive Clientelist (Philippines, Bangladesh and Zambia, since early 1990s)	- Some private firms, some multi-nationals - Political connections needed for major economic success	- Competing POs, but effective power is dependent on central permission	
Mature LAO (Mexico since 1990s, Chile since 1990, India, China)	- Many private firms and multi-nationals - Political connections needed for major economic success in face of informal mechanisms of limits	- Multiple POs, but effective power is dependent on central permission - Democratic process, if present, cannot challenge major economic powers	- State controls almost all VC
OAO (Western Europe, USA, Canada, Japan, S Korea since 2000?)	- Most are private - Non-discriminatory rules for any citizen to start an EO and get state legal support	- Non-discriminatory entry rules for any citizens to start or join a PO	- No non-state organisations have VC

Source: North *et al.* (2011).

3. Literature on Policy Failure

This section engages with existing literature that deals with the reasons of policy failure. In doing so, it has two primary aims:

1) To relate the conceptual framework of North *et al.* (2009) to different schools of thought in Institutional Economics.

2) To review the literature on the determinants of development policy failure and to identify conceptual discrepancies in existing approaches.

3.1 Political Economy Literature

North *et al.* (2006) claim that their framework is closely related to the political economy literature in four particular discourses: New Institutional Economics (NIE), Economic Development, Economic History and Political Development. The framework draws upon, and extends from, the fundamentals of the theory of state[2] within the NIE literature. The understanding of the state has been conceptualised as an organisation which allows articulation of the interaction of politics and economics. Further, the arguments surrounding the formation of cognitions and beliefs proposed by North (2005) and Grief (2005) is also considered. Moreover, the quantitative dimension of the economic development literature relates to the framework where institutions are credited as important explanatory variables for long-term growth. In addition to the quantitative studies, there are three major characteristics of the framework supported by the development literature: institutions and credible commitments;[3] mechanisms of power sharing among elites and transition from Limited to OAO[4] and the justification of a limited access state as a functional social order, and also transitional difficulties in the social order.[5] Also, wide arrays of approaches[6] within the economic history literature, which explore the development dominance of Twentieth Century Europe, identify similar characteristics to those proposed by the North *et al.* framework. These characteristics include: the presence of economic as well as political competition; the presence, character and enforcement of property rights and institutions; the autonomy of organisations; and a transfer from the culture of personal exchange towards impersonal exchange. Finally, Acemoglu and Robinson (2005) points to the logic of pluralist societies, and argue why power should be more evenly distributed between elites and the wider population.

3.2 Determinants of Policy Failure

Development policy failure has been a key focus of development debates. A number of explanations have been suggested from various disciplines, identifying a wide range of political and practical factors embedded in the conception and implementation of policies. For instance, economists propose an absence of incentive structures[7]; political scientists identify the entrenched interests of various political groups[8]; and organisational theorists put forward frameworks which draw on the institutional conception of social life.[9] These institutions are defined as "...the humanly devised constraints that structure political, economic and social interaction" (North, 1991: 97). These constraints are divided into formal constraints entailing constitutions, laws, property rights, etc. and informal constraints involving sanctions, taboos, customs, traditions and codes of conduct (North 1991). The determinants of development policy failure, as identified in the institutional literature, could be broadly conceived and divided into two sub-categories: formal and informal institutions.

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[2]North (1981, 1990), Olson (1982, 1993), Levi (1988) and Barzel (2001).
[3]North and Weingast (1989), Levy and Spiller (1994) and Acemoglu and Robinson (2005).
[4]Acemoglu and Robinson (2005).
[5]Acemoglu, Johnson and Robinson (2002) and Engerman and Sokoloff (2005).
[6]Landes (1999), Jones (1998), Rosenberg and Birdzell (1987), North (1981, 1990, 2005) and Grief (2005).
[7]Friedman (1982), Le Grand (2003, 2006) and Snower (1993).
[8]Buchanan and Tullock (1962), Coleman (1990) and Niskanen (1971).
[9]March and Olsen (1996) and Powell and di Maggio (1991).

The majority of the literature focuses on formal institutions, and therefore, presents the formal institutional determinants of policy failure. For example, Lijphart and Waisman (1996) identified differences in power structure among legislative and executive branches, and the differences created by the distribution of power in parliamentary and presidential political systems, as important affects upon the fate of a policy. Other institutional factors such as the number of political parties and internal party discipline have also been argued to affect the outcome of a policy (Brooks, 2000; Corrales, 1998; Murillo, 1998).

On the other hand, a recent approach[10] focuses on "socially sanctioned norms of behaviour"[11], and identifies the informal institutional determinants of policy failure. Informal institutions are defined as "socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels." These institutions are self-enforcing in nature and controlled through the mechanisms of obligation, for instance in patron-client relationships or clan networks where cooperation ensures positive gains for all individuals involved (Helmke and Levitsky, 2004). It is argued that through these networks/relationships, individuals can influence access to organisations, i.e. policy making circles, and therefore establish hegemony over institutions enabling them to manoeuvre policy direction and outcomes according to their personal agendas.[12]

Reflecting on how state actors in Latin America influence policy, Grindle (2004) assessment of education reforms in Latin America during 1990s, points to the teachers' union's assumption of education ministry control, advocating a strong resistance to policy change. Teacher unions were found to have developed close alliances through informal institutions. Wallis (1995) calls this alliance a "conspiratorial network" which determines the leadership of a policy, thus shaping its direction and outcome. Wallis (1995) further identifies how strategies involved in such coalition building, communication and legislative relations transpire into manoeuvring change. Moreover, a study by Adams (2000) performed on different social groups situates social and political interest as key determinants of policy reforms or resistance to them. The differing impact of the policies on these social groups is claimed to be central to the success or failure of a policy, as each group attempts to maximise its own gains. Rodrik (1996) and Fernandez and Rodrik (1991) argue that uncertainty associated with the distributional effects of a policy change reinforces the established *status quo*. Since the advocated policy change may have the potential to jeopardise their hegemony over resources, elites will resist reforms. The incentives driving such a manipulation of institutions and policies are explored in the literature focusing on rent-seeking activities.[13]

Hence, the literature presents a variety of determinants, ranging from formal institutional factors to informal socio-political ones, including the structural as well as behavioural contributors to policy failures. However, these determinants reflect a static approach of enquiry by focusing merely the effects of institutions. Similarly, the empirical evidence also suggests a limited and somewhat redundant number of reforms for virtually all dimensions (i.e. economic, health, agriculture, etc.) of development policy. For instance, in the economic dimension of development policy, Rodrik (1996) reviews the political economy literature of the policy reforms and identifies the "appropriate economic strategy" advocated by this literature. Rodrik notes that this strategy comprises successful economic institutional practices of developed countries[14] which are prescribed for developing countries alike. This framework of policy suggestions has evolved from the Washington Consensus, to the Post-Washington Consensus, to Development Policy Lending. However development policies

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[10]Helmke and Levitsky (2004).

[11]Jütting and de Soysa (2006).

[12]Haggard and Kaufman (1995), Evans (1995), Bates and Krueger (1993) and Nelson (1990).

[13]Fischer (2006) defines rent-seeking activity as "implying the expenditure of scarce resources, to cause and capture artificially created rents as well as transfers which are not part of society's intended income redistribution." See Mbaka and Paul (1989) and Kimenyi and Mbaka (1993) for further relevant discussion.

[14]These practices can be categorised into the following principles: (i) liberalisation-micro-economic reforms designed to open and free up markets and reduce and rationalise the role of the state in the economy; (ii) stabilisation-macro-economic politics designed to reduce debt and control inflation.

have been formulated according to the experiences of developed countries all along. This can also be seen in other dimensions of development policy, indicating a lack of appreciation for the differential socio-cultural and political dynamics between developed and developing countries. Mills *et al.* (2006) claims that this tendency to apply the development policies of richer countries to poorer countries represents a key weakness of current development discourse.

Addressing the shortcomings of contemporary institutional approaches to the analysis of policy failures, Clay and Schaffer (1984) claim that they have been 'dichotomous linear' in nature. Steinmo *et al.* (1992) endorse this claim by identifying a lack of dynamism in the institutional analysis of policies. Steinmo *et al.* (1992) further argue that institutional approaches have been successful in explaining different policy trajectories across countries. However, they lack explicit theorising which could enhance the reciprocal relationship of institutions and politics. This endogeneity of 'institutions' is confronted in the 'dynamic constraints' model of Thelen (1991). In this model, the strategic manoeuvring by political actors within institutional constraints also influences the institutional parameters in which their interactions occur. Thelen therefore incorporates the endogeneity of institutions by considering them as a dependent variable. Based on the forgone arguments, the literature on institutional approaches to the analysis of policy failure is limited in its conceptual focus. There exists a lack of appreciation of social history and cultural dynamics which, jointly, can explain the evolution of institutions and organisational choices.

3.3 Institutional and Governance Framework

The framework of North *et al.* (2009) provides a useful context to understand the gap between institutions in Pakistan (and comparable South Asian societies) and the organisations which make up the institutions. According to Greif (2005), institutions involve more than "explicitly written rules." They also include the informal norms of social behaviour, beliefs and practices. For instance, a political party in Pakistan may resemble a formal organisation, competing and participating in elections. However, in reality its institutional structure may resemble an organisation in which political leaders and followers are bound in multiple tiers of relationships, exemplifying multi-period personal favours and obligations. So the political class in South Asian societies may find it difficult to separate itself from an institutional culture, as it involves the means of securing and exercising power over the rest of society. Therefore, reforms or policies aimed at improving governance in developing countries are often difficult to implement because the 'mechanisms'[15] of 'institutional forms'[16] in LAO and OAO operate differently.

It is acknowledged that although the framework of North *et al.* is useful, it has certain weaknesses. For instance it does not offer an insight into governance problems arising from the problematic practices between politicians, bureaucracy and the rest of society. The analysis of governance is often performed at the formal organisational levels, such as local governments, the police, the judiciary and the civil service. Less emphasis is laid on the informal practices of public officials and behavioural inconsistency with formal rules and expected official behaviour, and on the question of permeability.[17] They have also not considered that open, limited and basic access orders do not essentially move in a perfect continuous order for an ex-colonial society like Pakistan. Here it is pertinent to briefly engage with the thesis of Alavi (1972). In the post-colonial state of Pakistan, the development processes of the institutional framework are more complex. The apparatus of the state after independence did not only consist of the three properties classes—namely, the indigenous class, the metropolitan class and the feudal class—but also included a civil-military oligarchy, which assumed effective command in October

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[15]The 'mechanisms' represent the interplay between the formal and informal institutions (North *et al.* 2007).

[16]According to North *et al.* (2007), 'institutional forms' are the formal explicit institutional arrangements such as the written constitution.

[17]Permeability, in governance terms, refers to a process whereby formal state authority is subverted by competing logics and private interests, and as a result, the formal rules of governance and public decision-making processes are circumvented.

1958. The central issue in the articulation and sharing of power is that the three propertied classes did not directly influence the relatively autonomous role of the Pakistan state. From its inception the state had established an independent material base, and enjoyed an autonomy which was vested in the interests of state bureaucracy and the military. Alavi maintains that such autonomy was a distinctive feature of the post-colonial state apparatus, as it was over-developed and exercised command over the rest of society. The position of relative autonomy to which Alavi draws attention thus has a two-fold explanation: one relates to the legacy of an 'over-developed' bureaucracy in relation to political and civil society institutions; the other relates to three competing propertied classes (i.e. not one dominant class controlling the state in its own interest). These two explanations became reinforced by the significance of the military, which was established to subordinate the indigenous classes rather than to serve them. The metropolitan class emerged as a strong player in mediating the role of the state by forging alliances with civil bureaucracy. It was able to intervene in state politics and policies because of the civil-military cooperation and its ability to bring other ruling elites, factions and landlords under its influence and control.

4. Research Methodology

This research aims to test the North *et al.* (2009) framework in the context of Pakistan. The research is designed to answer three primary questions:

i.   What is the policy making process in Pakistan?
ii. Is Pakistan a limited, natural or basic access state?
iii. Do development policies fail in Pakistan because they follow an OAO development agenda?

The first question establishes the context of policy making in Pakistan. The remaining questions are explored by adopting the North *et al.* hypothesis. The research is entirely based on qualitative research methods. The qualitative aspect is preferred due to the difficulty of quantifying major institutional and socio-economic concepts which are the basis of this framework. Also, the data on certain concepts, e.g. rent-creation behaviour, patron-client relationships, coalition building and limited access, is almost impossible to attain over a short timeframe.[18] The research employs the purposive sampling method instead of widely used random sampling preferred by quantitative studies. Purposive sampling identifies the respondents on the basis of exposure to policy making and its political dynamics in the context of Pakistan. The sample involves ten respondents across varying categories: politicians (3); bureaucrats (5); and political experts (journalists) (2). Data was gathered through interviews built around a short questionnaire which consisted of ten open-ended questions, along with relevant prompts to get in-depth information on key policy issues. The questionnaire is divided into three areas: i) the policy making process in Pakistan; ii) the institutional characteristics of policy; iii) development policy failure in Pakistan. All interviews took place in the offices of the respondents. The duration of interviews ranged from one to two hours which were audio-recorded and subsequently transcribed.

5. Analysis of the Responses

5.1 Policymaking Process in Pakistan

This section broadly examines the policy making process in Pakistan. Under the policy making process, we particularly explore the underlying reasons for conflict between 'welfare-oriented policies' and 'vote-oriented policies.' The presumption is that policy making can make a huge difference in improving or changing the social and economic conditions of the people. With this presumption, education, health and economic policies are formulated and implemented. In the policy making process, state institutions, specific agencies (central and provincial), bureaucracy

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[18]Time constraint has been the major limitation in pursuing this kind of research, as it involves carrying out in-depth interviews with political leaders and policy elites.

and political elites are involved. In a classic policy premise, a theme is selected and resources are allocated. For instance, the problems of malnutrition, unemployment or rural poverty imply the need for solutions. Moreover, one of the dominant themes of policy is the target group, such as the poor, landless farmers, vulnerable segments of society, and pre-school children. After proclaiming policy characteristics, institutions and stakeholders, the intention is to analyse what political and quasi-political governments do, and to explain the real intentions behind the policy making process. In the following paragraphs, a generalised picture of the policy making process is presented. This picture is useful for understanding the concerns of the political elite and decision-makers, and the political economy of development policies in Pakistan. Generally, the policy making process is quite complex and performed at different levels. Policies are conceived at the federal and provincial levels. In the existing political milieu, and in the absence of local governments, there is no wider consultation with local people and state officials, deputed at district and sub-district levels. Contrary to democratic traditions, after casting a vote the common man has no role in policy making. People are not consulted when development policies are crafted or implemented, a general perception among the people interviewed. As a consequence, policy makers in Pakistan face a set of information, demographic and economic challenges in crafting development policies. According to one state official, "the policy making in Pakistan has structural roots in the colonial past and is still not different from the distant past." This observation is consistent with the findings of Grindle and Thomas (1991: 51): "Despite variations among regions and countries, most developing countries had centralised political systems imposed on them from outside for significant periods of their history." The centralised nature of policies tends to increase the power of the government to determine priorities far detached from the notion of economic rationality. In Pakistan, policies are not based on sound and technical calculations, exhibiting the attributes of rationality in taking decisions. Instead, political elites such as the Chief Ministers, Members of National Assembly (MNA), Members of Provincial Assembly (MPA) and Senators determine the course of policies in terms of funding projects, which in turn, enable them to strengthen their political standing. Across state institutions, the capability of state bureaucracy has also declined over the past few years, resulting in the political capture of policy making processes in the country. Commenting on the erosion of civil bureaucracy in the country, one politician remarked, "There is no concept of specialisation. In our bureaucratic structure, there is no room for specialisation. Policy making usually takes place within bureaucratic structures. The policy making system in Pakistan is destroyed due to political interventions."

A similar argument is made in the State of Governance Report 2008 published annually by the Institute of Governance Studies at BRAC University in Bangladesh. Through primary research on different aspects and problems of governance, the report in the context of Bangladesh places particular emphasis on political parties' direct intervention in government institutes for private gains. Policies in Pakistan are determined through political motives and interests. For instance, the Metro Bus Project in Islamabad was executed by the political government at a cost of Rs 44 billion. The metro bus decision not only bypassed the Planning Commission, but has also created, amongst others things, a precedent of ignoring environmental concerns and consultations with the people likely to be affected by the project. Thus, the policy making process ignores collective and societal interests. The policymaking process also reflects heavy dependence on donor agencies such as the International Monetary Fund (IMF) and the World Bank. Development policies are often financed and dictated by these institutions because of weak policy framing and implementing capacity. The state institutions' inability to craft long-term policies provides 'policy space' to donors which results in a clash of priorities. Commenting on policy and capacity building, a senior bureaucrat mentioned that:

> "There is a scarcity of long-term policies. Up until now, the government is not paying attention to education. When the government is not working efficiently, the policy space is occupied by donor agencies. As a consequence, a conflict of interest arises because the government has other priorities and the donors have their own priorities. Clash of interest has led to heavy losses in the education sector. As a consequence, we end up wasting resources without claiming any results. Our main problem is not

> capacity building. Capacity building is the easiest way to waste resources. We have spent 5 billion Rupees of donors' money on teachers' training. In fact, 90 per cent of the total sum is used on their travel allowance and food."

Training is an illusion as the state officials undergo the process for financial reasons; they add nothing substantial to official norms.[19] In other words, once the training is finished the civil servants return to their desks and perform 'business as usual'.

The political economy of policy making in Pakistan reveals a conflict of interest between 'vote-oriented policies' and 'welfare-oriented policies.' In well-functioning democracies, welfare-oriented policies are crafted to generate solutions to the problems faced by society. Under the pre-conditions of democracy, political actors and policymakers develop welfare-oriented policies. In Pakistan, policy making implies a conflict of interest embedded in partisan politics, permeated into state institutions due to political interests and powerful 'business mafias' acting in cooperation with political leaders. The conflict of interest arises in two strands. The first, concerning 'vote-oriented policies', is a good conflict of interest because the conflict is not attached to the pre-conditions of voters and to the political leaders' individual, factional or group preferences. The second strand is associated with the political leaders' 'personal interests' which manifest in the form of patron-clientelism, commonly understood as "the use of public resources in particularistic and direct exchanges between clients and party politicians" (Muller, 2006: 189). Clientelistic exchanges between politicians and voters enable both parties to accrue benefits and promised goods. In other words, politicians devise policies which benefit particular voters and groups in their constituencies. Patron-client politics are generated by politicians and civil bureaucracy, depending on the nature of interest. Politicians adopt patron-client strategies which enhance personal wealth and political standing. For instance, development projects may be well-conceived, but in practice, politicians 'change the scope of work' to benefit their voters. Thus, policy preferences are aligned with specific projects and distributive policies which ensure the candidacy of politicians in the election or re-election. In crafting policies, civilian bureaucracy is also not immune to patron-client politics. One Member of Parliament noted that:

> "The conflict of interest is equally rife in the civil service because the civil service is politicised from top to bottom. We are no longer dealing with additional secretaries and chief secretaries. In fact, we are dealing with their person and our person. Because the person on the top is working for his own interest so everybody in the chain is following him. The obvious form of intervention in policy making is Self-Regulatory Organisations (SROs) issued by the Federal Board of Revenue (FBR) on a regular basis. If two are issued on the will of the politician, ten are issued through bribes.[20] I have proclaimed on TV that Pakistan has a very good economic model. Instead of relying on innovation, competitiveness, the model is very simple. You should have a briefcase full of money which gets distributed in the official corridors of Islamabad. In return, the perpetrator benefits from policies which provide maximum monetary benefits in return."

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[19] Official norms are the official rules, regulations, codes, procedures, decision-making processes, organisation charts and bureaucratic rationality in Weberian terms. These rules/regulations and institutional procedures are formalised by the state, and used to determine state officials' performance, job descriptions and how organisational structures are developed. Performance, monitoring, training and evaluation of officials are guided by these norms. These norms set the "rights-duties and responsibilities" of state employees (Oliver de Sardan, 2008).

[20] There are different perspectives and contexts in which the phenomenon of corruption or corrupt practices are described and defined in Pakistan. Qureshi (1999) argues that corruption undermines the rights and entitlements of citizens and leads to a draining of state resources when state officials take bribes in rendering social services. Among other factors, corruption affects economic growth when official decision-making processes are circumvented through private interests and has negative effects on the political-administrative functions of the state. Javaid (2010) conceives corruption as the social norm in Pakistan. In the study, nepotism, bribery and a system of patronage are identified as the key drivers of corruption.

The patronage-based politics and patron-client networks operate clandestinely in policy making and implementation. The politicians decide who gets what and who does not. Patronage politics becomes an official channel for distributing special favours. Bribes and illegal means are adopted by those who know brokers or frontline officials in the state institutions. In Pakistan, organisational and political behaviour is deeply rooted in social and cultural practices which pervade the society. In the political structure, political leaders develop and operate along factional loyalties which penetrate into the state institutions. Hence, they manipulate formal organisations' rules in order to meet personal objectives and those of their clients. To achieve these objectives, political leaders, in connivance with certain segments in the bureaucracy, resort to rent-seeking opportunities. Because of excessive interference by political leaders in state institutions, the bureaucracy finds it extremely difficult to perform its functions impersonally. If they do, they are removed from their posts and face continuous threat of sanctions. In LAO states officials are unable to, or find it difficult to, deliver social services in an impartial way. This may not be because the officials are corrupt, but because "the system of incentives" created by the social order is resistant to change.

5.2 Is Pakistan a Limited Access State?

The application of the North *et al.* (2009) hypothesis is intended to assess whether Pakistan is a Limited Access State. The major characteristics of a LAO state were discussed earlier.

5.2.1 Limited Access to Resources

A significant majority of interview responses referred to inequitable access to resources. The distribution (of resources) lens has been preferred as the medium of discourse rather than the access. There was a broad agreement that the distribution of resources is disproportionate, operating on the principle of 'vested interests'. Politics has been employed by the political elite to support their business endeavours. Similarly, the military has become involved in such activities as the construction, logistics, real estate and banking, and thus has vested interests in the economic policies which affect them. Policies are crafted or manipulated to ensure these interests are defended, and since these economic, political and military elites work in coalition (as discussed later), they restrict access to resources among themselves. While discussing the priorities of public spending, one important politician claimed that the state puts a disproportionately higher amount of money into those areas which serve the elite class, and neglects the areas of common interest. The politician justifies his claim by pointing out that Pakistan's road infrastructure is comparable to developed countries, whereas public spending for other more important areas such as education and health is dangerously bleak.

The collapse of public sector education has been taken by another senior politician as an indication of increasing access to education in favour of elites. He argues that the rise of expensive private sector education propagates the class difference, and since public school education standards have decreased substantially, marginalised segments of society do not currently have access to quality education. Further, a senior bureaucrat with significant experience in the finance ministry cites the example of loan schemes. He states that nepotism is prevalent and that loans are only accessible to those with political linkages; it is almost impossible for a common man to access these loans. On the other hand, a couple of respondents disagree with this view and claim that the distribution of resources may indicate that elites are the initial beneficiaries but that the common man also has a share. For instance, in the rural areas a road may be built to facilitate a local MPA/MNA or a landlord, but the utility of the road is not exclusive to the elite; the common prople also get benefitted. However, these respondents also admit that this logic does not apply to education and health, neither of which are prioritised by the state.

5.2.2 Coalition Building, Rent Seeking and Patron-client Relationships

The coalition building behaviour of elites was widely accepted by the respondents. North *et al.* (2009) view coalition building as a measure to protect the *status quo* from threats of violence; thus, the

criteria to participate in the coalition is the potential for violence. The data suggest that the purpose of coalition building is to maintain the *status quo* and extract rents, but the criteria of participation is more complex. The elite in Pakistan are not only made up of groups with the potential for violence, but also the feudal class (manpower), industrialists (money), bureaucrats (authority), etc. Military and religious groups however participate on the basis of their potential for violence. These factions participate in the coalition to protect their vested interests, and all other emerging groups who have the potential to facilitate the elite in this manner become a part of it. The coalition works on the principles of patron-client relationships which take the shape of appointments on key positions and the allocation of development funds. The groups try to accommodate each other and secure future cooperation. Business cartels in the sugar and automotive industries are an example of where political and economic elites protect each other's interests. Instances were cited where the imports of newer brands to the Pakistani market were restricted (with political support) to protect the existing brands.

Although rent-seeking behaviour is one of the major objectives of this coalition, it is not the only one. Maintenance of the *status quo*, a prolonged stay in power, and retention of a disproportionate share of resources are other objectives that elites pursue by making coalitions. However, it is argued that this practice is not as blatant as is believed. Policymakers and politicians generate rents in a sophisticated manner where their personal interests are represented as national interests. For instance, development projects which are linked to the personal businesses of elites are selected and propagated through extravagant marketing as a requirement of the time. Moreover, legitimate authority is manipulated and misused for rent creation, for example, the SRO culture. These are the orders which allow for the importation of goods on significantly lower taxes (at times up to 100 per cent less) for a specific time period which is carefully selected so as to benefit targeted importers with direct links to politicians. All these insights provide substantial evidence that Pakistan's socio-political, economic and institutional dynamics represent those of an LAO state, where state resources are captured by coalitions of elites who work on the basis of mutual cooperation to ensure their dominance. In this way, they restrict wider access to resources and retain a monopoly over rent-creation opportunities. A similar argument is advanced by Olson (1982) who points to special interest groups with advantages over the accumulation of rents compared to the rest of the society.

5.3 Policy Failure in Pakistan

This section engages with the question of "policy failure" in Pakistan, and by particularly focusing on the North *et al.* (2007) framework of OAO, attempts to explain the causes of that failure. According to North *et al.* (2007), development policies often fail because elements of OAO such as competition, accountability, transparency and democracy, are transplanted directly into LAO states. In order to explain policy failure in Pakistan, it is essential to briefly engage with the types of policies implemented there. Broadly, there are two types of policies: indigenous ones and those influenced by donors. Indigenous policies are concerned with the social and public sector, and are primarily crafted by political and bureaucratic elites. Indigenous policies are also inspired by the technical advice of foreign consultants.

The foreign-influenced or 'dictated' policies are directly influenced by international organisations such as the IMF, United Nations (UN) and the World Bank. These include counter-terrorism and economic policies. There exist divergent views among political elites concerning policies influenced by international organisations or "the incapability of the state to craft good-enough policies". One school of thought argues that there is no foreign interference with regard to Pakistan's policies. They argue, for instance, that the IMF's ability to influence economic policy is only limited in scope. The IMF's primary responsibility is to monitor the international financial system and to help countries like

Pakistan avoid default. Moreover, IMF conditionalities[21] are reflective of Pakistan's bad governance and mismanagement of its economy. Critiques are therefore misplaced because the media and the public at large are unaware of Pakistan's long-term dependence on donors and financial institutions. One senior bureaucratic commented on donor-prescribed policies:

> "If we look at the policies of IMF, they are designed to put Pakistan on the path of sustainability and economic predictability. And, towards resolving complex and difficult economic issues which are created because of political instability and maturity. For instance, can we afford 500 billion Rupees worth of losses in the public sector? If we intend to develop the social sector, we have to implement donor policies. If there is corruption at the individual and state level, we need to identify them and take actions to improve our governance."

Another school of thought argues that Pakistan's policies have in fact been historically shaped by the IMF and World Bank. In this camp, senior bureaucrats observe a heavy dependence on International Financial Institutions (IFIs). One such bureaucrat noted that IFIs are implanting Western policies into Pakistan. One political leader observed that this dependency syndrome has its roots in the so called 'modernist class', i.e. the landed class and the higher echelons of bureaucracy. Both class structures are conforming to the traditional 'modernistic' rules and beliefs, but remain conservative towards development. This results in tensions between class structures and development policies. As argued previously, since Pakistan shows the attributes of LAO, the patronage politics and its extension into the state institutions, re-enforced by the coalition of elites for the preservation of rent-seeking behaviour, directly contributes to policy distortions. Here the thesis of Hamza Alavi (1972) is useful. After the rebellion/mutiny in 1857, the British established specialised organisations along Weberian principles, relatively independent of ruling elites. Hence, the bureaucracy was overdeveloped, while democratic politics receded as "competing propertied classes (agrarian, commercial urban comprador, and metropolitan) vie with each other for sectoral advantage while also seeking their collective interest in the protection of the principle of rents and privileges" (Wood, 2011: 5). Problems encountered with the implementation of Western policies, or even dependency on IFIs, may not be the real challenge. In light of the brief evidence gathered from interviewees, there is ample support for the presumption that policies in Pakistan fail due to the politics of patronage and clientelism.

From this analysis, it is evident that the problem of development policy failure in Pakistan has roots in political, class and institutional structures. Political parties, the bureaucracy and interest groups are unable to separate themselves from their private and business interests, acquired through whatever means. Governance challenges in the state also point to excessive involvement of politicians in administration. Poor governance is also caused by mega and micro-level corruption. As a result of corruption, citizens feel frustrated and helpless, and remain deprived of their rights and entitlements. These governance problems are further complicated by various forms of brokerage and intermediation, affecting everyday governance and the functioning of state institutions. So for Pakistan, the first development problem is transition towards OAO. North *et al.* (2009: 148) and Passim argue for 'doorstep' conditions to enable the transition of limited access societies to open access societies. These conditions would help foster impartiality, transparency and the rule of law for elites. They further argue for the establishment of 'perpetually lived public and private organisations', independent of elite patronage and 'consolidated control of the military'.

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[21]During the 1990s, the World Bank and the IMF imposed conditionalities and introduced Structural Adjustment reforms to improve governance and economic indicators in the country (Zehra, 2002). These IFIs are primarily concerned with macroeconomic performance, market liberalisation and growth. The development approaches of international organisations reflect market-led reforms and governance interventions based on the experiences of liberal Western states and societies. When applied to LAOs, they threaten or weaken the interests of coalitions, groups and political elites.

6. Conclusion

As the deadline for the Millennium Development Goals (MDGs) is fast approaching, Pakistan lags behind on all major development indicators. This raises the question of policy failure not just in Pakistan, but in other developing countries. North *et al.* (2009) proposes a theoretical framework which suggests that policy failure occurs when development agendas of OAO states are transplanted into LAO states. This study empirically tested this core epistemology, and concluded that the institutional landscape of Pakistan possesses the characteristics of a basic OAO state. Policy failure occurs because of 'deep structures' and institutional practices associated with extensive patronage, rent-seeking objectives, and non-transparent obligations and favours. The arguments presented throughout this paper raise several policy issues for the MDGs. First, we need to understand the complexity of governance problems in Pakistan. In analysing governance in the context of 'deep structures', the core argument of North *et al.* (2009) becomes extremely relevant to understanding structural differences and the elite and political capture of the state and its resources. Second, the framework is useful for the deconstruction of political behaviour and interests, interactions, porous public-private boundaries and institutional constraints as overarching factors inhibiting the transition of Pakistan towards an open access state.

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SUSTAINABLE DEVELOPMENT POLICY INSTITUTE, ISLAMABAD

Development Policy Failure in Pakistan: Institutional and Governance Challenges

Thank you for taking time to read this information sheet.

RESPONDENT'S INFORMATION

a) Respondent's name:
b) Respondent's current position:
c) No. of years respondent has been in specified role:

What would I be asked to do if I took part?

You will be asked to participate in this interview which collects important information regarding your views on the policy making process in Pakistan based on your extensive exposure. This interview will take approximately one hour.

What happens to the information collected?

The information will be compared with information collected from other sources and methods to understand how policies are made in Pakistan and why they often lag behind the set targets. This will be the basis for a journal article publication and international conference.

How is confidentiality maintained?

If you wish that your name is kept anonymously, this is possible. In that case, you will be referred to in general terms, profession or official title so that it is impossible to link information to the source of information.

Thank you for your time and for your kind collaboration.

Dr Shehryar Khan
Research Fellow, SDPI

Section 1: Policy Making Process

Q 1. How do you think policies are made and implemented in Pakistan?

- Developed locally or through foreign influence
- Major stakeholders in policy making
- Direct/indirect actors influencing policy making process

Q2. Do you think that the policy making process entails a 'conflict-of-interest' among the politicians (favoring vote-oriented policies) and the policymakers (favoring welfare-oriented policies)?

If yes,

What are the major reasons of the conflict?

How is it resolved (which side wins)?

What are the consequences of this conflict on the policy making process and the welfare of the society?

Section 2: Institutional Characteristics of Policy

Q3. Do you think that access to resources is limited to only the powerful segments (political and economic elites) of the society?

If yes,	If no,
How does this work in practice? (Cite an example where presumably equitable access is not prevailing)	Which segments of our society (elites) has this access?

Q4. Do these elites make coalitions so as to restrict access of the resources to themselves?

- Who participate in these coalitions/criteria for being the part of the coalition?
- How does this coalition work – brokerage (patron-client relationships)?

Q5. Is rent-creation[22] (attaining personal gains through the exploitation of the resources) the major objective of the coalition?

- If yes, how these rents are created-mechanism?
- If no, what other objectives this coalition serves?

Q6. How do these elites protect their coalition from external threats?

- Cooperation?

Q7. What are the implications of these coalitions on governance?

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[22]Rent-Seeking: An attempt to obtain economic rent by manipulating the social or political environment in which economic activities occur, rather than by creating new wealth.

Section 3: Policy Failure

North *et al.* (2007) suggest that "development policies often fail because they try to transplant elements of the open access order -- such as competition, markets, and democracy -- directly into limited access orders. These reforms threaten the rent-creation... the elite and many non-elite resist, sabotage, or subvert such policies."

Q.8. What is your opinion on the nature of development policies in Pakistan?

Q.9 How far do you think the international financial institutions (IMF, WB) shape the development policies in Pakistan?

Q.10 Do you think this international agenda of development (political and economic) is suitable to Pakistani socio-economic dynamics?

If not, what are the major factors which make it unsuitable? (Elites find it threatening to their rent-creation opportunities?)

LIST OF INTERVIEWEES

Politicians

- Mushahid Hussain Syed
- Danial Aziz
- Afrasiab Khattak
- Asad Umer
- Syed Zafar Ali Shah

Bureaucrats

- Ishrat Hussain
- Naeem-ul-Haq
- Haq Nawaz
- Sheikh Ghazanfar Hussain
- Shahid Muneer Barlas

Other Experts

- Hafeez A. Pasha
- Rasul Bakhsh Rais
- Talat Hussain
- Hassan Askari Rizvi
- Maria Sultan

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