

# PIDE

## SLUDGE AUDIT

### VOL - 2



# **PIDE SLUDGE AUDIT**

## **VOLUME 2**

**NADEEM UL HAQUE**  
Vice-Chancellor, PIDE

**AHMED WAQAR QASIM**  
Senior Research Economist, PIDE

**FAHEEM JEHANGIR KHAN**  
Senior Research Economist, PIDE



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

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Pakistan Institute of Development Economics  
Quaid-i-Azam University Campus  
P. O. Box 1091, Islamabad 44000, Pakistan

Email: [rasta@pide.org.pk](mailto:rasta@pide.org.pk)  
Website: [www.pide.org.pk](http://www.pide.org.pk)  
Phone: +92-519248144

Designed, composed, and finished by RASTA-PIDE

## PREFACE

What matters ultimately is that the economy grows, the standard of living rise and citizens have all opportunities to realize their potential. The purpose of regulations is to frame and develop the market to allow everyone to do the best for themselves.

Rules and regulations are essential for a market to work efficiently. They ensure free entry, transparent and least-cost transactions, and information on available transactions to all.

The regulation requires deep market knowledge and deft touch, not heavy-handed uninformed officialdom that merely shut down transactions and promotes insider trading. An informed regulator develops the market, monitoring it and adapting the rules to promote innovation, maximize transactions, and continuously lower the cost of trading and information provision.

Research has shown that regulations are not free of cost and entail huge economic losses. For this reason, in advanced countries, all regulations and regulatory bodies are subject to considerable scrutiny including a comprehensive cost-benefit analysis of existing regulatory structures.

In Pakistan, we are on an over-drive to build regulatory bodies and develop a permission economy. This resulted in the lowest level of investment in Asia, low productivity, limited firm dynamism, and very reduced opportunities for educated youth employment.

PIDE, the country's leading think tank, is charged with informing public policy to accelerate the country's development. We have developed substantial research on the causes of our economic malaise.

We find that there is a substantial need to understand the over-regulated economy. The administrative burden and the number of registrations, licenses, certificates, and other permissions (RLCOs) are huge. In addition, we find that the number of regulatory bodies is increasing because they provide easy job opportunities. Frequently

these agencies are funded by transaction fees that are like a tax on economic activity. Sadly, no one notices these silent taxes that finance an opulent bureaucratic lifestyle.

PIDE, like all think tanks in advanced countries, will fulfill its obligation to the nation by continually studying the cost of regulation and evaluating regulatory bodies to develop markets, enabling investment, accelerating transactions, and increasing transparency. We will periodically present you with more Sludge Audits, which evaluate regulations to determine the cost to the economy. Sludge Audits will go through as many economic activities as possible to determine how regulations impede market activity, investment, and development. Our first volume came out a few months ago to show that the cost of regulation from some activities is far from trivial. It could be as much as 40 percent of the GDP. We present to you the second volume in which we have looked at 12 new activities. We hope that you find this useful and will lobby your policymakers to review regulation from the perspective of our Sludge Audits.

**Dr. Nadeem Ul Haque**

Vice-Chancellor

Pakistan Institute of Development Economics

Islamabad

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## ACRONYMS AND ABBREVIATIONS

CDA	Capital Development Authority
CNIC	Computerised National Identity Card
DLA	Driving Licence Authority
DMA	District Management Authority
DML	Drug Manufacturing Licence
DRAP	Drug Regulatory Authority of Pakistan
DTS	Department of Tourism and Services
EOBI	Employees Old-Age Benefit Institution
FBISE	Federal Board of Intermediate and Secondary Education
IESCO	Islamabad Electric Supply Company
IPO	Intellectual Property Organisation of Pakistan
IPRs	Intellectual Property Rights
ITA	Islamabad Transport Authority
LDA	Lahore Development Authority
MCI	Metropolitan Corporation Islamabad
MoU	Memorandum of Understanding
NADRA	National Database and Registration Authority
NOC	No Objection Certificate
NTN	National Tax Number
PEIRA	Private Educational Institutions Regulatory Authority
PSEB	Pakistan Software Export Board
RTA	Regional Transport Authority
SDPO	Deputy Superintendent of Police Office
SECP	Securities and Exchange Commission of Pakistan

## WHAT IS SLUDGE IN THE ECONOMY?

Social scientists use the term sludge for excessive or unjustified frictions that make it difficult for people to achieve what they want to or to do as they wish (Sunstein, 2021). These frictions make processes difficult to navigate and entail burdens.

Examples of sludge include:

- Complicated application forms.
- Duplicative paperwork.
- Waiting in queues to get a task done.
- Time consumed in seeking registrations, licences, certificates, and other permits (RLCOs).
- Securing attestations/verifications.

All interactions between individuals seeking a service and institutions, both public and private, involve sludge. In an interaction between a citizen and a public institution, sludge is simply the administrative burden borne by a citizen. Herd and Moynihan (2018) elaborate that these administrative burdens occur in the form of learning costs (the cost that people encounter when they search for information about a service), compliance costs (related to compliance with rules and requirements), and psychological costs (related to the experience of stress, loss of autonomy, or stigma).

## WHY DOES SLUDGE MATTER?

Studies from behavioural economics show that individuals prefer to avoid such administrative burdens in the present, even if it means forgoing long-term benefits.<sup>1</sup>

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<sup>1</sup> For instance, see Clarke (2010), Thaler and Sunstein (2008)

This implies that the presence of sludge in the form of administrative burdens lowers the frequency of transactions. Since GDP is the sum of transactions that happens in the economy, **sludge is consequential** and constrains GDP growth.

Sludge also costs the economy in terms of waste of resources and incidence of higher opportunity costs. For example, requiring a document to be delivered in person that can be delivered online imposes several costs such as travel expenditures, the cost of time spent, and even pollution caused due to travel. Such costs discourage investment and lower the overall productivity in the economy, which ultimately constrains GDP growth.

Besides, resources are required to overcome sludge, and resource-constrained individuals face more difficulty to tackle sludge. Therefore, **sludge is distributive** and reinforces inequality. It also imposes psychological costs in the form of frustration, humiliation, and stigma. Finally, it can be used to seek rents, which again constrains economic activity.

## OBJECTIVES OF PIDE SLUDGE REPORTS

The identification of sludge involved in different interactions between citizens and public institutions is essential to reduce the magnitude of the burden imposed by the frictions.

PIDE sludge reports aim to serve this goal. The objectives of the reports are:

- To highlight the sludge involved in different activities.
- Induce the concerned agencies to work to reduce sludge.
- To pin down areas where sludge can be reduced either by shortening the procedure or through digitization.



To compute the sludge involved in an activity, we have estimated the time consumed and cost incurred during performing the activity. The cost of sludge includes both processing costs as well as opportunity costs. Expenditures incurred for the execution of an activity such as fees, taxes, travel expenditures, etc., fall in the category of processing expenditures, while opportunity cost captures the overall cost of sludge to society from a broader perspective. For instance, opportunity costs include the revenue foregone due to delayed execution of the activity such as the rental income that a building may generate if allowed to be constructed earlier than is the case, the time cost of the person(s) facing the administrative burdens, trips to a government office and waiting for a public official to get a task done, etc. The profile of the person undertaking the activity has been accounted for while assuming the wage income lost.

EXECUTIVE SUMMARY

The cost of Regulations in these selected activities is more the 6% of the GDP  
The Invisible Tax in the form of Regulations on Businesses is around 34%

1

Restaurant Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
5.7 months	31	1.5

2

Hoteling Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
1.5 years	75	0.7

3

Cash and Carry Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
5 months	36	0.3

4

Setting up a Private School

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
9 months	18	0.5

5

## Intracity Public Transport Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
1.7 months	19	0.04

6

## Intercity Private Bus Service Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
2.1 years	91	1.07

7

## Banking Services

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
1 month	4	0.4

8

## Getting a Business Loan from Bank

Time Taken	Number of Visits	Cost of Sludge
3.7 months	12	Rs. 0.2 million

9

## Electricity Connection in Islamabad

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
5 months	9	1.5

10

## Registration of a New Medicine

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
1.7 year	28	0.03

11

## Software House and Call Center – IT Business

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
4 months	18	0.03

12

## Getting Intellectual Property Rights

Time Taken	Number of Visits	Cost of Sludge(% of GDP)
1.6 years	30	0.07

1

# Restaurant Business

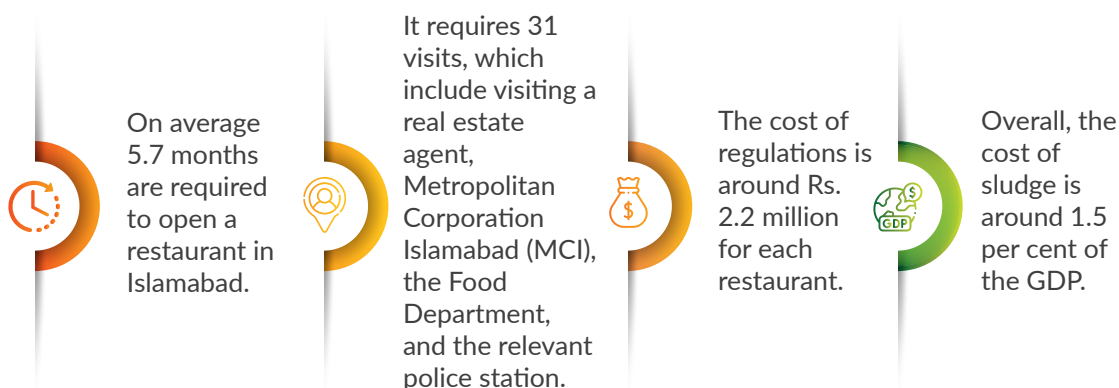


## 1. RESTAURANT BUSINESS

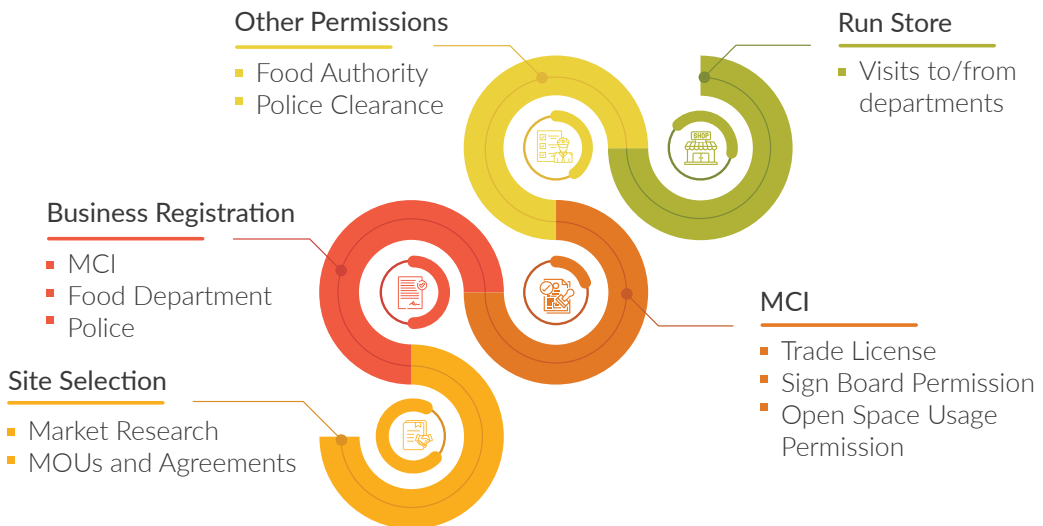
The Pakistan Hotels and Restaurants Act (1976) and the Pakistan Hotels and Restaurants Rules (1977) provide the framework for the registration and management of hotels and restaurants. Section 7(2) of the Rules states, “No owner shall carry on his business without first getting the hotel or restaurant registered and obtaining a license under this Act.”

Furthermore, Section 2 of the Act describes that “no hotel or restaurant shall be registered, unless it conforms to the prescribed standard of health, hygiene and comfort, provided that the Controller may allow provisional registration subject to such conditions as he may deem fit and, for good and sufficient reasons, modify, alter or withdraw any such condition at any time; it furnishes at its expense certificates of medical fitness from a medical officer of the civil hospital of the area in respect of its staff in such form as may be prescribed; its building is structurally safe and adequately protected against fire or an accident arising out of electricity or gas and safety of the tourists is ensured.”

### 1. OPENING A RESTAURANT



**Figure 1: Process to Register and Run a Restaurant**



**Step 1- Site Selection:** The selection of a site for a restaurant implies additional learning and compliance costs due to zoning rules in Islamabad. The average time required to complete the site selection ranges from 20 to 30 days, costing around Rs. 38,700. It also involves a moderate level of stress (2.25/5 score on the Likert scale).

**Step 2-Prepare Documents:** Since opening a restaurant requires one licence and four permissions for different departments, the preparation of documents for getting a trade license from the MCI and other authorities consumes more than 20 days for the investor.

### Step 3-Registrations:

**Trade License, Sign Board Permission, and Open Space Usage Permission from the Metropolitan Corporation Islamabad (MCI):** The process of obtaining a trade licence and other permissions is the most burdensome, which requires around 7 trips and more than 80 days. The process costs more than Rs. 8,800, on average.

**Approval from the Food Department:** Every restaurant also has to get approval from the Food Department to ensure the quality of food it is serving. This process takes more than 24 days and costs more than Rs. 50,000.

**Police Clearance:** The restaurant operating within the Islamabad territory needs to get a clearance certificate from the police station as well. To get this clearance, one needs to produce the character certificate, which is cumbersome, especially for a non-resident of Islamabad.

Table 1.1: Time and Monetary Costs Involved in Opening a Restaurant

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Find a Site for the Restaurant	Visit the realtor	21	5	36,000
		Preferences indication			
		Finish the day			
		Visit 2: the realtor			
		Site visit			
		Finish the day			
		Visit 3: the realtor			
		Meet the owner			
		Finish the day			
2	Lease Agreement	Collect stamp paper	5	2	2,700
		Print lease agreement			
		Witnesses signature			
		Pay advance			
		Finish the day			
3	Visit MCI-DMA	Visit 1: DMA	1	2	3740
		Collect information			
		Finish the day			
4	Getting Start	Prepare the restaurant	30	7	15,000
		Inventory			
		Setting-up the restaurant			



5	Prepare Documents for Trade License, Sign Board Permission, and Open Space Usage Permission	General vaccination certificate	Visit F-11/4 Get vaccinated and receive the certificate Finish the day	7	3	14,200
		CNIC copy				
		Lease agreement copy				
		Affidavit for sign board display				
		Application forms				
		Map layout				
6	Application Submission	Visit 2: DMA		1	1	2,200
		Submit applications				
		Finish the day				
7	Check the Status	Visit 3: DMA		1	1	1,200
		Check the status				
		Finish the day				
8	Wait for Approvals			70		
9	Get License and Permissions	Visit 4: DMA		1	1	1,200
		Collect license and permissions				
		Finish the day				
10	Visit the Food Department	Visit the Food		1	1	1,200
		Department Collect information				
		Finish the day				
11	Prepare Documents	Application form		2	1	26,200
		CNIC copy				
		Fee submission				
		Domicile copy				
		Trade license copy				
12	Application Submission	Visit-2 Food Department		1	1	1,200
		Submit application				
		Finish the day				

13	Wait for Inspection			20		
14	Obtain Approval			1	1	12,00
15	Police Clearance	Documents required	Character certificate	10	3	4,000
			CNIC copy			
			Application			
16	Start Restaurant			1	2	0
Total				173 (5.7 months)	31	110,040

## 2. SOURCES OF SLUDGE



### Permissions and Licence from DMA-MCI

The owner has to submit three different applications to the MCI: one for a trade licence, one for open space, and one for the signboard. The applications require repeated copies of almost similar documents such as the CNIC, registration certificate, and rental agreement.

### Inspection by DMA-MCI

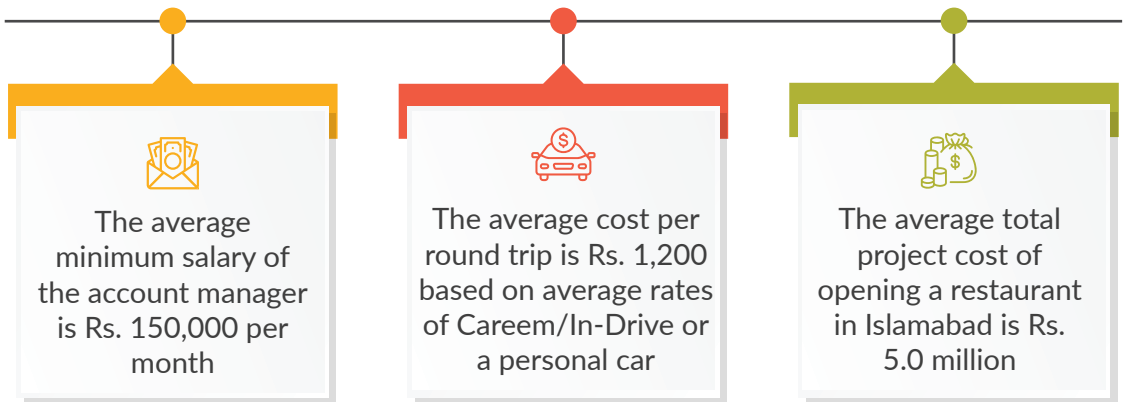


Another major source of sludge is “wait for inspection”. Before the approval is granted the premises of the restaurant are inspected by the MCI officials. This can take around 21 days.



### 3. COST OF SLUDGE

Apart from time and monetary costs, opening a restaurant also involve opportunity cost. To measure the opportunity cost, we performed some calculations by assuming:



**3.1. Rental Cost:** One form of indirect cost that the restaurant owner bears is the rental cost that they pay for around six months until they get the registration and NOCs/licenses to operate the restaurant. To calculate the rental cost, we assumed an average rent of 2 lac<sup>2</sup> per month, therefore, the six months waiting period entails a rental cost to the owner equal to 24 per cent of the total project cost.

**3.2. Cost of Personal Time:** The opportunity cost of personal time involved in getting permissions and licenses/NOCs for a restaurant is captured by assuming the average monthly salary of a manager. We assumed that the average monthly salary of a manager is Rs 150,000. Using this information, the cost of personal time is around 12.3 per cent of the total project cost.

<sup>2</sup> Based on the data collected from restaurant owners.

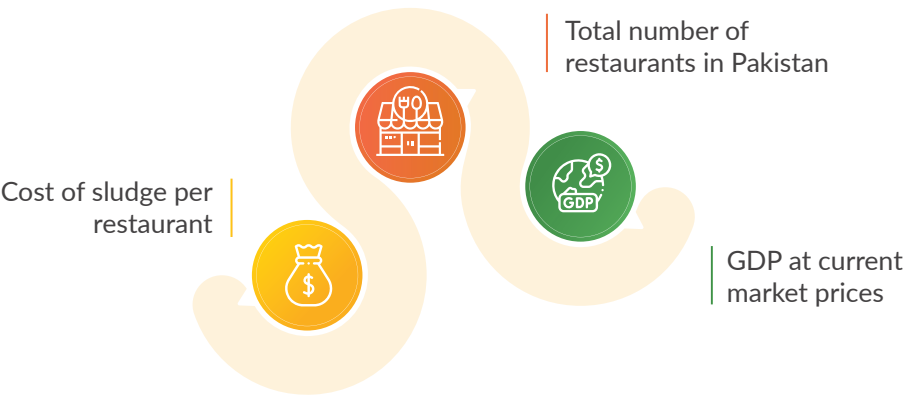
Based on these assumptions, the table below contains the estimations of the cost of sludge in Islamabad:

Table 1.2: Cost of Sludge for a Restaurant

Head	Cost (Rs. Millions)
Processing cost (including travelling)	0.11
Cost of personal time	0.85
Rental cost	1.22
Total	2.2

3.3. Cost of Sludge in terms of GDP:

To assess the cost of regulations on the economy, we translate the cost of sludge in terms of GDP. The task is carried out based on the following information:



Based on the information above, we estimated the cost of sludge in opening a restaurant is 1.5 per cent of the GDP.

Table 1.3: Cost of Sludge in terms of GDP

Head	Restaurant Business
Cost of sludge per restaurant in Islamabad	Rs. 2.2 million
Number of restaurants in Pakistan <sup>3</sup>	75,000
Cost of sludge in Pakistan	Rs. 165 billion
GDP at current market prices (FY-2022)	Rs 66,950 billion
<b>Cost of sludge (% of GDP)</b>	<b>1.5 %</b>


## 4. CUTTING THE SLUDGE


**1. Zero-waiting period:** The major component of the sludge, especially in the case of starting a restaurant, is the waiting time for the approval of a trade license from the MCI. This sludge can be removed by adopting a policy of a zero-waiting period under which the applicant must be allowed to start the business from the day they applied for the MCI.


**2. Deemed Approval:** The MCI also needs to ensure a time-bound approval process and after the lapse of a certain time, say 3 weeks after the application submission, the application will be considered approved, and the license deemed granted, given the MCI has not raised any observation and reverted to the applicant.


<sup>3</sup> Source: <https://www.santorinichicago.com/how-many-restaurants-in-pakistan/>


### 3. Automation and Digitization


- 


**Online availability of information**  
Gathering information from the Food Department, CDA, and the DMA regarding the issuance of licenses can be made available on their websites or the MCI's website.
- 

**Digitized requirement of the CNIC**  
The requirement of the CNIC should be linked to NADRA's website.
- 

**Online submission of application form**  
Submission of application to the CDA, the DMA, and the food authority should be accepted electronically.
- 

**Online payment of license fee**  
Currently there is no option for online payment of license/NOC fee. Online payment should be introduced.
- 

**Checking the status of the application from the food authority**  
The status of the application should be made available on the website.
- 

**Collection of licenses**  
To collect the licenses/NOCs, the person has to visit the CDA, the food authority, and the DMA. The license can be sent electronically or through courier service to the business owner.
- 

**Permission to display the signboard**  
The requirement to take permission from the DMA to display a signboard can be eliminated by incorporating the specification of the board in the instructions accompanying the application form to be signed by the applicant.

### 5. RUNNING A RESTAURANT

Once the restaurant is operational, different government departments such as the Food Department, the DMA-MCI, the police, and the Labor Department visit the premises to check the business's quality, safety, and other operations.

**Table 1.4: Departmental Visit to the Restaurant around the Year**

Department	Operation	Total Visits in a year	Cost per visit	Fine/Fee
Food Department	Collect food samples	12	1,000	12,000
DMA-MCI	Inspection	10	1,000	5,000
Police	Inspection	23	1,000	-
Assistant Commissioner	Inspection	6	-	-
Labor Department	Send Legal Notices	7	-	35,000
Renewal of Trade License	Resubmission	1	1,200	50,00

- On average the Food Department visits a single restaurant 12 times a year, which costs the businesses Rs. 1,000 per visit excluding the fine that they have to pay in case of violation of the rules and standards.
- The DMA pays on average 10 visits yearly, which again costs the business Rs. 1,000 per visit excluding fines.
- The Labor Department pays, on average, 7 visits per year.
- The police and the AC visit the restaurant premises on average 23 and 7 times, respectively.

The owner must also renew the license yearly against a Rs 1,000 fee.

# 2

## Hoteling Business





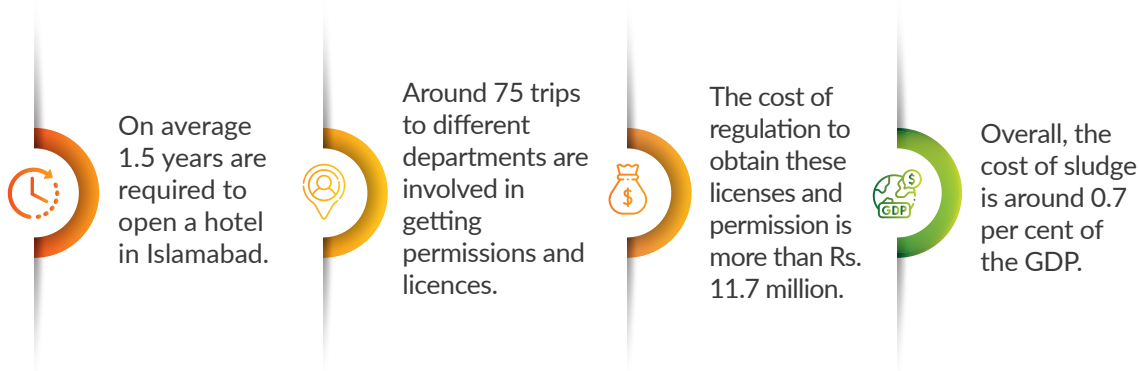
## 2. HOTELING BUSINESS

As in the restaurant business's case, the hoteling business is also regulated by the Pakistan Hotels and Restaurants Act (1976) and the Pakistan Hotels and Restaurants Rules (1977). Section 7(2) of the Act states, "No owner shall carry on his business without first getting the hotel or restaurant registered and obtaining a license under this Act."

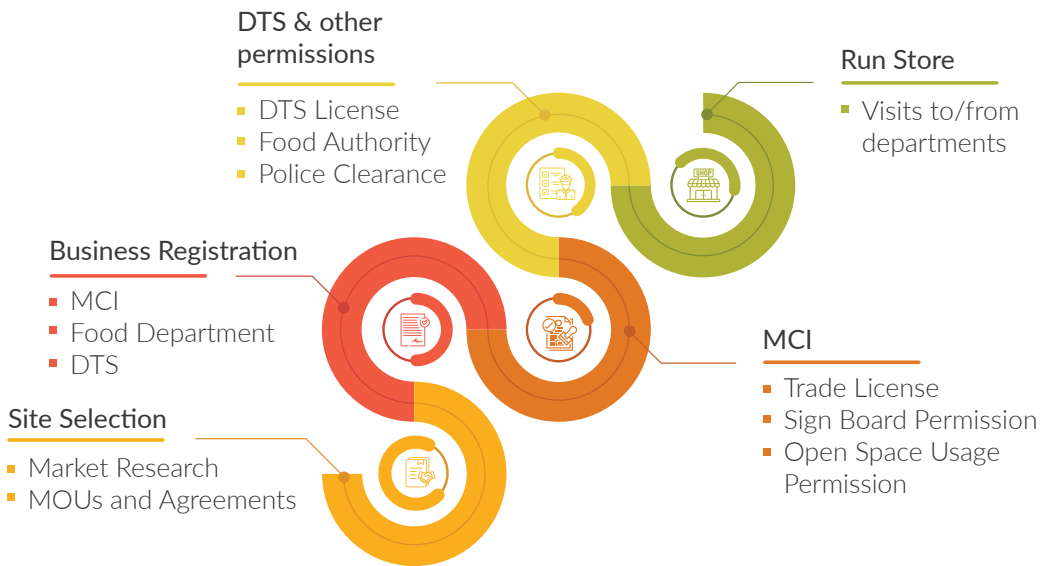
Furthermore, Section 2 of the Act describes that "No hotel or restaurant shall be registered, unless – it conforms to the prescribed standard of health, hygiene and comfort, provided that the Controller may allow provisional registration subject to such conditions as he may deem fit and, for good and sufficient reasons, modify, alter or withdraw any such condition at any time; it furnishes at its expense certificates of medical fitness from a Medical Officer of the Civil hospital of the area in respect of its staff in such form as may be prescribed; its building is structurally safe and adequately protected against fire or an accident arising out of electricity or gas and safety of the tourists is ensured."

In 2020, Pakistan's tourism and hotel business was estimated to be worth around USD 20 billion. Hoteling and restaurant businesses were booming before the COVID pandemic and contributed around 7.1 per cent to the GDP. However, the hotel business has suffered as a result of the recent epidemic and floods.

### 1. OPENING A HOTEL



**Figure 2: Process to Register and Run a Hotel**



**Step 1- Site Selection:** Site selection is the most important step in starting a hotel in Islamabad. The master plan of Islamabad has divided the cities into different zones. Commercial activities, especially hotels and lodges, can be established only in specified areas. One must select a suitable site in the designated zones of Islamabad. Therefore, the site selection in the case of establishing a hotel entails huge learning and compliance costs. This step takes more than 20 days and costs more than Rs. 250,000.

**Step 2- Site Preparation:** Site preparation for a hotel requires significant compliance costs since the Department of Tourism and Services (DTS) has a long check-list for a licence, which includes parking space, fire alarms, security cameras, washing area, electrical backup, kitchen, reception, room communication system, termite control certificate, 800 CC car, air conditioning system, and personnel list. Compliance with these requirements costs roughly Rs. 10.6 million.

**Step 3-Prepare Documents:** Since opening a hotel requires multiple licenses and permissions for different departments, document preparation takes more than 6 months to comply with the requirements. Most departments regulating the hotel industry also ask for dual-attested copies of the documents, which cost around Rs. 800 per page. On average, each applicant has to get an attestation of a minimum of 100 pages.

#### **Step 4-Registrations:**

*Trade Licence and Sign Board Permission from the Metropolitan Corporation Islamabad (MCI):* the process of obtaining a trade licence and other permissions is the most cumbersome, requiring around 7 trips and more than 80 days. This costs more than Rs. 8,800, on average.

*Licence from DTS:* Every hotel must get a licence from the Department of Tourism and Services (DTS), which takes 201 days, around 22 round visits, and costs approximately Rs. 626,000, including travel, documentation, and fees.

*Approval from the Food Department:* Every hotel also has to get approval from the Food Department to ensure its food quality. This process takes more than 24 days and costs more than Rs. 50,000.

*Police Clearance:* The hotel operating within the Islamabad territory needs to get a clearance certificate from the police stations as well. To get this clearance, one needs to produce the character certificate, which is cumbersome, especially for a non-resident of Islamabad.

**Table 2.1: Time and Monetary Costs Involved in Opening a Hotel**

No.	Steps	Description		Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)	
1	Find a Site for Hotel	Visit the realtor		22	6	204,800	
		Preferences indication					
		Finish the day					
		Visit-2 the realtor					
		Site visit					
		Finish the day					
2	Lease Agreement	Legal advisor		5	2	62,400	
		Print lease agreement					
		Witnesses signature					
		pay advance					
		Finish the day					
3	Site Preparation	Parking		180	20	10,594,000	
		Anti-Fire system					
		Security camera					
		Kitchen					
		Washing area					
		Electricity backup					
		Reception					
		Rooms communication					
		Termite control					
		Air conditioner installation					
		Car (min. 800 cc)					
		Employees Required	2 Receptionists				
			2 Chefs				
			2 Helpers				
			8 Room service				
			workers				
			2 Guards				
			2 Sweepers				

4	NTN number	Agreement copies		1	1	1,240
		Electricity bill copy				
		CNIC copy				
		Bank statement (optional)				
5	Visit MCI-DMA	Visit-1 DMA		1	2	3740
		Collect information				
		Finish the day				
6	Prepare Documents for Trade Licence, Signboard Permission	General vaccination certificate	Visit F-11/4	7	3	14,200
			Get vaccinated and receive the certificate			
			Finish the day			
		CNIC copy				
		Layout map				
		Lease agreements copy				
		Affidavit for signboard display				
		Application forms				
7	Submit Application	Visit-2 DMA		1	1	2,200
		Submit applications				
		Finish the day				
8	Check the Status	Visit-3 DMA		1	1	1,200
		Check the status				
		Finish the day				
	Wait for Approvals			70		
9	Get Licence and Permissions	Visit-4 DMA		1	1	1,200
		Collect licence and permissions				
		Finish the day				
10	Business Account	Visit Bank		20	7	600,000
		Collecting information				
		Fill in the form				
		Affidavit				

		Copies (CNIC, NTN registration, bills)			
		Bank guarantee + withholding amount			
		Wait for verifications			
		Account functional			
11	Visit DTS	Visit to DTS	1	1	1,200
		Meet officials to get information			
		Finish the day			
12	Prepare Documents for DTS License	Medical fitness certificate	1	2	40,000
		Building plan of the hotel			
		Property agreement			
		Copies of CNIC of all employees			
		Room rates			
		NTN number			
		Fee challan copy			
		Bank account details			
13	Submit Application	Visit-2 to DTS	1	1	1,200
		Submit applications			
		Finish the day			
14	Wait for Inspection		90	7	8,400
15	Inspection for DTS		1	1	1,200
16	Wait for the Demand Notice		60	7	8,400
17	Submit Demand Notice		1	1	200,000
18	Wait for Licence Approval		45	1	1,200
19	Get License		1	1	1,200
20	Visit the Food Department	Visit the Food Department	1	1	1,200
		Collect information			
		Finish the day			
21	Prepare Documents	Application form			
		CNIC copy			

		Fee submission		2	1	26,200
		Domicile copy				
		Trade licence copy				
22	Application Submission	Visit-2 Food		1	1	1,200
		Department				
		Submit application				
		Finish the day				
23	Wait for Inspection			20		
24	Obtain Approval			1	1	1,200
25	Police Clearance	Documents required	Character certificate	10	3	4,000
			CNIC copy			
			Application			
26	Start Business			1	2	
Total				546 (1.5 Years)	75	11,781,580

## 2. SOURCES OF SLUDGE



### Permissions and Licence from the MCI

To operate a hotel, one must get permission from MCI for a signboard, and a trade licence. For this purpose, two separate applications must be submitted to the DMA-MCI, which, in turn, requires copies of the CNIC, registration certificate, and rental agreement.

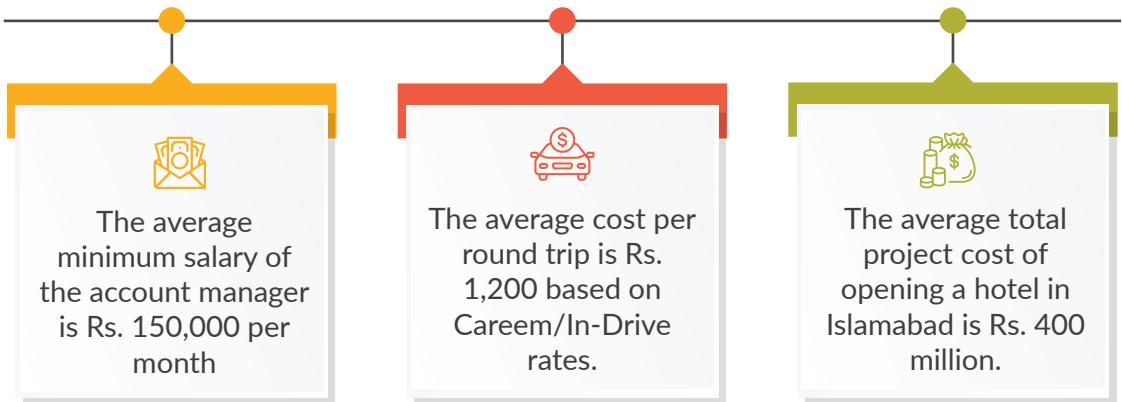
### License from DTS



Obtaining a licence from the DTS involves a long waiting period for inspections, demand notice issuance, and final approval. These three phases take more than 6 months, which is the major source of sludge.

### 3. COST OF SLUDGE

The sludge involved in opening and running a hotel in Islamabad has a huge opportunity cost that the owner of the hotel has to bear. To measure the opportunity cost, we performed some calculations by assuming:



**3.1. Rental Cost:** One form of indirect cost that the hotel owner bears is the rental cost that he pays for the period of getting the registrations and NOCs/licenses (around 17 months). The average monthly rent we assumed is Rs. 2.25 million.<sup>4</sup> Therefore, the owner of the hotel must bear around Rs. 38.2 million as a rental cost of the sludges.

**3.2. Human Resource Cost:** One of the requirements of the DTS is the provision of a list of employees with a minimum number of employees in specific positions. We assumed that the owner keeps the required human resources on the hotel payroll for at least 11 months before starting operations.

<sup>4</sup> Based on the data collected from different hotels in Islamabad.



**Table 2.2: The Human Resource Cost**

Head	Monthly Salary	Numbers	HR Cost due to Sludge
Receptionist	30,000	2	660,000
Chef	50,000	2	1,100,000
Helpers	25,000	2	550,000
Room Services	25,000	2	550,000
Guards	20,000	2	440,000
Sweepers	20,000	2	440,000
<b>Total HR Cost due to Sludge (11 months)</b>			<b>Rs. 3.7 million</b>

**3.3.Cost of Personal Time:** The opportunity cost of personal time involved in getting permissions and licences/NOCs for a hotel has been captured by assuming the average monthly foregone income. We assumed that the average monthly income of the investor is Rs. 1.0 million. Using this information, the cost of personal time is around Rs. 18.2 million.

Based on these assumptions, the table below contains the estimations of the cost of sludge in Islamabad:

**Table 2.3: Cost of Sludge for a Hotel**

Head	Cost (Rs. Millions)
Processing cost (including Traveling)	11.7
Personal cost	18.2
Rental cost	2.2
HR cost	3.7
<b>Total</b>	<b>35.8</b>

### 3.4. Cost of Sludge in terms of GDP:

To assess the cost of regulations on the economy, we translate the cost of sludge in terms of GDP. The task is carried out based on the following information:



Based on this information, we estimated that the cost of sludge in opening a hotel is around 0.7 per cent of the total GDP.

**Table 2.4: Cost of Sludge in terms of GDP**

Head	Hotel Business
Cost of sludge per hotel in Islamabad	Rs 35.8 million
Number of Hotel in Islamabad <sup>5</sup>	128
Cost of sludge in Islamabad	Rs 22.7 billion
The population of Islamabad	1.1 million
Per Capita cost of sludge	Rs. 3.96
Population in top 50 cities	61.3 million
Cost of sludge in 50 cities	Rs 1,205 billion
GDP at market price	Rs 66,950 billion
Cost of sludge (% of GDP)	0.67

<sup>5</sup> Source: DTS

## 4. CUTTING THE SLUDGE

**4. Zero-waiting period:** The major component of the sludge, especially when starting a hotel, is the waiting time for the approval of a licence from the DTS and a trade licence from the MCI. This sludge can be removed by adopting a policy of a zero-waiting period under which the applicant must be allowed to start the business from the day they applied to the DTS and MCI.

**5. Deemed Approval:** The MCI and DTS also need to ensure a time-bound approval process and after the lapse of a certain time, say 3 weeks after the application submission, the application will be considered approved, and the licence deemed granted, given the MCI has not raised any observation and reverted to the applicant.

## 6. Automation and Digitization



### Online availability of information

Gathering information from the DTS, Food Department, CDA, and the DMA regarding the issuance of licences can be made available on their respective websites.



### Digitized requirement of the CNIC

The requirement of CNIC should be linked to NADRA's website.



### Online submission of application form

The submission of applications to the DTS, the DMA, and the food authority should be accepted electronically.



### Online payment of license fee

Online payment should be introduced as currently there is no option for online payment of licence/NOC fee.



### Checking the status of the application from the food authority

The status of the application should be made available on the website.



### Collection of licenses

To collect the licences/NOCs, the person has to visit the DTS, the food authority, and the DMA. The licence can be sent electronically or through a courier service to the applicant.

### Permission to display the signboard

The requirement to take permission from the DMA to display the signboard can be eliminated by incorporating the specification of the board in the instructions accompanying the application form to be signed by the applicant.

## 5. RUNNING A HOTEL

Once the hotel is operational, different government departments such as the Food Department, the DMA-MCI, the police, and the Labor Department visit the premises to check the quality, safety, and other operations of the business. Moreover, every hotel must share the data of guests with the police department daily, which entails huge costs.

**Table 2.5: Departmental Visit to the Hotel around the Year**

Department	Operation	Total Visits in a year	Cost per Visit (Rs.)	Fine/Fee (Rs.)
Food Department	Collect food samples	12	10,000	12,000
CDA	Inspection	2	10,000	5,000
Police	Inspection + data	24+300	1,200	-
Labor Department	Send legal notices	10	-	35,000
Renewal of Licences	Resubmission	1	1,200	52,200

The shadow costing of these visits is as follows:<sup>6</sup>

- On average, the food authority visits a single hotel 12 times a year costing the businesses Rs. 10,000 per visit excluding the fine that they have to pay in case of violation of the rules and standards.

<sup>6</sup> These values are based on in-depth interviews of the respondents from the hotel industry.

- The CDA pays, on average, 2 visits a year which costs the business Rs. 10,000 per visit excluding any fine.
- The Labor Department pays, on average, 10 visits per year.
- The police visit the hotel's premises, on average, 24 and almost daily data has to be sent by the hotels to the concerned police station, which requires 300 visits on average.
- The owner must renew the trade licence annually against Rs. 1,000 fees.
- The owner must renew the DTS licence yearly against Rs. 51,200 on average.

# 3

## Cash & Carry Business

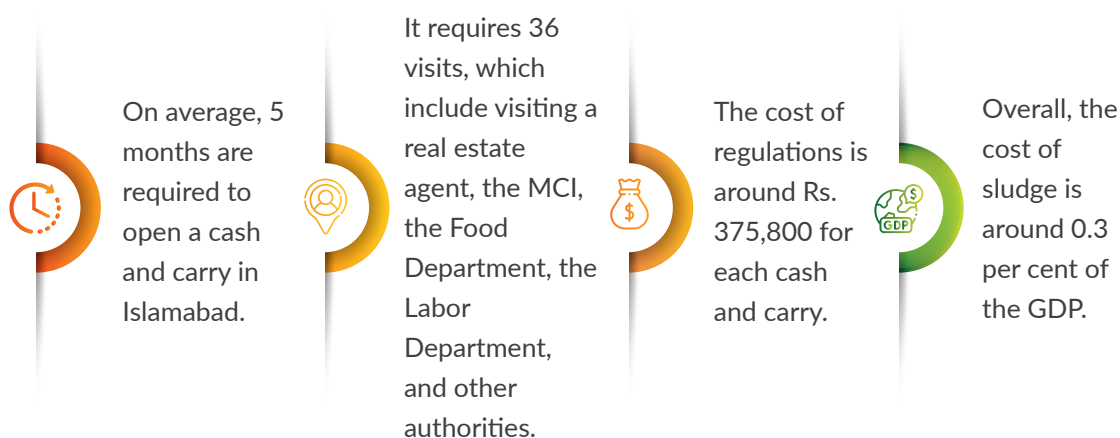


### 3. CASH AND CARRY BUSINESS

The wholesale and retail trade sector contributes around 19 per cent to the economy. Doing business activities in the sector involves huge regulatory costs like other sectors. In this report, we have estimated the sludge related to the establishment of a cash and carry business.

According to the Islamabad Capital Territory Municipal Bye-laws, “no person shall within Islamabad municipal limits of can carry on any trade without taking proper licence from the authority”. Therefore, to run a cash and carry business in Islamabad, one has to obtain a licence from the authority that is the Metropolitan Corporation Islamabad.

#### 1. OPENING A CASH AND CARRY



**Figure 3: Process to Register and Run a Cash-and-Carry**



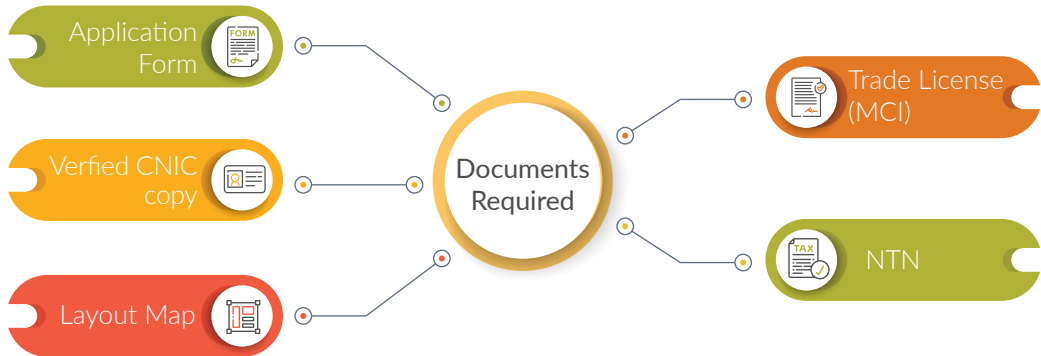
**Step 1- Site Selection:** The selection of a site for cash and carry entails additional costs such as a visit to a site, engagement of a property adviser and owner, and a legal adviser to form a rent arrangement. Property advisers charge either 50 per cent of the negotiated rent or 2 per cent of the total rent. Legal advisers charge around Rs. 50,000 to draft agreements and memoranda of understanding. Furthermore, market research is also required to determine market demand, which costs around Rs. 50,000. The average time required to complete these procedures ranges from 20 to 30 days.<sup>7</sup>

The estimated cost involved in the site selection phase is around Rs. 324,400. It also involves a moderate level of stress level (2.25/5 score on the Likert scale).

<sup>7</sup> These figures are based on the survey.



**Step 2-Prepare Documents:** The documents that are required to open cash and carry are:



### Step 3-Registrations:

**Registration with the Federal Board of Revenue (FBR):** To get the sale license from the Metropolitan Corporation Islamabad (MCI), registration with the FBR is mandatory. The process of obtaining the National Tax Number (TNT) from the FBR can be completed in 1 day and costs around Rs. 1,250.

**Trade License from the Metropolitan Corporation Islamabad (MCI):** The process of obtaining a trade license is the most cumbersome, requiring around 8 trips and more than 81 days. The process costs more than Rs. 21,340 on average.

**Opening a Business Account:** Every business in Pakistan must create a business account, which adds around 20 days with 7 trips and costs about Rs. 11,420.

**Table 3.1. Time and Monetary Costs Involved in Opening a Cash-and-Carry**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Find a Site for Cash-and-Carry	Visit the realtor	22	10	262,000
		Preferences indication			
		Finish the day			
		Visit-2 the realtor			
		Site visit			
		Finish the day			
		Visit-3 the realtor			
		Meet the owner			
		Finish the day			
2	Lease Agreement	Collect stamp paper	5	2	62,400
		Print lease agreement			
		Witnesses signature			
		pay advance			
		Finish the day			
3	NTN number	Agreement copies	1	1	1,240
		Electricity bill copy			
		CNIC copy			
		Bank statement (optional)			
4	Visit MCI-DMA	Visit-1 DMA	1	2	3,740
		Collect information			
		Finish the day			
5	Getting Start	Prepare the shop	30	7	15,000
		Inventory			
		Setting up the cash and carry			
6	Prepare Documents for Trade Licence and Signboard Permission	General vaccination certificate	7	3	14,200

		Layout map + CNIC			
		Lease agreement copy			
		Affidavit for signboard display			
		Application forms			
7	Application Submission	Visit-2 DMA	1	1	2,200
		Submit applications			
		Finish the day			
8	Check the Status	Visit-3 DMA	1	1	1,200
		Check the status			
		Finish the day			
9	Wait for Approvals		70		
10	Get License and Permissions	Visit-4 DMA	1	1	1,200
		Collect licence and permissions			
		Finish the day			
11	Business Account	CNIC	8	7	11,420
		NTN			
		Letterhead			
		Permit copy			
		Rubber stamp			
		Affidavit			
12	Start Cash and Carry		1	1	1,200
Total			148 (4.9 Months)	36	375,800

## 2. SOURCES OF SLUDGE



### Certificate/licence from the MCI

To run cash and carry, one must first obtain approval from the MCI. An application must be made for this purpose, which includes a land map, a copy of one's CNIC, a registration certificate, a rental agreement, and an affidavit, among other things. This process takes around 3 months and is the most time-consuming activity in starting a cash and carry business in Islamabad.

### Inspection by Departments



Once a business starts its operation, unnecessary inspection is another important cause of sludge in the cash and carry business, which can be translated into the loss of 49 days of operations.

## 3. COST OF SLUDGE

The time and monetary cost of opening and maintaining cash and carry also entail the opportunity cost. To measure the opportunity cost, we performed some calculations by assuming:



The average minimum salary of the account manager is Rs. 150,000 per month



We assumed the average cost per round trip is Rs 1,200 based on average rates of Careem/In-Drive and personal car



The average total project cost of opening a cash-and-carry in Islamabad is Rs. 100 million

**3.1. Rental Cost:** One form of indirect cost that the cash and carry owner bears is the rental cost during the period of waiting for the trade licence approval. The average rent a cash and carry pays is Rs. 2 million<sup>8</sup> and the approval of a trade license takes 5 months. Therefore, the indirect cost of sludge is Rs. 10 million in the form of the rental cost, which is around 10 per cent of the total project cost.

**3.2. Cost of Personal Time:** The opportunity cost of personal time involved in getting the licence for cash and carry has been captured by assuming the average monthly salary of a manager. We assumed that the average monthly salary of a manager is Rs 150,000. Using this information, the cost of personal time is around 0.6 per cent of the total project cost.

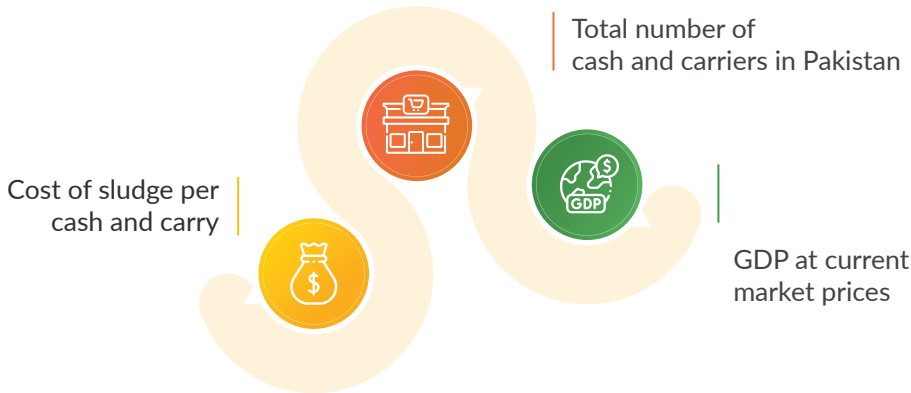
**Table 3.2: Cost of Sludge for a Cash-and-Carry**

Head	Cost
Processing cost (including travelling)	Rs 375,800
Cost of personal time	Rs 735,000
Rental cost	Rs 10,000,000
<b>Total Cost</b>	<b>Rs. 11.1 million</b>

<sup>8</sup> Based on the data collected from cash and carry owners.

### 3.3. Cost of Sludge in terms of GDP:

To assess the cost of regulations on the economy, we translate the cost of sludge in terms of the GDP. The task is carried out based on the following information:



Based on the information above we estimated the cost of sludge in opening a cash and carry store is 0.22 per cent of our GDP.

**Table 3.3: Cost of Sludge in terms of GDP**

Head	Cash-and-Carry
Cost of sludge per cash and carry	Rs. 11.1 million
Number of retail stores in Pakistan <sup>9</sup>	13,598
Cost of sludge in aggregate	Rs. 150.9 billion
GDP at current market prices (FY-22)	Rs 66,950 billion
Cost of sludge (% of GDP)	0.22 %

## 4. CUTTING THE SLUDGE

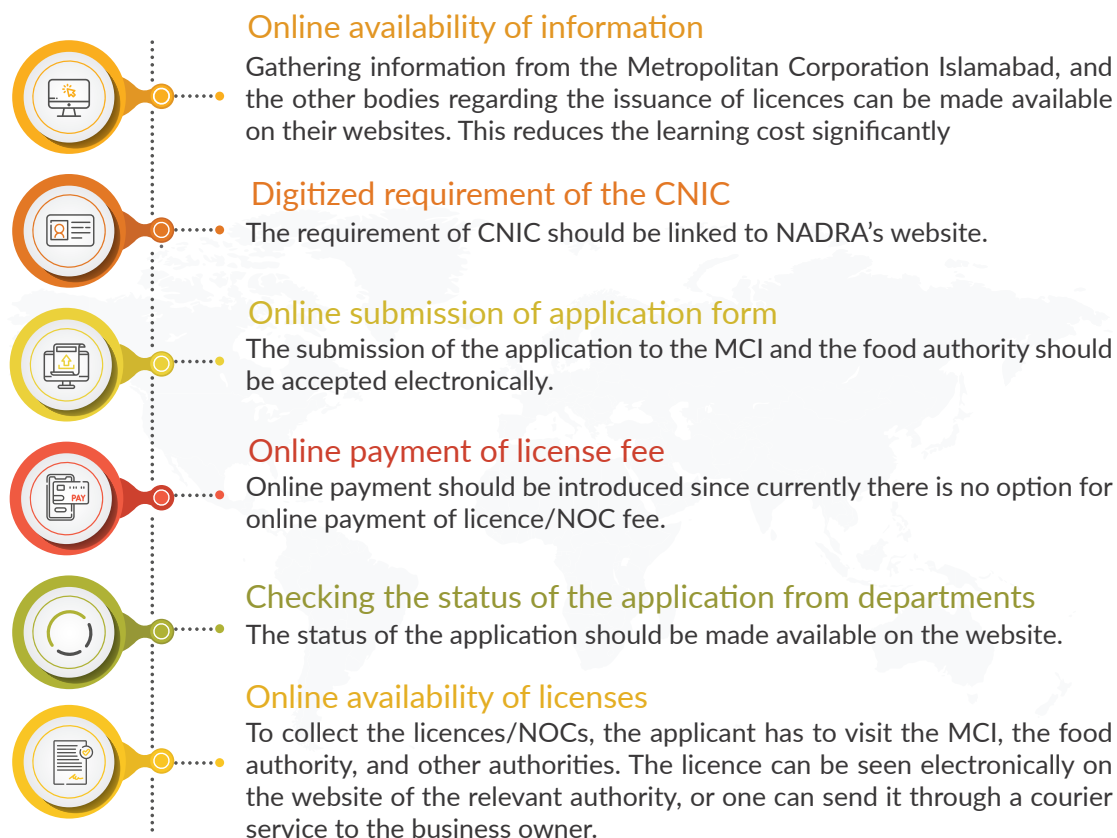
**7. Zero-waiting period:** Since the major component of the sludge, especially in the case of starting cash and carry, is the waiting time for the approval of a

<sup>9</sup> Source: <https://download1.fbr.gov.pk/Docs/202211211011529640Tier-1retailers-21-11-2022.xls>

trade license from the MCI, this sludge can be removed by adopting a policy of a zero-waiting period under which the applicant must be allowed to start the business from the day the applied with the MCI.

**8. Deemed Approval:** The MCI also needs to ensure a time-bound approval process and after the lapse of a certain time, say 3 weeks after the application submission, the application will be considered approved, and the licence deemed granted, given the MCI has not raised any observation and reverted to the applicant.

## 9. Automation and Digitisation



## 5. RUNNING A CASH AND CARRY

Different government authorities including the Food Authority, the Social Security Department, the police, the Assistant Commissioner's Office, and the Labour Department visit the cash and carry premises over the years. The objectives of these inspections are to ensure the quality, safety, and other operations of the business. If they find any irregularity in the way the business is operating, they impose a fine. The table above also contains the amount of fines that different departments impose.

**Table 3.4: Departmental visits in Cash-and-Carry around the Year**

Department	Operation	Total Visits in a year	Cost per visit	Fine/Fee
Food Department	Collect samples food	14	1,000	30,000
Social Security	Send Legal Notices	11	1,000	30,000
Labor Department	Send Legal Notices	24		35,000
Renewal of License	Resubmission	1	1,200	50,000

These visits by the official also cost the cash and carry business in the following way:

- On average, the Food Authority visits a single cash-and-carry 14 times a year. One visit costs the business Rs 1,000 per visit in terms of refreshments. This excludes the fine that they have to pay in case of violation of the rules and standards.
- The Social Security department pays on average 11 visits per year. Again, each visit costs Rs. 1,000 due to refreshments.



- The Labor Department pays on average 24 visits per year.

Besides, the owner must renew the licence every year from the CDA against the prescribed fee of Rs. 50,000.

The Social Security department pays on average 11 visits per year. Again, each visit costs Rs. 1,000 due to refreshments.

# 4

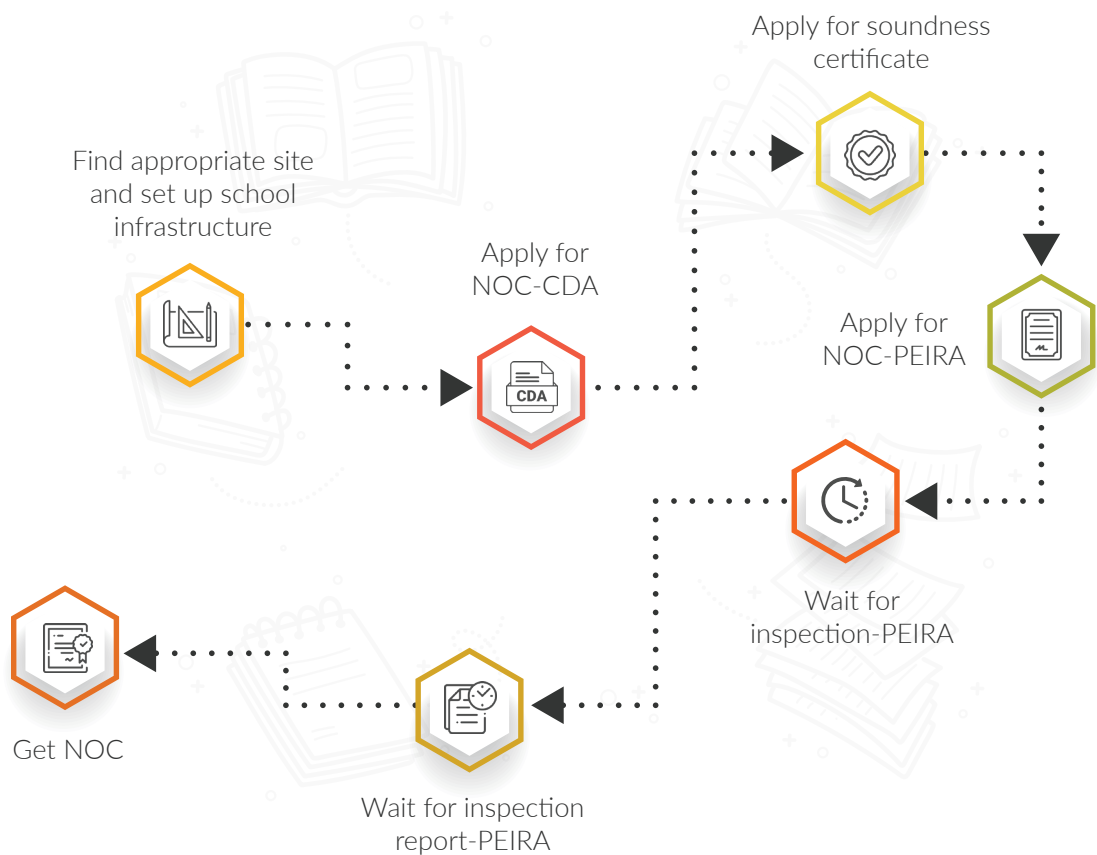
## Setting up a Private School

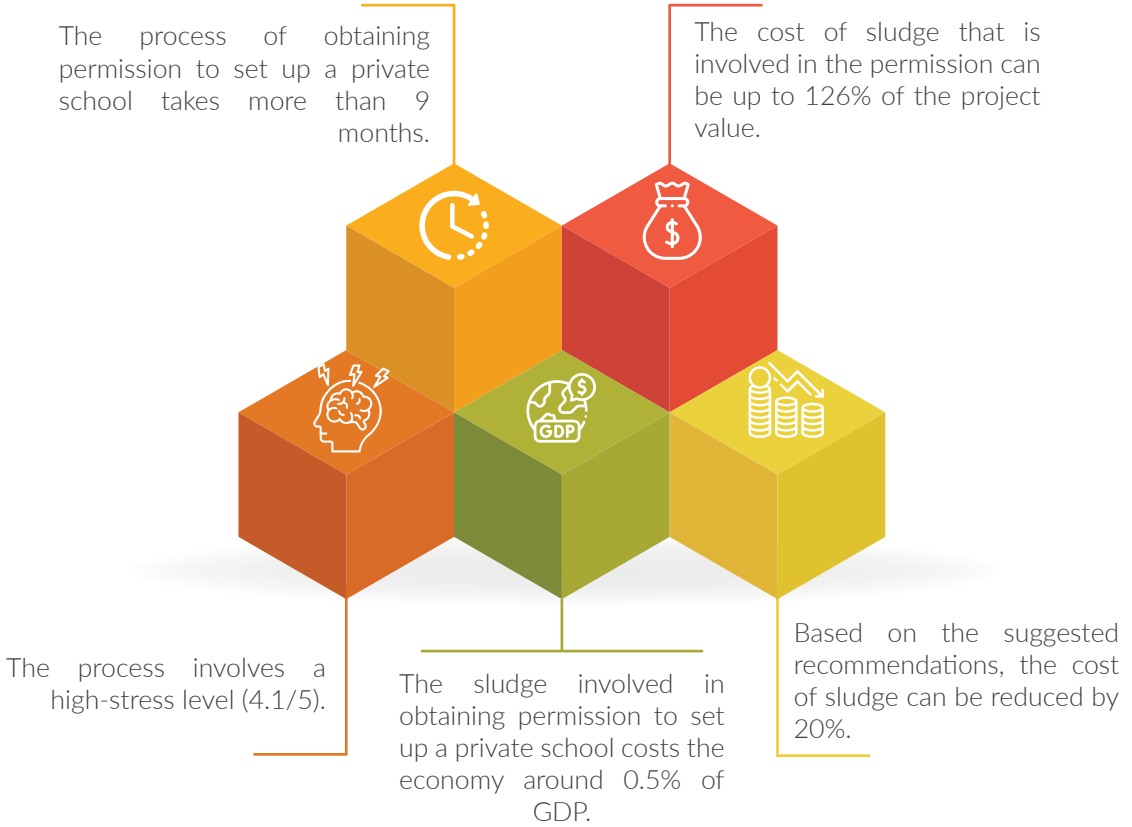


## 4. SETTING UP A PRIVATE SCHOOL IN ISLAMABAD

Section 5(1) of the Islamabad Capital Territory Private Educational Institutions (Registration and Regulation) Act 2013 mandated the Private Educational Institutions Regulatory Authority (PEIRA) to register and regulate private educational institutions along with the fixation of grade-wise rates of admission fees, security fee, monthly tuition fees, and other fees charged by the private institute. Therefore, a private education institute is not allowed to operate in Islamabad without being registered with PEIRA.

Figure 4: The Process Setting up a Private School Islamabad





## 1. Sources of Sludge



Seeking soundness certificate of the building in which the school is to operate.

NOC from the Capital Development Authority (CDA).



Seeking overall permission to run a school from PIERA, which involves a visit to the school by PIERA's officials and a final grant of permission after reviewing the documents and inspecting the situation on the ground.



Fulfilling the two requirements (i.e., an NOC from PIERA and an NOC from the CDA) together can take up to 3.5 months, and that too if the sponsors of the school are sufficiently networked with the concerned bureaucrats. Some sponsors told us that in such a situation, payment of bribes can speed up the process.





Time Consumed | 9 months

- Agency Time 3.4 Months
- Overhead Time 3.9 Months
- Processing Time 1.6 Month



Processing Monetary Costs | Rs. 220,300

Definitions

Agency Time

The time consumed by the concerned department/agency in processing an activity.

Overhead Time

The part of the day lost due to being involved in this activity.

2. Cost of Sludge

Head	Cost of the Sludge (% of project value)
Building Rental Cost	41.48
Human Resource Cost	67.97
Cost of Personal Time	16.71
Total	126.17

To measure the cost of sludge involved in setting up a private school in Islamabad, we focused on the following aspects.

**2.1. Building Rental Cost:** Based on the standard practice in Islamabad, we assume that the school operates in a rented building. The underlying assumptions in calculating the cost of sludge in terms of building rent include: (i) the school is located in a middle-class vicinity and (ii) the size of the building is around 2 Kanals. To estimate the average monthly rent of such building(s), we surveyed private schools in the G and I sectors of Islamabad. Our calculations indicate that the average monthly rent is around Rs. 375,000. Based on this average monthly rent, the cost of building rent during the time of waiting for permission accounts for 41.48% of the project value.<sup>10</sup>

**2.2. Human Resource Cost:** The application submitted to PEIRA requires the list of teaching and non-teaching staff that have been hired by the private educational institution. Therefore, even while waiting for approval and registration from PEIRA, the staff members remain on the payroll of the school. The human resource wage bill accounts for more than 50% of the total annual expenditures in establishing and running a private school. A 9-month period of getting registration from PEIRA entails the cost of sludge in terms of HR cost of around 68% of the project value.

**2.3. Cost of Personal Time:** The opportunity cost of personal time involved in setting up a private school is captured by assuming the minimum average monthly earning of the owner, which is around Rs. 150,000. Thus, the estimated cost of sludge in terms of personal cost is around 16.7% of the project value.

**2.4. Cost of sludge in terms of GDP:** To assess the impact of the cost of regulation on the economy, we translate the cost of sludge of setting up a private school (126% of project value) in terms of GDP. The task is performed based on the following information: (i) average project cost, (ii) the number of

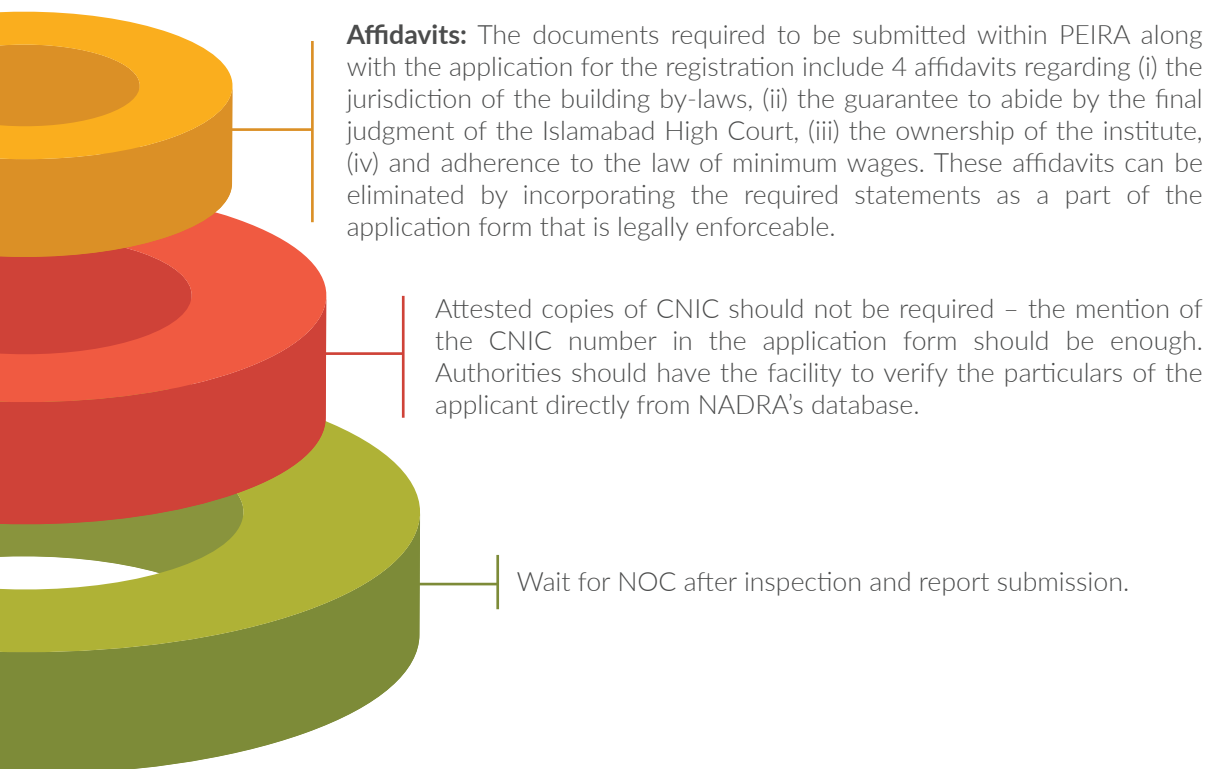
<sup>10</sup> The average cost of establishing a private school is Rs. 8.5 million, as per our survey.

registered private educational institutions within Islamabad, and (iii) the population of 100 cities in Pakistan.

The average cost of sludge of the project	Rs. 10.19 million
Number of registered private institutions	337
Per-capita cost of sludge in Islamabad	Rs. 2,966
Cost of sludge in 100 cities	Rs. 203.40 billion
<b>Cost of Sludge (% of GDP)</b>	<b>0.56</b>

### 3. Cutting the Sludge



#### 3.1. Eliminating unnecessary steps



### 3.2. Digitisation

Presently applications at both the agencies (CDA and PEIRA) have to be submitted in hard forms. The fees in this regard have to be deposited physically in HBL-FBISE banks and a copy of the paid challan has to be submitted along with the applications for NOCs, all of which is possible electronically. Payments can be made online into bank accounts and applications can be submitted electronically to the concerned agencies.

#### Cutting the Sludge: Reduction in Time and Cost - Based on Proposed Recommendations

	Reduction in Time Consumed	20.2%
	■ Reduction in Processing Time	12.7%
	■ Reduction in Overhead Time	64.1%
	■ Reduction in Agency Time	7.7%
	Reduction in the Cost of Sludge	26.2%



COLOR LEGEND

Full Elimination Possible

Digitization Possible

Partial Elimination Possible

Table 4.1: Steps and Time Consumed in Setting up a Private School

No	Steps	Description	Time (Minutes)				Overhead Time (Minutes)	Agency Time
			Travel	Waiting	Transaction/Process	Total		
1	Find an Appropriate Place for School	Visit-1 the real estate agent	45			45	14,400 (30 days)	
		Indicate preferences		15	60	75		
		Finish the day	45			45		
		Visit 2: the real estate agent	45			45		
		Site visit		15	120	135		
		Finish the day	45			45		
		Visit-3 the real estate agent	45			45		
		Meet the owner of the site		15	120	135		
		Finish the day	45			45		
2	Lease Agreement	Collect the stamp paper	45	20	10	75	3,360 (7 days)	
		Print lease agreement			10	10		
		Obtain signatures of witnesses	90		10	100		
		Pay advance/security			10	10		
		Finish the day	45			45		
3	Setting up School Infrastructure	Visit the site	45			45	14,400 (30 days)	
		Clean up the premises			480	480		
		Visit the market	45			45		
		Purchase furniture & fixtures			480	480		
		Finish the day	45			45		
		Set up classrooms	45		1,440	1,485		

		Hire teachers			3,360	3,360	17,760 (37 days)	
		Enrol Students			14,400	14,400		
		School ready to start			480	480		
4	Gather Information	Visit-1 PEIRA	45			45	480 (1 day)	
		Meet the official		30	30	60		
		Finish the day	45			45		
5	NOC from CDA	Visit-1 CDA	45			45	960 (2 days)	14,400 (30 days)
		Collect information		30	30	60		
		Apply for NOC		30	120	150		
		Finish the day	45			45		
		Visit-2 CDA	45			45		
		Collect NOC		30	15	45		
		Finish the day	45			45		
6	Soundness Certificate	Visit-1 structure engineer	45			45	1,440 (3 days)	3,360 (7 days)
		Collect information		30	60	90		
		Finish the day	45			45		
		Engineer's inspection			60	60		
		Visit-2 engineer	45			45		
		Collect certificate		30	30	60		
		Finish the day	45			45		
7	Prepare Documents	Registration form-PIERA			60	60		
		Attested copy of the lease agreement	180	30	10	220		
		School building map	90	60	10	160		
		General information	students enrolled			30		
						30		
						30		
						30		
		CDA-NOC copy			10	10		
		Soundness certificate's copy			10	10		
		Attested CNIC copy			10	10		

		Documents of teaching staff	appointment letter			10	10				
			copies of degrees			10	10				
			CNIC copy			10	10				
		Documents of non-teaching staff	appointment letter			10	10				
			copies of degrees			10	10				
			CNIC copy			10	10				
		Affidavit (Four-guarantee, ownership, minimum wage, and jurisdiction)	collect stamp paper	45	10	80	135				
			print affidavit			40	40				
			witnesses sign		90	30	120				
			notarize affidavit			20	20				
		Fee Deposit	visit the bank (FBISE branch)	45			45				
			pay fee		30	15	45				
			finish the day	45			45				
8	Document Submission	Visit PIERA office		45			45				
		Submit application			30	60	90				
		Finish the day		45			45				
9	Wait for Inspection					120	120			14,400 (30 days)	
10	Report submitted to the PIERA by the field inspector									3,360 (7 days)	
11	Wait for NOC									14,400 (30 days)	
12	Get NOC	Visit PEIRA		45			45				
		Get NOC			30	15	45				
		Finish the day		45			45				
Total Time (Days)							50			117	104
Aggregate Time (Months)							9				

**Table 4.2: Monetary and Opportunity Costs involved in setting up a school**

No	Steps	Description	Cost (PKR)		
			Travel	Fee	Total
1	Find an Appropriate Place for School	Visit-1 the real estate agent	500		500
		Indicate preferences			
		Finish the day	500		500
		Visit 2: the real estate agent	500		500
		Site visit			
		Finish the day	500		500
		Visit-3 the real estate agent	500		500
		Meet the owner of the site			
		Finish the day	500		500
2	Lease Agreement	Collect the stamp paper	500	250	750
		Print lease agreement		100	100
		Obtain signatures of witnesses			
		Pay advance/security		150,000	150,000
		Finish the day	500		500
3	Setting up School Infrastructure	Visit the site	500		500
		Clean up the premises			
		Visit the market	500		500
		Purchase furniture & fixtures			
		Finish the day	500		500
		Set up classrooms			
		Hire teachers			
		Enrol Students			
		School ready to start			
4	Gather Information	Visit-1 PEIRA	500		500
		Meet the official			
		Finish the day	500		500
5	NOC from CDA	Visit-1 CDA	500		500
		Collect information			
		Apply for NOC			

		Finish the day	500		500
		Visit-2 CDA	500		500
		Collect NOC			
		Finish the day	500		500
6	Soundness Certificate	Visit-1 structure engineer	500		500
		Collect information			
		Finish the day	500		500
		Engineer's inspection		10,000	10,000
		Visit-2 engineer	500		500
		Collect certificate			
		Finish the day	500		500
7	Prepare Documents	Registration form-PIERA	500		500
		Attested copy of the lease agreement		10	10
		School building map		200	200
		General information	students enrolled	10	10
			library		
			fee structure		
			staff list		
		CDA-NOC copy		10	10
		Soundness certificate's copy		10	10
		Attested CNIC copy		10	10
		Documents of teaching staff	appointment letter		
			copies of degrees	100	100
			CNIC copy	100	100
		Documents of non-teaching staff	appointment letter		
			copies of degrees	100	100
			CNIC copy	100	100

		Affidavit (Four-guarantee, ownership, minimum wage, and jurisdiction)	collect stamp paper	500	2000	2500
			print affidavit		300	300
			witnesses sign	1,000		1,000
			notarize affidavit		1500	1500
		Fee Deposit	visit the bank (FBISE branch)	500		500
			pay fee		40,000	40,000
			finish the day	500		500
8	Document Submission	Visit PIERA office		500		500
		Submit application				
		Finish the day		500		500
9	Wait for Inspection					
10	Report submitted to the PIERA by the field inspector					
11	Wait for NOC					
12	Get NOC	Visit PEIRA		500		500
		Get NOC				
		Finish the day		500		500
Total Time (Days)						220,300

# 5

## Intracity Public Transport Business



## 5. INTRACITY PUBLIC TRANSPORT BUSINESS IN ISLAMABAD (VAN AND TAXI BUSINESS)

The Islamabad Transport Authority (ITA) is the regulatory body responsible for managing public transportation in Islamabad. Its main functions include issuing route permits, ensuring compliance with traffic laws, and enforcing regulations for public transportation providers.

Intracity transport in Islamabad, Pakistan, includes various modes such as buses, vans, and taxis. The main mode of public transportation in the city is the bus, operated by the Islamabad Transport Authority (ITA). Additionally, there are also a large number of privately operated vans and mini-busses, which provide transportation throughout the city and its suburbs.

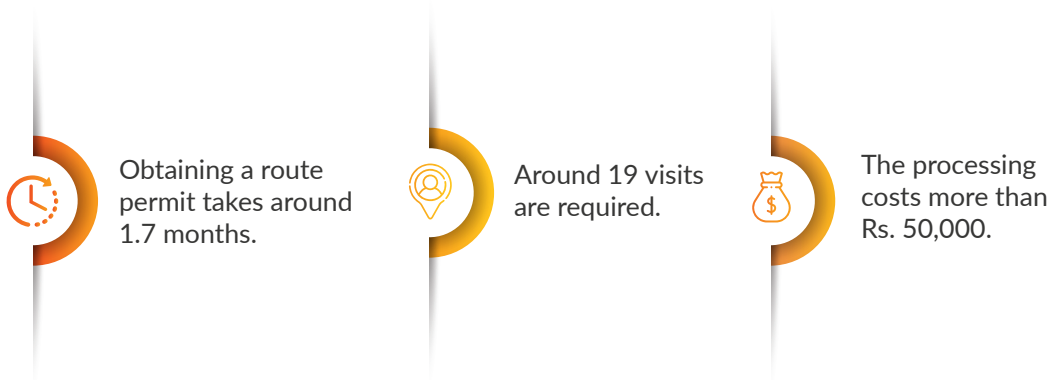
### 1. INTRACITY TRANSPORT STATIONS

In the Islamabad area, there are roughly 10 local public transport stations, commonly known as stands. The main stand is in the G-6 sector (Aabpara Market), while other local stands are situated in G-9, G-10, I-9, Bari Imam, Jangi Sayedan, Faizabad, Tarnol, 26 Number, and Sabzi Mandi. ITA administers the management of these stands by leasing each of them to a private contractor through annual auctions. Besides, the fares for different routes are regulated by the ITA through the contract awardee or lessee (commonly known as Thekedar/Munshi).

The private public transport operators pay daily charges to the thekedar. For instance, the stand at the G-9 centre has been leased out to the Transport Union Office, and the office charges Rs. 1,000 to each private public van owner daily to operate on the public route. ITC provides the office with a fare list (karaya nama) for public display. However, the implementation of the official fares is often not observed by the transport operators.

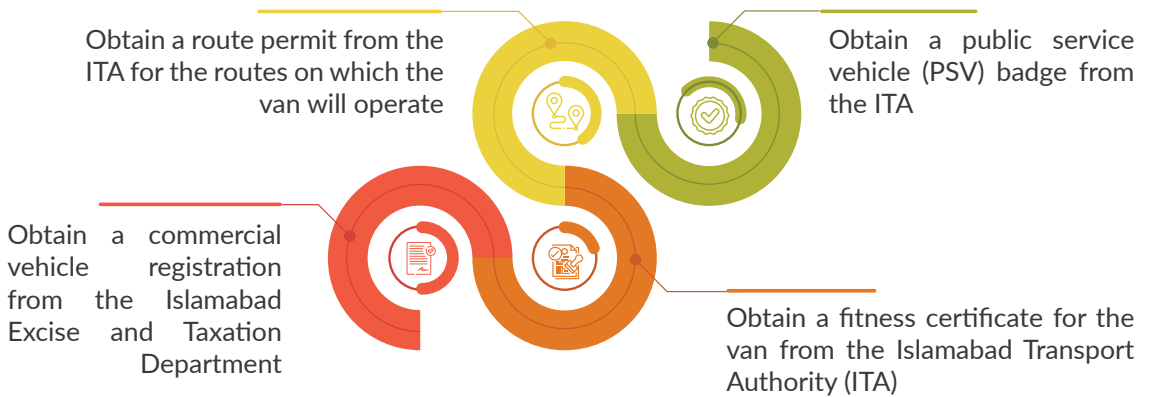


## 2. OBTAINING THE ROUTE PERMIT FOR A VAN



To start a public transport business, the owners of vans and mini-buses need to obtain a route permit from the ITA. The process of obtaining a route permit is as follows:

**Figure 5.1: Process to Obtain the Route Permit for a Van**



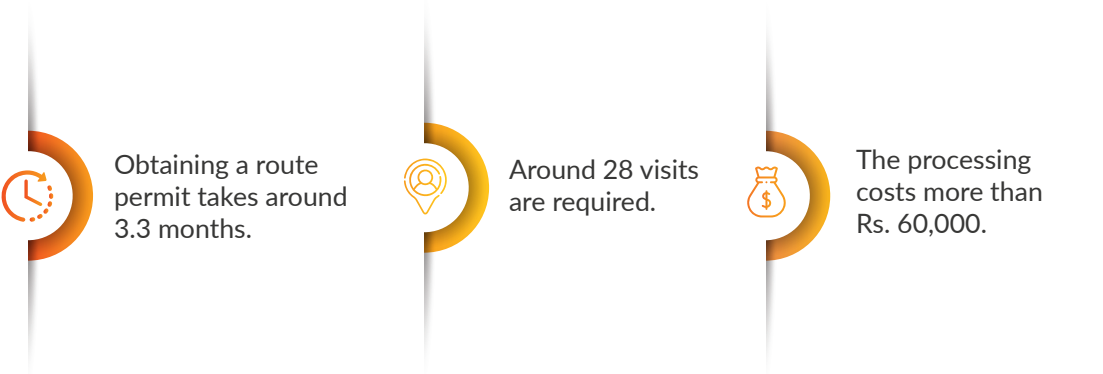
The route permit issued by the ITA is valid for only one year and the owner must renew it annually based on the fitness certificate of the vehicle. The details of obtaining the route permit have been provided in the table below.

**Table 5.1: Time and Monetary Costs Involved in Obtaining a Route Permit for a Van**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Gather Information	Visit Excise and Taxation	1	1	1,200
		Get information			
		Finish the day			
2	Prepare Documents for Commercial Vehicle Registration	Original registration certificate	3	2	14,200
		Insurance documents			
		CNIC copy			
3	Prepare Documents for Commercial Vehicle Registration	Visit-2 to Excise and Taxation	1	1	4,200
		Submit documents			
		Pay fee			
		Finish the day			
4	Wait for the Registration Card		7		
5	Get Registration Card	Visit-3 Excise and Taxation	1	1	1,200
		Get registration card			
		Finish the day			
6	Gather Information	Visit ITA office	1	1	1,200
		Get information			
		Finish the day			
7	Prepare Documents for Fitness Certificate	Copy of driving license	5	2	12,200
		Copy of van registration book/card			
		Insurance documents			
		Details of emissions test			

8	Inspection	Visit-2 ITA office	1	1	1,200
		Have inspection			
		Finish the day			
9	Wait for Inspection Certificate		3		
10	Get Fitness Certificate	Visit-3 ITA office	1	1	1,200
		Get fitness certificate			
		Finish the day			
11	Gather Information	Visit-4 ITA office	1	1	1,200
		Get application form			
		Finish the day			
12	Prepare Documents for Route Permit	Application form	10	5	9,000
		Affidavit			
		Copy of CNIC			
		Copy of fitness certificate			
		Proof of token paid			
		Route permit fee challan			
		Copy of driving license			
		Copy of van registration book/card			
		Details of the van			
13	Submit Application	Visit-5 ITA office	1	1	1,200
		Submit application			
		Finish the day			
14	Wait for Inspection		14		
15	Physical Inspection	Visit-6 ITA	1	1	1,200
		Inspection of the van			
		Finish the day			
16	Receive Permit	Visit-7 ITA	1	1	1,200
		Get the Permit			
		Finish the day			
Total			52 (1.7 months)	19	50,400

3. OBTAINING THE ROUTE PERMIT FOR A TAXI



To obtain a taxi permit in Islamabad, you will need to follow the following steps:

Figure 5.1: Process to Obtain the Route Permit for a Van



Again, the permits issued by the Islamabad Traffic Authority and Islamabad Traffic Police are valid only for one year. The owner has to apply for a renewal against the prescribed fee. The table below contains the details related to obtaining a taxi permit.

**Table 5.2: Time and Monetary Costs Involved in Obtaining a Route Permit for a Taxi**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Apply for Learner	Visit the Driving License Authority (DLA)	2	2	4,910
		Blood group certificate			
		CNIC Copy			
		Get photographed			
		Submit the form along with the fee			
		Learner's period- wait to apply for the license	30		
2	Driving Test "Ground"	Visit-2 DLA-ITP	1	1	1,200
		Give ground test			
		Finish the day			
	If failed, the next try will be after 14 days				
3	Driving Test "Road"	Visit-2 DLA	1	1	1,200
		Take road test			
		Finish the day			
	If failed, the next try will be after 14 days				
4	Passing Slip	Visit-3 DLA	1	1	1,200
		Receive slip			
		Finish the day			
5	Getting Printed Card	Visit-4 DLA	1	1	1,200
		Submit slip at Licence collection			
		Get the Licence Card			
		Finish the day			
6	Passing Slip	Visit Excise and Taxation	1	1	1,200
		Get information			
		Finish the day			

7	Prepare Documents for Commercial Vehicle Registration	Original registration certificate	3	2	14,200
		Insurance documents			
		CNIC copy			
8	Get Registration	Visit-2 to Excise and Taxation	1	1	4,200
		Submit documents			
		Pay fee			
		Finish the day			
9	Wait for the Registration Card		7		
10	Get Registration Card	Visit-3 Excise and Taxation	1	1	1,200
		Get registration card			
		Finish the day			
11	Gather Information	Visit ITA office	1	1	1,200
		Get information			
		Finish the day			
12	Prepare Documents for Fitness Certificate	Copy of driving licence	1	1	1,200
		Copy of taxi registration book/card			
		Insurance documents			
		Details of emissions test			
13	Inspection	Visit-2 ITA office	1	1	1,200
		Have inspection			
		Finish the day			
14	Wait for Inspection Certificate		3		
15	Get Fitness Certificate	Visit-3 ITA office	1	1	1,200
		Get fitness certificate			
		Finish the day			
16	Gather Information	Visit-4 ITA office	1	1	1,200
		Get application form			
		Finish the day			
		Application form			
		Affidavit			

17	Prepare Documents for Route Permit-ITA	Copy of CNIC	10	5	9,000
		Copy of fitness certificate			
		Proof of token paid			
		Route permit fee challan			
		Copy of driving licence			
		Copy of taxi registration book/card			
18	Submit Application	Visit-5 ITA office	1	1	1,200
		Submit application			
		Finish the day			
19	Wait for the inspection		14		
20	Physical Inspection	Visit-6 ITA	1	1	1,200
		Inspection of the taxi			
		Finish the day			
21	Receive Permit	Visit-7 ITA	1	1	1,200
		Get the Permit			
		Finish the day			
22	Gather Information	Visit SDPO office	1	1	1,200
		Meet officials			
		Finish the day			
23	Gather Information	Copy of CNIC			
		Copy of fitness certificate			
		Route permit fee challan			
		Copy of driving licence			
		Copy of taxi registration book/card			
24	Submit Application	Visit-2 SDPO office	1	1	1,200
		Submit application			
		Finish the day			
25	Wait for the inspection		10		

26	Receive Permit	Visit-3 SDPO ITA	1	1	1,200
		Get the Permit			
		Finish the day			
Total			101 (3.3 months)	28	63,710

## 4. Source of the sludge



### Commercial Driving Licence

- 30-day waiting time for a driving licence after applying for a learner.
- Two visits to get the passing slip and printed licence

### ITA Permit



Manual application for registration and permits ●

No online availability of status checks which causes about a 15-day delay and 3 to 5 visits, costing about Rs. 3,600 – 6,000. ●

Agents in front of offices. ●

Ownership affidavit for taxi and van. ●

Prolonged waiting periods. ●

## 5. Cost of Sludge

The time consumed in obtaining the route permits has an opportunity cost in the form of foregone income. Therefore, the owner of the van or taxi has not only to bear the application processing costs but is also unable to earn during the period of getting permissions. Keeping in view the average monthly income of a taxi driver and a van owner,<sup>11</sup> the table below contains the cost of sludge.

<sup>11</sup> For details on the average monthly income of taxi drivers and van owners see: <http://www.salary-explorer.com/salary-survey.php?loc=164&loctype=1&job=236&jobtype=3> ; <https://pk.indeed.com/-career/truck-driver/salaries>

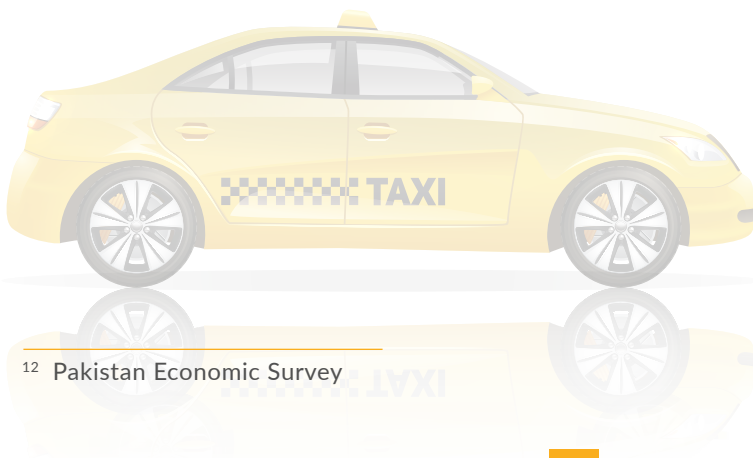


**Table 5.3: Income Foregone due to Sludge**

Head	Average Monthly Income (Rs.)	Time Taken to Get Permit (Months)	Opportunity Cost (Rs.)
Taxi	24,000	3.3	79,200
Van	38,966	1.7	66,242

**Table 5.4: Cost of Sludge in Obtaining a Route Permit**

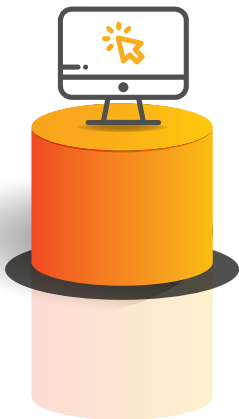
	Taxi (Rs.)	Van (Rs.)
Processing cost (including travelling)	63,710	50,400
Foregone income	79,200	66,242
Cost of Sludge	142,910	116,642
Number of vehicles registered in FY-20 <sup>12</sup>	113,800	141,400
Total Cost of sludge	Rs. 32.7 billion	
GDP at current market prices (FY-2022)	Rs. 66,950 billion	
Cost of Sludge (% of GDP)	0.04	


<sup>12</sup> Pakistan Economic Survey

## 6. Cutting the Sludge

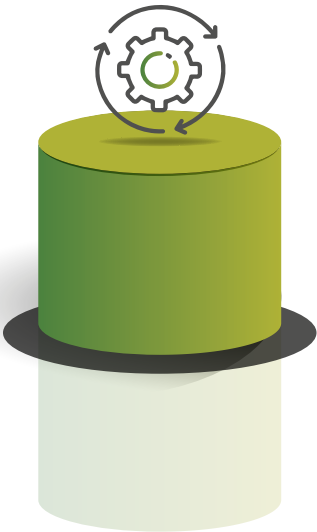
### Online Information

The availability of online information on the webpage of the relevant authorities would reduce a lot of learning costs.



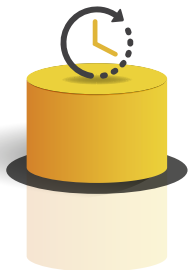
### Automation with Effective Trace and Track Mechanism

Islamabad Transport needs to introduce automation in application processing so that the applicant can submit the fee online and also track their application.



### Time Bound Processing

The cut the waiting times, a time-bound mechanism to process the application should be introduced, especially in the case of the Islamabad Transport Authority.



# 6

## Intercity Private Bus Service Business



## 6. INTERCITY PRIVATE BUS SERVICE BUSINESS

The most common way of intercity transport in Pakistan is the bus service. To start an intercity bus service in Pakistan, the owner must obtain a route permit from the relevant provincial or district's Regional Transport Authority (RTA) because Section 44 of the Vehicle Ordinance (1965) states that "no transport vehicle shall be used or driven without a permit issued by district regional transport authority".

Besides, the permit from the relevant RTA, the owner also needs to obtain a licence from the authority, however, in most cases, registration and licence are issued at the same time. The licence granted remains in force for one year and annual renewal is required upon payment of the prescribed government fee.

### 1. OBTAINING THE ROUTE PERMIT AND LICENSE FOR A BUS SERVICE



Obtaining a route permit and a license takes around 2.1 years.



Around 91 visits are required.



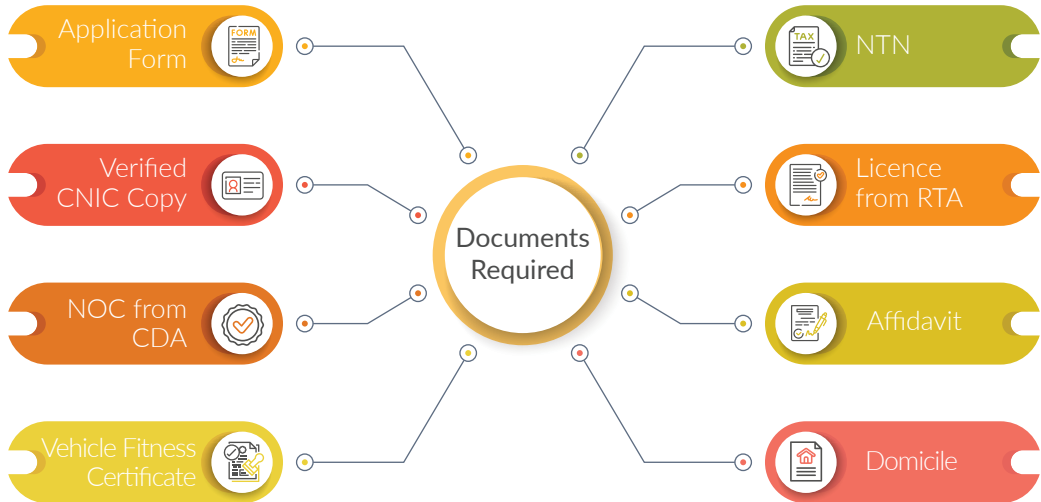
The processing costs more than Rs. 751 million.



The cost of sludge is around 1.07 % of the GDP.



To start a private bus service in Pakistan, one needs the following documents at a minimum:



- Getting a permit in Pakistan is a cumbersome process requiring NOCs and licences from three government departments. The owner must obtain NOCs from the Capital Development Authority (CDA) and the National Highway and Motorway Police, and a license from the Regional Transport Authority (RTA) or Islamabad Transport Authority (ITA) in the case of Islamabad.
- On average, 6 months are required to get a route permit in Islamabad after visiting different government organizations twenty-six times.
- The steps and costs involved in opening a transport service are described in the table below. Here we have focused on one of the busiest routes in Pakistan, which is the Islamabad-Lahore route. However, a similar procedure applies to all other routes.

- Secondly, we have considered the case where a particular transport owner started its bus services with dedicated stations in both cities. In such cases, there are some minimum criteria that the owner has to meet. For instance, they must have a fleet of at least 10 buses for an A-class licence, must occupy space for the bus stations, etc.<sup>13</sup>

**Table 5.1: Time and Cost Involved in Opening a Private Bus Service**

No.	Steps	Description		Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Gather information for land in 2 cities (Islamabad, and Lahore)	Visit realtors		40	20	544,000
		Locate potential sites				
		Site visits				
2	Lease Agreement (2 Cities)	Hire a legal advisor		7	4	124,800
		Get lease agreements				
		Pay advances				
3	Information Gathering for Permit/NOC	Visit to CDA		6	4	4,800
		Collect information				
		Finishing the day				
		Visit to LDA				
		Collect information				
		Finishing the day				
4	Apply for NOC	Documents required	CNIC copy	2	2	101,200
			Domicile copy			
			Rental agreement copies			
			Affidavit			
5	Get permission from CDA			180		
6	Get permission from LDA			180		
			Ticketing/Reception			
			Waiting Area			

<sup>13</sup> Another business model for the owner of a single bus is to operate through the authority's designated bus stations, like Faizabad. In this model, the owner just has to pay a particular Adda charge to the lessee of the stations.

7	Site Preparation (2 Cities)	Area Reserva- tion	Tuck Shop Area	180	30	200,036,000
			Workshop			420,000
		Hire employ- ees	10 Drivers			
			2 Receptionists			
			2 Engineers			
	10 Buses		550,000,000			
8	Obtaining NTN	Apply - FBR		2		
		Obtaining NTN				
9	Opening a Business Account	Submit the application along with the documents		22	5	6,000
		Wait for verification				
		Account opened				
10	Getting NOC from National Highways and Motorway Police	Collect information		38	9	22,400
		Documents Required	CNIC Copy			
			Domical			
		Documents Submission	Visit 2 to the authority office			
			Submit application			
		Waiting for inspection				
		Inspection	Motorway police			
			Inspection			
		Report submitted by the inspector to the Motorway office				
		Submit the challan				
		Check the status				
		Receive NOC				
		Collect information				
		Docu- ments required	CNIC Copy			
			NOC copy			
			Route Permit			

11	RTA/ITA License	Inspection RTA/ITE secretary and CDA officials		60	6	57,200
		Check the status				
		Receive license				
12	Vehicle Fitness Certificate	Get appointment		20	1	1,200
		Docu- ments required	CNIC copy			
			Recent photo			
			Certificate of service			
		Inspection RTA				
		Issue fitness certificate				
13	Other permissions	Traffic Police		30	10	30,500
		Local Police				
		DC Office - ITA CS office				
Total				767 (2.1 years)	91	751,348,100

## 2. Sources of the sludge



### Permission from Development Authority

Getting permission from the CDA and LDA consumes around a year of the applicant. This is one of the main sources of sludge in starting a bus service. This permission is required due to zoning rules in both cities.

### Site for Bus Station



Locating the appropriate site for the bus stations and then developing these sites per the rules of the transport authorities is also time-consuming. This step takes more than 8 months.



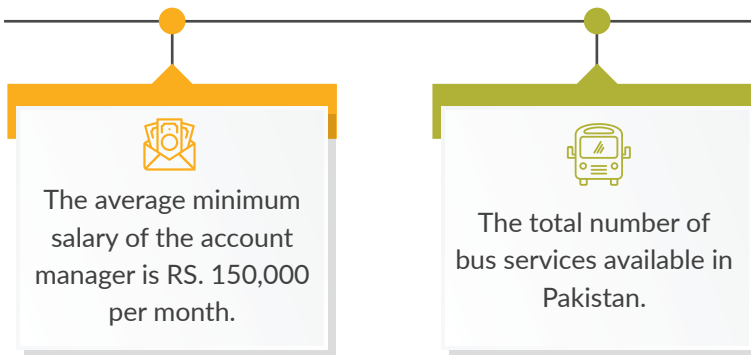


### Licence from RTA/ITA

Getting the licence from the RTA and ITA also takes around 2 months. The internal processing of the relevant authorities contains retapes with prolonged delays to move files from one table to another.

## 3. Cost of Sludge

The time and monetary cost involved in getting a route permit also involve the opportunity cost. To measure the opportunity cost, we performed some calculations by assuming:



**3.1 Rental Cost:** One form of indirect cost that the bus service owner bears is the rental cost that it pays until they get the licences and NOCs. To calculate this cost, we assumed that the average monthly rent for both bus stations is Rs. 2.0 million.<sup>14</sup> This implies that the owner has to incur Rs. 50 million as rental cost due to sludge.

**3.2 Cost of personal time:** The opportunity cost of personal time involved in getting permissions and licences/NOCs for getting route permits is captured by assuming the average monthly salary of a manager to be Rs. 150,000. Using this information, the cost of personal time is around 3.7 million.

<sup>13</sup> The assumption is based on the anecdotal evidence gathered from Lahore and Islamabad.

**3.3 The Human Resource Cost:** One of the requirements to obtain the route permit is to have a minimum number of human resources against different heads on the company’s payroll. The table below contains the HR cost of sludge.

Table 5.2: Human Resource Cost of Sludge

Head	Number	Average Monthly Salary (Rs)	Wage Bill (Rs)	HR Cost During -Getting Permission (Rs. Million)
Driver	10	35,000	350,000	8.7
Receptionist	2	25,000	50,000	1.2
Engineer	2	100,000	200,000	5.0
Helper	10	20,000	200,000	5.0
Total				20.0

**3.4 Income Foregone:** The objective of starting any kind of business is to generate revenue. However, this objective cannot be met unless the route permit is granted. Therefore, the owner lost revenues by not operating during the time of obtaining permissions. Keeping in view the amount of investment required, the owner must expect at least Rs. 75 million an annual return.<sup>15</sup> This implies that income forgone due to sludge is more than Rs. 150 million.

<sup>15</sup> This minimum return has been calculated assuming a 10 per cent return on the investment.

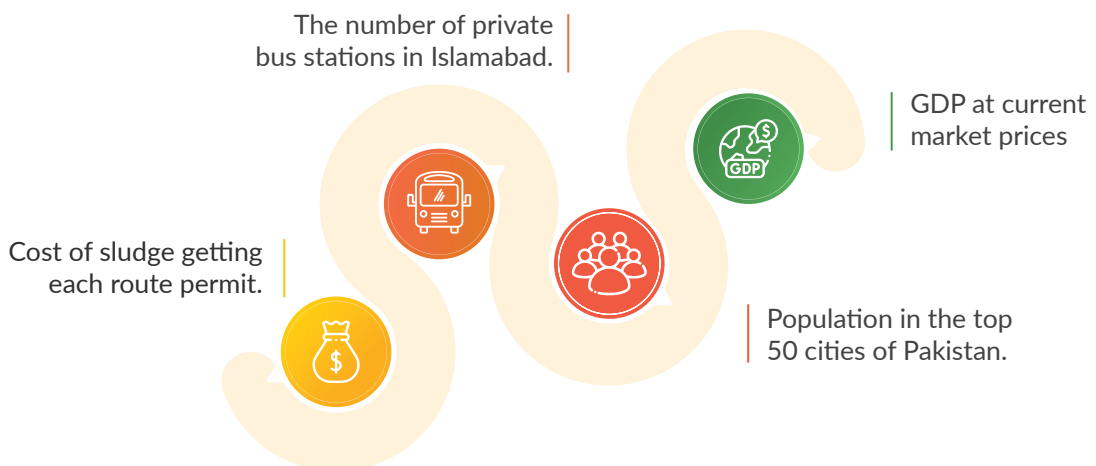
Based on these assumptions, the table below contains the estimations of the cost of sludge in Pakistan:

**Table 5.3: Cost of Sludge to Start a Bus Service**

Head	Cost (Rs. Million)
Processing cost (including travelling)	751.3
Rental cost	50
Cost of personal time	3.7
HR cost	20
Foregone income	150
<b>Total Cost</b>	<b>975</b>

### 3.5 Cost of Sludge in terms of GDP

To assess the cost of regulations on the economy, we translate the cost of sludge in terms of GDP. The task is carried out based on the following information:



**Table 5.5: Cost of Sludge in Terms of GDP**

Cost of sludge per bus service	Rs. 975 million
Number of bus stands in Islamabad	14
Cost of sludge in Islamabad	Rs 13.6 billion
The population of Islamabad	1.1 million
Per capita cost of sludge	Rs 11,745
Population in top 50 cities	61.3 million
Cost of sludge in 50 cities	Rs 719.9 billion
The population of Islamabad	Rs 719.9 billion
Cost of sludge (% of GDP)	<b>1.07</b>

## 4. Cutting the Sludge

**Permission from CDA and LDA:** The objective of getting this permission is to assure the development authorities that the proposed bus stations are situated in the designated zones. Consider the scenario where these zoning rules and regulations are shared with the RTA/ITA and delegate the power of permission to the RTA. This would easily reduce the time consumed in getting a route permit by half and reduce the huge cost of sludge.

## 5. Running a Bus Services

Once the route is operational, different government departments, such as the traffic police, the CDA, local police, the chief secretary's office, the DC office, and the motorway visit the premises to check the quality, safety, and other operations of the route.

**Table 5.6: Departmental Visits to the Private Bus Station**

Department/Activity	Total Visits in a Year	Cost per Visit	Fine/Fee
CDA	11	10,000	10,000
Traffic police	20	-	7,000
Local Police	23	-	10,000
Commissioner office	15	-	-
National Highways and Motorway police	2		8,000

- The CDA pays, on average, 11 visits a year which costs the business Rs. 10,000 per visit excluding fines.
- On average, the traffic police visit a travelling agency 20 times a year, which costs the businesses Rs. 10,000 per visit excluding the fine that they have to pay in case of violation of the rules and standards.
- Officials from the commissioner's office, on average, visit around 15 times.
- National Highways and Motorway Police visit 2 times a year.

# 7

## Banking Services





7. BANKING SERVICES

A bank account is an arrangement between a banking company and the customer whereby the customer may place their deposit under the safekeeping of the banking company. The banking companies offer different types of bank accounts to the customers. In Pakistan, banking institutions offer five types of accounts to customers that include basic banking account (BBA), current account, savings account, term deposit, and foreign currency account.

Table 7.1: Features of Different Bank Accounts

Categories	Basic Banking Account	Current Account	Savings Account	Term Deposit
Minimum Balance Requirement	No	Yes	Yes	N/A
ATM Card	Yes	Yes	Yes	No
Debit Card	Yes	Yes	Yes	No
Profit Payment	No	No	Yes	Yes
Direct Debits	Yes	Yes	Yes	N/A
Restriction on Deposits	Two per month	No	No	Yes
Cheque Withdrawal	Two per month	Unlimited	Unlimited	No
ATM Withdrawal	Unlimited	Unlimited	Unlimited	No
Utility Bill Payment	Yes	Yes	Yes	No
Internet or Mobile Banking	Yes	Yes	Yes	No

Source: Borrowed from the State Bank of Pakistan (SBP)

## 1. OPENING A BANK ACCOUNT



To open a bank account with any commercial bank, one needs the following documents at a minimum:



We have identified the process of opening and maintaining individual and business accounts. The objective is to identify reforms that will enable customer services in the banking sector to be more cost-effective.





1.1 Individual Account

The steps and costs involved in opening a bank account as an individual are described in the table below.

Table 7.2: Steps and Monetary Costs Involved in Opening an Individual Bank

No.	Steps	Description	Time Taken (Days)	No. of Trips	Travelling/ Documentation Cost
1	Gather Information	Visit bank/online/phone	1	1	600
2	Prepare Documents	CNIC copy	3		210
		Proof of income (salary slip, pension, or other)			
		Affidavit			
		CNIC copy & source of income of financial supporter <sup>16</sup>			
		Student card <sup>17</sup>			
		Residential proof <sup>18</sup>			
3	Submit Documents	Visit the branch	1	1	600
4	Processing	Procedures within the bank	2		
5	Receive Cheque Book	Visit the branch	10	1	600
6	Receive ATM Card	Through courier	14		
Total			31	3	2,010

On average, the individual bank account takes around twelve days to be fully functional after the submission of the application.

<sup>16</sup> In case the account holder is unemployed or a housewife.  
<sup>17</sup> For students only.  
<sup>18</sup> If the permanent address is different from the current address.

## 1.2 Business Account

The process of opening a business account is as follows:

**Table 7.3: Steps and Monetary Costs Involved in Opening a Business Account**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Travelling/ Documentation Cost
1	Gather Information	Visit bank/online/phone	1	1	600
2	Prepare Documents	CNIC copy of all signatories	9		310
		Proof of the national tax number			
		Letterhead sample (2)			
		Rubber stamp sample			
		Copy of the partnership deed			
		SECP registration /certificate of registration copy			
		Proof of business address			
		Licence copy (if applicable)			
		Affidavit			
		Memorandum of articles/ association			
		List of board of directors			
3	Submit Documents	Visit the branch	1	3	1800
4	Processing	Procedures within the bank	8		
5	Receive Cheque Book	Visit the branch	10	1	600
6	Receive ATM Card	Through courier	14		
Total			43	5	3,310

Mostly, around forty-three days are required to complete the process of opening a business account. The account becomes functional after eighteen days of application submission.

2. GETTING A CREDIT CARD

To obtain a credit card from a bank, the customers have to go through the following process:

Table 7.4: Steps and Monetary Costs Involved in Getting a Credit Card

No.	Steps	Description	Time Taken (Days)	No. of Trips	Travelling/ Documentation Cost
1	Gather Information	Visit bank/online/phone	1	1	600
2	Prepare Documents	CNIC copy	2		40
		Bank statement copy (last 6 months)			
		Salary slip copies (last 3 months)			
		Proprietorship letter/ Partnership deed/ Memorandum/ Articles of Association			
3	Submit Documents	Visit the branch	1	1	600
4	Processing	Procedures within the bank	1		
5	Receive Credit Card	Through courier	10		
Total			15	2	1,240

Getting a credit card requires ten days after the submission of the application form and at least two visits to the bank branch<sup>19</sup>.

In most cases, the bill payment time limit is 45 days without any charge. After 45 days the bank charges interest on the unpaid amount.

<sup>19</sup> Some banks are also offering online credit card facilities to selected customers.

The following are the requirements for payment of credit card bills in instalments:

- 1 Call the bank and request for instalment.
- 2 If the instalment is made within three months, banks do not charge any interest rate.
- 3 If instalments exceed three months, banks charge 40 per cent per annum (3.3 per cent per month).

### 3. MAINTAINING A BANK ACCOUNT

**Table 7.5: Time involved in Different Banking Services**

Type	Documents	Time (days)	Trips to the bank
Changes in personal information	CNIC copy form	1	1
Getting a new cheque-book	CNIC copy form	10	2
Getting a new ATM Card	CNIC copy form	14	1

To get an occasional bank statement:

- The account holder must visit a bank or authorise a third person with an authorisation letter.
- It takes around half an hour to get a bank statement.

Changes in personal information (phone number or address):

- The account holder's visit to the bank is mandatory.

- CNIC copy
- Request form
- Biometric verification
- It takes one day to update or change personal information.

Requirements for an ATM card replacement if the card is lost, damaged, or stolen:

- Request form along with CNIC copy
- Charges depend on the type of card
- Get a new one in fourteen days.

To get a new cheque Book:

1. Request form along with CNIC copy
2. Charges range from 300-600 rupees
3. Get a new one in seven to ten days

Many banks in Pakistan offer online services for the replacement of ATM cards and chequebooks without the need to visit the bank to submit a request.

## 4. COST OF SLUDGE

- On average, thirty-one days are required to open an individual bank account and forty-three days to open a business account.
- To open an individual bank account requires three visits to the bank and, on average, five visits to the bank are required for a business account.
- Getting a credit card requires two visits to the bank and after almost ten days the card is received through a courier service.

The time and monetary cost involved in opening/maintaining a bank account also involve the opportunity cost. To measure the opportunity cost, we perform some calculations by assuming:



<sup>20</sup> Is based on the average exchange rate for the FY22 i.e., \$1= Rs 162.9

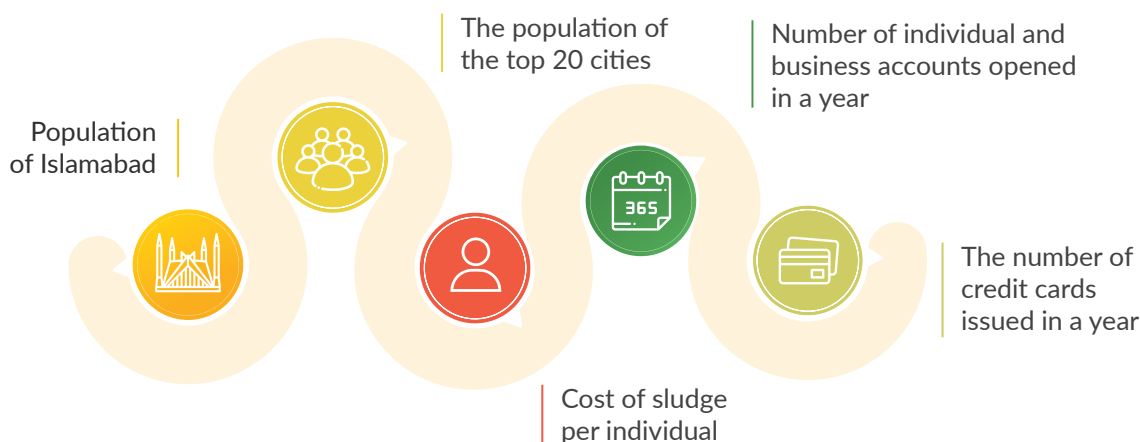
Based on these assumptions, the table below contains the estimations of the cost of sludge in the case of Islamabad.

**Table 7.6: Cost of Sludge**

Head	Individual Account	Business Account	Credit Card
Processing Cost (including Traveling)	2,010	3,310	1240
Opportunity Cost	2407	34090	1605
The Average Number Per Branch Per Year	1356	96	636
Number of branches in Islamabad	564	564	430
Total Number Per Year	764,784	54,144	273,480
<b>Cost of sludge</b>	<b>Rs 3.37 billion</b>	<b>Rs 2.02 billion</b>	<b>Rs 778.0 million</b>

#### 4.1 Cost of the Sludge in terms of GDP:

To assess the cost of regulations on the economy, we translate the cost of sludge in terms of GDP. The task is carried out based on the following information:



Based on the information above we estimated the cost of sludge in opening a bank account is 0.35 % of our total GDP.

**Table 7.7: Cost of Sludge in terms of GDP**

Head	Account opening	Credit card
Cost of Sludge in Islamabad	Rs. 5.40 billion	Rs 778.02 million
Per Capita Cost of Sludge	Rs. 4,510	649
The Population of the Top 20 Cities	53,327,000	53,327,000
Cost of Sludge in 20 Top Cities	Rs 240.5 billion	Rs 34.63 billion
Cost of sludge as a percentage of GDP	0.35	0.05

#### Assumption:

1. We assumed Rs 150,000 average salary for the account manager and divided it by 22 working days to get the opportunity cost of one day. For an individual bank account, we took the GDP per capita of the fiscal year 2021-2022 and divided it by 365 days to get the daily GDP per capita.
2. We assumed the average travel distance to the nearest branch is 10 km and the average cost per round trip is Rs 600 based on Careem/In-Drive rates.

#### Calculations:

1. **Calculation of processing cost:** The application processing cost is the sum of the cost of documents and the cost of travel to the bank. The cost of photocopying per document is Rs. 10 and the cost of one round trip to the nearest bank is Rs. 600.



2. **Calculation of personal cost:** The opportunity cost of personal time involved in opening a bank account is captured by assuming the average monthly salary of an account manager (Rs. 150,000) and the per capita GDP per day (Rs. 802).

## 5. Cutting the sludge

### a. Digital banks/Online account opening:

Opening an online business bank is typically much simpler than opening a traditional business bank account, with some banks the process can take as little as 15 minutes. The online nature of same-day business bank accounts means there is no paperwork, photocopying of IDs, manual processing, waiting for the post, and need for in-person meetings. Challenger Banks and Airwallex are among the digital banks operating around the world.

**Challenger Banks:** In the UK Challenger<sup>21</sup> banks (online banks) offer same-day accounts that allow individuals to start sending and receiving payments immediately/on the same day if they are eligible and get approved. Applicants can apply online via the provider's website and do not need to travel to a specific location to set up an account. Banks used to have to check photo ID in person at a branch, but with online mode banks now match a selfie or video with the person's photo ID in seconds and verify electronically by checking details against national databases. For verification of the address, traditional banks need a utility or tax bill, but challengers' banks can verify the address on the electoral roll. To set up an online business account the required documents include (i) proof of ID (ii) proof of address (iii) business details.

<sup>21</sup> Challenger banks are newer banks armed with the latest technology and on a mission to attract customers away from traditional banks like Barclays, HSBC, Lloyds, NatWest, and Santander. Challenger banks are also called neo-banks, digital banks, or fintech. Some challenger banks offer the same services as traditional banks, while others are digital-only companies specialising in only one service such as mortgages, loans, or business banking. Many, but not all, challenger banks are online only.

**Airwallex:** Although Airwallex<sup>22</sup> provides business accounts and payment services to the government regulations of the countries where they operate, Airwallex does not offer personal accounts to individuals. The account opening is reserved for businesses registered in certain countries. The creation of an Airwallex business account requires (i) name and business details with an email ID, and (ii) a mobile phone number. After all the information required by Airwallex is submitted, the verification of the account is generally completed within 1-3 working days.

#### **b. Online account opening with a traditional bank:**

The traditional banking sector in different countries also offers online account opening services. For example, in the case of the US and UK, a branch visit is not needed to start the application – most of the legwork can be done online. Once you obtain the go-ahead, you could still be asked to visit a branch with some identification. Online applicants will receive their account details and debit card within 7-10 working days.

In Pakistan, some banks are also offering online services for opening individual and business bank accounts but there is a maximum limit of only one million rupees. The application for a bank account can be submitted online. However, the applicant has to visit any nearest branch for biometric verification. Requirements for online account opening include (i) a digital CNIC copy, (ii) a digital copy of the source of income, (iii) a mobile phone number registered with CNIC, (iv) a digital copy of the signature, (iv) live photo, and (v) biometric verification.

<sup>21</sup> In 2015, Airwallex launched in Australia, and since then, it has moved to other nations like Hong Kong and Singapore.

# 8

Getting a  
Business Loan  
from Bank



## 8. GETTING A BUSINESS LOAN FROM BANK

To meet the working capital needs or expand the business, one financing mechanism accessible to small and medium enterprises is borrowing from banks. Different banks in Pakistan offer different financing mixes, in this report, we considered borrowing against collateral.<sup>23</sup>

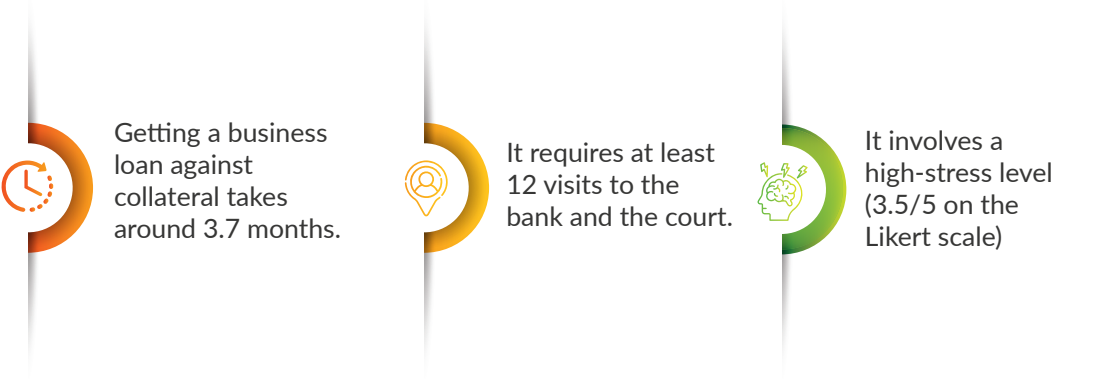
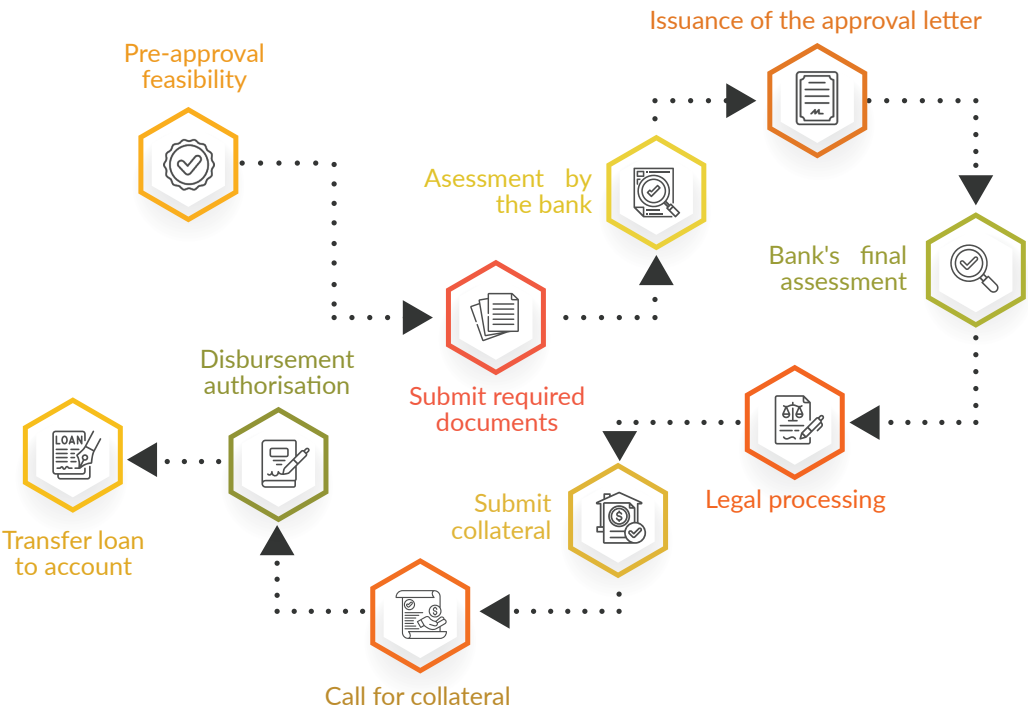
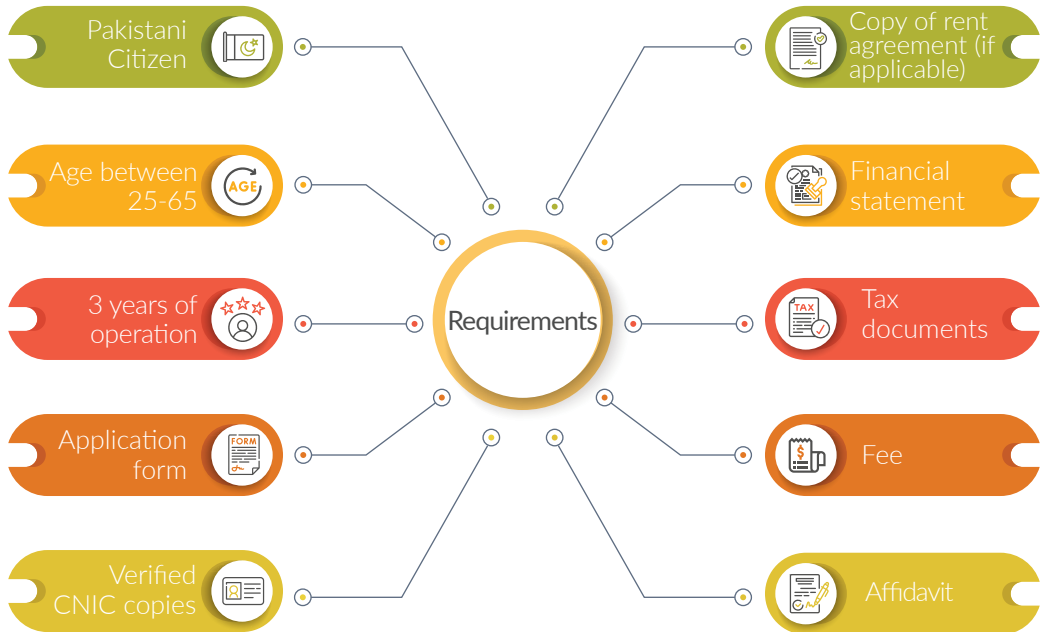


Figure 8: The Process of Applying for Business Loan from Banks



<sup>23</sup> For details see; <https://www.sbp.org.pk/sme/pdf/smebooklet-05-jul-08.pdf>

On average, an enterprise can borrow from Rs. 0.5 million to Rs. 75 million for a period ranging from 1 year to 5 years. The eligibility criterion to avail of financing differs across banks. Broadly, the following are the requirements that the businessman has to meet before applying for a loan.



The process detail of obtaining a loan from a bank is explained in the table below.

The process detail of obtaining a loan from a bank is explained in the table below.

**Table 8.1: Time and Monetary Costs Involved in Getting a Business Loan**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Gather Information	Visit to bank	1	1	1,200
		Meet official			
		Finish the day			
2	Pre-approval Loan Officer Visit	Visit to industry	5		
		Market verification			
		Security verification			
		Electricity bill and other documents			
		Initial report submission			
3	Prepare Documents	A formal request for a loan (application)	7	5	13,000
		Financial statements (last three years)			
		Tax documents (optional)			
		Company registration certificate copy			
		CNICs copies of directors			
		2 photographs			
		Declaration documents			
		Fee submission slip			
		Undertaking			
4	Submit Documents	Visit to bank	1	1	1,200
		Submit application			
		Finish the day			
5	Initial Assessment	The banks assess the Five Cs model.	5		

6	Verification by Bank	Borrowers’ basic fact sheet analysis	15-20		
		Credentials regulation declaration by SBP			
		ECIB (electronic consumer information report)			
7	Issuance of Approval Letter		15-20		
8	Call for collateral	Bank calls the customer for the submission of collateral	3	1	
9	Submit Collateral	Visit the bank	5	1	1,200
		Submission of collateral			
		Finish the day			
10	Wait for Legal Officer's Visit		20		
11	Visit of Legal Officer	Verification of collateral by the bank through the legal evaluator	1		120
12	Pre-approval Loan Officer Visit	Visit the court	1	1	6,200
		Meet the registrar			
		Transfer of collateral ownership			
		Agreement			
		Finish the day			
13	Bank's Final Assessment	Proposal preparation by the bank	15	1	
14	Wait for Disbursement Authorisation		7		
15	Get Loan		3	1	1,200
Total			104-114 (3.5-3.8 months)	12	24,120

## 1. Sources of Sludge



### Primary Issue

The primary issue is the implementation of the foreclosure law in Pakistan. Currently, in case of default, the bank has to take a long legal route to recover the amount from the mortgaged property. To avoid such a scenario, banks place tight initial scrutiny and verification with the help of legal experts. Resultantly, these verifications are the main sources of delays in getting approval for the loan.

### Documents



A significant source of sludge is the document checklist required by the bank for the initial step. It can take more than a week for a customer to arrange the required documents.



### Verifications

The verification and assessment of documents take more than two weeks. Banks have to verify the provided documents in these two weeks and arrange some documents by themselves, such as ECIB and BBFS.

### Collateral



Last but not least, the submission of collateral, inspection of collateral, and shifting of its holdings also take more than two weeks. Apart from this sludge, the rest of the loan application processing at the bank can take around one month.



## 2. Cost of Sludge

Cost of personal time: The opportunity cost of personal time being involved in obtaining the approval of a business loan has been captured by assuming:

- The average monthly salary of an account officer is around Rs. 150,000.
- The account officer invests one-third of the time in document preparation and verification during the period of getting loan approval.

According to these assumptions, each loan has an opportunity cost of Rs. 190,000 as personal time.

## 3. Cutting the Sludge

### Eliminating Unnecessary Steps



**Providing a long list of documents:** Companies and businesses can register themselves with the SECP (The Securities and Exchange Commission of Pakistan) once in life and get a registration number. Through the registration number, banks can obtain the credentials of a company or a business directly from SECP records, which will make a long list of documents unnecessary.

**Verification/Assessment of Documents:** When the banks have access to the company/business's performance and other documents, the verification process will not take much time; it can be done within a day.

## Digitisation

The time spent gathering documents can be reduced if banks directly verify the companies and businesses through SECP registration. The SECP can reduce the time taken by the borrower to gather documents and the bank to verify them. This will also reduce the actual cost and the opportunity cost of gathering and verifying such documents. The stress that a person goes through in gathering such information will also be almost removed.

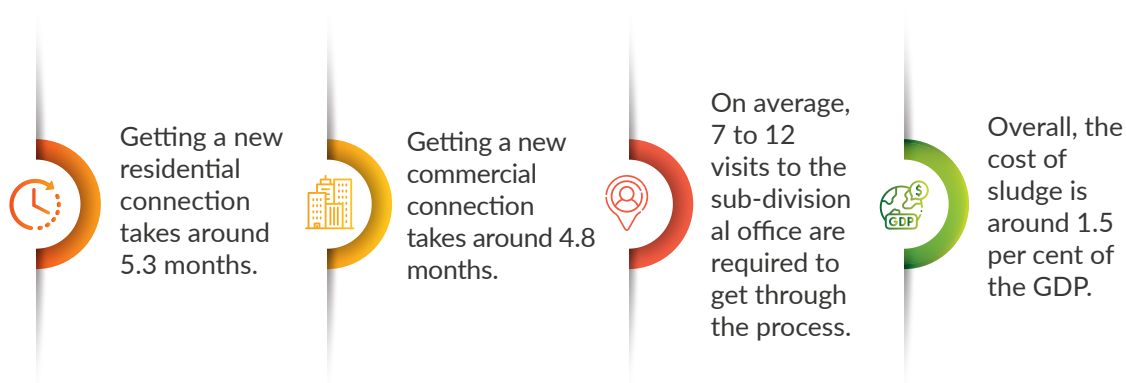
# 9

## Electricity Connection in Islamabad



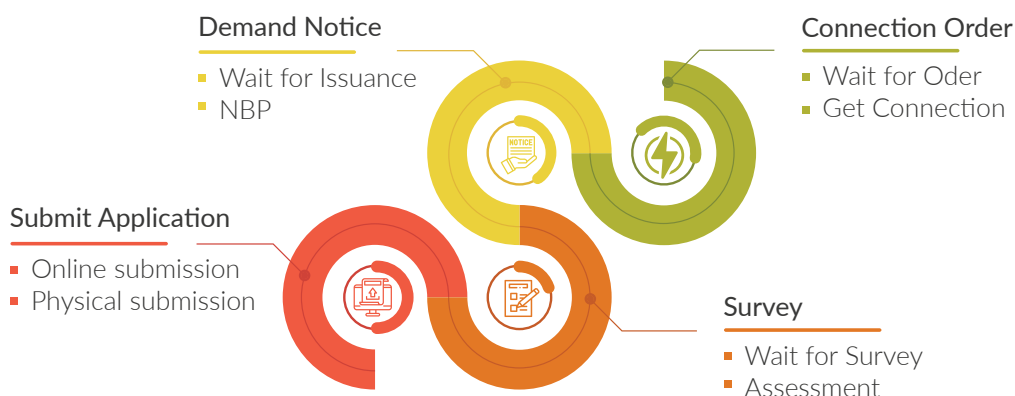
## 9. ELECTRICITY CONNECTION IN ISLAMABAD

Islamabad Electric Supply Company (IESCO) is responsible for providing power supply services in Islamabad and Rawalpindi. Currently, IESCO is providing more than 3.5 million connections in the six district circles.<sup>24</sup> These connections are divided into different categories, namely, domestic, commercial, industrial, bulk, tube well, streetlights, and others. Here we have tried to identify the sludge involved in obtaining residential and commercial connections.



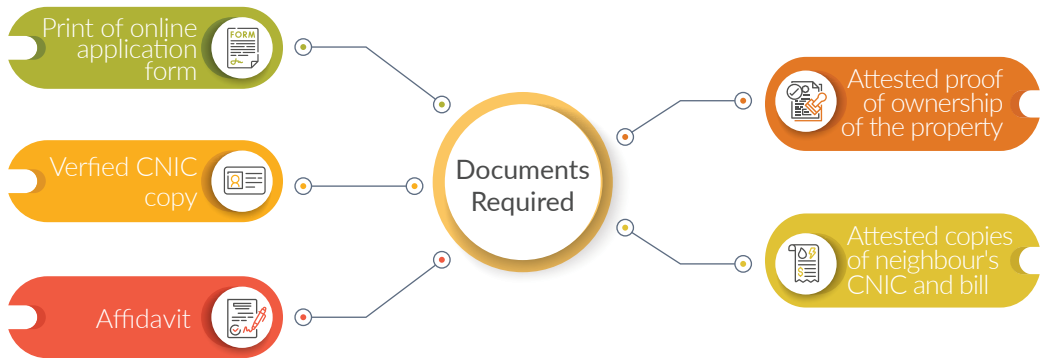
### 1. NEW RESIDENTIAL CONNECTION

Figure 9.1: Process to Get a New Residential Connection



<sup>24</sup> These circles include Islamabad, Attock, Rawalpindi City, Jhelum, Chakwal, and Rawalpindi Cantt.

The documents that are required to apply for a new residential connection both online as well as physical submission include:



Although IESCO has introduced an online application submission mechanism through which scanned copies of the above-mentioned documents need to be uploaded, a hard copy of the application and documents still must be submitted to the sub-divisional office.

**Table 9.1: Time and Monetary Costs Involved in Getting a New Residential Electricity Connection**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Getting Information	Online website/IESCO office			
2	Pre-approval Loan Officer Visit	<div>Documents required</div> <div>           CNIC copy            Proof of property ownership            Neighbour's electricity bill copies and CNIC            Stamp paper         </div>	5	2	2,000

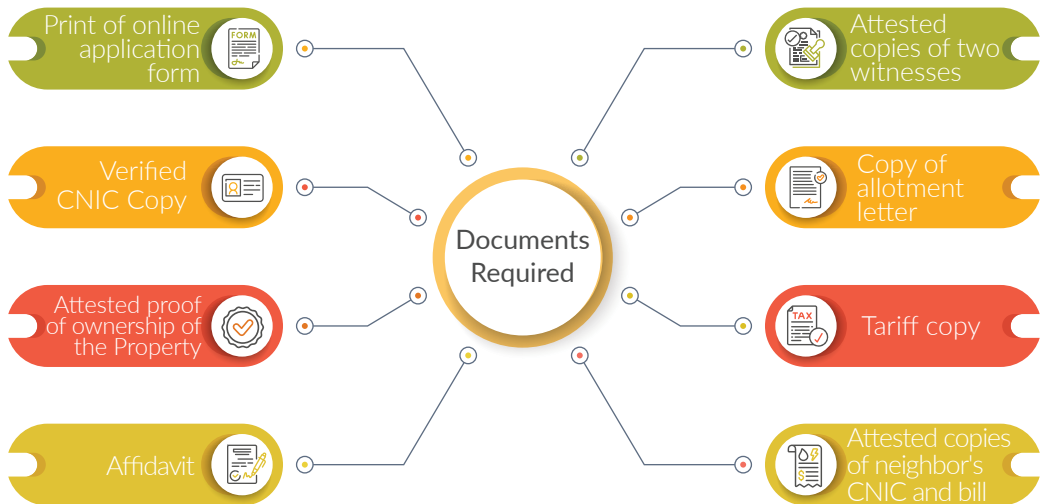
3	Submit Application	Online submission	2	1	1,300
		Print application			
		Visit the relevant sub-divisional office			
4	Wait for Line-Superintend Survey		60		
5	Check Status	Visit-2 to the sub-divisional Office	1	1	1,200
6	Wait for the Issuance of the demand notice		45		
7	Fee Submission	Receive demand notice	1	1	5,200
		Visit National Bank			
		Pay fee			
		Finish the day			
8	Submit a Copy of Paid Demand Notice to the Sub-Divisional Office		1	1	1,200
9	Wait for New Connection Order		45		
10	Get Connection				
Total			161 (5.3 months)	7	12,100

## 2. NEW COMMERCIAL CONNECTION

Figure 9.2: Process to Get a New Commercial Connection



The required documents are:



**Table 9.2: Time and Monetary Costs Involved in Getting New Commercial Electricity Connection**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Getting Information	Online website/IESCO office			
2	Pre-approval Loan Officer Visit	Documents required	7	3	3,000
		Application form			
		Layout plan			
		Proof of ownership/ lease agreement			
		Affidavit			
		CNIC copies of two witnesses			
		Allotment letter copy			
		Tariff copy			
		CNIC copy owner			
3	Submit application	Online submission	2	1	1,300
		Print application			
		Visit the relevant sub-divisional office			
4	Wait for inspection		25		
5	Check Status		1	2	2,400
6	Inspection	Survey by a line-technician	1	1	65,000
		Voltage load calculation			
		Space checkup			
		Internal processing			
7	Wait for Cite verification		15		
8	Check Status		1	2	2,400
9	Wait for the issuance of the demand notice		45		
10	Fee Submission	Receive demand notice	1	1	5,200
		Visit National Bank			
		Pay fee			
		Finish the day			

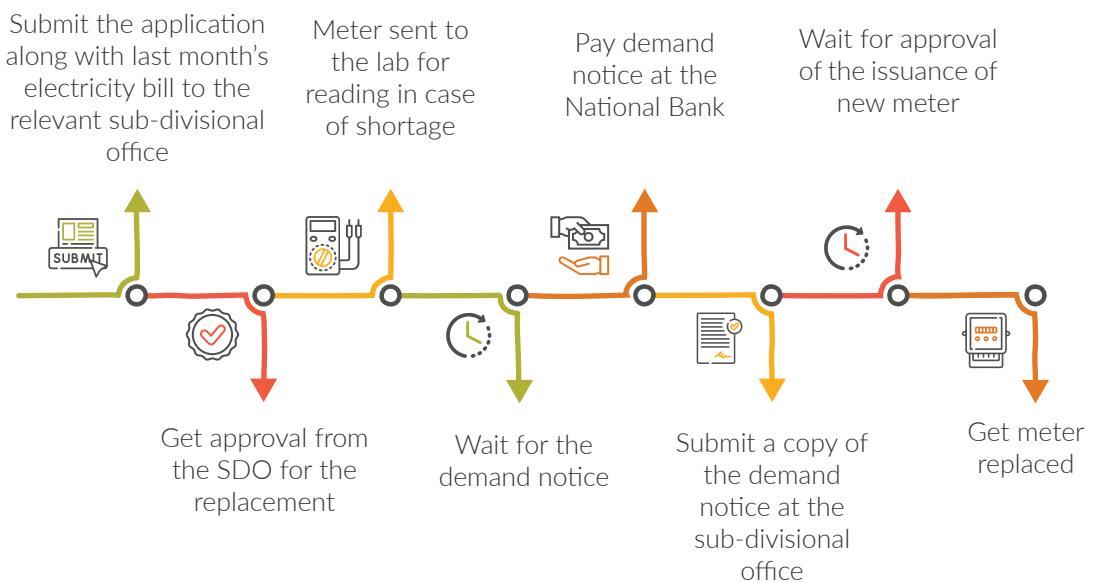


11	Submit a Copy of the paid demand notice to the sub-divisional office	1	1	1,200
12	Wait for the new connection order	45		
13	Get Connection	1	1	1,200
Total		145 (4.8 months)	12	81,700

### 3. OTHER SERVICES RELATED TO THE CONNECTION

#### 3.1. Meter Replacement

The customer may need to replace an installed meter due to technical issues with the meter, need to extend the load, or shortages due to weather. The process of replacing the meter also entails huge costs to the customer. The process of replacement is as follows:



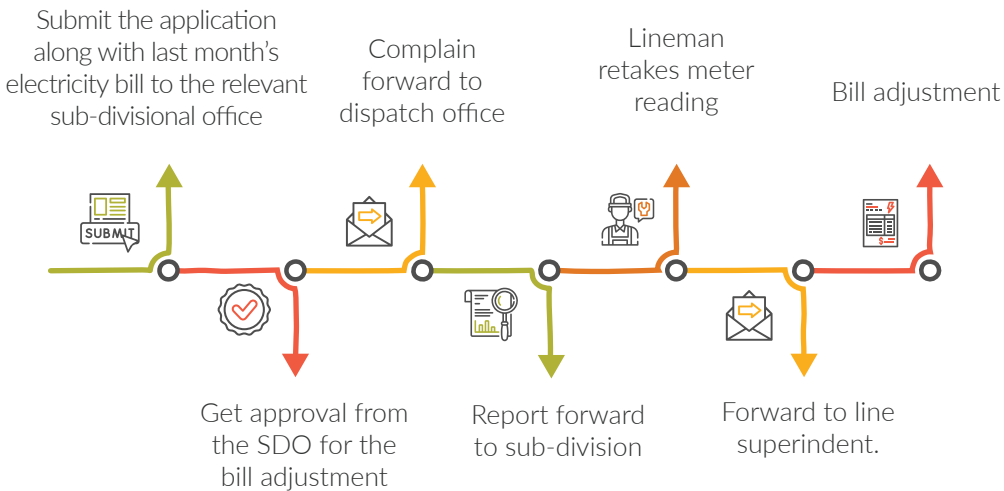
Mostly, it takes more than 21 days to replace the meter, while it costs around Rs. 4,200 in the case of a single-phase meter and Rs. 16,000 in the case of a three-phase meter.

Sometimes, temporary arrangements are made to continue the supply of electricity to the customer by providing a direct connection without a meter. In such a case, the monthly bill is determined by the last month's bill or the average consumption of the last 11 months, which is higher.

Respondents have also reported the non-cooperative behaviour of the relevant staff without paying them under the table.

3.2. Bill Adjustment

In the event of facing any issue relating to the number of units billed to the customer, then the customer has to visit the relevant sub-divisional office for a bill adjustment. For the adjustment, the customer has to first pay the billed amount. The adjustment claims are accepted if the adjustment application is accepted. The process of the bill adjustment is as follows:



Mostly, it takes more than 19 days to adjust the bill in case of an anomaly even due to the negligence of the meter reader. However, in the case of a technical problem, the bill is adjusted either based on the average consumption of 11 months or consumption in the last month. The adjustment often requires at least 2 visits to the relevant sub-divisional office.

## 4. Sources of Sludge



### Application Submission

The submission of the document along with copies of the application entails extra travelling and psychological costs to the customer since the sub-divisional office is mostly located far away from the customer.

### Wait for inspection and demand notice



The customer has to wait around 4 months for the survey, demand notice issuance, and approval order issuance. This waiting is the most frustrating stage for the customer and often involves multiple visits to the office to check the status. However, the officials claim that these stages do not involve such a long time., while the respondents reported a different picture and hinted that moving files is almost impossible without under-the-table payoffs to the staff.

## 5. Cost of Sludge

The time involved in getting new connections bears huge opportunity as well as psychological costs. For instance, take the case of a commercial connection that takes more than 4 months to complete the process. The shopkeeper has to make alternate arrangements for energy during this period, either by getting an unapproved connection from the neighbours or by buying a generator.

Similarly, if the nature of the business is such that it is dependent on power, the starting of the business faces a delay of 5 months due to permission processes.

**Table 2: Costs of Sludge in Getting a New Connection**

Cost of the sludge per connection	
Domestic	Rs 12,100
Commercial	Rs 81,700
The number of new connections in Islamabad	
Domestic	41,923
Commercial	3,320
<b>Cost of the sludge in Islamabad</b>	<b>Rs 778.5 million</b>
Domestic	Rs 507.2 million
Commercial	Rs 271.2 million
Population of Islamabad	1.1 million
Per-capita cost of sludge	Rs 672
The population of Pakistan (2022)	235.8 million
Cost of the sludge in Pakistan	Rs 158.5 billion
GDP at market price (2022)	66,949.9 billion
% of GDP	0.24

## 6. Cutting Sludge

**Application Submission:** The requirement to submit hard copies of the application form and attached documents is unnecessary. Once the applicant uploads all the documents online, the requirement of hard copy submission becomes redundant.

**Fee Submission:** The demand notice amount must be submitted at a designated bank. In this age of automation, IESCO can easily introduce an online mechanism for fee submission.

**Effective Tracking Mechanism:** Though the online application submission does generate a tracking ID. However, this tracking ID is almost non-functional in practice. IESCO needs to make the tracking mechanism more efficient with an active customer care centre

# 10

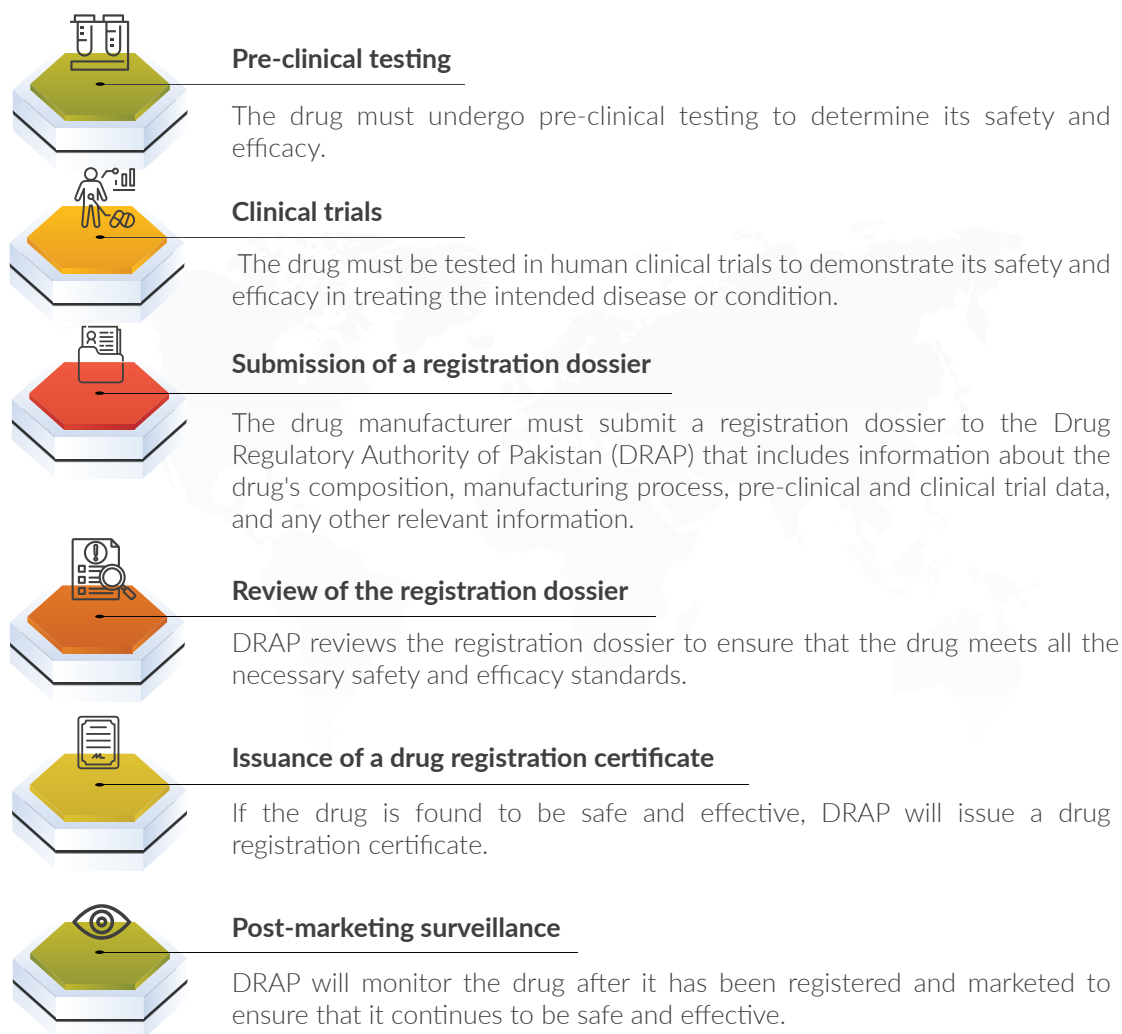
Registration  
of a New  
Medicine



## 10. REGISTRATION OF A NEW MEDICINE

The Drug Rules 1976 under section 26(1) provides the standard formats and requirements related to the registration of a new drug for human use. In Pakistan, the registration of a new drug is a multi-step process that involves several permissions from the Drug Regulatory Authority (DRAP) of Pakistan.

The process typically includes the following steps:





On average 1.7 years are required to register a new medicine.



It requires 28 visits to DRAP.



The cost of regulations is around Rs. 0.2 million for each medicine.



Overall, the cost of sludge is around 0.03 per cent of the GDP.

**Step 1- Drug Manufacturing License:** Before applying for drug registration, the pharmaceutical unit needs a drug manufacturing licence if the drug is to be produced locally. This process takes more than 3 months with prolonged waits for inspection and the Central Licensing Board's meeting.

**Step 2- Drug Registration:** The process of registration of a new drug can be initiated once the pharmaceutical unit obtains the DML. The most time-taking task at this stage is document preparation, which consumes more than 10 months.

**Table 10.1: Time and Monetary Costs Involved in the Registration of a New Locally Manufactured Drug**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Gather Information	Visit DRAP	1	1	1,200
		Meet the official			
		Finish the day			
2	Prepare Document for Drug Manufacturing License (DML)	Application form	3	2	55,000
		Submit online fee challan			
		Layout plan details			
		Copy of SECP registration certificate			
		Sector-wise equipment and machinery plan			



		Details of staff in charge of different manufacturing and quality control activities			
		Copy of degree/diploma			
3	Submit Application to DRAP for DML	Visit-2 DRAP	1	1	1,200
		Submit application			
		Finish the day			
4	Wait for Inspection for DML		30		
5	Inspection by DRAP	Visit the unit	1	1	1,200
		Inspection			
		Finish the day			
6	Report submitted to Central Licensing Board (CLB) by the Inspection Team		15		
7	Wait for the CLB Meeting		45		
8	Approval of DML	Visit-5 DRAP	1	1	1,200
		Submit application			
		Finish the day			
9	Gather Information for Drug Registration	Visit DRAP	1	1	1,200
		Meet the official			
		Finish the day			
10	Prepare Documents for Basic Local Manufactured Drug Registration	Form 5 and details of modules	320	12	165,000
		Details of the API manufacturer			
		Trademark certificate			
		Affidavit and undertakings (7)			
		Electronic review package			
		Detailed information on the drug			
		References of registration status of applied drug			

		Quality information summary			
		Copy of DML			
		Fee submission receipt			
11	Submit Application for Drug Registration Dossier	Visit-5 DRAP	1	1	1,200
		Submit application			
		Finish the day			
12	Wait for Technical Evaluation and Verification by Pharmaceutical Evaluation Cell		30		
13	Address PEC's Concerns		15	2	5,000
14	Wait for Inspection		60		
15	Inspection by DRAP		1	1	1,200
16	Wait for Registration Board Meeting		15		
17	Registration Board Meeting		1		
18	Wait for Board Assessment		7		
19	Address Board's Concerns (if any)		15	4	1,200
20	Wait for Final Approval		60		
21	Obtain Registration Letter		1	1	1,200
Total			624 (1.7 years)	28	244,600

## 1. Sources of Sludge



### Wait for Inspections

Inspections by the DRAP representatives at both Drug Manufacturing Licence and new drug registration processes involve prolonged waits. On average, this waiting period takes one month at DML and 2 months at the drug registration stages.

## Wait for Meetings



The other source of sludge is waiting for the board meeting either to evaluate the inspection teams' reports or to grant approval. These assessments and approvals take more than 4 months.



## DRAP Internal Processes

Manufacturers highlighted that the processing mechanism within DRAP is the main source of administrative delays. Although automation has reduced some parts of the administrative burden, the bulk of the administrative burden remains intact unless the application processing mechanism within DRAP is improved.

Some manufacturers have also pointed out the need for a track and trace system of application.

## 2. Cost of Sludge

The time consumed in getting a new drug registered not only delayed the manufacturing process but also involves huge psychological and opportunity costs. To measure the opportunity cost, we assumed a manager hired by the producer invests around one-third of their time to deal with DRAP processes. The average monthly salary of the manager is Rs. 150,000. Based on these assumptions, the cost of personal time stands at around Rs 1.04 million. The table below contains an elaboration of the cost of sludge in terms of the GDP.

**Table 10.2: The Cost of the Sludge**

Processing cost (including travelling)	Rs 264,600
Cost of personal time	Rs 1.04 million
Cost of sludge per case	Rs 1.3 million
Number of drugs approved <sup>25</sup>	13,685
The total cost of sludge	Rs 17.85 billion
GDP at market price (FY-22)	66,950
% of GDP	0.3

### 3. Cutting the Sludge

**Fee Submission:** Currently, there is no option for online fee submission. A challan is generated by the system once the application is submitted through automation which is then paid physically at the bank. An online fee payment mechanism would help to reduce the administrative burden at this step.

**Source Reference:** Currently, the application for the registration of a new drug also requires the provision of an international reference of the source sample or a list of countries that have approved the API. The companies have to perform this source searching, which can easily be eliminated if DRAP can develop and provides an open-access directory to the companies.

**Time Bound Process:** Although DRAP has introduced some reforms in processes and is trying to improve the mechanism, the manufacturers suggest that instead of speeding up the approval processes, these reforms have brought more sludge. For instance, automation at the application submission stage has increased the number of trips to DRAP instead of eliminating it (as claimed by some manufacturers). It will be an ideal scenario if DRAP introduces a time-bound approval mechanism with an effective trace and track system.

<sup>25</sup> The data has is obtained from DRAP.

# 11

Software House  
and Call Center –  
IT Business

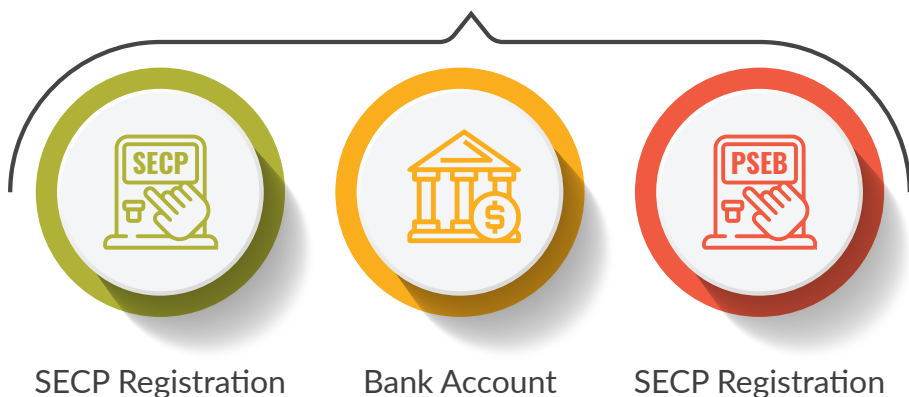


## 11. SOFTWARE HOUSE AND CALL CENTER – IT BUSINESS

Pakistan has made significant progress in the field of information technology (IT) in recent years. The government has taken steps to promote IT development, including establishing technology parks and providing tax incentives to IT companies. The IT industry in Pakistan primarily consists of software development, call centres, and IT services. The country also has a growing startup ecosystem, with many young entrepreneurs launching tech-based companies. However, the IT industry in Pakistan still faces challenges such as a lack of skilled workforce, inadequate infrastructure, and limited access to funding. Despite these challenges, the industry continues to grow and is expected to make a significant contribution to the country's economy in the future.

Keeping in view the potential of this sector, we have tried to map the process of launching a business in the two particular segments of the IT sector; software house and call centre.

### 1. GENERAL REQUIREMENTS



Generally, to start a business in the IT sector, one has to fulfil the following requirements

**1.1. SECP Registration:** The first step is to register the company with the Security Exchange Commission of Pakistan (SECP). The registration provides a unique name to the company and regulates it as per the Company Act (2017). On average, this registration step takes more than 12 days.

**1.2. Bank Account:** An operational bank account in the name of the company is also mandatory in starting up either a software house or a call centre. As Activity 7 (Banking Services) shows, opening a business bank account takes around 43 days.

**1.3 PSEB registration:** The governing body of the IT sector in Pakistan is the Software Export Board (PSEB). Its primary function is to promote the IT sector of Pakistan by providing support to the industry in local and international markets. To receive the benefits of different schemes, such as tax exemption, registration with the PSEB is compulsory. Registration with the PSEB takes more than 49 days.

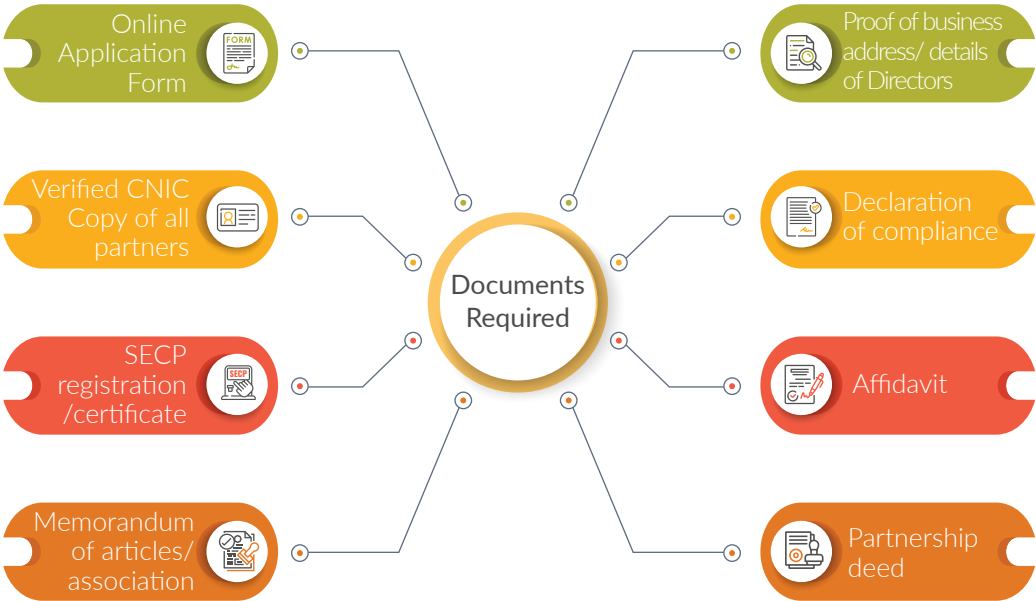
## 2. STARTING A SOFTWARE HOUSE

A software house company is a company that specialises in the development and production of software applications. They may develop software for a wide range of industries and purposes, such as business, gaming, or mobile apps. These companies may also offer services such as consulting, design, and maintenance for their software products.

Opening a software house in Pakistan requires:



Opening a software house in Pakistan requires:





The detail of the whole process is presented in the table below:

**Table 11.1: Time and Monetary Costs Involved in Opening a Software House**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Getting Information	Online website/ PSEB office	1	1	1,200
2	SECP Registration	<div>Documents required</div> <div> CNIC copies of directors  Memorandum and article of association (4 copies)  Declaration of compliance (Form-1)  Details of office  Details of directors  Fee challan </div> <div> Visit SECP  Submit the application along with the documents </div> <div> Wait for verification  Get registration number </div>	12	3	16,100
3	FBR Registration	Apply for FBR NTN Obtain NTN	7		
4	Open Bank Account	<div>Documents required</div> <div> CNIC copy of all signatories  Proof of the national tax number  Letter head sample (2)  Rubber stamp sample </div>	1	1	1,200

			Copy of the partnership deed	43	5	3,310
			SECP registration / certificate of registration copy			
			Proof of business address			
			Affidavit			
			Memorandum of articles/ association,			
			List of Board of Directors			
			Licenses copy (if applicable)			
			Submit application			
			Wait for internal processing			
			Receive cheque-book and ATM			
5	PSEB Registration	Visit to Pakistan software export board (PSEB)		1	1	1,200
		Documents required	CNIC of all directors	1	2	12,500
			Attested copy of MOU (SECP)			
			Incorporation certificate (SECP)			
			Partnership deed			
			Firm registration certificate			
			Fee challan			
			Business bank statement			

	Visit PSEB to submit the application along with the documents	1	1	2,400
	Wait for inspection	20	4	4,800
	Report forward to the PSEB office	10		
	Check Status	1		
	Issue licence	15		
<b>Total</b>		<b>112 (3.7 months)</b>	<b>18</b>	<b>42,710</b>

### 3. Starting a Call Center

Call centres are one type of internet-based business that offer a wide range of services against some charges. As in the case of software houses, the call centres are also required to register with the PSEB. However, many centres still are operating without getting registration from the PSEB, as indicated by the respondents.

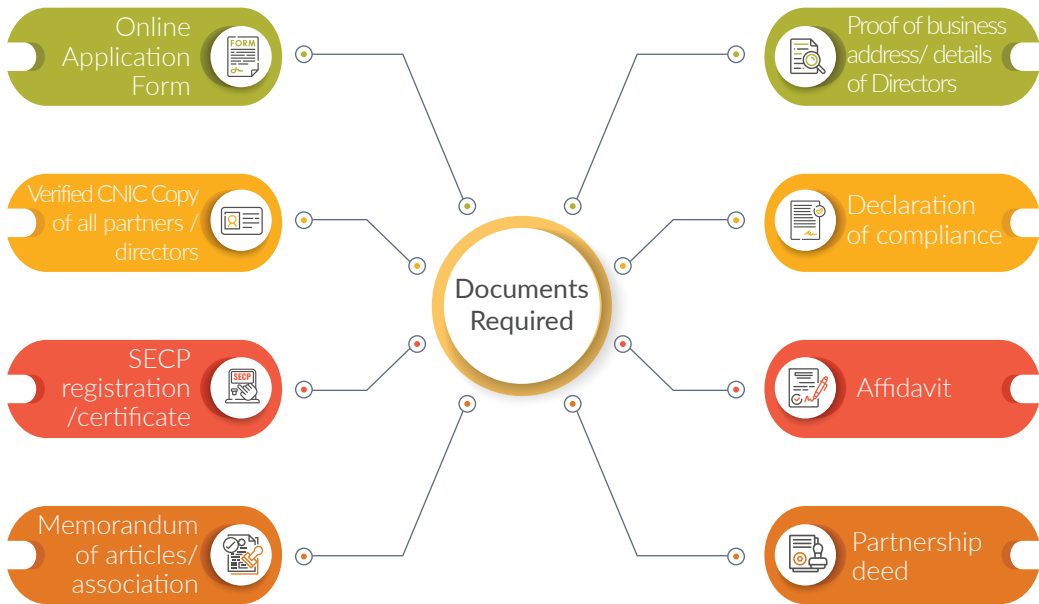
Opening a call centre business and getting it registered with the PSEB in Pakistan requires:



The documents that are required to apply for registration with the PSEB are:

3.1 Required documents

The documents that are required are:



The table below contains the time and cost involved in the registration of a call centre.

**Table 11.2: Time and Monetary Costs Involved in Opening a Call Center**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Getting Information	Online website/ PSEB office	1	1	1,200
2	SECP Registration	<div>Documents required</div> <div> CNIC copies of directors  Memorandum and article of association (4 copies)  Declaration of compliance (Form-1)  Details of office  Details of directors  Fee challan </div> <div> Visit SECP  Submit the application along with the documents </div> <div> Wait for verification  Get registration number </div>	12	3	16,100
3	FBR Registration	Apply for FBR NTN Obtain NTN	7		
4	Open Bank Account	<div>Documents required</div> <div> CNIC copy of all signatories  Proof of the national tax number  Letter head sample (2)  Rubber stamp sample </div>	1	1	1,200

			Copy of the partnership deed	43	5	3,310
			SECP registration / certificate of registration copy			
			Proof of business address			
			Affidavit			
			Memorandum of articles/ association,			
			List of Board of Directors			
			License copy (if applicable)			
			Submit application			
			Wait for internal processing			
			Receive cheque-book and ATM			
5	PSEB Registration	Visit to Pakistan software export board (PSEB)		1	1	1,200
		Documents required	CNIC of all directors	1	2	12,500
			Attested copy of MOU (SECP)			
			Incorporation certificate (SECP)			
			Partnership deed			
			Firm registration certificate			
			Fee challan			
			Business bank statement			

		Visit to PSEB	Submit the application along with the documents	1	1	2,400
		Wait for inspection		20	4	4,800
		Report forward to the PSEB office		10		
		Visit the PSEB office to check the status		1		
		Issue licence		15		
6	Obtain VPN			1		4,500
7	Staff Training			15		50,000
8	Buy Campaign			7		
9	Start Business			1		
Total				136 (4.5 months)	18	97,210

## 4. Cost of Sludge

The time and monetary cost involved in registering with the PSEB involves an opportunity cost as well. To measure the opportunity cost, we have considered the following indirect costs that the owner has to bear during the period of getting registration.

**4.1. Human Resource Cost:** The cost of human resources that the owner has to bear during the time spent on getting registration is captured by assuming the average monthly salaries of our respondents. On average, an IT-related business operates with one manager, one team lead, and around six developers/agents. The average salary of the manager/team lead is Rs. 50,000 and for the developer/agent is Rs. 35,000.

The table below contains the HR cost of the sludge

Table 11.2: Human Resource Cost

IT Business	Monthly Wage Bill (Rs)	Registration Time (Month)	Cost of Sludge (Rs million)
Software House	310,000	4.5	1.3
Call Center	310,000	3.7	1.1

4.2. **Rental Cost:** Another cost of sludge is the rental cost that the owner of the business must pay during the time of getting registration. The average monthly rent of the office is Rs. 150,000.

Table 11.2: Rental Cost

IT Business	Monthly Rent	Registration Time (Month)	Cost of Sludge (Rs million)
Software House	150,000	4.5	0.7
Call Center	150,000	3.7	0.6

4.3. **Cost of Utilities:** Along with rental and HR costs, the owner also has to pay the utility bills for the premises. Our data indicate that the average utility bill costs an IT business around Rs. 100,000.<sup>26</sup>

Table 11.3: Utility Bills

IT Business	Monthly Bills	Registration Time (Month)	Cost of Sludge (Rs million)
Software House	100,000	4.5	0.4
Call Center	100,000	3.7	0.3

<sup>26</sup> Based on the data we collected from the respondents.



**4.4. Cost of Personal Time:** The opportunity cost of investing personal time in getting registration has been captured by assuming the income foregone, which is around Rs. 200,000

**Table 11.4: Cost of Personal Time**

IT Business	Monthly Income	Registration Time (Month)	Cost of Sludge (Rs million)
Software House	200,000	4.5	0.9
Call Center	200,000	3.7	0.7

Based on these considerations, the table below contains the total cost of sludge that getting registration from the PSEB implies to the economy.

**Table 11.5: Cost of Sludge**

Head	Software House	Call Center
Processing cost (including travelling)	Rs. 42,710	Rs 97,210
HR cost	Rs. 1.3 million	Rs 1.1 million
Rental Cost	Rs 0.7 million	Rs 0.6 million
Utility Bills	Rs 0.4 million	Rs 0.3 million
Personal	Rs 0.9 million	Rs 0.7 million
Cost of sludge per business	Rs 3.3 million	Rs 2.8 million
Number of IT business <sup>27</sup>	2,000	4,466
Cost of sludge in Pakistan	Rs 6.6 billion	Rs 12.5
The total cost of sludge	Rs 19.1 billion	
GDP at current market price (FY22)	Rs. 66,950 billion	
Cost of Sludge (% of GDP)	0.03	

<sup>27</sup> <https://www.daytimes.pk/top-software-houses-in-pakistan-in-2023-54949/#:~:text=In%20Pakistan%2C%20there%20are%20more,that%20focuses%20on%20developing%20software.>

## 5. Cutting the Sludge

**5.1. Digitisation:** Digitisation and automation of registration processes can eliminate a significant portion of the sludge. Automation in the following steps will speed up the registration processes:



# 12

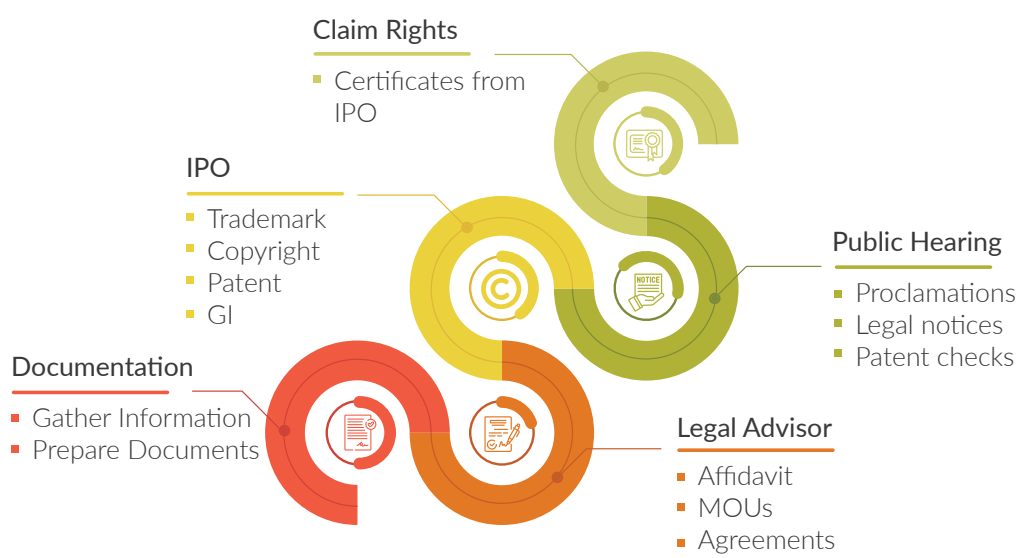
Getting  
Intellectual  
Property Rights



## 12. GETTING INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights (IPRs) in Pakistan are governed by the Intellectual Property Organization of Pakistan (IPO-Pakistan). The organisation is responsible for registering and enforcing trademarks, patents, copyrights, and industrial designs in the country. The organisation was created in 2005 by consolidating intellectual property rights offices working under different government organs to integrate the management structure.

Figure 12.1: Process to Get Intellectual Property Rights (IPRs)



### 1. REGISTRATION OF A TRADEMARK AND OBTAINING COPYRIGHTS

A trademark is a symbol, word, or words legally registered or established by use as representing a company or product. It is used to distinguish the goods or services of one trader or manufacturer from those of another. While copyright is a legal concept that gives the creator of an original work exclusive rights to use, distribute, and monetise that work for a certain period, copyrights apply to a

wide range of creative works, including literature, music, art, and software. Copyright is intended to encourage the creation of new works by providing financial incentives for creators. In most countries, copyright is automatic and applies as soon as a work is fixed in a tangible form, although registration and notice requirements in Pakistan take a long time.

Trademarks in Pakistan are registered under the Trademark Rules (2004) and copyrights are granted under the Copyright Rules (1967).



**Figure 12.2: Process to Register a Trademark and Copyright**



**Step 1- Gather Information:** The most critical stage in any process is gathering information. To obtain information on IPRs, one must visit the IPO office or website for guidance. This entails huge learning costs due to the absence of the IPR registration culture in Pakistan.

**Step 2- Legal Advisor:** Due to complex rules and regulations related to trademarks and copyrights, one often seeks the help of a legal advisor. The legal advisor charges a handsome fee for services rendered.

**Step 3- Brand Name Search:** For class 29 items, one must first file for a trademark. To do so, one must send an application to the IPO on his letterhead through legal counsel to look for the availability of the given name.

**Step 4- Document Preparation:** The applicant needs to submit four sets of all documents duly notarised, which include the applicant's CNIC copy, company profile, NOC for the publisher (if applicable), initial search report from IPO (if applicable), no objection certificate (NOC) from a person whose photographs appear on the artistic work, power of attorney signed by the applicant in favour of the authorised firm or advocate, and pay order or demand draft in the name of Director General IPO Pakistan.

**Step 5- Apply for Copyrights:** After receiving a trademark number from the IPO, the applicant must now file for copyrights for product design, colour scheme, labelling, and font style. To do so, an application on letterhead must be sent to the IPO, together with the fees paid and an additional four sets of all papers confirmed.

**Step 6- Proclamation and Hearings:** After receiving a review from the IPO, one must publish the proposed trademark and copyright in the top newspapers for the proclamation. The waiting period for the proclamation is 6 months, during which time another party may submit a case if they already own the copyrights.

For our analysis, we assumed that our product is unique and that the applicant will receive a copyright certificate following the proclamation period.

**Table 12.1: Time and Monetary Costs in Obtaining Trademark and Copyright Rights**

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Information Gathering	Visit IPO office	1	1	1,200
		Meet officers			
		Finish the day			
2	Hire a Legal Advisor	Visit the Lawyer	7	3	53,600
		Contact the advisor on Stamp Paper			
		Finish the day			
3	Brand Searching	Application to IPO for proposed Brand Name along with Fee	15	2	6,400
		Wait for the IPO response			
		Get approval			
4	Prepare Documents for Trademark	CNIC copy of the Director	120	8	57,000
		Company profile			
		NOC from the publisher (if applicable)			
		Initial Search Report from IPO (if applicable)			
		No Objection Certificate (NOC) from a person whose photographs appear on the artistic work			
		Power of attorney in favour of authorised firm or Advocate signed by Applicant			

		8 Copies of working files of Trademark/Copyright			
		Pay order or Demand Draft in the name of Director General IPO Pakistan			
		No Objection Certificate (NOC) from the author (if the Applicant)			
5	Submit Documents	Visit-2 advisor	1	1	1,200
		Submit document			
		Finish the day			
6	Application Submission by the Advisor				1,200
7	Check Status		30	1	1,200
8	Address IPO's observations		15	2	1,200
9	Review by IPO		60		
10	Check Status		1	1	1,200
11	Wait for approval		60		
12	Obtain Trademark number		1	1	1,200
13	Design Searching	Application to IPO along with Fee	15	2	6,400
		Wait for the IPO response			
		Get approval			
14	Prepare Documents for Copyright	CNIC copy of the Director			
		Company profile			
		NOC from the publisher (if applicable)			
		Initial Search Report from IPO (if applicable)			



		No Objection Certificate (NOC) from a person whose photographs appear on the artistic work	120	8	57,000
		Power of Attorney in favour of authorised firm or advocate signed by the applicant			
		8 Copies of working files of Trademark/Copyright			
		Pay order or Demand Draft in the name of Director General IPO Pakistan			
		No Objection Certificate (NOC) from the author (if the Applicant)			
15	Submit Documents	Visit-2 advisor	1	1	1,200
		Submit document			
		Finish the day			
16	Application Submission by the Advisor				1,200
17	Check Status		30	1	1,200
18	Address IPO's observations		15	2	5,000
19	Wait for a public hearing		30		
20	Proclamation	IPO publishes the proposed trademark and copyright in the leading newspapers for the proclamation	60		
21	Public Hearing		1	1	1,200
22	Review by IPO		1		
23	Check Status		1	1	1,200

24	Wait for approval	60		
25	Obtain Copyright Certificate	1	1	1,200
<b>Total</b>		<b>705</b>	<b>37</b>	<b>201,200</b>

## 2. Getting Patent Rights

A patent is a form of intellectual property that gives the holder exclusive rights to prevent others from making, using, selling, and importing an invention for a certain period, usually 20 years, from the date of filing. The patent system is designed to encourage innovation by providing inventors with a financial incentive to invest in the development and commercialisation of new ideas. To obtain a patent, an inventor must file a patent application with the IPO-Pakistan and demonstrate that the invention is novel, non-obvious, and useful. Once granted, the patent holder can take legal action against anyone who infringes upon their patent rights.

Patents in Pakistan are granted under the Patent Rule (2003).



Getting patent rights takes approximately 2.3 years.

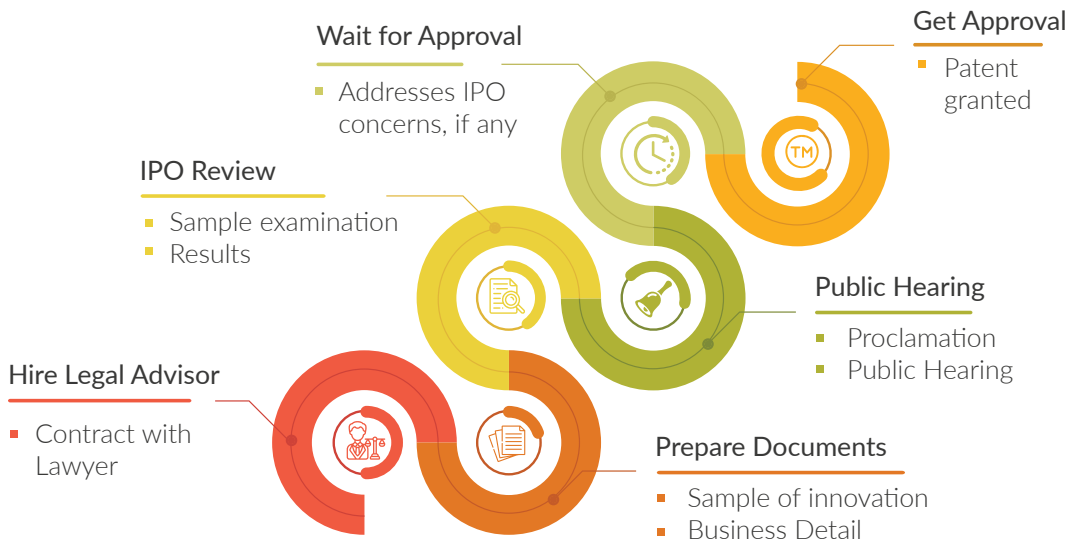


It requires 19 visits



The processing costs around Rs. 140,000

**Figure 12.3: Process to Register a Trademark and Copyright**



**Step 1- Gather Information:** The most critical stage in any process is gathering information and to obtain information on IPRs, one must visit the IPO office or website for guidance. This entails huge learning costs due to the absence of the IPRs registration culture in Pakistan.

**Step 2- Legal Advisor:** Due to complex rules and regulations related to trademarks and copyrights, one often seeks the help of a legal advisor. The legal advisor charges a handsome fee against services.

**Step 3- Apply for Patent Rights:** After innovation, the applicant must now apply to obtain the patent rights for a specific product or item. To do so, an application on letterhead must be sent to the IPO, together with fees paid.

**Step 4- Document Preparation:** The applicant needs to submit four sets of all documents duly notarised, which include the applicant's CNIC copy, company profile, NOC for the publisher (if applicable), initial search report from IPO (if

applicable), no objection certificate (NOC) from a person whose photographs appear on the artistic work, power of attorney signed by the applicant in favour of the authorised firm or advocate and pay order or demand draft in the name of Director General IPO Pakistan.

**Step 5- Product Submission and Product Testing:** Sometimes before and sometimes after applying, one must obtain certification from the relevant department, which differs by class. For example, food goods must be certified by the Food Department and engineering items must be certified by the Engineering Development Board. This is a time-consuming procedure.

**Step 6- Proclamation and Hearings:** After receiving a review from the IPO, one must publish the proposed patent in the top newspapers for the proclamation. The waiting period for the proclamation is 6 months, during which time another party may submit a case if they already own the copyrights.

For our analysis, we assumed that the product is unique and that the applicant will receive a patent certificate following the proclamation period.

Table 12.2: Time and Monetary Const in Obtaining a Patent Right

No.	Steps	Description	Time Taken (Days)	No. of Trips	Cost: Travelling Documentation, and Fee(Rs)
1	Information Gathering	Visit IPO office	1	1	1,200
		Meet officers			
		Finish the day			
2	Hire a Legal Advisor	Visit the Lawyer	7	3	53,600
		Contact the advisor on Stamp Paper			
		Finish the day			

3	Prepare Documents	Sample of innovation, new research, etc.	90	8	75,000
		CNIC copy			
		Business details			
		NOC from the publisher (if applicable)			
		Initial Search Report from IPO (if applicable)			
		No Objection Certificate (NOC) from a person whose photographs appear on the artistic work			
		Power of attorney in favour of authorised Firm or Advocate signed by Applicant			
		4 Copies of working files of patent			
		Pay order or Demand Draft in the name of Director General IPO Pakistan			
4	Submit Documents	Visit-2 advisor	1	1	1,200
		Submit document			
		Finish the day			
5	Application Submission by the Advisor				1,200
6	IPO initial Review		60		
7	Sample Examination	Samples checking of patents to the specific department	1		
8	Wait for the Samples Result		180		
9	Receive Sample Results		1	3	3600
10	Address IPO's concerns		30		
11	Wait for a public hearing		60		

12	Proclamation	IPO publishes the proposed trademark and copyright in the leading newspapers for the proclamation	120		
14	Public Hearing		1	1	1,200
15	Review by IPO		120		
16	Check Status		1	1	1,200
17	Wait for approval		180		
18	Obtain Patent Certificate		1	1	1,200
Total			854	19	139,400

### 3. Sources of Sludge



#### Addressing the IPO’s Concerns

Often at the initial review of the application, the IPO raises some concerns and asks the applicant for their redressal. However, this step takes more than 45 days. When we contacted the IPO officials, they informed us the main reason for this delay is the sluggish response from the applicants. Sometimes, even tracing and contacting the applicant is challenging for the officials.

#### Review by the IPO



The reviews by the IPO at every stage involve prolonged waiting periods. For instance, it takes more than 2 months to review the public hearing reports by the IPO after the proclamation.



### Public Hearing

Before granting copyrights or patents, a proclamation followed by the public hearing is essential as per the rules of the IPO. However, this stage consumes more than 6 months.



### Sample Examination

In the case of patents, the sample examination and results take more than 9 months.

## 4. Cost of Sludge

To assess the cost of regulations to the economy, we translate the cost of sludge in terms of the GDP. The task is carried out based on the following information:



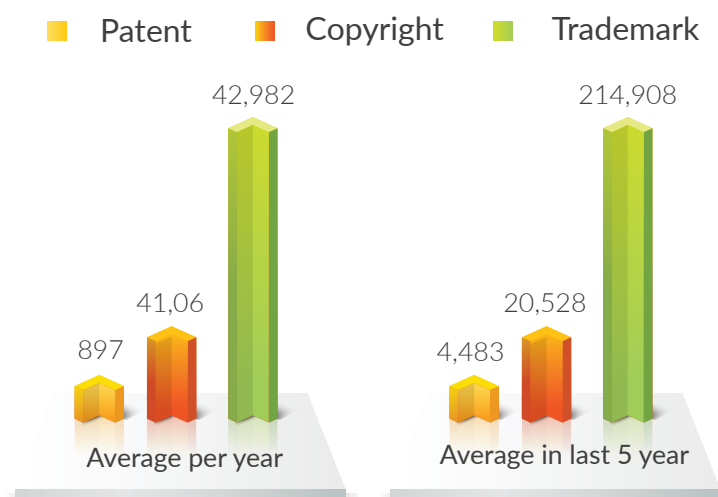
Table 12.3: The Cost of Sludge

	Trademark and Copyrights (Rs.)	Patent (Rs.)
Cost of the sludge per application	201,200	139,400
Average No. of applications in last 5 years <sup>28</sup>	235,437	4,483
Total Cost of the sludge	47.9 billion	
GDP at current market prices	66,950 billion	
Cost of Sludge (% of GDP)	0.07 %	

## 5. Observations

The data obtained from the IPO-Pakistan indicates that the average annual number of applications submitted for IPRs is around 47,984, with 897 applications for patents; 4,106 for copyrights; and 42,982 for trademarks. However, only 19,655 IPRs are issued, on average, per year, which indicates around 60% of the applications are pending.

### Number of Applications for IPRs

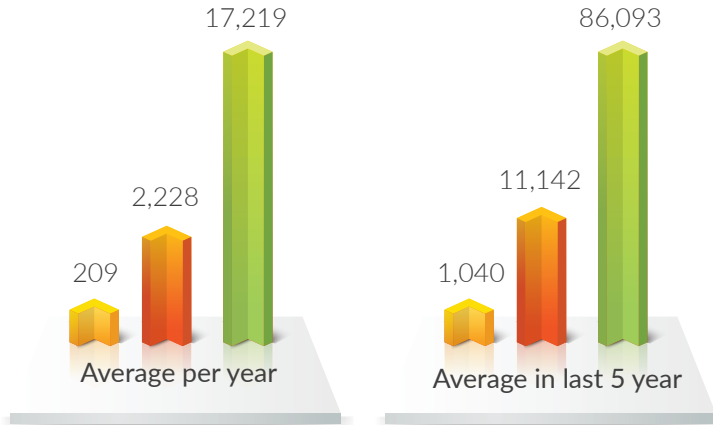


<sup>28</sup> Based on data collected from the IPO-Pakistan.



### Number of IPRS Granted

■ Patent ■ Copyright ■ Trademark



The reason for the huge backlog of applications is the lack of human resources since the organisation currently is working with only 40 per cent of designated human resources, as claimed by the organization.

# 13

Way  
Forward



## WAY FORWARD: REGULATORY MANAGEMENT SYSTEM

(ADOPTED FROM THE PIDE MONOGRAPH: REGULATORY BODIES: HURTING GROWTH AND INVESTMENT)

Declining long-run trends of both investment and productivity are evidence that Pakistan needs to reform the regulatory regime drastically. Different governments have struggled to bring reforms in the regulatory structure without any remarkable success. To reform the regulatory regime effectively, Pakistan must create *a regulatory management system* in the governance and regulatory structure. Such a system, with the core objective to modernise the regulatory structure, involves specific measures related to both “the stock” and “the flow” of regulations.

One of the key elements of good governance is to reform and modernise the regulatory structure. However, *the modernisation of the regulatory structure is a much broader agenda* compared to the deregulation agenda, both of which are often mistaken as one thing. The modernisation agenda is a multifaceted strategy that involves deregulation, re-regulation, simplification, and institutional building (Jacobs and Astrakhan, 2006), while the sustainability of the modernisation agenda is critically dependent on the regulatory behaviour of the state institutes. Any modernisation initiative will not sustain without changing the regulatory behaviour of institutions. Success stories of regulatory reforms in different countries indicate that modernisation requires initiatives on the following four fronts:<sup>29</sup>



<sup>29</sup> See among others, Jacobs and Astrakhan (2006), Gill (2016), and Garcia Villarreal (2010).

## 1. MODERNISATION OF THE EXISTING STOCK OF RULES AND REGULATIONS

The modernisation of the existing stock of rules and regulations is only possible if the government is aware of the number of regulations implemented by different ministries and agencies. However, like many other developing countries, Pakistan does not have a central registry for regulations. To overcome this deficiency, *the guillotine strategy can be the best available option* to start with.<sup>30</sup> It will provide an entry point to implement reforms and pave the way for building upon the rest of the reform modernisation strategy.

The guillotine strategy involves a rapid review of all existing regulations to eliminate unnecessary and outdated regulations. It is a systematic approach that does not take a lengthy and costly legal route for the elimination of regulations. It can be seen as a medium-term reform initiative of the larger regulatory overhaul strategy. The process of implementing the guillotine strategy can be divided into the following steps:

- **Define Scope:** The government at the outset establishes the scope of the guillotine. It identifies the kinds of regulations to be included, for instance, focusing only on guillotines related to business regulations or trimming guillotines economy-wide.
- **Legal Instrument:** The adoption of a legal framework for the guillotine is also essential. Since the strategy involves the systematic reform of different by-laws of authorities, careful consideration of how to avoid legal confusion is vital. A government decree that can identify the processes, institutions, and schedules for the guillotine can serve the purpose.
- **Establish List:** The government must ask all regulatory bodies to establish a comprehensive list of registrations, licenses, certificates, and other

permissions (RLCOs) that are included in the scope of the guillotine within a set specific time – usually within a few weeks.

- **Self-Assessment:** Once the comprehensive list of regulations is established, the respective body/authority must be instructed to assess the list of regulations by itself.
  - Is the regulation authorised by Parliament (legal or not)?
  - Is the regulation aligned with the country's priorities (necessary or not)?
  - Is the regulation business-friendly (outdated) or not?

Regulations that pass these three tests can be placed in the “retain” category, while any regulation that fails the first two tests can be placed in the “elimination” category. Finally, regulations that pass the first two tests but fail the third can be placed in the “revise” category.

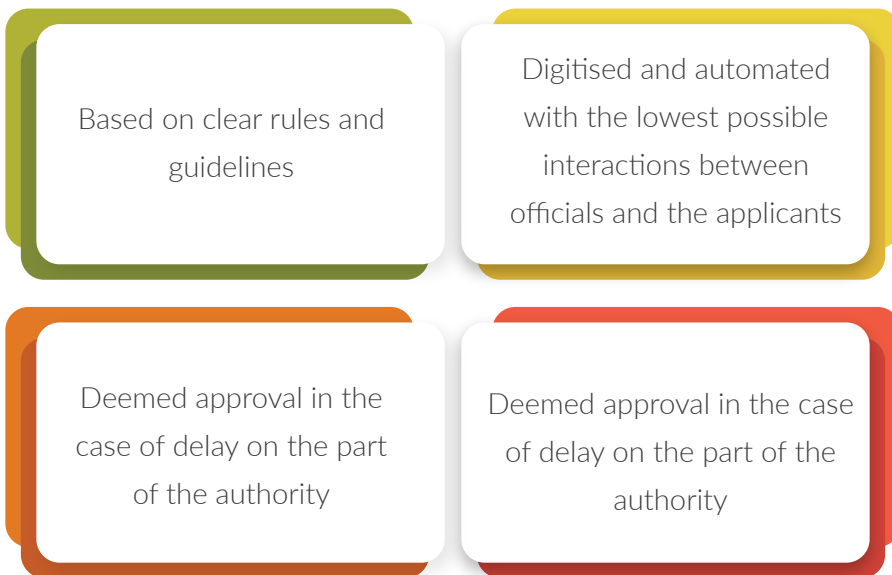
- **Independent Review:** The self-assessments are then forwarded to the identified reviewing body for an independent third-party review. The reviewing body can establish its review processes, however, the underlying criteria must follow the above-stated tests. At this stage, consultation with all stakeholders is also critical to finalise the lists for regulations to be eliminated, revised, and retained. The review body can also instruct the relevant authorities to revise the regulation in the “revise” category within a specific time. After the revision, a final review is conducted to decide whether to place the regulation into the “retain” or “elimination” category.

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<sup>30</sup> Another method to introduce regulatory reforms is the bottom-up “listing approach”, which involves making a list of problems faced by business communities and regulatory authorities. Once the list of problems is identified, then the reform strategy is designed item-wise. In the case of Pakistan, Pakistan Reform Modernisation Initiative follows this bottom-up approach. However, experiences show that the bottom-up listing approach is not effective in the case of overhauling the regulatory structure. For further details, see Jacobs (2006).

- **Centralised Registry:** After finalising the lists, a central directory by combining lists of all regulatory bodies is established. All RLCOs that are not on the list or in the “elimination” category are automatically cancelled after the lapse of a certain time, while regulations in the “retain” category are adopted by the government at once and this will become a comprehensive registry of regulations. Any regulation that is not in the registry cannot be enforced by any government body. The government must also ensure public access to the registry, most preferably digitally.
- **Updating the Registry:** the entry of all new regulations into the registry is compulsory, and all new regulations must be published in the directory within one day of their adoption.

Once the guillotine is dropped down through the above-stated strategy, then the government can take measures to modernise the stock of regulations. The underlying principles for any measure towards modernisation of regulations must be:



## 2. CONTROL THE FLOW OF NEW REGULATIONS

Alongside dealing with the existing stock of regulations, controlling the flow of new regulations is also essential. It is often the case that a country, while trying to remove the guillotine and deregulate some markets, also generates more regulations, especially in the areas of environmental protection, consumer protection, and safety and health. To place a check on the quality and necessity of new regulations, the **most successful tool is the regulatory impact analysis**. The “regulatory impact analysis” (RIA) encompasses a range of methods aimed at systematically assessing the negative and positive impact of proposed and existing regulations (OECD, 1997). Implementing the RIA system is an enormous task and requires continuous administrative support and a political resolution.

The implementation of the RIA would also enable the authorities to move from “command and control” towards a “performance-based” regulatory approach. The performance-based regulatory approach also assesses the costs imposed by any proposed regulation. The costs assessed under this approach are not only compliance costs but also include loss in productivity, innovation, investment, and growth.

The practice of RIA is flexible and depends upon the governance structure of the country. Jacobs (1997) categorises the process of RIA-based regulations into five categories:



**1. Expert** – the decision to adopt a regulation is based on the professional judgment of experts, which can be within a regulator or from outside



**2. Consensus:** the decision is based on the consensus of the stakeholders



**3. Political:** the decision is made by the political representatives of different parties, especially in the event of regulations about key political processes



**4. Benchmarking:** the decision is based on an international comparison



**5. Empirical:** the decision is based on the parameter identified through fact-findings

The decision whether to adopt a regulation or not is based on a mix of these methods. Different countries give priority to one method over another as per their local conditions and needs.

#### Box-1: Regulatory Oversight Process: Example from the USA

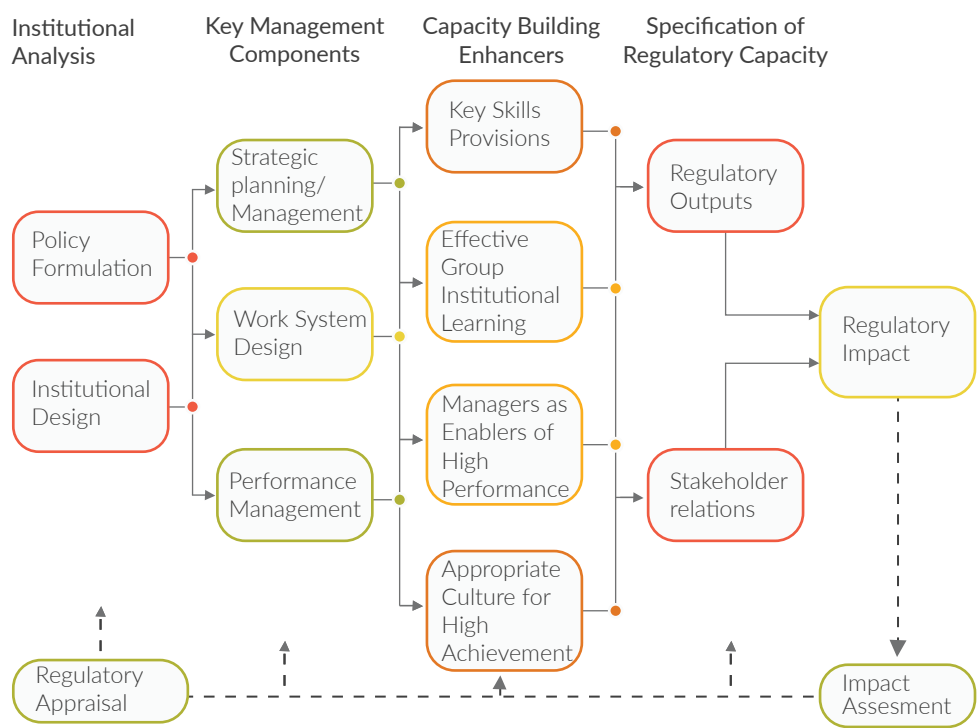
Before the 1970s, there was no regulatory oversight mechanism existed in the USA that ensures the regulation is in the best interest of society. Over time, it became apparent that some oversight mechanisms are needed. President Nixon took the initiative and introduced an informal “quality of life” review process with the objective of assessing the overall implications of major new regulations. Ford administration adopted this review process formally and established the Council on Wage and Price Stability within the white house. Without any formal economic tests, regulatory agencies were required to prepare the inflationary impact statement for all major rules. These inflationary impact statements were prepared by authorities and then reviewed by the Council and did not impose any binding requirements on the agencies in the case of ill-conceived regulations. President Carter introduced two major additions to the oversight process. First, a cost-effective test was introduced that established the rule for the regulating agencies to ensure the least burdensome regulation has been chosen. Secondly, a Regulatory Analysis Review Group was established that also involved the staff from the Office of Management and Budget (OMB). However, the Reagan administration brought some critical changes in the oversight process and the OMB was assigned to this task instead of the Wage and Price Stability Council. The least cost-effectiveness requirement was replaced with a binding benefit-cost test. The most important addition to the oversight process was the development of a formal regulatory planning process whereby the regulatory agencies would have to clear a regulatory agenda with the OMB. Later administrations introduced some minor changes in the oversight process, and cost-benefit analysis remains at the core of the mechanism.

Source: Viscusi, et al. (2005).



3. DEVELOP INSTITUTIONAL CAPACITY

The capacity of the regulator is the key determining factor for the successful implementation of regulation in the way it was intended. Along with the modernisation of the regulations, the capacity enhancement of the regulator is equally important. Traditionally, capacity building has been deemed as the provision of more training and finance to the regulator. However, the Centre of Regulation and Competition (2004) contends that the capacity building of a regulator entails measures beyond training and financial provisions. Since capacity building is defined as the identification of processes and management to make regulation effective and efficient.<sup>29</sup> Therefore, *the diagnostic model* for capacity building for regulators of CRC focuses on the key management components as well.



Source: Borrowed from CRC Policy Brief - 2004.

The three above-mentioned key management components are:

<sup>29</sup> “Effective regulations refer to the ability to deliver regulation to the intentions set for it, while efficient refers to delivering it within the minimum resources” (CRC policy brief, 2004).

**Strategic planning:** It involves the strategic organisation of actions and decisions by the managers/administrators to execute tasks within an agreed strategic framework. Regulators can perform *strengths, weaknesses, opportunities, and threats (SWOT) or force field analysis* during strategic planning.

**Work System Design:** This management component involves the conceptualisation and designing of the processes with clear identification of tasks and responsibilities within the staff. Efficiency and effectiveness must be the key underlying principles while developing an organizational chart. *The process mapping technique* can help administrators to understand how things are currently undertaken and where improvements are possible.

**Performance Management:** It refers to reinforcing the responsibilities of administrators for the performance of the staff and regulating bodies. Performance management essentially depends upon how the dialogue between the administrator and staff of the regulatory body occurs, therefore, *developing the interactive skill* of the administrators is one of the most appropriate approaches.

## 4. INSTITUTIONALISE THE REFORM DRIVE

Although, introducing regulatory reform is a complex and time taking process. But sustaining those reforms is even more challenging as indicated by different reform failure episodes around the world. The regulatory structure of a country consists of interlocked institutions and processes. Therefore, introducing reform in rules and regulations may not be sustained unless the overall change in the regulatory behaviour of institutions is changed. This behaviour change will never happen unless the reform initiative keeps its momentum over a long period. To keep the momentum of the reform drive, two factors are critical:

- Continuous political support
- Identification of the reform initiative driving the institution along with the provision of all legal and financial support.

Following the example of the USA (see Box 1), an executive branch at the Prime Minister's office can be established which drives the reform efforts.



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