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Public Sector Governance in Pakistan: Board of Investment (BOI)

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Neither good policies nor good investments are likely to emerge and be sustainable in an environment with dysfunctional institutions and poor governance. (World Bank, Public Sector Group, Kemal Devis, 2000: vi)

Abstract

Pakistan is a developing country in the South Asian region which got independence in 1947 form the colonial British rules, and is marked with turbulence, poverty, ethnic violence, social and economic disparities, and unstable governments and dictatorships. The public sector in Pakistan is not very efficient where there is lack of transparency, political influences, lack of resources, delayed projects, large and unskilled work force, low earnings and wages, unjust employment opportunities and promotion criteria. On the other hand, public sector is required to "serve" the "common people" and protect their interests by facilitating them indiscriminately. For this very objective, it is imperative for public sector organizations to adopt "good governance" practices in these organizations in order to be efficient and effective. While, Board of Investment (BOI) is one of the public sector organizations in Pakistan, with broad based responsibilities of "promotion of investment" in all sectors of economy; facilitation of local and foreign investors for speedy materialization of their projects and to enhance Pakistan's international competitiveness and contribute to economic and social development. In the respected paper, public sector efficiency with special to BOI is scrutinized. To investigate and determine the efficiency, effectiveness, and change in this public organization, different variables are identified; *Outputs/outcomes* (individual level and/or organizational level); *Environmental factors; Treatments* (primary work/core processes/technology) and *Organizational Structure.* It has been further argued that public sector in Pakistan such as

BOI is not efficient enough to positively impact the economy due to political and bureaucratic misuse of authority and influences, incompetence, lack of resources, large unskilled human capital, gap between policy making process and implementation and low wages of public sector employees. Hence, both external and internal factor in the organizations are responsible for inefficiency and incompetence where good governance principles of fairness, accountability, impartiality, transparency, and commitment of employees towards the achievement of public tasks can enhance an organization's efficiency, effectiveness and can bring desirable change. Moreover, innovative reforms, reorientation and transformations can change the outcomes of the organizations both at individual and organizational level and mitigate corruption.

Historical Background

Low levels of spending in the social services and high population growth have contributed to persistent poverty and unequal income distribution. Pakistan's extreme poverty and underdevelopment are key concerns, especially in rural areas.

Despite of economic liberalism, privatization, globalization and deregulation, public sector efficiency is still considered as important, besides private sector, for the economic growth of a country. Pakistan has been an ally of the United States of America since the very beginning which shows its tilt towards liberal economic policies. More recently, successive Pakistani governments have introduced many economic reforms in 1990s and onwards (Dr. Ishrat & Rajiv Kumar, 2010, 'Reviewing Structural Reforms in India and Pakistan'). Where, Pakistan Board of Investment[1] was established in 1992 with the mission of "policy advocacy"; "Investment promotion"; and "coordination". Hence it is required to work as policy maker, implementer, facilitator, information provider, and also it should work to improve the country's image in the world by proving it as one of the

[1] It was initially established with the name of Pakistan Investment board which was re-named as Pakistan Board of Investment in 1994.

most attractive places for investment (http://www.pakboi.gov.pk/forign-invest.htm, official website).

Under the current Investment Policy of Pakistan, business and service enterprises are divided into three main sectors or categories which are as follows:

- Manufacturing or Industrial sector
- Non-Manufacturing Sector
- Other sectors

Non-Manufacturing Sector is further categorized into the following:

- Service Sector
- Infrastructure Sector, and
- Social Sector

Whereas other Sectors are categorized as:

- Tourism
- Housing and Construction
- Information Technology

The Investment Policy of Pakistan may vary vis-à-vis these different sectors.

Investment Policy of Pakistan for Manufacturing & Industrial Sector

Foreign investors are allowed to hold 100% equity of industrial projects without permission of the Government. No Government sanction is required for setting up any industry, in terms of field of activity, location, and size, except for the *Arms and Ammunitions, High Explosives, Radioactive Substances, Security Printing, Currency and Mint, Alcoholic beverages or liquors* (Foreign Direct Investment and Investment Policy of Pakistan).

However, for the efficiency and effectiveness of public sector organizations as of BOI, liberal and market economic policies, privatization, and deregulation is not sufficient. Dr Sultan Khan (2002: 249) claims that the Bureaucracy in Pakistan has hampered the

economic progress of the country by resisting decentralization of powers and functional reorganization of civil services. Moreover, he argues that bureaucracy wields enormous power, especially during instability in the country (which is often the case). Bureaucrats play not only the "role of mere advisors to the ministers in policy formulation but also have combined the roles of advisors, policy-formulator and policy-implementer" (Sultan Khan 2002:249). Currently, if one observes Pakistan's economic growth, it again shows downward trends as shown by the official website of the BOI. 52.8% decrease is witnessed in FDI as compared to July-February 2009; 45.9% decrease in Total Foreign Investment as compared to July-February 2009; and 48.9% decrease in FDI Including Privatization Proceeds as compared to July-March 2009[2]. FDI has dropped from $3.041 billion to $1.553 billion during the first nine months of the current fiscal year (Mushfiq Ahmad, Daily times). The economic progress during Musharraf regime[3] cannot be regarded as the result of public sector (BOI) efficiency but the international and national economic-political environment. It has been claimed by the US State Department website that "U.S. assistance has played a key role in moving Pakistan's economy from the brink of collapse to setting record high levels of foreign reserves and exports, dramatically lowering levels of solid debt." Also, despite the earthquake in 2005, GDP growth remained strong at 6.6% in fiscal year 2005-2006. In 2002, the United States led Paris Club efforts to reschedule Pakistan's debt and in April 2003 the United States reduced Pakistan's bilateral official debt by $1 billion. In 2004, approximately $500 million more in bilateral debt was granted. Consumer price inflation eased slightly to an average of 8% in 2005-2006 from 9.3% in 2004-2005. After September 11, 2001, and Pakistan's proclaimed commitment to fighting terror, many international sanctions, particularly those imposed by the United States, were lifted. Pakistan's economic prospects began to increase significantly due to unprecedented inflows of foreign assistance at the end of 2001 (**US Department of State: Diplomacy in Action**). Hence the US interference and International Monitory Fund (IMF)'s demands in economic, social, political policies in Pakistan is unequivocal.

[2] Pakistan's Fiscal Year runs from 1st July till 30th June
[3] General Pervez Musharraf was the army General who administered the army coup in 1999 and took over the civilian government of Nawaz Sharif. His tenure was from 1999-2008.

Literature Review

Public sector organizations have broad-based responsibilities of serving "people", taking care of their interests, enable suitable environment for business, provide sound policies, information, assistance etc. According to World Bank "it is imperative for the state to create, sustain and augment institutional structures befitting the myriad of minimal, intermediate and activist functions it performs to improve social equity and address market failure (The World Bank, 1997, p. 27).

However, before discussing the 'public sector', it is important to understand the word "public" in public sector. An explicit statement by Ranson and Stewart (1994: 59-60) is very helpful in this regard as they contend that

> "The essential task of the public domain can now be interpreted as enabling authoritative public choice about collective activity and purpose. In short, it is about clarifying, constituting and achieving a public purpose. It has the ultimate responsibility for constituting a society as a political community which has the capacity to make public choices. Producing a 'public which is able to enter into dialogue and decide about the needs of the community…is the uniquely demanding challenge facing the public domain."

Hence, it has been stressed in the above statement that the basic purpose is "collective" activity, purpose, and choice on equitable basis. Ranson and Stewart (1994) also give another meaning to the word 'public' by which they mean a group of people who inhabit the public domain. Furthermore, they have also clarified the political concept of "a public which is able to enter into dialogue and decide about the needs of community" (Bovaird Tony, Elke Loffler 2009: 5). For our purpose here, it is important to distinguish between the "public sector" and the "private sector".

There are certain similarities in the public and private sector. As far as the similarities are concerned, Dr. Sultan Khan (2002: 19-20) asserts that managerial techniques are common to both i.e. accounting, filing, statistics, office management, and procedures, purchases, disposal and stocking and personnel processes; attainment of goals; adaptability to changing circumstances.

However, the differences between the two are stark and very important, especially for the efficiency and credibility of public sector organizations with special reference to developing countries. According to Dr Sultan Khan (2002: 20-24) public administration is "bureaucratic" while private administration is business-like; public sector organizations use coercive methods of enforcement of rules; dealing of public administration with issues of vital importance; comprehensiveness of public sector with special regard to needs of people; uniformity in public dealings (non-discriminatory attitude with people) as opposed to private sector; government holds monopoly in public sector administration; basic motive of public sector is "service" while private sector is profit-oriented; public sector represents state; accountability of public sector to public at large; public sector is subject to external financial control (as for instance, legislature controls finance of public administration, while chief executive controls the finance of private sector); public administration is more governed by governmental laws and rules than private sector administration in matters of tenders, contracts, and purchases.

Moreover, David Garson (2003: 188) contends that in the public sector, "increased customer satisfaction is never the only goal and often it is not the major goal." Regulatory agencies, for example- bank examiners, restraint inspectors, highway petrol officers etc. will often discover that doing a good work will seldom please their most attentive customers such as bank owners, restraint managers, and speeders. Meanwhile, the general public which is their customers is inattentive. Another factor is that customers often do not have enough information and/or expertise to evaluate their performance. Therefore, David Garson (2003: 188) argues that "even though customer ratings are always useful in government, they play a less central role than they do for business, and they are

accordingly only one piece of information within a range of results." (G. David Garson (2003: 188) *Public Information Technology: Policy and Management Issues*)

Given the importance of public sector responsibilities towards society on behalf of state and its ineffectiveness, governance is given due importance and is regarded as vital for correcting the working of public sector organizations for our concern here. Despite ambiguity of definitions, Laurence E. Lynn Jr., Carolyn J. Heinrich, and Carolyn J. Hill (2000:235) in their paper 'Studying Governance and Public Management: Challenges and Prospects' argue that "governance generally refers to the means for achieving direction, control, and coordination of wholly or partially autonomous individuals or organizations on behalf of interests to which they jointly contribute." While, United Nations Economic and Social Commission for Asia and the Pacific (UNESC) provide a rather simple definition of governance which is "the process of decision-making and the process by which decisions are implemented (or not implemented)." However, UNESC has differentiated "good governance" form "governance. It identifies eight major characteristics of good governance i.e. participatory; consensus oriented; accountable; transparent; responsive; effective and efficient; equitable and inclusive; and follows the rule of law.

Defining "public governance" Governance International, UK assert that "public governance is how an organization works with its partners, stakeholders and networks to influence the outcomes of public policies." (Tony Bovaird & Loffler Elke, 2009: 216). Since governance can not be regarded about the government alone, here it is worth mentioning that what is it about? To a certain extent it is about how governments and other social organizations work together, how they communicate to citizens, and how decisions are taken in a complex world. Hence, John Graham (2003: 1) defines governance in his paper "Principles of good governance in the 21st century" as "a process whereby societies or organizations make their important decisions, determine whom they involve in the process and how they render account." Agreements, procedures, conventions or policies that define who gets power, how decisions are taken and how

accountability is rendered are the frameworks upon which the governance process rests (Graham 2003:1).

Stephen P. Osborne (2002: 3) argues that "public sector organizations perform poorly in many developing countries' because of 'poverty, economic crisis, corruption and political instability'. Nevertheless, this is not to suggest that public sector is incapable of performing well all over the developing countries. Based upon in-depth empirical verification, Grindle maintains that it is possible to point out key organizational characteristics which enable optimal performance; including "an attention to organizational values and cultures and positive human resource management." (Stephen P. Osborne (2002: 3) Public Management: Critical Perspective Volume 4).

Organizational values and positive human resource management is inevitable for the successful working of public sector organizations. Whereas, Max Weber argues that only bureaucracies are capable of taking rational decisions and state political leaders can direct and mobilize state organizations. Weber contends that Bureaucratic organization is the privileged instrumentality that has shaped the modern polity, the modern economy, the modern technology. Bureaucratic types of organization are technically superior to all other forms of administration, much as machine production is superior to handicraft methods. The characteristics of an ideal bureaucracy have been identified by Weber as Hierarchy of authority; Impersonality; Written rules of conduct; Promotion based on achievement; Specialized division of labor; and Efficiency ('Max Weber on Bureaucracy'). Weber's notion of bureaucracy is not without criticism. Some have claimed that he liked bureaucracy, that he believed that bureaucracy was an "ideal" organization. Others have pronounced Weber "wrong" because bureaucracies do not live up to his list of "ideals." Others have even claimed that Weber "invented" bureaucratic organization. But Weber described bureaucracy as an "ideal type" in order to more accurately describe their growth in power and scope in the modern world. He stresses basically the "impartiality" and "rationalization" of bureaucracies; but, it should be noted

that organizations are made of human beings not machines where ideal conditions emerge only with enforcement of good governance practices through reforms and reorientations.

There are other variables affecting the working of public organizations. Hirschmann (1993) turns our attention to the "policy making process" in the developing world, particularly in area of economic policy reforms. He argues about the role of supranational bodies (such as the World Bank, International Labor Organization, and International Monetary Fund) in the public policy process which is highly negative. The reason is that they have undermined the individual capacity of the individual developing nations to drive the policy process forward themselves. "The lack of ownership of the policy process, as long as it is being driven forward by these supranational bodies to be 'scapegoat' for policy failures and with a consequent lack of organizational learning at the local level." (Hirschmann 1993: 125)

However, uniform training and coordination of policy makers and implementers in public organization is vital for the success of such organizations. Laurence E. Lynn Jr. et. al., propose that "if policy makers and public managers are to decentralize program operations and bring services closer to the people who are served, they must know how to ensure accountability and good practice across diverse service units in dispersed locations" (Laurence E. Lynn Jr. et. al 2000: 234). There are possible reasons for cross-site variation in performance which include the characteristics or needs of the people served; the skills or motivations of the direct service workers; the quality of local site management; the clarity of policy direction; factors in local environment; the extent of system-wide coordination; strength and enforcement of performance incentives; and other structural characteristics of system. Some of these factors are likely to be much more influential than others, making it important to know which factors matter most if better system performance is to be attained (Laurence E. Lynn Jr. et. al 2000: 234).

Managerial discretion is imperative in implementation of legislative mandates. It impacts the achievement of prescribed goals and efficiency of public servants, both at the top and

bottom of hierarchy. As Randall Ripley and Grace Franklin (1982: 9) portray the implementation process in their book 'Bureaucracy and Policy Implementation' contending that

> Implementation process involves *many important actors* holding *diffus*e and *competing goals* who work within a context of an *increasingly large and complex mix of government programs* that require *participation from numerous layers and units of government* and who are affected by *powerful factors beyond their control*. (1982: 9) (Ripley, R.B and Franklin, G.A. (1982)

Within hierarchies, higher-level managers may use (or be directed by legislation to use) their discretion to create additional constraints and controls on lower-level managers and workers.

The drift away from legislative intent may originate at subordinate levels of the system, where actors may be relatively immune to the interests of the deal makers (Lynn et al., 2000:238). Hence these "grass-root" level employees should be trained in the way and provided with high economic incentives that they feel like own the policy they implement.

Both formal and informal actions are predisposed within a wider scope of governance and the study of public management is concerned with "action" itself: "the discretionary actions of actors in managerial roles subject to formal authority." (Lynn et al. 2000: 239) The need for management arises under three conditions: "when an enacting coalition has explicitly delegated the figuring out of appropriate action to executive agencies; when there is ambiguity in the mandate, providing opportunity (intended or unintended) for managers to figure things out; and when fulfilling legislative or administrative objectives requires judgment in interpreting and enforcing rules and standards in particular cases." (Lynn et al. 2000: 239)

Two different approaches to public management have been identified within this logic of governance by Lynn et al. (2000: 238). *First*, public managers may "optimize outcomes"

within a given system of formal authority. This essentially short-run view of public management emphasizes repetitive aspects of managerial roles and features the psychology, tactics, and political intercourse aspects of management. A *second* approach views public managers as "proactive participants" in coalition politics, as 'representatives of elected executives', as 'representatives of agency constituencies', or as 'goal-seeking actors in their own right'. This view is implicit in the notion of iron triangles and issue networks. In the literature on social control, it is implicit in the notion of bureaucracy. This longer-run view broadens the subject of public management to the wider domain of governance and administrative control of bureaucracy, and it broadens the content of management to include the design of governance arrangements (Lynn et al. 238).

As regards a sense of ownership, it is clear that donors dominate the policy making process. The resources, initiatives, expertise…derive from the donors…(who) have invested considerable effort and money, in these endeavors… The recommendations keep coming. Lengthy reports continue to land on the desks of senior civil servants. Their eyes continue to glaze over. There is no criticism intended of the quality of the reports themselves. They are full of sensible suggestions. But they remain the property of the donors. As long as there continues to be no sense of ownership of the recommendations…so long will government officials fail to identify in any more than a formalistic sense with the program and so long will they continue to lack a sense of responsibility and final accountability for the proposals. Donors will contribute to be considered scapegoats, and with some justifications. (Hirschmann 1993: 125)

Research Question

'Why the principles of good governance are needed in the public sector of Pakistan?' 'What are the variables affecting public sector efficiency and effectiveness and what possible reforms could be introduced and the public sector revised in order to make it more effective and responsive to the people's needs?'

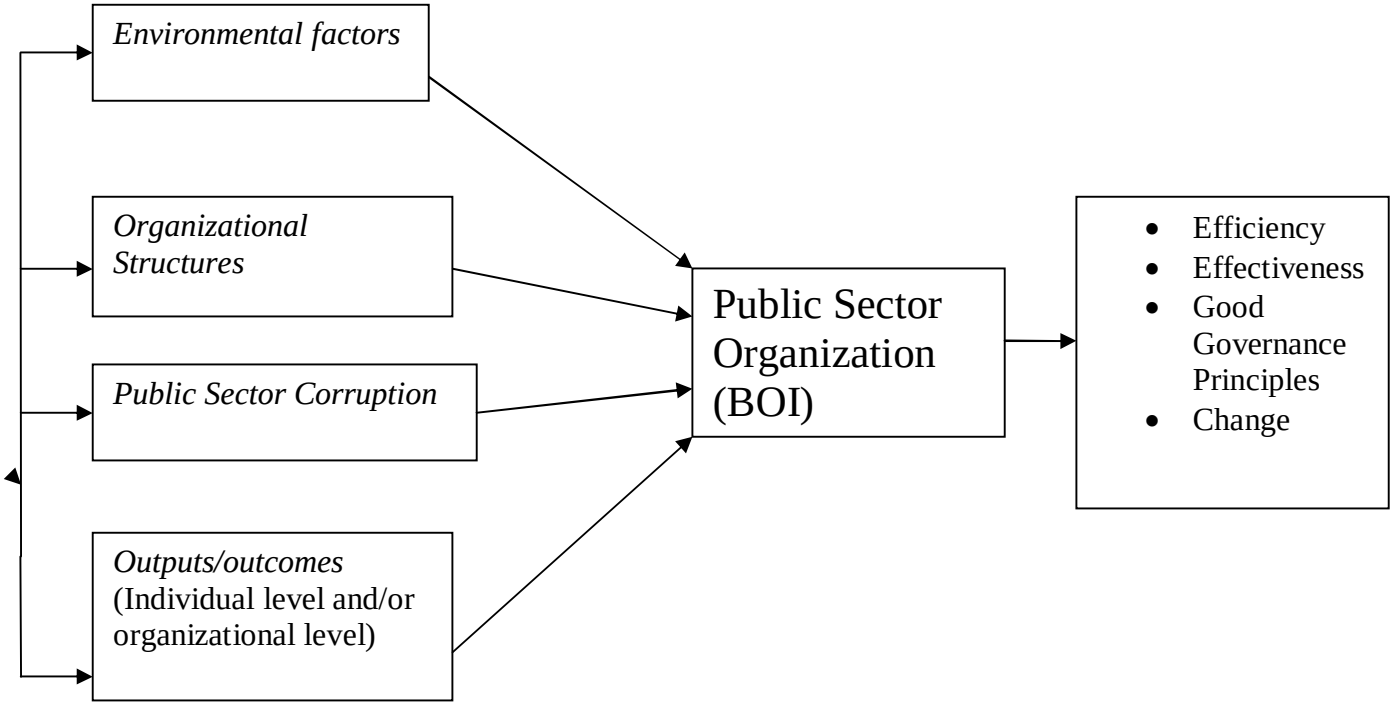
Problem Statement:

The public sector organizations in Pakistan such as BOI are less efficient and effective because of poor governance, scarce resources, unskilled work force/ human resource , political corruption, centralization (strict hierarchy), and political instability in the country. The public sector misuses the authority and resources given to them."

Limitations of the Research

The data used in this research is taken primarily from the secondary sources such as scholarly and new paper articles, research papers, and books besides some of the primary data such that taken from the government documents or websites. Moreover, it is difficult to get primary data from the public sector organizations in Pakistan without any reference.

Theoretical Framework



1. Environmental factors

Public sector of Pakistan is not well-reputed due to corrupt practices, bureaucratic and political influences, and incompetent appointments by influential individuals of the staff, scarcity of resources and low salaries of government servants. Dr. Sultan Khan (2002: 250) argues that "in Pakistan the bureaucracy which is the tool of government to provide all facilities to the citizens, failed to provide anyone… Expanding bureaucracy's means and increasing their expenses resulted in lowering the productivity of the country; which made the system closed." Hence, bureaucracy has created a dilemma for the people of Pakistan.

1.1 Economy of Pakistan

Pakistan's economy is doing not very well according to recent economic performance indicators and results shown by State Bank and BOI websites; where, inflation remains at 13.3% in July 2009-April2010 and GDP growth is 2.00% (http://www.pakboi.gov.pk/eco-ind.htm) whereas Indian GDP growth is 6.50% in the year 2010(http://www.indexmundi.com/india/gdp_real_growth_rate.html). Iram Saleemi (Jan 20, 2010) in her article 'Economy of Pakistan in 2010, Economic Growth, Issues and Solutions' points out the reasons of stagnant economic growth of Pakistan. These are economic "depressed consumer credit market, slow progress of public sector programmers, inflation, reduction in subsidies, security threat, instability in the state and energy crisis." Agriculture sector which is very important for Pakistan has failed to receive considerable attention from the government agencies. Moreover, the exports have declined by six percent and imports by 10 percent. However, there has been an increase in remittances by 22% (for which the BOI or any other governmental organization can not take the credit). It can be argued that agriculture sector has shown convincing results due to good weather. Major crops (wheat, rice and maize) have recorded remarkable growth of 7.7% against the target of 4.5%. Live stock and poultry also add to GDP because of no viral disease this year.

Form the data above, it is not difficult to asses the outcomes of the public sector of Pakistan with special reference to BOI which is very responsible for attracting foreign and domestic investment which should improve the state's economy as contrary to the prevailing conditions. The organizational outcomes are not encouraging in this regard.

1.1. The political and social environment of Pakistan

The political and social environment of Pakistan is very unstable marked with stagnant economy, inflation, poverty, unemployment, corruption, dictatorships etc. Thus, these factors affect badly the health of nation's economy together with social and political conditions. Hirschmann (1993: 125) turns our attention to the policy making process in

the developing world, notably in the sphere of economic policy reforms. He argues that the "impact of supranational bodies (such as the World Bank, ILO, IMF) on this process have been profoundly negative." ('Public Information Technology: Policy and Management Issues' 2003) the case for Pakistan is not so different in this regard. Pakistan is the fourth largest borrower of World Bank ($ 17.27 Billion of loans and credits since July 1950) fifth largest recipient of US aid, and has received about $15.39 billion in total from Asian Development Bank (ADB) since 1996. Pakistan has secured International Monetary Fund (IMF) commitment of $7.6 billion under a $9 billion bailout loan after US, China and Saudi Arabia rebuffed Pakistan appeals for immediate funding. In the 1980's and 1990's the situation reversed. About 80 % of the foreign aid was being spent on armed forces and other non-development expenditures. In the year 2000 all of the foreign aid was spent on debt servicing. **A**fter 9/11, Pakistan received a record aid. Musharraf regime borrowed $15 billion. The regime also availed the highest foreign exchange inflow with over $ 25 billion in remittances and $10 billion from the US. During 2003-04, the total external debt of Pakistan was $ 33.352 billion, which has now gone up to $ 45 billion in June 2008. Domestic debt had soared to Rs.400 billion by the end of June 08. Pakistan is spending an estimated amount of $ 4 billion on debt-servicing every year. But foreign debt is not coming down substantially as new loans are taken when the old loans are repaid. In the fiscal year 2006, foreign debt of $3.1 billion was repaid, but new loans of $3.05 billion were taken. About 60 % of total annual budget goes to military, and 30% to debt-servicing. Since the taking over by new PPP government Pak currency has devalued to some 23 per cent, sudden increasing the volume of Debt (IFIs, Pakistan & War on Terrorism, CADTM-Pakistan). Besides influencing the policy process, International Financial Institutions and donor nations (especially US) dictate governmental policies which is harmful for the "common man's interests".

According to United Nations Conference on Trade and Development (1997: 5) "political stability is invariably a pre-condition for foreign investment as it provides a stable environment for the promotion of risk capital investment in high-risk ventures." Contrary

to this Pakistan's economy and politics are unstable and vulnerable and not benevolent and attractive for the outsiders to invest.

2. The Structure of Organization

The structure of an organization is considered as an important variable which affects the efficiency and performance of the organization such as BOI. John M. Ivancevich et., al (1996:254) in their book 'Management: Quality and Competitiveness' contend that to organize or structure is the course of structuring "human and physical resources" for the purpose of achieving organizational objectives. It includes dividing tasks into jobs, specifying the appropriate department for each job, determining the best possible number of jobs in each department, and delegating authority within and among departments. One of the most critical challenges facing lodging managers today is the "development of a responsive organizational structure that is committed to quality." ('Organizational Structure' pp. 28 URL=http://media.wiley.com/product_data/excerpt/79/04714744/0471474479.pdf)

2.1. Organizational Structure of the BOI[4]

The head of the state is its President and Federal Minister in charge of the Division is its vice-president. The BOI board is composed of 27 member- seven government sector representatives and twenty private sector representatives, besides three more members on special invitation. There is also a cabinet committee on investment (CCOI) having 15 members in which the prime minister of Pakistan is the chairman and chairman BOI is also one of the members. It basically acts as a decision making authority and considered as a "clearing house" which considers different proposals and problems by industries, investors etc.

[4] The data about the organizational structure of the BOI is taken from its website, i.e. URL= http://www.pakboi.gov.pk/org_chart.htm, viewed May 23, 2010.

The Chairman of the BOI is appointed by the Federal Government and performs the functions as assigned to him by the board which is basically policy making and strategy formulation etc. The Secretary of the BOI is appointed by the federal government (either from the public or private sector) and acts a chief executive and performs the duties as assigned by the Chairman. He is the principal accounting officer as well and has the status of Secretary of the Federal State. The board shall meet once every three months and meetings shall be presided over by the president or vice-president or the chairman, or by a member nominated by the president in the absence of former in each case. The decisions in the board are taken on majority voting basis.

2.2. Functions of BOI

Functions of the BOI can be summarized into following main duties

Review and propose national investment policies and laws and seek cabinet's approval; formulation of economic policies including fiscal and trade policies; coordinate with concerned Ministries, Departments, agencies and Provincial Governments with regard to policies and their implementation having impact on investment; monitoring progress of investment programs and projects; review investment promotion plans; appoint commissions, expert bodies and consultants to study various aspects of attracting investment in all sectors and improving the investment climate; collect, compile, analyze, maintain and distribute investment-related information and, from time to time publish periodical analytical reports in investment trends.

2.3 Grants, funds

The Federal Government places annual grants on the BOI and there a BOI fund which consists of Federal government grants; foreign aid and loans; fees and charges receivable by the BOI. Moreover, the BOI is required to submit annual report at the end of each

financial year which shall include its performance throughout the year, financial audit report, and outline for the proposals of next financial year.

Provincial Investment Committees are also established to assist the BOI to promote investment in different provinces. The BOI can collaborate and communicate with different ministries, government department, agencies, and private sector about the matters relating to it directly or indirectly. Moreover the BOI is allowed to make further committees to achieve its objectives.

3. Corruption

Corruption is one of the malaises of public sector affecting their efficiency and performance. It can be defined as misuse of an employees authority by not fulfilling his/her duty properly; not taking care and protecting public's interests; stealing wealth and resources from organization; exerting unjustifiable influence on policy making and implementation process; and employing unskilled workers for certain jobs etc. The most obvious causes of corruption are low salaries, insecure tenure, and outmoded accountability mechanisms. Recruitments, postings and promotions are not merit-based; Bureaucratic corruption takes several forms, including abuse of discretionary power, misuse of regulatory authority, as well as institutionalized and participative practices described below.

3.1. Participative Corruption in Pakistan

The institutionalized corruption is characterized by providing protection and immunity by a government organization to its own corrupt officials; while, participative corruption involves collusion between the bureaucracy and the private sector. Participative corruption is particularly prevalent in Pakistan's tax administration, where the complexity of taxation laws, excessive taxation rates, lack of proper documentation in the private sector and widespread tax evasion make the income tax and customs and excise

departments among the most corrupt in the country (Reforming Pakistan's Civil Service, Asia Report No. 185, 16 February 2010: i). The liberal economic policy of Pakistan and continued privatization is even not benevolent to the common man. According to the Privatization Ordinance 2000, the purpose of privatization is Pakistan's poverty alleviation and repayments of foreign debts. Contrarily, during 15 years of privatization in Pakistan, these two purposes have not been achieved. When privatization started in 1991, the foreign debt was 23.323 billion Dollars. Now, in 2008, it has gone up to 45 billion Dollars. While internal debts are on ever increase. Poverty has increased according to all the surveys by government and independent organizations. It is estimated that over 45 percent of Pakistan population lives under poverty line. The national growth of economy during the previous decade (1981-1991) has been on average 6.7 percent. However, during the decade of privatization (1991-2001), it has been reduced to 4.4 percent. (Farooq Tariq Action in Solidarity with Asia and the Pacific, 'Pakistan: $23.8 billion corruption from privatization under Musharraf'). Despite of all these problems government is not willing to reform the public sector and practice good governance principles in their organizations.

3.2. Reasons of Corruption in Public Sector Organizations

Low salaries and pensions and inadequate welfare programs for civil servants have encouraged widespread corruption, while at the same time lowering morale and increasing inefficiency. Many capable officials opt to join the private sector. Where low salaries and benefits are a major cause of bureaucratic corruption, the deterioration in both internal and external accountability mechanisms is also a major cause of corruption where these officials run away easily with corruption charges (Reforming Pakistan's Civil Service). The civil service's falling standards impact mostly Pakistan's poor, widening social and economic divisions between the privileged and underprivileged. With citizens increasingly affected by conflict and militancy, including millions displaced by fighting in the Northwest Frontier Province (NWFP) and the Federally Administered Tribal Areas (FATA), the government's ability to ensure law and order is

getting further worst and governance indicators are deteriorating (Reforming Pakistan's Civil Service).

According to the World Economic Forum's Global Competitiveness Report (2007-08) corruption has been identified as the" third greatest problem for companies doing business in Pakistan, after government bureaucracy and poor infrastructure." (http://www.gcr.weforum.org/). Approximately 40 percent of companies in Pakistan feel that corruption is one of their major concerns. However, the country is seen as a relatively better place for running a business than its neighbors. While the **Doing** Business Survey of the World Bank, (www.doingbusiness.org) has shown the country slipping two places to 76 out of 178 countries based on the latest results (June 2008), only the Maldives has a higher score among countries in the Asia Pacific region.

Portentously, the general public views about corruption are not different than that of private sector about doing business in Pakistan. Transparency International (TI)'s Global Corruption Barometer 2007 shows Pakistan to be one of the countries most affected by petty bribery. More than 44 percent of respondents reported that they have paid a bribe to obtain a service. Half of all those surveyed (52 percent) perceive government efforts to reform corruption as ineffective and nearly two-thirds (59 percent) think that corruption is likely to increase within the next three years.
(http://transparency.org/policy_research/surveys_indices/gcb/2007)

3.3. Recruitments

As far as recruitments of Pakistan's bloated public sector is concerned it is broadly perceived to exist "only to provide jobs to the unemployable", in the words of a retired senior civil servant. (Reforming Pakistan's Civil Service: 1). Moreover, Pakistan's public sector is very large besides being ineffective as presently there are around 2.4 million regular civil servants[5] for a population of 170 million, or one civil servant for every 67

[5] Theoretically, a civil servant is answerable to his immediate supervisor and upwards to the secretary who, in his capacity as principal accounting officer, is accountable to the minister and to parliament. Several

citizens. In comparison, India has one civil servant for every 110 citizens (Reforming Pakistan's Civil Service: 1). Same is the case with Pakistan's BOI which is largest in the whole region. Due to rampant corruption in public agencies, people confidence is very low in the efficiency of public sector. Every regime change is perpetually linked by broad transfers and postings of officials at the policy-making levels in the secretariats as well as at the operational level in the districts. This politicization of the bureaucracy contributes to its dysfunction, with promotions increasingly dependent on officers' proximity to those in power (Reforming Pakistan's Civil Service: 1).

4. Repercussions of Poor Governance Standards or Outcomes

4.1. Insecurities of Investors

It can be argued that Pakistan is has a huge potential for foreign investment but this is not to suggest that Pakistan can attract foreign and local investment only by its policies of privatization and liberalization. There is an implementation gap in the policy making process and its implementation. Michael Hill and Peter Hupe (2006: 5) quote Anderson (1975: 3) as defining public policy as "a purposive course of action followed by an actor or set of actors in dealing with a problem or matter of concern…public policies are those policies developed by governmental bodies and officials". The policy making and implementation are inter-related with each other and can not be separated. Michael Hill and Peter Hupe (2006: 7) give the definition of policy implementation produced by Mazmanian and Sabatier and is considered as the most influential definition of implementation. They assert that

> Implementation is the carrying out of a basic policy decision, usually incorporated in a statute but which can also take the form of important executive orders or

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factors undercut this chain of accountability, including inadequate training; the absence of merit in appointments and promotions; and poor practices and norms. Other problems include weak regulatory mechanisms, unchecked discretionary powers, weak standard management systems and procedures, and the failure to regularly upgrade rules and provide easily accessible information on service delivery. (Reforming Pakistan's Civil Service, Asia Report N°185 – 16 February 2010, page 16)

> court decisions. Ideally, that decision identifies the problem(s) to be addressed, stipulates the objective(s) to be pursued, and in a variety of ways, 'structures' the implementation process. The process normally runs through a numbers of stages beginning with passage of the basic statute, followed by the policy outputs (decisions) of the implementing agencies, the compliance of target groups with those decisions, the actual impacts-both intended and unintended- of those outputs, the perceived impacts of agency decisions, and finally, important revisions (or attempted revisions) in the basic statute. (1983: 20-1)

Hence implementation can be seen as policy-action continuum (Hill and Hupe, 2006: 7) .The DG (Sindh BOI) says that BOI is giving top priority to facilitate local investors, as their investment would help attract foreign investors as well. However, Nasreen Ali admitted that due to security reasons not only foreign investors are unwilling to invest, but also the local investors are hesitant to make investment in Pakistan. Controlling cost of production, however, remains a challenge, as the DG confesses that cost of manufacturing in Pakistan is on higher side and it has negative impact on local manufacturing sector. Whereas, in this period of acute power shortage in Pakistan, Senator Abdul Haseeb Khan says that industries are gradually closing down across the country, adding that neither Federation of Pakistan Chambers of Commerce and Industry (FPCCI) nor are other chambers playing their due role to pressure the government to act fast and do something to keep industries operative. He also objects by proposing that these trade bodies have also failed to suggest the government to take practicable measures to bring down the cost of production and doing business. ('BOI, SBOI Preparing Investment Projects, Wednesday, 21 April 2010,

http://finance.kalpoint.com/economic-updates/pak-major-financial-news/boi-sboi-preparing-investment-projects.html)**.**

4.2. Inflation

Hence, the economic indicators of Pakistan's economy are not encouraging just like other governance indicators. The failure of public sector in Pakistan is not difficult to point out by looking at these indicators; as, inflation has accelerated to a three-month high of 13.26 percent in April, according to the Islamabad-based Federal Bureau of Statistics. Prices rose after Pakistan raised domestic gas prices by as much as 5.4 percent on April 1. Delays in the release of a $5.3 billion grant pledged by the group in April 2009 have forced the government to tap funds from the central bank, stoking inflation. Government borrowings from the State Bank of Pakistan rose 14.5 percent to 365.9 billion rupees ($4.3 billion) in the 10 months to April from a year earlier, according to the central bank. Recently, the consumer prices have soared-up in recent months since a cutback in energy subsidies and heavy deficit-financing by the central bank (Farhan Sharif (2010).

4.3. Unstable Stocks, Currency

Pakistan Stock Exchange and currency are also not stable where Pakistan's Karachi Stock Exchange 100 Index fell 0.9 percent to 6,959.28 bringing the declines in May 2010 to 4.6 percent. The rupee lost 0.6 percent against the U.S. dollar since May 1, 2010. The yield on the six-month Treasury bill was 12.09 percent in the auction on May 19, compared with 12.14 percent in the previous auction on May 6, 2010 (Farhan Sharif, 2010). According to the government, the South Asian economy needs to grow at an average annual pace of 6 percent to diminish poverty.

4.3.1. Loans

Moreover, Pakistan received a $7.6 billion loan from the International Monetary Fund in 2008 to avoid defaulting on its overseas debt. The credit agreement was increased to $11.3 billion last year. Pakistan's Finance Adviser Abdul Hafeez Shaikh[6] says on May 12, 2010 that the country may turn to the IMF for a second loan to make up for a shortage of money with the government. (Farhan Sharif, 2010).

Ominously, despite of this bleak status of Pakistan's economy and poor governance indicators in the public sector, Board of Investment chairman Saleem Mandviwalla (who is also the state minister) is optimistic according the Dawn news, February 28, 2010. He tells that "traditionally the investment pace that we had kept — which was an average of five billion dollars a year — I think we should be able to go back to it very soon depending on if the global situation improves,"; though, he acknowledges the external factors as main problem when he says that "Pakistan faces the global crisis which is going on, the financial crisis, the energy crisis and then on top of these we have the security situation." (28 Feb, 2010, Dawn.com)

Conclusion and Recommendations

The public sector organizations in Pakistan are considered as one of the inefficient institutes of the country where poor governance, delayed processes, corruption, political and individual influences, lack of resources, low protection and salaries of public employees are prevailing causes. Due to these negative attributes, the public sector is unable to provide efficient service delivery to its clients, i.e. the common people who are always dissatisfied and frustrated about their performance. The Board of Investment has

[6] Hafeez Shaikh, a former minister under military ruler Pervez Musharraf, was named the finance adviser on March 18 to replace Shaukat Tarin, who resigned as the nation's finance minister in February. URL=http://www.businessweek.com/news/2010-05-21/pakistan-inflation-may-spur-raza-to-keep-highest-rate-update1-.html, viewed May 27, 2010

very defined mission and objectives, and the decision making process is transparent having liberal policies, but being a public sector organization, it is no exception as is shown by economic indicators of the country. It is very explicit that there is a gap between policy making process and its implementation. Here policy is not connected with implementation where the problems of non-compliance with the rules and inefficiency arise. Public sector organizations like the BOI can be made more efficient and policies can be made more effective only if the good governance principles of transparency, fairness, equal treatment/fairness, employee protection and high salaries, merit-based appointment, fair promotions based on objective evaluation, vertical and horizontal accountability mechanisms are introduced and practiced by the employees from the top to bottom of the organization. The policy making process should also be connected and integrated into policy implementation.

Recommendations

Economic incentive is one of the most important factors interfering with the performance of individuals in organizations. Handsome amount salary packages are needed to be introduced in public sector organizations in Pakistan. In addition, bonuses should also be introduced and linked to the efficiency and performance of the individuals individually and collectively in achieving any target.

Promotions of the employees should be connected with their work efficiency, performance, seriousness of their attitude like punctuality and time they spend working in the organization and their expertise and qualification instead of seniority or time period.

The principles of good governance should be introduced and integrated into the training programs of the individuals.

Policies should be linked with the implementation process and implementer on the top and bottom of the hierarchy should be trained in the way that they should feel as owners

of the policy and obligated to implement in true spirit for their own well being which should be linked with the organization.

There should be external and internal accountability of the individuals in the organizations linked with their efficiency.

The public sector is the facilitator and enables and should act as real protector of people's interests. Any policy which goes against country's interests, as for example unchecked privatization and excessive borrowings by the government, should be lobbied and opposed by the public sector organizations such as BOI. It is its mandate to attract foreign and domestic investment and facilitate the process; however, its real underlying purpose is to improve the economic indicators of the country's economy. So, it is mandatory for the BOI of investment to oppose polices which undermine the country's economy in any way.

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