



## Social Exclusion, Entrepreneurship and Public Policy Challenges for Pakistan

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ARTICLE DETAILS	ABSTRACT
<p><b>History</b> Revised format: November 2018 Available Online: December 2018</p>	<p>Social exclusion is manifested in inability of the masses to eradicate its causes resulting in perpetual obstruction in attaining vital facilities of life. A level of human and social progress is directly linked with enabling populous to maintain sustained level of financial depth and development. Societies with sufficient supply of entrepreneurs comfortably sustain a balanced progression of societal goals especially in current global atmosphere. With weak institutional setting and vaguely defined goals, there is a need to change the orientation of public sector in developing countries like Pakistan. The public sector entrepreneurship is essential to create enabling environment for creating entrepreneur friendly policies. It is especially important for Pakistan with CPEC connecting most poor of the regions of the country with the main stream to create policies that can reduce the impact of social exclusion of people of these regions. Urban fringe and labor skills development with efficient institutions having participatory and modern outlook (e-governance) to cater for the needs of entrepreneurs are essentially required for creating a socially vibrant and thriving population in Pakistan.</p>
<p><b>Keywords</b> Entrepreneurship, Human Development, Public Policy</p>	
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### 1. Introduction

Social exclusion occurs when people and/or regions suffer from reinforcing problems that are aggravated in intensity because of inherent inability to eradicate its causes. Domain of social exclusion includes: employment, education and skills, health, facilities for housing, transport, prevention of crimes, social support, and social interactions. It is a general perspective on exclusion/inclusion but it is not an exhaustive list of all the factors. For societies and regions having relatively higher levels of human development, the exclusion from financial, social and leisure services is also important aspect of social cohesion. The general policy initiatives to cater for such issues are: tax and transfers; spending on public services of health, education, housing etc.; unemployment benefits and jobs creation, and; safe city and neighborhood (Blattman et. al., 2017). But the process of policy creation is a sensitive task that demands ingenuity and high degree of commitment. At the same time the regional exclusion

plays a strong role in Pakistan as even after almost seven decades of independence populations in certain regions could not be supplied with basic rights in terms of health, education, political voice, financial liberty and social independence.

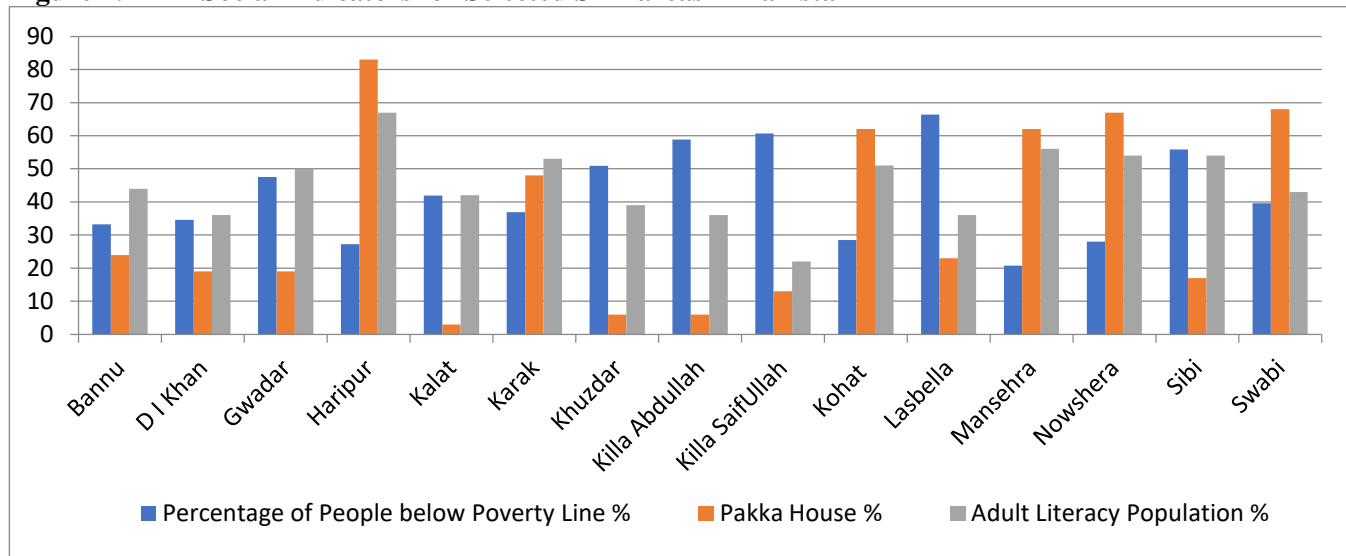
Although Pakistan has low level of vertical inequality but horizontal inequality and hostility is very high due to lingual, ethnic, regional, religious, sectarian, and gender based difference. Insurgency in Balochistan and Federally Administered Tribal Areas (FATA) is mainly because of regional exclusion, and high interference of state actors in day to day life affairs of the common people. Similarly, Karachi is torn in daily violence based on ethnicity and religious sects (Qadeer, 1996). All this is aggravated because of 'unaccountable' political elites and their supporting bureaucracy that has perpetuated the feeling of alienation and exclusion even in working classes having a good life support businesses, jobs and standard of living (Karagiannaki, 2017). The perpetual control of a small group of landowners, businessmen and military leaders seems to always serve the interest of few instead of all in public policy making (Kennedy, 1984). This is indicated in the vaguely defined policy objectives, prolonged time of policy formulation, weak accountability measures, and complex mechanism of implementation and feedback. The political voice of landless, minorities, women, unemployed, and small traders does not seem to have value. Most of the rural population (more than half of the household) is either have small or no land ownership whatsoever; therefore, their dependence on landowners is perpetual. Now with development of urban fringes in Punjab, the same population is employed in miserable conditions in small and large production units. Higher is the poverty, the higher is the horizontal division in society. Therefore, the dependence of downtrodden does not enable them to create horizontal networks to claim rights especially when it comes to cast votes (Leimgruber, 1994). The population in this segment of society is large that the middle class trying to organize in the urban areas is outnumbered and political elites easily make their way back to power corridors. It can be readily expected as Pakistan is ranked 146<sup>th</sup> according to Human Development Index, and 115<sup>th</sup> on the UN Gender Inequality index in the world.

Since 1950s, Planning Commission of Pakistan (PC) created five-year development plans till 1998. Due to political instability, ninth plan could not be launched in 1998, but later a three year poverty reduction strategy was announced for 2001-04. Along with these five year development plans, each ministry launched its own plans specific to its goals, but unfortunately, nothing concrete has been achieved due to coordination failure among different organs of the state. The politics of having a policy for each ministry for political face saving always lead to setting unclear over ambitious policy goals that were never achieved at federal as well as provincial levels of governments (Abbasi, 2011). The issue of governance and mass corruption at political and bureaucratic levels has never been resolved due to weak judicial system. The National Accountability Bureau (NAB) has yet to create an environment where corrupt will fear involvement in any wrong doing. Scholars like Spillance, Reiser and Reimer (2002) allocate a strong role of cognition as policy effect has to emerge from the grass root level. Therefore, involvement of the local community leaders and information about cost and taxes are necessary for inclusion, trust and interest of the masses in political activism of public policy making. Although the political participation seems to have improved over the years in Pakistan, but absence of local governments raises a lot of questions about the intention of the political elites when it comes to the issue of power sharing.

**Table 1: Turnover in Election 2013**

Area	Gain Over 25 Years - Average		
	Turn out in 2013	25 Year Average	Gain over 25 year average
All Pakistan	53%	41%	12%
Punjab	57%	45%	12%
Sindh	53%	39%	14%
KPK	42%	32%	10%
Balochistan	36%	28%	8%

With all these local challenges, the initiation of China Pakistan Economic Corridor (CPEC) has opened new opportunities as well as challenges for Pakistan. On one end CPEC is connecting most neglected regions of Pakistan and on the other new business challenges have emerged that need genuine efforts of policy makers to reap the full benefits of this opportunity. Similarly, the creation of Special Economic Zones (SEZs) in mostly remote areas with low level of urban and human development is also a challenge in its own (i.e. Bannu, D I Khan, Gwadar, Haripur, Kalat, Karak, Khuzdar, KillaSaifUllah, Kohat, Lasbella, Mansehra, Nowshera, Sibi, and Swabi).

**Figure 1: Social Indicators for Selected SEZ areas in Pakistan**

## 2. Public Policy in Pakistan

It is necessary to understand the concept of Federalism and how Pakistan has tried to embrace it to create a society and a national state. Federalism creates a political organization where all the component units are represented despite pluralism and diversity in the society. The institutional arrangement offers autonomy to the participating units while at the same time cooperates with other units under the umbrella of federation ensuring political and social participation (Sommers, et. al., 1999). The participating units coordinate to attain joint goals of the federation by creating environment where differences and conflicts can be ironed out for collective socio-economic progress (Albareda, et. al., 2007). In Islamic history, Prophet Muhammad (peace be upon him) created the system of state with inward harmony between different segments of Muslims (i.e. Ansaar, Muhajirin, and Ajmi) and outward with followers of other religions (i.e. Jews and Christians). Without any discrimination and prejudice, property rights were enforced along with right to have a livelihood. The religious autonomy and protection of places of worship by the state created a unique mechanism of governance that was inclusive, stable and yet dynamic. Today there are 28 countries in the world having federal constitution managing over 40% of the population with diverse social and ethnic mix. Some of these countries are: Argentina, Australia, Austria, Brazil, Canada, Ethiopia, Germany, India, Iraq, Pakistan, Spain, South Africa, United States of American and Venezuela (Abbasi, 2011).

After its inception Pakistan took nine years to formally craft a constitution in 1954 which in itself was not as comprehensive as was expected to uphold and further the philosophical foundations of the new state. Later in it was replaced by the governance mechanism drafted in 1962 constitution that was authoritarian in nature. Although the new constitution was able to bring economic growth to the society but it could not maintain order in political and social spheres which resulted in seceding of province of Bengal (East Pakistan) from the federation. It was then replaced by constitution of 1973 that is based on federal parliamentary system with provincial autonomy and independence of state institutions especially the judiciary (Mushtaq, 2009).

The empirical literature assessing impact of political factors (i.e. democracy) on growth is not very explicit about the explanations based on numerous factors. For 'compatibility school' democracy ensures economic freedom and market mechanism enables the agents to make optimal decisions about resources utilization, allocation, investments and rewards generation. But on the other hand the 'conflict school' argues that the democracy empowers certain groups to create political solutions for their specific benefits (Human Development Report on Nepal, UNDP, 2001). On one hand, the demand of middle and poor classes are for more redistributive policies due to need for immediate consumption, while on the other hand, the rent seeking behavior of politicians distort the market mechanism by creating monopolies. If one puts pressure for higher taxes and wages causing reduction in private profits and rewards, the other deprives the consumer of its surplus. Having said that, there is no denying that stronger the democracy, the better will be social protection and development networks for human development in the long run

(Luthans and Ibrayeva 2006). Therefore, democracy and governance has positive impact on economic well being by improving life expectance, education and skills of the masses. The empirical literature suggests that higher the political empowerment the better is the political outcomes for societal welfare. In case of Pakistan, over the years the political empowerment has significantly improved life expectancy in Pakistan, but the related social indicators have not grown accordingly.

### **3. Public Policy, Regional Growth and Entrepreneurial Behavior**

The public policy to support entrepreneurial activities is generally stretched between two extremes. Either the policy generates high opportunity cost by supporting a large number of entrepreneurial startups in a region, or on the other hand, lowers opportunity cost with minimal support to new entrants. The former leads to a competitive environment with high degree of product innovation and differentiation, whereas, in the later, entrepreneurial activity will not be driven by ambition and determination. In any case, it is imperative for entrepreneurs to have first hand information about expected product life cycle, degree of competition, internal management needs, and research and development to minimize difference between anticipated and actual growth of the firm (Kreuger, 2000, Dutta and Thornhill, 2008).

The failure of former socialist countries to attain state-controlled economic growth strategy opened the doors for limiting the role of the state and gradually opening the markets for private sector initiatives. The challenge so faced was to create state institutions that can create environment for productivity growth by transferring property rights to the private sector and enforcement of contracts therein. The difference arising in growth rates of these countries raised the question about the ability of political institutions to create supportive economic institutions that can formulate rules and plans for sustainable growth and development (Kahan et.al. 2017). The cluster analysis of discrete components of state responsible for bringing about economic change reveals that these are highly correlated in developed industrialized countries but loosely and inefficiently connected in developing countries. This reveals the inherent inability of political institutions to foster the impulse to create economic efficiency through institutional reforms that establish dominance of institutions over reforms. But both political and economic institutions are endogenous and represent the society and aspirations of the people. The difference in per capita income of different countries is attributed to strength of its political institutions, geography and trade openness to withstand international competition (Rodrik et al., 2002).

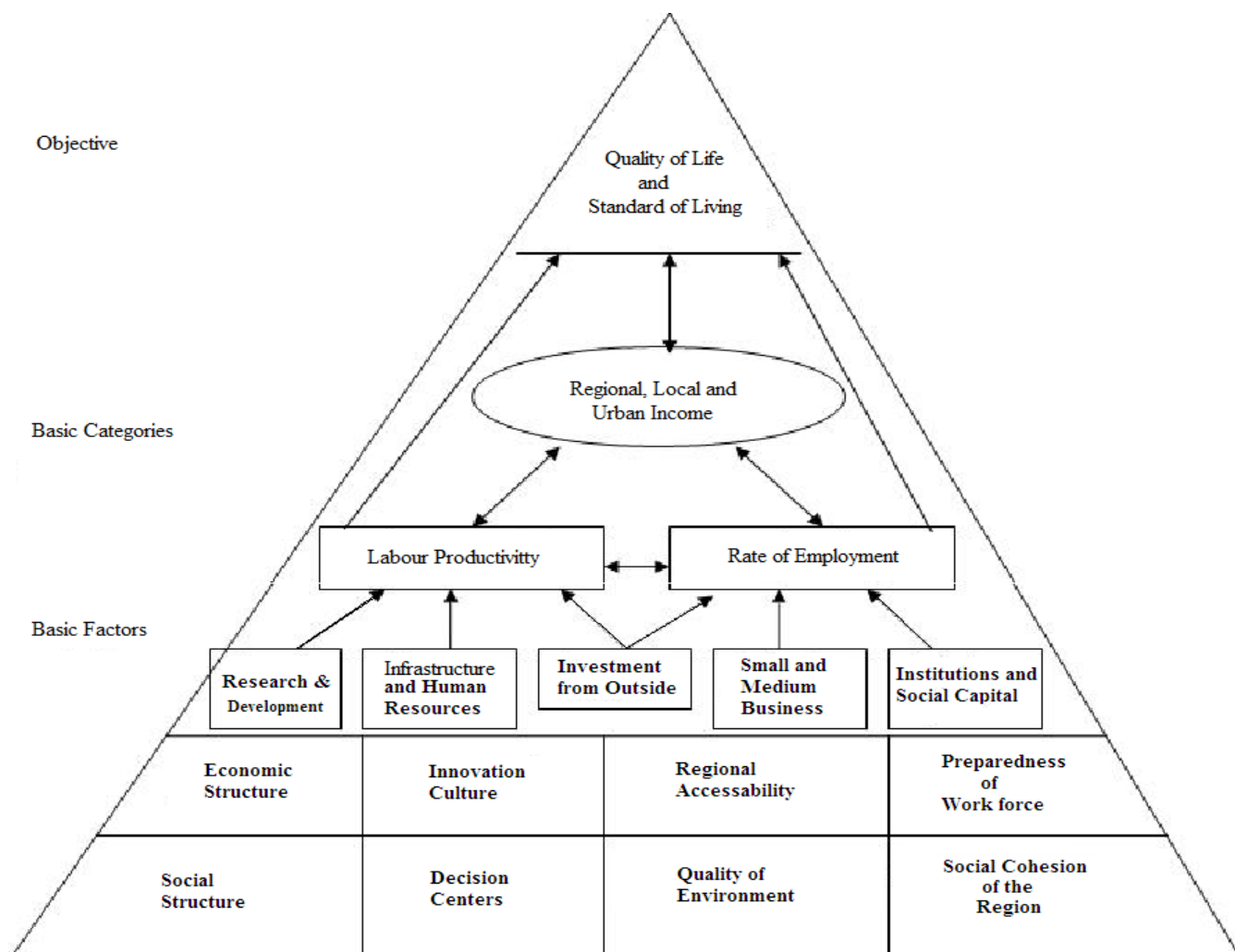
Conventional institutions – political or economic – are different from institutions in transition in terms of their dynamism to search for the optimal path for overcoming historical deficiencies for developing compatibility with economics and political realities (Brodwin, 2001). China successfully brought about this transformation with continuity in political policies of controlled market oriented reforms since the time of Deng. Achievement of market liberalization and with limited private property rights was not a straight forward task to accomplish. China followed a ‘dual track’ approach where creation of township and village enterprises (TVEs) gave the decentralized-centralized ownership to locality that charges pre-fixed planned prices for the community, and excess produce was sold to the state at higher market prices. This approach kept the reforms intact without creating conflicts while the market forces also came into being for economic implications. China has seen the expansion in agriculture and steel production manifold over the past few decades through this approach functioning at local level. TVE also generated revenues at local levels even in the absence of a vibrant tax system. Larger portion of this revenue was left with TVEs to deliver public goods that also generated revenue for them. It replaced the complicated fiscal system that was governed and managed by the central government.

A geographic region sustains its competitiveness by pioneer new combinations of available factor inputs and replacing old obsolete economic structure with the new competitive ones (Boschma, 2004). This inherent ability of a region to foster entrepreneurship describes the differences that emerge over time in economics growth (Audretsch and Keilbach, 2004) as indicted in Figure 1. Essential characteristics of public services entrepreneurs are the same as the private-sector entrepreneur as they are also innovators willingly challenge the risk associated with uncertainty. But the main difference between them is regarding institutional environment that has impact on motivation for desire to create and achieve. Public sector entrepreneurs have to thrive within legal constitutional environment laden with political constraints. The regulatory and procedural environment also puts restriction on access to resources and ability to act freely to achieve goals (Wong et al. 2008).

The public services entrepreneurship has internal and external manifestation. The internal or direct public-sector entrepreneurship is concerned with increasing public revenues, innovate to deliver public service with minimum opportunity cost, and enhance output of public service through novelty and innovation. On the other hand, external

or indirect public-sector entrepreneurship is to provide consultancy to promote private sector action for provision of services envisioned by the policy makers.

**Figure 2: The Pyramidal Model of Regional Competitiveness (Lengyel, 2012)**



E-Governance has been initiated by the government of Pakistan but it is still in its transition phase. The table below provides a logical sequence of depth and development of e-governance where Pakistan seems to be in the initial phase where government information is published on the web but so far it has not increased its quantity and quality that citizens may value for the sake of impartial performance assessment. The interactive features for users in most of the websites of government departments are unproductive.

**Table 2: Basic Structure of e-Governance**

Phase	Description
Phase 1: Presence	Information dissemination, usually government-to-citizen (G2C) e.g. publishing policy or tender documents, regulations, promoting transparent government. Effective content management is essential from Phase 1 through all phases.
Phase 2: Interaction	Moves from publishing to interaction with citizens and businesses, enabling communication and feedback and processing of forms. Uses electronic data interchange (EDI) and e-mail capability.
Phase 3: Transactions	Offers services and financial transactions capabilities, such as license renewals, payments of fines etc. Features include electronic filing, digital signature, information security etc. Requires interoperable technologies, typically internet based.

Phase 4: Integration	Services are integrated across departments and levels of government for multi-channel, 'one-stop' service delivery, enabling greater responsiveness from all parties. Requires the integration of back-office systems.
Phase 5: Political Participation	Promotion of channels for citizen participation, for example, voting online, public forums and opinion surveys.

Source: Compendium to the Measurement Framework'. Brussels: e-Government Economics Project, European Commission.

#### 4. Recommendations and Suggestions

The study proposes the following general policy recommendations:

- Create the opportunities for regional growth by empowering public-sector entrepreneurial and encourage them to expand their knowledge networks to private sector. Create the possibilities by allocating resources for promoting culture of innovation and creativity in entrepreneurial incubators with the help of Higher Education Commission (HEC) and universities. Create the ability by providing the authority to act on part of public as well as private sector entrepreneurs.
- Educate the public regarding benefits linked with innovations and newness, and enable information dissemination to create conducive environment to accept risks in the face of uncertainty
- Enact mechanism to 'Listen to the Entrepreneur', and map the Entrepreneurial Eco-system as per the needs of the region (community, resources, labor skills, communication etc.)
- Prepare for 'crises' and create social insurance environment for the businesses and workers. Also prepare skills based work force to cater for future needs of businesses and entrepreneurship
- Support fast-growing firms and their needs to access the resources and clients.
- Enact framework for Urban-Fringe Development by ensuring provision of services like: water, sewer, housing, roads & transit, city education, health, parks, protection of wildlife and habitats, fire and other services.

#### 5. Conclusion

Wide spread social exclusion in developing countries like Pakistan puts a continuous pressure on governments to choose between sustaining the lives of most of populous and infrastructure development for economic growth. At the same time the weak institutions and poor governance also poses a challenge that retards returns to private investment as well as human capital formation. At the same time CPEC is connecting Pakistani markets to actors that are more efficient and competitive that exposes the abilities of institutions to create enabling environment for withstanding and sustaining to this situation. System revamp is a long process but public sector entrepreneurship is an immediate response through which existing potential can be harnessed along with future human capital formation. E-governance can improve communication and response to have efficient social outcomes of policy initiatives. At the same time entrepreneurial culture needs to be embedded in every tier of educational system to culminate the breed of future business developers and employer of resources for sustainable economic development and growth.

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