Anticorruption and its Discontents
Anti-corruption in Post Independence Colonial Bureaucracies

Daniyal Aziz, Advisor
Governance Institutes Network International (GINI)
Usama Bakhtiar, Research Manager
Governance Institutes Network International (GINI)

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Abstract

Policies for fighting corruption in post colonial societies are informed both by colonial institutions that have persisted after independence and by the donor community, which has recently become more involved in anti-corruption efforts. The foci of both have been administrative and procedural. As such, rather than addressing perverse incentives embedded in the historical evolution of administrative culture, or in the ways that these structures clash with local folk law, both donor and domestic approaches actually perpetuate legacies of corruption. We argue that the "procedural" model fails to appreciate the importance of one key fact, namely, recurrent budget decisions and the concomitant effect on incentives. Thus increasingly perverse incentives ultimately result in conditions where corruption actually becomes the system rather than the exception. We use the case of Pakistan to argue that despite the adoption of more robust and better accounting and auditing systems, prosecution procedures, anti-corruption commissions, legal mandates, transparency doctrines, all assisted by more sophisticated technologies, systemic, endemic syndicated corruption has actually grown. Despite the fact that these administrative initiatives have been introduced repeatedly over decades, levels of corruption have actually increased. Combining the conceptual framework of the New Institutional Economics and path dependency theory, this research paper first locates the failure of current approaches to control corruption in the legacy of the colonial bureaucracy and its persistence in the post-colonial era. Our main goal is to suggest concrete policy prescriptions for controlling corruption in Pakistan. While centered on Pakistan the approach and argument we outline provides insights into some common dilemmas of post-colonial societies, governments and bureaucracies.

I. Introduction

Despite decades of strengthening the institutional architecture for effective anti-corruption policies, it is clear that existing approaches have been ineffective. While the demand to end corruption has been a constant refrain in post-colonial societies, calls for such reforms are now largely emanating from Western donors. These donors directly advocate administrative measures to stem the tide of growing and endemic corruption. The remedies advocated by donors are based on institutional and procedural solutions appropriate for countries in which corruption is the exception. The resulting anti-corruption campaigns are not equipped to deal with corruption that is not the exception, but the rule. In short, countries like Pakistan continue to fail by strengthening existing mechanisms that, inherently, rely on administrative reform rather than on tackling the incentives for corruption.

Incentives for endemic corruption are exhibited on the recurrent side of the budget at both the federal, state and local levels. Donors are not willing to have any association with the recurrent side of the budget, for they consider virtually all recurrent expenditures to be a waste of resources. Lacking legitimacy in highly donor-influenced environments local reform efforts habitually abide by the rules and procedures that undergird the philosophies of donors. This condition calls for the implementation of fundamental institutional innovations and attitudes that have dominated anti-corruption efforts: new innovations in thinking, policy and administrative structures are necessary to effectively address ubiquitous corruption at all strata of the political and bureaucratic systems. Such innovations require fresh observation, and a theoretical framework quite different from the neo-classical economic framework that has dominated donor policy.

A. Deconstructing "Corruption"

It has been common practice to view corruption as a singular phenomenon. This approach is not useful: "casual", or "occasional" corruption and "endemic, systemic and syndicated" corruption are two radically different phenomenon. The latter type of corruption can only exist when the executive level is fully complicit in and a beneficiary of corruption rents.

There are two conditions that account endemic corruption on the part of the executive:

i. There must be very perverse incentives supporting the need for such behavior;

ii. The toleration of this behavior by broader society is the result either of incapacity or the lack of interest to control corruption. Rather, path dependency theory and the related hypothesis that breaking path dependency only occurs in new incentive structures that approximate an "exogenous shock," It is necessary to examine the formative history of this behavior including the following factors.

a. What were the conditions or interventions that produce this behavior?

b. What were the motivations and origins that fomented the attraction of such actions?

c. When did the administration turn to its culturally specific corruption behavior?

iii. In light of a historical, path dependent narrative, what directions should anti corruption innovations take on order to effectively deal with these perverse incentives?

To presage the argument, explaining the historically specific experiences that created incentives that would approximate exogenous shocks in Pakistan, thereby yielding positive results the following policies are worthy of serious consideration:

i. Self pricing incentives (ratcheting incentives).

ii. Negotiated settlements in salary bonuses accruing monthly only upon verification of agreed deliverables.

B. The fight against corruption is not being "lost", it never began

Since independence in 1947, dozens of administrative measures have been taken to tackle corruption in Pakistan. These measures have included all types of initiatives including the purges of senior bureaucratic and political leadership, the creation of new institutions, information technology enhancements, legislative interventions, stronger criminalization laws, civil society initiatives, media sensitization and investigation and even the formation of new political parties. Over the years this singularly administrative approach has led to the creation of over 34 federal and provincial institutions with a variety of public accountability mandates. Spanning decades, the government of Pakistan has maintained thousands of staff, which has an annual cost of billions. Under the gaze of this massive administrative network, however, systemic, endemic and syndicated corruption has not only thrived, but grown vastly more robust.

C. How much does corruption cost?

The dozens of institutions designed to control corruption have themselves become part of the illicit rent generating apparatus, empowering endemic corruption with an environment of in which it can function with impunity. It would do well to recount the numerous negative effects of endemic corruption as a way of grasping the dimensions of the problem.

To state the obvious: Corruption adversely affects the economic health of Pakistan. The country today faces multiple crises of economic governance. But it is corruption that occupies center stage in public debate and national consciousness. Societal intuition confirms empirical fact – corruption has either caused these crises or made them worse.

First, the twin deficits of the fiscal and current account have constricted fiscal space. They are both linked directly or indirectly to poor revenue collection which in turn is significantly weakened by administrative leakages.[1] They amount to 64% of income tax, 48% of customs and 45% of sales tax, costing the national exchequer an annual US$ 3.3 billion[2], (over half the total development expenditure for the fiscal year 09).[3]

Second, food inflation was estimated at 28.9% in July-February FY08-09 (against 13% in the comparable period over the previous year)[4], putting 28% of the population in the food insecure bracket. With 42.8% of the population living under and around the poverty line, this is a major social development setback.[5] Food inflation is driven by price hikes for staple items including wheat, rice, milk and particularly sugar. Sugar prices hit an all-time high of Rs. 68-75/kg last year despite government plans to import the commodity to fill a forecasted shortage of 7 lakh tons, and release 1 lakh tons from state reserves to utility stores to control demand. These price-control measures were inexplicably delayed, costing the national exchequer Rs. 25 billion.[6] A report submitted to the Supreme Court held many high-level politicians with large stakes in sugar production responsible for hoarding and profiteering actions that created the crisis. According to a Gallup poll, 78% of the Pakistanis agree with the findings of this report, while 41% believed there was little to no chance of the perpetrators being held accountable.[7]

Third, growth has declined from an average of 8% from FY 02-FY 07 to 2% in FY 09. Growth was buoyed largely by strong foreign and domestic investor confidence. The current investment-to-GDP ratio has fallen for the second consecutive year owing at least

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[1] Pakistan Tax Policy Report, World Bank, Volume II, July 2009
[2] National Anticorruption Strategy, National Anticorruption Bureau (NAB), 2002
[3] Development expenditure for FY 08-09 was Rs. 365 billion. Source: Pakistan Economic Survey 2008-2009, Ministry of Finance, Government of Pakistan
[4] Inflation Rate of Pakistan, Ministry of Finance, Government of Pakistan.
Link: http://www.finance.gov.pk/finance_blog/?p=53
[5] The State of Pakistan's Economy - First Quarterly Report 2009-2010, State Bank of Pakistan
[6] The News, 13/22 Aug, 09
[7] Perceptions about the Official Report on Sugar Scandal: GILANI POLL/GALLUP PAKISTAN, Islamabad, October 16, 2009

partially to corruption.[8] The World Bank's latest Investment Climate Assessment for Pakistan reveals that 57% (up from 40% in 2002) of private firms considered corruption in the business-government interface to be a severe constraint, with bribery being more widespread in Pakistan than comparable countries.[9] The World Economic Forum's Global Competitiveness Report (2008-09) cites corruption as the second-most problematic factor for doing business in Pakistan ranking it 109 out of 134 countries for *'transparency of government policymaking'*.[10] The World Bank's (WB) Doing Business (2009) report has Pakistan slipping three places from last year to 77 out of 181 nations.[11]

Fourth, the ongoing insurgency has resulted in the loss of 10,123 lives this year with 23,608 deaths over the past 6 years. A full 7,325 of the victims were civilians[12]. The conflict in the Federally Administered Tribal Areas (FATA) has displaced 1/3rd of FATA's 3.5 million strong population and already cost over $ 2 billion.[13] The worsening security situation is largely to blame for low investment and growth, while the financial cost further burdens meager fiscal resources. *Empirical research suggests that the low quality of governance and government corruption create an enabling environment for insurgency and terror by weakening the enforcement of market principles and property rights and stifling economic opportunity.[14] In Pakistan's case, corruption weakens the impact of public programs, exacerbating poverty and creating a breeding ground for terrorism.[15] It also undermines counter-terrorism efforts. Of the **$2,374,000,000** the US gave the Pakistan government for its role in the war on terror 2002-2008, **only $300 million (13%)** reached the Pakistan Army.*

In other words, after eight years of unprecedented funding, Pakistani troops in FATA "*still lacked basic equipment including ammunition, armored vests and shoes*." By mid-2009, failed counter-terrorism in FATA had allowed the Taliban to gain significant territorial control. Al Qaeda to has been able to re-establish safe-havens in the region.[16]

Fifth, Pakistan is undergoing the worst energy crisis in its history. From November 2008 to January 2009 nearly 2000 industrial units fclosed due to power shortages[17], resulting in the worst ever decline in production experienced by Pakistan's industrial sector.[18] Power outages stretching up to 18 hours have sparked nationwide riots especially in Karachi,

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[8] World Bank Country Assistance Evaluation, 2006
[9] Corruption retarding investment in Pakistan: WB Friday, July 10, 2009, The News
[10] The Global Competitiveness Report 2008-09, World Economic Forum
[11] Doing Business, 2009 – Comparing Regulations in 181 Economies, World Bank.
[12] South Asia Terrorism Portal. Link: http://www.satp.org/satporgtp/satp/index.html
[13] "Cost of Conflict in FATA", Planning and Development Department, FATA Secretariat, Government of Pakistan, April 2009
[14] How Market Culture Alleviates Ethnic Tensions: Theory and Evidence, Michael Mousseau & Demet Yalcin Mousseau, 2005
[15] Failed Economic Take-Offs and Terrorism: Conceptualizing a Proper Role for U.S. Assistance to Pakistan, Robert Looney, 2003
[16] US Aid to Pakistan – US Taxpayers Have Funded Pakistani Corruption, Azeem Ibrahim, Harvard Kennedy School, 2009
[17] Pakistan's Energy Crisis and the Possible Silver-lining for Foreign Investment, Center for Research and Security Studies, 2009
[18] The State of Pakistan's Economy - First Quarterly Report 2009-2010, State Bank of Pakistan

Lahore and Faisalabad. These major industrial and commercial centers account for 85% of Pakistan's total export revenue.[19] The government's primary policy response has been to introduce 14 new Rental Power Plants (RPPs) to fast-track supply enhancement. These RPPs cost the economy Rs. 79 billion per annum and hiked up customer tariffs by 87% by FY 2011. These dismal results should be viewed in light of the fact that power outages were not reduced throughout 2010.

An independent review by the Asian Development Bank (ADB) found that the contracting terms with the RPPS had been changed to double the down-payment made by GOP with an additional guarantee to cover obligations. These changes were made after the initial bids had been opened, shifting the financial, equity, and project risk from the seller to the government. The acceptance of unsolicited bids and the fact that the National Electric Power Regulatory Authority (NEPRA) did not approve the contract at the time of signing casts further doubt on the transparency of the process.[20] This is not the first corruption scandal emanating from the energy sector. In 1998 the government cancelled 7 contracts for Independent Power Producers (IPPs), which damaged public perception of the program as well as the broader investment climate.[21] A recent World Bank report also found that: "*A stunning 84 per cent of firms that applied for connection had to make informal payments in order to obtain electricity services.*"[22]

To summarize: *Corruption has shaped the economic development of Pakistan for decades.* Less remarked upon is the fact that the economic impact of corruption have political echoes. They have eroded the political capital of the incumbent government, weakened their legitimacy as well as weakening the case for democracy in a post-dictatorship Pakistan. The latest TI Pakistan survey reveals that Pakistanis perceive civilian governments as being more corrupt than military regimes. Corruption as a political issue continues to add uncertainty and instability to domestic politics, as it has done in the past. In the 1990s, four successive governments were dismissed over corruption charges. Promises of accountability led the Supreme Court to validate the last military coup in 1999.[23] It was the 'dirty privatization' scandal regarding the sale of Pakistan Steel Mills which led to a rift between the Presidency and the Supreme Court, culminating in the ouster of President Musharraf.[24] Accountability is a common electioneering plank for all major political parties, and features prominently in the

[19] Pakistan's Energy Crisis and the Possible Silver-lining for Foreign Investment, Center for Research and Security Studies, 2009
[20] Islamic Republic of Pakistan: Rental Power Review, ADB, 2010
[21] "Lessons from the Independent Private Power Experience in Pakistan," World Bank, May 2005.
[22] As reported in The News, July 8th, 2009
[23] "[T]heir (military government) avowed intention to initiate the process of across the board and transparent accountability against those, alleged of corruption in every walk of life, of abuse of national wealth. …that the government shall accelerate the process of accountability in a coherent and transparent manner justly, fairly, equitably and in accordance with law." Qazi Hussain Ahmed vs. Gen. Pervaiz Musharraf, CP no. 15 of 2002.
[24] Global Corruption Report 2009, Transparency International

Charter of Democracy—an agreement signed between the two largest political parties in Pakistan.[25]

D. The story of Pakistani politics is, in many ways, the story of corruption in Pakistan. Consider the following facts.

Figure 1: Corruption as a Political Narrative

Dates	*Highlights*
August 6, 1990	President Ghulam Ishaq Khan dissolves parliament and sacks Prime Minister Benazir Bhutto for corruption and ineptitude
April 18, 1993	President Ghulam Ishaq Khan again dissolves parliament and sacks Prime Minister Nawaz Sharif for corruption
November 1996	President Farooq Ahmed Laghari dissolves parliament and sacks Prime Minister Benazir Bhutto's government again on charges of corruption
October 12, 1999	General Pervez Musharraf stages a military coup ousting Prime Minister Nawaz Sharif citing "*lack of accountability and corruption of horrendous proportions*" as a key justification[26]
May 12, 2000	The Supreme Court validates the coup as necessary for "*accountability against those, alleged of corruption in every walk of life*".
August 2003	A Swiss judge convicts former Prime Minister Benazir Bhutto and her husband (later President Asif Ali Zardari) of laundering $12 million received in bribes from contract-seeking Swiss firms in 1995.[27]
October 5th, 2007	Fifty-six days after Pakistan ratifies the United Nations Convention Against Corruption (UNCAC), the Federal Government promulgates the National Reconciliation Ordinance (NRO) which terminated all investigations of corruption offenses by public officials prior to October 12, 1999[28]
May 29, 2006	Pakistan Steel Mills reportedly worth Rs. 72 billion is sold to private parties for Rs. 21.75 million.[29]
June 23, 2006	Supreme Court rules against the Steel Mills privatization citing disregard of mandatory rules and insufficient information for arriving at a fair sale price.[30]

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[25] As revealed by a survey of party manifestos of the Pakistan People's Party (PPP), Pakistan Muslim League Nawaz Group (PMLN) and Pakistan Muslim League Quaid-e-Azam Group (PMLQ). The text of the Charter of Democracy was also consulted. Link: http://www.dawn.com/2006/05/16/local23.htm

[26] Text of speech made on October 17, 1999. Link: http://www.chowk.com/articles/4656

[27] Global Integrity Scorecaed: Pakistan, 2008

[28] Transparency International.
Link:
http://www.transparency.org/news_room/latest_news/press_releases_nc/2007/2007_10_07_pakistan_amnesty

[29] Business Recorder (Pakistan), 18 August 2006.

March 9, 2007	President Musharraf suspends the Chief Justice of Pakistan citing alleged corruption and misuse of authority[31]
December 16, 2009	The Supreme Court declares the NRO null and void and asks for cases deferred under the amnesty to be re-opened. The list of NRO beneficiaries includes 8,041 government officials including the President, Federal and Provincial Ministers, parliamentarians and scores of bureaucrats at all levels.[32]
March 31, 2010	Acting on the Supreme Court's orders, the National Accountability Bureau contacts the Swiss Attorney General to re-open the million money laundering case against the President in which he was convicted by a Geneva court in 2003.[33]

In the current period, Pakistan's performance on Transparency International's (TI) Corruption Perception Index (CPI) has been consistently poor, ranking 139th out of 180 nations in 2009.[34] According to TI's Global Corruption Barometer 2009, 18% of the respondents reported paying a bribe to obtain a service, and 51% termed state-led anticorruption efforts "*ineffective*".[35] The latest TI Pakistan survey reveals that national **bribery levels have risen 400%** in the last 3 years, from Rs. 45 billion in 2006 to Rs. 195 billion in 2009. A regional survey reveals that Pakistanis' perceptions of their police officers, judges and political leaders was the worst in the region.[36] Even a sample of 100 bureaucrats rated corruption as their top concern.[37] In 2008, The World Bank Institute (WBI) ranked Pakistan in the 24th percentile for '*control of corruption*' and in the 19th percentile for '*voice and accountability*' indicators respectively, both well below the South Asian average.[38] According to the Pakistan Infrastructure Implementation Capacity Assessment carried out in 2008 by the WB: "*Corruption alone was estimated to account for more than 10-15 percent of the project value, and approximate loss over the Medium Term Development Framework is estimated to be Rs100 billion, which is equivalent to the entire Public Sector Development Program for major infrastructure in FY 2005*." Public works kickbacks are estimated at about 25% of all budgets.[39] According to the WB Enterprise Survey 2007, 30% of firms expected to give 'gifts' to secure government contracts, while 59% were expected to give gifts in meetings with tax inspectors.[40] The Sindh government revealed that an average manufacturer received 27 'gift-giving' visits from officials representing various government departments.[41]

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[30] Judgment of the Supreme Court in Pakistan Steel Mills Privatisation Case, 9 August 2006; see www.dawn.
com/2006/08/09/tab.pdf/.
[31] March 15, 2007, New York Times
[32] November 22, 2009 Dawn News
[33] March 31, 2010 Dawn News
[34] Link given: http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table
[35] Global Corruption Barometer, 2009. Transparency International
[36] Human Development in South Asia 1999, Karachi, Oxford University Press.
[37] Perspectives on Corruption in Pakistan: A Pilot Study, Sustainable Development Policy Institute, 1999
[38] Governance Matters, 2009 – World Governance Indicators 1996-2008
Link given: http://info.worldbank.org/governance/wgi/index.asp
[39] Global Corruption Report, TI 2008
[40] Pakistan Country Profile 2007, World Bank and IFC Enterprise Surveys
[41] NACS 2002.

Soon after independence Pakistan had internal motivations that were often informed and shaped by internationally sponsored administrative approaches to effectively control corruption. Even during these first three decades of Pakistan's existence the relationship between administrative approaches involving more criminalization as opposed to understanding underlying perverse incentives causing corrupt behavior and neutralizing or countering them was the order of the day. Later these internally led efforts waned as impunity lead to apathy, and subsequently a generation international donor led interventions began their administrative approaches to controlling corruption, once again ignoring the underlying perverse incentives that form the foundation of corruption.

In this way, corruption has grown despite six decades of government efforts to control and contain it. The government's anticorruption approach has been mainly prosecutorial, involving the criminalization, investigation and prosecution of corrupt behavior as a special offence. Little attention has been devoted to the systemic aspects of the problem. This is what we propose to do in this essay.

Since independence, the anti-corruption policy environment has mushroomed: layering over the Prevention of Corruption Act 1947, later supplemented by the Public Representatives (Disqualification) Act of 1949, the Elected Bodies (Disqualification) Ordinance of 1959 (which sought to exclude corrupt officials from government) and culminating in an amendment in 1977 which extended the law's coverage to state corporations, efforts to fight corruption have been ubiquitous. These laws established the blueprint for future anticorruption legislation,[42] and were informed by research and investigative efforts. For example, in 1961 a Special Committee for the Eradication of Corruption from Service was created to investigate the incidences and causes of corruption and propose means of redress. It emphasized the need for long-term reform. The Committee for the Study of Corruption was established in 1987 to survey corruption perceptions across various sectors but offered nothing in the way of solutions. [43]

New institutions have sprung up at regular intervals, to enforce new laws beginning with the Special Police Establishment in 1948. This was followed by the West Pakistan Anti-Corruption Establishment of 1961 which created provincial level Anti Corruption Establishments (ACEs). The Federal Investigation Agency (FIA) replaced the Special Police Establishment in 1975. Its mandate was widened to cover immigration issues, economic crime, anti-terrorism, and corruption in the federal government as well as the corporate sector.[44] These bodies have been supported by legislative oversight mechanisms such as the Parliamentary Accounts Committees and Prime/Chief Ministers' Inspection Commissions, and constitutionally granted offices of the Federal Ombudsman and the Auditor General. More recently, sectoral regulatory bodies such as the Federal Tax Ombudsman (2000) and the Banking Ombudsman (2005) have also come into being.

[42] Prosecuting Corruption: The Case of Pakistan, Khan, Kakakhel & Dubnick, 2004
[43] Anti-corruption Policy Making in Practice: Pakistan - A Country Case Study, by Jessica Schultz, Anti Corruption Resource Center, 2007
[44] Ibid

The Establishment Division responsible for the efficiency and discipline of the federal public servants had a separate mandate. Further the Federal Public Service Tribunal and the Federal Public Service Commission had their own apportionment of public accountability mandates. In many cases the offences mandated to various institutions overlapped.

This robust list speaks for itself. However, few have analyzed a deeper and very important division is between the accountability system internal to the bureaucratic systems inherited from the east India Company's corporate accountability and the external or judicial penal code system of accountability enforced by the police and prosecution through the courts. It is here, and in these legislations that the path dependent nature of corruption in Pakistan can be found, for the colonial system may have been superficially overhauled, but its foundation has remained stable. The historical narrative might be cumbersome, but so is the problem at hand. Two hundred-odd years of colonization leave an imprint. This imprint will become clearer upon examination of the historical account presented below.

The mechanisms internal to the bureaucracy are carried out through the establishment division (Federal) and the Services and General Administration Departments (Provincial), both staffed by members of the bureaucracy enforcing the efficiency and discipline rules on their peers with a mandate to enforce minor and major penalties. This internal accountability mechanism is also responsible for enforcing audit observations as rulings and findings of the public accounts committee of the parliament and provincial assemblies respectively.

The external accountability authorities requiring the court of law to determine violation of the penal and criminal procedure code are to be conducted on the basis of the Evidence Act. Both these internal and external laws and attendant bureaucracies provide the environment of impunity: decisions given by internal (and opaque) mechanisms are often evacuated on technical considerations of evidence not meeting the requirements of the Evidence Act and attendant judicial process. The Judicial process of accountability, in turn, cannot begin for higher officials without the consent/approval of the bureaucracy itself.

The Ehtesab Ordinance marked a key inflection in anti-corruption policy. It created an independent enforcement agency for the specific purpose of fighting corruption. Its mandate covered both bureaucrats and politicians. For the first time, the mismatch between assets and legal income was made an offense.[45] This agency and its later incarnations were supposedly imported 'lock, stock and barrel' from successful models in Hong Kong, Singapore and New South Wales. [46] Yet many of the hallmarks of these success stories were missing from domestic implants. First, they each remained the products of the crises that precipitated their genesis, coming as unilateral fire-fighter responses by incumbent governments to short-term political imperatives – not the result

[45] Prosecuting Corruption: The Case of Pakistan, Khan, Kakakhel & Dubnick, 2004
[46] See for instance Lo 2001; Quah 2001, etc.

of concerted effort backed by national consensus and guided by a long-term vision. Second, the emerging pattern suggests a clear 'tug-of-war' between the executive and the legislature, and between incoming and outgoing governments, over control of these agencies, which bespeaks the political agenda they were created to serve.

The Ehtesab Ordinance was enacted by a caretaker President in 1996 after he had dismissed the previous government over charges of corruption and lawlessness. The Ehtesab Act 1997 enacted by the incoming government diluted the earlier law creating exemptions for the ruling party, weakened the office of the Chief Ehtesaab Commissioner and concentrated power within an Ehtesab Bureau housed in the Prime Minister's Secretariat, headed by a close confidante of the Prime Minister. In 1999, the National Accountability Ordinance was enacted by an Army Chief, General Musharraf, who had overthrown an allegedly corrupt civilian administration. The National Accountability Bureau (NAB) it created was headed by a Chairman who reported to President Musharraf, and was criticized for political victimization, excessive autonomy, and selectivity of cases pursued. Like its predecessors, NAB lacked a clear, comprehensive enabling legislative framework, and sufficient resources as enjoyed by the Hong Kong Independent Commission Against Corruption (ICAC). None of these institutions could boast complete immunity against political interference like the Singapore Corrupt Practices Investigation Bureau (CPIB). None of them were held accountable through an elaborate system of checks and balances, which in the case of New South Wales's ICAC include parliamentary oversight, budgetary accountability to the Treasury, inspections by the Ombudsman, and performance reviews by an Operations Review Committee.[47]

The fourth reincarnation of these commissions (in as many regime changes), was to be an Accountability Commission launched last year through the Holders of Public Offices (Accountability) Act 2009. Cases involving leakages of Rs. 50 billion that were pending with NAB would have faced an uncertain future, as the draft Act 2009 has been widely criticized as virtually toothless.[48] Growing political uncertainty and recent rulings of the Supreme Court appear to have dampened government enthusiasm for moving forward or implementing existing laws.

Despite this elaborate net of over 34 public accountability institutions at all levels of government, corrupt practices slip through undetected and undeterred. In many cases these bodies themselves are perceived to be tainted with corruption and political interference. The Auditor General is a heavily politicized appointment, focusing mostly on lower-level petty corruption.[49] Allegations of collusion between auditors and bureaucrats are common.[50] The Federal Ombudsman has been equally ineffective. This office is susceptible to political pressure and interference from the executive branch. It has been slow in reacting to complaints and powerless to implement decisions that

[47] "Anti-Corruption Commissions: Panacea or Real Medicine to Fight Corruption?" by John H. Heilbrunn, World Bank, 2004
[48] Toothless accountability bill on the way, The News, August 21, 2009
[49] Global Integrity Scorecard: Pakistan, 2008
[50] National Integrity Systems, TI Country Study Report, Pakistan 2003

concern the executive.[51] The ACE's performance in investigating white-collar crime and corruption has been poor because of capacity constraints, low compensation of employees, and lack of political will.[52] The FIA's placement under the Interior Division undermined its independence. Leadership has been politicized with 22 directors in 27 years. All investigations against gazetted officers have to be approved by the Federal Anti-Corruption Committee.[53] In 2005 110 FIA officials were investigated for involvement in a human trafficking racket.[54] Most recently, the DG Economic Crime Wing of the FIA was arrested on orders by the Supreme Court, under a previous conviction on corruption cases following the verdict on the NRO.[55] Following this arrest, another FIA official who was an NRO beneficiary was dismissed from service.[56] . The FIA has a conviction rate of less than 28%, and in 3 decades of its existence, it has failed to convict a single civil servant above grade 19.[57] The Ehtesab Bureau established to support the FIA was dogged by accusations of political harassment and victimization since its creation.[58]

NAB is currently the supreme anticorruption agency in the country. Its early gains have been overshadowed by the stigma of being created under a military regime. The Human Rights Watch World Reports of 2001 and 2007 describe NAB's actions as "*repression of political opponents*". NAB has also been accused of selectivity in cases pursued. Until March 2005 NAB had processed 368 cases of corruption with 173 directed at politicians, while only 13 involved former armed forces personnel, even though military officers hold more than 1000 positions in the civil service. In 2005 the Supreme Court blocked an attempt by NAB to end an $11 million case against a senior politicians after he had defected from the opposition to become a minister in the incumbent government. The Supreme Court bench hearing the case accused the NAB "of trying to use the Supreme Court for its own purposes."[59]

Similarly, the 2006 inquiry into the sugar price scandal 2004-06 named high-level politicians in the government in the list of hoarders who colluded to engineer the price hike. This inquiry "*caused upheaval in the market*" and so was prematurely shelved to "*restore market stability*", according to NAB.[60] Most recently, NAB's chairman was rebuked by the Supreme Court for a 3 month delay in re-opening corruption cases as per the verdict on the NRO.[61] According to the latest TI Pakistan survey, 54% of the respondents felt that the NAB and provincial corruption agencies were least effective in combating corruption. In addition, nearly 70% of the respondents felt that the military

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[51] Ibid
[52] Ibid
[53] Anti-corruption Policy Making in Practice: Pakistan - A Country Case Study, by Jessica Schultz, Anti Corruption Resource Center, 2007
[54] June, 2005, BBC
[55] March 30, 2010, The News
[56] April 01, 2010, The News
[57] National Anti Corruption Strategy, 2002
[58] Prosecuting Corruption: The Case of Pakistan, Khan, Kakakhel & Dubnick, 2004
[59] Country Report-Pakistan, Freedom House, 2006
[60] Editorial, Business Recorder, 19th August, 2007
[61] 31 March, 2010 Dawn

and judiciary should be under the jurisdiction of the NAB. In 2006 the Global Integrity Scorecard rated NAB as "Very Strong", but in 2008 this rating had fallen to "Weak". This represents weak performance for all relevant indicators including institutional independence, organizational meritocracy, access to human and financial resources, transparency of reporting, non-partisanship of investigations, response-times for complaints, and protection of complainants.[62]

E. Donor-led Anticorruption Reforms

Anticorruption efforts by the donor community have failed to make a dent.[63] Anti-corruption programs from the World Bank, codes of conduct by the International Monetary Fund (IMF), diagnostics by the TI, and action plans from OECD/ADB[64], (among others) form the product line of what is now a global $300 million anti corruption industry[65]. South Asia accounts for about 10% of the global distribution of anticorruption projects, and Pakistan has been a regular customer.[66]

The donors have initiated sectoral reforms such as the Access to Justice Project which targeted the police and judiciary in Pakistan. This effort was funded by a $350 million technical assistance loan from the Asian Development Bank (ADB), which, according to the ADB's own Operations Evaluations Department "*generally have failed*".[67] The World Bank has focused on financial reporting systems with their Project to Improve Financial Reporting and Audit (PIFRA). This effort created a new Office of the Controller General of Accounts (CGA) to separate government accounting from auditing functions, installed a new accounting model in line with international standards and provided IT support for implementation. However, the new CGA suffers from conflicting apportionment of responsibility: the staff is inducted from the unified service cadre of accounting and audit; assignment of control over account preparation and authorization of payment still remains to be clarified between the CGA and lower government tiers. The follow-up PIFRA II is funded by an $84 million loan from IDA, approved in 2005. The project aims at capacity building and upgrading for the Offices of the Auditor General and Controller General of Accounts.[68] But it has not solved the key

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62 Global Integrity Scorecard: Pakistan, 2008

63 "Role of Donor Community in Anti-Corruption and Pro-Integrity Reforms in Pakistan" by Mukhtar Ahmad Ali. CPDI-Pakistan 2007

64 "Multilateral cooperation to combat corruption: normative regimes despite mixed motives and diverse values". Cornell International Law Journal, June, 2000 by Getz, Kathleen A.; Windsor, Duane.

65 "The Globalization of Anti-Corruption Policies: The Diffusion of Best Practices and the Role of Knowledge Management". Book Chapter by Bryane Michael. *Public Policy and Public Management in a Globalized World, 2004* David Levi-Faur and Eran Vigoda, Editors. Also, "The Rise and Fall of the Anti-Corruption Industry: Toward Second Generation Anti-Corruption Reforms in Central and Eastern Europe? Bryane Michael , Local Government Initiative Policy Brief. 2003.

66 Utstein Anticorruption Resource Center.

67 ADB's Support for Governance Reforms in Pakistan. Link given: http://www.adb.org/Documents/Others/PRM_Supplement/ADB_PAK_Governance_Reforms.asp?p=prmnews. Also, "Reform plan failing to meet objectives: ADB", by Khaleeq Kiani, Dawn News, 12th November, 2007

68 Second Improvement to Financial Reporting and Auditing Project, Project Appraisal Document, World Bank 2005

issue undermining the independence of the AG's Office which continues to be an attached department of the Finance Division. In fact, the current Auditor General himself is an ex-Finance Secretary. This constitutes a clear conflict of interest where the "*principal auditee becomes the controlling ministry*".[69]

In sum, the donors/IFIs cannot even guarantee a corruption-free environment within their own projects. A recent WB intervention in the energy sector was interrupted by alleged malfeasance in the procurement process.[70] Governance problems including absenteeism and bribery have plagued other Bank projects resulting in cancellation and/or suspension as in the case of the Baluchistan Primary Education Project.[71] The Bank itself saw this as more of an organization-wide trend than a one-off occurrence[72], prompting the development of a Governance and Anti-Corruption (GAC) framework through extensive consultations with stakeholders from a broad array of borrower countries, including Pakistan.[73] In addition to donor-sponsored projects and programmes, Pakistan is party to various international agreements and fora. It has endorsed the ADB-OECD Anti-Corruption Action Plan in 2001, and most recently ratified the UN Convention Against Corruption (UNCAC) in 2007.

The UNCAC presents a very real opportunity to unlearn old methodologies and revisit assumptions that perpetuate the tradition of failure in anticorruption reform. Notwithstanding certain teething problems, (that are to be expected given the ambitious scope of reforms envisaged by the Convention), it remains the first truly global anticorruption regime, and entails some of the most aggressive strides ever taken by the international community in combating corruption as a worldwide threat. It breaks new ground in preventive measures, broadens the net for criminalization of offences, pioneers a global asset recovery framework, and calls for unprecedented levels of international cooperation. The stipulations are sufficiently broad to accommodate heterogeneities of national context and emphasize coordinated policies backed by political will.[74] Given the

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[69] NACS, 2002

[70] Assessing Fraud and Corruption Risks in the Energy Sector in Pakistan.
Link given: http://info.worldbank.org/etools/antic/detailR.asp?ID=70

[71] Overview of corruption in Pakistan, Anti-corruption Resource Center, 2008

[72] In 2004 witnesses cited corruption leakages of over $100 billion from the World Bank over the past five decades, in testimony to the US Senate Foreign Relations Committee under the chairmanship of Richard Lugar. In June 2006, the Bank cancelled contracts worth $1.5 million in Indonesia and $11.9 million in Cambodia when evidence of graft emerged. In mid July the Bank back-pedaled on its support of the landmark Chad-Cameroon pipeline amid fears of corruption and mismanagement of revenues. Similar cases could be quoted from Bank operations in India, Yemen, Argentina, Kenya, Bangladesh, etc. In August, 2006 the Bank announced a Voluntary Disclosure Program where individuals and firms owning up to misconduct would be immunized from disbarment. Source: *Bretton Woods Project*, Update(s) 48, 49, and 52.

[73] The GAC is embodied in a working paper titled: "Strengthening Bank Group Engagement on Governance and Anticorruption" with the latest draft dated 2007.

[74] Paragraph 1, Article 5, Chapter II of the UNCAC: "*Each State Party shall, in accordance with the fundamental principles of its legal system, develop and implement or maintain effective, coordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency and accountability*." This article has been lauded for its holistic focus and termed by experts as the 'gateway' to the comprehensive

global nature of the current financial crisis, the Convention becomes even more relevant because it holds global application and many of its provision are critical for financial stability[75]. It offers a break from past mistakes by recognizing the significance of:

- Coordinated policies backed by political will.
- National context of host country.
- Role of non-state actors in a reform support structure.
- Evaluation of anticorruption policies and institutions.
- Incentive structures within the bureaucracy.
- Capacity of anticorruption personnel and other public officials.
- Raising public awareness and enhancing public access to information to strengthen the demand side of reform.
- Conducting research on corruption.
- Sharing information, experiences and ideas.
- Focusing on political corruption.

Failure to implement UNCAC would be all the more damaging given this ambition and promise. Experts and stakeholders agree that without a robust, participatory implementation review mechanism, with clearly defined roles for civil society and the private sector, this failure is imminent. Successive reports by Transparency International strongly recommend tapping civil society for inputs throughout the review cycle.[76] The First Conference of States Parties (CoSP) in December 2006 agreed that "*effective and efficient review of the implementation of the Convention… is of paramount importance and urgent*." This represented an important agreement in principle. However, the Second CoSP in January 2008 made little progress, largely due to concerns voiced by influential member countries of the G77.[77] In an open letter to the UN Secretary General Ban Ki-Moon, the CEO's of 40 private firms and NGOs have expressed support for the UNCAC but warned of implementation paralysis.[78] According to a synthesis report on 6 country case studies (including Pakistan): "*Self-assessments did not bring results and 'external' reviews of progress, e.g. by parliaments, research institutes and universities, had often not even been planned.*"[79] Surveys conducted by the UNODC reveal that implementation of the Convention is uneven across countries, and varies for each Article.

It does not help that the rallying cry of anticorruption enjoys very different levels of popularity within and outside of government. The opposition has already mobilized –

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implementation of UNCAC. (See: 'Anti-corruption policy making in practice: What can be learned for implementing Article 5 of UNCAC?' Report by U4 Anti-Corruption Resource Center, 2007).

[75] Examples include articles covering transparency and accountability in management of public and private sector finances, public procurement reforms, bank secrecy and measures for improved international cooperation.

[76] See for instance, Heimann and Dell (2006), (2007), (2009), TI Policy Position Paper (2008).

[77] UN Convention against Corruption: Recommendations for a Review Mechanism, Heimann and Dell, April, 2009

[78] UN Global Compact. Link given: http://www.unglobalcompact.org/issues/transparency_anticorruption/CEO_Letter.html

[79] Anti-corruption policy making in practice: What can be learned for implementing Article 5 of UNCAC?' Report by U4 Anti-Corruption Resource Center, 2007

certain signatory governments have dug in against civil society participation in the review process and the open publication of review reports, despite the fact that these are hallmarks of successful implementation processes for other treaties such as OECD Convention on Bribery of Foreign Public Officials in International Business Transactions (1999), GRECO: Council of Europe Conventions on Corruption and other instruments (2000), Inter-American Convention Against Corruption (2001), etc. The review mechanism produced by the Conference in Doha, in November 2009 is a global disappointment to anticorruption practitioners and academics alike. It allows secretive bilateral operations without non-governmental inputs, country visits or report publications. Even this has been termed optional for States parties.[80]

The governance and Anti Corruption Framework of the World Bank

The StAR initiative

Transparency International and other international civil society initiatives

F: A robust tradition of failure: Why?

Anti-corruption practitioners lack strategic vision and fail to understand the sources of endemic corruption. It would not be an exaggeration to say that they shoulder a large part of the blame for the failure of anti-corruption programs.[81] First, donors' assistance programs are governed by ideological fallacies that blind them to the sources of corruption. This observation deserves our concerted attention.

During 1988-1999, eight different IMF loan agreements imposed a large number of structural adjustment policies on Pakistan, aimed to induce fiscal austerity and economic liberalization.[82] The World Bank's Social Action Programs (SAP I&II) focused on poverty reduction and social sector development. SAP I&II spent US $450 million with disappointing results, prompting even the Bank to call the 1990s a "*lost decade*".[83] This was failure not only of reform but of the theory that informed it, namely,

[80] Link: http://www.uncaccoalition.org/index.php?option=com_myblog&show=UNCAC-Updates.html&Itemid=48&lang=en

[81] The reasons for this failure include other factors, most of which anticorruption practitioners cannot be faulted for. An illustrative (but not exhaustive) list would include: path-dependence of institutions makes initial conditions significant and brings into play inter-temporal factors that are not (and in cases cannot) be accounted for by modern-day reform; status-quo biases, loss aversion, and vested interests make processes reform-resistant and promote the re-emergence of erstwhile behaviors; optimism biases, strategic misrepresentation, and normative drivers skew policymaking and programme design toward overstated expectations; simple lack of capacity of the reformers or the would-be reformed; informal, social capital based networks that operate behind the scenes that enable subversion of formal rules and procedures; lack of actual data on the incidence, frequency, and costs of corruption rule out any definite conclusions regarding its nature, origins, and extent so that reformers are working blind; poor communication and coordination within and among programs resulting in duplication, even conflict of activity; anticorruption research lagging rather than leading policy; and of course the quintessential, Platonic dilemma of anticorruption efforts remains: 'quis custodiet ipsos custodes?' or "who will monitor the monitors?"

[82] Pakistan: A Global Studies Handbook, Yasmeen Niaz Mohiuddin, 2007

[83] Pakistan: An Evaluation of the World Bank's Assistance, IEG-World Bank, 2006

neoclassical economics. Neo-classical economics, and, in particular, its recently ascendant neo-liberal version, presupposes the existence of frictionless markets, rational individuals and full information. It assumes the existence of essential institutions to set and enforce property rights, allowing costless transactions. In a Neo-classical world, the 'tool-kit approach' to governance reform works: a universally applicable prescription of governance policies is a conceivable construct, because these pre-requisites are assumed to be satisfied. The institutions essential for productivity and growth are assumed to exist and they remain unchanged because the neoclassical world is static.

To grapple with the urgent problems of the real world, however, a body of theory is needed that confronts the problems of imperfect markets, information asymmetries, bounded rationality, and seeks answers to the question of how to *create* this wish-list of essential institutions over time. Most important among them are sound *political markets,* which are ignored by neoclassical theory. This is why New Institutional Economics (NIE) is gaining attention amongst practitioners and academics alike. NIE provides a dynamic, flexible and realistic framework for institutional analysis, which has increased policy options for a whole array of governance challenges, including corruption.[84] The brand of generic reforms built on neoclassical assumptions has yielded only reform fatigue, loss of credibility in host countries, and sub-optimal utilization of resources which are especially problematic for both borrower and lender where loan arrangements are concerned.[85] There is no reason to expect a different outcome when applied to anticorruption in Pakistan.

Because the Neo-classical world is static, reforms have either ignored, or failed to pay sufficient attention to, the unique socio-historic context of host countries. This context includes the social-embeddedness (or lack thereof) of institutions, sequencing of political and economic development over time, and the broader policy environment within which reform is to thrive or die, all of which are idiosyncratic to the country under question.[86]

Lessons from failed WB-backed Civil Service Reforms (CSRs):

- Ownership was not developed
- Incentives were not changed adequately
- CSR performance was not measured nor used for reform purposes.
- Morale remained low as "expatriate consultants and Project Implementation Units" led the reform
- Capacity constraints were not taken into consideration

In Pakistan's case, holdovers of the post-colonial era including: an elaborate domestic bureaucracy, preoccupation with national security, dependence upon coercion and exclusion for asserting state power, and the increasing centralization of authority, have created and sustained the space for corruption.[87] Pakistan inherited inexperienced politicians and a professional civil service that put the reigns of governance in the hands

[84] "The Foundations of New Institutional Economics", presentation delivered by Dr. Douglass C. North, 2008 Center for International Private enterprise (CIPE)
[85] Good Governance and Anti-Corruption in Theory and Practice by Linda Cornett, April 2007
[86] Ibid
87 "Making of the Neo-Colonial State in South Asia: The Pakistan Experience" by Hassan N. Gardezi, COMPARATIVE STUDIES OF SOUTH ASIA, AFRICA AND THE MIDDLE EAST, VOL. XVII NO. 2 (1997)

of bureaucrats who ran ministries, and even rose to the status of Prime Ministers, Governor Generals and Presidents.

The early influx of wealth under government control created precedents for corruption. Examples include the evacuee property distribution at independence and the foreign aid windfalls under military rule in the late 1950s.[88] The nationalization drive of the 1970s coupled with a purge of over 1300 civil servants tasked an insecure and increasingly politicized bureaucracy once again with the running of a state which was now the primary employer. During the 1980s, remittances from abroad spawned a demonstration effect for quick wealth acquisition, creating a moral hazard for government employees. Premature deregulation and privatization during the 1990s proceeded without transparency, under unstable and governments, where anti-corruption was a political good often advertised but never sold.[89] In 1996 TI ranked Pakistan as the second-most corrupt country in the world.

These facts have a direct and significant bearing on the current success of any reform effort in Pakistan, and are unique to its socio-historic context. We know now that when it comes to governance, and particularly anti-corruption, no size fits all.[90] But scholarship has not apparently caught up to donor policy.

For Pakistan, "context" becomes even more crucial to reform imperatives. First, the 'transplant effect' rising from colonially inherited British legal institutions is large and negative, i.e. the absence of local adaptation or familiarity with basic principles of a foreign legality have not only rendered these institutions ineffective but worse, counter-productive. [91] This is why improving the laws on books produce minimal impact. *Second*, corruption is endemic, systemic and syndicated to the extent of becoming the system rather than the exception. This special type of corruption has "*deep structures*" that pervade the core functioning of society and politics. Power dynamics are predicated on informal political and market networks which constitute a "*shadow state*". This state serves as an "incubator" for associations of elites that blur common distinctions of "*military/civilian, public/private, and bureaucracy/business*". Nepotism, cronyism, and patrimonialism thus become "business as usual."[92] In this context, this state becomes the key "*defender and organizer*" of elite interests which include not only political domination but also enrichment and accumulation.[93] Unsurprisingly, attempts to rationalize and reform formal state institutions have the opposite effect – corrupt authorities react by deepening their reliance on the shadow state.[94]

[88] NACS 2002
[89] National Integrity Systems, TI Country Study Report, Pakistan 2003
[90] Causes of Corruption: History, Geography, and Government, Rajeev K. Goel and Michael A. Nelson, Institute for Economies in Transition, Bank of Finland, 2008. See also: National Integrity Systems, Transparency International, Country Study Report, Pakistan, 2003
[91] "Economic Development, Legality, and the Transplant Effect", Berkowitz, D., Pistor K., and Richard J.F., The American Journal of Comparative Law, Winter, 2003
[92] Bayart (1993)
[93] Robert Fatton (1992)
[94] William Reno (1995);

Third, Pakistan's social order may be described as "*limited access*", rather than "*open access*". The former allows only "*privileged access to valuable rights and activities*" thriving on personal relationships while the latter provides free access to political and economic competition through impersonal contractual norms.[95] Installing a new isolated institution every 3-5 years cannot effect the transition from limited to open access social order. Finally, structural drivers of corruption in Pakistan include the lack of fiscal resources, high transaction costs, weak property rights and low state cohesiveness.[96] This means that institutional incentives are skewed toward anti-reform ends to begin with. In short, ignoring context oversimplifies an extremely complicated problem such that reform suffers from 'tunnel vision.'

Both government and donors have failed to address institutional incentives. The government's prosecutorial approach is predicated on 'lawyering' and 'policing' corruption into submission, to the exclusion of all else. The donors' strategy is focused predominantly on preemption and recognizes the significant role of institutional incentives – the World Bank's GAC mentions "*incentives*" 23 times, (in various contexts relevant to my argument). The '*incentives*' referred to by the Bank's GAC have not been defined or given monetary values. There is no theoretical framework to assist empirical analysis – no typologies evolved, no evidence was gathered, and no hypotheses were tested. However, this recognition has failed to filter down from rhetoric to inform the Bank's operations.[97] The PIFRA II mentioned earlier, is also supported by the ADB, UK DFID, and the IMF and is being coordinated by the Ministry of Finance. It does not include cognizance of institutional incentives in strategic rationale, budgetary support, or implementation arrangements. While it aims to remove capacity constraints in the Offices of the Auditor General and the newly established Controller General of Accounts, it does not define exactly how improved capability would translate into improved performance or bridge the gap between 'can' and 'will' for institutional employees, when "low morale" and "low pay" constitute key constraints.[98] This gap will remain as long as incentive systems penalize honesty and reward venality. It is also unclear how the Bank's goal of "*recruitment of senior staff with qualifications and experience*" for these Offices will be achieved without rectifying incentive problems. Most interestingly, these problems have been recognized for the project management team and incentives such as "*performance related allowances, honoraria, good office facilities and provisions of transport*", have been planned for limiting turnover.[99]

Without any solid basis in theory, incentives are managed exclusively through loan conditionalities. The ADB, for instance, made the enactment of the Freedom of Information Ordinance 2002 a condition for release of funds, but failed to follow-up on the various exemptions included in the law by powerful government interests which

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[95] "The Natural State: The Political-Economy Of Non-Development" by North D.C., Wallis J. J., and Weingast B.R., March 2007

[96] Governance and Anti-corruption Reforms in Developing Countries: Policies, Evidence and Ways Forward", Mushtaq H. Khan, November, 2006.

[97] Ibid

[98] NACS, 2002

[99] Second Improvement to Financial Reporting and Auditing Project, Project Appraisal Document, World Bank 2005

rendered it largely ineffectual. The loan which was meant to serve as an incentive for passing the desired legislation was released nonetheless.[100] This approach essentially skips diagnosis and proceeds to treatment. The patron-client networks that foster counter institutional thinking and practice have not been mapped. The perverse incentives rising from pre-modern public administration techniques to drive wrong doing and undermine meritocracy, remain unearthed and consequently, "*unaffected*".[101] No reform has sought to institutionalize performance standards, link them to observable effort, and calibrate rewards/penalties accordingly. Corruption cannot be effectively preempted, policed, or prosecuted unless these measures are put in place. While Botswana, Chile, Hong Kong, Malaysia, Poland, Singapore and Uganda were readily applauded for setting up independent anticorruption institutions, in Pakistan, a much more relevant fact was ignored: the success of these bodies in foreign countries owes much to broader reforms, most importantly "*adequate salary incentives and enforceable penalties for malfeasance*."[102]

Third, and perhaps most importantly, the recurrent component of the budget is completely absent from policy considerations, leaving governance itself a perpetual blind-spot. It is the recurrent budget which determines the size of government, its structural hierarchy, functional competition (or lack thereof) for service provision, and other factors which research has shown to bear directly on opportunities for corruption.[103] Wages in the Pakistani civil services have faced extreme compression and steady real-term erosion for decades, due in part to IMF conditionalities attached to their loan facilities which maintain civil service salaries at an arbitrary percentage of inherently inadequate government budgets.[104]

A large body of research suggests that a compensation structure divorced from economic realities holds considerable explanatory power over the corruption variable – a fact that will remain ignored as long as the recurrent budget remains on the dark side of reform agendas.[105] The World Bank's GAC admits the causative role of low public

[100] Role of Donor Community in Anti-Corruption and Pro-Integrity Reforms in Pakistan, Mukhtar Ahmad Ali. CPDI-Pakistan, 2007

[101] "Governance and Anti-Corruption: Ways to Enhance the World Bank's Impact", Independent Evaluations Group (IEG), World Bank, 2006

[102] Daniel Kaufman, 'Revisiting Anti-Corruption Strategies: Tilt Towards Incentive-Driven Approaches?, 1998

[103](Roberto Arvate et al 2009) find that the size of government significantly determines corruption levels in a cross-country sample of both OECD and developing countries. (Goel & Nelson 2008) draw similar conclusions, from data-sets involving approximately 100 countries. (LaPalombara 1994) finds that a large government share of GDP is consistent with high levels of red-tape and opportunity for malfeasance.

[104] Civil Servants' Salary Structures, Faiz Bilqees, 2006. Pakistan Institute of Development Economics.

[105] In a sample of 28 countries Rijckeghem and Weder (1997) find a significant negative influence of public sector salaries relative to wages in the manufacturing sector on the level of corruption, implying: If public sector wages were doubled, the corruption index of a country will be improved by the order of 2 points in the corruption index (CPI) of Transparency International. Rauch and Evans (2000) find that security of employment as well as recruitment and advancement along meritocratic principles have a strong negative impact on corruption levels among civil servants. A number of studies, Susan-Rose Ackerman 1978, Ades and Tella 1995, Bliss and Tella 1997, find that bureaucratic competition for provision of services can drive down the price of bribes. It is the recurrent budget that governs the behavior of these variables. Empirical case studies of international experience in anticorruption stress public salaries as an important determinant

salaries but emphasizes competitiveness of remuneration in salary structures rather than the average levels of public sector remuneration. Even if we agree (research to the contrary notwithstanding), that Pakistan suffers from maladies, the GAC offers solutions to neither. Low compensation for tax officials has been identified as the key driver of corruption in Pakistani tax administration, in surveys carried out by the World Bank's own Task Force on Tax Administration.[106]

> "…top-down rules and regulations, and [reforms of] systemic processes such as public expenditure management systems, civil service reform, anti-corruption commissions, etc. …will be ineffective unless demand for reform comes from more aware citizens within country. More active approaches are needed to encourage demand for change through greater transparency, encouragement of civil society, freedom of the press, and public information disclosure in close collaboration with local institutions."
> Source: *IEG World Bank, 2006*

Fourth, both donor and government interventions have lacked a broader reform support structure.

Anticorruption initiatives have consistently excluded in design and execution, the very people they aim to help. A 2002 evaluation report found a "*gap between promise and performance*" regarding civil society engagement in WB supported projects.[107] Despite the fact that '*Supporting Active Public Involvement*" is one of the 3 pillars of the ADB-OECD Anti-Corruption Action Plan for the Asia Pacific, its latest progress report for Pakistan contains no concrete measures to engage civil society beyond awareness-raising activities.[108] Reforms have waned in the absence of support and will among **political leadership**.[109] The otherwise elaborate consultative process for the development of the National Anti Corruption Strategy (NACS) involved "*several hundred meetings, eight workshops and 18 focus groups at Federal, Provincial and District levels*", but ignored politicians, assuming "*they were not interested*".[110] The **bureaucracy** remains uninformed and uninvolved, while **civil society** is reticent on "*controversial issues* [that entail] *confronting the government*."[111] The **private sector** has been relegated to the role of an avid fence-sitter, failing, it is claimed, to "*project its collective interests in the*

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of success. They include a 6 country study by the U4 Anticorruption Resource Center in 2007, as well as a 3 country study by the OECD in 2001. Both included Pakistan in their sample. A 1999 study by a leading national think-tank, the Sustainable Policy Development Institute (SDPI) confirms poor pay structure as the top cause of corruption in the bureaucracy.

[106] Updated Project Information Document, Pakistan Tax Administration Reforms Project, World Bank, 2004

[107] Non-Governmental Organizations and Civil Society Engagement in World Bank Supported Projects: Lessons from OED Evaluations, Operations Evaluations Department, World Bank, 2002

[108] Combating corruption in Asia-Pacific: Pakistan's measures to implement the Anti-Corruption Action Plan for Asia-Pacific. (updated to include measures reported at the 11th Steering Group Meeting, May, 2008)

[109] "Anti-corruption Policy Making in Practice: Pakistan - A Country Case Study", by Jessica Schultz, Anti Corruption Resource Center, 2007

[110] Ibid

[111] Shaukat Omeri, former Chairperson, TI, Pakistan speech on 'Role of Civil Society in Transparency and Accountability,' Regional Conference on Right of Information, September 2006.

political and economic realms through representative business associations or the political parties"[112].

With more than 40 television channels and dozens of radio stations operating throughout Pakistan, the **media** could be an indispensable pillar of anticorruption reform[113]. But reporting covers only isolated incidents rather than systems and policies, and remains reactive rather than proactive.[114] The media also faces constant pressure from the vested interests it threatens –most recently the Minister for Labor and Manpower attempted to silence a senior journalist for reporting on questionable investments made by the Employment Old Age Benefits Institution (EOBI).[115] The current Freedom House rating for them media Pakistani press is "Not Free".[116] Most importantly, the **general citizenry**, the actual consumer of the anticorruption good, has become increasingly indifferent, disillusioned and disenfranchised from the reform effort.[117]

> TI Pakistan Corruption Survey 2002 revealed the average citizen:
> - Was indifferent to entitlements;
> - Was hesitant toward involvement in public debates;
> - Preferred to be a passive bystander;
> - Lacked the time, energy and resources to resist;
> - Was resigned to rampant corruption;
> - Felt that the system could not be improved.

Fifth, reform has consistently outstripped stakeholder capacity. Where it does seek stakeholder involvement, reform fails to build individual and institutional capacity which is not currently at par with the demands it makes of them. They lack the human, technical and financial capacity to adequately perform their basic roles in national governance, and are themselves embroiled in corruption networks to high degrees. National and provincial legislatures are unable to provide adequate oversight of the executive. In 2002 the Public Accounts Committee had yet to clear a backlog of some 23,000 audit paras from the Auditor General's office, accumulated over 6-10 years. Amendments to the Constitution have been passed in less than an hour, privileges for parliamentarians themselves have been approved without debate, and no law governs conflicts of interest. Political parties are widely perceived to be corrupt, elitist, characterized by undemocratic internal governance, and non-transparent funding.[118] They have been susceptible to rent-seeking by powerful narrow-interest lobbies. Landlords and feudals have guaranteed the failure of attempts at land reform in 1959, 1972, and 1977. The share of industrialists has nearly doubled since the 1980s in the National Assembly and Parliament, blurring the line between politician and businessman. The industrial assets of the top 44 business groups equal the national budget. Critics describe these assets as "*grown on government trees rooted in bureaucratic corruption and fertilized by tax evasion, bank loans and*

[112] Nadvi, K. and Robinson, M. (2004), Pakistan Drivers of Change: Synthesis and Policy Implications, Sussex: Institute of Development Studies.
[113] The Economist (2007, 7 June). Pakistan's Press: Gagging on It.
[114] Current Challenges and Initiatives: The Roles of Civil Society and Media in the Fight Against Corruption in Pakistan, By Mukhtar Ahmad Ali, CPDI, 2007
[115] "Anti-corruption reports to appear at all costs: Kamran Khan", The News, Thursday, August 13, 2009
[116] Link: http://www.freedomhouse.org/template.cfm?page=251&country=7678&year=2009
[117] TI Pakistan Corruption Survey 2002
[118] National Anti Corruption Strategy, 2002

rebates."[119] The bureaucracy is heavily bloated, its recruitment, placements, and promotions influenced by political and military clientelism.

Across the board, civil servants are poorly compensated, trained, and motivated for the performance of their jobs. Gross mismanagement and malfeasance plague regulation, service delivery, procurement and contracting.[120] Historic judgments by the Superior Courts notwithstanding, the Judiciary still accounts for 15% of all bribes paid by citizens to secure government services. The average bribe per act is Rs. 19,245 (USD 228) [121] in a country where 60% of the population earns less than $2 a day.[122] Backlog of cases ranges from 5-60, while major shortages of manpower and infrastructure facilities coupled with grossly inadequate pay further constrict capacity.[123] Public accountability bodies lack modern methodologies to uncover corruption, technical auditing proficiency, IT resources, staff training opportunities, and are generally perceived to collude with offenders.

While 77% of the respondents to the latest TI Pakistan survey opined that media had played a positive role in curbing corruption, they cited propaganda under duress, lack of research, and false reporting as main weaknesses. [124] Civil society is focused almost exclusively on service delivery areas such as health and literacy, ill-equipped and inexperienced in policy research and/or advocacy.[125] Lacking the requisite skills, reporting on corruption by journalists remains episodic and incidence-based, without drawing links to policy or institutions. For instance, "*the issue of increased sugar and cement prices may be raised by the media without drawing attention to the need of strengthening the current mechanism of controlling monopolies and unfair trade practices*."[126] As long as these stakeholders lack the capacity to own and lead reform within their spheres of influence, they will remain part of the problem rather than the solution. Anticorruption work will only gain placebo effects under these conditions.

H. Beginning the fight against corruption

***First*, *Incentives have to be made part of the tools for fighting corruption as administrative actions alone don't work*.**

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[119] Rehman, 1998

[120] A number of studies have highlighted these issues. See for instance: "Bureaucratic and Political Corruption in Pakistan." Mushtaq H. Khan, Operations Evaluations Department, World Bank 2001; "Pakistan Drivers of Change: Synthesis and Policy Implications" Nadvi, K. and Robinson, M., 2004, Sussex: Institute of Development Studies; Perspectives on Corruption in Pakistan: A Pilot Study, Sustainable Development Policy Institute, 1999, etc.

[121] National Corruption Perception Survey, TI Pakistan, 2009

[122] Human Development Report 2009, UNDP. Link: http://hdrstats.undp.org/en/indicators/103.html

[123] PAKISTAN'S LAW & JUSTICE SECTOR REFORM EXPERIENCE - SOME LESSONS, Livingston Armytage, 2003

[124] National Corruption Perception Survey, TI Pakistan, 2009

[125] Current Challenges and Initiatives: The Roles of Civil Society and Media in the Fight Against Corruption in Pakistan, By Mukhtar Ahmad Ali, CPDI, 2007

[126] Ibid

As a result, the policy focus of developing countries like Pakistan, in fighting corruption has been directed by the donor community to be exclusively administrative and procedural rather than addressing the historical evolution of formal and informal institutional culture that directly affected by resource and recurrent budget decisions. This myopic approach has resulted in the adoption of more and better accounting and auditing systems, prosecution procedures, anti-corruption commissions, legal mandates, including transparency and freedom of information enactments, adoption of information technology solutions, media campaigns, etc. These initiatives have been introduced repeatedly while levels of corruption have increased, despite decades of attempts to control it using precisely these methods.

Second, public accountability institutions need to be revamped.

Research reveals that there was a repetitive format of reinvigorating the public accountability effort every few years with rehashed or new institutions. In their individual and collective capacity, their impact on corruption has been minimal. Findings include a pattern of persistent ineffectiveness after the initial novelty of newly established organizations wore off, regardless of changes made to their financial authority, legal mandate, administrative capacity, or independence. The Auditor General's Office is a case in point. An independent service with superior training and promotion prospects, it had the least effectiveness of all those studied despite its Constitutional status complete with official tenure and protection from removal from office, in the same manner as that of a judge of a High Court, as well as financial autonomy through its budget provided automatically as a charged expenditure.

Third, Pakistan faces systemic, endemic and syndicated corruption: corruption has actually become the system rather than the exception this requires a new theory; the neo-classical institutional blind spot must be addressed.

The New Institutional Economics (NIE), offers a more sophisticated understanding of institutions (defined as configurations of formal and informal rules), how they change over time and their impact on human behavior. NIE approaches institutions directly rather than residually and provides a frame that integrates culture formative history into the analysis as well. This new understanding of how institutions behave over time has not been applied directly to the problem of understanding the structures and pricing of incentives while the predominance has been on administrative approaches. This institutional gap in Neo-classical theory poses significant problems in drawing firm conclusions. However, disregarding these issues, global donor regimes have proceeded to persuade developing countries to take a leap of faith and focus on development expenditures and the development side of the budget, largely ignoring the recurrent side of the budget. In comparison, recurrent expenditures, constituting the space where internal governance decisions are articulated, have often been condemned and dismissed as a mere wastage. Thus, the monetary incentives that effect institutional behavior and the approximations of what is required to reduce the moral hazard are denied a space in the policy matrix.

For analytical purposes, it is important to make a distinction between two broad and very different, categories of corruption in administrative systems. I argue that the successful approaches to tackling corruption are connected with these differences. It is therefore important to reflect on them.

"The wretched policy of the Company has… invariably driven all their servants to the alternative of starving or of taking what was not their own. I shall never think it a wise measure in this country to place men in great and responsible situations, where the prosperity of our affairs must depend on their exertions as well as integrity, without giving them the means, in a number of years, of acquiring honestly and openly a moderate fortune." Cornwallis

I. Casual/occasional corruption: In this category though corruption in a system may exist, it can still be defined as administrative systems wherein corruption is the exception. While corruption may even be prevalent in such administrative systems, typically the administrative system works in accordance with the accepted norms and standards. The institutions and legal constructs designed to control or limit corruption, by and large are able to provide an effective deterrence to corrupt behavior. The moral hazards are limited as both the societal expectations from the administration and institutional functioning as well as those of the administrative personnel are embedded in a tradition of cultural norms and standards from which they have evolved.

II. Endemic, syndicated corruption. In this category corruption is no longer the exception but has actually become the system. Here, each function of government (police, judiciary, education, health etc.) has evolved mechanisms to extract illicit rents at every level of the administrative structure. The higher tiers or executive levels of departments often secure their illicit rents by apportioning a percentage of rents generated by lower levels of a particular function where the public interface takes place. These illicit rents are distributed to the respective hierarchies on well established shadow "rules" that govern the de facto functioning of departments.

Another critical feature of this category of administrative corruption is that the institutions mandated with the task of curbing corruption have themselves evolved mechanisms to generate illicit rents. Thus, there is an institutional bulwark ensuring that the corruption system can function with impunity. An essential element of administrative systems exhibiting systemic endemic syndicated corruption is that such a system could not develop without the executive level of departments (those top levels of a department or service cadre that are empowered with accountability authority) being complicit and participating in the rent generation system.

Legacies: The colonial past and the pedagogy of history

Historically, endemic, syndicated "systems" of corruption often have origins in a civil service structure created as a response to the negative effects of the corporate profit motive that organized colonial commerce. Following periods of extended misrule by corporate interests servicing the profit motive, public structures in home countries of colonial corporate interests have moved to intervene and create assurances of public service motivations and national image and integrity being secured in foreign corporate affairs. It was under Lord Cornwallis that such reforms began. With the passing of the Pitts act in 1784 creating the Board of Control and Lord Cornwallis arrival in India as the Governor General in Council in 1786 with a one point mandate: anticorruption. The Pitts Act itself was the result of a long struggle to bring the vagrancies of the pursuit of corporate profits in India and misrule that was getting Britain a bad name. The objective was to bring the activities under control and dispense a more just public service motive for the *British Raj*.

Lord Cornwallis is credited with a two pronged approach one a moral suasion by creation of the covenanted service into which officers of the East India Company could gain access by swearing on the covenant which itself stated that I will not take a bribe. The other approach was an incentives approach that radically increased salaries. Though in many cases the salary was less than the amount earned through illicit means it still amounted to a small fortune. These came to be known as princely salaries. By all historical accounts corruption did reduce drastically and was virtually absent from the higher services.

This state of affairs was to drastically change as the While these facts are representative of the system today the historical precedents are similar. The 1938 Anti-Corruption commission set up in United Provinces gives a very detailed description of the departmental sub-functions and the concomitant activities that are used to generate the illicit rents. Similarly there are many references to such a state of affairs dating back to the late 1700's.

"If it is maxim that no Government can command honest services, and that pay our servants as we please they will equally cheat, the sooner we leave this country the better. I am sure under that supposition I can be of no use, and my salary is so much thrown away"
Cornwallis

Historical Evolution of Salary

Atchison Commission in 1886

First large scale probe into service matters. Recommended determination of salaries on the following principles:-
Salary of persons engaged on work of equal importance and degree of responsibility could be paid differently on the basis of source of recruitment – foreign - local
Different scales of pay can be fixed for even locally recruited persons in India based on varied conditions obtaining in different provinces
Based on the above principles number of grades of pay for each post were established, e.g., District and Sessions Judge, 5 grades; DC 4-7; SP/ASP 3-5; technical and other services 1-3 and so on
System remained in place till 1920

Islington Commission in 1912-15 (Report delayed till 1919)

Recommended:
"pay so much and so much only to have recruits of right stamp and to maintain them in a degree of comfort and dignity".
Could not fully remove difference of pay on the basis of source of recruitment
Instead of multiple grades system of pay recommended introduction of system of Pay Scales – having Min-Max, annual fixed increment and Efficiency Bars (EB)

1920-23 – Post War Period

Post war period saw 10% cut in salaries for four years consecutively to meet the challenges of economic crunch

1924-New Pay Scales introduced

Fixing salary on service/function classification Major services formed; each one having further functional / departmental classification
Rate of salaries on the basis of 'year of service'
Each post had basic pay which increased annually, lower Selection/Higher Grades reached after around 20 to 25 years of service

1931-Great Depression

Economic slump – pay scales reduced by 20% in the Minimum and almost 30% in Maximum
ICS and certain other services allowed to retain in the existing scales

1933

Retrenchment Committee for the 'Reduction of Pay' made recommendations for new 'Time Scales' for various services
The 'Senior Scales' different on the basis of posting. SP ordinary district Rs. 750 while SP Multan, Ferozepur, Sialkot etc in scale of Rs. 1,000-1,200. Commissioner of Lahore and Amritsar Rs. 1,500 etc.
Class-II services in Edu, Agri, Vet, Med, Eng, and Coopr. etc. grouped together for purposes of salary
Cadre having 100 or more posts had 'Prize Posts' equivalent to 5% of the Cadre which carried selection grades higher than ordinary grades.
Two EBs introduced in each scale – one near the commencement of service and the other at approximately the 18th year of service

From these references it can be seen that there has been a protracted historical struggle defined by the ever shifting balance of corporate profit as a motivation as the origins for institutional organization, culture and functioning as opposed to a public service motivation for institutional organization, culture and functioning.

The post-Pitts Amendment era of the late eighteenth century witnessed efforts to impose rule of law and provision of individual rights through the East India Company administration. This was despite the fact that the East India Company itself was an organization inspired by the profit motive and not public service. Heavy increase in salaries to partially accommodate for loss in income originating from corrupt practices such as bribe taking, as well as a combination of administrative measures and appeals to conscience resulted in reduction of corrupt behavior and began the transition to a public service of the East India Company in the late 18th century. The introduction of the covenanted services and radical increases in what came to be called "princely salaries" provided the basis for success in reducing corruption. This also highlighted the period of detailing the compensation attributes required to successfully appeal to members of the corporate administration of the East India Company to shift from the original corporate profit motive for existence and begin the long and checkered transition to the public service motive for existence. The transition remained partial and the traits of profit motive were never completely eradicated.

Rigidities introduced into the remuneration system of the bureaucracy what used to be a moral hazard for a post or a number of posts has now translates into a moral hazard for the entire "grade" of officers across different departments/functions. This is because one of the rigidities that were introduced in the 1972 pay reforms was to equate a pay grade with seniority and posts across functions or departments. So a grade 17 officer in any department is to have the same pay. If this pay does not respond to expectations of relative economic

2nd World War

Major diversion of consumer goods from civilian to military uses and Bengal famine had a most disturbing effect on the fixed income group particularly government servants

Government devised ad-hoc scales and provided 'War Allowance' to its employees

New unified scale for clerical establishment

Govts of Punjab and Sind made wholesale upward revision of pay scales, but their employees condition did not improve which resulted in award of Grain Allowance and Dearness Allowance in 1940, 1942 and 1944 without change in the pay structure

1946-47

Salaries of public employees continued downward slide.

"Central Pay Commission 1946 under Sir Srinivasa established"

Commission expressed reservation on the Islington's principle of payment of so much as was necessary and laid down criterion of payment of not less than minimum wage and also taking into account qualification, training of the individual and responsibilities of the job

Report of the Commission came prior to partition. Government of India accepted the report. Government of Pakistan did not accept it on account of radically changed ground realities and smaller economic base

1947-49

In 1948 Pay Commission established under Mr. Justice M. Munir determined the following broad principles:-

inherited pay scales of higher posts were un-justifiably high

the country was left with very small tax base and had to keep the non-development expenditure at the minimum possible level

the living standard of low-paid employees was to be raised

the State need not offer such salaries as would attract the best available material; the correct place for our men of genius was in private enterprise

Prices would soon come down

The Commission divided public employees into 30 broad categories "suggested as many standard scales; introduced from January, 1949"

Main feature was reduction in the salaries of all categories of employees

1959-62 - Justice A.R. Cornelius

Proposed new 7 tier structure for the services with 3-5 grades of pay under each group

Neither the Service Structure nor the Pay Code recommended by the Commission was accepted

1949 'Prescribed Scales of Pay' nonetheless replaced by "Revised Prescribed Scales of Pay" in 1962 to offset ever-increasing inflationary pressures

1969 – Ad-hoc relief sanctioned to all non-gazetted employees, @ 10, 15 and 20% of pay

status then the tendency is that all the officers in grade 17 would face a moral hazard. Prior to 1919, under the pay list system each post could have a separate pay level regardless of seniority or function/department. Therefore, if one post or a number of posts were facing a moral hazard this could be countered by others in the department or across the bureaucracy who were not facing a moral hazard.

Another factor in creating the conditions for systemic, endemic, syndicated corruption is across the board reduction in the gazetted officers salaries over a number of years as compared to the non gazetted officers. This resulted from attempts to attain more equalizing "compression ratios" (compression ratio is the average in ratio of pay for the highest and lowest paid employees in a department being 46-1 at independence this was decreed to be reduced to 10-1 in 1972). This resulted in creating the incentives for the syndication of corruption as the internal departmental authority levels empowered to check corruption themselves became compelled to join in creating rents for extra income.

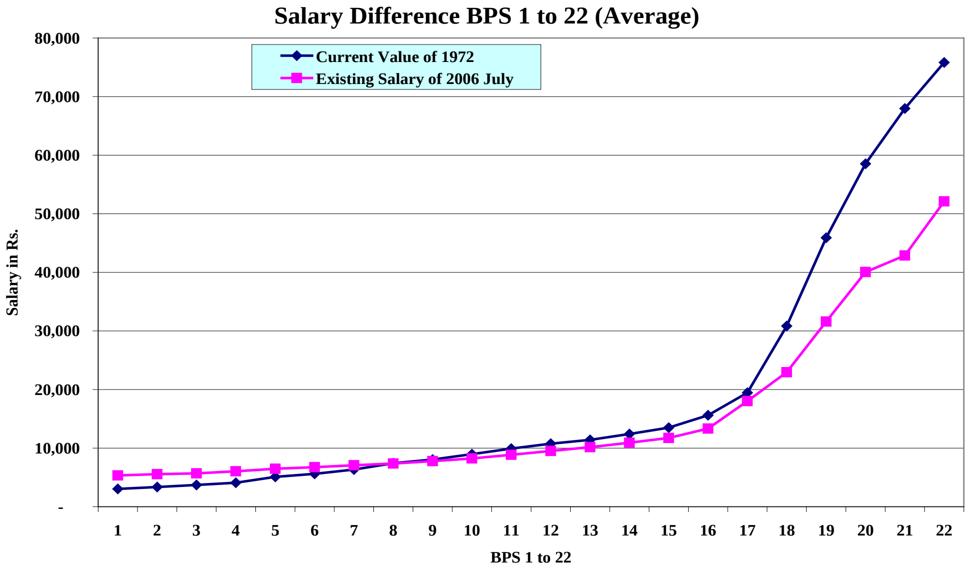
An Alternative Approach

Research undertaken by the Governance Institutes Network International (GINI) indicates 4 broad areas for improvement in anticorruption policy and approach imbibing a balance between combining further administrative measures with an incentives based approach.

Institutional performance may be improved through the provision of financial autonomy, strengthened administrative independence, and clarified legal mandate. These would require the measures described below.

a) Improved Financial Autonomy:

REAL VALUE OF SALARIES 1972-2006



Guaranteeing the required budget (charged expenditure)

- Providing unfettered power to expend budgetary resources,
- Providing the authority to re-appropriate between expenditure heads,
- Providing the authority to provide pay structure and package,
- Providing the authority to make expenditures/purchases within the overall budget,
- Providing the authority for setting of fees and other charges and incentives.

b) Strengthened administrative independence:

- Instituting a clear bi-partisan parliamentary appointment procedure of the head of the institution for a specific tenure with removal. only through a quasi-judicial process in the same manner as the removal of a judge of a high court,
- Separating the administrations of each organization from the executive branch of government and declare them as a specialized service cadre for the respective mandate of the organizations as well as each other (such as separating audit and accounts services) and each organization to be responsible for the management of its own service
- Declaring all categories of public accountability organizational services as premier service cadres, providing each organization with specialized training and career advancement,
- Providing for strong internal administration accountability and vigilance in systems and procedures having strict compliance to targets and fulfillment of the legal mandate,
- Providing statutory, mandatory disclosure and transparency requirements, including application of information communications technology to all appropriate processes and procedures and any failures on this count be treated as a criminal offence.

c) Clarified legal mandate:

- Statutory requirements for vision, mission, and objectives,

- Laying down reporting authority for clearly articulated plans, stating time frames, budget requirements, targets, and reporting requirements,
- Statutory requirements of punishments resulting from non-performance of the mandates or reluctance to fulfill targets must be set as grounds for mandatory demotions, loss of promotion prospects, blockage of salary increases and ultimate removal and prosecution,

- Clearly delineate jurisdictions of the mandate of each accountability organization as compared to others so as to remove overlapping mandates,
- Empower the organizations with remedial authority in case of non-compliance of validly passed orders by others, including the power to arrest, remand to custody and prosecute.
- Remove protections for all categories of public servants.

Cautionary notes

The main caveat to the recommendations outlined above is that perverse institutional incentives embedded in both formal and informal rules, leads to the re-emergence of erstwhile behaviors as soon as initial reform momentum abated. These incentives affect not only these institutions but the entire bureaucracy, and were poorly understood and left unchanged by reform efforts. Without addressing the perverse incentives and culture embodied in the informal rules such administrative enhancement of powers will not be able to sustain their impact.

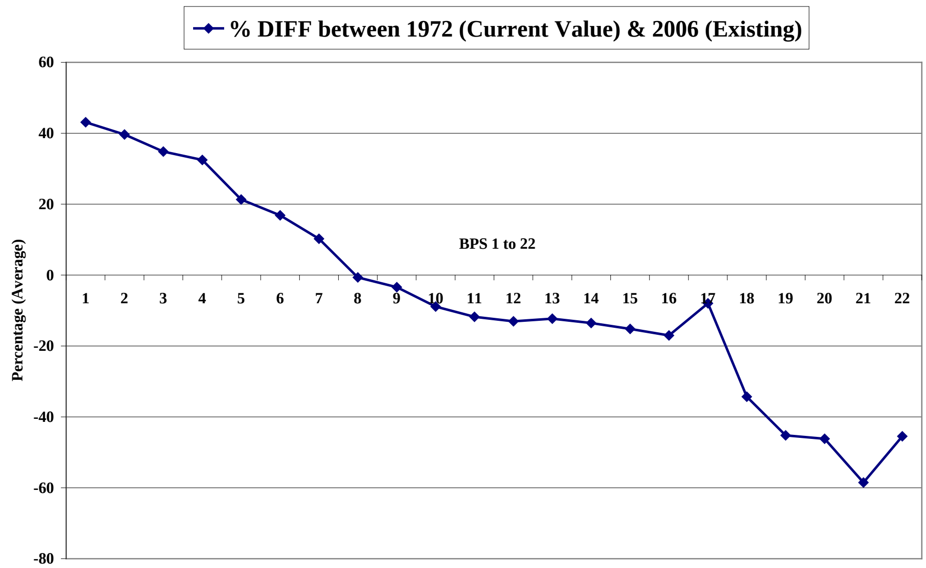
a) The conventional understanding of the relationship between monetary incentives and corruption must be reassessed. The NIE approach consists, in part, of identifying the origins and subsequent path dependent behavior of institutions. This approach could provide insights for designing interventions that have been able to secure desirable institutional behavioral responses. There are critical temporal and political junctures in which in which modifications in monetary incentives have limited corrupt behavior.

b) The cost of public salary reform must be weighed against the direct and indirect economic costs of corruption. An illustration is in order: A survey was conducted of 6000 public servants in 30 randomly chosen districts across all 4 provinces of Pakistan. The survey attempted to model moral hazard profiles of local government officials, in an effort to measure the dimensions of the space for incentivized corrupt behavior. Disparity of income trumped the rising cost of living expenditures, emerging as the most significant incentive for corruption. Low probability of apprehension/punishment accountability institutions was also a major incentive for corrupt behavior.

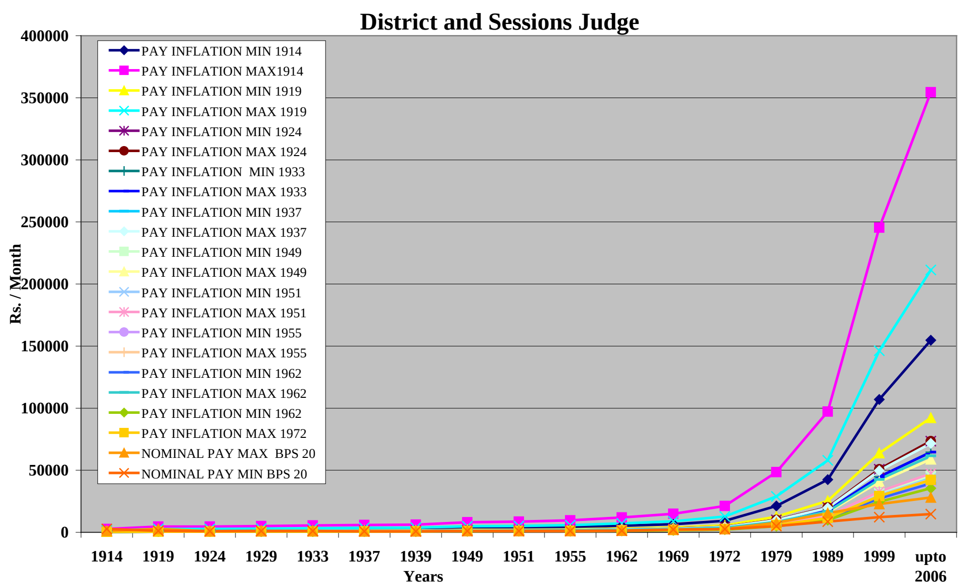
To specify policy responses, the survey went on to calibrate compensation expectations of public servants which would be comparable to market rates for private sector salaries commensurate with their experience and qualifications. The following matrix illustrates these results. As government servants move up the pay-scale, their salaries negatively deviate from private sector salaries.

Basic Pay Scale	Salary to support respectable standard of living (Rs./month)	Comparative salary in private sector commensurate with experience and qualifications (Rs./month
1-4	15,400	14,100
5-10	23,000	24,700
11-17	29,000	33,000
17 & above	60, 000	75,500

REAL VALUE OF SALARIES 1972-2006



COMPARISON OF SALARY FROM 1914 TO 2006



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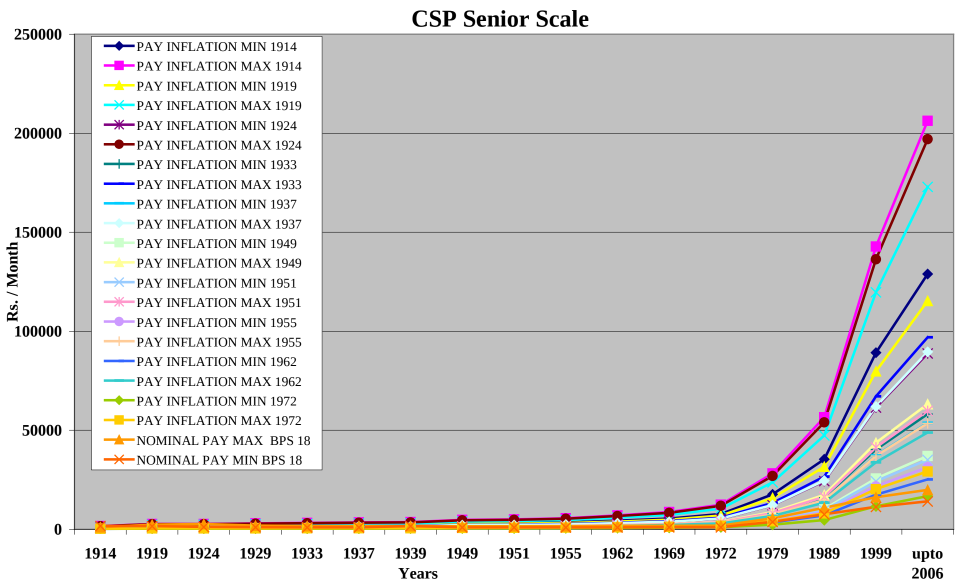

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