Time to deregulate

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Pakistan needs to have a 7-8% growth rate to reduce its debt burden. One way to achieve this goal, a 28.8% investment is required (PIDE's Calculations based on current ICOR). The business environment in Pakistan has not been stable enough to attract investments.

Therefore, the need is to create large, exporting, outward-looking, and professionally-run corporations. This can be ensured by introducing a modernized regulatory framework. To understand the nature of the regulatory authorities functional in Pakistan, it is pertinent to realize the fact that in Pakistan the word "authority" means to have "absolute control".

Therefore, the regulatory authorities are prone to exercise their rules to create friction for retardation, making tasks and business burdensome. In case of Pakistan, we are over-regulated. The common observation is that the regulators, in general, put more barriers through unnecessary licences than to facilitate the businesses

As per PIDE Sludge Audits, there are “122” regulatory authorities at federal level. The number of regulatory authorities in a federation state like Pakistan not only multiplies at three (03) tiers of regulations (federal, provincial and local), but their presence also causes overlapping of various regulations.

Thus, layering of regulatory authorities becomes a liability, accounting for 39% of GDP as the cost of regulations. The presence of regulatory authorities in a “control obsessed society” like ours has posed grave consequences, making permissions, licences and regulations a huge impediment for potential investment. Likewise, the government’s footprint through its direct interventions amounts to more than 67% of the GDP.

Therefore, the over-regulations and government footprints are two of the major barriers to investment and innovation. Rent-seeking and retarding the market development are the products of barriers imposed by the regulatory authorities in terms of permit processes, licensing requirements, environmental regulations, documents attestation, etc. All this makes the process time-consuming and opens venues for bribes.

Realizing the need of the hour, some organizations have worked to reduce regulations to improve the “ease of doing business”. They have either reduced the regulations, or have established one window to deal with minimum delay. This effort has borne fruit with an evidence—up-gradation of 71% Pakistan Trade Facilitation Score in 2023 from 57% in 2021.

Besides, the presence of multiple regulatory authorities for the same sector results in overlapping. For instance, for clearance and approval of the imported fuel, Pakistan Standards and Quality Control Authority (PSQCA) and Petroleum Regulatory Authority both pay separately for the test of the samples to the same laboratory.

This overlapping adds up to the cost of the same commodity/service owing to over-regulations. The presence of multiple ministries and regulatory authorities for the same domain shows the bad governance system in Pakistan, where political interests are served at the cost of national interests.

The aforementioned discussion can be summed up by arguing that the need is to introduce a modernized regulatory framework, by striking a balance between laissez-faire and over-regulated authority structures to enhance an efficient and effective milieu for doing business in Pakistan. Thus, PIDE proposes the adoption of a modernized regulatory framework with an embedded “Regulation Impact Evaluation (RIE)” system.

The concept of RIE has only been introduced at the “training” level in Pakistan. It has not been operationalized so far.

Following international best practices, Pakistan should have an office like the Office of Regulatory Affairs (ORA in the USA) to evaluate the need, implementation, and impact of any regulation before its approval. The office should establish some key performance indicators to evaluate the performance of a regulatory authority. This will help eradicate unnecessary regulation. In this vein, PIDE advocates digitization, market liberalization, and the introduction of rule-based, viable, and competitive regulations for efficient and functional markets.

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