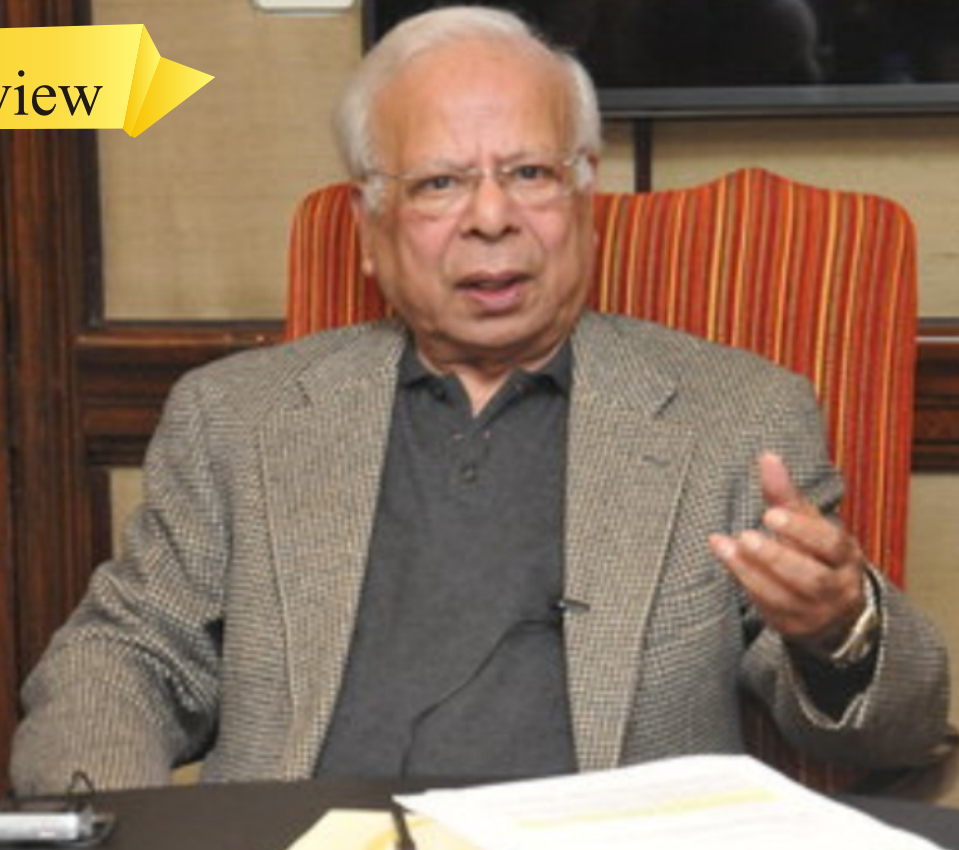


Exclusive

Interview



Dr. Ishrat Husain

Advisor to the Prime Minister on Institutional Reforms and Austerity

ICMA Pakistan: Why institutional reforms are so important for Pakistan?

Dr. Ishrat Husain: I have recently written a book, 'Governing the Ungovernable' that has now become the best seller and this book is a treatise on institutional reforms that cover justifications chapter-wise on every institution including the civil service, military, judiciary, legislature, economy, politics, religious edifice. On peeling the onion, you will find that the core of our problems lies in the dysfunctionality of institutions. If you take the energy crisis that will also bog down to non-recovery of bills and thefts and losses by the public in connivance with the officials of distribution companies. A few years back, the unaccounted losses of gas companies which stood at only 4 to 5 percent, have now reached 11 percent which indicates wastage of billions of rupees. If you look at the irrigation system, only 50 percent of water is reaching the farms whereas 50 percent is being wasted and stolen by influential people in connivance with the irrigation department. If you look at our education system, people say that the Government should spend more on education but the reality is that the teachers are not competent and get appointed on 'sifarish'; they cannot inspire the students as they do not teach anything. If you look at the health workers, you have medical colleges in private sector which do not have qualified staff and faculty and they do not have hospitals but producing doctors who are basically quacks charging 15 lacs, 20 lac rupees. If you look at law and order, the police "thanas" are being

Dr. Ishrat Husain is currently Advisor to the Prime Minister on Institutional Reforms and Austerity with the status of Federal Minister. During 2016-17 he was Public Policy Fellow at the Woodrow Wilson Center in Washington DC. During this tenure he produced his latest book "Governing the ungovernable" which was published by Oxford University Press. He is HEC National Distinguished Professor, Professor Emeritus and Chairman Centre for Excellence in Islamic Finance at the Institute of Business Administration, (IBA) Karachi. He had earlier served as Dean and Director IBA. Dr. Husain had a distinguished career at the World Bank for over two decades i.e. 1979 to 1999. He was appointed as the Governor of Pakistan's Central Bank in December 1999. During the next six years, he implemented a major program of restructuring of the Central Bank and steered the reforms of the banking sector. He is the recipient of the highest civilian award of Nishan e Imtiaz in 2016 for his outstanding public service.



Interview Session with Dr. Ishrat Husain, Advisor to the Prime Minister on Institutional Reforms and Austerity

ICMA Pakistan: Your book on 'Governing the Ungovernable' has received wide appreciation.

Dr. Ishrat Husain: Yes, you will be surprised to know that Oxford Press normally prints one thousand copies of any publication but this book was printed in two thousand quantity and sold all over the country. Many reviews on the book were also published in Dawn, Herald, The News, Newsline and other newspapers and a lecture was organized by ICAP even before the publication of this book. In fact, through this book, I wanted to convey the message as to why we need institutional reforms. The main crux of all your questions is also as to why there is a need for institutional reforms and how it is correlated to the economic performance.

ICMA Pakistan: Would you like to share with us a synopsis of findings as provided in your book?

Dr. Ishrat Husain: In my book, I have taken all the explanation advanced by foreign experts as well as Pakistani scholars about the factors responsible for the decline of Pakistan's economy and I showed that none of these factors stand up to empirical scrutiny. The only factor which comes out very loud and clear is the governance deficit which means that if you look at the World Economic Forum's Competitiveness Report; if you look at the Human Development Index; if you look at the Legatum Prosperity Index; if you look at the Transparency International; if you look at the World Bank Governance indicators; India was standing at low ranking and now they have gone up and we were ahead of India but now we have come down.

auctioned to the highest bidder who gets the "thana" as SHO and since he has paid the money what do you expect him to do other than to collect this money from the criminals and mafias. Is he going to do anything for the law and order? He won't'.

I have proven that it is neither the policies nor the government expenditure, basically, the reality is that all the institutions have failed and I compare why Pakistan was doing so well in the 1980s. Just compare Pakistan Industrial Development Corporation (PIDC) which created the entire industrial network in this country. Pakistan did not have even one single factory when we got independence. The whole industrial edifice was created by PIDC. WAPDA constructed not only Tarbela and Mangla dams but they had all the Indus basin works which

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revolutionized the whole irrigation system of Pakistan. We had the Agricultural Development Corporation which brought in the green revolution in this country such as Maxi-Pak seed and Irrice. If we look at PIA, it was the most sought-after airlines; Singapore Airline and Emirate Airline were formed by PIA. If you look at the Planning Commission, a lot of countries came to look at Planning Commission Pakistan. Unfortunately, today's Planning Commission, PIA, PIDC and WAPDA are all in totally broken form. So that is my thesis that's why the best thing you can do is to extract pieces on each one from my book which is based on empirical research and not based on opinions. For professional bodies like you, it is evidence-based analysis rather than the words of individuals which should be persuasive. Your young professional accountants should look at these evidences as to why this has happened and what can be done. In addition to analysis, there are practical suggestions as to how these institutions can be reformed.

So that is the powerful evidence on all indicators of governance. We have performed very bad and if you graph this you will find that your economic decline has also been following the same way; except for years 2001 to 2008 when the Musharraf government was there and our governance indicators were quite high. The Ease of Doing Business indicator was 75 during that period which has today gone up to 146. This was because the businessmen felt that they were being given all the facilities in order to do business. There was no FBR chasing them. There was no over-regulation. There were no food inspectors coming and raiding their factories. So that makes a huge difference. That is the evidence which is in the book and it is good to know that ICMA Pakistan is publishing an issue. The book is based on in-depth research and you will find more material from the book which is especially meant for the youngster and not for your and my generation.

ICMA Pakistan: How institutional reforms affect economic performance?

Dr. Ishrat Husain: I have already responded to this question that institutional reforms have an impact on economic performance. When our institutions were good, we were the fastest growing economy in the world. From 1947 to 1990 our economy was growing at 6 percent which was higher than in many other countries. Thereafter, we have been experiencing a continuous decline. So, you have solid evidence that when institutions were working well, the economy was doing well and when institutions became weak, economic performance also became unsatisfactory.

ICMA Pakistan: What reforms you intend to take to improve e-governance in government departments?

Dr. Ishrat Husain: e-governance is very important and that is what we are trying to do. If



Mr. Muhammad Yasin, Chairman, Research & Publications Committee is presenting a plaque on behalf of ICMA Pakistan to Dr. Ishrat Husain

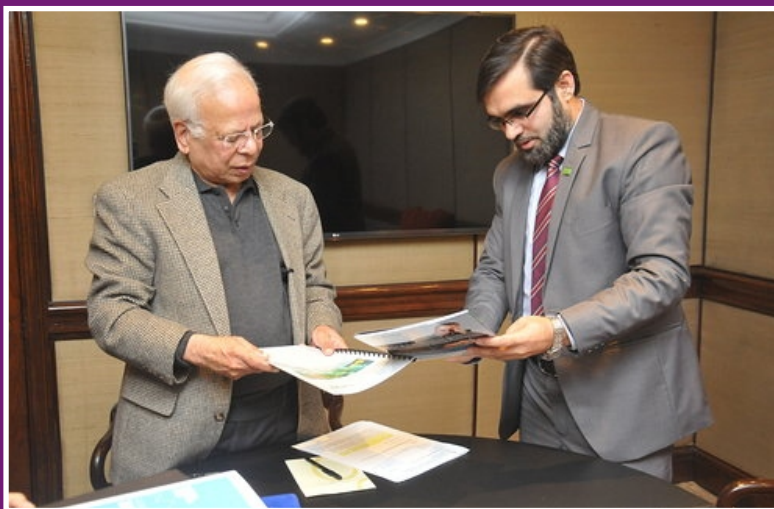
“When our institutions were good, we were the fastest growing economy in the world. From 1947 to 1990 our economy was growing at 6 percent which was higher than in many other countries. Thereafter, we have been experiencing a continuous decline”

you look at the Federal government, they are still doing filing and paperwork. They do not have any material on their websites and they do not even share their files. They have a file hierarchy

of the British regime. So, we are trying to bring e-governance that may lead to sharing of files; common database; manuals; instructions; circulars; rules and regulations on the websites; as well as interactive uploading and downloading of forms by the citizens from their websites. The citizens are not supposed to go to the government offices, rather they can download and upload the forms and receive the response at home. These are the kind of things that we are trying to do, however, there is a problem of mindset. The youngsters are very keen to switch over but we have 60 or 65 years old people who have the same mindset. There is resistance but we will definitely do it.

ICMA Pakistan: What is your opinion about forming a 'Professional Advisory Council' on the pattern of 'Economic Advisory Council' where professionals can suggest strategies and action plans for public sector efficiency?

Dr. Ishrat Husain: I think the idea of an Advisory Council is not beneficial. What we need is the placement of cost and management accountants at key positions in our public sector enterprises which do not have good management and also, they do not know about costing. So, I feel your professionals can make a difference if they work in public enterprises. Unfortunately, the salary structure in government is not so attractive as offered in the private sector, hence the government is unable to attract professionals on good remuneration package. As an individual, I think that we need qualified people like cost and management accountants in order to save millions of rupees. The CFOs or Finance departments in public enterprises should always be manned by either ICMA people or the Chartered Accountants. A day before yesterday, I asked the AGP office to provide a table detailing the qualifications of new people being inducted in the government and I came to know that in those people many have ICMA qualification whereas, in old employees, we did not find ICMA qualified people. This is a good thing and I hope that this picks up. It is quite satisfying for me that professionals are now coming up.



Mr. Muhammad Yasin, Chairman, Research & Publications Committee is presenting Management Accountant Journal and ICMA Pakistan's Priority Action Plan for New Government to Dr. Ishrat Husain

ICMA Pakistan: The main reason for low growth is job retention in AGP and also CSPs have separate ranks. What is your view on the present civil services recruitment system for accounting professionals?

Dr. Ishrat Husain: Yes, retention is another issue. We are going to make AGP a Supreme Audit Institution and like in many other countries, such an institution would have professionals who will be inducted on the basis of separate exams. In the present system, there is an element of bad luck that if you belong to Punjab and you get 20th rank in the merit list but all the vacancies of civil service and foreign service are filled by other officers from Punjab. Consequently, they give you the governmental accounts, despite the fact that neither you have the inclination towards it nor you have competence in this area. So, you are bogged down and find no way out.



A Group photo after Interview Session

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We have no intention to place any restriction on qualification, but if you want to go into audit and accounts services, you must have knowledge about accountancy, finance and economics. You need to appear in these elective subjects then only you can go to audit and accounts. The exams of audit and accounts will be held along with the Finance services and not with the general cadre so you appear in audit and accounts service exams because you feel that you can make a contribution. What is happening today is that if you are lucky, you get District Management Group (DMG) and if you do not have luck, you get the audit and accounts services. This system of recruitment is very bad and we will be going to change this system.

ICMA Pakistan: Please comment on the need for professionals like CMAs on the Boards of public enterprises.

Dr. Ishrat Husain: There are many Chartered accountants who are already on the boards of public enterprises so there are very

prominent ICMA members who have made names for themselves. You need to have some visibility and standing in the community and when I say 'community', it means the profession. Irrespective of the qualification i.e. CA; CMA; ACCA or MBA Finance, only that professional would be selected who deserves and can make a contribution. In fact, qualification or affiliation is not the determining factor. The determining factor is whether you are capable enough to make the contribution and deliver the goods.

ICMA Pakistan: Can you identify specific key skills required from professionals by public enterprises?

Dr. Ishrat Husain: Actually, the required key skills are different for every government organization. PIA requires a different set of skills in aviation management and accountancy. Similarly, Pakistan Steel and Pakistan Railways have different skills-set requirements. So, if your people have expertise in those fields, they will be most welcome.

ICMA Pakistan: What role you think our Institute and members can play in economic policymaking?

Dr. Ishrat Husain: Policymaking is not an issue in Pakistan, rather the problem is its implementation. The gap is between policy and performance. If you take the education policy of Pakistan during the period of Ayub Khan's regime in the 1960s and compare it with the present education policy, you will conclude that most of those policies are still to be implemented. The education policy in the 1960s was to achieve 100 percent universal adult literacy in Pakistan and to bring every child between the age of 5 years to 16 years in schools. Almost 58 years have passed since then and today our 22 lakh children are

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outside the school. Our literacy rate, instead of increasing, has fallen to 58 percent. So, the policy is not an issue, rather the problem is implementation and this is where we need help not only from the government but from the private sector, civil society, and professionals.

ICMA Pakistan: How CMAs can assist the government in institutional reforms and austerity drive?

Dr. Ishrat Husain: I do not think there is presently need for any expert advice if we do need, we will seek the advice. In fact, way back in 2008 we had done this work and submitted a lengthy report, after two years of consultations with all the stakeholders, including ICMA Pakistan. However, this report needs to be updated by doing consultation again with the civil servant and implement it. So, we do not have anything new coming up. At this stage, I do not think we need any further consultation but we want to implement those reforms on which we had consensus in 2008.

ICMA Pakistan: Can you elaborate on the proposal of forming a 'National Executive Service'?

Dr. Ishrat Husain: Actually, it has not been decided yet so I cannot elaborate as to what would be the shape of National Executive Service. The proposal we had given in the 2008 Report was that after Grade 19, there will be equality of opportunity for everyone; whether you are a Federal or a Provincial civil servant; or you are working in the Finance or Health or Agriculture Ministries; you should all appear in a test conducted by the Federal Public Service Commission and by only qualifying that test you will be interviewed. The dossier of your performance record and training will form the basis on which you will be allocated the relevant cluster i.e. whether you are suitable to go in the 'economic cluster' or in the 'administrative cluster' or in 'social sectors' or in the Engineering Ministries. After placements, you will then have your promotions and postings in those clusters. So, there is a 'specialization' and at the same time, you are also providing equality of opportunity.

It is heartburning that today if you clear the central superior services exam at the age of 24 or 25, you will be promoted

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automatically throughout your career. If I am a Ph.D. in Agriculture and not in any cadre service and I am placed in a Department I will get promotions there, after lot of difficulties, and can reach to maximum Grade 19 or 20. Same is the case with the accountants. There is no growth for them in a career in civil service.

What we are proposing is that this reservation or entitlement system should be abolished and there must be equality for everyone in the system. If you are a good engineer and can compete then you should be given the chance, but at present, the door is closed for them. So, we want to have a more open and more transparent system of career progression. This is what the National Executive Service is all about.

ICMA Pakistan: Is FBR performing its priority task of broadening the tax base and improving tax system?

Dr. Ishrat Husain: Yes, broadening of the tax base is one of our top priorities. We should have three million direct taxpayers but we are stuck up with 1.2 to 1.3 million. So, we should use the databases in order to broaden the tax net. If I am a member of Sindh Club where I spend a huge amount of money, which means that I have a good income but I am not filing my tax return. The FBR should, therefore, come and ask me to justify my spending on Sindh Club and why I am not filing the return. Similarly, if you are traveling to the USA six times in business class but you do not file your tax return; in spite of the fact that one business class ticket to the USA cost around Rs. 24 to 25 lakhs so this could be located from the databases in order to bring in new taxpayers.

“The role of Parliament is very important and we need the support of all the political parties”

ICMA Pakistan: Do you think that making FBR truly independent and autonomous can improve its efficiency?

Dr. Ishrat Husain: Yes, we have done this. This Government has separated policy making from FBR which will now only look after the tax administration. Earlier, since FBR was making tax policy so it used to charge more tax on those who were already paying taxes honestly. So, that was a very undesirable thing. Now FBR has nothing to do with the tax policy and they will just carry out the administration. The tax policy will be done independently by a Board. So, the new Government has already taken this initiative.

ICMA Pakistan: How institutional reforms can be brought in the bureaucratic and judicial system?

Dr. Ishrat Husain: We do not have a scope of the judicial system as it will be done by the Supreme Court. In the bureaucratic system, I have already explained that we are planning a National Executive Service for government officials; their recruitment and career progression; e-governance. These all are part of civil service reforms.

ICMA Pakistan: What reforms are needed for the effective role of Parliamentarian in legislation making?

Dr. Ishrat Husain: If these reforms are endorsed by the Parliament then they will be sustained, irrespective of the fact

“If you want to depoliticize and strengthen institutions, you will have to select the right person for the right job based on pure merit. All the appointments we have done recently are on merit, including those of professionals”

that whichever government comes into power. As all the political parties are available in the Parliament and they all agree then we will not be scared that any new government will do away with these reforms. So, the benefit of Parliament's approval is that reforms cannot be reversed and will be sustained. During the regime of President Musharraf some good reforms were undertaken such as the introduction of the local government system and police system in Baluchistan; strengthening of the Higher Education Commission, however, the new government that came after reversed all these reforms. So, if you take this to the Parliament it would ensure continuity of reforms. Hence, the role of Parliament is very important and we need the support of all the political parties.

ICMA Pakistan: How the culture of political appointments in government organizations can be abolished?

Dr. Ishrat Husain: There are now no more political appointments whether it is the President of National Bank or the Chairman or Commissioner of the Securities and Exchange Commission of Pakistan or NIT. All the appointments are based on merit. There is now an open transparent system; advertisements are released; qualifications and experience are considered and shortlisting is done as per prescribed criteria; interviews are conducted and none of the politicians sit in these interviews. Finally, the best candidates are selected. So, if you want to depoliticize and strengthen institutions, you will have to select the right person for the right job based on pure merit. All the appointments we have done recently are on merit, including those of professionals. For instance, we have made the Policy Board of the SECP which consists of six top-most professionals of Pakistan and no one can point a finger on them that they have an affiliation with any political party.

ICMA Pakistan: How the loss-making Public-Sector Entities can be made efficient and profitable?

Dr. Ishrat Husain: This Government has already taken the initiative. We are forming a body called 'Surmaya-e-Pakistan

“We are forming a body called 'Surmaya-e-Pakistan Limited' based on the model of Khazanah Nasional Berhad which is the sovereign wealth fund of Malaysia”

Limited' based on the model of Khazanah Nasional Berhad which is the sovereign wealth fund of Malaysia. We will take the companies from the Ministries and put them under the Surmaya-e-Pakistan. There will not be any government official on the newly-formed body which will be run by a board consisting of private sector representatives. The Chief Executive and CFOs and all other nominees will be from the private sector. The body will look into the PSEs and suggest which entities can be turnaround; which can be merged or wound up and which entities to be privatized. They will have complete freedom to perform their task. The government cannot do this task as they do not have competence as well as the political will.

ICMA Pakistan: What message you would like to give to the professionals, especially CMAs?

Dr. Ishrat Husain: Well, I am not in a position to give any message as you know your profession better than me, however, I think that ethical behavior of professionals is of utmost importance which, unfortunately, is going down. When I was Governor State Bank, I feel sorry I did one of the four big companies blacklisted. We had made A, B & C categories and

“My only message to ICMA members would be that they must strictly adhere to ethical standards though, in the short term, they may face financial losses but in the long term they will come out much better”

the companies falling in category 'A' were authorized to audit the banks. One of the firms did unethical work and I had to blacklist that company. So, my only message is that to only make money and enrich in the short term must not be the objective of the professionals. We usually point our fingers towards the politicians but we should also introspect that are we not becoming materialistic? Are we not making money by ignoring the ethical standards? If the reputation is gone, it is very difficult to regain. I had always taught this to my IBA students that do not take short cuts otherwise your whole life will be ruined. Those people who work hard slowly and honestly and stand firm during ethical dilemmas, ultimately, they have a bright future. Whereas, those who take short cuts and make compromises to make money are not successful in a real sense.

Hence, my only message to ICMA members would be that they must strictly adhere to ethical standards though, in the short term, they may face financial losses but in the long term they will come out much better. I have always advised this to my IBA students and I will say this to the younger ICMA professionals as well.

The Editorial Board thanks Dr. Ishrat Husain, Advisor to the Prime Minister on Institutional Reforms and Austerity for giving his exclusive interview for Management Accountant Journal.