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PSDP: Challenges and Reforms

HAQ/HAG APPROACH TO DEVELOPMENT

Haq/HAG development approach was influenced by the Harrod-Domar and 2 gap model. It was then implemented in Pakistan by Dr. Mehboob Ul Haque and the Harvard Advisory Group, and hence has been referred to as the Haq/HAG approach. The key features of the approach suggested focus on following:

- Building physical infrastructure through discrete projects of sectors in the economy.
- Developing medium term budget for financing sectoral hardware.
- Financing budgetary gaps through foreign aid.

The approach was adopted at a time of extreme infrastructure shortage globally while the concept of globalization was still unknown. It naturally focused on “brick and mortar” as well as searching for aid. In addition, it merely looks at expenditures and not results, as developing the hardware of economy was important to kick-start any development and growth at that time.

Policies and viewpoints come about influenced by the situations and time they are conceived in, and this is why policies and viewpoints are subject to constant evolutions and upgradations. Evolution and upgradation though, have been completely strange concepts to Pakistan’s policymaking when it comes to PSDP.

Pakistan modelled its development policy around the development philosophy of the Haq/HAG Model. While this approach proved beneficial in initial times in developing countries, including Pakistan, but over time this has resulted in an excessive focus on brick and mortar infrastructural development while the software of economy continued suffering. In order to support this

infrastructure led development, the institutions have repeatedly been weakened and their role in policymaking reduced. One example is the Planning Commission which has been reduced to just a PSDP approval body, with minimal to no planning responsibility in this regards left to it.

The Planning Commission notes PSDP as an important policy tool for creating spillover impact in the economy for private sector and leveraging economic potential for the overall greater social good of the country. PIDE's research, as mentioned in its Policy Viewpoints 1 on the matter, paint a completely different picture backed by econometric research. Evidence suggests that public investment has failed to act as a driver of economic growth or private investment, despite continuous and persistent attempts by the government to use public investment through PSDP as the instrument that generates and drives economic growth and private sector's development. This has severely dented PSDP's effectiveness, and as the allocations continue becoming more and more political than developmental, the effectiveness and efficiency continue falling down.

Worldwide, in developing countries as well as the now developed countries, the Haq/HAG model has been left behind as they have managed to successfully break through the glass ceiling of underdevelopment and sustained their rapid economic growth. This was possible because these countries focused along with developing their infrastructure, on increasing their human capital. While working on investing on their human development, these countries have also opened up to the world primarily through trade and cashed upon the benefits of globalization, a concept unknown at the time Haq/HAG model was prescribed.

Additionally, these countries have managed to reduce the government footprint in their economy and let the private sector take the lead while acting itself only as a facilitator. This has resulted in greater research, development and innovation which have driven their social and economic growth. On the contrary, Pakistan is still stuck behind the brick and mortar and caught in the low growth trap. It is about time that Pakistan shifts its attention from the Haq/HAG model and refocuses the PSDP to a more Result Based Management System. Only then, in today's world, can we be able to compete with the outer world and restart our journey towards accelerated growth.

RESULT BASED MANAGEMENT (RBM)

RBM as the name suggests, refers to a system where projects are prioritized based upon their benefits to the economic growth of the country. This involves a complete overhaul of the PSDP approval and budgetary allocation process, as it requires much greater monitoring and evaluation from the recommendation to approval stage followed by performance monitoring of each project.

The rationale behind RBM is to invest in projects that have a higher social and if possible, financial return so that maximum benefit can be extended to the general public as well as the overall structure of the economy. Shifting to RBM will also help reduce the politicization of PSDP while the increased coordination among the state institutions and departments will help ensure that the projects are timely completed and effective in driving the growth of economy as well as private investment. This change in PSDP process can help reduce government footprint from the economy while encouraging and facilitating the private sector to take the lead in research, development and innovation.