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Doing Development Better: Analysing the PSDP

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The Pakistan Institute of Development Economics (PIDE) organised a conference on the development policy of Pakistan with a focus on planning and public investment policy. At the Conference, a PIDE study entitled, *Doing Development Better*[1] was launched and discussed. The key findings of the conference are listed below:

1. Reviewing the planning and growth history of the country, the PIDE study[1] pointed to the need to reassess the planning framework that has been in use for the last six decades. Mahbub ul Haq[2] and the Harvard Advisory Group (Haq/HAG) led by Gustav Papanek put in place the Haq/HAG model of development, which Pakistan has been following since the First Five-Year Plan. Key features of this model are:

   - A focus on building physical infrastructure through discrete projects.
   - Planning to develop a medium-term budget to finance the sectoral hardware.
   - Seeking foreign projects for meeting the financing gap in the plan, given an expected shortfall in domestic savings.

This approach has led to:

- An excessive focus on “brick and mortar” development (see Box 1).
- Fragmented projects as planning was overtaken by repeated Balance of Payment (BoP) crises and resort to IMF programs.
- Weakening standards on project development implementation and cost control with increased politicisation of public investment.

2. The econometric and other evidence (see Box 2) shows that public investment does not drive either economic growth or private investment. Projects appear to be creating assets that are either not being managed for maximum return or are poorly selected to reap the return that should not have been expected.
3. The development experience[3,4] has shown that there is a need to change the Haq/HAG[2] model, which was based mainly on ‘hardware’ creation. The ‘software’ of growth—productivity, management, policy, innovation, and institutions—are now seen to be the prime movers of growth and development.
4. The PIDE study also shows the importance of developing a coordinated and well-researched national development strategy for economic growth and development. This strategy should be based on detailed and well-researched sectoral strategies for

enhancing productivity, developing markets and better asset creation and management.

5. To develop a growth strategy for all the levels of government, the Planning Commission must play a coordinating role, leading with research to develop well-thought-out initiatives for reform and deregulation. National debate and several challenge initiatives through the PSDP can help achieve a coherent and coordinated growth effort across the country. This process will also serve to coordinate several donor efforts that are underway but appear to have limited impact in the absence of an integrated approach.
6. The Conference also endorsed the need to return to diligent standards of earlier days by making cost-benefit analysis (CBA) central to the growth policy. The planning process (the PC approval system) continues to enjoin CBA, the funding of feasibilities, approvals at the high-level fora, completion reports and monitoring, and evaluations. The lack of capacity and political imperatives have attenuated the system to a point where the system seems to be measuring only inputs i.e., investments made. Assets, when created, are more expensive than they should be and the returns on them are seldom evaluated or maximised. It is not surprising that the return on public investment is low and not contributing to growth.
7. Consideration needs to be given to moving from a system of only measuring inputs to monitoring and maximising returns. The Ministry of Finance has developed a Medium-Term Budget Strategy (MTBS) based on the Results-Based Management (RBM) Framework. Developing an RBM framework also seems to be the cornerstone of the Prime Minister’s vision. The Framework of Economic Growth (FEG) approved by the National Economic Council in 2011 and 2012 had also suggested using the RBM to maximise returns and growth.
8. The adoption of an RBM based planning system would allow a medium-term rolling budget to be integrated into a growth framework. Such a move would also allow the investment and current budget to be consolidated to let the concerned agencies and ministries use all resources to deliver the desired results for growth and development.
9. Asset management for maximum returns remains a major concern for productivity and growth. Studies show that PSDP creates more assets than can be productively managed. Some examples are universities with buildings but lacking in faculty; stadiums without active sports; underutilised training academies, convention centres, and expo centres; roads that do not generate returns to cover maintenance; and airports and train stations that do not exploit their commercial potential.
10. Consolidation of the development and current budgets and moving to the RBM will allow asset utilisation plans to be developed and managed.
11. Development of asset registers to allow government balance sheets to be clarified and strategies to develop assets better.
12. If the PSDP approach is to be used to create assets, returns would be maximised if we regard the allocations from the PSDP to be a loan to the concerned project. The loan along with the expected rate of return would be required to be paid back with any subsidies intended by the government being taken into account as they accrue.
13. A combination of these proposals could be refined to incentivise ministries and agencies to prioritise management plans for optimising returns. This will be an

important part of a much-required strategy to accelerate productivity and growth in the country.

14. In keeping with the FEG, the discussion noted that the way forward has to be based on reform and deregulation to accelerate productivity, private investment, and entrepreneurship. The move away from an input-based, project approach to an RBM and asset management approach will foster these important market-based outcomes. This will need detailed policy and reform work to foster innovation and entrepreneurship.

The PIDE conference was a much-needed review of the growth system in Pakistan and it put forth several very useful ideas for rejuvenating the growth architecture of the country. Potential growth and productivity have both been on the decline for the last four decades as the struggle for adjustment has put the needs of stabilisation above growth. There is an urgent need to accelerate growth sustainably. To do this the Haq/HAG approach must seriously be re-evaluated to shift the paradigm of our growth policy.

The Conference took up this challenge earnestly. To develop a serious growth effort in the country, indigenous policy analysis and formulation capacity will have to be built up, and reliance on fragmented donor studies will have to be reduced. A recent PIDE study[10] on the state of research in Pakistani universities also points to the need to link universities into a research nexus that supports growth in the country. Like in advanced countries, a serious public policy research network will have to be developed in the country to contribute to a detailed R&D for policy and reform.

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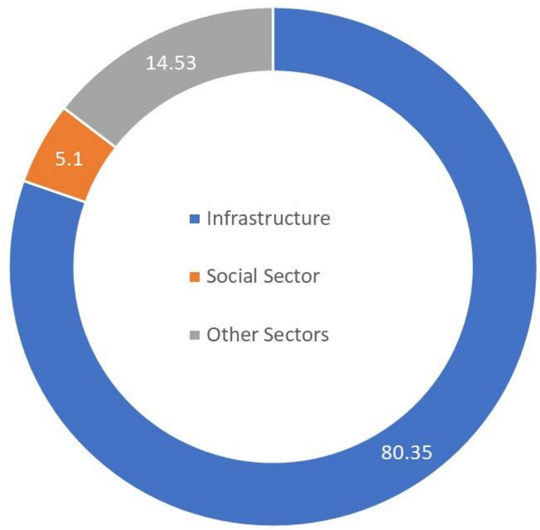
Box 1: Sectoral Share in the PSDP



Source: N. Haque, et al., 2020.

Box 2: Impact of Public Investment on Growth from Recent Research

Papers	Result
Bint-e-Aijaz, Maryam and Nazima Ellahi (2012)[5]	Negative impact on the growth rate, mainly investing in the sectors, which are unproductive and inefficient.
Ghani, Ejaz and Musleh-ud-Din (2006)[6]	Public investment has a negative, but insignificant, impact on growth.
Khan, M. Tariq Yousuf and Komei Sasaki. (2001)[7]	Sufficiently large during the early period but decreases over time.
Elahi, Nazima and Adiqa Kiani (2011)[8]	Role of public investment is negligible due to its inefficiency.
Saghir, Rabia and Azra Khan (2012)[9]	Government development expenditures have an insignificant impact on growth.