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ECONOMIC POLICY REFORMS IN SOUTH ASIA: AN OVERVIEW AND THE REMAINING AGENDA

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Abstract

In the past few years, the pace of economic growth in South Asia has slowed considerably for two reasons: unfavourable global economic environment and the slowing pace of economic reforms that once were the key drivers of the region's dynamic economic performance and resilience. This paper focuses on the latter and following Rana (2011) and Rana and Hamid (1995), it argues that South Asian countries have not sequenced their reforms properly. The first round of reforms in South Asia that began in the 1980s and the early 1990s focused on macroeconomic reforms — monetary, fiscal, and exchange rate management, as well as reducing rigid government controls — which led to private sector driven economic growth. These should have been followed by the more microeconomic reforms — sectoral and the so-called "second generation" reforms to strengthen governance and institutions — to sustain the higher growth levels. But they were not and reforms ran out of steam because of, among others, lack of law and order, and corruption in the public sector. This paper finds a significant "governance gap" in South Asia that refers to how South Asia lags behind East Asia in terms of various governance indicators and how within South Asia some countries are ahead of others. The paper argues that in order to revive economic growth, South Asian countries must implement microeconomic reforms: it identifies the remaining policy agenda for each South Asian country. However, implementation of microeconomic reforms poses a difficult challenge as they require a wider consensus and political support and have a longer term focus. The recent election of Prime Minister Narendra Modi in India with a strong mandate for economic reform provides an environment of "cautious optimism" for all of South Asia.

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I. Introduction

After independence from the British in 1947, both India and Pakistan (including East Pakistan or present-day Bangladesh) had adopted Soviet-type import-substituting policies and erected high walls of protection on all sectors of the economy. This had meant not only high tariffs but also various forms of licensing to control entry into industries. The resulting “license raj” — rigid government controls over production and distribution of goods — in these countries had created inefficiencies, promoted public sector corruption, and constrained the rate of economic growth. The smaller South Asian countries — Bhutan, Maldives and Nepal — had also adopted a similar development strategy. It was only 2 or 3 decades later in the 1980s and the 1990s that South Asian countries started the economic reform process. These reforms had placed the countries on a higher growth trajectory and analysts were focusing on when these countries would catch up with East Asia (ASEAN+3).

Presently, however, the pace of economic growth in South Asia (SA) has slowed considerably. For example, after nearly a decade of 6-9 per cent per annum GDP growth which peaked at 10.3 per cent in 2010, India now struggles to maintain a moderate 5 per cent growth. This is for two reasons. First, the global economic environment facing SA has deteriorated. After the global economic crisis of 2008-2009, economic recovery has begun in the industrial countries, but it is still weak with a jobless recovery in the U.S. and only tentative signs of a turnaround in Europe. The second reason for the economic slowdown of South Asian countries is domestic, namely the slowing pace of economic reforms that were once the key drivers of the region’s dynamic economic performance and resilience. For example, the Manmohan Singh government in India was expected to take reforms to the second phase since 2004, but allegations of corruption and the ensuing political paralysis slowed the pace, and in some cases, reversed the reforms.

This paper focuses on the second reason for the recent economic slowdown in South Asia. McKinnon (1993) has argued that it is neither theoretically defensible nor practically feasible to implement all aspects of reform policies simultaneously. Inappropriate design and sequence can lead to the failure of reform programmes. Economic history has recorded a number of such instances. An example is the Southern Cone Latin American case where efforts to reform the financial and trade sectors failed in the mid-1980s.

Following Rana (2011) and Rana and Hamid (1995), this paper argues that South Asian countries did not sequence their reform programmes properly. The first round of reforms in South Asia that began in the 1980s and the 1990s focused on macroeconomic areas of monetary, fiscal, and exchange rate management. Industrial deregulation had contributed significantly to the private sector-driven economic growth. These reforms should have been followed by the more microeconomic reforms — sectoral and the so-called “second generation” reforms — to strengthen governance and institutions.[1] But they were not and the private sector-led economic growth due to “first generation” reforms ran out of steam because of, among others, lack of law and order and red tape and corruption in the public

[1] “First generation” reforms focus on unleashing market forces, while “second generation” reforms seek to make markets work better (Navia and Velasco 2003). “Second generation” reforms are frequently used in Latin America. Chibber (2006) uses a similar typology in discussing reforms in developing countries. In 1999, the IMF had organised a conference on the need for “second generation” reforms.

sector. Keyfitz and Dorfman (1991) identified 14 institutional requirements for sustained operation of private markets. These include law and order, security of persons and property, and trust. South Asian countries failed to achieve these institutional preconditions for markets to work. Panagariya (2014) also argued that the abandonment of the reforms initiated by earlier government is responsible for the recent slowdown in Indian economic growth.

Section II of this paper briefly surveys the policy reforms implemented by various South Asian countries during the 1980s and 1990s and identifies the lack of actions in the area of microeconomic reforms. Section III assesses the impacts of the first round of policy reforms on the economy. It argues that economic policies have mattered. Section IV focuses on the “governance gap” in South Asia that refers to how South Asia lags behind East Asia in terms of various governance indicators and how some countries within the South Asian region are ahead of others in these indicators. A number of analysts have argued that South Asian countries have the potential of achieving a sustained annual 8 to 10 per cent economic growth in the long-term (Section V). However, in order to realise this potential, South Asian countries should take actions to implement microeconomic reforms, among others. This poses a challenge because unlike macroeconomic reforms, these reforms require a wider consensus and political support and have a longer term focus. Finally, Section VI highlights that microeconomic reforms are the centre-piece of the new Narendra Modi government in India that is attempting to revive the manufacturing sector. As in the 1980s and 1990s, these efforts in India should encourage other neighbouring South Asian countries to implement these difficult reforms. The remaining policy agenda for individual South Asian countries is presented in this paper.

II. Survey of Policy Reforms in South Asia and Sequencing Issues[2]

Among the five largest South Asian countries, the process of policy reforms began the earliest in Sri Lanka in the early 1980s supported by various facilities from the IMF. The measures involved stabilisation package together with structural measures in the areas of trade and financial sector reforms, including deregulation of interest rates.

In Pakistan, the reform process began in 1990 with a macroeconomic and structural adjustment programme. The process accelerated in 1993 when a caretaker government came to power and reforms were extended to politically sensitive areas such as taxation of income from agriculture. In contrast with these countries, the reform programme began in the other South Asian countries of India, Nepal and Pakistan only in the 1990s after newly-elected governments took over. In India, the Narasimha Rao government which assumed power in mid-1991 reversed the previous inward-looking approach in response to a balance-of-payments crisis. Similarly, Nepal and Bangladesh started pursuing an export-led development strategy.

In discussing issues related to the design and sequence of reforms, following Rana (2011) and Rana and Hamid (1995), it is useful to distinguish between two categories: (i) macroeconomic reforms

[2] Based on Rana (2011)

referring to monetary, fiscal and exchange rate management, and structural reforms (referring to fiscal, financial, and trade policy reforms); and (ii) microeconomic reforms referring to sectoral (e.g. agriculture and industrial sector) and “second generation” reforms (governance and institutional reforms).

South Asian countries achieved considerable progress in the areas of macroeconomic reforms (including industrial deregulation, trade, exchange rate, and financial and fiscal sector reforms). This was understandable because in many cases reforms were triggered by an economic crisis and foreign exchange crisis. Whereas before reforms, a license was required to establish just about any type of business venture and to procure inputs (including imported inputs), such activities have been significantly deregulated in all South Asian countries. Both tariff and non-tariff barriers have also been reduced significantly and the exchange rate, barring the existence of some regulations, is largely market-determined. Foreign investment is also being eagerly sought after and current account convertibilities have been announced. The financial sector (including interest rates) has been deregulated to a large extent. Private banks and other types of financial institutions have been established and capital markets developed. In the area of fiscal reforms, Bangladesh, Sri Lanka and Nepal have introduced the value-added tax while other South Asian countries are in the process of introducing it. In an attempt to mobilise larger amounts of resources in the public sector, India and Pakistan have expanded the coverage and simplified the taxation system. The public expenditure system has been streamlined in many countries.

The implementation of microeconomic reforms, sectoral reforms along with governance and institutional reforms, although gathering pace in recent years, has been slow in South Asia. These reforms are necessary to create the institutional framework for private sector-led growth. After independence, India had inherited a small but efficient government from the British. It was ruled by the meritocratic Indian civil service and was well-governed. Subsequently, under the socialist model of development, the role of the state was greatly enlarged with the government being responsible for jobs, licenses and ration cards but the capacity and competence of the civil service was not strengthened despite the recommendations of many studies and committees. In 2004 and 2009, the Manmohan Singh government had an opportunity to strengthen governance and institutions but this did not happen (Chibber 2013). For example, the Second Administrative Committee had prepared 15 reports and most of the recommendations had been approved by various cabinet committees, but only 10 per cent of it were implemented (Maira 2012). Similar situation prevails in other South Asian countries as well where private enterprises are being stifled because of red tape and corruption. There is despair over the delivery of even the simplest public service.

Corruption in South Asia has also undergone a qualitative change since the reforms of the 1990s. Earlier, giving out licenses and awarding government contracts were the primary sources of corruption. Post-reform, formulating policies that benefit the selected few and discretionary distribution of natural resources created an abundance of rent-seeking opportunities for politicians. Corruption money has also become a handy way of dealing with the fragmented and unstable political situation.

A number of actions have been taken by South Asian countries to reduce corruption, but much more needs to be done.

In contrast, the situation in China is quite different. Fifteen years after the initiation of reforms in 1978, China carried out sweeping reforms of the bureaucracy and public administration to ensure that a strengthened government emerged to meet new challenges and needs. This helped China strengthen the momentum of sustained growth unlike in South Asia where governance and institutions continue to remain weak (Chibber 2013). In terms of the six indicators developed by the World Bank to monitor governance (see Section IV), in 2012, China was perceived to be better than India in terms of control of corruption, regulatory quality, government effectiveness and political stability. India was better in terms of voice and accountability, and rule of law.

III. Economic Impacts of Policy Reforms in South Asia

Initially, it was argued that in India a surge in economic growth had preceded the implementation of reforms and hence the latter could not be the cause for the former (De Long 2008). However, such views changed subsequently (e.g. Chibber 2006 and Panagariya 2014). The consensus view now is that economic policy does matter. Good policies can help lift rates of economic growth and lower poverty, while poor policies retard growth and stall poverty reduction.

Table 1: Average Growth in GDP and Per Capita GDP (percentage)

Country	1976 - 1990	1991 - 2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Growth										
Afghanistan	-	-	5.6	13.7	3.6	21.0	8.4	6.1	14.4	4.2
Bangaldesh	3.9	5.0	6.6	6.4	6.2	5.7	6.1	6.7	6.2	6.0
Bhutan	-	6.0	6.8	17.9	4.8	6.7	11.7	8.6	4.6	5.0
India	4.8	6.0	9.3	9.8	3.9	8.5	10.3	6.6	4.7	5.0
Maldives	-	-	19.6	10.6	12.2	-3.6	7.1	6.5	1.3	3.7
Nepal	4.0	4.5	3.4	3.4	6.1	4.5	4.8	3.4	4.9	3.8
Pakistan	6.3	4.3	6.2	4.8	1.7	2.8	1.6	2.8	4.0	6.1
Sri Lanka	4.6	4.8	7.7	6.8	6.0	3.5	8.0	8.2	6.3	7.3
Per capita GDP growth										
Afghanistan	-	-	2.4	10.6	1.0	18.1	5.8	3.5	11.7	1.8
Bangaldesh	1.2	3.0	5.4	5.3	5.1	4.7	4.9	5.5	5.0	4.7
Bhutan	-	4.6	4.4	15.5	2.8	4.8	9.8	6.7	2.9	3.3
India	2.5	4.2	7.7	8.3	2.5	7.1	8.8	5.3	3.4	3.7
Maldives	-	-	17.5	8.6	10.2	-5.4	5.1	4.5	-0.6	1.7
Nepal	1.6	2.2	2.0	2.2	4.9	3.4	3.6	2.2	3.6	2.6
Pakistan	2.9	1.9	4.2	2.9	-0.2	1.0	-0.2	1.0	2.3	4.3
Sri Lanka	3.0	3.8	6.5	5.8	5.0	2.4	7.0	7.1	9.2	6.4

n.a. = not applicable
Source: World Bank, World Development Indicators Online

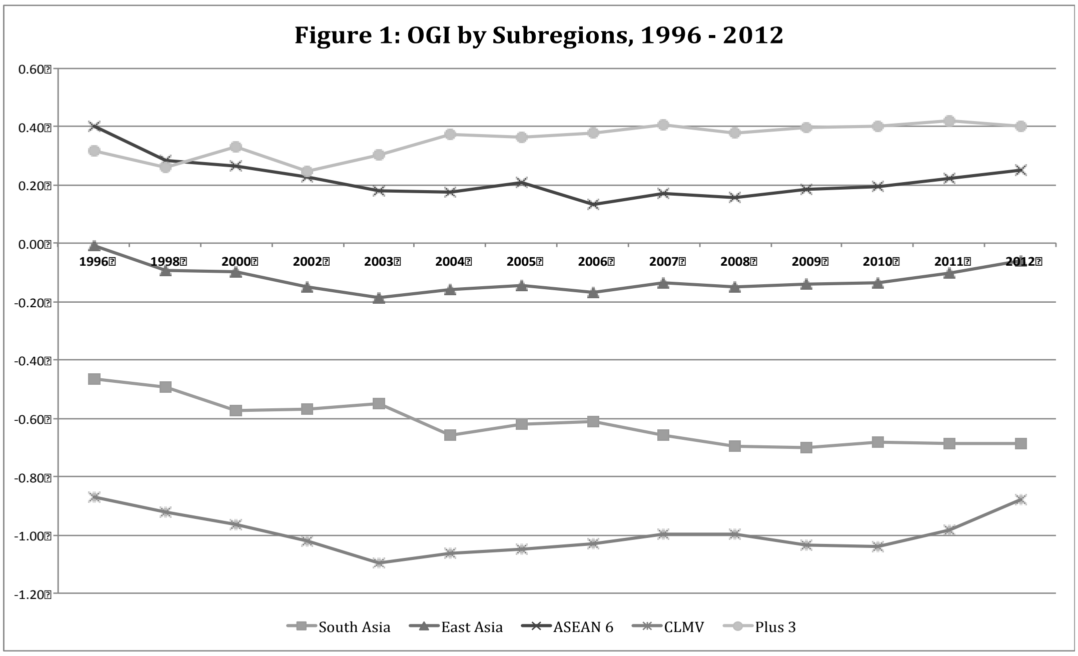
The first two columns in Table 1 show average GDP and per capita income growth rates in various South Asian countries 15 years before and after reforms with 1990 and 1991 as the approximate reform year. They suggest that on an average, post-reform growth rates have been higher than the pre-reform ones. In India, average GDP growth rate was 6 per cent in the post-reform period as compared to 4.8 per cent in the pre-reform period. Post-reform per capita GDP growth rate in the country also averaged 4.2 per cent compared to 2.5 per cent in the pre-reform period. Similarly in Bangladesh, pre-reform GDP growth rate averaged 3.9 per cent as compared to 5 per cent in the post-reform period. The corresponding figures were 4 per cent and 4.5 per cent for Nepal and 4.6 per cent and 4.8 per cent respectively for Sri Lanka. The only country where average GDP and per capita income growth rate declined during the post-reform period was Pakistan and this was mainly because of problems associated with political instability in the country.

Data in Table 1 also shows that after peaking in either 2007 or 2008 (except India where GDP growth peaked in 2010); GDP growth rates have tend to soften in most South Asian countries. Presently, GDP growth rates are around 4 per cent level in Maldives, Nepal and Afghanistan and around 5 per cent in India and Bhutan. Only Pakistan, Bangladesh and Sri Lanka are growing by over 6 per cent per annum, the latter because of the return of peace in the country.

IV. "Governance Gap" in South Asia

"Governance gap" in South Asia can be illustrated by using the Worldwide Governance Indicators published by the World Bank, which compiles indicators to assess six broad dimensions of governance — voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. In addition, we compute a summary of overall governance indicator (OGI) to assess trends as the simple average of the six indicators in the World Bank database.

Figure 1 shows that in 1996, OGI was higher in East Asia than in South Asia. During the period 1996-2012, the OGI fell in both sub-regions but it fell more in South Asia. The "governance gap" between South Asia and East Asia has, therefore, widened. In 2012, the only East Asian sub-region that had a lower OGI indicator than South Asia was the CLMV (Cambodia, Laos, Myanmar, and Vietnam). In recent years, however, while the OGI has stabilised in South Asia, it has improved significantly in the CLMV suggesting that the latter sub-region could soon catch up with South Asia in terms of OGI.



Source: Calculated from the World Bank, World Governance Indicators online database (accessed – Oct 9, 2014)

Figure 2 shows that during the period 1996-2012, OGI deteriorated in South Asia because five of the six governance indicators fell. The only governance indicator that improved in South Asia was the voice and accountability indicator. However, as Jha and Zhuang (2014) have noted, the voice and accountability and the political stability indicators are the least correlated with economic growth: Other four indicators are more closely correlated.

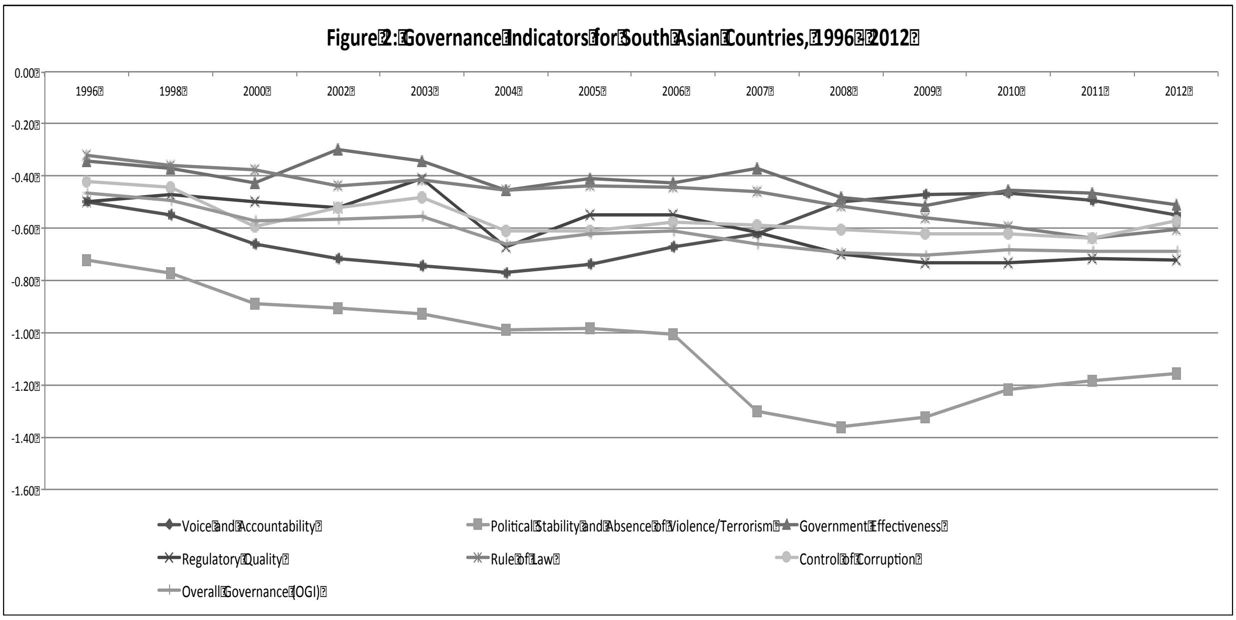


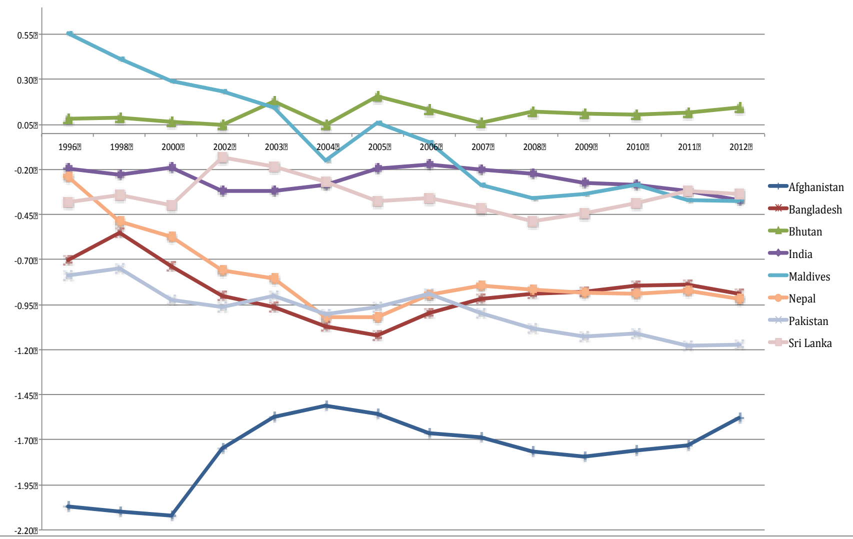
Figure 2: Governance Indicators for South Asian Countries, 1996-2012

Source: Calculated from the World Bank, World Governance Indicators online database (accessed – Oct 9, 2014)

OGI indicators for individual South Asian countries are shown in Figure 3.[3] During the period 1996-2012, OGI showed a trend of increase in only two out of eight South Asian countries, namely, Bhutan and Afghanistan. OGI has also started to improve in Sri Lanka after 2009 when peace was restored in the country. The OGI, has, however, declined significantly in Bangladesh, Maldives, Nepal and Pakistan. In India, after peaking in 2006, the OGI has shown a declining trend suggesting that governance has deteriorated in the country.

[3] Individual time series are provided in the Appendix for those with further interest on the subject.

Figure 3: OGI for South Asian Countries, 1996 - 2012



Source: Calculated from the World Bank, World Governance Indicators online database (accessed – Oct 9, 2014)

Table 2 shows the ranking of South Asian countries by OGI in 1996, 2004 and 2012. The data shows that there exists a considerable "governance gap" in South Asia. While Bhutan, Sri Lanka and Maldives have the highest OGI in South Asia, Bangladesh, Nepal, Pakistan and Afghanistan have the lowest. India falls somewhere in between.

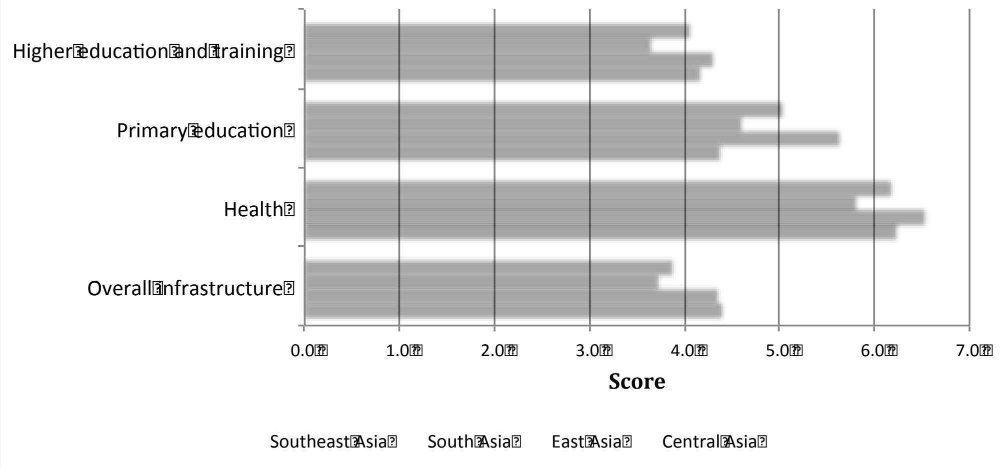
Table 2: Ranking of OGI by South Asian Countries (descending order) 1996, 2004, 2012

1996	2004	2012
Maldives	Bhutan	Bhutan
Bhutan	Maldives	Sri Lanka
India	Sri Lanka	Maldives
Nepal	India	India
Sri Lanka	Pakistan	Bangladesh
Bangladesh	Nepal	Nepal
Pakistan	Bangladesh	Pakistan
Afghanistan	Afghanistan	Afghanistan

Source: Calculated from the World Bank, World Governance Indicators online database (accessed – Oct 9, 2014)

"Governance gap" often results in gaps in the provision of public services. Table 3 shows that South Asia trails East Asia, Southeast Asia and Central Asia in terms of infrastructural quality, health and higher education. It is only in primary education where South Asia stands better than Central Asia.

Table 3: Quality of public services by Asian subregion, 2013



Note: 1 = worst, 7 = best.

Source: ADB estimates using data from World Economic Forum, Global Competitiveness Report online database.

V. Long-term Economic Potential and the Need for Microeconomic Reforms

Many economic forecasters believe that over the longer term, most South Asian countries are expected to register higher economic growth. This is particularly true for India. Examples are the much-quoted Goldman Sachs report which forecasts that India has the potential to grow by 8 per cent per annum until 2050 and at that time three of the four largest economies in the world will be in Asia and in this order: China, the United States, India and Japan (Wilson and Purushothaman 2003). The 2007 Goldman Sachs report even forecasts that India will overtake the U.S. faster than expected and be the second largest economy in the world by 2050 after China (Poddar and Yi 2007).

An ADB report (2009) has suggested that India has the potential to grow by 9.5 per cent per annum during the next 30 years and move from a poor developing economy status to an advanced economy in a generation. By that time, Asia's share of world GDP would have also exceeded 50 per cent and the world's centre of gravity would have shifted, once again, to Asia. More recently, Panagariya (2014) has argued that India has the potential to achieve an 8 per cent economic growth rate in the medium term and this could be accelerated to 10 per cent per annum with deeper reforms.

However, there is a consensus among economic forecasters that for India to realise this growth potential, it must fully complete its economic reform process.[4] As the ADB report has noted "Propelled by the first generation of macroeconomic reforms launched around 1990, which plucked the low hanging fruit, India has been able to jumpstart growth. But it is still reliant on the basic institutional structures, practices, and mind-sets inherited from the British Raj. Major policy and institutional

[4] Economic reforms alone will not be sufficient. The ADB report (2009) mentions two other requirements. First, as its fortunes become more closely linked with the world, India will have to bear the responsibility of preserving the global economic commons – such as climate change, free trade, and stable international capital movements. India will have to play a fair and constructive role in various fora such as the WTO, G20, and the UN. Second, five of the seven countries that border India are on the Foreign Policy 2008 list of failed states. India needs to promote greater stability in the region through regional cooperation. It has the size and clout to lead regional cooperation efforts in South Asia.

reforms are seemingly undertaken only in times of crisis and under duress, not as part of a long-term strategy that anticipates and promotes changes" (p. 2).

In other words, India, and to a large extent, other South Asian countries need to implement additional reforms at the microeconomic level — sectoral and "second generation" reforms — to make markets work better. These comprise continued reform of the agricultural and industrial sector; reform of public institutions for improved governance at all levels (civil service, bureaucracy and public administration); reform of institutions that create or maintain human capital (education and health); and improving the environment affecting the private sector (regulatory environment, flexibility in labour market, legal and physical infrastructure, and clearly-defined property rights).

However, unlike macroeconomic reforms, successful implementation of microeconomic reforms, particularly "second generation" reform, requires a wider consensus and political support in the concerned countries. As the ADB (2009) report notes "The dilemma is that such reforms generate benefits only in the long term, making them hard for policymakers with short time horizons to set as priorities. Yet without them, policy measures to support sustained economic growth will become less and less effective" (p. 4).

VI. New Government in India and the Unfinished Reform Agenda in South Asia

Microeconomic reforms underpin the efforts of Prime Minister Narendra Modi to revive the domestic manufacturing sector (through both foreign and domestic investment) under the "Make in India" campaign. There has been a realisation that IT services alone cannot provide employment to millions of labourers who are expected to be released from the agricultural sector as India moves up the development ladder. In all East Asian countries including China, fast growth in the manufacturing sector has led to economic transformation, modernisation and created jobs. This process has not yet happened in India where, while the share of the service sector to GDP has increased from about 50 per cent in 1990-1991 to about 65 per cent in 2011-2012, the share of manufacturing has remained stagnant at around 15 per cent. Modi wants to increase it to 20-30 per cent of GDP to help create one million jobs a month needed by new entrants to the job market. The performance of labour-intensive manufacturing such as apparel, footwear, light consumer goods and processing and assembling activities have been poor compared to East Asia. A handful of manufacturing industries that have done well in India — automobiles and auto parts, chemicals, engineering goods and petroleum refining — are all capital-intensive with very few workers employed per unit of capital investment. The only way to create good jobs for the vast and rapidly rising workforce is to create an enabling environment for the growth of labour-intensive manufacturing. The focus in India is, however, to develop more sustainable new industries including solar technology, LED lighting, small cars, medical appliances, and weapons — rather than trying to follow China's success with consumer electronics in its drive to become a manufacturing power-house.

As Panagariya (2014) has argued, reviving the manufacturing sector in India is challenging and requires actions on many different fronts, mainly in the microeconomic areas.[5] These include:

(i) End the paralysis at the level of central government
(ii) Forge a partnership with states
(iii) Reassure investors — both foreign and domestic
(iv) Restore health of the banks
(v) Revive the agriculture sector
(vi) Accelerate infrastructure development
(vii) Enhance labour market flexibility
(viii) Improve land acquisition policies
(ix) Cut administrative red tape and reduce corruption
(x) Implement effective privatisation policies.

A detailed set of policy reforms required in India to support its drive to improve the manufacturing sector — both macroeconomic and microeconomic, but mainly the latter — is presented in Appendix 2. These matrixes are based on a survey of economic reports by various international institutions (ADB, World Bank, and the IMF) and other sources.

Prime Minister Narendra Modi's government has been implementing these reforms in a gradual and politically sustainable manner. As in China, for sensitive reforms an experimental approach has been adopted. A case in point is the liberalisation of the labour market in Rajasthan where companies with up to 300 workers can fire workers easily. This is because a big-bang approach would be too disruptive in a large country like India (Rana and Hamid 1995).

Prime Minister Modi has also adopted a "Neighbours First Policy" in both foreign and economic policies. Hence, as in the 1980s and 1990s when Indian was the major driver of the reform exercise in South Asia, this time around as well successful economic reforms in India should have a catalytic impact on reforms in all South Asian countries.

The major unfinished reform agenda for other South Asian countries are presented in Appendix 2. The agenda is extensive and includes, among others, (i) rural infrastructure; (ii) credit and incentives to the agricultural sector; (iii) restructuring private enterprises in most countries; (iv) improving tax administration in Nepal and Pakistan; (v) implementing various standards, codes and best practices for the financial sector; (vi) improving labour market flexibility; and (vii) upgrading governance at all levels.

[5] A number of first generation reforms such as the introduction of goods and service taxes and realigning corporate income taxes with those in East Asia are also required. Stability of tax regimes, renouncing retrospective changes, and greater transparency are also required. The problem of high non-performing loans in several banks also needs to be addressed.

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Appendix 1: Governance Indicators for South Asian Countries, 1996-2012*

INDIA

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	0.40	0.28	0.26	0.36	0.39	0.38	0.39	0.42	0.43	0.44	0.45	0.43	0.39	0.35
Political Stability and Absence of Violence/Terrorism	-0.91	-1.14	-0.99	-1.24	-1.53	-1.22	-0.99	-1.06	-1.15	-1.10	-1.33	-1.23	-1.29	-1.25
Government Effectiveness	-0.08	-0.09	-0.14	-0.13	-0.07	-0.10	-0.08	-0.05	0.11	-0.03	-0.01	0.02	-0.01	-0.18
Regulatory Quality	-0.44	-0.41	-0.16	-0.38	-0.36	-0.40	-0.24	-0.23	-0.27	-0.36	-0.30	-0.37	-0.33	-0.47
Rule of Law	0.26	0.29	0.28	-0.04	0.10	0.04	0.16	0.19	0.11	0.09	0.02	-0.04	-0.11	-0.10
Control of Corruption	-0.40	-0.28	-0.37	-0.50	-0.44	-0.41	-0.40	-0.30	-0.42	-0.36	-0.48	-0.51	-0.57	-0.57
Overall Governance (OGI)	-0.20	-0.23	-0.19	-0.32	-0.32	-0.29	-0.19	-0.17	-0.20	-0.22	-0.27	-0.29	-0.32	-0.37

AFGHANISTAN

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-1.90	-2.04	-1.98	-1.57	-1.28	-1.25	-1.18	-1.19	-1.12	-1.24	-1.46	-1.48	-1.41	-1.32
Political Stability and Absence of Violence/Terrorism	-2.54	-2.57	-2.57	-2.21	-2.26	-2.30	-2.09	-2.23	-2.40	-2.69	-2.70	-2.55	-2.48	-2.42
Government Effectiveness	-2.25	-2.24	-2.32	-1.64	-1.18	-0.88	-1.23	-1.49	-1.40	-1.48	-1.50	-1.47	-1.46	-1.40
Regulatory Quality	-2.13	-2.16	-2.19	-1.87	-1.49	-1.50	-1.65	-1.67	-1.68	-1.60	-1.67	-1.53	-1.54	-1.21
Rule of Law	-1.76	-1.74	-1.77	-1.77	-1.67	-1.71	-1.72	-1.96	-1.92	-1.95	-1.91	-1.90	-1.93	-1.72
Control of Corruption	-1.85	-1.84	-1.91	-1.43	-1.55	-1.42	-1.46	-1.44	-1.59	-1.64	-1.51	-1.62	-1.55	-1.41
Overall Governance (OGI)	-2.07	-2.10	-2.12	-1.75	-1.57	-1.51	-1.55	-1.66	-1.69	-1.76	-1.79	-1.76	-1.73	-1.58

BANGLADESH

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.12	-0.17	-0.31	-0.52	-0.63	-0.68	-0.60	-0.48	-0.54	-0.47	-0.30	-0.28	-0.32	-0.42
Political Stability and Absence of Violence/Terrorism	-0.61	-0.45	-0.77	-1.08	-1.14	-1.38	-1.84	-1.48	-1.50	-1.48	-1.54	-1.40	-1.39	-1.35
Government Effectiveness	-0.73	-0.43	-0.56	-0.70	-0.71	-0.78	-0.86	-0.77	-0.68	-0.71	-0.79	-0.75	-0.76	-0.83
Regulatory Quality	-1.06	-0.89	-0.87	-1.01	-0.92	-1.10	-1.03	-0.96	-0.91	-0.89	-0.85	-0.83	-0.80	-0.96
Rule of Law	-0.96	-0.93	-0.95	-0.90	-1.02	-1.00	-0.97	-0.89	-0.83	-0.76	-0.77	-0.79	-0.71	-0.91
Control of Corruption	-0.73	-0.44	-0.94	-1.18	-1.33	-1.49	-1.41	-1.42	-1.05	-1.02	-1.03	-1.02	-1.05	-0.87
Overall Governance (OGI)	-0.70	-0.55	-0.73	-0.90	-0.96	-1.07	-1.12	-1.00	-0.92	-0.89	-0.88	-0.85	-0.84	-0.89

BHUTAN

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.81	-0.99	-0.98	-1.23	-1.19	-0.92	-1.03	-1.01	-0.84	-0.56	-0.51	-0.46	-0.46	-0.32
Political Stability and Absence of Violence/Terrorism	0.62	0.44	0.41	0.60	0.91	1.17	1.30	1.31	0.62	0.75	0.82	0.77	0.86	0.81
Government Effectiveness	0.65	0.56	0.78	0.73	0.38	-0.14	0.28	0.18	0.19	0.22	0.48	0.57	0.62	0.48
Regulatory Quality	-0.44	-0.43	-0.37	-0.47	-0.01	-0.81	-0.43	-0.60	-0.73	-0.83	-1.10	-1.19	-1.18	-1.12
Rule of Law	0.05	0.20	0.18	0.09	0.23	0.36	0.36	0.26	0.37	0.37	0.18	0.12	0.14	0.19
Control of Corruption	0.44	0.72	0.38	0.58	0.75	0.62	0.75	0.66	0.74	0.77	0.81	0.82	0.74	0.82
Overall Governance (OGI)	0.08	0.09	0.07	0.05	0.18	0.05	0.21	0.13	0.06	0.12	0.11	0.10	0.12	0.14

MALDIVES

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.38	-0.34	-0.39	-0.53	-0.92	-1.12	-0.99	-1.00	-0.91	-0.31	-0.08	-0.10	-0.21	-0.52
Political Stability and Absence of Violence/Terrorism	0.84	1.05	1.12	1.03	1.02	0.54	0.83	0.80	0.09	-0.14	-0.22	-0.13	-0.21	-0.28
Government Effectiveness	0.91	0.84	0.28	0.28	0.01	-0.11	0.16	0.04	0.00	-0.27	-0.45	-0.21	-0.31	-0.16
Regulatory Quality	1.00	0.81	0.66	0.74	0.57	-0.10	0.44	0.29	-0.02	-0.39	-0.41	-0.40	-0.40	-0.35
Rule of Law	0.53	0.17	0.37	0.07	0.15	0.08	0.23	0.12	-0.02	-0.16	-0.17	-0.33	-0.57	-0.50
Control of Corruption	0.44	-0.06	-0.29	-0.16	0.05	-0.17	-0.30	-0.53	-0.83	-0.87	-0.68	-0.53	-0.52	-0.44
Overall Governance (OGI)	0.56	0.41	0.29	0.24	0.15	-0.15	0.06	-0.05	-0.28	-0.36	-0.34	-0.28	-0.37	-0.37

NEPAL

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.12	-0.27	-0.30	-0.85	-0.92	-1.15	-1.19	-0.91	-0.59	-0.54	-0.47	-0.48	-0.50	-0.70
Political Stability and Absence of Violence/Terrorism	-0.15	-0.81	-1.23	-1.79	-1.95	-2.12	-2.11	-1.92	-1.92	-1.84	-1.62	-1.60	-1.42	-1.38
Government Effectiveness	-0.41	-0.72	-0.50	-0.49	-0.57	-0.75	-0.84	-0.78	-0.65	-0.76	-0.94	-0.86	-0.88	-0.99
Regulatory Quality	-0.55	-0.43	-0.56	-0.58	-0.42	-0.53	-0.50	-0.50	-0.55	-0.62	-0.70	-0.74	-0.72	-0.81
Rule of Law	-0.19	-0.17	-0.33	-0.53	-0.62	-0.76	-0.84	-0.63	-0.64	-0.72	-0.90	-1.01	-0.95	-0.79
Control of Corruption	-0.01	-0.51	-0.54	-0.32	-0.34	-0.81	-0.63	-0.63	-0.71	-0.72	-0.65	-0.65	-0.74	-0.83
Overall Governance (OGI)	-0.24	-0.49	-0.58	-0.76	-0.80	-1.02	-1.02	-0.90	-0.85	-0.87	-0.88	-0.89	-0.87	-0.92

PAKISTAN

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.67	-0.64	-1.32	-1.22	-1.26	-1.23	-1.06	-0.90	-0.97	-0.87	-0.90	-0.84	-0.85	-0.87
Political Stability and Absence of Violence/Terrorism	-1.21	-1.18	-1.14	-1.70	-1.58	-1.56	-1.76	-2.04	-2.43	-2.57	-2.63	-2.67	-2.81	-2.68
Government Effectiveness	-0.59	-0.45	-0.58	-0.39	-0.39	-0.45	-0.42	-0.37	-0.46	-0.70	-0.78	-0.76	-0.81	-0.79
Regulatory Quality	-0.45	-0.49	-0.73	-0.79	-0.73	-0.88	-0.61	-0.45	-0.50	-0.57	-0.55	-0.58	-0.63	-0.73
Rule of Law	-0.67	-0.77	-0.95	-0.75	-0.73	-0.83	-0.88	-0.84	-0.88	-0.98	-0.84	-0.74	-0.91	-0.91
Control of Corruption	-1.15	-0.96	-0.82	-0.92	-0.73	-1.06	-1.04	-0.76	-0.74	-0.80	-1.04	-1.07	-1.05	-1.06
Overall Governance (OGI)	-0.79	-0.75	-0.92	-0.97	-0.90	-1.00	-0.96	-0.89	-1.00	-1.08	-1.12	-1.11	-1.18	-1.17

SRI LANKA

	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Voice and Accountability	-0.38	-0.25	-0.27	-0.15	-0.12	-0.19	-0.21	-0.30	-0.43	-0.46	-0.49	-0.52	-0.56	-0.60
Political Stability and Absence of Violence/Terrorism	-1.80	-1.52	-1.93	-0.85	-0.88	-1.06	-1.19	-1.43	-1.74	-1.80	-1.35	-0.92	-0.70	-0.71
Government Effectiveness	-0.26	-0.45	-0.35	-0.06	-0.20	-0.40	-0.29	-0.18	-0.09	-0.12	-0.12	-0.18	-0.10	-0.24
Regulatory Quality	0.08	0.26	0.25	0.18	0.10	-0.04	-0.35	-0.25	-0.26	-0.35	-0.26	-0.20	-0.11	-0.12
Rule of Law	0.17	0.08	0.17	0.32	0.24	0.20	0.15	0.19	0.14	0.00	-0.07	-0.08	-0.07	-0.11
Control of Corruption	-0.10	-0.19	-0.26	-0.24	-0.26	-0.14	-0.37	-0.18	-0.10	-0.19	-0.37	-0.40	-0.37	-0.24
Overall Governance (OGI)	-0.38	-0.34	-0.40	-0.13	-0.19	-0.27	-0.38	-0.36	-0.41	-0.49	-0.44	-0.38	-0.32	-0.33

**Source: Calculated from the World Bank, World Governance Indicators online database (accessed − Oct 9, 2014)*

Appendix 2: Unfinished Reform Agenda in India and other South Asian countries

INDIA

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Complete the Goods and Services Tax reform within two years and simplify the direct tax system.	Cut subsidies to the middle class more aggressively including eliminating petrol and diesel subsidies soon.	Pass the Insurance Laws Amendment Bill which seeks to raise the FDI cap in the sector to 49 per cent.
		Reduce corporate income tax rates; Multiple taxes, including taxes on intra-state transactions, need to be removed.		
2.	Monetary Policy Reforms	Strengthen the Central Bank's independence to increase its accountability and establish a professional monetary policy committee.	Move from a de facto to a de jure capital account convertibility regime.	Promote consolidation of the banking sector; Address the health of public sector banks which suffer from high level of non-performing loans.
3.	Financial sector reforms	Consumer protection system should be created together with the creation of a financial redress agency with presence in every district.	Institutionalise micro-prudential regulations.	Create a resolution corporation that identifies distressed financial firms and shuts them down.
		Create a database covering the Indian financial sector for systemic risk management.		
4.	International trade	Enhance trade linkages with other countries especially in East Asia.		

INDIA

II. Microeconomic Reforms

6. Agriculture sector reforms and land issues	Privatise the Food Corporation of India to curb corruption and leakages in India's food grain distribution system	Amend the Agriculture Produce Marketing Committee Act by delisting fruits and vegetables which would allow farmers to sell to anyone	
	Taxes and commissions on food articles need to be brought to zero or at most less than 5 per cent.		
7. Industrial policy and public sector reforms	Reform bankruptcy laws which discourage firms to enter the formal sector.	Privatise the railways sector by establishing a number of companies	Privatise public sector enterprises especially those involved in manufacturing.
8. Infrastructure development	Improve coordination between various government agencies to accelerate India's road building program	Privatise Air India which absorbs a substantial amount of subsidy	Relax the floor-space index and allow taller buildings that can help improve the urban environment
	Improve gateway infrastructure by improving capacity of ports and rail and road connectivity to ports	Introduce best practices in custom procedures	
9. Governance and Institutional Reforms			
i. Public administration and civil service reforms	Give the Election Commission additional authority to regulate the functioning and to potentially deregister political parties	Implement reforms that enhance the quality and productivity in the civil service	Reform the Indian Police Service to increase its autonomy and accountability
	Improve Centre-State relations by decentralising functions such provision of public goods to states and at the same time improving relations between the Federal government and the states		
ii. Labour Market reforms	Instead of removal of Article 35A in Chapter V of the Industrial Disputes Act which give employers permission to hire and fire employees, push for the creation of a "resource pool" to retrain retrenched workers and teach them new skills	Rationalise labour laws (presently numbering more than 50) and reduce it to four or five laws that cover all labour related issues such as minimum wage, social security etc.; Make labour markets more flexible	
iii. Corruption Control	Bar persons charged with heinous crimes from running for office	Fully implement the provisions of the Lokpal and Lokayuktas Act	
iv. Legal reforms/ property rights	Law Commission should be given additional resources to revise, repeal, and update old laws that are needed.	Approve and implement the Judicial Standards and Accountability Bill which aims to improve the quality and integrity of the judiciary.	Need to increase budget and human capacity of the judiciary to make the judicial system more efficient.
	Repeal the Land Acquisition Law to make it easier for companies to acquire land especially for infrastructure projects		
v. Regulatory Reforms	Insulate utilities (electricity companies) from state governments to prevent interference with internal operations.		

Sources: ADB (2014), Bhagwati J and Panagariya A (2013), Debroy et al. (2014), World Bank (2014e)

AFGHANISTAN

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Need to gradually achieve fiscal sustainability to reduce the reliance on donor support through revenue mobilisation, better expenditure management and service delivery	Introduce the VAT, and consider other new sources of tax revenues (E.g. Excise Tax)	Need to expand public development expenditures on essential infrastructure and service delivery
2.	Financial sector reforms	Strengthen the banking sector by improving regulation and enforcement	Promote wider use of mobile banking services and microfinance lending; promote bank penetration in rural areas; increase financial literacy among the public and ensure adequate financial consumer protection.	Banks should move from traditional relationship-based lending to market-oriented lending.
3.	Exchange rate	The flexible and floating exchange rate regime should be continued, combined with a relatively prudent fiscal policy, has been serving the country well.		

AFGHANISTAN

II. Microeconomic Reforms

6. Agriculture sector reforms and land issues	Need to increase on investments in irrigation and extension services.	Need to focus on subsectors with the greatest potential: irrigated wheat, livestock, and horticulture.	Need to improve efforts to build and improve downstream agro-processing activities.
7. Industrial policy and public sector reforms	Need to tap the potential of extractive industries sector through legislative reforms and financing		
8. Infrastructure development	Need to engage proactively to establish its role as a transit route linking energy-rich Central Asian countries with energy hungry South Asian countries.	Need to engage actively with downstream riparian countries to secure necessary water resources.	Improve grid connectivity in the rural areas to reduce the urban-rural gap in access to power supply
	Need to prevent further power plant development project delays	Needs a new railway strategy to improve operations and maintenance capacity	Needs urgent action to improve operation and maintenance of roads; Restructuring and improvement of urban transportation remains a priority
9. Governance and Institutional Reforms			
i. Public administration and civil service reforms	Need to clarify the subnational-national governance framework, including removing overlapping institutional mandates	Need to improve the capacity of core civil service and reduce reliance on parallel civil service	Enhance the role of provincial line departments and administrations in both planning and budget execution
	Better establishment of formal governmental institutions at the village level for better district policy coordination		
ii. Labour Market reforms	Promote the payment of equal wages to women workers and equal opportunities to women in employment	Strictly enforce labour laws that prohibit child labour and forced labour practices	Enhance labour integration through Labour-Intensive Infrastructure Programs with an Integration Component to expand opportunities for low-skilled illiterate returnees
	Develop individualised small business start-up programs with market study, micro-credit, and training components		
iii. Corruption Control	Need to strengthen public financial management		
iv. Legal reforms/ property rights	Enact FATF-consistent AML/CFT legislation and adopt a national strategy that will include money laundering and terrorist financing risk assessments; measures to investigate and confiscate the proceeds of crime;	Implement measures to enhance the transparency of legal persons and non-profit organisations	
v. Regulatory Reforms	Need to strengthen the central bank's financial supervision department	Strengthen prudential regulations and lending practices in the banking sector	

Sources: Afghanistan Government (2013), IMF (2014a), The Asia Foundation (2011), World Bank (2014a), World Bank (2014b)

BANGLADESH

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Raise fuel and electricity prices to lower subsidy cost	Implement tax measures that include reducing exemptions and exclusions; improve tax administration by simplifying laws and procedures; and reduce scope for evasion with the introduction of advanced auditing and enforcement techniques	Encourage voluntary compliance by simplifying and automating the tax payment system and by curbing the discretionary power of tax officials
2.	Monetary Policy Reforms	Adopt stronger risk management and controls, and place ceilings on credit growth for state-owned banks based on its performance and financial soundness		
3.	Financial sector reforms	Develop a liquid bond market to expand sources for private sector financing		
4.	International trade	Import duties need to be cut, and the dispersion in rates and average level of protection lowered to boost competitiveness and reduce biases against exports	Trade infrastructure and logistics, including port services and automation, need to be improved to lower transaction costs and facilitate the faster clearance of goods	

II. Microeconomic Reforms

5.	Agriculture sector reforms and land issues	Improve rural and "farm to market" roads	Support further productivity improvements in the agriculture sector through better farm technology	Enhance regional water cooperation with countries in the region
6.	Industrial policy and public sector reforms	Pursue export-led growth and remove tariff protection on domestic industries		
7.	Infrastructure development	Improve inadequate electricity and transport-related infrastructure and logistics	Improve regional transport connectivity with surrounding countries	
8.	Governance and Institutional Reforms			
i.	Public administration and civil service reforms	Projects under public–private partnerships need to be advanced by developing capacity in line agencies to design, bid, and award such contracts		
ii.	Labour Market reforms	For the garments industry, develop skilled candidates for middle and senior management needed both to improve labour relations and to raise production efficiency through better quality control, labelling, and shipment	Improve labour safety standards, wages, and working conditions	
iii.	Legal reforms/ property rights	Implement a cohesive land titling project since large share of land parcels are owned through inadequate documentation	Increase the head count and capacity of the Land Office to make it more equipped to undertake properly necessary land registration procedures	
iv.	Regulatory Reforms	Improve oversight over fire and building safety standards to prevent industrial accidents especially for the garments industry		

Sources: ADB (2014), Rahman (2014), World Bank (2014c)

BHUTAN

I. Macroeconomic Reforms

3.	Financial sector reforms	Develop a credit information system and a better variety of financial products to provide credit to entrepreneurs	Bhutan needs to manage risks and vulnerabilities by putting in place, for the poor and vulnerable segments of the population, formal social protection mechanisms along with access to finance mechanisms like targeted micro-credit programs
4.	International trade	Improve trade-related transport logistics, such as harmonisation of documents and procedures, needs greater attention	

II. Microeconomic Reforms

5.	Agriculture sector reforms and land issues	Provide crop insurance schemes to help farmers manage shocks due to price fluctuations and calamities.	Agribusiness, which is an emerging sector in Bhutan, needs to be developed and the government can put in place policies and incentives to encourage and support farmers
6.	Industrial policy and public sector reforms	Encourage private sector development to create more jobs outside of agriculture	
7.	Infrastructure development	Improve rural road access throughout the country.	Encourage private investment in hydropower sector using public/ private partnerships and subcontracting

Sources: ADB (2014), Bhutan (2014), World Bank (2014d)

MALDIVES

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Improve targeting of the major subsidy schemes – particularly the electricity subsidy	Need to consolidate of tax measures by raising tax rates (particularly GST) and reversing or rationalising the import-duty rate reductions
4.	International trade	Potential sectors with key comparative advantages include: transport, energy, education, health, financial services and Information and Communication Technology (ICT).	

III. Microeconomic Reforms

9.	Governance and Institutional Reforms		
i.	Public administration and civil service reforms	Reduce the size of the civil service	
ii.	Labour Market reforms	Generate jobs and diversify the economy away from tourism into other sectors	Develop specialised skill for diversification of economy

Sources: UNDP (2014), World Bank (2014f)

NEPAL

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Need to improve the allocation and utilisation of resources through the reform of the budget process, improvement of the budget spending quality, including greater accountability of the system.	Fiscal policy needs to support growth through higher public spending in key areas such as: power generation/ distribution, transportation etc.	Expand or create more fiscal space to finance additional social spending and investment. E.g. Reducing implicit subsidies to the Nepal Oil Corporation (NOC) and reducing its losses
2.	Monetary Policy	Need to control the volatility and excess liquidity in the banking system through sterilisation measures	Reconsider the proposed cap on interest rate margins to improve stability and access to credit	
		Closely monitor the evolution of bank balance sheets and new loans and be ready to tighten monetary conditions		
3.	Financial sector reforms	Need to improve access to credit for firms, especially SMEs	Need to restructure State-controlled banks by identifying recapitalisation alternatives	Adopt the planned Financial Sector Development Strategy (FSDS)
4.	International trade	Need to improve terms of trade through targeted interventions, revamping export subsidies and enhancing trade finance.	Need to overcome supply-side constraints, especially high transit costs, due to landlockedness	Improve implementation of bilateral transit treaty which facilitates the export of goods from Nepal to India
5.	Exchange rate	Need to continually evaluate the peg to the Indian rupee as appreciation of the REER increases concerns regarding Nepal's widening trade deficits.		

II. Microeconomic Reforms

6.	Agriculture sector reforms and land issues	Modernise agriculture productivity by: i. Focusing on irrigation infrastructure development and management ii. Leveraging technology spill-ins from India iii. Rationalising and streamlining input subsidies	Promote agribusiness development by: i. Enhancing the role of the private/cooperative sector in input supply ii. Developing agricultural value chains and strengthening the Agribusiness Promotion unit in Ministry of Agricultural Development (MoAD)	Support crop diversification in remote areas by: i. Developing area-specific plans for technological upgrading in remote regions ii. Identifying and supporting production of non-traditional crops for the Indian market
		Modernise land policy and administration by reviewing existing land laws and regulations and working-out a strategy for implementation / enforcement	Enhance the government's strategic policy framework by developing a prioritised and budgeted implementation Plan for the Agriculture Development Strategy	
7.	Industrial policy and public sector reforms	Need to establish a more robust competition authority		
8.	Infrastructure development	Initiate electricity tariff reform for full cost recovery and generation of positive returns for the power sector	Come up with a road map for power sector development	Address Kathmandu's growing urban transport challenges; Revive the proposed fast track linkage between Kathmandu and the Tarai plains project

9.	Governance and Institutional Reforms			
i.	Public administration and civil service reforms	Strengthening the Office of the Auditor General	Develop a new framework to adapt the civil service to a federal structure with common standards	Strengthen health insurance and contributory pension scheme to civil servants and implement an effective promotion and transfer policy
		Improve procurement and contracting in terms of both competition among contractors and technical capacity for proper procurement planning.	To prepare for decentralisation of government, form dedicated institutions directly accountable to top political leadership	
ii.	Labour Market reforms	Need to facilitate tripartite dialogue on reform of labour laws, to reach consensus on flexibility allowed to employers in terms of adjusting staffing needs to demand, security and protection for workers, and to strengthen social dialogue forums.	Need to improve the efficiency of labour market institutions, to ensure fair enforcement of labour standards	Need to focus on employment-based infrastructure investments which could lead to employment creation, reduce inequality and enhance rural productivity
iii.	Corruption Control	Anticorruption agency (CIAA) must develop comprehensive whistleblower protection legislation.	Improve the awareness of the Right to Information (RTI) Act and also the capacity for implementation.	
iv.	Legal reforms/ property rights	Need to implement the anti-money laundering and counter-financing of terrorism legal framework	Enhance the capacity of Department of Money laundering investigation (DMLI) and the special court to handle anti-money laundering and Counter Financing of Terrorism (AML-CFT) cases	Alleviate regulatory burden on firms by simplifying bureaucratic procedures and making laws and regulations clear – especially in the areas of licensing and taxes
		To encourage community-based land reforms to redistribute surplus land to landless and land-poor households		
v.	Regulatory Reforms	Enhance transparency in the disclosure of the effective cost of financial services	Improve the credit information bureau (CIB) and implement the long- overdue secured transactions framework	Update Nepal's investment legislation and investment procedures to increase transparency and predictability of outcomes to attract FDIs

Sources: ILO (2013), IMF (2014b), Shanti (2014), Transparency International (2010), World Bank (2014g), World Bank (2014h), World Bank (2013), WTO (2012)

PAKISTAN

I. Macroeconomic Reforms

1.	Fiscal reforms and Public Sector management	Need to strengthen tax administration by: i. Expanding income tax net ii. Strengthening the administration and transparency of other taxes such as sales taxes, custom taxes and excise taxes		
2.	Monetary Policy	Adjust policy interest rate to ensure positive real interest rates	Re-evaluate the level of Minimum Capital Requirement (MCR) for the financial sector	
3.	Financial sector reforms	Need to reduce NPLs by speeding up recovery processes, providing favourable tax treatment for write-offs, and supporting markets for distressed debt	Enact amendments to the State Bank of Pakistan law to strengthen its autonomy and enhanced governance structure	The Deposit Protection Fund act and the Securities Bill need to be finalised and implemented
4.	International trade	Simplify tariff rates and eliminate the statutory regulatory orders that establish special tariff rates	Improve trade relations with Pakistan's commercial partners, especially those of SAFTA; Evaluate the opening of special economic zones and multilateral flows	Need to achieve a simple statutory (Most Favoured Nation) rates regime of four slabs by end-2016/17
5.	Exchange rate	Fine-tune exchange rate policy to gear towards rebuilding reserves	Need to allow greater flexibility of the exchange rate	

PAKISTAN

II. Microeconomic Reforms

6. Agriculture sector reforms and land issues	Need to narrow the substantial yield gap between high-value crops and major cereals as they would boost agricultural productivity	Need to increase spending on public agricultural research and human resource capacity	Need to resolve the problem of inefficient water use by setting up a better water allocation system to increase farmers' access to water
7. Industrial policy and public sector reforms	To finalise the implementation of the plans to import Liquefied Natural Gas (LNG) to improve energy supply within the target period	Need to maintain strong commitment to privatisation plans of Public Sector Entreprises; Need to build the institutional capacity of the Water and Power Development Authority (WAPDA)	Encourage the conversion of power plants from oil-based to coal-based plants
8. Infrastructure development	Enhance investment in basic infrastructure services; Improve connectivity between cities and as well as mobility within cities	Integrate land use planning with transportation and infrastructure to proactively manage urban growth and enhance livability	Need to improve the maintenance and investment in transport system
	Initiate performance contracts to tackle losses, raise payment compliance, and improve energy efficiency and service delivery in public sector energy companies		
9. Governance and Institutional Reforms			
i. Public administration and civil service reforms	Improve the efficiency of civil service at all levels (federal, provincial and local)	Improve inter-government coordination to make decentralisation work; Give greater autonomy to local government for resource mobilisation	Promote the greater use of government services online
ii. Labour Market reforms	Introduce education reforms through better governance and collaboration with private sector to ensure labour market relevance of skills set taught.	Need to design a structured set of national regulations to guide inspection policy toward 'best practice' management characteristics	Need to increase investment in rural development coupled with livelihood strengthening to provide more employment opportunities to rural population
	Provide poor women with access to resources and services to increase rural productivity and non-farm rural employment		
iii. Corruption Control	Stop attempts to replace the National Accountability Bureau with a new commission, which has a more limited scope and jurisdiction	Strengthen the Right to Information (RTI) Bill to meet international standards; raise public awareness of the Right to Information (RTI) law	Develop comprehensive whistleblower protection legislation.
iv. Legal reforms/ property rights	Need to ease business regulations and procedures across a wide range of areas, both at the central level and the provincial level.	Modernise land entitlements and transactions and ensure transparency; Effectively implement the anti-money laundering (AML) framework	Refine land regulations, bye-laws, and land disposition to increase land supply

Sources: IMF (2014c), Refaqat, S et al. (2014), Transparency International (2010), World Bank (2014i)

SRI LANKA

I. Macroeconomic Reforms

1. Fiscal reforms and Public Sector management	Amend the Securities and Exchange Commission law to build a vibrant capital market
3. Financial sector reforms	Improve access to finance which is a major constraint in both urban and rural areas for corporate as well as SMEs.
4. International trade	Introduce more competition in sectors such as airport services, cargo handling and port services where the government has a monopoly (except for one terminal in a Colombo port run by a private entity)
5. Exchange rate	Overvalued currency continues to adversely impact the competitiveness of Sri Lankan exports

II. Microeconomic Reforms

6. Agriculture sector reforms and land issues	Provide government incentives for tea replanting and improving labour productivity		
7. Industrial policy and public sector reforms	Rationalise the incentives regime in the industrial sector to help enhance resource allocation and efficiency in the economy	Upgrade manufacturing and services base, so that employment generation shifts away from the current low productivity sectors such as construction, tourism, retail trade	
8. Infrastructure development	Upgrade rural access roads and rehabilitate national roads.	Increase both physical and fiscal resilience to climate and disaster risk, through adaptation enhancing investments	Diversify the fuel mix in the energy sector and lessen reliance on oil-based energy generation source
9. Governance and Institutional Reforms			
i. Public administration and civil service reforms	Depoliticise the use of the "Urgent Bill" provision of the Constitution which allows the government to pass controversial laws under an expedited process reserved for emergencies		
ii. Labour Market reforms	Provide systems and incentives to give the labour force the types of skills needed for a knowledge economy.	Consider gradual increases in the retirement age of formal sector employees; Increase female labour force participation and address the high youth and female unemployment and its causes	Extend pension coverage for workers in the informal sector, where the majority of the most vulnerable workers are employed
iii. Corruption Control	Improve transparency and accountability mechanisms especially in state-owned enterprises to reduce opportunities for corruption		
iv. Regulatory Reforms	Set up an independent Food Authority by statute dedicated to food control administration		

Sources: ADB (2014), Aturupane, H et al. (2014), Transparency International (2014), Transparency International (2012); World Bank (2014j), World Bank (2012)

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