Event Report

Video Conference on New Growth Strategy with London School of Economics

08th July 2011, Islamabad

BACKGROUND

Planning Commission has formulated Pakistan's New Growth Strategy, which has now been approved by the National Economic Council headed by the Prime Minister of Pakistan. The Commission is now looking to give traction to the strategy and soliciting support locally and internationally as it moves into implementation design. Deputy Chairman, Planning Commission, thus requested the IGC to organize a panel of economists who could comment on the strategy and provide some initial guidance on implementation.

A video conference was arranged with a London based panel consisting of London School of Economics/IGC economists. These included:

1. Dr. Robin Burgess
2. Dr. Francesco Caselli
3. Dr. Silvana Tenreyro
4. Dr. Mark Henstridge

Dr. Ijaz Nabi, Country Director, IGC-Pakistan moderated the panel in London whereas Dr. Nadeem ul Haque, Deputy Chairman, Planning Commission, moderated the session in Islamabad.

Core audience included government officials, donors, members of academia and the media.

AGENDA

2.30pm – 2.40pm: Welcome Remarks by Member Energy, Planning Commission & Dr. Naved Hamid, Resident Country Director, IGC-Pakistan

2.40pm – 3.00pm: Overview of Growth Strategy by Dr. Vaqar Ahmed, National Institutional Advisor, Planning Commission

3.00pm – 4.00pm: Panel discussion from IGC London, Moderated by Ijaz Nabi, Country Director IGC-Pakistan

4.00pm- 4.30pm: Q&A

4.30pm – 4.45pm: Closing Remarks by Dr. Nadeem ul Haque, Deputy Chairman Planning Commission OR Dr. Naved Hamid, Resident Country Director, IGC-Pakistan

Discussion Highlights

The two hour event generated interesting discussion on the strategy itself as well as the challenges of implementation. Highlights are presented below.

1. Dr. Vaqar Ahmed, Planning Commission presented the New Growth Strategy, stressing that Pakistan is facing a crisis of management rather than a dearth of resources. The country fares well on hard infrastructure but lacks soft component of management, or the 'software' of growth. The growth strategy thus focuses on revisiting the governance agenda in the country and adopts an approach of outlining short term goals or the low hanging fruit, as well as the more ambitious long term targets and goals.

2. Reactions from Dr. Robin Burgess:
   - Ambitious strategy which represents major shift in thinking away from heavy capital expenditure to focusing on efficiency in using capital
   - Pakistan relies heavily on foreign assistance and needs to focus on taxes and local revenue mobilization. It can benefit from India's experience of relying less on trade related taxes and move to other modes of taxation
   - Using urbanization to engine growth is interesting but Pakistan needs to learn from divergent experience of its neighboring countries. India is struggling with promoting urban centers as engines of growth while China has successfully implemented the idea.
   - It is important to start thinking on how to generate support for reforms, as it is a painful process. Experience shows that improving service delivery can generate such support from public.

3. Reactions from Dr. Silvana Tenreyro:
   - Framework is interesting and the general direction is right, but implementation is not well thought out and needs more work
   - Document focuses on soft components of growth but it is silent on how to actually implement this. As an example, it talks about improvement in quality of education which is a key component of any improvement in soft side of economy but little practical guidance is offered. Similar is the issue of corruption

4. Reactions from Dr. Francesco Caselli:
   - It is heartening to see how the strategy incorporates academic findings in economic literature, which is generally missing in such government documents.
   - Emphasis on productivity is a good sign. The usual debate is between whether *capital per worker* or *efficient use of capital* are key to components of growth. We now know that efficiency of capital is more important than capital per worker but how to achieve that efficiency is still not clear.

- Pakistan needs to think about promotion of technology as well. Enforcing licensing regime will be key in promoting technology through adaptation and adoption.
- The document is ambitious but experience of some eastern European countries with ambitious reforms agenda gives us hope.
- There are though certain pitfalls which PC should take into account while planning for implementation. These include:
    a. It is very important to manage expectations of public when the reforms are sold to them. This is a process that requires time and patience, and it would be dangerous to build expectations that economic returns would be generated immediately as a result of reforms.
    b. There is always possibility of turning public monopoly into private monopoly which can turn out to be worse.
    c. Important to think about vested interests and how to manage them as they will always resist change. Assertion that low hanging fruits will have no financial implication is not right. There will be a need to compensate some who lose out due to these reforms. Compensating those with vested interests is not easy
    d. Monitoring progress of reforms is tricky but a part that should not be missed. The results based matrix at the end of the strategy document needs to be fleshed out more.

Dr. Nadeem ul Haq responded to this round of comments, before asking the LSE panel for guidance on implementation of reforms and global experiences of the process. His comments included:

- In terms of implementation, the Planning Commission welcomes ideas on how to move forward especially with increasing ownership from provinces as a consequence of the 18th Constitutional Amendment and the 7th NFC Award.
- There is a need to minimize role of government, especially by addressing governance structure in Public Sector Enterprises as these are a huge burden on our fiscal resources.
- We have planning to monitor progress on by planning implementation of Results based management system. This will also allow us to prioritize reforms
- Pakistan's structure of exports and industry is frozen in time. Effectively these sectors are based on licensing and quota regimes. With these realities, we need to think innovatively about how to increase productivity.
- Implementation will be taken forward through two initiatives
    - Setting up of high powered steering committee drawing from power houses of society
    - In-depth engagement of provinces and ensuring their ownership

He stressed that civil service reforms are at the heart of this process, as it is the bureaucratic machinery that runs the system in Pakistan. Without reforming this system, other reforms would be very hard to manage. He sought the LSE panel's input on how this process can be stimulated. Response from the panel highlighted that there are two usually quoted reasons for poor performance of civil servants:

a. Gross failure in terms of incentives and compensation
b. Public sector enterprises, how to compensate vested interests in this area.

In response to Dr. Haque, query on how can the Planning Commission engage with provinces in this new fiscal arrangement, the panel felt that given a lot of implementation has to be done at provincial level, execution of a central strategy may be a challenge. However this can also be turned into an opportunity by triggering competition among provinces. East European managed to achieve this competition by presenting data on provincial level indicators, such as the cost of doing business. So provinces were triggered to compete on these dimensions. Other suggestions include:

- Making federal transfers conditional on performance of provinces
- Creating a climate where foreign investors look at how different provinces are doing and in turn provinces compete for this investment

Dr. Haque responded by saying that inter provincial competition is a good idea but huge disparity exists across provinces right now. It would not be fair to expect Balochistan to compete with Punjab for the same pool of resources. However, result based management can be used to create inter departmental competition. He also pointed out that donors in Pakistan also need to be more reform oriented. They have provided huge resources to the country in the past without asking for structural change.

There are number of suggestions which can be relatively easily implemented so reforms can be divided to two groups. Easily implementable reforms can then be used to generate support for over all reforms by especially focusing on service delivery.

Concluding comments from Dr. Robin Burgess:

- Ideas in the New Growth Strategy have been tried with varying degree of success in other countries. For example, the way cities have been re-organized in India and China have given us direction on reforms in urbanization. In China, access to loans for local governments is easy which is repaid through rents from land and also provides funds for public service whereas in India land acquisition is difficult which hinders the use of rents from land for raising loans for local government. China's experience can prove a blue print for Pakistan's new focus on using cities to promote growth.
- Brazil is another successful example of reforms. The new president brought down inflation very quickly which helped buy in from public for reforms.
- Public sector service delivery depends a lot on actions of public servants. Brazilian experience shows that monitoring their behavior can have positive effects. On the other hand Chinese experience shows that increasing stake of public servants in growth of local area improves service delivery. Visible improvements in service delivery can be pivotal in turning public sentiment in favor of reforms.

Some questions were taken by the panel. These included queries regarding issues of population growth in Pakistan and how it eats up any economic development. In response, the panel commented that evidence now clearly suggests that economic growth tends to precede population slow down. As people get richer, they tend to have lesser children. Another key factor is female labor force participation, which changes the opportunity costs for women for having children. Bangladesh is a good example of this. In response to a question on whether growth can occur in a situation of fiscal distress i.e. can a government strapped for resources focus on growth? The panel commented that there is no evidence to show that these are sequential – growth oriented policies can be undertaken even in an unstable macroeconomic environment.

The session concluded with a note of thanks from Deputy Chairman, Dr. Nadeem ul Haque.

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