Pakistan Institute of Development Economics - PIDE

Policy @ PIDE

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POLICY @ PIDE

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ISLAMABAD

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ACKNOWLEDGEMENT

Debates and criticism on policy without a solution are generally irrelevant, we at PIDE focus on the solutions. PIDE as nation's think tank has the responsibility to provide policy solutions. This book is compilation of policy briefs written by the researchers at PIDE. The policy briefs are written during 2020-2021 and are very relevant in current times. I would like to pay my highest regards to the authors of these policy view point. I would like to thank Dr Nadeem ul Haque and Dr Durre Nayab for their constant support throughout. Special gratitude for Dr Mariam Mohsin for writing the foreword. Support staff and publication department are worthy to mention for all their work and support towards the publication of this book.

Fizzah Khalid Butt

FOREWORD

In times of uncertainty, decision makers frequently turn to the research community for thoughts and answers. Academic researchers likewise have strong reasons to participate in policy dialogues. Engaging with policy not only warrants "impact", but also stimulates accessibility and network growth. Beyond instrumental reasons, an inclination toward action research is an intrinsic virtue that guides the appetite for research among a sizable portion of the academic community. A large part of my interest in linking traditional research to policy and practice comes from Alexander George's *Bridging the Gap: Theory and Practice in Foreign Policy.* I think many social science researchers would testify about a similar influence.

The next step, where most researchers struggle, is concerned with the "how to" question. In a recent publication in *Palgrave Communications,* Kathryn Oliver and Paul Cairney seek answers from scholastic literature in terms of the "how to" question. They condense their findings into steps that guide the research community about making their work more accessible and readable, as well as in line with policy processes and structures. PIDE's work on policy is an exemplar of such research. *PIDE on Policy* is a compilation of a series of brief documents that inform and guide policy on an array of topics.

Themes covered in this volume include a wide assortment of regulatory (e.g., *Cities and Urban Planning; Empowered and Developed Institutions*), distributive (e.g., *World Beyond 2021; Finance and Money Market),* and redistributive (e.g., *Poverty Alleviation*) policy briefs. The broad selection of themes covers several policy areas, such as culture and society, economic affairs, education, and government operations. This showcases the diverse expertise that the PIDE has to offer.

I urge the readers to make use of this publication and to connect and engage with the authors of this work. This is a good starting point to bridge the gap between the policy world and the research arena. I hope that this series continues as a regular publication and stimulates further dialogue.

Mariam Mohsin

Cityscape

Lahore's Urban Dilemma

1. CONCEPTUAL ISSUES

The rules currently are too complex, detailed, often self-contradictory, and subject to multiple interpretations. The permissions and procedures written therein can slow down development as envisioned by PM for the welfare of the country.

Building and zoning rules are conflated. Building rules are mainly for safety and curbing environmental externalities. In this regard, setbacks and heights are arbitrarily related to plot size and road width. The land-use rules and zoning regulations continue to favour outdated concepts such as commercial roads based on car access over denser cramped areas, such as Misri Shah and Baghbanpura. The planners also hold Gulberg as a favourite; as opposed to where the people are densely cramped.

Zoning needs to be relaxed. Lahore needs to stop sprawling to suit a car lifestyle that subsequently pollutes and leads to a scrapped congested lifestyle. Zoning should merely differentiate between the city centre and suburbs.

With a large city like Lahore, the city centre might even be from Model Town to the Walled City and from Cantt to Samanabad.

Suburbs are the schemes outside this designated city centre area.

Micro-managing within these areas lacks clear-reasoning and provides a basis for the rent-seeking game through permissions. Building by-laws or regulations written therein should concern themselves only with technical performance demands of a building (safety-fire, structure, etc. and environmental function).

Box 1: Dividends from De-regulation in Lahore

Being the second-largest city, will Lahore give us about 0.5 million homes in the next three years?

With PM's vision of building 0.5 million homes, we need people to move to flats. Sprawl is already destroying clean air and a decent life. Will this new regulation give us flats in high rises abundance?

There is also an extreme shortage of office space, leisure space, school space, and space for many other usages. Will this new regulation facilitate that?

The economy is in recession, with per capita incomes declining and unemployment crossing 20%; the country needs a construction boom. There is an urgent need to deregulate so that economic activity can quickly pick up.

The city's social, economic, and political requirements, which come under 'city planning and zoning,' need to be separated from building requirement.

Area-specific requirements must be accompanied by a detailed plan/map available on the neighbourhood level, and on the internet for transparency.

We need principles to back the regulations.

Lahore is a sprawl that has not provided for the needs of its citizens. The need for the hour is to recognise that over-regulated city planning has been responsible for the mess. Due to lack of clear principles, overly interventionist, confusing and conflicting regulations in the most inner-city areas which in turn has favoured sprawl, the residents have low slung messy city stretching from Kasur to Gujranwala where there are massive shortages of space.

PIDE and other participants at the meeting, therefore, urged LDA to clarify the principles behind zoning and building regulations and let such principles be the guidelines.

Further, during the consultation, it was agreed that such guidelines by LDA must be minimal, short, and clear. The guiding principle of lengthy detailed LDA guidelines, requiring a lot of interpretation, will slow down work; create an insider market and lead to a lot of court intervention.

1.1. Fragmentation of Lahore

The issue persists across the cities, and Lahore is prima-facie. LDA only regulates and develops a small part of Lahore. Local government continues to elude us. The CM office can proactively help coordinate building and zoning deregulation across Lahore. This will require negotiating across many jurisdictions. If CM office leads; PIDE and our collaborators will extend assistance.

Box 2: The Crying Need to Integrate the City

- LDA represents only 20% of the city.
- 5 entities regulate Lahore with different rules and without citizen participation and representation.
- LDA is to be congratulated for this effort to follow cabinet instructions. Other entities regulating Lahore have not shown any initiative yet.
- Only the Chief Minister's office can coordinate these entities. We are thankful to Salman Shah Adviser finance for taking up this initiative.
- Coordination between these governing arrangements that make city development difficult will have deep repercussions for city development and eventually, economic growth. We urge the government to take up this issue of city fragmentation that slows our economic growth as a matter of national security.

1.2. Cooperation of Agencies

The agencies including LDA, TMA, LMC, PHATA, and DHA consider each other competitors; but to have a constructive Lahore plan, they must be cooperative to establish institutional tools to create high-rise plans for Lahore.

Box 3: Shortage of Needed City Space

The planning paradigm of Pakistani cities is:

- Low rise (4-floor commercial areas) along wide roads
- Single-family houses and
- A priority to cars: very-widening roads with flyovers and high-speed lanes.

The result has been that the Single-Family home has become the unit for the economic activity taking on all activities such as:

- Schools
- Offices
- Leisure space
- Restaurants
- Shops
- Warehouses

Hence it can be concluded that masterplans for cities within Pakistan have failed to recognize the variety of human needs or the growing population in cities. Instead, the preferred approach has been to force people into tight fantasies of planning divorced from emerging needs, technologies, or changing lifestyles. The result is that neighbourhoods, needs, and requirements wage a constant battle against the poor planning standards that are set up.

2. LEGAL FRONT

The advertent court decisions have impeded the execution of the project, one of getting around these things is to simplify rules with no ambiguity; thus, not giving courts to interpret differently.

The government must consider taking a jibe at pending bills. As discussed in the meeting, the Condominium act and others are in process to be passed. These are to be addressed and moved efficiently as per recommended in consultations.

3. OUR PRINCIPLES FOR SIMPLIFICATION

We defined four principles for building regulations.

- FAR,
- Building Intensity,
- Sky Exposure and Air Flow Guidelines,
- Car and Mobility.

4. FARS AND HEIGHT RESTRICTIONS

In the regulations, it was agreed at the discussion that FARs are too tight to meet with what the cabinet has in mind. The recommendation of this group is at least to relax them by at least a factor of 2, i.e., double them.

Like most jurisdictions in the world, it is time that LDA must give up height restrictions. There are many reasons for this, such as

Height restrictions lead to box-like building structures as builders seek to use maximum space. There is no room then for diversity and beauty.

Maximum use of the plot is then utilized leaving no room for green spaces.

The city has a uniform skyline with a uniform sky exposure plane with areas that are not exposed to the sun. This leads to health and environmental issues.

Rather than boxes we recommend FARs only with Sky exposure guidelines.[1]

5. BUILDING INTENSITY AND SETBACKS

The regulation does not explain the need for setbacks. It merely states them quite arbitrarily.

If road widening setbacks are to be kept, they should be uniform in an area and not by plot size. Then there should be no boundary walls.

Road widening setbacks and all location-related provisions should be a function of land use and zoning "controls" or regulations and not of building by-laws.

5.1. We need to define building intensity use!

The city must define the percent of land that is usable for construction with zoning determining setback for the area with released land for use as sidewalk (no walls) and let architects and builders decide.

6. SUN EXPOSURES AND FLOW PROVISION

Sun Exposures and Flow provision of sun exposure angle should be included in the building regulations, and its implementation should be ensured through building approvals for new construction. A building has to be built within the intersections of these angles. Adoption of this approach would eliminate the need to link road width with building rules.

[1]Please refer to upcoming section 6 for details.

7. CARS AND MOBILITY

There is no reason to link denser construction by street width. We need density in areas and not according to car use.[2]

Previous laws have created a city for cars; given the liberal space, they allow for cars, even in buildings. Law of induced demand is not considered that if you build more roads to tackle congestions, soon people will be inclined to buy more cars.

Box 4: Parking Requirement is Anti-Poor and Ill-Conceived

People must have the option to buy a flat without parking. PM and Cabinet's vision is for the poor and middle class to have a house. In opposition to this vision, the parking requirement raises the cost.

- Parking in building costs developers $5,000 or more per space.
- Underground or structured parking from $20,000 and 50,000 per space.
- A tighter parking requirement forces all to pay for parking.
- Even poor or middle class who may not want to own a car are forced to pay for space

—Estimates from Builders

We need to liberalize parking within the building because we want to let more poor people purchase flats. In our view, the minimum parking requirement should be 4000 sq. ft for a parking requirement. This will allow some parking and builders to sell it separately from flats, or we need to introduce the city's mobility and parking policy without which we are dedicating cars parking spaces.

Instead, the city needs a car policy beginning with paid street parking in designated zones, congestion, and speed tolls. Safe city cameras will facilitate this policy easily to raise revenue for cities, and rationalize street usage. [3,4]

8. URBAN SPRAWL

The proposed rule does little to curb sprawl that is stressing infrastructure, air quality, and city life. The sprawl has been hugely costly (even though the ostrich-like cost of it has been ignored). Most housing schemes have taken decades to develop, many have folded up, leaving fraud and litigation behind, and most have been nothing more than mere single-family

Box 5: City authorities must recognise that a car is not the only form of transport. Others include

Walking,
Bicycles,
Elevators in mixed-use,
Market responses like Rickshaw, Wagons, Uber and Swvl,
Motorcycles,
Carpooling,
Buses and public transport,
Other private arrangements.

In Pakistan, the Planning paradigm ruled out everything else but cars. These different forms of transport should share the street. Yet here only cars are given street space.

[2]Please refer to upcoming section 9 for details.

[3]Private housing schemes rules in Pakistan still favour single plot making (low-density development) and have a provision of only 10% of housing units to be accommodated in apartment buildings. In contrast, a model for a sustainable development project in Germany (Kronsburg Ecological District, Hannover) provided 90% housing stock in high rise apartment buildings and only 10% as single plotting housing units. This policy not only created the options available for everyone (poor and rich), but the results afterward show a significant improvement in the reduction of carbon emissions. It must be noted in Pakistan exactly a reverse case has been promoted of horizontal rather than vertical spread.

[4]This is easily visible when you see the number of such activities housed in single-family homes–a clear indicator of the shortage of dedicated space.

homes for the rich. Not to mention the enormous load on city infrastructure that is stretched out far more than would be manageable without adding to fiscal stress in the medium term.

Given the experience with sprawl and poor performance and housing schemes at a huge cost to consumers, LDA should make public an independent evaluation stakeholder of its sprawl policy as well as its excessive inner-city controls.

The new guidelines do not commit to stopping the sprawl. Should new housing schemes not be stopped? Builders are heavily invested in sprawl and find it easy to deal with LDA using consumer funds for decades without consequence. Should the situation be allowed to continue?

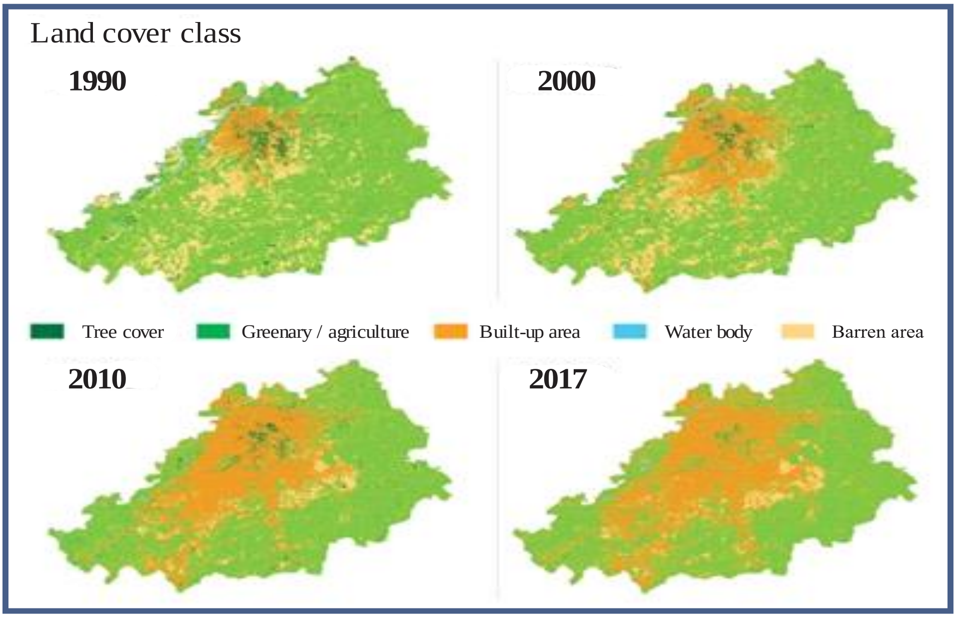
Previous LDA policies have created a huge shortage of commercial, office, public, leisure, education, and community spaces. A policy of promoting compact development cannot work alone if we are not discouraging policies for sprawl development.

Given that the consumer is bearing the cost of urban sprawl, and hence the utmost priority of contractors remain towards sprawl.

The mission of LDA must not be reductivist; to issue permits and allow sprawl.

Therefore, perhaps this is the time to call a halt to more housing schemes.

Fig. 1. Urban Sprawl in Lahore Credits: Hammad Gillani and Adeel Ahmad



9. ENHANCING MOBILITY

For the last 40 years, city-planners' romance with the car has destroyed a reasonable working bus system that most citizens of Lahore can remember. Roads have been widened, flyovers, and underpasses have been liberally sprinkled across the city. Pedestrians and other forms of mobility have been killed to make room for the car.

Subsidizing the car as we have done for the last 40 years only taxes these other forms.

As noted above, Lahore needs a car policy beginning with paid street parking in designated zones and congestion and speed tolls. Safe city cameras will facilitate this policy easily to

- Raise revenue for cities and
- Rationalise street usage.

Even the metro has been poorly designed to favour cars.

A complete redefinition of an informed mobility policy will help the residents and city and national budget.[5]

Box 6: Legal Framework for a Real Estate Market

Regulatory agencies like LDA should give us the legal framework for developing a real estate market.

- Even in 2020, there is no clear property titling arrangement. As a consequence, transacting in real estate remains very costly in time and money. Regulation should develop a credible and low-cost property titling and exchange framework.
- There is no multiple ownership or condominium law.
- The rental framework needs to be strengthened to allow the market to favour all, especially the poor.

10. PERMISSIONS

LDA has provided a provision that a developer may go to provide apartment buildings on residential plots (by application), but the procedure is complicated, costly (as to provide NOCs from TEPA for TIA studies and WASA) and thus discouraging. There is no reason for such permissions for individual buildings. This should be across zones that various authorities must make the infrastructure provisions.

In a high-rise building, along with ease-of-doing-business, the cost-of-doing business must also come down that includes the permit fees, registrations, and time-cost of the procedure.

11. MIX USE BUILDINGS

Why are high-rise buildings classified in different categories such as apartments, commercial buildings, and public buildings? High-rise buildings can be multi-purposed or mixed-use buildings and should collectively serve all purposes so as to reduce ambiguities.

Currently, families are congested. Extended families live in one or two-room accommodation thanks to stifling LDA rules. Mixed-use buildings can be a solution to this problem.

This liberalization should not be as in the past to favour the rich. LDA insisted on only favouring Gulberg as well as only 4 Kanal plots when CM Shahbaz Sharif agreed to a high rise on Nadeem Ul Haque's recommendation. We should not repeat the same mistake. Let all small plot-holders also benefit from liberalisation.

Contrary to the Cabinet's objective of creating pro-poor housing options, the plot size with height suggestion is merely favouring the rich against the poor. We must allow all to go to a certain floor area ratio in large zones. But the reason for defining zones must be clear.

The critical issues anticipated with the culture of high-rise buildings are that of sanitisation and amending the LESCO rules about establishing grid-station. A coordinated

[5]The car subsidy policy has resulted in excessive road expenditure as well as a poorly designed and expensive public transport policy.

approach is a prerequisite to creating any plan concerning the development of Lahore or any part of this city.

In the planning process, it is crucial to loop-in the pollution factor proactively. The cost of pollution will come down with lesser average transportation costs by virtue of high-rise.

Energy efficiency must be the key decisive factor in designing of high-rise buildings, as it can prove to be the most critical cost-effective factor, amongst others, against urban sprawl.

12. MARKET RESPONSES

Like all planners, our city planners fear that inducing loose controls will create mayhem. For example, allowing height would mean everyone will immediately go to maximum height. They forget that:

- It takes time and money to build;
- Costs rise exponentially as height goes up. Hence not everyone will go up to maximum.
- The market will indicate what should be built in every location and owners and builders will have to take the market risk.
- Regulations must be such to give people enough room to make decisions and not go to the maximum of all regulations. The former is what killed the Soviet Union; the latter leads to growth and employment, the crying need of the time.

13. MULTIPLE OWNERSHIP

After the incident of Margalla towers, Islamabad unfortunate fall-down in the wake of the 2005 earthquake, there is a rising concern to promote multiple ownership.

Multiple ownership is undeservedly missing and under-supported. In order to increase the investment in high-rise buildings, the state must facilitate the mechanisms to promote this mode of ownership.

Box 7: Legal Framework for Encouraging Commerce through Mix-use Buildings

Urban centres should not be just a place of residence but of trade and economic activity. To promote such commercial synergies through mix-use high rise zones, regulatory authorities, such as LDA, should impose a positive legal framework on such zones:

- That is, a law should be framed that makes all sorts of commercial and industrial activities permissible within high rise zone except those that are negative and harmful,
- What should be negative and restricted by law can be debated and implemented after deliberation with the necessary body of technocrats.

Source: Minutes of PIDE's consultation with LDA at Chief Minister Office.

14. EMPLOYMENT

If parking is not provided in building and street parking is charged, the business of parking will start to create employment.

A building boom following deregulation will give a much-needed boost to investment and employment.

There will be many multiplier effects of this liberalisation as complementary products and services will create new markets.

City regeneration which has been on hold for decades will trigger off many supply-side effects that are critically needed.

We can already see market responses like Uber, Foodpanda, Swvl developing to serve density. We need to unleash such creativity, which city deregulation will foster. But for that to happen, planners must loosen restrictions to allow the market to work. Let investment happen liberally. This is the crying need of the day.

15. PRO-POOR DEVELOPMENT

If the supply of flats is increased, low-cost flats will happen. This will alleviate the middle-class housing shortage. The very poor may still not be served. For that policies might need to be developed based on the market.

We need not only poor housing but room for "commerce for the poor" such as street vending and micro-vending spaces.

LDA and agencies like it need to step away from land development and develop a good legal framework and regulation for the development of the market. Work must begin in earnest to develop the laws listed in the box above.

In LDA's attempt to high rise and ensure the provision of housing space for the citizens along with creating employability, following impediments to high-rises were identified:

(a) Fire safety standards do not allow the high rise on roads less than 40 feet.
(b) Infrastructure development agencies such as TEPA, WASA, Sui Gas, and Electrification have operational limitations.
(c) Rescue 1122 is not willing to make part of high-rise buildings.
(d) Strong criticism from the media and professionals to promote a high rise.

In the light of the above-stated issues, it was proposed in the meeting that

(1) Integrated approaches are needed among organisations such as TEPA, WASA, Sui Gas and Electrification to ensure changes that facilitate high rises,
(2) For the 20 percent area of Lahore which is amenable to dense high-rise, the supply of services (such as water and electricity) should be ensured,
(3) Liberalisation and de-regulation are essential for making the landscape of Lahore and other cities more inclusive and eclectic,
(4) The square feet requirement for the room has to be revisited,
(5) The contradictions within the regulatory frameworks need to be rectified.

TAKEAWAYS

(1) If we want growth in the country, liberalize FARs and real estate.
(2) The real dilemma is that in Pakistan, cities are planned for cars, not for people.
(3) There must be a car policy in Pakistan.
(4) Mixed-use high-rise should be encouraged.
(5) Urban regeneration is missing in the LDA documents.

(6) Infrastructure should not be a bottleneck for the growth of the city; it should be an engine of growth.
(7) In high-density areas, rules/regulations should be clear and short. In such areas demand clearly shows people want dense and mixed-use living. Let them have it.
(8) There should be no superfluous regulation. Simplification can be achieved if we follow four simple guidelines.

Floor Area Ratios (FARs) not heights. For example, when Floor Area Ratios (FARs) are specified, why have building height requirements? Most architects and informed people recommend only FARs and no height restrictions.

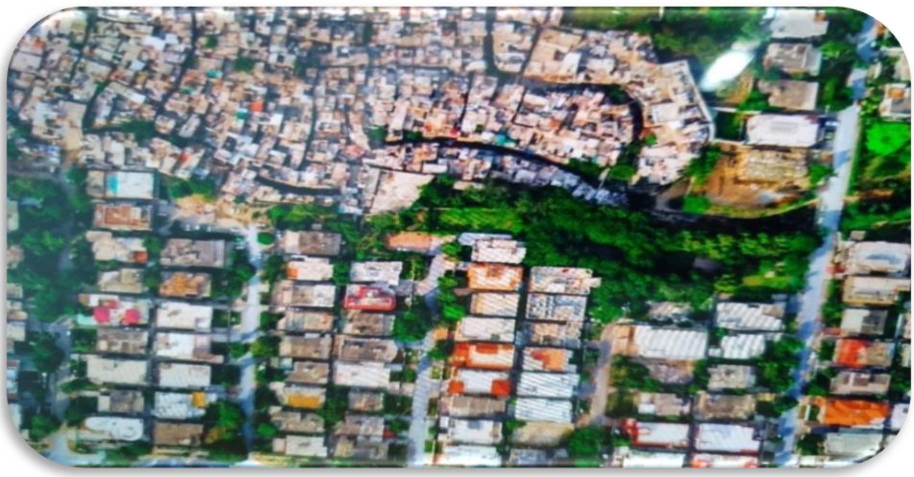
No detailed building setbacks are required. Let us think of building intensity, i.e., percent of plot that can be covered. This too should be area by area not building by building.

In high rise areas, Sky Exposure and Air Flow Guidelines are given to ensure sunlight and airflow.

Cars are the city's problem as is mobility of people. Imposing parking requirements to be borne by builders and buyers is anti-poor. City urgently needs a Mobility policy to accompany building and zoning regulation. Cars should not be linked with housing and business.

The Islamabad Master Plan

LUBNA HASAN, AQEEL CHAUDHRY, AYAZ AHMED and HANZLA JALIL



Islamabad slums besides posh locality in F-7/4. *Photo Credit: Tanveer Shahzad*

Islamabad is currently in the process of reviewing its master plan. Like most cities in the developing world, Islamabad is facing insufficient public utilities, lack of affordable housing, commercial and office space, decaying public infrastructure, illegal and haphazard development and mushrooming slums. What was planned to be 'a city of the future' by its architect C. A. Doxiadis and named 'Islamabad—the Beautiful' by its residents is turning into another case of urban decay (See also PIDE Policy Viewpoints 2, 12 and 13 and Haque and Nayab 2020).

1. THE CONTEXT

In 2017, the Supreme Court of Pakistan took suo motu notice of irregular development in Islamabad and directed the government to find a solution for regularizing these constructions. Later, Islamabad High Court in its judgment dated 9th July 2018 directed the government to form a commission to review the Islamabad Master Plan. Consequently, a commission was formed in August 2019 to review the master plan and give its recommendations.[6] The question arises, would another master plan revive Islamabad? We contextualize this discussion by delving into the history of the city.

[6]This, by no means, is the first attempt at reviewing the master plan. Previously, two commissions were formed without much success in getting approval of the government. The first commission worked from 1986-92, and the second from 2005-08.

2. ISLAMABAD—THE CAPITAL

Box 1.
Constantinos Apostolou Doxiadis (1913-1975)

C. A Doxiadis was a Greek architect/town planner and the lead architect of Islamabad, the new capital of Pakistan. In 1951, he founded the private consultancy firm—Doxiadis Associates - and undertook projects in many developing countries of the world. "A crucial element in Doxiadis's modus operandi was his attempt to shore up business success through the excessive branding and mystification of his personality and work. His theoretical discourse abounded in neologisms and unique technical terms – 'Ekistics', 'ecumenopolis', 'machine', 'shell', 'dynapolis', etc. – which were meant to lend an air of distinctiveness to proposals that often shared more with prevailing architectural fashions than he was ready to admit" (Daechsel 2015). But from all of the projects, he considered Islamabad as his best town planning. Islamabad plan was conceived in 1959 and it took 4 years to complete the plan.

Islamabad was made capital of Pakistan in 1960. It was conceptualized as a symbol of unity in an ethnically and geographically divided country, flag bearer of modernity, and the seat of the central government[7]. Through Capital Develop-ment Authority (CDA) Ordinance 1960, CDA was created and entrusted with the authority to manage and develop the city under MLR 82. In 1992, the CDA promulgated the Zoning Regulation 1992 and divided Islamabad into five zones. In Zone 1, only CDA could acquire land for development. In Zones 2 and 5, private housing societies could take up development activities. Zone 3 was reserved area. Zone 4 was kept for multiple activities including National Park, agro-farming, educational institutions and research and development.[8]

Islamabad was planned as a low-density administrative city. Curiously, a Greek architect C. A. Doxiadis, was hired for the purpose. He operated as a development consultant more than an architect.

2.1. The Grid Iron Pattern of the City

Doxiadis planned Islamabad on a grid-iron pattern. The fundamental grid of 2000 x 2000 meters divides the city into 84 sectors, the other is the 'natural' grid created by ravines flowing through the entire site area.

Each sector has five sub-sectors – four residential and one commercial (Markaz), which is encircled by auto routes with pedestrian networks within the sector[9]. Each of the sector would be low slung and basically comprised of single-family homes on an American suburban model. There was no zoning for the poor. Neither did he plan for a city centre—a Commercial Business District (CBD). The only job market he planned for was the government with its secretariat at one end of town. Even the University was out of town and hence cut off from the city housing and labour market.

His concept was quite strange, requiring people to remain confined to their sectors seldom feeling the need to go beyond. Within the sector, they could walk to neighbourhood shops and schools. He also did not plan for extension thinking that the originals setting was enough, and that the capital would demand nothing more than the government.

[7] Some argue the move was meant to consolidate power, away from the commercial interest of the business community in Karachi – the first capital of Pakistan.

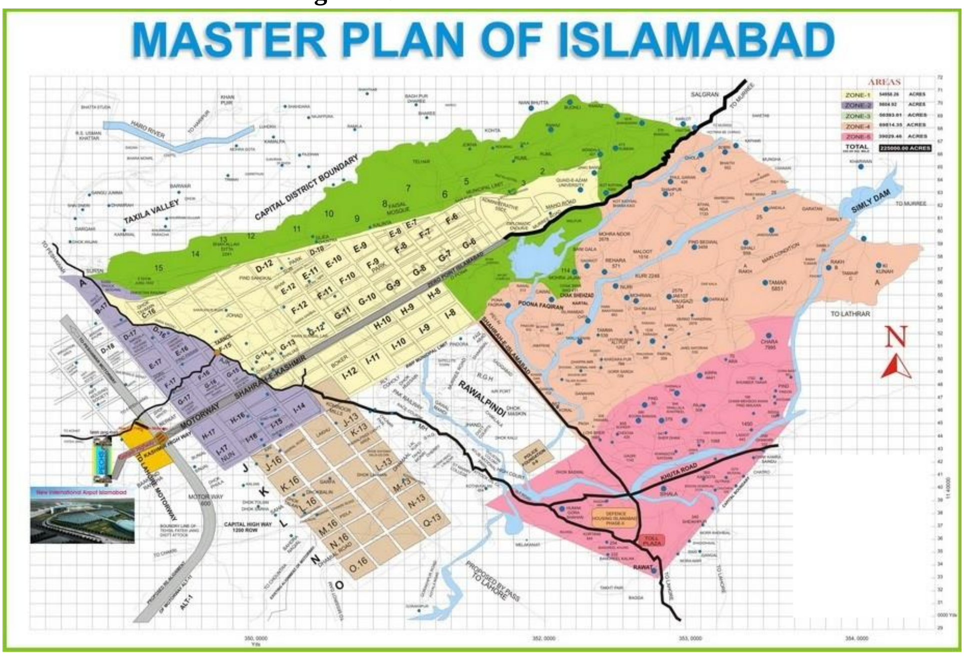
[8] Initially, the Metropolitan Islamabad was divided in three parts: Islamabad; National Park and Rawalpindi. In 1979, Rawalpindi separated away from the Metropolitan.

[9] All sectors were to have a mix of low-income, middle-income and upper-middle-income houses.

CDA and the courts have tried to remain true to the Doxiadis' conceptualization, perhaps because they benefit from the expensive suburban setting in the hills. Yet in-migration has happened far faster than envisaged and Islamabad now has more than 2 million inhabitants. Doxiadis' plan has been stretched and tweaked but continues to suffer from its birth defects: no CBD, room for the poor and elongated car dependence.

Oddly enough, a CBD (more popularly known as the Blue Area) was attached to the masterplan to have 8-12 story linearly placed mixed-use buildings. However, this idea could not be materialized due to "lack of design expertise of the CDA. To disguise the incompetence, the CDA officials argued that residences on both sides of the commercial area would have their view of the Margalla Hills destroyed" (Mahsud 2013, italics added). Besides it is difficult to think of a functional CBD with a highway passing through it and requiring a car to move around.

Figure 1: Islamabad Master Plan

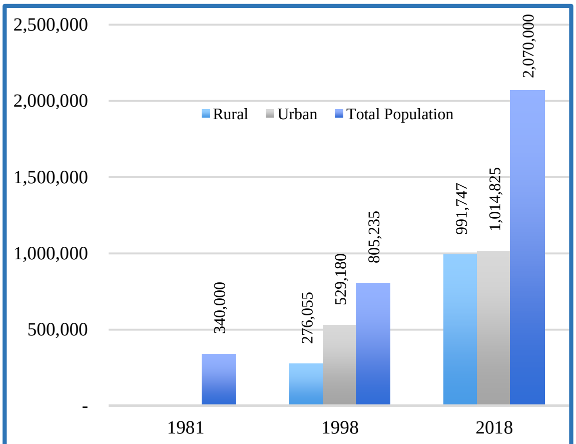


3. DOXIADIS' MESS—ISLAMABAD AND ITS PRESENT CONUNDRUMS

The Islamabad Master Plan, being no exception to master plans elsewhere, has resulted in contrived urban development and stifling of economic activities. The land and building regulations are too rigid and have resulted in over-regulating Islamabad, limiting both social and economic potential of the city.

3.1. Horizontal vs Vertical Development: The case for Densification against Sprawl

Islamabad has experienced significant urban sprawl owing to unrestricted growth in housing schemes and roads over large expanse of land, with little concern for urban planning.



Box 2: Islamabad Population

- At present, the total population of Islamabad is 2 million.
- Housing backlog is about 100,000 units.
- This gap is expected to increase by 25,000 units per year.
- Currently, the supply is about 3000 houses annually.
- The CDA has not launched any new residential sector in the past twenty years. The last sector was launched in 1989 which has not seen any development since then (GoP, 2019).

Urban Sprawl has its own disadvantages and costs, in terms of increased travel time, transport costs, pollution, destruction of the countryside and arable lands. Reasons for this sprawl are obvious lack of adequate housing, office space, and commerce facilities in the city centre.

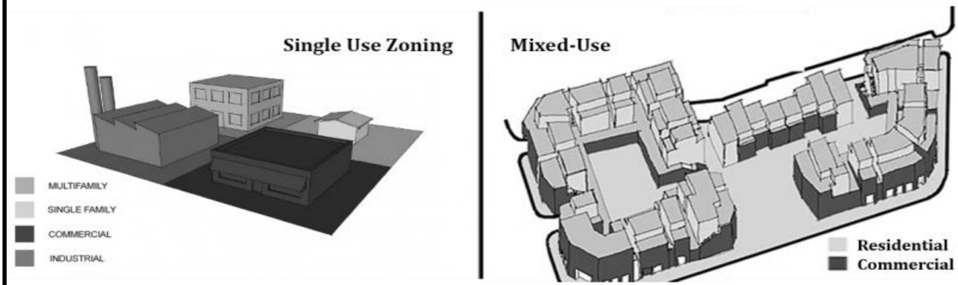
The ordinary citizen does not have any say in the decision-making and planning of their own cities. This raises the pertinent question, are cities made for people or vice versa? Why living in a Pakistani metropolitan is so expensive?

3.2. Restrictive Zoning Laws- a Barrier to Sustainable Urban Development

Part of the problem lies in restrictive zoning[10] in Islamabad that encourages sprawl and single-family homes against high-density mixed-use city centres and residential areas - more in line with the Euclidean zoning which favours single-family residential as the most preferable land use. This leads to inefficient use of land which is a premium asset for any city. Urban regeneration is possible by allowing some flexibility in zoning regulations. The Interim Report on Islamabad Master Plan proposes regeneration of sector G-6 through changes in zoning laws. Incorporating more sectors in this urban renewal will unleash innumerable possibilities for urban development.

[10] Zoning is a planning control tool for regulating the built environment and creating functional real estate markets. It does so by dividing land into sections, permitting land uses on specific sites. It determines the location, size, and use of buildings and decides the density of city blocks (City of New York 2015). Islamabad had its first zoning regulation in 1992 after the plan recommended by the first commission were not approved. Another amendment in zoning laws came when sub-zoning of Zone IV was approved in 2010.

Figure 2: Euclidean Vs Mixed-Use Zoning[11]



Box 3: In New York City, there are three zoning districts: residential, commercial, and manufacturing. Each of these districts is then further broken down to a range of low, medium, and high-density residential, commercial, and manufacturing districts. Zoning overlays are special purpose zoning districts that are designed to stimulate a particular set of site conditions and outcomes. They are tailored to the specific needs of certain neighbourhoods. For example, a commercial overlay may be allowed on a residential block to provide retail on the ground floor of neighbourhood homes.

4. RECOMMENDATIONS OF THE FEDERAL COMMISSION FOR REVIEW OF ISLAMABAD MASTER PLAN (2019)

The commission was tasked to comprehensively review the Islamabad Master Plan and submit its report.

(1) Amendments in building bylaws to encourage high-rise buildings in Blue Area, Mauve Area, Class III shopping centers and I&T center.

(2) Vertical development in zone 2 and 5 to restrict sprawl.

(3) A ring road around Islamabad for better connectivity with other cities.

(4) Widening of existing roads to cater to ever increasing traffic flow.

(5) Mechanism for regularization of illegal and unapproved housing schemes.

(6) Municipal tax to be collected from residents and businesses for rehabilitation of roads, sewerage line, waste collection and disposal, water supply, rainwater harvesting, and other public utilities and amenities.

(7) Construction of three more mass transit lines to improve connectivity of Markaz with regional markets.

Box 4: A Federal Commission was formed on third August 2019 for the comprehensive review of the IMP and submit its report accordingly. Given the paucity of time and resources, the commission put forth an interim report that outlined issues faced by the city, gave broad outlines to deal with these issues, and a suggestion to engage consultants for future studies. In short, after about sixty years since the first plan was made for Islamabad, the city is awaiting a plan that will solve its current problems.

[11] http://cnucalifornia.org/straight-line-radius-v-shortest-path-analysis-finding-right-tool-zoning-code/

(8) Conversion of designated parking lots in Blue Area into multi story parking areas on BPT/PPP basis.

(9) Regeneration of G6 sector.

The ghost of Doxiadis and our own flawed urban thinking continues unabated. The recommendations of the commission continue to look after cars, and to restrict the development of high-rise while hanging on the suburban model. They appear to be oblivious to the needs of the homeless and the needs of the growing metropolis of 2 million people.

Box 5: Shortage of Needed City Space

The planning paradigm of Pakistani cities is:

- Low rise (4-floor commercial areas) along wide roads
- Single-family houses and
- A priority to cars: very-widening roads with flyovers and high-speed lanes.

The result has been that the Single-Family home has become the unit for the economic activity taking on all activities such as:

- Schools
- Offices
- Leisure space
- Restaurants
- Shops
- Warehouses

Hence, it can be concluded that masterplans for cities within Pakistan have failed to recognize the variety of human needs or the growing population in cities. Instead, the preferred approach has been to force people into tight fantasies of planning divorced from emerging needs, technologies, or changing lifestyles. The result is that neighbourhoods and needs wage a constant battle against the poor planning standards that are set up.

Courts have jumped into the game without any idea of what the sociology or economy of a city is. A developing country like Pakistan is, therefore, wasting real resources with businesses and livelihoods being destroyed and transaction costs inordinately rising as courts and planners try to enforce unrealistic and fantastic standards. This thoughtless planning is detrimental to economic growth.

5. MASTER PLANS ARE A RELIC FROM THE PAST

All our cities spend resources and time developing masterplans to lock themselves and their cities into a predetermined path of growth and lifestyles. When life does not adjust to these preordained plans for their life, cities and their residents end up in years of strife with encroachments happening involving lawsuits and law enforcement. Cities try to grow and modernize but planners go to the extent of destroying buildings with court injunctions only because they are a couple of feet taller or longer than allowed by stringent regulations.

Yet the push for master-planning continues across Pakistan hoping to keep cities frozen for long periods of time from 15-30 years.

Having seen a boom after the second world war, master plans are increasingly seen as a thing of the past. Reasons for this disillusionment are many:

- Master plans are forward-looking, laying the building foundations of a city for the coming twenty years. However, they rely on the present as well as past data to project future demand for infrastructure and public utilities. Little do the planners realize that these projections are often faulty.
- In Pakistan, master-planning seems to be an inside job between planners and builders who know them. Public participation in the planning process is often perfunctory or nonexistent. These plans, therefore, are never owned by the community nor do planners recognize the needs of the people.

- Master plans are often based on unrealistic assumptions about proposed economic potential of the area as well as the requirements of the population.
- Master plans are static in nature, made at one point in time by select few which makes them irrelevant fast and it's the city dwellers who end up having to face all the ills of that planning.
- There is little flexibility built in to evolve the plan and move the city forward. They are often not updated on time, leaving room for vested interests to intervene and change rules in their favour.
- Master plans seem to dictate how markets should develop leaving no room for them to find their own level. It is thanks to master planning that we see shortage in several areas in our cities.

Cities are Markets

As Haque (2015, 2017) and Framework of Economic Growth argue cities are markets that facilitate economic growth, they must be allowed to grow. Markets create order, which manifests itself in the form of cities, based on price signals. When government intervenes to distort these signals through regulation, that order is also distorted (Bertaud, 2018). Jacobs (1969, 1984), Florida (2012) and Glasser (2011) among others have suggested that cities have multiple needs for them to achieve their central role of driving innovation and creativity. As cities adopt to changing socioeconomics, technology, innovation and talent, none of these are foreseeable to the makers of long-term masterplans. Cities that drive productivity and growth are neither neatly planned nor laid out for suburban living and cars. It is the seeming chaotic nature of these cities that drives their productivity and growth.

For this reason, many cities are moving away from master plans to guidelines and rules that allow the needs of the market and investors to determine what should be built. The city planner only worries about social and community needs, public health and safety and other common issues but not with regulating everything in the city. Directed by needs, investors build flats, shopping malls warehouses, entertainment facilities etc. Plans then worry about the working of the city i.e., guidelines for safety and mobility, infrastructure and social, community and public space. A single mind (of a planner) cannot comprehend the complexities of social interactions among thousands of people.

Developing City Wealth

PIDE Policy Viewpoint 13 and Haque (2020) have pointed to how a modern city finances itself through proactive value creation which benefits citizens' real estate wealth. If city administration adopts this approach rather than rigid master-planning and allows value creation for the benefit of cities, welfare will increase.

Cities often sit on a gold mine of assets that include not just real estate and public utilities but can also create wealth through socioeconomic uplift of its people and regeneration of decaying urban areas. These assets can be materialized through better city management (Detter and Fölster 2017). Singapore, for example, has built its economic and human capital through this approach (*ibid*). When this approach is adopted, cities seek to regenerate their neighbourhoods in line with market needs. Such regeneration plans are in vogue these days and require market friendly thoughtful city planning.

Summing-Up

- The World has moved on from restrictive master planning. Master plans are time and data intensive. They rely on present data to make future projections which are often faulty. Being Static and mostly non-inclusive, they become irrelevant fast and leave ample room for manoeuvring by vested interests. Their stringent requirements leave little space for markets to develop.
- Islamabad Master Plan (IMP) was a flawed exercise from the very start and failing to revise it every 20 years has increased the damage IMP is doing for the inhabitants of Islamabad.
- Newer methods like neighbourhood planning is used across the world and we should also employ them. Many new tools are developed which were not developed when IMP was made. Every year, the population of Islamabad is growing, although it was thought that people will come to Islamabad, serve the government, and then leave the city and new government servants will take their positions. It is clearly not happening as the population has risen to two million. With current rate of development, it would be impossible to sustain Islamabad as a city.
- Islamabad is an over-regulated city. City zoning has been very restrictive, favoring single-family houses with little scope for commercial and civic activities. Successful cities have regulations and zoning codes that are flexible to adjust to changing physical requirement of a city.
- Islamabad is not an affordable city for low-income groups to reside in. Real estate prices go up where height restrictions are excessive and building process is discouraging of construction. Rezoning helps development and increase of supply land to keep prices in check.
- As IMP is in the process of being re-evaluated, we suggest a complete paradigm shift in our approach to city management – a shift that should be applied to other cities in Pakistan.

New Paradigm for City Management

- Policy, research and thinking needs to move away from a spaceless approach to development by integrating the role of cities as engines of growth.
- Fiscal federalism needs to be urgently adopted for city growth and to allow cities adequate ownership of their land and resources.
- 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 favour density, high rise mixed use and walkability especially in downtown areas. In addition, it must favour public and community space while allowing for commerce, culture and education and other needed city activities. Zoning needs to be based on clear transparent processes based on open citizen consultations.[12]
- Building regulations must be loosened to allow complex high-rise construction.

[12] See also Hasan (1997) for this point.

- City centres need to be developed for dense mixed use. Government ownership of city-centre land needs to be reduced if it is retarding downtown development. Commerce is to be given priority in city centres.
- City management should be professional, consultative and accountable. Cities must be able to hire out of their budgets without federal hiring restrictions such as the Unified/National Pay Scales and mandatory positions for the federal civil service. Moreover, decision-making must be based on open consultative processes.

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Strategies to Improve Revenue Generation for Islamabad Metropolitan Corporation

LUBNA HASSAN

Like most Pakistani cities, Islamabad has a fragmented administration, weakening its revenue base and service delivery.

This duality of structure was introduced through the Islamabad Capital Territory Local Government Act 2015, which led to creation of Metropolitan Corporation Islamabad (MCI) for the city's governance, in line with the city management practiced around the world.[13] The fragmented administrative resulted in an MCI that is dependent on CDA and Federal Government for its finance

Box 1. Budgetary issues

Given the administrative relationship, there is little clarity in services as well as budgets. Some key points to note:

- CDA considers itself a developer as well as a regulator. It earns through auctioning developed plots for construction. It does seek infrastructure finance from the federal government through the PSDP specially to build roads and flyovers. In 2017-18 CDA's total expenditures were Rs. 34 billion while its revenues are about Rs. 23.7: the shortfall is financed by the GDP
- MCI earns only through some property tax and user fees. It continues to have a has a large budget deficit which GOP finances through CDA.
- Salaries remain high in both departments owing to the legacy factors. In 2017-18 the salaries of the CDA and MCI (Rs. 10 billion) accounted for about 83% of CDA revenue.

1. THE DUALITY OF ADMINISTRATIVE STRUCTURE

The responsibility for the planning, development and maintenance of the Master Plan for Islamabad stayed with CDA.[14] while MCI was delegated the responsibility for managing and providing municipal services and infrastructure, regulating markets and promoting cultural, social and economic development activities.

The most productive tax base remained with CDA while the expenditure accruing public services became the responsibility of MCI.[15]

This duality in the administrative structure of the city means that MCI, which has the mandate of city administration, is likely to remain in deficit and dependent on financing from either the CDA or the Government of Pakistan (GOP).

It will be hard to plan services or to maintain a level of quality service in the city.

[13] See Framework for Economic Growth (2020) which did recommend this approach.

[14] according to the rules set out in the CDA Ordinance 1960 and the ICT Zoning Regulations 1992. This largely includes land management, state development and building control and regulation

[15] The primary revenue streams for the city, however, remained sale of commercial and residential land, building control and regulation fee and licensing with little effort to expand revenue streams and develop new.

As the functions and responsibilities of the local government evolve, it is important to consider the financial resources available to provide the increasing number of responsibilities being allocated to local government.[16]

It would be wise to consider eliminating this fragmentation as a part of the plan to put Islamabad on a sustainable financial plan.

2. CURRENT REVENUE STREAMS OF MCI

MCI has limited sources to earn its revenue from (See Box 2). It has revised some of the tax rates in Islamabad. It collects its revenue through two departments (see Box 3)

Table 2

Detail of receipts of DMA (2017-18)

HEAD	AMOUNT (RS.)
License Fee	329,356,945
Sign Boards/Banners	78,902,797
Open Spaces Rent	57,954,762
Telecom Unit	47,534,722
Weekly Bazaars	21,991,442
Trade Licensee	8,909,750
Birth & Death Certificates	1,884,980
Court Fines	843,900
Rent of Dhobi Ghats	114,150
Coffin Carrier & Graveyard Digging	897,980
Misc.	196,100
Total	548.59 Million

Box 2. Financing Streams for MCI

- Water rate
- Drainage rate
- Conservancy rate
- Fee for approval of building plans
- Fee for change of land use of a land or building
- Fee for licenses, sanctions and permits
- Fee on the slaughter of animals
- Tax on professions, trade, c and employment
- Market fees
- Tax on sale of animals in cattle market
- Toll tax on roads, bridges and ferries maintained by MCI
- Fee at fairs and industrial exhibitions
- Tax for the construction or maintenance of public utility
- Parking fee
- Water conservancy charges
- Tax on installation of base transceiver station/tower
- Any other tax or levy authorized by the government

2.1. Analysis of Revised Tax Rates

MCI has revised some of the tax rates in Islamabad. The revised tax rates as of 1st July 2019 is estimated to considerably increase the revenue of MCI.

(a) The rates of property tax rates have been revised upward and the estimate for increased revenue is about an additional Rs. 1 billion.

However, several issues that need to be addressed in moving to a tax system that

Box. 3.

MCI collects its revenues through; 1: Revenue Department and, 2: Directorate of Municipal Administration (DMA)

The Revenue Department collects taxes from three sources; 1) property tax, 2) water charges, and 3) conservancy charges These taxes are levied on the basis of covered area multiplied by the established rate of land based on its usage, for instance residential, commercial, industrial, government institutions etc.

Revenue Department collections for the year 2017-18 are:

- Property tax: Rs. 860 million
- Water and conservancy charges: Rs. 250 million
- Total revenue: Rs. 1,110 million

[16] In addition, while CDA under the 1960 Ordinance was responsible for only a select number of sectors, the Local Government Act 2015 has expanded the region under the jurisdiction of MCI. This has led to a number of new rural areas being included in the administrative boundaries of MCI where MCI is now responsible for all planning and development of land, infrastructure and public services, increasing the burden on its limited pool of resources.

is more in line with market forces. Some considerations are:

- The levies are not related to market valuations but purely on basis of square footage of land and covered area.
- Location too does not seem to matter in this calculation although valuation and use of property clearly depends on location.
- Similarly, the differences been residential and commercial are also not reflective of market conditions.

Given that Islamabad real estate, both in valuation and rentals, is the most expensive in the country and among the most valuable in the world, the expected revenue of Rs. 2 billion does suggest that there is room for improvement.

(a) The revenue department also plans to install meters to estimate water consumption by companies and levy taxes accordingly- a welcome step in a water-short country.

3. DEVELOPING A REVENUE PLAN FOR ISLAMABAD

MCI is a new entity established through the recent Local Government Act. It is wise to develop such a strategy around budget and financing issues. Islamabad's finances as well as public service provision will improve substantially if the consolidation and rationalization of the budget, the agencies and public service delivery were carefully evaluated.

3.1. Property Taxes

MCI has taken steps to revise the property tax system that is more in sync with the market-based rates. Scope for improvement in property taxation is huge as currently less than 10% of MCI/CDA revenue comes from this source.

Some important points for this are as follows:

(a) Property taxes must be related to market valuations which will vary by Location,
(b) Use - e.g. residential, commercial, community, etc.
(c) Possible economic gains such as rent and capital gains
(d) When fixing rates due consideration should be given to incomes and ability of people to sustain the increase.
(e) City administration should try to establish a real estate market which is transparent in its inventory for sale, the transactions as they take place and the swift exchange of property. This will help increase valuations and the revenue collected. In Islamabad,
(f) According to census, the number of pucca houses in Islamabad is about 1.1 million units. Assuming that the average value is Rs. 1 million, the valuation of the real estate stock would be about Rs. 1 trillion. Setting property taxes at .5% of value, the estimated tax revenue is around Rs. 5 billion.
(g) We have no estimates for commercial real estate. Currently we can assume that it can be no less than residential real estate.

3.2. Utility Fees

Currently, utility fees are charged on a system that is a derivative of the current system for property tax. Designing a system based on proper metering and charging on the basis of actual use would increase the yield. Assuming metering will give utility yield of about .05% of value, the potential revenue from metering should be about Rs. 1 billion.

3.3. User Fees

Revenue generation from user fees is an area where considerable progress can be made in Islamabad. Currently, cars, cattle, bazar fees, tolls and other licenses including telephone towers, constitute only about Rs. 200 million, which is equivalent to about 1% of the CDA/MCI budget.

Box 4.

1. Street Parking: Designated spots on streets. No parking beyond these spots.
    a. If 50,000 such spots at Rs. 100 an hour between 7am-10PM 6 days a week
    b. 50% occupancy
    c. Revenue =Rs 11.7 billion
2. Parking lots: 10 in city with 20,000 capacity total at 1000 a day
    a. With 50% occupancy
    b. Revenue: 3.6 Billion
3. Fast Track: Fast lanes during rush and other areas to alleviate congestion and rationalize traffic. % arteries in Islamabad average of 100 Rs affecting 20,000 cars a day. Revenue 7.3 billion.

3.3.1. *Possible Revenue from Cars*

Car parking can generate considerable resources for MCI. Efficient solutions for collecting revenues can be developed using cameras and mobile technology without the need for outsourcing it.

(a) The design of parking policy begins with clearly designated parking spots for street parking and a clear policy that parking beyond designated spots is not allowed. The principle is that streets are public property and car-owners are renting it for a particular period of time.

(b) If the cost and supply of street parking is clearly defined, parking lots can generate high amount of revenue. Even at a non-trivial tax rate, Rs. 20 billion can be generated from parking spaces alone.

(c) Islamabad has engaged in the old school approach of addressing congestion and traffic control through the expansion of roads, and construction of underpasses, overpasses and bypasses at considerable cost. World over. the most important form of traffic control is paid parking in cities that rationalizes use of private vehicles through high costs.

Box 5. Possible Revenue from Small Street Commerce

An inclusive approach to city development is to allow street commerce for poor entrepreneurs. Even mature cities like New York, London, Singapore, DC and Paris allow a large amount of street commerce. Not only is this a revenue item, it also makes for better city living and a more cohesive and inclusive community. If Islamabad allowed this through licensing a well-organized street kiosk system throughout the city, it could generate substantial revenues. If there were an estimated 30,000 kiosks renting out space at a daily rate of Rs. 100, the annual revenue would be about 1 billion rupees. In addition, the employment, social and economic benefits will be huge while creating an attraction for the city’s diplomatic community.

(d) One alternative that the world uses is *Fastrack*; paid fast lanes for users who need to travel fast and reach their destination in shorter time. These lanes clear congestion while also creating an opportunity to earn revenue for the local government.

(e) Apart from parking spaces, higher revenue can also be generated by renting out open spaces. MCI can earn almost Rs. 1 billion through better utilization of assets (Box 5).

3.4. Asset Ownership and Management

The city of Islamabad owns a number of assets that could be better utilized to generate revenues through renting out these public spaces to private sector.

Table 3

Proposed Asset Utilization

Asset	Daily Use	Revenue
Jinnah Convention Center	100,000	30,000,000
Jinnah Sports Stadium	100,000	30,000,000
China Center	50,000	15,000,000
Shakaparian	20,000	6,000,000
Monal and neighbouring areas	20,000	6,000,000
Zoo	30,000	9,000,000
PNCA	20,000	6,000,000
Total	340,000	102,000,000

Although the city has developed assets over time, but it has done so without a clear focus on utilizing the assets for maximum yield. An inventory should be taken of all assets in the city, followed by systematic efforts to improve their management.

3.5. Increasing Value Through Urban Regeneration

(a) The market value of land in Islamabad has increased rapidly.

(b) The city faces acute shortage of shopping areas, schools, offices, commercial buildings, ware-houses, entertainment, hotels, as well as housing.

(c) The zoning laws of Islamabad have restricted growth in commercial activity and discouraged the development of affordable housing schemes by restricting high rise buildings and mixed use of land.

(d) The zoning regulations need to. be reviewed on an urgent basis.as they are holding back city's development and hence, the ability to levy tax.

Box 6.

Building Regulations of CDA restrict the development of High-Rise buildings. This has not only increased real estate values significantly for the common man but also eliminated an important source of revenue for the local government. Allowing for the development of apartments in High-Rise buildings and formalizing the regulations for transfer of apartment ownership can be an important source of revenue for the local government as well as provide affordable housing for the low- and middle-income families.

Restrictive zoning is driving residents out into suburbs in search of affordable housing, causing the city boundaries to expand while burdening the capacity and resources of local government. The inflexible zoning laws that have not been updated with the changing needs of the city have restricted growth in productivity and potential revenue streams for the local government.

Rezoning could increase value and the tax base of MCI. Some examples are:

Box 7. Efficient use of land

The amount of revenue that a piece of land can generate is contingent upon its efficient use and allocation. A prime example of it is the provided by the contrast between the revenue being generated by the Centaurus mall versus the Blue Area. The commercial hub in the centre of the city, known as Blue Area, is estimated to generate a total of Rs. 79 million annually through property, water & conservancy charges. In contrast, the three towers of Centaurus mall occupying a much smaller land area is generating Rs. 15 million from advertisement, Rs. 18 million from property, water & conservancy charges, and Rs. 5.6 million annually from 700 apartments. This equates to a total of 38.6 million being generated from the mall of Centaurus alone. The difference between the revenues in line with occupied land area highlight how a strategically planned commercial use of land can generate much higher revenue. Centaurus mall is generating half as much revenue as Blue Area but occupying a much smaller area in comparison to Blue Area.

- Blue Area which is a planned linear hub of commercial activity in the city could be rezoned as a broader commercial area through multi-purpose modern high-rise building structures that increase economic activity while also expanding the revenue base for MCI.
- Allowing older single-family home structures to convert into multi-family apartment structures could increase availability of much needed housing space as well as the revenue base for the city.
- Renew the sectoral markets which use large tracts of land for a suburban village and do not provide the space for city department stores and warehouses.
- Allow more mixed used walkable space in high-rise neighbourhoods.
- Make flats the unit of living in most areas of the city.
- Allow more neighbourhood commercial activity (offices, shops, entertainment etc) to develop to alleviate congestion and allow value to develop more evenly.
- The area around Metro stops should be facilitated and rezoned to allow them to transform into high value areas for mixed-use development. This will have many benefits including higher revenues and investment for Islamabad.

3.6. Public-private Partnership (PPP) for Creating Asset and Managing Assets

(a) MCI has the legal option to enter into a PPP and could be used for enhancing revenue. A PPP framework should allow the cost and user fee to be split between public and private partner.

(b) MCI has eight to ten dispensaries under its ownership which can be turned into diagnostic centres through private sector partnership.

(c) MCI also has an allocated land for educational institute which can be turned into a vocational training institute in partnership with the private sector.

(d) The private sector has the potential and capacity to create and manage assets that will yield revenue going forward. Possibilities are numerous; (1) Chairlift to Monal and beyond, (2) Islamabad eye—a Ferris wheel, (3) Developing more ridge entertainment like Monal

3.7. Promoting Tourism

(a) Charge entry fees from tourist attractions such as museums, historical buildings.
(b) Promote tourism by attracting international tourists to existing locations such as Lok Virsa, Monument, Margalla Hills, Shakarparian and Saidpur Village
(c) Start a city bus service to provide a tour of all the sites in the city.
(d) Establish Cable Car service from Zero Point to Monal Restaurant.
(e) A higher number of luxury hotels can also generate a lot of revenue for the local government through property tax, water and conservancy charges and bed tax.
(f) Established an Expo Centre for foreign investors to visit and explore Pakistani products.
(g) The revenue model provided here is based on a win-win strategy, where investment, employment, commerce and other economic activities will improve sharply. If Pakistan adopts city based local governments, this approach to managing cities should be studied for all cities.[17]

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[17]See also https://www.researchgate.net/publication/325755941_Looking_Back_How_Pakistan_became_an_Asian_Tiger_in_2050

Empowered Institutions

Getting More Out of the PSDP through Results Based Management

RAJA RAFIULLAH

Since the 1st Five Year Plan, Pakistan's development policy has been modelled around the development philosophy of Dr. Mahboob Ul Haq and the Harvard Advisory Group (HAQ/HAG). As a result, the key features of the country's policy over the past six decades, as summarized by Haque (2020),[18] have revolved around:

(1) A focus on building physical infrastructure through discrete projects of sectors in the economy, with infrastructure having a share of about 80% in the PSDP.
(2) Planning to develop medium term budget to finance sectoral hardware.
(3) Seeking foreign aid to meet financing gap in the plan given an expected shortfall in domestic savings.

This approach has led to:

(1) An excessive focus on "brick and mortar" development.
(2) Fragmented projects as Planning Commission was weakened by repeated BoP crises and resorting to IMF programmes.
(3) Weakening standards on project development implementation and cost – due to increased politicization.

Is PSDP Process Obsolete?

Public Sector Development Programme (PSDP) which has been the mainstay of Pakistan's fiscal policy has never been reviewed, updated or evaluated. Haque et al.[19] show that the PSDP process leads to a lot of waste:

(1) Evidence from econometric research[20] on Pakistan indicates that public investment has not significantly driven economic growth or private investment despite persistent attempts to use PSDP's public investment as an instrument to generate economic growth. PSDP may have been a useful tool in the early days of its formulation, but in a changed milieu the return on PSDP is very low now.
(2) Public Sector Development Programme (PSDP) has had an excessive focus on using public investment to build physical infrastructure.

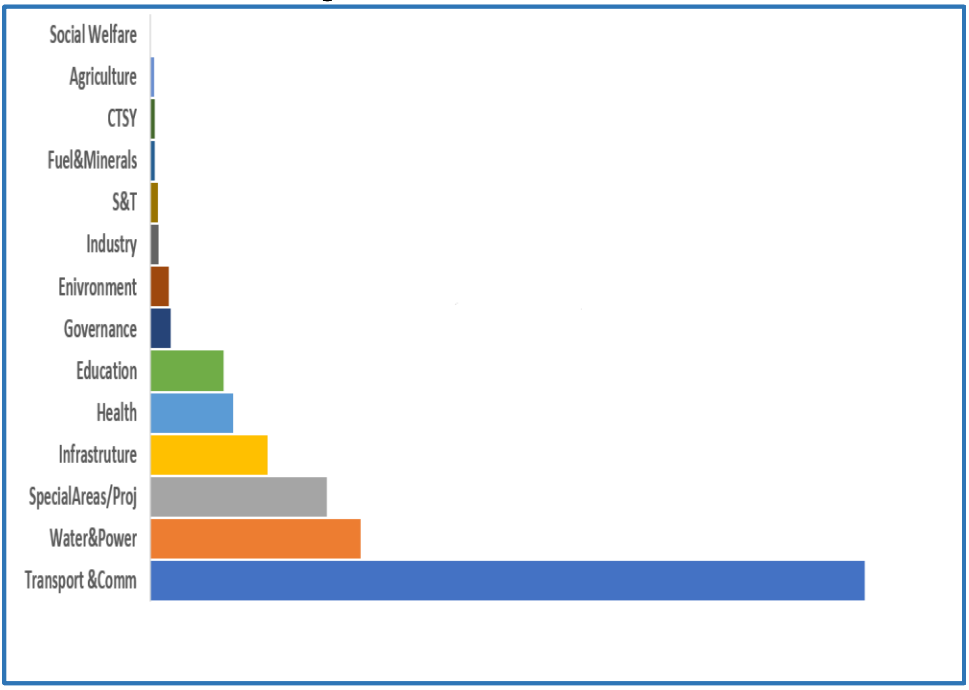
[18] PIDE Policy Viewpoint No. 11, 2020.

[19] Haque, Mukhtar, Ishtiaq and Gray, *Doing Development Better*, PIDE, 2020.

[20] See PIDE Policy Viewpoint No. 11, 2020, for a list of econometric studies and their findings.

The emphasis is on "brick and mortar" in our projects. PSDP has developed roads, buildings for education, sport, and entertainment but without managing them for a return. The sectoral share of PSDP from 2018 shows that we are yet to deviate from the 'brick & mortar' policies. (See Figure 1)

Fig. 1. Sectoral Share of PSDP[21]



(1) PSDP is heavily politicized. MNAs push and pull in their constituencies which leads to waste. Bureaucracy too builds offices, training academies that have huge excess capacity.
(2) Leaders waste money by using PSDP to spend on favourite projects which may not be the best or the most required.
(3) There was a good PSDP process based on a mandatory cost-benefit analysis and several in-depth reviews, but no one wants to subject themselves to that disciplines. Instead everyone uses executive authority to bypass the system.
(4) R&D and capacity building are not part of the PSDP despite being modern drivers of growth.
(5) Government departments have an incentive to propose projects without a clear business plan on how to later operate them to maximize returns.
(6) The emphasis on building has led to a neglect of human resource management leading to continual brain drain and declining government productivity.
(7) Projects are poorly managed leading to cost and time overruns. These have huge implications for realized returns of the projects.

[21] Haque, Mukhtar, Ishtiaq and Gray, *Doing Development Better*, PIDE, 2020.

The World Has Gone Beyond Brick & Mortar

> **Box 1: Beyond Brick and Mortar**
>
> - Invest on capacity building of people
> - Open the economy to international trade and investment.
> - Deregulate to increase ease of doing business.
> - Use only nuanced government intervention to correct market failures: Do not distort markets unnecessarily.
> - Build inclusive institutions.
> - Invest in local universities and think-tanks.
> - Facilitate synergies between academia and markets to increase innovation.

Haq/HAG model was developed at a time of extreme infrastructure shortage and when globalization had not happened. It naturally focused on "brick and mortar" as well as searching for aid. In addition, it merely looks at expenditures and not results. There was an evaluation process envisaged in the Planning Commission's system (PC-IV and PC-V), but it has long ago fallen into disuse. For Pakistan to achieve rapid and sustained economic growth a rethink of our development policy and its implementation mechanisms is required.

Other countries both in the developing and the now-developed world have successfully broken the cycle of underdevelopment and achieved sustained rapid economic growth.[22] These countries despite being diverse in geography and culture, have invested in human development. Infrastructure on its own is not enough unless it is accompanied by human capital that can utilize it efficiently. Furthermore, to go along with the capacity building of its population, these countries opened their economies to international trade and competition leading to growth of private enterprise. The private enterprise in turn led to an increase in innovation and knowledge creation which are integral ingredients of sustained rapid economic growth.[23]

There is another important piece of the jigsaw that needs to fall in place before a country can be on the road to economic growth. That is the role its institutions and in particular public institutions play in fostering inclusive environments that lead to competitive markets, innovation and ease of doing business.

Unfortunately, Pakistan historically has had extractive institutions due to its colonial legacy and these institutions instead of creating a vibrant regulatory, social and physical space for innovation have only worked to serve the purpose of the local elites.[24] Furthermore, these institutions have through excessive regulation and/or unnecessary subsidies distorted market and crowded out private investment that could have potentially led to innovation across multiple sectors.

Policies' Implementation: Building a Performance Based System

Re-orienting sectoral focus is important, but an effective system will only evolve if mechanisms that track, monitor and evaluate it are put in place. Moving away from the philosophy of Haq/HAG model that focused on expenditure on inputs only, Pakistan needs to move towards a performance-based system. The Prime Minister himself has shared his desire to have such a system in place and its time we move towards implementing one.

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[22] Acemoglu and Robinson, *Why Nations Fail*, 2013, pg. 468.

[23] *Framework for Economic Growth*, PIDE, 2020, pg. 36.

[24] Haque, N. *Looking Back: How Pakistan Became an Asian Tiger By 2050*, 2017, pg. 92-111.

The Planning Commission's Framework for Economic Growth (FEG),[25] approved by the National Economic Council (NEC), proposed a performance-based system using Results Based Management (RBM) principles back in 2011. Unfortunately, the recommendations of this framework remain to be adopted.

The system that is proposed in FEG constitutes of the following steps:

- Each year the Planning Commission should coordinate with the Finance Ministry/ Department and articulate the Medium-Term Budgetary Framework (MTBF) within the overall macroeconomic situation. This MTBF should lay the foundation for allocation of 3-year rolling indicative budget ceilings.[26]
- Planning Commission should in this system cooperate with the in-line ministries/ departments in developing performance contracts for approval by the Cabinet. Once the contracts are approved, the Planning Commission should be the monitoring body reporting to the Cabinet.
- The Planning Commission should work with a 'Public Financial Management' team from Finance Ministry/Department and develop accounting systems capable of recording and reporting actual expenditures based on outputs and outcomes.[27]

Box 2:
FEG Proposed RBM Framework will facilitate:

- Periodic identification of emerging constraints to economic growth through research and dialogue with all sectors and stakeholders.
- Objectives, outputs & outcomes clearly defined in an overall development & growth strategy.
- Systematic measuring of productivity and public service delivery through M&E system.
- Fiscal allocations for projects based on outputs & outcomes.
- Development and review of quantifiable plans regularly.

Decentralization: NFC Award & 18th Amendment

Ever since the 18th Amendment major subjects such as health and education among others have been devolved to the provinces. In due course, at provincial level provinces should develop their own Medium-Term Budgetary Frameworks (MTBFs) in addition to their own Result Based Management and Evaluation mechanisms. The role of the Planning Commission should be strategically critical in coordinating with provincial planning and development departments, and also the finance departments to ensure that necessary processes are in place to enhance "planning, budgeting and monitoring within departments of the provincial governments".[28]

The Future is Policy and Reform

Acemoglu and Robinson (2013) have summarized global evidence to point out that the path to sustainable growth acceleration lies in reform and policy. This

[25] See *Framework for Economic Growth*, PIDE, 2020. It should be noted that the original role of the 5-year plan too was that of a medium-term budget that was growth oriented. The annual budget was then aligned to the MTBF. Both MOF and IMF found that discipline to be incompatible with short term adjustment especially as such adjustment would require deep structural reform.

[26] *Framework for Economic Growth*, PIDE, 2020, pg. 133.

[27] Ibid., pg. 134.

[28] Ibid., pg. 134. For more details on how to implement the RBM see Haque et.al, 2020. Framework for Economic Growth.

important message also suggests that our growth policy must no longer rely on the Haq/HAG model.

To do this with a small amount of investment, the Planning Commission must seek deregulation and market building mechanisms. Instead of brick and mortar, challenge grants could be an important source for change. Some examples of these could be:

(1) **Challenge Grant Funds** for deregulation of the real estate sector in cities in line with Prime Minister's vision based on number of tower cranes on the ground in city centers or number of apartments commissioned in city centers.

(2) **Market development grants** to cities, provinces and markets based on clear targets of number of transactions in a quarter. Examples of this could be:

   (a) To enable cities to develop electronic platforms for real estate titling and transactions.
   (b) To develop commodities markets with storage in various small agri-based towns.
   (c) To allow the SECP to develop a market development plan that seeks to broaden and deepen the market. The making of this plan could be a PC-II and then the reform plan if funding is required can be a PSDP loan.

(3) **Health sector productivity grants** are needed but it should be kept in mind that health is a provincial and local subject after the 18th Amendment. The Planning Commission can have matching grants for credible, implementable and monitor-able plans submitted by local health systems that need improvement. This will combine central injection of funds to the decentralized funding streams that are trying to tackle the issues at a local level.

(4) **Education grants can be commissioned** but new campuses' development should be halted and existing universities and schools that have developed some online capability should be asked to present common programs for quality online teaching capability that Planning Commission in collaboration with HEC should support. Making these programs monitorable will be the key. Some indicators that can be used to track these programs could be capacity utilization, peer-reviewed course content creation, student satisfaction surveys and professional body reviews among others.

(5) **Kick starting the knowledge economy** is very important. For too long the buzz word "knowledge economy" has been used without much clarification. It should be noted that the term and what is represents are of little use unless existing research capabilities are increased. It is time that the Planning Commission developed methods to catalyze some research beyond the HEC. We need to prime our research system to grow and take on its responsibilities. It will take a while, therefore it is paramount that we begin at the earliest. Examples of mechanisms that could be developed for research activity to take off include:

(a) Peer Bodies to Evaluate Proposals for Theme-based Research

The Planning Commission should set up research themes and let a panel of both local and external eminent researchers adjudicate and provide rapid research for policy, markets and industry. The emphasis of this should be to provide research on local problems instead of publications meant for external market consumption.

(b) Planning Commission can Partner with Industry to Fund Critical Research to Their Sectors

With matching funds, the Planning Commission can initiate research on key issues related to sectoral interests. Processes can be identified to make research happen in the country to address burning questions on a fast track basis.

(c) Tax Policy and Administration Reform

Tax Policy and administration reforms should be the first themes that our academia vigorously takes up. This would be an important step towards having wide debate on important subjects that are impeding development. These central topics have long been in hand of external consultants and it is about time that our academia takes them up.

(6) **SME and micro commerce growth** are vital for the country. Planning Commission can use the PSDP to kickstart local commerce by working with Ministry of Commerce and local authorities to develop frameworks for the poorer segments of society. Some examples of such frameworks could be**:**

(d) Street Vending Frameworks for Cities that Lack Them

Putting street vending frameworks in place could provide employment to millions of people. We estimate that with proper framework there could be 50,000 of such enterprises in large cities with a possible employment of about 2 or 3 persons per such enterprise i.e. 100,000 – 150,000 employment opportunities. Cities can be incentivized with a PSDP grant to put in place regulatory frameworks for such enterprises. The number of vendors and frameworks can easily be monitored.

(e) Small Enterprises Coming Out of Crisis

In collaboration with local chambers and universities, frameworks can be developed for supporting SMEs as they come out of a crisis. For example:

(i) **SME loans** be made available through local chambers and SME associations but monitored and evaluated by local universities and schools generating both research and community development.

(ii) **Regulatory burden of SMEs** can be linked with local universities and even high schools to review the regulatory burden and seek changes. The Planning Commission can be a catalyst for change by facilitating these linkages.

Employment insurance and pension development market-based mechanisms can perhaps come into the picture at a later stage when markets have developed and transparency has increased. These could be in the shape of investment schemes in which employees of SMEs could invest with these investments acting as employment insurance. The whole process of the recommended Results Based Management is summarized in Box 3. Each step of this cycle involves different roles from different ministries. These are:

Box 3:
RBM System for Development and Growth in Pakistan

- **Results Based Planning**—An overall growth strategy implemented by ministries and departments—coordinated by the Planning Commission. Overall objectives, baseline statistics and KPIs identified.
- **Results Based Budgeting**—Each year Planning Commission with Finance Ministry allocates fiscal budgets for ministries/departments
- **Public Financial Management**—Planning Commission facilitates funding to specific ministries through liaison with Finance Ministry. Specific ministries formulate their own 'Output/KPIs Based Budgets'. Planning Commission reports actual expenditure on predetermined outputs.

Program & Project Management—Each ministry/department is responsible for implementation of its approved projects and quarterly reporting of outputs achieved and funds spent to Planning Commission.

Monitoring & Evaluation—In addition to ensuring quarterly reporting by each ministry's/department's Principal Accounting Officer, Planning Commission devises M&E systems that measure yearly progress against predetermined outputs for each ministry/ department. Next year's planning & budgetary adjustments are made based on this M&E analysis of outputs & KPIs.

If done right the Planning Commission could utilize relatively small amount of funding to mobilize a large amount of rethinking that is necessary for an increase in productivity. Having said that, this approach will require considerable fresh research and thought for which we should try to mobilize our universities and our local intelligentsia. In doing so, this will also reduce our over-reliance on donors and foreign consultants that has created a policy mess since the early days of Pakistan.[29]

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[29]Markus Daechsel in his 2015 Book '*Islamabad and the Politics of International Development in Pakistan*' expounds upon one such example of how international consultants bring ideas to Pakistan that are often removed from its milieu and hence instead of aiding in development create a conundrum. The story Daechsel tells is of the Greek architect, Constantinos A. Doxiadis, who designed Pakistan's capital city Islamabad. Ironically, he was also the designer of Korangi Pilot Township (for refugees & slum-dwellers) near Karachi and had extensive input in drafting of Pakistan's First Five-Year Development Plan.

Doing Taxes Better: Simplify, Open and Grow Economy[30]

MUHAMMAD NASIR, NASEEM FARAZ, and SABA ANWAR

All experts agree on:

Simplify Taxes, Reduce the costs of excessive Documentation, Open the Economy for High Growth and Employment. Taxes too will then Increase.

Taxes have been the cornerstone of IMF-led adjustment programs for Pakistan for over four decades. During this period, long term growth and productivity have declined while tax policy has become more contentious and fragmented. Measures multiply as unrealistic targets are chased with mini budgets every quarter. The following arose from a high-level conference arranged at PIDE to clarify future directions in tax policy.[31]

BOX 1: The Principles of Tax Policy

Transactions must be allowed to grow while collecting taxes. All taxes will create dead weight losses and market distortions. Good policy must seek to minimize these.

A tax effort that kills transactions is self-defeating. More transactions mean higher economic growth and employment, which in turn will generate sustainable streams of revenues.

Fairness: No one group should be seen to be bearing more taxes than others. This does not mean redistribution cannot be achieved through tax policy, but it must have an explicit and well thought out plan.

Certainty: Since taxes distort prices and market activity, there must be certainty in policy for people to build businesses. Frequent and arbitrary taxes are harmful for growth.

Efficiency: The process of collection should not involve further losses and transaction costs on economic agents. One inefficient manner in which government taxes people is through the use of excessive regulation such as curbing economic activity or state ownership of market resources and activities.

Convenience: Excessive documentation requirements also add to the tax burden to hurt growth and employment. Taxes and their administration should not be onerous especially in the daily activities of people where the bulk of the economy lies.

Illusive Targets: Chasing Tax GDP Ratio through Arbitrary Measures

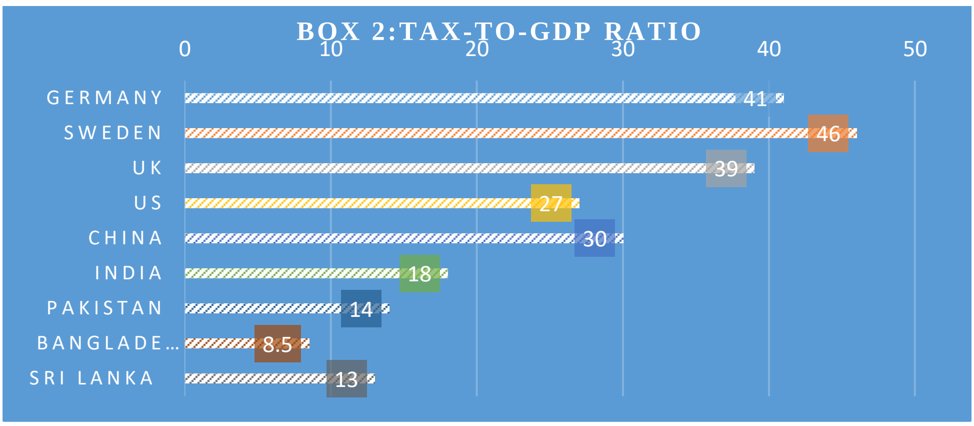
For decades now, policy has sought to give priority to increasing tax-to-GDP ratio leaving growth and employment to an outcome perhaps of

[30]Special thanks are due to Dr. Nadeem Ul Haque for motivating us to work on the topic, and guiding and mentoring us throughout the project till its end. We also thank Dr. Ikramul Haq and Ms. Huzaima Bukhari for their comments on an earlier draft.

[31]The Pakistan Institute of Development Economics (PIDE) organized a conference on the state of tax policy in Pakistan on March 11, 2020. The focus of the conference (see Box 8) was to generate a debate on shifting the paradigm of tax policy and administration to make it growth oriented. The discussion focused on issues in tax and tariff policies, along with examining the role of automation and documentation in promoting growth and competitiveness.

some projects funded by the Public Sector Development Programs (PSDP).[32] Expenditures are never reviewed or rationalized for efficiency. Public sector employment is guaranteed, and annual wage increases are held sacrosanct while operational expenditures are regularly cut. Arbitrary and frequent tax changes have created an environment of uncertainty while cuts in operational expenditure have led to "austerity."

Increasing the tax-to-GDP ratio regardless of how this has become the cornerstone of policy. The narrative that the government and donors have established is that Pakistan has a tax-to-GDP ratio lower than some other group of countries. Box 2 shows tax-to-GDP ratio for a select group of countries. It clearly shows that even in advanced countries, this ratio can vary by as much as 15 percentage points. Pakistan's tax-to-GDP ratio of 14% is not way out of line with the region: Sri Lanka (13%), India (18%) and Bangladesh (8.5%).



Source: IMF.

Tax Policy is Killing Transactions

Most experts are of the view that Pakistan tax policy is not based on these well-known and clear principles (See Box 1).[33] Section 5 of the Federal Board of Revenue Act legitimizes a Tax Policy Board/Committee to sketch tax policy independent of FBR. Unfortunately, that board convened only once after reconstitution. The finance bills that continually add ad-hoc tax measures in frequent mini-budgets have developed a complex tax system that confounds principles of rational tax policy.

BOX 3: Are We a Tax Cheating Nation?

The gathering challenged the prevailing official narrative of tax cheating nation. In the current withholding tax regime, every mobile phone user (i.e. 90% of population) is paying income tax in withholding form. This narrative appears to be unique to Pakistan. Countries such as Indonesia with a lower tax-to-GDP ratio does not accuse its citizens of tax cheating. It is strange indeed that even as FATF and international community are breathing down our neck our officials are claiming that their policy and administration is not at fault; it is the people who are cheats.

[32] PIDE has already developed a book (Haque et al, 2020) as well as a policy viewpoint on the subject to note that our growth policy remains framed in the now obsolete Haq/HAG model.

https://forms.gle/UCqHjnwU4AZPPYXRA

https://pide.org.pk/pdf/Policy-Viewpoint-11.pdf

[33] See Haque, N. Macroeconomic Research and Policy Making: Processes and Agenda. https://www.pide.org.pk/pdf/Macroeconomic-Research-and-Policy-Making-Processes-and-Agenda-Dr-Nadeem-ul-Haque.pdf

Data shows that policy consistently pushes for an unrealistic tax-to-GDP ratio, setting the FBR to chase the number with arbitrary measures that kill transactions. The current target of the IMF for a tax-to-GDP ratio of 16.7% by FY 2021-22 is unrealistic and cannot be achieved without enhancing the taxable capacity of the country. Yet curiously the design of the target, and measures to achieve it have stifled economic activity. As in the rest of the world, for revenues to increase we need economic growth. Yet policy is killing transactions through arbitrary taxes and costly documentation drive.[34]

Arbitrary Minibudgets and Fragmented Sales Tax have increased Uncertainty

Not only is our tax policy not based on conceptual clarity, it is also being changed continuously to meet unrealistic targets. The tax rates are high and keep changing several times a year through exemptions and SROs in mini budgets. The uncertainty due to continuous tax changes are a huge drag on investment which as a percentage of GDP is already among the lowest in the world.

Similarly, the sales tax base is fragmented with services subject to taxes at the provincial level and goods at the federal level. There is also variation in rates (from 1% to 17%), in addition to several exemptions. The standard rates on services also vary between provinces. In Baluchistan and KPK it is 15%, in Punjab it is 16% and in Sindh it is 13%. Such fragmentation and exemptions also add to the existing uncertainty[35].

Tariff Policy has Strangled Competition and Growth

Openness has been seen to be important for growth. In 1970s Pakistan adopted the local industry protection policy while Chile and Turkey liberalized their economies. The countries that adopted openness – Turkey and Chile — saw sustained growth and their manufacturing sectors developed. Turkey even joined the European Customs Union in 1995. These countries are now exporting value added goods like machinery and automobiles. Similarly, Vietnam started liberalizing in 1986. They started rationalizing tariffs and went for privatization. In 1995, their exports were equal to that of Pakistan and which are now ten times higher in 2020. Since we did not lower tariffs, we could not integrate into the global value chain.

BOX 4: Regional Comparison of Effective Tariff Rates

Country	Average Effective Tariff Rate
Pakistan	11.2
Malaysia	4.5
China	5.2
Sri Lanka	7.0
India	7.5
Bangladesh	10.6

Source: World Tariff Profiles 2018 by World Trade Organization.

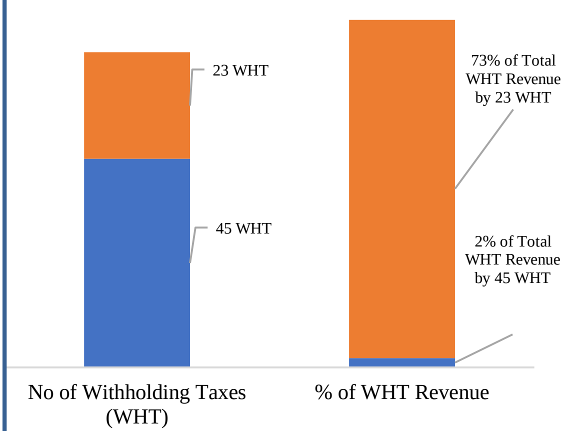
[34] See Haque, N. Kill Transactions, Kill Economic Growth. https://medium.com/@nadeemhaque/kill-transactions-kill-economic-growth-5b45ae75abc1

[35] See Huzaima & Ikramul Haq, **Overcoming fragmented tax system, *Business*** *Recorder*, October 19, 2018.

Pakistan, on the other hand, continued to follow the policy of protectionism. The average effective tariff rate in Pakistan is the highest in the region (see Box 4). With high protection, the competitiveness and quality is virtually eroded. Protectionism, especially for the manufacturing sector, is the standard policy of the government**.** Manufacturers enjoy exemptions and concessions on the import of these items which if imported by others are liable to duties etc. Consequently, the local manufactures neither developed their capacity nor upgraded technology to bring in quality for their captive market. The unprecedentedly high (52-90 %) duties on raw material reduce the share of manufactured goods to 0.15 % in Pakistan as compared to 25 % and 50 % in India and Vietnam respectively.

Excessive Documentation is Killing Economy

BOX 5:Withholding Tax and Revenue Earning



Not only is the tax system complex, the cost of compliance is high. Taxpayers are also discriminated on the basis of being filer and non-filer. Higher taxes, narrow base, differential treatments, and exemptions become hurdles in achieving growth and employment and block flow of revenue.

The withholding regime is imposing costs on business and individuals. There are 66 withholding taxes which furnish almost 3/4th of direct tax revenues. However, 45 of these withholding taxes provide only 2% of the revenues from this source (see Box 5).[36] About 70% of tax revenue is collected through withholding tax agents such as banks, utilities, telecom etc. placing the burden of collection on these businesses and increasing their costs. While these withholding taxes may provide an easy source of collection for Federal Board of Revenue (FBR), they make the tax system incredibly complex for the taxpayers. This also questions the role of FBR as a tax collecting authority.

The current documentation drive would prove ineffective and rather counterproductive in the presence of high cost of compliance. This cost consists of the number of hours required for record keeping, tax planning, and forms completion and submission. It takes around 577 hours (per year) to complete the tax payment process in Pakistan compared to the world average of 108 hours. Adding this to the high number of payments (47) tremendously increases the average tax burden in the country.[37] The high compliance cost imposed on businesses being the unpaid tax collectors for the government is the very reason for tax non-compliance. In such an unconducive environment, the current

[36] Kardar, S. H. and Pasha, H. A. (2020). "Tax reform agenda", presented at PIDE One Day Conference on 'Doing Taxes Better: Shifting the Paradigm of Tax Policy and Administration' held on March 11, 2020.

[37] http://documents.worldbank.org/curated/en/143331468313829830/pdf/886380WP0DB20100 Box3851 94B00PUBLIC0.pdf

documentation drive would kill transactions - and with it any hopes of increasing economic growth and sustainable revenue streams.

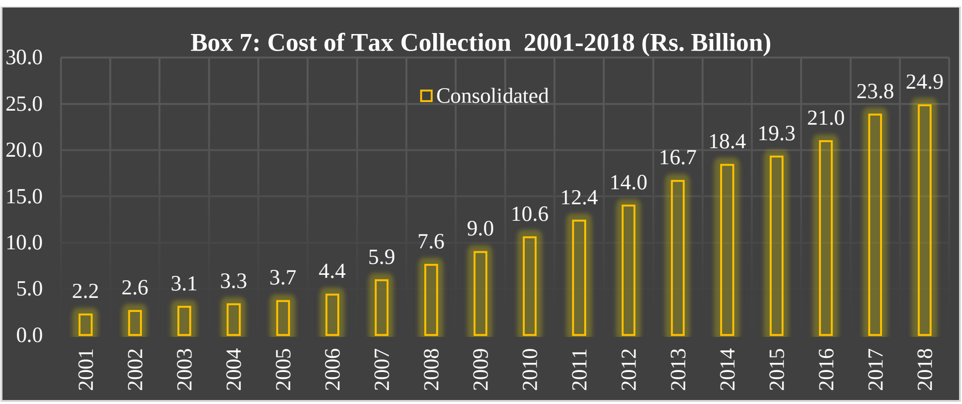
An intriguing example of the high compliance cost for meeting the documentary requirements can be observed in Customs. To complete an international trade transaction, we require more than 400 hours (17 days). India and Korea, on the other hand, require 270 and 194 hours, respectively (see Box 6 for details). Hence, reduction in transaction time should be an important objective.

BOX 6: Cost of Compliance to Complete International Transaction

	Pakistan	India	Korea
Imports			
No of Hours (TEU)	216	85	7
Days (TEU)	9	3.5	0.3
Cost (TEU)	400	366	342
Exports			
No of Hours (TEU)	113	64	14
Days (TEU)	5	3	0.6
Cost (TEU)	406	270	196

Note: The twenty-foot equivalent unit is an inexact unit of cargo capacity.

The price of tax collection is also very high in Pakistan (see Box 7). The cost of collection (CoC) has sharply increased over time. It has increased from Rs. 16 billion in 2014 to Rs. 25 billion in 2018, representing 36 percent increase in cost during the short span of 5 five years. Higher CoC leads to lower benefit of revenue collections. Nearly 80 percent of CoC is distributed in the form of wages of tax collection staff. Tax expenditures have been estimated in a study by FBR to be about 1.2 trillion rupees, about 4 % of GDP. There is an urgent need to reduce these for many reasons.



Box 7: Cost of Tax Collection 2001-2018 (Rs. Billion)

The tax administration model operates with outdated departmental manuals, and outmoded information technology (IT) platform which rely on the pirated systems and softwares. Advance countries are using business intelligence (BI) and artificial intelligence (AI) tax solution technologies for compliance and reducing human interaction in tax filing and tax analysis.

Making Policy Pro-Growth is the Way Forward

The policy should facilitate transactions to help grow the economy. Hence, it should be simple, efficient, and convenient, and help create a conducive environment for economy to grow. Some reforms that have been recommended in this regard are as follows:

(1) ***The tax reforms call for*** broad based, low rate simple taxes[38]. It is suggested that there should be a simple and predictable income tax regime. Those withholding taxes that contribute only meagerly but have higher cost of collection (compliance cost) should be abolished. Moreover, the average tax burden should be lessened by decreasing the compliance cost through reduction in documentation requirements. This would a better approach to encourage entrepreneurship and get sustainable revenues than some crude documentation drive.

(2) ***GST harmonization*** should be the priority. Several options are available to opt from.

(a) The first best solution requires a constitutional change to address this issue.

(b) The second-best option could be agreements for collection and enforcement and harmonization between provinces. The provinces can maintain the tax powers to change some elements of the tax bases (e.g. rates between certain limits).

(c) Third option can be to harmonize the international tax bases and those elements of the sales tax that may affect the allocation of the tax. The sales tax rates of any activity taxed on origin basis should be equal in all provinces.

Where the sales tax applies on destination base, it is not necessary to have a full harmonization of the rate, but it is necessary to establish limits to avoid spillovers when cities of different jurisdictions are close.

(3) ***As per the NFC awards*** the federation is responsible to provide revenues to the provinces irrespective of their contribution in the total tax revenue collection. The provinces contributed only 8 % of the total tax revenues in the second half of 2019.[39] This further strains the fiscal space of the federation. It was suggested that provinces should have the exclusive right to levy indirect taxes on goods and services within their respective physical boundaries. The federal government should have the exclusive right to levy tax on all kinds of income, including agricultural income. A serious debate on this issue is still required.

(4) ***Existing tax system is four-tier appeal system*** which is hopelessly redundant, painfully unproductive and marred with inefficiency and inordinate delays. There is a need of complete restructuring in tax justice system so that fiscal disputes between the state and taxpayers get settled within a year at most. The existing Inland Revenue and Customs Tribunals should be merged and renamed as National Tax Court. If National Tax Court is established, there will be a drastic reduction in litigation.[40]

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[38] Bukhari, Huzaima & Haq, Ikramul. (2016). Towards *Flat,* Low-*rate,* Broad and Predictable *Taxes*, Islamabad: *PRIME Institute*

[39] Ministry of Finance, Fiscal Operations, July to December 2019-20.

[40] Bukhari, Huzaima. Need for National Tax Court, *Pakistan Enigma of Taxation*, published by LAP LAMBERT Academic Publishing (December 30, 2011)

(5) ***The culture of SROs is unconsti-tutional*** and hence should be completely abolished. The 2013 ruling of the Supreme Court of Pakistan states that "Parliament/Legislature alone and not the Government/ Executive are empowered to levy tax". The sectors supporting education and health can be exempted.

(6) ***The SRO's were ruled out in 2013 by law*** but they were "tariffied" or transformed into tariffs under Fifth Schedule. The Fifth Schedule has exemptions/concessions for import of plant and machinery, and inputs of pharma sector, poultry & dairy sectors, home appliance sector, textile sector, imports under Auto & Aviation policies etc. To become an active player in the global value chain, Pakistan should minimize the loops in the form of concessions & exemptions regime. SROs also maintain a distinction between commercial importers and local manufacturers.

BOX 8: Conference Agenda

Doing Taxes Better: Shifting the Paradigm of Tax Policy and Administration

March 11, 2020, Planning Commission Auditorium

INTRODUCTION: SETTING THE ISSUES

Presenter: Dr. Nadeem Ul Haque, Vice Chancellor, PIDE

SESSION I: WHY CANNOT WE FIX OUR TAX POLICY?

Session Chair: Dr. Nadeem Ul Haque, Vice Chancellor, PIDE

Panelists

- Mr. Shahid Hafiz Kardar (Ex-Governor, SBP, and Vice Chancellor, BNU)
- Dr. Ikramul Haq (International Tax Counsel)
- Dr. Athar Maqsood (Professor, NUST)
- Dr. Hamid Atiq Sarwar (Member Policy, FBR)

SESSION II: TARIFFS: OPENING OUT FOR COMPETITIVENESS

Panel Chair: Dr. Manzoor Ahmad (Ex-Ambassador, WTO, and Senior Fellow, PIDE)

Panelists:

- Dr. Manzoor Ahmad (Ex-Ambassador, WTO, and Senior Fellow, PIDE)
- Ms. Teresa Daban Sanchez (Resident Representative, IMF Pakistan)
- Dr. Jawwad Uwais Agha (Ex-Member Customs, FBR)
- Mr. Jamil Nasir (Collector of Customs, FBR)

SESSION III: TECHNOLOGY, ADMINISTRATION AND DOCUMENTATION FOR GROWTH

Session Chair: Mr. Shahid Hafiz Kardar (Ex-Governor, SBP, and Vice Chancellor, BNU)

Panelists:

- Dr. Ikramul Haq (International Tax Counsel)
- Dr. Jawwad Uwais Agha (Ex-Member Customs, FBR)
- Dr. Muhammad Ashfaq Ahmad (DG International Taxes, FBR)
- Ms. Clelia Rontoyanni (Lead Public Sector Specialist, World Bank Pakistan)

SESSION IV: CONCLUDING REMARKS AND TAKEAWAYS

(7) ***Unlike other countries, the tariff instrument*** has been used here for revenue generation rather than growth and industrialization. This short sightedness of the policy raises conflict of interests as tax collecting authority would always prefer high tax rates. There is a dire need for the tariff policy to be designed around "facilitation of transactions" or "growth". The rationalization of tariffs should be a phased process.

(a) First phase - revise duty tariffs with more reliance on domestic taxes.

(b) Second phase – clear sectoral policies should be developed and tariffs be aligned with those sectoral policies. The exemptions should be merit-based only.

(c) Third Phase – once the tariff policy is in place, all the exemption schemes to be phased out.

(8) ***The electronic declarations*** and documents submission, digital signature communications, and web-based Tracking & Audit Trails (TAT) are the necessary reforms that can serve the purpose of enhancing the efficiency of the tax administration.

(9) ***The digitization of tax system*** and one-window environment would lower the business cost. It must be online with imaging and digital signatures. The minimal human interaction would lead to a transparent system and maintain an efficient economic environment. In this regard, instead of having a number of agencies for documentation, one-window operation can increase the efficiency of the tax administration. For working in an integrated environment, digitization and data driven system is inevitable.

(10) ***There is a need for reforms in regulatory framework*** on data sharing of public and private sector agencies with FBR. The availability and sharing of data could increase compliance by covering variety of sources of income before filling of tax returns. For instance, banks maintain registry of each customer and transaction. State Bank records this data. Government should sit together with public and-private agencies to formulate a plan to configure this data with FBR. The data sharing between institutions would also provide a mechanism to bring in non-filers into the system, thereby paving the way to ending the distinction between filers and non-filers.

Reforming the Civil Service Compensation in Pakistan

OMER SIDDIQUE and NASEEM FARAZ

Since the 1950s, many pay commissions and committees have been formed, but there has been no objective assessment of civil servants' pay structure. Moreover, there has been no analysis of civil servants' total cost, including not just the pay but all the monetary and non-monetary perks, to verify the commonly-held perception that civil servants are underpaid compared to their private sector counterparts. To fill this gap, PIDE's report on the civil service compensation, "Cash Poor, Perk (Plots, Privileges) Rich! Civil Service Compensation in Pakistan: Incentives, Dissatisfaction, and Costs" (PIDE, 2021), looks into some key issues within the civil services. The issues that the report looks into include cash payments, non-cash rewards, inequality in the distribution of perks, waste of precious land for housing, pay and performance disconnect, a bias between cadre and non-cadre officials, and marginalised specialised groups.

The analysis shows that the remuneration of a civil servant is a collection of cash payments, in-kind rewards, and intangible benefits.

- The total reward of a civil servant is several times higher than the base reward (cash salary) in the contract, more so for the higher grades.
- A senior civil servant's cost to the government is several times higher than the benefits received by the official.

THE CURRENT FEATURES OF PAKISTAN'S CIVIL SERVICE

Allowance Pervade

The allowances and perks pervade the pay structure of the civil servants. The system causes disparities when the more powerful cadres get more allowances and perks than the others. The provision of perks instead of cash is believed to distort employees' incentives.

Unequal Opportunities for Career Progression

Not all service groups have equal opportunities for career progression. Each civil service cadre is organised vertically into a pyramid, but on top of each, we usually see an officer from only two cadres—the Public Administrative Services (PAS) and the Secretariat Group. While technical and professional staff are restricted both vertically and horizontally.

Pay and Performance Disconnect

The promotion and placement policy is not aimed at rewarding those who perform well and can take higher responsibilities. Wage overlaps accentuate this disconnect when people in a lower grade get the same pay as those above.

Wage Compression

In Pakistan's public sector, the wage compression ratio is under 10 if we only consider the average basic pay for the lowest and the highest BPS grades. However, the ratio increases to 17 when considering all the monetary remunerations and 24 if we include all the non-monetary benefits. The higher remuneration of the upper grades is, thus, camouflaged by the compressed basic pay scales.

BENEFITS

Valuing the in-kind benefits received by the civil servants shows that:

- Public-owned houses have a minimum market value of Rs 1.45 trillion, which has the potential to generate an annual rental income of Rs 10.75 billion.
- Monetisation notwithstanding, the cost of using an official car exceeds the basic salary of employees in BPS 20-22.
- Job security in civil service has an added value of 0.5 percent to 17 percent on the compensation.
- Apart from the medical allowance, which is a part of the salary slip, approximately Rs 2.3 billion monthly is incurred on civil servants' medical bills.

TOTAL COMPENSATION

Estimates of the total compensation of the civil servants, including monetary wage plus allowances, and quantified in-kind and intangible rewards, show that civil servants are not underpaid since a large chunk is not declared on the salary slip.

- As we go up the grade ladder, the proportion of cash allowances in total pay increases, and so does the proportion of quantified perks in the total cost.
- Government housing facility, given as an in-kind benefit, is never accounted for in the total cost of the civil servants – something that has a huge opportunity cost to the government.

Perks and different allowances add to the total cost of civil servants substantially, and if monetised, would break the myth of low salaries in the public sector.

SUGGESTED REFORM MEASURES

Economic theory suggests that civil servants should be paid well, in cash only, and on competitive terms with the private sector (Dixit, 1997). In general, the reform must begin by adequately compensating all civil servants to not compromise their welfare. Previous pay commissions' recommendations failed because they recommended only an increase in pay and allowances while sticking to the existing structure.

The important features of the compensation should be the following:

- The current unified pay scale (UPS) system must be abolished and replaced with a new federal service system. In the new system, different professions should be introduced based on merit.
- The wage system should be based on an annual survey of salaries in the private sector, discounted by parliament and the cabinet.
- The civil servants' salaries should be adjusted based on two components: (i) inflation-indexation and (ii) performance.

Monetisation

One of the New Public Management (NPM) literature's key messages is that perks and benefits must be monetised to bring clarity within the system. International experience also shows that more and more countries are moving towards the monetisation of benefits and perks.

Government Housing

The monetisation could start from government housing because of the assets involved and its potential impact on the real estate sector. For the monetisation of government housing, an important consideration is its pace and sequencing.

- Since houses occupied by employees in grades 19-22 are only 602, the housing monetisation should start from grades 19-22.
- In the next stage, consider grades 11-16, which can free up around 2,300 houses.
- Finally, the housing facility of the grades 1-10 employees can be monetised; approximately 73 percent of the total houses in Islamabad have been allocated to grade 1-10 employees.
- In steps 2 and 3, the government can release around 84 percent of the total houses by incurring Rs 6.5 billion on monetising housing.
- The freed-up land must be used for commercial construction and social infrastructure (libraries, recreation, and community places) under a public-private partnership (PPP) model because it requires resources, management, expertise, and risk-sharing. A part of the freed-up land, for example, in the first stage, may be used for affordable apartment-style housing.

Transport Facility

Currently, the estimated value of cars being used by grades 20-22 officers in Islamabad is around Rs 1.53 billion. The features of the transport facility monetisation should be the following:

- Abolish the current transport monetisation and adopt a new system, which involves three parties: banks, the government, and grade 20-22 civil servants.
- In this monetisation proposal, banks would finance the car at a five-year term, and the government would guarantee the payments to banks.
- The government would then deduct monthly payment from the salary and transfer to the bank.

- The proposed model would ensure that the officials will have a fully maintained car with a driver from the first day of the contract.
- Adopting this model, transport expenditures and personal use of official vehicles would be minimised, while the monitoring of the asset, i.e., the car, would be done by the bank.
- If the system of official cars used for private use is dispensed with, it will free up at least 1,229 cars only in Islamabad.
- The stock of pool cars and project cars must also be reduced to a bare minimum, and the car requisition system must be abolished. The reduction of pool cars will further increase the financial benefit to the government.
    - Based on the inventory of the freed-up cars, most of these cars will be auctioned off.
    - The remaining cars will be put in a shared pool. The civil servants can be issued a fixed number of vouchers per month to use these cars for private use. Beyond the number of vouchers, the civil servants will be charged for using official vehicles as per the government rules for using an official vehicle for private purposes.

Medical Facility/Health Care

The current medical reimbursement system has put all the financial burden on the government. The government not only pays the medical allowance but also reimburses the indoor hospital charges. This cost will keep on increasing as the number of employees increases over time.

Our survey of the private-sector labour market indicates that the private sector has successfully shifted to the insurance system. If the government also shifts to the insurance system, it can save Rs 2.3 billion per month.

Sustainable Pension with Monetisation

The monetisation of compensation, along with the adoption of a more solvent pension solution (with a grandfather clause), would give the retired civil servants an increase in real income after retirement and give them more autonomy to manage their funds.

Fully-Funded Defined Benefit (DB) or Defined Contribution (DC) Pension System

The current unfunded DB system creates barriers for entry and exit into the civil services, and turnovers are not possible because of the unrealised pension benefits. If this system is converted into a DC system, employees would have more leverage for switching across governments, autonomous bodies, recruitment types, and the private sector. This would help attract qualified and talented individuals at various stages of the service. Also, switching to a DC system would make pension payouts to be sustainable in the long run.

The funds allocated for the DC system can be invested in:

- Existing options within the government, such as National Savings Scheme (NSS) through pension vouchers (used as assets for annuity payment).

- In approved pension funds, which can be developed in collaboration with the private sector. These will also release substantial capital resources for investments.

So, this system would also unleash growth along with making this sustainable for the government.

Reduce the Staff in Lower Grades

Currently, there is overstaffing in grades 1-11 (85 percent of the salary bill currently goes to these employees). The discontinuation of most of these posts, which have become redundant over time (such as peons), will save finances that can be used to finance additional costs in case of salary revisions. Once the present occupiers retire, apart from surrendering existing vacant posts, no more employees in these grades should be hired.

Based on the PIDE study, **"Cash Poor, Perk (Plots, Privileges) Rich! Civil Service Compensation in Pakistan: Incentives, Dissatisfaction, and Costs"** (PIDE, 2021) by Nadeem Ul Haque, Durre Nayab, Omer Siddique and Naseem Faraz.

Policy Insights to Maritime Economy in Pakistan

AFRASIYAB GUL and VICE ADMIRAL (R) KHAWAR ALI SHAH

The term "Blue Economy" originated in 2012 from the Rio+20 Conference of the United Nations on Sustainable Development and Growth.[41] Given the vastness of oceanic resources, the blue economy has been touted as the panacea for all economic woes of less developed coastal countries. It basically refers to leveraging the coastal and marine resources for economic benefits, emphasising sustainable economic growth and environmental conservation.

United Nations 2030 Agenda for Sustainable development directly linked sustainable economic growth and Blue Economy via SDG 14. World Bank defines Blue Economy as: **"**Sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem**."** Due to its international obligations for SDGs, Pakistan has integrated SDGs into its domestic development agenda, which implies that Pakistan is cognizant of the blue potential.

INTRODUCTION

A Blue Economy that comprises marine or oceanic resources holds vast and untapped potential to drive economic growth in Pakistan. Investment in coastal and various categories of marine resources can help meet the food, transport, and energy needs of Pakistan. This is important in the context of slow economic growth, financial instability, volatility of investment, and ever-rising unemployment that Pakistan has experienced in

[41]In Rio+20, Member States decided to launch a process to develop a set of Sustainable Development Goals (SDGs), which will build upon the Millennium Development Goals. Hosted by Brazil in Rio de Janeiro from 13 to 22 June 2012.

recent years. It is time that Pakistan looks to coastal and marine resources to diversify its economy beyond traditional land-based investment avenues.

Pakistan has about 990 km long coastline, an Exclusive Economic Zone of 240 000 sq. km, and an additional continental shelf area of about 50,000 sq. km, making Pakistan an important coastal state. The exclusive geostrategic position of Pakistan lends its ports a unique significance concerning maritime trade. Furthermore, the construction of Gwadar as a transit and transhipment port under CPEC has further augmented Pakistan's maritime potential as a key player in Indian Ocean Region.

Blue Economy of Pakistan offers a wide range of maritime sectors peculiar to the geostrategic and economic realities of the country. It includes conventional maritime industries, namely fisheries, coastal tourism, maritime transport, etc., and newly emerging areas of aquaculture and marine biotechnology, deep sea-bed mining, resource extraction, oceanic renewable energy, and maritime tourism. The construction and operationalisation of Gwadar Port have enhanced the scope of maritime transport in Pakistan. Noteworthy, maritime transport industries that offer great opportunities for investment in Pakistan are Port Development and Coastal Urbanisation, tourism, Shipbuilding, Ship-breaking/recycling, and Transhipment companies.

Pakistan is a lower-middle-income country,[42] with the economy growing at less than a 3 percent growth rate, whereas, Pakistan Institute of Development Economics suggests for Pakistan a potential of sustainable 8 percent growth annually. Being the 5th most populous economy globally with a population growth rate of nearly 2 percent, Pakistan might face precarious food security challenges in the future. The inadequacy of tax revenues and the balance of payment situation add to the economic woes of Pakistan. The extreme vulnerability to climate change needs new forms of decision making, such as investing more into blue economy because Pakistan might face food security problems related to the limited land and water resources (Rahman and Salman 2013). In a post-COVID-19 world, diversifying the economy beyond land-based avenues of investment remains difficult due to lack of capital but paradoxically remains a significant option to spur economic growth in Pakistan. Thus, Pakistan's ocean and oceanic resources hold great potential to be leveraged, keeping up with the international practices of inclusive growth and community development.

Currently, the government is giving attention to the shipping sector up to some extent, after decades of neglect. After announcing the year 2020 to be the year of Blue Economy, the government did the right thing by amending the Merchant Marine Policy, 2001. The amended policy provides a range of incentives to private investors like reduction in gross tonnage tax, first berthing right to flag carriers, acceptance of freight charges in Pakistani rupees along with US dollars, Long Term Finance Facility, and other fiscal incentives. The provision of these incentives is highly laudable and will increase the size of the sector. Ministry of Maritime Affairs has sought a phased policy to transform and leverage the sector's real potential. However, several measures are yet to be taken to improve the performance of the sector. Another significant factor is the competitiveness

[42]According to World Bank Classification, low-income economies are defined as those with a GNI per capita of $1,045 or less in 2020; lower middle-income economies are those with a GNI per capita between $1,046 and $4,095; upper middle-income economies are those with a GNI per capita between $4,096 and $12,695; high-income economies are those with a GNI per capita of $12,696 or more.

and capacity of the government bureaucracy to implement the policies. The lack of investment in training and infrastructure with lengthy processes makes the whole system slow and unattractive for investment despite these right policies.

INSIGHTS OF GOVERNANCE ISSUES

The Ministry of Maritime Affairs is Pakistan's primary state institution overseeing all maritime sectors. Pakistan National Shipping Corporation and the Merchant Marine Departments, as well as all three of Pakistan's port agencies, namely Karachi Port Trust (KPT), Port Qasim Authority (PQA), and Gwadar Port Authority (GPA), are all under its umbrella. All three ports are not budgeted, meaning they earn and spend their budget on all concerned operations but require government approval through the Ministry of Maritime Affairs. The other stakeholders include Freight Forwarders, All Pakistan Shipping Association (APSA), Customs, Federal Board Revenue, and the banking sector. PNSC (Pakistan National Shipping Corporation) Regulations 1984, Marchant Marine policy 2001, and other department regulations culminate to make the national shipping policy.

Pakistan Merchant Marine Policy 2001 (MMP) was amended in 2019 and will continue up to 2030. According to amendments, no federal tax (Custom duty, income tax, and sales tax) shall be levied on Pakistan resident ship owning companies during the exemption period. All Pakistan flag vessels shall be given priority berthing at all Pakistani ports. PNSC is directed to continue to pay tax of US$ 1.00 per Gross Register Tonnage (GRT) on its shipping income annually. The new companies that accept Pakistani rupees instead of dollars for freight charges shall be incentivised for the first five years of shipping and pay a tax of US$ 0.75 per Gross Registered Tonnage (GRT).

As per United Nations Liner Code 1974, a country can lift 40 percent of its cargo in its own ships, which can even be raised to 60 percent without getting into the realm of unfair trading practices. Pakistan lifts only 10-11 percent of its international trade, thereby forgoing a substantial source of FE earnings. One of the changed clauses in the amended Maritime policy gives the first right of refusal to PNSC for hydrocarbons cargoes imported on FOB basis; this amendment is however contrary to the policy's para 8, that gives cargo preference to Pakistani flag vessels over PNSC chartered vessels. Secondly, the MMP lacks the legal status that is enjoyed by an act or ordinance. Its provisions are subject to a decision made by the cabinet and Economic Coordination Committee (ECC) from time to time. Negligible amendments, extending MMP to 2030, and declaring the shipping industry as a strategic industry are not enough. Stakeholders consensus agree that previous policy did not yield fruitful results and extending it to further ten years may not work as well. Previously, incentives were withdrawn from time to time and reinstated, thus, rendering them inconsistent for long-term planning purposes (NIMA). The shipping sector is highly capital intensive and requires long-term planning for financing. Besides this, Merchant Shipping Ordinance 2001 (MSO) also needs to be amended and revised to create synergy between the basic commitment in the policy and legal instrument for its implementation.

It is the need of the hour to frame a comprehensive Marine Policy that must include each and every sector of the blue economy to ensure optimal use of ocean resources, rather than sticking to few ordinances and regulations. This will require all stakeholders' input; the stakeholders having the responsibility of governance is of core importance to kick start blue economy development.

Table: 1			
Imports	**Pakistan**	**India**	**Korea**
No. of Hours (TEU)	216	85	7
Days (TEU)	9	3.5	0.3
Cost(TEU)	400	366	342
Exports			
No. of Hours	113	64	14
Days (TEU)	5	3	0.6
Cost (TEU)	406	270	196
Source: PIDE Policy Viewpoint No.17:2020.			

The need is to overcome the procedural inefficiencies as well as improvement in service delivery to leverage the actual potential. Pakistan has a high compliance cost as compared to other regional countries such as India and Korea. The high compliance cost is associated with documentary requirements for customs clearance. On average, Pakistan requires 400 hours while India and Korea require 270 and 196 hours, respectively (Table: 1). Similarly, the time taken for the customs clearance process and documentary compliance in case of imports is 12 times longer than in UAE. The indirect cost associated with uncertainty and delays affects customer choices. On the other hand, poor track and trace consignments, custom clearance, inexpedient schedule, transport-related infrastructure are bottlenecks that keep the industry from meeting its actual potential. According to the Ministry of Maritime Affairs, Pakistan can raise its share in transhipment to 200,000 TEU's, which can be further increased by removing procedural inefficiencies.

It is paradoxical to note that Pakistan has a small shipping sector despite having trade of over $70 billion. Ministry of Maritime affairs is well cognizant of the true potential and possesses the will to transform the sector into a profitable economy sector. It has sought a phased policy to transform and leverage the actual potential of the sector. The only need is to highlight the weaknesses in the prevalent policies and overcome mistakes being made in shipping practices. A large number of vessels owned by private Pakistani owners operate under the Flag of Convenience (FOC). There is a need to bring in all long-term imports under Freight on Board (FOB) basis, mandating it for Pakistani Flag vessels to lift it. Proper checks and balances should be enforced to avoid delays under this system. The Ethiopian model offers a lot to learn from it.

Table: 2	
Regional Comparison of Effective Tariff Rate	
Country	**Average Effective Tariff Rate**
Pakistan	11.2
Malaysia	4.5
China	5.2
Sri Lanka	7.0
India	7.5
Bangladesh	10.6
Source: World Tariff Profile by WTO	

Pakistan adopted a protectionism policy while many countries like Turkey and Chile liberalised their economies and saw sustainable growth and their manufacturing sector developed. Consequently, local manufacturers neither developed nor upgraded their technology to cope with modern world markets. The tariff rate followed by Pakistan is much higher than other countries in the region, as depicted in Table: 2. Sri Lanka and Malaysia have a meager effective tariff rate of 7.0 and 4.5, respectively, whereas Pakistan follows an average effective tariff rate of 11.2. The policymakers should consider economic liberalisation policy to boost trade, and the involvement of maritime needs particular focus to execute it effectively.

Pakistan needs to allocate more funds for infrastructure development, up-gradation, and diversification of its fleet. However, the Maritime Affairs division budget was reduced to PKRs. 2.6 billion in 2021, which was PKRs. 3.6 billion in 2020. Reduction in the budget for maritime division may not directly impact the industry, but it hampered the infrastructure development efforts. More autonomy should be afforded to PNSC as well as other private entities in order to encourage investment and competition.

Pakistan has a large EEZ, and long coast, and this sector is vital for economic growth, employment generation, and food supply. There is a shortage of trained and skilled professionals domestically and internationally due to the ever-expanding shipping market**.** Pakistan can train and produce skilled professionals to meet the demand of domestic maritime activity and supply of human capital to the international market.

BOAT AND SHIPPING INDUSTRY IN PAKISTAN

The shipping industry holds paramount importance in any economy in today's globalised world as 80 percent of world trade is carried out through the sea. Over 90 percent of Pakistan's trade by volume is through the sea.

Table: 3

	India	Iran	Bangladesh	Sri-Lanka	Pakistan
Total fleet	1801	893	468	90	57
Oil tankers	136	84	144	11	7
Bulk carriers	63	32	48	6	5
General cargo	587	371	140	13	0
Container ships	22	31	6	0	0
Other types of ships	993	375	130	60	45

Source: UNCTAD

The shipping sector of Pakistan is governed by several organisations under both international law and a dedicated national shipping policy. The Ministry of Maritime affairs acts as the supreme authority to regulate most of the maritime sector of Pakistan. Pakistan National Shipping Corporation (PNSC) is the largest and the only Pakistani flag shipping company in Pakistan lifting only 10-11 percent of Pakistani cargo (Yousuf and Ali 2020). Worldwide, 70,094 ships are registered, out of which the USA operates 3000 registered ships. As of 2021 in the Southern Asia region, (Table: 3) depicts the fleet size of countries in the region. Pakistan possesses seven oil tankers, five bulk carriers, and a total fleet of 57 ships, which is the lowest number compared with other regional countries. India has a total fleet of 1801, Bangladesh 468, Sri Lanka 90, and Iran, despite long-standing international sanctions, maintains 893 ships. Not just that, Pakistan does not possess a single general cargo or containership. The regional countries comparison calls out the vulnerable position of Pakistan's fleet size. The concerned authority must look forward to acquiring oil tankers and bulk carrier ships in the first phase, as Pakistan depends on oil import.

According to PNSC 2018 import data, 916 import shipments were made, including 341 shipments of oil. Similarly, according to port's import data sources, 840 shipments were made that including 13 shipments of jet fuel. (NIMA).

Table: 4

Years	Dry Cargo	Wet Cargo	Total Cargo	PNSC Share	PNSC Share %
2016	58.867	29.419	83.286	13.326	16
2017	42.653	32.863	89.852	14.304	15.919
2018	65.836	34.411	100.247	12.797	12.765
2019	80.253	30.44	110.693	10.383	9.38
2020	66.585	27.736	94.321	8.80	9.33

Source: PNSC Annual Report 2016-20 (In Million Tons)

The amount of trade through sea has been increasing every year but the share of PNSC is decreasing instead of going up (Table: 4). In 2018, the total seaborne trade of Pakistan was 100.247 million tons, and PNSC was trading about 12.76 percent of it. According to official sources, PNSC imports only 26 percent of liquid and only 3 percent of dry bulk cargo of the country, while the rest is imported through foreign vessels. Similarly, in 2020 total seaborne trade of Pakistan was 94.321 million tons, where the PNSC share was 9.33 percent. This costs Pakistan a whopping 5 billion USD freight charges annually that is paid to foreign vessels. In 2020, PNSC earned a net profit of about PKRs. 2,414 million and paid PKRs. 332 million worth of taxes and PKRs. 231 million in dividends to the government, an increase of 10 percent compared to last year (Table: 5). In some Flag of convenience countries, an overwhelming majority of the World's ships are registered due to easy processes, no taxes and no questions about the source of investments.

Table: 5

Years	Net Profit	Tax Paid	Dividends to GoP
2017	2,477	488	227
2018	1,641	437	229
2019	2,194	296	173
2020	2,414	332	231

Source: PNSC Annual Report 2020 (PRs. In Million)

Despite giving incentives through federal tax exemption and lowering the tax to US$ 0.75 per Gross Registered Tonnage (GRT), the private sector is reluctant to get the benefit. The investors' confidence was shaken by ill-thought out of private shipping lines in the 70's and safe investment avenues available in Tax-free havens. On the other hand, the Merchant Marine Department (MMD) is behind time with unskilled staff that cannot handle the modern demands of the shipping sector and registration maintenance (NIMA). Whereas the leading flag of convenience countries provide services and can register and de-register ships in 24hrs.

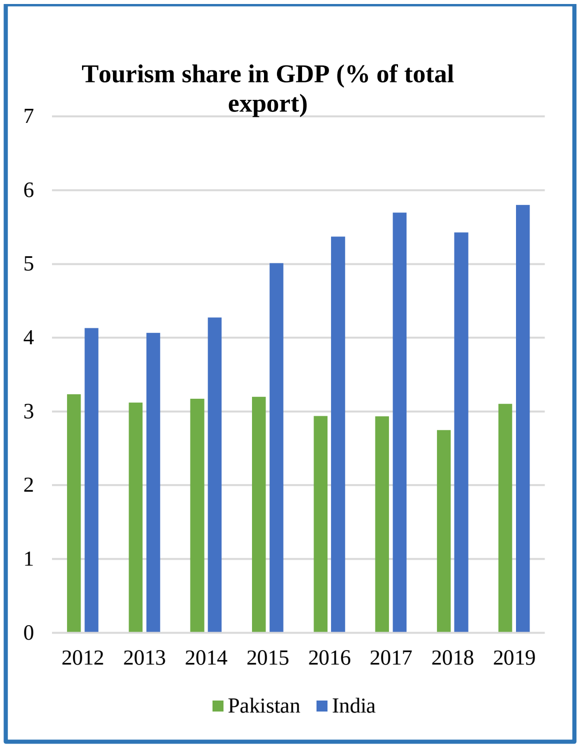
The domestic boat industry of Pakistan, requires urgent government support before the traditional artisans and boat makers become extinct. Due to official apathy, traditional boat building is moving outside Pakistan. At one time, Pakistan was the largest builder of Dhows in the region. The informal sector involved in the boat-making industry is running side by side. According to a report, it employs about 3,500 skilled labourers. The workers are expert enough to build small or large boats without drawing and sketches, and most of the workers earn a daily wage of about $14.

It is time to take upon the cross-disciplinary approaches to deal with new world challenges and tradeoffs. Government intervention will be especially welcomed in introducing incentive schemes and facilitation services for the registration of boats and the development of boat engines that are efficient and durable in extreme weather conditions. Government intervention is also required in record-keeping and pricing of water transport services in Pakistan. State Bank of Pakistan has allowed a long-term finance facility (LTFF) under Merchant Marine Policy 2001 that will allow investors long-term borrowing at 3 percent to acquire floating vessels, tug boats, cargo vessels, and fishing boats. Currently, seafood export is US$ 450 million, but fishing stocks are depleting fast, and fishing is becoming unsustainable. The country needs to invest heavily in Aquaculture to boost the fisheries sector and increase export seafood up to USD$ 2 billion annually while concurrently increasing the country's food security.

TOURISM—GOING BLUE

The tourism industry is one of the world's fastest-growing and is closely linked to the economic, social, and environmental wellbeing of many countries around the globe. The role of maritime tourism is well integrated into contemporary economies that the economic impact is relevant even to the less important countries in terms of tourism-related activities (Bunghez 2016). The tourism economy represents 10.4 percent of the global GDP, which makes about 8.8 trillion dollars. About one out of every ten jobs is created by tourism-related industry. Tourism is one of the top five earning industries and a key source in generating foreign exchange in half of the developing nations. Small islands and developing countries have vast untapped potential regarding ocean-related tourism to create job opportunities and earn foreign exchange. Sustainable tourism takes account of the social, environmental, and future economic impacts while addressing the needs of visitors and host communities. The agenda for 2030 for Sustainable Development SDG target aims to implement policies to promote sustainable tourism to promote local product, culture and create job opportunities. Pakistan has immense Maritime tourism potential with a long coastline of 990 Kilometres which is blessed with diversified natural, religious, and cultural tourism resources. In 1989, Pakistan gave tourism an industry status. The federal government established a Beach Development Authority under Pakistan National Tourism Policy 1990 (NTP 1990) to develop beaches and encourage water sports activities. The long-term policy was given under the Ministry of Culture, sports, youth affairs, and tourism to collaborate with provincial governments of Sindh and Balochistan provinces to promote water sport activities and tourism. However, maritime tourism is undeveloped due to political instability, lack of coordination among tourism authorities, poor governance, and security concerns (Ahmed and Mahmood 2017). NTP 1990 is no more effective after the 18th amendment in the constitution as tourism is now a devolved subject.

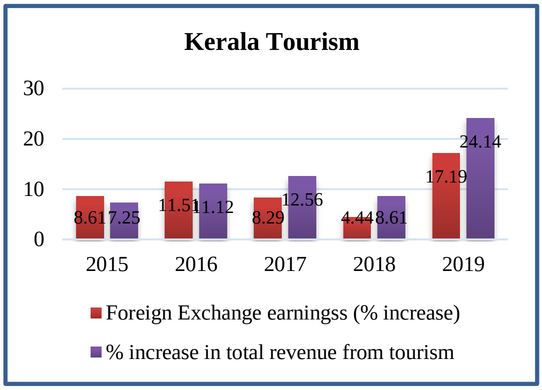
Boating tourism, marine sports activities, beach development, and other aquatic environment are core sectors, and all other recreational activities come under marine-related tourism. When we compare the share of tourism in the GDP of Pakistan with the neighbouring country India, it shows that Pakistan is lagging in developing the tourism sector. For instance, consider an example of Kerala that has about 600km Arabian Sea shoreline and has been developed as a tourism hotspot. Over the years, tourism in Kerala has grown significantly to earn foreign exchange, revenue increase, and living standards of people associated with tourism activities. In 2019, a 17.19 percent increase in foreign exchange and 24.14 percent increase in revenue generated from tourism (Direct and indirect) was recorded in Kerala. The current government of Pakistan has paid attention to developing the tourism sector. However, government is more focused on land-based tourism and is neglecting the capacity of marine tourism. The availability of vast resources is a blessing and must be properly developed as it can significantly raise the standards of coastal communities used by human beings. Pakistan must develop a vast spectrum of marine tourism activities like harbour cruises, recreational fishing, maritime museums, sailing yachting, beach activities, windsurfing, scuba diving, snorkelling, sea kayaking, and many more. Investors should be motivated with incentives like tax reliefs, high-profit expectations, ease of documentation process, and security guarantee. On the other hand, awareness and a friendly environment should be provided to local communities and visitors. The development of international tourism will pave the way to revenue generation and foreign exchange reserves.



Source: WDI.

CHALLENGES AND WAY FORWARD

The present government is revisiting its approach for the improvement in the marine sector of Pakistan. Primarily, the lives of people working in the marine sector need improvement and special support from the government. Studies have shown that the majority of problems faced by fishermen can be solved through minor interventions. Lack of education among these communities has kept them from modern technologies and systems.



Source: Kerala Tourism Statistics 2019.

Institutional constraints have restricted Pakistan's potential gains from the "Blue Economy". It is important to have the institutional capacity for dealing with Blue Economy. What seemed like a distant dream is, fortunately, converging towards reality due to the present government's efforts. In Pakistan, the local boat industry is still functioning without government support and is losing its competitiveness to other players. (Moazzam 2012) added that most registered boats have dual registration for Pakistan and Iran, which eventually poses a security threat. In Karachi, small boats are used for tourism purposes, local transport purposes, and larger vessels are in the business of to carry cargo in the region.

ACTION POINTS- THE WAY FORWARD

The following action plan for policymakers is based on the observation of internationally acknowledged practices. The study advocates to:

- Establish a network of researchers, industry stakeholders, government personnel, and media outlets to generate and disseminate awareness and knowledge regarding the scope and potential of blue resources. Information campaigns and mainstreaming and dissemination of the knowledge created by researchers for broader awareness and insights into the field will be beneficial.
- A complete survey and manpower audit of the Mercantile Marine Department (MMD) is required to identify the shortcomings, capacity, and needed up-gradation to fulfil its functions.
- Conduct a dedicated and full-fledged survey of Pakistan's maritime zones to ascertain the nature, type, and extent of resources to better understand Pakistan's blue potential.
- Strategise for a conducive environment for foreign and local investors to channel investments into the maritime sectors.
- Review procedural inefficiencies and introduce reforms for fostering investor confidence and improving prospects of business in the blue economy.
- Putting in place consistent long-term policies that are dynamic rather than static.

- Formulate an exclusive National Blue Growth Policy with clearly defined goals and realistically set targets to be achieved within a reasonable time. Greater coordination and consultations among academia, government, and other stakeholders are the key to achieving consensus in decision-making.
- Eliminate subsidies for bringing in competitiveness.
- Invest in R&D and forge partnerships with international research groups to keep pace with the current international practices.

CONCLUSION

Pakistan has a unique geostrategic location that offers opportunities and challenges as well. Geographical location, investment, and timely implemented policies are important in sea trade and ports development. For instance, the Middle Eastern countries incorporate about 3 percent of world GDP and handle about 20 percent of seaborne trade. Further, transhipment accounts for 53 percent. Pakistan can serve as a viable and most effective economic transit route to land-locked Central Asia and neighbouring countries. China Pakistan Economic Corridor (CPEC) can spur economic activity in Pakistan and regional countries through roads and railway networks, whereas ports at the Arabian Sea will provide global connectivity. The Marine economy is one of the main pillars of economic structure, which needs a proper regulatory authority to monitor and evaluate it. It will play a critical role in the economic growth of Pakistan. This sector is facing numerous challenges like lack of institutional capacity, poor governance, and investment. The sector needs well-thought-out actions from the government including ease of business processes. The revenue from the sea routes transport system can be improved. The government has to play an important role to enhance ships fleet and increase the share of GDP. In addition, maritime tourism can generate $1-2 Billion annually through domestic/international tourism and employ coastal community people.

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World Beyond 2021

Internet for All

SABA ANWAR and UNBREEN QAYYUM

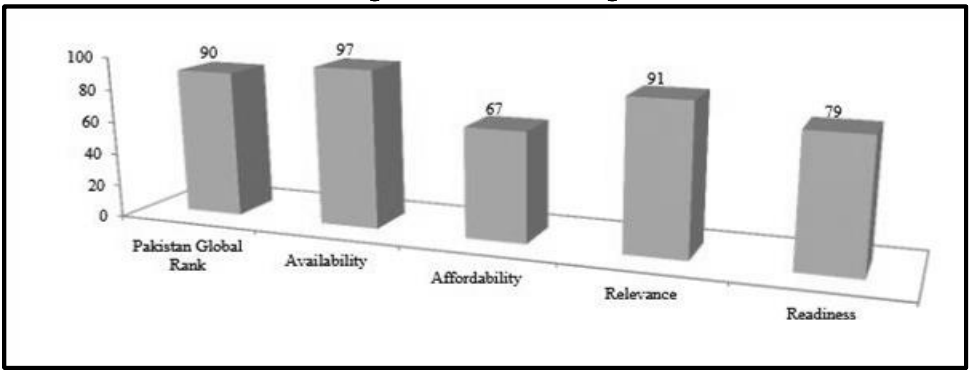
The pandemic COVID 19 has fast-tracked the demand for digital technologies especially the internet requirements by five years. Internet is the lifeline for startups; distant learning is a new paradigm shift and perhaps the future of innovative learning for all ages which in turn will enhance productivity. The real potential of the internet is to create an enabling environment for people to access information on health, education, business, e-commerce, etc. PIDE's Reform Agenda for Accelerated and Sustained Growth[43] also emphasised that the internet is a basic human right and it must be taken very seriously, especially by the regulators. It should not be regarded as access to Facebook, YouTube, Google, etc. for entertainment purposes.

Action Point*:* With a 64% young population, the policy-makers and regulators need to realise the internet is a major source of opportunities and a basic human right.

International Comparison

When we look at various international rankings we can see that on every index related to internet, Pakistan is ranked well behind the countries which share similar socio-economic and demographic conditions. Either it is internet inclusive index, network readiness index, e-government development index, telecommunication infrastructure index, ICT development index or world economic forum index, Pakistan stands behind several South Asian countries such as India, Bangladesh, Nepal and Sri Lanka. In terms of affordability, according to PTA and GSMA report, the four major operators in Pakistan provide cheapest service in terms of a gigabyte of data availability compared to Bangladesh, Turkey, India and Egypt. The availability of internet remains a big issue for the majority of consumers and the devices are also not affordable.

Fig. 1. Internet Ranking



[43]Reform Agenda for Accelerated and Sustained Growth (2021).

Pakistan recently celebrated 100 million broadband customers but connectivity and availability remain a basic issue. The telecommunication sector has witnessed enormous growth since 2017-18 but Covid 19 has boosted the demand for internet and telecommunication devices sharply. Despite the improvements in internet availability, it does not work for the vast majority of people in general. Keeping in view the current situation it becomes of utmost importance to understand the structural, technological, and regulatory issues creating hurdles in the way of internet availability and affordability to the general public of Pakistan.

SPECTRUM

Spectrum is a medium like radio wave scaling. This medium carries the signal from point ‘a’ to point ‘b’, from a cell side to a switch, from a switch to cell side, and from cell side to the mobile device, or the i-pad. The government releases spectrum through auction and the operators bid on it. From 2014 there have been three auctions in 2014, 2016, and 2017 respectively. The high flow prices led to no bidding in any of these auctions. In 2016 and 2017, the unsold spectrum of 2014 was put up for bidding. This implies that government did not release any new spectrum after 2014. Currently, the commercial release of spectrum in Pakistan is 1/2 of what is in Afghanistan and Bangladesh. It is 1/3 of Malaysia and Thailand. ¼ of advanced economies like Singapore, Europe, etc.

- Overpricing makes it an irrational business model for telecoms. They have to spend 80 percent of their available funds in buying spectrum and are left with 20 percent for infrastructure development. In the UK, a discount was offered on the spectrum, Sweden auctioned the spectrum at the least possible price and the Chinese are providing free spectrum to its operators. Pakistan has the sixth lane of the spectrum, because of a myopic view; it is never been utilised to the fullest capacity.
- Hoarding is a short-sighted model that does not work for the government either. For the government, the spectrum auction fee has become the prime objective. There is a complete conflict over here, the short term making money to balance the budget is the priority rather than having internet for all as a right and this is the biggest loophole in the policy.

Action Point: Do not eye the sale of the spectrum to network operators as a source of revenue – Internet access should be a priority. Provide spectrum at a nominal price or even free of any fee.

INFRASTRUCTURE DEVELOPMENT

Optic Fibre

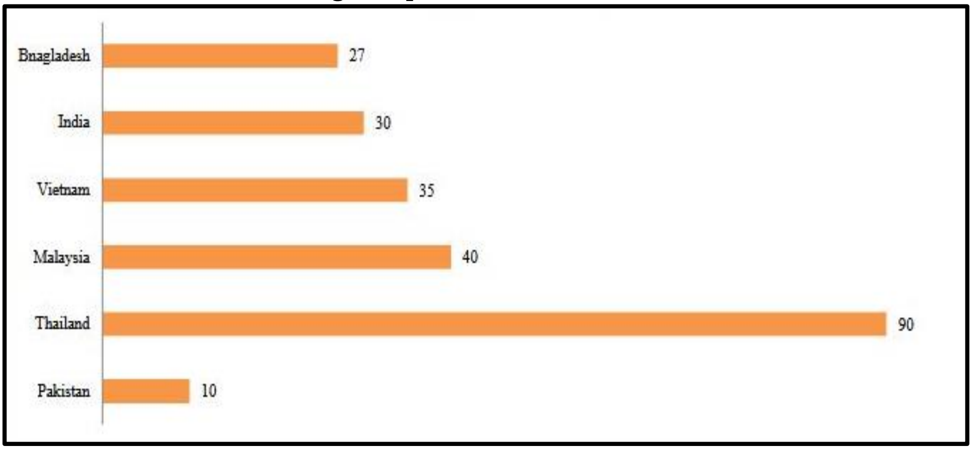
- The penetration of optic fibre cables in Pakistan is among the major obstacles in the availability of the internet for all. Approximately 10 percent of mobile towers are connected with optic fibre. Whereas just for comparison the optic fibre penetration in Thailand is 90 percent, Malaysia is about 40 percent, Vietnam is 35 percent, India 30 percent, and even in Bangladesh, it stands at 27 percent.
- Whenever a Telco has to lay fibre, it has to pay a certain fee. The certificate license fee is a significant part of the CAPEX. This fee is an intangible thing and no asset

is created in the process. Also, if an optic fibre is to be laid along the motorway, the national highway authority will have to be paid a certain fee. In Karachi an 18 km long road is controlled by 5 civic agencies, so the operator has to talk and pay to all these 5 companies.

Action Point

These regulatory issues and high taxation costs needs to be resolved on priority basis.

Fig. 2. Optic Fibre Penetration



Towers

Initially, the towers were a comparative advantage that a company had and they started putting up their own towers. Later, the idea of handing over towers to tower operators like American Towers and Indus Towers was thought of. However, the huge tax implications of selling a tower hindered the idea. Tower sharing and optic fibre sharing can be practiced by infrastructure providers if rightly incentivised by the government.

Action Point: Institutionalise Tower Sharing.

IS 5G A GAME CHANGER?

- 5G will not necessarily provide faster internet but it offers other benefits like multiple device operability, low latency capabilities, enhanced security automated cars, remote execution,
- 5G will increase the demand for fibre as each building needs a fibre connection and a small antenna/base station for a cellular company. Also, the demand for mobiles that are compatible with 5G technology will increase.
- In the case of Pakistan, we are yet to capitalise on our investment in 4G. Pakistan is not ready for 5G as per the dismal statistics. Korea went for 5G when they had an 80 percent penetration of 4G handsets. In our country, merely 43.51 percent of the users have the 3G and 4G devices; however, the 4G was introduced 10 years back.

The biggest impediment is the price of the smartphone. Pakistan has less than 50% smartphone market and this is the major barrier in the way of 4G and 5G.

Action Point: There is a natural evolution and adoption of the latest technology so **let the market decide.**

WAY FORWARD

Telecom is empowering education, health, business, agriculture, commerce, security; we need a holistic digital policy for the wellbeing of our nation and sustainable growth. The Telecom sector is evolving with technology, hence our policies and regulatory framework should be supportive. The focus of the government policy should only be to enable, encourage and incentivise the business environment in the IT sector.

- The dynamic spectrum allocation is being practiced in the world and it should be promoted in Pakistan. The dynamic spectrum allocation requires to pay as you go mode. Thus government should have a balanced approach and the pay-as-you-go option can be practiced.
- If we take the long-term view, the contribution from the people using the internet over the next 10 years is going to be far more to the exchequer than could be obtained from the upfront fees and levies. Government can amortise the initial lump sum amount of spectrum price over five to ten years.
- In the case of optic fibre, Pakistan has service providers (foreigners) and infrastructure providers. The service providers do not share their assets because of competition, so the sharing model has limited implications. In Pakistan, 19 telecom infrastructure provider's licenses have been issued by PTA. Ninety-nine percent of the optic fibre is owned by the service providers but if the fibre ownership is transferred to infrastructure providers, the sharing could have been practiced on a large scale.
- Tower sharing and optic fibre sharing can be practiced by infrastructure providers if rightly incentivised by the government.
- For small towns and cities, the concept of having a large shared company owned by a completely neutral entity is more suitable. This company can get bandwidth through submarine fibres which offer a high-speed network.
- To develop a fully compatible ecosystem with 5G we require an up-gradation to the latest technology from both customers and operators. The up-gradation cost will be shifted to the consumers making 5G expensive. The four operators provide 4G but 50 percent of the sims sold are 2G and 50 percent of the handsets sold in the market can hardly support 2G. The benefit of utility comes in when the number of users is high. Providing 5 G to a small privileged community will be suboptimal while investment in 4G will improve service quality many times.

Remove Service Charge on IBFTs to Encourage Digital Transactions

MUHAMMAD SHAAF NAJEEB

The State Bank of Pakistan (SBP) announced on June 16, 2021, that it has now allowed banks to charge a transaction fee of 0.1 percent of the transaction or PKR 200, whichever is lower on Inter-Bank Funds Transfers (IBFTs). SBP has made compulsory free-of-cost IBFTs of up to PKR 25,000 per month per account. For accounts exceeding the limit, the banks will charge the transaction fee as mentioned above.

Following the onset of the COVID-19 pandemic, on March 19, 2020, the Government of Pakistan and SBP decided to make all IBFTs free of charge. The idea behind this decision was to limit consumer visits to banks and thus restrict the COVID-19 threat. Before that, the banks were allowed to charge a transaction fee on IBFTs as per SBP's defined schedule of charges.

The practice did continue for a little over a year until after the third wave, the state bank, as mentioned above, assumed an improved COVID-19 position for reviewing the policy and thus reimposed the charges on digital funds transfer. Since then, Pakistan has entered the fourth pandemic wave as a much deadly delta variant and other new variants grow rapidly in Pakistan. Consequently, the basis of this review and policy change can be contested on the pandemic spread grounds, but for now, this policy viewpoint discusses the decision from an economic and financial perspective.

The policy viewpoint will establish an evidence-based impact of change in transaction fees by looking at transaction data, the volume of IBFTs, and other relevant data points. The initial hypothesis is that transaction fee on IBFTs discourage the public from adopting digital transactions and instead pushes them to return to cash-based dealings.

Inter-Bank Funds Transfers

Inter-bank funds transfer is the term used to define transactions where funds are instantly transferred from an account of a bank to an account of another bank. In this case, funds are deducted from one bank's reserve, the one with the sender's account, and are added to the reserve of the other bank, the one with the receiver's account. Moreover, there are intra-bank funds transfers as well where funds are transferred from one account to another, but both the sender's and receiver's accounts are in the same bank. This way, the bank's reserves are neither depleted nor expanded and the only change is which account in the bank holds those funds. Such transfers are exempted from the digital transaction service fee that the SBP has allowed banks to charge.

IS THE SERVICE CHARGE A CONSUMER PROTECTION POLICY?

The SBP clarified that this should be considered a service charge collected by the banks rather than a government tax. As the SBP explains, the reason behind allowing banks to collect this charge is to help the banks cover their costs for digital funds transfer services. This, as per the SBP, will aid in ensuring a sustainable supply of digital services by fintech and banks without discouraging digital transactions in the economy.

On the one hand, considering the scenario painted by the SBP, we can see this not as a charge imposed on consumers but as a consumer protection policy by setting a maximum limit of charge applicable while allowing banks to decide individually whether they wish to charge the fee or not.

It is essential to note that the transaction fee on IBFTs forms a very small and/or negligible portion of non-interest earnings of the bigger banks, but without collecting this service charge the smaller banks are expected to suffer severely. Subsequently, the main target of SBP's policy is to cater to the issues these banks might face.

This, though, could result in a possible consumer shift towards those offering free IBFTs, and the smaller banks will continue to suffer, one way or the other, indicating the solution lies elsewhere.

What are Consumer Protection Policies?

Consumer protection rules, regulations and laws are meant to safeguard the rights of buyers of goods and services from any kind of exploitive, deceptive, or fraudulent practices by the sellers of these goods and services.

Various state institutions, agencies and statues are employed by the government to enforce these consumer protection policies and keep the power of exploitation shifting towards the seller and thus ensuring in maintaining fair transactions in the market.

DOES SERVICE CHARGES DISCOURAGE IBFT?

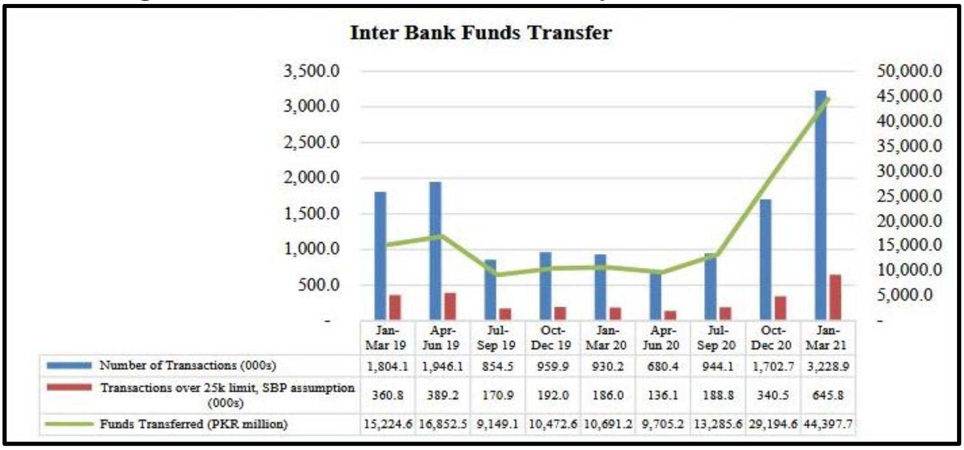
Figure 1 represents the total number of IBFT transactions every quarter over two years from January-March 2019 to January-March 2021. Figure 1 also shows the number of transactions that would have been charged the service fee had this rule been applicable throughout the mentioned period under the 80-20 ratio as defined by the SBP. The graph also displays the total funds transferred in these transactions during the time.

According to the SBP, around 80 percent of monthly IBFT do not cross the PKR 25,000 limit, therefore, the charge will be applicable on only 20 percent of the transactions. Using this information, we work under the assumption that of the total IBFT transactions in a month, 80 percent of those did not cross the PKR 25,000 limit while the remaining 20 percent are the ones over and above this limit. As we assume this ratio on monthly transactions, the same will hold true for quarterly transactions. We then use data from '*State Bank of Pakistan's Branchless Banking Statistics*' to assess the IBFTs and the impact of service charges on them.

As shown in Figure 1, the IBFT has been on the rise in Pakistan, especially in the post-pandemic period. Even if only 20 percent of transactions cross the PKR 25,000 limit, around 200,000 to 300,000 transactions cross the PKR 25,000 limit every quarter. This means, on average, 100,000 IBFT transactions every month are over and above the PKR

25,000 limit. It is equally important to note that the IBFT became free of charge at the end of the January-March 2020 quarter, while the April–June 2020 quarter was marred by the first wave peak of the COVID-19 pandemic. Since then, as some normalcy was restored and economic activity resumed, the IBFT has shown an unparalleled rise in three quarters in terms of the number of transactions and funds transferred.

Fig. 1. Inter-Bank Funds Transfer January, 2019 – March, 2021

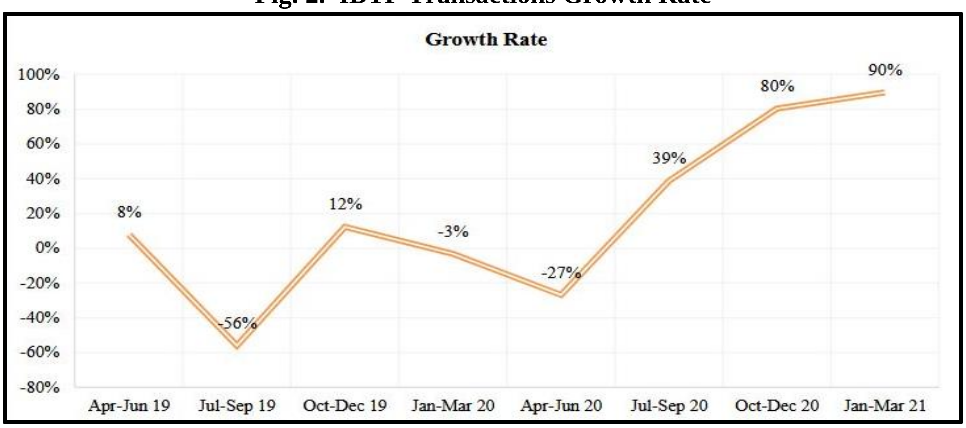


Source: Branchless Banking Statistics, State Bank of Pakistan.

In October–December 2020, IBFT transactions were slightly lower but at almost the same level as during the two quarters January–March 2019 and April–June 2019. The funds transferred in October–December 2020, a quarter with no service charges, were almost twice as much as the two quarters in 2019. This shows that not only were the number of transactions on a constant rise during the period no service charges were being collected, but the funds being transferred were much higher as well.

Figure 2. represents the growth rate of Inter-Bank Funds Transfer transactions over this period.

Fig. 2. IBTF Transactions Growth Rate



Source: Calculated using data from Branchless Banking Statistics, State Bank of Pakistan.

The positive impact of free-of-charge IBFTs is quite evident in Figure 1 and Figure 2. The significant rise in IBFTs following the removal of charges in March 2020 means more transactions were happening through banking channels instead of cash dealings, resulting in a more documented economy and transaction history, which has been the aim of all recent fiscal policies in the country. With the imposition of transaction charges on IBFTs again, this could be reversed as people would be tempted to revert to dealing in cash.

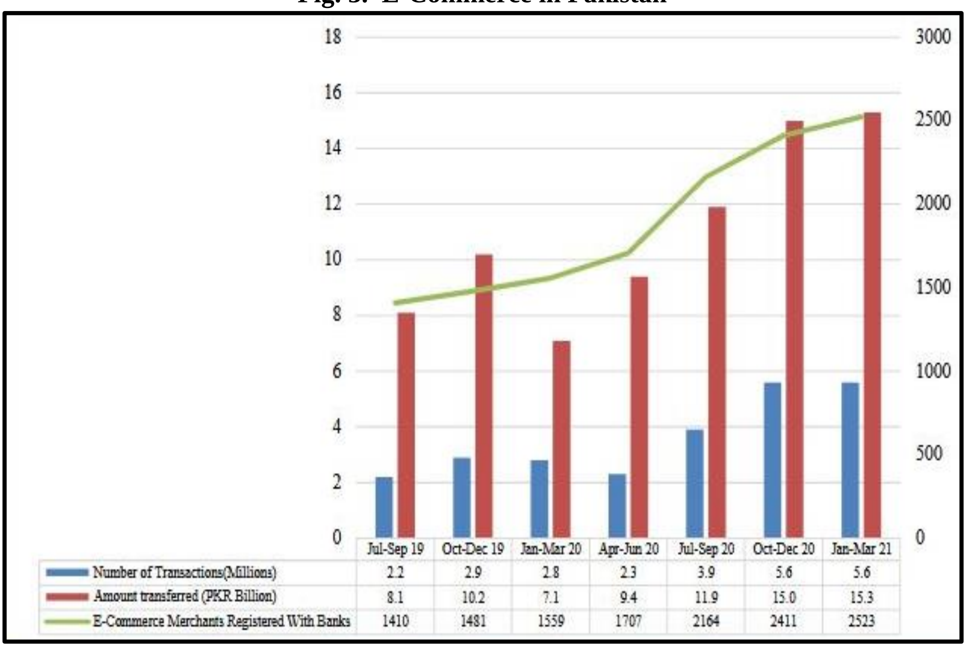
IMPACT OF POLICY CHANGE ON SPECIFIC SECTORS

Above, we have talked about the impact of allowing banks to collect service charges on IBFT on banks, consumers, and the transactions in the economy. This policy will undoubtedly have a direct effect on various economic agents in multiple sectors and industries. In this policy viewpoint, we touch upon a few of those.

While the COVID-19 pandemic proved to be a health problem, it also caused a nuisance in various social and economic sectors. Realising the need of the changing times, numerous people globally adjusted to new ways of doing business and other activities. Adopting the new normal and favourable policies during the COVID-19 peak to facilitate the public brought many changes in Pakistan's landscape.

The rise in E-Commerce Merchants Registered with Banks is proof that online business dealings are now on the rise in Pakistan, and facilitating policies will continue to grow. Figure 3 below shows how significantly E-Commerce businesses and transactions have increased ever since the pandemic began and the SBP removed the transaction fee on IBFTs.

Fig. 3. E-Commerce in Pakistan



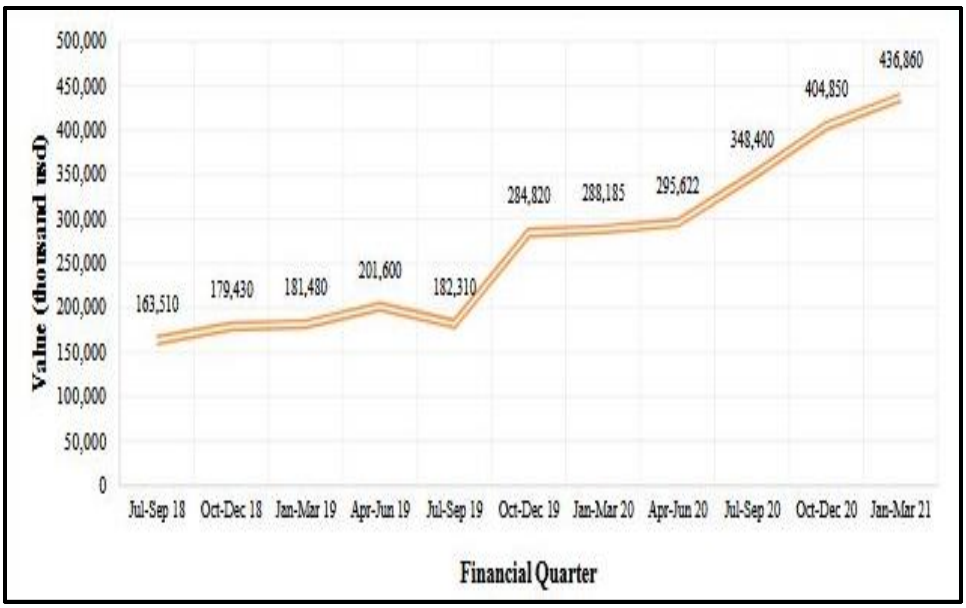
Source: Payment Systems Review, State Bank of Pakistan.

Reimposing the transaction fee will prove detrimental to the growth of E-Commerce businesses and their transactions. The increased cost due to transaction fees will either increase the cost of business for E-Commerce merchants or discourage customers regarding the adoption of digital purchasing methods.

This will hurt the E-Commerce merchants in their dealings with their suppliers as well. If the burden remains untransferable to the suppliers, then the cost of business for E-Commerce merchants will increase. However if they manage to transfer the expense to their suppliers, then they (suppliers) will naturally prefer doing business with those dealing in cash rather than with E-Commerce merchants. The transaction fee thus will automatically add distortions in the supply chain, hampering the rise of E-Commerce businesses in Pakistan.

Graduate unemployment is on the rise in Pakistan, and the COVID-19 pandemic made matters worse for the employment aspirant youth in the country. This, though, did present them with an opportunity to look elsewhere. The rise in earnings through freelancing and IT services during the recent past, especially in the post-COVID period, is something that the government has regularly talked big about as the IT exports have now crossed the $200 billion per month mark.

Figure 4 shows the quarterly trend of Computer Services Exports by Pakistan. While the exports were steadily increasing, following the onset of the COVID-19 pandemic, there was a sharp increase in exports. The majority of the financial dealings of freelance and IT services cannot escape the banking channels, which means they will suffer highly due to the transaction fee imposition. Freelancing has been a source of support and income for many skilled professionals who could not secure a decent job while also a source of second income for those pressed by their socio-economic conditions. The distortions by the imposition of the transaction fee will put a barrier in the growth of freelancing activities and the IT services sector of the country, as all stakeholders will be adversely affected.



Source: Exports of Goods and Services, State Bank of Pakistan.

Moreover, local remittances will be affected severely as well as transferring from a bank account in a commercial bank to mobile wallet accounts also falls under the IBFTs. In most rural areas, commercial bank branches are not as accessible as in cities; therefore, many people use mobile wallet services such as 'easypaisa, upaisa, jazz cash' etc. for remittance purposes. Households in rural areas are supported by any family member employed in major urban centres, where salaries are often deposited in commercial banks. Consequently, the compulsion to pay a transaction fee will adversely affect the low-income and lower-middle-class families.

WHAT IS THE WAY FORWARD?

As established through evidence-backed analysis of the impact of IBFTs, it is recommended that the transaction fee be immediately waived once again. This will encourage people to adopt digital banking channels and formalise more transactions as it did during the past year. The PIDE Reform Agenda[1] highlights and emphasises the need for easing up regulations to facilitate boosting the size markets, economic activity, and transactions in the economy. This policy recommendation follows the same principles, as also represented by data that removal of transaction fee on IBFT will have a significant impact on increasing IBFT thus documenting and formalising transactions in the economy.

However, if the SBP considers it essential to help banks cover the operational costs, which, as mentioned above, could be necessary for smaller banks, alternative measures to help the banks must be adopted.

- One way is to reduce the corporate tax rate for the banks by a slight amount which will not make a significant difference in overall tax collection but will help banks cover their costs of providing free-of-cost digital funds transfer facilities. The banking sector forms the largest taxpayer unit among the corporate taxpayers, and extending some relief from the fiscal side to help increase financial inclusion in the economy will be a good deal. The overall gains from free-of-cost digital transfers will be higher than the reduction in revenue due to a slight decrease in the corporate tax rate.
- The second alternative could be to reduce the capital gain tax on investment in government securities for the banks. The rate currently lies at 10 percent, and a slight reduction could help cover the banks' costs without hampering the tax revenues if the government is unwilling to alter the corporate tax rates, which form a much higher revenue stream.
- Besides, the State Bank of Pakistan and the government can reduce either tax rates above conditional to providing free-of-cost digital funds transfer. In other words, the SBP may allow them to charge a service charge on digital funds transfer as per the current guidelines. However, if they decide to provide free-of-cost services, they shall be incentivised by a reduced tax rate on either corporate tax or the capital gains tax on investment in government securities.

- This way, the government and SBP will have protected consumers by putting a maximum limit on service charges and encourage the banks to reduce their tax liability by providing free-of-cost services. In such a way, the banks will have the choice while consumers will be fully aware of government, SBP and banks to facilitate them, thus, being able to make an informed choice regarding which bank services they must opt for.

Creativity in Schools: A 21st Century Need

SAMAN NAZIR

Creativity is a skill that the labour market in the coming decade will demand (Csikszentmihalyi, 2006). Students in the 21st century need to be educated in a way that they can tackle the challenges of today's ill-defined lives; to this end, creativity is the epitome resource and an attribute to address individual, social, and global problems. Though discipline and content may differ, creativity is required everywhere (Beghetto, 2010).

Creativity can be Taught

The debate about protecting and nurturing human creativity as early as elementary school starts is becoming critically relevant. Many nations, Western and Asian alike, have made creativity as a curriculum goal. Since the 1990s, education policy-makers in various countries, i.e., United States, China, Singapore, Middle East, Australia, Canada, England, Hong Kong, and Scandinavian nations, have introduced initiatives that target at developing students' creative potential (Craft, 2006; Craft, 2001; Shaheen, 2010).

Four Asian societies namely, i.e., mainland China, Hong Kong, Taiwan, and Singapore, have introduced creativity in education policy. In 2003, Taiwan published an official document on creativity in education. While the contrary, Hong Kong and Singapore have introduced creativity in national curriculum reforms (Hui & Lau, 2010). Table 1 shows the details of legislation and standard implementation of creative education in these four societies. Three tables from Hui and Lau's study have been merged, although information is used without any alteration.

What is Creativity?

Creativity is the "the ability to produce a novel (original and unexpected) yet appropriate (useful, meets task constraints) work/solution to the problem/response to a situation" (Andiliou & Murphy, 2010; Hondzel & Hansen, 2015; Mayer, 1999).

Creativity can contribute significantly across a spectrum of valuable traits. As Runco (2010, p. x) argued, "creativity is associated with but distinct from intelligence, innovation, imagination, insight, and health…...creativity is distinct and independent capacity.

Creativity plays a role in many things, including problem-solving, adoption, learning, coping, and so on (Runco, 2010, p. x)." Many organisations have identified creativity as the critical agent for developing sustainable knowledge-based economies, including the United Nations and European Union.

Table 1

Detail Legislation and Stranded Implementation on Creativity Education in Four Asian Societies

Formal Documents	**Mainland China**	**Hong Kong**	**Singapore**	**Taiwan**
	21st Century Educational Reform and *Higher Education Law*	*Learning to Learn: The Way Forward in Curriculum Development*	*Towards Thinking Schools*	*White Paper on Creative Education: Establishing a Republic of Creativity for Taiwan*
Year of Issue	1998	2001	1997	2002
Details of legislation on creativity education.				
1. Is there an individual policy on creativity education?	✓✓✓			
2. Is creativity education part of another policy?	✓✓	✓✓✓	✓	✓
3. Does the policy discuss creativity in the curriculum?	✓	✓✓✓	✓	✓✓✓
4. Does the policy discuss creativity in extra-curricular activities?	✓✓	✓✓✓		
5. Does the policy discuss creativity in the arts and cultural experiences?	✓✓	✓✓✓		
6. Does the policy discuss creativity in other learning experiences?	✓✓	✓✓✓		
7. Does the policy discuss creativity in testing?	✓✓	✓✓✓		
8. Is creativity education mandated?	✓	✓✓	✓✓✓	
9. Are programmes mandated with funding?	✓	✓✓✓		
10. Are programmes not mandated but urged?	✓	✓✓	✓✓	✓
Standard implementation of creativity education.				
1. Is general creativity identified?	✓	✓✓✓	✓✓	✓✓✓
2. Are there strategies for implementing creativity in the core curriculum (integrated in preschool education, learning areas in primary and secondary education, general education, and professional training in tertiary education?)	✓	✓✓✓	✓	✓✓✓
3. Are there strategies for implementing creativity at all grade levels?	✓✓✓	✓✓	✓✓✓	
4. Are there strategies for implementing creativity in teacher education?	✓	✓✓	✓	✓✓
5. Are standardised creativity tests used in assessment?	✓			
6. Are curriculum-based assessments used in evaluating creativity?	✓✓	✓	✓✓✓	
7. Are products or examples of work considered in creativity assessment (non-test information)?	✓	✓✓	✓	✓✓✓
8. Are achievements outside school considered in creativity assessment?	✓	✓✓	✓✓	✓✓✓

Source: Hui & Lau (2010, pages 219, 222, 224).

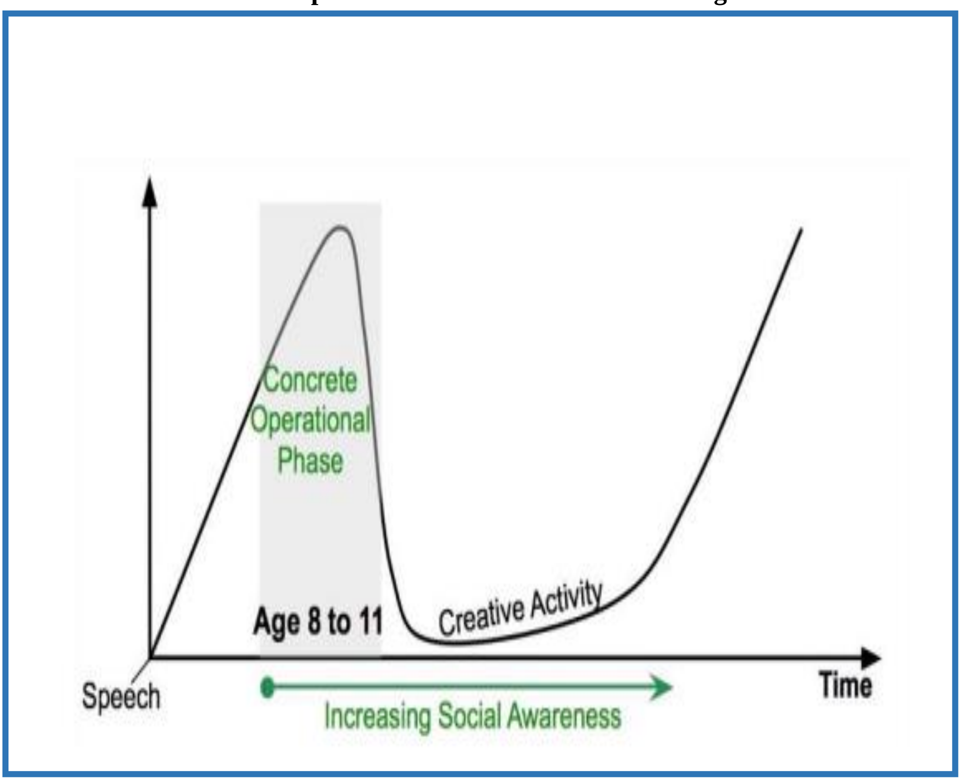
Note: ✓, ✓✓, ✓✓✓ indicate agreement assigned by 1 rater, 2 raters, 3 raters respectively.

The 4th-grade Slump

Researchers who worked on the classroom environments have described the classroom's classical image as an act where individual teachers standing in front of students, conveying information to be copied and recited. In 1950, Guilford discussed creative thinking among school-age children as it is severely discouraged in classrooms. Almost after a decade, Torrance endorsed his concerns by reporting his studies with first and 2nd-grade students. Results suggest that children with improvised thinking have been subjected to such a classroom environment that would eliminate fantasy from too early (Beghetto, 2010).

Torrance documented several longitudinal studies and came with the term "fourth-grade slump," a shape decline in divergent thinking in almost half of the children (Beghetto, 2010). All creative thinking abilities begin declining either at the end of third grade or at the beginning of the fourth grade (child's age 8 to 11 years old) (Torrance, 1967). From the onset of speech, child creativity increases until the age of 9 years, followed by a trough period. This rapid slump period matches when the child enters a 'concrete operational phase' (Yee & Lynn, 2015). The concrete operational phase in Piaget's cognitive development theory is when a child starts using logic in concrete ways. The fourth-grade slump in a conceptual drawing is given below.

Conceptual Diagram of Fourth-Grade Slump based on Torrance's Generalised Developmental Curve of Creative Thinking



Source: Yee & Lynn (2015, p. 6).

Strategies for Teaching Creatively

Research shows that creativity could be increased by education and training among children (Ergen & Akyol, 2012; Mirzaie, Hamidi & Anaraki, 2009; Zahra, Yusooff, & Hasim, 2013). For example, a study examines the effectiveness of creative training among preschool students through brainstorming, web link, storytelling, and role-plays (Zahra, Yusooff, & Hasim, 2013). Results show a significant positive effect of creative training on divergent thinking skills (i.e., fluency, flexibility, elaboration, and originality) among students.

Teachers' beliefs about a supportive classroom environment to nurture creativity are crucial. Research shows that teachers who believe that creative thinking can be nurtured and developed in a classroom environment described a classroom's core features as open, flexible, unconventional, and student-centred (Andiliou & Murphy, 2010).

The possibilities to nurture creativity in classrooms are limitless; however, below are the few examples taken from Newton's book <u>*Creativity for a new curriculum: 5-11*</u> (Newton, 2012). For example, how to nurture creativity in Geography class? Newton suggests that since Geography seeks to understand people's interaction and the environment, children could be assigned environmentalists, town planners, travel book writers, or explorers. Engaging maybe incorporate a combination of roles. In history, nurturing creativity could mean finding things out or solving problems and not about spinning narratives. Students must be given space to break free from the traditional way of doing things like mathematics, where the sound knowledge base is required. That means showing flexibility in one's approach to problem-solving where the creativity lies (Newton, 2012).

Big 'C' and little 'c'

The literature on creativity differentiates creativity between "big C" and "little c." The former metaphor for creativity refers to the inventions that are grand or change human lives in one way or another. The "big C" is a process where something historically or socially novel emerges or happens. The "little c" is everyday creativity or possibility thinking, where output may not be necessarily significant for society but only to the individual (Craft, 2001; Lin, 2011; Moran, 2010). The ideas produced by students may not be regarded as creative joints or useful in the long run, but if the concept is new to them, it is considered little 'c' creativity. In the education of context, the target will be to cultivate and encourage the little c creativity among students.

Big C = refers to creative ideas/products that are original/unexpected historically to the world.

Little c = refers to everyday creative ideas that are new to the individuals.

Elements to Nurture Creativity among Children

- Asking questions.
- Pedagogies based on the play.
- Immersion and connection making.
- Being original and imaginative.
- Innovation.
- Risk-taking.
- Determination.

Source: Cremin, Burnard, and Craft (2006).

Creative Pedagogies Entering Classrooms Everywhere

It is challenging to determine how exactly to implement creativity as a curriculum goal in a classroom setting. Research suggests a shift in pedagogical practices (Lin, 2014). Lin came up with a framework for creativity pedagogy. The framework provides a holistic view of pedagogical principles for fostering everyday creativity and seeks to facilitate the possibility of thinking.

The creative pedagogy model includes three interrelated elements: creative teaching, teaching for creativity, and creative learning. These three components complement one another and establish a shared and reflective teaching and learning process, rather than traditional pedagogical methods in which teaching and learning are two parallel processes. Creative teaching and teaching for creativity are interconnected and necessary processes (Lin, 2014).

Elements for Creative Pedagogy

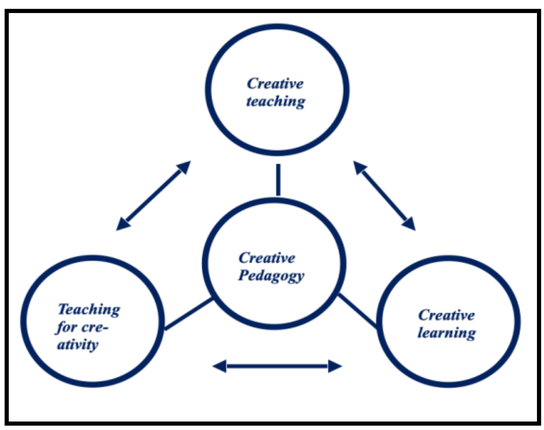
Creative teaching involves imaginative, dyna-mic, and innovative approaches to make learning exciting and compelling. Moreover, creative teaching is considered similar to "teaching as art" and "teaching as improvisational performance".

Teaching for creativity aims to develop learners' creative capacities and facilitates learners' agency and engagement through various means, such as devising learning strategies and exploring new possibilities. Teaching for creativity aims to stimulate learners' curiosity, motivation, problem-solving, and appreciation for creative ideas, to name a few. Pragmatic approaches and pedagogical principles such as standing back, profiling learner agency, and creating time and space are considered the core methods of developing students' creative capacities.

Creative learning focuses on children's spon-taneous learning process. Creative learning calls for active and innovative engagement instead of passively accepting ideas by an authority (e.g., teachers, books). In creative learning, children learn through questioning, researching, exploring, investigating, and even playing aimlessly.

Source: Lin (2014).

The Three Elements for Creative



Source: Lin (2014, p. 44).

Barriers to Creativity in Classrooms

Nurturing and facilitating creativity and creative potentials in a classroom setting could be challenging and problematic in some aspects. Here are the three main barriers that can suppress creativity in the classroom (Beghtto, 2010).

(1) Convergent teaching practices.
(2) Teachers' beliefs and attitudes about creativity.
(3) The motivational environment & students' beliefs about their creativity.

Is there any Space for Creativity in Pakistani Classrooms?

Creativity as a curriculum goal is not part of the country's education policy. There is hardly any emphasis on nurturing creativity in Pakistan National Education Policy 2017 or any prior policies. The evidence on creativity among school children is also not encouraging. The current education system in Pakistan is inhabiting children creative potentials. In a study, 154 children took the Torrance Tests of Creative Thinking in a few districts of Punjab (Shaheen, 2010). The results of the study suggest that children can produce ideas that are sometimes are also original. However, children are weaker in producing abstract titles and struggle with going beyond ordinary thinking. Teaching practices in schools encourage rote memorisation and only aims towards knowledge acquisition (Shaheen, 2010).

1- Convergent Teaching Practices

The convergent teaching approach is based on a talk design called "**IRE pattern**." IRE stands for the initiate, respond, and evaluate. Traditionally, IRE is the standard method used in classrooms by teachers. Most children are subjected to the IRE pattern as soon as they have been in preschool/nursery. Resultantly, students learn their role by the time they are finished with merely a few years of formal schooling. The IRE goes like this; the first teacher teaches, students wait for the teacher to ask questions, students raise their hands and quietly wait on the teacher to call on them, students share their response (matching between what they think and what teachers expect to hear), and finally, teachers tell whether their response is correct or appropriate.

The approach's biggest downfall is that unexpected or creative response is often not welcome or dismissed in the classroom. Research shows that even the prospective teachers desired expected ideas. Unique or unexpected ideas are viewed as potential or intentional distractions. Indeed, the students' unexpected ideas do not mean creative ideas all the time, but unexpected ideas may lead to creative ideas (Beghtto, 2010).

After devolution, education has become a provincial subject; therefore, subjects like education policy, curriculum, and planning come under the provinces jurisdiction. I interviewed the trainers in Quaid-e-Azam Academy for Educational Development, which caters to school teachers training needs in the Punjab province. The aim of the interviews to see how much space creative teaching occupies in pedagogical practices in Pakistan. Teacher trainers mentioned that there is a little emphasis on nurturing creativity in teaching pedagogies. Although, in training, primary school teachers are encouraged to build critical thinking skills among students. There are parts in training that put emphasis on critical stimulation and encourage curiosity among students. Nonetheless, trainers are concerned that most of the instructions are not successfully translated into the classroom due to the various reasons including but not limited to, high teachers student ratio, personal motivational aspects of teaching, lack of facilities, the pressure of achieving results, and time constraints of learning. One of the trainers mentioned that.

"If you look at our training modules, we emphasised an overall understanding for children—how teachers can produce a conducive environment and see this may lead to creative learning. For in-service training, we do not have any specific part or module to nature children creativity. However, our pre-service training and courses such as B-Ed have much stuff that one way another supports or leads to develop creative skills among children."

"We show that supporting creativity is not yet another experience to be added into an already over-crowded day. Rather, it is a way of thinking and working that can be developed and used in any subject area to enhance learning in that subject (Newton 2012, p .1)".

Pakistan's education system is lacking in protecting and nurturing creativity among children. The first step would be to introduce creativity as an educational reform goal. With the policy-level intervention, there is a fair chance of a change at the classroom level.

Key Takeaways

- Creativity has been recognised as a necessary trait to survive in knowledge-based economies. It is an ultimate economic recourse and an essential trait to address complex individual, social, and global issues.
- Everyone is creative, and creativity can be nurtured.
- Creativity has been introduced as policy reform and a curriculum goal across nations, including Scandinavian countries, the United States, China, Singapore, Middle East, Australia, Canada, England, and Hong Kong.
- Creativity in the context of education differentiates between "big C" and "little c" creativity. The "big C" is a process where something historically or socially novel happens while "little c" creativity is everyday creativity or possibility thinking.
- A shift from convergent teaching and passive learning practices to creative teaching, teaching for creativity, and creative learning is desirable.

2- Teachers beliefs about creativity

Mostly teachers in a classroom setting consider creativity equivalent to nonconformity and hasty and distracting behaviour. Teachers may not have a clear idea about the understanding of creativity, which may hinder a teacher's efforts to support creativity. Confusion about what creativity is and how to nurture it would lead to many problematic beliefs and biases about creativity, including but not limited to originality bias, Big C bias, and product bias (Beghtto, 2010).

Originality bias**:** Most of the educationists think that creativity is equal to originality. Originality is indeed the most emphasised attribute of creativity, but creativity is the synthesis of originality, individuality, and social appropriateness. Recognising creativity through the lenses of originality and appropriateness can help teachers understand that classroom limitation are not hostile to creativity. Placing a certain degree of restriction on originality and appropriateness helps avoid the danger in which a person forgets the difference between reality in the world and reality in his or her thinking (Beghtto, 2010).

Big-C Bias: When asked about creativity, most people think about grand creative ideas or products. The stress on eminent creativity has led to Big-C bias. However, creativity scholars emphasise the creativity spectrum distinguished at various levels of creative enormity, i.e., more subjective (smaller c) to more objective (larger-C) creative levels (Beghtto, 2010).

Product Bias: The expectation for a tangible product outcome is another bias related to creativity. The bias exists due to the evaluation ease for tangible products than more subjective internal construction of smaller c-creativity (Beghtto, 2010).

3- Motivational Environment & Students Beliefs

Creativity typically nourishes in environments that promote intrinsic motivation, i.e., motivation by pleasure, curiosity, immersion, and personally challenging tasks. On the other hand, creativity suffers in environments that stress extrinsic motivators, i.e., rewards or incentives for creative work, social comparison, expectation, or judgment from others. The students' self-beliefs often play an essential role in determining whether or not a child is creative in the classroom. The sense of efficacy is a personal evaluation of one's imaginative and perceived abilities to produce original ideas and solutions. Sense of efficacy is linked with a bench of positive outcomes, including student motivation, academic aspirations, and intellectual risks taking, to name a few, in a classroom (Beghtto, 2010).

"Above all, innovativeness requires an unshakeable sense of efficacy to persist in creative endeavors (Bandura, 1997)".

- There is plenty of literature available that practically shows how to introduce Creativity in a classroom setting, such as Newton's book, <u>*Creativity for a New Curriculum: 5-11*</u>.
- Evidence from Pakistan shows that the current primary education system in Pakistan is inhabiting children's creative potentials.
- Currently, Pakistan's education policy has no explicit goal that leads towards nurturing creativity among children. To keep pace with the rest of the world, and more importantly, to better educate our children, there is a need to introduce creativity as a curriculum goal.
- Nurturing creativity in the classroom is not a utopian policy goal; it may not require heavy budgeting. All it requires behavioural and pedagogical changes in the current education system, i.e., how teachers teach and how children learn.

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Policy Framework for Vaccinating All

NASIR IQBAL

The government has started vaccination against coronavirus for citizens aged 18 and above with a walk-in facility for all aged 30 and above. Despite easy access and free vaccination, the citizens are reluctant to vaccinate themselves. As of May 31, 2021, only 3 million citizens are partially vaccinated, and around 1.5 million are fully vaccinated across the country[44] against 137 million eligible citizens (aged 18 and above) (Nayab, 2021).

These statistics show that a significant number of people are unwilling to get vaccinated. This alludes to the fact, substantiated by several surveys, that many people are afraid of taking the vaccine dose because of proliferating rumours and misconceptions regarding the nature of the vaccine. The acceptance rate to vaccinate is very low, especially among people living in rural areas and low-income families. About 90 percent of households are not interested in registering for vaccination in rural areas; the ratio is high among females compared to males and among poor households than rich (Gull, 2021). As more than 60 percent of the population lives in rural areas, a significant fraction of the population is not inclined to vaccinate themselves. The failure to fully vaccinate all citizens may cause long-term health deprivations. Health deprivation has broader impacts on development and leads to a substantial economic burden (Butt et al., 2020).

Reasons for Vaccine Hesitancy

(i) **Government-created hoax**: Most rural respondents believed it is a government-created hoax to collect funds from international bodies (Khan, 2021; Grossman, 2021). Most people know about COVID-19 and its implications due to lockdowns and information from different media sources. However, their shared understanding is that government creates this issue intentionally due to international pressure.

(ii) **Fear of side effects**: The majority of respondents reluctant to vaccinate due to fear of side effects such as fever, infertility problems, die and other diseases (Khan, 2021; Qadir, 2021).

(iii) **Religious reasons**: It is a common belief among many respondents (even from international literature) that vaccine is religiously prohibited; hence people avoid vaccinating (Rafique, 2021; Osama et al., 2021). It is also commonly believed that a pandemic was created to restricts people from practising religious activities such as prayers in Mosques etc. A respondent said that "*COVID-19 and its vaccine is a*

[44] https://ncoc.gov.pk/covid-vaccination-en.php

conspiracy against Muslims. It aims to close the mosques or decrease the number of people attending the mosques daily."

(iv) **Lack of information and misinformation**: Lack of information to register for vaccination and vaccination centre are also vital factors inducing vaccine hesitancy. One common belief among citizens is that they don't need vaccines due to good health, indicating a lack of understanding of the need for vaccination (Sallam, 2021). One respondent said that "*those who work in the sunshine are not affected by COVID, hence do not require vaccination*." Misinformation can seriously reduce vaccine uptake. Loomba et al. (2021) show that misinformation significantly decreased the willingness to get the vaccine in the US.

(v) **Out-of-Pocket Expense**: One reason for the denial from rural communities is the out-of-pocket expense to get vaccinated. The travel cost is very high for poor people to visit vaccination centres, mainly located in cities. Travel cost, income loss, and weak demand are major hurdles in increasing the vaccination rate among the poor.

(vi) **Indifferentattitude/behaviour:** Rural communities are mainly concerned with day-to-day needs and remain indifferent about getting vaccinated. One of the respondents said that "*if someone comes to me with vaccinate, I will go for vaccination, else I don't have time to visit vaccination centre*."

How can the demand be created? The Proposed Policy Actions

(i) Dealing with low demand: There are various ways to increase demand for vaccination among rural and poor communities. First, the government can link Ehsaas cash transfer instalment with vaccination. The government has planned to register around 8 million beneficiaries in the Ehsaas Kafaalat program. A mandatory vaccination certificate of both beneficiary and her spouse can push poor people to vaccinate. This intervention would vaccinate around 16 million citizens, most notably both male and female. Second, all Ehsaas initiatives can be linked with vaccination, such as the Ehsaas Amdan program. Thirdly, the government should strictly monitor the vaccination among government employees to increase vaccination.

(ii) Vaccine for private workers: the government should be made mandatory for all private sector businesses and services sector to ensure 100 percent vaccination among their employees. The government should make it compulsory that all informal markets (shops) should display vaccine certificates for their employees. This intervention would ensure vaccination among the informal labour force (around 10 million).

(iii) Compulsory vaccination certificate for new entrants in universities: All universities start new enrolment in the coming months. The Higher Education Commission (HEC), in consultation with Education Ministry and NCOC, makes it mandatory for all students to submit vaccination certificates for admission to any university.

(iv) Tackling with misinformation: A consistent message approved by NCOC may be used by a local cleric, influencer, and all media sources to disseminate appropriate vaccination efficacy and registration process information. In this context, Pakistan

Telecommunication Authority (PTA) or any other relevant authority should screen and stop the campaign against vaccination. Concerned authorities must ban the campaign against vaccination, mainly on YouTube and Facebook.

(v) Provision of Vaccine without CNIC: Many older people in rural areas do not have CNIC. The National Socio-Economic Survey (NSER) shows that most people do not have CNIC due to the lack of documentation and cost involved in the CNIC process. The government shall devise a mechanism for these vulnerable people by allowing them to get vaccinated without CNIC.

(vi) Vaccine for international migrant families: Pakistan hosts millions of international migrant workers and their families all over the country. These international migrant workers and their families do not pose any legal document to register for the vaccine. The government shall develop a mechanism with support from the international community to provide vaccines to these migrant workers and their families.

(vii) Covering the Out-of-Pocket Expense: The government should facilitate the poor by covering out-of-pocket expenses incurred to get vaccinated under the Ehsaas program. Ehsaas has a comprehensive database of those people who received Emergency Cash Transfers. The same data can be used to design a conditional program to support out-of-pocket expenses.

(viii) Mobile Vaccination Services for rural Communities: The government shall use mobile vaccination services for rural communities to vaccine them, keeping in view their indifferent behaviour. Local Basic Health Units (BHUs) can also be used as a vaccination centre to reduce travel costs.

(ix) User-specific Messages to Promote Vaccination: The government can use technology to disseminate user-specific messages. Telco and NADRA data can be used to send a by-name message that you “Mr. XYZ” and your family members are not vaccinated yet as per the NADRA record. You are advised to visit the vaccine centre located at “ADD” for vaccination. Your mobile number will be blocked in a month if not vaccinated.

(x) Issuance of Bank Account and Mobile Sim: The government can also link the issuance of bank account and mobile sim with the vaccine.

(xi) Messaging through Lady Health Workers (LHWs): The LHWs can be mobilised to create awareness among people on the importance of the vaccine. LHWs can also be used to facilitate the registration process. Word of Mouth is the primary source of information for rural communities; hence LHWs can bridge the information gap by visiting in person to these communities.

Finally, an important proposal is of instituting technology in the vaccine administration process. It is observed that many people have discarded their vaccines by bribing the vaccine providers and getting fake vaccine certificates. Apart from that, people have also received fake certificates from their relatives who are vaccine providers. NCOC can devise a mechanism for online verification of certificates. So that fake certificate may be checked and caught by government officials in airports, motorways, educational institutions, etc.

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Finance and Money Market

The IMF Choice

NADEEM UL HAQUE

Strangely "to go or not to go to the IMF" continues to dominate the economic debate in Pakistan. All manner of statements have come out of the economic leaders in the government and their advisers. "We don't need to go to the IMF if we ban importing luxury items." "We can borrow our way out of our problems for our problems are only current financing." "With borrowing, IMF will reduce any conditions." These statements merely show the lack of understanding of the role of the IMF.

As always, government has relied on hurriedly put together committees where people float in and out to consider this existential question. But the answer remains elusive.

So, let us clear the confusion.

Q1. Should We Dump the IMF?

The answer unequivocally is "NO" in the short run and "YES" in the long run if we work hard and make thoughtful well researched policy and have the ability to implement it.

The reason is simple and lies in an understanding of the global architecture. The IMF by global consensus is the last resort lender. Its blessings and certification are necessary for continuation of aid flows and retaining confidence of international markets. If the situation was normal in Pakistan, such a certification would not have been necessary. But with low and declining reserves, markets are jittery and hesitant to deal with Pakistan. Strong decisive action is necessary with or without the IMF. However, the reason for creating the lender of last resort was to calm jittery markets with an *IMF certification.*

Through our history, we have repeatedly gone to the IMF. No effort has been made to deal with our long-term policy and structural deficiencies. Instead, we thought all our problems lay in corruption. It is time, we re-evaluated our approach to policy. Thus far all governments failed to ward off the IMF only because policy has remained whimsical and lacked careful thought.

Q2. But Mahatir did not go to the IMF?

Indeed, he did not. Neither did he beg to put off reform. For anyone willing to examine the situation, he took the IMF medicine- exchange rate change, reducing deficits and undertaking reform—but refused to go to the IMF. He did all that was necessary to put Malaysia on track. Yes, his personal credibility and strong policy action kept the IMF away.

Q3. Friendly countries have come to help Pakistan and that will allow us to negotiate better with the IMF?

The cold hard truth is that no country helps another without a return. We need to be clear that loans need to be repaid. There is no such thing as a default.

The reason for going to the IMF is not borrowing money but to adopt a comprehensive set of policies to address the problem of declining reserves and widening deficits. Whoever designs a set of policies to deal with the ongoing haemorrhaging of the economy (the widening twin deficits and declining reserves) will have to target a

return to normalcy (manageable deficits and a build-up of reserves) in a reasonable time frame of 3–5 years. Ultimately books have to balance. Haemorrhaging cannot be allowed to continue.

Markets watch problems that are arising and want to see a credible solution. Borrowing today to repay next year while problems remain unaddressed is no solution. When anyone (IMF) prepares an adjustment program they will have to plan policies that will include repayments on these borrowings. Much more may need to be done if the situation worsens.

Q4. The IMF has not been the solution in the past? Will their policies not hurt Pakistan?

Yes, Pakistan has been in an IMF program repeatedly. 22 programs in 70 years and yet achieved no lasting solution. Yes, IMF programs have been expedient and unwilling to touch deeper structural issues. That is the IMF fault. But all our governments have also not been ready to take any tough decision. They have always been eager for easy solutions.

To date we have clung feverishly to the Raj unwilling to tax agriculture, retaining colonial lifestyles including gifts from the exchequer without due process, maintain subsidies for the rich, stripping merit out of the system, and allowing social, judicial and governance capital to depreciate. For decades now, all commentators echo a sense of despondency with government and its inability to develop a state and its policy. All this has nothing to do with the IMF. These are secular trends. Unless we develop a modern functioning state, economic policy will never be properly made.

The IMF or any other donor or external friend can help us with putting our house in order. We must build a modern state and a modern society that is responsible and ready to participate in the global economy of the 21st century. Without that we will continue to bleed and require the IMF again and again.

Q5. So, what would you suggest for economic policy?

Sadly, our economic ministries lack the capacity to do this given that we have never prioritised thinking in our government and that the government hires no economists.

The recommended program would be:

- Develop a system where the exchange rate can never be overvalued by the whims of one man no matter who. A policy for exchange rate management should be put in place that focuses on the build-up of reserves and not on losing reserves as in the past decades.

- Over a year develop a serious tax policy reform for the following objectives:
  - Simplify taxes by removing withholding taxes and all presumptive taxes.
  - Remove all exemptions and get rid of the ability of the government to give exemptions.
  - There should four taxes only:
- (i) Income tax with progressivity.
- (ii) Corporate income tax in line with the rest of the world.
- (iii) A GST with a lower rate than the current–say 8 percent but with careful implementation that widens its use and prevents avoidance.
- (iv) A sensible tariff system devoid of regulatory duties and large exemptions and penalties.
- Eliminate subsidies except for those targeted toward the poor.

Government to stop all commodity procurement that ties up bank credit to the tune of Rs. 400 billion and provides budgetary subsidies to rich farmers. No more procurement prices. Commit to an independent public sector expenditure review commission through a panel of local experts (no more than 5) to review public sector agencies and expenditure processes to curtail waste. Members of this commission will be paid and in office with staff and budget and with powers of inquiry and getting testimony. Government to develop a power market with decentralised discos and Gencos that are managed and operated on a profit-making basis. Defined subsidies will be given but the circular debt will be eliminated through governance and metering reform. In 3 years' time most prices will be market determined in the power market.

- Gas Companies will be restructured to develop a gas market around the LNG system that has developed. They will be restructured into smaller companies but operating on a profit-making centre not on the current model of return on assets.
- Fresh gas pipelines will be curtailed.
- A plan will be developed to limit household gas supply and move gas to development of electricity.
- New gas companies will be empowered to explore and develop gas fields.
- The PSEs will be combined as intended by the government but with an independent holding company. But then key is to maximise autonomy. Professional management with complete autonomy to restructure, liquidate and manage investments for yield and growth will be critical.

Revive regulation by professionalisation and autotomising regulatory agencies beyond politics and administration. Reform the public investment project for efficiency and yield. In the immediate 5 years, commit to no more public sector development projects. Meanwhile, develop plans to consolidate investment and current budgets as in the rest of the world. In doing so move away from our current input-based budget framework to performance budgeting through the Medium-Term Budgetary framework (MTBF). Only mega projects that involve many sectors and agencies will remain with the Planning commission. The Planning commission will manage the MTBF and the performance-based management system.

Q6. Will this set of policies revive growth and employment and help the middle class?

These reforms are necessary if long term fiscal control is to be achieved. For decades, governments have taken the approach that fiscal control means only arbitrary tax increases. The corruption dialogue has increased the suspicions everywhere. The result is increased cost of businesses and investment. All this has done is create repeated crises and slow down growth.

Arbitrary and poorly thought out policies have slowed down growth and productivity as well as investment.

These measures will easily take about 3–4 years to implement even with a fully committed and strong government. But they alone will not accelerate growth.

To meet the employment needs of our youthful and growing population Pakistan must grow at over 8 percent per annum for the next 25 years. For this additional reform is a must. To do this, the government must undertake reform for:

- Developing serious policymaking and governance, by rolling back the colonial administration and legal system. In doing so, develop processes for serious analysis, research and policy development, and monitoring and evaluation. Without a concerted effort to reform our inherited colonial system, the economy will never work to capacity. We cannot run with a colonial legal and judicial system. The world has moved and so must we.
- The civil service must be reformed to do modern governance through rights, policy, monitoring and evaluation and not by direct controls and patronage. Such a system confuses control with policy and leads to waste.
- Currently one closed civil service system controls all government with junior grades and civil servants responsible for local government, mid-level responsible for provincial government and as they get senior, they control the federation. This is inefficient, wasteful, and destructive of local productivity and development.
- Even our democratic processes—election systems, power sharing, workings of parties parliamentary and government systems, term limits, constituency sizes—need review to ensure that effective legislation and parliamentary evaluation routinely happens.
- Develop capacity for market regulation that fosters competition, innovation and entrepreneurship as well as bankruptcy.
- Review markets to ensure competitive practices and markets with entry and exit.
- Phase out all protection and subsidies in a 5-year framework even if it means some industry must exit.
- Develop an approach to pricing water on actual use everywhere to begin rationalising its use and a as prelude to a sensible water policy as scarcity is beginning to take root.
- Local government is recognised by this government as important for service delivery and therefore for growth and broader development. Local government must empower city and metropolitan areas to grow into investment, entrepreneurship and innovation powerhouses that they are in rest of the world. Local government of the type required cannot happen with the colonial civil

service with deputy commissioners and commissioners, positions that were meant for rural magistracy.

- The incumbent government picked the right slogan “5 million houses, 10 million jobs.” It appropriately notes the role of the construction industry in a city as a leading industry. It also correctly pinpoints how building industry has a knock on effect on the economy. However, the government is being misled into thinking that government land and capital must go into this project of house building. If this project is to be done well, it must be seen as more than house building.
- Local governments must be prepared for the change in policy to provide a supporting role to denser development. Sprawling cities with housing colonies having single family homes, densified housing unit as a flat. It will raise tower cranes all over Pakistan by prioritising high rises and denser developments. · The current approach to city development has impeded development and hence stifled investment to the point that national investment and growth are being choked. Fragmented cities, poorly managed without imagination by an alien bureaucracy and no local representation. This needs to change.
- Government must stop hogging prime land for housing its officials and its offices for this is retarding investment and employment. If this land is released for investment in properly packaged city regeneration package for high-rise, mixed-use development, it will generate jobs and economic growth.

Q7. Are you saying there is a huge agenda even beyond the IMF?

We need the reform for ourselves not the IMF.

With years of research, this agenda seems clear and succinct. However, it is a huge agenda and will take years to implement even with capacity of high quality which we do not have. As it is this agenda is hard to comprehend in its fullness and we see commentators rush to the old, failed model of “government begging from foreigners and giving goodies to locals.”

Society must begin to understand how we can grow the economy, and get out of this failed stabilisation approach which is seeking to preserve colonial models of the past for an apartheid society.

The decision is not whether to go to the IMF or not. It is whether to move from colonial Raj to the twenty first century. For that we need to undertake a lengthy and careful agenda of economic, administrative, legal and social reform. The IMF is only a stepping stone. The government must step over it fast and lead reform!

The Issue of Own Money

Charging own money on vehicles has become a norm in Pakistan's automobile industry. Own is a form of premium charged by the car dealers over and above the price of the vehicle for express delivery of the vehicle. An artificial shortage, primarily due to low production numbers, allows dealers and other investors to pre-book vehicles and charge own from end buyer for immediate transfer of ownership once the demand for vehicle rises in the market.

As per our estimates, ***in the last five years at least PKR 150-170 billion was paid as own money on cars in Pakistan, with own being charged on 80 to 90 percent of vehicles. This means, Pakistani car consumers pay an additional PKR 30-34 billion annually in undocumented transactions under the disguise of own money for the purchase of cars.***

In the last five years, Pakistan produced less than a million vehicles under the cars and jeeps category (See Fig 1). During the same period, Morocco produced twice as many vehicles while Turkey's production remained over six times more than Pakistan. Moreover, Brazil's vehicle production remained nearly thirteen (13) times more than vehicles produced in Pakistan.

In addition to low production numbers, lack of effective regulations allows the automobile companies, dealers, and other investors to foster the own money culture in the automobile market. While the invoice amount of vehicle is paid through banking channels directly to the automobile manufacturer, the own money transactions occur through cash only, thus, creating a significantly large black economy in the automobile sector of Pakistan. PIDE Knowledge Brief No. 41:2021[45] details the ground realities of the nuisance of the own money culture.

Fig. 1. Vehicle Production—Pakistan

Local Vehicle Production - Pakistan

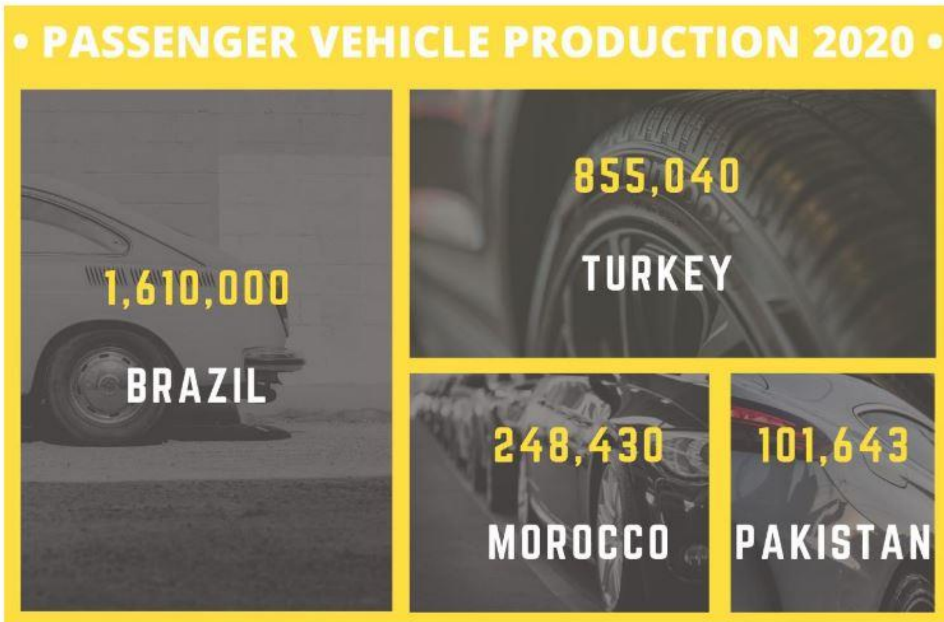
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
	9,228	20,849	13,574	7,318	19,290
	186,936	217,774	209,255	94,325	151,794
	196,164	238,623	222,829	101,643	171,084

Production data for PAMA members. Taken from PAMA website

[45]https://pide.org.pk/research/the-nuisance-of-own-money-in-automobile-purchases/

POLICY MEASURES

Given that the production of automobiles in Pakistan is being done on-demand, rather than mass manufacturing, just in time or even lean production, the justification for charging own money does not make sense. The question is, what can the government do about this nuisance from a policy point of view—both in the short term and in the long run.



Source: Brazil and Turkey: Statista.com. Morocco: CEIC Data. Pakistan: PAMA.

The answer to this question lies in short term measure(s) that the government can adopt, and the transformation in manufacturing that must be encouraged in the long term. As the source of the problem is on the supply side, in the short term the government must impose a ban on automobile bookings. Given the untapped demand in the domestic market, manufacturers must start manufacturing at capacity and supplying their vehicles in the market for sale as soon as they are manufactured. Customers will then purchase their desired vehicle directly from the showroom after negotiating the price rather than booking them in advance.

Long- and Short-Term Policy Measures

- Short term: Stop bookings of vehicles that have not been produced yet.
- Long term: leverage benefits and concessions to push for expansion of productive capacity.

There is no reason why a model like that in other countries cannot be adopted here, with a minimum price for each model of vehicle is notified below which a dealer will not sell a vehicle. Dealers should be free to charge premiums for their services, but consumers are free to shop around and choose the premium they are willing to pay. Setting a price cap or ceiling in the market translates to intervening in the market, and our experience has shown time and again that will not work and only creates further distortions.

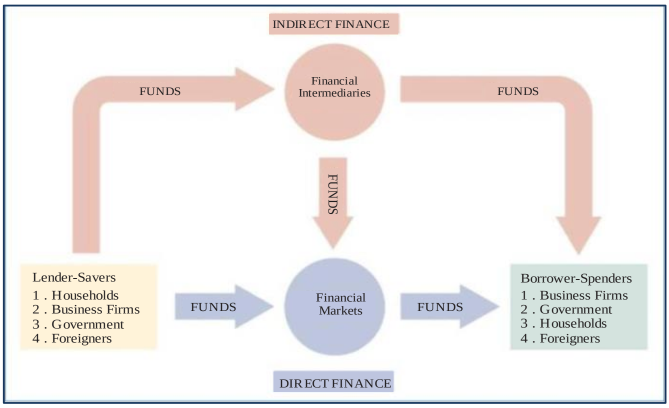
Existing Framework	Proposed Framework
Consumer gives down-payment for booking of vehicle	**OEM manufactures vehicles according to productive capacity and delivered to dealer for sale.**
Consumer is provided with two options:	OEM specifies a minimum price to be charged for the vehicle, and dealer is free to charge a premium for additional services.
Option 1: To pay a large sum of money to book their vehicle and wait months for vehicle delivery.	The premium varies by dealer and is not fixed as vehicles are readily available at multiple dealerships.
Option 2: pay a premium, own money, and get the vehicle immediately.	The invoice must document the dealership premium in addition to the minimum sale price specified by OEM.
Following Option 1, company orders the parts and assembles the vehicle on demand.	**Customer inquires with multiple dealers to purchase a vehicle.**
Delivery date is tentative and changes subject to availability of parts.	**Customer negotiates the best possible deal for themselves.**
Total cost at time of booking is tentative and can change by the time the vehicle is delivered.	**Customer acquires vehicle and invoice documenting full price paid for vehicle.**
Customer has no definitive information regarding actual delivery date and final price of vehicle. Customer is liable for paying the final price of the vehicle at the time of delivery, whenever that may be.	
Following Option 2: Dealer pre-books vehicles and offers to customer an already delivered vehicle.	
Dealer offers immediate transfer of ownership of vehicle against the "own" premium.	
Customer is compelled to choose option of paying "own" premium.	

Regarding the long-term measures, the snapshot of productive capacity in the country, and comparative perspective has highlighted that there is scope for expansion of production capacity in the economy. That is why the recent focus on attracting new entrants into the market is a promising start. Now the government must leverage any concessions or benefits the new entrants and incumbents receive to push for an expansion of production capacity in the coming years. To lower costs it would be in the interest of manufacturers to source parts locally, for which the automotive parts industry needs to develop in terms of their manufacturing processes and quality control. This has been accomplished successfully in the past, in tractors and motorcycles segment of the market. However, this effort requires thinking past immediate profits and windfall gains and aiming for sustained growth and profits in the long term.

The Poor State of Financial Markets in Pakistan

AHMAD FRAZ and SHAHID MAHMOOD

THE ROLE AND STRUCTURE OF FINANCIAL MARKETS



Financial markets (bond and stock markets), in conjunction with financial intermediaries (banks, insurance companies, pension funds) perform the important task of channelling surplus loanable funds from households, businesses, government and foreigners to households, businesses and governments in an efficient manner. This transfer of funds proceeds through a 'direct' and an 'indirect' channel, depicted in the diagram. A brief description of the structure of the financial market their main function and working is presented in the following table.

Structure of the Financial Market	
Type	**Function**
Debt and Equity Markets	The most common method to obtain funds in financial markets is through debt instruments like bonds or mortgages. Aside from that, the same can also be done through issuing 'equities' (such as common stock, a claim to share in net income of a business or firm). All these are bought and sold in debt and equity markets.
Primary and Secondary Markets	A primary market is where a new issue of a security (like stock or bond) is sold, while secondary market is where the re-selling of these securities takes place. A state bank (like SBP) selling government securities constitute a primary market, while places like stock exchanges where these securities are re-sold constitute the secondary market. Investment banks are an important component of primary market since they underwrite securities. Brokers and dealers are important components of secondary markets, where they help to sell securities.
Exchange and Over-the-counter Markets (OTCM)	These types of markets are primarily concerned with secondary markets. In 'exchanges', buyers and sellers meet at one place (like PSX) to deal in securities. In contrast, buyers and sellers need not be at the same place at the same time in OTCM. Buying and selling could be done from different locations. Around the globe, majority of stocks are traded OTC. Exchanges are no longer geographic as most of the trading is electronic. OTC means a bilateral trade with no exchange intermediary. Exchanges are a regulated platform to facilitate trading between two parties, providing the benefits of liquidity, transparency, safety etc. Stocks globally are generally exchange traded.
Money and Capital Markets	The distinction between these two rests in time of debt maturity. Debt and equities with duration of less than a year (short-term) are traded in Money markets, while those with durations of longer than a year are traded in capital markets. Banks and corporations normally turn to the money market to trade excess surplus in funds. Long-term capital market securities, such as stocks and long-term bonds, are often held by financial intermediaries like insurance companies and pension funds.

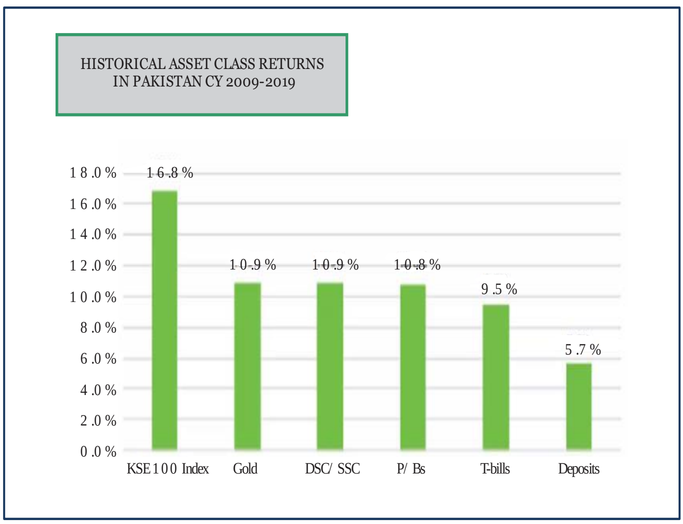
FINANCIAL MARKETS ARE IMPORTANT FOR GROWTH

In 1858, British Prime Minister William Gladstone expressed the significance of financial markets in the following words: “Finance is, as it were, the stomach of the country from which all other organs take their tone”. Significant research exists to indicate that there is a direct relationship between the development of financial markets and economic growth. Whether it’s a firm level, industry level or cross country study, the positive effects of the growth of a well-functioning financial market on economic growth is well established.[46]

Financial markets are also a source is price discovery and transparency in corporate governance through listing and disclosure requirements. One of the major issues, information asymmetry between buyers and sellers, is partly resolved through well-functioning financial markets. Various products (bonds, stocks, derivatives like futures, options, swaps, etc., and bank CDs) are designed to suit the particular objectives and risk tolerance levels of investors. Larger and deeper financial markets result in provision of more liquidity to market participants, while smaller markets tend to be short on liquidity, with higher liquidity premiums.[47]

In order to assess how financial markets have performed in Pakistan over time, an analysis of its various components needs to be made. The following paragraphs present a brief overview of these.

STOCK MARKET REMAINS UNDERDEVELOPED



Stock market remains significantly under-developed in Pakistan despite 70 years of efforts and technical assistance from various aid agencies. Although stock market’s returns in Pakistan have been higher than other asset classes, not even a percent of Pakistan’s population invests in the stock market! The numbers of investors stood at a sorry 236,000 at end Dec 2019, out of a population of 220 million.[48]

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[46]For example, see Levine, Ross (2004) ‘Finance and Growth: Theory and Development’; Levin, Beck and Asli (2004) ‘Finance, Inequality and Poverty: Cross-country Evidence’; Lopez and Spiegel (2002) ‘Financial structure and macroeconomic performance over the short and long run’.

[47]Levine, Ross (2004) ‘Finance and Growth: Theory and Development’.

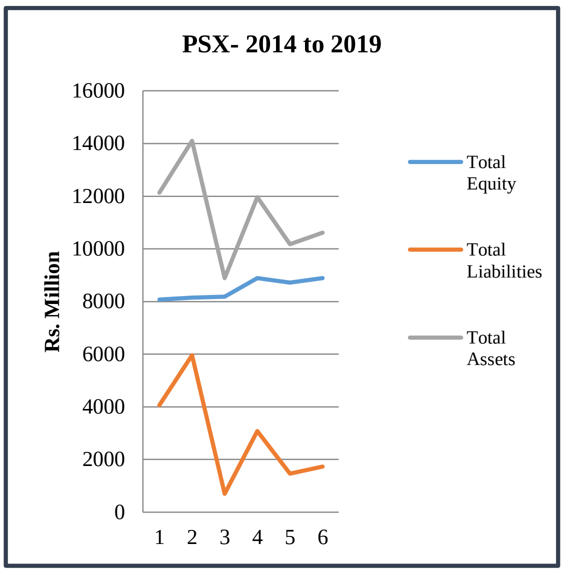
[48]In China, the number stands at approximately 100 million. In Iran, the number currently stands at 8 million.

Total capitalisation stands at a Rs 7.3 trillion, with average daily stock turnover in regular market standing at 208 million trades in March 2020.[49] However, looked at from monthly trading volumes, there can be significant variations. For e-g, trade volume stood above 460 million shares on 5th December 2019, dropped below 200 million as Covid-19 struck, and then rose again to 467 million shares on 9th July 2020.[50] The total number of stock brokers stands at 284.[51] Stock market capitalisation at the end of June 2020 was 15.6 percent of Pakistan's nominal GDP, which is significantly less when compared with developed nations, and even lower than peer countries in terms of similar per capita levels. For e-g, in Bangladesh, the ratio stands at approximately 30 percent.

The number of listed companies, worryingly, has remained stagnant or falling over the last 5 years. At the moment, there are 531 listed companies, compared to 638 in 2012. There was only one Initial Public Offering (IPO) last year, compared to the average of about 25 in the 1990s.[52] Its performance tends to be heavily reliant on the decisions of the central government, especially what it announces subsidies and 'relief' packages. Textile related industries (Composite, Weaving, Spinning) constitute the largest share of listed firms on PSX at 25 percent of the total (i.e., 132 firms).[53] But it is heavily reliant upon taxpayer money sponsored bailout and support packages. Despite the support and presence of largest number of firms, this sector's market capitalisation stands at a disappointing 3 percent of the total (i.e., Rs 189 billion).

ISSUES HAMPERING GROWTH OF STOCK MARKET

The stock market is dominated by a few large brokerage houses, and their actions have a substantial effect upon the performance of the PSX.[54] There is a strong perception among investors that a few influential brokers still call the shots despite separation of ownership and management at PSX.[55] Moreover, it is thought that insider information issue is not properly regulated, leading to retail investors being preyed upon.



Only 30-40 percent companies are providing 80-90 percent liquidity to the market.

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[49] '5 year progress report', PX, available at https://dps.psx.com.pk/progress-report.

[50] 'SECP measures well received by Capital Markets', BR, 10th July 2020.

[51] PSX.

[52] 'Delisting signals a lack of faith in the market', Dilawar Hussain, *DAWN*, 3rd February 2020.

[53] Data on PSX taken from https://dps.psx.com.pk/sectors.

[54] 'How those big stock brokers are breaking the market', Mansoor Ahmed, *The NEWS*, 22nd June 2019.

[55] 'What's keeping PSX investors away?', Dilawar Hussain, *DAWN*, 16th September 2019.

More than 60 percent of market capitalisation in the PSX, for example, comes from only 5 sectors (out of a total of 34). The total liabilities of PSX (as a company listed on the exchange) have witnessed an upward trajectory, the total equity has remained stagnant while total assets have been declining.[56] During the same time period, expenses of the company as percentage of revenue increased from 81 percent to 93 percent.[57]

Firms that belong to families tend to be averse to listing at PSX for various reasons (fear of predatory taxation, onerous corporate governance requirements like audits and disclosures, etc.), and revert to banks rather than gaining required capital through listing. This explains one major reason for lower number of companies on PSX. Anchor investors including three Chinese Exchanges hold a 40 percent stake in PSX but marked improvements in the performance of various participants are still wanting. Despite PSXs best efforts to educate a wider populace, stock market participation still remains at less than a percent of the total population.

BANKS, INSURANCE AND THE 'PLAY SAFE' APPROACH

Banks and insurance companies are two major components of financial markets. Theoretically speaking, banks channel deposits into the economy through lending, which expands the scope and size of the capital markets, primarily through credit invested into stocks and equities. The growth of capital markets, in turn, lowers the risk of bank equity capital, allowing banks to earmark extra capital needed for additional risk taking.[58] Insurance companies are considered a significant part of financial markets stability courtesy of their investment in financial market instruments, and the fact that they do not face the same kinds of systemic risks as banks, thus imparting a certain degree of stability. Further, their participation indirectly ensures the participation of the population that is insured, thus deepening the reach of financial markets.[59] Their role has also been termed as important in terms of providing market liquidity in adverse economic situations.[60]

In Pakistan's case, however, one does not witness any pronounced participation by these two in financial markets. Both of them tend to exhibit the 'play safe' approach. Banks rely heavily on the public sector rather than financial markets. Raising profits through T-bills and PIBs is one of the major parts of banks' assets, with lending amounting to 50 percent of total deposits on average. At the end of June 2019, 83 percent of banks' total investments were in T-bills and PIBs.[61] From January 2019 to December 2019, banks' credit to the government sector increased by a whopping 93 percent (from Rs 3 trillion, 486 billion to Rs 6 trillion, 728 billion).[62] Similar numbers are absent when it comes to taking recourse to financial markets.

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[56]Source: PSX.

[57]Source: PSX.

[58]'Banks and capital markets: a two-way nexus' (2010), Biagio Bossone.

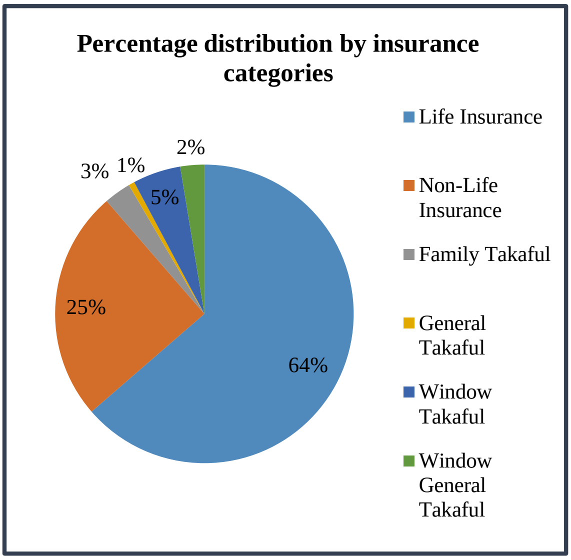
[59]https://www.ecb.europa.eu/pub/pdf/fsr/art/ecb.fsrart200912en_05.pdf

[60]'The role of insurance in in ensuring financial market liquidity' (2010), Phillip Trainer.

[61]It is pertinent to mention here that of the 83 percent, 55 percent is in the short term T-bills while 28 percent in long-term PIBs. This ratio was almost equal at 43 percent in December 2016 (86 percent of banks' investment even back then were in these instruments). But from thereon, there was a pronounced departure towards short-term T-bills. See chart 4, p.4, 'Mid-Year performance review of the banking sector (Jan-June 2019), SBP.

[62]Source: SBP.

A somewhat similar case exists as far as the insurance industry is concerned. Pakistan's insurance penetration and coverage is one of the lowest in the world, standing at 0.9 percent of the GDP. At present, there are 36 insurance companies of which seven exclusively deal with life insurance. These seven companies realise 63 percent of the gross premiums of the industry, whose size stands at an estimated Rs 308 billion.[63] The insurance is mainly concentrated on life insurance, and the market is centred towards those whose income falls in the category of around Rs 70 to 80k per month, implying that certain forms of coverage (especially health insurance) is quiet abysmal. Above all, insurance companies are not an active part of the financial markets, from where these funds could be channelled to private businesses. Their main investment, like banks, is in PIBs and treasuries.



The presences of middle men and products like 'bancasurance' (coming together of banks and insurance companies) have spread considerable misinformation about the nature and working of insurance schemes.[64] Majority of the buyers have little or no understanding of what they are buying since deceptive marketing tactics are prevalent. Most of the insurance plans are sold as some kind of an investment scheme that will garner a handsome return for the buyer. But majority of the buyers, for example, aren't made aware that they will have to bind their investment for a certain time.

REGULATOR RELATED ISSUES

There is genuine lack of understanding and capacity when it comes to expanding the role of financial markets, especially at the bureaucratic level. Historically, its work has been impeded due to several reasons, one of them being the constant changes at the top. In past 21 years, only 3 out of 13 commissioners have completed their terms! Overall, there is considerable uncertainty regarding the continuation of rules and regulations. The Companies Act 2017 was recently amended in April 2020 by the government, but the amendments were taken back in July.[65] Similarly, the procedures governing Asset Management Companies were recently revised again through an SRO.[66] Whether good or bad, continued revisions are an apt reflection of the arbitrary nature of decision making in terms of this important sector.

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[63] 'Insurance Year Book, 2018-19', Insurance Association of Pakistan.
[64] 'The great life insurance swindle', Profit Pakistan.
[65] 'Govt. withdraws six amendments to Companies Act 2017', *The NEWS*, 9th July 2020.
[66] 'SECP revises procedures for Asset Management Companies', Sohail Sarfaraz, BR, 11th July 2020.

Sectoral approach is being followed on functional basis with teams divided into their own portfolios resulting in regulatory burden. There is also an impression of there not being clear rules, regulations and mandate to fulfil its obligations, or to help in expansion of financial markets. For e-g, insurance laws do not allow for investment in long-term securities (like mortgages). Similarly, there have been repeated episodes of broker custody defaults, which recently led Security and Exchange Commission of Pakistan (SECP) to again amend its rules.[67]

SECP consolidated all exchanges into PSX and then sold 40 percent to anchor investors including three Chinese Exchanges. Now we have a demutualised exchange sold to Chinese investors. However, the owners of the single stock exchange do not seem to be ready to develop the market.

THE STATE OF FINANCIAL MARKETS IN PAKISTAN

This review suggests that the state of financial markets in Pakistan should be of serious concern to the policymaker. Most commentators argue that the major issue facing the financial market and its performance is that there is no domestic constituency/demand for reforms. An example is the SECP, which only came into being after Asian Development Bank (ADB) pushed for its founding. ADB is in the process of approving another $900 million loan, part of which would be allocated to development of capital markets.[68] It again raises the important question of why do we need donors to pinpoint these issues? Is there a domestic constituency for reforms?

Out of the 33 banks, only 3 are investment banks but they hardly issue anything. This serves as an indication of the lack of depth and maturity of the financial markets in Pakistan because leading investment banks like Goldman Sachs, JP Morgan, etc., have an important role to perform in the economy. Not only do they manage personal and institutional wealth funds, handle mergers and acquisitions and act as financial advisors to governments on financial markets (raising debt, for example), but they also underwrite new stock issues! Also, they help corporations raise debt through corporate bonds by attracting investors in these instruments. Therefore, the mere presence of 3 investment banks points to:

(a) A lack of demand by corporations/businesses to raise debt through Corporate Bonds, Term Finance Certificate (TFC), Sukkuk Certificates, Registered Bonds, Corporate Bonds, etc.
(b) A lack of interest in terms of other stated functions (underwriting new stock issues, for e-g).

In terms of ‘a’, the percentage of issued corporate bonds stands at 0.17 percent of the total bonds issued in PKR, while its 37 percent in terms of total issue of dollar denominated bonds.[69] In terms of ‘b’, the falling number of firms at PSX has already been mentioned as a source of worry.

There are no new issues to talk about, volumes are shrinking, primary and secondary markets are non-functioning or functioning below par. Three leading players of the

[67]‘SECP amends rules to ensure investment protection’, Profit Pakistan, 3rd February 2020.
[68]‘ADB to provide Rs 274 bn to Pakistan’, *The NEWS*, 25th April 2020.
[69]cbonds.com/countries/Pakistan-bond.

Pakistani financial markets are Pakistan Stock Exchange (PSX), Central Depository Company (CDC) and National Clearing Company of Pakistan Limited (NCCPL), whose role is seen as monopolistic which implies that the optimum level of market competition is absent.[70]

CONCLUSION

There have recently been steps aimed at improving the financial markets and their performance. Government, for example, raised Rs 200 billion Sukkuk debt through competitive book building. Institutional investments in NSS have been banned (to incentivise recourse to financial market), the process of IPOs has been digitalised, etc., but there still remains a lot more to be done to expand the scope of financial markets in Pakistan.

Recently, The Karachi Electric Supply Corporation (KESC) issued debt in China rather than resorting to PSX.[71] What explains this perplexing behaviour is the way that the financial markets function in Pakistan, and its structure. Firms like KESC rarely need to issue long-term debt in Pakistan's financial markets because short-term debt takes care of their operational costs.

The safest short-term securities are the riskless government securities (t-bills), which cater to firms' requirements for short-term investing with guaranteed returns. Therefore, there is little need to search for, or introduce, long-term innovative debt instruments since the issue of short-term public deb takes care of financing requirement of majority of institutions that demand credit. Similarly, the presence of schemes like National Savings, which offer lucrative returns for little or no risk, serves as an added disincentive for institutions like commercial and investment banks to introduce innovative debt products in the financial markets. These institutions are more than happy to serve the government and large-scale commercial customers rather than rolling out innovative products for raising debt.

To sum it up, the development of Pakistan's financial markets are mainly restrained by poor governance at the institutional level and the actions of financial market participants, especially the large players who are risk-averse. Some suggestions to improve the overall situation are stated in the following lines.

- The government, especially the federal government, will have to take lead in terms of correcting the direction that could set the financial markets on a sustainable growth/expansion trajectory. Aside from dealing with the governance issues at the institutional level (like at SECP), it needs to consider the avenues of financing its expenditures and how these deter expansion of financial markets.
- Efforts need to be made to lessen serious dearth of new, innovative financing products allowing instruments like BADLA financing would increase the depth, liquidity, transactions and reach of the financial markets.

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[70]PSX is concerned with trading in stocks, NCCPL performs the clearing and settlement function, and CDC is the custodian of investments.

[71]Statement by KESC representative, 3rd PIDE webinar on Financial markets in Pakistan.

- Analyse taxation structure and regulations related to financial markets, especially Capital Gains Tax (CGT). For e-g, there is a strong perception that the cumbersome and time-consuming account opening and registration process for foreigners as they get discouraged and overwhelmed with the current registration structure and look for better investment alternatives in region/markets.
- An over regulated market puts firms at a greater probability of financial default and results in a narrow representation of the economy. For e-g, mandatory information disclosures should be reduced since issuers are uncomfortable in terms of publishing information about some of their proprietary products. Plus, ease of regulations would incentivise family owned firms to list and raise money through financial markets rather than banks.
- PSX is going to be profitable is when its dividend from its subsidiaries and affiliated companies are included so as to run it as a profitable business. It must strategies and should think of its stakeholders. The board related issues must be evaluated as more focus on the composition of the board by introducing the effective rules of staggered board.
- Although PSX has made strides in applying technological in the form of Automated Trading System (ATS), digital experience should be enhanced further as per the modern trends such as payment gateway, online biometric verification, etc. must be employed and consistently upgraded.
- HR quality must be improved by engaging relevant professionals as no proper accreditation mechanism exists at the PSX and SECP levels.
- The monopoly of PSX is perceived as a major issue in development of stock market. We must have more markets. We might move towards establishing different exchanges like SME Exchange, technological exchange, etc. with fewer regulations to provide them an opportunity to raise their required capital.
- The whole ecosystem (brokers, investors, etc.) need to perpetuate culture of investing in capital markets, and so does the SECP. They need to allocate funds for marketing rather than SECP, whose role should mainly be as a supportive institution.

Fiscal

The Pension Bomb and Possible Solutions

OVERVIEW

Public sector employment remains an attraction for two important reasons: job security and a guaranteed pension (Dixit, 2002).[72] Unlike other countries Pakistan has not reformed its public sector pension system and maintains a pay-as-u–go defined benefits type pension system which has resulted in build up of unfunded liability for the government. Pakistan practices a legacy pension system where pensioners are paid directly from the revenues as part of the current expenditures. This practice is inherently unsustainable as pension expenditure growing at around 25%, cannot be provided from an economy growing at a significantly lower rate. The pension burden is therefore bound to grow, doubling every four-years. In the fiscal year 2018-19 federal superannuation and pension expenditures were almost 78% of the value for PSDP expenditures and it increased in FY 2019-20 to 87%(463,419 million Rupees and 533,220 million Rupees respectively). The share of pensions as a percentage of current expenditures is also increasing overtime (for FY 2019-20 it stood around 7.6%).

It is estimated by 2050, pensions will account for 56% of current expenditure. The government will not have the funds for pension expenditure after 8-10 years.[73] The pension outlay in Punjab Budget equals 95% of the revenue of the province. Railway pensions stand at 70% of its annual revenue.

In 2003, Pension Review Working Group had recommended the Funded Pension Scheme with Defined Benefit part to be funded by the state and Defined Contributions by the employees. The government however did not approve. The fact remains; Pakistan is already in deep crisis will little time left for the transformation of the pensions system.

Box 1: Pension Driven Fiscal Burden

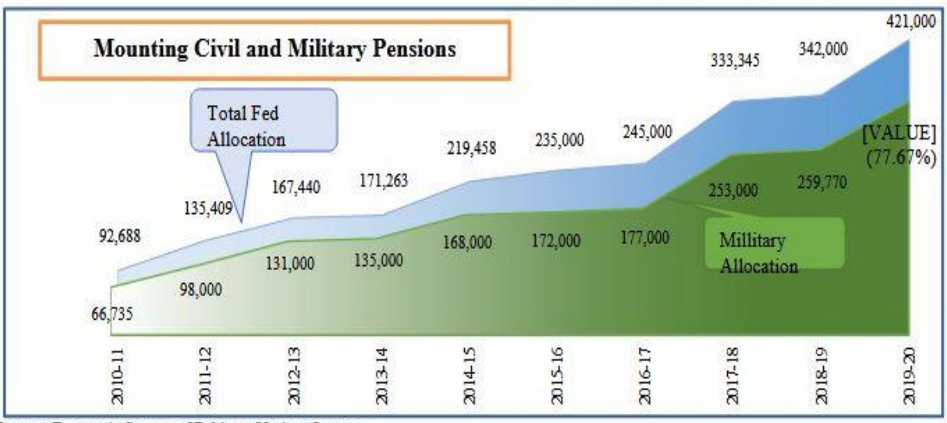
- Pension expenditures growth: 25%.
- Pension expenditures constitutes approximately 80% of the value for PSDP expenditures.
- Projected pension values suggest that it will rise to 56% of current expenditure in 2050.
- Ageing population, increased medical expenditures, and forced inflation indexing will continue to put pressure on the pension bill.

[72] Dixit, Avinash (2002) Incentives and organisations in the public sector: An interpretative review. *Journal of Human Resources*, *37*(4), Fall, 696–727.

[73] Addressing the Pension Liability by Hasaan Khawar, April 18, 2018 https://tribune.com.pk/story/1681449/addressing-pension-liability

FEDERAL PENSIONS—MILITARY AND CIVILIAN GOVERNMENT EMPLOYEES

It is worth noting; the share of military pensions stands at 75.67% of the Federal Pension Budget 2019-20 though the number of the Federal and Military retirees stands at around 1.2mn each. Three times the bigger expenditure of the military is on account of the early retirement of soldiers resulting in pension durations twice the federal employees who retire at 60. However Civil pension itself is rendering into an unsustainable territory of public financial management. In FY 2019, pension rose to 40 percent of federal public expenditures on salary for civil servants due to longevity, increasing health costs and liberal reforms overtime. Ageing population,[74] increased medical expenditures, and forced inflation indexing will all continue to put pressure on the pension bill.



Source: Economic Survey of Pakistan Various Issues.

NATIONAL COMMISSION FOR GOVERNMENT REFORMS (NCGR) RECOMMENDATIONS: MOVE TO A DEFINED CONTRIBUTION (DC) SYSTEM

The existing system has multiple payout systems to pensioners, is actuarially unfair, biased upward and above all its financing is becoming expensive since it competes for tax payers money. The system is a DB which requires flexibility in terms of contribution, vesting period and other parameters in case of any reform or shock such as increase in life expectancy, cost elements, inflation indexing etc. But since here its a Pay-As-You Go System these options are not considered. This system is unsustainable and world over considered as a least preferred one.

This is not the first incidence earlier NCGR in its report (Vol-I, 2008) recommended to reform pensions and the recommendation was presented as a guiding principle. It stated that: "The Pension System should be revised from defined Benefits, to defined contribution and should be funded."

[74] According to World Bank Pakistan had a life expectancy at Birth of 45.3 in 1960, which have improved to 67 years in 2017. Although it ranked 186th in 249 entries of the data in 2017 which was 166th in 1960. Which reflects that relatively speaking its not that impressive rather it has worsened.

NCGR further recommended to only index the pensions for maintaining the purchasing power of pensioners, which lately is being overprovided. The commission proposed a complete road map which required "Complete Analysis of Pension Options and made recommendations guided by the advice given to the government by the Pay and Pension Committee of the Finance Division, Establishment Division and an Actuarial firm/consultant". This recommendation could not mature so far.

PENSION FUND PRACTICES

In the case of armed services all other countries facilitate soldiers for their second careers. This, on one hand, increases the contributions towards the pension fund, and the other hand delays reimbursement of retirement benefits. It results in significant long-term savings at the national level that are mostly invested in the assets which fuel economic growth.

For Civil services having a DB system which is unfunded creates barriers for entry and exit into the civil services. Turnovers are not possible because of the unrealised pension benefits. If this system is converted into a DC system then employees would have more leverage for switching across governments/autonomous bodies/ recruitment types and private sector as well. This would help attract qualified and talented individuals in service in various stages of service.[75]

Box 2:Pension Practices in Some Other Countries

Countries	OECD	EAC	LAC	MENA
	24	10	9	10
Public Sector				
None	3			
DB	15	8	2	10
DC	3	2	-	-
Private Sector				
DB	3	-	-	-
DC	5	5	8	-
Source: World Bank *Pensions Panorama.*				

However an actuarial analysis has to be done for identifying the possible benefits which these funds can offer. World over these pension funds are operated by trusts, private funds managers and even governments themselves. But these funds play a pivotal role in providing for the financing requirements of the economy as well. So this system would also unleash the growth along with making this sustainable for the government. The role of Pension Funds in the economic growth can be assessed from the fact that around 76% of assets in the US Stock Exchange are owned by the Pension Funds.

[75] Comparing pension schemes for civil servants across comparable regional countries, we show that there are more than one method being practiced. In some countries pensions are tailor made for different professions and in some it's a universal pension scheme exists irrespective of being a civil servant or otherwise.

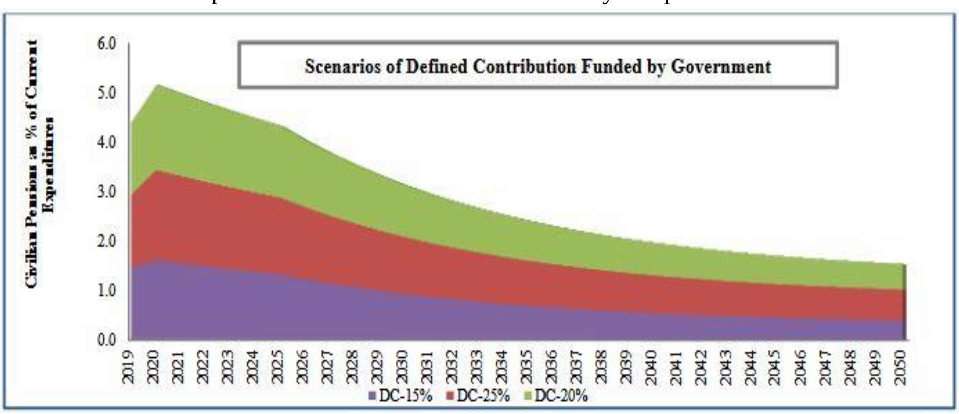
Pension Funds will be required management under a strict regulatory regime by a highly competent team of fund operatives and an investment board. Pakistani record in pension funds like EOBI and Volunteer Pension Scheme is well below par.

Box 3: [76] Pension Schemes in South Asian Region		
South Asia	Civil Servants	Special Schemes
Afghanistan	Separate Scheme	Military, Police, Banking Sector
Bangladesh	Separate Scheme	–
Bhutan	Main Scheme	Military
India	Separate Scheme	Coal miners, Railway employees
Maldives	Integrated Scheme	–
Nepal	Separate Scheme	–
Pakistan	Separate Scheme	Armed Forces, Police, Railways Employees and Others
Sri Lanka	Separate Scheme	Farmers and Fisherman.

CASE STUDY OF FEDERAL CIVIL PENSIONS

Below we have done projections for a DC system on financing side based on the following assumptions:

- Existing Pensioner would get the same pensions as they are receiving now. Overall volume is freezed, exits from the system would allow inflation indexing for remaining. Using the budget estimates of Civil Federal Pensions for 2019-20 these are projected to remain constant for next five years and then start to decline @ 5% per annum due to reduction in exiting pensioners.
- For those in government service assuming emoluments reckonable for pension to be current pay bill along with 30% of current allowances. Three scenarios of defined contribution funded by government of 25%, 20% and 15% are developed. Final outlay of DC and ongoing existing pension expenditure as a percentage of current expenditures is plotted.
- Current Expenditures are assumed to increase by 5% per annum.



[76] *Research Journal of Finance and Accounting* www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)Vol.7, No.16, 2016.

This basic exercise identifies that initially total pension outlays increase from 1.5% of the total current expenditures to around 1.83%, 1.72% and 1.61% for the three scenarios respectively in the 2020-21 that is the first year of reform. This initial rise tapers down to starting level of 1.5% in the 6th, 5th and 3rd year respectively for the three scenarios and then continuously decline and converge around 0.50% in thirty years' time period. Thus making pension payouts to be sustainable in the longrun.

THE WAY FORWARD

Pension Funds usually become operative after eight years once sufficient funds have accumulated and investments have started generating revenues. It is therefore of critical importance that pensions are transformed into Contributory Funded Pension System to allow time for these funds to become operational before the prevailing system runs out of the stream.

The following policy measures will be required for moving towards the Defined Contribution System of Pensions.

Legislation should be enacted for;

- Establishing the Central Pension Development and Regulatory Authority along with an Investment Board.
- Special provisions/exemptions for investments for such projects as; Housing Scheme through the Supplementary Pension Fund.
- Investment in listed and private equities and Venture capital.

On the other hand a Pension Review Working Group (PRWG) need be formed to formulate policies, structural framework, rules, and procedures;

- The PRWG should comprise the following;
    - Officer with Corporate Exposure.
    - Reps from Existing Armed Services, Federal Services, and Pensioners.
    - Tech Team: Fin and Accounts, Banking, Insurance, Asset Management, Actuarial, Risk Assessment, Corporate Law.
- Consultancy from Pension Fund Managers, Actuarials and Corporate managers if needed.

OPTIONS

We have two broad options.

- Centralised Pension Funds at the Federal and Provincial levels for both; Defined Benefits (Pensions) and Defined Contributions (Retirement Benefits).
- Combination of Centralised Defined Benefits for Pensions but Decentralised Supplementary Fund for the Defined Contributions. An option of the Supplementary Fund for the Military Pension Fund for Defined Contributions, like the Turkish Pension Fund (Oyak), can also be considered.

However an actuarial analysis has to be done for identifying the possible benefits which these funds can offer.

MoF should urgently initiate Actuarial Study and identify the major issues with government pension schemes, EOBI, and VPS (Voluntary Pension System). It should be aimed at broadening participation of the general public in Pension Funds as seen in western countries.

Fiscal Federalism in Pakistan: Need for a Revisit

This Policy Brief outlines a reform package to streamline the fiscal arrangement among federating units and the centre. The 18th Constitutional Amendment and 7th National Finance Commission (NFC) award reshaped the fiscal landscape of Pakistan. The provinces enjoy more autonomy in performing various functions within their jurisdictions. These developments have resulted in a fundamental shift in the division of powers between the centre and the provinces. Based on the 7th NFC Award, 57.5 percent of resources collected by the centre through FBR are transferred to the provinces using four criteria (Box 1).

> **Box 1: Indicators for Resource Distribution**
>
> Population (82 percent);
> Poverty/backwardness (10.3 percent);
> Revenue collection/generation (5 percent); and
> Inverse population density (2.7 percent).
>
> **Horizontal Resource Share:**
> Punjab 51.74 percent,
> Sindh 24.55 percent,
> Khyber Pakhtunkhwa 14.62 percent,
> Balochistan 9.09 percent.

Time for Revisit: Why?

However, the question remains that how these weights were assigned and whether we can achieve higher efficiency by experimenting with the given NFC formula. It is noteworthy that the 18th constitutional amendment has made the Award inflexible by requiring that the provinces' share shall not be less than what is decided in the 2009 NFC Award (i.e., 57.5 percent of the divisible pool). The non-flexibility clause added to the complexity and distorted the dynamic nature of the Award. Higher transfers and increased spending needs have placed an enormous burden on the federal government, which resorts to borrowing to finance the budget deficit. Further, it becomes difficult for the federal government to meet development financing needs, defense, pension, salaries, and debt-servicing from the remaining 42.5 percent of the divisible pool.

> **Box 2: Why Localise**
>
> *Successful localisation creates a situation where local entities and other groups in society are free to exercise individual autonomy but also have incentives to work together.*
>
> (World Development Report 1999-2000).

Box 3: Resource position

The MTBSP indicates that overall resources are expected to be 15.4 percent of the GDP in FY21 and among that federal taxes are 11.4 percent whereas provincial taxes are just 1.2 percent of GDP. For FY22 it is proposed that federal taxes would be 12.8 percent and provinces' just 1.4 percent of GDP. However, on the expenditure side for FY21 after taking out interest, subsidy and defence payments, federal government is left with 3 percent of the GDP in the current expenditures side as compared to provinces spending more than double of that.

Resource Position (% of GDP)	2019-20E	2020-21P	2021-22F
Revenue	15.2	15.4	17
Tax Revenue	11.4	12.6	14.2
Federal	10.4	11.4	12.8
FBR	9.6	10.2	11.4
Provincial	1	1.2	1.4
Non tax	3.8	2.8	2.8
Federal	3.6	2.6	2.4
Provincial	0.2	0.2	0.4
Total Expenditures	22.7	22.9	22.6
Current	20	20.2	19.7
Federal	14	14	13.5
Interest	6.2	6.2	5.9
Defence	2.9	2.8	2.8
Subsidy	0.9	1	1
Provincial	6	6.2	6.2
Development and net lending	2.7	2.7	2.9
Federal PSDP	2.6	2.6	2.7

Being a federal country, there is a need to assess whether the existing state of affairs can continue indefinitely, or it would be important that all the federating units assume the joint responsibility of anchoring sustainability and progress. Debt servicing, development, defense, and natural calamities (like Covid-19 and floods) necessitate better coordination and joint efforts.

Hence, joint coordinated efforts and a mechanism that can ensure it as a dynamic NFC formula. The resource distribution formula should contain the right set of incentives so that every federating unit puts in its best effort without externalising its expenditures upon others. Additionally, the mounting public debt and rising fiscal needs to finance defense had led to underfinance the social spending needs, thus resulting in miserable progress in social indicators. As a signatory to SDGs framework, financing needs require better coordination. This calls for a revisit of fiscal arrangements between the federal government and provinces to take into account these federational contexts also.[77]

Provincial Revenue Generation: Historically, no systematic approach has been adopted to capacitate and encourage the provinces for revenue generation. For provinces, this has resulted in a long-term administrative and financial dependence on the centre (Ahmed, et al. 2007). To date, the major pressure for resource generation has been on centre and the FBR.

However, it is equally important to note that the federal government has overstretched itself by owning purely provincial matters. To mention a few, the federal government provides funds for roads, rural development, gender issues, SDG allocations, subsidy on fertilisers, Ehsaas/BISP,[78] etc. This is against the basic premise of decentralisation and thus, compromises the expected efficiency gains. Each tier of the

[77] Federal government has initiated the process to renegotiate the fiscal arrangements between centre and provinces through the 10th NFC Award formulation but it has yet to bear results after initial jolts. Following the initial notification of NFC (on May 18, 2020), there were reservation from within the province on the nominated member for Balochistan. A new nomination had to be made in the revised notification (on July 22, 2020).

[78] Which is though debatable due its impact on achieving equality across the nation.

government should work in its domain and be encouraged to undertake spending based on indigenous initiatives and needs.[79] If backed by effective domestic revenue rising efforts, such spending would encourage greater accountability from the local electorate. This would also discourage the flypaper effect,[80] hence, would result in higher spending efficiency.

There is a need to devolve responsibility and empower provincial governments by giving the required resources (both human and financial) to develop their indigenous planning and development strategy as per local aspirations and territorial needs. All the devolved ministries, along with their personnel, need to be transferred to provinces in the true spirit of the 18th amendment to overcome the capacity deficit. Compromised capacity and contested decision space can give rise to duplication of efforts, inefficiencies, and lack of ownership (e.g., in higher education, health, poverty alleviation programmes (Ehsaas/BISP) and SDGs). Administrative empowerment encourages the provinces to contribute to the country's development by streamlining their capacities and incorporating better voice and accountability from the local people (Ahmed, et al. 2007). Decentralisation should reduce provinces' dependence on the centre, allowing the centre to concentrate more on the national issues. The economic loss due to the absence of a capacity-building mechanism and foregone resources in the provinces needs to be resolved (Khattak, et al. 2010).

Critical Questions for Debate: Besides resource transfers, it is also high time to evaluate the impact of the fiscal decentralisation (FD) process on key socioeconomic indicators to suggest a reform package for optimal utilisation of scarce resources. Various questions arise:

- What is the economic impact of the current FD mechanism in Pakistan?
- Are there enough incentives for each tier to perform?
- Are the federal and provincial governments complimenting or competing in efforts?
- Can matching grants provide the required incentive to cooperate on important social or economic initiatives?
- With a weak institutional framework, can Pakistan attain its objective of bringing prosperity to Pakistani people through FD?
- Can each province with its particular context generate local receipts and expand the economy? Having enjoyed around 60 percent of the total divisible pool for the last ten years, it is high time to assess which sectors remained a priority of the provincial governments. We need to see how the current and development spending has progressed.
- Are the additional funds meant for the local people actually reaching them in the right proportion, or instead, there is a second-degree elite capture and centralisation at the second tier?
- Assessment revenue raising efforts of provincial governments in areas that fall under subnational jurisdiction.

[79] FD help to achieve better resource management through competition among the local governments (Ebel and Yilmaz, 2002) where citizens vote with their feet (Tiebout, 1956).

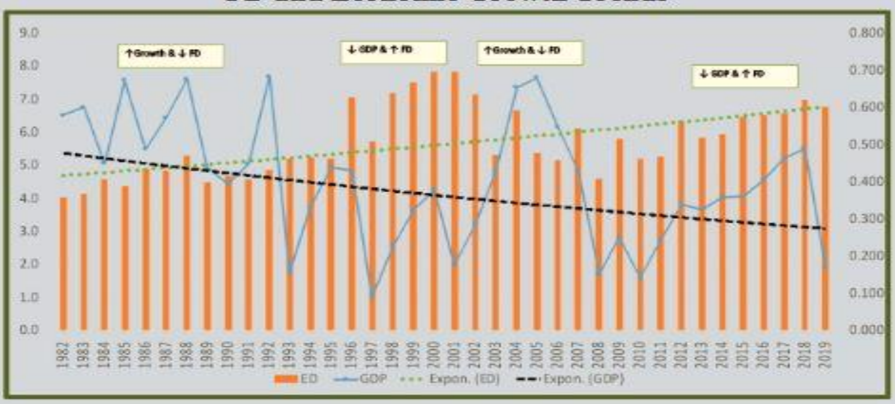
[80] Local autonomy in domestic revenue raising, restricts the non-productive government spending (Rodden, 2002).

- Is the 18th constitutional amendment optimal, or we may revisit it after a thorough assessment?
- Are we happy with the current idiosyncratic response on higher education, health, and environment, or should there be a consolidated response?

Box 4: FD and Development: Evidence?

Long term trend shows that high growth episode shows low FD and vice versa, nevertheless, there is a downward trend overtime between the two key indicators, which is important to notice. Literature reveals that weaker democracies may allow greater rent seeking under decentralised set up, hence discourage growth and stability (Iqbal, et al. 2012; Iqbal, 2013).

FD and Economic Growth Trends



Box 5: International Evidence on Resource Distribution

The Finance Commission of India has a dynamic setup where they have experimented different criteria and have tried alternative weights. The awards has posed less reliance on population (which is a crude expenditure need criterion). Instead, more weight has been allotted to either incentive based (Income distance, infrastructure distance, fiscal resilience, fiscal capacity and tax effort) or objective based (area, demographic change and forest cover) criteria (see Table 1). The most important element, which enables them to experiment each time, is the non-political, professional setup at Finance commission. Despite criticism on certain aspects, the Commission has announced financial award each time and more importantly tried different distribution criteria. This inclusion of multiple criteria and regular revisit is though criticised in the literature however the point to emphasise here is to leave no stone unturned until optimal solution is sorted out. Similarly, developed countries like Canada and Australia keep their focus solely on Equalisation Funds with the aim to cover differences in revenue raising capacity and to overcome the cost disabilities of delivering similar services across regions. These efforts though are framed in a manner that do not distorts revenue collection efforts of the states, thus saves efficiency component.

Suggestions for Reform

- In the wake of tight fiscal space and increasing targeted spending, we recommend matching grants from the central divisible pool as one of the criteria. This will develop a larger political consensus on major socio-economic initiatives. For example, SDGs spending can be financed from NFC on a matching grants basis. Pakistan has already utilised the matching grants mechanism in the 1996—NFC Award.
- To make NFC a dynamic resource sharing mechanism, the Council of Common Interest (CCI) can be used as a forum to decide a common socio-economic goal for each year on a rolling basis. The currently reserved 'one percent share of KPK (for war against terror)' can be utilised against the most urgent needs with mutual consensus in CCI, e.g., Covid-19 for this year, FATA merger, dams, SEZs in each province or alike.
- Fiscal equalisation is an internationally accepted criterion; however, there is a need to revisit the current 'need-based' NFC allocations.

Table 1

Finance Commission Awards in India

	Finance Commission				
Horizontal Resource Distribution Criteria	10th	11th	12th	13th	14th
Population	20	10	25	25	17
Income Distance	60	62	50	--	50
Area Adjusted	5	7.5	10	10	10
Infrastructure Distance	5	7.5	--	--	--
Fiscal Resilience /Distance		7.5	7.5	17.5	--
Tax Effort	10	5	7.5	--	--
Fiscal Capacity Distance	--	--	--	47.5	--
Demographic Change	--	--	--	--	10
Forest Cover	--	--	--	--	7.5

Source: Javed and Ahmed (2019).

- This is indicated through major allocations being made on a population basis. We need to move towards incentive-based resource allocation.
- Reduce the weight of "Population"—being a flat indicator of expenditures needs only.
- Instead of revenue collection, more weight should be allotted to revenue generation or revenue growth.
- Within the need-based elements, a certain percentage should be allotted to the income gap or HDI-gap to encompass quality of life in the formula.
- Subsequently, allocate a certain percentage to the indicators of "Tax effort (tax revenue – tax potential)." It would be important, though to cap the negative figures (especially in the case of Balochistan as well as in the case of natural calamity/pandemic) and promise a benchmark figure to achieve consensus.
- To streamline the utilisation of poverty-related resources in social-protection programs, the new NFC may ensure that the annual social-protection budget of a provincial government should not be less than the amount of the divisible pool

based on poverty and backwardness indicators. This can be managed through conditional transfers, making it mandatory for provinces to utilise funds meant for social protection on related avenues only.

- Revisit the 18th constitutional amendment and make the NFC transfers flexible
- Consensus can be developed to form a fund where the centre and the provinces could pool resources for national development e.g., dams, CPEC infrastructure, mega-development projects, and resource & mineral extraction. Once completed, the royalties should be distributed as per contributions.
- NFC success is based on PFCs—this needs to be embedded in the fiscal transfers formula.
- Political consensus for NFC Award needs to be built based on economic principles. This can be made possible by making the permanent secretariat for NFC at CCI, manned by professionals and supported by a data bank (having a continuous stream of data collection and processing).
- Make the criteria dynamic. Pakistan has been following formula transfers which change rarely. In contrast, the resource distribution mechanism around the world is dynamic and regularly revisits the indicators, their weights as well as the mechanism to address the changing needs and to provide adequate incentives for enhancing efficiency. This is what NFC in Pakistan needs to focus the most.

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National Tariff Policy 2019 – 24

INTRODUCTION

Tariffs

What is the role of tariffs in a modern economy? Tariffs may seem an easy source of revenue, but they do have real consequences for the economy. The use of tariffs makes imported goods more expensive and can be used as a means to prevent exchange rate from fully adjusting to market value reducing incentives for export while increasing incentives for import substitution. Tariff policy can thus affect the product mix of country which in the complex globalised world of today determines its place in the global value chain. In this vein it is very encouraging to see Ministry of Commerce (MoC) taking concrete steps to develop a coherent vision for tariff policies and clearly laying out important tariff policy goals.

Need for a National Tariff Policy

The National Tariff Policy 2019-24 has identified several issues in the existing. There are several issues created by the current tariff regime. Traditionally, Statutory Regulatory Orders (SROs) that grant exemptions to specific industries have been the key source of

Issues in the Existing Tariff Regime

- Focus on tariffs as a revenue tool has:
    - Created distortions
    - Eroded competitiveness
    - Increased cost of inputs
- High tariffs have:
    - Created inefficiencies in manufacturing sector
    - Anti-export bias
    - Burden of protection on consumers
    - Incentive of smuggling, under-invoicing, mis-declaration of goods
- Excessively complex tariff structure due to:
    - Multiple duty slabs
    - High tariffs
    - Concessionary SROs
    - Regulatory duties
- Differential tariffs imposed for same inputs used by multiple industries – creates anomalies and discrimination
- Regulatory duties imposed have made tariff structure inconsistent and unpredictable

Source: Government of Pakistan (2019). "National Tariff Policy 2019-24", Section 4.

This Policy Viewpoint has benefitted from the invaluable contributions of Dr. Manzoor Ahmed and Dr. Jamil Nasir. Dr. Durr-e-Nayab and Dr. Nadeem Ul Haque's input on refining earlier drafts is greatly appreciated. Ms. Uzma Zia and Dr. Hafsa Hina contributed content to earlier drafts of this viewpoint. While the viewpoint reflects the views of PIDE, however and errors and/or omissions are solely the authors.

deviations from MFN tariff rates. These exemptions greatly complicate the reporting and analysis of the country's tariff profile (level and structure of tariffs). These exemptions did not affect the customs duty rate reported in the tariff schedule.[81] Moreover, since the exemptions are applied for specific instances or use cases of products, in principle it is possible for two customs duties to apply to the same product being imported.[82]

There is also substantial positive escalation evident in Pakistan's tariff profile; with the tariff rate increasing as the level of value addition of the product increases. The WTO's Trade Policy Review of 2015 attributed this to a policy preference for protecting the domestic industry (the infant industry argument). Finally, the report has also identified that average tariffs for specific industrial and even agricultural products are higher than the average for the sector overall. As pointed out in both the NTP 2019-24 policy and the WTO Review, the large gap between average bound and applied tariff rates reduces predictability and consistency in the country's tariff regime.

There have also been a number of reversals in liberalisation efforts, most notably following the global financial crisis of 2008. Moreover, the signing and implementation of various bilateral preferential trading agreements (with China, Sri Lanka and other South Asian economies) have resulted in growing complexity of the tariff system, rather than a simplification.

According to Nasir (2020), the high incidence of taxes on imports creates an incentive for importers to under-declare, mis-declare and resort to smuggling. International research by Fisman and Wei (2004) has argued that increasing tariffs by 1 percent will lead to a 3 percent increase in evasion. In the case of Pakistan, revenue loss to the national exchequer from tariffs is considered to be substantial. Qureshi and Mahmood (2016) have pegged the loss at USD 21.1 billion for the period 1972 to 2013, while National Tariff Commission's PTA Report estimated that smuggling was 43% of total market demand and exceeded official (regular) imports. These are substantial losses that the domestic economy is ill equipped to bear for much longer.

Against this backdrop, a new National Tariff Policy has been formulated to address these issues so the domestic economy can benefit from having a tariff regime that is uniform and low, and relatively free of distortions.

Guiding Principles and Salient Features of the Policy

The National Tariff Policy 2019-24 was approved in November 2019 and was the result of a year-long consultative effort by the MOC. The guiding principles of this policy include the intent to reorient tariffs as an instrument to promote trade and remove an anti-export bias in policy. Furthermore, tariffs will no longer be used as a means of generating revenue for the government.

The policy has laid out a tariff reform agenda that is designed to promote trade through an efficient allocation of resources, remove distortions in the domestic economy, and create a competitive environment for domestic industry. This is in line with the recommendations made by a 2018 World Bank Report on leveraging private sector growth in Pakistan by promoting trade and investment competitiveness Rocha and Varela (2018).

[81] *Source:* WTO (2015).
[82] *Source:* Pursell, Khan and Gulzar (2011).

This is to be accomplished through the enduring principles of cascading tariffs, strategic protection and import substitution.

A Critical Review of the Policy

As highlighted by the National Tariff Policy in its present formulation seeks to rationalise tariffs by continuing with past practices of cascading tariffs; protection of domestic industries and strategic protection. Given that the policy seeks to move away from previous policy imperatives, it is worth noting that those same initiatives will be continuing now. Given that past efforts have had limited success, and lagged behind South Asian trends, these aspects of the policy bear further thought.

Tariffs are designed to benefit local producers by artificially raising world prices above domestic prices. This rise in prices should encourage local production of otherwise imported goods. On the flip side of the coin this suppresses demand for the product due to price effect. Thus, tariffs have an impact on three key economic activities so their role must be carefully considered.

Guiding Principles of NTP 2019-24

- Abandoning revenue generation as a tariff policy agenda and goal.
- Recognising use of tariffs as instrument of trade policy and promotion.
- Focusing on removing anti-export bias in tariff regime.

Cascading:

While the principle of cascading is important to promote domestic value addition, care must be taken to avoid providing too much protection to downstream industries. Previously, too much protection through cascading was provided to key sectors that failed to grow and stagnated with weak productivity growth because of weak incentives to become competitive.

While the Pakistan Business Council (PBC), in its presentation to the government on Make in Pakistan, proposed cascading tariffs as necessary for reviving the manufacturing sector, this view clearly does not take into account consumer welfare. For this reason, the government should research the efficacy of cascade tax for not just the domestic industry, but also domestic consumers, in keeping with the objectives of the NTP 2019-24.

Thus, a cascaded tariff structure is not a panacea for boosting the domestic manufacturing sector. Rather, tariff cascading may promote rent-seeking, reduce productivity, and hurt consumer welfare by restricting market competition. It is thus important to rethink the imposition of a cascaded tariff structure and introduce a tariff policy that not only provides the right incentives to producers but also promotes the interests of the consumers.

Recommendations

- The policy must now be accompanied with a more concrete action plan that puts all on notice on how to proceed.
- Policy has announced good intentions. But a lot needs to be done to make it happen. We have had tariff liberalisation in the past only to be reversed. We should have a clear plan with timelines and a clear transparent immutable information plan.
- Openness is necessary for local competition. Our National Tariff Policy must be synced with our competition policy at home. This is an important exercise that must quickly be initiated and developed in concrete form.
- Our protection policy has never been clearly enunciated other than to say that it should be temporary. But it has never been as announced. We should now go beyond announcements and actually announce an implementation plan with timelines and with pre-commitment.
- Tax expenditures have not only exacerbated the fiscal problem but also led to local monopolies at the expense of domestic competition. This must be an important part of the NTP going forward. Tax exemptions should not happen!

Protection for Import Substitution:

The level of protection to import substituting industries need to be properly rationalised to balance the interests of consumers and producers. Tariff reduction will have a benefit for consumers through lower price of imports and access to greater variety at lower prices, and this should be highlighted by the government. If the domestic market continues to be closed to imports by prohibitively high tariffs, as in the case of auto sector, it is likely that the tariff jumping investments would create wasteful excess capacity as has happened in the past. Such misallocation of resources hampers productivity and stunts overall economic growth.

> Other countries such as the East Asian Tigers also adopted protectionist measures early in their development, their experience turned out to be more promising. Measures were introduced and withdrawn in a timely fashion, providing industry with the proper incentive to develop. Based on weak export performance characterised by static destination and product shares, the same does not appear to have happened in Pakistan.

Strategic Protection:

The policy mentions that strategic protection will be provided to domestic industries to protect them from foreign competition. It will be offered to industry in the infancy stage to lower the cost of doing business and is planned to be time-bound and phased out to encourage competition. However, our past performance in this regard is not promising. Industries are still receiving handouts from the government, and timelines are easily revised on some pretext or the other. Unless effectively implemented, this is going to create an additional drain on our already limited resources.

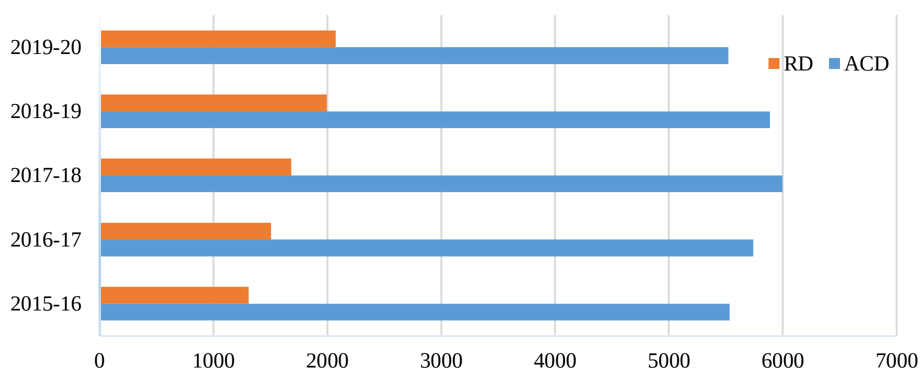
A cascaded tax or tariff ends up being a tax on top of a tax. That being the case, a tariff cascade would have a compound effect, with the final rate being higher than the initial rate charged upstream.

It is not clear how domestic industries will be selected for protection. In this context, it is important to spell out at the outset clear guidelines on how and which industries will be provided strategic protection. Moreover, improving or at the very least maintaining quality must also be a requisite for protection. In the past, such initiatives have merely contributed to rent-seeking while failing to establish a strong and competitive industrial sector.

Competitive import substitution is going to be encouraged under the policy, but again the policy document is light on the modalities of how it will all work, not to mention the fact that it becomes hard to justify how the tariff structure is being simplified and prone to less distortions. In the past SROs have been used in addition to tariffs to achieve protectionist goals. How will this work when certain industries are receiving strategic protection while others are benefiting from competitive import substitution, and all are going to be subject to different time bounds?

Various interest groups exert pressure on the government to impose additional customs duty (ACD) and regulatory duty (RD) on imports to discourage competition. These duties introduce anomalies in the country's tariff profile, and clearly do not work in the interest of domestic consumers. Instances of these abnormalities have increased in recent years, as evidenced by the increasing number of tariff lines subject to these duties.

Fig. 1. Coverage of ACD and RD by Tariff Lines



Source: Nasir (2020).

Policy Process:

The new policies of the government focusing on enhancing exports, encouraging foreign investment and Pakistan's integration into the global value chain must all stem from a common holistic view and approach so the most efficient and optimal outcome is achieved.

The Policy proposes establishment of a Tariff Policy Board up for formulation and implementation of the policy; made up of representatives of the government. However, it is not clear that the proposed composition of the board will be able to separate policy from management given that Secretary of Finance, and Chairman of the FBR are members of the board.

Finally, there is a need for institutionalising proper mechanisms for getting feedback from evidence-based policy research. In this context, it is important to include in the tariff policy board (TPB) relevant experts from the academic community and policy thank tanks who can provide research-based input into tariff policymaking. Also, inclusion of representatives from the private sector would create stake-holding among the relevant players leading to greater ownership by the market participants.

Conclusion: Will the New Policy Achieve its Goals?

The national tariff policy has laid out a comprehensive tariff reforms agenda to promote an efficient allocation of resources, remove distortions, and create a competitive environment. The policy has highlighted laudable steps including abandoning the revenue generation as a goal of tariffs, recognition of tariffs as instruments of trade policy to promote trade and industrial competitiveness, and overall thrust on removal of anti-export bias. However, details are yet to emerge: the policy does not give us clarity on a time frame or a path of implementation. We hope as argued here that some of these details will emerge to lead Pakistan to a consumer-focused export economy away from the current emphasis on *"60-year old infant industries"* at the cost of our own people.

We are glad the policy has clarified issues that academics and researchers had been asking for a long time now. It is time now to move beyond goals and move in the direction of systematically opening out the economy, removing the RDs and ADCs, eliminating the SROs and a rationalising of tariff policy so that protection is temporary and does not become rent-seeking. Until then we can celebrate the policy announcement recognising that many such announcements have not succeeded in policy escaping capture.

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Poverty Alleviation

Using Cash Transfer Programs to Get Children Back to School from Work

NASIR IQBAL

The prevalence of child labour in Pakistan is very high; with up to 22% of children between the ages of 5 and 14 years in some provinces engaged in the worst form of child labour, including bonded labour in agriculture and brick kilns, and forced domestic work (ILAB, 2020). Many child labourers work under conditions of debt bondage, forced labour and suffer from extreme physical abuse and sexual assault (Latif, Ali, Awan, & Kataria, 2016). Families substitute schooling with child work to escape poverty, and in some cases, parents work with their children as bonded labourers (Awaworyi, Iqbal, Nawaz, & Yew, 2021). Consequently, almost 23 million children between the ages of 5 and 16 years in Pakistan are out of school. According to the United Nations International Children's Emergency Fund (UNICEF), this translates to about 44% of the total population within this age group. Thus, Pakistan has one of the highest rates of out-of-school children in the world.[83] Elimination of child labour and the achievement of universal education are interconnected goals.

Poverty or financial constraint is an important reason behind child labour and the deprivation of potential educational attainment. The government of Pakistan has been launching multiple social protection programs to reduce poverty specifically for the last two decades. Nonetheless, Benazir Income Support Program (BISP) is one of the largest cash transfer programs, targeting the ultra-poor segment of the society (GoP, 2020; Iqbal & Nawaz, 2019; Nayab & Farooq, 2020). The BISP cash transfer provides the additional income to the beneficiaries, which is assumed to influence households' decisions regarding whether they should let their children work or send them for educational attainment (GoP, 2020).

It is generally observed that school enrollment and attendance decline amongst the ultra-poor households as the child labour supply increases. Thus, to fully understand the dynamics of child outcomes, it is essential to also focus on school enrolment and attendance. Such outcomes are very critical in formulating the policy for any social protection policy like the BISP cash transfers[84].

[83] https://www.unicef.org/pakistan/education

[84] This brief is heavily based on Awaworyi Churchill, S., Iqbal, N., Nawaz, S., & Yew, S. L. (2021). Unconditional cash transfers, child labour and education: theory and evidence. Journal of Economic Behavior & Organization, 186, 437–457. https://doi.org/https://doi.org/10.1016/j.jebo.2021.04.012

Evidence

Recent literature shows that BISP cash transfer helps to increase the enrolment among ultra-poor. It also helps to promote grade promotion among target group in the medium to long run. However, the BISP cash transfers have no effect on dropout in the short run (Awaworyi, et al., 2021). These findings suggest that the additional income from cash transfers induces investment in education. However, the effect of cash transfers on enrolment wanes over time.

The gender-wise analysis has shown that the BISP cash transfers equally important for boys and girls to improve education outcomes. However, the impact is relatively higher among boys compared to girls. Awaworyi, et al. (2021) have shown that in the short term, BISP cash transfers are associated with a widening of the gender gap in enrolment; however, this narrows in the medium to long term.

It is noticed that the BISP intervention substantially reduces the dropout rate among boys in the short term but increases dropout among girls. It implies that differences in parental preferences and altruism towards boys and girls can influence the dynamics around child labour and human capital development. The BISP intervention significantly induces grade promotion among boys but not among girls. This finding can also be linked to the cultural environment that engenders greater altruism towards males than females. Thus, females tend to engage in other household activities, leaving less time for school activities, consequently influencing grade promotion.

BISP Cash Transfers, Child Labour and Education: Evidence

Awaworyi, et al. (2021) present evidence on the nexus between BISP cash transfers, child labour and educaiton. Using three rounds of household panel data collected by the BISP including baseline data (2011), first-round data (2013) and end-line data (2016), for both BISP beneficiaries and non-beneficiaries, the study shows that the UCTs have a positive and statistically significant impact on enrolment and grade promotion but no effect on dropout in the short run. The study shows that 2 years after the BISP cash transfers, children of beneficiaries are 69 percentage points more likely to enrol in school and 40 percentage points more likely to have a grade promotion. However, 5 years after the intervention, children in the treatment group are 28 percentage points more likely to enrol in school and 61 percentage points more likely to have a grade promotion. The gender wise analysis show that 2 years after the BISP cash transfers, boys in the treatment group are 79 percentage points more likely to enrol in school. In contrast, girls in the treatment group are 64 percentage points more likely to enrol in school. Thus, 5 years post-intervention, boys in the treatment group are 23 percentage points more likely to enrol in school, while girls are 31 percentage points more likely to enrol in school. For dropout rates, this study shows that boys in the treatment group are 49 percentage points less likely to drop out of school, while girls are 57 percentage points more likely to drop out of school due to BISP cash transfers. The BISP cash transfers have no significant impact on child labour force participation in the short run. However, results for the analysis by gender show that while BISP cash transfer does not influence labour force participation among boys in the short term, girls in the treatment group are 13 percentage points more likely to participate in the labour market.

These findings tie in with results on educational outcomes in the medium to long term. Over time, the findings suggest that BISP beneficiaries change their preferences from sending children to the labour market to school. Comparing the gender results to those on educational outcomes, it can be inferred that while child labour has been reduced among girls in the medium to long run, their educational attainment has not improved significantly. This suggests that though beneficiaries prefer to reduce child labour among girls, they may still be engaged in other activities. Thus, the educational outcomes of girls, mainly those aged 12–14 years, do not improve.

Policy Recommendations

The evidence has shown the beneficial influence of the BISP cash transfer on educational attainment and negative impacts on child labour in the long run. In light of these findings, the following are some policy recommendations.

- BISP unconditional cash transfers (UCTs) program is effective to promote schooling. However, the BISP experience also suggests that the effects of UCTs wane over time. Thus, it is likely that UCTs can have a non-linear relationship with education and child labour outcomes over a sufficiently long period. We recommend adopting potential hybrid cash transfer programmes that minimise the extensive costs involved in maintaining and enforcing conditions associated with conditional cash transfers (CCTs) but put across sufficient conditions intermittently to ensure that the impact of UCTs extends over longer periods. For instance, even in the absence of binding conditions, UCTs are linked with very strong short-term effects. Thus, conditions can be introduced much later in the programme when the effectiveness of the transfers begins to wane.
- The government can introduce a new cash transfers program with a focus on education. The program includes free education for all children in the family up until their graduation. The educational expense, along with a stipend amount for each student, would be paid directly to educational institutions. Key beneficiaries of the program will be children and youth. Overall, priority will be given to female students.
- Child labour is one of the critical challenges for Pakistan due to massive unemployment and poverty. Designing social protection programs, which are child-sensitive, and in particular child labour sensitive, is needed to transition from work to education.
- Ensuring social protection system which directly targets the highly exposed group of children including children orphaned, children from marginalized ethnic and economically and socially excluded groups.

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Unconditional Cash Transfer and Poverty Alleviation in Pakistan *BISP's Impact on Households' Socioeconomic Wellbeing*

DURRE NAYAB and SHUJAAT FAROOQ

Pakistan, having a population of near to 220 million, has one fourth of its population living below the poverty line and 17% being food insecure. Benazir Income Support Programme (BISP) was initiated in 2008 with the objective of consumption smoothening, poverty alleviation and women empowerment. The programme was, and still is, unique in terms of resources, coverage and targeting.

Given the resources dedicated to the programme (see box below), it is important to analyse where the BISP stands after 12 years of its initiation. This Policy Viewpoint does so by analysing the socioeconomic wellbeing of the households that have been receiving cash assistance for 9 years (2011 to 2019). Given the mandate of the Programme one would expect an improvement in their socioeconomic indicators. To see if this has actually happened, we measure the impact of BISP's cash transfer on various factors of the recipient households' socioeconomic condition. These include the following:

- Headcount poverty ratio
- Multidimensional Poverty Index (MPI)
- Food consumption
- Non-food consumption

While the headcount ratio is primarily an economic indicator, we consider MPI more of a socioeconomic deprivation index rather than an indicator for poverty. For this very reason it is a useful measure to gauge the socioeconomic condition of a household/population.

A NOTE ON METHODOLOGY

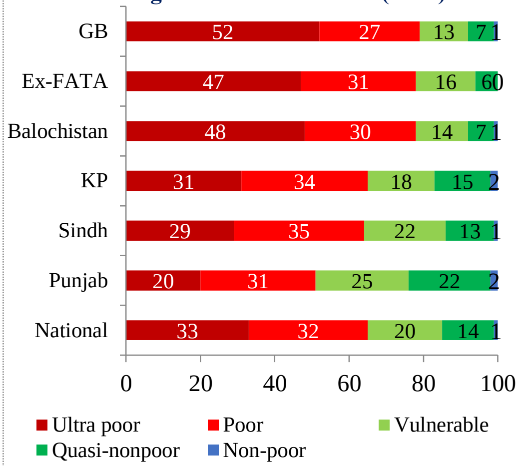
> ***BISP: A Snapshot***
>
> BISP provides unconditional cash assistance to more than 5 million families. The quarterly stipend at present is Rs. 6000 per household. All the beneficiaries receive cash assistance after on the spot biometric verification. The conditional cash transfers component serves children aged 4-12 years by providing stipend for primary education. Despite changes in political regimes, budgetary allocation has enhanced overtime. It was Rs. 34 billion in 2008-09, Rs. 70 billion in 2013-14 and Rs. 180 billion in 2019-20. The beneficiary quarterly stipend has also seen an increase overtime. It was Rs. 3000 in 2008 and is currently Rs. 6000. Since inception, the federal government has allocated a total of Rs. 1,088 billion to the BISP cash transfer from 2008 to 2019. The emergence of BISP has improved the overall spending on the social safety net in Pakistan. It was only 0.1% of the GDP before 2008, increasing to 2% of the GDP by 2018.

We use the BISP's impact evaluation survey to measure the welfare impact of its unconditional cash transfer. The baseline survey was conducted in 2011, followed by four subsequent rounds in 2013, 2014, 2016 and 2019.The analysis is carried out cross-sectionally as well as longitudinally. Fuzzy Regression Discontinuity Design (RDD) is applied to the 2019 cross-sectional data, and difference-in-discontinuity method is applied for a panel analysis by comparing the recipient households (having proxy mean test score 11.17 to 16.17) with the non-recipient ones (having score from 16.18 to 21.17). To ascertain internal validity, we confirmed that both the groups, treated and control, within the fixed bandwidth (+/-5, +/-3) were homogenous with no discontinuous changes at the eligibility threshold.

FINDINGS FROM 2019 CROSS-SECTIONAL ANALYSIS OF BISP BENEFICIARIES

For poverty, we look at the impact of the BISP cash transfer on both headcount ratio and the multidimensional index. Figure 1 presents the headcount poverty rates among the BISP beneficiaries. The cross-sectional analysis illustrates that despite 8 years of intervention, 65% of the beneficiaries are still below the poverty line, as measured through the cost of basic need approach. Another 20% are 'vulnerable poor', suggesting that any negative shock can push them back into the state of poverty.[85] One can see large variations across the provinces with massive poverty rates among the recipient households in Balochistan, ex-FATA and GB regions. BISP beneficiaries in Punjab show better results than other provinces but still more than half of

Figure 1: Headcount poverty rates among BISP's beneficiaries (in %)



Source: OPM Impact Evaluation Report, 2019.

[85] Ultra-poor = up to 75% of poverty line; Poor = up to 100% of poverty line; Vulnerable to poor = up to 125% of poverty line; Quasi non-poor = up to 200% of poverty line; Non-poor = over 200% of poverty line.

them remain in the ultra-poor and poor categories (see Figure 1).

Table 1 presents the results of the RDD analysis at a narrowed PMT bandwidth (i.e., +/- 3 and +/-5) on the impact of the BISP cash transfer on different indicators of poverty and consumption. No significant impact is observable on either the headcount poverty or the multidimensional poverty index. Even in the case of the ultra-poor and the severe multi-dimensional poor, no significant impact is found for the unconditional cash transfer on their wellbeing (Table 1).

Table 1

Impact of Cash Transfers on Selected Indicators—RDD Analysis

	Bandwidth = 5		Bandwidth = 3	
Indicators	Coeff.	Std. Error	Coeff.	Std. Error
Per adult equivalent monthly food consumption (Rs)	-14.1	98.7	-10.5	125.1
Per adult equivalent monthly non-food consumption (Rs)	19.7	96.2	41.9	119.3
Per adult equivalent monthly consumption (Rs.)	5.7	167.5	31.3	209.8
Food Consumption Score (numbers)	–4.5***	1.84	–5.9***	2.3
Headcount poverty rate (%)	0.04	0.06	0.03	0.07
Ultra-poor (%)	-0.02	0.05	0.01	0.07
Multidimensional Poverty Index (%)	-0.08	0.06	-0.1	0.07
Severe Multidimensional Poverty Index (%)	0.07	0.04	0.00	0.06

Source: Authors' estimations from the BISP's Impact Evaluation Survey 2019.
Note: 1. Coeff. refers to coefficient, and Std. Error to standard error.
2. *** shows significance at 1%, ** shows significance at 5%, * shows significance at 10%.
3. The estimates are based on the kernel triangular method where the poverty score was normalized around 0.

The analysis reveals that the BISP beneficiaries continue to face the issue of high food insecurity.[1] On average, the food consumption score of beneficiary households is 5 to 6 points less than the non-beneficiary households (Table 1). Commonly the poor exhaust their financial resources on their basic needs, mostly on food items. The analysis shows no impact of the cash transfer on various welfare indicators related to consumption expenditures at the national level. However, the cash transfer is found to a significant impact in the poorer provinces (not shown in the table). A positive impact is observable in the province of Balochistan for food expenses (Rs. 428 at +/-3 bandwidth), and in the province of Sindh for non-food expenses (Rs. 368 to Rs. 429 under +/-3 & +/-5 bandwidths).[86]

Due to high poverty and vulnerability, the BISP beneficiaries continue to struggle in managing their basic needs. Analysis on selected food and non-food items illustrates that there is no impact of the BISP cash transfer on healthy food items, i.e., milk, meat and fruit, as can be seen from Table 2.

Despite the intervention, beneficiary households made no progress on allocating more money to non-food items that includes the all-important expenditures on health, education, clothing and transport. For instance, their expenditure on children's education is Rs. 74 less than the non-beneficiary households when we consider the +/-5 bandwidth (Table 2).

[86] For details see the forthcoming PIDE paper on the impact of BISP on the socioeconomic wellbeing of its beneficiaries.

Table 2

BISP's Impact on Selected Consumption Items—RDD analysis

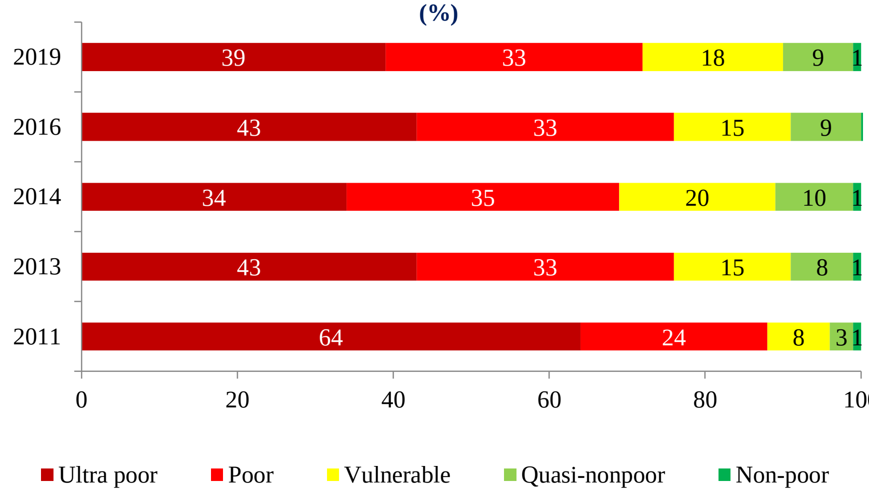
Per adult equivalent monthly consumption	Bandwidth=5		Bandwidth=3	
	RD estimate	Std. Error	RD estimate	Std. Error
Milk	10.2	45.2	15.4	57.2
Meat	28.7	57.7	83.1	72.4
Fruit	–1.2	7.0	6.3	0.7
Vegetables	32.3***	13.7	52.5***	16.9
Grain	–29.1	25.8	–25.6	31.7
Pulses	–3.6	6.2	–3.8	7.6
Transport	–3.8	6.6	–6.9	8.9
Cloth and apparel	–33.4	25.4	–45.6	32.0
Education	–73.5**	36.8	–21.5	47.0
Health	66.9	85.0	148.6	112.3

Source: Authors' estimations from BISP's Impact Evaluation Survey 2019.
Note: 1. *** shows significance at 1%, ** shows significance at 5%, * shows significance at 10%.
2. Fuzzy RD estimates are used. The estimates are based on the kernel triangular method where the poverty score was normalized around 0.

FINDINGS FROM THE PANEL ANALYSIS

The panel analysis was conducted on a sample of 2,118 beneficiary and non-beneficiary households that were tracked in all the five rounds of the BISP surveys. Figure 2 shows that the reduction in poverty among the beneficiaries was mainly witnessed in the first 3 years of the intervention (2011-2014). Around 25% of the beneficiary households graduated from 'ultra-poor' to 'poor' and 'vulnerable' categories; however, it cannot be considered as a safe exit from poverty as they had not shifted to quasi non-poor or non-poor (Figure 2).

Figure 2: Distribution of BISP's Beneficiaries in Poverty Bandwidths (%)



Source: Authors' estimations from various rounds of BISP's Impact Evaluation survey.

High chronic headcount poverty is witnessed among the recipient households as one-third of them remain in the state of poverty across all the five rounds (Figure 3).

Looking at the impact on MPI, reduction is seen in the trends for both the severely MPI poor and MPI poor, the proportion for which decline in almost every round (Figure 4). Overall, around 28% reduction is observed in the MPI. It is worth noting that the proportion of the non-MPI poor increased by 3 times during the five evaluation rounds.

Figure 3: Dynamics of Poverty among BISP Beneficiaries (% distribution)

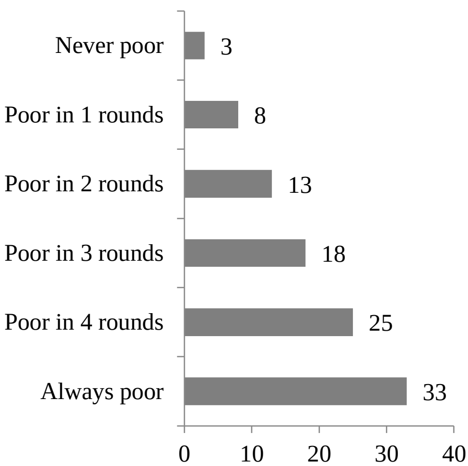
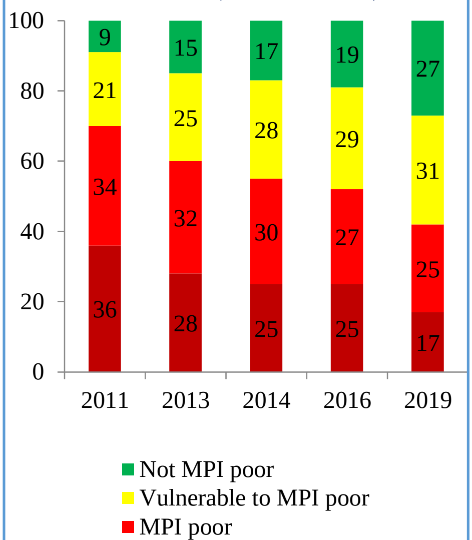


Figure 4: Multidimensional Poverty among BISP's Beneficiaries (% distribution)



The differences-in-differences (DiD) analysis for the 2011-2019 period shows no impact of the BISP cash assistance on consumption expenditures and headcount poverty. Impact of the intervention is observable only in food consumption (Rs. 81). Interestingly, no significant impact of the intervention is found on the MPI despite its reduction among beneficiary households as detailed in Figure 4.

Table 3

Impact of Cash Transfers on Selected Welfare Indicators—DiD Analysis

Indicators	Coefficients	Robust Std. Error
Per adult equivalent real food consumption (Rs.)	81.135*	45.462
Per adult equivalent real non-food consumption (Rs.)	–17.940	44.375
Per adult equivalent real total consumption (in Rs.)	63.195	70.965
Poverty rate under CBN approach (poor=100)	3.029	3.103
MPI poor (yes=100)	–4.024	3.141
Severe MPI poor (yes=100)	–2.485	2.331

Source: Authors' estimation from various rounds of BISP's Impact Evaluation Survey.
Note: Standard Errors are adjusted for 247 clusters in a PSU.

This raises the question that why no significant impact is observed on the beneficiary households despite the consistent reduction in MPI overtime? The analysis reveals that it is the time-factor that led to the improvement in various socioeconomic indicators including consumption, poverty and MPI. The factors that contributed to the improvement are education of the head of the household and lower household size/dependency burden.

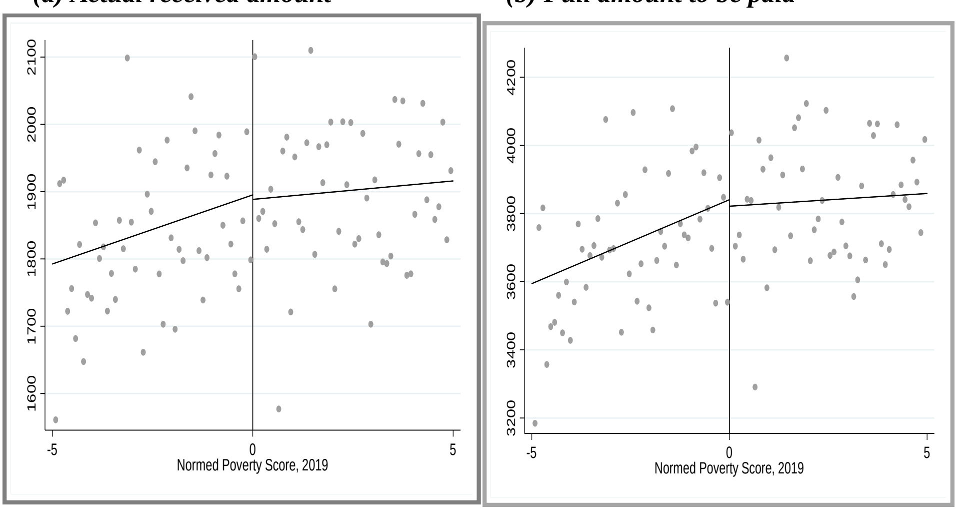
WHY THE BISP CASH TRANSFER DOES NOT IMPACT BENEFICIARIES SOCIOECONOMIC WELLBEING?

We analyse the possible factors behind the lack of impact of the BISP's cash transfers on households' socioeconomic wellbeing across and overtime both. The reasons are multiple. First, although the nominal value of cash transfers increased by 67%, the real value of transfers declined by 9% during the 2011-2019 period. Second, disruptions in payment frequency creates issues for the recipient households. A beneficiary should receive the payment after every 3 months, but delays can and do take place. Third, the value of the transfer is not sufficient, and its contribution is just 5.3% in the total consumption of the household on the basis of the amount that the beneficiaries actually receive, and 7.5% if she received the full amount.[2]

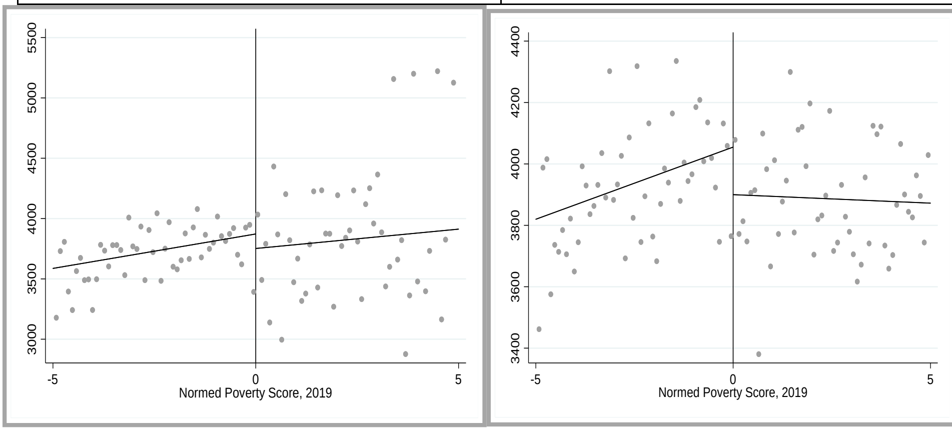
We conducted a simulation exercise to ascertain the amount of cash transfer that will generate a significant socioeconomic impact. We found that a payment of Rs. 24,000 in a year (Figure 5b) or restoring the real value of cash transfers as per baseline (2011) will not yield a significant impact on consumption (Figure 5c). BISP cash transfer should contribute at least 15% of the total consumption to generate an impact of Rs. 342 in per adult equivalent consumption that may help in poverty reduction (Figure 5d).

Fig. 5. Simulation on Per Adult Equivalent Monthly Consumption (in Rs)—RDD Analysis

(a) Actual received amount ***(b) Full amount to be paid***



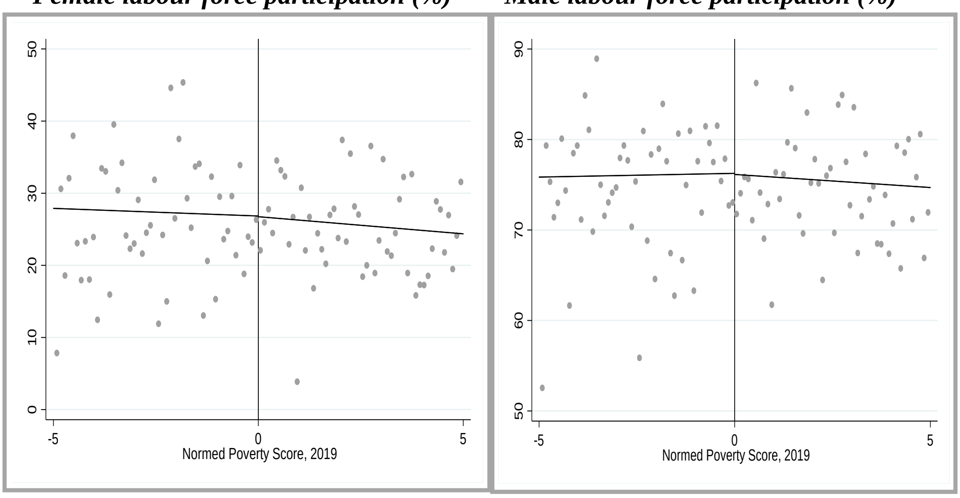
(c) Restore real value of cash transfer 2011	***(d) 15% contribution in consumption***



There is a general belief that unconditional cash transfers make recipient households to reduce their labour supply. Such reduction in labour supply could be the reason of high chronic poverty among them. RDD analysis was carried out to investigate if this was the possible reason behind the no impact of the cash transfer on poverty. The analysis showed no statistical difference in the labour force participation rates for both women and men among the recipient and non-recipient households (Figure 6).

Fig. 6. Impact of Cash Transfers on Labour Supply—RDD Analysis

Female labour force participation (%) ***Male labour force participation (%)***



THE WAY FORWARD

Despite 12 years of the intervention, the BISP programme has not succeeded to reduce poverty among its recipients. It is time to rethink the unconditional cash transfer as a poverty alleviation strategy as the country cannot afford an unconditional intervention for an unlimited time-span.[3] Few recommendations in this regard are listed below.

- A policy shift is needed to shift from unconditional to conditional transfers that may help in improving human capital and asset creation.[3,4] The recently drafted *Ehsaas* strategy has tried to reconceptualise the programme but strong commitment and financial resources are required to implement it. It also requires synergy among the various tiers of the federal and provincial governments which is generally hard to create.
- The existing BISP conditional cash transfers should be extended to secondary level education as financing up to primary level is not sufficient to build human capital among the poor.
- The demographic profile of the recipient households have a fair share of young population, with only 4-5% members aged above 60 years. Any new intervention must target the youth by providing them market-based skills. Such skills, accompanied by interest free loans, may generate livelihood opportunities for the poor, and lower their dependency on unconditional cash.
- Expecting poverty alleviation from social safety nets alone is not pragmatic. The provision of unconditional and conditional cash transfers will not eradicate poverty in regions deprived of education, health, infrastructure and market connectivity. A stable macroeconomic environment is needed, with more stress on soft infrastructure than physical.
- Both the federal and provincial governments are running several social safety net programmes. This has led to duplication as well as exclusion of some the deserving. To make a real impact, the recently developed Poverty Alleviation and Social Safety (PASS) Division should work on the consolidation of all such programmes, and also formulate a social protection framework by enlisting the roles and responsibilities of both the federal and the provincial governments.
- Lastly, and most importantly, we need to give space to the poor to grow as mere handouts would not do so. A cash transfer cannot be a substitute for opportunity. Exclusion from opportunity is the biggest reason for people staying poor. The "*apartheid social regime*"[5] excludes the poor in housing, employment, leisure and space from entrepreneurship,[6] obstructing their way to exit from poverty. Access to opportunities can do what cash transfers may not do, that is, moving out of poverty.

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