



PIDE

# PIDE REFORM MANIFESTO

Transforming Economy and Society

Pakistan Institute of Development Economics

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# **PIDE REFORM MANIFESTO**

Transforming Economy and Society



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## FOREWORD

### **A growing and modern Pakistan!**

### **End being a perpetual patient of the global emergency ward!**

The economic mess in Pakistan continues. Twenty-four IMF programs later, the economy remains close to default, without investment, and under fear of continued current account and fiscal deficits.

Reflecting the level of confidence in the country, investment remains exceptionally low, almost negligible. Only the informal market works to provide investment, employment, and other economic opportunities!

The formal market is heavily as well as unintelligently regulated. PIDE estimates that the footprint of the government is as much as 64 percent because of the excessive interference by the colonial bureaucracy through controls on market entry and development.

PIDE also estimates that the cost of this permission culture and extensive regulation may amount to as much as 45 percent of GDP. Looked at this way, there is little room to invest in the economy.

Continuing the colonial tradition, the unreformed, Government that we have preserved during our 75 years of independence remains extremely suspicious of wealth-making.

### **A spoils system**

The democratic system has evolved around the colonial mandate of civilizing the natives and patrimonialism. The result is that votes are given not based on ideologies or ideas, but on expected giveaways, as well as the provision of rights through official largesse! This immature democracy regards elections only as gaining unchecked power to control the country's resources. The waste of this imperial democracy has led to unsustainable levels of debt.

The continued colonial system also impedes modernizing society while also retaining a deep suspicion of markets! Inheritors of the colonial system continue to expand the colonial lifestyle at a huge cost to the budget. City centers, often the crucible of investment and innovation, are occupied by offices and housing for the officials and judges. Bureaucrats run city development and regulation to their benefit.

Cities are forced by regulations to suit officials' downtown occupation to push population and high-rise buildings out of the city. The resulting sprawl has caused unlivable pollution in almost all cities.

Public investment (via PSDP) has been politicized. All politicians push their projects in their constituencies without economic analysis. Not only has this led to waste, but it has also confused local politics with national politics, with MNA, MPAs, and even ministers and chief

ministers behaving as local councilors. Besides, these projects have become a part of patronage politics. We need ideological politics, not patronage politics.

Local government is resisted by the VIPs: politicians to preserve their PSDP funds, and bureaucrats to preserve control of cities and land development. Without local government, democracy remains incomplete.

## **Lacking policy and reform capacity**

In short, officialdom preys upon transactions and markets. Colonial structures have been captured by various mafias and have lost the ability to be an independent operator of claims!

As Pakistan lurches, from one crisis to another, the ruling and controlling colonial structures remain talent-repellent. Innovative, entrepreneurial, and research skills have no opportunity here and are forced to leave. The colonial structures are further reinforced as they have no challenge to their authority. However, this also means antiquated institutions cannot deal with the 21st century global economic environment.

The huge aid/lending institutions, pretend as if Pakistan is a modernized economy. They merely add burdens onto the 19th century, colonial structure. Loans are too easily given. Organic thought and research remain stunted as international consultants allow no room for research.

This is a recipe for disaster. This explains why for the last 75 years Pakistan has been lurching from crisis to crisis and is now considered to be a candidate for default in the global marketplace!

## **The future is reform!**

There still is hope. Pakistan has a young population that is scrambling to get out of the country to escape the inept, leftover colonial structures. Yet this may be the strength for the future of Pakistan. In my book, "Looking Back: How Pakistan Became an Asian Tiger" (Haque, 2017), I have outlined the deep reforms that could allow this youth advantage to be reaped. This will happen only if we can re-engineer the entire governance system including, bureaucracy, judiciary, and democratic structures – to fit the needs of the 21st century, to allow markets to work, to nurture and use the talent of the population, and not force it to leave.

Like other countries, Pakistan must develop an organic capacity to change with the times, adopt technology, and remain competitive! Eventually, it must discover its niche, and lead the world in some areas to be able to export enough to step off further crises!

The colonial structures have been captured by various mafias and have lost the ability to be an independent arbiter of claims!

As outlined above, our near default situation and deep social and economic problems require a deeper response in both the approach and structure of policymaking as well as our approach to governance and business.

I would like to emphasize that this reform agenda has been widely discussed across the country at numerous conferences, meetings, and webinars. Yet, this is by no means either a complete or the most possible reform agenda that is required. We do think that this outlines some important reforms that must be undertaken to move us beyond our inherited colonial system. No reform is static or complete. It must be a conscious and continuous process of learning and evolution.

In another direction, this is also a research agenda that our research community—universities and civil society organizations—needs to pursue. More importantly, this is an agenda that requires much further discussion across the county. We hope that the political parties will use this in building their much-awaited manifestos. The media should discuss these ideas and not just yesterday's news. We must accept reform and change to be part of our society.

Clearly, there are deep changes required if we are to grow as required by our demographics, and the needs of our society.

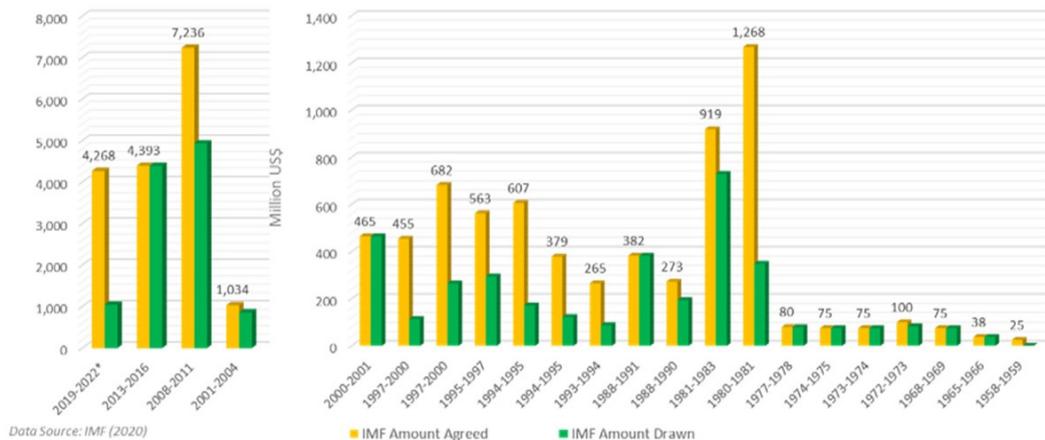


**Dr. Nadeem UL Haque**  
Vice-Chancellor  
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January, 2024



## BACKGROUND AND CONCEPTUALIZING REFORM

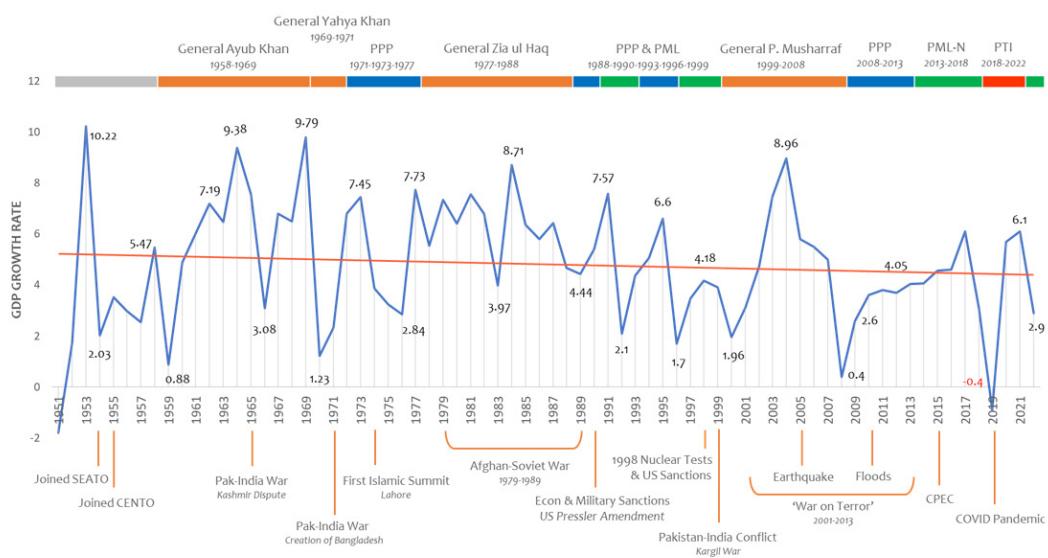
Pakistan has been in the emergency ward of the international economy – the IMF – for much of its history. Undoubtedly, there are deep issues in our economy, policymaking, as well as our governance, and business systems that force us to remain addicted to the lender of the last resort – the IMF.



Data Source: IMF (2020)

Source: Khan, F. J. (2020). Foreign Aid & Public Sector Capacity in Pakistan. SBP Webinar Series on Economics and Finance. 17<sup>th</sup> Sept 2020.

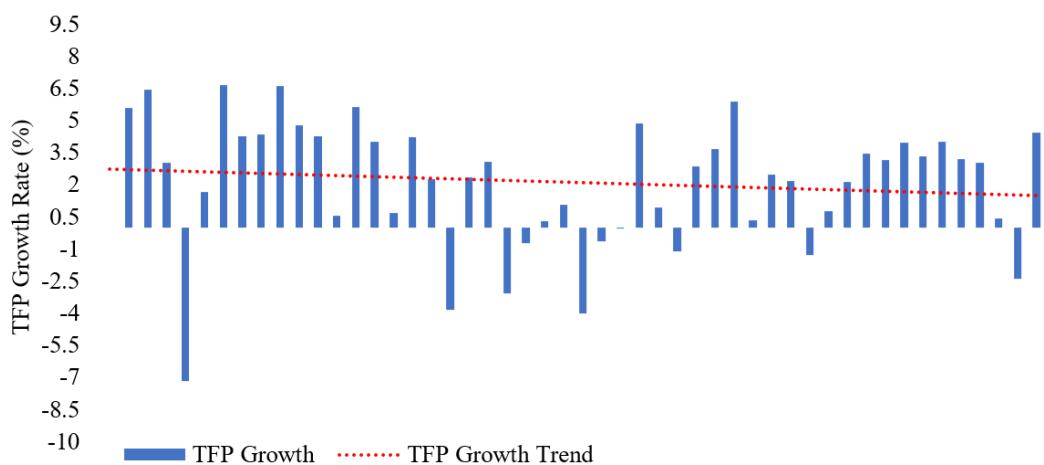
The economic growth experience of Pakistan is marked by volatile and episodic growth. The long-term growth shows a downward trend which should be alarming.



Source: Khan, F. J. 2022. Policy Research Methods: A Step-by-Step Guide from Start to Finish for Students and Practitioners (Updated)

The challenges posed by the changing demography and debt burden cannot be addressed unless Pakistan achieves and sustains a higher growth rate for an extended period.<sup>1</sup> PIDE estimates that the demographic bulge will last till 2056. Over two million new jobs will need to be added to the labor market every year for the next three decades. This will only be possible if our economic growth rate remains well above 7% annually. For those who think this is difficult, consider India has achieved this consistent growth for the last 20 years. PIDE research shows that the approach has to be deep reforms.

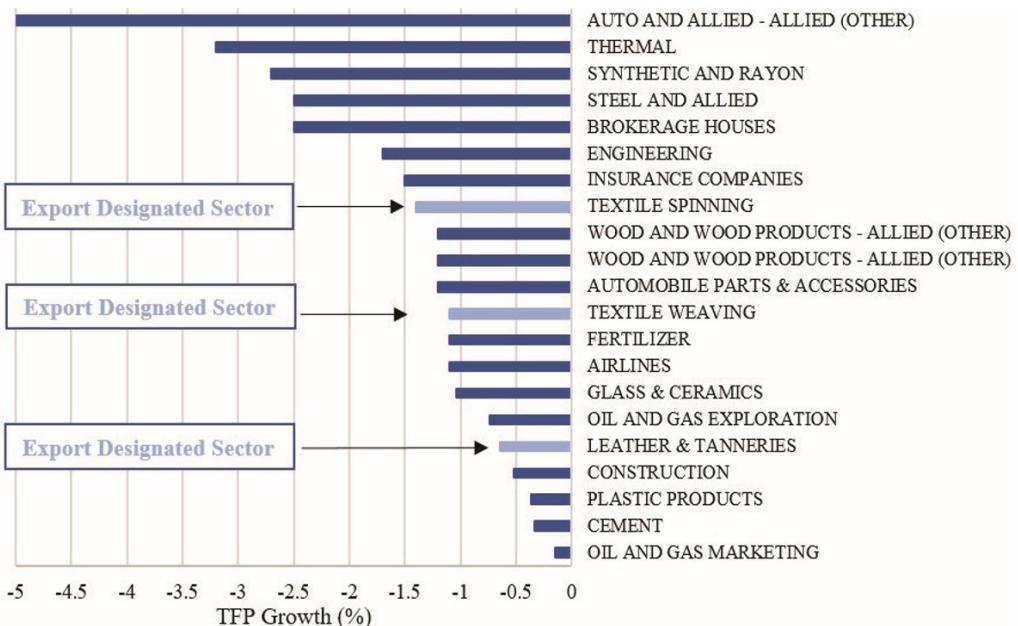
Productivity has been declining and sadly more so in our export and subsidy-seeking sectors.<sup>2</sup>



1. To absorb the youth bulge, which Pakistan has, into gainful employment and sustain our high level of debt, PIDE's estimates suggest that the country must grow at a rate of 7 – 9 percent per annum for a sustained period of three decades. For details see PIDE Reform Agenda for Accelerated and Sustained Growth (2021).

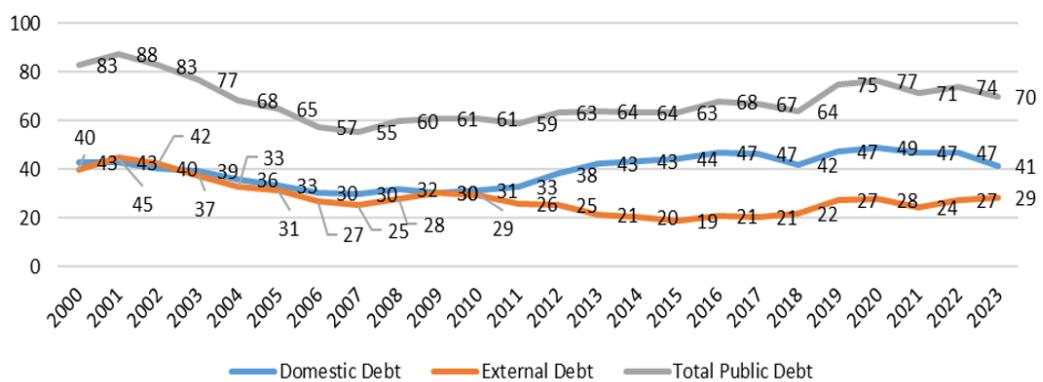
2. For details see:

- Siddique, O. (2022). Total Factor Productivity and Economic Growth in Pakistan: A Five Decade Overview (2022). The Pakistan Development Review, 61(4), 583–602.
- Faraz, N., Siddique, O., and Saeed, A. (2023). Sectoral Total Factor Productivity in Pakistan. Islamabad: The Ministry of Planning, Development & Special Initiatives and Pakistan Institute of Development Economics.

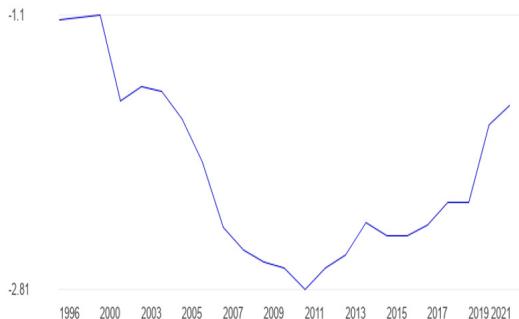


Our debt burden continues to increase, and most analysts think we recently avoided a default. Fiscal space achieved through a complex debt restructuring in 2003 has been spent rapidly, much of it unproductively.

### Pakistan Debt Burden (% of GDP)



Pakistan remains a very unstable country, with different political and non-political actors contributing to the instability. We should see this indicator of volatility and instability as a shoutout for reform.



## Definition

The index of Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. The index is an average of several other indexes from the Economist Intelligence Unit, the World Economic Forum, and the Political Risk Services, among others.

### Political stability index (-2.5 weak; 2.5 strong)

Evidently, change is needed if we are to progress. This would not be possible unless deep-seated reforms in almost all areas are carried out. The research by the Pakistan Institute of Development Economics (PIDE) over the years identifies certain reform ideas, which we bring to you to help develop a rich debate.

## Stuck in the Past: The Haq/HAG model

Pakistan's economic policy resists evolution or modernization. It continues to follow the Haq/HAG model<sup>3</sup> that foreign advisers provided in the 1950s. The Haq/HAG model is comprised of:

- Brick and mortar projects (roads, buildings, energy supply, dams, canals) for hard infrastructure.
- Import substitution based on tariff protection and export promotion through subsidies. This approach, which is akin to mercantilism, has led to an increasing distance of our industry from the global value chain.
- Distance from the global value chain reinforced by mercantilism has also meant stunting of the local value chain as several activities such as retail, wholesale, storage, commerce, city development, and construction remain underdeveloped.
- Little or no emphasis on soft infrastructure (research, management, productivity enhancement, etc.)
- Demand for dollars to deliver unnecessary hunger for hard projects and support an exchange rate for a domestic economy to meet a growing population demand for imports which are part of a global value chain that our outmoded import substitution industry (isolated from the global value chain) cannot deliver.

Central planning, which was in vogue those days, required 5-year plans based on big projects that were considered public investment. Pakistan's infrastructure was severely short in those days, and hence all projects were hardware (roads, buildings, energy supply, dams, canals).

The model also included a deep suspicion of markets, relying on excessive government controls and the direction of investments and markets. Recall, that this model prevented many markets/activities – media, cinema, sports, etc. – by official fiat for decades. In addition, the system of permissions (SLUDGE) has ensured that markets are stunted, and transactions are impeded.

The central assumption of this model was that the only shortage was of dollars and resources to build hardware (roads, buildings, energy supply, dams, canals) and that the inherited governance structures (software) are capable and malleable to meet all needs of the 20th as well as the 21st century.

Not only was all reform for better management resisted but as project and other needs arose the approach was to tack on a project office or an additional agency. Often these project offices and additional agencies offered more lucrative positions to insiders who over time learned to create more and more such agencies and offices.

Licensing and protection grew a crony capitalist that will not allow anticompetitive practices to be dismantled despite the Competition Commission analysis and recommendations.

Input-based budgeting has led to many projects being completed with substantial cost overruns and unwise or limited use. Assets are created to waste. Examples of these are stadiums, convention centers, auditoriums, and educational buildings without faculty. In addition, because returns are not emphasized, the PSDP is also used to build houses and buy cars for official pleasure.

## **Endogenous Growth: Innovation, Global Value Chains, Openness**

While policy in Pakistan has remained in Groundhog Day, there has been a sea change in global thinking and research on growth and development. Acemoglu and Robinson (2012)<sup>4</sup> have summarized well the literature of Nobel Laureates – Robert Lucas, Douglas North, and Paul Romer – showing that the necessary conditions for progress and achieving sustainable growth acceleration are:

- Systems of information processing that facilitate rapid and trouble-free transactions (institutions of governance and markets)
- The rapid spread of R&D to increase innovation, productivity, branding, and marketing, and to find niches of competitiveness in the global value chain.

The Haq/HAG model is in consonance with the Pakistan governance system that is a hangover of the colonial system. The system of controls and lack of markets limit opportunities for innovation in productivity, transactions, and markets.

Central planning and mercantilism empower the government (colonial officials of all hues) to pervade the economy with Registrations, Licenses, Certificates, and Other permits (RLCOs) at the huge cost of investment and entrepreneurship. The result is that most entrepreneurs and investors spend more time in offices getting permission than running businesses. Moreover, colonial systems provide excessive latitude to officials for whimsically changing rules or applying them impulsively.

Globally, newer approaches, such as performance-based budgeting as well as results-based decentralized management, have developed in line with the more idea-based development. Assets are created to be used, and their use is monitored.

It is high time that the economic policy framework in Pakistan moved from the Haq/HAG model to one that allows for innovation, research, markets, and better governance to happen. We are outlining a possible reform agenda for this here.

## **Policy Outsourcing Should No Longer Be an Option!**

The Haq/HAG model came from international consultants when Pakistan was a darling of the donor community in days when most of the developing world was still under colonial rule. Since then, most of our policy ideas have come from the international consultants financed by our loans and sometimes grants.

Everyday TV analysts are heard asking the IMF and the World Bank to provide solutions to our problems or restrain our policymakers from their extravagance.

In turn, the lenders blame us for the policy mistakes that are holding us back. Yet, they provide more and more technical assistance and loans. All loans and technical advice are predicated on the existing policy framework (Haq/HAG) and governance system (the colonial hangover). The goal is increased financing and multiplying goals that never seek the fundamental reform to fix the policy-research-innovation-entrepreneurship nexus.

Meanwhile, continued declines in economic growth, productivity, investment, and other indicators as well as the growing debt-GDP ratio (now close to default) show that this approach needs a radical change.

Sadly, the project-based and mercantilist development model remains intact as does an outmoded governance system, one that is full of regulations and permissions, and is deeply suspicious of success.

There has been a rush to develop universities in Pakistan. Yet the universities remain without professors and sharply segregated from the policy process.

3. Haq as in the economist Mahbub ul Haq, and HAG as in the Harvard Advisory Group.

4. Acemoglu, D. & Robinson, J. A. (2012). Why nations fail: the origins of power, prosperity and poverty. New York, Crown Publishers.

## Our Reform Recommendations

This report is based on the research PIDE has conducted over the last four years. PIDE has published extensively on topics such as excessive regulation of the economy, the outmoded governance model, the excessive costs of transactions, inefficient city management and zoning, urban mobility, obsolete models of housing, outmoded policy, PSDP management and waste, and missing or poorly conceived and bureaucratically controlled markets.

This reform agenda has also been based on four years of country-wide consultations. Multi-day large conferences have been held in Quetta, Peshawar, Malakand, Gilgit, Islamabad, Multan, Mardan, and Rawalpindi. Smaller conferences and consultations have been held (in some places more than once) in Lahore, Karachi, Sialkot, Faisalabad, Muzaffarabad, Gwadar, Quetta, and Swabi among many other places. These widespread discussions have involved Chambers of Commerce and Industries, NGOs, universities, colleges, think tanks, government departments, ministries, and trade bodies. This is arguably the most widely discussed reform agenda that has been produced in the country.

In addition, the PIDE RASTA program, with the underlying belief in 'Local Research, Local Solutions', has developed large amounts of research through local researchers in universities all over Pakistan to help develop indigenous reform ideas for growth and development. It is only through local research that permanent solutions to the country's problems can be found, not through foreign ideas, people, or agencies.

These consultations and underlying research show that deep reform is required in our structures of governance, in the way business and policy are conducted, in the markets that are raw and undeveloped, in our management systems, and in the use of resources. Mere begging without reform should not and is not an option. This is what this reform agenda is about!

It should be pointed out that this is by no means either a complete or the most possible reform agenda that is required. No reform is static or complete. We do, however, think that this outlines some of the important reforms that should happen for us to move beyond our inherited colonial system.





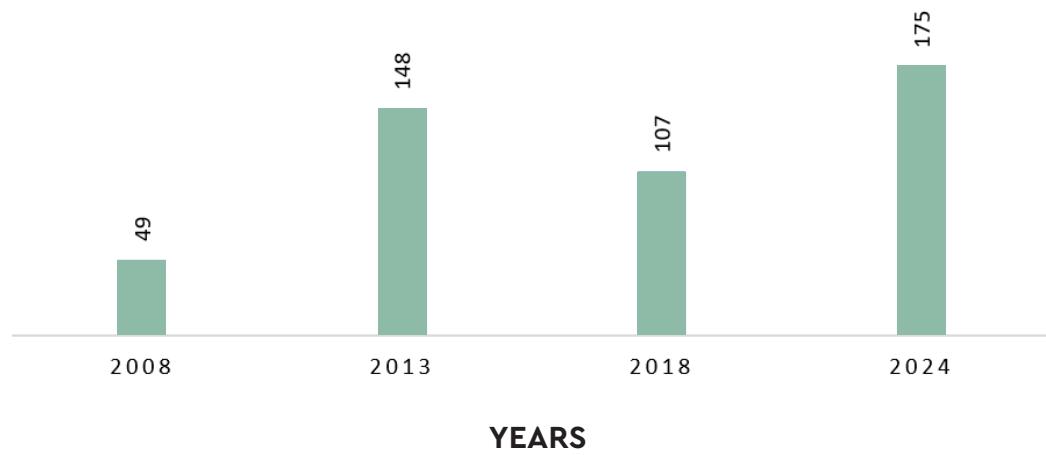
1.

## MUCH NEEDED POLITICAL STABILITY

## A. Political Parties

Chapter IX of the Election Act 2017 specifies that political parties in Pakistan can be formed by “anybody of individuals or association of citizens” and has the support of 2,000 registered members. Over 200 parties contested in the election cycle of 2018. This results in scattered seats and problems forming a government, with various parties holding a small number of seats and imposing a set of conditions upon prospective ruling parties for coalition agreements. Naturally, these conditions, which are frequently motivated by the personal interests of the members rather than the wishes of their constituencies, function to dilute the ideological base of a government and result in the wastage of resources and deadlocks in parliament.<sup>5</sup>

**Number of Political Parties**



Source: The Election Commission of Pakistan

The political landscape is still dominated by families and dynasties. Those who are not part of existing powerful political families/dynasties have low chances of both entering politics and being successful in elections.

Section 208 of the Elections Act 2017 does not provide sufficient guidance for true intra-party democratic elections. Additionally, the Election Commission frequently fails to enforce these rules, and intra-party elections are often merely formalities rather than opportunities to promote intra-party democracy. The result is that existing dynastic and personality-based power asymmetries are reinforced in most political parties in Pakistan.

The power asymmetries are reinforced when party members with tickets to parliament are unable to express opinions outside the party center.

5. See: Moosvi (2021). Electoral Politics in Pakistan: Law, Parties, and the Need for Innovation. PIDE Knowledge Brief 45. PIDE (2022), Charter of Economy: Petition to all the Political Leaders/Parties of Pakistan. Policy Viewpoint 40.



## PIDE's Proposed Reform

**R-1.** Impose more prerequisites, ratified by law, for parties to appear on the ballot, which could be in the form of demonstrating a minimum support base beforehand – for instance, political parties should demonstrate a minimum of 50,000 members (rather than 2,000), including a minimum of 30 percent women, before being allowed to enlist for elections. To encourage political competition at the local level, conditions such as requiring political parties to **demonstrate a minimum number of supporters** in each district of a province before being allowed to compete for its assembly may be introduced.

**R-2.** It should be mandatory for **political parties to hold regular intra-party elections**, at least once every 3 years, and an open party convention once every year, before being permitted to compete in an election. These elections should be conducted in public and overseen by an independent third party, such as the Election Commission, to ensure transparency, fairness, and legitimacy.

**R-3.** Political parties competing in elections must **publicly disclose independently audited financial reports**.

**R-4.** All political parties must produce **a periodic manifesto** outlining their proposed reforms.

## B. Election

According to Article 52 of the Constitution of Pakistan, both national and provincial, assemblies remain in place for five years from the day of its first meeting. Recent experience has shown that parliament becomes contentious, fragmented, and often dormant over time. The pressure of elections, which is supposed to keep the government on its toes, is rather distant in a 5-year term.<sup>6</sup>

6. See:

- Moosvi (2023). Rethinking Electoral Politics. PIDE Discourse 06.
- Bari (2023) Electoral Reform: A case of Proportional Representation. PIDE Discourse 06.
- Haque, and Hussein (2023). Manifesto Without Substance. PIDE Knowledge Brief 107.
- Masood (2021). Electoral Reforms in Pakistan. PIDE Webinar Brief 52.

## The Prime Ministers Of Pakistan

NAME	FROM	TILL	PERIOD
Liaquat Ali Khan	8/15/1947	10/16/1951	4 YEARS, 2 MONTHS
Khawaja Nazimuddin	10/17/1951	4/17/1953	2 YEARS, 6 MONTHS
Mohammad Ail Bogra	4/17/1953	8/11/1955	2 YEARS, 3 MONTHS, 26 DAYS
Ch. Mohammad Ali	8/11/1955	9/12/1956	1 YEAR, 1 MONTH
Hussain Shaheed Suhrawardi	9/12/1956	10/18/1957	1 YEAR, 1 MONTH, 6 DAYS
Ibrahim Ismail Chandigarh	10/18/1957	12/16/1957	1 MONTH, 28 DAYS
Malik Feroz Khan Noon	12/16/1957	10/7/1958	1 YEAR, 9 MONTHS, 22 DAYS
Noor Ul Amin	12/7/1971	12/20/1971	13 DAYS
Zulfiqar Ali Bhutto	8/14/1973	7/5/1977	3 YEARS, 10 MONTHS, 22 DAYS
Muhammad Khan Junejo	3/23/1985	5/29/1988	3 YEARS, 2 MONTHS, 6 DAYS
Benazir Bhutto	12/2/1988	8/6/1990	1 YEAR, 8 MONTHS, 4 DAYS
Mian Mohammed Nawaz Sharif	11/6/1990	4/18/1993	2 YEARS, 5 MONTHS, 12 DAYS
Mian Mohammed Nawaz Sharif	5/26/1993	7/8/1993	1 MONTH, 13 DAYS
Benazir Bhutto	10/19/1993	11/5/1996	3 YEARS, 18 DAYS
Mian Mohammed Nawaz Sharif	2/17/1997	10/12/1999	2 YEARS, 9 MONTHS, 24 DAYS
Mir Zafarullah Khan Jamali	11/23/2002	6/26/2004	1 YEARS, 7 MONTHS, 3 DAYS
Chaudhry Shujaat Hussain	6/30/2004	8/26/2004	1 MONTH, 27 DAYS
Shaukat Aziz	8/28/2004	11/15/2007	3 YEARS, 2 MONTHS, 18 DAYS
Syed Yousaf Raza Gillani	3/25/2008	4/25/2012	4 YEARS, 1 MONTH
Raja Pervaiz Ashraf	6/22/2012	3/24/2013	1 YEAR, 9 MONTHS, 2 DAYS
Mian Mohammed Nawaz Sharif	6/25/2013	7/28/2017	4 YEARS, MONTH, 3 DAYS
Shahid Khaqan Abbasi	8/1/2017	5/31/2018	10 MONTHS
Imran Khan	8/18/2018	4/10/2022	3 YEARS, 7 MONTH, 23 DAYS
Mian Muhammad Shehbaz Sharif	4/11/2022	13/08/2023	1 YEAR, 4 MONTHS, 2 DAYS
<b>AVERAGE TENURE: 2 YEARS, 10 MONTHS</b>			

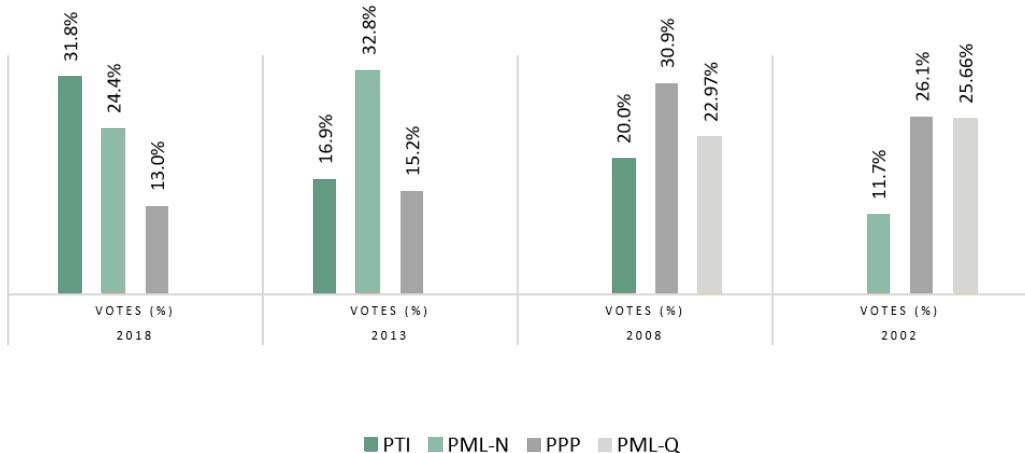
Source: calculation based on data from the National Assembly of Pakistan

■ Everything – the Senate, the President, and all levels of government – are decided in one election.

■ Pakistan adopted the "First Past the Post" (FPTP) or "Plurality" election system. The FPTP system has produced governments despite the ruling party earning just one-third of the total polled votes. For instance, in the last two general elections, PML-N (2013) and PTI (2018) won 33 percent and 32 percent of votes respectively, and yet were able to form governments by bringing in independents and smaller parties' elected members.

- Chaudhary (2023). Why is Pakistani Politics Stuck in a Groove? PIDE Discourse 06.
- Qazi (2023) NOTA on the Ballot. PIDE Discourse 04.

## Political Parties: Percentage Share Of Polled Votes



Source: The Election Commission of Pakistan

- The current practice of party ticket distribution is flawed and undemocratic. Ticket allocations are based on the party leader's preferences.
- Articles 51 and 106 of the Constitution lay down the mechanisms for the allotment of seats for women and minorities in national and provincial assemblies, respectively. Currently, the seats are allocated proportionately among the parties based on election results. The allocation is made from the nomination lists provided by the parties, which leaves women and minority candidates at the whims of their parties' leadership.
- Historically, concerns have been raised about political interference in the functioning of the Election Commission and the interim setup. Critics argue that political pressures and influence undermine the impartiality of the electoral process.
- Conducting an election is a costly exercise and the cost is further increased with people contesting in multiple seats to secure entry to the Assembly. This may also affect/delay the formation of the government.

### PIDE's Proposed Reform

- R-5.** There is a need to **reduce the constitutional term** of the parliament at the provincial and federal levels to 4 years.
- R-6. Every year should be an election year-** Perhaps there is a need to move towards a staggered election mechanism where elections happen every year for some level of government.

**R-7.** The ticket distribution mechanism should be based on collective decisions and perhaps considering gender and minorities.

**R-8. Every seat in the Parliament should be contested-** It is time to consider **direct senate election** as opposed to the current indirect method. Moreover, we should do away with the current nomination mechanism for reserve seats and let these be contested in the general election.

**R-9.** Consider **hybrid voting** including internet/e-voting procedures. We have the opportunity to lead the world in implementing online voting. Considering that banking transactions are routinely conducted on the Internet, there is no valid reason why we cannot adopt the same approach for voting.

**R-10.** Consider alternate mechanisms such as proportional representation, ranked choice, second-round voting, and NOTA (None of the above).

**R-11.** Perhaps it is time to rethink the current election arrangement which involves an interim setup to conduct elections within three months. This practice of **interim government should be eliminated**, and an election should be conducted within three weeks through an independent election commission.

**R-12.** The **independence of the Election Commission of Pakistan (ECP) must be ensured in letter and spirit.** ECP should be empowered to make decisions regarding the conduct of elections without being subjected to interference from anyone. Perhaps we can learn from our neighboring country and ensure independent ECP.

**R-13. No contesting multiple seats.**

## C. Democratizing Election Campaigns

Pakistan's electoral campaigns have long been under scrutiny for their inherent flaws, particularly for their exclusionary nature and extravagant displays. The prevailing system is characterized by grand rallies, expensive vehicles and sound systems, and elaborate feasts, all of which come at a considerable financial cost.<sup>7</sup>

The financial barrier set by extravagant campaigns means that ordinary individuals are left out of the political arena. This exclusion creates a glaring gap between the people and their representatives, undermining the fundamental principles of democracy.



### PIDE's Proposed Reform

**R-14.** There is a need to rationalize and enforce campaign expenditures by the Election Commission of Pakistan.

It is time to rethink the traditional campaign model and embrace a more inclusive and equitable approach. First of all, **limit election rallies, feasts, and expensive**

**campaigns.** Every jalsa must be immediately followed with a full public account of sources and use of funds.

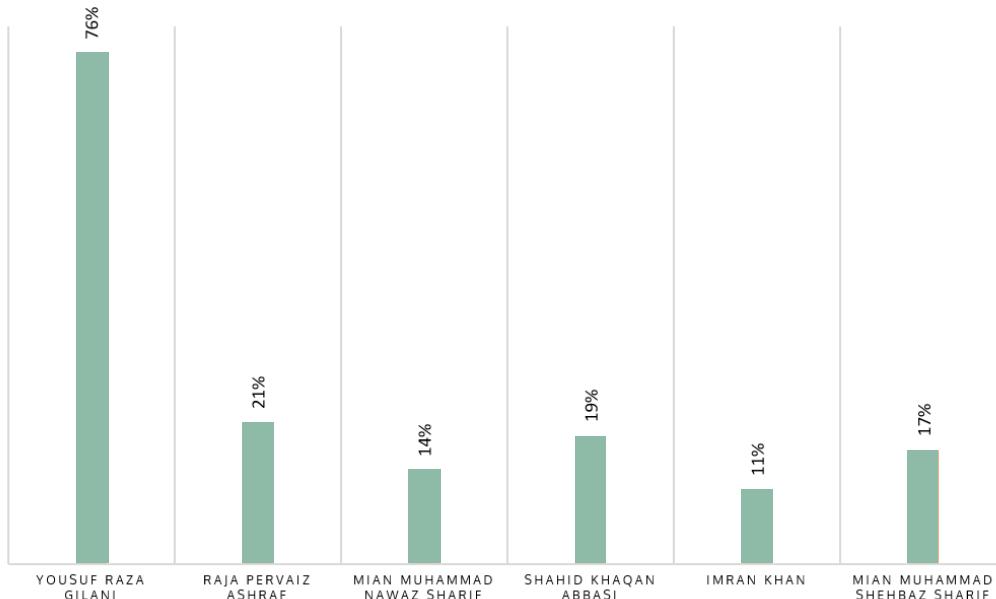
● The potential solution can be the allocation of public spaces for electoral campaigns. The **government can designate public grounds, schools, and open spaces** in every city and town for campaigns during specified periods.

**R-15.** Incorporating a requirement for candidates to present concrete plans and policies is another crucial step. This encourages a more substantive debate and enables voters to make informed decisions based on the proposed solutions to the constituency's problems.

## D. Parliament

■ The selection of candidates in both houses is considered to be based on nepotism and patronage, which undermines merit-based representation. Party leadership demands unquestionable loyalty from the elected members. Political families keep party leadership within the family.<sup>8</sup>

### Attendance of Prime Ministers in National Assembly of Pakistan



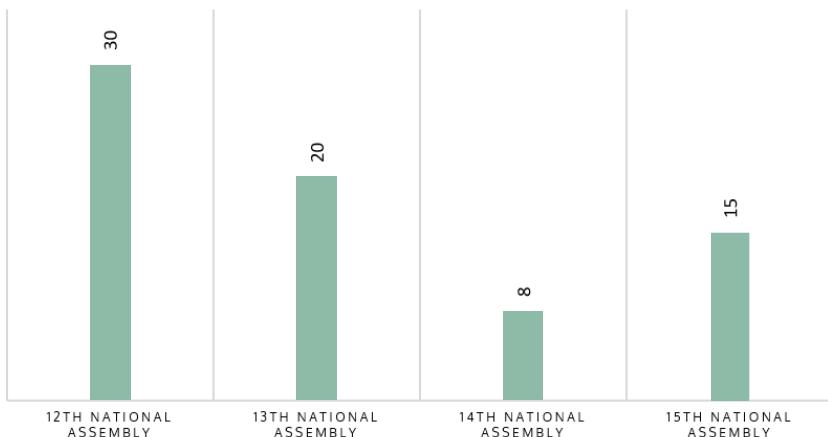
Source: The Pakistan Institute of Legislative Development and Transparency (PILDAT)

7. See: Maken and Salam (2023). Digital Dialogue vs Paper Promises: Manifesto Alignment. PIDE Knowledge Brief 106.

8. See:

- Mehboob (2023). The Unfinished Agenda of Parliamentary Reforms. PIDE Discourse 06.
- Naurin (2023). The Three-year Political Term: Benefits, Challenges, and Staggered Elections in Focus. PIDE Discourse 06.
- Fahim, and Junaid (2023). Political Polarization. PIDE Discourse 03.

## Number of ordinances issued



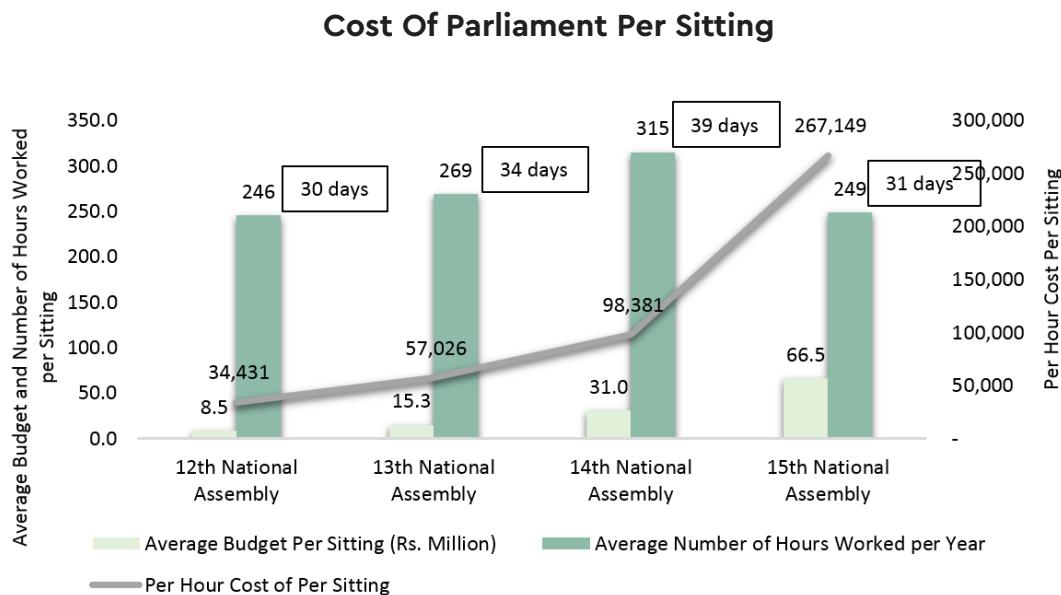
Source: The Pakistan Institute of Legislative Development and Transparency (PILDAT)

## Agenda Items Left Over (August 13, 2018 – August 09, 2023)



Source: The Pakistan Institute of Legislative Development and Transparency (PILDAT)

- There is no term limit in the case of legislators and representation is often taken as a lifetime entitlement.



## PIDE's Proposed Reform

**R-16. Term and family limits for parliamentarians must be introduced.** Term limits must be reinstated for the Prime Minister, perhaps a maximum of two terms. New perspectives often accompany new individuals, bringing innovative ideas to the table.

**R-17.** The focus of parliamentarians must be on policy and decision-making through legislation. **Legislators must be legislators only.** They can have no say in development projects or executive decisions. **No more than ten legislatures can have any executive position** – to keep a clear divide between legislature and executive. Parliament must not be taken as a path to minister-ship.

**R-18.** The direction and use of development funds are to be expended **through an act of parliament, not through a single member of parliament.**

**R-19.** Members of parliament **must attend all parliamentary sittings.** The attendance, voting records, and legislative and debate participation of all members must be periodically made public.

**R-20.** There should be **a clear process to present and approve a bill** in parliament including public access to the bill with at least a week to debate on the bill.

**R-21. Governance through Ordinance should be stopped.** A house moot can be conducted if urgent approval of a bill is required.





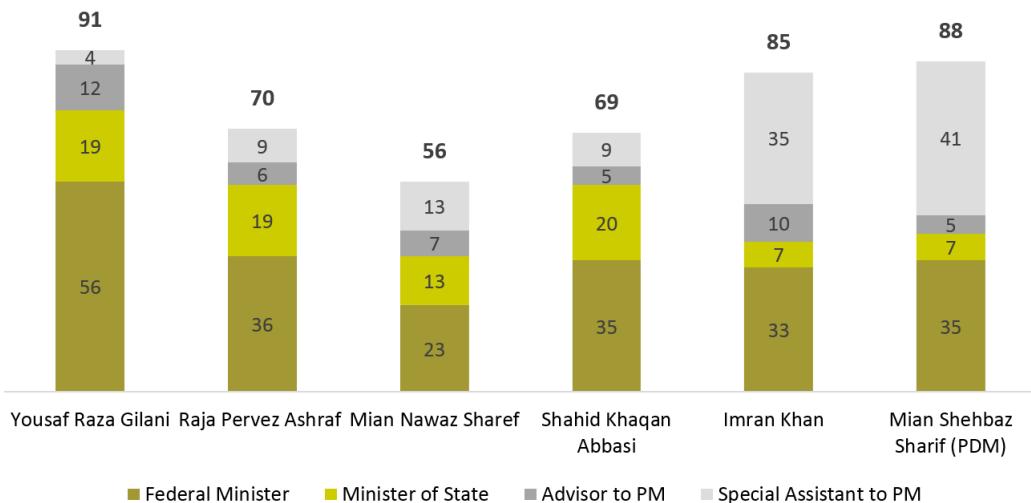
2.

## **PUBLIC ADMINISTRATION FOR THE 21ST CENTURY**

## A. Cabinet Size and Composition

- A large cabinet causes governance inefficiencies through expanding current expenditures, unnecessary division, and overlapping of work.

**Size And Composition Of Federal Cabinets**



Source: The Cabinet Division, Government of Pakistan

- Increasing cabinet size keeps the venal practices of politicians aiming for ministries instead of legislation.

- Influential families, despite lacking formal/relevant education and tangible work experience, hold key positions as ministers and heads of public sector corporations. Governance and policy decisions are entrusted to individuals without established professional backgrounds, raising concerns about the competence of those in charge.<sup>9</sup>

- Nothing in the constitution prevents a chief executive from consolidating all of the power within his/her own office, making most government forums of decision-making ineffective.

9. See: Haque and Ullah (2020). Towards a Stable Economy and Politics. PIDE Knowledge Brief 9.



## PIDE's Proposed Reform

**R-22.** **Parliament will only approve new ministries and bodies** through law with a proper financial feasibility plan.

**R-23.** It is important to note that the **role of a minister is to oversee** the market and not to manage its day-to-day affairs. Decentralization should also lead to less direct control of ministers and secretaries.

**R-24.** It is recommended that **technical departments should not be controlled by any ministry**. Instead, they should have direct parliamentary oversight.

**R-25. Separation of parliament and executive:** The separation of parliament and executive must be jealously guarded. In the recent past, this has been eroded by large cabinets to such an extent that parliament hardly matters, and the executive can pass laws in minutes without debate. Members of the National Assembly want to become legislators only to secure a ministry later.

- The executive **should have a limited number of cabinet** appointments that it can hand out. For instance, limit cabinet members from parliament from 8 to 10, and the total number of cabinet members must not cross 25.

- The appointment of parliamentary secretaries and advisors from parliament, or other executive positions, should not be allowed. These positions create incentives that prevent legislators from effectively acting as lawmakers and watchdogs of the executive.

- Experts should be inducted into the cabinet as required even if they are not legislators.

- Ministerial and other appointments must be reviewed by the Senate or Open Committee to ensure the fitness of a candidate for the position.

**R-26.** It should be mandatory for all political parties to **nominate potential candidates for different ministerial positions during the election campaign** so that voters may have a prior assessment of to whom they are delegating the decision-making powers.

**R-27.** The cabinet must focus on Monitoring and Evaluation (M & E) of the policy decided through parliament and implemented through relevant institutions.

## B. Civil Bureaucracy

Our civil bureaucracy works in a system devised in colonial times. Outdated bureaucracy and policy processes are incapable of addressing the complex problems of the modern world.

The bureaucracy trained in colonial times remains suspicious of markets and tries to control prices, quantities, investment, and other operations. PIDE has estimated that the footprint of the government may be higher than 64 percent because of the huge controls placed on the economy. This is an important reason that the investment/GDP ratio remains amongst the lowest in the world and economic growth and poverty remain on a declining trend.<sup>10</sup>

Bureaucratic hurdles – the unnecessary regulatory burden, dead capital, and control over policies – hinder growth, innovation, and development.

The management system is broken – resisting professionalization and modernization – and is not aligned with the needs of the 21st century. The human resource management system continues to value seniority based on the time spent, and outdated training and payment systems, with no emphasis on achievements and performance. The colonial system of tying positions to houses, cars, plots, and other perks has no incentive for performance. The result is that genuine talent largely leaves or is denied entry into the public sector.



### PIDE's Proposed Reform

**R-28.** The practice of conducting a **generalist colonial examination to recruit individuals for lifetime employment should be eliminated**, with continuous recruitments at all levels.

**R-29.** It would be better to **limit training academies** and let universities with relevant expertise manage the task. This will ensure a better quality of training based on need assessment. The current practice of making training academies using prime land and PSDP funds needs to be discontinued.

**R-30.** The service structure should not have **tribes and service hierarchies**. The current system allows a group to be in a controlling position. There should be **no transfers across government** to allow any distinct group to control all activities, especially given the costs incurred.

10. See:

- Haque, et al. (2021). Cash Poor, Perk Rich! Civil Service Compensation: Incentives, Dissatisfaction, and Costs. PIDE.
- Kardar (2023). Governance Reforms: Anchored in Civil Service Reforms. PIDE Discourse 06.
- Haque (2023). Civil Service Reform in Pakistan: Some Principles. PIDE Discourse 06.
- Haque and Din (2006). Public Sector Efficiency Perspectives on Civil Service Reform. PIDE.
- Khalil (2021). Civil Service Training. PIDE Webinar Brief 04.
- PIDE (2021) Civil Service Reform. Policy and Research Magazine 2.
- Haque and Faraz (2021). Structure of Civil Service Reform in Pakistan. PIDE Policy and Research 2.

**R-31.** Ensure a **higher degree of mobility** into and out of public service with improved incentive structure. There must be mobility rules in the service. Every selection for the position should be through open competition instead of promotion.

**R-32.** Compensation should be market-competitive but monetized. The compensation package must be competitive to attract the requisite candidates. **Discontinuation of perks, plots, privileges, ex-officio appointments, and arbitrary allowances.**

**R-33.** The pension should be fully funded and invested. Moreover, pensions should be portable, even across the public and private sectors, to allow and encourage mobility.

**R-34.** Digitization of all processes and the widespread use of digital means of work in the public sector is a must.

**R-35.** Currently, bureaucrats cross over to lending and aid agencies with ease. There is a conflict of interest since they are in a position of policymaking to facilitate lending. Perhaps a cooling-off period should be considered.

## C. Public Servant

The government of Pakistan is facing a growing financial challenge due to the high number of nonproductive government employees. These are employees who are not contributing to the economy in a meaningful way, and their salaries and benefits are a drain on the government's resources.<sup>11</sup>

### sector-wise number of employees in federal government

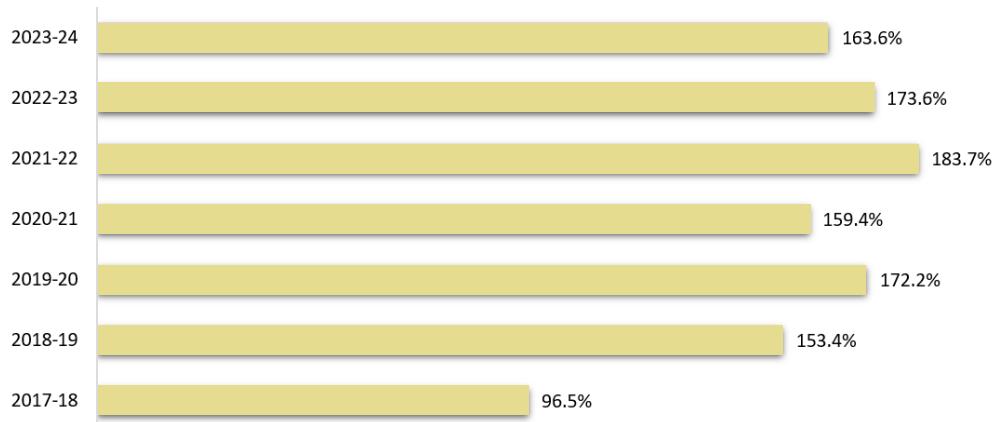
Classification	Basic Scale		
	1 to 16	17 to 22	Total
<b>Federal Secretariate</b>	11,452	2,483	13,935
<b>Attached/Subordinate Offices</b>	313,325	19,709	333,034
<b>Civil Armed Forces</b>	217,799	2,127	219,926
<b>Constitutional Bodies</b>	6,810	1,649	8,459
<b>Total</b>	<b>549,386</b>	<b>25,968</b>	<b>575,354</b>

Source: Annual Statistical Bulletin 2021/22

The poor recruitment procedures are also one of the main reasons for the low productivity of various government departments, especially autonomous bodies. Workers can be hired based on the whims of politicians without considering the cost of that individual throughout their entire career. High-level officials order appointments without considering the capacity of candidates, the needs of employers, or making any plans.

According to PIDE's research, employing someone in a BPS-1 position is the equivalent of a lifetime discounted value of Rs. 8.00 million. In a similar vein, the expense of hiring a new employee in BPS-17 is Rs. 49 million.

## Total Employee Expenses As Percentage Of Running Of Civil Government Expenditure



Source: The Finance Division (2023-24), Government of Pakistan

When a government hires someone, it agrees to pay them for the rest of their lives, and even longer if they have unmarried daughters or surviving spouses.



### PIDE's Proposed Reform

**R-36.** Hirings should be done only after the need assessment of the organization. Existing old and redundant vacancies need not necessarily be filled.

**R-37.** Need assessment should also incorporate the financial liabilities against the post. Before any hiring is done, it should be determined whether there is a steady income to pay the employee's salary, pension, and other linked costs.

**R-38.** Instead of offering a permanent position, **offer a contract-based appointment** including at the senior level, where renewal of the contract should be based on the performance of the employee.

11. See:

- Haque, et al. (2023). Life Time Cost of Public Servants. PIDE Research Report.
- Khan and Khan (2023). Beneath the Surface: Unmasking the Cost of Public Servant in Pakistan. PIDE Discourse 06.

## D. Ministries

■ Islamabad needed restructuring to go along with the 18th Amendment. The interventions from Islamabad are destroying not only development but also many aspects of law and order and the maintenance of rights.<sup>12</sup>

■ In the past, ministries used to publish reports, gather data, and conduct research. Additionally, the ministries used to establish commissions to produce well-researched reports on topics such as education, industry, agriculture, and administrative reforms. These reports were diligently prepared to provide the country with valuable insights. The introduction of donor-funded technical assistance caused the decline of government research, critical thinking, and information collection. Most ministries lack indigenous capacity to design and implement policies.

■ Ministries have become mainly resource and license dispensing agencies that own all State-Owned Enterprises (SOEs) and every government organization in the country. Currently, 53 ministries at the federal level are operational and hold the mandate to formulate and implement respective policies. These ministries further regulate 206 autonomous bodies to execute public policy agendas in various arenas.

■ More than 100 donor agencies are assisting the ministries in terms of "capacity building, policy formulation, and implementation".

■ Most ministries execute a political agenda where policies and actions are driven on the wish list of ruling parties. As a result, successive governments do not own it. The policy document lacks any vision or action plan for the future of the country.



### PIDE's Proposed Reform

**R-39.** The number of ministries at the federal level needs to be truncated, more so after the 18th amendment.

**R-40.** Ministries should be a **place for policy-making**, and not for managing development, monopolizing resources, and acting as a rent-distribution body.

**R-41.** Each ministry must strengthen its research, policy, and technical wings to formulate, implement, evaluate, and accordingly revise policies. The policy design must be framed after engaging academics, research think tanks, and civil society at various policy execution stages.

12. Haque, at al. (2020). Doing Development Better. PIDE.

**R-42.** All reports from different ministries should be made public, and **policy change can only take place through public debate**. There should not be a policy change on a whim or any exemption without evidence or research. Institutionalize the public policy discourse by analyzing the problem and finding indigenous solutions rather than fulfilling the wishes of donors and political ruling leaders.

## E. Autonomous Agencies and Principal Accounting Officers

- Bureaucratic control over the running and management of government institutions and agencies adds an unnecessary layer of power.

- Currently, boards of directors are either disempowered by the PAO or are appointed on highly political motives.

- The presence of a Principal Accounting Officer (PAO) makes all agencies centralized, which imbues bureaucratic control and sludge, causing delays in effective and efficient service delivery.

- The role of the PAO in Pakistan, often held by the senior-most secretary, has become an outdated position that no longer aligns with the needs of contemporary, complex national needs. It appears like a centralized function that was a need of colonial times or for some past need.

- The centralization of the PAO's role has inadvertently introduced an element of sluggishness and inefficiency into the government's decision-making processes.

- The PAO in Pakistan is often expected to juggle an astounding array of 21 distinct roles related to accounting and finance. The lack of specialization is an intense issue. For instance, in technical areas such as railways or machinery equipment, financial decisions demand specialized knowledge and expertise. The current setup, where a Secretary handles a myriad of functions alongside financial responsibilities, often results in decisions that lack the precision and expertise necessary to navigate the complexities of these technical domains.

- Bureaucracy is a construction by which a person is conveniently separated from the consequences of his or her actions. While a PAO will make countless financial and accounting decisions of areas/departments that he/she has not led/worked/monitored, yet he/she will be taking financial decisions though consequences will not be borne by him/her.



### PIDE's Proposed Reform

**R-43.** Regulatory or public service delivery entities, including educational institutions such as universities and other Public Sector Enterprises (PSEs), must be **operationally autonomous** with clear goals, operational transparency, and reporting guidelines.

**R-44. The powers of PAOs and budgets need to be devolved to the agencies concerned.** Integrate a mandatory, system-based decentralization of the PAO's functions into relevant subordinate offices. This approach aims to distribute financial responsibilities to individuals within the organization who possess a track record of expertise, academic qualifications, and experience.

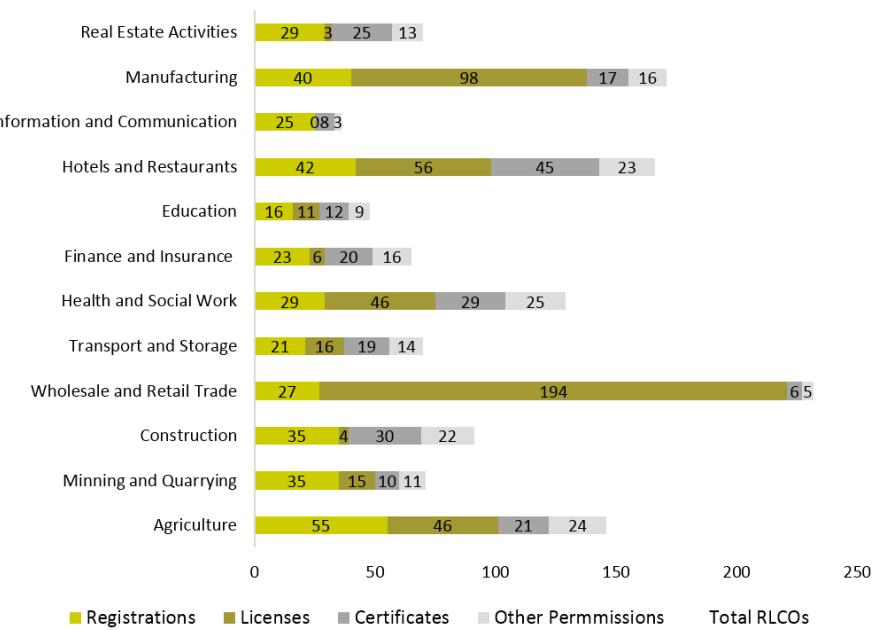
- By doing so, the decision-making process becomes less reliant on the personality traits and preferences of a single individual, and more on established criteria and qualifications.
- Budgets and decision-making need to go to where results are desired. The current centralization is harmful to efficiency and accountability.

**R-45.** Make the relevant governing bodies responsible for conducting performance management.

## F. Regulations

■ Pakistan has become a “permission economy” due to over and inefficient regulations. This regulatory burden has suppressed economic activities, investment, entrepreneurship, employment opportunities, and ultimately GDP growth. There are over 118 regulatory bodies under the Federal Government, which indicates the pervasiveness of permission culture in every sector of the economy. PIDE’s Sludge Audits capture the cost of regulations and results show it costs more than 45 percent of the GDP.<sup>13</sup>

### Sector-wise Regulatory Mapping -2023



Source: Mapping based on the Pakistan Regulatory Modernization Initiative Regulatory Catalog

■ The regulatory framework is outdated and based on a command-and-control approach. There are severe transparency and implementation issues. Excessive government controls have created a lengthy and bureaucratic procedure.

■ Requirements in the form of Registration, License, Certificate, and Other Permission (RLCOs) to initiate any activity, which has multiplied the burden of regulations.



## PIDE's Proposed Reform

**R-46.** Pakistan needs to **modernize its regulatory framework**. The modernization of the regulatory structure is a much broader and different agenda compared to the deregulation agenda; both are often mistaken as equivalent. The modernization agenda is a multifaceted strategy that involves deregulation, re-regulation, simplification, and institutional building.

**R-47.** The regulators should **move from a command-and-control** approach towards a market facilitation approach.

**R-48.** Success stories of regulatory reforms in different countries indicate that modernization requires initiatives on the following fronts:

- Modernize the existing stock of regulations through the “regulatory guillotine”.
- Control the flow of new regulations through mandatory regulatory impact assessments.
- Develop regulatory institutions’ capacity through digitization and training.

13. See:

- PIDE Sludge Series
- Haque and Qasim (2022). Regulatory Bodies: Hurting Growth and Investment. PIDE Monograph Series.
- Khan and Fraz (2022). Market Regulations, Competition Policy and the Role of Competition Commission of Pakistan.
- PIDE (2020). Growth and Deregulation: Pakistan’s Economy at the Crossroads. Policy and Research Magazine 1(2).

## G. Judiciary

■ One of the fundamental institutions that can facilitate, or hinder, investment and growth is the institution of law. Laws can facilitate as well as constrain economic activity. Unfortunately, in Pakistan, the law and economics nexus is not well understood.<sup>14</sup>

■ The judicial system has been facing mounting backlog and delays for decades with around two million cases in pendency. Experts attribute these issues to the archaic and outdated Code of Civil Procedure and the haphazard amendments made to it.

■ Currently, dispute resolution takes up a lot of time and resources due to a lengthy appeal process – moving from one court to another (interim appeals).

■ Lawyers and judges in Pakistan often use adjournments to delay court proceedings. Without providing any substantial reason, an adjournment may be granted on the day of the hearing. In some high-profile cases, as many as 50 to 80 unnecessary adjournments are observed.

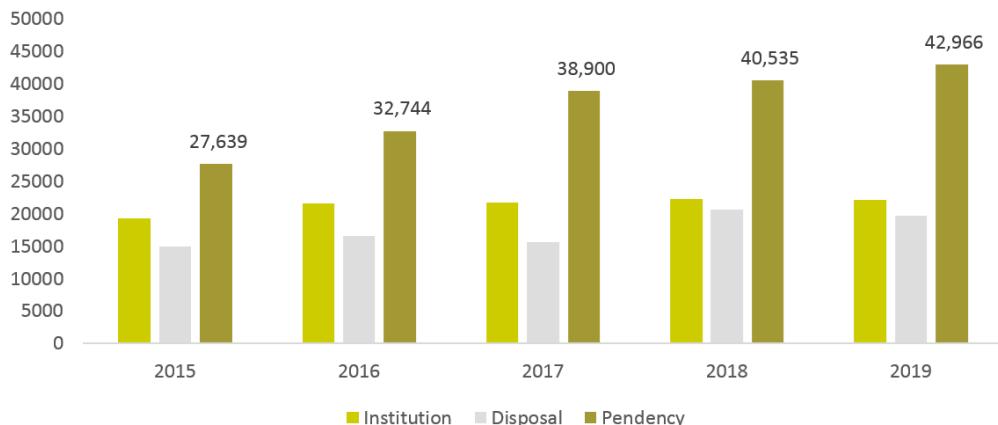
● Lack of incentives to curb harmful postponements leads to adjournments not being taken as serious misconduct. Additionally, lawyers and judges still receive remuneration for their court appearances albeit adjourned. This further reduces any motivation to work efficiently on the case at hand.

■ Obtaining injunctions is overly facile, and it is widely recognized that they are utilized to exert influence on transactions and outcomes.

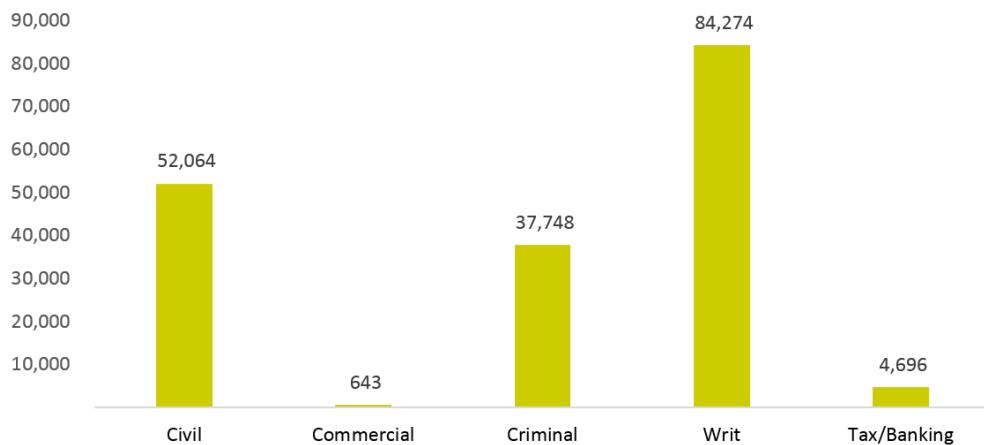
14. See:

- Mustafa and Rehman (2023). Judiciary and Human Resource Management in Universities. PIDE Knowledge Brief 104.
- Iqbal, and Mustafa (2022). A Review of Accountability Systems: Learning from Best Practices. PIDE Knowledge Brief. 82.
- Answer, and Qadir (2020). Judging the Judges: Dynamics of the Pakistani System of Justice Delivery. PIDE Webinar Brief 05.
- Siddique, O. (2020). The Economic Analysis of Law in Pakistan. PIDE Knowledge Brief 6.

## Trends In Institution, Disposal And Pendency Of Cases In The Supreme Court Of Pakistan



## Pendency Of Cases At The Lahore High Court



Source: The Annual Reports of High and Supreme Courts

## 💡 **PIDE's Proposed Reform**

**R-49. Amend procedural rules** for the early disposal and restrict interim appeals. The ideal example of such amendments is “Punjab Rented Premises Act 2009”, in which after the judgment from the district court, no further appeal is allowed to the high court and supreme court.

**R-50.** To reduce multiple hearings and adjournments, **a maximum limit** should be fixed

by the government in collaboration with judicial authorities.

**R-51.** Set a **mechanism for lawyers' fees** at various stages of proceedings both in civil and criminal cases.

**R-52.** **Establish an e-portal for judges and lawyers** where digital diaries of lawyers can be maintained across all courts so that judges can set the timeline of a trial on the availability of a Lawyer. Perhaps this proposed e-portal can be a part of the existing case management system.

**R-53.** The Law and Justice Commission suggested a **maximum of 2 adjournments per case** in their Law Reform Bill 2005, which should be implemented and observed. The Cost of Litigation Act 2017 imposes a fine of Rs. 5,000 on the party perpetuating vexatious and frivolous (superfluous) adjournments, but this Act is only applicable to the Federal Capital. Such legislation needs to be enacted for every jurisdiction in Pakistan to curtail the misuse of adjournments. However, the penalty for requesting an adjournment should be significantly higher to deter parties requesting an adjournment.

**R-54.** **Every adjournment should be announced online in due time on the case status portal**, and automatic digital alerts and reporting of extraneous adjournments be made to the coinciding and concerned Judicial and Bar Councils to hold repeat offenders accountable.

**R-55.** The rules related to obtaining an injunction (commonly known as a stay order) need to be tightened and the requirement of **no more than 6 months for an injunction** needs to be implemented.





3.

## **CITIES – ENGINES OF GROWTH**

## A. Cities

Pakistani cities are chaotic, congested, and haphazard, lacking essential amenities and workspaces. Cities around the world are the powerhouse of growth, innovation, productivity, and magnets for talent.<sup>15</sup>

Cities are over-regulated. City zoning has been very restrictive, favoring single-family houses with little scope for commercial and civic activities. Building regulations are stringent. Our cities are fragmented. Multitudes of administrative units (cantonments, development agencies) make comprehensive planning a daunting task.

Waste swaths of public land are under-utilized. Subsidized land for elite clubs, golf grounds, and government housing in the center of the city's bereft city dwellers as well as its administration of the opportunity to create wealth through income earning opportunities.



### PIDE's Proposed Reform

**R-56. Cities' heterogeneity must be respected**, with each requiring a different treatment in planning and management.

**R-57.** Policy, research, and thinking need to move away from a spaceless approach to development by integrating the role of **cities as engines of growth**.

**R-58.** The zoning paradigm needs to move away from its current emphasis on upper-class housing to one that recognizes the diversity of the functions of a city. **It must favor density, high-rise, mixed-use, and walkability**, especially in downtown areas.

- The city must favor public and community space while allowing for commerce, culture, education, and other needed city activities.

- Zoning needs to be based on clear transparent processes based on open citizen consultations. Successful cities have regulations and zoning codes that are flexible to adjust to the changing physical requirements of a city.

- Rezone to encourage development and increase the supply of land to keep prices in check.

15. See:

- Haque and Nayab (2020). Cities – Engines of Growth. PIDE
- Hasan, et al. (2020). The Islamabad Master Plan. PIDE Policy Viewpoint 16.
- Hasan, L. (2022). Doing Construction Right. PIDE Knowledge Brief 96.
- PIDE (2021). Cities and Urbanization. Policy and Research Magazine 2(1).
- Haque and Nayab (2007). Renew Cities to be the Engines of Growth. PIDE Policy Viewpoint 02.
- Haider, M. (2021). Pakistan's Urban Policy: Turning Cities into Slums. PIDE P&R 2.

**R-59.** Building regulations must be loosened to allow **complex high-rise construction**.

**R-60.** City management must be handed over to a single authority that can manage its whole balance sheet.

**R-61.** Government ownership of city-center land needs to be reduced since it is retarding downtown development. Commerce is to be given priority in city centers. For this, there is a need to **unlock state-captured real estate**.

**R-62.** There should be a **limit to the boundaries of a city**. Currently, cities are boundaryless and urban sprawl is increasing the cost of provision of public services. The government must ensure the provision of public services within defined boundaries of the city while suburbs should not be eligible to claim such provisions.

**R-63.** The **rental housing market** must be developed.

**R-64.** **Street vending** zones must be created in all cities.

## B. Urban Transport

■ Transportation planners in Pakistan have traditionally focused on promoting car mobility. Their planning strategies have limited accessibility and mobility options for urban residents. The construction of signal-free corridors solidly built bus stations, overhead bridges for crossing roads, the absence of pedestrian crossings, and a lack of designated cycling lanes and walking paths have collectively affected civic life.<sup>16</sup>

■ Pakistani cities struggle to offer secure and environmentally friendly transportation alternatives, car ownership is regarded as more of a necessity than a luxury. Those who cannot afford to own a car turn to privately provided services. In terms of mobility, these services often involve substandard wagons, rickshaws, Qing Qi vehicles, and motorcycles lacking proper safety features.

■ As cities gradually run out of parking spaces, it becomes imperative to prevent further urban deterioration and losses by designing policies centric to transitioning towards walking, cycling, and embracing shared modes of transportation, which encompass public transport, ride-hailing services, railways, and buses.

16. See:

- Haider, M. (2023). Urban Transit and Transportation Service in Pakistan: Challenges and Opportunities. PIDE Discourse 06.
- Kahliq, and Hasan (2021). Urban Mobility is more than Cars and Expensive Metros! PIDE Webinar Brief 10.
- Haque and Rizwan (2020). Rethinking Mobility. PIDE Urban Monograph Series 2
- Hadi, H. (2021). Why Pakistan Need a Car Policy? PIDE Knowledge Brief 22.



## PIDE's Proposed Reform

**R-65.** To achieve traffic mitigation, we need to move towards **paid parking** based on technology, along with **an efficient public transport system**.

**R-66.** Use the buses of the universities which at present are sub-optimally utilized to create a fully functioning **conventional Public Bus System** based on the idea of ride-sharing for each city. This can also create another source of revenue for the universities.

**R-67.** Encourage walkability and cycling within city centers and downtowns by discouraging and limiting car usage. This also implies discouraging the construction of new flyovers and underpasses that hinder walkability and cycling.

## C. Local Government

Decentralization will only be achieved if the locally elected councils are given autonomy in their spending and planning decisions. Those decisions cannot be superseded by the provincial or federal governments.<sup>17</sup>

Public service delivery is the responsibility of Local Governments (LGs).

### Evolution Of Local Government In Pakistan

<p><b>1973-1977 1973</b></p> <p>Constitution promulgated. State shall encourage LG institution. Local government dissolved. No LG elections held.</p>	<p><b>1978 –1988</b></p> <p>LG bodies revived under Local Government Ordinance, 1979. Successful completion of 3-4 terms.</p>	<p><b>1988-1999 1993</b></p> <p>LG Ordinance suspended. Local bodies inactive till 1998. Polls scheduled but never held.</p>	<p><b>2001-2008 2001</b></p> <p>LGs Empowered under LG Ordinance, 2001 – respective ordinances of the provinces. Local bodies intact till 2008.</p>	<p><b>2008-2013 2010</b></p> <p>Article 140-A mandates devolution of political, administrative, financial responsibilities to empower LGs. Local bodies dismissed. Polls scheduled but not held. No LG Bodies.</p>	<p><b>2013-2017 2013</b></p> <p>LG Elections &amp; local bodies formed in Balochistan; 2015: Polls held &amp; local bodies formed in Punjab, Sindh, KP.</p>	<p><b>2018-2022</b></p> <p>LG Bodies in Punjab dissolved by PLGA, 2019. 2021/22: LG Polls &amp; local bodies formed in Sindh &amp; KP. 2022/23: LG Polls in Balochistan.</p>
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Source: [ecp.gov.pk/lg-elections](http://ecp.gov.pk/lg-elections); Rafique et al, (2020)

17. See:

- Ahmed, I. (2023). Local Government Reforms: An Overview. PIDE Discourse 06.
- Anjum, Z. H. (2001). New Local Government System: A Step Towards Community Empowerment. The Pakistan Development Review, 40(4).
- Fahim, M. (2023). Optimal Local Governance for Pakistan: Improving What We Have. PIDE Discourse 04.
- Kardar, S. (2023). Devolution: Missing Clarity on Structures and Systems of Governance. PIDE Discourse 04.
- Javed, U. (2023). Decentralization and its Prospects. PIDE Discourse 04.
- Ahmed and Haq (2021). Local Government and Sustainable Urban Development; A Case Study of Punjab. PIDE Research Report.



## PIDE's Proposed Reform

**R-68.** Local governments in Pakistan have a checkered history which is against the spirit of democracy since there is **no democracy without local government!** There is a need to ensure the existence and continuity of local governments in letter and spirit.

**R-69.** Local governments imply local administration, not just local politics/elections. Devolve power to the local governments and **empower them financially and operationally.**

**R-70.** There can be no local government while maintaining the colonial civil service – CSS – which is an extremely centralized system. The three tiers of government must be equal, and each empowered with their instruments and professionals to function effectively within their jurisdictions.

**R-71.** Local governments also mean empowered city governments in metropolitan cities with an elected mayor as the chief executive of the city. The elected council of the relevant city to act as a monitor for the mayor's performance.

**R-72.** Local governments should have the autonomy to determine their own comparative advantage and competitive edge in competing for resources.



A black and white photograph showing a calculator resting on a pile of coins. The calculator is positioned diagonally, with its buttons clearly visible. Stacks of coins are scattered around it, some in the foreground and others in the background, creating a sense of depth.

4.

## FISCAL MANAGEMENT

## A. Medium-term Budget Management and Growth

- The processes of planning and public investment went through several important stages of evolution in the 1950s. Initially, Pakistan was phenomenally successful in creating a planning system that contributed substantially to a public sector-led acceleration of economic growth. However, in the ensuing decades, the planning system has become increasingly ineffective.<sup>18</sup>
- Major reasons for this decline include the progressive emergence of fiscal and budgetary constraints which meant that the 5-year plans were not implemented as planned. A second problem was the increasing politicization of investment allocation decisions which progressively undermined the technical management systems and procedures established for the identification and appraisal of appropriate investment.
- The Ministry of Finance right now manages the budget, with frequent mini-budgets, without considering economic growth and employment consequences. Its focus is on the country's annual budget and adjustment needs. What is lacking is medium-term budget management, economic growth policy, and coherent infrastructure development.
- The Planning Commission has become merely a PSDP allocating body. While most of the PSDP is politically driven.



### PIDE's Proposed Reform

**R-73.** The role of the Planning Commission needs serious reconsideration. In any case, coordination between the Planning Commission and the Division remains contentious. Either the Planning Commission and Ministry should be closed down or converted into a meaningful policy tool that involves the custodianship of medium-term budget and economic planning. Another proposal could be that the Planning Commission (**Growth Commission**), like the central bank, needs to be made independent of politics and comprised of relevant experts (with no bureaucratic interference) in charge of the medium-term budget, economic growth, and development.

**R-74. Investment, exports, and productivity must be the focus** of all future policies. This requires a lot of inter-ministerial cooperation and a clear focus on the medium-term budget with reform as an important tool for unlocking productivity and investment. We should also consider a **“moonshot” strategy**, which aligns and mobilizes the whole country with some big long-term objective.

18. See:

- Haque, at al. (2020). Doing Development Better. PIDE
- Khalid, M. (2023). Fiscal Management in Pakistan: The Way Forward. PIDE Discourse 06.
- Khan, A. (2023). A Proactive and Pro-people Policy Framework. PIDE Discourse 06.
- Ahmad, et al. (2021). Fiscal Federalism in Pakistan: Need for a Revisit. PIDE Policy Viewpoint 33.
- Rashid, F. (2023). Fiscal Policy for Economic Growth. PIDE Discourse 06.

**R-75. The Planning/Growth Commission could be used by the cabinet as a tool for unlocking reform in various parts of government.**

**R-76.** The Planning/Growth Commission must be tasked with submitting **a report to the parliament bi-annually** for review and debate, followed by directions on future policy-making.

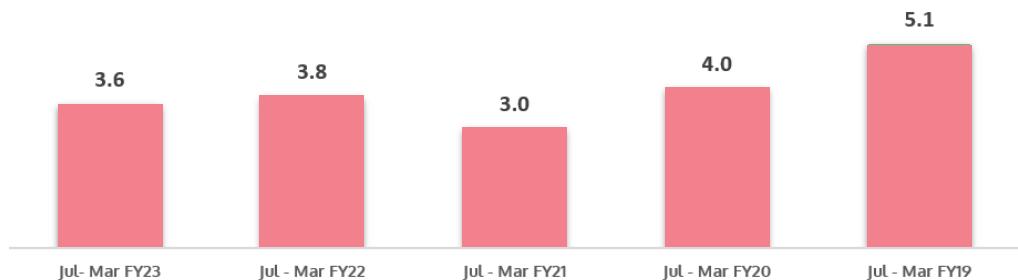
- The report must also be made open to public hearings for the inclusion of diverse views.
- All proceedings of the parliament and the public hearings must be made part of the public record.

## B. Budget Making Process

■ Our budget management system remains input based where we only look at monies spent. This has led to the departments seeking to build assets without any plan to use them. PIDE noted that there is a huge emphasis on brick-and-mortar and little on return from assets.<sup>19</sup>

■ The budget process is dictated by international debt agencies, while the remainder is significantly influenced by bureaucracy. The finance bill is passed without genuine debate and scrutiny, with politicians focusing only on the allocation of development expenditure for politically favorable schemes.

**Fiscal Deficit (% Of GDP)**



Source: Economic Survey of Pakistan

■ Pakistan's legislative experience indicates that there is a restricted role of the parliament in the whole process of budget. The process seems more to be a ritualistic one. The key constraints regarding parliamentary contribution to the budget process in Pakistan are the dearth of time, the absence of committee involvement, and the research capacity of the parliament.

19. See: Hussein. S. (2021). Critical Evaluation of the Budget Making Process in Pakistan. PIDE Knowledge Brief 28.

■ Among the elected executives, only the Finance Minister and Minister of State in some cases are somewhat involved in budget making. Even the cabinet which has to take the collective responsibility of all the government decisions is made to bless the budget as a decorum just a few hours before the budget is formally presented in the parliament.

■ The present parliamentary budget process, which hardly runs for around two weeks offers little time to the elected representatives to either shape or meritoriously review the budget. The current process does not provide any opportunity for the parliamentarians to give their meaningful input.

■ The entire budget debate continues for an average of 12 days which averages around 34 hours. At no point, any part of the budget is referred to a committee for detailed review. Thus, as a result, budget speeches cover nearly anything and everything under the sun, but hardly any logical or thoughtful appraisal of the budget.

■ Parliamentarians remain focused on their own projects. Seldom to look at the whole budget document and understand its implications.

■ Reflecting the inadequacies of the budget process is the need for several mini-budgets during the year.



## PIDE's Proposed Reform

**R-77.** Several parliaments across the globe have their autonomous budget offices. Such an office provides an independent non-partisan inquiry of the budget to the parliamentarians who can greatly help them in reviewing the budget and developing an opinion on it. Pakistan parliament may establish **an Independent Budget Unit** comprising experts who provide impartial and independent analysis on all economic matters relating to the legislation and the budget to not only the Parliament but people at large.

**R-78. The duration of the parliamentary budget process** in Pakistan should be extended to a minimum of 60 days starting from May 01 and concluding on June 30. The budget should be presented on the first working day of May each year.

**R-79. Implementation of the budget in its full essence** must be ensured. Mini budgets through supplementary finance bills must be avoided.

**R-80.** Consolidate the current and investment budget and move to performance budgeting. Only large mega should be independently monitored in the project office. Planning/Growth Commission should be the monitoring office of the performance plan of each ministry/agency.

**R-81.** Five-year plans based on the performance of all agencies can be resurrected. It will require considerable innovation and a huge amount of coordination on the part of all agencies for this to work. In addition, reform must become a key instrument to unlock productivity in each performance plan. Moreover, all ministries/agencies will have to

develop their own M&E and research to be able to monitor performance and productivity to develop performance plans.

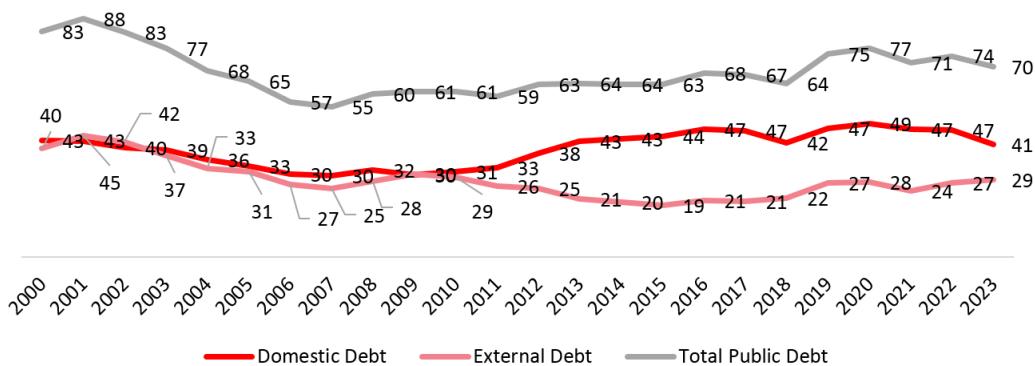
**R-82.** All **discretionary budgetary allocation funds should as against the spirit** of the Constitution.

**R-83.** Concerning parliamentary committees, the matter of conflict of interest must be explicitly acknowledged and effectively addressed. The Parliamentary Secretariate should declare all conflict-of-interest issues of Parliamentarians and especially committee members.

## C. Debt Management

Pakistan faces a rising public debt burden driven by various factors, including persistent fiscal and current account deficits, extensive borrowing, exchange rate imbalances, and exogenous economic challenges. Debt sustainability is a continued risk pushing Pakistan to a default-like situation regularly.<sup>20</sup>

**Pakistan Debt Burden (% Of GDP)**



Source: The Finance Division and the State Bank of Pakistan

High debt servicing costs limit resources available for development initiatives and public services. The composition of public debt has also shifted significantly, with greater reliance on domestic debt since FY 2010 due to limited external funding sources. However, this shift has brought its challenges, notably the high cost of servicing domestic debt, which has increased due to frequent policy rate revisions.

The Pakistani government often fails to adhere to established fiscal regulations, such as the Fiscal Responsibility and Debt Limitation Act (2005), which mandates maintaining the total public debt to GDP ratio within 60 percent.



## PIDE's Proposed Reform

**R-84.** Establish **an autonomous Debt Agency** (consolidating all debt functions and at par with the central bank and the independent Planning/Growth Commission) with the mandate to oversee and manage Pakistan's long-term debt profile. Abolish the Economic Affair Division (EAD) and reassign the task to the proposed Debt Agency.

- It should issue consolidated statements every month to the public, and quarterly basis to the Parliament.
- It should also manage the yield curve and create instruments as necessary for debt market development.
- For this it will conduct the debt auction and the marketing of other debt and saving instruments.

**R-85.** **Debt management reports** must be submitted to the parliament for a quarterly review, followed by a mandatory debate and discussion with possible directions for the future by the parliamentarians.

- The report must also be made open to public hearings for the inclusion of diverse views. All proceedings of the parliament and public hearings must be made part of the public record.

**R-86.** **Adherence to fiscal rules** including limits on budget deficits and debt levels to prevent unsustainable debt accumulation.

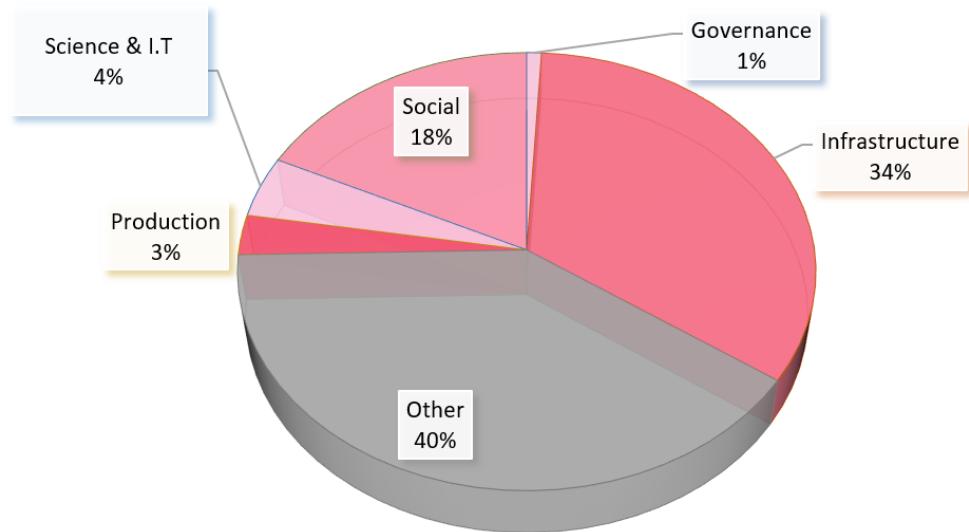
20. See

- Salman, A. (2023). Evolving a Limited and Responsible Federal Government: 14 Point Fiscal Charter. PIDE Discourse 02.
- Jalil, A. (2020). Debt Sustainability: Economic Growth is the Panacea. PIDE Knowledge Brief 19.
- Syed, M. (2023). Sovereign Debt Restructuring: A Hard Pill to Swallow for Pakistan? PIDE Discourse 03.
- Qasim and Khalid (2012). Fiscal Responsibility: A Critical Analysis of FRDL Pakistan. The Pakistan Development Review 51(4).

## D. Public Investment

- The politicization of the Public Sector Development Programme (PSDP) has destroyed its efficiency and returns.<sup>21</sup>
- Public Investment is inefficient and fails to drive significant economic activity. It is focused mainly on hard infrastructural development, with no project review after completion. The Public Sector Development Programme (PSDP) allocation is highly politicized. Projects and initiatives are established almost at will, with little background research or understanding of choices, costs and benefits, inter-linkages, and complementarities.

**Sector-wise Distribution of the PSDP Funded Number of Projects (FY 2023-24)**



Source: PSDP dashboard – can be accessed at [www.pc.gov.pk](http://www.pc.gov.pk)

\* Major share in the "Other (40%)" also comprises of infrastructure related projects.

- There is a wide and growing gap between the efficiency performance of public investment in Pakistan and the better-performing countries. There is substantial scope for improving the efficiency and value for money of public investment in Pakistan through appropriate reforms.

21. See

- Haque, et al. (2020). Doing Development Better. PIDE
- Zubair, et al. (2023). Reforming the Federal Public Sector Development Programme. PIDE Working Paper Series 10.

■ The failure to control the number of projects entering into the budget leads to an excessive number of often small and poorly prepared projects, the inclusion of unapproved projects in the budget, and the frequent delays and cost escalation of investments included in the PSDP.

■ Lack of any evaluation process to guide the planners and implementers on successful solutions to problems that arise during various stages of the project cycle and in the delivery of public services to the citizens.



## PIDE's Proposed Reform

**R-87.** The proposal to turn to performance-based budgeting is the best option and would eliminate the need for a large centrally run politicized PSDP. The initiation of the local government system will also require the members of National and Provincial Assemblies not to interfere with the PSDP allocations.

**R-88. For the existing PSDP, a moratorium on new PSDP-funded projects will be placed.**

**R-89. There is a need to clean the existing portfolio.** Undertake a systematic portfolio cleaning exercise to identify (i) small projects with low returns (ii) projects that have not taken off or have insignificant amounts that have been spent (iii) projects that do not appear to have long-term viability. If performance-based budgeting is adopted then a lot of projects in the PSDP should be adjusted in line with the performance system.

**R-90. Only federal mega projects** that must have been identified by the parliament can be funded through PSDP. Local and provincial development projects should be financed by the respective constituency.

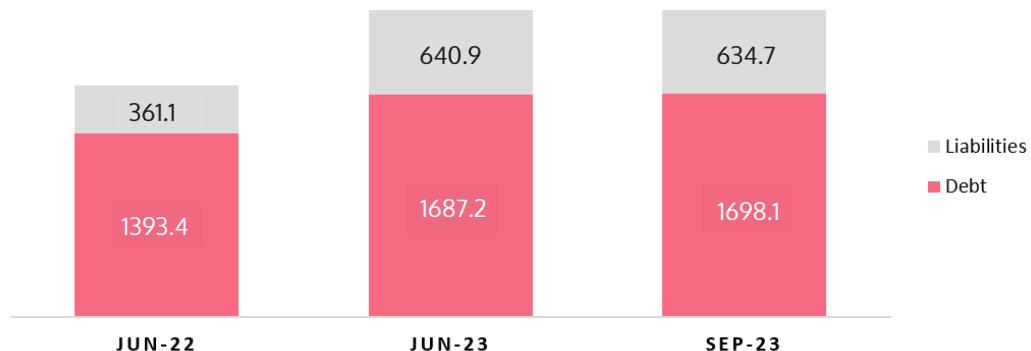
**R-91.** PSDP has developed assets that are not yielding results. The Planning Commission must develop and maintain an open asset register showing its utilization and return to the PSDP.

**R-92.** The notion of **making a sovereign wealth fund** comprising all public assets that yield returns.

## E. Public Sector Enterprises (PSEs)

PSEs are loss-making entities, with repeated bailouts by the government. The PSEs have become white elephants with mammoth losses for the national exchequer.<sup>22</sup>

### Outstanding Domestic Debt Of Public Sector Enterprises (Billion Pkr)



Source: State Bank of Pakistan

The appointments in most PSEs are politically or bureaucratically managed, thus compromising the merit and performance of these organizations and departments.

### PIDE's Proposed Reform

**R-93.** PSEs must have a **budget constraint and not be bailed out** by the government repeatedly.

**R-94.** PSEs must be run through a corporate set-up, including **an independent Board of Governors** (BOG), and not be under the influence of bureaucracy or ministries to avoid conflict of interest and political influence.

**R-95.** Organizations must be given **operational independence**, and all PSEs must be answerable to the cabinet and parliament against pre-defined objectives. The governing body should be responsible for the profit and loss.

**R-96.** Like all corporations, management tenures as well as compensation will depend on profitability and performance.

22. See:

• Iftikhar, N. (2022). The Case of Privatization of Pakistan's State-Owned Enterprises. PIDE Discourse 1(3)

**R-97.** Unchecked hiring, primarily politically motivated, must be immediately abolished. Appointments must be made through a pre-defined mechanism and by an independent Board of Governors.

**R-98.** Inefficient and **unnecessary PSEs must be closed down** and their assets sold to the best use. In some cases, restructuring may be possible. In that case, a clear plan with a timeline made by competent management should be tightly adhered to.

## F. Pension

Pakistan has not reformed its public sector pension system and maintains an unfunded “defined benefits” pension, which has increased liability for the government. Pakistan practices a legacy pension system where pensioners are paid directly from the revenues as part of the current expenditures.<sup>23</sup>

Government pension expenditures are growing at around 25 percent annually, which cannot be funded by an economy growing at a much lower rate. The pension burden is, therefore, bound to grow and double every four years.



### PIDE's Proposed Reform

**R-99. Move toward the Defined Contribution System of Pensions.** PIDE estimations suggest that the adoption of the Defined Contribution (DC) system will initially increase the total pension outlays but fall to the starting level within 3 to 6 years and then continuously decline. Thus, making pension payouts sustainable in the long run.

**R-100. An actuarial analysis is necessary** to determine payroll contributions. For a fully funded DC system, expected payouts can be calculated, and options for annuities and thrift savings plans can be developed.

**R-101.** Several pension funds managed by the private sector will be necessary and they will develop the financial market as well as investment opportunities in the country. It will help investment and economic growth substantially if done well.

**R-102.** The oversight and management of pension funds can be done regularly either by some combination of the Employees Old-Age Benefit Institution (EOBI) or the Planning/Growth Commission and Ministry of Finance. However, there must be an annual report to the parliament.

## G. Tax and Tariffs

- The tax regime is highly complicated and primarily revolves around meeting tax-to-GDP targets, often sidelining fundamental principles like fairness, certainty, efficiency, and convenience. The revenues are primarily driven through indirect taxation and an expanding withholding regime, and the tax net remains relatively narrow.<sup>24</sup>
- Repeated tax breaks, amnesties, and subsidies are counterproductive in revenue collection but also, more importantly, in achieving economic efficiency.
- Increased protectionist policies through high tariffs, regulatory duties, and bans distort local markets. Reduced openness of the economy is anti-growth and eliminates competition essential for developing local industries and markets.
- Pakistan has the second highest level of tariff cascading in the world, at 30 percent, which imposes a heavy burden on the domestic economy and an implicit tax on exports. The benefits from such cascading have not borne fruit in Pakistan.



### PIDE's Proposed Reform

**R-103.** Certain important principles must be considered in budget making, expenditure management, and taxation, to maximize economic growth and employment.

- There should be a clear recognition that tax and tariff increases inhibit investment and growth. Like other countries, Pakistan also seeks to simplify and minimize tax and tariff policy with a stable tax and tariff structure to promote investment and growth.
- Prudent fiscal management requires ensuring that expenditures and revenue remain in balance. Pakistan must stop expanding expenditures by increasing government objectives and multiplying agencies and regulations and then look for taxation to fill the gap. Fundamentally this has affected our investment environment very badly.
- There should also be a clear recognition in budget making and tax policy that excessive regulation and documentation as well as acquiring market assets with high opportunity costs is also a form of taxation.

23. See:

- Khalid, Et al. (2023). Fiscally Sustainable Pensions in Pakistan. PIDE Working Paper 9.
- Siddique, O. (2020). Pensions, Aging of Population, and Fiscal Situation in Pakistan. PIDE Blog Series.

24. See

- Nasir, et al. (2020) Doing Taxes Better: Simplify, Open and Grow Economy. PIDE Policy Viewpoint 17.
- Banees, S. (2023). FBR Tax Policy and Performance: Loopholes in Federal Tax Revenue Forecasting. PIDE Discourse 06.
- Nizamani, S. (2020). Higher Taxes Reduces Economic Growth: Overwhelming International Evidence. PIDE Knowledge Brief 14.
- Khalid and Fraz (2022). A Critical Appraisal of Tax Expenditures in Pakistan. PIDE Knowledge Brief 50.

**R-104. Develop a clear tax policy.** Pakistan urgently needs a clear and consistent tax policy with low taxes, tariffs, and convenient documentation.

**R-105. Improve coordination between provincial and federal revenue authorities.** A transition to a single, harmonized, and integrated VAT-based sales tax system should be considered.

**R-106. Minimize compliance costs.** The multiplicity of taxes and complex documentation requirements impose significant compliance costs on businesses. Simplification of the tax system, especially reducing the complexity of withholding taxes, is essential to alleviate the compliance burden.

**R-107. Universalize income tax.** All sources of income should be treated uniformly, eliminating differentiation among various forms of income including income from agriculture. The minimum turnover tax should be withdrawn, and an adjusted corporate income tax should be introduced to move towards an integrated business tax regime.

**R-108. Reduce reliance on indirect taxes.** Pakistan's revenue collection strategy should gradually shift away from overreliance on indirect taxes. Sectors with low revenue contributions should be consolidated or phased out of the tax system.

**R-109. Enhance tax administration efficiency.** Revenue authority staffing should be based on merit and relevant academic and professional qualifications. This ensures that tax collection is conducted efficiently and fairly.

**R-110. Mandatory tax filing.** Distinctions between filers and non-filers should be abolished, and tax filing should become mandatory for all eligible entities. This should be implemented gradually to allow businesses and individuals to adapt.

**R-111. Rationalize tax exemptions and concessions.** The culture of Statutory Regulatory Orders (SROs) granting exemptions and concessions should be abolished.

## H. Public Wealth Management

Every country has its fair share of public assets, especially public commercial assets, which can be used to generate a regular income stream. Governments all over the world have instilled specific regulations and institutions to manage these assets (Public Wealth Funds, for example). These are worth trillions of dollars and generate massive returns for their governments.<sup>25</sup>

25. See: Mehmod, S. (2022). Wasting Public Wealth – The Antecedents and practice of public land management in Pakistan. PIDE Working Paper 10.

Pakistan is no exception; it has trillions of rupees worth of public assets, but these are poorly managed, poorly planned, and poorly utilized. Public commercial land is one such example, remaining highly under-utilized and poorly managed. Other examples include highways built with no traffic on them, large university campuses built without professors, stadiums built with no sports industry, and auditoriums and convention centers that remain empty.

Public wealth remains unprofessionally managed, resulting in poor returns and a lot of resource wastage. There is no concise figure or idea of the quantum of public wealth in Pakistan as well as a lack of a central repository that can inform the probable investor of investment opportunities.



## PIDE's Proposed Reform

**R-112. Let public assets** (examples are Convention Centers, public stadiums, railway stations, airports, DISCOs, etc.) **be managed professionally for a clear return.**

**R-113.** One approach could be to establish an institutional structure, like a **professional Public Wealth Fund**, for the professional management of assets to ensure good returns. This may require getting rid of the Pakistan Public Works Department (PWD). All real estate belonging to the government should go to the public fund.

**R-114.** Create a **central repository of public assets** with valuation and all the relevant rules and regulations governing public assets.

**R-115. Remove legal and regulatory hindrances** in terms of asset use and contracting, especially hindrances related to legal procedures and courts.





5.

## DEVELOPING MARKETS

## On Markets

The term market arouses deep suspicions because people confuse a market economy with no regulation and no government.

In this document, please understand the term market to mean only a particular area — physical or virtual — where goods or services are being transacted. Most markets require a regulator, which can be a collective such as a trade or a self-regulating body or a government-appointed regulator, or even a law to set the rules of trading and conveyancing.

Markets are based on:

- 1.➤ Clear property rights which are often guaranteed by law.
- 2.➤ Clear rules for information sharing not only of what is traded and its quality but also of the bids and offers for all comparable items. In the olden days fairs were held for such purposes. Even today similar goods sell in clusters of outlets.
- 3.➤ The ideal configuration for a market is an auction market. With technology, more and more markets are operating like auction markets either by direct bidding or facilitating consumer browsing of offers.
- 4.➤ Information plays a critical role and often for the good of the market and to facilitate more transactions, markets provide information on pricing and exchange.
- 5.➤ In efficient markets especially in the virtual world, bids and offers as well as market clearing prices are relatively easy to see.

The purpose of markets is to:

- 1.➤ Allow the pricing mechanism to let the good or service go to the best use possible. If that happens society as a whole is better off because that good or service is being put to the best use possible.
- 2.➤ Ensure that market valuations are known by all at all times. With known offers and bids, transaction possibilities ensure that items will be priced at the highest levels that people are ready to pay.

Competition is to acquire goods and services that businesses need to increase their supply for ultimate consumer welfare.

Continuous known transactions allow valuations to be updated at all times and ensure that resources are not idling.

Most markets need regulations and laws to set clear guidelines for information disclosure and open trading to ensure valuations that all can trust. Hence, there is a clear regulatory role for informed governments through good legislation, rule setting, and M&E.

The opposite of a market is the government distributing resources. Clearly, that would be whimsical and self-serving.

Markets are required in every society whether socialist or capitalist. Like cricket or any other game, rules are required for fair play. Markets are required across the political spectrum irrespective of ideologies.

## A. Real Estate

"Urban Sprawls", thanks to mushrooming housing societies and a culture of plot files without any land title enforcement, has become a massive issue in the real estate sector.

Real estate developers start with selling promises or pledges to buyers that a plot of a specific size will be provided in the proposed housing society provided you pay the price upfront – this practice is commonly known as "file trading". Predominant transactions involve the purchase of the right to purchase a plot (files) even before developers acquire the proposed land.

The existence of multiple land rates for taxation purposes acts as a barrier to allowing the real estate market to develop, as information hiding has been incentivized through regulation. Subsequently, limited big players have gained control of the real estate transactions influenced by speculative activities per will.<sup>26</sup>

### A Comparison Between Different Valuation Rates By Different Institutes (Rs. Million)

Property	Market Value (Asked Price)	FBR Valuated Price	DC Rate Price
Property-1 (Block A)	41.50	19.80	6.12
Property-2 (Block D)	16.50	8.66	2.67

#### *The gap in valuations (Rs. Million)*

	Market Value and FBR Value	Market Value and DC value
Property-1 (Block A)	21.70	35.37
Property-2 (Block D)	7.83	13.82

#### *Tax Gap (Rs. Million)*

	Potential Revenue	Realized Revenue	Tax Gap
Property-1 (Block A)	2.61	0.83	1.77
Property-2 (Block D)	1.03	0.36	0.67

Assumption: the transaction price is 90% of the asked price, and the property floats for sale after 4 years of purchase

Source: PIDE Knowledge Brief, 2022:72

26. See:

- Haque and Khurshid (2023). Construction without Real Estate Development. The Pakistan Development Review 62(1).
- Qasim (2022). The Real Estate Price Quandary: Issues and Way Forward. PIDE Knowledge Brief.
- Qasim and Kiani (2022). Islamabad Real Estate Regulatory Authority: An Evaluation. PIDE
- Najib and Ullah (2022). Property Agents and the Question of Real Estate Market Capture. PIDE Working Paper 5.
- Saqib, A. (2021). Real Estate Regulation and Development: A Case of Gated Housing in Pakistan. PIDE Webinar Brief 36.
- Fraz, A. (2022). Real Estate Myth in Pakistan and the Truth Behind Them. PIDE P&R 3(3).
- Hasan, et al. (2022). Under-Developed Real Estate Industry in Pakistan. PIDE Webinar Brief 21.



## PIDE's Proposed Reform

**R-116.** **Abolish multiple price administration practices**, i.e., Federal Board of Revenue (FBR) valuation and District Collector (DC) Rate. An **online multiple-listing model** must be followed with an auction mechanism embedded into the market. **An online listing of sales and transfers** along with sale prices should be compulsory.

**R-117.** Development authorities should be responsible for ensuring good practices in housing societies. **The housing society's marketing rules must be followed**, and development authorities should have a proactive approach to regulating housing societies. For instance, according to the by-laws of the Capital Development Authority (CDA), a real estate housing project cannot be announced without the developer/sponsor obtaining approval for the proposed layout plan. However, there are clear violations of these rules occurring in the market, and the CDA does not seem to be taking any action.

**R-118.** **A complete ban on the open file** culture should be implemented. Anyone who is found guilty should face serious consequences. There is a need to regulate the trade of closed or submitted files that may also involve certification of the file within the relevant development authority. This will stop housing societies, marketing agencies, and property dealers from deceiving and misleading the closed file holders.

**R-119.** **Review and update rental laws** to promote the rental investment industry.

**R-120.** Encourage private housing societies instead of corporate housing societies. At the same time, ensuring that private developers are **not involved in Ponzi schemes**. The developers should be accountable for the contracts, which should precisely state the terms and conditions. The risk should be borne by the developers.

**R-121.** Reorganize the real estate agents' market by encouraging knowledgeable and registered agents. One viable way is to allow a self-regulatory environment for real estate agents that allows no registration of a member without a certain required training in real estate marketing. Such training courses can be formulated in collaboration with various educational institutions and think tanks.

**R-122.** The focus must be diverted from urban sprawl to vertical expansion of the cities.

## B. Agriculture Input Market

Pakistan has not fully exploited its agricultural potential due to multiple reasons. Among these include poor performance of research and development (R&D) and extension services, inefficient input-output markets, low level of formal training, and financial constraints.<sup>27</sup>

27. See:

- Khan, M. (2020). Agriculture in Pakistan: A Revisit. PIDE Knowledge Brief 8.
- Abedullah (2020). Issues and Strategies to Revitalize the Agriculture Sector of Pakistan. PIDE Blog Series.
- Abedullah and Naurin (2022). The Role of Arthi in Agriculture Marketing: An Exploiter of Facilitator of Farmers? PIDE Knowledge Brief 69.

A significant government footprint is present in agriculture, including input, output, and storage. The government is highly entrenched through various price settings and subsidies such as irrigation water, electricity, and fertilizers, and signaling at production and selling stages, such as minimum support price, procurement of wheat, etc.

### **Support Prices Are Leading To Agriculture Stunting. Profit (Rs./acre) From Different Crops**

Crops	Profit (Rs./acre)*			Yield (maunds/acre) (2019-20)	Increase in Profit (Rs./acre) in 2019-20 with base 2017-18	Percentage change in profit in 2018-19 with Base 2017-18	Percentage change in 2019-20 with Base 2017-18
	2017- 18	2018-19	2019-20				
Wheat	13,206	9,765	10,974	31	-2,232	-26	-17
Maize	13,490	15,620	19,809	72	6,319	16	47
Sugarcane	35,280	30,870	35,280	630	0	-13	0
Basmati Rice	79,680	82,080	106,432	32	26,752	3	34
Irri Rice	30,732	37,492	44,148	52	13,416	22	44
Cotton	10,384	22,000	14,938	22	4,554	112	44

Source: PIDE Knowledge Brief 2022: 103

The current regulatory processes involve numerous steps and engage multiple government entities, resulting in significant delays and imposing additional costs. It has irreparably damaged the growth and potential benefits of both the agriculture sector and the seed market. Bureaucratic procedures for approval are not only hindering the availability of quality seed but also encouraging low-quality unregistered products in the market.

The Federal Seed Certification and Registration Department (FSC&RD) is using the services of the National Agricultural Research Council (NARC) for approvals, however, the NARC itself is a player in the seed market. This leads to a conflict of interest on the part of NARC discouraging the private sector from developing new varieties.

The private sector states that seed testing at FSC&RD is intrusive, time-consuming, and unnecessary without adding any value. Market practices indicate that it is the brand name, not the tag of approval issued by the FSC&RD that carries weight. Therefore, the distribution of seeds without any approval under a brand name has created a large informal low-quality seed market.



## PIDE's Proposed Reform

R-123. The **government footprint must be reduced** in the input markets such as fertilizer and water.

**R-124. No fixing of minimum support price.**

R-125. Allow the **private sector to enter the procurement, storage, and transportation** business. The government should not be involved in procurement from farmers.

**R-126. Seed Registration and Marketing:**

■ A shift from a centrally managed variety approval system (EU-model) to a US-based model is the need of the hour, where **seed companies can sell any seed with the name of their brand and proper labeling**.

■ The role of FSC&RD needs to change from approving varieties to governing the registration of different brands and ensuring through a strong surveillance system that all available seeds in the market are properly labeled. Keep the **certification voluntary but keep an eye on the market through a strong surveillance system** so that no unlabeled and low-quality seed is being sold in the market.

■ For the assessment of the truth of labeling, a third party (that does not produce seeds) can be engaged by the FSC&RD to take samples randomly of different varieties developed by different brands to verify the labeling.

**R-127.** Granting **intellectual property rights (IPR) systems needed to be quicker**, cleaner, and justified, which is only possible with the engagement of the private sector. It should be done under the umbrella of FSC&RD at the recommendation/approval of the private sector (third party responsible for testing and approval of variety).

**R-128.** There is a need to establish specialized courts having sufficient knowledge and expertise about biosafety systems, tools, genes, and procedures used in the development of transgenic varieties to decide confrontation on IPRs or the existing courts should seek the technical expertise from the relevant experts.

**R-129. Water used for irrigation must be efficiently priced.**

## C. Agricultural Land Markets

Pakistan's agricultural landscape is characterized by small and fragmented landholdings. The average landholding size is small, making it challenging for farmers to adopt modern farming techniques, mechanization, and efficient resource management. As a result, productivity remains low, and the sector's growth potential is largely untapped.<sup>28</sup>

Agricultural development is closely tied to effective and sustainable land management, which encompasses both the sale and rental of land within land markets. The transfer of agricultural land serves as the fundamental building block of land markets. Surprisingly, when assessing factors influencing overall agricultural production, the issue of a fragile land market is often overlooked.

The process of transferring agricultural land from seller to buyer involves numerous participants and can span several months. Each transaction is typically marred by multiple instances of corruption.

The Patwari culture was initially eliminated but later reinstated to keep control of the local land politics. Most transfer deeds favor large landlords, while small farmers and landowners are typically sidelined. The patwari holds a significant role in issuing the "Fard" for mutation, and both parties often conspire to declare the land's value by the Deputy Commissioner (DC) rate, concealing the actual land value to circumvent the 8 percent transfer fee, which has, in turn, exacerbated corruption at the time of land transfer.



### PIDE's Proposed Reform

**R-130.** The primary transfer laws are now outdated and do not align with the requirements of modern times. It is imperative to **revise and update** these acts, incorporating the concept of using technology to automate land transfer procedures

The valuation of land should be based on factors like location, amenities, and soil type, which can be achieved by synchronizing Punjab Land Records Authority (PLRA) data with satellite data. There is a need to revise the land transfer fee and abolish DC rates.

**Minimizing the number of intermediaries** and introducing a one-window operation at the tehsil level to simplify transfer procedures.

The presence of multiple stakeholders, working in isolation and lacking effective information exchange, hampers the overall management of land-related matters. A cross-department synchronization of activities using technology is required.

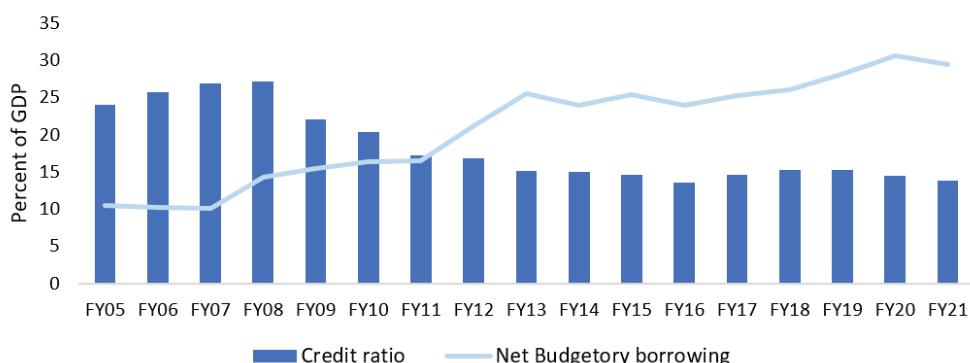
28. See:

- Siddique and Naurin (2022). Land Titles in Punjab – Overview, Problems and Suggestions. PIDE Knowledge Brief 91.
- Ullah and Shaaf (2022). Property Rights in Pakistan: Laws, Regulations, Transfers, and Enforcement. PIDE Knowledge Brief 63.
- Rose, s. (2023). The Neglected Tale of Agriculture Land Markets. PIDE Discourse 06.

## D. Financial Markets

- The stock market remains significantly underdeveloped in Pakistan despite 75 years of efforts and technical assistance from various aid agencies. In comparison to developed financial markets, the Pakistani stock market offers limited investment options. The Pakistan Stock Exchange (PSX) has been bought by the Chinese and has a foreign manager both of whom have complained about poor corporate governance and management of the PSX.
- The share of PSX in the GDP has been declining over the years, unlike other countries where the share of the stock market is increasing.
- New listings are rare. First, because of excessive documentation and regulation, investment is low, and companies are not growing. Second because the stock market is shrinking, and valuation is very low. Companies that could list do not want to be valued at the low multiple that the exchange is offering.
- All Pakistani companies listed are family-owned with more than the majority held by the family, and these firms are not professionally run. There are no Pakistani owned professionally run firms that have a diverse holding.
- PIDE research has also shown that corporate governance is poor and most Pakistani companies' boards rarely have independent members. Board members are always drawn from a limited connected group<sup>29</sup>.
- Government securities are mostly bought by banks at the cost of private credit.

### Credit To Private Sector And Net Budgetory Borrowing



Source: PIDE One Year Growth Strategy (2022)

29. See:

- Haque and Husain (2023). A Small Club: Distribution, Power and Networks in Financial Markets of Pakistan. The Pakistan Development Review 62(2).
- Mehmmood and Fraz (2020). The Poor State of Financial Markets in Pakistan. PIDE Policy Viewpoint 20.
- Saeed, et al. (2020). Financial Markets in the 21st Century. PIDE P&R 1(2).
- Fahim, W. (2023). Enhancing the Delivery of Financial Services in Pakistan. PIDE Webinar Brief 121.

- Risk-sharing arrangements, hedging, and portfolio diversification are all limited by the lack of availability of instruments. No derivative markets in Pakistan (Only a single spot future exists).
- Market solutions to dealing with asymmetric information remain limited given the difficulties of contract enforcement and inadequate regulation and supervision of financial institutions.
- Illiquid and poorly supervised stock markets do not inspire faith in the small investor limiting the pooling of ownership and the diversity of ownership.
- No takeover threat as a disciplining device because the free float is extremely low in the market. Certain groups own a large amount of a company's shares, which limits the availability of shares for trading on the open market.
- Illiquid, thin, and poorly supervised stock markets inhibit the process of price discovery.
- The majority of firms are not paying dividends. Dividend-paying companies are frequently associated with more stability and reduced volatility.



## PIDE's Proposed Reform

**R-131.** The implementation of a **simplified and transparent regulatory framework** is crucial to promote a more accessible entrance process for new banks in Pakistan. There is a need to revive non-banking financial institutions as well as develop regulations for regional banks and other institutions that promote competition for banks. This initiative aims to create healthy competition within the banking sector and enhance the availability of funds for potential investors.

**R-132.** There is a need for active new investment products including instruments, REITs, hedge funds, etc.

**R-133.** **Risk-sharing arrangements**, hedging, and portfolio diversification are very important for any financial market. Options, futures, and swaps must be introduced in the Pakistani stock market for risk management objectives to investors.

**R-134.** Adopt changes that improve investor-friendly regulations, **ease of account opening in the stock market**, lower bureaucratic barriers, and increase transparency, because clear and investor-friendly regulations can attract more participants.

**R-135.** Reduce the time it takes for companies to go public by **simplifying and accelerating the Initial Public Offering (IPO) process**, making it quicker and simpler for businesses.

**R-136.** Reduce corporation taxes by 5 percent for publicly traded firms as an incentive that

can immediately enhance profits. This makes the company's financials more appealing to investors and can lead to increased stock market valuations, which benefits both investors and corporations. It will also create liquidity in financial markets.

**R-137.** Enforce regulations requiring directors who leave a firm to wait for a cooling-off period of two to three years before joining the board of a competitor or related industry firm. This can aid in the reduction of conflicts of interest.

## E. Media

■ Pakistan's media industry has expanded significantly in the last two decades, especially news channels. This has, however, initiated a race within the media industry for being the first in breaking news. Subsequently, in this cat race, the quality and authenticity of news have considerably dropped. News has been entirely commercialized, as media houses and news channels focus on attaining higher Target Rating Points (TRPs)<sup>30</sup>.

■ The business model of the media houses is itself a major barrier to its growth as an industry and the development of an independent editorial policy. Media houses are now used as a way of getting a seat at the table while using the platform for personal and alternate business interests.

■ The national television and radio, i.e., Pakistan Television (PTV) and Radio Pakistan, have been destroyed due to overstaffing, hiring without merit, and continued political interference. These are currently high loss-making entities perceived to be serving as the government propaganda machinery.

■ The government attempts to control the media through the Information and Broadcasting Ministry and regulators such as the PEMRA and Press Council of Pakistan, along with large and non-transparent advertisement expenditures.



### PIDE's Proposed Reform

**R-138.** Media houses must be encouraged to develop a viable business model that is not dependent on government advertisement revenue. **The government must also limit its overall advertisement expenditure** while making it transparent so that the media houses do not find it feasible to depend primarily on government ads for financial sustenance. Given information technology there is no need for the government to advertise.

30. See:

- Maqbool, N. (2021). The Electronic Media Economy in Pakistan: Issues and Challenges. PIDE Knowledge Brief 35.
- Aslam, A. (2021). The Politics of Media Economy in Pakistan. PIDE Webinar Brief 20.
- Zulfiqar and Khan (2021). Understanding Broadcast Media Economics in Pakistan. PIDE Working Paper 7.

**R-139.** Corporate governance must be introduced in all media houses. No media house must be awarded a license unless it is listed on the stock exchange. This will help include professional management in the governing board of the media houses while also restricting any single individual from gaining unnecessary decision-making power that could negatively affect editorial policy independence.

**R-140.** PEMRA should be made an autonomous organization with a truly representative management board.

■ Only five companies are licensed to conduct the electronic media rating business in Pakistan. The method to observe media ratings is absurd and based only on 2,000 household samples which needs a revisit.

■ PEMRA also needs to make the cable industry competitive.

**R-141.** PTV and Pakistan Radio must be turned into corporations run and managed by a professional board with no tolerance for any kind of government interference in any of its matters. Perhaps it is time to run these entities on the best available models such as Al Jazeera, which even involves hiring foreign management.

**R-142.** The Ministry of Information and Broadcasting is not only a significant burden on the exchequer but is also a tool for media management and manipulation while also allowing media industry representatives the lobbying opportunity for earning government advertisement revenue through favorable editorial policy and other means. Instead of the Ministry, a spokesperson must be present at each department with the sole responsibility of liaison with the media for sharing any news and/or press releases with no control over advertisement placement. Use social media and relevant ministries' websites to broadcast information.

## F. Automobile

■ The automobile industry remains highly import-dependent and low value-added. The automobile parts and accessories industry has failed to make any substantial steps towards value addition. The local automobile companies, with their Joint Venture agreements, remain assemblers, procuring parts through local vendors or imports and assembling vehicles for the local market<sup>31</sup>.

■ Due to low technological investment in the auto industry, the overall production capacity is limited, and quality remains well below global standards. This decreases the production efficiencies of the industry overall, keeping the industry from achieving economies of scale and competitiveness.

31. See:

- Najib and Qadir (2021). The Nuisance of Own Money in Automobile Purchase. PIDE Knowledge Brief 41.
- Najib (2021). Making Automobile Affordable for the Middle Class. PIDE P&R 2(7).

The current booking system, or pre-ordering a vehicle is a major cause of inefficiencies and delivery delays. This has allowed a black market for new vehicles to evolve, giving birth to the unique concept of "On-money" in the country. On-money is a premium collected over and above the price of the vehicle in exchange for immediate vehicle delivery.

A significant demand-supply gap stemming from low production volume and a vehicle booking process that promotes excessively long delivery times of vehicles. On average, in one year over Rs. 30 billion is paid as own money for immediate vehicle delivery. Till the recent downturn, there was a significant and sustained increase in vehicle prices, causing on-money to also increase.

Our obsolete automobile policy has provided unsafe and obsolete cars that have no fuel efficiency or carbon control. It has also prevented hybrids and Electric Vehicles (EVs) from coming into Pakistan. The result is that our fuel bill is much larger than it could have been. At the same time, our cars are polluting more than they should have.

Most importantly, Pakistan is not exporting any cars even after 60 years of protection.



## PIDE's Proposed Reform

**R-143. Impose an extraordinary tax rate of 60 percent per year on the profits of automobile assemblers.** Firms can avail themselves of a rebate of 2 percent for every 1 percent of the product that they export.

**R-144. Introduce Electric Vehicle (EV) on a priority basis.** The plan should not only encourage the existing players to bring EVs into the market but also allow the import of EVs at concessional rates.

### R-145. Address On-money issue:

**Immediate end to vehicle bookings.** Vehicles must be first produced and delivered to 3S dealerships for sale. Only vehicles already at the dealership can be sold. Companies must increase production volumes to ensure the supply-demand gap is minimized. No vehicle shall be allowed to leave the 3S dealership premises without excise registration. Private dealers must not sell new/unregistered vehicles through dealerships. A locally manufactured vehicle must be registered for it to be saleable through private dealerships.

**Allow regular import of vehicles.** PIDE has developed a framework for the import of vehicles that will prevent misuse of the Gift Scheme. Private dealers shall be allowed to import and sell vehicles conditional to registering with the excise office as dealers. Registering with excise shall be considered as an automatic import license.

**R-146.** The Competition Commission of Pakistan must ensure no collusion takes place.

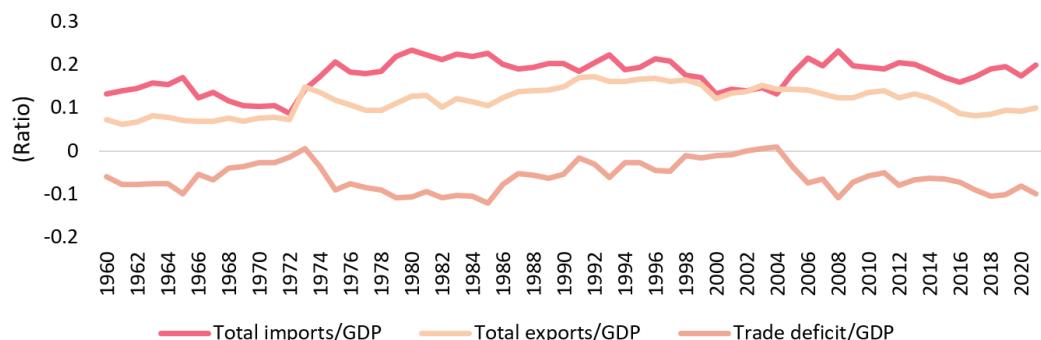


# 6.

## **TRADE AND OPENNESS: COMPETING GLOBALLY**

During the 1960s and 1970s, Pakistan's exports were higher than China's. However, China has since surpassed almost all other countries and is now way ahead of Pakistan. likewise, Pakistan's exports lag behind those of India and Vietnam, and even Bangladesh has recently surpassed Pakistan<sup>32</sup>.

### Pakistan's Trade Deficit To GDP



Source: PIDE Knowledge Brief, 2021:30

The high level of tariff cascading in Pakistan hinders export growth by increasing the cost of production and reducing competitiveness in international markets.

Our firms are not competitive in the face of global competition and continue to hide behind protectionism.

There is a disconnect between the products that we are offering and what other countries are demanding. Currently, the world's focus is on exporting electrical and electronic equipment, machinery and mechanical appliances, mineral fuels, and vehicles, whereas Pakistan's main exports consist of textile articles, rags, knitted textile apparel, cotton, and non-knitted textile apparel.

The regulatory and legal framework of Pakistan also imposes a substantial compliance cost on the exporting firms. PIDE measures that engineering firms situated in the Golden Triangle (Gujranwala-Gujrat-Sialkot) bear huge regulatory costs.

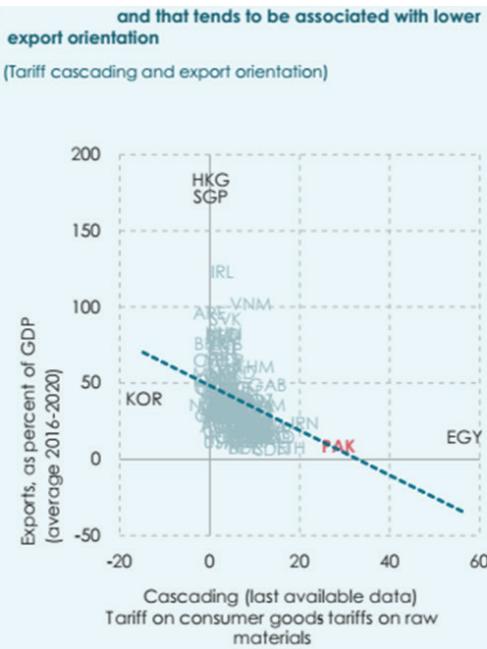
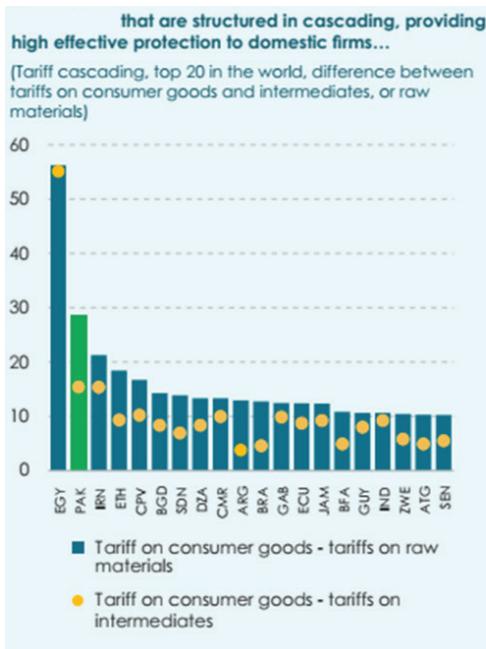
32. See:

- Hina, H. (2021). What Do We Know of Trade Elasticities? PIDE Knowledge Brief 30.
- Ahmed V. (2023). Strengthening Institutions and Simplifying Regulations: Key to Unleashing Pakistan's Trade and Industrial Potential. PIDE P&R 06.
- Ahmad, M. (2023). Fostering Trade and Industry. PIDE P&R 06.
- Zeshan, M. (2023). The Need of Trade Policy Reforms in Pakistan. PIDE Discourse 06.
- Siddique, O. (2023). Can Domestic Trade be the Engine of Pakistan's Growth? PIDE P&R
- Zeshan, M. (2023). Trade, Industry and Competition in Pakistan. PIDE Working Paper 15.
- Zeshan, M. (2022). Import Tariffs and Trade Balance in Pakistan. PIDE Knowledge Brief 94.

## Top Global vs Pakistani Exports

	Global Exports (USD Billion)	Share in Global Exports (%)		Pakistan Exports (USD Billion)	Share in Pakistan's Total Exports (%)
Miscellaneous Chemical Products	225	1%	Manmade Staple Fibers	0.30	1%
Ores, Slag & Ash	254	1%	Meat & Edible Meat Offal	0.31	1%
Furniture and Other Related Products	264	2%	Plastics & Articles etc.	0.34	2%
Iron or Steel Articles	286	2%	Beverages, Spirits, & Vinegar	0.35	2%
Commodities not Elsewhere Specified	303	2%	Seafood	0.37	2%
Iron & Steel	328	2%	Optical, Cinematographic, & Other Related Products	0.38	2%
Organic Chemicals	385	2%	Edible fruit and nuts, etc.	0.42	2%
Optical, Cinematographic, & Other Related Products	591	3%	Salt; Sulfur, plastering Materials, Lime & Cement	0.42	2%
Plastics and Articles thereof	611	3%	Copper & Articles etc.	0.44	2%
Pharmaceutical Products	681	4%	Leather Products & Related Items	0.58	3%
Natural and Cultured Pearls etc.	716	4%	Cereals	2.21	10%
Vehicles other than Railway or Tramway Rolling Stock, etc.	1,282	7%	Textile Apparel & Accessories etc. (Not Knitted)	2.63	12%
Mineral Fuels and Oils with Products	1,610	9%	Cotton	2.64	12%
Machinery and Mechanical Appliances & Parts	2,097	12%	Textile Apparel & Accessories etc. (knitted)	3.06	14%
Electrical and Electronic Equipments & Parts	2,775	16%	Textile Articles, Sets, Clothing, Rags, etc.	4.28	19%

Source: PIDE (2023) based on UNCOMTRADE



Source: The World Bank Report (2022), Swimming in Sand to High and Sustainable Growth



## PIDE's Proposed Reform

**R-147.** There is a need to **focus on the global value chain**, which is not possible without developing the local value chain. We need to invest in the complete supply chain ranging from transportation to storage and value addition.

**R-148.** The development of the local value chain is also linked to the establishment of domestic markets. To bring in value addition, we need to **create brands**. This requires investing in R&D and marketing.

**R-149.** To improve export performance, Pakistan needs to **remove anti-export bias** in all trade-related and allied policies, especially in the Strategic Trade Policy Framework (STPF). The focus of STPF must be on enhancing productivity and competitiveness rather than spoon-feeding firms and supported by a holistic industrial policy. A 15-year Export Policy – owned and monitored by an "Export Cell" at the Independent Planning Commission – needs to be formulated and implemented effectively.

**R-150.** Develop an **incentive structure that promotes increased production and productivity** in firms. For instance, the Auto Policy (2021-26) has suggested such measures. It is recommended to **offer subsidies that are based on performance and have clearly defined sunset clauses**.

**R-151.** Focus on **productivity enhancement by promoting investment in research and development (R&D)** activities. Perhaps the Export Development Fund (EDF) can be utilized for this purpose.

**R-152.** The Pakistan Standard and Quality Control Authority (PSQCA) should **establish a state-of-the-art laboratory** dedicated to exporters. This laboratory should transition out of state control within 5 years, and the door should be opened for private enterprises to establish competing labs.

**R-153.** **Minimize tariff cascading through trade policy reforms** over 5 years, such as harmonizing tariff rates across different stages of production. By doing so, it will enhance efficiency, reduce production costs, and increase the competitiveness of local industries in both domestic and international markets.



7.

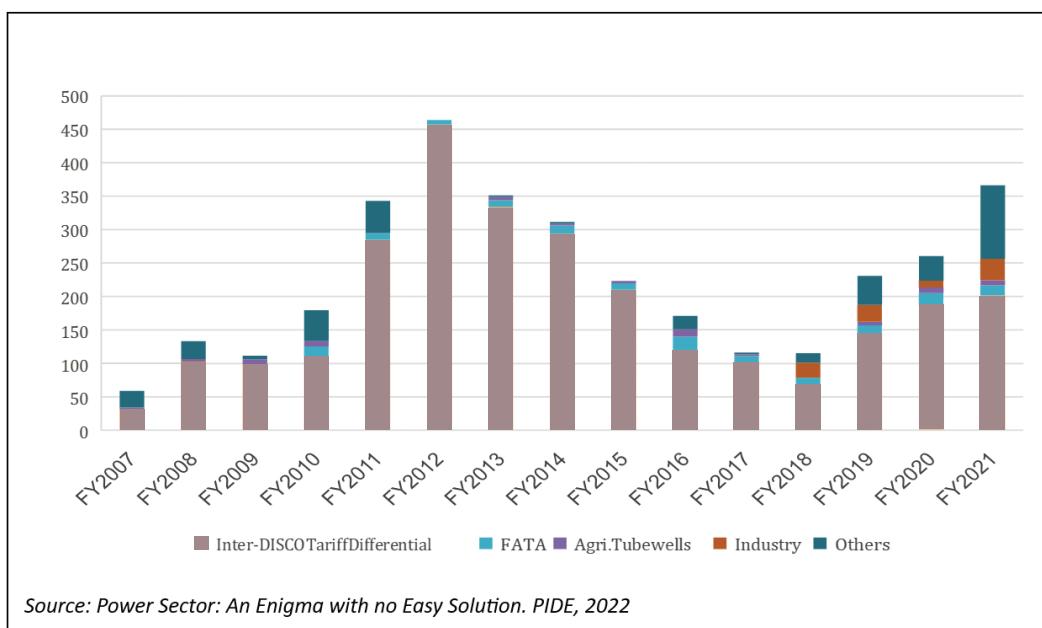
## ENERGIZING THE FUTURE

## A. Electricity

### a. Tariff Design

■ A uniform electricity tariff policy, where the difference is paid by the government in the form of subsidies to Distribution Companies (DISCOs) even if it is privatized, is causing a heavy drain on fiscal resources. In 2023, 61 percent of the Rs. 870 billion allocated to the power sector in Pakistan was for inter-DISCO tariff differentials. Since 2007, Pakistan has provided a cumulative support of around Rs. 5.3 trillion in this regard<sup>33</sup>.

#### Power Sector Subsidies



- Not only the government, but due to the uniform tariff policy, IESCO, LESCO, and FESCO are cross-subsidizing other DISCOs, which discourages inefficient companies from improving their performance.
- The approach of uniform tariff is against the spirit of the reforms plan introduced in the early 1990s and the Public Sector Corporate Companies Act.
- Evidence suggests that households install two to three meters to remain in lower tariff slabs, or through meter tampering or electricity theft, or payment of a fixed amount to the lower staff of DISCOs.

33. See:

• Malik and Urooj (2022). Electricity Tariff Design: A Survey. PIDE Knowledge Brief 81.  
 • Malik, A. (2021). Developing Electricity Market. PIDE P&R 2(5).



## PIDE's Proposed Reform

**R-154. There should be no uniform tariff.** Tariffs should be based on the actual cost of services in different geographical markets.

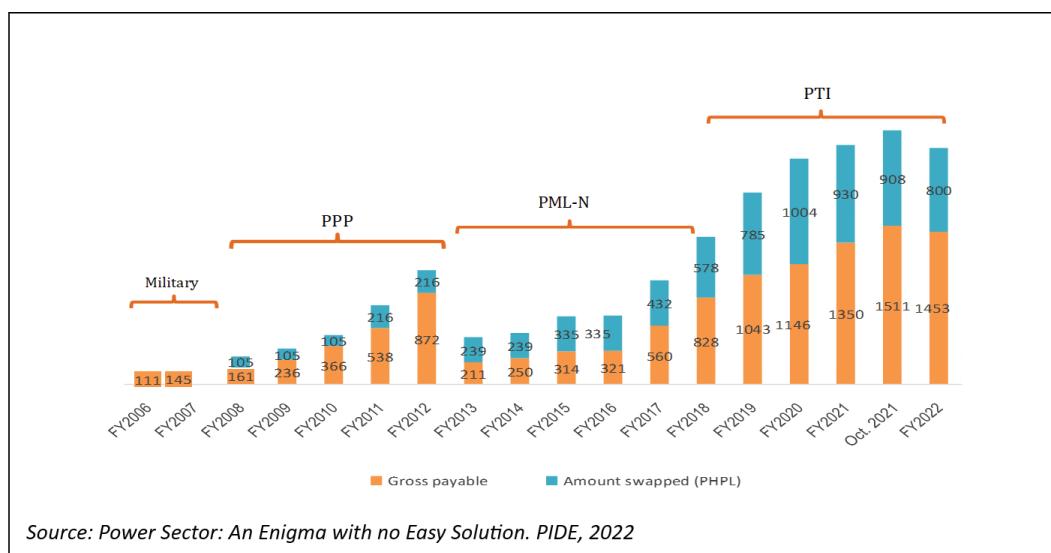
**R-155.** Furthermore, **the progressive tariff structure should also be removed.** The best way is to move from an increasing block tariff to a flat linear tariff. Eliminate all tariff-based subsidies and cross-subsidies in the sector and it will maximize not only revenue but also increase efficiency. Tariffs should cover the cost of providing electricity to all consumer categories.

**R-156.** Let the **power subsidy to the poor go through BISP** and not through electricity bills. Increasing Block Tariff (IBT) to target low-income individuals creates conflict between efficiency and distributional goals. It results in a deadweight loss relative to direct cash transfers for those experiencing poverty. Non-linear tariffs complicate economic decisions by charging varying marginal prices for the same product.

### b. Electricity Regulation

More than 20 regulatory entities with overlapping functions are promoting mismanagement and inefficiency in the power sector. Excessive regulatory oversight in energy companies jeopardizes their financial viability.<sup>34</sup>

**Circular Debt Growth (Rs. Billions)**



Source: Power Sector: An Enigma with no Easy Solution. PIDE, 2022

34. See:

- Malik, A. (2023). Effective Electricity Regulation. PIDE
- Cheema et al. (2022). Power Sector: An Enigma with no Easy Solution. RASTA-PIDE.

- Poor regulatory framework has caused the power sector to fall into a "capacity trap." The circular debt in this sector, which emerged in 2006, has caused total cumulative losses exceeding Rs. 5 trillion.
- Unreliable service delivery and a significant increase in electricity prices continue to harm consumers. Consumer tariffs have increased by over 500 percent in less than two decades.



## PIDE's Proposed Reform

**R-157. Shut down entities with overlapping functions** to reduce administrative and regulatory burden, government footprint, and institutional fragmentation.

**R-158.** Effective regulation requires **a single competent authority with explicit powers**. This also requires **no political interference** through the Power Division. Perhaps, the National Electric Power Regulatory Authority (**NEPRA**) should be allowed to fulfill the regulatory rule by making it **independent and out of bureaucratic controls**. NEPRA should equip its staff with skills to handle market forces and execute regulatory duties.

**R-159.** Parliament should appoint, monitor, and hold the Authority accountable through a committee or commission.

### c. Energy Companies Management

■ The Power Division manages electricity but lacks professional management and has limited technical understanding, therefore, relies on donor guidance and overlooks crucial ground realities.<sup>35</sup>

■ Generation, distribution, and transmission companies in the energy sector are not independent. Despite their corporatization, there is a lack of clarity regarding the laws that regulate these companies.

■ The government's involvement in the energy companies through the Power Division has grown stronger over time instead of becoming more decentralized. The Power Division makes all decisions, including DISCOs board meetings' agenda.

34. See:

- Malik, A (2022). Privatization of Electricity Distribution Companies – A Way Forward. PIDE Knowledge Brief 52.
- Malik, A. (2021). Corporate Governance on the State-Owned Electricity Distribution Companies. PIDE Knowledge Brief 40.
- Malik, A. (2021). Reforming Electricity Distribution. PIDE P&R 2(5).
- Iqbal and Nawaz (2020). Moving Up the Energy Ladder: The Impact of BISP Cash Transfers on Fuel Choice. PIDE Knowledge Brief 10.
- Abbas, S. (2023). How Operational Inefficiency of DISCOs Shapes Circular Debt in the Power Sector. PIDE P&R.

■ Board members are political appointees or government employees, interested only in their perks and privileges. Boards are without expertise and people of independent standing. Officials serving on multiple boards further complicate the situation. Even the appointment of CEOs in energy companies is without merit.

■ Privatization if it is envisaged, will require a complete reimagination of the sector. Privatizing decreasing cost monopolies will only transfer rents to the private sector. Strong and competent regulation is an important prerequisite for such privatization. In the current situation, privatization may lead to further complications, as Karachi Electric (KE) has already shown.



## PIDE's Proposed Reform

**R-160. Making a non-political time-limited Power Commission** comprising professionals with complete authority for re-engineering, reconfiguring, privatizing, and making a market could be an option. The Ministry of Energy must then be abolished.

**R-161. Decentralize power** for better management and decision-making. Make professionally run market-based companies accountable for their operational and financial decisions. These companies should be listed on the Stock Exchange allowing mutual and pension funds to invest in them and monitor their management. Whether or not take-over by a private entity is allowed should be a matter for the regulators and competition commission to determine as and when such an attempt is made.

**R-162.** It has long been considered that DISCOs need to be **split into smaller DISCOs** to allow more competition and more consumer choice. Technology allows it and this is an important option that should be considered.

**R-163.** The role (if any) the government can play is to give a long-term policy after a thorough consultative process. The role of the Ministry of Energy must be clarified to justify its existence. At no time should the Ministry of Energy consider itself the operator or the regulator of the system. It should not be allowed either to make appointments or interfere in any way in matters of the management of the power system. Should it exist, it should restrict itself to monitoring evaluation and policy development as required.

■ Boards should be self-renewing and draw on local talent and upstanding citizens. The boards should be independent and capable of making tough decisions. They should appoint professional CEOs and senior management based on merit. Board appointments should not be politically based.

■ Companies need professional management with a vision and a business plan focused on commercial success. These professionals must be empowered to act independently and make critical decisions without political influence. Holding management accountable for wrong decisions is critical. It is the job of the independent board to hold them responsible.

■ Power companies will only see improvement if unprofessional bureaucracy stays out of their managerial and financial affairs.

**R-164.** All energy companies must develop independent digital billing and financial systems that are integrated with **smart pay-as-you-go meters** and systems and wiring to prevent "Kunda". Except for the poor, let people buy their own meters. The pre-paid mobile market serves as a good example of such a mechanism.

**R-165.** Recent technological innovations as well as the advent of renewables suggest that **local grids may be more efficient** than one national grid. Given the length and breadth of Pakistan, extending the grid should be carefully weighed against the option of local grids.

## B. Oil & Gas Sector

### a. Oil and Gas Market

■ There is no gas market and currently there are only two players in the distribution and transmission business. They are getting a confirmed rate of return on their assets without any business model to improve efficiency and services<sup>36</sup>.

■ **The gas sector is over-regulated.** All the activities, directly or indirectly, are under government control. Monopolistic business operations (gas and LNG imports) are a bottleneck.

■ **Political interference in the affairs of service providers has led to cross-subsidization** and misallocation of scarce resources. Ultimately, gas pricing is not reflective of its value.

■ Over the years, the demand has been artificially inflated because of politically influenced gas allocation and tariff policies.

■ The Oil and Gas Regulatory Authority (OGRA) was established as an independent regulator in 2002 to regulate mid and downstream activities. However, it remained hostage to government decisions because of the significant state presence in the supply chain. Upstream activities are regulated by the government through the Petroleum Division. The lack of autonomy and role ambiguity in OGRA's administration impedes its ability to function effectively. OGRA law allows mandatory government involvement in the sector's regulatory system, making the regulator powerless.

36. See:

- Malik and Ahmed (2022). Gas Crisis in Pakistan. PIDE Knowledge Brief 83.
- Malik, A. (2022). Effectiveness of Oil and Gas Regulatory Authority. PIDE Monograph Series.
- Malik, A. (2023). Challenges and Reforms in Pakistan's Gas Sector. PIDE P&R
- Khan et al. (2020). Oil Price Volatility and Stock Returns: Evidence from Three Oil-price Wars. PIDE Working Paper 22.
- Malik, A. (2021). Gas and Petroleum Market Structure and Pricing. PIDE Monograph Series.

■ OGRA's role in regulating gas sector prices is limited. Its main function is to issue licenses, however, it has not been able to develop standards for granting licenses to new oil marketing companies. Likewise, OGRA also fails to monitor the capacity of local refineries as they are protected through concessions/subsidies.



## PIDE's Proposed Reform

**R-166. Only increasing gas tariffs will not be sufficient to develop a market.** Deregulate the natural gas sector and implement a transparent pricing system. Passing the costs of LNG to all consumers, including households, can help prevent a rise in the circular debt.

**R-167. Market-based pricing** can also control the misuse of gas. To ensure financial viability, a cost-of-service tariff system must be implemented. It is crucial to **eliminate subsidies** and cross-subsidies.

**R-168. Allowing third-party access to LNG imports** and increasing the private sector's involvement in the LNG supply chain can help in smoother procurement and reducing costs through competition, as seen in mature LNG markets like Japan, South Korea, and India.

**R-169.** The gas distribution sector must adopt a multi-seller distribution model by unbundling the network to provide customers with choices and to ensure competition.

**R-170. Commercialization of gas distribution companies.** Use margin-based systems to conduct the business effectively.

**R-171. A single regulatory authority** with adequate regulatory powers is necessary across downstream, midstream, and upstream oil and gas activities. Clear laws with provisions for the regulator's autonomy are needed to prevent government interference.

**R-172.** No political or judicial interference. Only monitoring and accountability by Parliament is required.

**R-173.** The Regulator (OGRA), must **enhance its capacity to monitor**, enforce, and regulate petroleum sector activities in response to market forces and sector challenges.

■ The regulator must be capable enough to establish **strict retail standards** to grant licenses to new oil marketing companies to create barriers to entry for unreliable operators attempting to enter the market.

■ Must set **refining standards** and be capable of monitoring and enforcing these. The refining sector should compete on its own without any burden on the national exchequer. Once effective and independent regulation is in place and market competition is allowed, all obsolete refineries, supported through levies, will automatically be out of the market.

## b. Oil and Gas Market

- Only a few companies have the majority of oil and gas exploration licenses. Large blocks of land are put up for auction. In each of the auctions for exploration licenses, the Government places conditions such as: (i) work commitments in terms of US\$ and (ii) qualifications of companies to obtain the exploration lease, which leaves out local small businesses and gives a clear edge to foreign investors.
- The number of active wells in Pakistan is limited, and there is no proper evaluation of hydrocarbon production potential in the country.
- Well-head gas prices are not market-driven, instead they are fixed by the government.
- Unnecessary and lengthy court trials with no clear outcomes are discouraging investment flows in the sector, as is the fear of NAB.
- Excessive government control and interference, high administrative costs, and bureaucratic hurdles are hindering progress. The Public Procurement Regulatory Agency (PPRA) rules prioritize cost over product quality.



### PIDE's Proposed Reform

**R-174.** Each **license in the auction should be limited** to 1,280 acres and open to bids from Pakistani citizens or companies incorporated in Pakistan. Obtaining the license should not require any work requirements or qualifications. The term of the license should be ten years, and the royalty 12.5 percent.

■ A cash bond or **insurance bond equivalent to the estimated cost of plugging** the well and remediating the lease must be mandatory for a proposed well to be drilled. This will allow individual, foreign, or local companies to bid for the leases.

**R-175.** Existing leases granted to companies must be terminated outside the existing production areas—these leases then be auctioned in smaller pieces to the public.

**R-176.** Companies must take price risks without price or other guarantees by the government. All pricing should be in the local currency rather than in US\$.

#### **R-177. Change in Tax Structure:**

- A property tax for the local government where the hydrocarbons are produced (taxed on the value of all assets, but not more than 1 percent of the value).
- Severance Tax on the fuel value (oil, natural gas, or any other gaseous or liquid hydrocarbons) extracted to be paid to the province (3 percent or less).

- No tax holiday on income taxes (and income taxes shared by both Federal and Provincial Governments).
- Conservation Tax for plugging or reclaiming abandoned wells, boring holes, mineral/petroleum resources, and industry education programs. This is usually about 0.5 percent paid by the working interest owner in advanced countries like the US.

**R-178. Free online access to oil and gas data**, including all technical data. This will help local geologists, geophysicists, and entrepreneurs to evaluate and develop exploration packages that they can use to get investors to drill oil and gas wells.

**R-179. Market-based well-head prices**, to encourage more investors in the exploration & production business.

### c. Petroleum Pricing

- Despite liberalization, fuel prices are still politically determined rather than market-driven. Retail prices do not reflect the international price trend.
- The dependence on fuel taxation as a source of federal government revenue has increased.
- Oil Marketing Companies are allowed to import directly, but the import cost of oil is determined based on the Pakistan State Oil purchase costs.
- Inland Freight Equalization Margin (IFEM) is for uniform tariffs but is used for various disbursements to the oil sector.



**R-180. Complete deregulation of petroleum pricing** and let the market determine prices based on the cost-of-service basis.

**R-181. Ex-refinery prices should be based on international practice.** The regulator may set an upper limit using the weighted average of import prices.

**R-182. The IFEM needs to be discontinued**, given its gross misuse despite the various controls put in.

## C. Energy Transition

- A paradigm shift in the energy mix can be observed globally. In Pakistan, renewable sources contribute 6.8 percent to the overall energy mix, showing Pakistan's huge dependence on imported fossil fuels.
- The growth of solar and wind power in Pakistan has been gradual, despite the enormous potential. Various economic and non-economic factors have hampered Pakistan's efforts to develop renewable energy sources.
- There is no consistent policy for renewable energy. The lack of comprehensive and coherent long-term planning in the energy sector has impeded the energy transition.



### PIDE's Proposed Reform

**R-183.** Instead of solar IPPs, **net metering should be promoted.**

**R-184.** Indigenous **research and production of solar panels** should be promoted without protection so that an internationally competitive industry can be developed.



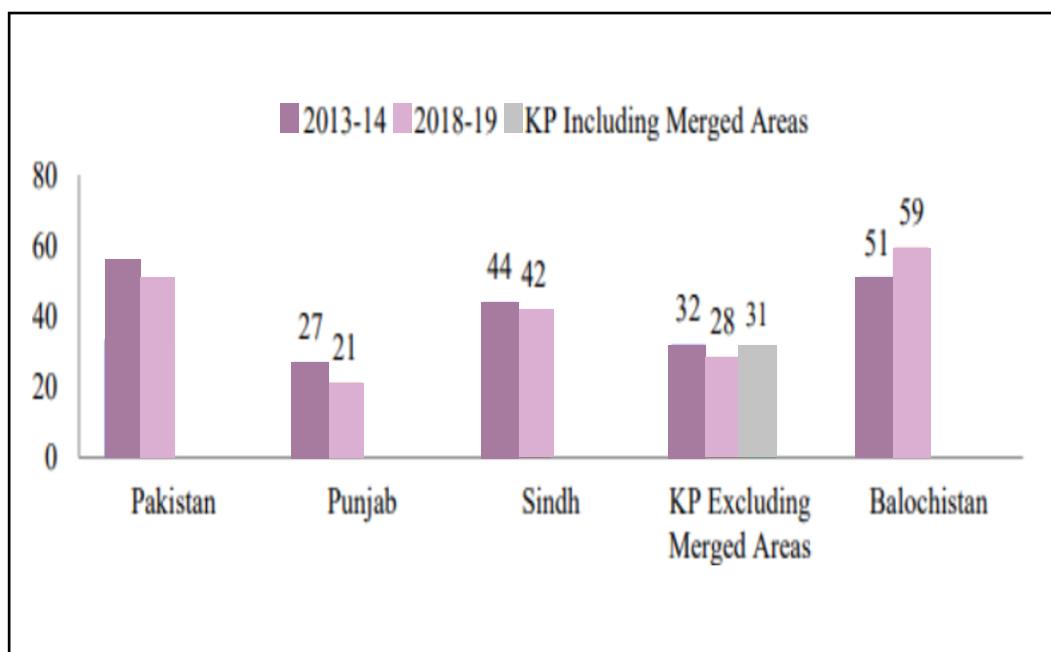
8.

## SOCIAL INFRASTRUCTURE

## A. Education

Article 25A of the Constitution requires the state to provide free education to all children between the ages of five and sixteen. However, it seems that the government is more focused on higher education rather than primary education. As a result, primary schooling has almost become a forgotten agenda. The quality of the government schooling system is declining compared to private schools, despite its better infrastructure and pay structure.<sup>37</sup>

### Out of School Children Aged 5-16



Source: PIDE Knowledge Brief, 2022:51

37. See:

- Haque, et al. (2021). Professor-less Universities in Pakistan. PIDE Knowledge Brief 44.
- Nazir and Hina (2023). What's Your Degree Worth? Return to Education, Employability, and Upskilling Workforce in Pakistan. PIDE Knowledge Brief 101.
- Ahsan, H. (2024). Impact of Education Mismatch on Earnings: Evidence from Pakistan's Labor Market. PIDE Working Paper 01.
- Mustafa, G. (2023). Is the Decision to Obtain Higher Education in Pakistan Worth Repaying? PIDE Working Paper 6.
- Kakar, R. (2023). School Education in Post-18th Amendment Balochistan: A Political Economy Perspective. The Pakistan Development Review 62(4).
- Bari, F. (2023). Education: Some Thoughts on the Way Forward. PIDE Discourse.
- Sattar, A. (2020). State of Education in Pakistan. PIDE Blog Series.
- Rahman, T. (2023). Language and Education Policies and Power in Pakistan. PIDE P&R 03.

- Pakistan participated for the first time in Trends in International Mathematics and Science Study (TIMSS) in 2019 in fourth-grade mathematics and science study. Performance-wise, we stood second from the bottom. Pakistan's curriculum only touches on rote learning leaving little scope to nurture students' creative skills.
- The curriculum in Pakistan is not objective/outcome-based but is standard-based.
- Across the world, universities are about professors engaged in research. But, in Pakistan, it is common to think of universities as mere brick-and-mortar buildings without enough competent professors and innovative ideas. Politicians seek to please their constituencies by setting up universities without thinking about the overall quality of these institutions. Extremely poor-quality degree programs being taught at Pakistani universities raise question marks on the performance of the Higher Education Commission (HEC) as well.

### **Average Size And Distribution Of Faculty And Professors Per University By Province In Pakistan.**

	<i>No. of Universities</i>	<i>Professors in Social Science</i>	<i>Professors in Other Disciplines</i>	<i>Junior Faculty</i>	<i>Total Faculty</i>
<b>Azad Jammu &amp; Kashmir (AJK)</b>	3	0.33	3	128.67	132
(%)		(0.25)	(2.27)	(97.47)	(100)
<b>Gilgit Baltistan (GB)</b>	2	0.50	1.50	53.50	55.50
(%)		(0.90)	(2.70)	(96.40)	(100)
<b>Balochistan</b>	5	0.60	9.00	237.00	246.60
(%)		(0.24)	(3.65)	(96.11)	(100)
<b>Islamabad</b>	17	0.94	16.06	294.82	311.82
(%)		(0.30)	(5.15)	(94.55)	(100)
<b>KPK</b>	23	0.35	5.22	136.91	142.00
(%)		(0.24)	(3.66)	(96.09)	(100)
<b>Punjab</b>	35	0.89	10.94	202.17	214.00
(%)		(0.41)	(5.11)	(94.47)	(100)
<b>Sindh</b>	15	3.60	18.73	192.07	214.40
(%)		(1.68)	(8.74)	(89.58)	(100)
<b>Total</b>	100	1.14	11.14	197.96	210.24
(%)		(0.54)	(5.30)	(94.16)	(100)

Source: PIDE Knowledge Brief, 2021:44

- The future of work will be more volatile, and the job market will remain under pressure to accommodate new entrants or inactive and displaced workers. It is, thus, time to re-orient and plan our skills and employment policies to cope with these challenges. Technological transformations happen to reduce disproportionately the demand for low-skilled workers while raising the demand for those with high-order cognitive and digital skills.



## PIDE's Proposed Reform

**R-185.** The government must prioritize schooling while also acknowledging the importance of higher education. This can be achieved by implementing the following measures:

- Move rapidly to learning through online and technology-based education to minimize variation in teacher quality.
  - This would mean a large investment in fiber optics and devices to prioritize "internet for all."
  - Perhaps, consider eliminating textbook boards and fostering education through technology that facilitates all public schools to go online.
  - The goal of education policy should be to have digital access to all school-going children. If there can be a laptop scheme for university students, why not a tablet scheme for schoolers?

**R-186.** Teachers' ought to be hired strictly based on merit, without any political interference. Additionally, the training of instructors should be an ongoing process, with multiple training sessions throughout their tenure that focus on contemporary pedagogies.

**R-187.** The debate surrounding the medium of instruction has diverted attention from the more pressing issue of the quality of education. PIDE supports teaching English to all school students and also focuses on Science, Technology, Engineering, and Mathematics (STEM) subjects.

**R-188.** To catch up with learning outcomes at the international level, it is important to ensure increased immersion levels of students into ed-tech by giving students more readily available access to devices (computers, tablets, etc.). The ideal scenario is to give each student a **low-cost smart tablet and portable internet devices** on which they can access ed-tech content and e-books. Upgrade the existing computer labs in schools to **maker-learning spaces and conduct blended e-learning lessons**.

**R-189.** Shift the policy's focus away from mere 'brick and mortar' to grooming professors in higher education. The PSDP should allocate **more funds for research in educational institutions**. Perhaps a better approach might be to develop a large-scale professor hiring program (including foreign professors) instead of offering scholarships through the Higher Education Commission.

- PIDE recommends that 10 percent of PSDP annually should be allocated for research.
- Prioritize research that is relevant to Pakistan's context since PIDE believes in local research and local solutions.

**R-190.** Revise the curriculum to make it more job-market-relevant. Work with industry and employers to develop programs that fulfill the needs of the labor market. Incorporate practical training, internships, and apprenticeships into the curriculum. Universities need to take an active role in **upgrading curriculum and establishing links with industry** and the labor market.

## B. Health

■ Pakistan has the lowest per capita health spending and the lowest ranking on the Universal Health Coverage Service Index (WHO, 2021) in the South Asian region. Despite the government being the major player in the health sector, owning and operating a large number of healthcare facilities across the country, out-of-pocket health expenditures remain over 60 percent.<sup>38</sup>

■ The healthcare delivery system suffers from key issues such as high population growth, uneven distribution of health professionals, deficient workforce, insufficient funding, and limited access to quality healthcare services (WHO, 2023).

■ PIDE study shows that people typically seek formal healthcare only when they consider their ailment to be serious - that is when home remedies and over-the-counter medications prove ineffective. Homeopathy is a popular alternative to conventional medicine. Residents from rural areas often seek treatment from non-degree allopathic practitioners for acute illnesses.

● Many people in Pakistan are not satisfied with the allopathic formal healthcare system. This dissatisfaction is due to several factors, such as medical negligence, mistreatment of healthcare providers, high costs of healthcare, unhygienic facilities, and malpractice, which involves healthcare providers prescribing unnecessary treatments for profit.

■ Pakistan is at a high risk of being affected by climate change due to its labor-intensive industries, such as agriculture and construction, which expose workers to extreme heat. In addition, the country is also prone to recurrent climate-induced disasters, such as floods and droughts. The impact of climate change on health is multi-dimensional and is expected to affect those who are least able to protect themselves, such as the poor and marginalized populations, the most.

■ The Epidemiological Theory states that populations shift from a stage where diseases linked to infections, epidemics, and other such reasons inflict them, to one that suffers from lifestyle diseases, like hypertension and diabetes.

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38 See:

- Banday, Z. (2023). Augmenting Universal Health Coverage Through Digital Technologies in Pakistan. PIDE Discourse.
- Nazir and Emran (2022). How Do People Do Health in Pakistan? Understanding Health-Related Choices and Healthcare Navigation. PIDE Knowledge Brief 80.
- Khan, A. (2023). Health and Climate Change. PIDE Discourse.
- Mirza Z. (2023). Public Health Crisis: A Cry for Reforms. PIDE P&R.
- Rizvi, S. (2022). Spending Public Money Where it Makes More Sense! Universal Health Coverage in Pakistan. PIDE Blog Series.

The causes of death in Pakistan show that the country has not transitioned fully from the first stage but has entered the next stage. The country, thus, carries a double burden of diseases where non-communicable diseases are accompanied by communicable, maternal, neonatal, and nutritional diseases.

### Cause of Death

Cause	Rank	Type
Neonatal disorders	1	
Ischemic heart disease	2	
Stroke	3	
Diarrheal diseases	4	
Lower respiratory infect		
Tuberculosis	6	
COPD	7	
Diabetes	8	
Chronic kidney disease	9	
Cirrhosis liver	10	

Note: Non-communicable diseases ■

Communicable, maternal, neonatal, and nutritional diseases □

**Source:** Global Disease Burden, 2020



### PIDE's Proposed Reform

**R-191.** Incorporate health as a right in the Constitution.

**R-192.** Launch a holistic UHC policy with the inclusion of tech-driven approaches for inclusive health coverage and reducing the burden of out-of-pocket health spending.

■ Promote health tech entrepreneurship through university and incubator-based startups for the manufacturing of no-frills medical devices.

**R-193.** Supporting quality certifications for startups and firms engaged in the design and manufacturing of portable health devices and apps.

**R-194.** This is a good time to mainstream climate-induced health hazards into national health plans and develop a health strategy for coping with climate change.

**R-195.** One of the key aspects related to health improvement is better hygiene, which can reduce communicable diseases. There is a dire need to launch awareness campaigns educating people on how to maintain hygiene for better health. Likewise, an awareness of lifestyle changes is also needed so that the general public may take precautions against non-communicable diseases.

## C. Police

- The patron-client relationship and politicization of the police department hinder efficient and effective crime detection, prevention, and maintenance of public order, thus warding off healthy economic activity, including foreign direct investment (FDI)<sup>39</sup>.
- This also leads to the emergence of a system of loyalty to individuals and political figures.
- The current police structure is too centralized and not in sync with local needs.



### PIDE's Proposed Reform

**R-196.** The police force must be **brought under the local government** and delinked from centralized control. Federal Investigation Agency (FIA), Rangers, and other such law enforcement and investigative agencies can rest with the federal government.

**R-197.** Police Order 2002 must be implemented as an immediate reform measure.

**R-198. Ensure operational autonomy** by separating police functions from other roles such as protocol duties.

## D. Internet

- Lack of universal internet access hinders the growth and development of many sectors and prevents various activities such as online education, telehealth services, e-commerce, etc<sup>40</sup>.
- In the case of Pakistan particularly the availability of quality internet is limited to specific cities and areas. Although the availability of good internet is an issue in most of the city, however, Balochistan, Azad Jammu Kashmir, and Gilgit-Baltistan suffer the most.
- The mobile and internet services are highly taxed. Roughly, 15 to 19 percent GST is applicable on internet and cellular services. An exorbitant tariff is applied on high-value devices by the Pakistan Telecommunication Authority (PTA). It affects the quality of the device provided to the average user. Our research shows that the protection policy has forced many people to buy 2G and 3G devices, something that is contrary to our announced policy to expand the freelance market.

40. See:

• See; PIDE (2021). Internet for All. Policy and Research Magazine 2(3).

- Digital connectivity suffers because of the limited number of optical fiber available which is required for swift connectivity. In Pakistan, digital towers connected with optical fiber stand at a mere 10 percent, which is 30 percent less than the international penetration practice.
- Spectrum availability is also an issue in the provision of good internet services. The government has released 256 MHz of the spectrum to date for the availability of 3G and 4G provision.



## PIDE's Proposed Reform

**R-199.** Universal Internet access at affordable rates is the need of the hour and must be considered a fundamental right of citizens since **the Internet is a basic right.**

**R-200.** PTA needs to facilitate the **penetration of optical fibers** and should not consider it solely the telecom service provider's job. It needs to ease the regulations regarding optical fiber penetration. Tower sharing by different telecom services needs to be operationalized.

**R-201.** The government **should not see spectrum release as an immediate revenue-seeking** activity but rather fulfill the spectrum needs of all telecoms. Spectrum is not only required for 5G but also a faster 3G and 4G.

**R-202.** It is extremely important to **support good quality mobiles** that are pocket-friendly and technologically advanced. **Taxation needs to be redefined on mobile phones and devices** to move towards Digital Pakistan. Mobile phone is not a luxury, so the taxation needs to be lowered.

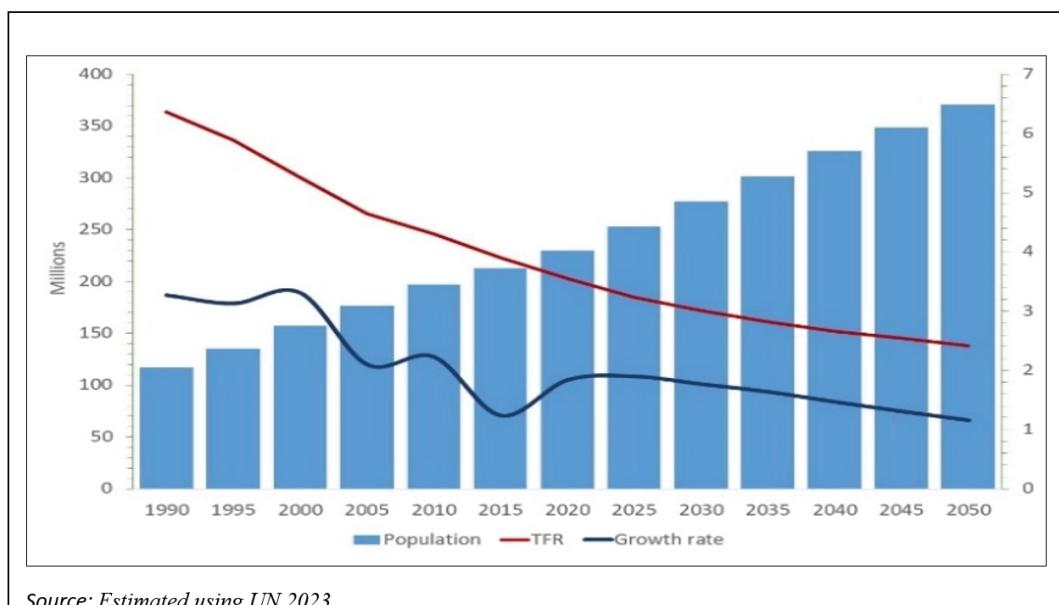


9.

## **CHANGING THE POPULATION PARADIGM**

The population of Pakistan is growing at a fast pace, and by the year 2050, it is projected to be over a huge 350 million. The recent census puts the annual population growth rate at a rapid 2.55 percent, which was higher than what was earlier projected, including that by the UN which was around 2 percent. The total fertility rate (TFR) continues to be high, hovering under 3.5 children per woman. Even by the year 2050, the TFR of Pakistan is projected to remain above the replacement level<sup>41</sup>.

### **Population (Millions), its Growth Rate (%), and Total Fertility Rate: 1990–2050**



Source: Estimated using UN 2023

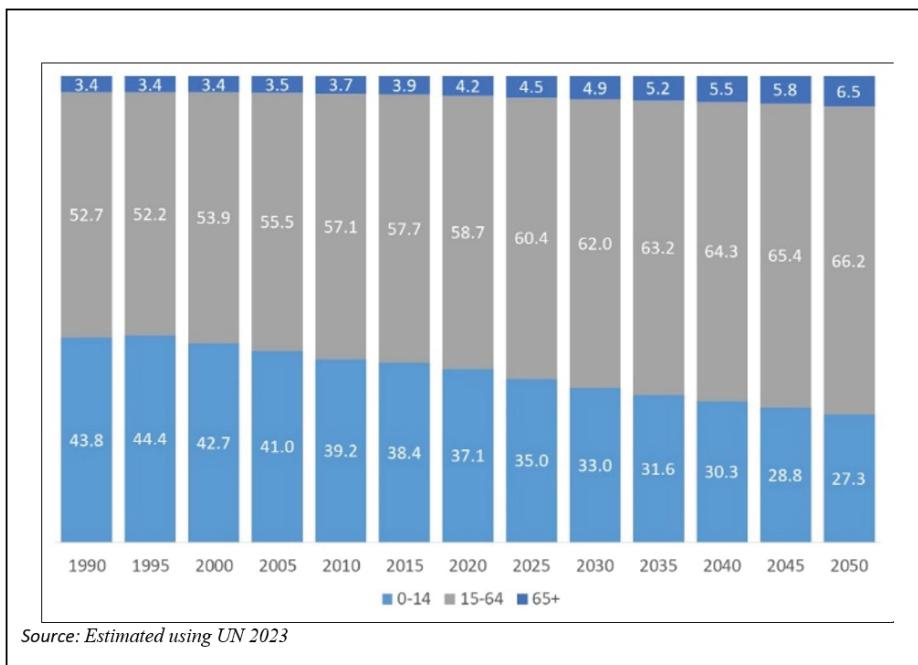
There has been talk of demographic dividend, and the potential it offers, since 2006 (Nayab, 2006). Earliest estimations put the window open till 2045, but the slow pace of fertility decline in the country has added years to this opening. The proportion of the population in the working ages, age 15-64 years, continues to increase till 2050.

The stagnation in the fertility decline in Pakistan has prolonged the timing of the potential demographic dividend in the country till 2056.

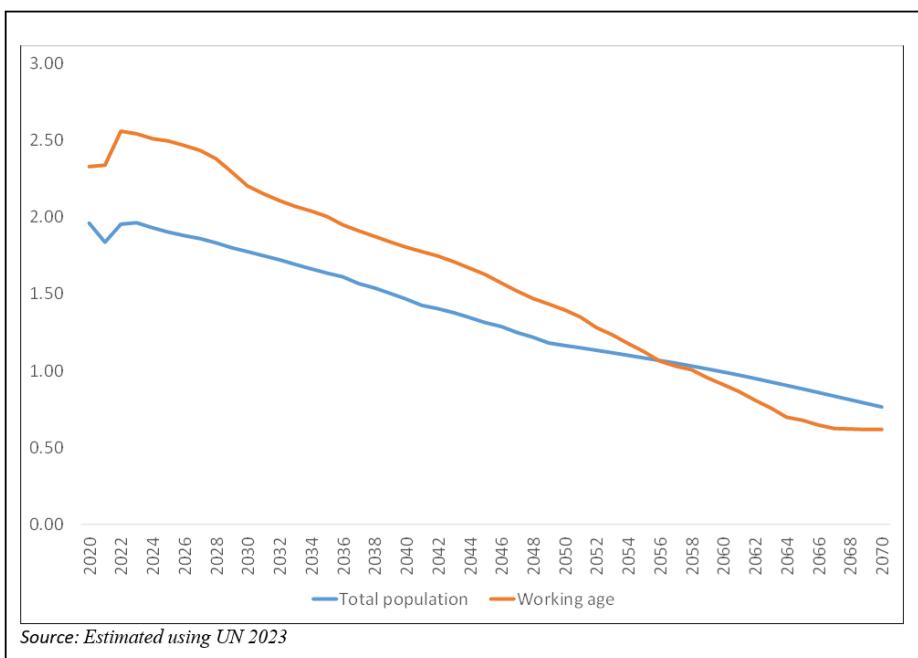
41. See:

- Nayab, D. (2006). Demographic Dividend or Demographic Threat in Pakistan. PIDE Working Paper 10.
- Qureshi, M. (2019). High Population Growth in Pakistan: A Supply and Demand Side Issue. PIDE Blog Series.
- Qaisar, M. (2022). The Perplexing Population Puzzle. PIDE
- Abdullah, S. (2021). Ageing in Pakistan: A Curse or Blessing? PIDE Blog Series.

## Age Composition of the Population (1990–2050)

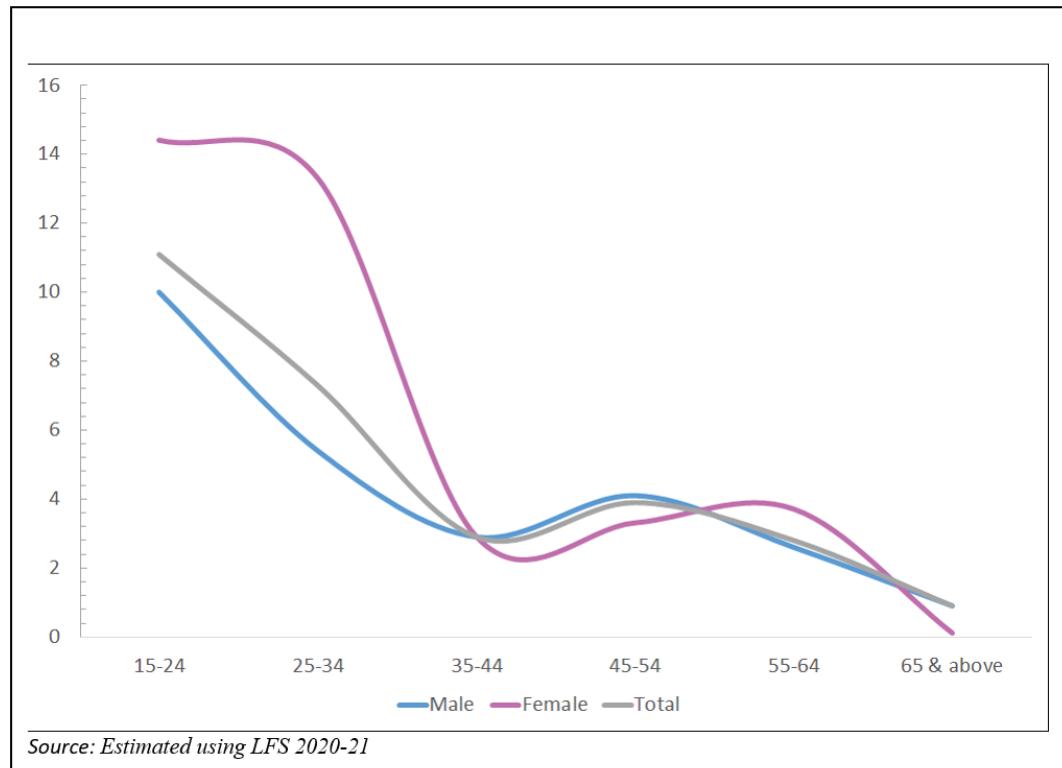


## Timing of the 'Demographic Dividend'

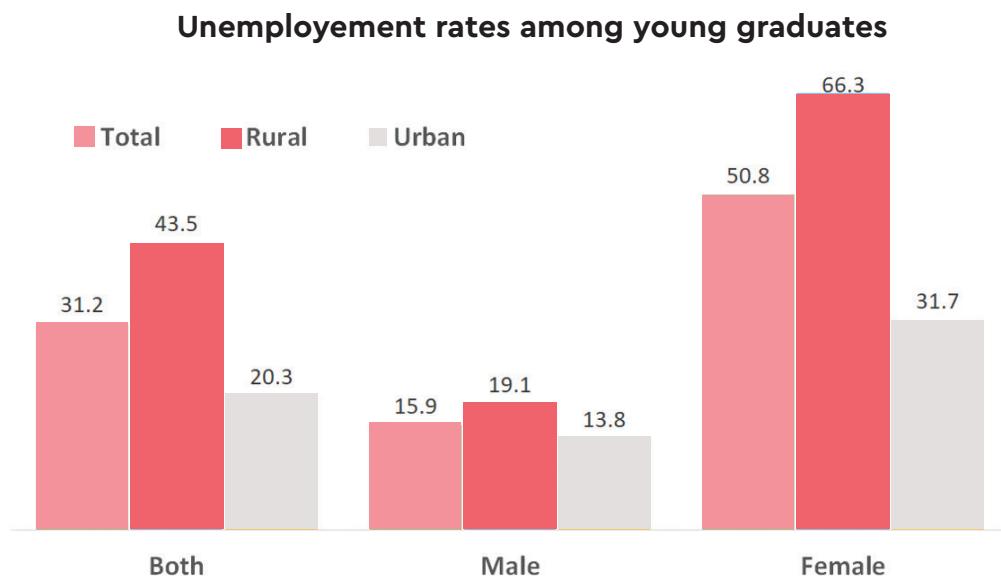


- Unemployment is high in the country, with young entrants having the highest unemployment rates. The situation for female entrants is much worse than their male counterparts.

### Age-Sex-Specific Unemployment Rates (%)



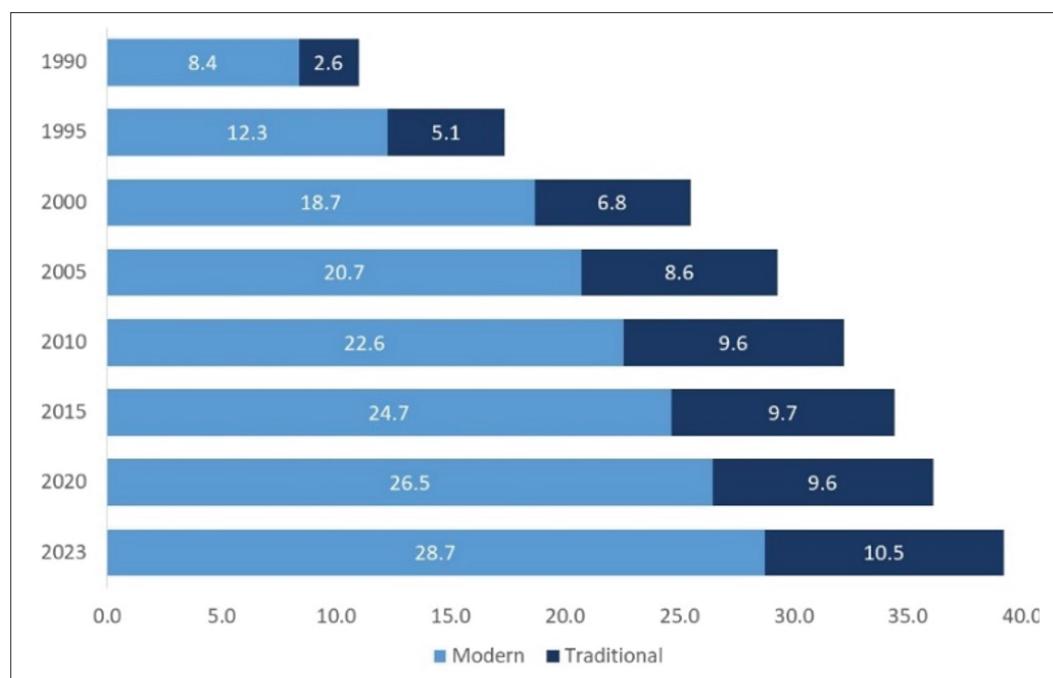
- The quality of education and skills provided to the youth in the country is not of the quality or relevance that is required in the labor market today. Education, which is generally considered a panacea to all problems, is not helping young people to get employment because of the poor quality of education, accompanied by limited employment opportunities available to them. Among the youth (aged under 29 years) with a college degree or above, nearly one-third are unemployed. The situation for female graduates presents an even grimmer picture.



Source: Estimated using LFS 2020-21

**Contraceptive Prevalence Rate (%)**: 1990–2023

The contraceptive prevalence rate (CPR) in Pakistan has shown very slow progress. The CPR of 32% in 2010 increased by just 8% to reach 38 percent in 2023 – that is not even a 1% increase each year.





## PIDE's Proposed Reform

**R-203.** The population paradigm in Pakistan needs to get out of the Malthusian Trap – the idea that there is an inverse relationship between the population and living standards and that population growth invariably outgrows resources. This is in direct contradiction with the notion of a ‘demographic dividend’.

**R-204.** The issue is not of population per se, but its quality. There is a need to consider the issue of the population a multisectoral one, requiring improvements in the quality of skills, education levels, employment opportunities, health, and mindsets.

**R-205.** The high unemployment rate among graduates not only shows a lack of job opportunities but also an issue with the skills and relevancy of education. Policies need to be in place to cater not just to educational infrastructure but also to provide quality teachers and relevant curricula with 21st-century pedagogy.

**R-206.** Unemployment and underemployment rates are increasing in the country showing a lack of jobs, and more so of quality jobs, especially for the educated and the females. The availability of quality jobs is important for prompting the income-savings-investment cycle – the very essence of the demographic dividend.

**R-207.** Population growth will go down once the opportunity cost of having children increases, and that will happen with socio-economic development.

**R-208.** The population challenge requires a comprehensive societal response. On the one hand, policy must ensure the inclusion of opportunities for women in every area. On the other hand, there must be employment and entrepreneurial opportunities for everyone everywhere in the country. This will require both the modernization of society as well as the development of markets in dense modern cities. In this sense, our reform agenda becomes even more important because it provides an important framework that includes city regeneration, market development, governance modernization, and openness.

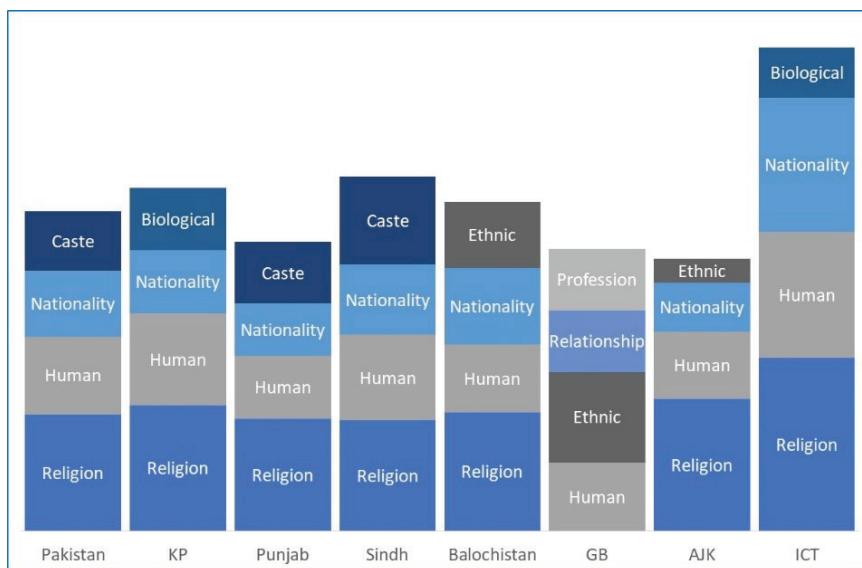


10.

## **BUILDING A COHESIVE COMMUNITY AND SOCIETY**

- PIDE BASICS<sup>42</sup> survey shows that
- Very low trust in society
- Fragmented community. People identify themselves with their castes and seldom marry outside their community.
- Very little participation in community activities. No room for voluntary participation.
- Communities severely lacking facilities such as libraries, playgrounds, and community centers.
- Aspirations and ambitions are extremely deficient, especially among the youth.
- Lacking opportunities, the vast majority of the youth wish for immigration.
- A society with poor trust, limited community, discontented opportunity, and ambition-less youth is not likely to show the entrepreneurship and innovation that is required for growth and development.
- Sadly, Pakistan never had the policy to build community and society. This is reflected in the fact that PSDP has no allocation for such activities. Even when stadiums and auditoriums are built they are out of reach of the community.

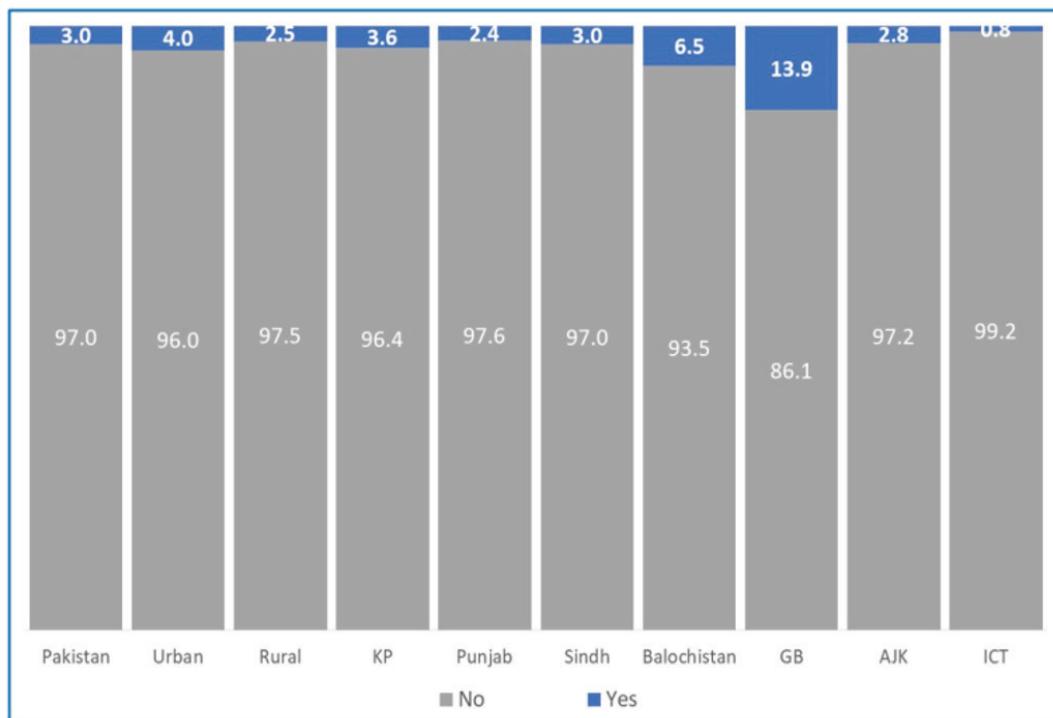
### The Four Most Reported Identities



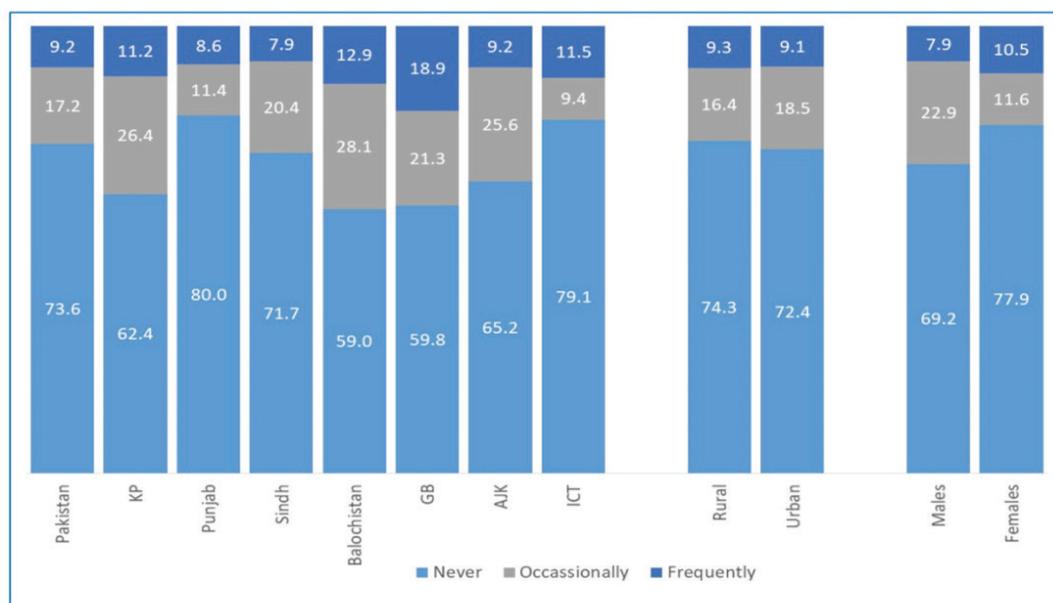
42. See:

- BASICS notes can be accessed at: <https://pide.org.pk/research-category/basics-notes/>

### Membership of any Club/organization (%)



### Frequency of Volunteerism (%)





## PIDE's Proposed Reform

**R-210.** Local government must be created for community development. They should not be regarded merely as service providers for roads, schools, and health centers. They must also develop good cities with easy access to community centers, libraries, and playgrounds.

**R-211.** Local government should also develop a framework for the use of schools, colleges, universities, and mosques for community events.

**R-212.** They must also allow for neighborhood and community events and associations to participate in the management of local facilities such as schools, colleges, universities, libraries, playgrounds, community centers, and mosques.

**R-213.** There should be room for developing local hobby clubs, various game competitions, and other such activities in each locality.

**R-214.** Festivals, especially cultural events, should be encouraged.

**R-215.** It is important to **develop a good childhood policy** to vitalize 36 percent of our population that is children (aged under 15 years) who represent our future.

■ The community infrastructure mentioned above is critical to provide for the development of a vibrant youth – far more needed than the roads we are building.

■ Developing local government that allows neighborhoods and communities to grow will generate child-centric activities such as game competitions, knowledge competitions, hobbies, etc.

■ Such activities should involve parents who will take a greater interest in children's education as well as contribute to forming a community.

This Reform Agenda must not be mistaken for a policy document. It is meant to set the direction for future policy frameworks. PIDE recognizes that this proposed reform agenda is not a complete version. This must be considered as a live document, open to changes and upgradation through consultation and feedback.

This document is based on PIDE's research over the last four years and is supported by several underlying documents that can be found on PIDE's website. For the details, please visit our website at [www.pide.org.pk](http://www.pide.org.pk).

The authors are grateful to several staff members for their input in preparing this document!

**Nadeem Ul Haque  
Durre Nayab  
Ahmed Waqar Qasim**



"Economic growth springs from better recipes, not just from more cooking"  
Paul Romer

"Institutions are the humanly devised constraints that structure political, economic, and social interactions"  
Douglas North

"A crisis is a terrible thing to waste"  
Paul Romer

"One of the great mistakes is to judge policies and programs by their intentions rather than their results"  
Milton Friedman

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design"  
Friedrich Hayek