



HUMAN DEVELOPMENT IN SOUTH ASIA 1999

The Crisis of Governance

Published for

The Mahbub ul Haq Human Development Centre

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MAHBUB UL HAQ
1934-1998

Dedicated to the memory of Mahbub ul Haq—whose intellect dazzled us, whose vision inspired us, and whose mission drives us.

Mahbub ul Haq dreamt of a world free from inequity and injustice, and devoted his entire life to the pursuit of that dream. He challenged the conventional wisdom of his age and brought people to the centre stage of development dialogue. This Report is a continuation of his legacy, which lives on through the work of his Centre.

*'I reach the moon, the stars, the galaxies
but this is not my final destination
Higher and higher—onwards and onwards
for if I stop, I die.'*

— a verse by Iqbal, often quoted by Mahbub ul Haq

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Foreword

This was a very difficult Report to complete—emotionally as well as intellectually. How do you carry on with the unfinished task of an intellectual giant who also happened to be your life's partner, and your friend, philosopher and guide? Friends from all over the world conveyed the message—the mission must go on, the Report must be finished, and the Centre must survive. Concrete help came from: Meghnad Desai, who came to Islamabad last August and put the Report back on track; Parvez Hasan and Fateh Choudhri, who spent months in the Centre to supervise the research; Gustav Ranis, Rehman Sobhan, Frances Stewart, and Paul Streeten, who made a sad trip to Pakistan to help with the unfinished work of their dear friend; and Moeen Qureshi and Shahid J. Burki, who provided constant advice and guidance to steer the affairs of the Centre during this difficult phase. And the young researchers of the Centre, who had lost their mentor, started to work with a renewed sense of commitment. So the Report was finally completed.

The theme of the Report, *Crisis of Governance in South Asia*, was a particular favourite of Mahbub ul Haq. Early last year when Mahbub was discussing this theme, he was very excited. He said it was going to be his best Report as he was going to write about an issue that touches the core of all South Asia's problems. For over thirty years, he had written and talked extensively about political corruption, economic mismanagement, tax evasion, loan default, inefficiency of the public corporations, reform of bureaucracy, lack of safety nets for the poor, and the concentration of wealth and power in the hands of a few elites. This Report was going to give him an opportunity to compare and contrast the governance in countries of this region

with one another and with the rest of the world. He wanted this Report to be a powerful voice of the poor against the prevailing oppressive economic, political and administrative systems in the region. He wanted to articulate that voice so clearly and poignantly that, he hoped, it might finally draw the attention of the powers that be. Alas, that was not to be. He went away, leaving his dream with us.

But Mahbub had left the structure and basic foundation of the Report. He had developed the outline and supervised the preparation of background papers and one chapter. The basic tables, many boxes and charts too, had been done under his guidance. Mahbub had discussed the idea of developing a new concept and a new index of governance—humane governance—with Meghnad Desai. Meghnad Desai later on elaborated this concept and wrote the conceptual framework chapter. Others, including the senior advisers and research staff, struggled with the drafting of the Report. The model left behind by Mahbub, in the previous two Reports, was a hard act to follow. But the collective spirit rose above the sum total of individual efforts. In the end, it will be the readers who will judge whether we have been able to follow the leader well.

The earlier Reports on *Human Development in South Asia 1997 and 1998* documented the magnitude of human deprivation in the region. This year's Report focuses on the reasons behind such colossal human misery in a region that is rich in culture and tradition and has the potential for achieving much higher economic growth with social justice. The Report analyses the issue of governance in the region as it relates to people. How has governance—in all its dimensions, political, economic, and civic—affected people's lives? What is the

difference between good governance and humane governance? Do people in South Asia feel that their governments are responsive to their needs? These and many other questions are raised and addressed in this Report, within the limits of our ability and the constraints imposed by data availability and the size of the Report.

The unique feature of this Report is the concept of humane governance that puts people at the centre of all governance policies, strategies, and actions. The basic precepts of the human development model are to improve the capabilities and expand the opportunities of all people, irrespective of class, caste, gender, and ethnicity. The concept of humane governance takes this model forward by asserting that governance, if it is to promote human development, has to be not just pro-people or people-centred, it has to be owned by people. Built on this concept, the Report provides a new index, Humane Governance Index, which looks at countries' governance performance on the basis of some quantitative and qualitative data. The index is just a preliminary attempt to assess governance in a number of countries for which data were available. We are extremely aware of the tentativeness of the results we derive. Yet, we believe it is a good research effort, and we intend to improve the methodology and broaden the coverage of countries in future.

The Report contains eight chapters, besides the Overview. Chapter 1 paints a broad picture of human development in the region during 1998 in the aftermath of several natural disasters, India/Pakistan nuclear tests and the East Asian financial crisis. Chapter 2 introduces the theme of this year's Report, Crisis of Governance, by presenting a conceptual framework for analyzing governance in South Asia. Chapter 3 examines many facets of political governance in South Asia, including the nature of democracy, workings of the various institutions of governance, and the role of the ruling class. Chapter 4 focuses on the issues of

economic governance, such as, the role of the state in production and social sectors, fiscal crisis, mismatch between income and expenditure of governments, and the impact of poor economic governance on economic growth and social justice. Chapter 5 looks at the ways to combat entrenched corruption in the region. Chapter 6 assesses social costs of poor governance, including the deteriorating law and order situation in the region. Chapter 7 explores the many initiatives people are taking to improve civic governance. And finally, in Chapter 8, the Report proposes a reform agenda that identifies the most pressing policy and institutional changes required in South Asia. Highlighting key governance areas crucial to securing human development, the reform agenda is focused on redirecting the priorities of the state, revitalizing state institutions, and building new alliances with civil society.

In compiling this Report, we have benefited enormously from the help extended to us by the field offices of UNDP in South Asia, particularly Robert England and Brenda McSweeney, UNDP representatives in Pakistan and India. I personally owe a great deal to both of them for their constant support and words of encouragement. I am eternally grateful to Nay Htun, UNDP Regional Director for Asia and the Pacific, for keeping his faith with this project. I am deeply indebted to the President of CIDA, Mme. Huguette Labelle, for her firm commitment to the Centre's work.

Many organizations and individuals were generous with their support and time. We have been able to acknowledge only some of them here, but let me record our profound appreciation for all the assistance we have received from every quarter.

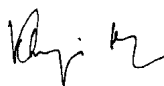
Friends of Mahbub contributed in many ways to the production of this Report and to the survival of the Centre. I would like to offer my sincerest thanks to: S. J. Burki, Fateh Choudhri, Gamani Corea, Meghnad Desai, Parvez Hasan, Lal Jayawardena, Richard Jolly, Gustav Ranis, Nafis Sadik, A. K. Sen, Arjun Sengupta,

Rehman Sobhan, Frances Stewart, Maurice Strong, and Moeen Qureshi. They gave me the courage to go ahead with Mahbub's unfinished work.

The research team at the Centre worked hard and for long hours to complete this Report. In August last year, the young and very committed team made this project their own and went beyond the call of duty to produce this Report. I must recognize, in particular, the tremendous contribution of Adeel Malik, Rashid Naseem, Richard Ponzio, and Murtaza H. Syed at each stage of preparation of this Report. Their mentor

would have been so proud of them. Special thanks are due to Nasreen Rehman who joined the Centre only this year and made her special contribution to the evolution of the Report. I would also like to thank Homeira Usman for her dedicated work for the Centre.

This Report is dedicated to Mahbub ul Haq whose ideas and words dominate every page of this Report. We only pray that his life and his work have not been in vain. We fervently hope that the policy makers in South Asia will give some serious thought to the issues addressed here.



Khadija Haq

Islamabad
24 May 1999

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of India; Pakistan Institute of Development Studies and Institute of Regional Studies of Pakistan; and Institute of Policy Studies and Marga Institute of Sri Lanka. The kind assistance provided by the librarians of World Bank (Pakistan), UNDP (Pakistan), ILO (Pakistan) and IRS are also acknowledged.

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About the Mahbub ul Haq Human Development Centre

Mahbub ul Haq Human Development Centre (HDC) was set up in November 1995 in Islamabad, Pakistan by late Dr Mahbub ul Haq, founder and chief architect of UNDP's Human Development Reports. The Centre is a policy research institute and a think tank, committed to organizing professional research, policy studies and seminars in the area of human development, with a special focus on the South Asia region.

The current activities of the Centre include: preparation of annual reports on *Human Development in South Asia*; organization of a South Asia Commission to produce a volume on the Asian Challenge in the 21st Century by 1999; organization of seminars and conferences on global and regional human development issues; preparation of research papers on human development issues, to be published as an Occasional Paper series; and collaboration with UNDP Human Development Report Office to publish a semi-annual Human Development Journal.

The HDC works in close collaboration with independent research institutions, policy think tanks, and the field offices of UNDP in the South Asia region.

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Contents

Overview 1

Chapter 1

The State of Human Development 11

Human Deprivation 12

Poverty profile of South Asia 13

Human security under siege 17

Globalization and the East Asian crisis 22

Chapter 2

Humane Governance—A Conceptual Framework 27

Humane governance: conceptual framework 28

Good political governance 31

Good economic governance 33

Good civic governance 35

Measuring humane governance 37

South Asia's crisis of governance 38

Chapter annex—Humane Governance Index 39

Chapter 3

Political Dimensions of Governance 41

Are people sovereign? 42

Part I. Who Governs South Asia? 47

The reality of decentralized governance 51

Part II. The Failure of Institutions 56

The legislatures 57

The executive: civil service 62

The judiciary 65

In search of good political governance 69

Chapter 4

Economic Dimensions of Governance 71

The giant's robe 72

The fiscal dilemma 77

Origins of the crisis 79

The development wasteland 86

The burden of adjustment 89

Chapter 5

The Corruption Menace 95

What price corruption? 97

The corruption equation 101

Entrenched corruption 105

An anti-corruption revolution 105

Chapter 6

Social Costs of Poor Governance 111

Life, liberty, and exclusion 113

Governance that excludes 116

Chapter 7

Governance by Civil Society 127

Civil society for good civic governance 128

The primacy of human rights 131

Opening spaces for civic engagement 133

Chapter 8

In Quest of Humane Governance 143

An agenda for humane governance 144

Facilitating change 154

Technical Notes 157

Technical Annex A: Technical Note on the Computation of HGI 157

Technical Annex B: Citizens' Survey 159

Technical Annex C: Distance Index 163

Bibliographic Note 165

References 166

Profile of Governance in South Asia 179

Human Development Indicators for South Asia 191

Key to Indicators 206

Boxes

1.1 Coping with catastrophe: natural disasters and human development 16

1.2 Globalization: lessons South Asia could learn from the East Asian crisis 25

1.3 Lessons South Asia still has to learn 25

2.1 Views on governance 29

2.2 Decentralization and humane governance 32

2.3 Institutions and economic performance 35

3.1 The missing ingredients in a poor democracy 44

3.2 A culture of violence? 45

3.3 All in the family: the case of Sri Lanka 50

3.4 Strengthening local level governance 53

3.5 The economics of national integration 55

3.6 People's perception of political governance 56

3.7 Political corruption in India 60

4.1 Banks in chains 77

4.2 The steal mills of South Asia 85

4.3 Poverty programmes: bypassing the poor 89

4.4 Some dangerous myths about Pakistan-India trade 91

5.1 A typology of corruption in South Asia 96

5.2 Are the corruption optimists right? 98

5.3 Why is South Asian corruption unique? 99

5.4 Dealing in deaths: making money in the global arms bazaar 100

5.5 Is privatization the panacea for corruption? 103

5.6 The globalization of corruption 104

5.7 Grand corruption 105

5.8 Combating corruption: success stories from Asia—and around the world 109

6.1 Les Misérables—the economics of suicide in Pakistan 112

6.2 Internal conflicts: South Asia at war with itself 113

6.3	India: the girl child—silenced from the womb	123
7.1	Universal Declaration of human rights	131
7.2	People's perceptions—civic governance and human rights	132
7.3	Violent elections in Bangladesh	133
7.4	SSM: caring for low-caste Sri Lankan families	134
7.5	Village-level institutions in India	134
7.6	AKRSP: a successful experiment in local governance	135
7.7	Client surveys to motivate public service improvements in India	137
7.8	Public/private initiatives for crime reduction	139
8.1	The basics of decentralization	149
8.2	More of the same: civil service reform in South Asia	151
8.3	Military demobilization for education	152

Tables

1.1	Poverty profile of South Asia	12
1.2	Rural and urban poverty in Bangladesh	13
1.3	Rural and urban poverty in India	14
1.4	Capabilities and opportunities of South Asian women	15
1.5	Burden of military expenditure in South Asia	18
2.1	Humane governance index	37
3.1	The state of democracy	44
3.2	Societies at war	45
3.3	President's rule in India	54
3.4	Unequal partnerships	54
3.5	Constitutional amendments	59
3.6	Oversized cabinets	59
3.7	Justice delayed, justice denied	66
3.8	Judging the judges	66
4.1	The growth of the South Asian state	72
4.2	The state and the social sector	74
4.3	Role of the South Asian states	76
4.4	Public debt in South Asia	78
4.5	Claims on public expenditures	83
4.6	Pakistan: misgovernance in Social Action Programme	87
4.7	India: do subsidies lessen poverty?	88
4.8	A calendar of economic liberalization	89
6.1	Guardians of disorder	116
6.2	The powers that be	116
6.3	Who is the most equal of them all?	117
6.4	Real per capita expenditures	117
6.5	India—a tale of two communities	125
6.6	Injustices against Ahmadis	126
7.1	The state of the media	140
8.1	South Asia's social transfers: too little for too many	145

Figures

1.1	Backlog of poverty in South Asia	12
2.1	The architecture of humane governance	30
3.1	Sri Lanka: a chronology of failed political governance	46
3.2	Cabinets of the elite in Pakistan	48
3.3	The civil military nexus	49
3.4	Born to rule	50
3.5	Educational qualifications of South Asia's parliamentarians	57
3.6	The silent majority	61

3.7	Bureaucratic efficiency	62
3.8	How efficient is the judiciary?	65
4.1	Shrinking development expenditures	73
4.2	A profile of public debt in South Asia	78
4.3	A weak tax effort	79
4.4	Too few income tax payers and too little direct taxes	80
4.5	Black economies command a sizeable share	81
4.6	Fiscal discipline: improving	90
4.7	Capital expenditures have shrunk since adjustment	92
5.1	Corruption-human deprivation chain	97
6.1	Profile of human distress in South Asia	114
6.2	People and income	117
6.3	South Asia: gender gaps	122
6.4	The girl child: born to be excluded	124
7.1	Actors for humane governance	130
7.2	Estimated number of NGOs in South Asia	133
7.3	South Asia and the information revolution	141



Overview

South Asia remains a region divided—divided between the hopes of the rich and the despair of the poor

The ultimate goal of development is to build human capabilities and enlarge human choices: to create a safe and secure environment where citizens can live with dignity and equality. Until recently, the critical links between governance and human development were not sufficiently understood. Increasing a country's GNP is but one of the essential means towards achieving human development. It is now accepted that the main reasons for South Asia's colossal human deprivation are not just economic. These problems go hand in hand with social and political factors rooted in poor governance. How does governance in South Asia relate to people and what has been its impact on human development? This is the central question that the Report seeks to address.

South Asia remains a region divided—divided between the hopes of the rich and the despair of the poor. A region where the richest one-fifth earns almost 40 per cent of the income, and the poorest one-fifth makes do with less than 10 per cent. A region where today begins with the struggle of survival for 515 million poverty ridden destitutes, and tomorrow threatens the future of 395 million illiterate adults. Where women are often denied basic human rights and minorities continue their struggle against prejudice and discrimination. At the threshold of the twenty-first century, this is the South Asia that we live in.

The previous two Reports on *Human Development in South Asia* have underscored how far behind the region is lagging in providing its people the promise of a better life. As the Reports have documented, the region is the world's poorest, the most illiterate, the most malnourished, the least sensitive to the needs of women—and at the same time, the one region where military spending as a proportion of GNP has actually risen

since 1987. In South Asia, more than 500 million people—who by themselves comprise about one-twelfth of the world's population—live in a state of severe deprivation, lacking sufficient access to adequate nutrition, health, housing, safe water, sanitation, education, and employment. This year's Report focuses on the larger question that arises from such data: what role can South Asia's governments and civil societies play in reversing such trends and bringing the region back on the path of humane, responsible development? Other questions include: what have been the main problems in the region's governance, and how can they be addressed? As this edition of *Human Development in South Asia* goes to press, these questions are more relevant than ever, with the stakes behind answering them no less than the survival of the region.

South Asia is facing a crisis of governance which, if left unchecked, could halt the region's democratic progress and economic and social well-being of its teeming millions. The signs of crisis are everywhere:

- in nuclear tests which threaten the stability of the region and contribute to spiraling and unsustainable military costs;
- in weak coalition governments in India and Sri Lanka that are unable to guarantee a full term in office, let alone coherent policies;
- in political demonstrations and strikes in Bangladesh which regularly shut down all activities;
- in urban chaos raging from the streets of Karachi to the Jaffna peninsula; and perhaps most damaging of all,
- in the breakdown of any social contract binding the diverse societies of the region together.

Recent developments in the region have reinforced this crisis:

- India faces its third nation-wide elections since 1996, with no guarantee that the results will produce a government any more likely to last for a full term. Meanwhile, the rise of parties with exclusionary and extremist agendas ensures growing divisiveness among Indians.
- Nepal is in similar straits, with recent elections producing a series of short-lived coalitions and a constant reshuffling of political alliances, and the spectre of violent insurgency at the nation's fringes.
- Pakistan, by contrast, has a majority government which has run the risk of weakening other institutions, a danger most recently seen in the controversy over the establishment, overturned by the Supreme Court, of military courts.
- Bangladesh has confronted an alternation of parties in power in which the opposition forces have repeatedly tried to shut down daily life through crippling strikes until their own demands for power are met.
- Sri Lanka remains in the grip of a ruinous war that threatens to undo all of the major advances in education and health, which it had won over previous decades.
- All of the nations also face the pernicious evils—endemic corruption, social exclusion, inefficient civil services—which plague them uniformly.

South Asia has emerged by now as one of the most poorly governed regions in the world, with exclusion of the voiceless majority, unstable political regimes and poor economic management. The systems of governance have become unresponsive and irrelevant to the needs and concerns of people.

Formal institutions of governance have often bypassed the voiceless majority. These are the unfortunate many who suffer from multiple deprivations on

account of their income, creed, gender, or religion. They have not only been excluded from the benefits of growth but have also failed to gain political empowerment. Some of the worst consequences of their exclusion are seen in the high rates of crime and violence throughout the region. From the murders and armed robberies that instill insecurity and fear to the internal conflicts that have tainted the region, from the Shia-Sunni conflict in Pakistan to the caste-based crimes in India, South Asia seems to be at war with itself (see chapter 6).

Income disparities in South Asia are one of the largest in the world. All the countries in the region have a dramatic concentration of wealth and power among their richest members: in South Asia, the richest 10 per cent is more than six times as wealthy as the poorest 10 per cent, with Nepal having the largest differential. This is mainly because of the perverse economic system, which has failed to transfer the benefits of growth to the poor and enhance their economic opportunities. That is why in 1993 the five largest nations in the region had a combined unemployment and underemployment rate of 21 per cent, ranging from 12 per cent in Bangladesh to 43 per cent in Nepal.

Nor do all groups in society feel equally represented. Women are worst off, contending with exclusionary practices embedded in social structure from the time they are born. The ratio of female-to-male child mortality is high throughout the region, with the Indian states of Haryana (2.35) and Punjab (2.06) leading the list of regions where infant girls survive at dramatically lower rates than boys do. Education for girls also lags far behind the educational opportunities for boys: in both India and Pakistan, fewer than three girls are enrolled in school between the ages of 11 to 14 for every four boys.

In individual countries, other groups also feel excluded, or even targeted for persecution by governments: Ahmadis in Pakistan, Tamils in Sri Lanka, Nepalese in Bhutan, Biharis in Bangladesh. India

South Asia has emerged by now as one of the most poorly governed regions in the world

In many South Asian states, democracy is fast turning into an empty ritual

faces enormous challenges in bringing together North and South, upper and lower castes, and religious and linguistic minorities numbering in the hundreds.

When so many groups feel left out of the process—excluded, ultimately, from the minds of the politicians and civil servants who are meant to represent them—it comes as no surprise that many become disenchanted from even participating in the democratic processes which are still struggling to take root in the region. The South Asian subcontinent has been the site of nearly fifty nationwide elections since the end of the British Raj, with India alone set to embark on its thirteenth legislative ballot this year. Yet voter interest is falling. Pakistan's last general elections saw only 35 per cent of eligible voters going to the polls; estimates for India's next elections suggest that turnout will fall considerably below 50 per cent in the world's largest—and for decades, most boisterous democracy.

In many South Asian states, democracy is fast turning into an empty ritual; elections are often the only bridge between the state and society. People continually feel excluded from the larger political process through which decisions that directly affect their livelihoods are made. Despite the existence of local governments, the state remains distant. Often, there are no local government elections, local bodies remain under the direct administrative and financial control of higher levels of government, and the scope of local government activities is severely limited. Meanwhile, nations like India and Pakistan have developed what the Report calls a 'confused federalism', in which weak local and provincial bodies are unable to match the ability of the central bureaucracy to provide services.

As chapter 3 shows, the dynasties of the region—notably the Nehru-Gandhi, Bandaranaike-Kumaratunga and Bhutto families, as well as the two main party leaders of Bangladesh, Sheikh Hasina Wajid and Begum Khaleda Zia—have held sway in the five decades since the end of the British Raj, skewing politics into a battle of personalities and often

doing little to rid the region of the legacy of feudalism. The dominance of a narrow band of elite—consisting mainly of landlords, bureaucrats, big industrialists, and military officers—reflects the concentrated nature of political power in South Asia. And where institutions are weak, these powerful individuals thrive and control state resources directly. In such a state of personalized government, rules are flouted and policy decisions based on personal whims.

The concentration and personalization of state power has coincided with a parallel erosion of institutions. The sanctity of the political system rests upon the prevention of individual domination and the separation of power among state institutions that follow the law—South Asia violates both of these conditions. Institutional decay is evident in parliaments that cannot protect peoples' interests, in a civil service that is heavily politicized and unable to provide basic public services, and in a judiciary that fails to deliver social justice to all.

The South Asian states have fallen back on their most essential tasks even though their involvement in the socio-economic lives of the people remains pervasive. The most basic public goods do not get delivered: sound macro-economic management, basic social services, and internal order. When institutions are weak, individuals become powerful—creating opportunities for rent-seeking and illegal extortion.

South Asian governments are large in size but low in efficiency. They are huge and growing larger: by 1995, per capita government expenditure topped 56 dollars even as the number of people living in poverty swelled to about 515 million. Government consumes some 10 per cent of the gross domestic products of South Asian countries even in an era in which globalization has prodded many states to privatize. Governments have dominated all functions so over-

whelmingly that current expenditures, excluding interest payments, commanded some three-fifths of central government expenditure for the region. Such dominance has limited the government's ability of focusing on the essential tasks and contributed to the region's notoriously high levels of corruption. India and Pakistan, for example, have repeatedly finished at or near the top of the yearly corruption rankings by Transparency International.

The economic consequences of such skewed governance are severe (see chapter 4). Tax collection is meagre: a mere one per cent of the population pays income taxes. South Asia collects around 10 per cent of GDP in taxes, compared to the average tax revenue collections of 15-20 per cent of GDP in developing countries. Yet a bigger irony is that most of these taxes fall far more heavily on the poor and the middle class than on the rich. Nearly seventy per cent of the region's total tax revenue is obtained through levying indirect taxes.

This crushing burden of taxation on the poor is not only enormous, it is also increasing. In Pakistan, for instance, tax burden on the poorest section of the population has increased by more than 10 per cent even though tax incidence on the rich has declined by more than 4 per cent. Meanwhile, in many countries direct taxes as a proportion of GDP have actually fallen in the last decade, while huge sectors of society—most notably, agriculture—remain under-taxed or untaxed. Last year, the government of Pakistani Punjab collected less than one billion rupees in agricultural taxes, compared to a target of two billion rupees for the year, which in itself was a fraction of the actual potential.

The rich and the powerful continue to buy immunity from the tax system. There is a great deal of competitive tax evasion in South Asia today. The *1998 Global Competitiveness Report* ranks India as among the top five countries noted for tax evasion. In Pakistan, annual tax evasion was nearly equal to the entire fiscal deficit in 1998. On top of this, there

is an elaborate web of tax concessions by the state, variously estimated between 2 and 3 per cent of GDP in most South Asian countries. These tax amnesties are often decided by political imperatives, not economic rationale. While the rich get all sorts of favours from the state, a large part of the society lives outside the formal economy. In nearly all South Asian countries, black economy is equal to or even larger than the agriculture sector, in terms of its contribution to GDP.

Much of the informal sector has no access to formal credit, even though businesses with strong political connections manage to get huge loans from public banks without even the need of paying them back. This has led to the build up of a large stock of non-performing loans. Such infected portfolios of public banks represented 21 per cent of total advances of public banks in South Asia, with a large part of these liabilities held by a few influential borrowers. In Bangladesh, just one per cent of borrowers accounted for 21 per cent of defaulted loans of Nationalized Commercial Banks (NCBs).

Even the low levels of revenue that governments collect largely fail to materialize into pro-poor expenditures. The bulk of public spending in South Asia is directed away from social and development expenditures towards providing non-merit subsidies, making up for losses of public corporations, maintaining a large force of civil servants, and providing for external defence. With the notable exception of Maldives, social sector expenditures in South Asia remain low at less than 5 per cent of GDP. This happens at a time when a large proportion of expenditures is spent on low human priority areas. A few illustrations from South Asia:

- For every dollar spent on social sectors, Pakistan and India spend 4.32 and 1.70 dollars on defense and debt servicing, respectively. Military expenditure in Sri Lanka (as a percentage of total public expenditure) has increased by 450 per cent between the period 1981-97.

The crushing burden of taxation on the poor is not only enormous, it is also increasing

South Asia at cross-roads

The Hope

The Challenge

Economic Governance

- Distortionary trade taxes have declined by 24 per cent since 1980.
- Overall budget deficits have declined from 8 per cent to 5.9 per cent of GDP since the implementation of adjustment programmes.
- Military spending as a percentage of combined health and education expenditures has declined by 36 per cent since 1985.
- Annual inflows of foreign direct investment have increased by seven times since 1990.
- The annual growth in government consumption has halved since 1980.

- Only 1 per cent of the population pays income taxes; direct taxes form only 29 per cent of total tax revenues.
- Capital expenditures, including development outlays, have declined from 8 per cent to 5.3 per cent of GDP since adjustment.
- For every dollar of central government expenditure on social sectors, \$8.65 are spent on defence and debt servicing in Pakistan, and \$3.12 in India.
- Non-performing loans constitute 21 per cent of total advances by public sector banks.
- The size of the black economy has been estimated to be around 25-35 per cent of GDP.

Political Governance

- 99.9 per cent of people now live under democratic regimes.
- More than 40 per cent of the parliamentarians have a first degree.
- In all South Asian countries, women have had the right to vote for more than 25 years.
- There has been no war between South Asian states for more than a quarter of a century.

- The military has been in power for nearly half of the independent existence of Bangladesh and Pakistan, and commands considerable influence.
- Almost half of the parliamentarians in India and Pakistan are landlords.
- Though women are half the electorate, they hold only 7 per cent of the parliamentary seats and 4 per cent of the national cabinet posts.
- Since 1970, three times as many Pakistanis have been killed in civil strife as the number of casualties in its three wars against India.
- The war with the LTTE costs Sri Lanka \$1 billion and three percentage points of growth every year. Nearly 55,000 people have lost their lives in this battle.

Civic Governance

- Technological breakthroughs have considerably reduced state control over the media.
- South Asia has a strong tradition of NGO movements; with well over 100,000 NGOs operating in the region.
- Private-public partnerships like the Citizens' Police Liaison Committee (Karachi) are being encouraged throughout the region.

- All governments exercise varying degrees of control over TV, radio, and the print media.
- NGOs across South Asia tend to be large in number, but small in scale—even in Bangladesh, the largest NGOs reach less than 20 per cent of landless households.
- The private sector's choice of civic activities remains arbitrary and voluntary.
- Tensions between governments and NGOs are yet to be eliminated.

- In 1998, Sri Lanka transferred 2.7 per cent of GDP to public corporations and institutions, with a large part of this transfer being used to cover the deficits of public enterprises. Such losses were around 2 per cent of GDP in Bangladesh and Pakistan.
- The Indian government spends close to 11 per cent of GDP on subsidizing goods whose provision has a limited, if any, impact on poverty reduction. In Sri Lanka, for every one dollar of public expenditures spent on the social sectors, 63 cents are spent on subsidies.

A weak tax effort and non-prioritized expenditures have contributed to the prevailing fiscal crisis. On average, the annual budgetary shortfall in South Asia equals 6 per cent of GDP. To its credit, South Asia has undertaken some structural adjustments in recent years. But even here the burden of adjustment has fallen on the poor. The axe of expenditure cuts has largely fallen on social and development expenditures.

Such endemic deprivations become the breeding grounds for crime and violence in South Asia's increasingly polarized societies. The threat of crime and violence pervades all over South Asia. Besides being ravaged by a two-decade old civil war, Sri Lanka has the region's highest rate of murders and armed robberies with 9 murders and 20 armed robberies per 100,000 people. Similarly, Bangladesh recorded the region's highest rate of car thefts with 261 car thefts per 100,000 vehicles. The most vulnerable in South Asia remain the most abused. Bangladesh had the region's highest rate of rapes with 10 rapes per 100,000 women (1996). Out of all the rape victims in Punjab (Pakistan) last year, more than half were minors. Since 1994, there have been 23,000 dowry deaths in India. Also, there are more than 100,000 child prostitutes in South Asia.

With life so insecure and liberty so vulnerable, South Asia is in need of a new compact between the people and the state. Without such a compact, without an abiding belief by citizens that the

government can fairly provide for them and adjudicate disputes among them, the region has seen in recent years a bewildering maze of battles between competing interests—pitting caste against caste, Muslim against Hindu, Tamil against Sinhalese, 'mohajir' against Sindhi, and, ultimately, the rise of insurgencies and criminality.

The government's ability to deliver the most basic goods is further weakened by endemic corruption. As chapter 5 details, corruption is pervasive in South Asia. It has led to a shift in government priorities away from crucial services and towards areas that afford greater rent-seeking opportunities. Evidence of corruption in South Asia is widespread: in reduced availability and increased cost of basic social services, in allocation of resources for mega-projects, and in the breakdown of rule of law. There is a growing perception in many parts of South Asia that corruption has floated upwards—from petty corruption in the 1950s, to mid-level corruption in the 1960s and 1970s, to corruption at the very highest levels of the state in the 1980s and 1990s.

The huge governance challenges faced by the region have been articulated with clarity and vision by many regional leaders, yet few reform attempts have been successful. The prevailing political factors stood in the way of reforms. Mahbub ul Haq faced that problem himself, first as Chief Economist of Pakistan in the 1960s and then as Finance Minister and Planning Minister during the 1980s. Many of his most-prized goals—the imposition of an agricultural tax, for example, or the establishment of an effective primary-level education system—faced insurmountable political hurdles. Others, such as the development of rural areas or poorer regions like Balochistan, were thwarted by the dominance of a centralized state structure.

It has never been in dispute that economic planning requires the cooperation of political leaders. To see the consequences when governments simply ignore the needs of the poorest,

The ability of governments to deliver the most basic goods is further weakened by endemic corruption

Humane governance must lead to broad-based economic growth and social development

one need look no further than the nuclear tests by India and Pakistan in May 1998, in which a tit-for-tat nuclear exchange between two of the world's poorest countries led to spiralling arms costs and sanctions by nations like the United States—all to little net effect in terms of military security, let alone human security.

South Asia's crisis of governance stems from systemic political, economic and social challenges embedded in the region's colonial and feudal past. A new vision and architecture of humane governance, built upon the principles of ownership, decency and accountability, have become imperative for the over one billion citizens of South Asia.

The 1999 Report on *Human Development in South Asia* adds a new dimension to the concept of governance, the need for humane governance. Humane governance is defined as good governance dedicated to securing human development. It requires effective participation of people in state, civil society, and private sector activities that are conducive to human development. The Report argues that, in the context of South Asia, the concept of good governance has to be broadened and refined; it has to go beyond good politics or even good economic management. Humane governance, as defined, must lead to broad-based economic growth and social development as a means to greater human development. Governance must be seen by the people as operating in their own interests—transparent and accountable to all its constituents, and conducive to building a society in which all believe they are treated fairly and decently.

Humane governance is conceptualized in three interlocking dimensions—good political governance, good economic governance, and good civic governance. Good political governance emphasizes the rule of law, accountability and transparency. It seeks to achieve

these goals through a constitutional framework that is not easily amendable, free and fair multi-party elections, and a clear separation of powers among the executive, judiciary and legislative branches of the government. Good economic governance emphasizes the role of the state not only in securing macro-economic stability, guaranteeing property rights, removing market distortions, and eliminating rent-seeking opportunities, but is also concerned with investment in people and basic infrastructure, protection of the natural environment, and a progressive and equitable fiscal system to promote economic growth with social justice. The third dimension of humane governance is good civic governance. The broader civil society groups, including households, media, professional groups, and business (both formal and informal), are increasingly seen as vital in securing fundamental human, political, and economic rights. These rights are implicit in good economic and political governance but are rarely available to those excluded from the formal structures of power. These are women, the poor, and ethnic and religious minorities.

South Asia is replete with examples of poor governance that erodes the capacity of communities and individuals, especially the poor and disadvantaged, to meet their basic human needs. From an inefficient deployment of resources and crippling debt burdens to social divisions drawn on ethnic and sectarian lines, arbitrary law enforcement and failed political leadership, few regions shoulder governance challenges with the scope and intensity of those found in the South Asian region. In the course of this Report, examples of good and bad governance are cited and the underlying causes analysed. Policy proposals are made in light of this analysis, and these proposals are guided by the conceptual framework of humane governance.

In essence, the Report poses the following questions to any system of governance: Do people fully participate in governance? Are people fully

informed? Can they hold the decision-makers accountable? Are women equal partners with men in governance? Are the needs of the poor and disadvantaged met? Are human rights guaranteed? Are the needs of future generations taken into account in current policies? In short, do people own their structures of governance?

The link between the governed and governments, between the public and the policy-makers, must be re-established, if South Asia is to have any chance of developing a humane society.

Societies that have succeeded in achieving economic growth and more humane governance—from East Asia to Latin America—have not only achieved high rates of education and investment in health, but have also demonstrated high rates of political involvement among their electorates. Since the 1980s, those societies have not only seen rising standards of living, but have also been the sites—from the Philippines and South Korea to Chile and Brazil—of massive movements, cutting across class and ethnic lines, that brought an end to long-standing dictatorships. Those movements also contributed to efforts to decentralize huge state sectors that were often concentrated, through scores of government-appointed officials at all levels, by military dictators or other rulers. In Chile, the growth of local democracy in the 1990s replaced the direct appointment of mayors and local councils under the Pinochet regime with popularly-elected officials. In the Philippines, *'barangays'* (administrative units) staffed by officials loyal to the Marcos regime were replaced once democracy was re-established by *'municipios'* that were entrusted with delivering public works and social services. Significantly, South Asia still lags behind in offering such decentralization to provincial and local bodies.

South Asia can learn a great deal from such global experiences. This Report makes the case for a set of policies that governments can pursue to bring the people back into the process of South Asian governance.

First, South Asian states need to redirect their priorities. They must re-focus their efforts towards the core human development concerns. This would entail liberal investments in basic human needs of the poor, provision of efficiently targeted social safety nets, and a major redistribution of such productive assets as land and credit. Governance must ensure equity and social justice for all and bring an end to the exclusion of all those who have been marginalized. Otherwise, the crisis will cause even the best-conceived economic policies to flounder.

Governments also need to provide a major stimulus to economic growth, without which the past social neglect cannot be rectified. This would involve an increased role for the private sector, an economy well integrated with the world, and an equitable fiscal policy that emphasizes progressive taxation and pro-poor expenditures.

Second, there is a need for revitalizing existing state institutions. Political systems throughout the region must be based on fair representation of all sections through strong institutions rather than on factors like dynastic politics, oligarchic interests, and administration by a narrowly selected civil service. Parliaments must become the supreme authority if democracy is to be meaningful. Civil service should be made more efficient by increasing pay and reducing size. Similarly, judiciary needs to be independent as well as accessible to people.

Third, new partnerships between the state and society have to be forged for any major turnaround. Governments must provide a supportive framework to aid meaningful civil society initiatives and private sector enterprises. Many of these unique initiatives have been discussed in

South Asian states need to redirect their priorities towards the core human development concerns

Some civil society actors have successfully addressed the daily concerns of the poorest

chapter 7. Some of these civil society actors, including human rights groups, women's groups and NGOs, have successfully addressed the daily concerns of the poorest.

The Report also provides a concrete plan for combating corruption. This would involve the creation of exclusive corruption courts, requirements by public officials to declare assets, and transparent procurement laws. Other steps—like the passage of bills demanding a public right to information and the use of independent private-sector auditors—can form the basis of a concerted strategy to combat corruption.

Ultimately, none of these reforms will take place without political will, which in turn cannot exist without a combination of a pragmatic understanding of South Asia's needs and an idealistic vision of what the region, which has become so synonymous with deprivation and suffering, could be. Five decades ago, 'governance' had not been established as a buzz word among policy-makers; yet for the vast majority of South Asians who had just won their freedom from British colonial rule and the right to determine their own lives as South Asians, the concept of effective governance was firmly embedded in the popular imagination and associated with the heroes of the era: Gandhi and Nehru, Jinnah, and Bandaranaike. But that dream withered over time, with governments retreating into military dictatorships, one-party rule, and the same feudal relations which had persisted under the British Raj.

Pakistan's democratic era barely lasted a decade before an era of military regimes began, followed by the turbulent break-up of the country in 1971 and the tumultuous early years of Bangladesh. India witnessed the decay of the Congress Party and the shattering Emergency years. Nepal's monarchy gave way partially, but to a still-weak democracy, while Bhutan's monarchy remained in place. Sri Lanka saw years of peace and prosperity give way to Tamil-Sinhalese divisions and finally the ongoing, horrific war with the LTTE.

Despite such nightmares, the dreamers have persisted. Mahbub ul Haq, who began but did not live to finish the present Report, was one such dreamer. He struggled throughout his life to realize his vision of a South Asia that would be governed for its people, and not against them; that could attain the growth rates and build the social safety nets of East Asian countries—who, after all, were on the same level as South Asia fifty years ago—rather than slide into deeper poverty; that could offer high levels of educational attainment and health rather than nuclear bombs and unending civil conflicts. This year's edition of *Human Development in South Asia* is dedicated to Mahbub ul Haq and to his entire generation: people who grew up with the dream of a free Indian subcontinent, and who put their blood and sweat into that dream. We live with their legacy; we inherit their dreams; and we will either transform those dreams into reality, or we will surely perish.

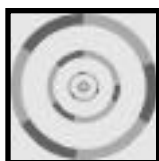
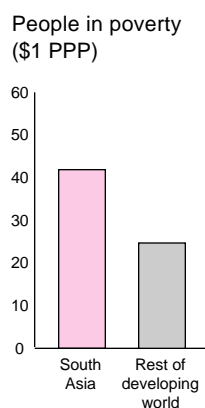
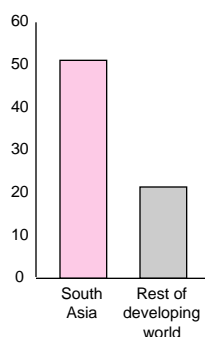


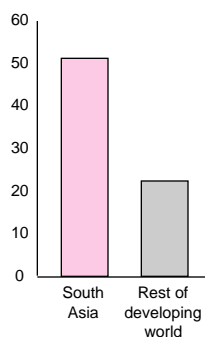
Figure 1.1
Backlog of poverty
in South Asia, 1995
(%)



Adult illiteracy



Malnourished
children under 5



Source: UNDP 1998a.

The challenge of human development in South Asia has continued over the last year against a backdrop of rapid political change, large-scale natural disasters, expanding nuclear capabilities, and global economic slow-down. The unfolding consequences of these events have raised fears of the poorest region in the world slipping into even greater poverty, with worsening nutritional, health, and educational outcomes. It is these human development issues which must be at the core of regional policies and actions. Ultimately, the real victims of economic and social turmoil are ordinary people, not governments. It is their concerns which are the focus of this Report.

Human deprivation

The sheer scale of human deprivation in South Asia is underpinned by the absolute number of people afflicted by poverty. Accounting for nearly half of the total world population living in poverty, over 500 million people in the region suffer from severe deprivation, with little or no access to adequate nutrition, health, housing, water, sanitation, education, and employment. Illustrative of the state of the region's poor is their lack of access to basic facilities. For example, one in two South Asians is illiterate, one in five lacks access to safe water and health services, over three out of five do not have access to sanitation, one in two children under five is malnourished, and four out of five have no access to financial services.

Figure 1.1 compares human deprivation in the region with the rest of the developing world. Among the developing countries, South Asia's share of human deprivation is almost twice its share in the population. In South Asia, a staggering 45 per cent of the population lives below the income required to meet

minimum daily needs, compared to 24 per cent in the rest of the developing world. Similarly, the illiteracy rate in South Asia is two and a half times the rate in the rest of the developing world; the proportion of malnourished children under five is almost three times as high; and access to health facilities one and a half times as low. If South Asia is to achieve sustainable human development, it will need to make substantial progress in expanding both human capabilities and opportunities.

As the 1998 Report on *Human Development in South Asia* observed: 'What is critical for human progress is to address poverty of opportunity, and not just poverty of income. Poverty of income is often the result, poverty of opportunity is often the cause.' To capture the multiple dimensions of poverty, the Human Poverty Index (HPI), developed by UNDP in 1997, uses indicators for measuring basic dimensions of deprivation: a shorter life span, illiteracy, and lack of access to safe water, health, and nutrition. The Poverty of Opportunity Index (POPI), developed by Mahbub ul Haq, broadens the definition of human poverty by including an income component. Table 1.1 shows the incidence of poverty in South Asian countries based on three definitions: one dollar a day (World Bank definition), HPI (UNDP definition) and POPI (Mahbub ul Haq definition). Except in India, poverty in all other South Asian

Table 1.1 Poverty profile of South Asia

	\$ 1 a day (1989-94)	HPI (1995)	POPI (1995)
Pakistan	12	46	44
Nepal	53	—	52
Bangladesh	29	47	46
India	53	36	38
Sri Lanka	4	21	27
South Asia	45	38	39.5

Source: Haq 1998a; UN 1994; UNDP 1998a; UNICEF 1999; World Bank 1998q; and HDC staff calculations.

countries is higher as measured by HPI and POPI than by income poverty alone. The most striking comparison between POPI, HPI, and income poverty can be noted for Pakistan. POPI and HPI are almost four times as high as the income poverty, underscoring the chasm between income and opportunities.

The poverty profile of Pakistan was examined in the 1998 Report on *Human Development in South Asia*. The Report underlined the growing poverty and increasing gap between income and deprivation in Pakistan. According to its findings, 30 per cent of Pakistan’s population were poor in 1995—an increase of 50 per cent within a period of five years. This rise, in the context of rapid population growth, resulted in a two fold increase in the absolute number of poor compared to 1965. The results captured the inability of governments in Pakistan to translate higher income levels into a better life for the vast majority of their people.

Poverty profile of South Asia

Several recent studies indicate an alarming increase in absolute poverty in some South Asian countries over the last decade. Despite continued efforts of governments, civil society organisations, and international agencies, poverty persists in South Asia. The region has the largest number of people living in poverty. According to World Bank \$1 a day estimates, out of 1.3 billion poor people in the world, 515 million (40 per cent) live in South Asia, even though the region accounts for only 23 per cent of the global population. There are more people living in poverty in South Asia than the combined population in poverty in Sub-Saharan Africa, the Arab States, East Asia and the Pacific (excluding China), and Latin America and the Caribbean.

Poverty trends

Through the mid-1970s and the 1980s, South Asia saw a remarkable reduction in poverty. But the last decade witnessed

either a reversal of this trend or a slow-down in poverty reduction in all countries, other than India. Poverty rates have gone up in Bangladesh, Pakistan, Nepal, and in urban sectors of Sri Lanka. Even though poverty rates have declined sharply in India, the proportion of South Asia’s population earning less than one dollar a day has remained stagnant at 43 per cent.

Table 1.2 Rural and urban poverty in Bangladesh by basic needs method			
Year	Head Count Measure of Poverty (Basic Needs Method)		
	National	Rural	Urban
1973/74	70.5	71.3	63.2
1981/82	63.5	65.3	48.4
1985/86	43.9	45.9	30.8
1988/89	47.8	49.7	35.9
1991/92	49.7	52.9	33.6
1995/96	47.0	51.1	26.3

Source: Abu-Abdullah 1999.

Bangladesh’s early success in reducing poverty has reversed since the mid-1980s. Bangladesh Household Expenditure Survey data shows that by 1991, poverty incidence both in rural as well as in urban areas, had risen compared to 1985. Though poverty rates have since improved, they were still higher in 1995 than those a decade earlier (see table 1.2). The absolute number of poor rose by 1.2 per cent annually during this period—faster than any historically observed rate. The depth and severity of poverty also increased, demonstrating the worsening condition of the poor. At the same time in Sri Lanka, though national poverty estimates showed an improvement, urban poverty estimates indicated a worsening condition. Lastly, Nepal’s case also showed resembling evidence. In fact Nepal fared even worse than the other cases cited, as poverty rates increased from 36 per cent to 49 per cent between 1977 and 1992.

Contrary to these regional trends, poverty rates continued to decline in India. Since 1970, poverty has declined by almost 18 percentage points. During

South Asia has the largest number of people living in poverty

The most glaring levels of poverty of opportunity in South Asia are found among women and girl children

the 1990s, other than the year immediately following the liberalization reforms of 1991, the steady decline in poverty has been maintained (table 1.3). Even so, India has been unable to reduce the its absolute number of poor—remaining between 294 to 315 million from 1970 to 1994—leaving India with the largest backlog of poor people in the world.

Table 1.3 Rural and urban poverty in India			
Survey Period	Head Count Index		
	National	Rural	Urban
1970/71	52.9	54.8	45
1977/78	48.4	50.6	40.5
1987/88	38	39.2	36.2
1993/94	35	36.7	30.5

Source: World Bank 1997a.

Regional profile

Inter-regional comparisons within countries are equally disturbing. In India, five states—Bihar, Orissa, West Bengal, Assam, and Maharashtra—account for 56 per cent of rural poverty while containing only one-third of the total rural population. In Bangladesh in 1991, the Divisions of Rajshahi, Barisal, and Dhaka had the highest incidence of rural poverty (at around 60 per cent), whereas urban poverty in Chittagong and Dhaka was less than 15 per cent.

However, there are some success stories as well. For instance, Kerala's decline in poverty, despite slow economic growth rate, is noteworthy: income poverty in Kerala declined from 48 per cent in 1984 to 29 per cent in 1994. Kerala's rate of lowering poverty was four times that of Bihar and three times that of Rajasthan. Kerala's success is explained by a firm commitment by the state and civil society to expand infrastructure, to promote education, and to further health services.

To formulate effective poverty alleviation programmes, it is important to collect disaggregated data on poverty. This helps in identifying areas where poverty is most pervasive: such as the

rural areas of Bangladesh, Pakistan, and Nepal, and the Eastern and central states of India.

Gender profile

Besides regional differences, poverty also varies on the basis of gender, ethnicity, and religion. The most glaring levels of poverty of opportunity in South Asia are found among women and girl children. This is reflected in the gap between male and female literacy rates of 26 percentage points: female adult literacy rate is a dismal 36 per cent as compared to 62 per cent for males (see table 1.4). Of the 50 million out-of-school children, 28 million are girls. This gap can be traced to discrimination against girls and women, which begins at home, and extends to the preferential treatment of boys in the provision of food, nutrition, health care, and education at the community and national levels. In its most extreme form, discrimination turns into direct violence against women: ranging from infanticide to child abuse and from rape to dowry death. The fact that there are only 93 women for every 100 men in South Asia, against the global norm of 106 women for every 100 men, reflects their low status.

Multiple forms of discrimination faced by women severely limit their opportunities for leading productive lives. Women's share in private sector employment in South Asia is about 30 per cent and their wage rate is approximately three-fourths the male rate. They comprise about 3 per cent of managers and administrators, hold about 5 per cent of government posts and about 6 per cent of the cabinet positions. The challenge for South Asia is clear. Not only should the gender gap in education, health and nutrition be bridged, but better economic and political opportunities must also be afforded to women. The 2000 Report on *Human Development in South Asia* will bring these challenges to the forefront, highlighting areas that policymakers must confront if they are to reduce vast gender disparities.

The reasons behind the diverse experiences of South Asian countries lie in the different strategies employed for poverty eradication. In the case of India, where the gap between poverty of opportunities and income poverty is the least in South Asia (tables 1.1 and 1.3), poverty has declined from 53 per cent in 1970 to 35 per cent in 1994. Poverty alleviation is a part of the national policy agenda in India. These policies have been bolstered by the favourable economic conditions of the early nineties. Research suggests that economic growth has been an overwhelming engine of poverty reduction in India. Since 1994, India's growth rate has been higher than in any previous phase in its history. In the face of this rapid economic growth, the head-count index of poverty was expected to decline by a further 6 percentage points by 1997.

To spread the benefits of higher growth more evenly, Indian policy-makers have concentrated on rural areas, providing food security to the poor through the Public Distribution System (PDS)—which supplied 18.4 million tonnes of food-grain in 1990-2. Other initiatives include self-employment and wage employment programmes concentrated in rural areas, such as the Integrated Rural Development Programme and Jawahar Rozgar Yojana.

On the other hand, the rising poverty level in Pakistan during the 1990s is partly a by-product of the slow-down of the economy, and partly due to successive governments' inability to translate the economic growth of the 1980s into a better life for the poor. Governments have played a marginal role in transferring income to the needy. Currently, only 0.22 per cent of GDP is transferred to the poor as *Zakat*; less than 3 per cent is spent on education; and a meagre 1 per cent on health services. There are, however, positive initiatives underway: encouraging examples are the recently initiated 2010 Vision that aims at ambitious advances in human develop-

ment; the Social Action Programme's increasing allocation to social sectors, from 1.96 per cent of GDP in 1992 to a projected 2.7 per cent in 1998; and the Poverty Alleviation Fund.

Bangladesh and Nepal's relative failure to reduce poverty can be partly attributed to low per capita growth rates.

Table 1.4 Capabilities and opportunities of South Asian women

	South Asia	Sub-Saharan Africa	East Asia (excl. China)	All Developing Countries
CAPABILITIES				
Education Profile				
Adult female literacy rate	36.0	44.6	71.0	62.0
Female as % of male	58.0	66.0	80.0	78.0
Primary school enrolment				
Female as % of male	79.0	85.0	96.0	88.0
Teritary school enrolment				
Female as % of male	48.0	46.0	73.0	44.0
Mean years of schooling	1.2	1.3	6.2	3.0
Health Profile				
Female life expectancy at birth 1995	61.6	52.4	69.2	84.0
Maternal mortality rate (per 100,000 live births) 1990-96	479.8	739.98	264.4	n/a
Total fertility rate 1996	3.5	5.9	2.6	3.2
Women using contraceptives (%) 1990-5	39.3	14.4	58.2	56.0
OPPORTUNITIES				
Economic Opportunities				
Earned income share (%) 1995	24.7	35.5	33.2	32.4
Economic activity rate (% age 15 and above) 1995	48.0	73.4	67.5	64.0
<i>Occupation</i>				
Administrative and managerial (%) 1992-6	2.7	6.1	13.7	n/a
Professional and technical (%) 1992-6	21.4	17.2	45.0	n/a
Political Opportunities				
Share of females in Parliament (%)	6.8	3.9	9.5	8.6
Share of females at ministerial level 1995	4.2	6.8	4.5	5.0
Human Development Indicators				
Human Development Index (HDI) 1995	0.445	0.385	0.739	0.588
Gender-Related Development Index (GDI) 1995	0.415	0.371	0.707	0.564
Gender Empowerment Index (GEM) 1995	0.226	0.339	0.381	n/a

Source: Haq 1997 and 1998a; UNDP 1995a and 1998a; UNICEF 1998; and World Bank 1998q.

Sri Lanka would have made even more impressive progress on the poverty front had it not suffered from civil unrest

Recently, Bangladesh has taken considerable measures to address poverty through building a larger human capital base. The total allocation to social sector development in 1998-9 was 18 per cent of total government expenditures. Complementing this is the wide network of non-governmental organisations (NGOs). The provision of micro-credit by Grameen Bank, other NGOs, and government organisations benefited almost 8.8 million people in 1998. However, the geographical location and climatic conditions in Bangladesh, causing severe catastrophes (1987, 1988, 1998 floods and the 1991 cyclone), have continually disrupted the fight against poverty. A series of natural disasters over the last year has increased levels of poverty. The estimated cost of the 1998 flood was an enormous \$2 billion. Box 1.1 shows the massive human and social costs of the recent natural disasters in the region.

In Sri Lanka, despite low growth, significant advances have been made in improving income distribution and general living standards. The incidence of poverty in Sri Lanka is lower than that in other South Asian countries. This has been achieved by a strong commitment to the social sectors. This was possible through political will to target policies effectively. Undoubtedly, Sri Lanka would have made even more impressive progress on the poverty front had it not suffered from civil unrest.

Poverty redressal: the way forward

From the above analysis, a number of key insights for devising poverty reduction strategies emerge.

First, the evidence indicates that equitable patterns of growth are essential for sustainable poverty reduction. This requires a two-pronged approach consisting of broad-based economic

Box 1.1 Coping with catastrophe: natural disasters and human development

Natural disasters – floods, earthquakes, cyclones, land-slides – have affected the well-being of many South Asians. Besides the loss of human lives, such disasters have caused extensive damage to livestock, housing, roads and infrastructure, standing crops, and therefore, the livelihood of the people. These translate into colossal economic and social costs that reach far beyond the immediate havoc they cause. They decrease growth prospects, increase unemployment, and play havoc with the lives of the poor and the vulnerable.

The most recent floods in Bangladesh have highlighted their impact on human development. Feared as one of Bangladesh's worst floods this century, the flood of 1998 inundated two-thirds of the country. 33 million people were marooned, of which 18 million needed emergency food and health services. The prolonged flood caused unemployment, leaving daily-wage workers and disadvantaged groups (female-headed households and children) with no income support and no food. The food shortage and assistance required for their subsistence was estimated at 14,000 metric tonnes over a six-week period. The flood also brought

associated concerns of health and disease, as diarrhoea and hepatitis spread through contaminated water usage. More than 1 million hectares of cropland was damaged, raising fears of famine.

Similar natural catastrophes in other South Asian countries have undermined efforts to alleviate poverty and human deprivation. In Nepal, for example, periodic landslides and floods have remained a threat to people. Each year, over 350 people fall victim to natural disasters. Similarly, in India floods and cyclones cause immense human distress. Every year, more than 1,400 human lives are lost, over 7.5 million hectares of land is affected, and, almost Rs 10 billion worth of damage is done (Dwivedi et al. 1998).

But nature is not always to blame – some disasters are man made. For example, Nepal is experiencing deforestation at an annual rate of 2 per cent. Besides altering the ecosystem, such developments increase the risk of landslides through soil erosion. This further increases the rubble that is carried down by rain and river water to riverbeds in the plains, thereby decreasing the river depth and increasing risk of floods.

Climatic change and rising sea levels are also partly man-made. It is thus important to address the causes behind these unfolding environmental problems in order to limit the human costs of disasters.

Effective post disaster measures are necessary to limit the impact of such catastrophes. To provide income support to the affected poor, micro-credit programmes have to be initiated. Citizen and NGO initiative can help in this respect. At the same time, state and international agencies can be active in rebuilding infrastructure and initiating rehabilitation programmes. Undoubtedly, in the case of Bangladesh's recent floods, it was the presence and timely action of civil society and the government that was most effective in curtailing the extent of the fallout.

In order to minimize the costs of these catastrophes, South Asian governments need to chalk-out both response plans, as well as preventive strategies. Pre-disaster preparedness requires forecasting and warning systems to be in place. Timely delivery of information is vital. Governments and media should ensure expeditious action and raise awareness in risk prone areas.

Source: Bangladesh Flood 98 (website); Dwivedi et al. 1998; Rising Nepal (various issues); The Hindu (various issues); The Statesman (various issues).

growth and improved access to social services. Thus, policies supporting economic stability, as well as embedded safety nets, are necessary to reduce poverty and protect the poor. Since it is always social expenditures that are cut back under unforeseen circumstances and adjustment, there should be both flexibility and rigidity in the allocation of budgets: flexibility to extend greater support to the poorest sections while rigidity in terms of fixing minimum support to social sectors and development even during recessions.

Second, separate strategies are required for tackling poverty in rural and urban areas. This is since the factors augmenting poverty are vastly different in these areas. Rural poverty requires more immediate attention, as four out of five poor people live in rural areas. Elimination of urban bias in public expenditures and redirection of resources to rural development and agricultural support programmes are essential to address rural poverty. Strategies to reduce poverty must be situation specific, directly addressing the realities on the ground. These should concentrate on building local capacities, improving asset distribution (including land reforms), and providing micro-credit.

Third, since the region has variable experiences in poverty reduction, it is important for policy-makers to draw upon success stories from within their own countries as well as from their neighbours. Experience shows that effective poverty redressal requires the active involvement of local governments. Local governments must prioritise poverty alleviation in order to serve people's needs and respond to their immediate concerns. This can increase participation, making development more people-centred. Kerala presents one positive example of community and state participation in the implementation of effective poverty alleviation programmes. There is a strong local ownership of poverty programmes, made possible through the transfer of administrative and financial powers to the local tiers of government.

Clearly, South Asia has much to learn in its fight against poverty. Despite considerable progress in some countries in expanding basic human capabilities, the absolute number of poor in the region has continued to increase. It is evident that the challenge of poverty alleviation in South Asia has only just begun. The immediate task facing policy makers is to address basic human concerns in times of regional military escalation and global economic crisis.

Human security under siege

South Asia is one of the most militarised regions in the world (see table 1.5); it is also one of the poorest. Yet South Asian governments continue to redirect scarce resources toward building new weapons of mass destruction. Such non-productive investments, in the name of national security, are taking a high toll on human security while people's lives, the means as well as the ends of all development concerns, are left unheeded.

An alarming development for South Asia is the open nuclearisation of an already vulnerable and volatile region. India's three nuclear tests on the morning of 11 May 1998 and two on May 13, near the Rajasthani village of Pokhran, heralded a new age of nuclear politics for South Asia and a seismic shift in the region's relations with the outside world. Pakistan's six nuclear counter-blasts fifteen days later (on 28 and 30 May) in Chaghai, Baluchistan further shattered the global nuclear non-proliferation framework under the Nuclear Non-Proliferation Treaty (NPT), sharpening tensions between the two South Asian rivals. India and Pakistan's overt nuclear capabilities have undermined the 'security in ambiguity' surrounding the subcontinent's nuclear deterrence. Military expenditures, already high in the region, are projected to increase considerably with the advent of full-scale nuclear programmes. The implications for promoting human security and human development in South Asia are disturbing. Due to the dangers, as well as large

An alarming development for South Asia is the open nuclearisation of an already vulnerable and volatile region

The nuclear stand-off between India and Pakistan threatens the key ingredients of human security

economic and human costs associated with nuclear build-up, the nuclear dimension of the Indo-Pak confrontation must be skilfully managed, underscoring concerted steps to avert a renewed arms race. Given the potential for mass annihilation of innocent civilians and the environment, *all* South Asians—from Nepal to Sri Lanka to the Maldives—must be informed of the radioactive consequences of using or even testing nuclear weapons. People must never forget that the relatively small, 20 kiloton bomb dropped on Hiroshima on 6 August 1945 left nearly 150,000 dead. Radiation can also cause genetic or heritable disorders that affect the offspring of the exposed individual. As a result, people in Hiroshima are still suffering and dying from the effects of the nuclear explosion half a century ago.

Never before have two hostile nuclear powers—with per capita incomes under \$500 a year—shared a contiguous border. Moreover, the latest Ghauri II and Agni II missile systems have equipped Pakistan and India, respectively, with the technology to deliver nuclear warheads with more accuracy at medium-range distances (over 2000 kilometres). While the US and USSR maintained 20–25 minutes of reaction time for a nuclear response, Pakistan and India are afforded no more than three minutes—perhaps

less, without advanced communications systems in place—to protect their major cities of Karachi, Mumbai, Lahore, and New Delhi. Neither country exhibits experience or resources for adequate command and control systems, safeguard mechanisms, a credible second-strike retaliatory capability, and a coherent nuclear doctrine. Given large imbalances in conventional forces and unresolved regional disputes in Kashmir and Siachen, the risk of drifting into a nuclear conflict will dramatically increase if the unstable relations between the two adversaries further deteriorate.

Clearly, the nuclear stand-off between India and Pakistan threatens key ingredients of human security, reducing government concern for income and job security, environmental security, security against crime, and security of both individuals and communities. Besides the effects of possible radiation fallout, the major fallout of India and Pakistan's tests will be on long-term development needs. Admittedly, national territorial security is still regarded as paramount, but its attainment in the coming decades will be linked increasingly to the security of people. A narrow conception of national security cannot be realized in a situation where people starve but arms accumulate, where social expenditure falls while military expenditure rises. Today, real security is connected to the enrichment of human lives.

Costs of a renewed arms race

After presenting South Asia as one of the world's most militarised regions in the 1997 Report on *Human Development in South Asia*—with two of the ten largest armies, a high military-social spending ratio, and a 6:1 ratio of soldiers to doctors—the 1998 Report welcomed the renewed peace dialogue between India and Pakistan, and Pakistan's announcement to reduce defence spending by 10 per cent in real terms for the 1997–8 budget. However, subsequent to the nuclear tests in May 1998, the Indian government declared an allocation of \$9.9

Table 1.5 Burden of military expenditure in South Asia

Indicators/ Countries	As a % of GDP			As a % of central government expenditure			As a % of education and health spending		
	1985	1994	1997	1980	1994	1997	1985	1991	1997
Bangladesh	1.3	1.5	1.8	9.4	17.6	17.2	n/a	41.0 ^a	80.4
Bhutan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
India	2.6	3.6	3.1	14.1	12.8	15.2	68.0 ^b	65.0	62.3
Maldives	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nepal	0.8	1.1	0.9	6.7	5.9	4.9	67.0	35.0	25.0
Pakistan	5.2	7.0	5.3	30.6	26.9	27.8	393.0	125.0	148.7
Sri Lanka	2.7	4.7	5.1	1.6	16.8	19.6	17.0	107.0	107.5
South Asia	2.4	3.4	3.2	15.1	14.7	16.7	113.0	72.0	74.0

a. 1991 figure not comparable with that in 1997, as they are taken from different sources: UN 1998 and official sources from Bangladesh Ministry of Finance, respectively.

b. this figure is biased downwards since budgeted education expenditure also includes Sports, Art, Culture.

Source: GOB 1998c; GOI 1998b; GOP 1998c; GOS 1997a; Haq 1997; HMG 1998b, IISS 1998; and HDC staff calculations.

billion dollars (Indian Rs 412 bn) for defence from its 1998-9 budget, an increase of \$1.2 billion or 14 per cent in nominal terms over the previous year. Following India's announcement, Pakistan immediately responded by increasing its defence expenditure an additional 8.5 per cent in nominal terms to \$3.3 billion dollars (Pakistani Rs 143 bn) for the fiscal year 1998-9.

When most basic social services are missing in both India and Pakistan, the rising defence burdens in these countries continue to impose prohibitive social and economic costs on their people (see table 1.5). Embroiled in an internecine fifteen year conflict with Tamil separatists leaving over 50,000 dead, the Sri Lankan government's defence spending has also expanded to alarming levels in recent years, crowding out investments in people. While the government of Bangladesh concluded its long-standing conflict with guerrilla forces in the Chittagong Hill Tracts through a peace accord, it too has witnessed a considerable growth in its military spending, today claiming nearly 18 per cent of the budget.

Additionally, South Asian countries maintain substantial para-military forces whose funding falls outside regular defence budgets. For instance, India's combined allocations for its paramilitary forces, numbering in excess of 1 million soldiers, amounted to \$773 million in 1998-9 within the budget of the Ministry of Home Affairs. Numbering nearly a quarter of a million, Pakistan's paramilitary forces were reported to cost the country \$200 million for fiscal year 1998-99. Furthermore, India and Pakistan have supplied weapons valued at millions of dollars to rebel groups in neighbouring countries over the past several decades (Gunaratna 1997).

The transfer of hi-tech military hardware from abroad has been plagued by corruption and over-spending. In the late 1980s, the Bofors-Howitzer deal scandal is believed to have channelled millions to the highest corridors of power in India, and on 24 April 1997, Pakistan's

Prime Minister removed the Navy Chief on suspicion of corruption and misappropriation of funds in the purchase of foreign armaments.

Besides the losses to corruption, the social costs of expensive arms transfers from abroad are immense:

- In 1996, India purchased from Russia 40 multi-purpose SU-30 HK jet fighters for an estimated \$1.8 billion (Radyuhin 1996). At \$45 million a piece, each modern fighter plane costs the same as educating 6 million primary school children in India. India's largest military hardware purchase in 1997 was for two Russian submarines of the Kilo class and three frigates of the 1135 type, a contract worth over two billion dollars. In 1998, India further secured a ten-year military procurement deal with Russia estimated at \$16 billion. (ITAR—TASS 1998).
- The Bangladesh Air Force is reported to have paid \$200 million for 8 MiG-29s from Russia in early 1998. Immunizing a child against deadly diseases costs only one dollar. For the purchase of each foreign war plane, 25 million children can be immunized. (IISS 1998)
- Since 1994, Pakistan paid \$1.1 billion for three French Agosta 90-B air-independent diesel electric submarines, which included submarine-launched Exocet anti-ship missiles. Just this one purchase could have financed much of the social agenda of Pakistan for one year. (IISS 1994).

If the immense costs of conventional weapons and large land armies are not already enough, new estimates for maintaining full-scale nuclear arsenals—including command and control with nuclear safeguards, training, and delivery systems—are expected to run India and Pakistan each, at a bare minimum, \$750 million per annum. Over a ten-year period, a projected \$15 billion may be spent by the two adversaries on the production and maintenance of these instruments of war (Sharma 1998). This is enough to educate, properly nourish, and provide health care to almost 37.5

The social costs of expensive arms transfers from abroad are immense

**A delicate balance
must be sought
between investment
in arms and
investment in people**

million neglected children in South Asia. The price for an effective command and control structure alone costs millions of dollars, and ballistic missile testing, resumed in April 1999, holds a several hundred million dollar price tag.

Admittedly, non-transparency of military budgets, especially regarding defence-specific nuclear spending, hinders complete accuracy by researchers. Further, published defence expenditures are regularly estimated to be under-reported by 20-30 per cent. Many items related to nuclear programme spending are, for example, camouflaged under various budgetary heads, and the details of the prices paid for nuclear equipment are often missing, making precise analysis nearly impossible. Nevertheless, it is fair to acknowledge the defence policy choices that result in staggering social trade-offs.

Learning from the cold war, the Brookings Institution estimates that since 1945 the United States spent just under five and a half trillion dollars to maintain its nuclear capability. The Soviet Union's overall military rivalry with the West significantly crippled the Soviet economy by the late 1980s. Iraq too has reportedly spent \$5—\$10 billion in its efforts to produce nuclear weapons—an enormous sum for a poor country devastated by two decades of conflict. Pakistan and India can only incur the costs of nuclear build-up by further depriving their people of the essential means for a dignified livelihood.

The above costs cited only refer to direct nuclear weapons programme-related expenditures. Other economic losses should also be calculated in any attempt to determine the aggregate financial consequences of India and Pakistan's decision to go nuclear. These losses range from the sanctions imposed by Japan, the United States and Canada, to the loss of Foreign Direct Investment (FDI) that immediately occurred after the nuclear tests.

For Pakistan, FDI fell 46 per cent (from \$286 million to \$155 million) from July to November 1998, and private

foreign investment dropped 67 per cent (from \$471 million to \$156 million) in the same period. (Part of the fall in investment is also due to the ongoing Independent Power Projects (IPP) tussle in Pakistan.) According to the Finance Minister of Pakistan, the recent nuclear tests have cost the country \$10 billion in economic terms—pushing the country's development back by two and a half years. A slow-down in foreign guest worker remittances flowing through the country's banks in 1998 has also affected the country's balance of payments position and overall resource gap. Combine these losses with the estimated costs of the subcontinent's nuclear build-up in 1998, and the realization is bound to be shocking: was it necessary for India and Pakistan to sacrifice billions of dollars, and risk near economic collapse to reinforce their so-called 'security' arrangements?

Balancing military and human security: challenges and options in the India-Pakistan confrontation

Since 1990, the alarming developments in India and Pakistan's nuclear and ballistic missile programmes have further threatened to undermine the region's stability. Rather than improving each country's national military security, full nuclearization and new missile tests have upset the ability of conventional forces to provide adequate territorial defence, and have eroded the relatively safer non-weaponized nuclear deterrent on the sub-continent. A nuclear sword perilously hangs over the more than one billion people of South Asia.

Given the considerable repercussions for human security from a nuclear stand-off in South Asia, a delicate balance must be sought between an investment in arms and an investment in people. Such a balance can only come about through a concerted effort to build confidence and devise a new framework for peaceful co-existence in the region. The three wars fought between India and Pakistan, coupled with constant low-intensity

conflict along the Line of Control (LoC) and Siachen glacier, have left a legacy of deep mistrust. To transcend past enmities and the nuclear dangers of the present, a broad but integrated strategy for peace and human security in South Asia must be evolved.

First, India and Pakistan must desist from any further testing and avoid 'hair-trigger' situations by refraining from deploying and arming tactical missiles with nuclear warheads and forming sound nuclear doctrines. Military training exercises should be banned near border areas. Besides border patrols, soldiers and military hardware should not be stationed within a reasonable distance of the border between Pakistan and India, including the Line of Control.

Second, renewed dialogue should be staged between Pakistan and India to settle the core Kashmir conflict and other outstanding disputes. The 1999 Lahore Declaration, calling for new confidence-building measures, non-interference in domestic affairs, and an acceptance of the 1972 Simla agreement as a basis for further dialogue, is a promising step forward. High level negotiations must be pursued with even greater vigour and deeper commitment to resolve issues.

Third, a regional security arrangement, along the lines of South East Asia's ASEAN and Europe's OSCE should be encouraged, by formally incorporating political and security issues into the SAARC agenda. Each South Asian country could then resolve to peacefully settle regional and internal conflicts through the good offices and mediation services provided by the Secretary-General of the SAARC, as well as through SAARC member countries.

Fourth, innovative measures building trust, confidence, and security should be adopted to buttress, rather than replace, conflict resolution processes in South Asia. In this regard, all South Asian countries should mutually decide to reduce their existing levels of military spending by an agreed fixed percentage a year in real terms and to earmark the

potential savings to accelerate the pace of their economic growth and human development. Further, as India and Pakistan consider tough decisions concerning the Comprehensive Test Ban Treaty (CTBT), Fissile Material Control Treaty (FMCT), and NPT, they have many useful lessons to draw on, including Brazil and Argentina's nuclear weapons-free-zone and South Africa's recent decision to denuclearize after years of investing in nuclear weapons.

Nuclear disarmament and a decrease in total military spending are impossible unless the security of nations and people can be guaranteed. This requires cognizance of South Asia's relations with China, the Middle East, and the rest of the world. Regrettably, the five nuclear powers continue to evade their obligation under article IV of the Nuclear Non-Proliferation Treaty (NPT) to work for "complete disarmament under strict and effective international control." Inspired, in part, by the growing number of South Asian people-to-people non-formal dialogues (over forty at present), a renewed global peace movement—as witnessed at the height of the Cold War—is not unimaginable. Led by a diverse range of civil society groups and statesmen, the movement could strive to convince policy-makers that the development and procurement of nuclear devices will continue until the international community makes a serious moral and political commitment to undertake and sustain:

- a comprehensive process, with a concrete timetable, towards universal nuclear disarmament, realizing the full spirit of the NPT to rid the world of the still threatening 30,000 nuclear bombs in existence;
- a new universal regulatory regime to ensure compliance of treaties on nuclear and other weapons of mass destruction—along the lines of the powerful regulatory regime proposed at the advent of the nuclear age (an initiative soon derailed, however, by Cold War politics).

Renewed dialogue should be staged between Pakistan and India to settle the core Kashmir conflict

In the wake of the East Asian crisis and ensuing global economic slow-down, South Asia now confronts even more daunting economic and human development challenges

In the final analysis, the use of nuclear weapons, with their potential for the ultimate evil—the mass annihilation of innocent civilians and environment—will become a distant possibility when a concerned and knowledgeable global civil society demands from governments the complete abolition of these armaments and the establishment of a new global regulatory framework. Perhaps with such a strategy in place, the nuclear race will not only be abated, but the insanity of arms races in poor countries will also be controlled, enabling governments to concentrate on the urgent task of improving people's lives.

Peace between India and Pakistan is a prerequisite to economic and social progress in the sub-continent. Peace can never be achieved through nuclear or conventional force superiority. Building large nuclear arsenals is not so much a threat to other countries as it is to the human security of the people of the nuclear state. Though others may argue that such measures are essential for national security, this is a false notion. The collapse of the Soviet Union bears testament: despite having enough nuclear weapons to destroy the world, the Soviet government could not feed its people or provide them with productive jobs and decent social services. Conversely, Costa Rica chooses not to maintain a military, while spending one-third of its national income on education, nutrition, and health. Costa Rica today is the only prosperous democracy in troubled Central America. Long-term peace and human development are therefore inextricably linked and complimentary.

The threat to human development from the spread of nuclear and conventional weapons dominates South Asia's political landscape today. The relentless forces of globalization and external economic turbulence present other challenges and opportunities.

Globalization and the East Asian crisis

There is growing economic inter-dependence among different regions of

the world. This is manifested in the proliferation of regional trade agreements, such as: NAFTA in North America, MERCOSUR in South America, ASEAN in the East of Asia, and the European Union. Such agreements have sought to generate mutual benefits from increasing liberalization. South Asia, which has been slow to adopt broad-based liberalization policies, can learn a great deal from these experiences.

There are gains to globalization, but there are serious pitfalls as well. Liberalizing trade and allowing greater capital mobility can promote growth in developing countries, through increased technology and knowledge transfers. On the other hand, globalization may sometimes be a source of instability, as highlighted by the crash of the Exchange Rate Mechanism (ERM) in the United Kingdom, Italy, and Spain in 1992; the sudden downfall of the Mexican markets in 1994 and the 'tequila' effects that engulfed South America; and more recently, the collapse of the East Asian economies, that spread to other parts of the globe.

The reality is that the world's industries and financial systems are today inextricably intertwined. Just as no one anticipated how swiftly the recent local panic in Thailand would bring down the entire East Asian region, no one could really understand how the collapse of the world's biggest growth zone would ripple through the West.

In the wake of the East Asian crisis and ensuing global economic slow-down, South Asia now confronts even more daunting economic and human development challenges. The global economic slow-down has already retarded South Asia's growth. Slackening of the export market has pulled growth down to 4.6 per cent in 1998 (per capita growth still lower, at less than 2.6 per cent), and is expected to remain below 5 per cent till the year 2000. This will hinder South Asia's efforts to reduce poverty and raise living standards. Further, social expenditures are often the first to be cut to achieve fiscal discipline during

economic recessions and adjustment. The twin effects of an economic slow-down and fiscal adjustment exacerbate the burden on the poor. Thus human development in South Asia, in the aftermath of the East Asian crisis, may receive a further setback. A brief review of the East Asian crisis is necessary here to draw some lessons for South Asia.

The East Asian crisis

Between 1990-95, East Asian countries were responsible for half of the world's growth and a quarter of the world's output (Noland 1998). During the period 1965-85, GNP per capita grew 5.3 per cent on average in the East Asian region compared to 1.9 per cent in the South Asian states of Bangladesh, India, Pakistan, and Sri Lanka. In the 1960s, East Asia's per capita income was similar to that of South Asia. On the poverty front, in 1975 four out of ten East Asians lived in absolute poverty (defined as living on less than one US dollar a day). By 1995, this ratio had dropped to two in ten. Because of such extraordinary achievements over the past two decades, the crisis that hit East Asia was least expected.

On 2 July 1997, Thailand abandoned its currency peg under massive speculative pressures and its currency promptly depreciated (effectively) by 20 per cent. Within months, the currency crisis had spread through much of East Asia. In the space of one year, East Asia was transformed from the world's fastest growing into the slowest growing region (Lipsky 1998). According to IMF estimates, the economies of Indonesia, Malaysia, Philippines, and Thailand will shrink by more than 10 per cent in 1998-9. It is estimated that East Asia's trade, excluding Japan, was cut by a staggering \$165 billion in 1998. (Richardson 1998). This is greater than the combined GDP for the whole of South Asia excluding India.

Although the countries in East Asia were not all alike, they did share some

generally agreed symptoms that explain the collapse.

First, the East Asian currencies that were pegged in one form or another to the US dollar, lost their credibility to maintain the fixed exchange rates. The depreciation of the Chinese yuan in 1994 and the appreciation of the US dollar against the Japanese yen in 1995 also left East Asian currencies over-valued, and exports less competitive. Moreover, historical evidence of an effectively fixed dollar rate and over-confidence in the region's continued growth served as implicit guarantees to fuel domestic lending. The unrestrained lending led to a mammoth increase in short-term external debt, exposing East Asian financial institutions to the risk of runs. Funds were also misdirected towards unproductive sectors such as land and real estate. Such investments were unwisely backed by implicit government bailout guarantees if economic conditions were to deteriorate.

Second, 'alliance capital', known more widely as 'crony capitalism', was another important reason behind the collapse of East Asian currencies. With many East Asian companies being controlled by relatives and friends close to those in power, many governments offered favourable subsidies, and directed financial institutions to lend to these companies. Further, the lack of prudential supervision and transparency, both within financial institutions and by national 'watchdogs', exacerbated the situation.

Third, the crisis spread because speculators treated East Asia largely as one market instead of many different country-based markets. Hence, when the crisis hit Thailand, it caused many speculators to view their investments in the rest of East Asia as subject to the same structural weaknesses as in Thailand. This occurred even though the economic—such as capital account deficits—or financial fundamentals had not changed for other East Asian nations. Yet, less than a month later the entire region was engulfed in a speculative

**Unrestrained
lending led to a
mammoth increase
in short-term
external debt**

**The human element
is often overlooked in
discussions of
economic catastrophes**

frenzy. The speculative panic heightened when investors perceived the financial situation of East Asian firms and banks to be far worse than originally acknowledged. This led to uncertainty about the extent of the problems and caused even more devaluations—further exacerbating the financial problems.

Human costs of the crisis

The economic costs of the East Asian crisis have been well documented. But what are the social costs of the crisis? The human element is often overlooked in the discussions of economic catastrophes. The slow-down of the East Asian economies has led to growing unemployment across the region. Between July 1997 and December 1998, more than fifteen million people lost their jobs, a staggering 17 per cent of the working population. 15 per cent of the working population in Thailand (3 million people) were expected to be unemployed by the end of December 1998. In Korea, unemployment rose from under 3 per cent before the crisis to 7.9 per cent by December 1998.

Rising price levels in the region added to the problems of falling income levels and increasing unemployment. Medicine prices increased by 200 to 300 per cent in Indonesia between November 1997 and March 1998 (World Bank 1998o). This price hike has affected many poor people who are no longer able to afford much needed medication. Similarly, currency depreciations have increased prices in other East Asian states. In Thailand, evidence in the North-East region suggests that rice prices increased from 12 to 20 bahts per kilo, and fuel prices from 9 to 13 bahts per litre. Such dramatic price increases could mean that although food may exist starvation may still follow. In Malaysia too, food prices are rising faster than inflation.

Education for East Asia's poor is also expected to suffer. Though difficult to assess, certain inferences can be drawn from the past. In 1986-7, Indonesia suffered a smaller economic shock. Gross

enrolment rates at the junior school level fell from 62 per cent to 52 per cent during that period—a fall attributed to poor children no longer attending junior school. It took almost a decade for the enrolment rate to return to its previous level. Poor children are already being taken out of school and put into work to support their families. A recent ILO report from Malaysia suggests that some of the poorest children have been forced into prostitution to earn a living.

Whether the East Asian region can provide adequate support to the affected remains to be seen. In the past, East Asia had given scant attention to building safety nets for the poor. Fast paced growth led to the erosion of traditional social security nets; everyone was lulled into a false sense of high growth security. Korea has relied on rapid growth and lifetime employment to provide social security for its citizens; it does not have universal unemployment insurance and only very modest social safety nets (Stiglitz 1998). Thailand and Indonesia rely on informal family ties as social security. Thus, the crisis is likely to hit the poor doubly hard in countries such as Thailand, which have not shared the rewards of growth equitably.

Implications for South Asia

Given the recession in East Asia and its growing human costs, the implications for South Asia are critical (see box 1.2). Policy-makers in South Asia need to effectively manage liberalization and structural adjustment policies. South Asia has not experienced a destabilising external shock of the magnitude that affected East Asia because of its lack of openness. It continues to repress financial sectors and protect goods markets—lower vulnerability to international capital flows is simply an accidental by-product of this reluctance to liberalize.

But, the correct lesson to draw from this experience is not to forgo the many advantages of openness. Rather, trade liberalization must be combined more effectively with controls on short-term

capital movements. Indeed, curbs on free capital mobility have also been proposed by some advocates of free trade. Unlike East Asia, most South Asian countries until recently have been encouraging import substitution policies and have been slow to adopt trade liberalization strategies. Box 1.3 highlights the four core strategies which lie behind the East Asian economic miracle and are still relevant for South Asia.

If liberalization is properly sequenced and 'hot flows' carefully managed, globalization can be beneficial to all. Comparative lessons from Russia and the People's Republic of China (PRC) are helpful. When Russia moved from a centrally planned to a market oriented economy, it quickly dismantled both its legal and political power structures. The administrative machinery and authority to carry out the market reforms were thus lacking. The result was economic chaos—run-away unemployment effects, galloping inflation, and currency collapse. The PRC, on the other hand, is busy developing a solid civil service system and a strong banking and financial framework. Additionally, the PRC is gradually freeing

Box 1.2 Globalization: lessons South Asia could learn from the East Asian crisis

There are several lessons for South Asia from the recent East Asian crisis:

- Trade liberalization is good for an economy. However, financial liberalization should only be undertaken cautiously and after proper sequencing.
- If 'hot flows' of capital are to be allowed, they should be monitored carefully and managed properly. As demonstrated by the Tequila and East Asian experiences, rapidly expanding short-term debt financed by 'hot flows' can harm domestic economies.
- The exchange rate system followed, whether fixed or flexible, should reflect the economic fundamentals of the country.

- Transparency, absence of politicization and prudential regulation must exist in the financial sector.
- Proper data reporting is a must—if only to accurately assess the financial state of an economy.
- Industrialization should be diversified, decentralized and rural oriented, not urban concentrated.
- An active and free domestic media is a necessity. A more realistic picture of an economy can only be of benefit to all parties—whether domestic or foreign. If the media highlights deficiencies in a national economy, it should be viewed not as a threat, but as an opportunity to correct mistakes and weaknesses.

Source: HDC staff.

its domestic economy from monopolistic practices and distortion. Learning from these two experiences, South Asian policy-makers must realize that building markets and institutions of governance takes time.

Without regional cooperation and mutually beneficial competition, South Asia cannot expect to meet the challenges

Box 1.3 Lessons South Asia still has to learn

Despite the temporary liquidity crisis in East Asia, economic fundamentals remain strong. These were based on four key strategies discussed in the 1997 Report on *Human Development in South Asia*:

INVESTMENT IN PRIMARY EDUCATION. Liberal investment in basic education marks the critical difference between South Asia and East Asia. Estimates indicate that primary education has the highest social rate of return, followed by secondary education. According to a World Bank study, primary education was the most important component in East Asia's rapid growth over the last three decades. South Asia's destiny will similarly be determined by its ability to expand basic education.

INSTITUTIONAL REFORMS. Land and credit reforms were probably the most important institutional factors behind East Asia's high growth. South Asia cannot break the shackles of poverty and

destitution without instituting meaningful reforms in these sectors.

MOBILISING SAVING AND INVESTMENT. The high rates of saving in East Asia (35 per cent in 1996) compared to those of South Asia (14 per cent in 1996) were made possible by high growth, a progressive taxation policy, and a fall in the dependency ratio. At the same time, there was an emphasis on investment in infrastructure. Many studies have indicated that such public investments promote private investment, especially in export-oriented manufacturing activities.

COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTOR. Another ingredient in the East Asian miracle was the healthy nexus between the state, bureaucracy, and big business. This was an important element in devising high growth strategies. South Asian economies remain dominated by inefficient public sectors corporations, and inefficient bureaucracies.

Source: Haq 1997.

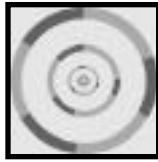
of the next millennium. There is much to be gained from technical cooperation within the region. There are questions that need to be answered. For example, why is the agriculture yield per acre for some commodities in Pakistan's Punjab half that in Indian Punjab? How does Grameen Bank in Bangladesh provide credit to poor peasant women? Or how has Bangalore become the second largest exporter of computer software in the world over the last decade? Answers to such questions can unleash South Asia's tremendous potential.

Globalization has many benefits, but there are also some dangers. South Asia can avoid these inherent pitfalls while

emulating the East Asian miracle if it remains cautious, fosters mutual cooperation, and distributes economic advances equitably. As Prime Minister Goh Chok Tong of Singapore recently stated:

'A good government will practice sound economic policies, share the fruits of growth equitably and perpetuate a virtuous cycle—but how do we produce a good government? This is not taught in economics—a fatal omission.'

In this Report we intend to answer this question by introducing the concept of humane governance.



Chapter 2

Humane Governance—A Conceptual Framework

Governance, if it is to promote human development, has to be not just pro people or people-centred; it has to be owned by the people

Governance is a term newly fashionable, though the story of governance is as old as civilization itself. Much has been written about good governance by international policy-makers and academics. Yet the concept of good governance has so far failed to match the radicalism of the notion of human development. The 1999 Report on *Human Development in South Asia* proposes a new and wide-ranging definition of good governance to meet this lacuna. This is the notion of humane governance. It is a combination of good economic governance, good political governance, and good civic governance. While humane governance encompasses the present definitions of good governance, it goes beyond these definitions.

Governance, if it is to promote human development, has to be not just pro-people or people-centred. It has to be owned by the people. Good governance cannot be handed down from above by the elite, however well-meaning, to the people. The people have to shape their own governance. Vulnerable people have to be protected; they have to be saved from humiliation in their daily life. Humane governance promotes a decent society in which the worst off can preserve dignity.

Government has to be accountable to people. Every branch of government—executive, legislative, judiciary, bureaucracy, forces of law and order, employees of public services—have to be civil as well as servants.

In South Asia, political democracy has taken root, but the distance between the rulers and the people remains vast. At all levels, those who have public authority, fail to meet the double criteria of civility and service, which the expression, 'civil servant', implies. The malaise is due to many causes—low levels

of education, bias against women and minorities, the oppressive legacy of an imperial past, persistence of feudalism and superstition, and the weakness or total absence of institutions which can interpose themselves between the people and their rulers.

This is the reason for the 1999 Report on *Human Development in South Asia* to focus on the all important issues of governance and misgovernance. The difference between what is and what can be, is vast but that is no reason to avoid articulating the notion of what can be, and what ought to be. Humane governance is a norm appropriate to all countries, not just to South Asia. It remains an ideal even in mature democracies of the developed countries. But the need for humane governance is most acute in the poor populous democracies of South Asia. Fifty years ago, many countries of South Asia were born in the hope of a better tomorrow. Fifty years later, that tomorrow is yet to come. The challenge to South Asia is the challenge of humane governance.

Humane Governance: conceptual framework

Humane governance is governance, indeed good governance, which is dedicated to securing human development. It requires effective participation of people in state, civil society and, private sector activities that are conducive to human development. It further enjoins the state, civil society, and the private sector to help build capacities which will meet the basic needs of all people, particularly women, children, and the poor. Humane governance will also ensure that human development is sustainable.

Since governance came on the agenda of development policy-makers around the early 1990s, it has moved up fast in the order of priorities. The concept, in its present day incarnation, was born out of the frustration with the effectiveness of foreign aid. It has received great impetus in the wake of the collapse of communism in the transitional economies of Eastern Europe and the former Soviet Union. These transitional economies, their people and their governments, found themselves ill-prepared to deal with the emerging market economy without regulatory institutions, habits of contract fulfilment, without agencies to facilitate transactions, and with no adequate insurance mechanism or safety nets for the poor. Thus, the issues of good governance, with which developing countries have been struggling, came into fore in the transitional economies as well.

In recent years, the concept of governance has been evolving from the narrow definition used by the World Bank as 'the manner in which power is exercised in the management of a country's economic and social resources', to the broader definition adopted by the Commission on Global Governance as 'the sum of the many ways individuals and institutions, public and private,

manage their common affairs' (see box 2.1). However, often good governance is defined in a descriptive instrumental way without a clear end purpose. What should this purpose be? According to Khilnani (1997), 'the only tenable normative aspiration in modern politics can be to make states more trustworthy to all who must live under them: to make them more graceful and civilized in their dealings with their citizens and with one another'. But in our view, good governance in the South Asian context has to go well beyond good politics or even the creation of a decent society. It must enable the state, the civil society, and the private sector to further broad-based economic growth and social development as a means to greater human development and increased human welfare. The governance debate of the late twentieth century must be expanded to capture the growing realization that people are moving to the centre stage in dialogues on political and economic change. 'Every governing institution, every policy action should be judged by one critical test: how does it meet the genuine aspirations of people' (M. Haq). It is for this reason that this Report has opted for a very broad definition of good governance, both in terms of players and purposes. In

Governance must enable the state, the civil society, and the private sector to further broad-based economic growth and social development

Box 2.1 Views on Governance

The World Bank

Governance is defined as the manner in which power is exercised in the management of a country's economic and social resources. The World Bank has identified three distinct aspects of governance: (1) the form of political regime; (2) the process by which authority is exercised in the management of a country's economic and social resources for development; and (3) the capacity of governments to design, formulate, and implement policies and discharge functions.

United Nations Development Programme

Governance is viewed as the exercise of

economic, political, and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences.

Organization for Economic Cooperation and Development

The concept of governance denotes the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which

economic operators function and in determining the distribution of benefits as well as the nature of the relationship between the ruler and the ruled.

Commission on Global Governance

Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.

Source: Commission on Global governance 1995; OECD 1995; UNDP 1997b; and World Bank 1994a.

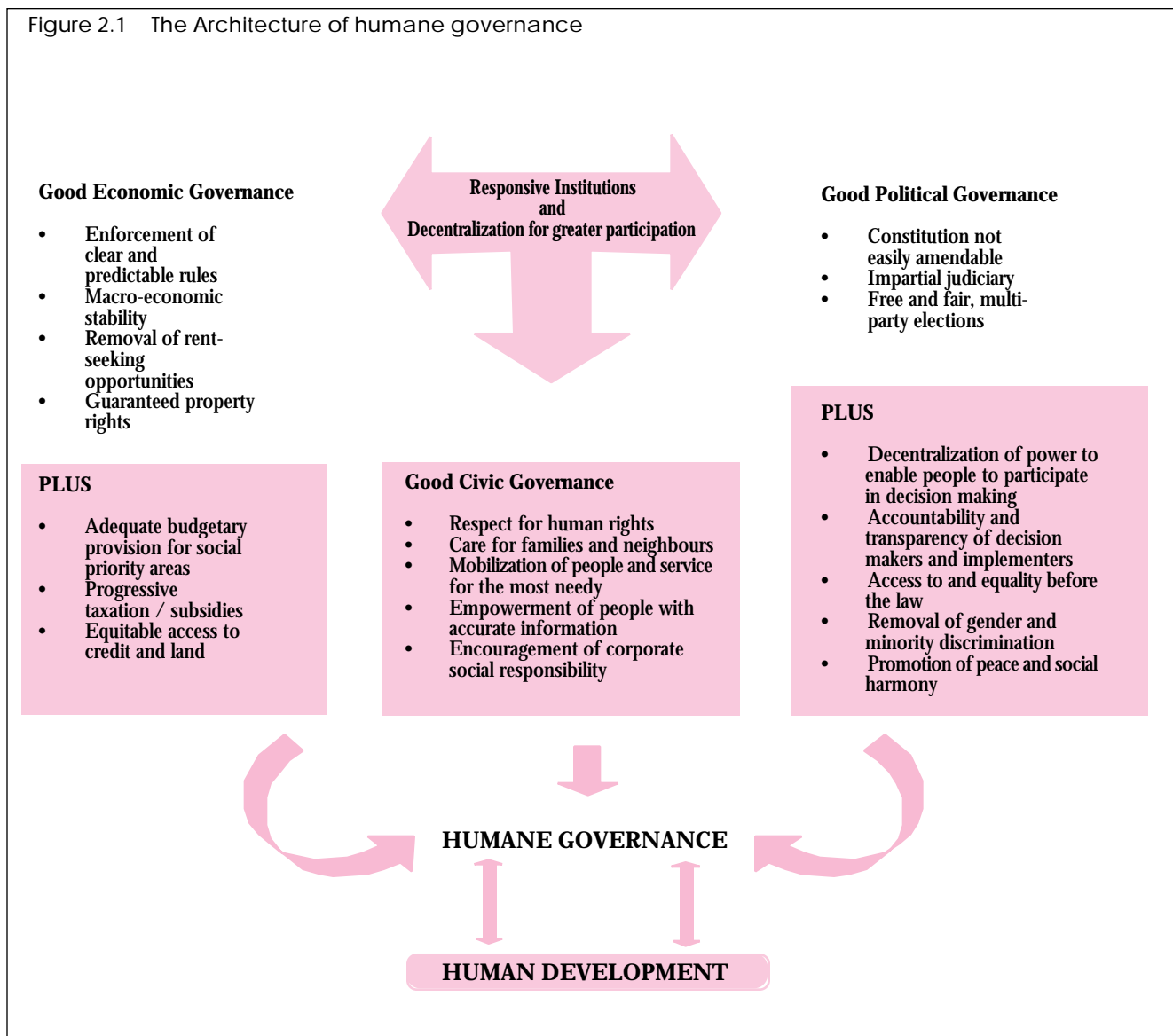
discussing the role of players, the Report takes special note of the recent advances in institutional economics that emphasize the essential role of both formal and informal institutions.

In South Asia, the role of both formal and informal institutions is evolving from a neo-colonial past but the progress is extremely uneven, and not always positive. In some countries, there is increasing apprehension that progress towards democracy has not brought about an advance towards a rule-based society. Formal institutions have been in decline and informal rules, connections, and processes have gained ground overtime and are impeding good

governance. In discussing the role of the players—state, civil society, and the private sector, the Report gives special attention to cases of institutional decline in police, judiciary, and civil service as well as to success stories in institutional development, most notably, the remarkable success of some civil society institutions.

In terms of purposes, good governance should be judged, above all, by success in advancing human development in the broadest sense. The state, or its immediate realization, the government, the market, or the society ultimately can have only one purpose—to enhance the well-being of the people who are

Figure 2.1 The Architecture of humane governance



members of the society, citizens of the state, or participants in the market. The upsurge of democratic demands in civil societies across the world has clarified the fundamental principles of humane governance. Governance must be:

- seen by people as participatory and in their own interest—‘ownership’;
- conducive to building of a society in which none feel humiliated—‘decency’; and
- embodied in structures which are transparent and accountable to the owners, i.e. the people—‘accountability’.

Ownership, decency, and accountability are the bedrock principles underlying humane governance. While good governance must reduce transaction costs and enforce contracts, humane governance must be based on both real and perceived ownership, decency, and accountability for and by all citizens. People’s active participation is then the guiding force behind the concept of humane governance.

Humane governance is conceptualized in three interlocking dimensions: good political governance, good economic governance, and good civic governance. Figure 2.1 illustrates the multi-dimensional framework of humane governance. Good political governance emphasizes the rule of law, accountability, and transparency. It seeks to achieve these goals through a constitutional framework that is not easily amendable, free and fair multi-party elections, and a clear separation of powers among the executive, judiciary, and the legislative branches of the government. Good economic governance emphasizes the role of the state not only in securing macro-economic stability, guaranteeing property rights, removing market distortions, and eliminating rent-seeking opportunities, but is also concerned with investment in people and basic infrastructure, protection of natural environment, and a progressive and equitable fiscal system to promote economic growth with social

justice. The third dimension of humane governance is good civic governance. The realization of the importance of civil society in good governance is relatively recent and owes a great deal to the efforts and successes of non-governmental (NGOs) and grassroots self-help organizations. The broader civil society groups, including households, media, professional groups, and business (both formal and informal), are increasingly seen as vital in securing the fundamental human, political, and economic rights. These rights are implicit in good economic and political governance but are rarely available to those excluded from the formal structures of power. These are women, the poor, and ethnic and religious minorities. The informal structures of the civil society are important not only in supporting formal processes and keeping the rulers accountable but also for increasing the capacity of the people to fend for themselves through creating trust and cementing community relations.

Humane governance is a powerful concept which, if implemented, can help enrich the life of the common people and lay the basis for fairer and more just societies in which human, political, and economic rights of all people are protected and their freedom of choice expanded.

Good political governance

The new political economy has defined the ideal polity in terms of constitutions which are not easily amendable by legislature, even democratically elected ones. It views the state as captured by special interest groups, lobbyists, and politicians eager to follow short-sighted policies that will ensure re-election. The electorate is represented by average voter whose preferences are for minimizing taxation, maximizing private gain, and the exploitation of free-riding opportunities. This school of thought has little trust in the voters’ benevolence and even less faith in politicians’ honesty. It also considers civil servants as given to inflating their budgets and expanding

Ownership, decency, and accountability are the bedrock principles underlying humane governance

their empires rather than serving the people. Voters vote, and that is the sum total of their political activity. Politicians as legislators seek to pursue policies that maximize their chance of re-election, while special interest lobbies exploit rent-seeking opportunities by cultivating the legislators and the executive. The ability to participate in politics in between elections via citizen groups yields no utility to the average voter.

Good political governance, according to the new political economy, includes:

- regular, free, and fair elections, with multi-party democracy;
- an impartial judiciary protected by a separation of powers; and

- a constitution not easily amendable by any of the branches of government.

As the experience of South Asia indicates the basics of good political governance are not enough to ensure effective delivery of public goods and services, a stable law and order situation, and prompt and affordable justice. The problems of lawlessness in South Asia have grown in recent years, and the provision of speedy and inexpensive justice remains a distant dream. Furthermore, corruption, both in the public and private spheres, is widespread and entrenched, precluding the channelling of development resources to the intended beneficiaries. High population growth rates and constrained fiscal resources have compounded the problems of political governance. Yet, notwithstanding these trends, the chief sources of poor political governance are the over-centralization of state powers, the limited transparency and accountability of elected representatives and bureaucrats, and a deficiency in the means to articulate the needs and aspirations of the people.

To achieve humane governance in such a setting, the menu of good political governance should also include:

- decentralization and deconcentration of power to afford people ample opportunities to participate in making decisions that affect their life (box 2.2);
- accountability and transparency of elected representatives and public officials;
- full access of all citizens to justice that is prompt and affordable;
- elimination of all forms of discrimination against women and minorities; and
- maintenance of peace and social cohesion within and between the states.

Voters vote, and that is the sum total of their political activity

Box 2.2 Decentralization and humane governance

When carefully executed, decentralization can serve as one of the chief instruments of people's participation for advancing humane governance. By decentralizing power—from the national capitals to regions, towns and villages—people's access to decision-making and efficiency in the delivery of public service can increase. Many industrial countries delegate 25 per cent or more of total government spending to the local level. But the governments of South Asia remain much more centralized, delegating less than 10 per cent of budgetary spending and giving local governments few opportunities to raise funds through taxation or borrowing.

From the *gram sabhas* in the Indian state of Karnataka and *union parishads* of Bangladesh to local bridge construction in the Baglung district of Nepal, South Asian decentralization efforts have shown some modest success in reducing public service costs and encouraging local participation. By giving local people a chance to choose, for example, ready access to basic education and health care rather than the construction of distant colleges or hospitals, decentralization generates political pressure necessary to focus governments' attention on human development priorities.

Decentralization can take several forms, such as *horizontal* decentralization, where power is dispersed among institutions at the same level, and *vertical* decentralization, which is far more important as certain legislative, financial, and administrative powers are shifted downwards to lower tiers of authority. With the huge corpus of non-governmental organizations (NGOs) working in South Asian countries, some observers maintain that a new kind of 'decentralization by default' is underway.

Like the privatization of state-owned industries, decentralization is not a panacea for resolving South Asia's perennial crisis of governance and underdevelopment. When practised successfully, it has the potential of contributing to a more people-centred framework of governance by decreasing the distance between citizens and the state, enabling governments to be more responsive to local needs and to make better use of scarce resources for basic human priorities. If decentralization simply transfers power from the capital cities to regional and local elite—as is the case from many recent attempts in South Asia—it will fail to empower the people and, conversely, extend the crisis of governance to new levels.

Sources: Aziz and Arnold 1996; and UNDP 1993.

Accountability and responsiveness of elected representatives to people's needs and concerns are crucial elements of the political dimension of humane governance. Thus, the following questions deserve policy attention: How many of the promises made during the election campaign are fulfilled? How active are the legislators in pursuing issues of concern to their constituents, such as education and health of their children, environment, prices of essential goods, jobs, etc.? How are the people's representatives being made accountable?

The concept of humane governance is not starry-eyed about the state or the politician. It would like legislators to be more accountable to the voters and more responsive to their needs. That is the politician's job; elections are but the means to get the opportunity to do the job. But the voters are also meant to be actively participating in shaping, if not making, the decisions that affect their lives. The Greek ideal of the *agora* where all the citizens could gather, the town-hall meetings of New England, and the *panchayats* of India define the alternative ideal. Participation in political activities on an ongoing basis is a valuable function. It relates to basic human rights such as freedom of speech, freedom of association, and freedom of belief, which have been fought for and won in some parts of the world but are still to be won universally.

Good economic governance

A fundamental issue concerning good economic governance is the appropriate role of the state in relation to the market. This historic debate has permeated economics ever since it emerged as an independent discipline in the nineteenth century. The neo-classical economists viewed the state with suspicion. They had unlimited faith in the market and believed that Adam Smith's 'invisible hand' will allocate scarce economic resources optimally. Specifically, the neo-classical economists were concerned that the state (a) will create rent-seeking opportunities

by increasing distortions and deviations from the norm of competitive behaviour; and (b) will jeopardize wealth and wealth enhancing activities by threats of expropriation or unpredictable taxation. These ideas encouraged the notion of a minimalist state—a state in which the volume of state activity in the economy is to be minimized and, where the state concerns itself with (a) ensuring macro-economic stability (balanced budget, low inflation, stable exchange rate) with the help of an independent central bank; and (b) guaranteeing property rights and respect for legal frameworks and the rule of law.

The Great Depression of the 1930s and the advent of Keynesian economics dealt a blow to notions of *laissez faire*. In the post-war world after 1945, there was an almost explosive growth in the role of the state in all countries. In the OECD countries, the total government expenditure as a proportion of GDP had grown to nearly 50 per cent by 1995 compared to about 20 per cent and 10 per cent in 1937 and 1913, respectively. In developing countries, the central government expenditure increased from around 15 to 30 per cent of GDP over the period 1960-85 (World Bank 1997g).

As a result of several global events in recent decades, a serious rethinking took place on the role of the state. The collapse of command and control economies in the former Soviet Union and Central and Eastern Europe, the fiscal crisis of the welfare state in most of the established industrial countries, widespread failure of the state in directly productive activities in developing countries, and continuing neglect of critical human development issues in many parts of the world have led to a serious search for a definition of good economic governance, which will blend economic growth with social justice. It is now realized that the state's activities should match its capability. There is greater recognition that governments should concentrate on core public functions which will create an enabling environment for civil society and the private sector to function efficiently and equitably.

Accountability and responsiveness of elected representatives to the needs of people are crucial elements of the political dimension of humane governance

Effective economic and political governance also requires strong institutions

This Report recognizes the central importance of competitive markets and outlines in some detail the harm the distorted prices and incentives and ill-advised government interventions have done to South Asian economies during the last fifty years. There is a broad consensus in South Asia that a liberal economic framework in which critical prices reflect their scarcity values and in which the private sector is afforded maximum opportunities to operate freely, is in the best interest of long-term development, provided markets can be regulated in the best interests of the less privileged.

However, there is more to good economic governance than only competitive markets. This report, therefore, does not accept the idea of a minimalist state even though the performance of the state in South Asia in critical areas, such as provision of basic infrastructure, basic education and health has been dismal. We believe that the state has a major responsibility for making adequate budgetary provision for social priority areas (education, health, support to vulnerable groups) and for removal of discrimination based on gender, ethnicity or caste. In other words, the state must be active in areas that promote human development. Indeed, given our concern with human development, we are biased in favour of social expenditure as against expenditure on armaments. Human security is ensured not so much by armament expenditures, important though they may be for territorial security, but by human development related expenditures, which will lead to the development of cohesive, well-informed, and, hopefully, more tolerant societies.

Our definition of good economic governance seeks an equitable outcome to the economic processes. Thus, of the set of available policies that will foster competition, the state must choose those which will be most beneficial to the poorest sections of the society. Taxes and subsidies must be progressive. Job creation must not be neglected. There is also a gender aspect to good governance.

Women suffer discrimination in the market place, in laws pertaining to property rights, and in access to credit markets. Good economic governance must seek to make the market a fairer place by insisting on elimination of discrimination not only against women but also against the disabled, the elderly, and the children. Thus, to achieve humane governance, the conventional elements of good economic governance would need to be supplemented by the following:

- sufficient budgetary allocations to social priority areas, such as basic education, primary health care, safe drinking water, adequate nutrition, family planning services, and micro-credit schemes for the poor;
- a progressive taxation system;
- efficient and well-targeted subsidies for the poor; and
- equitable access to credit and land.

Effective economic and political governance also requires strong institutions. Institutions are rules, both formal and informal, that bring predictability and stability in modern economic exchange. For competitive capitalism, these rules need to be conducive to production and the creation of wealth. In modern market economies, legal and regulatory structures assist in providing incentives for saving and investment by protecting property rights, enforcing contracts, and determining the efficiency of government policies. Accessible courts, effective bankruptcy laws, sound securities and competition regimes, and strong anti-corruption policies are essential for greasing the wheels of a market economy. They are required for encouraging new innovations, absorbing investments, and easing economic transitions. In short, institutions determine the efficiency with which markets function. The absence of such institutions retards economic performance (see box 2.3).

The absence of contract enforcement and property rights comes down harder

on the poor, since they often lack secure property and have limited, if any, political connection. And among the poorest of the poor, women suffer the most. Traditionally, women have limited access to property rights, particularly land. But this deprivation is intensified when the few who own some property cannot exercise control over it. The poor cannot find a fair place in the market without regulatory institutions to protect them. In contrast, the rich can survive without such regulatory structures, since they are powerful enough to protect their own property rights and get their business contracts enforced.

In short, without clear, fair, and predictable rules, economic activity not only breeds inefficiencies but also reinforces existing inequalities in the society. It is inefficient because it hinders the accumulation of wealth and, therefore, retards growth; it is inequitable because it tolerates a market place that discriminates against the poor, particularly women. As a result, when institutional inefficiencies are reduced, economic growth increases and the degree, severity, and incidence of poverty diminishes.

Good civic governance

The third dimension of governance has been ignored till recently by economists and political scientists. This is the civil society broadly defined as all voluntary and private sector activities. This is the sphere where individuals and households operate most of the time. They may form companies and NGOs or they may create informal associations of households within the community, savings and credit organizations, voluntary fire-fighting services, and child-care groups. This is where the principle of self-organization comes into play. The freedom to organize is a basic human right, and often, many such activities are in defence of human rights. Trade unions are part of civil society, as are business associations and religious groups. Much of this is self-governance, but it requires a framework of human rights to flourish. In the former

Soviet Union and the countries of Eastern Europe, for instance, it was civil society that was conspicuously absent and has flourished since 1989. This is the dimension of self-help and self-development that is vital to human development at the household and community levels in South Asia and elsewhere.

Good civic governance has several components. At its core is the determination and self-initiative of people to improve their capacity to govern their lives, by creating informal structures and processes to address their basic concerns. For those who are excluded from the formal structures of power—women, the poor, and minorities whether ethnic, religious, or racial—these governance

Box 2.3 Institutions and economic performance

Economic performance is greatly determined by the quality of institutions. Rules and regulations are required to make markets function more effectively. Countries grow more if these rules are clear, predictable, enforceable, and supportive of private enterprise.

A number of recent studies have established the primacy of institutions for a well-functioning market economy (Knack and Keefer 1995, 1997a, and 1997b; Mauro 1995). Strong institutions foster economic growth by securing property rights, by enforcing commercial contracts, and by making economic policies more stable and predictable.

Differences in the quality of institutions help explain the gap in economic performance between rich and poor nations. Behind the spectacular economic success of the developed countries lies a transparent framework for formulating economic policies—a framework that is guided by clear rules.

Developing countries with efficient institutions are more likely to have faster economic growth than those countries without such institutions. 'A country with an initial per capita income of \$500 that has the lowest risk of contract repudiation by the government will grow 2.22 percentage points a year faster than a country with initial per capita income of \$1500' (Knack and Keefer 1997b).

There are several reasons for such links between strong institutions and economic growth:

First, an economic activity based on clear and conducive rules diminishes the arbitrary influence of powerful lobbies, reducing the costs of economic exchange (transaction costs).

Second, the existence of copyrights, patents, and an assisting economic framework encourages new innovations that are critical for sustained economic growth. Institutions are needed both for the creation and assimilation of new investments and technology.

Third, institutions affect how the key factors responsible for production, such as land, labour, capital, and technology, are created, used, and transferred.

Fourth, institutions determine the efficiency with which governments formulate and implement policies. The lack of high-quality institutions can result in an inefficient and corrupt bureaucracy.

Fifth, informal rules determine the civic behaviour of a society. A responsible civil society can better assert its basic economic and political rights. It can also forge well-developed traditions of hard work and honesty—civic traditions that have clear economic pay-offs. The more civil a society, the more able it is to realize the basic human capabilities of its people.

Source: Burki 1998a; Knack and Keefer 1995, 1997a and 1997b; Mauro 1995; and North 1990.

Humane governance expands the idea of human development by adding significant dimensions, which are best captured in the notion of human freedom

alternatives enable people to fend for themselves and to reduce their dependence on the centralized state. At another level, good civic governance involves civil society's role in protecting basic human rights, particularly the rights of the disadvantaged members of society. Fundamental human rights are enshrined in the constitutions of the South Asian countries. Without powerful voices from civil society defending these rights and freedoms, however, the majority of people may not be able to exercise their constitutional rights. An independent media, which is an integral part of civil society, has an important role to play in protecting people's rights and holding rulers accountable.

Finally, good civic governance includes good citizenship, good corporate and employer behaviour, good neighbourly activity, and the effective self-policing of rights violations. By channelling social and cultural resources from the bottom up and stressing both the rights and responsibilities of citizens in relation to the state, good civic governance supports formal political and economic processes. In short, the forces promoting good civic governance complement and encourage the evolution toward good political and good economic governance—each dimension of governance is indispensable to the other two, and all three are essential for achieving humane governance.

At this stage it is important to underline three points. First, the three dimensions of humane governance are inextricably linked and complementary to one another. Bound together by the principles of ownership, decency, and accountability, good political, economic, and civic governance are equally integrated to form a governance framework that is both dynamic and progressive. The nature of institutions and decentralization, for instance, are key governance issues that cut across these three major dimensions of humane governance. Institutions are needed to lessen the transaction costs of political, economic, and social activities. Actively

involved citizens demand the decentralization and diffusion of power. In short, a holistic approach toward humane governance entails an engaged citizenry working for a responsive, efficient government; a market that creates jobs and generates income; and a civil society that encourages informed debate, socially responsible businesses, and non-profit, community-building associations.

Second, humane governance is not merely a means to human development. It expands the idea of human development by adding significant dimensions, which are best captured in the notion of *human freedom*. If human development were simply measured by the three variables which go into the Human Development Index (literacy, life expectancy, and per capita income), high HDI (Human Development Index) results could be achieved despite a lack of freedom. By contrast, free democratic societies may fail to achieve high HDI values. In 1989, however, the world witnessed a historic human revolution that established democratic government as an unchallenged norm almost throughout the world. Thus, the question shifted from a rivalry between ideologies to one of variations of the democratic order. It was then that the issues of good governance came to the fore. Democracy, while necessary and desirable, can be insufficient in the face of declining living standards. Democracy must deliver what people want, such as economic betterment and the means to exercise one's freedom to choose. This is possible only when humane governance delivers human development. While a means to human development, humane governance is also a vital complement to human development by guaranteeing that it is achieved in a free, effective, and equitable manner.

Third and finally, the pathways to humane governance are many and varied. The juxtaposition of the state, market, and civil society, in accordance with the needs and desires of the people, is at the heart of humane governance. Managing and sustaining this process will be unique in each society and subject to change. The

obstacles to achieving humane governance in South Asia are complex and varied. Reversing the region's present course, however, is not a hopeless endeavour. Certain principles of action that maximize people's initiative and identify conditions favourable to change can bring about the desired institutional and policy changes. At the same time, it is important that the governance innovations proposed are also politically acceptable, financially and administratively feasible, and developed over time through a consultative process involving all stakeholders.

Humane governance does not romanticize the interface between the state, the market, or civil society. On the contrary, it recognizes that human institutions are imperfect and often driven by the self-interest of those in charge. Nevertheless, the search must continue for a participatory, responsive, and accountable polity embedded in a competitive, non-discriminatory yet equitable economy. This, in turn, requires that people's money is plowed back to serve their basic needs which will expand the opportunities open to them, and where people have the ability and the freedom to self-organize. In short, humane governance is that good governance which fosters human development.

Measuring humane governance

As discussed above, humane governance has three inter-linked dimensions: economic, political, and civic. Economic governance consists of those factors required to sustain economic development. Political governance is defined as the use of institutions by government to govern, and civic governance as the right and responsibility of the governed to participate in and promote good governance. It is to be expected that a country with high economic, political, and civic governance would also have high human development. However, this is not certain. Yet it is possible to examine this connection by arriving at a measure of humane governance, however crude, and

Table 2.1 Humane governance index (HGI)

Country/Region	Economic	Political	Civic	HGI value
India	0.599	0.591	0.540	0.577
Pakistan	0.565	0.469	0.472	0.502
Sri Lanka	0.647	0.303	0.445	0.465
Bangladesh	0.494	0.441	0.451	0.462
South Asia	0.59	0.56	0.52	0.56
<i>Memo Items</i>				
East Asia	0.75	0.64	0.56	0.65
Industrial countries	0.84	0.79	0.86	0.83

exploring its correlation with the Human Development Index. Thus, we make an attempt here to construct a Humane Governance Index (HGI).

The HGI is a composite index of indicators measuring economic, political, and civic governance. The three composite indices were compiled using currently available indicators (see technical note). Economic governance is assessed by measures of fiscal policy (budget deficit), monetary policy (inflation rate), trade policy (current account deficit), social priority spending (public expenditure on both health and education), and liberalization of the economy (ratio of the official to the parallel exchange rate).¹ Political governance is assessed by measures of various political perception indicators including corruption, quality of bureaucracy, accountability, law and order, ethnic tension, etc.² Civic governance is assessed by measures of freedom of expression (relating to the right of the governed to express their views on government policies and actions), non-discrimination (relating to mistreatment on the grounds of race, ethnicity, gender, religion, etc.), political participation (relating to free and fair multi-party elections), and rule of law (relating to reliable and impartially enforced rules established in a legal and judicial system that ensures equity before law).³

The HGI is the unweighted average

Humane governance is that good governance which fosters human development

¹ Indicators obtained from World Bank (1997f); see this publication for details as to the calculation of the variables.

² Khan and Zaidi 1998.

³ Indicators obtained from Desai (1994) which details how the indicators were quantified.

Humane governance can only be achieved through a combination of all three dimensions of economic, political, and civic governance

of the three indices of economic, political, and civic governance. We did not weight the indices due to the fundamental requirement of each of these three components to produce humane governance. Humane governance can only be achieved through a *combination of all three dimensions* of economic, political, and civic governance. One dimension does not come before another. They must occur in unison for the concept of humane governance to be realized. Hence, a simple mean of the economic, political, and civic governance indices was taken to form the HGI.

Drawing on available data, Humane Governance Index has been calculated for fifty-eight industrial and developing countries, including four South Asian countries (see chapter 2 annex). A higher number of HGI indicates higher levels of humane governance and vice versa. As an illustration, we have put above the HGI of four South Asian countries. (Table 2.1).

The HGI is a very preliminary, and admittedly crude, attempt to provide a quantitative measure of what is a complex, multi-faceted concept of humane governance. Neither the absolute numbers nor the ranking should be taken as anything other than tentative and exploratory. To make an accurate quantitative measurement of humane governance, much more work needs to be done by many more people before it can become acceptable as a tool of analysis. We have also made an attempt to quantitatively measure the distance between the rulers and the ruled by computing a distance index (see Annex C).

South Asia's crisis of governance

South Asia is replete with examples of poor governance, which erode the capacity of communities and individuals—especially the poor and disadvantaged—to meet their basic human needs. From an inefficient deployment of resources and crippling debt burdens to social divisions drawn on ethnic and sectarian lines, arbitrary law

enforcement and failed political leadership, few regions shoulder governance challenges with the scope and intensity of those found in the South Asian region. The perverse incentive structure in Bangladesh's eroding civil service, the refusal of Pakistani citizens to pay income tax or monthly utility bills, and the internecine conflict ravaging North-East Sri Lanka—are deviations from humane governance behaviour that are merely symptoms of a much deeper, system-wide social and political disease. In studying this highly complex problem, efforts must be made to avoid convenient generalizations; the predicament afflicting the South Asian countries today cannot be attributed to the failure of any particular institution or group of institutions.

In the course of this Report, examples of good and bad governance are cited and the underlying causes analyzed. Policy proposals are made in light of this analysis, and these proposals are guided by the conceptual framework of humane governance.

In essence, the Report poses the following questions to any system of governance:

- do people fully participate in governance?
- are people fully informed?
- do the people make decisions, or can they at least hold the decision-makers accountable?
- are women equal partners with men in governance?
- are the needs of the poor and disadvantaged met?
- are people's human rights guaranteed?
- are the needs of future generations taken into account in current policies?
- In short, do people own their structures of governance?

From this alternative vantage point that accepts people to be the fundamental unit of analysis, the political dynamics between the state and broader civil society are revealed. Humane governance, by

focussing policy attention on the betterment of human lives, also provides a blue print for reform that places people at its centre stage. By viewing politics as a central part of economic systems and civil society apparatus, the humane governance framework, unlike the new

political economy and neoclassical economics, envisions a constructive role for politics in empowering people. Policy recommendations that flow from this approach will certainly maximize citizens' participation in securing their rights and meeting their needs.

Chapter 2 Annex

Humane Governance Index

	Economic Governance		Political Governance		Civic Governance		Humane Governance		Human Development	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Norway	1.000	1	0.972	3	0.953	5	0.975	1	0.943	3
Finland	0.835	17	0.982	2	0.997	2	0.938	2	0.942	5
Denmark	0.938	4	0.910	6	0.951	7	0.933	3	0.928	16
Switzerland	0.934	6	0.845	12	0.975	3	0.918	4	0.930	14
Netherlands	0.791	30	1.000	1	0.953	4	0.915	5	0.941	6
Ireland	0.898	9	0.894	7	0.918	12	0.903	6	0.930	15
Sweden	0.830	18	0.874	10	1.000	1	0.902	7	0.936	9
Canada	0.914	8	0.875	9	0.892	16	0.894	8	0.960	1
United States	0.886	10	0.853	11	0.934	9	0.891	9	0.943	4
United Kingdom	0.841	16	0.953	4	0.866	18	0.886	10	0.932	12
Portugal	0.808	24	0.888	8	0.906	13	0.868	11	0.892	22
New Zealand	0.941	2	0.700	20	0.953	6	0.865	12	0.939	8
Austria	0.845	15	0.797	15	0.930	10	0.857	13	0.933	11
France	0.883	12	0.775	16	0.906	14	0.854	14	0.946	2
Singapore	0.940	3	0.921	5	0.625	31	0.829	15	0.896	19
Costa Rica	0.778	33	0.749	18	0.937	8	0.821	16	0.889	23
Czech Republic	0.933	7	0.695	21	0.807	22	0.812	17	0.884	26
Italy	0.790	31	0.771	17	0.850	19	0.803	18	0.922	18
Australia	0.884	11	0.683	22	0.833	20	0.800	19	0.932	13
Poland	0.747	34	0.833	13	0.782	23	0.787	20	0.851	29
Spain	0.805	26	0.596	30	0.923	11	0.775	21	0.935	10
Greece	0.724	37	0.812	14	0.779	24	0.772	22	0.924	17
Japan	0.860	14	0.666	24	0.741	25	0.756	23	0.940	7
Botswana	0.937	5	0.579	33	0.727	28	0.748	24	0.678	44
Argentina	0.830	19	0.565	35	0.811	21	0.735	25	0.888	24
Trinidad/Tobago	0.821	22	0.501	45	0.872	17	0.731	26	0.880	27
Uruguay	0.617	50	0.525	39	0.899	15	0.680	27	0.885	25
Korea Republic	0.780	32	0.635	26	0.621	32	0.679	28	0.894	20
Chile	0.701	41	0.675	23	0.630	30	0.669	29	0.893	21
Malaysia	0.826	21	0.602	29	0.562	38	0.664	30	0.834	32
Bolivia	0.799	28	0.435	52	0.739	26	0.657	31	0.593	49
Ecuador	0.707	40	0.505	44	0.735	27	0.649	32	0.767	36
Jordan	0.869	13	0.556	36	0.486	45	0.637	33	0.729	39
Philippines	0.656	44	0.728	19	0.523	42	0.636	34	0.677	45
Dominican Rep.	0.743	35	0.566	34	0.588	36	0.633	35	0.720	40
Thailand	0.803	27	0.537	38	0.544	40	0.628	36	0.838	31
Tunisia	0.827	20	0.617	27	0.408	51	0.617	37	0.746	38
Honduras	0.720	38	0.510	43	0.606	34	0.612	38	0.573	50

Humane Governance Index (continued)

	Economic Governance		Political Governance		Civic Governance		Humane Governance		Human Development	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Mexico	0.713	39	0.512	42	0.598	35	0.608	39	0.855	28
Egypt	0.807	25	0.604	28	0.337	54	0.583	40	0.612	47
Columbia	0.655	45	0.435	51	0.650	29	0.580	41	0.850	30
India	0.599	51	0.591	31	0.540	41	0.577	42	0.451	55
El Salvador	0.641	48	0.482	46	0.512	43	0.545	43	0.604	48
Paraguay	0.650	46	0.474	47	0.503	44	0.542	44	0.707	42
Romania	0.514	53	0.524	40	0.574	37	0.537	45	0.767	37
Morocco	0.792	29	0.658	25	0.154	58	0.535	46	0.557	51
Gutemala	0.687	43	0.442	49	0.463	48	0.531	47	0.615	46
Bulgaria	0.459	56	0.520	41	0.609	33	0.529	48	0.789	33
Oman	0.691	42	0.583	32	0.261	55	0.512	49	0.771	35
Zimbabwe	0.619	49	0.351	54	0.561	39	0.510	50	0.507	52
Kenya	0.812	23	0.310	55	0.399	53	0.507	51	0.463	53
Pakistan	0.565	52	0.469	48	0.472	47	0.502	52	0.453	54
Sri Lanka	0.647	47	0.303	56	0.445	50	0.465	53	0.716	41
Bangladesh	0.494	54	0.441	50	0.451	49	0.462	54	0.371	57
Zambia	0.437	57	0.357	53	0.475	46	0.423	55	0.378	56
Ethiopia	0.402	58	0.548	37	0.233	56	0.394	56	0.252	58
Turkey	0.469	55	0.296	57	0.404	52	0.390	57	0.782	34
Indonesia	0.735	36	0.188	58	0.224	57	0.382	58	0.679	43



Chapter 3

Political Dimensions of Governance

Powerful ruling personalities and weak institutions have fortified political misgovernance in South Asia

The political process lies at the core of governance in all societies. In South Asia, where democratic institutions have yet to take a firm root in the majority of countries, the crisis of governance is inextricably linked to a failure to follow the due process. Every society has laws that regulate behaviour. It is when these laws cease to be binding that the political and social fabric begin to unravel.

The political process defines the creation and distribution of power within a society. It underpins the manner in which governments are formed and run, and guides the relationship between the government, state institutions, and the rest of society. What makes a political process equitable and efficient? There are several essential conditions. First, elections must be free, fair, and inclusive. Second, elected representatives must be made accountable to people through checks and balances. Third, power should rest with institutions and not individuals. Authority must be separated and distributed amongst the three pillars of the state. Fourth, power should be decentralized down to the local level in order to enhance people's participation in governance. Most critically, however, established rules need to be followed by all so that the process works—and is seen to work.

Powerful ruling personalities and weak institutions have fortified political misgovernance in South Asia. This lethal combination has subverted the rule of law and deprived people of their sovereignty. The region's poor political governance stems from two critical failures: first, power remains concentrated and distant from common people. A few privileged groups retain access to political power and state patronage. The stubborn resistance to power-sharing is also visible in the centralized nature of South Asian

governments. This concentration has hampered human development, precluded popular participation, and alienated citizens. Second, the political process remains largely informal and personalized. There is a disturbing tendency among both the state and civil society to bend rules and to operate outside institutions. This not only makes transactions more costly and less predictable, it also discourages transparency and accountability. However, some countries in South Asia have done better than others in the struggle to establish a humane political process based on democratic principles of inclusion, justice, and rule of law.

This chapter is divided into two parts. The first part analyzes the continued exclusion of ordinary citizens despite political changes, attributing much of it to concentration of economic and political power in the hands of a few. The second part examines the weakness of institutions within a largely informal and unregulated South Asian setting, and its implications for political governance. The chapter opens with a snapshot of the challenges faced by existing South Asian political systems, which sets the stage for the rest of the discussion.

Are people sovereign?

There has been little uniformity in the nature of political systems across South Asia. Democracy, monarchy, and authoritarianism have all existed in different places at different points in time. Democracy is firmly entrenched in India and Sri Lanka, but has only recently been established in Bangladesh and Pakistan after long periods of direct or indirect military rule and Nepal after extended monarchical rule, while Maldives has adopted a non-party presidential system and Bhutan still functions under a

monarchy. Despite this diversity of political arrangements, there has been a broad similarity in styles of governance. Large sections of the population continue to be excluded from decision-making even under democracies. Even though 99 per cent of South Asians are now free to elect their leaders, they have yet to participate fully in the political process.

The end of the eighties and the early nineties have marked a healthy transition towards popularly elected governments in three South Asian countries—Bangladesh, Pakistan, and Nepal. The difficulties of engineering and managing such historic turnarounds in a region that is desperately poor and whose people are generally unaccustomed to concepts of citizenship should not be underestimated. Rapid and noteworthy strides have been made by the newcomers in donning at least the trappings of a multi-party system based on universal franchise.

However, the quality of the democratic process leaves much to be desired in both the fledgling as well as longer-standing democracies. Only in India, which has witnessed virtually uninterrupted democracy, have institutions been resilient and alternative centres of power accommodated within the state structure. Competitive elections, positive discrimination and the direct involvement of diverse social forces have created spaces for popular participation. However, here too, democracy faces challenges of corruption, poverty, fickle coalitions, regionalism, and violence. Sri Lanka, having started as a liberal and progressive democracy that ensured popular participation and freedom from the worst social deprivations, witnesses growing social intolerance, increasing militarization, and a steady erosion of institutions in recent times. In the absence of policies of accommodation, women and minorities have been kept out of the political system. In South Asia as a whole, real decision-making is controlled by powerful elite. Sovereignty continues to be conceived in terms of a powerful government, not free citizens.

Democracy, as understood by the region's leaders and much of its illiterate population, begins and ends with the ballot box. Only a small part of the political system—the parliament—is ever exposed to public mandate. Other features of a democratic political order are mostly missing. Western democracies have been associated with liberal traditions for almost a century—in going beyond free and fair elections, to include the rule of law, separation of powers, checks and balances on public power, and the protection of basic liberties of speech, religion, assembly, and property. Such a system is yet to be adequately established in South Asia. Even under democratic systems, South Asians everywhere are deprived of their most basic rights as their governments routinely flout constitutional limits on public power. As shown in chapter 1, South Asia remains home to the most distressing social and economic deprivations. Democracy has not done much to change the lives of millions of ordinary South Asians, who are still unable to read and write, to drink clean water, and to make a decent living, let alone access their rights to free speech and personal freedom.

In the face of this apparent de-link between democracy and human development, it is well to remember that democracy is a long process of political development. In modern democracies, elections are a part of a larger set of rules that legitimize the state. In South Asia, they are the only bridge between the state and society. But there is a life beyond elections, which must also be protected. Legitimate governments are not necessarily good governments. A good government will guarantee its citizens certain basic liberties in addition to maintaining territorial and physical security, promoting development, and providing social opportunities. Economic and civil liberties promote human dignity and freedom. The protection of individual rights (including those of property and contract) and the creation of a framework of law and administration have been

Democracy, as understood by leaders and much of the illiterate population, begins and ends with the ballot box

shown in empirical studies to promote economic growth.

It is one thing to proclaim social justice; it is quite another to deliver on that promise. The crucial issue is not one of constitutional provision, but of popular access. Can people be truly free when they have no control over their destinies? According to a recent survey by Freedom House (1998), measuring civil and political rights worldwide, none of the countries of South Asia can be categorized as free (see table 3.1). India, Bangladesh, Nepal, Sri Lanka, and Pakistan are *partly free*, while Maldives and Bhutan are *not free*. In order to work, democracies require stable and democratic political parties, vibrant opposition

Table 3.1 The state of democracy

1997-8	Political rights ^a	Civil liberties ^b
India	2	4
Bangladesh	2	4
Nepal	3	4
Sri Lanka	3	4
Pakistan	4	5
Maldives	6	6
Bhutan	7	7

a. Political rights enable people to participate freely in the political process, and include the right of all adults to vote and compete for public office, and for elected representatives to have a decisive vote on public policies.

b. Civil liberties include the rule of law and the freedom to develop views, institutions, and personal autonomy apart from the state.

Source: Freedom House 1998; rankings from 1 (highest) to 7 (lowest).

Box 3.1 The missing ingredients in a poor democracy

Human lives may shrivel and the poor remain voiceless even under a democracy. How can we explain this unhappy combination? A major explanation lies in the quality of a democratic process. Democracy is much more than regular elections and political pluralism. For a democracy to be substantive, it must be aided by a number of key factors.

There are several reasons why democracy fails to deliver in many poor countries:

First, sharp income inequalities and intense distributional conflicts diminish the utility of a democratic process. Highly unequal societies are often more politically unstable. They are also more open to greater abuse by a selected and privileged minority that is recycled by an unequal political system.

Second, widespread feudalism makes sure that political power stays concentrated among landlords. Human rights of the rural poor are often violated. In several parts of rural Sindh in Pakistan, for instance, there are an estimated 4,500 private jails maintained by Sindhi feudal lords, where poor tenants are subjugated to a miserable life.

Third, effective democracy requires democratic culture and values which emphasize consensus and power sharing. Frequent elections within political parties are as crucial as regular elections at the national level. Internal democracy holds

leaders accountable to their own party and workers. When internal democracy is absent individuals become more important than political parties and popular confidence in the political system is gradually eroded.

Fourth, democracy is reduced to a luxury of a few when money and mafia exercise great influence on election results. Criminal attitudes and commercial use of politics close the doors of democracy to the population.

Fifth, when proper checks and balances do not work effectively, democracy loses much of its efficacy. A free press, a proper separation of powers, and sound political institutions, such as an independent judiciary and an impartial bureaucracy, are considered inseparable parts of a well-functioning democracy. But political governments in poor countries often influence these institutions through arbitrary constitutional amendments and political appointments.

Sixth, where ignorance rules and poverty is pervasive, democracy often locks the poor into a patron-client relationship with their political representatives. Illiterate people are often not aware of their rights. Self-serving politicians can make use of this ignorance by keeping common people perpetually dependent on them for accessing basic social and economic services.

Source: HDC staff.

parties, vigilant civil society actors to articulate peoples' demands, checks and balances on state power, and strong institutions of accountability that strengthen adherence to rules. Only this will transform South Asian states from democracies of the ballot box into liberal societies that value peoples' participation. As box 3.1 argues, it is naïve to expect that democracy will by itself bring humane governance. Building institutions that protect and enhance human freedom takes time. Tearing them down does not take half as long. The experiences of the region testify that even as democracy offers opportunities for liberty and welfare, it cannot ensure them.

The moral foundations of the state have been eroded by electoral fraud, the advent of money politics, the steady criminalization of the political system, and increasing corruption in public life. Many past leaders in India, Pakistan, and Bangladesh have been investigated on corruption charges. Since the return of democracy in Pakistan, every elected government has been dismissed on charges of corruption. The Indian elections of 1989 were estimated to have cost over \$6 billion, and the results in up to 150 constituencies in 1991 were reported to have been influenced by money (Seshan 1995). A seat in parliament was reported to cost up to \$2

million. In Pakistan in 1997, a parliamentarian spent, on average, about \$120,000 in order to get elected (Shafqat 1999). Attempts to curtail election expenditures and open the accounts of parties to public scrutiny have thus far yielded limited results, though the Indian election of 1998 was considered comparatively free from such abuses.

The general failure of South Asian states to deliver good political governance has cost them their legitimacy in the eyes of ordinary citizens. This has spilled over into disenchantment with democracy itself. Voter turnouts have dropped dramatically in Pakistan, and there are similar fears of low turn out ahead of the latest Indian elections. The political process no longer commands the confidence of people. Marginalized groups, desperate for representation and bypassed by the mainstream, take up arms against the state. Internal conflicts are the most disturbing evidence of the failure of

democracy in South Asian societies (see box 3.2). Human lives lost in these conflicts represent the brutal costs of poor governance (see table 3.2).

All South Asian societies have suffered through such violence and conflict. India has been hounded by civil tensions ever since the first signs of dissent around Kashmir in the forties and state re-organization in the fifties. Since then, various ethnic groups in Punjab, Haryana, Himachal Pradesh, Bihar, Orissa, Jharkhand, Assam, and other parts of the North-East have demanded strengthening of rights and even autonomy from a state that is felt to have failed in protecting their interests. Bangladesh emerged in 1972 from a violent war within Pakistan. A bloody insurgency in Nepal has claimed over 400 lives over the last three years. More than 100,000 Bhutanese of Nepalese origin seek asylum in Nepal and India. In Pakistan, sectarian violence has assumed frightening proportions, with ethnic and

Table 3.2 Societies at war

A snapshot of conflict, 1947-98

	Conflict	Casualties
British India 1946-8	Partition	500,000
India 1954-94	Muslim/Hindu	13,000
Pakistan 1973-7	Baluchis/Government	9,000
Bangladesh 1971	Civil war	500,000
Sri Lanka 1971	Maoists/Government	10,000
1983-date	LTTE/Government	55,000

Source: Akhtar 1996; IISS 1998; and US State Department 1998.

Box 3.2 A culture of violence?

Today, violence has become part of state-society relations in South Asia, as ethnically diverse states struggle to accommodate the multiple needs of their communities. In India, for instance, between 1980 and 1984 alone, the army was involved in internal security operations on 369 different occasions. The region was not always a violent neighbourhood. Prior to the colonial period, diverse religious and ethnic communities lived in relative harmony. The open hostility between Hindus and Muslims is a recent phenomenon. Similarly, Sri Lanka did not display major conflicts between the majority Sinhalese population and the Tamils until recently.

The underlying causes of internal conflicts have seldom been addressed. The most contentious issues revolve around ethnic status, religion, language, demarcation of land, distribution of assets, and the shortage of meaningful employment. In India and Pakistan, religion lies at the centre of the most severe conflicts. Communal rioting came to a head in India during the Ayodhya incident of 1992, when a mosque was razed. Nearly 2,000 people died in the ensuing violence that touched many major urban

centres, including Bombay. Recently, minority Christians have been the targets of extreme violence in both India and Pakistan. Religious fundamentalism has sometimes been supported by the state to counter political opposition. The inequitable distribution of wealth and imbalances in regional growth have also traditionally fuelled discontent. When times are hard, the sense of injustice is often borne along ethnic, religious, and caste lines. Recently, the criminalization of politics, which has seen a vast underworld of smugglers, killers, drug barons, and gangsters being used by politicians to influence elections, has also fanned the flames of communal violence.

In most civilized societies, popular participation in decision-making helps to integrate communities. An independent judiciary and an accountable bureaucracy can help contain grievances. The centralized states of South Asia have not been prepared to yield to demands for devolution and adequate representation without bitter conflict and violence. Throughout South Asia, legitimate instruments of participation, particularly elections, have been abused. Genuine democratization and decentraliz-

ation have not been allowed to take root and electoral procedures have been consistently manipulated to ensure the continued domination of the ruling elite. The new generation of political aspirants everywhere in the region is drawn towards religious and nationalist parties promoting exclusion and intolerance.

The promotion of liberal democratic values and institutionalized forums of discussion will render violence meaningless as a device for resolving conflicts. Greater degree of autonomy for minorities, enhanced access to decision-making, institutionalized social insurance, respect for fundamental civil liberties, the promotion of civil society including a vibrant press, and fundamental social reforms aimed at uplifting the most disadvantaged sections of society—including education, land reform, labour rights, and social redistribution of wealth—will help.

Violence thrives in poor societies where politics is weakly institutionalized, law and order is fragile, and where the parallel economy is strong. South Asia, at least for the moment, fits the bill perfectly.

Source: Misra 1995; Mitra 1998; Rothermund and Mitra 1997; and Rupesinghe and Mumtaz 1996.

religious minorities at the receiving end. Since 1970, three times as many people in Pakistan have lost their lives in civil strife as the number of casualties sustained in its three wars against India. Sri Lanka has twice witnessed violent uprisings against the state since the early eighties. The

secessionist war of the Liberation Tigers of Tamil Eelam rages on in the North-East, at tremendous human cost—having already claimed over 50,000 lives and every year costing \$1 billion and 3 percentage points of growth (*Newsweek* 1999 and Kois et al. 1998). As illustrated by the timeline in figure 3.1, the inability of the state to manage this crisis represents one of the most graphic failures of political governance in South Asia.

The assassination of political leaders—Mahatma Gandhi, Indira Gandhi, and Rajiv Gandhi in India, Liaquat Ali Khan in Pakistan, Bandaranaike and Premadasa in Sri Lanka, and Mujib ur Rahman and Zia ur Rahman in Bangladesh—highlights the culture of political violence that has been prevailing in the region since the beginning of independence.

Internal conflicts, along with continuing poverty and alienation of the masses from mainstream economic and political systems, form the biggest challenge to democracy in the region. Today, more than two million people have been displaced from their homes as a result of this violence.

In the final analysis, it is liberal democracy that is the ultimate defender of the rule of law. There are many reasons why democratic governance has not produced the desired results in South Asia. Some blame a leadership that is not genuinely supportive of democratic practices beyond elections and which promotes exclusionary modes of governance, since most parties are themselves highly centralized and autocratic; the opposition parties that are confrontational and unable to stimulate healthy democratic dialogue (most visibly in Pakistan and Bangladesh); a weak civil society that is unable to defend human freedoms; the inability of institutions to serve as checks and balances on the exercise of state power; and the concentrated nature of economic and political power. Some of these factors are examined in greater detail in the rest of this chapter, while others are taken up elsewhere in the Report.

Figure 3.1 Sri Lanka: a chronology of failed political governance

1948	<p><i>Repatriation.</i> 3 Acts deprive upcountry Tamils of citizenship and right to vote; half the upcountry Tamil population repatriated to Indian Tamil Nadu; electoral weight of Sinhalese enhanced</p>
1956	<p><i>Language.</i> Sinhala declared official language; state employment overtly biased against Tamils; Extensive autonomy to Tamils promised in response to political pressures; Sinhalese protests and rioting leaves hundreds dead; tens of thousand Tamils lose their homes and evacuated to Jaffna; state of emergency declared and plans to grant Tamils limited autonomy abandoned</p>
1958	<p><i>Concessions.</i> Act passed in parliament allowing use of Tamil in Northern and Eastern provinces, but never implemented</p>
1960s	<p><i>Broken promises.</i> Promise to create district councils granting Tamil autonomy not kept; heavy replacement of Tamils from army and police</p>
1970	<p><i>Discrimination.</i> Strict Tamil quotas in universities; Tamil employment by state falls from 60 to 10 % in professions, 30 to 5 % in administrative services, 50 to 5 % in clerical service, and 40 to 1 % in armed forces, compared to 1956</p>
1977/81	<p><i>Violence.</i> Outbreaks of ethnically inspired violence; misplaced attempts to decentralize power through provincial councils; violence intensifies, leading to democratic calls for separate Tamil state in 1976; Tamil youth break away and form LTTE in 1978</p>
1983	<p><i>War.</i> Communal riots led by Sinhala thugs with voter registration lists; 100,000 Tamils left homeless in Colombo and another 175,000 in the rest of the country while thousands killed; war with LTTE commences—10,000 guerillas versus 143,000 troops</p>
1986	<p><i>Foreign troops.</i> Moderate Tamil MPs ousted after government passes a law requiring all parliamentarians to oppose separatism; no legitimate representatives of Tamils left in parliament, Indian army recruited to fight LTTE in 1987</p>
1990	<p>Indian troops ousted after failed intervention; failed cease-fire</p>
1994	<p>Official discrimination against Tamils subsides; government contains LTTE in the North; failed cease-fire</p>
1997–date	<p>Proposed constitutional amendment to grant regional autonomy; war rages on</p>

Note: The Sinhalese speaking Buddhist majority makes up 74 % of the population; the Tamil speaking minority, 18 %.

Source: Kois et al. 1998 (<http://www.hiidd.harvard.edu/programs/wpeace.srilanka.html>).

PART I. WHO GOVERNS SOUTH ASIA?

South Asia is a region that has largely been ruled by a few elitist groups. Despite several political changes, the faces of the rulers have barely changed. It is a shifting coalition of the same powerful families who derive their political and economic influence from either land and money, or civil and military connections. Neither political faces nor policies have changed much. Historically, a narrow elite has dominated the state apparatus in most parts of South Asia. By virtue of this political power, it have also controlled the economy. Growth has accrued to these elite disproportionately, leaving ordinary citizens relatively untouched. Of course, power and resources are distributed unequally virtually everywhere in the world, but the degree of inequality is more vulgar in South Asia. Moreover, the absence of social and political safety nets makes life even harsher for those outside these groups.

The politics of patronage and personalized government

Democracy is best understood as government of the people, for the people, and by the people. Democracy in South Asia is not about people, it is about access to state power. Entrance into the political arena is driven by a desire for personal gain, not by a genuine commitment to serving the people. State resources are the most valued prize for both politicians and their constituencies. A client-patron relationship has evolved out of this impulse, between the holders of state power and those seeking public services. Ultimate authority over resources lies in the hands of individuals, not formal institutions bound to follow set procedures. Where power is highly personalized and weakly institutionalized, the political process is replaced by arbitrary and informal transactions.

Without a radical transformation in the existing political culture prompted by a proper institutionalization of the state, democratic elections will never be able to

alter the perceived need for personalized governance. Only such a transformation will herald a new political and civic consciousness among South Asians, allowing them to choose candidates based on an intelligent appraisal of manifestos. Unless citizens perceive a link between their votes and the quality of services they are provided, the taxes they pay and the benefits they derive, democracy will remain elusive.

Recycling the elite

In South Asia, there has been very limited renewal of major political actors. Since the restoration of democracy in Bangladesh, Pakistan, and Nepal, the same prime ministers have alternated at the helm. In all of Sri Lankan history, only one person from outside the Goyigama elite, President Premadasa, has held high office. Even under multi-party elections, there is a strong degree of permanence among the ruling elite. In parliament, faces barely change—constituencies and loyalties remain entrenched.

Who are these recycled elites? In the South Asian context, four classes—landlords, industrialists, bureaucrats, and army officers—have traditionally dominated the economic and political landscape, though backward classes have made some headway in regional arenas in India. Dynastic politics prevails, with the same select families preserving access to state power. The elite are tightly knit by bonds of common interest. Despite democratic upheavals, these unequal power structures have persisted.

LANDLORDS. Feudalism still prevails in many parts of the region including Pakistan, Nepal, and some parts of India. Landlords continue to form a major proportion of their national and sub-national assemblies. Between one-half and one-third of parliamentarians in India and Pakistan are landlords. Some state assemblies in India, notably in Andhra Pradesh, have historically been dominated by landowning classes. Landlords have

In South Asia, there has been very limited renewal of major political actors

not only provided the bulk of parliamentarians in Pakistan since independence, they are also heavily represented in political parties and other powerful decision-making bodies, including the military and bureaucracy. One-third of the current cabinet is made up of landlords. The country's present electoral districts were drawn in 1984, based on the 1981 Census. The rapid demographic shift that has since taken place from rural to urban areas is not accounted for. Thus, wealthy landowners from rural areas hold a disproportionately high number of seats in parliament, shaping policies in their own favour, and resisting reform.

In India, the Lok Sabha is heavily represented by rich peasant interests. Till independence, the leadership of the Indian National Congress had a considerable number of lawyers and similar urban professionals. In fact, they were heavily represented in the Indian Constituent Assembly mainly because the then Prime Minister Nehru wanted senior lawyers to draft the constitution. Since then, however, the composition of parliament has changed substantially in favour of agriculturists, up from about 20 per cent in the first few years of independence. What is more, dominant industrialists, bureaucrats, and military officers in most countries have substantial landowning interests. The landed class is consequently firmly entrenched within the structure of state power.

The economic and political power of the feudal class in South Asia is due mainly to the highly skewed distribution of land in these countries. Effective implementation of a comprehensive land reform programme and taxation of agricultural incomes are therefore important steps towards breaking the concentration of economic and political power in the region. Many Indian states accomplished marked success in this regard through the Zamindari Act, but others such as Bihar still encounter resistance. Without such reforms, neither agricultural growth, nor equity, nor democracy, nor human development can

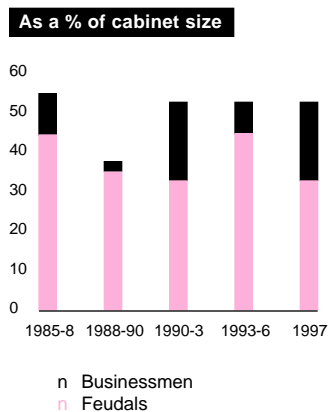
take its roots. This does not mean that no change is possible without land reforms. Historic evolutions do not wait for particular events. But there is no question that land reforms can greatly advance the prospects for a constructive change in society.

INDUSTRIALISTS. In addition to landlords, businessmen have also assumed a critical role in the economic and political power structure of countries like India, Pakistan, and Bangladesh. In Pakistan, the share of businessmen in the national assembly and the cabinet has doubled since the 1980s (Shafqat 1999). 'It has become an incentive for industrialists to put one family member into politics so they can evade taxes' (TI 1997b). Industry has gradually been feudalized, with landlords branching out into the industrial sector. In the mid 1960s, twenty-two families owned 65 per cent of the industrial capital and 80 per cent of the financial assets of the country (Haq 1973).

Economic power is concentrated among a few industrial houses in India and Pakistan. In India, at the time of independence, four largest business groups namely *Tatas*, *Birlas*, *Dalmia jain*, and *Martin Burn* had full control by virtue of ownership of almost all industries. These groups continued to be heavyweights of the Indian industrial sector up until the liberalization period. In Pakistan, the degree of concentration is evident from the fact that the industrial assets of the top forty-four business groups are equal to the size of the entire budget (Rehman 1998).

The rise of businessmen and industrialists in these countries is mostly explained by the crucial role of money in politics. In India, one of the most convenient ways to raise party funds has been to extract money from industry. In 1996, big business houses were reported to have funded 80 per cent of a major party's finances (IRS 1998). This practice dates back to the 1960s, at the height of the licence-quota-permit raj that forged an alliance between industry and politics. Of course, there is nothing new about

Figure 3.2
Cabinets of the elite in
Pakistan



Source: Shafqat 1999.

corporate financing for parties. However, the lack of transparency of these transactions is worrisome. In other parts of the world, donations are audited and open to public scrutiny. No large party in India opens its accounts for independent audit. Party funds are shrouded in secrecy. In 1996, the Havala Scandal created political upheaval when an industrialist family was found to have paid a large sum as commission to leaders of all major political parties. In such an environment, the election process is reduced to an auction of potential political power and patronage, in the form of lucrative government contracts. Industrialists making illegal donations thus continue to enjoy heavy political clout and form a part of the ruling alliance of the elite.

BUREAUCRATS. The origins of the bureaucratic structure in the subcontinent can be traced back to the administrative system developed by the British colonies in the region. The colonial system of administration was divided into two parts. While policies were made by the colonial masters, their implementation was left to the civil servants. However, in most parts of South Asia after independence, the bureaucrats themselves engaged in performing the twin functions of the formulation and implementation of policies. This was facilitated by the weak, inexperienced, and segmented political leadership. Most of the cabinet ministers, especially at lower levels, were inexperienced in the affairs of government.

Ideally, the primary function of civil bureaucracy is to take orders from the representative government and work within the framework of the law. The position of civil servants in a parliamentary system is therefore clearly a subordinate one. They are policy executors and not policy makers. In many developing countries, including Pakistan and Bangladesh, the extent of bureaucratic involvement in politics is exceptionally high. For instance in Pakistan, by 1996, ten prime ministers had been dismissed by seven heads of state, three of whom were generals and

four senior bureaucrats. In Pakistan and Bangladesh, a military-bureaucratic oligarchy forms the major segment of the governing elite (see discussion on the executive later in this chapter).

MILITARY OFFICERS. The military elites have historically occupied a central position in politics in at least two South Asian countries. A pervasive ‘culture of militarism’ enables the military profession to establish extensive autonomy and assume a privileged position in society—especially in states where civil society institutions are still relatively weak and dissipated. Militarism has been identified as existing in a variety of forms, ranging from repressive authoritarian regimes backed by the military, to direct military rule, to civilian rule with the military exerting predominant influence.

When civilian institutions lack legitimacy, electoral support, and effective executive power, the militarization of civil affairs often occurs. In Bangladesh and Pakistan, rule by the military establishment has prevailed for almost half of the two countries’ history (see figure 3.3). Conversely, the Indian and Sri Lankan political systems have witnessed effective civilian control over armed forces that has internalized the doctrine of civilian supremacy. The ruling civilian regimes of South Asia maintain a strong reliance on the military even in the domestic context, as internal instability and violence stemming from ethnic-linguistic tensions and crime endure. India’s ruling regimes, for example, have come to rely increasingly on a dominant role for their armed forces in provinces such as Punjab, Assam, and Kashmir, where over half of the regular army is currently employed on internal security duties. Many South Asian governments have also utilized intelligence agencies for wire-tapping the opposition, dirty trick operations, and a host of other political purposes—assuming that the government’s interest and national interest are synonymous.

The armed forces usually enter politics when civilian political groups fail to legitimize themselves. All armed forces

The election process is reduced to an auction of potential political power and patronage, in the form of lucrative government contracts

Figure 3.3
The civil military nexus



Source: HDC staff calculations.

There is something in the air of the subcontinent that lends itself to political dynasties

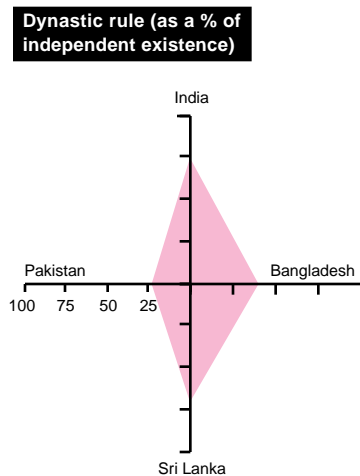
have been used in various degrees in political governance, but the crucial issue in civilian control is to limit the sphere within which the military may act, and prescribe areas of civic responsibility under which the military may be usefully employed. Recently, the army has been used in Bangladesh to aid flood relief efforts, and in Pakistan to monitor the non-payment of utility bills. There are many other areas of everyday social and economic life where the vast resources of the military may be used during peacetime, such as the spreading of education, monitoring elections, and checking corruption.

DYNASTIC POLITICS. Another important dimension of the concentration of political power in South Asia is the role of dynastic

families in the political power structure. The number of sons, daughters, and widows that have been elected to power in Pakistan, India, Bangladesh, and Sri Lanka (see box 3.3) suggests that there is something in the air of the subcontinent that lends itself to political dynasties. In democracies other than those prevailing in South Asia, distinguished political lineage is seldom a useful tool for contesting elections. However the ease with which political figures, equipped with only family connections, become heads of government in South Asia is surprising. In almost all major South Asian countries, only a few families have dominated the political landscape of the region since independence (see figure 3.4).

India has known perhaps one of the longest one family rules in the region.

Figure 3.4 Born to rule



Note: India, Pakistan (1 family); Bangladesh, Sri Lanka (2 families)

Source: Asian Governments on the World Wide Web.

Box 3.3 All in the family: the case of Sri Lanka

Family ties have played a very important role in Sri Lankan politics. Throughout the history of the country, politics has been dominated by a few families and the political and economic elite of the country has been dominated by a relatively small number of family groups. This differs from India where the Nehru family has been one dominant family through most periods of its political history or Pakistan where a large number of families have formed the alliances. The largest political party in Sri Lanka, the United National Party (UNP) was once known as the 'Uncle Nephew Party' because of the kinship ties among the party's leaders.

A total of three families have been occupying the highest leadership positions in Sri Lanka. These include: the Senanayakes, the Bandaranaiques, and the Jayawardenes. All the governments formed since independence have revolved around the personalities of these party leaders. The political history of these leaders reads as follows:

Mr Don Stephen Senanayake was the first prime minister of Sri Lanka. He was elected as the prime minister in 1947 as the leader of the United National Party (UNP). Upon his death in 1952, Mr Senanayake was replaced by his son Dudley who immediately called new elections. These elections were won by UNP. Dudley experienced several political set-backs as a result of which he resigned as prime minister in 1953. However, the dominance of Senanayake family continued as the party selected Dudley's uncle,

Sir John Kotelawala as prime minister.

In 1956, a new party called the Sri Lankan Freedom Party (SLFP) came into power and a new family emerged in Sri Lankan politics. The new prime minister was Solomon West Ridgeway Dias Bandaranaike. He led the country for a little more than three years until his assassination in 1959. In the elections that were held later on in 1960, Mr Bandaranaike's widow, Ms Sirimavo, became the prime minister. She ruled the country till 1965 until her party (SLFP) lost parliamentary elections to the UNP as a result of which Mr. Dudley was back in power. However, Mr Dudley lost the next parliamentary elections in 1970 and Ms Sirimavo Bandaranaike again became prime minister. In 1973, the leader of the UNP, Mr Dudley Senanayake, died and as a consequence, Mr Richard Jayawardane, a distant relative of Mr Dudley, became the party leader. He won the elections in 1977 and became the prime minister of Sri Lanka. After coming to power, he directed the rewriting of the constitution and the creation of a presidential system. He became the president under the new system and assumed control of the government machinery and his party. The SLFP was also undergoing transformation. The party's leadership shifted from Ms Sirimavo Bandaranaike to her son, Anura, after a long and divisive battle within the party. Since 1994, Ms Bandaranaike has returned as the Prime Minister of Sri Lanka; her daughter, Ms Chandika Kumaratunga, is the President. The dynasty continues.

Source: Asian Governments on the World Wide Web; and De Silva 1994.

This goes as far back as the pre-independence period. Nehru participated actively in the independence movement and after independence, his daughter, Indira Gandhi prepared herself well to take over her father's position. After coming to power, she groomed her sons as her political successors. In Pakistan, the significance of political lineage is not only evident from the extended rule of the Bhutto family whenever civilian governments have been in power, but also from members of national and provincial assemblies whose only source of strength is often their political lineage. In Bangladesh, this phenomenon of dynastic rule is evident from the rule of Sheikh Mujib ur Rehman and his daughter Sheikh Hasina Wajid, as well as Zia ur Rahman and his widow Khaleda Zia. In Sri Lanka, family ties have played a very significant role in the country's politics. The domination of political dynasties is symptomatic of the widespread belief that political power is derived from patronage rather than performance. The system of government is often used to enrich rulers and their family and friends, rather than the nation.

The political and economic fortunes of South Asia have long been controlled by the interests of a narrow minority wielding uncanny, and at times seemingly mystical, power. Ordinary citizens lack sovereignty, despite a new awareness of democratic rights. The overwhelming desire of political actors to monopolize power spills over into institutional impulses towards centralization. This is nowhere more apparent than in the inability of South Asian governments to bring about meaningful decentralization of power. For decentralized governance, done right, is perhaps the most powerful means of ensuring popular participation in governance, and of bringing power to where it should rightly rest—with the people. We have already identified who rules this region. The following section examines the decentralization experience in order to analyze how South Asia is governed.

The reality of decentralized governance

Decentralization, local level participation, or 'bottom-up' development are all concepts that have received great attention in recent times. Ever since the end of the Cold War, there have been strong worldwide pressures for democratic self-rule. This wave has been inspired by the inability of centralized regimes in socialist countries and the Third World to deliver tangible benefits in terms of equitable growth, human development, and pro-people governance. Economic liberalization has also spurred the tendency to decentralize, with many international lenders strongly encouraging this transition. All of these pressures emerge from one single precept—bringing power to people.

The affirmation of representative democracy is often considered to be the first step in empowering people. The second most crucial step is the decentralization of power from the centre to state, provincial, and local levels. Democratic systems pre-suppose that all power rests with the people. Ideally, only limited powers are transferred to elected governments in the interests of convenience and co-ordination. The assumption is that this power will be exercised as close to people as possible. Decentralized governance—from capital cities to regions, towns, and villages—is now widely recognized as a desirable phenomenon.

In South Asia too, the demands for greater local autonomy have taken on a new vigour. This has sometimes been driven by ethnic diversity, as in India where over-centralization of power is often thought to be responsible for the unrest in Punjab, Kashmir, and parts of the North-East. A consensus has now emerged that all states should establish a local government system—or *panchayati raj*—to better cope with India's remarkable diversity. These village councils have been provided substantial autonomy by the constitution. At least a

The affirmation of representative democracy is often considered to be the first step in empowering people; the second is the decentralization of power

**In South Asia,
decentralization
occurs in its weakest
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clearance**

third of their seats have been reserved for women and there are quotas for marginal social groups, such as former untouchables and tribals. Similarly, Sri Lanka established elected provincial councils in 1987, to help placate the demands for greater political autonomy voiced by Tamils.

In Pakistan, local elections are being held for the first time since the return of democracy. The country had started out with a well-developed local government structure which was a vibrant part of the public sector in the 1950s and 1960s. However, the more important functions, including primary education and health were gradually centralized and development funds channelled through parliamentarians instead of local structures. Here, as in Bangladesh, military regimes have been more supportive of local bodies as a device to mobilize public support and legitimize authority. It is not just the bigger states of South Asia that are making this move. In Nepal, a network of district and village development committees (that innovatively involve NGOs) has been established in recognition of the inability of the central government to reach the most remote localities buried deep in the mountains. Bhutan is also following suit, while Maldives maintains its own system of local administration.

Despite this trend towards decentralized governance in South Asia, its degree and success have been limited. Decentralization involves delegation of central government power to lower tiers of authority—state, regional, and local governments. In essence, it means devolution of real decision-making power, including financial decision-making, from the central government. This is witnessed virtually nowhere in South Asia, where decentralization occurs in its weakest form, involving the transfer of limited discretionary powers to local authorities that still require central government clearance.

Decentralized governance is desirable because it allows people to participate in decision-making. It also ensures greater

efficiency, flexibility, accountability, fiscal discipline, responsiveness to local needs, and proximity to point of delivery. However, a certain degree of central control is necessary for attaining macro-economic stability and for ensuring equity to disadvantaged regions and groups. Case studies show that decentralized governance tends to favour expenditures in human priority areas.

However, devolving powers to the local level may not always guarantee that they are shared. In fact, where power is concentrated in the hands of a few, it may further empower elites rather than ordinary people. In South Asia, a common criticism of local bodies is their domination by landlords, influential personalities, or their kinsmen (see box 3.4). This can be avoided, however, through 'positive discrimination' in favour of women and the less privileged classes, allowing them to run for political office, and complementary social reforms. Local bodies can thus be made more broad-based and representative. Such an arrangement has worked well in the Indian state of Karnataka.

The political structure of a country can determine the extent of local involvement. Federations generally encourage the devolution of power, though this has not been true of India and Pakistan. While both countries are ostensibly federal, they lack some of federalism's most crucial features, as discussed later. It is widely believed that Pakistan's crisis of governance is compounded by an inadequate federal set-up and an over centralization of power. The other five countries in the region are unitary in structure, despite calls for a federation to better manage the ethnic tensions in Sri Lanka. Sri Lanka has bowed to this pressure somewhat by introducing certain federal elements, including a local tier of government, into its constitution. Bangladesh and Nepal, in adopting a unitary system, place local governments under the control of the central authority. In Bhutan and Maldives, the highly centralized state structures have impeded the development of local

governments. However, as our special focus on the government structures of India and Pakistan shows, merely adopting a federal constitution does not guarantee decentralization and autonomous local level decision-making. Conversely, a unitary form of government does not preclude the development of local institutions (as seen in China, for example).

Confused Federalism in India and Pakistan

The form of government that a nation chooses to adopt has a direct bearing on its styles of governance and decision-making. A federal system differs from a unitary system in that it is multi-tiered, with national and state governments functioning as partners exercising independent authority within their assigned areas. Such a system lends itself well to decentralized decision-making

which ensures greater political participation, responsiveness to local needs, and accountability—all essential elements of humane governance. The basic model has been adapted to fit different societies. India and Pakistan, while clinging to their fragile and euphemistic federal structures, have never accepted these basic principles of autonomy and separation.

Both countries are more concerned with retaining centralized authority than strengthening rights of citizenship. The central authority has progressively and unmistakably usurped the authority of states and provinces (hereafter, referred as states). More than in India, Pakistan has manipulated regional cultural diversities to deprive states of political and economic rights. The pre-dominance of the majority province, Punjab, in both elected as well as non-elected institutions, is also a peculiar feature in Pakistan.

Box 3.4 Strengthening local level governance

South Asia has a long tradition of local governance. Village committees have existed from the earliest times as social, administrative, economic, and political units. The *Rig Vedas*, the oldest Hindu writings dating back to 1200 BC, describe certain forms of village self-government. In the latter half of the present century, governments of the region have tended to become heavily centralized and the institution of local government has consequently been marginalized. In more recent times, states have gradually become aware of the possibilities that decentralization offers and local tiers of government have been revived. Owing to their limited political and financial independence, however, these local governments mostly remain handmaidens of central governments and dominant local personalities.

Throughout South Asia, there are fears that decentralization has failed to empower people despite numerous legislations. In general, local institutions have been unable to serve local needs and to allow people to take control of their lives. Often, local governments are no more than local branches of the central authority. Financial

autonomy is non-existent, with local sources of revenue severely limited. In the Philippines, local governments receive as much as 40 per cent of central revenue and play a large part in social expenditures. In South Asia, they normally receive less than 10 per cent of total revenue, despite playing a dominant role in the provision of public services.

Only in India and Sri Lanka have some encouraging results emerged. The Indian states of West Bengal and Karnataka have been among the most successful. Prior to the Constitutional Amendment of 1995 granting them statutory status, India's *panchayats* (local governments) were controlled by the states, who did not encourage local autonomy. In Tamil Nadu, for example, the 1986 local elections were the first in sixteen years. There is a feeling that state governments, especially in Bihar, Orissa, and Tamil Nadu, continue to defy the constitutional amendment. Panchayati Raj has worked best when complemented by social reforms to redress local power balances, and where representation has been opened to all segments of society, including women and lower castes. The success of West Bengal has shown that land reforms

can go a long way towards ensuring the effectiveness of local government. Studies show that leakages in development programmes at the local level have been much higher in states such as Tamil Nadu, where local landlords dominate local government, compared to West Bengal.

Decentralization is usually thought to ensure participation. However, it is no magic wand as the South Asian experience illustrates. In stratified societies with unequal distributions of land, wealth, income, and access to human capital, devolving power from the centre may only pass it on to powerful local elites who are even less responsive to the needs of their people. Without fundamental land reforms and universal education, local governments become an instrument of oppression in the hands of influential local elites. The success or failure of decentralization hinges upon the nature of the institutions created, the extent of power and finances delegated, the pattern of power distribution among groups in the region, and the participation of civil society. It pays to remember that decentralized governance, when carefully executed, is the most potent mechanism for social cohesion and peoples' empowerment.

Source: Aziz and Arnold 1996; Ludden 1997; and Siddiqui 1995.

Table 3.3 President's rule in India	
Period	Number of times state assemblies dissolved
1951-5	2
1956-60	2
1961-5	2
1966-70	6
1971-5	10
1976-80	26
1981-5	4
1985-90	4
1991-5	9
Total	65

Source: Khan 1997.

Table 3.4 Unequal partnerships, 1997		
	Revenue share ^a	Expen- diture share
<i>India</i>		
Centre	60	49
States	40	51
<i>Pakistan</i>		
National	94	75
Provincial	6	25

a. before devolution

Source: GOP 1998c; SPDC 1996 and 1997; and World Bank 1998k.

Decentralization remains equivocal and local governments, bereft of any constitutional status in Pakistan, are dependent upon state governments for their mandate and sustenance. This notional federalism is devoid of the substance of democracy. Such a confused strain of federalism is indeed an obstacle to humane governance.

A federalist structure is ideally suited to large, diverse, and densely populated territories. As such, India and Pakistan are ideal candidates. And yet both these countries are not federations in the true sense of the word. The constitutions of both countries give broad powers to state governments. In actual practice, the federal ideal has been seriously diluted by several flawed provisions. At the heart of the problem lies the constitutional bias in favour of the centre and the legislative bias against the states. This is highlighted by the constitutionally permissible power to set aside state governments under exceptional circumstances (through the office of the centrally appointed Governor as shown in table 3.3, and as recently witnessed in Sindh). Further, the centre reserves the right to reorganize and alter state boundaries without the consent of the states.

Financially, states depend substantially on the centre for revenues and thus lack autonomy. Despite recent laws, local governments still lack complete legitimacy. The heavily centralized nature of planning, bureaucratic, police, and judicial services, as well as of the major political parties, tends to stifle local participation in governance. States and provinces have thus been subjected to the legislative control of the central government under exceptional circumstances and to its administrative control under normal circumstances. The mandated distribution of powers between the two orders of government have merely been thrown over the British parliamentary system, based on a strong cabinet and the rule of the majority. Subversion of the basic principles of federalism carries grave dangers, as Pakistan found in 1971 with the secession of East Pakistan.

This confused notion of federalism has led to growing civic problems, increasing regional disparities in living standards, inadequate social spending, and an unbalanced fiscal relationship between layers of government. The subsequent competition for government resources sets the stage for acrimony between the central authority and the federating units, bitter inter-regional disputes, demands for greater autonomy, and secessionist tendencies.

In both these countries, there are pressures for revisiting the spending and revenue responsibilities of the centre and states. In India, state governments are responsible for over half of public spending but only generate 40 per cent of the revenue. In Pakistan, vertical imbalance is even more serious (see table 3.4). Provincial governments account for just 6 per cent of total revenue, but are responsible for a quarter of all spending. Most vitally, between 80 and 90 per cent of public spending on social services occurs at lower levels of government in both countries. The centre collects more taxes including the most important ones such as income taxes and customs duties. This necessitates a transfer of funds from the centre to the states, and thus gives manipulative power to the centre.

Horizontal distribution of revenue across states is also problematic. In India, distribution is based on criteria such as income level, state tax performance, and degree of backwardness. This formula has been shown to be quite egalitarian in terms of ensuring greater funds for less developed states (World Bank 1995c). Yet, regional disparities in living standards are thought to have increased (Jalal 1995), in part due to the influence of discretionary grants. In Pakistan, allocations continue to be determined by population share alone. Allocations of funds to provinces are determined on the basis of the 1981 Census that is hopelessly outdated. Furthermore, the disproportionate size of the majority province, accounting for over half the population, presents a major challenge. Punjab not only leads the country in

development indices, it also receives the bulk of federal revenues and subsidies, concessional credit, and direct public sector investments. Smaller provinces are continually asking for a remodeling of the allocation formula along more equitable lines, such as those incorporated into the Indian formula (see box 3.5).

Today, both India and Pakistan are exposed to the same centrifugal forces that tore apart the federations of the former Soviet Union and Yugoslavia. State dissent has been accommodated at times, such as during the linguistic re-organization of the fifties in India. Since then, however, state complaints have been looked upon with suspicion, often boiling over into violence, such as in Balochistan during the 1970s. Kashmir remains an acute manifestation of India's federal dilemma.

The changes required in India and Pakistan are basic requisites for a sustainable federation. There has to be some re-negotiation of centre-state powers in order to increase the jurisdiction of states. The institution of elected governors with fixed tenures in states, transfer of control over centralized services to the states, and elimination of discretion in financial devolution would not only be closer to the federal principle, they would also facilitate good political governance.

Back to basics: rediscovering decentralization

Despite efforts at decentralization and bringing government closer to the people, South Asian governments remain inaccessible to their own citizens. Federalism in India and Pakistan has turned out to be little more than a façade, with an emphasis on the centralization of power and the use of coercive power to counter threats of turbulence. Power structures have alienated the masses. Without devolution of economic and political power, demands for regional autonomy will continue to intensify. The multiple social identities of the region require more than a simple appeasement of their cultural needs, they need

Box 3.5 The economics of national integration

It is obvious that Pakistan has chosen the wrong development formula. Provincial allocations continue to be based on provincial populations, not on their development needs. Some minor adjustments are made to the allocation formula in the case of the more deprived provinces of Balochistan and NWFP to compensate for the inequity of the basic formula. But these are inadequate adjustments. A more honest way of facing the situation is to base the provision of infrastructure and social services on the established needs of each province, and not on a population formula. For instance, it makes no sense to provide roads to Balochistan on a per capita basis when it accounts for just over 5 per cent of the population. However, the province commands 45 per cent of the land area of Pakistan (see table below).

Roads are built on land, not people. In the first instance, there is a need to update the population estimates on which existing distribution is based. Beyond that, Sindh would argue for incorporating source of collection, Balochistan for land area and backwardness (specially in its rural areas, where HDIs are as low as 0.388), NWFP for contribution to power generation, while Punjab would most want to maintain the status quo. At the very least, the development formula should adjust the population weight by the income level of each province, the existing disparity in physical infrastructure and social services, and differences in fiscal discipline and revenue generating effort.

Good models for such a modified formula exist today in many countries,

including Brazil which redistributes its tax revenues preferentially to its poorer states. For every 100 cruzeiros that it collects in taxes set aside by law for transfer to the state, the Brazilian federal government returns only 25 per cent to the richer states in the South and Southeast while giving 75 cruzeiros to those in the poorer North. In Pakistan, the relatively more prosperous provinces of Punjab and Sindh collectively receive about three-fourths of all central government transfers. As it is, a wrong allocation formula in Pakistan led to tremendous provincial fights over population census estimates. And through it all, no honest attempt was made to review the basic allocation formula.

If we are honest about national integration, then a number of courageous decisions will need to be taken to bind our provinces together—ranging from elevation of existing Divisions into Provinces, revising the existing development allocation formula, following up the decisions on distribution of financial resources and Indus waters through downstream development, abolishing the provincial quotas in public service while establishing the best education and technical training institutes in less developed regions, and many such measures. What is needed is an open national debate on these issues, not backroom deals or clever gimmicks. Unless we deal with our people with fairness and honesty, we can never build the foundations of a stable and modern state.

Provincial profile

	HDI value	Divisible pool transfers, % ^a	Total transfers, % (incl. grants and straight transfers)	Share of land area, %	Financial autonomy ratio, % ^b
Punjab	0.453	58	50	27	16
Sindh	0.461	23	24	19	15
NWFP	0.447	14	18	9	9
Balochistan	0.405	5	8	45	7

a. this corresponds to the share of population

b. own revenue as a percentage of provincial expenditure

Source: GOP 1998c; Haq 1997; and SPDC 1996 and 1997.

— excerpts from the writings of Mahbub ul Haq

Box 3.6 People's perception of political governance

Faith in the political system is quite variable across South Asian countries. In Nepal and India about two-thirds of the population appear to have confidence in the political system. But in Bangladesh, Pakistan, and Sri Lanka the faith in the political system is quite low, with only 45 per cent, 37 per cent and 25 per cent, respectively, of those polled giving a positive response in public opinion surveys. Recent devolution of authority from the monarchy in Nepal and long established traditions of electoral democracy in India are probably key factors behind the much greater public confidence in the political system in these countries. In Pakistan and Bangladesh, which have suffered bouts of military rule, where democratic traditions are yet to be fully established, and where there are serious problems of political governance, a large majority of the people appear to have low confidence in the system. In Sri Lanka, which has otherwise enjoyed great political stability and continuity, the fact that less than one-fourth of the people view the political system with confidence appears to be related mainly to the law and order problems created by the persistent Tamil insurgency.

In all South Asian countries, regardless of belief in the political system, people give high priority to the right of voting: the range being from 74 per cent in Sri Lanka and Pakistan to 90 per cent in India. Of those polled about two-thirds in Sri Lanka and Pakistan actually vote but this percentage is the highest in India, at 93 per cent.

Except for Nepal, where over two-thirds feel they have access to their public representatives, most South Asians seem to feel a lack of access. Only 30 to 40 per cent of persons responding in India, Pakistan, Sri Lanka, and Bangladesh gave a positive response to the question about access to their public

representatives. But what is worse, of those who believe they have access, only a small minority feel that their representatives are responsive: the range being from a high of 52 per cent in Nepal to a low of 15 per cent in Pakistan.

Even in countries where confidence in the political system is relatively high, political leaders are viewed with suspicion. In Pakistan, a mere 3 per cent feel that political leaders are honest, compared to 17 per cent in India and Nepal, and 24 per cent in Bangladesh, respectively. Only in Sri Lanka does a sizeable proportion (49 per cent) believe their leaders to be honest.

Furthermore, in all countries except Bangladesh and Sri Lanka, very large majorities appear to believe that leaders have become more corrupt over the last five years. In Nepal and India, 92 per cent and 80 per cent respectively of respondents felt that political leaders had become more corrupt. In Pakistan, 88 per cent believed corruption had increased during the last five years. In Sri Lanka, there is not only greater belief in the honesty of politicians but only 45 per cent believe that politicians' dishonesty has increased over time.

A considerable number show a lack of trust in their legal systems. In India, 30 per cent believe that judges are corrupt, as opposed to more than two-thirds in Pakistan. In other South Asian countries, the perception of judges' corruption ranges from over 60 per cent in Bangladesh to 44 per cent in Sri Lanka. The concern with the judges' honesty also spills over into judgement about whether the legal framework is just and protective of people's rights. In India and Nepal, a majority or near majority are confident about the legal framework but in Pakistan, Bangladesh, and Sri Lanka less than a third believe in it.

The above results are based on public opinion surveys conducted in five countries of South Asia, India, Pakistan, Bangladesh, Sri Lanka, and Nepal. The methodology of the surveys and sample sizes are explained (and the main findings summarized) in Annex B. As the Annex indicates, the typical sample size was 500 in each country but, the distribution of the sample by location, gender, income size, and education background varied somewhat among countries and was not necessarily representative of the population at large. The survey results cannot, therefore, claim scientific accuracy and too much should not be read into them. They are, nonetheless, interesting because in many cases they appear to confirm general societal perceptions.

economic and political structures that can accommodate them.

Disenchanted groups have typically found little room in the formal arena of politics, most visibly in Sri Lanka. India's longer tradition of democracy has allowed its regional political economies and electoral processes to better resist central influence, but it too faces challenges. The concentration of authority in the hands of a few has robbed South Asian citizens of their most valuable right—the freedom to participate in the governance of the societies in which they live. Power has been treated as a finite good that cannot be shared and must be personally owned. This fallacy has undermined the political process. In truth, it is the *separation* of powers that encourages adherence to rules and discourages discretion. This separation can be vertical—between central and local authorities—as well as horizontal, between state institutions.

PART II. THE FAILURE OF INSTITUTIONS

In much of South Asia, the main political institutions—the legislatures, executive, and judiciary—have not evolved indigenously. They are transplants from the colonial period. Despite the new wave of liberalization and modernization, South Asia remains a largely informal society based around kinship and patronage. This has impeded the development of institutions. Rules continue to be flouted in favour of discretion and decisions are made on the basis of political connections. Such disregard for institutions has not only increased transaction costs and made social and economic interaction less predictable, it has further reinforced misgovernance.

Institutions legitimize as well as constrain the exercise of political authority, and may be seen as rules governing human interaction in a society. Transactions become less transparent and policies lose their potency, through weak and ad hoc implementation, once rules are replaced by discretion. As shown by box 3.6, living in societies where rule of law is subverted has hurt peoples' faith in

their political systems and dampened their perceptions of the quality of governance. There are healthy exceptions, such as in India, but the majority of countries in the region have experienced a steady erosion of institutions. The relative resilience of institutions appears to be a function of the nature of political leadership, the character of political parties, and the social basis of the political system.

As argued in the opening sections of this chapter, democracy is not enough to ensure good political governance. Democracy must be supported by stronger institutions, such as representative parliament, more responsible executive, and impartial judiciary. Most importantly, ordinary people must feel that their institutions are accessible. These institutions must be transparent and accountable, and they must set clear and universally applicable rules.

Sadly, in South Asia, these qualities have not always been encouraged. Here, institutions protect the interests of the rulers and fail to promote mass sovereignty. Separation of powers among institutions checks against their violation and promotes the political process. This separation has time and again been blurred and violated. The independence of the judiciary has often been subverted through executive power. The civil service has been highly politicized and demoralized almost everywhere. The executive is only overtly accountable to legislatures. In many countries, the political system is fragile, unresponsive to people's needs, and corrupt. In the midst of this collapse of institutions, individual discretion has thrived. When rules exist but only some of the time, the political process falls into disarray.

The Legislatures

Under democracies, peoples' representatives are elected to parliament. Here, they serve as the spokespersons for their constituencies, protecting their interests and furthering their causes. Parliaments have various powers. Most crucially, they are the central forum for amending the

constitution. They enjoy the legislative power to enact laws for governing the country. They have powers to raise revenue, allocate resources, levy taxes and spend money from the national treasury. The executive is required to be collectively responsible to parliament. An elected parliament is thus also an important instrument of accountability.

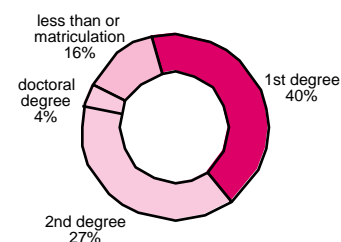
In the multiple guises of a watchdog, regulator, representative, and law-maker, the parliament is vital in ensuring and sustaining humane governance. Ultimate authority in a democratic set-up rests with the people, and through them, with their elected representatives who make up the legislatures. Ordinary citizens come into contact with members of their legislatures through four different avenues: firstly, in electing them to parliament; secondly, in approaching them for favours as part of their constituencies; thirdly, through organized civil society initiatives looking to influence parliamentary proceedings and bills; and, fourthly, as part of parliamentary committees constituted to make recommendations on certain issues. In South Asia, the responsiveness of the legislatures to the demands of people continues to be dictated by political exigency, personal ties, and patronage.

Parliamentary systems in South Asia suffer from a variety of corrupt practices, both during elections as well as in the process of policy-making. An effective parliament must be composed of individuals with integrity. According to some reports, as many as thirty-nine members of India's Parliament in 1997 had criminal records pending against them, including kidnapping, rape, and murder (IRS 1998). In 1999, forty-nine parliamentarians in Pakistan have been charged with power theft.

In South Asia, parliaments are often perceived to be nothing more than a collection of those who have bought their way to positions of power. Other factors, such as education, hardly play a role (see figure 3.5). In Sri Lanka, where adult literacy is as high as 90 per cent, three-fifths of parliamentarians are either matriculates or below. Parliamentary

When rules exist but only some of the time, the political process falls into disarray

Figure 3.5
Educational qualifications
of South Asia's
parliamentarians



Note: Figures do not add up to 100, due to absence of 3rd degree.
Source: HDC Governance Tables.

As a legacy of the colonial period, the bureaucracy continues to wield immense operational power

proceedings are poorly attended and alliances notoriously fickle. Women continue to be grossly under-represented. In many countries, public representatives endlessly debate over issues of public interest while policy initiatives remain in the hands of an overpowering executive.

Threats to parliament

Within the state system, the parliament expresses the sovereign will of the people through their chosen representatives and holds the executive that implements policies accountable on their behalf. In South Asia, the parliament has failed to adequately play either role. The first failure stems from the character of the representatives themselves and the political culture of the region. Once elected, parliamentarians seldom attend sessions and fail to spur informed debate. The second failure is the result of the peculiar institutional environment and the blurring of the separation of powers among state pillars.

Law-making and deliberation over proposed government actions are the realms of the parliament. However, the Supreme Court has a parallel function of law-making by setting precedents through its rulings. Similarly, it is the executive that implements the policies that are debated in parliament. However, as a legacy of the colonial period, the bureaucracy continues to wield immense operational power. This blurring of domains has seen institutions clash and governments fall. These clashes occur everywhere, but are most visible in Bangladesh, Pakistan, and Nepal, where democratic traditions are most fragile. In India, as regional parties become stronger, fragmented parliaments have made unwieldy coalitions unavoidable. The country faces its third election in as many years, at immense financial cost.

Power is still understood in non-legal terms, as a capacity to get things done. Traditionally, holders of important positions in the district administration and at higher levels have been approached by local influentials and politicians for

protection and promotion of various interests in their locality. Parliaments fulfil an ombudsmanic role, as complaint handlers. In Pakistan, the parliament faces challenges from the executive, especially the bureaucracy, which has sought to undercut the power of political governments, as well as the cabinet that reserves law-making powers outside the parliament through 'Presidential' ordinances (as many as 125 in 1996); the president, who has dissolved parliament and provincial assemblies four times since the return of democracy; and the army, which has thrice dissolved parliament and provincial assemblies, and time and again indulged in constitutional re-engineering.

In addition, the judiciary in Pakistan has played a significant role in shaping the parliamentary system, having gradually moved from the position of a partner of the bureaucracy. The instrument of judicial review has often worked in favour of extra-parliamentary forces in justifying the act of dissolution of parliament. The clash between the executive and the judiciary in late 1997 culminated in the removal of the Chief Justice after the government had sought control over the appointment, promotion, and transfer of judges and the latter had responded by removing constitutional amendments safeguarding the solidarity of the elected parliament. This violent incident brought into focus the constitutional ambiguity regarding separation of powers between the legislature and the judiciary.

Bangladesh faces similar problems. Parliament plays a subservient role to the executive, which uses it to legitimize its own rule while remaining unaccountable. Successive military governments have bypassed parliament and manipulated its composition. The role of the parliament in law-making has also been marginalized. During 1991, for example, ninety out of the ninety-four bills before parliament had already been promulgated as ordinances. The opposition has adopted a policy of non-compliance so that parliamentary proceedings are lacklustre.

In Nepal, six governments have been formed since 1994, and parliaments still

remain heavily influenced by the judiciary and the executive. Political parties, being relatively young, remain conflict prone and internally divided. Minorities and lower castes, including the Terai community, can find no place in parliament.

Disruptive proceedings

The sanctity of parliament demands an adherence to procedures and decorum on the part of parliamentarians. In South Asia, parliamentary alliances are notoriously fickle and proceedings riddled with indiscipline. The quality of debate remains disappointing and proceedings are usually poorly attended. The government that forms the majority merely uses parliament to pass its own legislations, leaving little time for informed debate on key issues or for the introduction of private bills.

In Bangladesh and Sri Lanka, the cabinet virtually monopolizes the business of parliament. So long as the party in power commands a majority, the cabinet decides what shall be discussed on the floor, when, for how long, and to what consequences. Constitutions are routinely amended by those controlling a majority, often without broad-based democratic debate—the Constitution of the United States has been amended twenty-seven times in 210 years, India's seventy-eight times in less than a quarter of that time (see table 3.5). Besides many amendments, Pakistan has had as many as three different constitutions.

Opposition parties prefer to embarrass the government by concentrating on scandals rather than on substantive issues. In India during the 1980s, law-making declined from over 50 per cent of parliament activity to less than 20 per cent as sessions were increasingly boycotted. In Pakistan, legislation was relegated to a secondary position soon after independence as the first constituent assembly met for only fifty-one days a year for seven years. Today, the Prime Minister and his cabinet hardly attend parliamentary proceedings. Since the

restoration of multi-party democracy, less than seventy parliamentary sessions have been held, lasting less than three weeks on average.

To protect against shifting alliances, anti-defection laws are in place in India, Pakistan, and Nepal. These disqualify parliamentarians who vote against their party or give up membership of their parties. These laws have been criticized as restrictions on freedom of expression and dissent under a system where party decisions themselves are seldom democratic. However, there are no laws on opting out of coalition governments. This has bedevilled India and Nepal of late, where no single party has been able to claim a clear majority. The resulting coalitions are notoriously fragile. India braces itself for a sixth government in three years, after its latest government was felled by just one vote in a Parliament that houses nearly fifty parties and independents. One Nepalese government encompassed such a large variety of parties that its cabinet had as many as forty-eight ministers. In fact, throughout South Asia, this need to accommodate diverse partners often creates oversized cabinets (see table 3.6).

Parliaments have proved unable to serve as adequate watchdogs over the activities of the executive. Committees that include private actors have been put into place to help parliamentarians to better supervise the operations of the government. Recommendations of the committees, though not legally binding and subordinate to the legislatures, have a high rate of acceptance by the government. However, the committee system is in a formative stage and its achievements have been limited. In Pakistan, committees are seldom allowed to properly scrutinize bills as they are steam-rolled through parliament. Committee members themselves can be ill-qualified as they are selected on the basis of their standing in the party, factional backing, and personal links with the party leader and not on the basis of their educational background, knowledge of legislative work, or commitment to democratic principles.

Table 3.5
Constitutional amendments

	Present Consti- tution adopted	No. of amend- ments
India	1950	78
Pakistan	1973/85	14
Bangladesh	1972/86	15
Sri Lanka	1978	16

Note: Constitution suspended in 1977 in Pakistan and in 1982 in Bangladesh

Source: Asian Governments on the World Wide Web.

Table 3.6
Oversized cabinets

	Cabinet size as a % of national assembly (latest year)
India	7
Pakistan	11
Sri Lanka	13
Bangladesh	14
Nepal	20

Source: Asian Governments on the World Wide Web; and HDC Governance Tables.

Private money has been a great corrupting influence on parliamentarians and politicians running for office. As shown in box 3.7, the rise of political corruption in India exemplifies this worrying trend. Campaign finances remain shrouded in veils of secrecy. In most South Asian countries, there is no comprehensive legislation regulating the finances of political candidates. Contributions from business have often been made directly

to elect parliamentarians who will ensure access to industrial licences, permits, and other benefits. Big businesses finance elections, and a lot of this money comes from unaccounted income.

In the past, this money connection between politics and business thrived in a highly regulated economic system that allowed the exchange of business contributions for political favour. More recently, the preferred mode of operation has been commissions on trade licenses such as orders placed for equipment,

Box 3.7 Political corruption in India

The Indian state at fifty presents a picture of considerable strength fringed with traces of fragility. While regular, fair, and free elections have endowed the authority of the state with a high degree of legitimacy, criminalization of public life, terrorism, communal violence, and corruption have tended to challenge orderly governance in India.

The spread of political corruption appears to have kept pace with the broadening and deepening of Indian democracy. While the state has successfully devolved power by adding elected village councils, there has also been the parallel development of the induction of politicians with criminal records into legislatures and high office, influence peddling by legislators and civil servants, and allegations of bribery in defence procurement. The Vohra Report of 1995 found a clear nexus among 'crime syndicates, the police, bureaucracy, and politicians' in states like Maharashtra and Gujarat. A former minister from Uttar Pradesh was reported to have distributed some thirty-eight crore rupees to bureaucrats, journalists, political associates, and friends between 1992 and 1995.

Allegations of corruption, in its most elementary form of *bakshish* (speed money) to a peon or orderly in a panchayat office to make a file move from one hand to another to the highest level, where appointments to sensitive ministries are made not on the basis of merit but kinship, party leanings, or sheer material gain are rife in national affairs.

The former Prime Minister, Narasimha Rao, and his son have both been

investigated on corruption charges. The long shadow of the alleged payment of illegal gratification to Rajiv Gandhi by Bofors, a Swedish company that sold substantial quantities of arms to India, lingers on long after his death. The flip-flop with regard to the charges against Jayalalitha, the former Chief Minister of Tamil Nadu, shows the obstacles in investigating such charges, whose shadowy existence stalks all levels of the political system. The uncertain course of legal accountability in these cases stems from the fact that the accused, or those who stand to lose from a public prosecution of the guilty, hold high, elected office.

Corruption has emerged as a major issue in Indian politics. In an environment of scarcity and weak institutions, access to power and material resources can lead to the fuzzing of rules, plundering of public treasury, lowering of trust, and decay of governance. When game-keeper turns poacher, there is little chance of the survival of rule of law altogether.

Scarcely any part of India remains untouched from incidences of criminalization and corruption. Booth capturing, violence, and electoral rigging dog the democratic process. There are routine references to such incidences in Bihar, Maharashtra, Tamil Nadu, Uttar Pradesh, Delhi, and even communist West Bengal. In Andhra Pradesh, a minister was recently suspected of having organized incidents of violence and rigging during municipal elections. In 1995, 180 out of the 425 member Uttar Pradesh Assembly had criminal records, and elections in Bihar were contested by as many as 243 candidates

against whom cases were pending in court. In 1998, nineteen ministers in the Uttar Pradesh government had criminal records, including one with thirty-seven murder indictments pending in court. One can probably ask: does democratization in the context of a poor, post-colonial society, necessarily lead to the lowering of standards in public life?

The theoretical underpinning of this question is complex, but its practical implications are not as pessimistic as one might assume. Vigilance on the part of the press, judiciary, and the civil society; an emerging series of national legislation, such as the Prevention of Corruption Act 1988; and periodic elections have somewhat succeeded in focusing public disapproval on the guilty.

The degradation of public life in India has at least stopped short of degenerating into a terminal decline of the kind that led to the downfall of the crony capitalism of the Marcos and Suharto regimes. A survey of the Indian electorate in 1996, shortly after the parliamentary elections, revealed that the majority of the electorate had no trust in the police and only 13 per cent had 'a great deal of trust' in the keepers of the law. In comparison, other pillars of orderly governance like government officials and political parties, at 17 per cent of 'great deal of trust', did not fare much better.

However, trust in the institutions of the state like the judiciary (42 per cent) and the election commission (46 per cent) remains high. Orderly governance, thanks to these solid institutional anchors, bounces back.

Contributed by Subrata Mitra, University of Heidelberg.
Source: IRS 1998; and Outlook 1998b.

machinery, defence-related items and also for essential food and medical supplies. In the 1989 elections in India, the Congress Party was alleged to have been the beneficiary of kickbacks on government contracts for major arms purchases from abroad, most famously the \$1.3 billion Bofors contract. The 1989 election campaign was estimated to have cost \$6 billion, and yet every elected parliamentarian declared that they had spent less than \$1,235. There have been many proposals for reforms across the region, including the state funding of popular parties, independent auditing of party funds, filing of income and asset returns by political candidates, barring loan defaulters and criminals from running for elections, and strengthening the independence of the Election Commissioner. However, only a few of these have been initiated and only in some countries.

Women in parliament

Politics should be the realm of all citizens, yet men continue to dominate political spaces in South Asia. Even though they constitute almost half of the electorate, women occupy just 7 per cent of the seats in the region's parliaments, ranging from 2 per cent in Bhutan to 11 per cent in Bangladesh (see figure 3.6). Women are usually better represented at lower levels of government. In India, for instance, local governments reserve a third of their seats for women. As a result, 800,000 women have entered the political system. In South Asia, women achieved the right to vote soon after independence because they were actively involved in the freedom movement. However, this right was not exercised widely, and it took many years before the first female was elected to the national parliament in most of these countries—as many as twenty-six years in Pakistan. This despite the fact that four South Asian countries have had influential female heads of government.

Clearly, opening political opportunities to women is a challenge facing all of South Asia. At the very least, a 30 per

cent representation of women in political institutions is needed for building a critical mass of women in politics. There have been repeated calls in India and Pakistan to reserve seats in the parliament for women. These calls have thus far gone unheeded.

Erosion of parliamentary supremacy

Parliamentary democracy in South Asia is often disrupted by several factors: intervention of extra-parliamentary forces such as the army in Pakistan and Bangladesh; the exercise of power by the executive in a supra-parliamentary capacity; and persistent bureaucratic control over initiative in financial and administrative matters. The dominant role of the executive *vis-à-vis* parliament, reflected in the executive's disregard for the legislature's genuine input into policy-making and the executive's use of presidential ordinances, has contributed to the ineffectiveness of elected assemblies. The role of political parties has been unenviable due to a lack of institutional profundity, the chronic problem of defection, corrupt practices in pursuit of campaign finance, as well as absence of open and accountable activities of office holders.

The erosion of the legislatures' functions has coincided with the replacement of policy by patronage. The fact that political parties are weak and electoral candidates are expected to fend for themselves in polls makes the members of parliament impervious to long-term policy-making. Instead, they adhere to a more immediate pattern of plunder of state resources, as well as dole-out of these resources to their clients in the constituency and at higher levels.

In a world moving in the direction of economic liberalization, policy choices among political parties for economic development and governance are constantly shrinking. Not surprisingly, political parties tend to project their ideological profiles rather than long-term policies for the country. Also, the public's patience with long-winded policies via

Politics should be the realm of all citizens, yet men continue to dominate political spaces in South Asia

The civil service in South Asia has been neither very efficient nor effective in discharging its prime function to serve people

legislation has run out. In a situation of rampant cynicism, people would like to make good with whatever they can get instantly. This is a bad reflection on the credibility of the parliament and its chosen executive. Short-term rather than long-term solutions of problems, pursued at an individual rather than collective level, seems to be the common political strategy in contemporary South Asia.

The Executive: civil service

The executive is made up of the Prime Minister, the cabinet, and civil servants. While the Prime Minister and the cabinet are political appointees, and hence their term of office is determined by the tenure of the government, the civil service is a permanent institution and is supposed to be above politics and of the highest professional quality. The institution of civil service implements government policies and oversees administrative functions of the state, lending stability to otherwise unstable political systems. To ordinary citizens, the government is most tangibly embodied by the civil service. It is this institution that they must approach on a daily basis for access to public services, the payment of taxes, and the disbursement of development funds. As such, the institution wields immense power and controls the destinies of millions.

The civil service in South Asia has been neither very efficient nor effective in discharging its prime function to serve people (figure 3.7). It has tended to stall reform initiated by politicians. Sometimes politicians have had to cooperate with the civil servants in order to get their jobs done; at other times, politicians have sought to influence the civil service through patronage. This has led to erosion of this institution. This institutional decay can be traced to the inability of the state to clearly define a role for the civil service; to articulate policies for priority concerns; to maintain high professional standards by recruiting the best talent and imparting quality training; to provide adequate

remuneration in order to discourage corruption; and to insulate the institution from politics.

During the colonial period, the role of the civil service was pervasive, touching various aspects of peoples' lives. These overblown responsibilities spilled over after the British Raj left the subcontinent. Today, there is at once too much and too little involvement of civil servants in the functioning of South Asian governments. The majority of functions remain economic, such as imposing tariffs, distributing import licenses, and handing out subsidies. Many equally important social and civic areas in which people require state intervention, such as the provision of social services, remain neglected. As true servants of the people, civil servants have failed to deliver the services that people most want and need.

The bloated bureaucracy

The South Asian civil service has expanded enormously over the years, even though liberalization necessitates a diminishing role of the public sector in economic activities. This increase represents a divergence from the world trend since the 1970s. Today, there are almost fifty civil servants for every thousand people in Sri Lanka. The corresponding figures for Pakistan and Bangladesh are twenty-two and ten, respectively. Out of every hundred employees in the organized sector in India, forty are civil servants (1989), compared to thirty-three in Sri Lanka, seventeen in Egypt, fourteen in Mexico, and less than three in Chile and Argentina. In Pakistan, 20 per cent of the non-agricultural workforce is employed by the government.

In early years after independence, state interventions in all areas were needed and thus the bulk of employment was in the public sector. However, as the state began to shed many of its responsibilities, it was not able to reduce the size of the bureaucracy accordingly. During the mid-1980s, it was estimated

that as many as 20 per cent of civil servants in Sri Lanka were redundant (Das, S. K. 1998).

Between 1951 and 1991, the size of the public sector has grown almost five fold in India and nearly forty times in Bhutan. The share of the public sector in total employment in the organized sector increased from 58 to 71 per cent in India between 1961 and 1991. Throughout South Asia, as growth has slowed, the civil service has been one of the few sources of employment for a rapidly expanding population. In Bangladesh and Nepal, the size of the public sector doubled between mid-1970s and the early 1990s. Much of this increase has occurred at lower levels of the civil service, where value added is low. The officer staff ratio in most countries—at 1:15 in Pakistan and 1:7 in Bangladesh—is much higher than the norm of 1:3 recommended for most agencies.

The number of ministries has also mushroomed. In India there were sixty-three in 1996, compared to twenty-three in 1951. In Bangladesh, there were thirty-five ministries in 1996, compared to fourteen in Japan which has a higher population.

Adding to this problem of overstaffing is the nature of recruitment in some countries. Recruitment in many countries is not based on merit but on assigned quotas for different regions and socio-economic groups. In Pakistan, for example, only 10 per cent of recruits to the highest cadre are selected on merit, compared to 40 per cent in Bangladesh.

The huge size of the bureaucracy not only breeds inefficiencies, it also imposes heavy costs. Even though individual wages are low, the sheer size of the government machinery makes the overall wage bill colossal. In Pakistan, spending on civil service employees now accounts for more than half of non-defence, non-interest expenditure. In Bangladesh, the wage bill of civil servants accounts for 40 per cent of government expenditure, having increased more than three times in nominal terms over the last decade. In

India, the wage bill of central and state governments together takes up 40 per cent of the governments' revenue.

The huge costs of maintaining such a large civil service not only draws away resources from development sectors, it also forces cutbacks in education and infrastructure, thus undermining productivity and compromising quality of service. In the past, civil servants were trained in the finest institutions both within the country and abroad to ensure a high level of competence. Most governments today attach a low level of priority to training in budget allocation and promotion policies.

Pay and incentive structure

The bureaucracy in South Asia is not well compensated. This is due to the rapid rise in public sector employment in South Asia, which has far exceeded the increase in revenue collection base. Over the years, the governments in South Asia have not been able to maintain a balance between the pay scales and rates of inflation. As a result, wages have gone down in real terms. Bangladesh is a typical example, where wages have fallen by as much as 87 per cent at the highest level and 43 per cent at the lowest, in real terms since 1971. In Bhutan, the salaries in the highest grade fell by 40 per cent in real terms, between 1988 and 1994. Since the 1960s, the real pay of a high level civil servant in Pakistan has decreased by as much as 60 per cent.

Wages in the public sector do not compare at all favourably to those in the private sector. Over the last two and a half decades, while salaries in the private sector have risen dramatically and kept pace with inflation, those in the public sector have fallen drastically. In Bangladesh, salaries at the top management level in the public sector are 7 times lower than in the private sector. In Pakistan, even accounting for non-wage benefits, civil sector pays are typically 60 per cent lower. Starting-level salaries of civil servants in India are less

The huge costs of maintaining such a large civil service not only draws away resources from development sectors, it also forces cutbacks in education and infrastructure

Bureaucrats often forget that it is their job to implement policies and not to make policies themselves

than two-thirds of comparable wages in the private sector and this differential increases at higher levels.

In other parts of the world, public sector salaries as a percentage of private sector ones are favourable: as high as 110 per cent in Singapore. In fact, Japan and Singapore have laws that do not allow civil service wages to fall below two-thirds of those in the private sector. The low wages on offer mean that the bureaucracy in South Asia no longer attracts the most talented citizens. The low level of remuneration also hurts motivation, depresses efficiency, generates rent-seeking, and encourages corruption.

Accountability, both internal as well as external, is crucial to ensuring transparency. The civil service has seen its accountability mechanisms gradually erode in the face of falling wages, over centralization, and heavy political influence. Bureaucrats throughout the region are perceived to be corrupt and far removed from the demands and complaints of citizens. In India, it is estimated that 10 to 15 per cent of civil servants are corrupt (Das, S. K. 1998). It is thought that government employees, numbering over 20 million, routinely exchange development project funds, official approval, and public services for money on the side. Cases abound in South Asia of the abuse of power by civil servants with formidable discretionary powers. At times, corrupt bureaucrats have colluded with politicians in abusing their authority for personal enrichment and benefit.

Politicization of the bureaucracy

As the arm that implements government decisions, the institution has had to face intense political interference in the form of both coercion and patronage. This growing political interference started with a vengeance in the 1970s. In India, for example, the emergency years of 1975-7 have often been perceived as a watershed in the degeneration of the civil service. Those who were loyal to the government received better positions and promotions.

This pattern has continued virtually everywhere in South Asia. Politicians have used various methods to ensure loyalty, including the demotion of officers; political appointments to civilian posts; provincial quotas; lateral entry; *ad hoc* transfers, promotions and demotions; and the constant bureaucratic shuffles that accompany political changes.

In Pakistan, Ayub Khan dismissed 1,300 civil servants in 1959 by a single order; Yahya Khan dismissed 303 in 1969; and Zulfikar Ali Bhutto 1,400 in 1973. When the government changed in Uttar Pradesh in India in 1990, 326 out of 520 top civil officers were transferred. The average length of tenure for field officers in some states is as low as eight months. Under such circumstances, bureaucrats have scrambled for political patronage. In the bargain, the civil service has lost its traditional political neutrality and a vital state institution that interacts with people on an everyday basis has been gradually eroded and demoralized.

On the other hand, the bureaucrats exert powerful influence over politicians at all levels of governance. This is due to lack of sufficient maturity of political institutions, parties, and legislatures. By virtue of their permanent positions, civil servants last longer than the tenure of parliamentarians. Historically, the bureaucracy has been a powerful force under non-democratic governments, especially in Bangladesh and Pakistan.

Servants of the people

One of the most crucial reforms that is needed in South Asia is the restoration of its institution of civil service. This can only occur through a redefinition of the role of civil servants that will enshrine their overarching task of providing services to citizens to enable them to live fuller, more productive, and safer lives. A common complaint against the institution voiced by people throughout the region is continued bureaucratic obstruction placed in the implementation of any decision that may not be to their liking. Bureaucrats often forget that it is their

job to implement policies and not to make policies themselves. In turn, politicians must refrain from using bureaucrats in ways that are not in the interest of the country.

The institution must only target its main functions of maintaining law and order, providing a regulatory framework for economic activities, promoting human development by improving the quality and quantity of basic social services, and encouraging a more participatory process of governance.

Civil servants must learn to discharge their functions with efficiency and transparency. The challenges faced by the bureaucracies of South Asia are considerable. As the implementation arm of the government, nothing can start to move on the ground unless it is pushed by a responsible, upright, and responsive civil service. A revitalized civil service can serve as a powerful tool to achieve humane governance.

The Judiciary

The present judicial system in India, Pakistan, Sri Lanka, and Bangladesh has evolved from institutions established during the colonial period. The traditional roles of the judiciary, that of settlement of disputes (civil jurisdiction) and the trial and punishment of those charged with crimes (criminal jurisdiction), have thus evolved over a considerable period of time. The basic elements of a modern system of civil and criminal justice have been in operation in most of the subcontinent for more than a century and in Nepal at least since 1951, when the Interim Constitution was promulgated.

A basic deficiency of the judicial system throughout the region has been the lack of effective access to justice for large sections of the population, mainly due to poverty. The Supreme Court and High Courts on the whole continue to enjoy public confidence and in a number of jurisdictions have earned increasing respect for their pro-active role in the enforcement of human rights and in developing public interest litigation to

protect the rights of the disadvantaged; but grievances regarding long delays persist, as increasing case-loads are not matched by an increase in the number of judges.

There has been an erosion of confidence in the subordinate judiciary (the courts below Supreme Courts and High Courts). These courts are generally perceived as being manned by an insufficient number of inadequately trained and ill-paid judges. This results in long delays, huge backlog of cases, and a generally poor quality of judgments. In a number of jurisdictions there are persistent allegations of corruption, which have become a source of genuine concern.

The challenges of the subordinate judiciary

Lower courts in South Asian countries remain largely inaccessible to the poor, hugely backlogged, and subject to manipulation by politicians and other influential people. Outdated laws impede the protection of property rights and discriminate against women and other minorities, as in Sri Lanka and Pakistan. Grievances with regard to the functioning of the subordinate judiciary have been growing in most of the region.

SEPARATION OF POWERS. A basic institutional requirement, that is recognized by most South Asian constitutions, is the need for separation of the judiciary from the executive. While this has been largely implemented in India, it is yet to be achieved in the other countries of the region. In Pakistan, it was envisaged that separation would be effected within three years from the coming into force of the Constitution in 1973. This period was increased to five and then to fourteen years by later amendments to the Constitution. The steps initiated in 1996 for separation of the judiciary from the executive are still continuing and have yet to be completed. In Bangladesh, a High Court judgment recently held that the constitutional mandate calling for separation of the

judiciary from the executive was not being complied with.

TOO MANY CASES, TOO FEW JUDGES. Although the South Asian population has increased at a rapid pace in past years, this has not been matched by an increase in the judicial system's capacity to deal with this rising demand. That is why there are about 24 cases pending in South Asian courts for every 1,000 persons (see table 3.7). There is only one judge for 90,324 people in South Asia—thus, on average, each judge has 2,170 pending cases to address. This figure, however, ranges from more than 5,000 in Bangladesh to 300 in Nepal, as shown in table 3.8. In South Asia, there are about ten judges for every million people. In the United States, as far back as 1982-3, there were ten times that number, or 107 judges for every million people.

During the 1980s, the number of pending cases across High Courts in India more than doubled. This was not matched by a proportionate increase in the number of judges. In fact, between 1977 and 1995, their numbers only rose from 348 to 538. Across the region, difficulties in the selection, confirmation, and transfer of judges are responsible for this deficiency. The most important reason for the shortage of judges is the lack of funds needed to hire more judges. Consequently, judges are over burdened with cases and this acts as a major hindrance in the speedy delivery of justice.

For ordinary South Asian citizens, the wheels of justice turn slowly as thousands of cases lie buried in a sediment of delay, bureaucracy, and incompetence. Drawn out legal procedures see cases drag for generations. In Bangladesh, cases take, on average, between five to twenty years; in Nepal and Sri Lanka, they frequently last over a decade. In 1998, only 29 per cent of Bangladesh's total prison population had been sentenced while the rest were either awaiting trial or were under trial. In India, over 22 million cases are still pending in courts throughout the country. As many as 70 per cent of these involve

litigants from villages. In 1995, of the 66,000 cases before the Supreme Court in India, 10,000 had been in court for over a decade. The longer a case runs, the more expensive it is to pursue it.

LOW PAYS, HIGH COSTS, RAMPANT CORRUPTION. Low levels of remuneration for judges have led to corruption, judicial incompetence, long and drawn out trials, and expensive justice. The average cost of a case is very high. High court judges' salaries are low—less than three times the average per capita income in India, leaving them susceptible to bribes. People are forced to grease the wheels of the system in order to get a quick verdict. According to a 1998 survey, 63 per cent of the respondents reported that they had to bribe court officials in order to get a verdict in their favour (TI 1997a). Another survey shows that 80 per cent of people in India feel that they need influence or have to pay bribes in order to see a case through (Seshan 1995). The poor do not have the resources to offer bribes nor can they afford the time costs of lengthy procedures. In this situation it is they who suffer most. The vast majority of South Asians thus feel alienated by their judicial systems and learn to live with injustice and violation of their rights.

The Supreme Courts: expanding frontiers

Following the independence of India and Pakistan in 1947, Sri Lanka in 1948, and Bangladesh in 1971, written constitutions were adopted. Each of these constitutions contained a 'bill of rights'. In these national constitutions, a dichotomy was maintained between civil and political rights which were enforceable in courts and were placed in a chapter entitled: *Fundamental Rights*; while economic, social, and cultural rights were placed in a separate chapter entitled: *Directive Principles of Policy*, and were stated not to be judicially enforceable.

While economic and social rights may not be regarded as justiciable, the judiciary in a number of jurisdictions has developed a role for itself in this sphere

Table 3.7
Justice delayed, justice denied, 1996

Country	No. of cases pending in courts (millions)	No. of cases pending per 1,000 persons
Bangladesh	6.5	52.9
India	22.0	23.1
Nepal	0.08	3.6
Pakistan	0.75	5.2
South Asia	29.3	24.0

Source: HDC Governance Tables.

Table 3.8
Judging the judges, 1996

Country	No. of persons per judge	No. of cases pending per judge
Bangladesh	94,937	5,142
India	90,909	2,137
Nepal	85,377	314
Pakistan	85,038	454
Sri Lanka	76,339	—
South Asia	90,324	2,170

Source: HDC Governance Tables.

by adopting innovative modes of judicial review. Thus, a number of economic rights (the right to food, the right to shelter, the right to employment, the right to education, the right to health and others) have been treated as aspects of the right to life, which is a justiciable civil right. The right to equality, another justiciable right, is invoked to correct abuses of executive power which have a negative impact on economic rights (including the right to a healthy environment)—such as in cases relating to allotment of public land by way of political patronage or award of contracts induced by illicit payments.

Discriminatory and arbitrary administrative action or action which has a negative impact on economic rights, such as displacement of population and environmental degradation, have been corrected by judicial review. Judicial review is also available where a legal infrastructure has been developed through legislation, such as pension rights and workers' rights and the right to safety in the workplace.

The Supreme Courts of the region are now actively involved in examining violations of fundamental and constitutional rights of citizens. The technique of public interest litigation has provided a speedy and effective remedy for violation of fundamental rights. It has fostered the concept of participative justice. Applications are made before the highest court of the land, and proceedings begin with a single application. In most cases, an application is disposed of within two years, which is appreciably quicker than in other areas of the law.

The judiciary, by expanding the frontiers of judicial review and by developing public interest litigation, has demonstrated that a pro-active judiciary can make significant contributions to redress human rights violations and to correct abuses of executive authority. In particular, the Indian Supreme Court has overtaken the judiciaries of other countries in expanding the frontiers of judicial review.

In the late fifties and early sixties, the Court used to receive between 500 and 600 petitions a year. In the nineties, this number has increased more than fifteen times. Opinion polls indicate that it is the most trusted institution in the country. Today, the judiciary can pass judgment on any aspect of governmental and public functions. It is now impossible to say that there is any area where there is no judicial review in the first instance or at the threshold, as the Indian judiciary has propounded the theory that every organ functioning under the Constitution has limitations and it is for the court to determine those limits.

The scope of judicial review has also been expanded in the other countries of South Asia. In Nepal, the Supreme Court has recently made landmark judgments overturning major decisions by the executive. Abuse of executive powers, the failure to discharge legal duties, and pervasive human rights violations, have called for redress. This has accounted for the expansion of the scope of judicial review.

Politicization of justice

New challenges are presented by recurrent political crises precipitated by confrontation between government and opposition parties, or between different organs of the state: the parliament and the courts, and the executive and the courts. As an alternative centre of power with the jurisdiction to hold the executive and other public officials accountable, the judiciary has often collided with other civil institutions.

The responsibility for effective execution of legislative mandates rests clearly upon the executive. If the executive defaults on its legal and constitutional obligations however, courts and judges cannot sit silently for too long. As reflected in the Indian Supreme Court judgment, if the duly authorized constitutional officers do not appoint judges in time, creating a situation of massive arrears, an activist justice may feel

As an alternative centre of power with the jurisdiction to hold the executive accountable, the judiciary has often collided with other civil institutions

In democratic societies, fundamental human rights and freedoms are more than paper aspirations

justified in issuing directions to them to do their jobs expeditiously. If there are large numbers of prisoners not brought to trial for a long time, such a judge might feel more than justified in ordering expeditious trials or their release. If conditions in jails are inhuman and debasing, such a judge may order creation of minimum facilities.

In Pakistan, the activist role played by the Supreme Court in recent times has led to a confrontation with the executive. The credibility of the courts was attacked by manipulating constitutional provisions regarding the appointment, tenure, transfer, and promotion of judges. Successive governments appointed temporary judges, whose insecurity of tenure made them more likely to yield to political interference. Traditionally, the process of appointment of judges to the Supreme Court and the High Courts is an integrated 'participatory consultative process' for selecting the best and the most suitable persons available for appointment. However, the view of the Chief Justice holds primacy. The clash between the executive and the judiciary saw the Chief Justice resign amidst mob attacks on the Supreme Court. The independence of the judiciary has since been severely damaged and the government has shown a desire to circumvent the judiciary by setting up military courts and anti-terrorist courts.

A major issue regarding the relation of the courts to the parliament arose in a number of cases in connection with the determination of the legality of the dissolution of parliament. This issue was referred to the judiciary in Pakistan more than once, and has also been the subject matter of a reference in Nepal. Related issues have been referred to the court in Bangladesh.

In this context, the traditional wisdom that political issues should be resolved politically and not be imposed upon the judiciary acquires heightened relevance. The reference of these issues to the courts is symptomatic of the

weakness of the political process to deal with situations which call for resolution through the political, rather than the judicial, process. While the judiciary has managed so far to provide some kind of resolution in the cases referred to them, this has not been without attracting controversy about the propriety of such a role and raising questions regarding their impartiality in dealing with such issues.

Promoting a just society

In democratic societies, fundamental human rights and freedoms are more than paper aspirations. They form part of the law. And it is the special province of judges to ensure that the law's undertakings are realized in the daily life of the people. Fundamental human rights and freedoms are enshrined in the public law of every nation, protecting individuals and minorities against the misuse of power by public authorities of all kinds.

In a society ruled by law, all public institutions and officials must act in accordance with the rules. The judges bear particular responsibility for ensuring that all branches of government—the legislature and the executive, as well as the judiciary itself—conform to the legal principles of a free society. Judicial review and effective access to courts are indispensable. The urgent necessity remains to bring the principles of human rights into the daily activities of government and public officials alike, and of ordinary men and women. In this way a culture of respect for human rights can be fostered.

In South Asia, judicial reforms must include an increase in the number of judges, a rise in salary levels, improvement in infrastructure, better legal education, and the promotion of alternative dispute settlement mechanisms to help clear the massive backlog of cases. The guiding principle of any democratic society is a bill of rights, transparently enforced by an impartial judiciary.

In search of good political governance

As stated at the outset, good political governance stems from a universal respect for the political process. This is best achieved by doing the obvious: securing the sovereignty of citizens, ensuring their participation at all levels of decision-making, and building institutions that protect the sanctity of established procedures. In the words of Plato, a society rooted in two basic percepts—*'law one: everyone is free; law two: no one can change the first law.'*

South Asian leaders must realize that unless democracy works for the betterment of people's lives, it loses much of its relevance and only delays social conflict. People need to understand how the political process works and should work. This can be achieved by promoting

civic consciousness and opening democratic spaces where demands can be articulated. For their own part, ordinary citizens must continue to push their states for a more equitable distribution of power.

Sound economic management is not possible amidst political instability and a weak institutional framework. Lack of good political governance has hurt South Asian economies and their citizens by allowing privileged classes to usurp resources and influence policy making. This is the subject of the next chapter. In opening their economies to the outside world, states should remember that it is democracy built on strong institutions, the rule of law, and a stable framework to resolve political conflict that will best enable them to take advantage of the benefits of globalization—and to avoid its pitfalls.



Governments in South Asia are getting bigger without getting better

Harnessing the productive potential of its human and physical resources and generating a broad-based and equitable process of growth remain an elusive dream for policy-makers in South Asia. By and large, the South Asian states have not been effective instruments of social and economic development. This is despite the states' pervasive role in the economy through the activities of the central government, provincial and local governments, specialized agencies, public enterprises, and government-owned financial institutions.

The giant's robe

*'Now does he feel his title hang loose upon him,
like a giant's robe upon a dwarfish thief'*

Shakespeare

South Asian states are both giants and dwarfs. They are giants in terms of the number of people they employ, the number of bureaucratic controls they exercise, the amount of rent-seeking they generate, the size of the army they maintain, and the pervasive influence they exercise on economic activities. But they are dwarfs in terms of their ability to generate equitable and sustainable economic growth and to expand social

and economic opportunities for their teeming millions.

The key problem hindering efficient economic management in South Asia is that the states are too big in unproductive areas and too small in essential areas. South Asian governments have over-extended themselves in production and trade that has created inefficiencies, generated corruption opportunities, and promoted wasteful expenditures. They have also, till recently, relied heavily on economic controls, which have resulted in large economic rents accruing to a few. In contrast, the South Asian states look ever more fragile in their performance in areas that are deemed essential for any responsible state, such as providing social services, redistributing resources, instituting fundamental reforms, ensuring macro-economic stability, managing external shocks, and in coordinating its own policies.

Governments in South Asia are getting bigger without getting better. While per capita government expenditure has increased from \$25 in 1975 to \$56 in 1995, the number of people in poverty has increased from 270 million in the 1960s to approximately 515 million in 1995. The central government's expenditure (as a per cent of GDP) has increased from 14 per cent to more than 17 per cent in the last twenty-five years, while the number of illiterate adults has increased from 280 million to 395 million over the same period.

Country-level data backs this picture of states that are growing in size but shrinking in effectiveness. Table 4.1 shows the trend in total public expenditure (as a percentage of GDP) in selected South Asian countries. There is a steady increase in the size of the governments across almost all the countries. While there has been some

Table 4.1 The growth of the South Asian state

Country	Total public expenditures (As a % of GDP)			Government consumption (Avg. annual % growth)		Government consumption (As a % of GDP)	
	1980	1995	1998	1980-90	1990-7	1980	1997
Bangladesh	10	14.2	14	5.2	6.3	2	4
Bhutan	34	42	n/a	0.27	0.13	25	17
India	24.5	29	33	7.7	3.5	10	10
Maldives	44	48	51	0.28	n/a	12	n/a
Nepal	15	18	19	7.2	6.0	7	9
Pakistan	18	23	21	10.3	0.8	10	12
Sri Lanka	41	29	26	7.3	7.2	9	10
South Asia	22.5	26	29.4	8.0	3.6	9	10

Source: GOM 1998; GOP 1998c; IMF 1998a, 1998d, 1999b; World Bank 1996b, 1998k, and 1998p.

reduction in central government expenditures (as a percentage of GDP) in India and Pakistan, it has been more than offset by increased spending by state governments. Similarly, while annual growth in government consumption expenditures has, on average, more than halved since 1980 in South Asia, it still remains nearly three times as high as that of Sub-Saharan Africa.

A good deal of these rising expenditures have failed to touch the lives of ordinary people. Not only do expenditures for social and economic development remain inadequate, there is a modest decline in such expenditures as well. Figure 4.1 shows the declining share of development expenditures in total public spending in many South Asian countries. What is more, a large part of these expenditures remains inefficient and open to waste and corruption—as discussed in the subsequent sections of the chapter.

Much of the growth in government consumption comes from increase in the physical size of the government apparatus. For instance, public employment in Bangladesh's civil service has more than doubled since 1971, and the number of government ministries in 1994 were twice as high as those in some of the well-governed countries, such as Japan and the United Kingdom. This is while Bangladesh cannot finance its budget from its own resources and has to depend on foreign aid even for financing consumption expenditures.

South Asian states played a similarly large role in production and trade. Instead of defining an efficient and non-distortionary framework for private enterprise, some states decided to play a direct role in the provision of even small services, such as car rental services and tourist hotels. Thus, the states indiscriminately extended themselves to providing goods and services for consumption, though the original intention was to build a strong industrial base with a particular focus on developing basic industries, where the private sector could offer limited assistance.

The states' massive involvement in production can be gauged from the fact that in 1975 the public sector in Sri Lanka accounted for 63 per cent of the ownership of tea acreage and for 54 per cent of the total value of production in manufacturing. Despite a marked reduction in this role recently, public enterprises still continue to enjoy a dominant influence. In most South Asian countries public enterprises still have a sizeable investment share in total domestic investment. This share is often more than 25 per cent of gross domestic investment. In Nepal it is as high as 50 per cent.

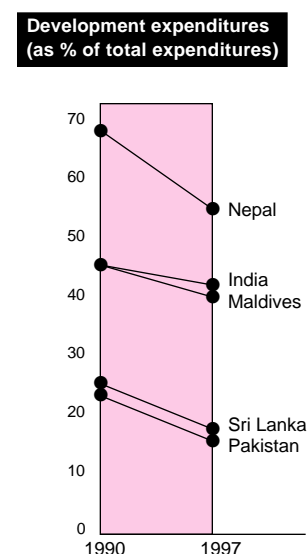
Many of these public enterprises, along with other domestic industries, were protected from global competition through such tools as industrial permits, quotas, import controls, and over-valued exchange rates. Such intrusion into economic activity was so severe that in some countries like India investors were required to obtain licenses from the government for establishing or relocating a plant and even for expanding the production beyond a limit of 5 per cent a year.

However, despite this over-extended role in production and trade, most South Asian countries have an appallingly poor record in the delivery of basic social services. As the 1997 Report on *Human Development in South Asia* illustrates, the region has emerged as the most deprived in the world, with the world's highest levels of illiteracy, malnourishment, and poverty. Though the past five decades have seen improvements in several social indicators, South Asia still faces a huge challenge of providing an overwhelming number of people with the means to meet even the most basic needs of shelter, health, safe drinking water, primary schooling facilities, and sanitation (table 4.2).

What has been the outcome of this growing economic importance of the South Asian states? The states' pervasive influence in economic activities lowered both growth and human development. Paradoxically, many of the objectives for

Most South Asian countries have an appallingly poor record in the delivery of basic social services

Figure 4.1
Shrinking development expenditures



Source: GOP 1998c; GOM 1998; HMG 1998b; IMF 1998d; World Bank 1996b.

The private sector became a mirror image of the public sector: inefficient, reliant on subsidies, and forever infant

this active role of the state, such as preventing industrial concentration and achieving national self-sufficiency, were also defeated. Barriers against foreign competition through the imposition of bureaucratic controls created a systematic bias against the development of agriculture, exports, and the private sector. Over-valued exchange rates and trade controls not only retarded the growth of exports but also ended up transferring resources from agriculture to the non-agricultural sectors. Depressed prices for the farmers took a heavy toll. Pakistan's agricultural sector alone transferred about 11 per cent of GDP in the 1970s, declining to 2.3 per cent of GDP in 1987—just a year prior to economic reforms. Similarly, government's unnecessary involvement in production crippled the development of private sector. The private sector became a 'mirror image of the public sector: inefficient, reliant on subsidies, and forever infant' (Desai 1998).

But the impact of this 'license raj' in South Asia appears even more damaging if the costs of rent-seeking are properly accounted. An elaborate system of bureaucratic controls created self-defending 'iron triangles of interest groups' that fought for their own narrow interests to the detriment of the entire economy (Krugman 1993). Allocations of scarce quotas and permits proved to be a financial boon for industrial giants,

powerful bureaucrats, and self-serving politicians. Scarce resources that could have been far better spent on actual production were frittered away in influencing government decisions.

Such policy distortions contributed a great deal in holding down economic growth. Isolation from global markets reduced economic growth in South Asia by 1.2 percentage points annually between the period 1965-90 (ADB 1997). In 1964, the costs of rent-seeking in India were estimated to be roughly 7.3 per cent of GNP. Similarly, in 1963 Pakistan sacrificed more than 6 per cent of GDP due to policies of protectionism. With slippages in economic growth, human development suffered as well. This is clear from recent research that shows how social indicators, such as life expectancy and infant mortality, may deteriorate due to falling growth in incomes (Commander et al. 1997).

The imbalance between an expanding state machinery and decreasing economic growth and human development levels is not unique to South Asia. An examination of cross-country data clearly reveals how certain patterns of government expenditure are directly associated with significantly lower levels of per capita growth in incomes, and how state interventions in the foreign exchange market and the trade sector also lead to a decline in the growth rate. Similar evidence is found in a recent World Bank

Table 4.2 The state and the social sector

Country/Region	Percentage of people without access to				
	Healthcare 1995	Education 1995	Safe drinking water 1995	Sanitation 1995	Child immunisation 1995
Bangladesh	55	62	21	65	9
Bhutan	35	58	42	30	n/a
India	15	48	19	71	14
Maldives	25	7	4	34	n/a
Nepal	58	72	52	80	35
Pakistan	45	62	40	70	42
Sri Lanka	7	10	43	34	9
South Asia (%)	22	51	23	70	n/a
South Asia (No. of people)	272,000,000	395,000,000	285,000,000	86,000,000	n/a

Source: HDSA Tables; and World Bank 1998q.

study that shows that a country with an inefficient bureaucracy and greater policy distortions would have an annual growth rate that is seven times lower than that of relatively well-governed countries (Commander et al. 1997).

The correct lesson to draw from this evidence is not that the government has no role to play in economic development, but that a positive role requires not an expansion in the scale of government activity, but an increase in its effectiveness and a major reallocation of its resources. Achieving social objectives does not call so much for increased spending as for the reallocation of existing expenditures. It requires that the government should take itself out of the productive sectors and into the social sectors. It also implies that while a large government size may or may not promote economic development, a bloated government with weak institutions is certainly anathema to economic progress.

South Asian states need to re-align their role so that they could actually formulate and implement economic policies in a manner that raises human development and generates equitable economic growth. By reversing their priorities, the states can play a vital role in improving the lives of the people. In fact, there is considerable evidence that when governments act rationally and logically, an increased state role can actually aid sustainable human development.

The most powerful evidence for the key role that the state can play in economic development comes from Japan and several other East Asian industrializing countries. In the 1960s, South and East Asia were at approximately the same level of per capita income. Governments in the two regions were also of roughly similar size. But the economic and social policies of the two regions differed a great deal. East Asian governments focused on high-quality primary education, outward-looking trade strategies, reforms in the land and credit markets, and a stable macro-economic environment.

South Asia, on the other hand, followed an inefficient and inequitable education policy that provided subsidies to higher levels of education, relied a great deal on primary goods exports and infant industry protection, failed to implement land and credit reforms, failed to generate a suitable macro-economic environment for the accumulation of savings, and excluded the private sector from key economic decisions. As a result, GDP in East Asia grew almost two to three times faster than that of South Asia, so that the region now has a per capita income twenty-seven times higher than that of South Asia. The Human Development Index (HDI) and Gender-related Development Index (GDI) of East Asia (excluding China) are also nearly twice as high as that of South Asia.

A small but effective state

The successful interventions of East Asian high performers were largely supported by political stability, rule of law, bureaucratic competence, and well-functioning institutions—distinct features of governance which are mostly lacking in South Asia today. The varying economic performance *within* East Asia itself has been attributed to differences in the quality of institutions (Rodrik 1997).

A smart state can ‘pick’ and create some winners in the industrial sector and provide them with the appropriate incentives to succeed in global markets, as was the case with some highly successful East Asian countries. However, when institutions are weak, even good intentions may not be enough. There are myriad examples of how institutional weaknesses have ruined innovative policies.

In some South Asian countries, many such strategic industrial and trade policy interventions may not succeed, since institutional capacity remains weak. In fact, the region has seen many infant industries picked wrongly as winners by policy-makers. What, then, is the lesson for South Asia? It needs to reform its institutions before emulating East Asia’s

A positive role requires not an expansion in the scale of government activity, but an increase in its effectiveness

industrial and strategic trade initiatives. Table 4.3 envisages a more realistic role for the South Asian states.

There is a need to restructure the economic priorities and to re-focus efforts on the core areas where efficient economic management can lead to improved human development. More specifically, social sector development

should move to the top of government's agenda. Not only should the governments spend more on social sectors but also focus on right priorities. But tight budgets may constrain such a major increase in social spending. South Asia is in the midst of a fiscal dilemma today. By and large, it has failed to balance its books and has considerable problems in raising and

Table 4.3 Role of the South Asian states

<i>Essential agenda of a responsible South Asian state</i>	<p><i>The provisions of collective goods</i> Infrastructure goods (roads, cables, irrigation facilities, etc.) Human and military security (external defence and internal order, etc.) Public health Establishment and enforcement of laws of property and contracts Macroeconomic management The production and spread of accurate information Regulatory framework for the efficient functioning of markets</p> <p><i>The provision of goods with large externalities</i> Primary and lower secondary education Protection of common property resources (rivers, forests, common grazing land)</p> <p><i>Equity considerations</i> Preventing abysmal poverty Possible mechanisms: employment schemes, pensions, efficiently targeted food subsidies, etc.</p>
<i>Possible roles of an activist South Asian state</i>	<p><i>Intervening in markets with imperfect information</i> Regulation of monopolies Insurance Consumer protection Financial regulation</p> <p><i>Equity-improving social insurance</i> Redistributional pensions Family allowance Micro financial services</p> <p><i>Governing the market</i> Fostering markets Cluster initiatives</p> <p><i>Industrial policy</i> Enhance competitiveness Identify productive industries Provide specialized help in credit and inputs to selected industries Incentives for foreign investment Risk-sharing for new industrial investment Technological help to small industries</p> <p><i>Trade policy</i> A more open trade regime Export-oriented tax incentives consistent with WTO Selective trade protection to export-oriented industries Ensure minimisation of retaliatory trade sanctions</p>

Source: Dasgupta, P. 1993; Haq 1997; and World Bank 1997g.

managing its resources. This has led to high levels of indebtedness and grave economic distortions. There can be no major hope for social uplift and poverty reduction, unless the key fiscal problems are properly addressed.

The fiscal dilemma

The recurrent dilemma in South Asia is that while the governments are trying to do too many things, they are failing to discharge their most essential economic role—that of managing their finances prudently. In modern times, maintaining a stable macro-economic environment is considered as important a public good as the maintenance of law and order and the provision of basic social services. This is because the macro-economic performance of a country largely determines the economic choices of present and future generations, and has a distinct bearing on the lives of ordinary people.

South Asia is living well beyond its means. It is spending far more borrowed money than it can actually retire through future economic growth. Such borrowing led to growing debt burdens and an increasingly 'captive' influence on the banking sector (see box 4.1). Fiscal discipline has been on the decline in South Asia since 1970. Budget deficits have consistently remained in the region of 5-8 per cent of GDP during most of the time in the last decade. Some countries like India, Pakistan, and Bangladesh have been able to get this deficit to around 6 per cent; others like Sri Lanka are still hovering around 8-12 per cent range.

Such fiscal indiscipline is favourable to neither growth nor human development. Many of the region's persistent economic ills, such as burgeoning debt liabilities, declining real exchange rates, rising interest rates, and greater macro-economic instability, can be attributed, in large part, to years of fiscal indiscipline. What is more, large and unsustainable deficits easily turn an economic regress into a human regress.

This is because official response for deficit reduction often comes down hard on the people. Some obvious manifestations are: rising inflationary finance that hampers private investment activities and taxes poor people; frequent devaluationary exercises that increase the general cost of living; tax rate increases on a narrow tax base that reduce the purchasing power of ordinary people; and

Box 4.1 Banks in chains

The banking sector in many South Asian countries has been captivated by the financial demands of the state. Banks have been used for monetizing budget deficits and bearing the inefficiencies of public enterprises. In much of 1980s interest rates were manipulated to meet such credit requirements.

Domestic financing of budget deficits has been large: between 4.5 and 5.5 per cent of GDP. Large budget deficits have been financed by diverting depositors' money into government paper. A huge sum of money is printed to fill such resource gaps.

Public banks have also been holding liabilities of inefficient state owned enterprises. They have indiscriminately extended credit to keep such organizations financially viable. What is more, in many countries public banks are also mandated to lend to priority sectors, such as petty agriculture and small industries. In India, 40 per cent of total advances of public sector banks are earmarked for such priority lending.

This leaves limited resources for the private sector. And even here, those who enjoy political connections get the lion's share. Financial rules are often bypassed to accommodate the credit needs of influential borrowers. This has led to a build-up of a large stock of non-performing loans (see table). Though estimates vary, non-performing loans account for between 18-33 per cent of total assets in Nepal.

A large part of this is a wilful default on loans that are accumulated with the intention of not being returned. Much of this bad debt is concentrated among a small number of influential borrowers. In Pakistan, about 90 per

cent of the defaulted loans are owed by the top hundred defaulters. And in Bangladesh the top twenty defaulters accounted for 21 per cent of the non-performing loans of Nationalized Commercial Banks (NCBs). Similarly, about half of non-performing loans in India emanate from lending for the priority sectors, which are open to much political abuse.

Worse still, the system often protects such defaulters. In many cases, loan amnesties are granted instead of stern punishment. In Pakistan, for instance, at least three deadlines have passed in the last two years, yet very few defaulters have actually been taken to task.

What has been the result of such gross financial indiscipline? The financial system has largely failed to effectively intermediate between savers and investors. It has diverted national savings away from the formal sector into dubious activities, reducing the profitability of the banking sector. Such inefficiencies of the banking sector are represented by large differentials between lending and deposit rates. Such differentials range from 0.2 percentage points in Sri Lanka to more than six percentage points in Bangladesh.

Non-performing loans^a, 1998
(as a % of total advances)

Country	NPLs
Bangladesh	37
Pakistan	29
Sri Lanka	21
India	18

a. In public sector banks only.

Source: GOP 1998h; IMF 1998a, 1998d, 1999b; and World Bank 1998k and 1999b.

frequent cutbacks in development expenditure that worsen the unemployment situation.

While public deficits (as a percentage of GDP) have declined in most South Asian countries in the last decade, fiscal adjustment is far from complete (figure 4.6). Unless the present fiscal crisis is resolved properly, both economic growth and human development would continue to receive major setbacks. In particular, the way these deficits are financed can have important implications for national economies. Budgets have often been financed through borrowing from home and abroad.

A worrying debt profile

South Asia has fast accumulated a large stock of public debt. Some countries like Pakistan, Nepal, and Sri Lanka have already crossed safe limits: public debt to GDP ratio exceeds 60 per cent in all these countries (table 4.4). But the use of public debt is more of a cause for concern than its size. Debt is more often used for reducing deficits than for enhancing development.

Except India, other countries of South Asia rely a great deal on external resources for financing their budget deficits. Nearly half of the region's budget deficit is financed through foreign borrowing. As a result, some countries have seen an explosive growth in their external debt. External debt (as a percentage of GDP) is 19 per cent higher

in Pakistan today than in 1980 and the corresponding increase for Bangladesh is 7 per cent.

Nearly all South Asian countries have seen their domestic debt soar in the last decade. Thanks to a captive banking sector, South Asian governments financed their public deficits rather cheaply by printing and borrowing money domestically. Domestic debt exceeds 40 per cent of GDP in India, Pakistan, and Sri Lanka (figure 4.2). India presents a striking picture with its domestic debt about five times as high as external debt. In fact, internal debt (as a percentage of GDP) has grown by more than 42 per cent in India since 1980.

This increasing claim on a limited pool of domestic resources by the government does not come cheap. It shrinks the investible resources available to the private sector and makes them much more expensive. In 1997, domestic borrowing by the Government of Pakistan constituted about half of total credit expansion.

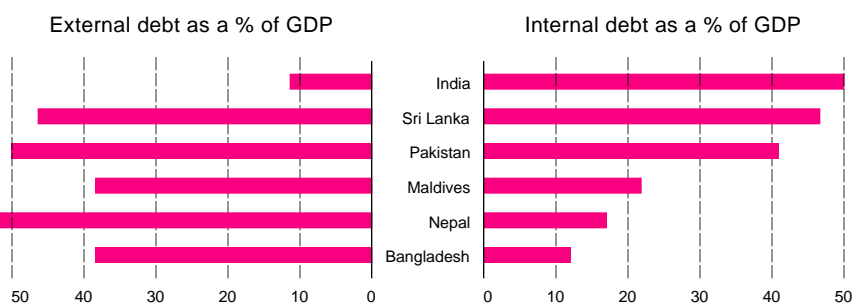
This significant rise in domestic debt, coupled with an increase in the external debt, has tremendously increased the debt servicing obligations. Interest payments have become the single largest expenditure head in central government budgets in India and Pakistan—often exceeding even the defence expenditures. Servicing past debt is becoming burdensome, since interest payments absorb an increasing proportion of tax revenues and export earnings every year.

Table 4.4
Public debt in South Asia,
1997

Country	Total public debt (As a % of GDP)
India	61.5
Pakistan	91.2
Bangladesh	55
Nepal	64
Sri Lanka	85
Maldives	60
Bhutan	44.5

Source: GOI 1998b; GOP 1998h; GOS 1997a; IMF 1998d, 1999a, and 1999b; NESAC 1998; World Bank 1996b; World Bank and ADB 1998e.

Figure 4.2 A profile of public debt in South Asia, 1997



Source: GOI 1998b; GOP 1998h; IMF 1999a; NESAC 1998; and World Bank and ADB 1998e.

Debt servicing consumes 47 and 60 per cent of revenue receipts in India and Pakistan respectively. Similarly, India, Pakistan, and Nepal utilized about two times more export earnings on servicing debt in 1996 than that in 1980.

The situation in Pakistan is particularly worrisome. Since the early 1990s, debt servicing has been the fastest growing item in government expenditure—growing at 21 per cent per annum. All other items have either declined or remained constant in real terms. The unsustainable nature of Pakistan's debt can be realized from the fact that debt servicing has grown four times as fast as GDP during the 1990s. Even in a less indebted country like Maldives, public expenditures on debt servicing have increased by 17 per cent in the last two years alone.

Much of the rise in these interest payments comes from an increasing reliance on costly short-term debt. This is truer of both India and Pakistan, which, unlike other South Asian countries, have increased their reliance on short-term debt between the period 1980-96. In Pakistan, short-term debt has risen by over 100 per cent over the last five years.

Origins of the crisis

What produces these persistently high fiscal deficits that lead to lower growth and a worsening debt profile? Why this perplexing mismatch between resources and expenditures? The answer is reasonably straightforward: political leadership in South Asia has eschewed from fundamental reforms that are often required for mobilizing additional resources and prioritizing existing expenditures.

South Asia's fiscal matrix is an amalgam of sharp inequities and inefficiencies, both in its patterns of resource mobilization and allocation. Any convincing review of South Asia's unjust fiscal policy must first analyse how resources are raised and spent?

Reversal of fortunes: taxing the poor

Governments in South Asia have largely failed to institute a progressive taxation structure that could raise resources from all segments of the society, especially the rich. However, prevailing tax systems reward the rich at the expense of the poor and the middle class.

As discussed below, attempts to raise taxes in South Asia are inadequate, regressive, inefficient, and lack uniformity as well as transparency:

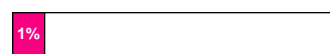
ADEQUACY. South Asia does not collect enough taxes. Tax to GDP ratios, which indicate the ability to tap resources from a growing economy, are low in South Asia. As figure 4.3 shows, compared to international standards, South Asian governments collect a meagre sum by way of taxes. On average, tax revenues in South Asia are only 10.4 per cent of GDP—lower than the developing country average of 15 to 20 per cent and the average of 24 per cent for high-income countries. It is particularly low when compared to several European countries, where tax revenues are between 35-40 per cent of GDP.

But what is even more significant is that these tax ratios are stagnating or declining in many countries. For instance, for the last many years the tax to GDP ratio has remained nearly stagnant in most South Asian countries, particularly India. In Pakistan and Sri Lanka it has recently declined by nearly three percentage points. This is a clear indication of a tax system that remains inelastic and non-responsive to growth in the economy.

South Asia's income tax base remains narrow, since most people refuse to pay taxes and are able to get away with it. Around one per cent of the total population pays income taxes. There are only between 1-1.5 million tax payers in Pakistan and Bangladesh each. Similarly, India has only 8-10 million taxpayers—though it has a sizeable middle class of 0.2 billion people.

Nearly three-fourths of total revenues in South Asia are obtained by levying indirect taxes

Figure 4.4
Too few income tax payers
(income tax payers as a % of total population)



and too little direct taxes
(share of direct taxes in total tax collection)



Source: HDC Governance Tables.

EQUITY. Tax effort is not only minimal but also regressive in South Asia. The bulk of this tax burden falls on the poor people, as nearly three-fourths of total revenues in South Asia are obtained by levying indirect taxes. Though many indirect taxes may be progressive and several direct taxes may be regressive, an over-reliance on indirect taxes is generally perceived to be more harmful to the lower income groups than to the rich.

The share of direct taxes in total revenues is abysmally low, and even here the salaried class ends up paying more than the rich. In most South Asian countries the share of indirect taxes in total tax revenues is more than double that of direct taxes (see figure 4.4).

What is more alarming is that revenues from direct taxes in relation to GDP are either declining or stagnating in many countries. Direct tax revenues (as a proportion of GDP) had actually fallen in India by 1 per cent in the thirty years between 1961 and 1991. In Nepal, the relative share of indirect taxes has not changed over a long period of time—and even the growth of income tax revenues is declining.

Even where such revenues have increased, they do not offset the declining share of trade taxes in the wake of liberalization. What is more, such increases remain modest as many of the so-called progressive direct taxes have a *regressive* influence. In Pakistan, for instance, the rise in direct taxes has mainly come from the growth in turn-over and withholding taxes — taxes that finally become regressive as they are ultimately passed on to the final consumers.

A regressive taxation structure, by taxing the poor relatively more than the rich, tends to compromise equity. It is a looming threat on an already weak social fabric of South Asian society. Though hard evidence is difficult to come by, some South Asian countries like Pakistan have already been witness to such a socially destructive trend, whereby tax burdens are declining for the richer class and increasing for the poorer sections of

society. In Pakistan, tax incidence on the richest section of the population has declined by 4.3 per cent against an increase of 10.3 per cent on the poorest strata (Kemal 1994).

EFFICIENCY. One of the prime responsibilities of a tax policy is to ensure the efficiency of resource allocation, a critical condition for investment and growth. South Asian evidence in this regard is not very encouraging. It has been unable to set up economically sensible tax systems that could lead to larger incentives for tax compliance and greater opportunities for production. There are several inefficiencies in the present tax systems:

First, an over-reliance on trade taxes for revenue generation has encouraged smuggling and discouraged domestic production. The abnormally high tariff rates have filled states' coffers (though they have entailed large revenue losses) at the expense of declining national output. The extent of tariff-induced smuggling in Pakistan alone is 5 per cent of GDP. Though the share of trade taxes in total current revenues has actually come down in South Asia (most noticeably in Sri Lanka), it still stood at the high figure of 25 per cent in 1995. In contrast, the share of such taxes has nearly halved at the global level.

Second, multiple tax rates, lack of harmonization between state and federal taxes, and a large number of concessions have created a complex taxation framework, which encourages tax dodging and discourages production. In India, for instance, there are a dozen different customs and excise duty rates. Such complexities normally increase the time taxpayers must spend paying these taxes, providing them the time and incentives to cheat tax authorities.

Third, there is a proliferation of tax anomalies that has too often treated production as an unproductive activity. Tax authorities usually end up taxing production, though it is often not originally intended. In both India and Pakistan, there is a heavy reliance on

input taxation, resulting in a system that taxes industrial inputs relatively more than the finished goods. Such anomalies are common in the agricultural sector and the paper-based industry in India.

UNIFORMITY. Incomes are not treated uniformly for tax purposes in South Asia, and this has often undermined the objectives of both equity and efficiency. The inability to treat all incomes uniformly is inequitable because different incomes are treated differently, and it is inefficient because it encourages tax evasion in the guise of tax-exempted income.

The exemption of agricultural incomes from the payment of income tax is a typical case. While the agricultural sector remains completely exempted from income tax in Nepal, a few innocuous attempts have been made to tax agricultural incomes in India, Bangladesh, and Pakistan. Expectedly, such half-hearted attempts have failed to generate substantial revenues from a sector that contributes 25-30 per cent to gross domestic products. Direct taxation of agriculture contributed only 4 per cent to the direct tax revenues of federal and provincial governments in Pakistan in 1990, though value added in the sector accounted for 26 per cent of GDP (Nasim and Akhlaque 1992).

These tax privileges for the agricultural sector have been vehemently safeguarded by landlords who are not only economically powerful but also well-represented in parliaments. It comes as no surprise then that the central governments in India and Pakistan have been hesitant to bring the agricultural sector into the tax net. Tax responsibilities have conveniently been transferred to provincial governments through constitutional provisions—an arrangement that suits the powerful lobby. Abysmally low targets are set and there are major problems meeting even these targets. In Pakistan, for instance, the Punjab Government has collected a meagre sum of less than Rs 1 billion against a target of Rs 2 billion in 1998.

Direct agricultural taxation offers some promise for revenue generation. It has the potential to tap resources not only from agriculture but also from the non-agricultural sectors, since agriculture offers an ideal tax haven for many industrial incomes as well. Many resourceful landlords have set up industries, and the agricultural sector offers them a safe haven for hiding these industrial incomes. Conversely, many industrialists have acquired large tracts of land to hide their industrial incomes. Perhaps, the dividing line between agricultural and industrial incomes is fast blurring in many parts of South Asia.

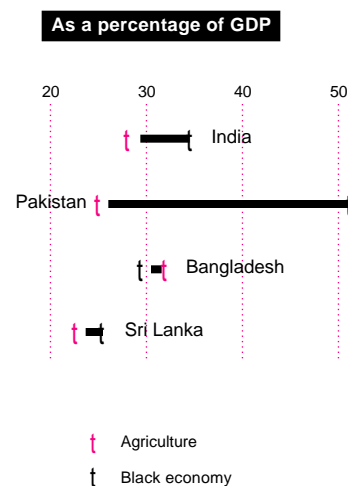
But the agricultural sector needs a level-playing field, before any serious attempt for agricultural taxation is undertaken. The agricultural sector has historically been exposed to a good deal of concealed taxation—through under pricing of major crops and over-valuation of exchange rates. These distortions provided a disincentive for agricultural production and, thus, came out as a heavy tax. Many of these distortions have already been weeded out by the recent liberalization of domestic and international prices.

Large black economies pose another challenge to tax authorities. In many South Asian countries black economies (as a percentage of GDP) compare in size with agriculture or industry (see figure 4.5). These parallel economies remain exempted from income tax, undermining government's attempts to raise revenues. They also explain the declining share of economic output by the public sector. In India, one-fifth to one-third of the total economy is dominated by black market. In Pakistan recent research has put the size of black economy to 51 per cent of GDP in 1996 (Iqbal et al. 1998) and in Bangladesh and Sri Lanka it is as large as 25-30 per cent of GDP.

The informal sectors pose a similar dilemma. Cottage industries, owner-operated enterprises, and small farms outside the formal system generate substantial amount of economic activity, yet easily escape direct taxation. They are

The central governments in India and Pakistan have been hesitant to bring the agricultural sector into the tax net

Figure 4.5
Black economies command a sizeable share



Source: Byres 1998; Iqbal et al 1998; Kumar 1999.

**There is a great
deal of competitive
tax evasion in South
Asia today**

growing but remain largely untaxed. In fact, Pakistan's informal economy has been shown to be growing faster than the formal economy. This is a worrying sign for the country's public finances and a timely reminder of an inefficient and inequitable taxation structure, which is pushing more and more people into the fringes of the economic system.

There are several other tax-free havens in this poor region. In India, the state governments exempt the services sector from sales tax. In Pakistan, the capital gains tax is virtually absent and the industrial and commercial operations of the defence establishment are exempted from the payment of income tax.

TRANSPARENCY. South Asia's taxation system is nontransparent—characterised by widespread tax evasion, lack of documentation, existence of large untaxed sectors, and a weak administrative capacity to collect taxes. There is a great deal of competitive tax evasion in South Asia today. In Pakistan as much as 50 per cent of the total urban income goes unreported. Total annual tax evasion stands at Rs 152 billion in Pakistan—sufficient to clear off the entire fiscal deficit without any additional tax levies. Similarly, tax evasion in India was estimated to be 18-21 per cent of GDP in 1980. Recently, it was ranked among the top five countries noted for tax evasion in a sample of fifty-three countries (1998 Global Competitiveness Report).

Part of this tax evasion can be attributed to tax dodging in the trade sector. Governments lose substantial revenues when imports are under-invoiced and exports are over-invoiced. This is because importers pay fewer duties by under-invoicing and exporters entitle themselves to more duty drawbacks than they are actually eligible to by over-invoicing their exports. In Pakistan, duty is paid on less than 60 per cent of imports. The value of under-invoiced imports in Pakistan between 1972-94 exceeded \$10 billion. In Nepal, a large number of imports are under-

invoiced by as much as 50 per cent of the import cost.

How to explain this massive tax evasion in a region that depends so heavily on debts and hand-outs? The answer lies in the unholy alliance between tax officials and tax evaders. The customs and revenue departments are widely perceived as breeding grounds for some of the most corrupt practices that the region has known. Public service in tax departments is characterized by low pay and large discretion—a perfect combination for corruption and tax evasion.

Salaries of tax officials are often a minuscule proportion of their daily bribes. Entrenched corruption in these departments has generated an influential bureaucratic cabal that thrives on the continuation of the present highly inefficient system.

There are several other factors that have aided tax evasion. These include: a high level of taxation, a greater degree of complexity in tax laws, significant arbitrariness in tax assessment, and a weak institutional capacity to administer and collect taxes. However, what is more important is that tax evaders are often precluded from any punishment. Corrupt customs officials and tax evaders are rarely put in jail. Perhaps, it pays more to be a tax evader than to be a taxpayer in South Asia. This culture of default is also promoted at the official level when the politicians and higher civil and military servants legally exempt themselves from the payment of duties on expensive import items.

Another manifestation of a non-transparent tax system, besides tax evasion, is the pervasive use of tax favours. There is an intricate politics of tax amnesties in South Asia today—represented by an elaborate network of concessions, exemptions, tax breaks, and tax holidays for the rich and the powerful. Often, it is not the inability but the unwillingness to tax.

In Pakistan such a preferential tax treatment is meted out to powerful

business groups through hundreds of Statutory Regulatory Orders (SROs, colloquially known as Swift Route to Opulence), which are used by rulers for granting discretionary tax favours to their cronies. The fiscal cost of these arbitrary concessions is huge. The price tag of such exemptions and concessions was over 2 per cent of GDP in 1991. In Sri Lanka it is at least 3 per cent of GDP. All over South Asia, annual budgets refrain from providing estimates of revenue loss from tax concessions—an exercise that is regarded essential all over the world.

Public expenditures: misplaced priorities

The real concern for human development is not the level of public expenditures but their composition; not the size of public spending but its effectiveness. At the present average of 29.4 per cent of GDP, public expenditures in South Asia cannot be considered as outrageously high.

The more formidable challenge is the use such resources are normally put to. Thus the real question to ask is where do those resources actually go? Who benefits from them? Do they complement private spending or simply crowd it out? These questions have genuine implications for human development. The answer is not too reassuring: the bulk of public spending in South Asia today is directed towards non-priority and low-return investments. South Asian countries spend an extremely large proportion of their expenditures on secondary activities, where opportunities for rent-seeking and power strengthening may be greater than the core activities that governments should be involved in.

Expenditures for social services and development remain inadequate. They are normally crowded out of government priorities by higher spending on defence and debt servicing, investment in prestige projects, inefficient subsidies, support for loss-making enterprises, and the maintenance of large executive structures. For every dollar of public expenditures that is spent on social sectors, Pakistan

spends more than four dollars on defence and debt servicing. India spends 70 per cent more on defence and debt-servicing than on social sectors (table 4.5). Such priorities are even more skewed at the central government level: for every dollar on social sectors, defence and debt servicing receive \$8.65 in Pakistan and \$3.12 in India.

Governments have often borrowed and printed money to finance consumption, not development. And even here, governments have often met the conspicuous consumption of the rich by squeezing the subsistence consumption of the poor. This is even while millions of people lack the most basic requirements of a decent life.

A good deal of public expenditures in South Asia promote neither economic growth nor human development. Here are a few anomalies:

First, an expanding force of civil servants devours a huge chunk of resources without delivering any matching output. In India, out of every rupee of revenues that the State governments receive, nearly 60 paise are consumed on wages and salaries of State employees. There has been a growth in such expenditures as well: in Nepal, public outlays on general administration (as a percentage of GDP) have increased by 0.7 percentage points since 1993.

Governments have often met the conspicuous consumption of the rich by squeezing the subsistence consumption of the poor

Table 4.5
Claims on public expenditures, 1997

Country	Defence and debt servicing	Subsidies
<i>For every dollar spent on social sectors</i>		
India	1.70	0.26
Pakistan	4.32	0.16
Sri Lanka	1.50	0.63
Nepal	0.23	0.10
Maldives	0.11	0.02
Bhutan ^a	0.30	0.23

a. year 1996; public expenditures refer to consolidated expenditures.

Source: GOM 1998; HMG 1998b; IMF 1998d; and World Bank 1998k, 1998m, and 1996b; HDC staff calculations.

**Public corporations
in South Asia are
large in size but low
in efficiency**

Despite such huge expenses, public employment seems to be rising in many countries. In Sri Lanka, for instance, employment in government departments and ministries has risen by more than 15 per cent since 1993. There is a catch here: public servants are not paid properly and yet expenditures on public employment are rising. This is because governments have preferred a large and low-paid bureaucracy to a lean and well-paid administration.

Second, public expenditures on defence and debt-servicing constitute nearly three-fourths of central government budgets. Debt-servicing alone consumes as much as 66 per cent of total government revenue. Lack of financial discipline has increasingly pushed governments into costly domestic borrowing, raising the servicing costs of total public debt. The average interest bill of Indian States, for instance, has increased by 0.5 per cent of GDP since 1990. Similarly, despite a decline in real defence expenditures, South Asia still spends 71 per cent of its combined expenditures on education and health on defence, compared to the developing country average of 60 per cent. The most striking example is that of Sri Lanka, where military expenditures (as a percentage of total government expenditures) have increased by 450 per cent between the period 1981-97.

Third, generous subsidies entail huge fiscal cost in many South Asian countries. Devoted mainly to the agricultural sector, subsidies account for 1.5 per cent of GDP in India and 0.5 per cent of GDP in Pakistan. For every 100 paisas of the Indian budget, 7 paisas go towards subsidies. Besides inflicting a considerable fiscal cost, subsidies are also known for creating micro-economic distortions by encouraging over-exploitation of natural resources, and benefiting the relatively affluent sections of society. In India subsidies to the agricultural sector have shown to be benefiting the rich farmers and have promoted capital-intensive farming (Joshi and Little 1995). Recent research for Pakistan also exhibits that

the reduction of subsidies would harm rich more than the poor (Iqbal and Siddiqi 1999).

In many South Asian countries there has been a modest decline in central government subsidies, particularly those targeted to the export sector. But increasing outlays on subsidies by provincial governments have often negated such reductions. Thus, despite a decline in the relative size of subsidies, the aggregate size of subsidies has actually increased. The total explicit subsidies by the central government of India, for instance, have annually grown at the rate of 19 per cent since the 1970s. What is more, the total size of subsidies grows even more, if hidden and implicit subsidies in the provision of electricity, water, credit, and transport facilities are properly accounted for. If hidden subsidies are included, total subsidies in India amount to 15 per cent of GDP. These concealed subsidies add to the fiscal deficits as well: indirect subsidies have contributed between 3.64 and 7.67 per cent of the overall fiscal deficit in Pakistan alone.

Fourth, huge losses of public enterprises act as a significant claim on budgetary resources. Between 1972 and 1990, South Asian governments have extended nearly fourteen times more credit to the public sector (as a percentage of GDP) than the governments in East Asia. The combined deficit of just seven large public sector corporations in Pakistan equals 1.7 per cent of GDP. Such losses were 2 per cent of GDP in Bangladesh in 1993.

Public corporations in South Asia are large in size but low in efficiency. Decades of protectionist policies have made these organizations non-competitive, reliant on subsidies, corrupt, and significantly over-staffed (box 4.2). Most of these corporations do not have the financial capacity to discharge their key liabilities relating to taxes, debt servicing, and transfer of dividends. They provide key economic services, such as electricity, transport, and telecommunications, at a cost phenomenally higher than that in private sector.

Public money that is regularly pumped into such enterprises yields low or negative returns. In Nepal, gross return on public investments in state-owned enterprises was only 0.55 per cent in 1996, whereas such returns were negative for 39 corporations in Bangladesh in 1993. Obviously, such investments would have yielded much more if they were made in the private sector. In India, between 1976-87 the real rates of return on public sector manufacturing were five

times less than those in private manufacturing.

Loss-making public enterprises are not only enlarging the fiscal gap, but are also holding down investment activity as the cost of their inefficiency is often passed on to industrial producers in the form of higher taxes and overpricing of power for industrial and commercial consumption. A 1993 survey in Bangladesh discovered that around a half billion taka worth of production was

Box 4.2 The steal mills of South Asia

From steel mills and power authorities to transport and airline corporations, public enterprises in South Asia are often viewed as a microcosm of the wider financial mismanagement in the region. They have served political constituencies, filled the pockets of bureaucrats, absorbed the kith and kin of their employees, and pampered to the demands of powerful lobbies in the industrial and agricultural sector.

State enterprises have been a victim of many populist policies. Most public enterprises remain significantly overstaffed, since they have often been used as employment exchange for political workers. In Bangladesh most public corporations are overstaffed by 20-50 per cent. In Bangladesh's public transport sector, the number of people operating these vehicles were ten times more than the number of vehicles. Similarly, the state electricity boards in India also remain considerably overstaffed with around a million employees.

Undisciplined unionization has made matters worse. While unions have sometimes protected worker interests, their influence has generally been perverse in other cases. In Pakistan's Water and Power Development Authority (WAPDA), even a lineman could not be hired without the consent of union leaders. As a result, a certain labour aristocracy has emerged in many corporations, which wields considerable influence in key decisions—from hiring new employees to contracting out procurement orders.

Most public enterprises in South Asia are insulated from market competition and lack any commercial orientation. Thus, key economic services, such as electricity and water, are usually provided either below the

cost of production or on a very nominal profit margin. Much of these prices are deliberately depressed through liberal subsidies to urban consumers and farmers.

Rampant corruption has eroded their financial viability even further. Governments have often filled key administrative positions with political sycophants. The long-drawn investigation of corruption charges against the former chairman of Pakistan Steel provides a relevant example. Be it water, electricity, or gas, there are widespread instances of theft. In Pakistan, for instance, power theft is so common that even some sitting federal and provincial ministers were found involved in this pilferage. Those found guilty were so influential that WAPDA had to seek assistance from the armed forces for recovering outstanding dues.

Add to this the low investments for the maintenance of technical equipment. Wastage is common between the generation and distribution of electric power and gas. Such theft and technical leakages are so high that in Bangladesh 'for every 100 kWh produced only 59.6 kWh is actually paid for'.

As the table shows, systems losses in South Asia's power utilities are two times as high as those in the rest of the world. Such losses are also common in the provision of gas and water. In Bangladesh, systems losses in water and gas authorities are 50 per cent and 26 per cent respectively.

Such gross mismanagement has taken many of these public enterprises to the brink of financial insolvency. Commercial losses of state power boards in India were about 24 per cent of GDP at the end of October 1998. The states often need to dole out public money to keep these boards afloat. Thus, in 1995, power subsidies by the Indian state governments equalled 1.5 per cent of GDP.

Even public transport services, like buses and railways, run at a loss. In 1997, eighty-nine out of ninety-three Peoples Bus Companies in Sri Lanka ran at a loss. Many of these buses are idly parked in company garages due to lack of repair and theft of key spare parts. Fewer buses are able to ply on roads. Thus, only 30 per cent of the vehicles of the Bangladesh Rural Transport Corporation were worthy of road travel in 1995. Similarly, the rail transport in Pakistan incurs financial losses, though trains are full and tickets are sold in the black market.

Quality of services diminishes, consumer welfare declines, and power breakdowns become imminent—when public enterprises run in losses. South Asia needs to make its public enterprises operationally efficient, if it wishes to meet the demands of a growing private sector. The Indian states of Haryana and Orissa have already shown the way to reform by giving a corporate orientation to their electricity boards.

Systems losses in public power utilities, 1998

Country	Systems Losses (%)
Bangladesh	33
India	23
Pakistan	23
Sri Lanka ^a	18
Nepal ^a	26
World	8-10

a. Figure for year 1995.

Source: IMF 1998a, 1998d, 1999b; and World Bank 1996a, 1997b, 1998k and 1999b.

**Larger allocations
alone cannot
guarantee better
social outcomes**

being lost due to power shortages. Huge losses in such organizations have a particularly harmful impact on the lives of ordinary people, as political regimes are more comfortable with regressive additions in utility surcharges than the recovery of unpaid utility dues, reduction of technical losses, and the elimination of corruption.

Fifth, increasing democratization in South Asia has claimed a good deal of public resources. Federal and provincial cabinets have been expanding, demand for both public services and public employment has been rising, development resources have increasingly been sought after by politicians for personal use, and public money has more often been spent on politically motivated projects. Politically divided coalitions often need to spend a lot on maintaining large cabinets. In the Pakistani province of Balochistan, half of the members of Provincial Assembly are provincial ministers as well, costing Balochistan's battered treasury a hefty Rs 55,000 for each minister every month. This is while the Balochistan government is already well-known for surviving on over-drafts from the State Bank of Pakistan.

These are some of the more glaring examples of how South Asia mismanages its limited resources. Clearly, South Asia can easily rectify under-investment in the social sectors, if it manages its resources well. But enhanced investments in social sectors are simply not enough. They need to be complemented by the effective use of resources, as demonstrated by the following section.

The development wasteland

South Asia devotes insufficient resources for human development. Yet a bigger social irony is that these limited resources are put to low-priority use and are often susceptible to wide-spread waste and corruption.

What matters for human development is not just the level of social spending, but its quality and effectiveness. Larger allocations alone cannot guarantee

better social outcomes. There are numerous examples of how social expenditures have often been unable to result in commensurate improvements in social indicators. For instance, between the period 1984-95 Bangladesh's Annual Development Programme increased its spending on anti-poverty programmes from 30 per cent to 50 per cent. Whereas poverty, as measured by Head Count Index (HCI), decreased by a mere five percentage points in the corresponding period. Similarly, per capita education expenditure in South India is only 23 per cent higher than that in Uttar Pradesh, but there is a phenomenal difference in the social indicators of both regions (Gazdar and Dreze 1997).

Increased resources for social services become meaningless in the face of wrong priorities, improper implementation, financial leakages, and ineffective provision. As Mahbub ul Haq correctly observed a few years ago: 'there are far too many examples of inefficient and inequitable priorities: urban hospitals for a privileged few rather than primary health care for all; enormous subsidies for the universities while basic education goals await their turn in the budgetary queue; piped water supply to posh localities rather than stand pipes for the masses'.

Scarce resources are often spent on promoting wrong social objectives. For instance, the overwhelming weight of international evidence shows greater social returns on public investments in basic education and primary healthcare. Yet these are the very areas that face the neglect of national budgets. For instance, South Asia devotes, on average, 47 per cent of its education budget to basic education, compared to 70 per cent in many East Asian countries.

Another anomaly includes a disproportionately higher emphasis on curative health and a relative neglect of preventive health services. This is despite the fact that preventive health services, such as maternal health, childcare, health education, and immunization have a more favourable impact on the poor. Moreover,

the private sector often takes care of curative health services. Despite some recent improvements, many South Asian countries still attach a higher priority to secondary and tertiary health facilities. In 1996-7, the government of Pakistan spent fifteen times more on general hospitals and clinics than on preventive health care. Nearly 80 per cent of the current expenditure on health in Sri Lanka and about 40 per cent of the total health budget in Nepal is devoted to non-primary health facilities. This mis-prioritization does not come cheap: it costs between \$100-600 to save each additional life through preventive health care, whereas the corresponding range for curative care is \$500-5000.

Urban health facilities receive a similarly large preference in health budgets. In the North West Frontier Province of Pakistan about 27 per cent of the total provincial budget in 1991-2 was devoted to two teaching hospitals. Though the exact situation varies from state to state, most Indian states devote a larger share of their health budgets to urban health facilities, as opposed to primary health care and rural dispensaries. For instance, for every one rupee spent on rural secondary hospitals in Indian West Bengal nine rupees are spent on urban secondary hospitals. Similarly, Bhutan's capital expenditure programme for health has allocated 47 per cent of its total expenditures on expanding hospital facilities. Clearly, there is a significant urban bias in social expenditures.

Another key feature of social spending, besides meagre allocations and unprioritized spending, is the higher salary component of recurrent expenditures. It is ironic that despite abysmally low levels of remuneration, salaries and wages in most rural and urban hospitals account for about two-thirds of total expenditures. Consequently, maintenance expenditures are squeezed and essential supplies become non-existent, compromising the quality of social services. The result: ineffective provision of social services.

Table 4.6 Pakistan: misgovernance in Social Action Programme
(Cases with unmet criteria as a % of total)

	Recruitment	Procurement	Absenteeism
Health	52	30	59
Education	33	52	39
Population	80	100	39

Source: AGP and MDSU 1998.

While low salaries encourage absenteeism and irregular attendance of teachers and doctors, inadequate expenditures lead to the absence of critical facilities, such as clean toilets, water, leakage-proof roofs, text books, and essential drugs. Teachers lack motivation to teach and are often found engaged in other economic activities during work hours. Similarly, medical doctors are found busy in private practice during official time, visiting rural dispensaries only once or twice a week. A recent report by the Auditor General of Pakistan identifies gross irregularities in staff recruitment and procurement of essential items under the Social Action Programme (SAP) in Pakistan. The Report shows that in nearly 50 per cent of the cases, a proper system for monitoring staff absenteeism was missing. Table 4.6 shows the percentage cases where appropriate criteria for recruitment, procurement, and monitoring of absenteeism was lacking in the health, education, and population sectors under SAP.

Widespread abuse of social services by the politicians makes these services non-existent for the poor. Locally elected politicians use the social infra-structure to further their own vested interests. School buildings are sometimes used by politically influential landlords for keeping their household cattle. And teachers often need to be in the good books of politicians, if they are to prevent frequent transfers. Recent surveys in India and Pakistan have found that local politicians often use public works programmes for patronizing their favourites—by handing out contracts to cronies and by providing

There is a significant urban bias in social expenditures

There is a wide gulf between the promise and practice of welfare programmes

employment to faithful voters (Dreze and Sen 1997; Gazdar 1999).

The cumulative impact of these unprioritized expenditures, rampant corruption, low maintenance expenditures, and political interference is that social services get ineffectively provided. The result, as chapter six shows, is that even the poor use such services with much hesitation. There is no single solution to this dilemma. A suitable and more pro-poor cost recovery policy may be one option. Greater cost recovery can generate the much needed resources for non-salary components of social expenditures that often get starved of resources. Cost recovery through user charges is extremely low in South Asia. For instance, an average 2-3 per cent of public expenditure on education is recovered. Similarly, the average cost recovery from healthcare programmes is 3.8 per cent in India and only 2 per cent in Pakistan. Compare this to the experience of several developing countries that normally recover 15-20 per cent of the revenue.

Beyond the promise of welfare programmes

There is a wide gulf today between the promise and practice of welfare programmes in South Asia. Programmes that are initiated with the honest intentions of assisting the poor often lead to perverse outcomes. Institutional weaknesses abound and implementation failures are common. Some of the disquieting features include: centralized administration; higher per-unit cost; lack of proper targeting; limited participation of women; financial leakages; political interference; and the existence of multiple objectives.

Several projects fall short of implementation. A recent study in Bangladesh has shown financial progress in only 35 per cent of the total projects initiated in 1995-6 (Sen, B. 1998). In many cases, governments have tried to do too much with limited resources. For instance, in Pakistan in 1996 projects worth Rs 700 billion were under

implementation, whereas only Rs 85-90 billion were available annually (Hasan 1998).

Many projects do not even see the light of the day. In Pakistan, for instance, it has been estimated that one in every nine public schools is a *ghost* school—schools that are recorded by government but are missing in reality. In the Punjab Province of Pakistan, army has helped government unearth more than 50,000 teachers who were either ‘dummies or untraceable’. Perhaps, as social spending increases, leakages are multiplied.

Development programmes are open to widespread abuse and corruption in South Asia. Political abuse remains widespread in Pakistan, as the bulk of development resources are channelled through politicians. Leakages in the Integrated Rural Development Programme in India range from 20 to 50 per cent, and are as high as 70 per cent in Bangladesh’s Rural Rationing (Rice) Programme. In most South Asian countries today, the same size of development effort can be delivered at a 20 per cent less cost, if various kickbacks and corruption are eliminated.

Resources for social development are limited, and even worse, these limited budgets don’t get translated into the lives of the poor. Increases in social sector allocations have not substantially altered the face of poverty. Some of the key failures of poverty alleviation programmes are discussed in box 4.3. In India such programmes had the capacity to move only 4.5 per cent of the total number of absolute poor out of poverty. Similarly, there was an insignificant decline in several poverty indices due to subsidies (table 4.7).

This failure of social expenditures to reach the poor is a collective failure of the entire economy, polity, and society. Economic policies had limited success in ensuring adequate financial allocations for the *right* kind of social services. Politicians have mismanaged social services even further—by laying illegitimate claim to public resources and by using development programmes to advance their own

Table 4.7
India: do subsidies lessen poverty?

Index	Decline due to subsidies ^a (%)
Head Count	1.71
Poverty Gap	0.90
FGT ^b	0.47

a. Data base for 1986-7.

b. Foster Greer Thorbeck Index.

Source: Radhakrishna et al. 1997.

political objectives. And finally, it is a civic failure as local communities have rarely bothered to ensure accountability for slippage in implementation, teacher absenteeism, and irregular attendance of medical staff.

South Asia needs to ensure that poverty alleviation programmes reach their target beneficiaries. But it requires to move well beyond these poverty programmes to attack poverty in all its possible dimensions. This is because poverty cannot be targeted properly without targeting the basic economic and political structure that breeds and sustains poverty.

The burden of adjustment

In the late 1980s nearly all South Asian states have undergone a series of economic reforms as a part of the structural adjustment and stabilization programmes implemented under the umbrella of World Bank and the International Monetary Fund (Table 4.8). The catalogue of recent economic reforms broadly include: liberalization of external trade; exchange rate convertibility on current and capital account; deregulation of interest rates; privatization of loss-making public enterprises; and price, tax, and expenditure reforms.

These economic reforms have evolved South Asia into a more open and a less distortionary region. Some of the results have been positive. Budget deficits have declined (figure 4.6). The share of trade taxes in total tax revenues has come down substantially. Average tariff rates are two to three times less today than in 1980s, and annual inflows of foreign direct investment have increased by as much as seven times.

But the record of economic reforms has been far from favourable—despite these positive trends. While economic adjustments have been made, the quality of such adjustments remains low as the choices made by political regimes have been hard for the poor and soft for the rich. Several governance and institutional

failures have diluted the efficiency of structural adjustment programmes.

First, economic reforms remain incomplete and their implementation remains slow and reluctant. Many of the fundamental agendas remain untouched. Reforms have sufficed on a window dressing rather than a deep surgery of these battered economies. Some selected issues:

- Average tariff rates still remain high by global standards, though considerable liberalization has taken place. Liberaliz-

Table 4.8
A calendar of economic liberalisation

Country	Year
Pakistan	1988
Sri Lanka ¹	1989
Bangladesh	1989
India	1991
Nepal	1991

1. Third round of liberalisation.

Box 4.3 Poverty programmes: bypassing the poor

Poverty alleviation remains a 'missed target' despite a plethora of poverty initiatives in South Asia. Selected evidence from several micro studies confirm the non-progressive nature of public spending in South Asia.

The Public Distribution System (PDS) in India, which provides essential food supplies at below market prices to Indian consumers, has problems reaching the poorest Indians. 50-60 per cent of the beneficiaries of PDS have been estimated to be non-poor. PDS network remains limited in poorer states. Poor states like Bihar, Madhya Pradesh, and Uttar Pradesh have received far less food supplies than less poorer states, such as Kerala and Andhra Pradesh.

Only about 40 per cent of the total wheat supply reaches the poorest 40 per cent of the Indian people. The lowest monthly purchases from PDS came from the very poor in India. Thus, the actual income benefits of these subsidies remain limited for the poor: less than 22 paise for every rupee.

In rural areas, PDS serves to raise individual incomes only modestly, amounting to 2.7 per cent of their per capita expenditure. In North and Central India, where poverty is massive, PDS provides subsidies equal to an income of only Rs 2.5 per person per month. Thus, with a few exceptions, the coverage of PDS remains uneven—with a large number of poor being left out.

Evidence from other parts of South Asia is equally instructive. The percentage of non-poor benefiting from

the Food Stamp Programme (FSP) in Sri Lanka was as high as 60 per cent in 1991. In 1987, 30 per cent of the people in the poorest half of the population were not receiving food stamps. Food distribution in Nepal has also tended to benefit the non-deserving—government officials and the urban middle class.

The administrative cost of procuring, marketing, and delivering food and non-food subsidies often entails a financial burden that is several times the actual benefits received by the poor. Though exact estimates vary, it costs between four to six rupees to provide every rupee worth of benefit to the poor through PDS. In Bangladesh the Rural Rationing Programme (Rice) costs nearly six and half taka for transferring one taka of income. In Sri Lanka's FSP the government's cost of providing a given amount of food calories was 250 per cent of the cost incurred by households in getting the same amount of calories.

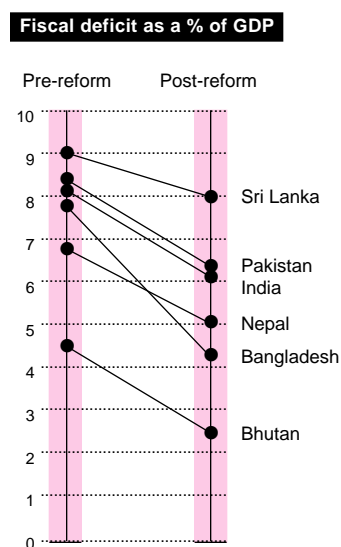
Even ostensible success stories like the Food for Education Programme (FFEP) in Bangladesh fall short of delivering the poor. FFEP, which links food distribution with school attendance, has recently faced some problems: the leakage to children from non-poor households is estimated to be 26 per cent. And the coverage remains low: it caters to only 13-15 per cent of all students enrolled.

There is an urgent need to improve the targeting and efficiency of such programmes—if they are to benefit the poor at all.

Source: Dev 1998; Parikh 1994 and 1998; Radhakrishna et al. 1997; and CPD 1998.

The institutions needed to assist the economic transition are either missing or remain weak

Figure 4.6
Fiscal discipline: improving



Source: GOB 1998b; GOI 1998b; GOM 1998; GOP 1998c; IMF 1998d; HMG 1998b; World Bank 1996b.

ation remains incomplete, as South Asian states continue to exert dominant control over major economic activities. What is more, external liberalization has not been accompanied by internal and regional liberalization of trade. Domestic trade is subject to taxes, though controls on external trade have largely been abolished. In India, for instance, the inter-state sale of goods is subject to significant taxation. Similarly, while trade with the outside world has soared, many South Asian countries refuse to trade with each other. A striking example is that of bilateral trade between India and Pakistan, which has consistently been very low (see box 4.4).

- Financial sector reforms are incomplete. Public banks are still burdened with a large stock of non-performing loans (box 4.1).
- Deficit reduction is slow and lacks continuity.
- There has been a relatively higher emphasis on reducing expenditures than on mobilizing additional resources. Even efforts towards expenditure reduction have been marred by uneven progress. For instance, the progress made by the Indian Central Government is often diluted by setbacks in the performance of states. On the taxation side, additional resources have largely been mobilized through increase in tax rates and introduction of new taxes rather than a major effort to expand the existing tax base.

- While official incentives for foreign investment abound, political and administrative instability have diminished the positive impact of these incentives. The Enron case in India and the controversy with Independent Power Producers (IPPs) in Pakistan are apt reminders of how arbitrary state actions can hamper private investment. But perhaps, Sri Lanka offers the best example, where historical variations in economic performance have shown to be attributed to inconsistent policies of different regimes (Snodgrass 1996).

- The revenues generated from the privatization of public enterprises have

failed to match the potential. Between the period 1990-6 the proceeds from privatization were equal to a mere 2 per cent of the combined GDP of South Asia. Besides, the process of privatization has been perceived by some quarters as being non-transparent. In many countries privatization is carried out for bridging budgetary gaps rather than retiring public debt. In Pakistan, for instance, by 1996 only 5.5 per cent of the total privatization proceeds had been used to retire national debt.

- Frequent devaluation of the exchange rates has reduced the anti-export bias. But the region has fallen short of achieving optimal export performance—largely because the non-price bias still needs to be weeded out. An under-developed infrastructure, bureaucratic delays, and poor administration of export promotion schemes still remain the key hurdles in the way of export promotion. The costs of bureaucratic delays and corruption for a garments exporter in Bangladesh are 340 per cent of the costs of establishing the business. Governments have relied more on creating new incentives for exports—rather than ensuring quick availability and better access to existing schemes. In India exporters have to typically wait for six to eight weeks for receiving their duty drawbacks. In many cases, small exporters have been bypassed by such official schemes.

Second, the institutions needed to assist the economic transition are either missing or remain weak. In Sri Lanka, for instance, trade reforms were initiated before the establishment of export institutions. Similarly, market regulations to protect the poor and the vulnerable from the private greed of the affluent are either weak or non-operative. Central banks lack the level of independence needed to impose the necessary fiscal and monetary discipline. In many South Asian countries, monetary policy is still conducted by the Ministry of Finance.

There have been limited, if any, legal reforms to aid the economic transition. Archaic laws and court delays have

Box 4.4 Some dangerous myths about Pakistan-India trade

Political expediency triumphs over economic rationality when it comes to bilateral trade between India and Pakistan. Trade is guided by dangerous myths, which as evidence indicates, are a much ado about nothing.

*Bilateral trade should not take place without resolving the dispute over Kashmir—*But such a denial of trade does no good to either of the countries if the lack of trade only weakens them. Countries don't grow strong when cheap and quality products are denied to millions of consumers, when profitable opportunities are refused to thousands of producers, and when the scope for revenue generation are left unavailed.

India and Pakistan have a great deal to learn from the global experience, where trade is increasingly being used as a prelude to political reconciliation. The Sino-American trade relations offer a convincing example of how trade can be skilfully used to enhance mutual confidence between two politically hostile nations.

*Domestic markets in both countries would be swamped by foreign goods—*Evidence demonstrates that such an apprehension has no intellectual basis. First, mutual trade would not exceed beyond a few percentage points even after the relaxation of trade restrictions. For instance, even if Pakistan awards a Most Favoured Nation (MFN) status to India, its trade with India would still remain less than 2.5 per cent of its total trade. Second, trade would emerge from different strengths. Indian commodities are generally noted for their cheap prices whereas Pakistani goods are regarded as qualitatively better.

Varying cost structures in India and Pakistan are a concern for many. But even here, the strengths of both countries are different. While labour costs are estimated to be lower in India, labour productivity is higher in Pakistan. For instance, though wages in India are 12 per cent lower than those in Karachi's knitwear industry, labour productivity is at least 25 per cent higher in Karachi.

Third, there is no point restricting goods from neighbouring countries, when domestic markets are already flooded with all kinds of foreign goods through smuggling along a long porous border. While governments have opted for

economic isolation, people have always traded. There is a small legal and sizeable illegal trade. Estimates on smuggling vary a lot—from \$100 million to \$1 billion annually.

Fourth, India and Pakistan should buy from the cheapest source to reduce their trade deficit, even if it turns out to be a hostile neighbour. It makes perfect economic sense if Pakistan buys wheat from the Indian states of Punjab and Rajasthan instead of buying it from Canada and America. As importing wheat from India would entail a financial saving of \$25 in freight charges alone on every ton of imported wheat.

Fifth, the combined producer and consumer losses in Pakistan alone are estimated to be Rs 800 million. These losses can be turned into profitable opportunities, if bilateral trade is increased. Producers in both countries can look for price efficiencies, if India benefits from Pakistan's lower count yarn and Pakistan utilizes India's cheap yarn of higher counts. India can also provide cheap textile machinery, dyes, and chemicals—inputs that can make Pakistani products inexpensive. Though qualitatively inferior, Indian machinery can be imported at half the cost of world prices.

But a more promising area for Pakistan is the availability of steel on lower prices from India. This would support both public revenues and basic industries. Only one-third of steel is domestically produced in Pakistan and that too of uneven quality. Reject rates on domestic steel range from 10 to 20 per cent. In comparison Indian steel is both cheap and qualitatively better.

Pakistan: revenue gains from trade with India (Rs mn)			
Smuggling estimates (\$mn)	Effective tariff rates		
	10%	20%	30%
750	3450	6900	10350
600	2760	5520	8280
500	2300	4600	6900

Note: The dollar-rupee conversion rate is treated as Rs 46 per dollar. The assumptions for smuggling estimates are adopted from Naqvi and Suri 1996.

Source: HDC staff calculations.

And the freight costs from India are only 5 per cent of total costs, whereas such costs are 8-10 per cent otherwise.

Enhanced trade cooperation can also mean lower prices for millions of consumers. The poor are likely to benefit more—through cheap textile clothing, lower bicycle prices, stable prices of essential food items, etc. Recent estimations show that Pakistani consumers can decrease their food bill by 20-30 per cent through increased trade with India. For every agricultural product that is sold for Rs 100 in Pakistan can be made available at less than Rs 40. Obviously, the poor can get the much needed support that has so far been denied to them by badly managed policies.

*Domestic producers need some more time before bilateral trade is increased—*This is a misleading argument as the infant industries in India and Pakistan should have been adults by now. Do India and Pakistan have to wait for another fifty years before they trade with each other? Agreed that many domestic products may be displaced by foreign competition, but then this calls for making essential adjustments at home, not a boycott of bilateral trade.

If the stumbling blocks are distorted production incentives, rising costs of energy and industrial finance, and lower productivity of workers, then governments should try to remove them. What is more, India and Pakistan can continue to trade while maintaining a negative import list of key items that they wish to protect from each other for a defined period.

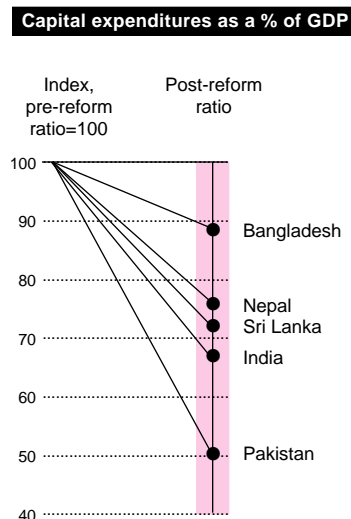
*Trade liberalization between India and Pakistan would weaken their domestic economies—*This is a classic misunderstanding of free trade that benefits all sides. Europe and America are the largest trading partners of India and Pakistan, and if trade with them doesn't weaken them how can bilateral trade be a harm. Interestingly, Pakistani products that are likely to face intense competition from India are the same that face maximum competition in global markets.

Bilateral trade also means more public revenues, since governments can earn more through custom revenues when smuggled items switch to formal trade. The table shows that public revenues in Pakistan can increase by more than Rs 2 billion even with an unusually low tariff rate of 10 per cent.

Note: The arguments are based on the speeches and statements of Dr Mahbub ul Haq.

Data Source: Khan and Mahmood 1996; Nabi 1997; Naqvi and Suri 1996.

Figure 4.7
Capital expenditures have
shrunk since adjustment



Source: IMF 1998d and 1999b; World Bank 1998k, 1998m; World Bank and ADB 1998e.

hindered business activities. In India, the government restricts private firms from liquidating—the avowed objective being the protection of workers. But it normally takes as much as ten years to wind up a company. The judicial system also offers little help when it comes to protecting private property rights and enforcing business contracts. While the rich have access to private thugs, the poor, particularly women, are left at the mercy of petty officials and business Mafia.

Third, economic reforms have not been particularly friendly to the poor. Structural adjustment programmes are often perceived to be socially blind—producing unwanted repercussions for the poor, women, and the environment. In many parts of South Asia the burden of adjustment has fallen on the poor through falling social and development expenditures. Figure 4.7 shows how capital expenditures have declined in relation to GDP since the start of adjustment programmes in the late 1980s. Social expenditures are the first victims, whenever the government tries to balance its budget. And within social expenditures, rural hospitals, primary health care, and primary education are the worst hit. Since 1991 real education expenditures have actually fallen in India (Dreze and Sen 1995). Worse still, even the absolute number of teachers has fallen. During the first two years of adjustment in India, real health expenditures have fallen by 4 per cent. The reduction has been more pronounced at the rural level: public expenditures on rural health care have been reduced by nearly half since 1989 in the Indian states of Karnatak, West Bengal, Punjab, and Andhra Pradesh. Pakistan presents a similar picture, where health expenditures (as a percentage of GDP) have declined from 0.95 per cent in 1988 to 0.77 per cent in 1995, with the largest impact of these expenditure cuts on the poorest households in the rural and urban areas (Khan, S. R. 1998).

The negative social influence of structural adjustment programmes is far from conclusive: only circumstantial

evidence is available to establish a connection between economic reforms and poverty. But increase in poverty could be anticipated on account of key reforms that are neutral or sometimes even harmful to the poor. These include: withdrawal of subsidies, expenditure cuts, wage restraint in the public sector, layoffs through privatization, interest rate liberalization, devaluation, and a vigorous tax effort.

The impact of these reforms in different countries of South Asia has been anti- or pro-poor in varying degrees either due to differences in prevailing conditions or due to differences in emphasis on reforms. In India, the head count ratio of poverty has slightly increased in the post-reform period. Some studies have also shown a rise in rural poverty in the aftermath of recent reforms (Pant and Patra 1998). Initially, urban poverty rose modestly before it subsequently declined to previous levels, as reforms slackened in 1993 (Tendulkar 1998).

National poverty seems to be unaffected by the recent series of reforms in Sri Lanka, though urban poverty has registered a slight increase. But this is no sign for complacency: aggregate data hides the widening regional disparities in the wake of liberalization. The ensuing civil war has prevented rural areas from taking advantage of liberal economic policies. Thus, agricultural exports from the Jaffna peninsula have actually declined (Dunham and Jayasuriya 1999).

The most conclusive evidence comes from Pakistan, where nearly all recent studies point towards worsening poverty and income inequality in the wake of structural adjustment programmes. Adjustment programmes have hurt the poor in Pakistan, since real incomes of the lowest income group have declined by nearly 56 per cent since the start of adjustment. Similarly, the Gini coefficient of inequality has risen from 0.35 in 1987-8 to 0.42 in 1993-4.

Economic reforms in Bangladesh have been relatively harmless to the poor. Though poverty has increased since 1985 (mainly due to devastation caused by

floods), the incidence of poverty has not changed much since the start of recent economic reforms. The Bangladesh experience demonstrates that adjustment programmes can be made socially relevant, if social expenditures are skilfully protected. The slow pace of reforms and the virtual absence of tough economic reforms may be one reason for this favourable performance. But the credit also deservedly goes to the successful execution of micro-credit programmes, growth of off-farm activities, and the protection of social expenditures, especially those earmarked for safety-net programmes for the poor.

Fourth, economic reforms have only touched the price structures, not the structures of economic and political power. Markets may discriminate against the poor, if productive assets like land and capital are badly distributed, and if a powerful rentier class has access to all economic opportunities. If economic adjustment has to be meaningful, it must be accompanied by social adjustment. Countries must spend as much time correcting social fundamentals as on correcting economic fundamentals.

Unfortunately, governments have conveniently used adjustment programmes as a political instrument—by avoiding painful adjustments and by directing popular wrath towards international institutions for an economic crisis that is largely of their own making. Perhaps, the fundamental reality before and after the reforms has remained unchanged in South Asia. Economic policies have tended to benefit a select group of exporters, industrialists, and farmers. In the presence of weak institutions and intense distributional

conflicts, a mere dismantling of economic controls may not be the best hope for South Asia.

Finally, the Bretton Woods Institutions should also accept their part of the blame for the socially harmful ways in which adjustment programmes get implemented. International institutions must make sure that economic reforms are combined with growth and social equity. As late Mahbub ul Haq had correctly suggested:

‘They (the Bretton Woods Institutions) must...stand firm on slashing subsidies to the rich, elitist groups in a society before subsidies to the poor are touched. They must spend as much time discussing politically sensitive issues such as land reform and corruption as they do now on the distorted prices in the economic system. These are not easy issues; some will be politically distasteful. However, unless the Bretton Woods Institutions are willing to take some political heat on these issues, the cause of the poor—always weakly defended in their own systems—will go by default in implementing adjustment programmes.’ (Haq, M. 1998b).

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If economic reforms are to deliver their promise, they must combat corruption that is rapidly eroding the vitals of South Asian societies. The next chapter addresses the key linkages between corruption and human development and presents a concrete agenda for combating entrenched corruption.

Economic reforms have only touched price structures, not the structures of economic and political power



Chapter 5

The Corruption Menace

Corruption is one of the most damaging consequences of poor governance

Corruption is one of the most damaging consequences of poor governance. It undermines investment and economic growth, decreases the resources available for human development goals, deepens the extent of poverty, subverts the judicial system, and undermines the legitimacy of the state. In fact, when corruption becomes entrenched, it can devastate the entire economic, political, and social fabric of a country. There is an urgent need to create a zero tolerance for corruption, which must be embedded in international legislative frameworks, national policies, and local value systems. This chapter estimates the extent of corruption in the countries of South Asia, analyzes both the underlying causes and ultimate costs of corruption, and prepares a concrete anti-corruption agenda for the region.

Corruption is defined here as the use of public office for private gain. It can range from illegal cash transactions to seats in parliaments, and from dishonest judicial decisions to bureaucratic promotions (see box 5.1). While the focus of this chapter is on economic forms of corruption, it is well to remember that political and civic corruption are also important. Some of these issues are analyzed in chapters 3 and 7, respectively. Corruption in the private sector is tackled explicitly in this chapter only in the context of privatization, but it is also a significant concern in South Asia. Many of the key anti-corruption reforms suggested in this chapter would also be essential in tackling corruption in these areas. A wider anti-corruption agenda must include a concrete plan to tackle electoral fraud and the criminalization of

Box 5.1 A typology of corruption in South Asia

Corruption can take many forms. It can be political or bureaucratic. It can be in the private or public sphere. It can be limited within national boundaries or abetted by international laws. A list of corrupt acts would include bribery, extortion, influence peddling, nepotism, fraud, vote-buying, the use of 'speed money', and embezzlement.

While there exist many different forms of corruption, varying in participants, settings, techniques and cultural legitimacy, the main types of corruption in South Asia can be divided into three categories: petty corruption, middling corruption, and grand corruption. Over the last few decades, there is a growing perception in many parts of South Asia that corruption has 'floated upwards'—from petty corruption in the 1950s, to mid-level corruption in the 1960s and 1970s, to corruption at the very highest levels of the state in the 1980s and 1990s.

- Petty corruption is the oldest and most

widespread form of corruption in South Asia. It involves the provision of public goods and services being sold at a bribe price, usually by low level personnel. Such goods and services should be freely available or at a low price as an entitlement.

- Middling corruption normally takes place at the enterprise level and usually involves the bureaucracy. It often takes the form of queue jumping in industrial licensing, bribe-based awards of major contracts, kickbacks in government tendering, and tax evasion. Middling corruption is sometimes an antidote to policy distortions and may grease the wheels of the economy, but it is still arbitrary in its operation and replaces one distortion by another; those who pay the highest bribe are usually not the most efficient.
- Grand corruption, discussed in greater detail in box 5.7, is similar to insider trading. It involves corruption at the highest levels of the state, and usually involves foreign money.

Source: Khan, M. 1996.

politics in the political sphere; the lack of transparency in many fraudulent non-governmental organizations, claiming to represent civil society; and illegal businesses—such as, arms, drugs, and prostitution—in the private sector.

What price corruption?

The chain connecting corruption with human development has two main sets of links. First, corruption hinders human development directly by limiting access to basic social services and indirectly by reducing the potential for sustainable economic growth (figure 5.1). There is also a key link back. Low levels of human development contribute to an environment which breeds corruption and worsens governance still further. Thus, a mutually reinforcing vicious cycle is created in which corruption leads to

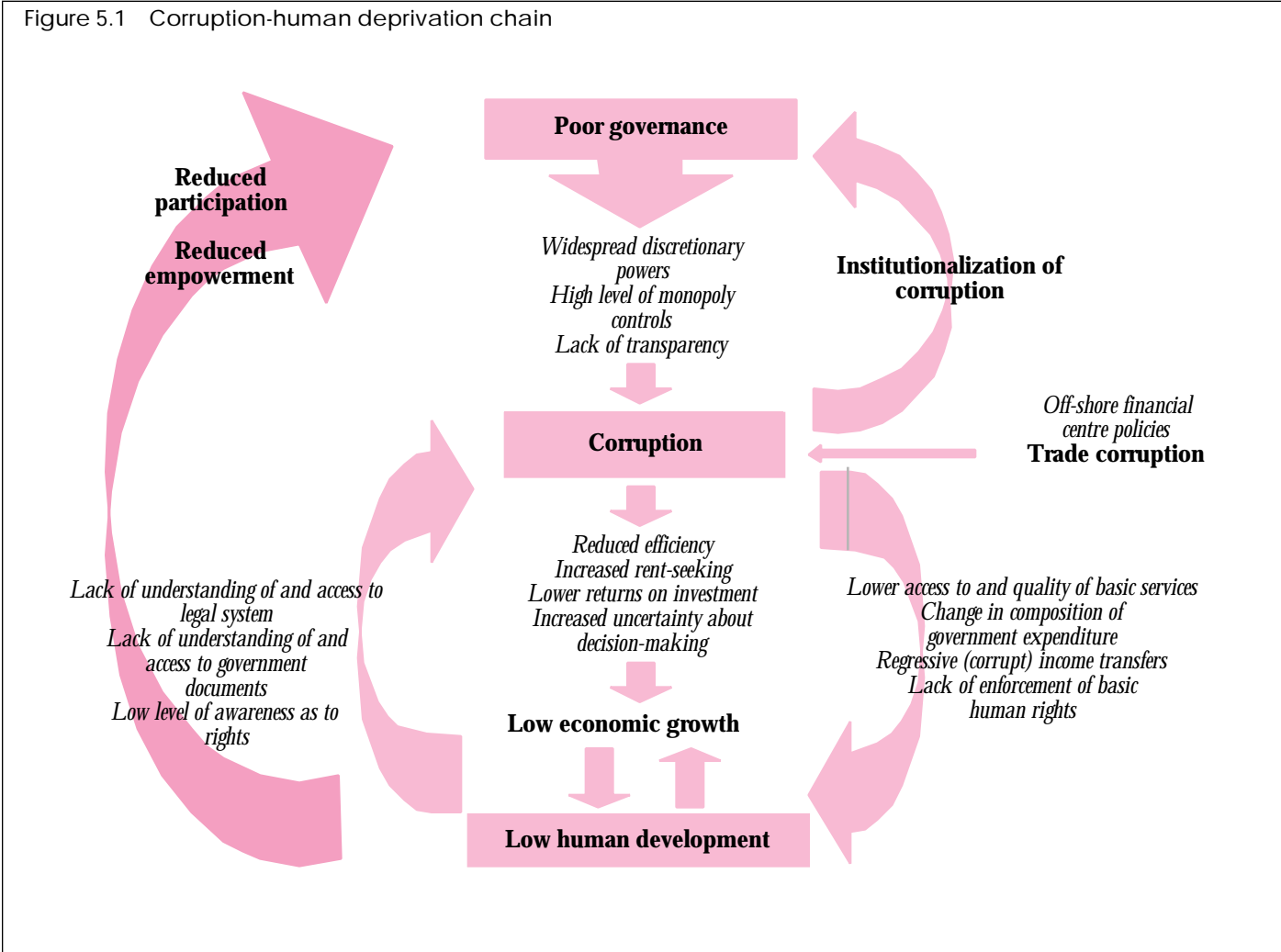
growing human deprivation and, as a result, still higher levels of corruption. This section clarifies these two chain reactions in the corruption-human development cycle.

Corruption and Economic Growth

Theoretically, corruption reduces economic growth through two main channels. First, corruption decreases the efficiency on which an economy depends. This is because corruption often leads to choices that are not optimal: students get jobs by altering university test results, workers are paid bribes just to perform routine tasks, and non-credit-worthy firms secure loans by bribing the bank-manager, to name a few.

Government officials control access to scarce resources, allowing them to act as monopolists, and thereby earn (directly

Corruption leads to growing human deprivation



Box 5.2 Are the corruption optimists right?

Despite mounting evidence indicating the adverse impact of corruption on economic growth and human development, a revisionist view still exists that cloaks corruption in ambiguity. Two key arguments are presented by the 'corruption optimists'. First, corruption is culturally relative, and what is reviled as corruption in the West is interpreted differently within South Asian culture and value system.

The second argument often heard is that corruption 'greases the wheel' of development, that bribes and 'speed money' act as an efficient way of circumventing burdensome regulations and ineffective legal systems. The high-performing East Asian economies are often cited in this revisionist view since they experienced both rapid growth and high levels of corruption. Unfortunately, in the context of the more corrupt countries of South Asia, the arguments put forward by the corruption optimists are false.

The cultural relativism argument is weak on two counts. First, corruption is not a 'western' conception but has been recognized by South Asian thinkers for centuries. Texts dating back to Hindu chronicles and Buddhist scriptures, to the *hadith* (sayings) of the Prophet Muhammad (PBUH), testify that anti-corruption attitudes are deeply embedded within South Asian culture

and tradition. Second, regardless of cultural origins, and different notions of the public and private sphere, empirical evidence demonstrates that the use of official power for personal gain—whether termed a 'bribe' or a 'gift'—leads to economically and socially negative consequences. It is these massive social costs which should form the basis for an anti-corruption drive, rather than an esoteric debate about the nature of corruption in different societies.

Second, 'grease-the-wheels' argument is also flawed. Bribes are considered as 'speed money' which reduce delays in moving files and make it possible to jump slow-moving queues for public services. Unfortunately, corruption in South Asia leads to inertia, not momentum. Instead of speeding up administrative procedures, corrupt officials actually cause delays in order to attract more bribes. This is because the argument ignores the enormous amount of discretion that many politicians and bureaucrats have over the creation, proliferation, and interpretation of counterproductive regulations. Thus, 'instead of corruption being the grease for the squeaky wheels of a rigid administration, it becomes the fuel for excessive and discretionary regulations', often specifically designed to create opportunities to earn 'speed money'.

Source: Osborne 1997, Klitgaard 1998, and Kaufman 1997.

(1995 and 1998) found that a corrupt country is likely to face aggregate investment levels of approximately 5 percentage points less, and per capita growth rates half a percentage point less, than a relatively uncorrupt country.

The evidence from South Asia is particularly stark. If corruption levels in India were reduced to those in the Scandinavian countries, investment rates could increase annually by some 12 per cent and the GDP growth rate by almost 1.5 per cent each year (Gandhi 1997). If Bangladesh were to improve the integrity of its bureaucracy to Uruguay's level, its yearly GDP growth rate could rise by over half a percentage point (Wei 1998). And if Pakistan were to reduce corruption to the Singapore level, its annual per capita GDP growth rate over the period 1960-85 could have been higher by nearly two percentage points—implying per capita incomes almost fifty per cent higher than existing levels (Wei 1998). Most worrying is that these growth losses have been increasing over time. A recent study in Pakistan has shown that the growth cost of corruption (as a percentage of GDP) may have increased from a quarter of one per cent at independence in 1947 to just under 2 per cent by 1997 (Burki 1998). Box 5.3 gives four key reasons why corruption in South Asia is particularly harmful in its effect on economic development.

Second, corruption acts as an additional tax on investment by lowering the potential return to an investor on both the initial investment and on subsequent returns. The secretive and illegal nature of bribes means that there is considerable uncertainty as to whether bribe takers will live up to their part of the bargain. Corrupt transactions are not enforceable in a court, and it is quite probable that the bribe taker reneges on his understanding with the investor or simply returns to demand another bribe (Bardhan 1997b). These considerations are reflected in the higher risk premium that foreign and domestic investors attach to investing in South Asia given the unpredictability of decision-making.

or indirectly) monopoly rents for themselves. The consequences are two fold: first, there is a direct welfare loss associated with the potential abuse of monopoly power by a corrupt government official; and second, there is a further wastage associated with the use of real resources in competing for these artificially contrived monopoly rents.

Considerable empirical evidence confirms today that corruption lowers investment and hinders economic growth. The argument, once fashionable, that corruption actually improves efficiency in developing countries is now rarely heard (see box 5.2). For instance, a recent study by Peruvian economist Paolo Mauro

One recent study shows that investing in a relatively corrupt country, compared to a relatively honest one, is equivalent to an additional 15 per cent 'private' tax on investment (Kaufman 1997 and Klitgaard 1998). In Pakistan, lower corruption levels would have meant that the implicit corruption tax on foreign investment would have been reduced by 28 percentage points (Wei 1998). In India, current corruption levels mean that the implicit corruption tax on investment is almost 20 percentage points (Gandhi 1997).

A recent World Bank study (World Bank 1996a) on the hidden costs of doing big business in Bangladesh examined the implicit 'private' taxes in attempting to get a trade licence and a factory licence to set up a garment factory. First, to secure a trade licence takes over one year. As a result, businessmen end up resorting to side-payments of \$125-200 to conclude the procedures in a week. Next, a factory licence is secured, which 'should normally take a month, but actually takes much longer. A side-payment of \$500 for local authority approval, \$125-200 for clearance by the Chief Inspector of Factories, and

\$125 for the factory licence itself is required to push this through.' Overall, 'the costs of corruption (\$7,760) come to 340 per cent of the estimated initial official costs (\$2,291) of setting up a business'.

Finally, corruption also reduces the government's resources and hence its capacity for investment, since tax revenues are depleted by both the tax evasion of 'honest money' by corrupt means (for example, a bribe to the tax authorities) and 'corrupt (undeclared) money' by honest means (for example, the flight of corrupt assets to off-shore safe havens). This has two adverse effects: first, shifts away from investments in human development areas occur as bribe-takers are less likely to invest in activities with significant positive social benefits like education and health. Second, overall investment levels may fall, since the conspicuous consumption or flight of illegal earnings is probably higher than legal earnings. The high potential for capital flight of illegal earnings makes corruption more likely to be associated with a negative impact on the balance of payments.

Corruption reduces state resources and hence the capacity for public investment

Box 5.3 Why is South Asian corruption unique?

Corruption happens everywhere. It has been at the centre of election campaigns in Italy and the United Kingdom, led to the fall of governments in Japan and Indonesia, and resulted in legislative action in Russia and the United States. But if corruption exists in rich, economically successful countries, why should South Asia be worried about it? The answer is simple: South Asian corruption has four key characteristics that make it far more dangerous and damaging than corruption in other parts of the world.

First, corruption in South Asia occurs up-stream, not down-stream. Corruption at the top distorts fundamental decisions about development priorities, policies, and projects. In industrial countries these core decisions are taken through transparent competition and on merit, even though petty corruption may occur down-stream.

Second, corruption money in South

Asia has wings, not wheels. Most of the corrupt gains made in the region are immediately smuggled out to safe havens abroad. Whereas there is some capital flight in other countries as well, a greater proportion of corruption money is actually ploughed back into domestic production and investment. In other words, it is more likely that corruption money in the North is used to finance businesses, than to fill foreign accounts.

Third, corruption in South Asia often leads to promotion, not prison. The big fish—unless they belong to the opposition—rarely fry. In contrast, industrialized countries often have a process of accountability where even top leaders are investigated and prosecuted. For instance, former Italian Prime Minister Bettino Craxi has been forced to live in exile in Tunisia to escape extradition on corruption charges in

Rome. The most frustrating aspect of corruption in South Asia is that the corrupt are often too powerful to go through such an honest process of accountability.

Fourth, corruption in South Asia occurs with 515 million people in poverty, not with per capita incomes above twenty thousand dollars. While corruption in rich, rapidly-growing countries may be tolerable, though reprehensible, in poverty-stricken South Asia it is political dynamite when the majority of the population cannot meet their basic needs while a few make fortunes through corruption. Thus, corruption in South Asia does not lead to simply Cabinet portfolio shifts or newspaper headlines, but to massive human deprivation and even more extreme income inequalities. Combating corruption in the region is not just about punishing corrupt politicians and bureaucrats, but about saving human lives.

Source: Haq, K. 1996.

The damaging effects of corruption on investment and economic growth are widely recognized. But corruption also has adverse effects on human development. First, corruption reduces

Box 5.4 Dealing in death: making money in the global arms bazaar

If you wanted to establish principles for a corrupt industry, something like the arms industry might emerge. Conservative estimates suggest that over \$3 billion are stolen by corrupt political and military elites and their cronies around the world each year on the back of the arms trade alone. Recently, Transparency International (TI) has commissioned work on corruption in the global arms trade. In TI's examples below, there are seven key characteristics that make arms procurement one of the most lucrative activities prone to corruption:

- First, corruption in arms procurement often has the tacit approval of governments in both the selling and buying of arms.
- Second, vast amounts of money are involved. The \$1.3 billion Bofors deal in India was big enough to carry \$250 million in life-changing bribes.
- Third, spending decisions are in the hands of a tiny group of unaccountable elites with limited transparency.
- Fourth, complex technology involved means that informed analysis is virtually impossible for understanding the strategic rationale of the proposed purchase and cost-performance comparisons of competitive weapons.
- Fifth, arms producers are desperate to sell arms in the post cold war era when individual contracts can make the difference between survival and disappearance; as a result, companies are under pressure to get the deal at any cost.
- Sixth, there is limited knowledge of what the 'right' market price for a military weapon is. When the trading range for an item varies by hundreds of per cent, there is no market, no transparency, and no means of comparing prices. In short, fertile ground emerges for both bribe givers and bribe takers.

- Seventh, arms procurement is also shrouded in a cloak of absolute secrecy. The weapons are secret, attempts to sell them are secret, even success is secret.

Details of arms corruption in South Asia are scarce. Media reports are often based on speculation rather than rigorous analysis. But one thing is certain: defence procurement contracts are rarely subjected to the extensive network of checks and balances that exist for civilian development programmes.

What can be done to put a halt to the massive corruption in the arms trade? Four key actions are a necessary starting point. First, the assumption of secrecy in the arms trade should be rigorously examined, with the presumption that it should be abandoned. There is an urgent need for greater transparency in the defence budgets of South Asia: defence budgets must give a detailed breakdown of where money is spent and why. Arms companies should also report as clearly and in as timely a fashion as for other commodities. Second, governments in both the arms importing and arms exporting countries must realize that they can prevent corruption only by acting jointly. Third, the UN arms registry must be strengthened, and should act as an information clearing house for arms procurement worldwide. Fourth, western governments must withdraw their tacit approval of corruption in the arms trade. This means condemning rather than secretly helping national companies to arrange corrupt arms transactions, and striking off laws which allow these firms to give bribes to politicians and businessmen in other countries legally.

Source: TI (various years) 1995, 1997a, 1997b, and 1998.

the availability and increases the cost of basic social services. Access to core social services can be easily restricted with the intention to make corrupt gains. For instance, a government doctor may deliberately store away free medicines until he is bribed, a police inspector may deny a First Information Report to a victim until he is paid a kickback, and a head-teacher may refuse to admit a child in school until an under-the-counter payment is made. Since obtaining access to basic public services normally requires an illegal cash payment, corruption also raises the price of these services.

A detailed study in Bangladesh by Transparency International revealed the extent of additional side-payments required in order to obtain basic needs (TI 1997a). One in five primary school-going children were forced to employ teachers as tutors outside school hours in order to avoid repetition and low grades. One in three hospital in-patients had to use extra-legal means to obtain a hospital bed. And one in three land-holding households had to pay a bribe to register their land.

Second, in addition to a decrease in total government expenditure (due to tax evasion), corruption also shifts government expenditure from priority social sector spending to areas, where the opportunities for rent-seeking are greater and the possibilities of detection lower. The possibilities of corrupt gains from spending on new programmes are usually greater than expenditure on the maintenance of existing programmes, perhaps explaining the disrepair many health clinics and schools have fallen into in South Asia (Haq 1998a). Allocating government funds to a few large defence contracts or mega-projects may seem more attractive to corrupt bureaucrats and politicians than spending the same money to build numerous rural health clinics (Bardhan 1997b). As box 5.4 shows, the possibilities for corruption and non-detection are certainly greater when money is spent on fighter aircraft and large-scale investment projects than on text-books and teacher training, even

though the social returns from the latter may be higher. Similarly, there may be a temptation to choose more complex technology (where detecting improper valuation or over-invoicing is more difficult) than simpler, and more appropriate technology.

Third, corruption increases injustice. Basic human rights and freedom come under threat, as key judicial decisions are based on the extent of corrupt bribes given to court officials rather than on the innocence or guilt of the parties concerned. Police investigations and arrests may be based on political victimization or personal vendettas rather than on solid legal grounds. The vulnerable, such as ethnic or religious minorities, are particularly under threat as religious laws may be manipulated to indict them when the political and legal system can be easily bought over. In the Bangladesh survey by Transparency International, 90 per cent of respondents pointed to the police and the judiciary as the two most corrupt state institutions (TI 1997a). 40 per cent of the families involved in police-cases were compelled to pay a bribe to police officials; 50 per cent of households involved in court cases had to bribe the court officials, with 20 per cent also hiring witnesses. When corruption becomes entrenched, the basic trust between the citizen and the state disappears.

Links from human development to corruption

The many ways in which human poverty contributes to corruption and poor governance have only recently been emphasized. Figure 5.1 shows some of the critical links. The basic message is clear: the lower the level of human development in a country, the less likely will its people and government be able to combat corruption or improve governance. This is because well-educated and knowledgeable people are more capable of combating corruption at all levels—whether personal, regional, or national.

At a macro-level, poorer countries may often be unable to devote sufficient resources to setting up and enforcing an effective legal framework, and in some countries may even lack the human capital to devise more efficient and transparent institutional structures. Moreover, at a micro-level, illiterate people are less aware of their basic rights. They are unable to read key official or private documents that can ensure that they obtain adequate social services, are less able to understand the legal system and thus combat judicial corruption. Illiterate people may also be unable to obtain credit, are less capable of making informed political decisions that oust corrupt leaders and vote in honest politicians, and may be less able to resist corruption when faced with basic survival constraints.

Unfortunately, the prospects of combating corruption through a vibrant and aware civil society and a highly educated and competent government are somewhat bleak at present. In fact, as the last two Reports on *Human Development in South Asia* clearly demonstrate, the region has emerged as the poorest, the most malnourished, the least gender-sensitive, and the most illiterate in the world. South Asia now has 395 million illiterate adults and over 45 million children not attending primary school. It is little wonder that the region has become caught in a vicious cycle of low human development and high corruption. To break this cycle, we must first move from a knowledge of the consequences of corruption to its scale and causes. Only then can a viable strategy for combating corruption be devised.

The corruption equation

Corruption results from logical calculation, not irrational emotion. At the heart of the corruption problem lies a formula first devised by Robert Klitgaard, which equals corruption with monopoly power plus discretion minus accountability and low government salaries (Klitgaard 1988 and

When corruption becomes entrenched, the basic trust between the citizen and the state disappears

**Corruption
flourishes when
monopoly control is
combined with
discretionary power**

1998). Whether in Delhi, Dhaka, Islamabad, or Colombo, corrupt acts occur 'when a person has monopoly power over a good or service, has the discretion to decide who will receive it and how much, is not accountable', and has a low (legal) income level (Klitgaard 1998). The solutions to corruption require; reducing artificially contrived monopoly power, limiting official discretion, enhancing transparency, increasing punishments for violators, and reducing the direct incentives for engaging in corrupt activities.

Monopoly control and discretionary powers

Corruption flourishes when monopoly control is combined with discretionary power. Monopoly power without discretion (for instance, a bus conductor issuing tickets), or discretion without monopoly power (for instance, a government officer attesting documents) leaves few opportunities for corruption. But the combination is lethal: it allows government officials to transform the potential monopoly profits in a range of government functions into actual monopoly earnings, by restricting the quantity of a service, and accepting bribes to sell the restricted quantity of services at a higher monopoly price. Examples of corruption faced by ordinary citizens as a result of discretionary monopoly power are myriad. They range from the renewal of motor vehicle licences to the provision of passports, and from the filing of a burglary report to the bidding for a government tender.

The more discretion government officials have over the operation of business or people's lives, the more likely that corruption will flourish. Trade restrictions, government subsidies, price controls, multiple exchange rates, and foreign exchange allocation schemes are particularly well-known sources of corruption (Mauro 1997). Studies by both Kaufman and Wei (1998) and Mauro (1995) show that the indices of corruption and government regulation are positively correlated.

Several studies in South Asia have shown the existence of laws and regulations whose sole purpose seems to be the creation of corruption opportunities for government officials. For instance, it requires forty-seven different approvals to construct a building in Mumbai, India, and a small-scale entrepreneur has to handle thirty-six different inspectors each month and forty-six different documents (Gandhi 1997). In Bangladesh, toilets in factories must be 30 yards from the workplace—a regulation which made sense when toilets were primitive but is now outdated, and serves only as a bribe-seeking opportunity for factory inspectors (World Bank 1996a). Similarly, the need for a non-contamination certificate from the national Atomic Energy Commission (a process taking two months and costing Tk 25,000), is now used by Bangladeshi customs officials to extract bribes even on industrial items like maize starch, which is used for sizing in the textile industry.

An obvious way to tackle the corruption problem would be to simply eliminate the laws and regulations that breed corruption. In many cases, however, the solution to corruption is not that simple. Withdrawing the state provision of certain basic services can harm human development more than it can help anti-corruption efforts. For instance, corruption in the appointment of primary school teachers could be solved simply by closing down government schools, but the benefits of reduced corruption are likely to be outweighed by the decline in primary school enrolment. Furthermore, merely shrinking the economic role of the state is not the solution to many corrupt actions, since this merely shifts the locus of corrupt activity from the public to the private sector. In fact, badly designed and improperly managed liberalization processes in several South Asian countries have been sometimes associated with an increase in corruption, rather than a decline (see box 5.5). This clearly shows the need for both greater transparency in

the privatization process, as well as improved regulation of privatized companies in order to satisfy equity, safety and environmental concerns.

Punishing offenders

Corruption continues until the corrupt are caught and punished. Unfortunately, the level of accountability in South Asia is so low that many government officials choose to take bribes because they are almost certain that they will never be caught, and if caught would escape punishment because of legal delays. Accountability is low at four different levels: at the international level, within government agencies, by the judicial system, and even at the hands of civil society.

First, the treatment of corruption money by many Western governments smacks of double standards. Currently, the legislation in many countries—such as France, Germany, and Sweden—make it a crime to give a bribe to a national of that country, while legalizing and giving tax deductions on bribes given to foreigners for either political funding or for the implementation of projects. Recent attempts to devise more equitable corruption laws by the OECD and other international bodies are welcome, but much more needs to be done (see box 5.6). Furthermore, while drug money flowing from South Asia to the rest of the world correctly faces stiff legal challenges, there are no equally harsh laws preventing the laundering of corruption money. In fact, many off-shore financial centres actually welcome the flow of corruption money, while international banking secrecy laws actually work not just to protect genuine savings but grand larceny.

Second, most government agencies, rather than devising effective in-house checks on corruption, have often developed institutional mechanisms that perpetuate corruption rather than eliminate it. Officials who refuse to be corrupted by persuasion from colleagues or ‘friendly’ telephone calls from bosses

may be promoted less frequently, posted to remote outposts, or transferred to relatively unimportant departments, so that the corruption chain is not delinked. Most government departments and enterprises lack both effective in-house ombudsmen or private, independent auditors. The result: many such malpractices often remain unchecked.

Third, the judicial system is full of antiquated laws, fails to implement even exemplary formal statutes, and is often corrupt itself so that laws are not enforced fairly (Ackermann 1997). There

Box 5.5 Is privatization the panacea for corruption?

Liberalization, deregulation, and privatization are not magic wands that can eliminate corruption overnight. In fact, several countries—including Russia, China, and India—have found that deregulation actually can lead to an increase in corruption. This may sound theoretically implausible to those who proclaim government to be the main villain in the drama of corruption.

Below, three possible mechanisms are outlined whereby apparent deregulation attempts might either increase corruption or, at least, fail to reduce it. These assertions must, of course, be subjected to rigorous empirical testing before judging their validity in actual cases of deregulation in South Asia. But they lead to genuine concern that rather than reducing corruption, improperly managed economic liberalization might simply change the nature of corruption ‘away from those initiated and controlled by state actors to those initiated and controlled by actors in civil society’ (IDS 1996).

First, few South Asian politicians may be actually interested in implementing a policy that reduces the political and economic benefits they obtain from control over the allocation of rights. The rhetoric of deregulation might, therefore, be quite different from the policies that continue to maintain most government controls.

Second, the huge windfall gains accruing to potential private owners of state monopolies may increase rent-seeking among private-sector bidders, so

that corruption actually increases in a deregulatory environment. In addition, corrupt rulers may be especially keen to privatize state assets because of the opportunity for large one-time gains (UNDP 1997a).

Third, new regulatory powers may be created, paradoxically, in the process of deregulation. For instance, the (unexpected) formation of a government committee which determines the order and timing of deregulation might allow it to influence the discounted present value of the flow of rents from existing government-created monopolies. In order not to lose these rents, existing monopolists may bribe committee members (or use other corrupt means) in order to maintain their economic rents. Just as the privatization process can itself be corrupted, so can the regulatory agencies that are needed in a privatized world (UNDP 1997a).

Policy-makers in South Asia must take care to root out corruption in the privatization process if they are to maximize the benefits of liberalization. Bribes should not be allowed to determine the list of pre-qualified bidders. Accurate information about state assets should be presented to everyone, not just to a few select insiders.

Conflicts of interest between politicians involved in selling state assets and their cronies buying these assets should be avoided. The institutional structure of regulatory agencies should be determined before bidding, to prevent manipulation (UNDP 1997a).

Source: Hyat 1996; IDS 1996; UNDP 1997a; and World Bank 1992.

**The less
bureaucrats are
paid, the more it
pays for them to be
corrupt**

are, of course, exceptions within the region. In India, for instance, the Supreme Court has recently played a key role in carrying out a corruption investigation in the controversial Bofors scandal, despite strong government opposition. However, even the most honest court officials are powerless if there are no effective, non-corrupt agencies to investigate and prosecute corrupt activity. Thus, courts often fail to combat corruption simply because corrupt officials never appear before them, or the evidence presented is too weak. See Chapter 3 for an analysis of the judicial system.

Fourth, despite a few recent initiatives—such as the Public Affairs Committee in India, the Human Rights Commission of Pakistan, the country branches of Transparency International, and citizen's action in India against former Prime Minister Rao—there are hardly any major civil society groups taking action against corruption. There is, for instance, no equivalent in South Asia to Hong Kong's famous Independent Commission Against Corruption, which

has considerable powers to combat corruption. The potential for such civil society action in South Asia is also considerably limited by the cloak of secrecy on most government information. Accountability by the people first requires citizens having the information to see whether officials are doing what they are supposed to be doing. The absence of detailed budget breakdowns, expenditure decisions outside the budget framework, the failure to disclose military spending, the limited data on revenue collection, and the absence of detailed information on new amendments and ordinances severely restricts the potential for concerted civil society action.

South Asia's 'perverse incentives'

The less bureaucrats are paid, the more it pays for them to be corrupt. This basic result is well supported by empirical evidence and country case studies. Studies for the World Bank's *World Development Report 1997* provide evidence that countries with poorly paid public officials are more susceptible to corruption. As

Box 5.6 The globalization of corruption

While many international donors are attempting to curtail lending to developing countries where corruption is rampant, there is also an urgent need to take note of the international dimension of corruption. The world community is as responsible for encouraging corruption as developing countries themselves.

Most western nations—with the commendable exception of the United States—regard commissions and bribes paid by their multinationals as legitimate expenses of business which are tax-deductible. In other words, western nations offer tax breaks and subsidies to their firms for the bribes that they give. Only a third of the 27-member OECD forbid outright tax deduction for foreign bribes paid by their nationals. These include the United States, Canada, Britain, and Japan. Many European nations including Belgium, Luxembourg, France, Sweden, Greece, and Germany still tolerate tax deductibility of foreign bribes.

There is an urgent need for the global community to change its current laws and practices and declare all bribes by their firms as a crime, punishable under law.

Recently, the OECD has passed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It is anchored around the criminalization of bribing foreign public officials by member states and abolishing tax deductibility of bribes. Although the Convention deals with the supply side of bribery, it is restricted to only international transactions, concerned only with the corruption of foreign public officials, and fraught with loopholes. Nevertheless, it is still of great importance. The Convention's signatories account for 70 per cent of world trade and 90 per cent of investment outflows.

Furthermore, most South Asian countries transfer more corrupt money

abroad each year than the aid they receive. This is because the offshore banks of western nations accept the flight of this corrupt money, give it protection under bank secrecy laws, and make handsome profits from it. While laundering drug money is a crime, sheltering corruption money is not. The difference between the two is simple: while drugs kill some people in rich nations, corruption starves millions in poor nations. Moreover, corruption money is easier to detect than drug money: while drug money is channelled via global cartels, corruption money from South Asia normally comes under a name and from lands where legal incomes are extremely low. It is therefore necessary to have international laws that treat safe havens for corrupt money on par with laundering outfits for drug money. It would also require western banks to cooperate in the search for corruption money.

Source: Haq 1997; OECD 1997, 1998a, 1998b; and 1998c; and Public Affairs Centre 1997.

chapter 3 indicates, there has been a considerable decline in the real civil service pay in several South Asian countries over the past fifty years.

As a result, a recent study found that India might need to increase public sector pay by 271 per cent and Sri Lanka by 496 per cent, in order to reduce their corruption levels to that of Singapore (Wei 1998). The study concluded that if officials are paid much less than people with a similar training elsewhere in the country, only those willing to accept bribes will be attracted to the public sector. Over time, the salary of senior civil servants relative to junior staff has also decreased, creating a disturbing incentive for a relative shift in corruption to higher levels of public administration.

Entrenched corruption

When corruption becomes entrenched and systemic, its negative influence on economic and social development multiplies. Trust between the state and its citizens collapses. Basic laws and contracts are no longer enforced. Contracts are no longer honoured. Vast amounts of resources and time are spent seeking bribes and corrupt gains rather than engaging in productive activity. Corruption extends from petty corruption at the lower level to grand corruption among the highest of the land (see box 5.7). Indeed, box 5.1 confirms the perception that corruption has floated upwards from petty corruption in the 1950s, to entrenched corruption at the highest levels by the 1990s. In such a situation, most citizens and investors see corruption as inevitable and anti-corruption reforms as futile.

The Indian Prime Minister Jawaharlal Nehru once stated: 'Merely shouting from the house-tops that everybody is corrupt creates an atmosphere of corruption. People feel they live in a climate of corruption and they get corrupted themselves'. Indeed, corruption breeds corruption—and a failure to combat it effectively can lead to an era of entrenched corruption.

An explanation of entrenched corruption propounded recently by economic theorists is the idea of 'multiple equilibria' in the incidence of corruption. The central idea is that the expected gain from corruption depends on the number of people. Initial conditions, it emerges, are vital: if an economy is jolted into a high average level of corruption, it will move towards a high-corruption equilibrium (Bardhan 1997b). However, despite the seemingly permanent nature of the entrenched corruption in many South Asian countries, it is possible to shift out of the high-corruption trap. Many countries—from France in the nineteenth century to Singapore in the twentieth century—have successfully completed the transition from high- to low-corruption societies (see box 5.8). Strong and visible political commitment to a solid anti-corruption agenda and strategy can bring about a similar transition in South Asia as it enters the next millennium.

An anti-corruption revolution

Fighting corruption in South Asia has become a rhetorical, rather than an actual, priority. The time has come for the

Fighting corruption in South Asia has become a rhetorical, rather than an actual, priority

Box 5.7 Grand corruption

Grand corruption is the misuse of power by heads of state, ministers, and top officials for private profit. The winners of grand corruption are Presidents, Prime Ministers, and Cabinet members. The losers are the general public. Any attempt to slay the corruption monster in South Asia must first attack the problem of grand corruption, which has caused such tremendous economic, social, and moral damage in the region.

Grand corruption is not unique to South Asia. For instance, the amount held in Swiss banks on behalf of African leaders alone is believed to be in excess of \$20 billion. But the recent examples of high-level political corruption in South Asia—in particular Pakistan, India, and Bangladesh—are among the most spectacular anywhere in the world.

Source: Haq 1996a; and Burki (forthcoming).

While the examples relate to particular governments, a more detailed analysis would almost certainly discover similarities across political parties and regional lines.

The magnitude of corruption in Pakistan exceeds Rs 100 billion a year, according to conservative estimates. A majority of the cases relate to non-performing loans provided by state-owned financial institutions to high-placed friends of the regime.

In India, the Bofors scandal involved several top political figures, including two former Prime Ministers. The Swedish arms company is alleged to have paid nearly \$30 million in bribes to secret Swiss accounts to top government officials.

Unless the wider institutional environment that breeds corruption is radically transformed, specific anti-corruption agendas are unlikely to meet with success

region's leaders to realize that combating entrenched corruption requires more than waiting for moral awakenings or economic miracles. A bold, concrete anti-corruption agenda needs to be devised and implemented. Any sensible plan to attack corruption must involve civil society, political leaders, government officials, business community, judges, foreign governments, and multilateral donors. While aiming at a substantial elimination of the major sources of corruption, any realistic plan must attempt to evolve a graduated strategy with a sensible, practical, step-by-step approach. Policy-makers must also realize that corruption is primarily a symptom of poor governance. Unless the wider institutional environment that breeds corruption is radically transformed—through economic, electoral, judicial, parliamentary, and bureaucratic reforms that restore people's trust in government, specific anti-corruption agendas are unlikely to meet with success.

Selecting strategies

Strategies to combat corruption must be based on an assessment of their impact as well as their feasibility. The first stage in the battle against corruption is to have strong political commitment; if this is missing, no anti-corruption plan will succeed.

If the requisite political commitment exists, the next stage is to examine the political and institutional feasibility of particular actions. Actions with a high feasibility can be subdivided by their high or medium impact on corruption. An anti-corruption agenda should focus on both. High feasibility-medium impact actions are necessary to 'pave the path'. They have important symbolic significance, and may be necessary to break out of a high-corruption equilibrium. Alongside actions that pave the path, are required policies that have a significant impact on corruption but can be accomplished relatively easily—'the easy short cuts'. These two actions build momentum for the third and final round

of actions—'learning to fly'. These are actions which have low feasibility since they will require tremendous political commitment to be carried out, but with a strong impact on reducing corruption.

The sequencing of the three sets of actions is important. First, symbolic actions must 'pave the path' by sending a shock to the system to jolt it out of the corruption trap. Second, 'the easy shortcuts' can root out some of the more obvious sources of corruption in a society, and thus lend real credibility to anti-corruption reforms. Finally, it is necessary to move into a new low-corruption trajectory by 'learning to fly'; this requires moving beyond marginal measures into fundamental reforms that squarely address the causes of corruption rather than the mere symptoms. The following are three basic routes to a low corruption path. They illustrate the key actions to begin an anti-corruption revolution.

PAVING THE PATH. The origins of an anti-corruption revolution lie in a few grand actions that establish credibility for the anti-corruption plan. Five basic actions can help convince people that the government is serious in combating corruption:

- *Begin accountability from the top*—An anti-corruption revolution must begin from the top if it is to be credible. 'The only way to break out of a high-corruption culture is for a few major corrupt figures to be convicted and punished. The government should identify a few major tax evaders, a few dishonest judges, and a few high-level government bribe-takers. Since a campaign against corruption can too often become a campaign against the opposition, the first big fish to be fried should be from the party in power' (Klitgaard 1998).
- *Set up exclusive corruption courts*—There are 22 million cases currently pending in the Indian judiciary. The Bangladeshi judiciary has a backlog of almost six

million. There is clearly a need to set up exclusive anti-corruption courts at both the central and regional level to tackle all the corruption-related cases rapidly. These special courts should have automatic jurisdiction over all corruption-related cases, and should function according to existing laws. However, the institutional structure of the corruption courts should be specifically designed to ensure transparency in decision-making.

- *Require public officials to declare their assets*—Politicians, bureaucrats, and military officers acquire funds illegally when they are in power. To determine whether funds were secured through illegal means, public officials must be required to make a detailed breakdown of their asset positions and tax returns every year after assuming office. Clearly, to be effective, asset declaration must be accompanied by an effective prosecution agency that can freely and fairly investigate unusual discrepancies between the living style and low tax returns of public officials.

- *Provide immunity to informers*—Corruption cases will come to light against corrupt government officers only if someone provides evidence against them. The best way to ensure this is to provide immunity from prosecution to the bribe-giver in exchange for providing solid evidence against corrupt government officials (Gandhi 1997).

- *Implement transparent procurement laws*—The bigger the contracts governments can sign, the bigger the kickbacks corrupt officials earn. The best way to ensure that mega-contracts are based on economic rationality rather than corruption potential is to devise transparent and non-discretionary procurement rules. There should be competitive bidding for all major public projects and programmes—both domestically and internationally. The parliament should be empowered to review all contracts entered into with the government.

TAKING THE SHORT CUTS. Symbolic actions herald change and a commitment to fight corruption. Next on the priority list are short cuts that may lead to a rapid reduction in corruption with minimal feasibility problems. Nine key actions listed here are the centre-piece of any medium-term strategy to attack corruption:

- *Pass a Right to Information Bill*—Governments in South Asia must stop hiding information from their citizens. Currently, there is extremely limited public access to information relating to budget details, the breakdown of military expenditure, the details of the taxation structure, or the state of financial institutions.

An effective Right to Information Bill would go a long way in helping citizens combat corruption effectively. Unfortunately, such legislation does not exist in many South Asian countries. In India, the Right of Information Bill, lying with Parliament for several decades, has still not been passed (Gandhi 1997). In Pakistan, the caretaker government drafted an excellent Freedom of Information Ordinance in 1997, but this was modified, and then allowed to lapse by the incoming government. Further, in Bangladesh, consensus to replace the Official Secrets Act 1939 with a Freedom of Information Act is growing.

- *Set up national anti-corruption commissions*—The first step in sending corrupt people to jail is prosecution. This requires developing an effective and powerful national Anti-Corruption Commission in all South Asian countries. Indeed, the challenge of establishing an uncorrupted anti-corruption agency is perhaps the most difficult item on the reform agenda. Currently, enforcement mechanisms are in place in Pakistan (Ehtesab Commission), India (Lok Ayukts in the states and the Central Bureau of Investigation), and Sri Lanka. Efforts are also underway in Bangladesh to overhaul the existing Anti-Corruption

Symbolic actions herald change and a commitment to fight corruption

The highly politicized nature of anti-corruption bureaus gives an impression that they are used for political witch-hunts

Bureau and establish it as an independent board along the lines of the Singapore and Hong Kong bureaus (World Bank 1996a). However, excessive reliance on enforcement has in some cases slowed down the decision-making process, as is reported to be the case in Sri Lanka (World Bank 1998b and 1998c). In other situations, the highly politicized nature of anti-corruption bureaus gives an impression that they have been used for political witch-hunts, rather than catching corrupt officials. Finally, the lack of real statutory powers of many anti-corruption agencies rendered them largely ineffective.

- *Ensure time-bound actions*—Discretion and monopoly power often lead to corruption, especially petty corruption, because they create the power to delay decisions. As a result, businessmen are often forced to pay bribes for routine clearances, and ordinary citizens feel they must make illegal payments to government officials to accomplish basic tasks, such as securing a driving licence or enrolling a child in school. This kind of extortion can end by placing clear time-limits on most routine approvals and clearances. For instance, the time-span for obtaining an international passport is clearly specified at the passport office in Pakistan, and a higher legal payment leads to a faster processing of the application.

- *End unnecessary or archaic discretionary laws*—The misuse of discretion can be further limited by removing obsolete and unnecessary laws that only serve to create rent-seeking opportunities for government officials and serve no perceived public interest. In Pakistan, for example, the import tariff has been modified so extensively by special-purpose exemptions that duties are often impossible to determine ex-ante, thereby generating incentives for corruption (UNDP 1997a). Strangulation must be replaced by regulation. In India, for example, this means ending Octroi and scrapping the Urban Land Ceiling Act (Gandhi 1997). In Pakistan, this requires ending the

culture of discretionary ministerial allocations of plots and permits.

- *Use independent private-sector auditors* — The accountability and transparency of government agencies can be increased by appointing both independent in-house ombudsmen in key government agencies, and appointing an external auditor to check accounts on an annual basis. Currently, most countries in the region have an Auditor-General, who verifies that government expenditures conform to administrative, legal, and legislative requirements. However, most public auditing processes suffer from weak staff skills, the use of outmoded procedures, a focus on accounting rather than auditing, long delays in the issue of reports, and little follow-up action to check deviations from auditing rules. While a long-term solution would require financial and technical help to strengthen the office of the Auditor-General, a quick fix might be to call in reputed external auditors to carry out not just procedural accountability but consequential accountability and performance auditing. This requires greater explicitness about the goals of particular agencies, clear and measurable performance standards, and a regular monitoring of these standards. It would also require tests of efficiency (such as cost per school) to ensure that programmes are viable and cost-effective rather than inefficient white elephants (World Bank 1996a).

- *Learn from the success stories*— Throughout the world, many countries have been able to fight corruption successfully. In several European countries, this process has taken centuries. But there are several examples of Asian countries that succeeded in moving from a high-corruption to a low-corruption equilibrium. Box 5.8 illustrates the key policies and actions used to combat corruption in Singapore and Hong Kong. There are also lessons to be learnt within the South Asia region: Bhutan has succeeded in keeping

corruption at a low level while Sri Lanka has reduced corruption in recent years.

- *Involve people in diagnosing corrupt systems*—Successful campaigns involve the people. ‘If only they are consulted, citizens are fertile sources of information about where corruption is occurring’ (Klitgaard 1998). Ways of consulting citizens include citizens’ survey, setting up citizens’ oversight bodies for public agencies, involving professional organizations, call in radio-shows, and educational programmes. In Pakistan, some Khidmat (Service) Committees set up recently by the government have identified in several cases of corruption in the education and health departments.

- *Appoint an independent watchdog*—Though little systematic statistical analysis of the importance of anti-corruption watchdog bodies exists, they can be useful in detecting corruption, in ensuring that illegal government actions get national and international media coverage, and in raising people’s awareness about how to combat corruption in their daily lives. Such organizations can range from official ombudspersons at various levels of government to anti-corruption agencies, such as the Independent Commission Against Corruption in Hong Kong; to smaller corruption-fighting institutions in Botswana, Chile, Malaysia, and Singapore (Wei 1998); to independent grassroots NGOs, like the Public Affairs Centre in Bangalore, India. There is an urgent need for similar anti-corruption civil society organizations in other regions of South Asia.

- *Link aid to humane governance*—While international action can supplement domestic reforms, rather than substitute them, many international donors are actively working to integrate anti-corruption measures into their programmes and projects. Multilateral and bilateral donors can play an important role in providing technical support (for instance, help in designing public administration reforms) and financial aid to countries that are

serious about combating corruption. More generally, however, linking aid to the overall quality of governance is probably the most important means of reducing corruption through donor resources.

LEARNING TO FLY. Corruption is a symptom of more deep-rooted economic and political problems. Some of the quick-win actions described earlier may fail to stem corruption in the long run if they are not combined with a broader

Box 5.8 Combating corruption: success stories from Asia—and around the world

Is it possible to escape from a high-corruption trap? The experiences of Hong Kong, Botswana, and Singapore suggest that it is possible to end an era of ‘corruption eruption’. The centrepiece of the anti-corruption reforms in each of these countries was strong political commitment backed by a concrete, carefully designed, and country-specific anti-corruption agenda.

Corruption was endemic in Hong Kong in the 1960s. Finally, in response to increasingly entrenched corruption, the Governor established the Independent Commission Against Corruption (ICAC) in 1974. The ICAC reported directly back to the Governor, and was independent from the police force. No one in ICAC could end up working for a senior officer who had been subject to investigation. The ICAC was given the power to investigate and prosecute corruption cases, and to engage in a campaign of public education (UNDP 1997a). Government commitment was signalled by appointing a person of unquestionable integrity to head ICAC, and by an initial policy of prosecuting the ‘big tigers’. Public surveys carried out between 1977 and 1994 reveal a growing public perception of falling corruption.

A number of other countries, including Botswana, Malawi, Singapore, and the Australian state of New South Wales, have devised similar institutions to ICAC. However, the model does have weaknesses in the South Asian context. First, it requires a strong law and order framework which does not exist in all the countries. Second, an anti-corruption

agency with such strong powers can be used as an instrument of repression against political opponents, as has been witnessed in some parts of South Asia. In Hong Kong, an independent judiciary keeps a check on the ICAC: an equivalent strong judiciary may not exist in several South Asian countries. Third, the ability of strict ‘law enforcement’ to keep corruption in check might mean that policy-makers ignore the need for the fundamental ‘repair’ of corrupt systems (UNDP 1997a).

Singapore has also made a successful transition from a high-corruption to a low-corruption economy. In the post WWII period, civil servants in Singapore were poorly paid, inadequately supervised, and many departments—such as the police—were notorious for high corruption levels. The People’s Action Party, which came to power in 1959, realized that a piecemeal strategy would not work in this environment. As a part of their new strategy the government strengthened the Corrupt Practices Investigation Bureau (CPIB). Since 1970, CPIB has been directly under the Prime Minister’s office. The CPIB also requires that ministries review work practices regularly, with the aim of reducing corruption. Key strategies to reduce corruption include reducing delays, rotating officers, and increasing supervision. The Singapore government has also focused on reducing corrupt incentives for bureaucrats with high wages, bonuses, and favourable working conditions (UNDP 1997a).

Source: UNDP 1997a and 1998a.

There is an urgent need to ensure that all countries declare bribery illegal, regardless of whether it is paid to foreign officials or national residents

effort focusing on major governance reforms. The key steps required to root out corruption permanently would almost certainly include the five fundamental actions listed below:

- *Repair corrupt systems*—A fundamental anti-corruption reform is to mend the corrupt system. Since unnecessary regulations and bureaucratic allocation of scarce resources breed corruption, the immediate task is to rid them from the system. In addition, anti-corruption reform should be based on a careful analysis of the corruption equation described above, so that the incentive and enforcement structures within government departments can be adjusted to minimize the possibilities for corruption. For instance, government financial enterprises in Pakistan are notoriously corrupt. According to some estimates, bad loans given as political patronage without proper collateral amount to approximately Rs 100 billion (HDC 1998c). Yet recovery is possible. Most of these loans are not stuck up with sick industries, but are in the hands of influential people, with considerable assets that can be seized and auctioned, provided there is proper accountability. To begin with, successful reform of the financial system might require banning politicians and bureaucrats from taking loans from state-owned financial institutions, and insisting they rely on private banks. In some sense, the most radical way of eliminating corruption is to legalize the activity that was formerly prohibited or controlled. For example, when Hong Kong legalized off-track betting, police corruption fell significantly. When Singapore allowed more products to be imported duty-free, corruption in the customs department went down (Bardhan 1997).
- *Implement core institutional reforms*—Policy-makers must realize that the fight against corruption is a lengthy battle and cannot be won overnight. Fundamental

institutional reforms are required. Chapter 4 analyses the damaging consequences of economic mismanagement in South Asia, in terms of unproductive rent-seeking opportunities generated through poor fiscal, monetary, human development, and trade policy. Fundamental economic reforms that limit government interventions—such as liberalization, deregulation, and privatization—can reduce these opportunities for corruption. In addition, core reforms in the electoral, parliamentary, judicial, and public administrative systems, discussed in chapter 3, will need to be a part of the corruption solution.

- *Ensure an active and free press*—An active media is vital to an anti-corruption agenda. In South Asia, the media has played a key role in unearthing and investigating major corruption scandals, such as the Bofors deal in India, and the 'Mehran Gate' and cooperative bank scams in Pakistan. A press that continues to probe into domestic corruption scandals, and informs the public about corrupt actions, is necessary if civil society it to take an active part in the anti-corruption battle.
- *Make all bribes given in industrialized countries illegal*—International double standards in dealing with the corruption problem must end. There is an urgent need to ensure that all countries declare bribery illegal, regardless of whether it is paid to foreign officials or national residents. Currently, several European countries outlaw bribes paid to nationals; bribes to foreigners, however, are treated as tax-deductible payments. Recent OECD regulations to treat bribery of foreign public officials as a criminal act is a step in the right direction (see box 5.6). Furthermore, western governments must be equally strict in controlling the laundering of corruption money in off-shore havens of leading commercial banks, as they are in preventing the laundering of drug money.



Chapter 6

Social Costs of Poor Governance

Despite a marked improvement in the lives of a few, there are many in South Asia who have been forgotten by formal institutions of governance

South Asia presents a fascinating combination of many contradictions. It has governments that are high on governing but low on serving; it has parliaments that are elected by the poor but aid the rich; and society that asserts the rights of some but perpetuates exclusion for others. Despite a marked improvement in the lives of a few, there are many in South Asia who have been forgotten by formal institutions of governance. These are the poor, the down trodden, and the most vulnerable of society, suffering from acute deprivations on account of their income, caste, creed, gender, or religion. Their fortunes have not moved with those of the privileged few and this in itself is deprivation of a distressing nature. This chapter looks at the crisis of governance through the eyes

of these forgotten people—for whom the crisis is real and the crisis is today.

As the previous chapters have already highlighted, a vast majority of people in South Asia remains alienated from the formal structures of political and economic governance. The political and economic institutions of governance have tolerated, if not perpetuated, multiple inequities in South Asia. High unemployment, poor living conditions, and increasing squalor have led to a growing sense of frustration amongst the people and have pushed many to the very brink of despair (box 6.1). Increasing levels of crime, violence, and conflicts also reflect this reality. These are manifestations of deep-rooted social cleavages that run along the lines of wealth, caste, creed, gender, and ethnicity.

Box 6.1 Les Misérables—the economics of suicide in Pakistan

Life is the ultimate gift and suicide its final rejection. Though there are many reasons why people commit suicides, in Pakistan, economic deprivations are increasingly pushing individuals to take the final plunge.

According to modest estimates, incidences of suicides have increased by almost three folds since 1997. During 1998-9 around 1,000 people took their own lives, many committing public self-immolation as a final act of protest. Even if some of these suicides occurred due to reasons other than economic deprivations, the extraordinary nature of human misery would still be hard to dispute. Recent evidence clearly suggests the rising economic exclusion of the poor that has resulted in extreme deprivation for many.

Pakistan has been faced with the spectre of a slowing economy and re-emergence of poverty since the early 1990s. Limited employment opportunities, combined with high inflation rates, have left many with nothing to look forward to except destitution. In fact, for the most

vulnerable, mere survival has become a constant struggle.

In 1986, there were 29 million people in Pakistan earning an average of 33 cents per day. They spent only 19 cents per day on food, leaving them with only 14 cents for all other expenses. However, by 1993, prices had increased by 80 per cent and the unemployment rate had reached 13 per cent. Therefore, not only were more people earning 33 cents per day (45 million) but they were also worse off than before. They were allocating an even larger share of their income to food leaving them with only 10 cents, which is hardly enough to meet all their other requirements.

It is therefore clear that the absolute poor cannot survive without state transfers. However, Pakistan's performance in this regard has been extremely poor. It transfers less than one-fourth of one per cent of its GNP to the poor in the form of *Zakat*, *Ushr* and *Bait-ul-mal* payments.

These meagre allocations are not only grossly insufficient but they also reach only

a small minority of the beneficiaries. For example, in Punjab only 3 per cent of the poor receive *Zakat* and *Ushr* payments. However even if these payments were to reach all of the poor in the country, it would mean a transfer of *less than one cent per poor person per day*.

Under such circumstances if some people are killing themselves it is hard not to conclude that society is failing to provide social safety nets for the poor. Though suicide is considered a serious crime in Pakistan, dying of hunger is not. It is not a crime when an unemployed individual's family is ill fed, his children go without schooling, and they have limited opportunities of getting basic health care.

This even while presidents and ministers, bureaucrats and judges, generals and police chiefs are never faced with the realities that haunt the poor. They never starve, their children never go without proper schooling and adequate health care, and they never have to make such extreme choices.

They have not only affected the economic performance of the region but have also resulted in significant human distress.

Life, liberty, and exclusion

Human lives in South Asia remain increasingly imperiled. Though accurate data on the incidence of crime and violence is very hard to come by, even the limited facts reveal a distressing picture. Sri Lanka has the highest rate of murders in South Asia—with 9 murders per 100,000 persons. This is almost four times the rate in Bangladesh and Nepal. Sri Lanka again has the highest rate of armed robberies in South Asia. The rate of car thefts in Bangladesh is five times the prevailing rate in India (see figure 6.1).

Violence is nothing new to South Asia. At the time of the partition of British India, widespread Hindu-Muslim riots resulted in an estimated 500,000 deaths. However, the last few years have seen a scale of violence, mostly targeted against ethnic, religious, or sectarian minorities, that has no historical precedence. The most visible failure of South Asian political institutions has been their inability to protect the life and liberty of their minorities. Between 1954-94 there were around 15,000 communal riots in India, which resulted in 13,301 casualties. Similarly, inter caste violence in India claims hundreds of lives each year. In 1996 alone 36,000 crimes were reported against scheduled castes and tribes. In Pakistan, large-scale sectarian violence between Shia-Sunni extremist groups has been on the rise. The violence that claimed only one life during the country's first thirty years has, in the last twenty years, claimed more than 4,000 lives, in Punjab alone. Similarly thousands of lives are threatened each day in South Asia due to internal conflicts (box 6.2).

However, the gravest form of violence is that committed against women and children. Violence against women, often a hidden scourge, is also on the rise in South Asia. It cuts across boundaries of countries, class, age, and ethnicity. However, data regarding this is extremely

hard to find, as women seldom come forward with information, especially when the perpetrators of violence are from within the family. Therefore, the reported figures are clearly a gross underestimation.

But the scale of the problem can be judged by the fact that even according to the modest official statistics, crimes against women rose by around 38 per cent in India (from 84,000 to 115,723) between 1993-6. Similarly, police statistics from Sri Lanka indicate that there were 26,565 reported crimes against women during the first half of 1998 alone. And in Nepal, where domestic violence is not even considered a crime, a study revealed that 50 per cent of the respondents knew of someone who had been a victim of domestic violence (US State Department 1998). In Pakistan, as well, there are no specific laws that protect women against domestic violence, hence only the most

Box 6.2 Internal conflicts: South Asia at war with itself

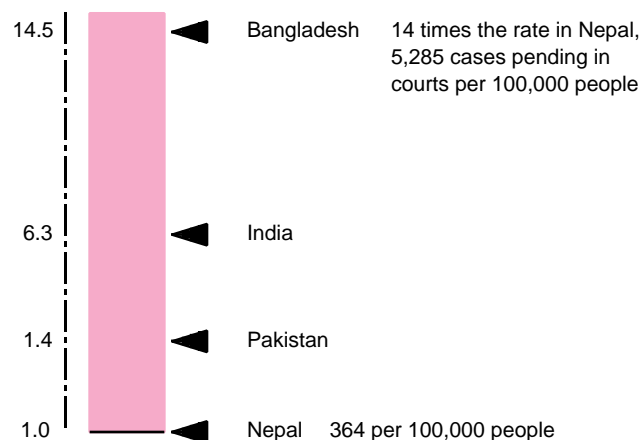
Internal conflicts in South Asia are actually wars without frontlines. Many South Asian countries are embroiled in conflicts that manifest themselves in the form of guerrilla wars, separatist movements, or political and ethnic violence. They impose a high human cost with most victims belonging to poor and defenceless communities. From the civil war in Sri Lanka to the continuing violence in Kashmir, South Asia seems to be at war with itself.

Sri Lanka	India	Pakistan
KILLED: 55,000 have died so far in the war with the LTTE.	KILLED: Since 1995, approximately 8,300 have been killed in Jammu and Kashmir and the North-east.	KILLED: More than 3,000 have been killed in politically motivated violence in Karachi since 1995. 1,000 in 1998 alone.
EXTRA JUDICIAL KILLINGS: 750 extra judicial killings by security forces, since 1995.	EXTRA JUDICIAL KILLINGS: 200-400 extra judicial killings in Jammu and Kashmir in 1997.	EXTRA JUDICIAL KILLINGS: 566 people killed in extra judicial killings in 1998.
DISAPPEARANCES: More than 30,000 have disappeared since the beginning of the war. DISPLACED: More than one million people have lost their homes because of the war.	UNACKNOWLEDGED DETENTION: At least 2,000 held in long term unacknowledged detention, by security forces, in Jammu and Kashmir and the Northeast.	SECTARIAN VIOLENCE: More than 4,000 killed in sectarian violence in Punjab since 1978.

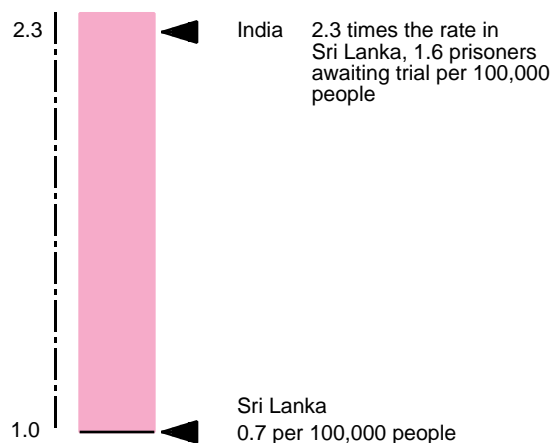
Sources: Herald 1998; HRCP 1998; Newsweek 1999; and US State Department 1997 and 1998.

Figure 6.1 Profile of human distress in South Asia, 1996
(Indexed to the lowest rate reported)

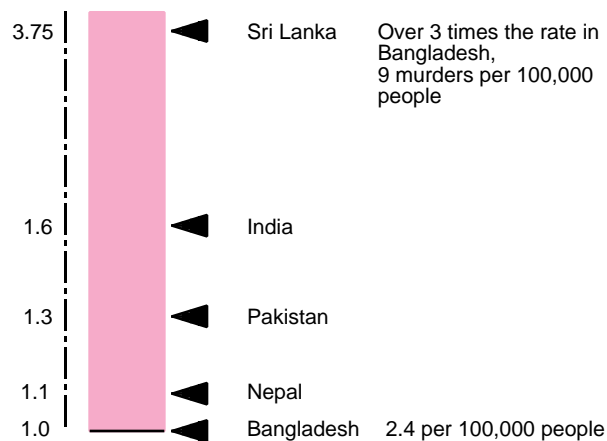
CASES PENDING IN COURTS



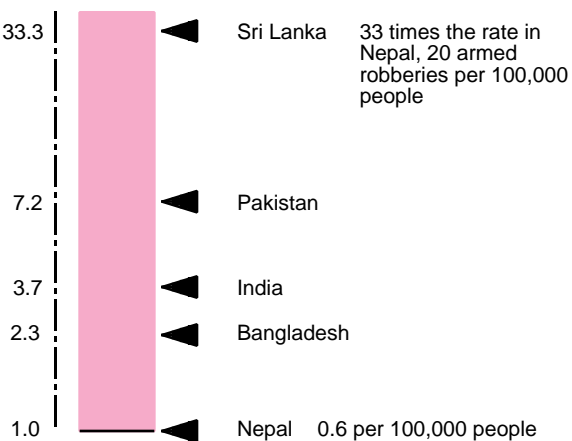
PRISONERS AWAITING TRIAL



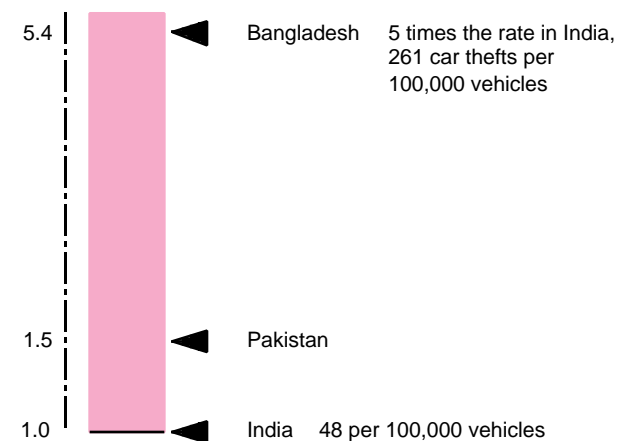
MURDERS



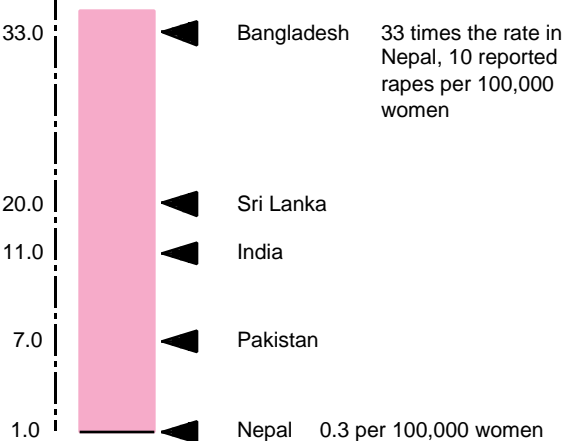
ARMED ROBBERIES



CAR THEFTS



REPORTED RAPES



Source: HDC Governance Tables.

extreme cases come to light. But even then the figures are startling. According to some estimates there are two cases of wife beating in Pakistan *every hour*. Bangladesh has also failed in providing protection to its women and has the highest reported rate of rapes against women in the region.

Much of the violence against women is related to disputes over dowries. Although most 'dowry deaths' involve lower and middle-class families, the phenomenon crosses both caste and religious lines. Many South Asian countries, for example India and Bangladesh, have made dowry demands a punishable offence but the custom is still widely practised. In Pakistan, for example, the government has been relatively successful at curbing the ostentatious display of wealth at weddings but has neglected the dowry menace. According to most conservative estimates, there were around 23,000 cases of dowry deaths in India between 1994-8. Similarly, reports from Lahore indicate an average of sixteen cases of bride burnings a month—with most of the victims belonging to poor families.

Children, who should be the most protected, are undeniably the most vulnerable in South Asia. Crimes of the most heinous nature are perpetrated against children throughout the region. In India, in 1996 there was a 31 per cent rise in the cases of child rapes since 1992, with more than 4,000 reported cases. Similarly the fact that in 1998 more than half of all rape victims in Punjab (Pakistan) were minors, reflects the failure of state authorities in protecting the most innocent and the weakest of society.

Child prostitution is widely known to exist in South Asia but is rarely discussed. Widespread poverty and inadequate social safety nets have left many children with no choice but to sell their bodies simply to survive from one day to the next. Fear of AIDS has turned many away from adult prostitutes to young children with the result that today there are as many as 100,000 child prostitutes in South Asia. In Sri Lanka, an estimated 30,000 children

sell themselves to foreign tourists. These are the innocent victims of the civil war in northern Sri Lanka. Many of them are shipped in from the war zone by agents who prey on war affected homes. Often with the family's wage earners killed in the war, these young children have no other option but to sell their bodies in this war-ravaged economy.

Many 'procurers' who deal in the flesh trade trick parents by pretending to be charitable workers wanting to educate their children. They later sell these innocent children to traffickers and brothels. It is estimated that each year around 7,000 children are registered in India from Nepal for prostitution. But in 1996 only 122 cases were brought up against those involved in the sale and purchase of minors in India. In 1996, a Nepalese NGO reported that the number of trafficked Nepalese girls in India ranged from 100,000 to 200,000. Similarly, children from Bangladesh are brought into India and Pakistan for the same purpose.

Once these children are brought into brothels they are subjected to the most inhuman treatment. Multiple gang rapes, beatings, and unprotected sex become a routine. According to a recent survey of Nepalese sex workers who return from India each year, nearly 65 per cent are HIV positive. Their own communities often reject those who manage to escape and return to their homes. Though governments in the region are making some efforts to bring those guilty to justice, the exploitation of children continues unabated mainly due to inadequacies of relevant laws.

Guardians of liberty

Crimes, violence, and insecurity affect the poor the most. The rich can choose to ignore this reality as they can hire private security agencies to protect themselves. But the poor cannot. For them, reliance on the police is often the only alternative.

But the police may not always be able to provide protection to the poor. This is true even while South Asia remains a

Children, who should be the most protected, are undeniably the most vulnerable in South Asia

Table 6.1 Guardians of disorder	
Country	Numbers killed in police custody & encounters, 1997-98
Bangladesh	23
India	756
Nepal	93
Pakistan	702
Sri Lanka	32

Source: HDC Governance Tables; HRCP 1998; NESAC 1998; and US State Department 1998.

heavily policed society, with one police person for every 939 people. The police force has not only been largely unsuccessful at controlling crime, has also failed in upholding the law. Physical torture and inhuman punishments at the hands of the police are common throughout South Asia. There have been numerous cases of people tortured to death in police custody or killed in fake police encounters (table 6.1). In fact, there have been many instances where police officials have been found to have sexually abused and even raped women in custody. According to estimates from Lahore, in 1998, there was one case of custodial torture against women, every three days. In such an environment, people can hardly trust the police. Recent survey results also corroborate this fact and reveal that only 13 per cent of the respondents in Pakistan and 42 per cent of the respondents in India were satisfied with the performance of their police force (HDC 1999b).

Inadequate legal procedures exacerbate police inefficiency even further. Criminal procedures in South Asia leave lacunas, arising from discretionary powers, which can be misused by authorities (table 6.2). These powers not only impinge upon the civil liberties of

ordinary citizens, but also act as obstacles in the delivery of justice.

As chapter 3 shows, the poor face considerable difficulties in gaining access to the judicial system because of overloaded courts and lengthy court procedures. But even if their cases are resolved, a verdict is reached and the accused is sentenced to a prison term, the discrimination does not end.

It is very likely that if the accused is an influential individual he will be housed in a cell where he receives special facilities. This is true for India, Bangladesh, and Pakistan where prisoners are classified according to their social standing and not according to the nature of their crime. Hence, prominent influential people are lodged in class A prison cells where they are often permitted to have servants, special food, and even televisions in their rooms. For the ordinary citizens in South Asia, to expect governance institutions to ensure the security of their life and liberty is still too much to expect. In a recent survey (see Annex B), it was found that more than half the respondents in Bangladesh, Sri Lanka, and Pakistan simply did not believe that the legal system was just and protective of their rights.

Governance that excludes

And fails to ensure equity and social justice for all. Institutions of governance in South Asia have failed to provide economic, political, and social opportunities to its teeming millions who just happen to be born poor, belong to a different faith, or to the wrong gender.

The absolute poor

As chapter 4 shows, economic growth in the region has not favoured the poor. Even though GDP per capita (PPP \$) has been rising annually at around 2.5 per cent, between 1960-95, the average income of the richest 10 per cent is still six times the average of the poorest 10 per cent (table 6.3). The benefits of growth have not trickled down to the

Table 6.2 The powers that be		
Country	Discretionary Powers	No. of detainees under the law (1998)
India	Terrorist and Disruptive Activities Act (TADA) ¹ allows the courts to use abridged procedures. For example, confessions extracted under duress are permitted as evidence.	1,502
Bangladesh	Special Powers Act, 1974, allows the government to detain anyone for 30 days if he is suspected of acting to 'prejudice the security of the country'.	885
Sri Lanka	The Emergency Regulations and the Prevention of Terrorism Act (PTA), allows security forces to detain suspects for extended periods of time without court approval.	1,800

1. Although TADA lapsed in May 1995 but 1,502 prisoners continued to be held as of January 1, 1997.
Source: US State Department 1998.

poor with the result that only one-fifth of South Asia's people earn almost 40 per cent of its income (figure 6.2). This inequity comes at a high social cost, as countries with highly skewed income distribution invariably show bad social indicators (Commander et al. 1997).

Table 6.3 Who is the most equal of them all?	
Ratio of income of highest 10% of population to lowest 10%, 1990-96	
Bangladesh	5.8
India	6.1
Nepal	9.3
Pakistan	7.4
Sri Lanka	6.6

Source: World Bank 1999b.

There are 515 million people in the region who are faced with acute income poverty, which severely limits their ability to live a decent life. Moreover, many are also deprived in basic capabilities like education, health, years of life, clean drinking water, and housing. The rich do not have to rely on the state as they can use their own resources to acquire such capabilities. But the poor have to. Therefore, public provision of these services is often the only alternative for them. However, rapidly growing populations, along with misplaced government priorities, have perpetuated stark inequalities in access to such social services.

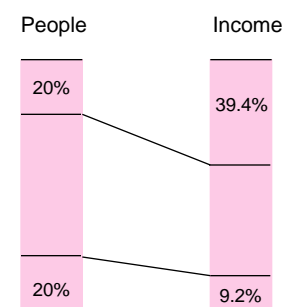
EDUCATION AND HEALTH. One of the most glaring failures of South Asian states has been the inability to ensure adequate allocations for education and health. There is considerable evidence to believe that these low allocations have led to perverse social outcomes for the poor—as social indicators are shown to be sensitive towards changes in expenditure on health and education (Khan, S.R. 1998). According to another study, an increase in public health spending by 5 per cent can lead to a rise in the average life expectancy of the poor by 0.35 per cent and a fall in the infant mortality rate by more than 1 per cent (Bidani and Ravallion 1995).

Equitable social development priorities can make the difference between life and death for the poor. According to a recent cross-country study involving thirty-five countries (which include the five largest South Asian countries), those living under \$2 a day can expect to live nine years less, on average, and their children are 50 per cent more likely to die before their first birthday (Bidani and Ravallion 1995). Similarly, in Madurai—the second largest city in Tamil Nadu, children in the poorest households are more than twice as likely to suffer from serious physical or mental disabilities than children from slightly better-off households (Birdsall and Hecht 1995).

In the face of such powerful evidence, South Asia is still channelling insufficient resources towards the social sectors. Whenever there has been a fiscal adjustment, the axe has fallen on health and education expenditures. Real per capita expenditures on education have followed a downward trend since the early 1990s. India spent Rs 249 per person in real terms on education in 1990; however, by 1992, it had reduced its spending to Rs 239 (table 6.4). Similarly, Pakistan reduced its real per capita expenditure on education from Rs 210 in 1990 to Rs 209 in 1993. By contrast, Sri Lanka and Nepal have not only maintained real per capita expenditures on social sectors but have also raised them, even in the face of severe fiscal adjustment.

However, an even bigger irony is that not only are these allocations meager they are also unprioritized. Though

Figure 6.2
People and income



Source: World Bank 1999b.

Table 6.4 Real per capita expenditures (local currencies)				
Country	Education		Health	
	1990	1992	1990	1992
Bangladesh	138	162	—	—
India	249	239	—	—
Nepal	110	168	35	43
Pakistan	210	209 (1993)	69	71 (1994)
Sri Lanka	507	570	292	353

Source: HDC staff calculation.

Balance sheet of human progress in South Asia

Progress

Deprivation

Life Expectancy

- Average life expectancy increased by over 25% between 1970 and 1997—and is now 62 years.

- Over 200 million people are not expected to survive to age 40.

Health

- The proportion of people with access to health services has risen to 78%.

- 276 million people still lack decent health care.
- Nearly 278 million do not have access to safe water and over 879 million people lack access to sanitation.

Food & Nutrition

- The per capita calorie intake increased from 88% to 111% of daily requirements between 1965 and 1995.

- 79 million children suffer from acute malnutrition.

Education

- Adult literacy rates increased between 1970 and 1995, from 32% to 49%.

- About 395 million adults are still illiterate.
- 50 million children are not in primary schools.

Income

- Real GDP per capita (PPPS) has increased annually since the 1960s by almost 2.5%.

- More than 515 million people are still in absolute poverty.

Children

- Under-5 mortality rates have more than halved over the last three decades.
- Immunization coverage of one-year-olds increased dramatically during the 1980s.

- Over 3 million children die every year before reaching their fifth birthday.

Women

- Female primary school enrolment rates increased by 61% between 1970 and 1993.

- Trained health personnel attend only 31% of births and the maternal mortality rate is 480 per 100,000 live births.
- Women are often denied their basic human rights.

Rural & Urban Areas

- 87% of urban dwellers have access to safe water and 73% have access to adequate sanitation.

- Only 20% of the rural population has access to adequate sanitation.

comparative national data on the incidence of government spending by income group is scarce, there is no denying that even these low allocations clearly bypass the poor as most of them are directed towards non-primary education and non-basic health facilities. Hence, the prevailing political and economic systems have not only produced inequities in these societies but have also perpetuated them.

Public health services in South Asia are often concentrated in large hospitals—mainly in urban centres. Around 70 per cent of Sri Lanka's general health services are located in the country's western region alone (HDC 1998a). Similarly, over half of the government hospitals in Dhaka are located in only three of the seventy-five wards of Dhaka City Corporation. Rural households in Sri Lanka spend 40–60 per cent of their health expenditure on transport costs alone. This pattern of concentration of health services excludes the (rural) poor, as high travel expenses and the opportunity cost of time lost act as major deterrents for them.

Similarly, there is considerable evidence of educational inequities between the poor and the rich in South Asia. In some Indian villages, the literacy rates for upper caste Brahmins are 90 per cent, while those for the lowest castes are only 10 per cent. In India and Bangladesh, the gross primary enrolment rates for landless peasants and medium to large-scale landowners are 17 per cent and 24 per cent, respectively.

The inequitable access is aggravated by inefficiency in the delivery and management of these services. This has led to large-scale absenteeism amongst teachers and health workers, non-availability of critical inputs, political interference, and thousands of ghost schools and dispensaries that exist only on official records (see chapter 4), with the result that even the existing education and health facilities fail to benefit the poor.

These inefficiencies have led to a general decline in the quality of services.

Thus schools exist without proper schooling and rural dispensaries operate without adequate health care. Public services have expanded in quantity but not in quality so that while several countries in South Asia are nearing universal primary enrolment, repetition and dropout rates remain high. Absolute health expenditures have risen but there has not been a matching decline in the burden of disease.

Low quality of health and education services often diminishes their utility for poor people. They have to frequently look towards the private sector for the efficient delivery of these services. Although 45 per cent of the population in Bangladesh has access to health facilities, less than one-fourth of the population uses them (World Bank 1996a). In the poor Indian states of Orissa, Uttar Pradesh, Rajasthan, and Bihar, less than a third of rural men and about 10 per cent of women use the services of primary health centers.

The burden of private health spending falls most heavily on the poor. About 7–10 per cent of income in the poorest Bangladeshi households is spent on health services, compared to only 2–4 per cent by the rich. In rural India, health spending by poor patients comprises 5 per cent of household consumer expenditure. The poor patients are forced to pay out of their pockets, especially since insurance coverage remains low—only 3.3 per cent in India.

The increasing recourse to the private sector for the provision of health and education carries some serious hazards. The private sector may be more efficient than the government, but it reinforces the income and class divisions within these societies. Moreover, private services are often more expensive, have uneven quality, and remain inaccessible to the vast majority of poor people. Sadly, even the regulatory mechanisms to monitor private social services are weak or non-existent. This is a major problem in Sri Lanka where, despite rapid growth in the private sector, the government has yet to regulate private health providers. Similarly in Punjab (Pakistan), there are between

The political and economic systems have not only produced inequities but have also perpetuated them

In South Asia, more than a sixth of the people, almost 200 million, are not expected to survive to age 40

15,000 and 32,000 medical stores that operate without a licence.

Financial burdens on the poor remain considerable even when public services are provided free of cost. The poor are often forced to make hidden payments to teachers and doctors. The poor in Bangladesh often need to pay nearly fifteen times more than the official fee to get specialized attention of the doctor in a public dispensary. The poor are normally exempt from payments for prescriptions in theory, but in practice they are often made to pay for even petty medicines. Medicine pilferage is common; the medical staff is often to be found selling these public drugs in private markets.

YEARS OF LIFE. South Asia has made considerable gains in increasing the life expectancy of its people. But the cruel reality is that average life expectancy and child mortality rates reveal a great divide between the rich and the poor. In India, child mortality rates are much higher in states where there is a larger proportion of poor people. Even within some cities there are considerable differences in mortality rates between rich and poor neighbourhoods. During the late 1980s, in Colombo, child mortality rates in poor neighbourhoods were 0.3 per cent greater than the national average, whereas they were 0.25 per cent less than the national average in rich neighbourhoods, implying that children belonging to poorer households had a lesser chance of survival than the rich (World Bank 1993).

Nonetheless, average life expectancy in the region has increased by over 25 per cent between 1970 and 1997 and it is now sixty-two years. However, this progress for some has been marred by a short life for many. More than a sixth of the people, almost 200 million, are not expected to survive to age 40. This is more than the combined population of France, Germany, and the UK. The burden of this severe human deprivation falls mainly on India, which is home to three-fourths of all South Asians who are expected to die before the age of 40.

Between the period 1960-97, the under-five mortality rates in South Asia more than halved, from 235 per 1000 live births to 110. Pakistan is the only exception in this regard, as it reduced its under-five mortality rate (U5MR) by only 40 per cent. Pakistan and Bhutan have an under-five mortality rate higher than the South Asian average. However, Bhutan's performance has still been better than that of Pakistan, as it successfully halved its U5MR even though it had started with a higher base.

Maternal mortality is another contributor to the short life spans in the region, with an average rate of nearly 500 per 100,000 live births in South Asia, and as high as 1,500 in Nepal and 1,600 in Bhutan. The maternal mortality rates in these two countries are even higher than that of Uganda (510)—which has experienced a proliferation of civil conflicts over the years. This, alongside other indicators, reinforces the double deprivation that poor women suffer in South Asia.

SAFE WATER AND SANITATION. Poor housing and poor health are often associated with limited access to proper sanitation and safe water. The responsibility of managing water supplies and sewage disposal facilities, and collecting user charges usually lies with the local authorities. However, vested interests and local elites play a vital role in influencing decisions regarding the selection and location of infrastructure projects. This is evident from the fact that, throughout South Asia, higher investment (in per capita terms) and better maintenance is seen in the relatively well-off areas.

South Asia has made vast improvements in the delivery of water and sanitation services: access to clean drinking water has almost doubled and access to sanitation has increased by four times since the early 1980s. Yet the magnitude of unmet demand requires more efforts. Currently, there are more than 200 million people in the region without access to safe drinking water and

more than 800 million without proper sanitation. Polluted water is still a threat to many lives and a serious health hazard. This is nowhere more evident than in Bangladesh, where 20 per cent of drinking water tube wells are contaminated with high levels of arsenic. Yet again the poor are most affected, as they are concentrated in settlements without adequate services.

Throughout the region, the poor meet most of their water needs from common faucets, wells or hand-pumps. Most of the poor in India draw water from public stand posts (PSPs) managed by local authorities. However, water through the PSPs is only available for short durations and at low pressure. The number of persons per PSP is very high—especially in low-income areas—resulting in unending queues, long hours of waiting, rising tempers, and quarrels. Similarly, where there are no public taps in the locality, water has to be brought in from long distances resulting in low per capita consumption. Alternatively, it can be obtained from private vendors but only at rates which are well beyond the means of the poor.

Water charges in most South Asian countries are regressive. This has resulted in large-scale wastage of water by the rich. Recent evidence suggests that the poor in Karachi pay forty times more for drinking water than the rich. In many Indian states, the exemption limits fixed by local authorities allow the rich to get away without paying for a substantial part of their water consumption.

One important reason for the failure of local authorities to provide such basic services to the poor is their precarious financial conditions. There is an urgent need to introduce mechanisms which will ensure the provision of funds to local authorities on the basis of minimum needs. The state governments should provide special funds to local authorities based on the assessment of their requirement and performance. Moreover, the local community, especially women who play an important role in the provision, management, and safeguard of

these services, should be involved in the planning for local water and sanitation services.

HOUSING. Adequate housing and shelter is essential for meeting people's basic needs. Millions of people in South Asia live in unacceptable housing.

Compounding the housing problem has been the rapid growth of urban populations. Urbanization, alongside slowing growth in the agricultural sector, has changed the demographic profile of the region. During the last twenty-five years, the South Asian urban population has been growing at more than 3 per cent per annum and is expected to double by the year 2015. Migration of the rural poor to rapidly expanding cities has led to overcrowding and inadequate housing, resulting in the emergence of slums and squatter settlements in almost all South Asian cities. Today, more than 75 million people in urban India live in unplanned settlements and slums. In Bombay alone, more than 5.5 million people live in hutments and slum dwellings. These dwellings house nearly half the city's population but occupy only 2 per cent of the total land area.

South Asian states are allocating insufficient resources for housing and often with the wrong priorities. During 1992-5, housing and community amenities received only 6 per cent of total central government expenditure. In India, in 1989, only 10 per cent of the investment and 30 per cent of the supply of housing units came from the public sector. This is particularly striking, as there are separate government agencies at the Central, State, and Municipal levels responsible for providing housing to the poor. What is alarming is the fact that many of these agencies, on account of their financial and administrative rules, explicitly exclude the absolute poor—those most likely to be homeless. Often the poor do not benefit from state housing agencies, nor can they secure credit from housing cooperatives. Not having legal titles to the land, it is not possible for them to get approval from

South Asian states are allocating insufficient resources for housing and often with the wrong priorities

local authorities to build on what is perceived as illegally occupied land.

The poor are forced to live in squatter settlements with the threat of eviction constantly looming over their heads. They are faced with a precarious situation: governments do not provide services to such areas as they are illegal and unplanned, and the residents cannot spend their own resources, as they simply cannot undertake such heavy investments. Also, the uncertainty regarding their tenancy status, combined with the threat of eviction, deters them from spending their meagre resources on improving residential provisions in case their houses are razed to the ground.

In Karachi, the annual backlog of houses in the formal sector is around 70,000. Hence, it comes as no surprise that nearly half of the city's population (more than five million people) lives in *katchi abadis* or slum settlements. But what is most shocking is that during the last six years, government agencies have bulldozed more than 13,000 houses without providing the inhabitants with any compensation or alternative shelter. This has resulted in losses to the poor amounting to more than \$126 million. The fact that the victims of evictions are often the poor shelterless masses and not the affluent and the powerful—who own illegally built high-rise buildings or palatial homes—is another reflection of the social and economic injustice that pervades the entire South Asian society.

Women

The differential treatment of individuals on the basis of gender is derived from age-old social norms and beliefs in South Asia. Though bias against women is not limited to South Asia alone, its severity is surely unique to the region. The 1997 Report on *Human Development in South Asia* has underlined South Asia as the least gender-sensitive region in the world. As discussed in chapter 1, the region scores very low on the GDI—Gender-related Development Index—due to

some of the world's highest gender disparities in health and education.

As in many other parts of the world, society's attitudes about appropriate gender specific roles widely discriminate against women in South Asia. That is why it is not surprising that women, and their concerns, receive inadequate attention from the institutions of governance. As figure 6.3 shows, the rates of women's economic activity are less than half that for men and women's share of earned income is only one-third that of men. Although there are 635 million women in South Asia, their representation in the echelons of political power is almost negligible. On average, there is only one female parliamentarian for more than 22 million people, compared to one male parliamentarian for nearly 2 million. The lower women to men ratio in South Asia is another testament to the neglect that women suffer in society, which in its most extreme form, raises its ugly head in the shape of female foeticide (Box 6.3).

But there is another type of passive infanticide, which is sustained neglect of women in the form of unequal allocation of resources to nutrition, health, and education. The traditional preference for sons in South Asia is so high that it results in higher female child mortality (Das Gupta, M. 1998). The ratio of female to male mortality rates (between ages 1 and 5) is indicative of the differential treatment that girls receive from their parents (and other adults). Recent studies indicate that in all other regions except South Asia, there is no difference between male and female child mortality rates. In Pakistan, India, and Bangladesh, girls are between 30 to 50 per cent more likely than boys to die between their first and fifth birthdays. However, there is considerable variation within South Asia on this front.

The band across northern India and Pakistan shows much more gender disparity than the South. This is mainly due to the differences in kinship systems, property rights and related features of society. Mortality rates for some Indian

states, like Kerala and Tamil Nadu, actually slightly favour girls, while other states have female-male ratios higher than many non-South Asian countries. The same is true for some provinces in Pakistan, such as Punjab, where girls are almost twice as likely as boys to die between ages one and five (figure 6.4). This disparity exists mainly due to the preferential treatment that boys receive in terms of nutrition and health care at home.

The ratio of female to male enrolment also follows the same pattern as those of mortality outcomes and health treatment. Within India, Kerala and Nagaland again have no gender disparity, whereas in Rajasthan, girls are only half as likely to attend school.

Interestingly, these gender disparities are not associated with income. The overall level of female to male mortality may fall with rising incomes, but the ratio between male and female child mortality

does not. Therefore, South Asia cannot simply expect to bridge gender gaps by raising incomes alone; a more comprehensive strategy would be needed. However, progress is still possible. Studies have shown that sex differences in survival probabilities are smaller when employment opportunities for women are higher, as women's relative bargaining power is stronger. This leads to higher investment in their health and education, thereby ensuring higher survival rates. Therefore, by creating more employment opportunities for women, South Asian governments can not only empower women economically, but can also put an end to the social exclusion faced by almost half of humanity in South Asia.

Minorities

Religious minorities in many South Asian countries are faced with limited opportunities for economic and political

Box 6.3 India: the girl child—silenced from the womb

'The birth of girl grant elsewhere, here grant a boy', Atharva Veda

In most South Asian countries, there is a clear bias against the female child. This is an outcome of age old religious and social norms where the son is seen as continuing the family line and the girl is regarded as a future financial liability—as she has to be married off, possibly with a huge dowry. That is why girl children face some of the most extreme forms of violence and abuse, and in some instances are even denied their very right to be born.

Advances in medical science, instead of working in their favour, have in some cases become a tool in quickening their pace of death. Various medical tests which were developed for the detection of genetic abnormalities in the foetus are now being used to discover the gender of the unborn baby with the intention of getting rid of the female foetus.

Human rights groups estimate that at least 10,000 cases of female infanticide occur yearly, primarily in poor rural areas of India. Female foeticide, which is the modern version of female infanticide, is also widespread in certain parts of India.

According to estimates, there were 78,000 cases of female foeticide in India between 1978-82.

During 1984, in Bombay alone, there were 40,000 cases of female foetus abortions. A survey carried out in a women's centre in Bombay found that out of 8,000 foetuses aborted, 7,999 foetuses were of girls. Similarly, almost all of the 15,914 abortions performed during 1984-5, after undertaking sex-determination tests, by a well-known Abortion Centre in Bombay were those of girl foetuses. However, in the nine years since Maharashtra passed a law banning the use of tests for sex determination, the state government has filed charges against only one doctor.

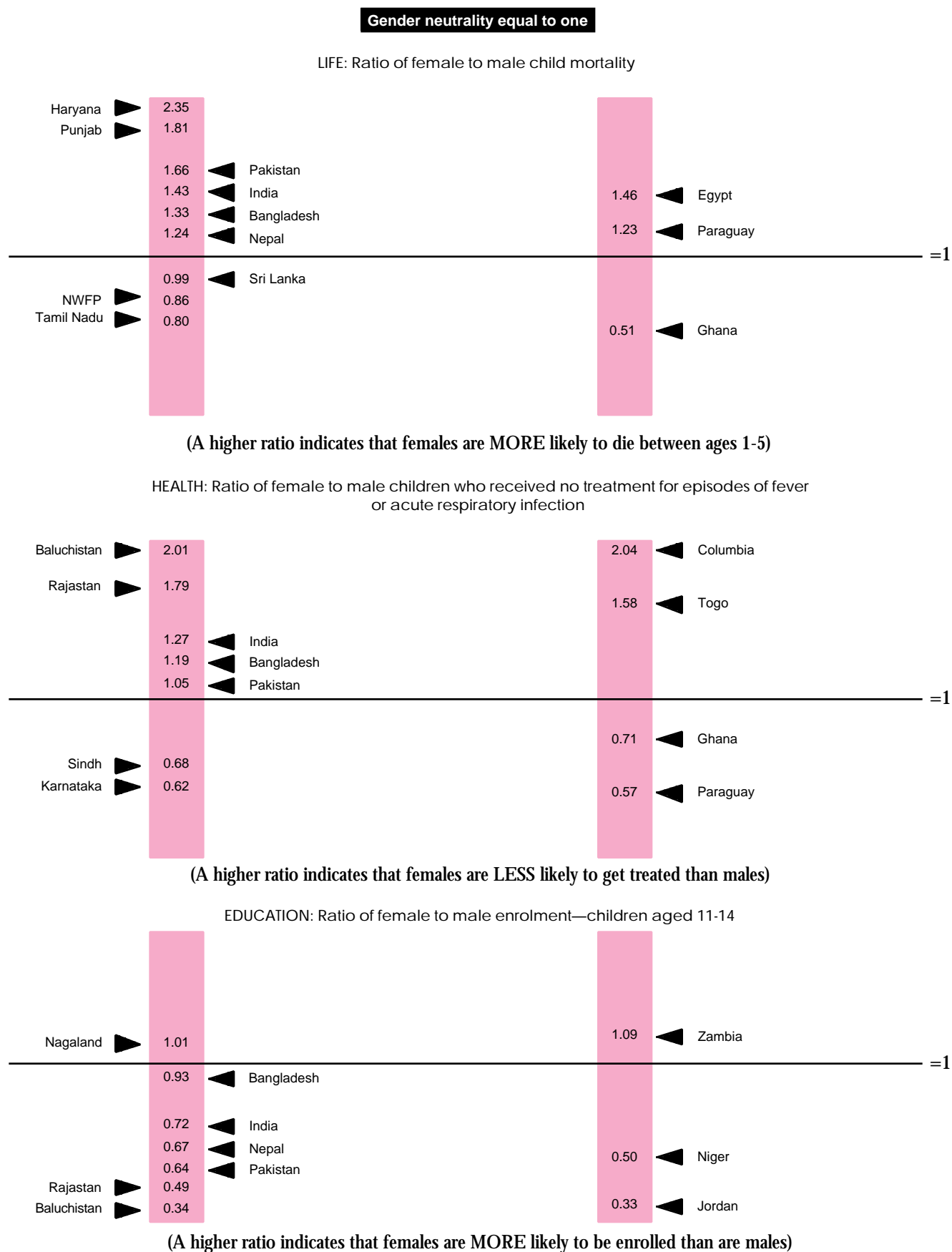
Due to their high demand, the number of sex determination clinics in Maharashtra (India) rose from 10 in 1982 to more than 500 in 1986. Almost every district town in Maharashtra has at least one SD clinic. This may also be the case in Gujarat, West Bengal, Punjab, Haryana, and Delhi. Many hospitals coax people through brazen advertisements like 'Better Rs 500 now than

Rs 5,000 later'. Surveys reveal that even in cases when tests are done to see if there are any foetal abnormalities, and the parents are advised that there are chances of genetic disorder, the foetus is usually carried to full term if it is male, otherwise it is aborted. Another survey of a hospital in India revealed that 70 per cent of those seeking for sex determination tests belonged to the middle classes, with many of them being literate. A 1992 study found that unlike the 1980s, when there were more cases of SD tests among middle-class families, the demand for these tests is now rising among all sections of the society.

South Asia is already going against the biological norm, where for every 100 men there are only 93 women. A further imbalance in the population can lead to a rise in many social problems like rapes, prostitution, abductions, and greater controls over women. A wholehearted campaign to bring a change in the social values and to eradicate dowry is essential—along with proper legislation against sex-detection tests.

Source: Kapur 1993; and US State Department 1998.

Figure 6.4 The girl child: born to be excluded



Source: Pritchett et al 1997.

empowerment. Society is often prejudiced against them and, in many cases, the state also fails to ensure their access to state jobs and social services. Most South Asian countries have implemented some affirmative action policies to improve the conditions of their minorities. However, notwithstanding such policies, the discrimination persists.

MUSLIMS IN INDIA. There are more than 120 million Muslims in India. Though economic and social backwardness afflicts many, in India, Muslims find themselves substantially disadvantaged because of their educational backwardness. In terms of education, Muslims lag far behind the Hindu community (table 6.5). The differences are even starker in urban areas—where almost twice as many Muslim males are illiterate as compared to Hindu males, and only one-fourth as many Muslims receive graduate education as Hindus. Their low enrolment and high dropout rates at the elementary and secondary levels result in extremely low representation in tertiary education—with only 1 per cent of the total college graduates being Muslims.

Because of their educational backwardness it comes as no surprise that Muslims lag far behind the Hindu community on the occupational front. In central government services, they account for less than 5 per cent of the total labour force and in some services, like the Indian Defence Services, their strength is only 2 per cent. Even in the private sector, Muslims lag far behind their Hindu counterparts.

However, the divide is even greater when we compare the earning levels of the two communities. The incidence of urban poverty has reached glaring heights amongst the Muslim community, with more than half of them living below the poverty line. While 52 per cent of the Muslims in urban areas fall below the poverty line of Rs 158 per month, only 3 per cent earn more than Rs 475 per month. The rural economic scene is equally distressing, with 35 per cent of the Muslims being landless.

Poverty amongst Muslims can be attributed to their low levels of literacy, lack of access to land and other productive assets, and dearth of employment opportunities. Similarly, various government schemes aimed at improving the lot of the weaker sections have not benefitted Muslims. For various reasons, they have only been able to secure 2 per cent of industrial licences and 4 per cent of financial assistance.

There are important equity and efficiency reasons for targeting resources towards Muslims. However, as they constitute a minority population, there is no guarantee that an elected government would transfer resources for their social and economic uplift. Thus, an alternative policy solution, which has been raised by some political parties in India, could be to enhance their political power. The introduction of electoral laws, which would set aside political seats for Muslims in the legislatures, could influence policies in their favour. Recent research using Indian state level panel data reveals that the constitutionally specified minority representation in Indian legislatures has resulted in increased targeted transfers to minorities (Pande 1998). This suggests that political representation could not only be central to promoting their interests, but would also be essential for ensuring the social uplift of the Muslim community.

AHMADIS IN PAKISTAN. In Pakistan's early years, minorities were able to rise to the senior ranks of the civil and military

The incidence of urban poverty has reached glaring heights amongst the Muslims in India, with more than half of them living below the poverty line

Table 6.5 India—a tale of two communities		
	Hindus	Muslims
<i>Population</i>		
% of the total population (1991)	82	12
<i>Education</i>		
Literacy rates (age 7 +) (1996)	59	49
% of urban male illiterates (1987-88)	25	42
% of urban male graduates (1987-88)	8	2
<i>Urban poverty</i>		
% earning less than Rs. 158/ month (1987-88)	35	52
% earning more than Rs. 475/ month (1987-88)	9	3
<i>Ethnic breakdown of parliamentarians (%)</i>	85	6

Source: Akhtar 1996; and Haq 1998a.

bureaucracy. But today, this is rare, as religious minorities experience discrimination in almost all walks of life. However, the kind of discrimination faced by the Ahmadis is unique, even for Pakistan.

A 1974 constitutional amendment declared the Ahmadi sect to be non-Muslim because they did not accept Muhammad (PBUH) as the last Prophet of Islam. However, Ahmadis continue to regard themselves as Muslims and observe many Islamic practices. In 1984, the Government amended the Penal Code and prohibited Ahmadis from calling themselves Muslim and even banned them from using Islamic names and other terminology. Since then, the Government and various religious groups have used this provision to continually harass Ahmadis. Certain sections of the Penal Code forbid Ahmadis from 'directly or indirectly' posing as Muslims. Armed with this vague wording, 115 charges have been brought against Ahmadis for using the standard Muslim greeting form and naming their children Muhammad. Many have been imprisoned just for posing as Muslims and more than 900 cases have been brought against them for preaching Ahmadiyat.

Ahmadis suffer from harassment and discrimination at all levels and have limited chances for advancement into senior levels in government services. Even a rumour that someone may be Ahmadi can eliminate all chances of promotion, or even employment. Therefore, many hide their religion and

practice their faith in secret. Thus, accurate data regarding the total number of Ahmadis in Pakistan is not available. Ahmadis are often targets of religious intolerance; much of it instigated by local religious leaders. Between the period 1984-98, more than sixty Ahmadis were killed just because of their religious convictions (table 6.6). All kinds of meetings of Ahmadis in Rabwah, the Ahmadiyya headquarters, have been banned since 1984 and even sports events organized by the community are not allowed.

Ahmadis continue to suffer violations of their places of worship; denial of freedom of faith, speech, and assembly; restrictions on their publications; a social boycott; and alleged official support of extremist elements that act against them. The Blasphemy Law has become another means of persecution against them. It mandates the death penalty for anyone found guilty of passing a derogatory remark about the Prophet Muhammad (PBUH). Although other religious minorities believe that the law may be targeted against them, it has mainly been directed against the Ahmadis and they continue to suffer in silence.

• • •

Much of the social and economic exclusion of the vulnerable, discussed in this chapter, may end if people organize themselves to assert their rights. This theme is taken up in the next chapter.

Table 6.6
Injustices against Ahmadis,
1984-98

Numbers killed	68
Number of attempted murders	73
Number of places of worship desecrated	32
Number of cases registered against Ahmadis for:	
• Preaching Ahmadiyat	933
• Posing as Muslims	366
• Blasphemy ^a	331
• Using Islamic epithets	115

a refers to the number of cases under the Blasphemy Law.

Source: HRCP 1996, 1997 and 1998.



Chapter 7

Governance by Civil Society

Civil society-led initiatives empower South Asian households and individuals by helping them to act collectively on fundamental issues

As demonstrated in the 1997 and 1998 Reports on *Human Development in South Asia*, self-organization within civil society, including the private sector, helps fill the void left by the limited role South Asian governments (with the notable exception of Sri Lanka) have played in providing social services to the poor and investing in their nations' abundant human capital. Civil society-led initiatives also empower South Asian households and individuals by helping them to participate and act collectively on fundamental issues. This chapter reviews the many ways in which people—through their organizations, households, private businesses, and independent media— fend for themselves and assume greater responsibility for their livelihoods, especially when formal governance institutions fail to deliver. These forces promote good civic governance by complementing and encouraging the evolution towards good political and economic governance. Each dimension is indispensable to the other and all three are essential for achieving humane governance.

The growing financial clout, political influence, and effectiveness in delivering goods and services by nongovernmental media, and private sector organizations place civil society-led activities, increasingly in competition with insecure governments. Indeed, informal community initiatives are now being organized all over South Asia, with or without government help, and they have often succeeded in serving those most vulnerable sections of society that governments find difficult to reach. By opening spaces for civic engagement, civil society organizations, households, businesses, and the media can contribute to governance processes for human development in general and an improvement in the lives of local

communities in particular. These independent and flexible institutions also help to create a democratic culture in South Asia, while promoting respect for the rule of law and for individual rights.

Civil society for good civic governance

Individuals and households spend most of their time operating in informal face-to-face interactions in small social groups—first in the family, then on the street, next in the neighbourhood and, perhaps, in the village or the town. As people move beyond these local frontiers, however, they find the wider world—led by either the state or the market—organized on very different principles of governance. As discussed in chapters 3 and 4, the formal structures and processes of governance in South Asia tend to start from a centralized, 'top-down' development philosophy. This can often engender social and political exclusion. Conversely, civic governance initiatives provide citizens at the grassroots with the tools to do more for themselves—activating voices from below.

While changing slowly, South Asian governments often perceive development as something to be done for, rather than by, people—stifling many grassroots initiatives. The rediscovery, however, that people are the chief means for expanding capabilities and choices is fueling a radical re-orientation across the region concerning the mutually supportive roles of the state, the market, and the emerging third sector—better known as civil society. The emergence of the self-instituted civil society as an independent social partner, alongside formal political and economic structures, will thoroughly modify governance systems.

Broadly defined in chapter 2, civil society includes all independent voluntary

and private sector activities, which comprise: i) individuals and households, ii) the media, iii) businesses, and iv) civil society organizations (CSOs), which include all remaining groups. This section examines the general characteristics attributed to civic actors, along with their connections to good civic governance and the formal institutions of governance.

Are civic actors respected and encouraged, or mistrusted and shunned? Do they serve as effective intermediaries between the citizen and the state? Do they help promote non-violence in regions such as Northern India, Bangladesh, Sri Lanka, and Pakistan that share a long tradition of sectarian and ethnic intolerance? Increasingly, people are realizing that governments cannot, and should not, do everything. Agents of civil society clearly have a role to play in governance (see figure 7.1).

Civic governance through self-organization

The principle of self-organization is at the heart of civil society efforts to promote good civic governance. The freedom to self-organize is a fundamental part of the framework of human rights outlined in the next section. Since time immemorial, human beings have collectively self-organized for mutual caring and protection. Compassion, a distinctly human attribute, fosters the solidarity and cooperation necessary for self-help and self-development to flourish within families, communities, and friendship networks. Self-organization, which leads to sustainable self-governance, is vital to human development at the household and community levels and must be well conducted for it to be enduring and beneficial to people.

In referring to the self-organization of *citizens* in contrast to the state or government, the concept of civil society is received with growing interest by many South Asians. The notion of civil society and the related term *citizenship* in South Asia have been shaped by the region's

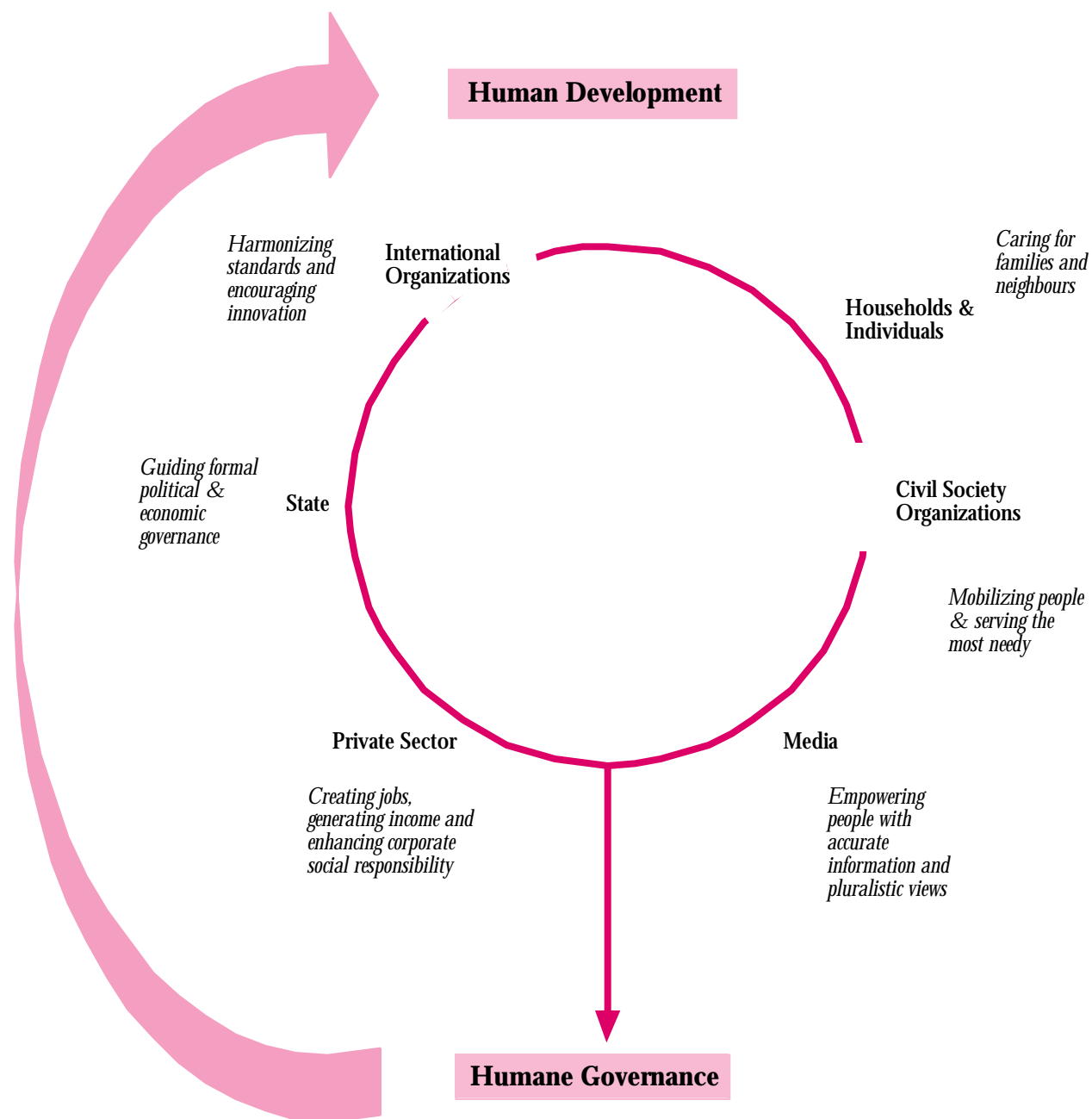
waves of settlers stretching back to the earliest Indus valley civilization. Civil society and citizenship indicate who is included and who is excluded in public affairs. Voluntary action is also deeply embedded in South Asian communities. It is directed toward common concerns that cannot be adequately addressed by individual families and extended kinship support systems: production and exchange of goods and services, lifecycle rituals, and collective security, all of which maintain community consensus and cohesion (Serrano 1994).

In South Asia, where heavily centralized state institutions wield inordinate influence, progress in developing the relations between government and the media, civil society organizations, and business is markedly slow. The old colonial mindset maintained by many elite dictates that the role of the state is to 'organize' and 'control' society (to serve the narrow, vested interests of the elite). Without strong civic governance, however, democracy in South Asia may not be sustainable—as occasionally witnessed in Pakistan and Bangladesh. Further, without direct participatory institutions, development that depends on collective action becomes impossible. People need to mobilize and push governments to open new channels for dialogue and collaboration. The proper balance would allow the state to support, but not directly control, the work of civil society groups. Only then will people be empowered and benefit from the formal structures of governance.

The informal self-organization of free citizens, whether voluntarily or for profit, is a key pillar of support for sustainable human development. Rather than simply filling a void left by the formal institutions and processes of good political and good economic governance, civil society's efforts at constructing good civic governance should be considered an integral component of humane governance in a fast globalizing world.

The principle of self-organization is at the heart of civil society efforts to promote good civic governance

Figure 7.1 Actors for humane governance



The primacy of human rights

For good civic governance to flourish, a solid framework of human rights must be established. These rights include an individual's and community's inherent civil, political, economic, social and cultural rights enshrined in the constitutions of South Asian countries, the international human rights covenants, and the *UN Charter* which states, '... to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women ...' Seeking to defend freedom from fear and want, human rights are based on universal respect for the dignity and worth of all human beings. Human rights are inextricably linked and complementary to human development, and they afford protection against social exclusion and marginalization (UNDP 1998b).

The origins of South Asian's modern human rights frameworks are found in the nationalist struggle against British rule in the nineteenth and early twentieth centuries (Madsen 1996). Led by sections of the rising middle classes, the battle focused on the desire for equal access to government service and for equality before the law. Apart from the nationalist struggle against the injustice of colonial rule, a different human rights struggle relating to cultural rights ran through the colonial period (Madsen 1996). This parallel movement questioned the power of government and the courts to reform traditional law and custom if found contradictory to natural justice. It was during this period that several human rights reforms were implemented, including the suppression by the state of female infanticide, *thugi*, *sati*, and bonded labour.

The foundations of good civic governance today can be said to be articulated in particular articles of the *Universal Declaration of Human Rights* (box 7.1). Good civic governance requires reverence for these inalienable human and civic rights. Progress toward securing human development over the long-run

becomes impossible without the protection of these rights and the participation of the entire population, both men and women, in development activities (Banuri 1997). This observation is supported by a recent detailed cross-country study by Dasgupta (1993) that compared achievements in human development with political and civil liberty indices across the world. The results showed that improvements in political and civil rights are positively and significantly correlated with the growth of per capita income, with improvements in infant survival rates, and with increases in life expectancy at birth.

At the heart of a system espousing humane governance must then be the preservation of justice, particularly equal access to and treatment before the law. Establishing a human rights framework that promotes the effective delivery of justice requires strong judicial and quasi-judicial institutions—not only judges and lawyers, but also teachers, doctors, military officers, bureaucrats, police, politicians, election commissioners, and service commissioners (Banuri 1997). Here regional forums like SAARC, NGOs, international agencies, and the media have a role to play in shaping behavioural patterns in support of human rights accountability.

On human rights issues ranging from trafficking in women and children to migrant workers, refugees, and indigenous people that require transborder cooperation, there is an incentive for regional cooperation among the SAARC nations (Dias 1996).

To a large extent, centralized governance structures in South Asia undermine basic human and civic rights (Banuri 1997). To promote justice, impartial and effective law enforcement and adjudication are necessary, in accordance with constitutional principles and international human rights agreements. Currently, the perception among a cross-section of South Asian citizens is that their fundamental civil and political rights are not adequately protected (see box 7.2).

At the heart of a system espousing humane governance must be the preservation of justice

Box 7.1
Universal Declaration of Human Rights

Article 19

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive, and impart information and ideas through any media and regardless of frontiers.

Article 20

(1) Everyone has the right to freedom of peaceful assembly and association.

Article 21

(1) Everyone has the right to take part in the government of his country, directly or through freely chosen representatives.

Arbitrary actions that violate societal norms of justice, hinder the operation of civil society groups. This in turn can rip apart the social fabric that is crucial to the notion of citizenship and the proper functioning of humane governance (see box 7.3). Besides efforts to strengthen legal and enforcement machinery in South Asia, creative approaches to changing societal attitudes about human rights—approaches that stress the role of civil society groups—are also essential for long-term progress. Often it is only courageous citizen's organizations or the independent media that confront subjects as difficult as minority discrimination and domestic violence.

Upholding human and civic rights through accountable, responsive and transparent government is an achievable objective in South Asia. But, as argued in chapter 3, citizen participation and democracy must extend far beyond casting votes at election time. People are aware that simply having their views 'represented' in government is not enough. In contrast to centralized political and economic structures, the diverse actors comprising civil society often create avenues for creative citizen participation in governance processes that shape citizen well-being and understanding for each other.

Box 7.2 People's perceptions—civic governance and human rights

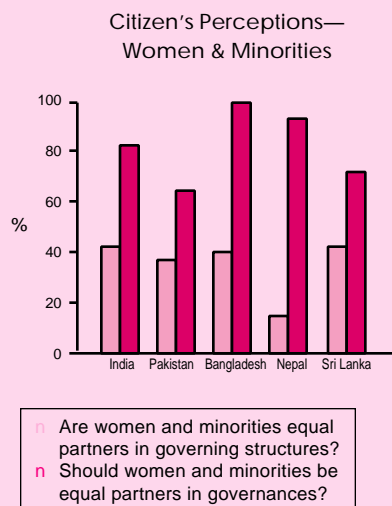
Good civic governance, the third dimension of humane governance, highlights the role of civil society actors in governance. Questions on the political status of women and minorities, access to justice, and how people perceive the non-profit and private sectors were an integral part of a recent survey in five countries of South Asia.

Although conducted on a limited scale in each country, the survey results confirm the prevailing socio-economic realities. While most people agreed that women and minorities are not included in governing structures as equal partners, a remarkable 81 per cent of the respondents in South Asia favoured their inclusion (figure below). In Bangladesh, 98 per cent of the respondents believed that women and minorities should be made equal partners in

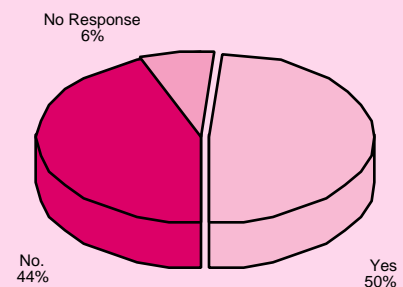
governing structures. While only 13 per cent of Nepalese respondents thought that women and minorities were equal partners in the governing structures, 92 per cent were of the view they should be afforded equal status. In Pakistan, 63 per cent agreed that women and minorities should participate equally in governance. In India, 81 per cent of the respondents favoured granting women and minorities equal status in governing structures.

On people's perception about provision of justice and protection of human rights, the response was largely negative. In India and Nepal, the survey results showed a nearly fifty-fifty divide. 64 per cent of the respondents in Pakistan did not consider the legal system to be just and protective of people's rights; 70 per cent of Sri Lankan respondents were also dissatisfied with the current system, as were 65 per cent of the respondents from Bangladesh. Their dissatisfaction is not difficult to understand. In Pakistan alone, more than 1,000 people died in sectarian and politically motivated violence in 1998. In 1997, there were 188 reported deaths of prisoners while in police custody in India. South Asian prisons are filled with people awaiting trials, as the courts are overburdened with cases. The total number of pending cases in South Asia is approximately 29 million. In Bangladesh alone, there are about 6.5 million cases still pending in court, and the average number of cases per judge is about 5,142—the highest in the region.

On the importance of the private and non-profit sectors in the delivery of public services, 45 per cent of the respondents in Pakistan believed that the private sector is most effective in providing public services. Concerning the contribution of the non-profit sector towards empowering people, 49 per cent of all survey respondents felt that they have made an impact (figure below). The non-profit sector provides a forum to people, especially minorities, women, and children, to present their views and to advocate for the rights which their governments have failed to safeguard. In Sri Lanka, 67 per cent of the respondents felt that the non-profit sector played a very important part in the provision of social services. 37 per cent of the respondents in Nepal favoured the non-profit sector in the delivery of public services.



People's Perceptions: do non-profit organizations make an important contribution to empowering people?



Source: HDC 1999b; HDSA Tables; and US State Department 1998.

Opening spaces for civic engagement

The range and scope of civic actors today is immense. As renewed democracy and loosening economic controls slowly extend through South Asia in the 1990s, the varied array of groups emanating from civil society has expanded in number, size, and reach. From the explosion of civil society organizations and steps toward privatization to the resurgence of the print media and advent of new communications technologies, citizens have unparalleled potential to influence public policy and affect social change. Wielding impressive economic and political resources, non-state actors are a relatively new subject of study whose general characteristics—positive and negative—are seldom understood.

Growth of civil society organizations

People-driven civil society organizations have been responsible for advancing political freedom, safeguarding basic rights, and furthering social development at a much lower unit cost than governments. This is reflected in the activities of non-governmental organizations (NGOs), social movements, community-based people's organizations, religious groups, peasants' associations, consumer groups, and trade unions. For those who are excluded from the formal structures of governance, such as women, the poor, and minorities (whether ethnic, religious, or racial), CSOs are often welcome alternatives to formal structures. Their participatory methods are vital to human development.

By many estimates, South Asia boasts one of the world's most buoyant NGO sectors with, for instance, a mushrooming of over one hundred thousand non-governmental organizations in the region today. Of these, twenty-five thousand are in India, nineteen thousand in Bangladesh, ten thousand in Pakistan, about eighteen thousand in Nepal, and some thirty thousand in Sri Lanka (see figure 7.2). Some of these NGOs are quite small and exist only on paper. But

Box 7.3 Violent elections in Bangladesh

In Bangladesh, the NGO Gono Shahajjo Shangstha (GSS) aims to raise the consciousness of the poor and assist them in setting up their own organization, with the eventual aim of contending for political power. Working among the most deprived in Nilphamari, GSS organized a grassroots organization that, by 1992, became strong enough to enter elections in five unions of the district. When the GSS group won the first of a staggered series of elections, the local elite responded by unleashing a reign of terror, during which GSS schools were burned; male and female members of the local organization were beaten up; and armed thugs conducted house-to-house searches and ensured

that GSS members could not reach the remaining four voting sites.

The district government and police arrested some GSS staff members accused of 'organizing the poor'. Clearly, the government functionaries had depended on the status quo for containing rural unrest and for maintaining day-to-day governance.

They saw the GSS as a threat to the social and political order that provides them with the authority to govern. Consequently, GSS has been forced to adopt a new non-confrontational strategy based on a model of 'class harmony'. GSS's economic activities now substitute for its previous political activities.

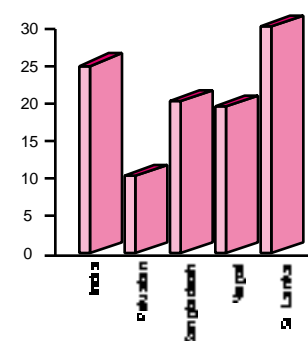
Source: Hashemi 1996.

many NGOs have a national impact, and some—including Sri Lanka's Sarvodaya Shramadana Movement (see box 7.4) and the Grameen Bank of Bangladesh—are international role models.

COMMUNITY-BASED PEOPLE'S ORGANIZATIONS. Are also important contributors to good civic governance. The Indian state of Tamil Nadu alone has 25,000 such registered grassroots organizations. Bangladesh has some 20,000 and Sri Lanka around 25,000 local people's groups that receive local and central government financial support (and many more that do not). These organizations can be defined as democratic organizations that represent the interests of their members and are accountable to them. Many take the form of self-help economic activities or cooperatives that operate on the basis of one person-one vote principle. Given the long rural tradition to organize collectively on community-level issues, the history of people's organizations is much older than the NGO sector.

The idea to form a community based people's organization often comes from the people themselves—as with those traditional self-help groups in South Asia in which people come together to pool their labour, to obtain credit, to buy

Figure 7.2
Estimated number of NGOs
in South Asia (in 000's)



Source: Haq 1997.

goods in bulk or to promote and develop more sustainable forms of agriculture (see box 7.5). Sometimes the impetus can come from outside the group, perhaps from a dynamic individual like Akhtar Hameed Khan, who recognized the needs of *katchi abadi* or slum dwellers in a suburb of Karachi and strengthened the capacity of the local people to help

themselves. The success of Khan's Orangi Pilot Project in supplying sanitation facilities to some 28,000 families has led to programmes for low-cost housing, basic health and family planning, women's work centres, school upgrading, and micro-credit for small family units. Variations of Khan's pioneering participatory development strategies are being adapted by communities throughout South Asia today.

Box 7.4 SSM: caring for low-caste Sri Lankan families

During the 1950s, a dedicated Sri Lankan community leader, A.T. Ariyaratne, took up the challenge of integrating low-caste families into the mainstream of national life. Now, the Sarvodaya Shramadana Movement (SSM) that was started as a result of this concern has more than 7,700 staff and covers 8,000 villages (more than a third of the total in Sri Lanka) in both Sinhalese and Tamil parts of the country.

The Sarvodaya Shramadana Movement deals with both income-generation and welfare activities. On the one hand, it organizes many income-generating programmes for the poor, such as workshops for mechanical

repairs and carpentry, sewing shops, off-farm activities for small farmers and the landless. On the other, it arranges relief and rehabilitation programmes for the victims of ethnic conflicts and for the deaf and disabled. It also organizes nutrition programmes for pre-school children.

The movement is based on the participation of people. It has created new leadership that by-passes the traditional elitist culture of the state. It has enabled the weakest and the most ignored groups in society to participate in the economic, social, and political life of the country.

Source: Haq 1997; and UNDP 1993.

NON-GOVERNMENTAL ORGANIZATIONS. Are commanding greater attention within civil society as vehicles for social service delivery, advocacy, and empowerment. NGOs cover a wide spectrum, from small loose-knit local organizations to nationwide federations and international networks. They can be defined as independent voluntary organizations that work with, and very often on behalf of, others. Many NGOs forge close links with community-based people's organizations, channelling technical advice or financial support as intermediate service organizations.

The range of NGO activities varies from one country to the next. Bangladesh has a strong tradition of NGO movements: it is estimated that NGOs currently cover over 78 per cent of the villages in Bangladesh and about twenty-four million people (approximately one-fifth of the population) benefit from their activities. In Sri Lanka, two-thirds of the NGOs are engaged in religious or social welfare activities, only one-sixth in development activities, and the remaining one-sixth in human rights or advocacy activities. In India and Pakistan, NGOs focus on community development and provision of social services; nearly one-half of the NGOs in Pakistan, for example, are committed to programmes for women's development.

Donors increasingly find NGOs a sound and cost-effective mechanism for implementing community development projects. For instance, the unit cost per student of running a non-formal school is generally one-third to one-half that of

Box 7.5 Village-level institutions in India

The village of Sukhomajri near Chandigarh is widely hailed for its pioneering efforts in micro-watershed development. The inhabitants protect the heavily degraded forest land that lies within the catchment of their minor irrigation tank. The tank has helped to increase crop production nearly three fold and the protection of the forest area greatly increases grass and fodder availability. This in turn increases milk production.

In little over five years, annual household incomes increased by an estimated Rs 2,000 to 3,000—an impressive achievement. This accomplishment stems from an improvement in the village's natural resource base and self-reliance.

At the heart of Sukhomajri's success is a village-level institution created to promote environmental sustainability. Known as the Hill

Resources Management Society, this local body consists of one member from each household in the village. Its job is to provide a forum for the villagers to discuss their problems, mobilize them to take control of their environment, and ensure discipline among the members. The Society ensures that no animals graze in the watershed, and in return, it has created an innovative framework for the fair distribution of the resources generated—water, wood and grass—among the households in the village.

Today, the entire catchment of the tank is green and the village is prosperous, capable of withstanding drought. Whereas government programmes tend to create a feeling of total dependence among people, community organized groups can encourage innovative solutions through direct initiative by those most affected.

Source: Agarwal and Narain 1994.

a formal government school (Haq 1998a). Due in part to their efficiency, in Bangladesh alone about \$500 million worth of projects are approved annually by donors for implementation by NGOs. This has sometimes led to a certain degree of tension between NGOs and national governments. Foreign grants are often scarce and governments become direct competitors for these concessional resources. In such circumstances, closer NGO-government collaboration, rather than competition, should be encouraged. Otherwise, the government may respond by placing obstacles in the way of NGOs, including restrictive and politicized processes of registration and approval.

Indeed, by learning to work closely with NGOs, governments have benefited from the relative strengths of NGOs in several areas. Experience shows that government-NGO cooperation has had positive results in Bangladesh, as in the case of the General Education Project and the Fourth Population and Health Project. In Sri Lanka, such collaboration has been carried a step further, where NGOs have often become contractors for a number of government programmes, such as the Integrated Rural Development Programme. The Sri Lankan government has also supported NGO activities through vocational, managerial, and leadership training, as well as marketing and distributing NGO products. In India, the Lok Jumbish project in the state of Rajasthan provides a good example of NGO-state collaboration in education and women's empowerment. Similarly, government assistance to Rural Support programmes (RSPs) in Pakistan has enabled innovative poverty alleviation approaches to be applied nation-wide. However, sometimes government-NGO collaboration may lead to detrimental results, as in the case of Sri Lanka's Sarvodaya Shramadana Movement earlier this decade.

Successful civil society initiatives have demonstrated that the poorest sections of society need to be organized into viable groups, at the grassroots, which can then assume responsibility for their own

Box 7.6 AKRSP: a successful experiment in local governance

The Aga Khan Rural Support Programme (AKRSP), a non-profit project initiated by the Aga Khan Foundation, started operating in 1982 to improve the extremely poor socio-economic conditions of about one million inhabitants of Pakistan's five northern mountain districts. A model for participatory development in rural areas, AKRSP derives its success from a two-pronged focus on institution-building and community participation. The organization's programme has a flexible 'package approach': it provides credit, imparts technical skills, supports small enterprise development, encourages local resource management, and embarks on major infrastructure projects. A key feature of AKRSP is how it organizes itself in the communities:

- At the lower level, AKRSP helps organize broad-based, multi-purpose Village Organizations (2,217 in 1997, covering 80 per cent of rural households) to address multiple or single activities in a broad geographical region.
- At a higher level, AKRSP fosters Cluster Organizations to enable Village Organizations to work together on common issues. Both the Village and Cluster Organizations hold institutionalized meetings, take minutes, and elect office bearers. Facilitated by AKRSP, these new organizations formalize informal groups that already exist. Their success depends primarily on local leadership and harnessing people's initiative.

- At the village level, AKRSP helps to organize interest groups such as vegetable growers and women's organizations. As of December 1997, AKRSP estimates 1,141 women's organizations with a total membership of 37,639 in its areas of operation.
- On special issues, AKRSP helps start Organizations for Collective Action. While similar to the Village Organization model, they are not institutionalized and work around a particular individual.
- Finally, AKRSP encourages the creation of Intermediary Institutions that are small NGOs created by trained individuals in the community. They are accountable to their own boards and are involved in training, advocacy, resource mobilization, and community project management.

A major impact of the AKRSP initiative—besides the formation of participatory social institutions—has been the two fold increase in village cultivable area as well as in incomes. The total savings of the Village and Women's Organizations has reached Rs 356 million, and the small-credit programme has benefited nearly half a million people, with outstanding loans worth Rs 272 million. The Village Organizations have also helped to build a strong civic ethic as well as produce knowledge that the community can use. 'Needs-based' rural support programme initiatives, based on variations of the AKRSP partnership model, are now being replicated throughout South Asia.

Source: AKRSP 1997, and 1998.

development (see box 7.6). While exceptional leadership is necessary to start a movement that benefits disadvantaged groups, sustainable self-reliance and self-help programmes require a basic approach—that is participatory rather than paternalistic. The relationship between the community and an NGO must be treated as a partnership with obligations to fulfil. Instead of charity or state subsidies, capacity-building—especially organizational skills—can help the poor harness their own potential to help themselves. Non-governmental organizations can also help improve

**NGOs can
supplement and
complement
governments but
never replace them**

access to opportunities so that the poor can better compete in the market-place.

Long-term and resilient grassroots development activities may be ensured when resources are mobilized from the actual beneficiaries, operating on the principle of self organization. Similar to knowledge, financial capital is power, and the poor are prepared to improve their standard of living through a line of credit for which a dedicated support organization can be of initial assistance. Moreover, many community initiatives have benefited from government support that establishes an enabling environment for sound NGO operations, while regulating malpractices without compromising the freedom of action cherished by civil society (Haq 1997).

While many NGOs in South Asia have been extremely successful in achieving their objectives of empowering people, it would be well to note the following in order to develop a balanced perspective on the role of NGOs.

First, NGO projects are not easily replicable and often depend, even in the long-run, on exceptional visionary leaders (Streeten 1997), with resources and training not easily accessible among the disadvantaged classes. Some such examples include Mohammad Yunus and the Grameen Bank in Bangladesh; Ela Bhatt and the Self-Employed Women's Association in India; Asma Jahangir and the AGHS Legal Aid Cell in Pakistan; and P.K. Kiriwandeniya and the Sanasa movement in Sri Lanka. At times victims of their own success, these favourites of donor agencies are often overburdened with funds beyond their absorption capacity.

Second, compared to the reach of governments and the private sector, South Asian NGOs are still quite small in scale, and consequently, they may disadvantage the poor if their role is overstated. Large NGOs like the Bangladesh Rural Advancement Committee (BRAC) and the Grameen Bank reach less than 20 percent of all landless families in Bangladesh (Farrington et al. 1993). Even

with fast paced growth, it will be years before NGOs make a substantial impact on a majority of South Asia's poor. NGOs can supplement and complement governments but never replace them. The small size and decentralized energy of most NGOs regularly result in overlaps, duplication, and gaps. Moreover, the evidence concerning the composition, level, and effective use of resources by the NGO sector is still limited. Their presence in the field should never serve as an alibi for inaction by governments and the business community.

Third, NGOs can be counter-productive to the development of civil society if they are co-opted by the establishment, adopt solely donor-driven agendas, or neglect their empowerment or advocacy roles. Often the formal purpose of an NGO programme might be improvements in health or literacy or agriculture, but NGOs have also traditionally concerned themselves with how much each project enhances people's power, particularly among women and 'the poorest of the poor'. For example, the Working Women's Forum (WWF), in India's three southern states of Tamil Nadu, Andhra Pradesh, and Karnataka, provides health and family welfare services to poor women; simultaneously, it seeks to empower the organization's 200,000 members to challenge the existing exploitative and oppressive power structures in society (Ramesh 1996).

As donors channel ever larger sums to NGOs willing to act as alternative social service providers, these same NGOs are tempted to move away from their familiar civic mobilizing activities. Wary of agitating government and hence donor relations, NGOs can become reluctant to monitor the performance of—and demand greater access from—formal governing bodies (see box 7.7). Admittedly, NGOs vary greatly in size and purpose, but their underlying common strength must remain rooted in a determination to empower the poor and marginalized, and thereby bolster participatory democracy.

Finally, it is important to recognize that not all civil society organizations are 'good' or 'civil'. Outlawed religious extremists and terrorist organizations that fuel violence and intolerance are part of civil society too. In Bangladesh, for example, several well-financed NGO delivery systems are notoriously corrupt—exploiting donor funds without providing the services promised. Further, several NGOs in South Asia have set themselves up as consultancies working for a fee in the voluntary sector. NGOs generally have no one particular body to which they are accountable, and unlike governments (that must submit to periodic re-election) or businesses (that must make profits to survive), NGOs have no readily acknowledged 'bottom line' against which performance can be measured (Desai and Howes 1996).

Besides the need for voluntary codes of conduct concerning the behaviour of non-state actors within a community, NGOs and people's organizations need to be provided positive incentives, alternative financing, and better government access to improve their mobilization of, and level of service for, the poor. When power is shared between the government and the informal institutions of civic governance, democracy and the rule of law can be strengthened.

Households and individuals seizing initiative

Households and individuals are the principal organizing units within civil society. Since people function predominantly at the person-to-person and family levels, the self-help and self-development philosophies pervading good civic governance find their foundations in healthy, educated, and proactive households and individuals. This requires massive public and private investments in basic human priority areas, such as primary education, health care, nutrition, micro-credit, and family planning. The unsatisfactory performance of formal institutions and processes of governance has lent to South Asia's

regrettable distinction as the most deprived region in the world. In such a quagmire of misgovernance and despair, reliance on informal social networks and kinship is often the only option available for the survival of the poor.

When basic human needs are met in the household, individuals and their families can begin to develop civic values and an ethic for improving the conditions in their communities. Without a sense of civic responsibility, the frictions and tensions associated with living in densely populated South Asian communities will multiply. Civic participation can take many forms, such as organizing a 'neighbourhood watch' to prevent crime, supporting a candidate's campaign for the local body election, writing op-ed (opposite editorial) pieces for the local newspaper, or volunteering for community service. The mobilization of individual citizens, as manifested in the teachings of Gandhi and others, has also helped to fuel the modern Panchayat Raj movement in India. Collective group identities at the grassroots level is critical for fostering a sense of belonging and civic pride, especially when the powerful

NGOs must remain rooted in a determination to empower the poor and marginalized

Box 7.7 Client surveys to motivate public service improvements in India

In several countries, client surveys have helped motivate better public sector performance. By tapping the experience of citizens and having them monitor and evaluate services, surveys have helped identify problems, and design and implement innovative solutions. While circumstances and situations will vary across countries, enabling citizens to be heard through client surveys initiates a process towards changing the rules of accountability among different actors within or between the public and private sectors.

In Bangalore, India, 'report cards' ask citizens and businesses to rate the public agencies they use to solve problems or get services. The report cards, administered by the Public Affairs Centre Bangalore, an NGO, assess the quality and cost of citizens' interactions with public agencies. In the first round

of report cards the Bangalore Development Authority (BDA), which is responsible for housing and other services, scored the lowest in several categories, including staff behaviour, quality of service, and information provided. Only 1 per cent of respondents rated the Authority's services as satisfactory. The survey results, not surprisingly, generated widespread interest in the press. Rather than viewing the results as a threat, however, the Authority's director took them as an opportunity to initiate reform and launched a citizen-government initiative to improve BDA's management, staff training, and delivery systems. Other agencies in Bangalore have also taken action inspired by the report cards, and groups in five other Indian cities, including Mumbai, have started using the report card approach.

Source: Paul and Steedman 1997; World Bank 1997g.

Citizenship involves human rights and freedoms but it also places an equal emphasis on individual responsibilities and obligations

electronic media can breed a feeling of exclusion and marginalization among people with limited resources.

Citizenship involves human rights and freedoms but it also places an equal emphasis on individual responsibilities and obligations. Civic action stems far beyond the citizens' act of casting a vote at election time. Indeed, by participating in an election, citizens obligate themselves to monitor the performance of public representatives. Furthermore, citizens maintaining disposable income and time outside of daily duties can give back to their communities through countless activities as diverse as donating financial and technical support to charities, tutoring students, and cleaning up dilapidated public parks.

By taking action in areas that complement the state, especially when governments fail to deliver, individual citizens assume new responsibilities to better their families and surrounding communities. South Asians, for instance, supplement their children's education with parental guidance and discipline, as well as building basic community infrastructure and care for the elderly. Through creative citizen-led initiatives, governance renewal that places people at the heart of efforts to manage change can occur in South Asia. Valuing individual participation—in formal structures of governance and in their daily struggle for existence and fulfilment—is undeniably the most important ingredient of humane governance.

Innovations in corporate social responsibility

Throughout South Asia's modern history, governments spent their limited resources and energies on running production enterprises in agriculture and industry, or controlling vital services such as banks and insurance, which are best left to the private sector. Lately, governments are starting to encourage the creative, entrepreneurial dynamism of the business community to efficiently handle a range of development challenges previously falling under the domain of the state,

including heavy industries, education, and certain utilities. This is linked to the emerging consensus that the private sector, and its investment (both domestic and foreign), is and will continue to be the chief source of job creation and wealth generation for people. In Bangladesh, India, and Pakistan, for example, private, small-scale cottage industries account for most manufacturing jobs. Moreover, the business community today provides the chief share of capital, technology, and expertise needed for economic growth and higher standards of living.

The private sector is a diverse category with its modern enterprises, a broad variety of unregistered small firms, family farms, and an array of independent producers and service providers (Sachs 1998). When private firms adopt an ethic of civic responsibility and support community development, they often boost their significance as players in promoting humane governance. Business-led initiatives include financing non-formal basic education programmes, offering *pro bono* legal services, building community recreation and child care centres, and providing health care to those unable to pay. Associations of private sector leaders, such as Rotary and Lion's Clubs and the local chambers of commerce, have lent some assistance to community activities in South Asia. Some corporations, such as Mafatlal Industries, even set up non-profit foundations for serving communities. Mafatlal's Bharatiya Agro Industries Foundation provides technical expertise in forestry, agronomy, horticulture, and water management to tribal villages in Northern India.

Through public/private partnerships, businesses are also given helpful incentives to cooperate with government on issues of local concern, such as resource management, pollution control, and crime prevention (see box 7.8). Investment risk underwriting, and other innovative steps that combine the profit motive with good citizenship, are helping governments catalyze and harness the business community's energies for

enhancing humane governance. In Karnataka, Tamil Nadu, and Andhra Pradesh, for example, Mangalore Chemicals & Fertilizers works closely with India's regional governments to improve agricultural production and help farmers diversify into related activities like bee-keeping and dairy farming. Similarly, Shell Pakistan Limited collaborates with the government of Pakistan on social work activities, including education, health, safety, environment, and general welfare issues.

Over time, the concepts of civic and social responsibility have spread from households and villages to the welfare state and NGOs. Due in part to the consumers movement in the West, growing numbers of businesses have begun to engage in acts of corporate social responsibility for the betterment of both consumers and broader civil society. Motivations thus range from pure altruism to self-interest, as companies aspire to gain recognition, reduce their tax burden, protect the safety of their employees, or promote the firm's image. For instance, Lever Brothers and Proctor & Gamble have sponsored community walks in South Asia to raise awareness and financing for human rights and health issues, but these activities also bring positive exposure to the sponsors. By purchasing cardboard boxes made by the blind at the Maharishi Institute for the Blind, Brooke Bond in India combines social consciousness and business interest in a single corporate culture.

As the private sector expands, governments must balance the need to enforce labour safety, environmental, and other regulations without impeding a company's normal business operations. An unrestrained and corrupt private sector, however, can be as harmful to the broader civil society as an authoritarian and wasteful state. Corporate social responsibility begins with the fair treatment of workers, management of the environment where industry is located, and respect for the rights of consumers and the general society. The accelerated pace of market penetration, and

accompanying processes of labour migration and economic dislocation in many parts of South Asia today, heighten the need for a socially aware business community. It is necessary for governments, in collaboration with the private sector, to adopt social safety nets, re-training programmes, and other measures to limit economic volatility and compensate the victims of market failures.

Realizing that their own prosperity is at stake, businesses can also take certain steps to limit social exclusion and other costs linked to economic liberalization. Voluntary guidelines for corporate social responsibility are one method of self-regulation that can contribute to good employer behaviour and increased community involvement. Innovative collective arrangements linking

Corporate social responsibility begins with the fair treatment of workers

Box 7.8 Public/private initiatives for crime reduction

Karachi is a city ridden with violence. With an infrastructure too weak to support its ever increasing population of over 9 million, the past two decades have seen a sharp rise in crime, drug abuse, strikes, killings, bomb attacks, and terrorism, resulting in the disillusionment of people with the system. There is a deep mistrust of the police force and many crimes go unreported. In these conditions a new private-sector-led initiative, the Citizen's Police Liaison Committee (CPLC), is a step in the right direction.

Established in 1990, the CPLC aims to bridge the gap between the ordinary citizen and the law. Along with direct support from the Sindh Governor's Office, CPLC's membership consists of many businessmen who have volunteered their time and money for a more peaceful and prosperous Karachi.

Part of the reason the CPLC stands out from the rest is its endeavour to involve the common citizen in the fight against crime. With their slogan 'Let's beat crime together', the CPLC encourages victims of crime to come forth with their grievances. Their areas of activity range from tracing stolen vehicles to liaising with the police and the judiciary in connection with CPLC's

witness protection programme.

The CPLC has also been working for police welfare. Recently, the CPLC provided gas connections to sixty-nine flats accommodating police families, provided additional water lines, furniture, and proper lighting to police houses and developed a children's park in their residential area. The CPLC also provides medical care to police officers injured in joint operations. Such actions have not only helped to create an atmosphere of understanding between the police and the CPLC, but have also raised the morale of the policemen—a key to achieving a corruption free police force.

The CPLC is mostly self-financed by the business community. Over the past eight years only 21 per cent of the funding has been provided by the government. This has enabled the CPLC to maintain its autonomy and separate itself from the negative image associated with law enforcing agencies. Highlighting the role of CPLC, the UNDP led Colombian Mission on Sustainable Peace in Karachi recently suggested a four point agenda to attain the goal of sustainable peace. The UNDP also endorsed CPLC's call for a metropolitan police force, and recommended its replication throughout Pakistan.

Source: CPLC 1998; and UNDP 1999.

Today, governments are losing their monopoly over information

government and business, known as 'deliberation councils', have also proven helpful in East Asia for stabilizing the policy environment and promoting social and economic development (Campos and Gonzales 1997).

The most visible initiatives concerning corporate social responsibility in South Asia today spring from large-scale enterprises, whether home grown or a local subsidiary of a foreign firm. Companies such as Lever Brothers, Mahindra & Mahindra, Shell Oil, and Habib Bank channel sizeable resources to development programmes and charities. The size of their operations and capital base make it easier for such companies to support human development while pursuing the maximization of their shareholders' wealth. By recognizing both this reality and the limited resources directly available for indigenous community-oriented activities, realistic strategies in South Asia for strengthening corporate social responsibility should be developed.

Media in the information age

The media can play a pivotal role in the projection, critique, and reform of the governance crisis in South Asia. An informed population, a responsive government, and a vibrant conduit between the government and citizens, are essential components of governance that

aspires to be humane. The media, consisting of the electronic media (radio, television, satellites, the Internet), print media (newspapers, magazines, books), and the visual media (film, theatre) can best provide such a conducive environment. In South Asia, the media has not always played this role adequately or impartially. It has, on many occasions, worked to protect the interests of the ruling elite.

A variety of formal and informal controls over the free functioning of the media have traditionally been in place. In many cases, the government controls the electronic media and a substantial part of the print media. Elsewhere, censorship is less blatant but equally potent. Commercial considerations and fear of stricter regulations from orthodox power brokers, for instance, are typical restraints. There is very little tradition of social inquiry, journalists are often poorly paid, training is of low quality, and thus debates and reporting are usually full of clichés and misconceptions. This situation, however, is changing now.

THE SOUTH ASIAN MEDIA: OPPORTUNITIES AND CONSTRAINTS. Today, governments are losing their monopoly over information. Satellite television, the spread of the international media, and the advent of the Internet have ushered in the information age (see table 7.1).

Table 7.1 The state of the media

	(per 1,000 people)					Adult literacy (%)	Population millions 1995 (% urban)	Real GDP per capita (PPP US\$) 1995
	News-papers 1996	Radios 1995	Televi-sions 1995	Personal Computers 1995	Internet Hosts 1998	1995		
Sri Lanka	29	206	66	1.1	0.031	90	18(23)	3408
Maldives	10	118	40	12.3	n/a	93	0.25	3504
Pakistan	21	92	22	1.2	0.015	38	140(35)	2209
India	30	81	61	1.2	0.011	52	936(27)	1422
Bangladesh	9	47	7	n/a	0.017	38	120(19)	1382
Nepal	11	36	3	n/a	0.005	28	22(11)	1145
Bhutan	n/a	17	n/a	n/a	n/a	42	1.6	1289
South Asia	27	80	50	1.2	0.012	49	1238(25)	1531
Low income	n/a	113	47	n/a	0.010	49	2048(28)	1008
High income	287	1005	611	224	37.5	99	926(78)	16337

Source: HDC 1998b; UNDP 1998a; and World Bank 1996b, 1998p and 1998q.

International networks and satellite television are drawing people away from government controlled local television. Increasingly, citizens can access alternative sources of information about government actions that are necessary for accountability and participation.

However, in countries where every second person cannot read or write and earns less than \$1 a day, obvious limitations exist to the media's coverage. The number of radios and televisions, as well as newspaper circulation, is well below that of middle-income countries around the world, and even lower than low-income countries in certain areas. The growth of the media has been unable to keep pace with the rapid increase in population.

On the other hand, several important indicators have accelerated faster in South Asia over the last quarter of this century than in much of the developing world, including the rate of urbanization, income level, and access to television and radio (see figure 7.3). Accompanying technological breakthroughs and the increasing awareness of human freedoms, these developments, most visible in India, Pakistan, and Sri Lanka, are instruments of change, democratization, and hope.

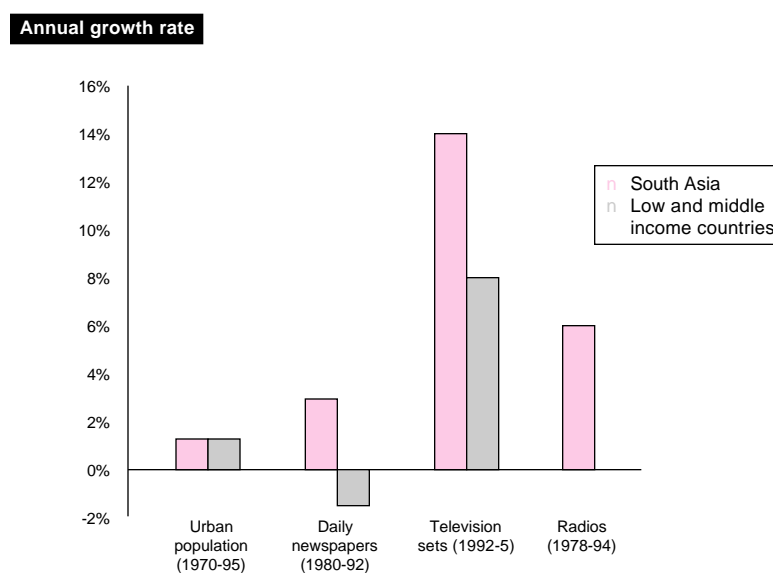
A common problem with the media in South Asia remains the dominance of the English language and continued neglect of regional languages. Even though English-language papers and broadcasts typically have smaller audiences than those in the national or regional languages, they are generally considered more influential in policy formulation. This is because the ruling elite in these societies is mostly western educated and English speaking. Those in the media industry continue to look upon English-language papers as the key to gaining audience with the elite. This further marginalizes the bottom 95 per cent who do not understand what is being disseminated. They are the ones the media must address in order to affect reforms in governance. Increasingly greater emphasis is being placed on national and regional language media.

SHOOTING THE MESSENGER. States with weak and heavily politicized institutions are never likely to create a free, independent, and pluralist media; advocates of censorship frequently invoke the need for stability and national integration. However, in South Asia, these concerns have rarely been the articulated reason for censorship. More often, censorship policies and laws have been used to conceal government misdeeds, to mask human rights violations, to propound official propaganda, and to quell divergent opinions. While most constitutions in South Asia recognize freedom of information as a fundamental right of citizens, there continues to be a general failure in the implementation of this right. In most countries, a right of information act has yet to be endorsed and enacted.

This often leads to manipulation and curtailment of media freedom. The relationship between the media and government in South Asia has historically been a complex one. A variety of political, social, and economic controls are in place. For example, newspapers can be charged exorbitant licensing fees; import duties can be increased or foreign exchange

Censorship policies and laws have often been used to conceal government misdeeds

Figure 7.3
South Asia and the information revolution



Source: Haq 1998a; UNDP 1998a; and World Bank 1998p.

**A free and effective
media is essential for
sustaining humane
governance**

denied, making the import of essential equipment impossible.

There are five major ways of restricting the media: (i) direct control through state monopoly; (ii) control by licensing and self-censorship (Bangladesh, Pakistan, and Sri Lanka); (iii) emergency regulations and national security provisions; (iv) pressurizing the media through informal means, such as advertizing or regulating newsprint; and (v) physical intimidation of media employees. State influenced press agencies also continue to control, collect, and distribute news. These forms of control are visible in South Asia today to different extents. However, in India, some hopeful trends are emerging. For instance, the Indian Supreme Court decided, in 1985, that taxes on newspapers could be considered unconstitutional if deemed excessive.

South Asia's ruling elites are aware that information and knowledge are passports to empowerment. Their attitude toward the media and the spread of information is thus adversarial. Governments realize how dangerous facts about their regime's misdeeds can be. The media serves as a watchdog over the many different agents in society, holding actions before public scrutiny and ensuring more transparent processes. Regrettably, this core institution of inquiry, debate, and transparency has

never been allowed to seriously evolve under South Asia's centralized modes of governance. The lesson for the region's future is clear: wherever traditions of democratic participation are better rooted in the institutions of the state and civil society, the media is more free. A free and effective media is essential to nurturing and sustaining humane governance.

Such civic actors are gaining greater recognition in South Asia. It is widely admitted today that governance is not just about governments. It is also about the way a society serves its own needs through self-help.

South Asian countries will find the ever growing number of civic actors particularly useful if they formulate concrete programmes to overcome the worst aspects of poor governance and human deprivation in the shortest period of time. The agents of civil society can embolden democratic practices and a civic ethos by informing and mobilizing citizens. They can also help improve future investments in the poor through less hierarchical, flexible, and efficient social service delivery. Stemming from the analysis of the major issues in this Report, the next chapter presents an innovative agenda for tackling the major governance challenges of the coming decades. In this effort, civil society initiatives can play a critical role in South Asian countries.



Chapter 8

In Quest of Humane Governance

South Asian countries maintain considerable institutional and human resources that can be mobilized to advance humane governance in all its dimensions

South Asia is at a turning point. From growing debt burdens and eroding institutional capacity to social disintegration, weakened law enforcement and fledgling political leadership, the countries of this populous and culturally rich region have a choice: adopt a carefully designed and concerted series of policy and institutional reforms, in harmony with a humane governance framework, or permit the crisis of governance to deepen and face a possible collapse of democracy. The historical fragility of multi-ethnic states in the twentieth century (for example, the Soviet Union, Yugoslavia and currently Indonesia) underscores the high stakes involved in achieving viable democratic institutions. If states are to survive today, they will have to establish new relationships with their people.

South Asian countries maintain considerable institutional and human resources that can be mobilized to advance humane governance in all its dimensions (political, economic, and civic). However, much of this capacity is unused or misused due to multiple obstacles. This chapter identifies the most pressing policy and institutional reform challenges facing South Asia. The reform agenda suggested here is a concerted strategy rather than a grand blue-print for the region. The details and policy mix for each country will differ.

Governance reform efforts in South Asia are few and far between. This despite the growing clarity on the nature of the region's problems and what needs to be done to overcome them. When deciding policy priorities and approaches to reform, efforts must be made to avoid convenient generalizations. The policy predicaments afflicting South Asian countries today cannot be attributed to the failure of any particular government

or any particular institution, but rather to long-term structural and process deficiencies.

In accord with humane governance principles of ownership, decency, and accountability, all proposals for policy and institutional changes are aimed at accelerating national levels of human development. Improved human development indicators among all social groups can further expand the potential for improved governance, by facilitating the processes of inclusion and participation.

An agenda for humane governance

What will it take for South Asia to develop policies and institutions that work to the benefit of its people? South Asia will need to make a sustained effort along three broad policy areas. These are: (a) redirecting the priorities of the state, (b) revitalizing state institutions, and (c) building new alliances with civil society. But before moving to specific reform proposals, we need to make one clarification. The effectiveness of the proposed reforms will rest on the three basic virtues of transparency, accountability, and decentralization that cut across all dimensions of governance. No proposal can be successful unless the state and civil society act in a transparent way¹, are accountable for their actions, and are closer to people.

Redirecting the priorities of the state

An enduring problem in South Asia has been that there is too much state involvement in some areas and too little in others. While governments exercise considerable control over economic

¹ See chapter five for proposed reforms for combating corruption.

activities—from production to trade—social sectors do not receive the policy attention they deserve. At the dawn of the twenty-first century, South Asia must advance the core human development concerns. What will it take to re-focus the states' efforts towards human development? Four key actions are required for any such major re-orientation:

- liberal investments in the basic human needs of the poor;
- provision of social safety nets that reach the poor;
- distribution of key productive assets through land and credit reforms; and
- a major impetus to increase economic growth through an increased role for the private sector, more open economies, and an equitable fiscal policy that taxes the rich and spends on the poor.

HUMAN DEVELOPMENT AS THE TOP PRIORITY. Governments must prioritize the needs of the poor to overcome mass human deprivation. The backlog of such deprivations is huge: there are an estimated 515 million people living in poverty; 395 million adults are unable to read and write; 276 million people lack access to basic health facilities; 278 million people have no access to safe drinking water; and another 879 million people live without proper sanitation facilities. South Asia stands at a lower rung of human development, having invested so little in the education and health of its people.

The central task of the South Asian states is to address the basic needs of the people, especially the poor, women, children, and the disadvantaged. Governments need to work towards a new social compact—and this requires both political attention and financial resources. Political leaders must realize that there can be no real development without a strong base of healthy and educated population. Similarly, there can be no real sovereignty and no real freedom without freedom from hunger,

illiteracy, malnutrition, and over-population. Once governments realize the need for collective action to end this deprivation, lack of resources ceases to be a hurdle.

A realistic human development agenda can be designed and implemented, where every country provides its citizens with basic social services of education, health, nutrition, clean drinking water, and family planning services within a decade. As the 1997 Report on *Human Development in South Asia* estimates, these human priority goals can be achieved at a manageable cost of 1.6 per cent of the combined GDP of South Asia. These resources can be easily mobilized through minor adjustments in national budgets.

SOCIAL SAFETY NETS FOR THE POOR. It is not enough to just improve capabilities and enhance social and economic opportunities for all. The minimal aim of South Asian states should be to protect those who have been by-passed by the markets, crushed underneath the burden of adjustment, and shunned by informal community networks. This requires social safety nets that are not only efficient in their reach but also adequate in their coverage.

Though almost half of all South Asians are faced with acute income deprivation, most countries still allocate too little for too many (table 8.1). In Pakistan, for instance, even if all the money set aside for income transfers to the poor were to reach them, it would mean a transfer of less than one cent per poor person per day. By contrast many poor developing, and transition economies transfer between 5 and 10 per cent of their national incomes to the poor through the ambit of various social safety nets. Clearly, South Asia needs to spend more on social safety nets and to channel these resources where they are urgently needed.

It is well to remember that South Asia has a long history of social safety net programmes. Many programmes have been relatively successful: Jawahar Rozgar Yojana (JRY), Maharashtra Employment

Governments must prioritize the needs of the poor to overcome mass human deprivation

Table 8.1
South Asia's social transfers:
too little for too many

Country	Social security transfers (as a % of GNP)
Pakistan	0.01
India	0.33
Bangladesh	1.04
Sri Lanka	2.0
Maldives	1.32
South Asia	0.39
USA	7.3
UK	12
Brazil	9
Argentina	5.2
Russia	6.6

Source: HDC Governance Tables; and Subbarao et al 1996.

The impact of land reforms in reducing poverty is decisive

Guarantee Scheme (MEGS), and Food For Education Programme (FFEP) in Bangladesh. But the region still needs to devise programmes that are efficient and well-targeted and could open up the opportunities of social mobility for the poor.

REDISTRIBUTIVE REFORMS. While the state should look after the welfare of the poor, the real focus should be on empowering people. The poor don't just need charity, they need equitable access to market opportunities. But the poor may not benefit from the market if they have no access to productive assets, such as land and credit. In many parts of South Asia, the distribution of such productive assets is radically skewed. In Nepal, the top 6 per cent of the agricultural households occupy more than 33 per cent of agricultural land. Similarly, in Pakistan just 0.5 per cent of landlords own 30 per cent of the total farm area.

An effective land reforms package is the best answer to such a skewed distribution of land. Land reforms can be justified on economic, social, and political grounds. Empirical evidence shows that land reforms are generally associated with raising economic efficiency by increasing output per acre. This has certainly been the experience of the Republic of Korea, where land reforms established a ceiling of 7.5 acres per family and where output per acre is several times as high as that of South Asia. The impact of land reforms in reducing poverty is also decisive: one-tenth of the reduction in poverty in India between the period 1958-92 has been attributed to the implementation of land reforms. An egalitarian distribution of land is also essential for breaking the strong feudal hold over politics. Inequitable distribution of land bestows inordinate political and economic power on a few, whereas the great number of land-less people lack both social standing and political rights.

A good starting point may be the fixation of an ownership ceiling of no more than 12.5 acres per family and supporting a new peasant ownership

system through liberal credit, correct crop prices, appropriate research, and irrigation infrastructure. But honest implementation is far more important than the land ceiling legislation, since it is here that most land reform initiatives have failed in South Asia. Land reforms must be implemented with the active involvement of peasant organizations. It must be remembered that the ultimate purpose of land reforms is to alter the production relations—and this should be the yardstick for any successful land reforms package.

Another practical way for empowering the poor is through the provision of micro-credit. Access to credit should be treated as a fundamental human right. The experience of the Grameen Bank in Bangladesh has demonstrated that the poor are good savers and investors, and they are eminently creditworthy. The banking system should take a chance on the future potential of the people, not on their past wealth. Much of the credit needs of the poor can be met by recovering defaulted loans from powerful businessmen and influential politicians. Such defaulted loans, as discussed in Chapter 4, constitute a large percentage of total advances by public banks. It is time to repose trust on the poor who are far more credit worthy than such influential borrowers.

GROWTH WITH EQUITY. There is a need to design a new economic system based on a new balance between public and private sectors, fair taxation, pro-poor expenditures, an innovative strategy to engineer industrial and agricultural breakthroughs, an export-led growth system, rapid privatization of public assets, and a new framework of high growth and better distribution.

The first component of this new framework for efficient and equitable growth is the forging of a development partnership with the private sector. But this partnership should be based on competition, not patronage. The private sector in South Asia has so far survived on state crutches—through inefficient

subsidies, easy credit, tax breaks, and commercial permits. But this support has become both inefficient and unsustainable in present times. The key task before governments today is to help make the private sector more competitive and to prepare a level-playing field for those who remain disadvantaged in the market place. Governments need to provide legal and regulatory frameworks that ensure private sector growth and prevent the creation of monopolies.

A second element of sustainable growth should be a vibrant and labour-intensive export sector. South Asia must take its chances on global markets and discover its real economic potential that remains dormant due to decades of protectionist policies. At present, South Asia's share of exports in GDP is lowest in the world: 10 per cent compared with 18 per cent in low- and middle-income countries and 25 per cent in East Asia.

South Asia must learn from the global experience, particularly East Asia, where the opening of trade has generated equitable growth. Liberalization of trade can create substantial dividends for South Asia—equal to nearly 5 per cent of GDP. An additional 1.5 per cent of GDP worth of welfare gains can be obtained if South Asia agrees to trade within the region. But before such gains could be reaped, South Asia needs to diversify its exports base, with a special focus on manufactured exports.

The third key challenge for promoting economic growth is to address the prevailing fiscal crisis in most South Asian countries. The key to solving this fiscal puzzle is to balance budgets without unbalancing human lives. Budgets must be used as a tool for taxing the rich and transferring incomes to the poor. The choice before South Asian policy-makers is clear: whether to inflict pain on the rich and influential, or continue to impose it on the poor, on the downtrodden, on those angry masses who are already in open revolt against past injustices.

Prioritizing the existing expenditures seems to be the most promising way to deal with the mismanagement of

resources in South Asia. The challenge is to make public spending more pro-poor and to transfer it from non-productive to the productive sectors, from consumption to investment, from defence to social development, and from a few 'white elephant' projects to a plenty of small workable initiatives. There are many concrete steps that the governments can take in this regard:

- *Reduce non-merit subsidies*—A large part of subsidies in South Asia have little or no impact on poverty reduction. There is a compelling case for reducing these non-merit subsidies by recovering user charges, which are sometimes as low as 10 per cent in some countries like India. At the same time, there is a need for increasing the performance of essential subsidies. Whenever there is a powerful case for subsidies, they should be performance oriented, time bound, efficiently targeted, and subject to periodic review.

- *Reduce defence expenditures without compromising defence capability*—While military spending has registered a modest decline in real terms, it still claims significant resources in national budgets. Following the nuclear tests in India and Pakistan in May 1998, the two countries further increased their outlays by 14 per cent and 8.5 per cent, in nominal terms, respectively. There is an urgent need to design a new budgetary paradigm in the short-run, where the legitimate claims of both defence and development can be met.

- *Privatize loss-making corporations*—Privatization of state-owned enterprises can not only help to reduce the fiscal burden but can also be used to retire costly domestic debt. Though most South Asian governments have embarked on their separate privatization programmes, the implementation of such disinvestment reforms leave a lot to be desired. The process has been very slow: the proceeds stand at a mere 2 per cent of South Asia's cumulative GDP. Moreover, a weak

South Asia must take its chances on global markets and discover its real economic potential that remains dormant due to decades of protectionist policies

The potential to raise money from the rich rentier class is enormous

regulatory framework, allegations of corruption, and problems with absorbing laid-off workers have emerged as key irritants.

There is an urgent need to ensure that privatization is carried out in an honest, transparent, and credible way. Money received from the sale of public assets must be used for retiring national debt, and not used for current expenditure or even debt servicing.

- *Enact fiscal responsibility acts*—Clearing off old debt is important, but so is curbing the growth of public debt. There is a need to check the profligate behaviour of governments whose economic strategies are based on a short-term horizon. Imposing a legislative limit on public debt is emerging as a key reform option. National parliaments must make governments responsible for their spending decisions. A workable strategy can be designed, where a consensus is developed on whether the ceiling should be placed on the total volume of debt or debt as a proportion of GDP.

- *Show visible gestures of austerity*—Financial responsibility must start from above. There are many visible gestures to institute honest behaviour. Unnecessary perks for high officials can be eliminated, expenditures on foreign delegations and trips can be reduced, the provision for free medical treatment in foreign countries can be abolished, the power to allot expensive plots and permits at throw-away prices can be taken away, and less resources could be spent on constructing and furnishing palatial buildings. The budgetary savings from such measures may be small, but they are essential for cementing a culture of financial responsibility.

Part of the fiscal crisis in South Asia is the inability of governments to tax the rich. Any major improvement in public finances requires that the burden of sacrifice be put on the rich—the non-tax paying landlords, the tax evading elite, the big loan defaulters, the corrupt, and the politically immune. The potential to raise

money from this rich rentier class is enormous.

There are at least three inter-related reforms in connection with the tax system:

- *Institute a progressive tax structure*—Regressive tax systems in South Asia today are punishing the poor for the profligacy of the rich. Nearly three-fourths of total revenue in South Asia is obtained by levying indirect taxes. Tax systems must rely more on direct taxes and less on indirect taxes. A few indirect taxes that South Asia must rely on should preferably be levied on final consumption, with lower tax rates for consumption items of the poor.

Reliance on indirect taxes for revenue generation can be reduced by broadening the existing tax base. This involves both checking tax evasion and bringing new sectors into the tax net. Evidence from South Asia suggests that income taxes are paid on less than 50 per cent of the incomes.

There is a great deal of competitive tax evasion today, born out of a perception that every one else is cheating as well. At the same time, there is a complete disrespect for tax laws since very few are being sent to jail. The foundations of a new tax culture can be easily laid if tax discipline is enforced at all levels and if the ruling class sets an example by paying its own taxes scrupulously and transparently.

- *Tax the untaxed sectors*—Bringing the hitherto untaxed sectors into the tax net is critical for broadening the tax base and for making the tax system equitable and efficient. Agricultural taxation, for one, offers considerable resource potential. It has been estimated that even a modest tax rate on agricultural incomes can generate around Rs 10 billion in Pakistan.

Similarly, black and informal economies in most countries are at least as large as the agricultural sector, in terms of their contribution to GDP. Yet they remain outside the taxation system. There is a need to formalize the informal sector

and to limit the growth of black economy by weeding out perverse incentives and by introducing proper surveillance on the borders.

Introducing greater transparency in the discharge of tax concessions is also central to reform of the tax system. Preferably, such concessions should only be guided by economic rationale, not political imperatives. Since the South Asian experience with tax concessions is not very encouraging, it is best to reduce such tax favours to the minimum.

- *Rationalize the tax structure*—South Asia needs to set up economically sensible tax systems that could lead to higher incentives for tax compliance and greater opportunities for production. A greater degree of harmonization and less variation in tax rates is required to simplify the taxation framework. This can reduce the time that taxpayers spend paying these taxes, reducing the incentives for cheating the tax authorities.

Two final observations may be made here. First, an efficient tax administration, including widespread documentation and computerization, is also critical for revenue reform. There are many bold steps that the governments can undertake to reform the tax machinery. These include: tough punishment for corrupt officers; incentives for good performance through promotions, bonuses, and cash prizes; higher salaries for tax officials; less discretionary powers; and the development of modern tax laws.

Second, both revenue and expenditure reforms remain ineffective without effective compliance by provinces and states. In both India and Pakistan, the gains made by the central governments are often negated by slack performance of the state governments. There is a greater need for fiscal discipline at the state level, especially when grants from the centre are declining.

Revitalizing state institutions

At the heart of any reform agenda must lie the affirmation of broad-based

democracy, complemented by reforms in the production and distribution mechanisms of society designed to eradicate the most desperate forms of human deprivation, such as hunger, illiteracy, and insecurity. It is these desperate conditions which foster linkages based on patronage and stand in the way of a responsive political system. Ballot box democracy is not the ultimate goal—the real challenge is to create an environment where people are able and free to earn a living, to live in security, to access their human rights, and, indeed, to participate in the decisions that shape their destiny. People must be provided a stake in the political system through a steady process of inclusion.

Transparency in all public actions, accountability of elected representatives, adherence to rule of law, and devolution of power (see box 8.1) into the hands of ordinary people will provide just such a

At the heart of any reform agenda must lie the affirmation of broad-based democracy

Box 8.1 The basics of decentralization

- Guarantee political autonomy and specific powers to local bodies in the state constitution, including delivery of basic public services, natural resource management, and maintaining law and order.
- While promoting financial discipline, provide local bodies with the power to collect tax revenue to cover at least 25 per cent of the total spent on local public services, and devolve a certain percentage of national and provincial revenues to local bodies.
- Hold periodic local body elections and stipulate term limits for representatives.
- Reserve seats on local bodies for under-represented groups, whether by gender, ethnic and religious group, or socio-economic class.
- Allocate development funds strictly through local bodies in order to control patronage politics and encourage the growth of representative institutions at the grassroots level.
- Establish local government database, that maintain information on, for example, land records, disaggregated

census figures, and evaluations on the impact of development assistance provided by the government, external donors or NGOs.

- Afford provincial governing bodies strong political autonomy and tax collection powers to cover at least 50 per cent of the province's total social sector expenditure. In federal systems, the upper house of parliament should be strengthened in order to provide adequate protection to the interests of provinces.
- Encourage local voluntary and private sector organizations to collaborate with local and provincial governments in addressing development issues.
- Accompany decentralization with efforts at the central and provincial level to reduce existing disparities among regions and localities.
- Institute parallel social reforms: build human capabilities by spreading health, education, and economic opportunities, and by redistributing productive assets including land, in order to ensure that decentralization brings empowerment to common people.

Source: HDC staff.

An effective way to nurture a pro-people political system is to guard against the personalization and concentration of power

stake. In the two federal states of India and Pakistan, diverse segments can be brought into the political mainstream by undertaking fundamental re-structuring of the balance of authority between the centre and the states—including taxation and expenditure powers and revenue sharing arrangements.

Another effective way to nurture a pro-people political system is to guard against the personalization and concentration of power. This involves separating power among state institutions—the parliament, the executive, and the judiciary, to serve as checks and balances. For any process to work, the rules must be observed transparently, neutrally, and universally. Institutions that are strong provide the necessary resilience to the political process by enshrining the rule of law.

PARLIAMENTARY REFORM. The parliament, which houses the people's direct representatives, lies at the heart of the state system. As such, parliaments ought to be representative of the population, open to public scrutiny, free of corrupt practices, and assume ultimate supremacy over state affairs. South Asia's parliamentary agenda for strengthening the sovereignty of people must include nine core strategies:

- ensuring the supremacy of the legislature over the executive, both legally and practically, as the chief source of legitimate democratic authority;
- prohibiting the practice of private money buying public power through party funding for elections. All accounts of parties must be audited and open to public;
- developing a stable party system—that practices internal democracy, regular elections of office holders, and constant consultation between leaders and workers—without prejudice to individual party member's freedom of action;
- improving the quality of voter rolls and facilitating 'voter friendly' registration;

- stopping the practice of enacting legislation from outside parliament through presidential ordinances;
- initiating legal controls to monitor expenses and misuse of the state's financial or institutional resources;
- increasing the effectiveness, efficiency, and powers of parliamentary committees that serve as watchdogs over the executive;
- improving the quality of legislation by making use of the legislative support mechanism within and outside the parliamentary secretariat; and
- guaranteeing a minimum level of women's representation in parliament (the current number of seats held by women in South Asia's parliaments is low: 7.0 per cent in India, 3.0 per cent in Pakistan, 11.2 per cent in Bangladesh, 5.0 per cent in Nepal, 5.0 per cent in Sri Lanka, 2.0 per cent in Bhutan, and 6.0 per cent in the Maldives).

CIVIL SERVICE REFORM. No country can succeed without a responsible, accountable, and honest civil service. Besides improving efficiency, decreasing corruption and giving long-term direction, reforms should aim to enhance the civil service's capacity to effectively provide basic public services at an affordable cost.

Specific reform options include eight priority areas:

- articulating precisely, through a strong legal framework, the roles of civil servants and their relationship with politicians, as well as channels of recourse to guard against the violation of those roles;
- 'rightsizing' the civil service to eliminate redundancies, enhance understaffed departments, and thus enhance efficiency;
- improving performance through public management and specialized skills training, as well as detailed performance appraisals;
- limiting the discretionary powers and privileges of civil service managers;
- ensuring a pay scale that is commensurate to the employee's

capabilities, meets his or her general needs, and is reasonably competitive with comparable private sector work;

- conducting recruitment and promotions in a manner that underscores merit in addition to national diversity;
- prohibiting politically motivated civil servant transfers and dismissals, especially for applying the law honestly or exercising the legal authority vested in a post; and
- redressing the gender imbalance through affirmative action reflected in laws, civil institutions, and policies—only 2 per cent of total government employees are female in Pakistan, 3 per cent in Bangladesh, 6 per cent in India, and 9 per cent in Sri Lanka.

Many countries in South Asia have already embarked upon a series of civil service reforms. What is lacking, as always, is the political will to follow through on otherwise excellent proposals (see box 8.2).

JUDICIAL REFORM. South Asia's Supreme Court and High Courts on the whole continue to enjoy public confidence, and in a number of jurisdictions, they have earned respect for their pro-active role in the enforcement of human rights, particularly the rights of the disadvantaged. Conversely, confidence in the subordinate judiciary (the courts below the Supreme Courts and High Courts) has eroded. These courts are generally perceived as being manned by an insufficient number of inadequately trained and ill-paid judges. This results in long delays, huge backlog of cases, and a generally poor quality of judgments. In a number of jurisdictions, persistent allegations of corruption are registered. Corrupt practices contribute to inequities for women, the poor, and minorities, creating a general feeling of injustice in many parts of the region.

Similar to South Asia's parliaments, the judicial system of the region suffers from several long-term structural deficiencies. Besides the lack of material resources for both the functioning of the judiciary and the defence of poor citizens,

Box 8.2 More of the same: civil service reform in South Asia

- *Bangladesh*—Since 1972, a total of 211 cases had been reported by the Accountant General through the Public Accounts Committee, questioning authority and breach of rules. Of those, only thirty-three have been concluded.
- *Sri Lanka*—In accordance with the recommendations of the Administrative Reform Committee (ARC), formed in 1986, the bureaucracy was to be downsized by about 20 per cent (72,000 personnel). However, instead of reducing the cadre strength, the reforms initiated in 1989 saw the size of the management group increase by 4.28 per cent, the executive group by 56.17 per cent and middle level and minor groups by 6.42 per cent by 1992.
- *India*—Forty-five years after independence, only one commission on administrative reforms was appointed.

The recommendations of the Fifth Pay Commission in India were aimed at cutting down the size of the bureaucracy and increasing salaries. The committee of secretaries in charge of implementation agreed to the wage hike but stalled on the proposed downsizing.

- *Pakistan*—The only notable reform was the introduction of lateral entry into the civil service implemented in 1973. Ostensibly, it was a measure designed to enhance the professional quality of the cadre; in truth, it was to become a powerful means of political influence.

- *Bhutan*—After the reforms to retrench the public sector started in 1987, public sector employment fell by 2,500. However by 1991, another 3,400 employees had been inducted into the public sector, mostly through contractual employment.

Source: APDC 1995; Gupta 1994; Wanasinghe 1996; Hussain 1993; Singh 1997.

the judiciary's shortcomings also result from political interference by state institutions intent on limiting the judiciary's mandate, autonomy, and overall effectiveness. Consequently, a fundamental reform issue is to strengthen the judiciary's independence and implement the constitutional provision for the separation of the judiciary from the executive. The allocation of new resources for improving the judiciary must also be preceded by an enhancement in the Supreme Court's powers to discharge its judicial and constitutional responsibilities for ensuring the efficiency and integrity of the entire judiciary, including the subordinate judiciary and magistracy.

The judicial system in South Asia can take progressive strides towards promoting justice and humane governance by adopting the following seven point agenda:

- increasing the number and emoluments of judges;
- adopting an objective recruitment criteria for judges that gives due weight to educational qualifications, professional experience, sensitivity to human rights,

Governance can be improved by increasing the effectiveness and ensuring the independence of existing institutions, without creating new ones

reputation for integrity, and gender balance;

- providing the judiciary with adequate financial resources to effectively discharge judicial and administrative functions;
- increasing the number of courts;
- offering alternative forms of dispute settlement, such as civil arbitration and counselling, to reduce the backlog in the case load of lower courts. Oversight of this mechanism should be entrusted to an appropriate agency under the Supreme Court, rather than the Ministry of Local Government or any other branch of the executive;
- launching national campaigns for legal education reform and for informing citizens about their rights under the law; and
- providing legal aid to the poor and socially disadvantaged to promote greater access to justice.

THE MILITARY AND HUMAN SECURITY. New thinking should be developed on a more cost-effective system of national security, more transparency in defence spending and arms procurement, and a

complete check over all non-essential expenditures. In the long-run, détente between India and Pakistan can release substantial resources for investment in the social sectors. In order to rationalize military spending and to promote human security, reforms should be geared towards four core areas:

- increasing the transparency of military budget decision-making and civil-military relations through active parliamentary oversight and statutory auditing, including coverage of foreign arms procurement;
- improving efficiency in the management of defence resources, including public defence industries and military businesses;
- expanding the developmental role of the armed forces as a transitional strategy towards demobilization and reintegration (see box 8.3); and
- spurring debate on both the need for affordable defence programmes and possible trade-off between military spending and human development.

Reform does not always require a revolution. South Asian states already possess many institutions and laws. Governance can be improved by increasing the effectiveness and ensuring the independence of existing institutions, without creating new ones.

In the long-run, the success of any reform agenda will depend upon the creation of a civic culture geared toward public accountability of legislators, organization of constituency level opinion groups, the spread of legal awareness, and a belief in the ultimate authority of the society over the state. People should be made aware of both their rights and duties—civic consciousness must in time replace client-patron imperatives. A new partnership with civil society will be crucial in building such notions of citizenship.

Box 8.3 Military demobilization for education

The standing armies in South Asia employ more than 2 million soldiers at present. Contrary to the world-wide post-cold war trend towards military demobilization, South Asian countries have increased the size of their armed forces and have come to rely on the defence sector as a major source of overall employment. Any strategy to reduce the burden of military personnel expenditures must include the need to create alternative employment opportunities for the subcontinent's vast land armies.

Education is one field that may benefit from utilizing the skills of demobilized soldiers. Given the need to provide approximately an additional 2.1 million teachers over the next five years to meet basic educational demands in South Asia, qualified and motivated soldiers could be recruited to serve their country in expanding the primary-level teaching corps.

In formulating a realistic financial strategy for educating South Asia's 65 million out-of-school children, the main focus should be the reallocation of existing budgets. A gradual process of defence sector down-sizing could facilitate the release of scarce resources necessary to enable surplus military personnel to be trained to contribute to educational development in South Asia's most deprived areas. In Pakistan's Punjab, the government has shown interest in hiring the services of 15,000 army personnel to run the province's many 'ghost schools'.

Any region-wide steps to re-deploy some soldiers to the education sector will require political vision, an improvement in external and internal threat perceptions, and a general understanding of the positive economic and, in particular, human impact of military conversion.

Source: BICC (various years) and HDC 1998b, *Newsline* 1998.

The efforts of governments, no matter how sincere, would not suffice to bring about these radical changes. They have to be aided by other agents of change: civil society and the private sector. Civil society organizations (CSOs) can serve as important intermediaries between citizens and the state. They have already taken a lead in reaching the poor. Similarly, the private sector can play a vital role in generating incomes, providing employment opportunities, and fulfilling social responsibilities.

However, such a progressive climate of cooperation can only develop if South Asian states provide a proper set of incentives within a well-defined regulatory framework. At the same time, these agents of change should be actively involved at each stage of policy formulation and implementation.

A code of conduct for the civil society organizations, as well as the private sector, needs to be developed in order to enhance their positive role in promoting humane governance. The proposals for reform of civil society organizations could include the following:

- establishing special financing facilities to promote government-CSO partnerships to improve the livelihoods of poor communities;
- protecting the rights of CSOs, while deterring them from falsifying their accounts and exploiting donors;
- advising CSOs on the establishment of decentralized evaluation mechanisms; and
- inviting CSO leaders to advise governments and donor agencies in their area of expertise.

The business community is today acknowledged as the chief player in providing jobs and generating income within a country. While the private sector must be afforded adequate incentives to expand and fuel economic growth, its market power and political influence necessitates regulations, co-operative

frameworks and guidelines in accordance with the imperatives of humane governance. In this regard, the following two initiatives are recommended:

- *A new framework for government-business cooperation to increase incentives for private sector innovation, transparency, and accountability*—A healthy expansion of South Asia's private sector requires greater trust and cooperation between the government and the business community. Formulating policy that addresses the concerns of the public and private sectors can best be achieved through mutual consultation. A forum, similar to the 'deliberation councils' of East Asia, is needed to bring the government and business community closer together. Reform proposals floated in the forum would need to be approved by representatives of each sector before becoming policy. Such a process would foster consensus-building and lead to greater public-private partnerships in implementing policy.

- *Guidelines for corporate social responsibility*—Corporate social responsibility extends beyond organizational operations and encompasses the community where a business operates, as well as the region which it serves. Voluntary guidelines for corporate social responsibility, prepared collectively or individually by businesses, could encourage the private sector to take civic action on issues ranging from business ethics and environmental responsibility to social development. For its part, governments could offer tax rebates on capital gains to those corporations that invest a certain percentage of their profits in social responsibility programmes.

Another integral part of corporate social responsibility is the proper treatment—in accordance with international human rights norms—of firm employees and a healthy environment for their work. This involves labour's right to freedom of association and collective bargaining, and the elimination of all forms of forced labour, child labour, and discrimination in respect of employment and occupation.

A code of conduct for civil society organizations and the private sector needs to be developed to enhance their positive role in promoting humane governance

Most governance failures in South Asia are failures of implementation

Facilitating change

The list of concerns outlined here is large, but so is the scale of the challenges facing South Asia. The solution does not rest simply in the design of imaginative reform proposals: studies and commissioned reports in many areas are already plentiful. What usually goes wrong is not the original intention but the subsequent implementation. In fact, most governance failures in South Asia are failures of implementation. Over-ambitious targets are set which delay the process of implementation.

In most cases, implementation is essentially a question of balancing conflicting interests of those who are supposed to implement reforms and those who benefit from reforms. Many South Asians, particularly those in leadership positions, are already aware of the nature of their governance problems and how to overcome them. Therefore, a more fundamental concern today is how to realize these reforms. Reformers will need to ensure that their ideas are politically acceptable and financially and administratively feasible. A sound strategy needs to be based upon the following five principles:

- *Design participatory reform processes that act as catalysts for change*—Reformers must openly deliberate the context, characteristics, and implications of reforms. People, being the principal agents of change, must be included in all stages to encourage a sense of ownership.
- *Inform and mobilize constituencies for change*—The next step is to inform and mobilize progressive forces from different constituencies nation-wide, including advocacy organizations and think tanks, the press, business and workers' association, and from within the government.
- *Address resistance to change*—The implementation of reforms will almost certainly generate opposition among those who extract rents from a system rife with

inefficiencies, corruption and injustice. While implementing long-term changes, positive results should be publicized as soon as they emerge to weaken the formation of opposing forces and encourage lobbies for change. Moreover, rulers must be made to use the services that are available to common people, so that they develop a stake in improving them. In most countries of South Asia, those who rule do not need to use public education and public health services. Their children go abroad for education, and they use hospital facilities abroad.

- *Sequence the implementation of reforms*—Skillfully sequencing the implementation of reforms will be the key variable in determining whether they succeed or fail. Complex reforms should not be rushed for implementation unless some political support has been mobilized. It is difficult to decentralize authority to the district level unless political stability is assured, a strong constituency for change is mobilized, and some visible successes are achieved in the initial reforms.

- *Establish performance indicators to monitor impact*—credible performance criteria (involving qualitative and quantitative indices) would strengthen the reform process. Independent evaluators should regularly monitor and assess the impact of reforms.

But who will ensure that these strategies are implemented? It will require collective action by five important sets of actors:

- civil society organizations (CSOs)
- media
- the academic community
- international institutions
- committed political leaders

In South Asia, where literacy rates are very low, the role of CSOs becomes even more important in voicing the demands and aspirations of ordinary citizens. With well over one hundred thousand CSOs in the region, creatively harnessing their

talents is an essential component of any humane governance agenda.

A strong and independent media can act as an invaluable tool for raising peoples' awareness of governance issues. This will require new and stricter enforcement of freedom of information laws, and full autonomy from government control. Similarly, the academic community, independent policy think tanks, and the intelligentsia can mobilize lobbies for change by initiating debate on important governance issues. The right to seek, receive, and impart information is a fundamental human right, central to the expansion of human choices and at the very heart of human development.

As globalization brings to the fore the importance of basic international precepts, like transparency and accountability, international and regional organizations have gained increased importance in governance reforms. Therefore, donors must ensure that their policies protect the interests of ordinary citizens rather than of unaccountable elites.

A committed leadership, with a clear and long-term vision, is undoubtedly the most important factor in this frame work for change. High integrity, skilful diplomacy, and political commitment are

essential leadership qualities in achieving these goals. In the case of politicians, this requires looking beyond the next election and basing decisions on public interest. For civil servants, this means honestly advising and questioning politicians, while improving service delivery to citizens. For judges, this entails impartiality and justice to all citizens, brought before the law. In the case of the media, business, CSOs, and even ordinary citizens this involves concerted efforts to complement the state's role in enlarging peoples' choices.

Without courageous leadership from within each of these groups, it is impossible to create and sustain powerful constituencies for change. Leaders have to be reminded to carefully weigh the costs of timely reforms against the risks of violent revolt. As Mahbub ul Haq observed:

'Human history offers only two models: the evolutionary change in Britain and the revolutionary upheaval in France during the 18th century, either a change through the ballot box or through the guillotine. Let us hope that our ruling groups are smart enough to read the writing on the wall and to introduce much-needed reforms in the system. The alternatives are far too grim to contemplate.'

A committed leadership, with a clear and long-term vision, is undoubtedly the most important factor in this frame work for change

Technical Note on the Computation of the HGI

The Humane Governance Index-1997

Chapter 2 conceptualizes humane governance by building a governance architecture that consists of economic, political and civic dimensions. The Humane Governance Index, (HGI), attempts to quantify humane governance with the use of several indicators of economic, political, and civic governance (see the table).

Economic governance is assessed by measures of fiscal policy (overall budget deficit), monetary policy (inflation rate), trade openness (current account deficit), social priority spending (public expenditure on both health and education), and liberalization of the economy (ratio of the official to the parallel exchange rate).¹

Political governance is assessed by measures of various political perception indicators including corruption, quality of bureaucracy, accountability, law and order, ethnic tension etc. Perception indicators are used to assess political governance within countries (also see Khan and Zaidi 1998).

Civic governance is assessed by measures of freedom of expression (relating to the right of the governed to be able to express their views on government's policy actions and other issues of governance), non-discrimination (whether on the grounds of race, ethnicity, gender, religion, etc), political participation (relating to multi-party free and fair elections), and rule of law (relating to reliable and impartial rules established in a legal and judicial system that ensures equity before law).²

Methodology

The Humane Governance Index (HGI) is constructed as a simple average of the indices calculated for the three pillars: economic, political, and civic governance. The intention

here is to establish a parallel to the Human Development Index—maintaining simplicity while ensuring compatibility with the theoretical underpinning of the humane governance concept presented in Chapter 2 of the Report.

In order to define the three indices of political, economic and civic governance, factor reduction method has been used. However, there were a few problems with the data that had to be addressed beforehand.

First, the entire data was transformed to the same range: from 0 to 1. To achieve this, the following transformation was used for each indicator:

$$\frac{(\text{Value X} - \text{Minimum value in the series})}{(\text{Maximum value in the series} - \text{Minimum value in the series})}$$

For example:

Inflation in India (Value X): 10%.

Minimum inflation in the series: -20%.

Maximum inflation in the series: 80%

Using the transformation, the index of inflation for India: $(10+20)/(80+20) = 0.3000$

Dimension	Indicators
I. Economic Governance	<ul style="list-style-type: none"> • Inflation • Overall budget deficit (as % of GDP) • Current account deficit (as % of GDP) • Public health expenditure (as % of GDP) • Public education expenditure (as % of GDP) • Ratio of official to parallel exchange rate
II. Political Governance	<ul style="list-style-type: none"> • Corruption • Bureaucracy quality • Democratic accountability • Ethnic tension • Government stability • Law and order • Socioeconomic conditions
III. Civic Governance	<ul style="list-style-type: none"> • Freedom of expression • Non-discrimination • Political participation • Rule of law

¹ Indicators obtained from World Bank (1998p); see this publication for details on the calculation of the variables.

² Indicators obtained from Desai (1994) which also provides details of how the indicators were quantified.

Second, it was ensured that all values closer to 1 be preferred. From above, if inflation in a country was 80%, then its inflation index would become: $(80+20)/(80+20) = 1$. While for the minimum inflation country, it would be 0. To reverse the order, the whole series was subtracted from 1, making the index for the minimum inflation country equal 1 and for the maximum inflation country equal 0.

After transforming the data to the desired range and order, factor reduction method was employed to eliminate correlation between indicators under each dimension. This reduced the indicators under economic and political governance to two principal components, and under civic governance to one principal component. Through a simple average of the components under each dimension and a subsequent division by the highest value of the averaged components, three indices were created: Economic Governance Index, Political Governance Index, and Civic Governance Index.

The three indices were then averaged to get the composite Humane Governance Index (HGI).

A cautionary note

The Humane governance index may not be the perfect index. No single number can hope to capture all the essential elements of humane governance. Governance is a dynamic concept, difficult to bring under empirical discipline.

It must also be noted that while a single index for one year may be useful to keep a sharper focus, a better understanding of a country's governance can only be ensured by examining the index over a longer time frame. To ensure a better understanding of a country's humane governance position, it would be preferable to gauge its index over a longer time frame.

The HGI is essentially a policy index, serving as a handy tool for informed policy-making. The HGI is not meant to replace the existing measures of governance; it attempts to broaden and advance the current thinking on governance.

It is hoped that this index would stimulate similar endeavours to quantify governance.

Technical Annex B

Citizen's Survey

The South Asia wide Citizen's Survey on governance was carried out in five countries: India, Pakistan, Bangladesh, Nepal, and Sri Lanka. The main objective of the survey was to assess how South Asian people perceive structures and processes of governance. Efforts were made to diversify the sample population with respect to location, gender, age, education background, employment status, and income level. However, given the time and cost constraints, only a small sample of about 500 people was selected in each country. The selection process itself was biased in the sense that only the adult population (above 18 years) and relatively well off and educated people were chosen for the interviews.

In addition, high unemployment and low female representation, especially in rural areas, characterized the sample in several countries. Thus, the survey results fall short of representing the entire population; there are also limitations on comparison across countries. An effort has been made, however, to note the major country differences which are influenced by the peculiarities of the samples. While the results cannot claim scientific accuracy, they are, nonetheless, interesting because in many cases they appear to confirm general societal perceptions.

The research methodology and key descriptive findings for each country are summarised below:

India

The target population for India was specified as all adults above the age of 18, with an adequate spread by gender and age groups. A total of 516 interviews were conducted in two urban centres—Delhi (North India) and Coimbatore (South India)—and two rural centres—Arambagh (East India) and Bhivapur (West India). A total of 308 respondents were chosen from the urban sectors and 208 from rural areas. A rough gender balance was maintained in the survey; 260 males and 256 females were interviewed. In addition, the sample population was evenly spread through all age groups. Seventy-five

per cent of the interviewees had at least 5 years of schooling, and the average monthly income level for the sample population was around Rs 5,000.

- Nearly two-thirds of all respondents showed faith in the political system of India. People viewed political leaders, rather than the political system, with suspicion—only 17 per cent felt that their political leaders are honest. A significant proportion (24 per cent) of people felt public services are not adequately provided in India and in their respective communities.
- Education was specified as the most desirable budgetary priority with 31 per cent of the respondents favouring an increase in the education expenditure.
- Corruption was most closely identified as bribery and misuse of power; the police department was seen as the main culprit in this context. Furthermore, 42 per cent of the interviewees felt that corruption had worsened in the past five years.

Pakistan

The target population for Pakistan was specified as all adults above the age of 20 years. A total of 500 interviews were conducted in two urban centres—Rawalpindi/Islamabad (Punjab) and Peshawar (NWFP)—and two rural centres—Chakwal (Punjab) and Malakand (NWFP)—with an equal number of people being chosen from each centre. Out of the total 500, only seventy-seven women were interviewed: women were selected only in urban areas, as it was understood that village women were illiterate and hence unaware of governance issues. In addition, the age spread was also narrow, with almost 60 per cent of the people belonging to the 25-34 years age group. Furthermore, a relatively more educated class was selected for the interviews in Pakistan (88 per cent); 66 per cent of the respondents were educated at least up to secondary level. Also, a large percentage of people with high income levels were sampled, with almost 30 per cent having monthly incomes above Rs 20,000; only 16

per cent of the interviewees had monthly incomes below Rs 3,000. Ironically, however, 21.8 per cent of the respondents were unemployed—29.7 per cent in rural areas and 14.4 per cent in urban sectors. Hence, the survey results for Pakistan were biased in favour of a more educated, high-income generating, yet largely unemployed class, in addition to being extremely gender biased in favour of men.

- Only one-third of the people interviewed expressed their faith in the political system of the country and only 15 per cent felt that the elected representatives are responsive to the needs of the public.
- 35 per cent of the interviewees felt that military expenditure should be the number one priority in fund allocations, followed closely by education.
- Corruption was most closely identified as bribery and misuse of power. Similar to India, the police department was seen as the main culprit in this context. 88 per cent of the respondents felt that political leaders had become more corrupt in the last five years. Surprisingly, 33 per cent of the interviewees admitted to giving bribes, whereas only 2 per cent acknowledged ever accepting one.

Bangladesh

A total of 524 interviews were conducted in Bangladesh, with more weight being given to rural areas: 305 respondents were chosen from rural centres as compared to 219 from urban sectors. The sample was considerably gender-biased, consisting of only 25 per cent females.

- Of the people interviewed, almost half expressed faith in the political system of their country. While about 76 per cent of the respondents believed their political leaders to be corrupt, the majority of them recognised and acknowledged the importance of voting at all levels of government. It is interesting to note that 98 per cent of those interviewed believed that women and minorities should be equal partners in governance structures, whereas only 37 per cent thought this to be true of the present government.
- More than 50 per cent of the people surveyed showed dissatisfaction with the delivery of public services. Defence was regarded as the top budgetary priority for the central government by over half the

respondents, followed by education and administration.

- Corruption was seen mostly as bribery and the misuse of power by those in authority. Thirty-six per cent of the respondents thought that corruption had increased over the past five years, with 82 per cent considering the police department to be the most corrupt government department.

Nepal

The target population for Nepal was specified as 500 adults, with 163 (33 per cent) being female. The interviews were conducted in two urban centres—Jhapa and Bhaktapur—and two rural centres—Kathmandu and Bhaktapur. 86 per cent of the interviewees were below the age of 50 and 63 per cent had at least secondary level education. Out of the people chosen for the survey, 25 per cent were unemployed and the remaining 75 per cent were evenly distributed amongst various occupations; income levels were not specified in the survey results.

- Nearly 70 per cent of the respondents expressed faith in the political system of the country, and 85 per cent felt that their political party represented the interests of the public. Sixty-eight per cent of the people felt that they maintained access to their political representative, whereas only 23 per cent felt that they benefited from such access. While 92 per cent of the people thought that women and minorities should be equal partners in governance structures, only 13 per cent were of the view that women and minorities were given equal rights.
- Corruption was most closely defined as misuse of power and public funds. Eighty-three per cent of the people felt that the political leaders were corrupt and 92 per cent felt that they had become more corrupt in the last five years.

Sri Lanka

The target population for Sri Lanka was defined as 490 adults, which included 202 females (41 per cent). The urban sample of 300 people was selected from urban townships of five of the more urbanised districts—Colombo, Gampaha, Kalutara, Kurunegala and Galle—and the rural sample of 290 people from four other districts with predominantly rural characteristics—

Moneragala, Ratnapura, Anuradhapura and Nuwara-Eliya. Two groups of Tamil households were deliberately selected from Colombo and from Nuwara-Eliya, the latter representing the Estate labour. Eighty-eight per cent of the respondents were educated at least till the secondary level and 16.3 per cent were unemployed; the mean monthly income level was below Rs 5,000—although 16 per cent of the interviewees had monthly incomes above Rs 10,000. Overall, the survey conducted in Sri Lanka was relatively statistically sound since an adequate balance was maintained over all concerned factors.

- Three-fourths of the respondents expressed their reservations with the political

system of the country and only 18 per cent felt that their political party represented public interest. Thirty-seven per cent felt that they maintained access to their elected representative, while only 15 per cent thought of this as being useful.

- In budgetary matters, controlling inflation, promoting social welfare, and enhancing economic development were identified as the main concerns of the people.
- Corruption was most closely defined as the misuse of power and public funds. Almost half the people thought that their political leaders were corrupt and about 40 per cent thought that the situation had worsened over the last five years; the police department was yet again identified as the most corrupt.

Technical Annex B: Summary Tables

	India			Pakistan			Bangladesh			Nepal			Sri Lanka		
	Yes	No	Total	Yes	No	Total	Yes	No	Total	Yes	No	Total	Yes	No	Total
Do you have faith in the political system of your country?	65	29	100	37	63	100	45	55	95	69	31	100	25	75	100
Do you believe that voting in federal, provincial & local elections is important?	90	6	100	74	26	100	94	6	94	80	20	100	74	26	100
Do you feel your political party represents your interests?	46	49	100	52	48	25	...	...	...	85	15	95	18	82	100
Is the legal framework just and protective of people's rights?	46	36	100	30	64	100	35	65	95	51	49	99	30	70	100
Are women and minorities equal partners in the governing structure?	43	36	100	33	58	100	37	63	99	13	87	94	43	57	100
Should women and minorities be made equal partners in the governing structure?	81	8	100	63	36	100	98	2	65	92	8	93	69	31	100
Do non-profit organizations make an important contribution to empowering people?	39	34	100	37	56	100	43	57	82	62	38	95	67	33	100
Are you pleased with the quality of:															
Primary education	66	31	100	52	48	100	37	63	97	63	37	98	39	60	100
Basic health care	52	46	100	36	64	100	27	73	83	46	54	99	32	67	100
General infrastructure	45	49	100	35	65	100	36	64	86	20	80	98	24	74	100
Have you ever given a bribe?	15	81	100	33	67	100	...	...	...	23	77	82	18	78	100
Do you think that your political leaders are corrupt?	65	17	100	88	3	100	76	24	94	83	17	97	45	49	100
If yes, do you feel that they have become even more corrupt in the past five years?	80	14	65	88	9	88	37	63	72	92	8	80	45	43	100
Do you think that judges are corrupt?	30	35	100	67	13	100	61	39	94	55	45	92	44	51	100
Do you think that police officers are corrupt?	67	16	100	94	3	100	86	14	98	64	36	95	83	14	100

Note: Total refers to percentage of sample population who answered the question.

What do you think should be the three top priorities for the government budget?	1. Education	31%	1. Defence	35%	1. Defence	51%	1. Education	58%	1. Inflation	28%
	2. Inflation	28%	2. Education	33%	2. Education	21%	2. Health	36%	2. Social Welfare	14%
	3. Employment	19%	3. General Development	25%	3. General Admin	11%	3. Employment	23%	3. General Development	10%
What is your closest definition of corruption?	1. Misuse of Power	41%	1. Bribery	71%	1. Misuse of Power	40%	1. Misuse of Power	32%	1. Misuse of Power	42%
	2. Bribery	24%	2. Misuse of Power	50%	2. Bribery	31%	2. Misuse of Public Funds	27%	2. Misuse of Public Funds	22%
Have the problems of corruption worsened in the last five years?	1. Worsened	42%	1. Worsened	62%	1. Worsened	36%	1. Worsened	55%	1. Worsened	38%

Distance Index—A Quantitative Measure of Humane Governance

The decentralization of power—from the central level to the state, local and village levels can be seen as a powerful tool for promoting people's participation in governance. This annex introduces an index that quantifies the distance between governing bodies and the people, calculated by using indicators that reflect public participation in governance. This exercise, however, is far from straightforward mainly because of some crucial data gaps. While it is relatively easy to gather data on the extent of decentralization, it is more difficult to quantify the extent of public participation in state decision making.

Decentralization implies that people and communities have greater influence in the planning and implementation of public projects that directly affect them, and can thus make these policies more relevant and effective. Hence, societies with decentralized decision-making are likely to have a lower value of the distance measure, compared to societies where governance is more centralized. The most important task in the formulation of the distance measure is to find an indicator that can effectively reveal how close or distant decision-makers are from the rest of the population. A relevant indicator would be the degree of effective involvement of state, local and village level governments in the disbursement of development expenditures (e.g., spending for social priority concerns such as health, education, family planning, water supply, and sanitation). Other possible indicators include: disparities in educational attainment, income levels, and other such attributes between those in power and the people they represent.

The next requirement is to define a statistical index that could provide a theoretically sound measure of this distance. Working on the same lines as the poverty gap index introduced by Foster, Greer and Thorbeck (1977), and relying on the assumption that decentralized governments are likely to be close to people, we define the following distance measure:

$$D_k(Y_j; Y_i) = \left(\frac{n_i}{N} \right) \left(\frac{Y_j - Y_i}{Y_j} \right)$$

Where:

Y_j = Attribute (e.g. development expenditure) at the central level

Y_i = Attributes at a lower level of government ($Y_1, Y_2 \dots Y_n$)

N = Total population size

n_i/N = Share of the lower level community in the total population

k = The relevant distance indicator

The value of k gives a measure of inequality aversion—the greater the value of k , the greater the weight placed on those who are farther away from the centre. This index provides a distance measure between the central government and lower levels of government; it ranges from 0 to 1; and is easily decomposable into various sub-attributes.

An Illustrative Example

In Pakistan, total public expenditures are subdivided into current and development expenditures. Development expenditures are further broken down into development revenue expenditures (e.g. on public school utility bills) and development capital expenditures (e.g. on creating new assets such as new public schools). We can, therefore, calculate the distance measure for total development expenditures and its various components:

D_{cu} (Distance Measure for Current Expenditure) = 0.8596

D_D (Distance Measure for Total Development Expenditure) = 0.8707

D_R (Distance Measure for Development Revenue Expenditure) = 0.9105

D_{ca} (Distance Measure for Development Capital Expenditure) = 0.7965

Using this data, the Distance for Total Expenditure for Pakistan is calculated to equal 0.8698

At first glance, this distance would suggest a very centralized expenditure system as the value of the distance index is close to 1 (which

would indicate minimal decentralization in government expenditures). However, it is very difficult to qualify this number because of the lack of comparative data. What can be said is that the distance between the central government and provincial governments is greater for development revenue expenditure than for capital revenue expenditure.

Another application of the measure would be to construct a time-series of distance measures. This would be very useful in assessing governments' attempts at decentralization. We again take the illustrative example of Pakistan (the years 1986-91 were

chosen on the basis of data availability):

1985-88 represents the government of Mr Mohammad Khan Junejo (the first elected government after nine years of martial law in Pakistan); 1988-90, the government of Ms Benazir Bhutto; and 1990-93, the first government of Mr Nawaz Sharif. What is interesting here is that in six years of democracy after an extended period of military rule in Pakistan, public expenditures have become even more centralized—demonstrated by an increase in the distance index.

Years	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Distance	0.655948	0.637516	0.675199	0.713848	0.720317	0.703048

Note. the figures were compiled with aggregated provincial figures and not individual provincial expenditures.

Source: GOP (various years).

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Contents

Note on statistical sources 181

Table 1: Summary of Key Governance Data 182

- Key macroeconomic indicators
 - Unemployment
 - Central government finances
 - Overall budget deficit (as % of GDP)
 - Per capita expenditures
 - Size of government
 - Elections
 - Law and order
 - State control of media
-

Table 2: Economic Management 183

- Size of government
 - Inflation and monetary policy
 - Foreign trade
 - Debt
 - State owned enterprises
 - Unemployment
 - Investment
-

Table 3: Budget Analysis 184

- Central government finances
 - Subsidies
 - Overall budget deficit/surplus (as % of GDP)
 - Taxes
 - Budgetary priorities
-

Table 4: Social Sector Expenditure 185

- Government expenditure (non-development/development)
 - Expenditure on social security
 - Expenditure on education (as % of GNP)
 - Priorities in education budget (%)
 - Current expenditure per pupil (as % of GNP per capita)
 - Pupil-teacher ratio (as % of GDP)
 - Public expenditure on health
 - Population with access to health services/safe water/sanitation
 - Immunization
 - Household income
-

Table 5: The Judiciary, Law, and Human Rights 186

- Judiciary
 - Number of cases pending in courts
 - Average number of cases per judge
 - Salary structure of judges (as % of GNP per capita)
 - The ombudsman
 - Law, order, and human rights
 - People arrested
 - Capital punishment (number of people)
 - Number of people who have died in sectarian violence
 - Number of prisoners who have died in police custody
 - Children 10-14 (% of age group in labour force)
 - Number of refugees by country of asylum
-

Table 6: The Parliament 187

- Number of seats in parliament
 - Elections
 - Date of last elections
 - Voter turnout
 - Members elected or appointed
 - Parties represented in lower/upper house
 - Year women received right to vote/stand for election
 - Number of bills passed by parliament in the last five years (1993-97)
 - Number of ordinances passed in last five years (1993-97)
 - Age composition of parliamentarians
 - Level of educational attainment of parliamentarians
 - Ethnic/religious breakdown of parliament (%)
 - Salaries and privileges of parliamentarians (US \$)
-

Table 7: Transparency and information 189

- Media and communications
 - International communications
 - State control of media
 - Freedom of expression and mobility
 - Census
-

Note on Statistical Sources for Governance Tables

The special governance data for this Report has been collected from various international and national sources. Principal international sources include the UN systems and the World Bank. Where data for certain governance indicators as not available from international sources, national sources were utilized. For instance, the data on poverty alleviation programs, salary structure of parliamentarians, and the number of people who have died in police custody have been gathered from national sources. National data for the governance tables was graciously made available by the UNDP field offices and prominent research institutes in various South Asian countries.*

Since national data is seldom comparable across countries, international data has been used wherever available. However, due to the nature of the data required, national sources were also used extensively. The tables on the judiciary and the parliaments rely mostly on national sources. Extra care has been taken to ensure that the information provided at the national level is both reliable and consistent. Nevertheless, data from national

sources should be used with caution, especially while carrying out cross-country comparisons. This is mainly because definitions, measurements, and time periods some times differ across countries. For example, the data on capital punishments covers one year in India, two years in Pakistan.

National data was collected from all South Asian countries directly, except Bhutan and Maldives. International sources have mostly been used for these two countries. Certain data has been compiled for the first time for the purpose of this Report, such as the ethnic breakdown of parliamentarians. It is hoped that such new data would be useful for policy-makers, researchers, and students interested in governance issues.

Often, the latest reliable data for several important governance indicators remains unavailable, such as the degree of censorship and state control of media and military expenditure. There is an urgent need for up-to-date and accurate data on governance in order to analyze governance issues as objectively as possible.

* National Sources for data:

1. India: Public Interest Legal Support & Research Centre (PILSARC)
2. Pakistan: Mr K. J. Butt (UNDP Consultant)
3. Bangladesh: Ms T. Hossain (UNDP Consultant)
4. Sri Lanka: Marga Institute
5. Nepal: Mr D. Prasain & Mr S. Wagle (UNDP Consultants)

1. Summary of Key Governance Data

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Key macroeconomic indicators								
GNP per capita (in US\$)								
• 1983	260	390	130	160	330	...	...	261
• 1997	370	500	360	220	800	430	1,180	393
Average annual rate of inflation (%)								
• 1985-95	9.8	9.2	6.4	11.6	11.8	...	...	9.4
• 1997-98	10	8.2	12 ^a	7.8 ^b	9.0	8.3 ^c	6.7 ^d	9.6
Unemployment								
Total unemployment (in thousands) 1996	37,430 ^e	1,893	1,417	...	710	...	...	28,586
Rate of unemployment 1996	...	5.4	2.5	...	11.3	...	...	4.55
Corruption ranking (TI or other) 1998	18	14	4 ^f	...	...	...	...	...
Central government finances								
Total revenue (as % of GDP) 1996	13	19	13	11	21	19	35	14
Total expenditure (as % of GDP) 1996	16	23	14	18	29	42	48	17
Expenditure on social services (as a % of total expenditure) 1997-99	10.5	7.06	23	30	27	20	38	12
Overall budget deficit (as % of GDP)								
• 1980	-6.5	-5.7	2.5	-3.0	-18.3	...	...	-5.6
• 1998	-6.1	-6.2	-4.2	-5.0	-8.0	...	...	-6.0
Per capita expenditure on								
• debt servicing (US\$) 1997	11	33	4	4	23	14	...	13
• health (US\$) 1990-97	18	13	6	10	11	11	73	16
• education (US\$) 1995	12	12	6	6	22	22	83	11
• defense (1995 Prices) US\$ 1996	11	27	4	2	47	...	...	13
Military expenditure (as a % of combined education and health expenditure) 1995	57	181	46	22	100	...	...	71
Total debt servicing (as % of GNP) 1997	3.6	5.1	2.2	1.9	3.1	4.8	...	3.6
Size of the government								
Total government employees (as % of total labour force) 1996-97	4.7	8	1.8	0.97	14	...	...	5
Female employees (as % of total employees) 1995	6	2	3	...	9	5	10	5
Elections								
Number of elections in last 50 years	12	11	7	5	10	...	...	11
Number of elections in last 5 years	3	2	2	1	1	...	...	3
Voter turnout in last elections for lower or single house (as % of total eligible voters)	50	35	75	58	76	...	75	51
Law and order								
Number of cases pending in court (millions)	22	0.748	6.5	0.076	...	...	...	17
Number of prisoners awaiting trial (millions) 1996	0.163	...	...	...	0.071	...	...	0.124
Number of citizens per police person 1996	746	2,112	1,200	481	612	...	...	939
Number of murders reported/1,000 people 1996	0.039	0.031	0.024	0.026	0.09	...	...	0.037
Armed robberies/1,000 people 1996	0.022	0.043	0.014	0.006	0.2	...	...	0.026
Car thefts/1,000 vehicles 1996	0.48	0.71	2.61	...	...	...	...	0.697
Number of reported rapes 1996	14,846	1,423	57,600	34	540	...	...	16,970
Cases of capital punishment 1990-97	4	18	...	0	0	...	...	5
State control of media								
State control of TV (yes or no)	no	no	yes	yes	yes	...	...	...
State control of radio (yes or no)	no	no	yes	yes	yes	...	...	...
Independent newspapers (yes or no)	yes	yes	yes	yes	no	...	...	...

Note:

Except where indicated the data in this table has been taken from governance tables 2 - 7.

a: year 1999; b: year 1996-97; c & d: year 1995; e: refers to the number of work applicants only; f: year 1996.

Source: Row 1a: World Bank 1985; Row 1b: World Bank 1999b; Row 2a: UNDP 1998a; Row 2b: GoI 1998b, GoP 1998c, World Bank 1999a, HMG Nepal 1997c, GoS 1997a, UNDP 1998a; Row 3c: TI 1998, TI 1996; Row 8b: UNDP 1998a.

2. Economic Management

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Size of the government								
Total employees in government (as % of labour force) 1997	4.7	8	1.8	0.97	14 ^a	...	...	4.86
Government consumption (as a % of GDP) 1997	10	12	14 ^b	9	10	...	...	10.60
Inflation and monetary policy								
GDP implicit deflator – average annual growth rate 1990-97	8.8	11.3	3.6	9.7	9.8	...	...	8.59
Consumer prices – average annual growth rate 1990-97	9.6	11.1	3.8	9.6	10.8	9 ^c	...	9.22
Food prices – average annual growth rate 1990-97	10.2	11.9	4.3	10.5	11.2	...	...	9.82
Average annual % growth of money and quasi-money 1997	17.7	19.9	9.8	15.8	13.8	30.3 ^d	...	17.09
Foreign trade								
Mean tariff % 1990-93 – all products	56.3	51	84.1	16.7	24.1	...	...	57.13
Primary products	43.5	44.4	79.6	8.5	28.5	...	...	46.21
Manufactured products	59.4	53	85.6	19	23.5	...	...	59.88
Current account balance (as a % of GDP) 1997	-1.5	-5.9	-2.1	-9.3	-2.5	...	...	-2.21
Gross international reserves (as a % of GDP) 1997	6.5	1.9	3.8	12.7	13.4	...	...	5.91
Ratio of official to parallel exchange rate 1997	0.9	0.9	0.8	0.9	1	...	...	0.89
Exports (as % of GDP) 1997	12	16	12	26	36	...	...	13
Imports (as % of GDP) 1997	16	21	18	38	44	...	...	18
Debt								
External debt (PV) (% of GNP) 1997	20	37	20	25	35	...	...	22.22
Long-term debt as a % of total external debt 1997	94	87	96	98	88	...	...	93.15
Short-term debt as a % of total external debt 1997	5.3	8.4	1.2	1.2	6.3	...	...	5.19
Total debt (service % of GNP) 1997	3.6	5.1	2.2	1.9	3.1	4.8 ^e	...	3.60
Domestic debt (as % of GDP) 1997	51	42	12	17	48	...	22	45
State owned enterprises								
Number	...	110	...	62	...	...	...	...
Economic activity (% of GDP, 1986-91)	13.8	11.4	3.0	...	10.4	...	...	...
Net financial flows from government (% of GDP) 1986-91	-0.5	...	...	-0.5	2.2	...	...	-0.36
Employment (% of total) 1990-96	8.1	...	...	...	12.4	...	...	...
Systems losses in public power utilities (%) 1998	23	23	33	26	18	...	...	24
Proceeds from privatization (\$ millions) 1990-97	7,073	1,951	59.5	15	723.3	...	...	5,566
Unemployment								
Total unemployment (in thousands) 1996	37,430 ^f	1,893	1,417	...	710	...	...	285.86
Rate of unemployment (%) 1996	...	5.4	2.5	...	11.3	...	...	4.55
Investment								
Gross domestic investment (% of GDP) 1997	24	15	21	21	24	47 ^g	...	22.63
Gross domestic saving (% of GDP) 1997	20	10	15	10	17	...	...	18.09
FDI (% of GDP) 1997	0.9	1.2	0.3	0.5	2.8	0 ^h	...	0.90
Entry and exit regulations – entry 1997	Auth. only	Free	Free	...	Rel.Free	...	...	...
Repatriation of income 1997	Free	Free	Free	...	Restrict.	...	...	...
Repatriation of capital 1997	Free	Free	Free	...	Restrict.	...	...	...
Composite ICRG risk rating Dec. 1998	64.8	53.8	62.3	...	63.3	...	...	62
Institutional investor credit rating Sept. 1998	44.9	25.3	26.1	24.6	32.5	...	...	40
Moody's sovereign long-term debt rating- foreign currency April 1999	Ba2	Caa1	...	...	...	...	...	...

Note:

a: year 1994; b,c,d,g,h: year 1996; f: refers to the number of work applicants that may include not only those who are unemployed and seeking employment but also those who are currently employed and seeking alternate employment.

Source: Row 1a: GoI 1998f, GoP 1997c, GoB 1998f, NESAC 1998, GoS 1994; Rows 1b, 2a,c,3d,e,f,g,h, 4a,b, 5f, 7b, 8a,b,c,d,e: World Bank 1999b; Rows 2b,d, 4d, 7a,c: World Bank 1999b, World Bank 1996b; Rows 3a,b,c, 5b,c,d: World Bank 1997f; Row 4e: World Bank 1998k, GoP 1998h; World Bank/ADB 1998e, NESAC 1998, GoM 1998, IMF 1998d; Row 5e: World Bank 1998k, GoP 1998c, World Bank/ADB 1998e, IMF 1999b, IMF 1998d; Row 5a: World Bank 1998l, IMF 1999b; Rows 6a,b: ILO 1998; Row 8f: Moody's Investor Service.

3. Budget Analysis

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Central government finances								
Total revenue (as % of GDP) 1996	13	19	13	11	21	19	35	14
Total expenditure (as % of GDP) 1996	16	23	14	18	29	42	48	17
Non-development expenditure (as a % of total expenditure) 1996	59	80	55	48	...	39	57	60
Development expenditure (as % of total expenditure) 1996	41	20	45	52	...	61	43	39
Subsidies (as % of total government expenditure) 1997-98	7.0	2.2	5.9	14.9	23.5	...	...	6.7
Overall budget deficit/surplus (as % of GDP)								
• 1972	...	-6.8	-1.9	-1.2	-5.3	...	...	...
• 1980	-6.5	-5.7	2.5	-3.0	-18.3	...	...	-5.6
• 1996	-5.1	-4.8	-5.1	-4.5	-7.8	-2.5	-3.2	-5.1
• 1998	-6.1	-6.2	-4.2	-5	-8	...	...	-6.0
Taxes								
Tax revenue (as a % of GDP)								
• 1996	10.3	15.3	10.7	8.8	16.9	8.0	20.5	11
• 1998	10.8 ^a	12.9 ^b	9.6	8.9 ^c	16.0	8.5	18	11
Direct taxes (as % of total tax collection) 1996	30	29	21	21	15	...	...	29
Indirect taxes (as % of total tax collection) 1996	70	71	79	79	85	...	...	71
Non-tax revenues (as a % of GDP) 1996	3.4	4.1	2.7	2.0	2.1	11	17.3	3.4
Deficit financing through inflation (seignorage) % of GDP 1993-95	2.5	2.5	1.2	2.3	2	...	...	2.4
Budgetary priorities								
<i>Per capita expenditure on</i>								
• debt servicing (US\$) 1997	11	33	4	4	23	14	...	13
• health (US\$) 1990-97	18	13	6	10	11	11	73	16
• education (US\$) 1995	12	12	6	6	22	22	83	11
• defence (1995 Prices) US\$ 1996	11	27	4	2	...	...	...	13
Military expenditure (as % of combined education and health expenditure) 1995	57	181	46	22	100	...	...	71

Note:

a,b,c: year 1997

Source: Rows 1a,b, 3a, 4: World Bank 1998p, World Bank 1996b, GoB 1998b, GoM 1998; Rows 1c,d: GoI 1997b, GoP 1997c, GoB 1998b, EIU 1996, World Bank 1996b, GoM 1998; Row 1e: GoI 1998a, GoP 1998a, GoB 1998b, HMG Nepal 1999, GoS 1997a; Row 2a: World Bank 1985, World Bank 1986; Row 2b: World Bank 1997g, Row 2c: World Bank 1998q; Row 2d: World Bank 1998k, World Bank 1996b, GoP 1998a, IMF 1998a, IMF 1999b, IMF 1998d, Row 3b: World Bank 1999b, IMF 1998d, GoM 1998, World Bank 1996b; Rows 3c,d: GoI 1996b, GoP 1996a, GoP 1998a; GoB 1998b; HMG Nepal 1998a, GoS 1997b; Row 5: World Bank 1997f; Rows 6a,b: World Bank 1999b, World Bank 1996b, GoM 1998; Row 6c: UNDP 1998a, World Bank 1997f; Row 6d: UNDP 1998a; Row 6e: UNDP 1998a, World Bank 1999b, World Bank 1997f.

4. Social Sector Expenditures

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Government expenditure								
Non-development (as a % of total) 1996	59	80	55	48	...	39	57	59.91
Development (as % of total) 1996	41	20	45	52	...	61	43	38.58
Social services (as a % of total) 1997-99 ^a	10.5	7.06	23	30	27	20	38	11.92
Social services (as a % of GDP) 1997	5.9	2.6	...	5.6	8	7.3	18.5	4.97
Expenditure on social security								
Social security expenditure (as % of GDP) 1993	0.3	0.017	1.1	...	2.3	...	1.3	0.37
Poverty alleviation programmes (as % of public expenditure) 1997	3.5	5.8	...	...	3.4	...	...	3
Education								
Expenditure on education (% of GNP)								
• 1985	3.4	2.5	1.9	2.6	2.6	...	4.4	3.13
• 1995	3.5	2.1	2.3	2.9	3.1	5.2	8.4	3.21
Priorities in education budget (%)								
Primary	46	48	52	49	82	...	67	47
Secondary	31	24	19	16	...	...	32	29
Tertiary	12	14	17	22	14	...	5	13
Technical and scientific	4.4	2.6	8.4	4.4	2	...	...	4.4
Current expenditure per pupil (as a % of GNP per capita) 1992								
Primary	12	...	6	11	7	...	...	11
Secondary	16	...	23	15	...	...	...	16
Tertiary	70	...	29	161	54	...	...	67
Fees as % of government expenditure on higher education (mid-1980s)	5	4	0	6	3	...	...	...
Pupil – teacher ratio (1989-94)								
Primary	63	41	45	42	29	33	...	57.86
Secondary	26	19	43	32	20	24	...	26.86
Health								
Public Expenditure on health (as % of GDP) 1990-97	0.7	0.8	1.2	1.2	1.4	4.0	5.3	0.78
Doctors (per 100,000 people) 1993	48	52	18	5	23	20	19	44.34
Population with access to								
Health services % 1995	85	55	45	...	93	65	75	76.30
Safe water % 1995	81	60	79	48	57	58	96	77.46
Sanitation % 1995	29	30	35	20	63	70	66	30.09
Immunization (% of 1 year olds fully immunized against) 1995-96								
Tuberculosis	96	93	88	73	88	98	98	94.35
Measles	81	78	59	45	86	86	94	77.96
Births attended by trained health personnel (%) 1990-96	34	19	14	9	94	15	90	30.78
Contraceptive prevalence rate (%) 1990-95	41	18	49	29	66	19	...	39.28
Household Income 1989-94								
Share of top 20% of households	43	40	38	...	39	...	...	41.31
Share of bottom 40% of households	21	21	23	...	22	...	...	20.81
Share of bottom 20% of households	8	8	9	...	9	...	...	7.96

Note:

a: latest available year

Source: Row 1a,b: GoI 1997b, GoP 1997c, GoB 1998b, EIU 1996, GoS 1997c, GoM 1998; Row 1c: GoI 1998b, GoP 1998a, GoB 1998b, HMG Nepal 1998b, GoS 1997a, World Bank 1996b, GoM 1998; Row 1d: World Bank 1998k, World Bank 1998l, IMF 1999b, HMG Nepal 1998b, IMF 1998d, World Bank 1996b, GoM 1998; Row 2a: UNDP 1998a; GoS 1997a; Row 2b: GoI 1998b, GoP 1998c, GoS 1997a; Rows 3a, b: UNDP 1998a; Rows 4a,b,c: Haq 1998a; Row 4d: Haq 1998a; row 4d: Haq 1998a, GoS 1997c, Rows 5a,b,c: UNESCO 1995; Row 6: Haq 1998a, NESAC 1998; Rows 7a,b,14a,b,c: World Bank 1996c; Row 8: World Bank 1999b; Rows 9,10a,11a,b,12,13: UNDP 1998a; Rows 10b,c: World Bank 1997g, World Bank 1998q.

5. Judiciary, Law and Human Rights

	India (1)	Pakistan (2)	Bangladesh (3)	Nepal (4)	Sri Lanka (5)	Bhutan (6)	Maldives (7)	South Asia (weighted average)
Judiciary								
Number of people per court (in millions) 1997	...	1.5	...	0.23	0.13	...	...	0.18
Number of people per judge (in millions) 1997	0.091	0.085	0.095	0.085	0.076	...	...	0.09
Percentage of female judges 1997	3.13	1.13	3.96	0.82	2.4	...	...	2.93
Number of cases								
pending in courts (in millions)	22	0.75	6.5	0.08	...	...	...	17.31
Average number of cases per judge	2,137	454	5,142	314	...	...	...	2,169
Average salaries of judges (US\$/month) 1997								
Supreme Court judges	1,019	870	478	147	497	...	...	924
High Court judges	716	826	305	138	395	...	...	673
District Court judges	440	340	137	118	369	...	...	392
The Ombudsman								
Number of cases filed before the Ombudsman 1998	24,000 ^a	44,332	...	1,905	1,758	...	...	23,390
Law, order and human rights								
Number of prisoners awaiting trial (in millions) 1996	0.16	...	...	...	0.07	...	...	...
Population per police person 1996	746	2,112	1,200	481	612	...	...	939
Number of murder cases reported (per 1,000 people) 1996	0.039	0.031	0.024	0.026	0.09	...	...	0.04
Armed robberies (per 1,000 people) 1996	0.022	0.043	0.014	0.006	0.02	...	...	0.03
Car thefts/1,000 vehicles 1996	0.48	0.71	2.61	...	...	...	...	0.697
Cycles stolen per 1,000 people) 1996-7	0.021	...	0.005	...	0.1	...	...	0.02
Number of reported rapes (1996)	14,846	1,423	57,600	34	540	...	...	16,970
People arrested								
Total (in million)	7.32	...	0.29	...	0.09	...	...	...
% female	4.14	...	...	...	6.2	...	...	...
Capital punishment (number of people) 1995-97	4	18	...	0	0	...	0	5
Number of people who have died in sectarian violence 1997	25	197	...	5	2,610 ^b	...	...	630
Number of prisoners who have died in police custody 1997	188	36	23	25	32	...	...	149
Children 10-14 (% of age group in labour force)								
• 1980	21	23	35	56	4	...	...	23
• 1997	13	17	29	44	2	55 ^c	6 ^d	15
Number of refugees by country of asylum (000's)								
• 1992	260	1,630	245	76	0.7	...	...	408
• 1995	274.1	867.6	51.1	124.8	1.0	...	...	313
% of total population								
• 1992	0.03	1.3	0.2	0.4	4.5	...	...	0.27
• 1995	0.03	0.6	0.04	0.6	5.4	...	...	0.19

Note:

a: year 1994-95; b: this is an average annual figure of the sectarian/ethnic deaths in Sri Lanka and is reflective of ethnic strife in the region; c,d: year 1995.

Source: *Column 1*: The Times of India 1998, Gol 1998c, Kanetkar, Gol 1998f, Lewis *et al.*, India Today 1998, Gol 1997e, State of Human Rights in India 1996, Engineer 1997, NHRC 1997, World Bank 1998q, UNDP 1994, UNDP 1997c; *Column 2*: GoP 1998b, Standard & Poor's 1998, HRCP 1998, GoP 1998d, GoP 1999, GoP 1996b, GoP 1998g, World Bank 1997f, UNDP 1994, UNDP 1997c; *Column 3*: GoB 1998d, World Bank 1998f, State of Human Rights in Bangladesh 1996, GoB 1998e, World Bank 1999b, World Bank 1997f, UNDP 1994, UNDP 1997c; *Column 4*: HMG Nepal 1997b, HMG Nepal 1998d, HMG Nepal 1998a, HMG Nepal 1998c, HMG Nepal 1998e, INSEC 1997, World Bank 1997f, UNDP 1994, UNDP 1997c; *Column 5*: GoS 1997c, GoS 1998a, GoS 1998b, GoS 1997c, GoS 1998d, World Bank 1997f, UNDP 1994, UNDP 1997c.

6. The Parliament

	India (1)	Pakistan (2)	Bangladesh (3)	Nepal (4)	Sri Lanka (5)	Bhutan (6)	Maldives (7)	South Asia (weighted average)
Number of seats in the parliament								
<i>Upper house/Senate</i>								
• 1960	245	...	...	36	30	...	...	...
• 1980	245	63	...	...	abolished	...	...	...
Latest available 1997	245	87	...	60	...	...	...	195
<i>Lower house/National Assembly</i>								
• 1960	494	...	...	109	157	...	...	...
• 1980	524	237	...	...	168	...	...	...
Latest available 1997	545	217	330	205	225	150	48	474
<i>Cabinet</i>								
Latest available 1997	40	24	...	42	29	...	...	34
Elections								
Number in last 50 years	12	11	7	5	10	...	...	11
Number in last 10 years	5	3	4	2	2	...	...	5
Number in last 5 years	3	2	2	1	1	...	...	3
Date of last elections								
Lower or single house	02 1998	02 1997	06 1996	11 1994	08 1994	1997	12 1994	...
Upper house or Senate	04 1996	03 1997	...	06 1995	...	...	...	...
Voter turnout								
% of population eligible to vote	62	38	46	60	...	...	...	57
Voter turnout at last election for lower or single houses (%)	50	35	75	58	76	...	75	51
Female voter turnout	50	...	49	...	...	...	...	...
Members elected (E) or appointed (A)								
Lower or single house	E+A	E	E+A	E	E+A	E+A	E+A	...
Upper house or Senate	E+A	E	...	E+A	...	...	...	...
Parties represented in								
Lower or single house	13	4	7	6 ^a	6	...	...	11
Upper house or Senate	22	8	...	4	...	...	...	18
Year women received right								
• to vote	1952	1948	1972	1951	1931	1953	1932	...
• to stand for election	1952	1948	1972	1951	1931	1953	1932	...
• first woman elected (E) or nominated (N) to national parliament	1952E	1973E	1979E	1952N	1947E	1976E	1979E	...
Seats in parliament held by women (%) 1996	7.0	3.0	11.2	5.0	5.0	2.0	6.0	7.00
Number of committees in parliament	...	57	...	11	...	...	...	...
Number of bills passed by parliament in the last 5 years 1993-97								
274 ^b	274 ^b	89	...	112	195	...	...	15
% pertaining to social sectors	17	24	42	...	38	...	...	20
% pertaining to economic policy	60	48	33	...	35	...	...	54
% pertaining to judiciary	10	28	25	...	27	...	...	14
Number of ordinances passed in last 5 years 1993-97								
...	...	380	...	10	...	...	...	44
% passed into law	...	...	...	100	...	...	...	2
% of lapsed ordinances	...	...	...	0	...	...	...	0

6. The Parliament (continued)

	India (1)	Pakistan (2)	Bangladesh (3)	Nepal (4)	Sri Lanka (5)	Bhutan (6)	Maldives (7)	South Asia (weighted average)
Age composition of parliamentarians								
Less than 30	...	0	0	...	1	...	...	0
30-45	...	26	82	...	55	...	...	12
45-60	...	32	186	...	119	...	...	24
Above 60	...	29	50	...	50	...	...	9
Level of educational attainment of parliamentarians								
% with less than or only a matriculation degree	16	21	3.64	...	60	...	...	16
% with a first degree	42	35	43.64	...	35	...	...	40
% with a second degree	27	24	38.79	...	2	...	...	27
% with a doctoral degree	5.6	...	0.61	...	3	...	...	4
Ethnic/religious breakdown of parliament (%)								
Christians/Sinhalese ^c	4.44	1.32	0	0	77.3	...	...	5
Hindus/Tamils ^d	85.28	1.32	2.42	79.2	13.3	...	...	66
Muslims	5.96	96.71	96.36	1.5	8.9	...	...	25
Sikhs	3.3	0.33	0	...	...	...	...	3
Others	1.02	0.33	1.52	19.3	0.4	...	...	1
Salaries and privileges of parliamentarians (in US\$)								
Salary (per month)	330	122	205	122	225	...	...	288
Travel allowances (per day)	4	3	2	3	2	...	...	4
Other perks (per month) ^e	303	306	118	207	102	...	...	280
Total package (per month)	766	529	380	434	386	...	...	688
Annual taxes paid (average per parliamentarian)	...	...	...	226	...	...	...	...

Note:

a: recently the lower house has been dissolved to pave the way for elections in May 1999, and 6 parties are contesting elections.

b: relates to the 5 year period 1991-95; c & d: in case of Sri Lanka, the data refers to Sinhalese and Tamil rather than Christian and Hindu.

c: other perks do not include items such as housing, groceries, certain telephone privileges, automobiles, insurance, etc., as they could not be quantified.

Source: *Column 1*: Aggarwal *et al.*, UNDP 1998a, UNDP 1997c, GoI 1998e, Outlook 1998, GoI 1995, India Today 1998; *Column 2*: GoP 1997g, GoP 1998e, GoP 1999b, GoP 1997d, UNDP 1998a, UNDP 1997c, Saeed 1995, GoP 1998f, GoP 1998e; *Column 3*: FEMA 1996, UNDP 1998a, Bangladesh National Library, Rashid, GoB 1992; *Column 4*: HMG Nepal 1998f, HMG Nepal 1997d, HMG Nepal 1997a, Development Law Inc. 1998; *Column 5*: Gunaratne *et al* 1995, GoS 1999, UNDP 1998a, UNDP 1997c, GoS 1998c, *Columns 6,7*: UNDP 1998a, UNDP 1997c.

7. Transparency and Information

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Media and communication									
Daily newspapers (copies per 1,000 people) 1996	30 ^a	21	9	11	29	...	10	27	49
Radios (per 1,000 people) 1996	105	92	50	37	210	17	118	98	187
Televisions (per 1,000 people) 1997	69	65	7	4	91	...	40	61	190
Cable connections (per 1,000 people) 1997	18.8	2.2	1.5	0.2	0	...	...	15	28
Internet hosts (per 10,000 people) 1998	0.11	0.15	0.17	0.05	0.31	...	...	0.12	2.4
Post offices (per 100,000 people) 1991	17.6	11.5	...	...	23	5.5	...	15	...
Mobile phone subscribers (per 1,000 people) 1997	1	1	0	0	6.0	...	...	1	9.0
Telephone mainlines (per 1,000 people) 1997	19	19	3	8	17	9	57	17	60
Telephone mainlines in largest city (per 1,000 people) 1997	104	61	20	...	271	...	...	91	27
Waiting time in years to obtain a telephone line 1997	1.0	1.2	6.6	7.6	6.3	...	...	1.8	1.3
Public payphones (per 1,000 people) 1995	0.3	0.1	0.01	...	0.1	...	0.7	0.2	0.7
International telecommunication									
Outgoing traffic (minutes per subscriber) 1997	24	30	81	108	106	...	...	33	114
Average price per call (\$ per 3 minutes) 1997	6.1	5.9 ^b	6 ^c	8.8 ^d	6.8	...	...	6.1	6.2
State control of media									
State control of television (yes or no)	no	no	yes	yes	yes	...	...	...	...
State control of radio (yes or no)	no	no	yes	yes	yes	...	...	...	...
Independent newspapers (yes or no)	yes	yes	yes	yes	no	...	...	...	...
Freedom of expression and mobility									
Freedom to travel outside one's own country (yes or no)?	yes	yes	yes	yes	yes	...	...	...	...
Freedom to peacefully associate and assemble (yes or no)?	yes	yes	yes	yes	no	...	...	...	...
Freedom to teach ideas and receive information (yes or no)?	yes	yes	yes	yes	yes	...	...	...	...
Right of information Act (yes or no)?	no	no	yes	yes	no	...	...	...	...
Compulsory religion or state ideology in schools (yes or no)?	no	yes	yes	no	yes	...	...	...	...
Census									
Last census held	1991	1998	...	1991	...	...	...	...	...
Total number of censuses in last 50 years	5	5	...	5	...	...	...	4.43	...

Note:

a: year 1992; b,c,d: year 1995.

Source: Rows 1,2,3,4,7,8,9,10,12,13: World Bank 1999b; Rows 6,11: UNDP 1998a; Row 5: World Bank 1999b, Pi Media 1998; Rows 14,15,17,18,19,20,21,22: Humana 1992, Constitutions of South Asian countries; Row 16: Humana 1992; Rows 23,24: GoI 1998, GoP 1998, HMG Nepal 1998.

Selected definitions

Composite ICRG risk rating is an overall index, ranging from 0 to 100, based on 22 components of risk that are grouped into three main categories, i.e., political, financial, and economic. Countries with ratings below fifty are considered very high risk and those with a rating above eighty are very low risk.

Deficit financing through inflation (seignorage) as a percentage of GDP is the net revenue derived by the government or monetary authority through issuance of money taken as a percentage of GDP.

Expenditure on social services as a percentage of total expenditure is the expenditure incurred by the government on social services as a percentage of total government expenditure. Social services include education, health, social security, welfare, housing, and community amenities.

External debt (PV) as a percentage of GDP is the present value of external debt expressed as a percentage of GDP. Present value of debt is the sum of short term external debt plus the discounted sum of total debt services payments due on public, publicly guaranteed, and private non-guaranteed long-term external debt over the life of the existing loans. The discount rate applied to long-term debt is determined by the currency of repayment of the loan and is based on reference rates for commercial interest established by the OECD.

Government consumption as a percentage of GDP refers to all current spending for purchases of goods and services (including wages and salaries) by all levels of government, excluding most government enterprises as a percentage of GDP. It also includes most expenditure on national defence and security.

Institutional investor credit rating measures the chances of a country's default. The ranking ranges from 0 to 100. The higher the rating, the lesser the chances of default for that country.

Long-term debt as a percentage of total external debt is the ratio of the long-term external debt to total external debt. All debt that has an original or extended maturity of more than one year is classified a long-term debt. It has three components: public, publicly guaranteed, and private non-guaranteed debt.

Mean tariffs are calculated as the *ad valorem* duty across all tariff lines. Specific duties—duties not expressed as a proportion of the declared value—are not included. It is the unweighted average of the applied rates for all products subject to tariff expressed in percentage terms.

Moody's sovereign long-term debt rating assesses the risk of lending to governments. Triple A bonds are judged to be of the best quality and C bonds of the lowest quality. Numerical modifiers 1-3 are applied to classification from Aa to B, with 1 indicating that the obligation ranks at the high end of its category.

Percentage of population eligible to vote is the total population that is registered with the respective election commissions as voters. The eligibility criterion varies from country to country depending upon its laws.

Ratio of official to parallel exchange rate measures the premium people must pay, relative to the official exchange rate, to exchange the domestic currency for dollars (US\$) in the black market.

Short-term debt as a percentage of total external debt is the ratio of the total short-term external debt to the total external debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt.

State owned enterprises are government-owned or government-controlled economic entities that generate most of their revenue by selling goods and services. This definition includes commercial enterprises directly operated by a government department and those in which government holds a majority of shares directly or indirectly through other state enterprises.

Total debt servicing as a percentage of GNP is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short term debt, and repayments (repurchases and charges) to the IMF taken as a percentage of GNP.

Total unemployment is the total share of the labour force that is without work but available for and seeking employment. Definition of labour force and unemployment may differ by country.

Contents

Note on statistical sources 194

Key to indicators 206

Table 1: Basic Human Development Indicators 195

- | | |
|---|--|
| <ul style="list-style-type: none"> • Estimated population • Annual population growth rate • Life expectancy at birth • Adult literacy rate • Female literacy rate • Combined first, second, and third level gross enrolment ratio | <ul style="list-style-type: none"> • Infant mortality rate • GNP per capita • GNP growth rate • GNP annual growth rate • Real GDP per capita • Human Development Index (HDI) • Gender-related Development Index (GDI) |
|---|--|
-

Table 2: Human Deprivation Profile 196

- | | |
|--|---|
| <ul style="list-style-type: none"> • Population in poverty • Population without access to health services • Population without access to safe water • Population without access to sanitation • Illiterate adults | <ul style="list-style-type: none"> • Illiterate female adults • Malnourished children under five • Under-five mortality rate • Daily calorie supply • People with disabilities |
|--|---|
-

Table 3: Trends in Human Development 197

- | | |
|--|---|
| <ul style="list-style-type: none"> • GNP per capita • Real GDP per capita • Human Development Index (HDI) • Life expectancy at birth • Gross enrolment ratio for all levels | <ul style="list-style-type: none"> • Adult literacy rate • Infant mortality rate • Fertility rate • Underweight children under five • Daily calorie supply |
|--|---|
-

Table 4: Education Profile 198

- | | |
|---|--|
| <ul style="list-style-type: none"> • Adult literacy rate • Male literacy rate • Female literacy rate • Primary enrolment • Secondary enrolment • Combined enrolment for all levels • Mean years of schooling | <ul style="list-style-type: none"> • Pupil-teacher ratio • Children dropping out before grade five • Tertiary, natural, and applied sciences enrolment • R&D scientists and technicians • Public expenditure on education (as % of GNP) • Children not in primary school |
|---|--|
-

Table 5: Health Profile 199

- | | |
|--|---|
| <ul style="list-style-type: none"> • Population with access to health services • Population with access to safe water • Population with access to sanitation • Population per doctor • Population per nurse | <ul style="list-style-type: none"> • Daily calorie supply per capita • Maternal mortality rate • Women using contraception • Public expenditure on health • Pregnant women aged 15-49 with anaemia |
|--|---|
-

Table 6: Gender Disparities Profile 200

- | | |
|---|--|
| <ul style="list-style-type: none"> • Female population • Adult female literacy • Female primary school enrolment • Female first, second, and third level gross enrolment ratio • Mean years of schooling • Female life expectancy | <ul style="list-style-type: none"> • Earned income share • Economic activity rate • Administrators and managers • Share of females in parliament • Gender-related Development Index (GDI) • Gender Empowerment Measure (GEM) |
|---|--|
-

Table 7: Child Survival and Development Profile 201

- Population under eighteen
- Population under five
- Infant mortality rate
- Under five mortality rate
- One-year-olds fully immunized against tuberculosis
- One-year-olds fully immunized against measles
- Births attended by trained health personnel
- Low birth-weight infants
- Child economic activity rate
- Child labour

Table 8: Profile of Military Spending 202

- Defence expenditure
- Defence expenditure, annual % increase
- Defence expenditure as % of GNP
- Defence expenditure as % of central government expenditure
- Defence expenditure per capita
- Defence expenditure as % of education and health expenditure
- Armed forces personnel
- Number of soldiers (per 1,000 population; per 1,000 doctors; per 1,000 teachers)
- Employment in arms production
- Military holdings
- Aggregate number of heavy weapons

Table 9: Profile of Wealth and Poverty 203

- Total GDP
- Real GDP per capita (PPPS)
- GNP per capita
- Income share: ratio of highest 20% to lowest 20%
- Population in poverty
- People in poverty, urban (%)
- People in poverty, rural (%)
- Social security benefits expenditure
- Public expenditure on education and health
- Gross domestic investment
- Gross domestic savings
- Industry (as % of GDP)
- Tax revenue (as % of GDP)
- Exports (as % of GDP)
- Debt servicing ratio
- Total net official development assistance received
- Total external debt

Table 10: Demographic Profile 204

- Population
- Population growth rate
- Population doubling data
- Crude birth rate
- Crude death rate
- Total fertility rate
- Total labour force
- Male labour force
- Female labour force
- Annual growth in labour force
- Unemployed/underemployed labour
- Employed labour force in agriculture, industry, and services
- Annual growth rate of real earnings per employee

Table 11: Profile of Food Security and Natural Resources 205

- Food production per capita
 - Food imports per capita
 - Cereal imports per capita
 - Food aid in cereal per capita
 - Food aid (million \$)
 - Land area
 - Forest and woodland/arable land as a percentage of land area
 - Irrigated land
 - Deforestation
 - Annual rate of deforestation
 - Reforestation
 - Production of fuel wood and charcoal
 - Internal renewable water resources per capita
 - Annual fresh water withdrawals
-

Note on Statistical Sources for Human Development Indicators

The human development data presented in these annex tables have been collected with considerable effort from various international and national sources. For the most part, standardized international sources have been used, particularly the UN system and the World Bank data bank. The Human Development Report Office in UNDP headquarters graciously made available its entire data system to us, including all data for South Asia.

Countries in the indicator tables are arranged in descending order, according to population size. While most data have been taken from international sources, national sources have been used where international data have been sparse. Such data have to be used with some caution as their international comparability is still to be tested.

Several limitations remain regarding coverage, consistency, and comparability of data across time and countries. The data series presented here will be refined over time, as more accurate and comparable data become available. In particular, policy-makers are invited to note the following deficiencies in the currently available statistical series and to invest sufficient resources to remedy these shortfalls:

- (a) Generally the latest data are not available for several indicators. Some statistical

indicators date back ten years or more. Analysis of the current economic and social situation is greatly handicapped in the absence of up-to-date data.

- (b) Time series are often missing for even such basic data as population growth, adult literacy, or enrolment ratios. An effort must be made to build consistent time series for some of the important indicators.
- (c) In certain critical areas, reliable data are extremely scarce: for instance, for income distribution, public expenditure on social services, military debt, foreign assistance for human priority areas, child labour, etc.
- (d) Information regarding the activities of NGOs in social sectors is fairly sparse.

It is time for policy makers to make a significant investment in the collection and analysis of up-to-date, reliable, and consistent statistical indicators for social and human development. If development is to be targeted towards the people, a great deal of effort must be invested in determining the true condition of these people.

It is hoped that the various gaps visible in this annex will persuade national and international agencies to invest more resources and energy in investigating human development profiles, especially in South Asia.

1. Basic Human Development Indicators

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Total estimated population (millions) 1998	987	153*	128	24	19	1.7	0.28	1313 T	4799 T
Total estimated population (millions) 1997	969	148	125	23	19	1.7	0.27	1287 T	4715 T
Annual population growth rate (%) 1995-2000 ^a	1.8	2.7	2.2	2.5	1.2	2.4	3.2	2.0	1.8
Total population (millions) 1996	953	145	123	22	19	1.6	0.26	1264 T	4632 T
Annual population growth rate (%) 1990-96	1.9	2.9	2.2	2.5	1.3	1.2	3.3	2.0	1.9
Life expectancy at birth (years) 1997	62	64	58	57	73	53	64	62	63
Adult literacy rate (%) 1995	52	38	38	28	90	42	93	49	71
Female literacy rate (%) 1995	38	24	26	14	87	28	93	36	62
Combined first, second, and third level gross enrolment ratio (%) 1995	55	41	37	56	67	31	71	52	57
Infant mortality rate (per 1000 live births) 1997	71	95	81	75	17	87	53	75	65
GNP per capita (US\$) 1997	370	500	360	220	800	430	1,180	393	1,250
GNP average annual growth rate (%) 1996-97	6.1	0.0	6.3	4.2	7.3	4.9	8.5	5.5	4.8
GNP per capita average annual growth rate (%) 1996-97	4.3	-2.4	4.6	1.7	5.9	7.0	6.3	3.6	3.2
Real GDP per capita (PPPS) 1995	1,422	2,209	1,382	1,145	3,408	1,382	3,540	1,531	3,068
Human development index 1995 ^b	0.451	0.453	0.371	0.351	0.716	0.347	0.683	0.445	0.588
Gender-related development index 1995 ^c	0.424	0.399	0.342	0.327	0.700	0.330	0.668	0.415	0.564

Note:

a: Population figures for 1990, 1995, and 2000 are taken from UN: Age and Sex Distribution of Population: The 1994 revision. (Medium variant). The population growth rate has been calculated by using the formula $\{[(\text{new value}/\text{old value})^{1/n}] - 1\} \times 100$.

b: The Human Development Index (HDI) has three components: life expectancy at birth; educational attainment, comprising adult literacy, with two-thirds weight, and a combined primary, secondary and tertiary enrolment ratio, with one-third weight; and income. *HDI is based on the old methodology.*

c: The gender-related development index (GDI) adjusts the HDI for gender equality in life expectancy, educational attainment, and income.

Source: Rows 1,2,3,4,5: UN 1994; Rows 6,10: UNICEF 1999; Rows 7,8: UNICEF 1998; Rows 11,12,13: World Bank 1999b; Rows 14,15,16: UNDP 1998a.

*According to the 1998 census conducted in Pakistan, the total population of the country is approximately 131 million with an annual growth rate of 2.6%.

2. Human Deprivation Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population below poverty line (%) 1989-94									
• \$1 a day	53	12	29	53	4	...	...	45	32
• national poverty line	...	34	48	...	22	...	...	40	...
Population without access to health services 1995									
• number (millions)	143	63	68	...	1.3	0.60	0.1 ^a	276 T	910 T
• as a % of total population	15	45	55	...	7 ^b	35	25 ^c	22	20
Population without access to safe water 1995									
• number (millions)	178	56	25	11	7.7 ^d	0.7 ^e	0.01 ^f	278 T	1,320 T
• as a % of total population	19	40	21	52	43 ^g	42 ^h	4 ⁱ	23	29
Population without access to sanitation 1995									
• number (millions)	665	98	91	18	6 ^j	0.51 ^k	0.10 ^l	879 T	2,687 T
• as a % of total population	71	70	65	80	34 ^m	30 ⁿ	34 ^o	70	58
Illiterate Adults 1995									
• number (millions)	291	49	45	9	1.2	0.6	0.01	395 T	851 T
• as a % of total adult population	48	62	62	72	10	58	7.0	51	29
Illiterate Female Adults 1995									
• number (millions)	182	28	26	5.4	0.8	0.3	0.005	243 T	544 T
• as a % of total adult female population	62	76	74	86	13	72	7	64	38
Malnourished children under 5 1996									
• number (millions)	59	9	8	2	0.6	0.1 ^p	0.02 ^q	79 T	162 T
• as a % of total population	53	38	56	47	38	38 ^r	39 ^s	51	30
Under-five mortality rate (per 1000 live births) 1997	108	136	109	104	19	121	74	110	96
Daily calorie supply 1995									
• quantity	2,382	2,471	2,001	2,367	2,302	...	2,211	2,350	2,572
• as a % of total requirements	112	110	92	110	101	...	73	111	113
People with disabilities 1992									
• number (millions)	1.80	6.50	9.92	0.63	0.07	...	...	9.92 T	110 T
• as a % of total population	0.2	4.9	0.8	3.0	0.4	...	...	0.83	2.6

Note:

a: year 1985-95; b & c: year 1991; d,g,j & m: year 1994-95; e,f,h,i,k,l,n & o: year 1990-96; p & r: year 1995; q & s: year 1990-97

Source: Rows 1,2,9,10: UNDP 1998a, UNDP 1994; Rows 3,4: World Bank 1998q, World Bank 1997g, UNDP 1998b; Rows 5,6: UNICEF 1998; Rows 7: UNDP 1998a, UNICEF 1998; Row 8: UNICEF 1999.

3. Trends in Human Development

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
GNP per capita									
1973 ^a	130	130	80	90	230	...	...	126	880 ^b
1996	370	500	360	220	800	430	1,180	393	1,250
Real GDP per capita (PPP, US\$)									
1960	617	820	621	584	1,389	...	...	648	790
1995	1,422	2,209	1,382	1,145	3,408	1,382	3,540	1,531	3,068
Human development index									
1960	0.206	0.183	0.166	0.128	0.475	...	...	0.204	...
1995	0.451	0.453	0.371	0.351	0.716	0.347	0.683	0.445	0.588
Life expectancy at birth									
1960	44	43	40	38	62	37	44	44	46
1997	62	64	58	57	73	53	64	62	63
Gross enrolment ratio for all levels (% age 6-23)									
1980	40	19	30	28	58	7	...	37	46
1995	55	41	37	56	67	31	71	52	57
Adult literacy rate (%)									
1970	34	21	24	13	77	...	91	32	43
1995	52	38	38	28	90	42	93	49	71
Infant mortality rate (per 1,000 live births)									
1960	144	139	151	212	90	175	158	144	137
1996	73	95	83	82	17	90	54	76	66
Fertility rate									
1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
1996	3.2	5.2	3.2	5.1	2.1	5.9	6.8	3.4	3.2
Underweight children (% under 5)									
1975	71	47	84	63	58	...	...	69	40
1996	53	38	56	47	38	38	39	51	30
Daily calorie supply (as % of requirement)									
1986	100	97	83	93	110	...	80	98	107
1995	112	110	92	110	101	...	73	111	113

Note:

a: current GNP per capita (US\$); b: year 1979; c: the average is assumed to be the same as observed in 1990-97; d: the daily calorie supply (as % of requirement) has been calculated by first calculating the requirement from 1995 data and then taking the percentage of 1996 data over that figure.

Source: Row 1: World Bank 1999b; Rows 2,3,5,9,10: UNDP 1998a, UNDP 1994; Row 4: UNICEF 1999; Rows 6,7,8: UNICEF 1998.

4. Education Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Adult literacy rate (%)									
• 1970	34	21	24	13	77	...	91 ^a	32	43
• 1995	52	38	38	28	90	42	93	49	71
Male literacy rate (%)									
• 1970	47	40	47	22	86	...	...	47	55
• 1995	66	50	49	41	93	56	93	62	79
Female literacy rate (%)									
• 1970	19	5	9	3	68	...	...	17	32
• 1995	38	24	26	14	87	28	93	36	62
Primary enrolment (%) gross									
• 1970	73	40	54	26	99	...	...	68	76
• 1996	100	74	92 ^b	109	109	73	134	94	108
Secondary enrolment (%) gross									
• 1970	26	13	...	10	47	2	...	25	...
• 1996	49	26 ^c	19 ^d	38	75	5 ^e	49	44	58
Combined enrolment for all levels (%)									
• 1980	40	19	30	28	58	7	...	37	46
• 1995	55	41	37	56	67	31	71	52	57
Mean years of schooling 1992									
• males	3.5	2.9	3.1	3.2	8.0	0.5	5.1	3.5	4.9
• females	1.2	0.7	0.9	1.0	6.3	0.2	3.9	1.2	3.0
• total	2.4	1.9	2.0	2.1	7.2	0.3	4.5	2.4	3.9
Pupil-teacher ratio 1995 (primary)	64	38	71	39	28	31	31	60	33
% of children dropping out before grade 5 1990-95	38	52	53	48	2	18	7	41	25
Tertiary natural and applied science enrolment (as % of total tertiary) 1992	26	...	25	17 ^f	34	...	...	26	30
R&D scientists and technicians (per 1,000 people) 1990-96	0.3	0.1	...	...	0.2	...	...	0.3	0.4
Public expenditure on education (as % of GNP)									
• 1960	2.3	1.1	0.6	0.4	3.8	...	...	2.0	2.5
• 1995	3.5	2.7 ^g	2.3	2.9	3.1	...	8.4	3.5	3.6
Children not in primary schools 1995 (in millions)	35	10	4	0.97	...	0.13	...	50	...

Note:

a: year 1985; b,c,f: year 1995; d,e: year 1993.

Source: Rows 1,2,3,9: UNICEF 1998, UNICEF 1997; Rows 4,5: World Bank 1999b; Rows 6,7,10,11,12: UNDP 1998a, UNDP 1994; Row 8: UNESCO 1996: Statistical document; Row 13: Haq 1998a.

5. Health Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population with access to health services (%) 1995	85	55	45	...	93	65	75	78	80
Population with access to safe water (%)									
• 1985-87	57	44	46	29	40	...	...	54	55
• 1995	81	60	79	48	57	58	96	77	71
Population with access to sanitation (%)									
• 1985-87	10	20	6	2	45	...	...	11	32
• 1995	29	30	35	20	63	70	66	30	42
Population per doctor									
• 1980	2,694	3,500	8,424	30,062	7,172	...	30,250 ^a	3,875	...
• 1993	2,459	1,923	12,884	13,634	6,843	11,111 ^b	20,330 ^c	3,684	5,767
Population per nurse									
• 1980	4,674	5,870	14,750	7,783	1,262	...	570 ^d	4,162	...
• 1993	3,323	3,330	11,549	2,257	1,745	6,667	600 ^e	4,078	4,715
Daily calorie supply per capita 1995	2,382	2,471	2,001	2,367	2,302	...	2,211	2,350	2,572
Maternal mortality rate (per 100,000 live births) 1990-96	437	340	850	1,500	30	1600 ^f	202 ^g	480	384
Women using contraception (% age 15-49)									
• 1970	12	4	22	1	8	...	...	12	18
• 1990-95	41	18	49	29	66	19 ^h	...	39	56
Public expenditure on health (as % of GDP)									
• 1960	0.5	0.3	...	0.2	2	...	2.4 ⁱ	0.5	0.9
• 1997	0.7	0.8	1.2	1.2	1.4	4.0	5.3	0.8	2.0
Pregnant women aged 15-49 with anaemia (%) 1975-91	88	...	58	...	...	30	...	85	...

Note:

a and d: year 1970; b: year 1988-91; c and e: year 1984; f: year 1993; g: year 1995; h: year 1987-94; i: year 1982.

Source: Rows 1,6,10: UNDP 1998a, UNDP 1996; Rows 2,3: World Bank 1998q, World Bank 1997g; Rows 4,5: UNDP 1998a; Row 7: World Bank 1998q, Haq 1998a; Row 8: UNDP 1998a, Haq 1998a; Row 9: World Bank 1999b.

6. Gender Disparities Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Female population 1998									
• numbers (millions)	477	74	62	11	9.6	0.88	0.14	635 T	2,361 T
• as a % of male	94	97	93	85	102	121	100	93	97
Adult female literacy (as % of male)									
• 1970	41	35	35	12	80	...	...	40	...
• 1995	58	48	53	34	94	50	100	58	78
Female primary school enrolment (as % of male)									
• 1970	64	37	48	20	92	6	107	60	79
• 1993	81	61	82	67	99	77	98	79	88
Female 1st, 2nd, and 3rd level gross enrolment ratio (as % of male) 1995	77	51	78	64	105	100	100	74	90
Mean years of schooling (female as % of male)									
• 1980	32	25	29	33	79	33	77	32	53
• 1992	34	23	29	31	79	33	76	33	55
Female life expectancy (as % of male)									
• 1970	97	99	97	97	103	104	95	97	103
• 1997	100	103	100	100	106	108	97	100	105
Earned income share (female as % of male) 1995	34	26	30	50	55	48	55	33	48
Economic activity rate (age 15+) (female as % of male)									
• 1970	43	11	6	52	37	52	35	37	53
• 1995	46	36	73	68	55	66	73	48	64
Administrators and managers 1992-96 (%) female	2	4	5	...	16	...	14	3	10
Share of female in parliament (%) 1996	7	3	9	5	5	2	6	7	12
Gender-related development index (GDI) 1995	0.424	0.399	0.342	0.327	0.700	0.330	0.668	0.415	0.564
Gender empowerment measure (GEM) 1995	0.228	0.179	0.305	...	0.286	...	0.341	0.226	...

Source: Row 1: UN 1994; Row 2: UNICEF 1998; Row 3: Haq 1998a; Rows 4,5,7,8,9,10,11,12: UNDP 1998a, UNDP 1996b; Row 6: UNICEF 1999.

7. Child Survival and Development Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population under 18 1997									
• number (millions)	385	70	57	11	6.3	0.9	0.15	530 T	1,845 T
• as a % of total population	40	47	45	48	33	56	56	41	39
Population under 5 1997									
• number (millions)	111	23	14	3.6	1.6	0.3	0.05	153 T	543 T
• as a % of total population	11	15	11	16	8	19	19	12	12
Infant mortality rate (per 1,000 live births)									
• 1960	144	139	151	212	90	175	158	144	137
• 1997	71	95	81	75	17	87	53	74	65
Under 5 mortality rate (per 1,000 live births)									
• 1960	236	226	247	315	130	300	258	236	216
• 1997	108	136	109	104	19	121	74	110	96
One year olds fully immunized against tuberculosis (%)									
• 1980	14	9	1	43	63	9	8	13	...
• 1995-97	96	90	88	96	96	92	99	95	88
One year olds fully immunized against measles (%)									
• 1980	1	3	2	2	0	18	30	1	...
• 1995-97	81	74	62	85	94	84	96	79	79
Births attended by trained health personnel (%)									
1990-96	34	19	14	7	94	15	61	31	54
Low birth weight infants (%)									
1990-97	33	25	50	26 ^a	25	...	13	33	18
Child economic activity rate (% age 10-14) 1997	13	17	29	44	2	55 ^b	6 ^c	15	16
Child labour 1994 (millions)	100	19	15	...	...	...	...	134	...

Note:

a: year 1990; b,c: year 1995.

Source: Rows 1,2,3,4,5,6,8: UNICEF 1984, UNICEF 1997, UNICEF 1999; Row 7: Haq 1998a; Row 9: World Bank 1998q, Haq 1998a; Row 10: UNESCO 1995.

8. Profile of Military Spending

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Defence expenditure (US\$ millions, 1993 prices)									
• 1985	7,207	2,088	308	22	214	...	...	9,839 T	189,727 T
• 1996	9,070	3,000	460	40	700	...	...	13,270 T	169,500 T
Defence expenditure annual % increase 1985-96	2.1	3.3	3.7	5.5	11	...	...	2.8	-1.0
Defence expenditure (as a % of GNP)									
• 1985	2.5	5.1	1.3	0.7	2.6	...	...	3.0	7.2
• 1995	2.8	5.2	1.4	0.9	5.3	...	...	3.4	3.3
Defence expenditure (as a % of central government expenditure)									
• 1980	19.8	30.6	9.4	6.7	1.7	...	...	21.3	...
• 1995	12.7	25.3	9.9	5.8	15.7	...	...	13.9	...
Defence expenditure per capita (US\$, 1993 prices)									
• 1985	9.4	22	3.1	1.3	14	...	...	9.9	52
• 1995	10	21	3.3	1.8	37	...	...	11	36
Defence expenditure (as a % of education & health expenditure)									
• 1960	68	393	...	67	17	...	...	113	143
• 1995	57	181	46	22	100	...	...	71	...
Armed forces personnel (no. in thousands)									
• 1985	1,260	484	91	25	22	...	...	1,882 T	16,027 T
• 1996	1,145	587	118	43	115	5	...	2,013 T	14,290 T
• % increase (1985-96)	-10	18	23	42	81	...	...	6.5	-12
Number of soldiers 1995									
• per 1,000 population	1.2	4.2	1.0	1.6	2.1	...	...	1.6	3.2
• per 1,000 doctors ^a	4,000	9,000	6,000	35,000	25,000	...	...	5,594	18,500
• per 1,000 teachers ^b	300	1,500	300	400	400	...	...	434	600
Employment in arms 1996 production (000's)	250	50	...	...	...	...	...	300 T	4,400 T
Military holdings^c 1996 index (1985=100)	142	144	198	160	926	...	...	145	101
Aggregate number of heavy weapons 1996	8,410	5,050	400	40	250	...	...	14,150 T	1,99,900 T

Note:

a,b: year 1990; c: military holdings include combat aircrafts, artillery, ships & tanks that a country possesses. The index is a calculation based on the aggregate number of heavy weapons.

Source: Rows 1,9,11: BICC 1998; Rows 2,7,10: BICC 1998; BICC 1997; Row 3: BICC 1997, UNDP 1997c; Row 4: World Bank 1995b, World Bank 1999b; Row 5: World Bank 1999b, World Bank 1997f, World Bank 1987, UNDP 1998a; Row 6: UNDP 1998a; Row 8: BICC 1997, UNDP 1994.

9. Profile of Wealth and Poverty

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Total GDP (US\$ billions) 1997	381	62	41	4.9	15	0.2 ^a	0.2 ^b	504 T	6,160 T
Real GDP per capita (PPPS) 1995	1,422	2,209	1,382	1,145	3,408	1,382	3,540	1,531	3,068
GNP per capita (US\$) 1997	370	500	360	220	800	430	1,180	393	1,250
Income share: ratio of highest 20% to lowest 20% (1990-96)	4.3	4.7	4.0	5.9	4.4	...	...	4.3	...
Population below poverty line (%) 1989-94									
• \$1 a day	53	12	29	53	4	...	...	45	32
• national poverty line	...	34	48	...	22	...	...	40	...
People in poverty (%) 1990									
• urban	38	20	56	19	15	...	...	37	...
• rural	49	31	51	43	36	...	...	47	...
Social security benefits expenditure (as % of GDP) 1993	0.3	0.2	...	...	2.5	...	...	0.4	...
Public expenditure on education and health (as % of GNP) 1990	5.0	4.5	3.7	5.1	5.1	...	7	4.8	5.9
Gross domestic investment (as % of GDP) 1997	24	15	21	21	24	47	...	23	25
Gross domestic savings (as % of GDP) 1997	20	10	15	10	17	7 ^c	...	18	25
Industry (as % of GDP) 1995	29	24	18	22	25	27 ^d	26 ^e	27	36
Tax revenue (as % of GDP) 1996	13	19	13	11	21	19	35	14	14 ^f
Exports (as % of GDP) 1995	12	16	14	24	36	28 ^g	18 ^h	14	27
Debt service ratio (debt service as % of exports of goods and services) 1995	28	35 ⁱ	13	8	7	8 ^j	4 ^k	27	19
Total net official development assistance received (US\$, millions) 1996									
• quantity	1,936	877	1,255	401	494	62	33	5,058 T	58,480 T
• (as % of 1995 GNP)	0.6	1.4	4.5	8.9	3.9	23.5	13.2	1.2	0.9
Total external debt 1997 (US\$, billions)	94	30	15	2.3	8	0.1	0.2	150 T	2,173 T

Note:

a,b: year 1993; c,d,e,f,g,h,i,k: year 1994; j: year 1991.

Source: Row 1: World Bank 1999b, Haq 1998a; Rows 2,15: UNDP 1998a; Rows 3,9,10: World Bank 1999b; Row 4: World Bank 1998q, Row 5: UNDP 1998a; Rows 6,7,8: Haq 1998a; Rows 11,13,14: UNDP 1998a, Haq 1998a; Row 12: World Bank 1999b, World Bank 1996b, GoB 1998b, GoM 1998; Row 16: World Bank 1999b, World Bank 1998q.

10. Demographic Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population (in millions)									
• 1960	442	50	51	9	10	1	0.1	563 T	2070 T
• 1998	987	153	128	24	19	1.7	0.28	1,313 T	4,799 T
Population growth rate (annual) (%)									
• 1960-70	2.3	2.8	2.6	2.0	2.4	1.8	2.0	2.4	2.5
• 1970-80	2.2	2.6	2.8	2.6	1.7	2.0	2.7	2.3	2.2
• 1980-90	2.1	3.6	2.1	2.6	1.5	2.2	3.2	2.3	2.1
• 1990-95	1.9	2.9	2.2	2.5	1.3	1.2	3.3	2.0	1.9
• 1995-2000	1.8	2.7	2.2	2.5	1.2	2.4	3.2	2.0	1.8
Population doubling date (at current growth rate) 1995	2038	2020	2037	2022	2066	2020	2015	2036	2037
Crude birth rate (per 1,000)									
• 1960	43	49	47	44	36	42	41	44	42
• 1997	25	36	27	37	18	41	42	27	25
• % decline (1960-97)	42	27	43	16	50	2.4	-2.4	39	40
Crude death (per 1,000)									
• 1960	21	23	22	26	9	26	21	21	20
• 1997	9	8	10	11	6	14	8	9	9
• % decline (1960-97)	57	65	55	58	33	46	62	57	55
Total fertility rate									
• 1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
• 1997	3.1	5.1	3.2	5.0	2.1	5.9	6.8	3.4	3.1
• % decline (1960-97)	48	27	52	17	61	2	3	44	48
Total labour force 1997 (in millions)	423	48	63	10	8	...	...	552 T	1,656 T
Male labour force 1997 (in millions)	288	35	37	6	5	...	...	371 T	994 T
Female labour force 1997 (in millions)	135	13	26	4	3	...	...	181 T	662 T
% annual growth in labour force									
• 1970-80	1.7	2.7	2.0	1.8	2.3	...	...	1.8	...
• 1980-97	2.0	2.9	2.6	2.3	2.2	...	...	2.0	2.1
Unemployed/underemployed labour 1993 (as a % of total)	22 ^a	13 ^b	12	43 ^c	16	6	1	21	...
Employed labour force (%) 1994									
• agriculture	64	52	65	94	30	94	32	63	58
• industry	16	18	16	0	18	1	31	16	18
• services	20	29	18	31	33	5	37	21	23
Real earnings per employee annual growth rate (%)									
1980-92	2.5	...	-0.7	...	1.4	...	...	2.2	...

Note:

a: year 1987-8; b: year 1997; c: year 1984-85.

Source: Rows 1,2: UN 1994; Row 3: UNDP 1998a; Rows 4,5,6: UNICEF 1999, UNICEF 1997; Rows 7,8,9,10: World Bank 1999b; Row 12: World Bank 1998p, UNDP 1998a; Rows 11,13: Haq, 1998a.

11. Profile of Food Security and Natural Resources

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Food production per capita 1996 (1980=100)	127	122	98	112	87	91	84	123	139
Food imports per capita 1993 (1980=100)	46	114	86	137	553	...	...	69	...
Cereal imports per capita (1,000 tons) 1994 (1980=100)	2	195	33	79	87	...	...	68	70
Food aid in cereals per capita (1,000 tons) 1994-95 (1980=100)	46	23	91	33	126	...	...	57	63
Food aid 1992 (US\$, million)	99	190	240	6	63	3	1	602 T	3,130 T
Land area (1,000 ha) 1996	297,319	77,088	13,017	14,300	6,463	4,700	30	412,917	7,494,675 T
As % of land area 1996									
• forest and woodland ^a	22	2	8	35	28	59	3	19	26
• crop land	57	28	68	21	29	3	10	50	11
Irrigated land (as % of cropland) 1994-96	30	80	37	31	29	...	...	40	20
Deforestation (1,000 ha per year) 1980-89	1,500	9	8	84	58	1	...	1,106	866
Annual rate of deforestation (%) 1990-95	0.0	2.9	0.9	1.1	1.1	0.3	...	1.0	...
Reforestation (1,000 ha per year) 1980-89	138	7	17	4	13	1	...	103	797
Production of fuel wood and charcoal (1,000m ³ per year)									
• 1980	201,956	16,683	22,941	13,732	7,305	1,027	...	263,644 T	1,253,900 T
• 1996	279,350	27,6470	32,020	20,718	9,780	1,381	...	370,889 T	1,669,840 T
Internal renewable water resources per capita (1,000m ³ per year) 1998	1,896	1,678	10,940	7,338	2,341	49,557	...	2,920	5,975
Annual fresh water withdrawals ^b									
• as % of water resources	21 ^c	63	2	2	15 ^d	0	...	...	63
• per capita (m ³)	612 ^e	1,269	217	154	503 ^f	13	...	638	496

Note:

a: data refers to the year 1995; b: Data refer to any year between 1987-96 unless otherwise stated.

c & e: year 1975; d & f: year 1970

Source: Row 1: UNDP 1998a; Rows 2,3,4: World Bank 1997f; Row 5: World Bank 1995; Row 6: FAO 1997; Row 7: FAO 1997, UN 1997; Row 8: World Bank 1998p; Rows 9,11: UN 1990/91; Rows: 10,13,14: WRI 1998/99; Row 12: FAO 1996.

KEY TO INDICATORS

Indicator	Indicator tables	Original international source	Indicator	Indicator tables	Original international source
A, B, C			E		
Armed forces personnel	8	BICC	Earned income share	6	UNDP
Armed robberies per 1000 people	1g,5g	National sources	Economic activity rate	6	UNDP
Births attended by trained health personnel	7,4g	UNDP	Education, public exp. (as % of GNP)	4g	UNDP; UNESCO
Budget deficit/surplus	1g,2g	WB; IMF; National sources	current, per pupil	4g	UNESCO
Cable connections per 1000 people	7g	WB	per capita	1g,3g	UNDP;WB
Calorie supply (daily)	2,3,5	UNDP	priorities in budget	4g	Haq; National sources
as % of total requirement	2	UNDP	Elections, last 50 years	1g,6g	National sources
per capita	5	UNDP	last 10 years	6g	National sources
Capital punishment, cases of	1g,5g	National sources	last 5 years	1g,6g	National sources
Car thefts per 1000 motor vehicles	1g,5g	National sources	Employees, total govt. % female	1g,2g	National sources
Cases pending in court, total	1g,5g	National sources	Employment in arms production	1g	UNDP
average per judge	5g	National sources	Enrolment, primary level	8	BICC
Census, total number of	7g	National sources	female	4	WB
Last census held	7g	National sources	Enrolment, secondary level	6	WB
Cereal imports per capita	11	WB	Enrolment, combined 1 st , 2 nd & 3 rd level	4	WB
Child economic activity rate	7	UNDP; WB Child	Enrolment ratios, gross	4,1	UNDP
labour, total	7	UNESCO	Entry & exit regulations Entry	3	UNDP
Children as % of labour force	5g	UNDP;WB	Expenditure, total govt. (as % of GDP)	2g	WB
Committees in parliament	6g	National sources	Developmental	1g,3g	WB; National sources
Composite ICRG risk rating	2g	WB	non-developmental	3g	National sources
Compulsory religion or state ideology in schools	7g	Humana	Exports, % of GDP	2g	WB
Consumer prices, growth rate	2g	WB			
Contraceptive prevalence rate	4g	UNDP			
Corruption ranking	1g	TI			
Crude birth rate	10	UNICEF			
Crude death rate	10	UNICEF			
Current account balance (as % of GDP)	2g	WB			
Cycles stolen per 1000 people	5g	National sources			
D			F, G		
Daily newspapers	7g	WB	FDI, as % of GDP	2g	WB
Debt, total external	9	WB	Fees as % of government exp. on higher education	4g	WB
(PV as % of GNP)	2g	WB	Female administrators & Managers	6	UNDP
long term	2g	WB	Female share in parliament	6,6g	UNDP
short term	2g	WB	Fertility rate, total	10	UNICEF
Debt, domestic	2g	WB;IMF;ADB National sources	Food aid, total	11	WB
Debt servicing, total	1g,2g	WB	cereals per capita	11	WB
per capita expenditure	1g,3g	WB	Food imports per capita	11	WB
debt service ratio	9	UNDP;WB	Food prices, growth rate	2g	WB
Defense expenditure, total	8	BICC	Food production per capita	11	UNDP
annual % increase	8	BICC	Freedom to, travel outside ones own country	7g	Humana
as % of GNP	8	BICC; UNDP	peacefully associate & assemble	7g	Humana; National sources
as % of govt. exp.	8	WB	teach ideas and receive information	7g	Humana
per capita	8,1g,3g	WB	Fuel wood & charcoal production, total	11	FAO
as % of education & health expenditure	8,1g,3g	UNDP;WB	Gender empowerment measure	6	UNDP
Deficit financing through inflation (seignorage)	3g	WB	Gender-related development Index	1,6	UNDP
Deforestation, total	11	UN	GDP, total	9	WB
% annual rate	11	WRI	GDP, real per capita	1,3,9	UNDP
Disabilities, total	2	UNDP	GDP implicit deflator, growth rate	2g	WB
% of population	2	UNDP	Government consumption (as % of GDP)	2g	WB
Doctors per 100,000 people	4g	UNDP	GNP, growth rate	1	WB
Drop out rate of children (before grade 5)	4	UNESCO			

Indicator	Indicator tables	Original international source	Indicator	Indicator tables	Original international source
F, G			M, N, O		
GNP per capita	1,3,9,1g	WB	Malnourished children under five	2	UNICEF;UNDP
GNP per capita growth rate	1	WB	Maternal mortality rate	5	WB;UNICEF
Gross domestic investment	9,2g	WB	Mean tariff	2g	WB
Gross domestic savings	9,2g	WB	Mean year of schooling	4,6	UNDP
Gross international reserves (as % of GDP)	2g	WB	Military holdings index	8	BICC
H, I, J			Mobile phone subscribers per 1000 people	7g	WB
Health expenditure, public (as % of GDP)	5,4g	WB	Money and quasi money growth rate	2g	WB
per capita	4g	WB	Moody's sovereign long-term debt rating	2g	Moody's
Health services, % with access	5,4g	UNDP	Murder cases per 1000 people	1g,5g	National sources
% without access	2	UNDP	Non-tax revenue, % of GDP	2g	WB
Household income	4g	WB	Number of soldiers	8	BICC;UNDP
Human development index	1,3	UNDP	ODA received, total	9	UNDP
Illiterate adults, total	2	UNICEF	as % of GNP	9	UNDP
female	2	UNICEF	Ombudsman, cases filed	5g	National sources
Immunization against measles	7,4g	UNICEF;UNDP	P, Q, R		
tuberculosis	7,4g	UNICEF;UNDP	Parliament, number of seats	6g	UNDP; National sources
Imports, % of GDP	2g	WB	bills passed	6g	National sources
Income poverty, 1 \$ a day	9,2	UNDP	members elected	6g	National sources
national poverty line	9,2	UNDP	ordinances passed	6g	National sources
Income share: ratio of top 20% to bottom 20%	9	WB	parties represented	6g	National sources
Independent newspapers	7g	Humana	Parliamentarians, age composition	6g	National sources
Industry (as % of GDP)	9	WB; UNDP	level of education	6g	National sources
Infant mortality rate	1,3	UNICEF	ethnic breakdown	6g	National sources
Inflation, growth rate	1g	National sources	salaries & privileges	6g	National sources
International telecomm. outgoing traffic	7g	WB	People arrested	5g	National sources
(minutes per subscriber)	7g	WB	People per judge	5g	National sources
Average price per call	7g	WB	People per police person	5g	National sources
Internet hosts per 10,000 people	7g	WB, National sources	Post office per 100,000 people	7g	UNDP
Institutional investor credit rating	2g	WB	Poverty alleviation programmes	4g	National sources
Judges, average salaries	5g	National sources	Prisoners awaiting trial	5g	National sources
Judges, % female	5g	National sources	Prisoners who have died in police custody	5g	National sources
K, L			Public payphones per 1000 people	7g	UNDP
Labour force, total	10	WB	Pupil-teacher ratio	4,4g	UNESCO
female	10	WB	Radios per 1000 people	7g	WB
male	10	WB	Ratio of official to parallel exchange rate	2g	WB
% annual growth	10	WB	Refugees, total number	5g	WB
% unemployed/underemployed	10	WB	% of total population	5g	WB
Labour force (cont.)			Repatriation of capital	2g	WB
% employed	10	WB	Repatriation of income	2g	WB
Land area	11	FAO	Reported rapes, total number	1g,5g	National sources
irrigated land	11	WB	Revenue, total govt.	1g,3g	WB
arable land	11	FAO	Right of information act	7g	National sources
Life expectancy at birth			S		
total	1,3	UNICEF	Safe water, % with access	5,4g	WB
female	6	UNICEF	% without access	2	WB
Literacy rate, total	1,3,4	UNICEF	Sanitation, % with access	5,4g	WB
female	6,1	UNICEF	% without access	2	WB
male	4	UNICEF	Sectarian violence, number of deaths	5g	National sources
			Social security, % of GDP	4g	UNDP; National sources

Indicator	Indicator tables	Original international source	Indicator	Indicator tables	Original international source
S			W, X, Y, Z		
Social services, % of GDP	4g	WB;IMF; National sources	Water withdrawals, fresh	11	WRI
% of total govt. exp.	1g,4g	National sources	Water resources, per capita	11	WRI
State control of radio	1g,7g	Humana National sources	Year women received right to vote	6g	UNDP
State control of TV	1g,7g	Humana National sources	to stand for election	6g	UNDP
State owned enterprises	2g	WB;IMF; National sources			
Subsidies, % of total govt. exp.	3g	National sources			
T, U, V					
Tax revenue, % of GDP	3g	WB			
Telephone mainlines, per 1000 people	7g	WB			
in largest city	7g	WB			
Televisions, per 1000 people	7g	WB			
Tertiary, natural & applied sciences enrolment	4	UNDP			
Underweight children (under 5)	3	UNDP			
Unemployment, total	1g,2g	ILO			
rate	1g,2g	ILO			
Voter turnout	1g,6g	National sources			

Note: 'g' is added to table numbers that appear in profile of governance in South Asia

Key to source abbreviations

ADB	Asian Development Bank
BICC	Bonn International Centre for Conversion
FAO	Food and Agriculture Organization
ILO	International Labour Office
IMF	International Monetary Fund
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WB	World Bank
WRI	World Resources Institute