

Indicators Affecting National Governance in Pakistan

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Abstract

The governance system of any country is required to be stable. This study is the initial attempt to find the indicators of governance in Pakistan. The data has been collected from World Bank from 2002-2016. The correlation test and Structural Equation Modeling are applied to the data. The governance is the construct variable in SEM. The results show that Voice and Accountability, Political Stability and Violence & Terrorism, Government Effectiveness, GDP per Capita Growth, GNI growth. Gender diversity and Human Development are the factors of governance in Pakistan.

Keywords: Governance, SEM. Correlation

Introduction

After the episodes of wars and cold war, the world demands for advancement in accountability and transparency in political reforms (Knack, 2001). During this vein, the unbearable corruptions unveil the flaw of social and political inappropriate and ineffective systems (Rontos, Salvati, Sioussiouras, & Vavouras, 2013). The governance of the world has faced to and fro phases after the failure of long episodes of reforms. Especially the borrowing countries did not realize the importance of governance issues (Salvati, Vavouras, & Rontos, 2013). The world witnessed the development problems of Africa and the huge corruption during international aid distribution led to governance crises (Killander, 2008).

Governance is basically the other name of exercising political power to control the internal and external affairs of the nation (Kaufmann, 2007). The system of governance requires political reforms to tackle the corruption by applying the accountability and sound frameworks of improvements (Ronto, Syrmali, & Vavouras, 2015).

The role of governance is the integral part of research because the researchers look for deeper determinants of governance for an economy. Because governance assures accountability and accountability assures the corruption free culture (Acemoglu, Johnson, Robinson, & Yared, 2005). Corruption free culture is the cause of economic and financial growth of any economy. The economic growth of any country depends upon the innovation and capital accumulation and other factors (Rosenberg, 2004). The innovation will be introduced once the researchers and quality producers are motivated and protected.

The issue of governance has been extensively discussed by researchers in the literature. The researchers always put emphasis on the importance of governance, the policy makers are always addressed by economists and researcher about the importance of governance for any country. Governance is associated with different factors including economic, social and political factors. It is highly influenced by high growth rates, high per capita income and high human development standards. Due to its multidimensional nature, the researchers do not have clear consensus on the issue of governance; neither has agreed on a general definition of governance (Kjaer, 2011).

Researchers follow their own definitions depending upon the framework of their own focus apart from the possible actual definition based on economic aspect of governance. Most of the researchers follow the definition given by the World Bank (Rontoet al., 2015). The World Bank defined the governance as "governance is defined as the manner in which power is exercised in the

management of a country's economic and social resources for development. Good governance is synonymous with sound development management” (World Bank, 2018). Another definition of governance is “Governance consists of the traditions and institutions by which authority in a country is exercised, this includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them” (World Bank Group, 2018).

Hypotheses related to factors affecting governance in Pakistan

The hypotheses of the study are based on the research questions.

H_{1A}: The GDP per capita has positive impact on the governance

H_{2A}: The GNI per capita has positive impact on the governance

H_{3A}: The gender diversity has positive impact on the governance

H_{4A}: The HDI has positive impact on the governance

Indicators of governance

While defining the governance the World Bank has primarily focused on the reforms of public and private sectors in the country. The good governance is the basis of equitable development. The equitable governance depends on the sound economic and political policies and reforms. Many researchers argue that good governance is based on public sector reforms. The World Bank signifies three dimensions:

- i. The political regime.
- ii. The process of management reforms in which the policy makers of a country develop reforms by using social and economic resources of the country.
- iii. The capacity of the policy makers to design and implement the policies for controlling corruptions.

The definition of governance covers the following broad points:

- a. The governance is the corruption free process by which the governments are elected, properly monitored and held accountable for any corruption.
- b. The process by which the government can develop effective policies for the betterment of the country.
- c. The governance is necessary so that respect of every citizen is secured and every citizen may have social and economic freedom.

The governance indicators are based on six key aspects. These six dimensions of governance are discussed in detail with their ability to measure as following:

1. Voice and Accountability (VA)
2. Political Stability and Absence of Violence/Terrorism (PSAVT)
3. Government Effectiveness (GE)
4. Regulatory Quality (RQ)
5. Rule of Law (ROL)
6. Control of Corruption (COC)

Governance theory and literature review

Governance and government are two different concepts. Governance is old concept and whereas the government is a variable which develop the set of policies and rules to implement governance system in the country. Governance is a basically an institutional capacity of the system de-

veloped by the government which ensures the accountability, effectiveness, transparency and impartiality.

The governance outcomes are measured by using its types (Iqbal & Shah, 2008). The Responsive governance is the one in which the system of governance ensures the public services according to citizen requirements. This style of governance is committed to provide the safety of life and the properties of general public. The freedom of expression can be practicable in responsive governance system. Over all the responsive governance is committed to improve the quality standards of life in the system (Iqbal & Shah, 2008).

The Fair governance fulfills the expectations of the citizens. This style of governance is also committed to add value to the citizen life standards. This style ensures the equality by providing the fair access of public services to poor peoples and minorities. The biggest problem in any country is the discriminations in enforcement of law and this fair governance style ensures the non-discriminatory enforcement (Iqbal & Shah, 2008).

Another style of governance is Responsible governance. This governance style is transparent and open. It works better with less cost. It ensures the integrity competitiveness and focus on outcomes. Finally the Accountable governance provides the access to justice and provides the effective legislation to the people (Iqbal & Shah, 2008).

The topic of governance has been the main issue during last two decades (Al-Marhubi, 2004). The researchers have been finding the determinants of governance and its indicators. Similarly the debate on the impact of governance on economic growth and other economic indicators has been a hot issue in the field of research. Voice and Accountability which is one of the indicators of governance is found to have significant impact on economic growth (Kaufmann, 2007). The literature finds the positive impact of Voice and Accountability on economic growth and poverty on the other hand the negative association has also been studied and the insignificant impact is also empirically argued.

The living standards in Ukraine were found to decline in 1990s and that happens because of destruction in the governance system (Kaufmann, Kraay, & Zoido-Lobaton, Governance matters, 2000). The rule of law was not found to be properly implemented similarly the accountability system was not implemented and controlled properly. The political instability had provided opportunity for corruption. Countries like Russia and Ukraine also witnessed governance challenges despite of being big emerging economies in the world (Kaufmann et al., 2000). Pakistan is at the bottom of the list of emerging economies and it has been facing the effects of poor governance since it has come into being.

Underpinning theories of governance

There are two theories which provide theoretical base for finding the determinants of governance in Pakistan. One is called rational choice institutionalism (RCI) and the other one is called sociological institutionalism (SI). The RCI argues that the formal economical rationales determine the governance system in a country. The political system is solely responsible designing the governance system in the country. In this system the citizens face the governance system designed by the public institutions. In RCI theory it is assumed that to develop a governance system with the informal system of public servants and the citizens is highly costly and will take much time. So the public personals are assumed to develop a set of governance system and implement it to the citizen. This type of governance system is an instrument which is just applied to the citizen.

Pakistan has been suffering from this kind of situation because the governance system is designed by the agents. The ministers on national assembly and they do not ensure equity and justice. This poor governance system will make rich richer and poor poorer. This poor governance will enhance the opportunities of corruption, less accountability and instable political system in the coun-

try. The RCI is further divided into two theories. The first one is Public choice theory and second one is principal-agent theory.

Public choice theory

From Pakistan perspective the public choice theory says that the governance system is designed by the ministers of national assembly in Pakistan. "Its fundamental assumptions are that actors' interests diverge and that dominant actors design policies and governing institutions to favor their own interests." (Stephen, 2013) The ministers know that their activities are not monitored and controlled properly then they are more concern to develop a system of governance which is light for them and tight for the general public. In Pakistan the situation is similar to the public choice theory. A common man cannot carry a gun on the roads and similarly a common man cannot do corruption of single rupee in the country. But on the other hand the ministers do corruptions and break every rule of law in the country. In Pakistan the policy makers are not controlled properly and make the policy on their own which is not in the favor of the citizens.

Principal agent theory

The RCI also develop the principal and agent relationship in the country. The government personals are the agents of the principal the general public. The agents are the representatives of citizens on the parliament and are responsible to develop a system of governance which fulfills the requirements of citizens. On the other hand if this works on other way then the whole system will suffer a bad governance system. The conflict of interest will lead to bad governance system. If the agents are not properly controlled then they will not be developing a governance system which provides equity and justice. There will a possibility of preferences of enforcement of law. The law will be applied differently for poor people and minorities and for rich people.

On the other hand SI promotes the cultural theory. This approach says that the policy makers also take cares for the cultures and involve the individuals in making policies in the country. The cultural preferences are taken in to account and the public ministers also involve general public in making governance in the country. This approach is time consuming but brings the public and the government closer.

The literature has empirically find the strength of better governance system and the empirically findings also support this argument. The countries with strong governance system have been facing better economic growth and development. The effective implementation of Rule of Law in the country has been empirically found to have positive impact on per capita income (Kaufmann et al., 2000). The Kaufmann et al. (2000) empirically finds the results of above arguments and provided a graph based on per capita income and infant mortality rate in the world. They studied that countries like USA, Canada, Singapore and Netherlands are found to have comparatively higher per capita income and this has been positively associated to the Rule of Law. Whereas Bangladesh, Indonesia, Colombia and Ghana have been shown as witnessing lowest per capita income and that was also found to have associated to Rule of Law.

Kaufmann et al. (2000) also empirically shown the impact of Voice and accountability on infant mortality. They found that Norway, Greece and Etonia has witnessed lowest infant mortality and that was postively associated to Voice and accountability. That shows that Voice and accountability has positive impact on living standards. On the other hand Afghanistan, Kenya and Iraq have sitnessed highest infant mortality and that had been linked to poor Voice and accountability system in those countires.

This is a big question that if the effective governance system is associated to better growth and development then how a country can develop a better governance system whereas the other countries are not able to implement an effective governance system. The problem in the literature

related to the framework of determinants of governance is the debatable issue. Particularly the study based in Pakistan related to governance issue has not been discussed as much as the other countries are addressed in the literature. This study is the novel attempt in Pakistan.

Methodology

The data has been collected from World Bank Data Bank from 2002 to 2016. The correlation test is applied to check the association between all the variables and then the Structural Equation Modeling SEM is applied to find the indicators of governance. The Stata 12 is used as statistical software. The framework of this study is based on general theories and scientific articles.

Table 1. List of factors affecting governance

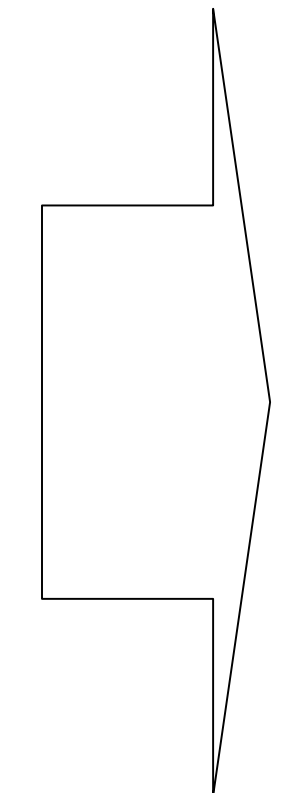
Variables		
VA: Voice and Accountability		
PSAVT: Political Stability and Absence of Violence/Terrorism		
GE: Government Effectiveness		
RQ:Regulatory Quality		
ROL: Role of Law		
COC : Control of Corruption		
GDPPC_GROWTH: Gross domestic product per capita growth		
GNPPP_GROWTH:Gross National Income growth		
GDIV:Gender Diversity HDI: Human Development Index		
Voice and Accountability (Rontoet al., 2015)		G O V E R N A N C E I N P A K I S T A N
Political Stability and Absence of Violence/Terrorism (Rontoet al., 2015)		
Government Effectiveness (Rontoet al., 2015)		
Regulatory Quality (Rontoet al., 2015)		
Rule of Law (Rontoet al., 2015)		
Control of Corruption (Rontoet al., 2015)		
Human Development Index (Ronto et al., 2015)		
Gender Diversity (Garcia-Sanchez, Cuadrado-Ballesteros, & Frias-Aceituno, 2013)		
Economic growth per capita (Garcia-Sanchez et al., 2013)		
Gross national income per capita (Ronto et al., 2015)		

Figure 1. Factor affecting governance in Pakistan

Results

Table 2. Summary statistics

Variables	Observation	Mean	Standard deviation	Minimum value	Maximum value
VA	15	-0.8893	0.1522	-1.17	-0.69
PSAVT	15	-2.2873	0.4476	-2.81	-1.55
GE	15	-0.622	0.1703	-0.82	-0.38
RQ	15	-0.6553	0.1035	-0.91	-0.48
ROL	15	-0.8406	0.0651	-0.97	-0.74
COC	15	-0.94	0.1209	-1.09	-.76
GDPPC_GROWTH	15	2.2459	1.8041	-0.485	5.478
GNIPPP_GROWTH	15	0.0691	0.0213	0.04	0.11
GDIV	15	13.268	1.7220	11.08	15.56
HDI	15	0.5274	0.0147	0.504	0.55

Table 2 shows that there are 15 observations. The dataset covers the period of 15 years starting from 2002 to 2016. The mean value of VA is -0.8893 and the standard deviation is 0.1522 which shows small standard deviation. The minimum value of this indicator is -1.17 and the maximum value of this indicator is -0.69 which shows that overall the situation of VA is poor in Pakistan. The average value of PSAVT is -2.2873 with standard deviation value of 0.4476 with the minimum value of -2.81 and the maximum value of -1.55.

Table 3 Correlation table

	VA	PSAVT	GE	RQ	ROL	COC	GDPP C_ GROW TH	GNIPP P_ GROW TH	GDIV	HDI
VA	1.00									
PSAVT	-0.83	1.00								
GE	-0.73	0.88	1.00							
RQ	0.47	-0.47	-0.11	1.00						
ROL	0.05	0.14	0.27	-0.11	1.00					
COC	0.02	0.23	0.41	0.27	0.25	1.00				
GDPPC_GROWTH	-0.29	0.61	0.62	-0.21	-0.08	0.18	1.00			
GNIPPP_GROWTH	-0.56	0.79	0.79	-0.22	-0.02	0.26	0.89	1.00		
GDIV	-0.54	0.87	0.86	-0.30	0.25	0.46	0.65	0.76	1.00	
HDI	0.78	-0.69	-0.75	-0.00	-0.008	-0.01	-0.24	-0.57	-0.45	1.00

Correlation results

Table 3 shows the correlation between the variables. The VA has negative correlation with PSAVT, GE, GDPPC_GROWTH, GNIPPP_GROWTH and GDIV. On the other hand VA has positive correlation with RQ, ROL, COC and HDI. VA has strong negative correlation with PSAVT and GE which is -0.83 and -0.73 respectively. On the other hand VA has strong positive correlation with

HDI 0.78. On the other hand the VA has very weak correlation with rol, COC and gdppc growth. Here it can be argued that if the situation of VA in Pakistan will get improved then the human development of the country will be improved. On the other hand the freedom of voice and accountability will create more political instability and government effectiveness in the country.

Table 3 shows that PSAVT has strong positive correlation with GE, GDPPC_GROWTH, GNIPPP_GROWTH and GDIV in the country. On the other hand it has strong negative correlation with HDI. So here it can be argued that in Pakistan if the situation of political stability improves then the GDPPC_GROWTH will also improve. The Table 3 also provides sound evidence that if Pakistan improves its political condition then the gross national income growth will also improve. Here it can be argued that PSAVT is very important for Pakistan. If the political stability will get improve then this will improve many indicators of development in Pakistan.

The GE also has positive correlation with GDPPC_GROWTH and GNIPPP_GROWTH it also has very strong positive correlation with GDIV. The gender diversity means that the proportion of women on the every sector. The developed economies appreciate women to participate in every field of life. The female workers are proved to have positive impact on the performance of every business. In fact in Pakistan the female workers are not appreciated in the professional field.

Structural equation model

Structural equation model (SEM) is used to empirically find the unobservable constructs. The latent variable is the one which is measured by one or more observed variables. I use SEM because I need to find out the governance which is used as latent variable in my study.

Table 4. Factors loadings

Factors	Loadings
VA	-0.7874
PSAVT	0.9700
GE	0.9403
GDPPC GROWTH	0.7236
GNIPPP GROWTH	0.8982
GDIV	0.8903
HDI	-0.7118

The factor loading analysis is done in Stata 12 and only those factors are retained which have loadings above 0.7. The VA and HDI show negative direction in factor loading analysis. But the loadings of VA and HDI are more than 0.7 therefore it can be argued that these factors are confirm for the latent variable named as “governance” but these factors have opposite direction. VA and HDI are confirmed factors of the governance but have opposite directions. RQ, ROL and COC are eliminated because these variables have loading below than 0.7 and are not assumed to be the confirmed factors of the governance.

I can say that Regulatory quality, Rule of Law and the control of corruptions are not the confirmed factors of governance the latent variable in Pakistan. I can say that RQ is not important for the governance. The regulatory quality is not important factor for governance in Pakistan but Voice and accountability, Political stability and the government effectiveness are the confirmed factors for the governance.

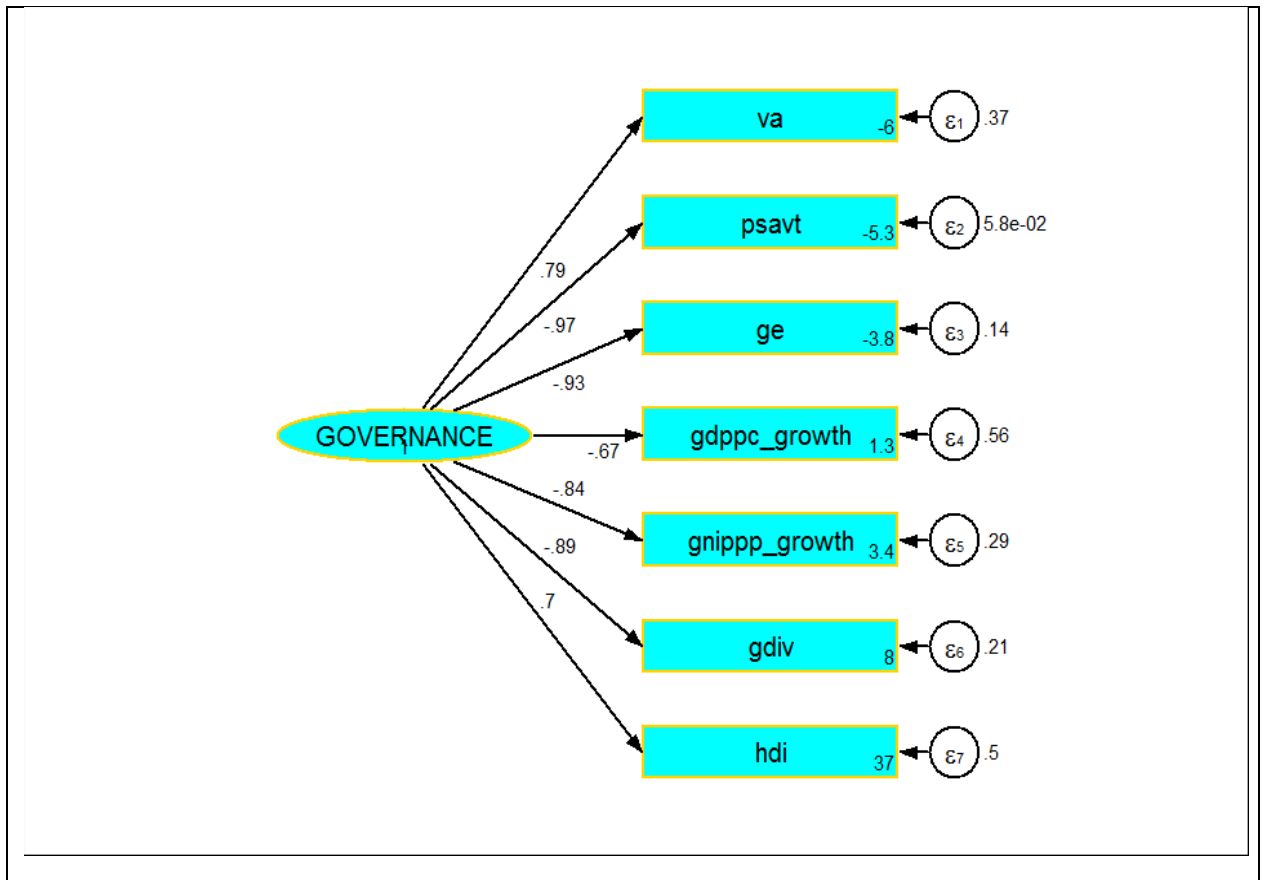


Figure 2. Standardized coefficients of SEM

Figure 2 shows the SEM diagram. All the factors are significant at 1 percent. The p-values of all the factors are 0.000. The path analysis shows the results of standardized coefficients.

Table 5 shows that the VA has the positive impact on governance the standardized coefficient of VA is 0.79 with the p-value of 0.000. So the coefficient is significant at 1 percent level of significance. The PSAVT has negative impact on governance and its p-value is also 0.000. So the coefficient of PSAVT is significant at 1 percent level of significance.

Table 5 shows that the GE has the negative impact on governance the standardized coefficient of GE is -0.92 with the p-value of 0.000. So the coefficient is significant at 1 percent level of significance. The GDP per capita growth has negative impact on governance and its p-value is also 0.000. So the coefficient of GDP per capita growth is significant at 1 percent level of significance.

Table 5 shows that the GNI growth has the negative impact on governance the standardized coefficient of GNI growth is -0.84 with the p-value of 0.000. So the coefficient is significant at 1 percent level of significance. The GDIV has negative impact on governance and its p-value is also 0.000. So the coefficient of GDIV is significant at 1 percent level of significance.

Table 5. Results of Structural Equation Modeling

Standardized	Coefficient	Z-statistics	P-value
Va<			
GOV	0.794	7.47	0.0000
Constant	-6.046	-5.33	0.0000
Psavt<			
GOV	-0.970	-30.24	0.0000
Constant	-5.289	-5.29	0.0000
ge<			
GOV	-0.929	-19.38	0.0000
Constant	-3.780	-5.13	0.0000
gdppc_growth<			
GOV	-0.666	-4.40	0.0000
Constant	1.288	3.69	0.0000
gnippp_growth<			
GOV	-0.842	-10.11	0.0000
Constant	3.35	5.05	0.0000
gdiv<			
GOV	-0.889	-14.96	0.0000
Constant	7.975	5.39	0.0000
hdi<			
GOV	0.704	5.21	0.0000
Constant	36.9316	5.47	0.0000

Limitations

There are few limitations of this part of study. The first one is the availability of the data. The data is not available before 2002 and therefore the unavailability of the data is the main problem in Pakistan. On the other hand the time-series model cannot be run because the observations are not adequate for running the time-series model. Normally the time-series model predicts the impact of independent variables on dependent variable over the period of time. The time accounts for the variations incur over the period of time. The time-series model also accounts for the seasonal variations.

Normally the 40-50 observations are desirable for the time-series model but here the observations are 15 and therefore the time-series model cannot provide adequate findings. On the other hand the study is only based on the Pakistan. The dimensions of the quality of this study can be widening if the panel study is conducted. Further this study is only based on secondary data and the primary studies can also be conducted. The upcoming researchers can also interview the professionals and then can find the factors affecting governance in Pakistan.

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