

Political Economy of Reform: Social Protection

This paper examines the Benazir Income Support Programme (BISP) as a case study of social protection reform in Pakistan. We will argue that the programme represents a story of partial but potentially significant success, with insights and lessons for the general understanding of the political economy of reform in a fragmented polity. It provides a vantage point into a range of issues with respect to reform, including: redistributive transfers, regional and urban-rural differences, organizational capacity of government, and representative politics. Section 1 outlines a framework for a political economy analysis of social protection reform. A brief history of the BISP and its major landmarks is provided in Section 2. Section 3 identifies the main successes and failures with respect to social protection reform in Pakistan over the last decade, and particularly with regard to BISP. These successes and failures are analyzed in Section 4 to draw insights and lessons for policy reform in general.

1. Framing social protection reform

Social protection and economic reform

The development and expansion of a robust social protection programmes is a critical component of inclusive economic growth and poverty reduction. Social protection encapsulates multiple dimensions of addressing poverty and promoting a pro-poor agenda with an emphasis on investing in human capital (Barrientos and Hulme 2008). Reform in social protection is a twofold process entailing what we label ‘internal’ and ‘external’ reform. Internal reform concerns issues specific to the design and operation of social protection systems whereas external reform refers to the broader macroeconomic and specifically fiscal reform within which social protection is embedded. We will argue that any evaluation of the success or failure of social protection reform must be attentive to its internal as well as external aspects.

Economic reform

The experience of successful of social protection programmes worldwide consistently shows that macroeconomic and specifically fiscal reform is a crucial and necessary component of a successful social protection agenda. Insufficient fiscal space and budgetary pressures limit policy options for the implementation and expansion of social protection in most low-income countries. Fiscal space for social protection must therefore be institutionalized and formalized to ensure operational sustainability and growth and furthermore to ensure alternate priorities for government expenditure do not crowd out the space demarcated for social protection. Conversely, social protection reforms have been critical in cushioning the impact of economic reforms on vulnerable population and obtaining political legitimacy for tough policy decisions.¹

In general, there are four ways of financing social protection programs, which each require substantive economic and particular fiscal reform: 1) Reallocation of funds within existing national budgets; cutting back on budget allocations to inefficient or regressive form of social protection or from inefficient and/or regressive forms of public expenditure in other sector 2) Raising more revenue: tax-financed income distribution 3) Securing greater external assistance 4) Borrowing to finance investments in cash transfers.² While external assistance can supplement national allocation for social protection, national ownership and financing is key to ensuring programme sustainability.

¹ “Equity and Efficiency in the Reform of Price Subsidies: A Guide for Policymakers”. *IMF*.

² DFID, *Cash Transfers Literature Review*, Policy Division 2011.

The installment and reform of social protection programs in low-income countries worldwide provides ample contextual background to identify salient constraints in social protection reform, particularly when insufficient fiscal space is the most significant constraining factor. Mexico's experience with Oportunidades-Progresa, a government social assistance program launched in 1997, is particularly instructive. Facing severe austerity measures and budgetary restrictions due to economic crisis, Mexico needed to generate much-needed fiscal space through the elimination of subsidies which were widely known to be highly ineffective and inefficient. The introduction of a streamlined and effective social protection system allowed the rationalization of subsidies, and was seen as a key factor in winning political support for the economic reform.³ Mexico's experience with social protection reform is particularly noteworthy, given that it occurred in the absence of explicit tax increase or large-scale and abrupt reduction of benefits. Another example was the introduction of an unconditional cash transfer programme which allowed Indonesia's government to acquire the necessary political support for the reduction of its highly regressive subsidies on fuel, which constituted 5% of GDP in 2005.

Internal issues to social protection

The design and operation of social protection systems implies normative judgements and politically processed decision-making on a range of issues.

First, societal views on the determinants of poverty and on the particular role of government in poverty reduction determines the nature of political discourse, which in turn directly influences policy making. Design principles and the nature of any particular social policy instrument will reflect the prevailing consensus on how informal and formal market and political institutions should facilitate a productive economy. A failure to reach a public consensus on the effectiveness of conditional versus unconditional cash transfers, for example, or whether subsidies merit fiscal space in the national budget, may forestall reform. The allocation of fiscal resources towards social protection cannot be evaluated exclusively in terms of financial feasibility; the latter itself is a product of how influential policy-makers (subjectively) value the comparative advantage of social protection versus other forms of public expenditures. The gender-specific targeting of women, for example, may be the result of a consensus that cash transfers to women will lead to more effective social development.

Secondly, strong political leadership in the absence of sustained collective action in a fragmented polity is critical. High political costs can impede reform in existing social protection programmes. For example, inclusion errors present a significant challenge given the high political risk of removing non-poor beneficiaries (Sri Lanka's Samurdhi program) protection reform. Strong leadership, particularly during administration transitions in government, is imperative in mitigating stop-and-go challenges. While leadership is prerequisite for all forms of policy-making, the fact remains that social protection reforms can imply contentious resource and income redistribution and thus significant political economy challenges.

Transparency to international evaluation and tighter targeting insulates programmes from political or electoral manipulation, and can reduce clientelist practices, such as examples from the Latin America and the Caribbean region suggest.⁴ When credibility and neutrality of previous programme information and operations is explicitly understood and demonstrated, continuity in programme operation becomes politically expedient irrespective of changes within governmental administration. Support of international financial institutions in the development of transparent systems of targeting, mechanisms for addressing

³ For full details of Mexico's social protection program Progresa-Oportunidades, see Levy (2006), Zaruzua (2010), Handa and Davis (2006), Gonzalez (2011), Rawlings and Rubio (2003)

⁴ Gonzales (2011).

grievances and direct payment systems towards beneficiaries is a critical component in designing strong social protection programs. For example, in spite of a transfer of power from one political party to another in Mexico's 2000 elections, the internal infrastructure of the program remained intact. Therefore, design principles that prevent political manipulation and distortionary discretionary spending are critical for sustainability.

2. Brief history of the Benazir Income Support Programme (BISP)⁵

A National Social Protection Strategy (NSPS) was prepared by a working group of experts assembled under the auspices of the Planning Commission in 2006. This process was supported by Pakistan's international development partners including the Asian Development Bank, the World Bank and DFID who commissioned a number of reviews of existing programmes and facilitated broader consultation within the country. Pakistan at the time was seen as a negative outlier even within the South Asian region in terms of budgetary allocations to social protection as well as the absence of significant attempts at reforming programme design and delivery mechanisms. The NSPS which was formally approved by the cabinet and published by the Planning Commission in 2007 made a number of recommendations for reform which were in line with the emerging global agreement on best practice. The highlights of these recommended reforms were:

- Consolidation of existing cash transfers (e.g Zakat, Bait-ulMaal) into a single, well-targeted programme
- A three-fold increase in budgetary allocations for cash transfers over 5 years (from around 11 billion rupees to 35 billion rupees)
- Gradual transition of the CT to CCT
- Additional reforms in social insurance, nutrition, health and education

Although the NSPS report was published by the Planning Commission, there was little evidence of ownership within government in the form of budgetary or even the preparation of an implementation plan, let alone the assignment of responsibility for reform to a specific organization within government. To recall, the period in which the NSPS was prepared coincided with the closing years of the military regime led by General Pervez Musharraf. The strong economic growth performance experienced earlier in the decade had already peaked, and throughout 2007 the government was struggling for its political survival. Consumer subsidies on petroleum and electricity increased sharply as the government sought to cushion consumers against world price rises by recourse to central bank borrowing. Failure to raise wheat procurement prices in the face of global price rises, also presumably as a short-term bid to protect urban consumers, led to shortages and then sharp price increase.

Much of the work for the NSPS 2007 had been carried out at a time when policy-makers and the international development community entertained a sanguine to positive outlook on the performance of Pakistan's economy. The role of social protection, under these conditions, was seen as ameliorating and counteracting some of effects of exclusion from growth as well as idiosyncratic shocks, rather than covariate economy-wide shocks to prices and growth. Even so, the proposals of the NSPS 2007, had they been implemented, would have provided the government with strong levers for dealing with the price and growth shocks which did arise.

The change of government as a result of general elections in early 2008 precipitated a number of

⁵ For further background of BISP program, see Gazdar (2011), BISP Baseline Report (2012), Bari and Cheema (2012).

significant policy changes and reforms. The incoming government quickly reversed the low wheat procurement price and brought it in line with expected world prices in order to discourage hoarding and market shortages. The government also passed on increases in world petroleum prices to consumers. These early corrections were undertaken quickly partly due to the perception that avoiding them would have worsened the economic crisis and would have led to shortages. In the case of wheat procurement prices, it might be argued that the correction also favoured the rural constituency of the Pakistan People's Party (PPP) which had emerged as the largest party in parliament and led the new coalition government at the centre.

The first budget of the new government presented before parliament in June 2008 also launched a new cash transfer programme called the Benazir Income Support Programme (BISP) aimed at poor families. The initial rationale for the programme was that it was meant to compensate the poor for price shocks, particularly for food. A national Food Security Strategy had also recommended a dual reform: setting procurement prices in line with expected world market prices, and a cash transfer programme to compensate poor families for their expected loss of implicit subsidy. From the point of view of the PPP leadership, the programme represented the fulfillment, in part, of their party's election manifesto pledge of establishing a large-scale employment guarantee scheme. Internal discussions and briefings by the bureaucracy persuaded the PPP leadership to abandon workfare in favour of a simple cash transfer. The first budget announced an outlay of 34 billion rupees. Actual spending was only around 14 billion by comparison (Gazdar 2011).

The fact that the Pakistan Muslim League (Nawaz) or PML-N was in coalition at the federal level, and holding the finance portfolio at the time when BISP being planned, has been taken to imply that the programme enjoyed some degree of cross-party support. The working group responsible for drafting the Food Security Strategy, which had recommended aligning wheat prices with world markets, and for providing cash transfers to the poor as compensation, was headed by respected economist Mr Sartaj Aziz who also happened to be a prominent PML-N leader. In the event the PML-N left the national coalition, and its provincial government in Punjab launched its own cash transfer programme called the Food Support Programme (FSP), alongside an urban-focused bread subsidy known as Sasti Roti. Taken together, the 2008-2009 federal and Punjab provincial programmes represented a three-fold increase in cash transfers compared to the preceding fiscal year. BISP budgetary utilization fell far short of allocation (around 14 billion compared with 34 billion). In subsequent years utilization and actual disbursements increased, and this coincided with the shutting down or significant scaling back of provincial cash transfers, as well as non-BISP federal cash transfers. Even so, the NSPS objective of a three-fold increase in the outlay of cash transfers was reached, maintained and possibly bettered in real terms within a year of the change of government.

Besides scale, BISP represented important qualitative changes in the design and implementation of social protection in Pakistan. The programme was targeted exclusively at adult women in poor households. A number of quantitative and categorical criteria were envisaged for identifying poor households. In the event, the initial phase of the programme (Phase 1) relied on elected representatives for the initial mobilization beneficiaries whose credential would then be verified by the National Database Registration Authority (NADRA) against its own data on the applicant households. Once an application had been verified by NADRA and a woman accepted as a beneficiary, she received payments directly at her home address through the money order service of Pakistan Post.

Even Phase 1 involved three significant innovations in the Pakistani context. First, this was the only national programme in Pakistan where the primary beneficiaries were individual women rather men or 'heads of households'. Second, the idea that beneficiaries were to be selected on the basis of poverty or (supposedly verifiable) criteria which were proxies for household poverty, was a departure from existing

design. Although there are many questions about the quality of targeting in Phase 1, and particularly about exclusion errors, existing and previous programmes had not clearly set out poverty-based targeting as an explicit criterion. The fact that elected representatives had been asked to mobilize applicants meant that applications tended to be concentrated among their voters and supporters. The idea that these too would be verified independently (using data held by a third party – in this case NADRA), was intuitive but relatively new in the Pakistani context. The fact that the NADRA record was itself incomplete or inaccurate obviously meant that the quality of targeting would be compromised. The main point here is that the idea of independent verification of individual and household information was established robustly for the first time. Thirdly, the reliance on the national registry and a database-driven approach to targeting was a relatively novel idea. It had been used extensively for the first time in the provision of compensation in the aftermath of the 2005 earthquake, and lessons learnt from that experience contributed to the design of BISP.

The fact that Phase 1 depended on the mobilization of applicants by elected representatives, and verification by an incomplete and inaccurate database were legitimate sources of concern about the design and implementation of the programme. The advances in Latin American cash transfer programmes with reliance on objective and transparent targeting, the experience of programmes like Samurghi in Sri Lanka with its heavily politicized beneficiary lists, and Pakistan's own record of patronage-based transfers all suggested that a transition to systematic targeting was not only essential but also a potentially explosive political issue. The very parliamentarians who were to be asked to relinquish their lists of beneficiaries were the very ones called upon to enact BISP into law.⁶ There were fewer open concerns about the second aspect of Phase 1 targeting – i.e. the use of NADRA-held information for verification purposes, partly because these data are not thought to be 'politically tainted'. From the viewpoint of targeting efficiency, however, the reliance on NADRA data was equally, if not more, problematic than the use of elected representatives for applicant mobilization. NADRA coverage fell short of universal, and the excluded were disproportionately among the intended beneficiaries of the programme. Moreover, the information held by NADRA is likely to be outdated and inaccurate. After all, this information was not collected, in the first instance, for targeting purposes.

In the event a poverty census using a 'poverty scorecard', or a short questionnaire which collected household level data on a parsimonious list of variables selected for their high level of correlation with income or consumption poverty, was launched in 2010. A pilot census had already been tested in 5 districts across the country the previous year. As the census was completed district-wise and its data processed, beneficiary lists were revised incrementally. The link with NADRA was retained, and eligible individuals can only become actual beneficiaries once their credentials are verified by the national registry. This process, or Phase 2, began at the start of fiscal year 2011-2012 (July 2011) and the transition to the new lists was virtually complete by the end of the fiscal year. Phase 2 has also involved the setting up of a dedicated in-house database, with protocols for its use and sharing, and has set up a case management system to address complaints. It has also introduced the use of debit cards to replace the postal money order system for cash delivery. There has been tangible headway, in the form of pilots, towards the introduction of conditional cash transfers linked to schooling.

One of the key features of programme evolution within a relatively short time span is the growing complexity of partnerships and sub-contracting arrangements with other government as well as private entities. Phase 1, in addition to mobilization by elected representatives, was premised on partnerships with NADRA and Pakistan Post. In fact, it might be argued, that in organizational terms, in Phase 1 BISP act as an agency which coordinated the actions of these three sets of 'partners'. The partnerships

⁶ The law was passed by both houses in August 2010. The decision to transition out of elected representatives' lists had already been taken a year earlier.

developed and became more sophisticated with the transition towards Phase 2, and with the involvement of international development partners, notably the World Bank. Even though the programme now has its own staff, in-house capacity for data management, and organizational presence down to the tehsil (sub-district) level, it has retained and expanded the range of partnerships with other organizations including commercial banks.

Summing up, Pakistan has made significant progress in the reform of its social protection systems. Even though BISP is explicitly associated with the government that took office in 2008, there is also remarkable continuity with elements of NSPS 2007 which was prepared under a different regime. The changes are not only quantitative ones relating to fiscal allocations and programme scale. A number of qualitative innovations such as the primacy of women beneficiaries, and the setting up of transparent and database driven systems of targeting and case management, alongwith complex partnerships with government and private organizations, compare favourably with the experience of social protection reform in other countries. The next section describes the main successes as well as failures of social protection reform using the framework proposed in Section 1 above.

3. Successes and failures

Social protection reform was framed in Section 1 above as consisting of two related components. First, such reform has been part of a broader process of economic reform, particularly the reform of prices and subsidies. Even under the most favourable assumptions, macroeconomic reforms aimed at reducing government budget deficits are likely to have sharply negative first round impacts on the consumption and incomes of many of the poorest segments of the population. According to this view, protecting these vulnerable sections through well-targeted social programmes can reduce the human and social cost of reform and also reduce potential political resistance to much-needed policy corrections. Second, social protection reforms are seen in terms of the ‘internal’ rationalization and streamlining of social protection systems and aligning them more closely with the goal of protecting the most vulnerable.

These two components of social protection reform are linked in a number of ways, but can also operate autonomously, in principle, for limited periods of time. Successful macroeconomic reform can ensure the fiscal sustainability or even expansion of social protection systems. Improvements in the effectiveness of social protection systems can, conversely, enhance the credibility of the broader reform and hence endow it with greater public legitimacy. It is possible, of course, for macroeconomic reforms to occur in the absence of improved social protection systems, presumably to the cost of human and social development at least in the short to medium terms. Likewise, it is possible to have successful ‘internal’ reform of social protection systems without corresponding success in the broader economic reform agenda. This characterizes, at least in part, the situation in Pakistan over the last half a decade or so.

We contend that in terms of the ‘internal’ reform of social protection systems the experience of the last 5 years represents an important case study of success in political economy terms. This contention is based on observations relating to policy changes and corrections which, in principle, and given our prior understanding of the political economy of reform in Pakistan, ought to be classified as challenging, were nonetheless undertaken and pursued. There are four policy changes and corrections in particular, which warrant attention: (a) fiscal allocation, (b) women beneficiaries, (c) partnerships/coordination among multiple organizations, (d) targeting, delivery, and case management. We examine each of these four policy changes or corrections in turn to identify the expected political economy obstacles to reform in these areas.

While the ‘internal’ side of social protection reform was relatively successful despite the existence of possible obstacles, the broader reforms which formed part of the backdrop to the social protection reform

mostly failed. One of the few areas where price corrections were successfully pursued was with respect to wheat procurement prices. In other areas, and particularly with respect to electricity, fuel, and a number of other commodities, various forms of untargeted consumer subsidy continued and even escalated. Attempts at correcting prices were frequently frustrated by a variety of stakeholders. Tax reform, or any serious attempt and increasing tax revenue collection also stalled in face of special interest pressure. The persistence of untargeted consumer subsidies and the inability of the government, thus far, to link their draw-down with protection to the most vulnerable through the social protection system, may affect the fiscal sustainability in general as the sustainability of the social protection system. We, therefore, discuss the persistence or even expansion of untargeted consumer subsidies as an element failure of social protection with respect to its fiscal sustainability.

The political economy challenges against which we measure the various elements of social protection reform are broadly classified under three categories: (i) anti-poor policy bias; (ii) patronage-based systems; (iii) special interest group power. The idea of an anti-poor bias and elite capture in the allocation of public resources has been discussed widely in the Pakistani context (e.g. Easterly, Hussain). The situation is generally characterized in terms of a vicious cycle: the poor are excluded from public resources due to absence of voice, and their low levels of human and social development ensure that voice remains muted. A closely linked idea is that of patronage-based systems (Easterly, Lieven). The poor are in dependent patron-client relations with elites who use public resources to dispense patronage and buy political support, thus sustaining elite capture in the face of nominally competitive politics. The third dimension, or the existence of special interest group power is based on the view that particular segments of the population are able to appropriate rents due to their superior ability to coordinate and organize collective action to thwart reform.

Fiscal allocation

The several-fold increase in fiscal allocations for cash transfers to the poor suggests that the anti-poor bias in the allocation of public resources was countered successfully up to an extent. Given that the increase occurred and was sustained during a period when growth in the economy and government revenues had slowed down underlines the significance of the change. By contrast, redistributive transfers had remained stagnant during the period of relatively higher economic growth and resource availability under the Musharraf regime. It might be argued, however, that the increased fiscal allocations may not have represented real transfers to the poor if these expenditures were actually captured by the elite, or used to resource patronage systems. If a major part of the increased allocation did, indeed, reach the poor, it would appear that the elite capture and patronage-based systems obstacles had been overcome to some extent. It will also imply that the vicious cycle between exclusion from resources and the muting of voice may have been broken in this instance.

Women beneficiaries

Linked to the issue of an anti-poor bias is a bias against women in the allocation of public resources. The channeling of public resources, rents and transfers tends to be highly skewed in favour of men, and this corresponds also with the patronage-system perspective, since male patriarchy is expected to matter in patron-client political transactions. The primacy of women beneficiaries also suggests that other ideological and normative biases against women's access to resources had been overcome to some extent. It could be argued that the policy of giving primacy to women as beneficiaries may not represent any significant departure from existing political economy scenarios (of elite capture and patronage systems) if women were nominal rather than actual beneficiaries. If women were indeed beneficiaries, this departure from existing practice would suggest that some of the exclusionary biases with respect to functioning of government systems can be reversed through straightforward challenges to supposed norms.

Coordination and partnerships

BISP has been successful in constructing and maintaining complex partnerships with government as well as non-governmental and private organizations through sub-contracting arrangements. These organizations include NADRA, Pakistan Post, the Population Census Organisation, commercial banks, RSPs and survey firms, mobile phone service providers, and IT companies and consultants. There is evidence of emerging partnerships with other public sector service delivery organizations including provincial government departments in the design and piloting of cross-sectoral programmes. These partnerships have been crucial in achieving programme goals, and technical aspects of these partnerships, namely the capacity of BISP to sub-contract effectively, coordinate, and monitor and implement agreements have received support from international development partners. These partnerships, particularly those with other government organizations, would also have represented political economy challenges. Pakistan's institutional history has many examples of programme or project failure due to obstacles in working across organisations and mandates within government.

Another related set of challenges is the gradual streamlining and specialisation, as proposed in NSPS 2007, of a number of cash transfer programmes. In its early phase BISP itself represented the duplication of effort and mandate as there were existing federal and provincial cash transfer schemes (e.g. Zakat, Bait-ul-Maal). With the gradual reform of these other programmes and the concentration of cash transfer functions within BISP there has been some degree of rationalization within social protection. This too can be considered a partial success in reform, given the propensity of duplication across government organizations to persist due to resistance from within these organizations.

Targeting, delivery and case management

The most significant success with respect to the political economy of reform, however, is in the establishment of transparent and effective targeting, delivery and case management systems. As we have noted above, the transition from Phase 1, when elected representatives had mobilized applicants, to targeting based on the poverty scorecard would, in principle have been fraught with challenges. As the experience of other programmes in Pakistan as well as administratively targeted programmes elsewhere (such as Samurdhi in Sri Lanka) have shown, it can be very difficult to eject beneficiaries once they have been selected on political grounds. There have long-standing complaints about the status of beneficiary lists of federal and provincial Bait-ul-Maal programmes and the Zakat programme. The transition from Phase 1 to Phase 2, and exit of non-scorecard beneficiaries from the earlier phase happened relatively smoothly without much overt resistance on the part of elected representatives.

The setting up of direct systems of delivery from government to beneficiaries (first through Pakistan Post and then through commercial banks) also did not face overt political opposition from representatives who may have used the delivery mechanism to assert their ownership and control over programme benefits for their patronage purposes. There are credible reports, of course, of politicians and other local notables influencing cash delivery by manipulating the timing and venue of delivery. There have been complaints, for example that payment cycles were manipulated to time with bye-elections in certain constituencies. It has also been reported that some PPP politicians try to organize deliveries at their premises to give the impression to beneficiaries that their benefits are political favours from individual politicians. There is also much evidence, however, of direct interaction between the programme and its beneficiaries through the complaints and case management systems, with minimal involvement of political patrons.

The fact that despite some valid concerns, compared to other programmes in Pakistan and elsewhere, BISP targeting, delivery and case management systems work without much political interference, implies

that two important dimensions of political economy constraints – viz elite capture and patronage-based systems – were successfully overcome to some degree.

Fiscal sustainability

The biggest failure of social protection reform thus far has been the inability of the government to link cash transfers with the reduction in untargeted consumer subsidies. While some untargeted subsidies and price distortions were corrected in the first year of the programme, other subsidies spiraled over the same period. The most stubborn have been consumer subsidies in fuel and energy expenditure on which has accounted for many times the total outlay for BISP. Attempts at raising tax revenues through the introduction of value added taxes have also stalled. While elite interests are clearly involved in the maintenance of these subsidies, there are also populist pressures particularly in urban areas which receive support from the media as well as an activist judiciary. The economic and distributional arguments against these subsidies have not been made, and public perceptions of corruption are used to mobilize opinion against tax/subsidy reforms. While BISP's relative success in carrying out reforms 'internal' to social protection is acknowledged by professional observers, it has done little, thus far, to dent public pessimism about effective compensation mechanisms for the vulnerable. While the strength of special interest groups both within and outside government in stalling fiscal and price reforms is a large subject in its own right, it is appropriate to mention here that the potentially virtuous cycle between effective social protection and economic reform has not worked to any significant extent in Pakistan.

4. Insights and lessons

In this section we examine the main successes and failures in social protection reform identified in Section 3 above with reference to four analytical themes proposed in the template of this study. We summarise these four themes as: (1) winners, losers and compensation – are winner and losers of reform clearly identified, and was it possible to clearly delineate credible means for compensating losers? (2) collective action versus leadership – are there identifiable special interest groups which could subvert reform efforts through collective action, and could this collective action be countered through pro-reform leadership? (3) time consistency – was the sequencing of reform cognizant of political economy considerations, particularly with respect to compensation and leadership? (4) organizational effectiveness – were technical components of reform in place to take advantage of favourable political economy conditions or to help overcome unfavourable political economy conditions?

The main successes in social protection reform, as highlighted above, have been 'internal' to the social protection system, while the main failures have been with respect to the broader linkages between fiscal and price reforms and social protection. We have also identified some of the key political challenges which would have been faced or overcome leading, respectively, to failure or success of reform. In the analysis that follows we attempt to identify key players and stakeholders – population segments, special interest groups, various elites, and organisations and individuals which may have been important in any particular story of success or failure.

For each of the features of social protection reform identified above it is possible to identify winners and losers. Three of successes identified above (fiscal allocation, primacy of women beneficiaries, and greater organizational effectiveness) and the main conspicuous failure (price/subsidy/tax reform) are discussed in turn for an analysis of winners, losers and compensation.

Fiscal allocation

Greater fiscal allocations for social protection would, in principle, compete against other public spending. The winners of fiscal reallocation were those who benefited from the programme. Losers, in principle, would be those who ended up paying higher taxes to fund the programme and/or those whose own transfers and subsidies were reduced. To the extent that the programme actually reached its target the winners were the mostly poor beneficiaries. Given the mostly favourable assessments of Phase 2 targeting, it would appear that winners were, indeed, mostly poor households. It might be argued that to some extent the politicians who were seen as promoting the programme – namely PPP representatives and office-bearers might be indirect winners if they could translate some of the beneficiaries' goodwill into future votes. Losers, correspondingly, might include non-PPP politicians.

The diffused nature of gains and losses of increased fiscal allocations implies that the winners and losers in the population at large would have not have been significant political economy players by themselves. The gainers are not a well-defined group *a priori* though they may become an interest group *post facto* to resist future fiscal reallocations away from the programme. Even this possibility is not very likely on its own, as shown by the absence of resistance from Phase 1 beneficiaries to new Phase 2 lists (Bari and Cheema, 2012). Despite the large increase in social protection spending, the sector still represents a relatively small part of government spending. This implies that for potential losers – that is, those taxpayers or subsidy recipients who might have paid for the increased fiscal allocation to BISP – the programme in itself would not be a conspicuous source of loss. Moreover, as discussed below higher social protection allocations did not lead to the reduction in other subsidies or increases in taxation.

The main lines of resistance to increased fiscal allocations could be expected from two sets of sources: non-PPP politicians, and economic managers such as finance ministry technocrats. For non-PPP politicians, as in with the general public, the programme represented a relatively small part of the federal budget. The programme's allocations have been passed as part of the federal budget without significant opposition or debate. Constraints to further expansion of fiscal allocation would come from the finance ministry which needs to balance the demands of the programme against other spending priorities.

As it happens, in 2008 there was a high degree of cross-party agreement that something significant would need to be done to protect the poor from the ongoing economic crisis. While the PPP was ahead of other parties in terms of articulating a vision for social protection in its election manifesto, its position was not, by any means unique. As noted above, the Food Security Strategy was drafted by an expert group led by an eminent PML-N politician. The PML-N led provincial government in Punjab had its own cash transfer programme which had a higher outlay than BISP in 2008-2009. Another important party, the Awami National Party (ANP) was not opposed, in principle, to the idea of a cash transfer, as it too ran a provincial cash transfer programme briefly in Khyber-Pakhtunkhwa where it the led provincial government. The opposition Pakistan Muslim League (or PML-Q) may have opposed the expansion of the cash transfer, except that some of its leaders were correct to point out that the basic idea behind the BISP was already present in the NSPS 2007 which had been adopted during the party's tenure. Some of the PPP leaders who were involved in early discussions with Finance Ministry officials about the size of the programme, had been involved in their manifesto's costing of social protection measures, and were already attuned to the scale of change which was needed.

The main arguments against expanding the scale of the programme in its early period related to concerns about corruption, leakage and political patronage. This concern was taken seriously by initial champions of the programme within the PPP leadership. It is also likely that the association of the programme with the name of their recently-assassinated leader allowed the leadership to develop a narrative within the party that this particular programme was off-limits as a source of private rent-seeking. It is worth noting that of the two cash transfer programmes launched in the same fiscal year – i.e. BISP and the Punjab provincial food support programme – BISP contained more external checks in the shape of NADRA

verification, an explicitly stated focus on poverty targeting, and hence a slower take-off in terms of disbursement. Delays were tolerated by the leadership which was keen to show that it wanted to 'put systems in place'. Organisational effectiveness, the absence of which has rightly been identified as a frequent obstacle to reform, was used in the present case to leverage support for or reduce opposition to reform.

The continued involvement of international development partners was critical throughout, not only for technical expertise in development social protection systems, but was also important as a way of allaying concerns about corruption, leakage and political patronage. Although the BISP is still regarded by PPP supporters and opponents alike as a 'PPP programme' there have few specific allegations of systematic corruption in its operation. The transition from Phase 1 to Phase 2 following the poverty scorecard census further shifted the debate to the technical nuances of targeting methods from concerns about blatant political bias. It might be argued that the openness of the PPP leadership to technical support from the World Bank and other development partners was based as much on hard negotiation as politicians' prior attitudes towards technical support. The reform of social protection had figured prominently in Pakistan's negotiations in 2008 for an IMF stabilization programme. To the extent that acceptance of technical support was an imposed necessity, the political leadership was successful in framing it as a 'virtue'.

Women beneficiaries

The primacy of women beneficiaries may lead, ultimately, to the loss of relative power of men in intra-family matters. Focusing on women beneficiaries also represented an important shift in the institutional culture and norms of government departments in general and social protection in particular. What accounted for the success of this feature of social protection reform? Given that BISP led to a significant net increase in the number of beneficiary households as well as the total outlay for cash transfers, men were 'losers' from this aspect of the reform only a relative sense. If a woman's cash entitlement improved her bargaining position in intra-household allocations and decision-making, men would be relative losers. Since the programme was increasing the resources available for cash transfer, and the high propensity of benefits being spent on household consumption (mostly food) with men being indirect beneficiaries, it was not likely that men or women would object to increased allocations. Resistance from institutional norms was also inaudible once the programme was started, suggesting that leadership can overcome institutional and cultural barriers to reform.

Organizational effectiveness

Greater organizational effectiveness, and the establishment of an institutional culture of direct interaction between government and beneficiaries can lead to the loss of political power and privilege of patronage-based politicians. While an individual patron-politician might be aware that a particular social policy intervention may eventually undermine his position, his ability to disrupt is usually limited to his own immediate domain of power. Past accounts of school disruption by local elites, for example, are attributed to the patron's apprehensions concerning the undermining of his authority. Resistance to or capture of other voice-related initiatives, too, might be motivated by the same concern. The disbursement of development funds through MNAs/MPAs is a prime example of elite capture and disruption at the local level. In all of these cases, however, the main blocker is the local patron acting on his own initiative. Explanations of systemic failure in schooling and other social policy interventions are usually framed in terms of the sum total of individual but uncoordinated actions by local patrons. Some areas where reform has shown to be blocked by elite collective action are issues such as land redistribution, rights of tenure, homestead rights, and the implementation of bonded labour laws. In these instances

there is credible evidence of coordinated political action by local elites to influence provincial and national level policy-making and implementation.

There are several factors which would account for the relative success of internal organizational reforms in the social protection system over the last 5 years. As in the case of other social policy interventions elite disruption or capture of social protection systems could only occur at the local level. Due to the scale of the programme it would not have been possible for patronage-based politicians to coherently resist improved organizational effectiveness. Given that the programme, unlike service delivery interventions such as schools, did not require an elaborate organizational presence at the community level meant that disruption and capture could only be effected at higher levels of the organizational hierarchy which, in turn, was also more amenable to protection from local patronage-based pressures. Moreover, unlike land and labour reforms, the social protection reforms did not openly generate zero-sum type games between the elite and the poor. The poor's sense of entitlement was further bolstered at the local level by activities of PPP party workers who encouraged beneficiaries to interpret the programme as 'gift from Benazir', thus (inadvertently) cutting out some of the potential political capital which might have accrued to the local patron. Efforts of local patron-politicians have now been focused on capturing some of derivative rather than substantive political advantage by manipulating money order delivery dates and venues.

A key source of resistance to organization reform comes from the rent protection activities of incumbent (non-elected) government officials. This was in evidence in the early period of BISP when there were valid concerns regarding the duplication of effort with Zakat and Bait-ul-Maal as well as various provincial cash transfer programmes. The continuation of Zakat and Bait-ul-Maal rather than the rationalization of all cash transfer programmes under a single umbrella is indicative of the sensitivities regarding radical organizational reform. One way in which potential resistance from incumbent rent centres was overcome was through repeated assurances that those other programmes will not be stopped. Rather, those programmes were gradually reformed to specialize in areas not directly addressed by BISP – such as care homes for orphaned children, one-off grants for wedding expenses and health contingencies. The need for rationalization, however, has simply been postponed. If BISP does evolve into a comprehensive social protection system the overlapping of mandates and duplication of efforts will re-emerge as important reform issues.

The role of national and international technical advice needs to be stressed in the championing of internal social protection reform. The fact that external technical advice was backed up with financial assistance made it all the more powerful. Prior familiarity with some key design features among national experts and policy-makers, and strong local ownership of many of the design features such as the use of NADRA, and scorecard survey implementation, meant that external technical advice found receptive policy audiences nationally. These elements, however, have been in place in a number of other areas (such as the one discussed below) where reforms failed. It needs to be acknowledged that the interest and commitment of the top political leadership (of the PPP) to the BISP was a key factor in ensuring that individual elements of reform did come together and were not disrupted.

Price/subsidy/tax reform

While Pakistan has been relatively successful in carrying out reforms internal to social protection systems in the last half decade, it has been singularly unsuccessful in carrying out much needed reforms in prices, subsidies and taxation. Untargeted subsidies to electricity consumers have risen to over 300 billion rupees annually – nearly 2 per cent of the GDP, and over six times the most ambitious outlays for BISP. In addition to these untargeted consumer subsidies low regulated prices for petroleum products have compounded shortages as well as interruptions in the supply of electricity. Policy-determined prices for

domestically produced natural gas are maintained, according to estimates, at under a third of the opportunity cost measured in terms of the world market price for oil equivalent. Among other stakeholders, activist judges have added their weight to keep policy-driven prices low. While electricity subsidies account for nearly nine-tenths of all consumer subsidies, other untargeted subsidies, particularly in some foodstuffs such as sugar have been provided periodically in the face of populist pressures and judicial interventions. At the same time, efforts at increasing tax revenue collection have repeatedly stalled as various special interest groups – including traders, textile manufacturers, and others – have lobbied successfully for concessions. Increasing budget deficit-GDP ratios are predictable outcomes, and in the presence of legal limits on central bank borrowing, the government has opted to borrow heavily from private banks. This scenario is widely acknowledged as being unsustainable.

There a number of convincing explanations for the failure of fiscal reform in Pakistan. The analysis provided by the Panel of Economists assembled to advise the government on a home-grown stabilization plan in 2008 can easily apply to the situation since then (Government of Pakistan 2009). It was argued that Pakistan's access to politically negotiated external sources of assistance and borrowing periodically reduces the pressure for reform at the macro level. It might be added that in a fragmented polity, with frequent rounds of unconstitutional government, and ongoing involvement in external conflicts and civil strife, it has proven challenging to forge a political consensus for reform, despite the fact that all of the main stakeholders agree, in principle, on what the reform ought to look like. There is little disagreement among stakeholders that the tax-GDP ratios are too low, and that untargeted subsidies are wasteful. Collective action on the part of special interest groups has trumped, however, overarching collective action across elites, or indeed the assertion of strong leadership in economic matters.

While this generic analysis of failed economic reform (and particularly fiscal reform) remains valid, we are primarily interested in the interface between fiscal and social protection reforms. To recall from Section 1, there is a two-way relationship between successful pursuit of fiscal and social protection reform. Fiscal health can ensure the sustainability of a robust social protection agenda through national resourcing and ownership. Conversely, effective social protection systems can help to cushion the most vulnerable segments of the population from the negative first round impacts of painful fiscal reforms, and thus allow reforms to secure greater political legitimacy for their agenda. Given the success of reforms internal to social protection it is pertinent to ask why the second link – i.e. from the existence of sound social protection systems to greater political buy-in for reform – did not function in the last half decade?

We offer two sets of observations on the failure of this link. First, for there to be any possibility of 'buying' political support for badly needed fiscal reforms through effective social protection, there will need to be some degree of overlap between social protection beneficiaries and losers of fiscal reforms. According to analysis conducted for the World Bank's Pakistan Poverty Assessment the richest 20% households captured a third of the power subsidy and half the fuel subsidy (World Bank 2010). The corresponding ratios for the poorest 20% were well below 10 per cent in both cases. The bottom three quintiles taken together (i.e. the bottom 60 per cent of the population in terms of income) accounted for only around 30 to 33 per cent of the fuel and power subsidy. If there was a way of compensating the bottom 60 per cent fully for their loss of subsidy, the fiscal burden of these untargeted power and fuel subsidies could still be reduced by around two-thirds.

Simulations of benefit incidence of BISP under the assumption of scorecard-based targeting and the selection of 7 million beneficiary families showed that the bottom quintile accounted for three-fifths of the transfer (World Bank 2010). Thus middle income groups which might become supporters of power and fuel reform, if compensated, would stand to gain little from a well-targeted cash transfer unless the programme coverage expanded to several times its existing scale. Another compounding factor is that the benefit incidence of existing power and fuel subsidies rises monotonically with income. Since most

rational cash transfer programmes will either keep benefits constant along the income scale or provide higher benefits to people at lower incomes, it will, in general not be possible to fully compensate middle income for their loss of power and fuel subsidy without raising the level of benefit across the board.

The mismatch between the beneficiaries of a well-targeted programme and those of untargeted subsidies operates not only along the income scale, but also in terms of regions as well as urban versus rural areas. The more developed and urbanized regions are the main beneficiaries of these untargeted subsidies while, as shown by Bari and Cheema (2012), BISP beneficiaries were disproportionately concentrated in rural and under-developed districts. The regional distribution of beneficiaries of BISP and those of untargeted fuel and power subsidies also corresponded with the support bases of different political parties. BISP beneficiaries were concentrated in districts from which the PPP won a higher proportion of seats, while the urban areas which account for much of the untargeted consumer subsidy returned PML-N and Muttahida Quami Movement (MQM) candidates in the last elections. Given the fragmentation of Pakistan's polity along regional and ethnic lines and the inability of any one party to gain overall majority support, governments have consisted of coalitions within which parties are constantly reminded by each other of the need to 'respect mandates'. While the PPP could champion BISP and thus consolidate its hold in its support bases, the PML-N and MQM would feel compelled to protect their electoral bases and take populist positions vis-à-vis the reform of untargeted consumer subsidies. Given the relatively entrenched regional support bases it would be costly, at least the short term, for any party to woo voters outside its stronghold at the risk of abandoning its own reliable supporters.

A second factor in the failure to establish political economy link, thus far, between fiscal and social protection reform may be time consistency. In principle, the existence of an effective social protection system would increase the confidence among some potential losers of fiscal reform that they might be reliably compensated. In fact the timing of proposed social protection and fiscal reforms coincided due to the economic crisis of 2008. It is only after BISP has navigated past a number of important reform obstacles (as noted in Section 3 above) that we can begin to form the judgment that internal reforms have been relatively successful. For potential losers of fiscal reforms there would be little reason to treat as credible any claims that they would indeed be compensated. In fact, prior to the completion of the poverty scorecard census and the compilation of its results into the BISP database, the social protection system did not have an effective system for targeting lower-middle income electricity and fuel consumers.

It would not have been possible, obviously enough, to ensure time consistency in year zero of reform. The time consistency issue does suggest, however, that future attempts at fiscal reform ought to leverage successful social protection reform. Looking ahead, the internal success of social protection reforms can be a factor in promoting champions of fiscal reform across the political divide. For the PPP it may become possible to project itself as a credible deliverer of social protection to potential lower-middle income losers of fuel and power price reform. Conversely, for parties with existing support bases in urban areas the linking of fiscal reform with social protection can provide a way for 'owning' and adapting the reformed social protection system to cater for more of their own constituencies.

Conclusion

We have shown in this paper that successful reforms of social protection systems in developing countries have consisted of 'internal' as well as 'external' aspects. The former are issues relating to the design and operation of social protection systems, while the latter relate to the broader economic reform agenda within which social protection reform is embedded. The experience of Pakistan in the last half decade is one of relatively successful internal reform within the context of a mostly failed fiscal reform agenda.

We identified the key successes and failures of social protection reform in Pakistan and the BISP in particular with reference to expected difficulties and sources of resistance, and analyzed these successes and failures using a political economy framework which pays attention to winners and losers, collective action and leadership, organizational effectiveness, and time consistency.

We have found that the successes of internal social protection reform have been associated with two positive and one negative factor. The positive factors are the high level of political investment and the ability of national and international expertise to contribute to effective programme design and operations. Political investment, in turn, was partly driven by the understanding that the support base of the ruling PPP would benefit disproportionately from reformed social protection, as well as the ability of the top leadership to insulate programme operations from local patronage-based capture. The ability of national and international expertise to influence programme design emanated partly from the longer engagement of experts with the social protection agenda, and partly the strategic position enjoyed by international development partners as guarantors of programme reputation. The negative factor which helped internal reform was the diffused nature of rents, the fact that the programme did not directly confront existing local elites (as land redistribution or bonded labour emancipation would have done), and a gradual redefinition of the roles of potentially rival duplicating programmes.

The reasons for the failure of the linkage between social protection and fiscal reform, besides the ones already identified in existing analyses of taxation and economic reform in Pakistan, are two-fold: winner-loser mismatch, and time inconsistency. We find that the highly skewed benefit incidence of untargeted subsidies meant there was little overlap of losers of fiscal reform with potential beneficiaries of social protection, and that the fragmented nature of Pakistan's polity further implied that it was not possible for parties to build bridging constituencies. Furthermore, it took time to establish the internal credentials of social protection systems before there could be credible claims that lower-middle losers of fiscal reforms will be reliably compensated. Future attempts at fiscal reform, therefore, might be able to leverage the success of internal social protection reforms.

Finally, while this paper has been concerned with BISP as a case study of past reform, our analysis has highlighted a number of issues which allow a comment on the programme's political sustainability. The overt association of the programme with the PPP is obvious enough in its very title. The PPP will use the image of its deceased leader widely in its political mobilization and it is also clear that its leadership will use BISP as a major success story of the party's current tenure in government. Rival parties too have good reason to treat the BISP as a 'PPP programme' and thus fashion their attitudes towards the programme accordingly (Bari and Cheema 2012). Whether and to what extent the reform successes of social protection will endure the heat of competitive electoral politics remains to be seen. In the meanwhile, it is possible to say that many of the successes of internal reform were due to the 'ownership' of the programme by a segment of the national leadership. This case highlights the paradox that while 'national ownership' is often cited as a necessary condition for successful reform, it is not always made explicit that 'ownership' will always have to be vested in a particular segment of the leadership or elite. The notion of politically-neutral or consensual 'national ownership' of any reform is an unrealistic expectation at the best of times, and an impossibility in vital and competitive democracies.

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