PART II

C O N T E N T S

(ii)

GOVERNANCE AND INSTITUTIONS

FINANCIAL DEREGULATION

AGRICULTURE, ENVIRONMENT, AND GOVERNANCE

BUREAUCRACY FOR GROWTH

GROWTH AND EXPORTS

LAW CONSTITUTIONALISM AND ECONOMICS

ROUND TABLE ON DECENTRALISATION AND DEVOLUTION

ABSTRACTS

1. **Aziz Ali Mohammed.** IFI Conditionality on Governance. 565–571.

The paper deals with the dilemmas faced by the International Financial Institutions (IFIs) when they seek to apply lending conditions for improving governance in the borrowing countries. While recognising the importance of good governance for successful outcomes of their lending operations, IFIs confront problems of a "backlash" from adverse public reaction to their prescriptions. Apart from the opposition of vested interests that are beneficiaries of governance deficiencies, IFIs have to reconcile governance conditionality that pushes them into the domestic political arena with their non-political mandates; requires them, when monitoring compliance with governance conditions, to reach unambiguous judgments about situations or outcomes that are often ambiguous; opens them up to the charge of discriminatory treatment against smaller and poorer countries that have to depend on concessional IFI funding for their development; and places them in a difficult moral position when applying governance conditions relating to corruption on borrowers when they have little power over suppliers in donor/creditor countries. The paper concludes with suggestions for reducing "backlash" effects through highly selective targeting efforts to areas that offer promise of yielding tangible results and by being willing to commit substantial resources by way of technical and financial assistance for capacity building and other improvements in the selected sectors while allowing sufficient time for results to emerge.

2. **Takashi Kurosaki.** Community and Economic Development in Pakistan: The Case of Citizen Community Boards in Hafizabad and a Japanese Perspectives. 575–585.

In 2001, a scheme called Citizen Community Board (CCB), a kind of community-based organisation (CBO), was introduced in Pakistan, under which local people propose development projects to the local government through forming a CCB; upon approval, the local government funds 80 percent of the project cost. Since 2001, however, both the number of CCBs and that of approved projects have been below the expected level. This raises the concern that the Pakistani society, which has a limited historical experience in CBO-based development, is too handicapped for the CCB scheme to be successful. Since 2004, JICA (Japan International Cooperation Agency) has been implementing a project to make the CCB programme more effective and efficient, with Hafizabad District as a target district. This paper first summarises the results of statistical analyses regarding the determinants of successful formation of a CCB, and those of successful development activities that are conditional to their formation. This is based on the data collected in a benchmark survey before JICA's intervention. The regression results show that rules within a CCB and the type of leadership are the key to the success of the CCB initiative, suggesting that the capacity building of CCBs and local communities is important. Then, in the second part of the paper, we summarise the achievements of JICA's intervention during the year 2005-06. Our experience shows the effectiveness of field facilitators, supporting the view that capacity building is indeed a constraint.

3. **Mohammad Nizam-ud-Din.** Demographic Change and Governance Issues. 589–598.

4. **David Orden, Abdul Salam, Reno Dewina, Hina Nazli, and Nicholas Minot.** The Impact of Global Cotton and Wheat Prices on Rural Poverty in Pakistan. 601–617

This paper primarily focuses on the effects of cotton prices on rural poverty in Pakistan. Domestic seed cotton prices are found to move closely with their export values based on world markets since 1990 and declined in real terms by about 20 percent in the late 1990s, taking world price movements and currency depreciation into account. Using household survey data, a 20 percent price increase from the low level in 2000-01 is found to reduce the rate of poverty among cotton-producing households from 40 percent to 28 percent. In comparison, wheat prices show less decline but a larger proportion of farmers grow wheat.

5.   Muhammad Iqbal. Is Good Governance an Approach to Civil Service Reforms? 621–637.

Since Independence, the Pakistani civil service has more or less followed the British model, but the pressures emanating from within and outside are now forcing the Pakistani civil service to professionalise itself.

The Pakistani civil service system is composed of the federal and the provincial civil service system. It is a rank-based system, where generalists are preferred to specialists, and lifetime employment is provided to its incumbents. The pay and perks received by the civil servants are many times higher than the per capita income of the common man in the country. However, these perks have definitely been on the lower side as compared to what is being received by the private sector managers and employees of multinationals in Pakistan.

This paper examines the importance of a strong governance structure as a cornerstone of promoting the civil service reforms (CSR) in Pakistan. The effectiveness of civil service is a function of the good governance. The paper argues that any reform efforts to promote CSR through good governance in Pakistan should begin by addressing, first and foremost, the institutional roots of the problem to have a positive payoff. The paper addresses the following questions: What are the modes of governance; what constitutes good governance and CSR; how does governance help CSR; and what factors are crucial for CSR? The resolution of these questions is important for a better understanding of the complex interface between the governance process and the CSR, and for the formulation of strategies underpinning the CSR, which is critical to both economic growth and further development of the civil service in Pakistan.

6.   Noman Saeed, Kalim Hyder, and Asghar Ali. The Impact of Public Investment on Private Investment: A Disaggregated Analysis. 639–663.

In this paper, the Dynamic model is explored to analyse the behaviour of private and public investment. The overall picture along with the disaggregated analysis seems to be quite useful in concluding the debate about crowding-out of private investment due to increase in public investment. The dynamics of overall public investment, private investment, and GDP are explored along with the analysis of commodity-producing sectors (agriculture and manufacturing) of the economy. Structural unrestricted VAR model is estimated for probing the dynamics of public investment in private capital formation and economic growth for the period 1973–2006. Results from the agriculture sector support the crowding-in phenomenon where as manufacturing sector is characterised by the crowding-out phenomenon. Overall results do not in provide any significant conclusions.

7.   Henri Lorie and Kiran Younas Khan. What Determines the Domestic Prices of Agricultural Commodities in Pakistan? 667–687.

The paper investigates whether the *modus operandi* of the domestic markets for agricultural commodities in Pakistan have succeeded in isolating domestic prices from developments in the exchange rate and international prices. Cointegration between the domestic price, exchange rate, and international price is generally weak. The domestic support price for wheat appears to be a key determinant of its domestic market price, even in the long run. The applicability of a "weak" law of one price in the long run is rejected for wheat and sugar, but cannot be rejected for cotton and rice. There seems to be room for improving the market mechanisms, including managing through reduction in government interventions and enforcement of more competitive behaviours. Monetary policy needs to consider more complex price dynamics for the purpose of inflation forecasting. Isolation of domestic prices from international prices, including measures like price support mechanisms, could hamper the macroeconomic adjustment (equilibrium real exchange rate) to terms of trade shocks.

8.   **Tariq Mahmood, Ejaz Ghani, and Musleh-ud Din.** Efficiency of Large-scale Manufacturing in Pakistan: A Production Frontier Approach. 689–700.

This paper examines the efficiency of the large-scale manufacturing sector of Pakistan using the stochastic production frontier approach. A stochastic production frontier is estimated for two periods—1995-96 and 2000-01—for 101 industries at the 5-digit PSIC. The results show that there has been some improvement in the efficiency of the large-scale manufacturing sector, though the magnitude of improvement remains small. The results are mixed at the disaggregated level: whereas a majority of industrial groups have gained in terms of technical efficiency, some industries have shown deterioration in their efficiency levels.

9.   **Muhammad Azeem Qureshi and Toseef Azid.** Did They Do It Differently? Capital Structure Choices of Public and Private Sectors in Pakistan. 701–709.

The purpose of this paper is to analyse the behaviour of the public and private firms in Pakistan as related to their capital structure choices. This paper empirically analyses this behaviour from 1976 to 2004, based on the modified Modigliani-Miller model, and tries to evaluate the attitude of the public and private firms in the process of maximisation of their value. This study suggests that their preference pattern is different because of the different governance structures of these two sectors. However, a dynamic policy can be formulated on the basis of this attempt to enhance the level of economic welfare.

10.   **Muhammad Arshad Khan and Abdul Qayyum.** Trade Liberalisation, Financial Sector Reforms, and Growth. 711–731.

This paper empirically investigates the impact of trade and financial liberalisation on economic growth in Pakistan, using annual observations over the period 1961-2005. The analysis is based on the bound testing approach of cointegration advanced by Pesaran, *et al.* (2001). The empirical findings suggest that both trade and financial policies play an important role in enhancing growth in Pakistan in the long run. However, the short-run response of real deposit rate and trade policy variable is very low, suggesting further acceleration of the reform process. The feedback coefficient suggests a very slow rate of adjustment towards long-run equilibrium. The estimated short-run dynamics are stable as indicated by CUSUMQ test.

11.   **Abdul Qayyum and Sajawal Khan.** X-efficiency, Scale Economies, Technological Progress, and Competition: The Banking Sector in Pakistan. 733–748.

As banking sector efficiency is considered a precondition for macroeconomic stability, monetary policy execution, and economic growth, this study aims at empirical investigation of x-efficiency, scale economies, and technological progress of commercial banks operating in Pakistan, using balance panel data for 29 banks. We also make efficiency comparisons between the domestic and foreign banks and big banks. Our results indicate that the domestic banks operating in Pakistan are relatively less efficient than their foreign counterparts for the period 2000-05. The scale economies for small banks, especially foreign banks, are higher. Our results suggest the existence of technological progress for all groups of banks for the year 2000 and later. It was the lowest for big banks in 2000, and the highest for foreign banks in 2005. Again, technological progress is lower for domestic banks relative to foreign banks. The results also show that the market share of big five banks is declining over the period, but the average interest spread shows fluctuations. The main conclusions that can be drawn from these results are that mergers are more likely to take place, especially in small banks. If the mergers do take place between small domestic banks and foreign banks, these will reduce cost due to scale economies as well as x-efficiency (because foreign banks are x-efficient relative to small domestic banks). Even if mergers do take place between small and big banks, the cost will decrease without conferring any

monopolistic power on these banks. This will also help in bringing stability to the financial sector, which is an important concern of the State Bank of Pakistan (SBP). So the best policy option for SBP is to encourage mergers, while keeping a check on interest spread, so that the benefits from the reduction in cost due to mergers are passed on to depositors and borrowers.

> *JEL classification:* G14, G18, G21
> *Keywords:* X-efficiency, Scale Economies, Technological Progress, Competition, Spread

12. **Saima Shafique and Rashida Haq.** Governance and Income Inequality. 751–760.

This study is an attempt to analyse the effects of a set of Good Governance instruments on economic welfare. The study considers both the quantity and quality channels through which a Good Governance instrument could affect economic welfare. The quantity channel here refers to growth in the stock of output, while the qualitative channel means to improve income inequality in the economy. The empirical analysis is based on data for four SARRC countries for the period 1996 to 2005. The Government sector plays very important role in this specific sample, but efficiency of the public sector is poor. So the need of time is to increase efficiency of the public sector as it is possible only by increasing efficiency of public institutions, minimising corruption, and crowding out of resources.

It was commonly assumed that if the government achieved the objective of output growth, then it had to sacrifice the welfare aspect by making income distribution worse off, and vice versa; but according to empirical findings of this paper, there is a positive relation between output growth and improved income distribution of the economy. The output growth will increase income-generating activities in the economy, thus reducing the unemployment rate, which is a major problem of developing countries. When the public sector tackles this problem, output growth and income distribution improve. Whenever the government increases its expenditure in a productive and efficient way, it achieves both objectives side by side and increases the welfare of the society.

> *JEL classification:* D60, IC1, O10
> *Keywords:* Good Governance and Welfare, Good Governance and Growth and Good Governance, Inequality

13. **Rashida Haq and Uzma Zia.** Governance and Pro-poor Growth: Evidence from Pakistan. 761–776.

The objective of this study is to explore linkages between governance and pro-poor growth in Pakistan for the period 1996 to 2005. The analysis indicates that governance indicators have low scores and ranked at the lowest percentile as compared to other countries. The dimensions of pro-poor growth which include poverty, inequality, and growth demonstrate that the poor do not benefit proportionately from economic growth. Analysis shows that poverty and inequality have worsened and the share in income and expenditure for the bottom 20 percent has also decreased. The econometric analysis of linkages between governance and pro-poor growth suggests a negative and significant relationship, which leads to reduction in poverty and inequality. It is concluded that greater voice and accountability, political stability, regulatory burden, and rule of law can control the corruption and pro-poor policies, which ultimately reduce poverty and inequality in the long run. Finally, the results on the performance of Pakistan for governance dimensions portray an unfavourable situation. To face the challenge of good governance, Pakistan needs to formulate and effectively implement its governance policies to improve governance dimensions, taking account of higher growth and halving poverty by 2015.

> *JEL Classification:* I30 , I32 , O10
> *Keywords:* Governance Indicators, Pro-poor Growth, Poverty, Inequality

14. **Talat Anwar.** Trends in Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05. 777–793.

The paper emphases that the rate of price inflation matters in determining the changes in poverty level over time. Although revisiting of official poverty line for 2001-02 by the Planning Commission is rationally and empirically valid, the consumer price index (CPI)-adjusted official poverty line for 2004-05 lacks empirical support, invoking questions of the relevance of poverty estimates based on the CPI approach. The use of CPI underestimates the poverty

level in 2004-05, as inflation as measured by CPI is lower than the household survey-based index and sensitive price index. Based on poverty lines from the household survey data using the official methodology, the results indicate that incidence of poverty first increased in Pakistan from 31.1 percent in 1998-99 to 34.4 percent in 2001-02, and then declined to 29.3 percent in 2004-05. The high inflation seems to have eroded the positive effects of rapid economic growth, resulting in higher poverty line and slower poverty reduction. It is, thus, essential to reduce inflation if the government aims to protect the poor. Considering the 1998-99 to 2004-05 period as whole, the results indicate that although the incidence of poverty declined by 1.8 percentage points, the number of poor increased by 2.6 million in Pakistan during the same period. At the province level, rural poverty declined in Sindh, followed by Punjab and the NWFP, whereas it increased in Balochistan between 1998-99 and 2004-05. Similarly, urban poverty declined only in Punjab and Sindh, whereas it remained stagnant in the NWFP and Balochistan during this period. While good governance has been an important pillar of Pakistan's poverty reduction strategy, governance indicators constructed by independent institutions showed a worsening of trends. Trends in corruption also indicate that country's ranking as having highly corrupt public officials and politicians worsened during this period. The evidence of rising extent of corruption is consistent with the rising trends in inequality, since corruption increases inequality through perpetuating unequal distribution of assets. The worsening of governance indicators accompanied by a decline in poverty suggests that reduction in poverty was largely attributable to high economic growth. Had the governance indicators improved, the reduction in poverty would have been much higher. Thus, there is a need to pursue governance reforms more vigorously to improve the state of governance that would enhance the current rate of poverty reduction.

15. **Toseef Azid, Naeem Khaliq, and Muhammad Jamil.** Sectoral Volatility, Development, and Governance: A Case Study of Pakistan. 797–817.

Growth stability is an important objective because development requires sustained increases in income, while volatility is costly for the poor and deters growth. This study views the nature of volatility of different economic sectors using the household data, and tries to measure the extent to which volatility in growth rate is associated with the volatility of the sectors under analysis. This study finds that in a country like Pakistan no long-run relation exists between the volatility of growth rate and the sectoral volatility. However, a relationship exists for the short-run. The study suggests that instability in the political structure does not significantly affect of volatility of growth rate.

16. **Imran Sharif Chaudhry, Shahnawaz Malik, and Asma Imran.** Urban Poverty and Governance: The Case of Multan City. 819–830.

This study attempts to discuss the factors that influence urban poverty, with a special focus on governance. The concept of governance has gained significant attention in international policy-making, and also recently in Pakistan. Generally speaking, governance means the process of decision-making and its implementation. In this study, the concept of good governance is considered in terms of the management of urban infrastructural facilities. The analysis of poverty in Multan city and its alleviation with special reference to good governance, among other factors, is based on a survey data of 200 households. The empirical results show that the incidence of urban poverty falls as a result of good governance. To strengthen the results of bivariate analysis, a multi-variate analysis is also undertaken. The evidence suggests that dependency ratio, participation rate, female participation rate, literate household heads, physical assets, casual and informal sector workers, persons per room, and governance are significant variables that affect the probability of being urban poor. Moreover, the results confirm that there is an inverse relationship between urban poverty and governance. City government should make significant efforts to alleviate urban poverty, not just through raising the income level, but also through good governance in infrastructural facilities and in terms of economic, political, and social opportunities for the urban poor.

17. **Farooq Rasheed and Eatzaz Ahmad.** An Evaluation of the Performance of Government of Pakistan. 831–841.

We used the rationale of Human Development Index to rank six regimes of Pakistan from 1979 to 2004 by designing a new index termed as *Regime Performance Index (RPI)*. Our estimations are performed

after converting all the growth rates of 13 selected socioeconomic indicators into standardised values. Rankings of the six regimes under *RPI* show that Nawaz Sharif's first era was relatively the best performance era in Pakistan to address social issues, followed by the Zia era and Benazir Bhutto's first era. Nawaz Sharif's second era is placed at the bottom of the rankings.

> *JEL classification:* C43, H11
> *Keywords:* Human Development Index (HDI), Regime Performance Index (PPI), Standardised Values, Social Trust

18. Shahnawaz Malik, Mahmood-ul-Hassan, and Shahzad Hussain. Fiscal Decentralisation and Economic Growth in Pakistan. 845–854.

The impact of fiscal decentralisation on economic growth is a widely-debated topic in the development literature. Economists and policy-makers are of the view that the decentralisation of a nation's fiscal structure is an effective strategy to promote economic growth and to accelerate the pace of economic development. This study analyses the impact of fiscal decentralisation on economic growth of Pakistan for the period 1971-2005. We employed econometric time-series technique for the empirical data analysis. The results suggest that fiscal decentralisation has a positive impact on economic growth. It is concluded that at the early stage of development, central government is in a better position to tackle fiscal responsibilities. Moreover, it is also concluded that if the shares of provincial government expenditures and revenues rise continuously, then it can slow down the pace of economic growth.

> *JEL classification:* E62, H77, O41
> *Keywords:* Fiscal Decentralisation, Expenditures, Revenues, Economic Growth

19. Syed Akhter Hussain Shah, Mahmood Khalid, and Tariq Shah. Convergence Model of Governance: A Case Study of the Local Government System of Pakistan. 855–871.

The future of the Devolution Plan in Pakistan is analysed in view of our Convergence model. This model views stability of the local government system drawing on the Devolution Plan, 2001. It is found that with more volatile and non-committed (floating) number of agents in the political market and unwilling agents in the governance system, and through the creation of rival goods out of the total budget, divergence increases. This ultimately leads to an unstable system of governance.

> *JEL classification:* C79, D72, H41, H77
> *Keywords:* Public-agent Model, Political Market, Devolution, Rival Goods, Convergence Model

20. Muhammad Sabir and Zehra Aftab. Province-wise Growth Patterns in Human Capital Accumulation. 873–890.

Despite convincing evidence of disparities in the provincial labour force, no satisfactory measure of human capital stock at the provincial level presently exists for Pakistan. This paper is motivated to fill the gap in policy analysis by estimating the human capital index (HCI) at the provincial level from 1982-83 to 2003-04. The accumulated human capital is estimated using the labour-income-based methodology. Using data from the respective Labour Force Surveys, the index is computed for three sectors of the economy: Agriculture, Manufacturing, and Services. The estimation is divided into three steps: (i) computation of the relative wage rates, a proxy for productivity; (ii) estimation of the proportion of employed labour force in each sector, by province, according to the level of education, and age; (iii) multiplication of productivity with total employed labour force, by education level, and age. The analysis is disaggregated by sector, and by province. The aggregate human capital index almost doubled in the 22 years analysed (1982-2004), growing at an average of 3.3 percent per annum. Breaking down the analysis according to the three time-periods, (i) 1982–1990, (ii) 1991–1999, and (iii) 2000–2004, confirms a slow-down in human capital formation in the 1990s. Province-wise analysis further illustrates that the slow-down in the 1990s was mostly driven by a decline in human capital accumulation in the Sindh province in the time-period 1990-1999. Sindh HCI grew at 4.8 percent per annum in the 1980s but lost this momentum in the 1990s, with growth per annum declining to 1.5 percent. However, from 2000 onwards, Sindh regained its growth momentum, and in turn, the overall national-level HCI recovered its original growth trajectory. Province-level analysis further illustrates that human capital accumulation was most

consistent in Punjab (hovering around 3.2 percent) during the 22-year period considered. The NWFP and Balochistan posted an annual growth of 2.6 percent and 3.4 percent per annum in this time-period. However, their combined share in the national-level HCI is only 13 percent, and therefore their contribution towards the aggregate human capital accumulation remains limited. The sector-wise analysis further demonstrates that during the period 1982-83 to 2003-04, HCI growth was largely driven by human capital development in the manufacturing and services sectors.

JEL classification: J24, R11, R15

Keywords: Human Capital Index, Labour Productivity, Province-wise HCI, Mincer-wage Equation

21. Dawood Mamoon. Which Institutions Are More Relevant Than Others in Inequality Mitigation? 893–912.

The paper estimates the respective contributions of legal, economic, political, and social institutions to inequalities within countries across the world, while using various measures of openness and trade policy as the control group. The results suggest that institutions have a significant effects on inequality. Among legal institutions, the rule of law and control of corruption have a stronger impact on inequality than voice and accountability. Though we find that countries which practice democracy are less prone to unequal outcomes, we also find that autocratic set-ups may not necessarily lead to greater inequalities. Both frameworks may carry redistributive effects, as both are found to be positively associated with the incomes of the poorest and negatively associated with the incomes of the richest. Secondly, whether a country is politically stable is rather a more decisive institutional factor apropos inequality than that a country has an autocratic or a democratic orientation. Economic institutions also seem to play an important role in alleviating inequalities within countries. Whether the government is functioning effectively and has a robust fiscal and monetary policy seems to have a stronger impact on inequality than regulatory quality. Education for all, a proxy for social institutions, has a strong redistributive power. Overall, legal institutions trump any other institutional categories in reducing inequalities in a country. On the other hand, the middle-income group is more likely to benefit from good functioning institutions than any other income group.

JEL classification: O1, N40

Keywords: Redistribution, Inequality, Cross Section Models

22. Muhammad Shahid Akram and Toseef Azid. Economics of Regaining Office: The Case of Pakistan (1947–2005). 913–923.

The theory of political business cycles has attracted a good deal of investigation since mid-1970s. Manipulation of economic policy to reap desired results in the elections may cause a boom in the economy prior to elections, and a recession subsequently. Away from its spotty empirical record, the idea of political business cycles is largely explored for its intuitive plausibility. The idea has long been ignored in Pakistan. The earliest version of political business cycle [Nordhaus (1975)] is tested here by analysing quarterly real money supply and real exchange rate in Pakistan, 1973-Q1 to 2005-Q4. The research could find no traces of a political business cycle in Pakistan. The main reason for the non-existence of a political cycle is deduced from the state of an unstable and immature political system. Further exploration, through other existing and newly developed models of political business cycles, is suggested for a better understanding of the politico-economic situation in Pakistan.

JEL classification: H390

Keywords: Political Business Cycle, Real Money Supply, Real Exchange Rate, Elections, Nordhaus, Public Choice Theory

23. Shabbar Jaffry, Yaseen Ghulam, and Vyoma Shah. Inter-industry Wage Differentials in Pakistan. 925–946.

An analysis of inter-industry wage differentials is essential to assess the effect of corporate culture and centralisation/decentralisation on different industries and labour markets. This paper examines the magnitude of inter-industry wage differentials in Pakistan, using data drawn from the Labour Force Surveys during the period between 1990-91 and 2003-04. The results show a significant variation in relative wages

according to industry status, even after controlling for a range of human capital and job characteristics in the pooled sample as well as in the pseudo panel data analysis. Additional analysis has been undertaken for different regions, area of living, and working sector for one as well as two digit industries. We have also looked at the estimation for each cross-section to view the wage differentials trend during the period of fourteen years, which shows a significant increase in the wage differentials. The dispersion of wages across industries, controlling for observed human capital and job characteristics, is quite high in Pakistan as compared to other countries. The dispersion has increased during the sample period from 0.0598 (6 percent) in 1990-91 to 0.0822 (8.2 percent) in 2003-04.

JEL classification: J31
Keywords: Inter-industry Wage Differentials, Wage Dispersion, Pakistan

24. **Attiya Y. Javed and Robina Iqbal.** Corporate Governance and Firm Performance: Evidence from Karachi Stock Exchange. 947–964.

We investigate whether differences in quality of firm-level corporate governance can explain the firm level performance in a cross-section of companies listed at Karachi Stock Exchange. We analyse the relationship between the firm-level value as measured by Tobin's Q and the total Corporate Governance Index (CGI), and three sub-indices: Board, Shareholdings and Ownership, and Disclosures and Transparency for a sample of 50 firms. The results indicate that corporate governance does matter in Pakistan. However, not all elements of governance are important. The board composition and ownership and shareholdings enhance firm performance, whereas disclosure and transparency has no significant effect on firm performance. We point out that those adequate firm-level governance standards can not replace the solidity of the firm. The low production and bad management practices can not be covered with transparent disclosures and transparency standards.

JEL classification: G12, G34, G38
Keywords: Corporate Governance, Firm Performance, Tobin's Q, Agency Problem, Board Size, Share Holdings, Disclosures, Leverage, Code of Corporate Governance

25. **Omar Azfar.** The New Institutional Economics Approach to Economic Development: A Discussion of Social, Political, Legal, and Economic Institutions. 965–980.

This paper provides an introduction to the core concepts and insights of 'New Institutional Economics' for development professionals. It provides an analysis of the importance of social institutions, political institutions, legal institutions, and private institutions as they are relevant to development, and shows how the alignment of incentives between principals and agents can lead to better outcomes.

JEL classification: K10, O10, O16, O19, O43
Keywords: New Institutional Economics, Social Capital, Democracy, Decentralisation, Commercial Law, Principal Agent Theory, Corruption, Microfinance

26. **Muhammad Zahid Siddique, Javed Akbar Ansari, and Qazi Mohammad Salman.** Governing the Labour Market: The Impossibility of Corporatist Reforms. 981–1000.

The principal propose of labour market regulation is the production and sustenance of capitalist individuality—an individuality committed to the maximisation of utility and profit. In the postwar era, two distinct regulatory regimes have been articulated to achieve this end. During the first phase (roughly from 1945 to the early 1980s) 'corporatism' was institutionalised with an explicit recognition of labour's collective rights in the appropriation of capitalist property. Since the early 1980s, these regulatory regimes have been dismantled in many countries and capitalist individuation of labour is being promoted through the disempowerment of unions and the development of human resource management systems at the enterprise level. Labour's collective participation in capitalist state decision making structures has been delegitimised. This 'post-Fordist' regulatory regime has been criticised by social democrats as it exacerbates income and power inequalities and alienates the worker from capitalist (civil) society. A partial resurrection of corporatist labour market governance structures is being contemplated in several Latin American countries—Venezuela, Bolivia, Brazil, Paraguay, etc. Pakistani

social democrats may also press a future populist government to modify "post-Fordist" labour governance structures (e.g., repeal IRO 2002).

27.   Naved Ahmad. Corrupt Clubs and the Convergence Hypothesis. 1001–1009.

Convergence is a tendency of lagging countries to grow faster than leading countries. Empirical work in a cross-section framework demonstrates little or no support for absolute convergence in per capita GDP. The literature identifies several factors that determine the speed of convergence across heterogeneous group of countries. I argue in this paper that "divergence in corruption" (C-Divergence) as the tendency of corrupt countries to become more corrupt faster than less corrupt nations is a neglected factor that also determines the speed of convergence. Following the same methodology used in the convergence literature, I estimate using TI corruption perceptions index C-σ and C-γ coefficients for both corrupt and less corrupt economies to explore the C-divergence in corruption rankings. The study concludes that corrupt countries are indeed C-converging, forming a "corrupt club", and this helps explain why backward nations remain backward.

28.   Adeel Ghayur. Towards Good Governance: Developing an e-Government. 1011–1025.

e-Government has been hailed as the panacea for many of the conventional government ills, such as rampant corruption in developing countries to costly service deliveries in the developed countries. In this paper a quick introduction to e-government is followed by a new framework for transition of a government into an e-government has been provided. The framework—more specific to the environment of a developing country, like that of Pakistan—establishes a phased approach to seamlessly transform the traditional government into an e-government. The paper also looks at the efforts of different countries towards the establishment of their e-governments, and briefly discusses their approaches in this respect.

29.   Abid Hameed and Hammad Ashraf. Stock Market Volatility and Weak-form Efficiency: Evidence from an Emerging Market. 1029–1040.

An attempt has been made in this paper to model the volatility of stock returns and to test for weak-form efficiency for the Pakistani stock market, using daily closing prices from December 1998 to March 2006. The results point out that returns exhibit persistence and volatility clustering. Weak-form efficiency hypothesis is rejected as it is found that past information helps in predicting future prices. Mean variance hypothesis does not hold for Pakistani stock market as no evidence is found that investors are rewarded for taking increased risk. The impact of SECP reforms efforts, as captured by introduction of circuit breakers, has a dampening effect on return volatility, with a small increase witnessed in returns. Given the very small decline in return volatility, it seems that the policy impact can be characterised as neutral. Lastly, it is found that the 9/11 incident has led to an increase in returns and a decrease in returns volatility, which is in contrast to the widely-held conjecture that the 9/11 incident led to massive inflows of capital which were invested in the stock market, thereby influencing its volatility in a positive manner.

30.   Ahmed M. Khalid and Gulasekaran Rajaguru. Financial Market Integration in Pakistan: Evidence Using Post-1999 Data. 1041–1053.

This paper investigates linkages between the exchange rate, stocks and interest rate markets in Pakistan using the post-1999 data. The reform process, especially in the financial sector, accelerated in the post-1999 period, when the new military government assumed power in October 1999. In particular, fast

privatisation of the banking sector was widely commended in international circles. In addition, a substantial increase in the foreign reserves led to a relatively stable exchange rate. Furthermore, low inflation provided stability in the interest rate market. Although we observed low volatility in all three markets (namely, the exchange rate, stock and interest rate markets), it is interesting to analyse if these markets are integrated, and if so, whether stability in one market will lead to some positive impact on the other markets. This is the main objective of this paper. We use data on exchange rates, stock prices, and interest rates, and use Granger Causality, Variance Decomposition, and Impulse Responses in a VAR model to determine if the three markets are interlinked. The results suggest that the markets have some weak linkages but do not support a long-run causal relationship.

JEL classification: F30, F31, F32, F34, F41

Keywords: Financial Market Linkages, Granger Causality, Variance Decomposition, Impulse Responses

31. M. Idrees Khawaja and Musleh-ud Din. Banking: Interest Spread, Inelastic Deposit Supply, and Mergers. 1055–1070.

Interest spread of Pakistan's banking industry has been on the rise for the last two years. The increase in interest spread discourages savings and investments, on the one hand, and raises concerns on the effectiveness of bank-lending channel of monetary policy, on the other. This study examines the determinants of interest spread in Pakistan using panel data of 29 banks. The results show that inelasticity of deposit supply is a major determinant of interest spread whereas industry concentration has no significant influence on interest spread. One reason for inelasticity of deposits supply to the banks is the absence of alternate options for the savers. The ongoing merger wave in the banking industry will further limit the options for the savers. Given the adverse implications of banking mergers for a competitive environment, we argue that to maintain a reasonably competitive environment, merger proposals may be subjected to review by an antitrust authority with the central bank retaining the veto over merger approval.

JEL classification: G21, G28, G34

32. Jamshed Y. Uppal and Inayat U. Mangla. Market Volatility, Manipulation, and Regulatory Response: A Comparative Study of Bombay and Karachi Stock Markets. 1071–1083.

Excessive stock market volatility is a matter of concern to the capital market regulators since it may reflect possible speculative trading and market manipulation. A potential for manipulation and *irrational exuberance* can generate mistrust in the fairness of markets and increase the cost of financial intermediation, and can also be a drag on the economic development. This study examines the effectiveness of regulatory intervention in India and Pakistan in responding to episodes of excessive market volatility and alleged manipulation and in achieving declared objectives. We study two episodes in India and one in Pakistan, and the market volatility before and after the regulatory intervention. We conduct robust test for variance equality by excluding possible influences of the international stock markets and by correcting for *conditional auto-regressive heteroskedasticity* to capture the impact of the regulatory response. Our empirical analysis indicates that while the Indian regulatory agencies seem to have achieved their objectives in curtailing manipulative and speculative behaviour, there appears to be little impact on such behaviour in the case of Karachi Stock Exchange. Significant differences in the regulatory effectiveness and industry structure may explain the difference in the market behaviour outcomes following regulatory interventions. The response of the Indian regulators in dealing with the market manipulations and speculative behaviour appears to have been much stronger and effective than was the case in Pakistan. Stronger competitive environment in India because of the existence of multiple organised exchanges also seems to facilitate effective enforcement of the public policy.

JEL classification: G15, G18, G28, K22, O16

Keywords: Stock Market Volatility, Manipulation, Speculation, Scams, Corporate Governance, Regulatory Dialectics

33. Shabbar Jaffry, Yaseen Ghulam, and Joe Cox. Impact of Regulatory Reforms on Labour Efficiency in the Indian and Pakistani Commercial Banks. 1085–1102.

In developing countries, the banking sector is often said to have excessive labour force as compared to any that is optimally required. This may be the case in the banking sector of the Indian Subcontinent. India and Pakistan have gone through a process of deregulation and privatisation in the banking sector during the early and the later part of the 1990s. The objective of this policy was to increase overall efficiency generally, and labour efficiency particularly, within the banking sector. The focus of this paper is the estimation of labour efficiency in the banking sector of the Indian Subcontinent. A flexible translog functional form is used where the demand for labour is a function of wages, fixed inputs, and a time trend. The results show that labour efficiency across the Indian Subcontinent banking industry is improving over time. It is also apparent that Pakistani banks are marginally more efficient in the use of labour force as compared to the Indian banks in the post-deregulation period, and that larger banks are less efficient in labour use than their smaller counterparts. This is the first study that estimates labour demand and compares the effect of deregulation on labour efficiency in Indian and Pakistani banks.

JEL classification: G21, G28, E24, J23

34. Tasneem Alam and Muhammad Waheed. Sectoral Effects of Monetary Policy: Evidence from Pakistan. 1103–1115.

The present paper takes a first step in investigating the monetary transmission mechanism in Pakistan at the sectoral level. Using quarterly data spanning from 1973:1 to 2003:4, we examine whether monetary policy shocks have different sectoral effects. Taking note of structural transformation of the economy and the monetary and financial reforms during 1990s, we also assess whether the reform process has notable impact on the monetary transmission mechanism. We find evidence supporting sector-specific variation in the real effects of monetary policy. Our results also suggest significant changes in the transmission of monetary shock to real sector of the economy during post-reform period.

35. Syed Azhar Hussain Shah, Syed Akhter Hussain Shah, and Sajawal Khan. Governance of Money Laundering: An Application of the Principal-agent Model. 1117–1133.

In this model we evaluate the strategy of the principal (international financial regime) by making laws and procedure and effectiveness of the network of money transaction to minimise transactions of money through the mechanism of money laundering. With the application of present value method of cost and returns to agents and clients, a payoff matrix is developed. The present strategy of the principal seems sub-optimal to involve informal agents and clients in anti-money laundering measures. Thus, there is a need to review the strategy for the involvement of informal agents and clients through further incentives.

JEL classification: F3, F33, G21, G38
Keywords: International Financial Institutions, Governance, Externality, Principal-agent Model and Money Laundering

36. Noor P. Khan and Javed Akhtar. Competitiveness and Policy Analysis of Potato Production in Different Agro-ecological Zones of Northern Areas: Implications for Food Security and Poverty Alleviation. 1137–1154.

The study applies Policy Analysis Matrix (PAM) to determine competitiveness and policy effects of potato production in the three agro-ecological zones of Gilgit district. Another major objective is to determine whether Northern Areas of Pakistan qualify for the export of potato or should produce potato as an import substitution strategy to ensure food security and alleviation of poverty. The PAM analysis shows that the Domestic Resource Cost (DRC) values are less than unity (0.27–0.28) for the import substitution regime in all three agro-ecological zones, which shows the region's comparative advantage in producing potato as import substitution; that its values higher than unity (1.02–1.11) for export promotion regime show the region's

comparative disadvantage in producing the potato for export purpose. The Social Benefit Cost (SBC) ratios for import substitution regime are greater than unity (2.79 – 3.00), and its value less than unity (0.93 - 0.99) for export promotion regime also confirms the region's comparative advantage in import substitution and disadvantage in export promotion, respectively. It is also found that the single cropping zone in the research area is more competitive than the marginal double cropping and double cropping zones for import substitution. The values of Nominal Protection Coefficient (NPC) for import substitution regime in all three agro-ecological zones are less than unity (0.54 – 0.59), which means that the farmers are receiving less than the world prices. The NPC values for export promotion are greater than unity (1.61–1.78), which means that the farmers are receiving more than world reference prices. Similarly, the values of Effective Protection Coefficient (EPC), Producer Subsidy Equivalent (PSE), and Subsidy Ratio to Producer (SRP) show that for an import substitution regime, potatoes farmers were taxed, and for an export promotion regime the prices are protected and are a positive incentive to farmers. This implies that the current sets of agricultural and macro-economic policies are not for both import substitution and export promotion. The analysis further reveals that marketing and transportation, fertiliser, land preparation, and land rent are the major items of cost in potato production. The study recommends that we strengthen our competitiveness in potato production by improving potato yield and ensuring world-level prices to potato growers. Finally, the government should launch an awareness programme about improved farm technologies, crop management through strengthening of agriculture extension services, and trade liberalisation process in Northern Areas.

37. **Seeme Mallick, Naghmana Ghani, and Shahnaz Hamid.** The Relationship between Income Distribution and the Cost of Environmental Management in Australia. 1155–1168.

In this paper sustainable income of Australia is estimated by incorporating environmental capital depreciation allowance. The natural resources of Australia are valued as capital asset, and a depreciation allowance for its maintenance is estimated and incorporated into a Keynesian Model of Income Determination for estimating sustainable income. The aim is to analyse the possibilities of achieving both sustainability and full employment in the economy. To explore the linkages between environmental depreciation, income distribution, and employment, Environmental Kuznets Curve, Gini Coefficient, and Lorenz Curve are applied to the analysis. Policy options, based on income distributional impact of environmental capital depreciation allowance, are discussed in detail.

38. **Mohammad Rafiq Khan.** Banning Two-stroke Auto-rickshaws in Lahore: Policy Implications. 1169–1185.

The problem of banning two-stroke auto-rickshaws in Lahore is discussed in different contexts here, such as its impact on the socio-economic status of rickshaw drivers, factory workers engaged in rickshaw manufacture, rickshaw manufacturers, rickshaw users, etc., and the quantification of its benefits and costs, as well as its socio-economic implications. The primary data were collected through questionnaires developed for different categories of stakeholders such as the Transport Department, the Government of the Punjab, Punjab Environment Protection Department, Manufacturers of Two-stroke and Four-stroke auto-rickshaws, Rickshaw and Motorcycle Dealers Association, Rickshaw Drivers, Union, etc. The information collected has been computed and interpreted in the form of descriptive research. The findings suggest that the problem is not completely understood by the stakeholders. There is almost a complete consensus on the need to impose the ban but the strategy followed by the stakeholders, including the Government of the Punjab, was extensively criticised and challenged by the affectees that included rickshaw drivers, two-stroke rickshaw manufacturers, rickshaw dealers, and others. Our primary qualitative assessment is that the banning of two-stroke rickshaws is a complex problem whose nature and implications are not completely understood. To handle the gravity of this problem, no systematic techno-economic study was carried out before the banning so that it might have helped form a better policy to satisfy all parties affected.

39. Samina Khalil and Zeeshan Inam. Is Trade Good for Environment? A Unit Root Cointegration Analysis. 1187–1196.

During the last few decades, trade-led growth is supposed to be a pre-requisite of economic development. Economists argue that expanding trade from domestic market to international market not only increases market share of each country but also raises competition among the nations and improves efficiency of utilising scarce resources. On the other hand, environmental economists are opposed to such argument. They claim that the real costs of spreading trade among the nations are depleting natural resources and deteriorated environmental quality. This paper investigates long-run relationship between environmental quality and trade using co-integration technique as well as an error-correction model (ECM), which is applied to examine short-run dynamics of the system. Data of the period from 1972 to 2002 and is collected from world development indictors (WDI). Our results indicate that a long-run relationship exists between environmental quality and international trade. International trade has deleterious impact on our environment. The policy implication thereof is to enhance the need of protecting environment in Pakistan in order to prevent the negative consequences of deteriorating environmental quality in future.

40. Nadeem Ul Haque, Musleh-ud Din, M. Idrees Khawaja, Wasim Shahid Malik, Faheem Jehangir Khan, Saima Bashir, and Syeda Izzah Waqar. Perception Survey of Civil Servants: A Preliminary Report. 1199–1226.

Little is known about the perceptions of civil servants on various issues in civil service reforms. Against this backdrop, the Pakistan Institute of Development Economics conducted a perception survey of civil servants seeking their views on recruitment, training, performance evaluation, job satisfaction, and relationship with the private sector. This preliminary report highlights the key findings of the survey.

41. Anjum Khurshid. Public Policy, Training, and Civil Service Reform. 1227–1239.

This paper presents an international perspective on civil service reform with respect to good governance and public policy training. Theoretical and conceptual frameworks are employed to understand the particular case of Pakistan's civil service. The experience of civil service reform policies in other countries is presented with the caveat that the unique historical, economic, social, and political environment of Pakistan and its civil service system needs to guide adoption of such policies. A case is made for incorporating formal public policy education in the training of higher civil service to improve professional competence of civil servants as key contributors to the policy-formulation process. Evidence, based on systematic analysis of public policies, can help identify best practices and help develop benchmarking criteria for future policies. A higher civil service that has had a quality public policy education, combined with access to data, evaluation of policies, establishment of policy research programmes, and use of information technologies, can contribute greatly to improving professionalism in the policy-making process and to better governance in the country.

42. Musharraf Rasool Cyan. Main Issues for Setting the Civil Service Reform Agenda in Pakistan. 1241–1254.

Civil service has been at the top of the reform agenda for many years, surprisingly with very little progress. In the past, as well as recently, some actions have been taken which can be passed off as civil service reform. But the expected performance of the civil service, most appropriately gauged by the development indicators or people's satisfaction, has not been in evidence. This paper brings out a set of issues which require attention before a reform agenda is set: namely, how to go about the touted reform, identify issues which can derail it or diminish its impact when undertaken. Without identifying such issues, or in some cases clarifying

such issues, the reform agenda is likely to falter. Charting out a list of main issues, I begin with a discussion of the strait jacket of unified grades and the impact of this constraint on the conception of any reform agenda. How should the reform deal with this aggregation framework is the focus of first part of the discussion. Then attempting to clarify the focus of reform is the point of discussion when I recount some of the known recipes briefly, which include competitive compensation, performance evaluation, efficiency and discipline, among others. What is the civil service? might seem a question which has a simple answer but for is a critical question to clarify the scope of the service's activities. The nature and structural attributes of a civil service are described in the context of decentralisation and service delivery. Design and implementation of reform can follow the big-bang approach as opposed to an incremental methodology, with many combinations of the two extremes in between. Implementation will not take place in isolation from the society, government and politics of the day.

43.   Imran Ali. The Sinews of Governance: Bureaucracy, Narrative, and Power under Colonialism and Independence. 1255–1262.

The paper surveys the literature and writings on economic issues of the Pakistan area, with special reference to Punjab, produced by the state bureaucracy during the period of British colonial rule in this region. The paper then compares the volume and quality of this exegesis with that produced by the public service functionaries in Pakistan since 1947. The paper concludes that there is a significant shortfall in the performance of the latter, operating under supposed conditions of independence and sovereignty, when compared to their colonial counterparts. This discrepancy has serious implications for the quality of public management in Pakistan, raising questions about lack of vision, and even lack of proper information, for any contribution to national development.

Keywords: Economic History, Pakistan, Economic Literature, Bureaucracy

44.   Muhammad Tariq Majeed and Eatzaz Ahmad. Determinants of Exports in Developing Countries. 1265–1276.

This paper analyses the determinants of exports in developing countries using panel data of 75 countries for the period 1970-2004. The analysis shows that the GDP and the GDP growth rates positively affect exports. The effect of FDI on exports is positive but insignificant. Thus the success of FDI-led export growth in a few Asian countries cannot be generalised for all developing countries, because structural problems vary across countries. It is also found that the depreciation of real exchange and industrialisation and the development of communication facilities significantly promote exports.

JEL classification: F10
Keywords: Exports, Growth, Determinants and Developing Countries

45.   Wasim Shahid Malik. Money, Output, and Inflation: Evidence from Pakistan. 1277–1286.

It is generally accepted that the effect of money supply changes is transmitted into output and inflation, though with some lags. If this hypothesis cannot be rejected empirically, then we can say that monetary factors play an important role in determining inflation. To find out whether this has happened in Pakistan is the key objective of this study. We have tested this hypothesis empirically by applying the Near-VAR approach to estimate impulse response functions, and the Granger causality test to find out the direction of causality between reserve money (central bank's operational target) and real GDP gap and reserve money and inflation. Both tests confirm that the above hypothesis cannot be rejected. The second objective is to estimate the central bank's money reaction function. It is found that the monetary authority's degree of leaning against the wind is almost zero.

JEL classification: E4, E52
Keywords: Money, Monetary Policy, Impulse Response Functions, Inflation

46.   Sam Cameron and Khair-uz-Zaman. Export Function Estimates for the Pakistan Carpet Industry. 1287–1297.

This paper explores the behaviour of exports of 'exotic' carpets/rugs from Pakistan over the period from 1970–2003 using a simple-error-correction model. Given that the dominant rival supplier,

Iran, was subjected to constant and varying trade volume rationing activities by the USA, we attempted to take this into account using measures of Iranian trade disadvantage. These results show that the problems faced by Iranian exporters have had a statistically significant positive impact on the Pakistan carpet export supply function. Before inclusion of the Iranian trade effect, there is no evidence of any impact of exchange rate volatility. However, inclusion of this variable leads to a significant positive impact of exchange rate volatility on export, which is not an anomalous result but one which is less commonly found in the literature.

> *Keywords:* Exports, Carpets, Exchange Rates, Volatility, Trade

47. Hilton L. Root and Karen May. Judicial Systems and Authoritarian Transitions. 1301–1321.

A casual link between the judicial system, economic growth, and democracy is a staple of the literature on development policy. Yet the linkage between the judiciary and political liberalisation has been difficult to demonstrate empirically. Legal reforms that are narrowly focused, such as better enforcement of property rights and contract law, enhance trade and investment. Nevertheless, studies are usually unable to substantiate causality between the rule of law, economic growth, and democracy. Our investigation of the political role of the courts during economic transition indicates that the incentives for strengthening the role of courts as a framework for investment and trade, fiscal discipline, and administrative centralisation exist in various political regimes. Autocratic and democratic regimes both require judicial independence for legitimacy but with different effects on political rents, corruption, and aggregate economic activity. The distributional consequences of judicial development exhibit significant variation according to regime type, and there is insufficient evidence to link judicial development with political liberalisation.

> *Keywords:* Political Liberalisation, Property Rights, Rule of Law, Economic Growth and Democracy, Judicial Politics, Administrative Centralisation and Authoritarian Transitions

48. Ahmad Rafay Alam. Land-locked: An Examination of Some of the Inefficiencies Affecting Transactions Involving Immovable Property. 1323–1342.

49. Regina Birner, Sarfraz Khan Qureshi, Kamiljon Akramov, and Bilal Hassan Khan. Voice and Votes—Does Political Decentralisation Work for the Poor and for Women? Empirical Evidence from the 2005 Local Government Elections in Pakistan. 1345–1360.

Voting in local government elections is a major mechanism by which citizens in decentralised systems can demand better public service provision and hold service providers accountable. To understand whether political decentralisation can improve public service provision for the poor and for women, it is important to know to what extent these groups use their vote to exercise voice and demand accountability. The paper develops a conceptual framework that captures the links between voting and public service provision, and analyses data from a voter and candidate survey of the 2005 Local Government Elections in Pakistan. The survey was conducted by the Pattan Development Foundation. The results show that except in the North West Frontier Province (NWFP), income status and residence in rural areas did not discourage people from voting. Voter turnout among illiterate citizens and citizens from rural areas was higher than that among literate and urban citizens. The data also suggest that women, very poor citizens, and rural citizens are more inclined to use their vote to improve their living conditions than the other groups. Expectedly, voter turnout among men was higher than the among women. However, there were considerable administrative obstacles for citizens to vote, such as a lack of identity cards and incomplete election lists. Poor people and women were more affected by these problems than others. Only half of the citizens believed that the electoral outcomes of the 2005 elections accurately reflected people's voting decisions. More than 40 percent of the very poor consider the opinion of the landlord and his political faction in their voting decision, an indication of the elite capture problem. The paper

concludes that improvements in the electoral process and capacity strengthening of elected representatives may help to increase the impact of decentralisation on public service provision for the poor and for women in Pakistan.

50.   Akmal Hussain. Participatory Development Praxis: A Case Study from Pakistan's Punjab. 1361–1372.

A programme, which began with the goal of overcoming poverty in rural Punjab within a decade, is historically unprecedented in this province for both its magnitude and complexity of effort. It was therefore clear from its inception that the PRSP would have to bring together a talented team of managers, each of whom could combine creativity with commitment. The challenge was to create a work culture in which this creativity and commitment could be sustained through an intensive work schedule and collective synergy. Since we were facing a unique set of circumstances in each of the eight regions where we started work, it was necessary to develop a management system that permitted sufficient space to each member of the team for independent thought and action, while at the same time, creating an environment for collective reflection and conceptualisation through which we could deepen the quality of social action. This report attempts to present the principles underlying the initial management style and work procedures of PRSP, while also reporting on the strategic plan we devised through initial field visits, the objectives we specified for the programme and the remarkable results that were achieved in the first four months.