

# PIDE's Charter of Economy

Petition to all the Political Leaders/Parties of Pakistan





Pakistan Institute of Development Economics

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### Making the Case

Without any doubt, Pakistan is in on an economic tailspin, swiftly spiraling downwards. The country's economic indicators over the last seventy-two years have fluctuated widely without a clear and sustainable growth trajectory. Despite experiencing extreme economic and political experimentation, the country has still been unable to break with the ramshackle of its unstable development enigma. The country needs an instant economic roadmap to escape the current chaos.

The issue is the politicisation of the economy and consequent bad governance. Politics and economics must be delinked if we are to take on the path of economic growth and development in the real sense of the word. Politics is messy everywhere, but in most countries, politics and economy are separated into mutually exclusive domains. Hence, a charter of the economy is the need of the time. In this context, a political consensus in Pakistan is critical because implementing this charter in letter and spirit seems highly unlikely without a broad-based political consensus. Developing political consensus and implementing the agreed-upon framework in letter and spirit is inevitable for policy consistency and continuity for at least the next 15 years.

PIDE, thus, presents its "Charter of Economy" to serve as a live document and a blueprint for future policy frameworks for long-term economic growth and development.





## Getting the Fundamentals Right

The problem at the core is that the state machinery is not fit for purpose, with each one encroaching on the other's domain. This has affected the governance structure badly. For instance, legislators are supposed to be lawmakers and define the rules of the game with the technical support of technocrats. Though, legislators are primarily involved in development work.

Moreover, the executive branch, which includes ministries, is supposed to monitor and evaluate the entities under their domain. However, these organs are also involved in the development and directly interfere in the nitty-gritty of lower-tier departments.

Local Governments (LGs) are non-functional, although, technically, local government is supposed to be the most significant part of the governance structure. LGs are responsible for most of the development, oversight, and law and order. Hence, it is time to get the fundamentals right.

Pakistan also has a grave debt problem – one of the significant barriers to the country's economic growth. The country has approached International Monetary Fund (IMF) for the 23rd time in over seven decades. To put it bluntly, Pakistan has regularly turned to the economic emergency ward of the IMF. The question arises; is IMF the solution to what ails Pakistan? If yes, then why has it not worked to date? If not, then what is the solution? It is time that the country looks for solutions internally instead of being dictated to by international agencies and donor organisations.

The focus has to be long-term, as short-term quick fixes have not worked, and it must start from somewhere. The only way out of the economic turmoil that Pakistan has been stuck in for the last 40 years has to be sustained and accelerated growth. How will we achieve it? Not without a complete reset of the fundamentals of governance systems.

First and foremost, the pre-requisite must be policy consistency for at least the next 15 years. Once there is a political consensus, there should be no off-tracking from the set direction, whatever the case may be.





# 1. Governance for 21st Century

Political uncertainty is the root cause of Pakistan's economic problems, as policy inconsistency is due to rapid governmental changes and overlapping roles. The undefined jurisdiction of the arms of the state further magnifies the policy bottlenecks. Thus, it is essential to make amends to the political set-up for better system-efficiency and smooth economic performance. So, PIDE proposes the following:



## 1.1. Local Government

### Issue

Public services delivery is the responsibility of Local Governments (LGs), but the discontinuity of LGs and lack of empowerment restricts efficient public services delivery.



## 1.2. Parliament

### Issue

"Dynastic Politics" - a limited new entry into parliament for individuals with no political inheritance. Research shows that many constituencies are pocket boroughs (owned by specific/limited influentials). The stepping over of parliamentarians into the responsibilities of local tier of governance undermines the LGs and parliament.



### Way Forward

- Ensure the existence and continuity of local governments
- LGs imply local administration, not just local politics/elections
- Devolve power to the LGs and empower them financially and operationally
- LGs also means empowered city governments in metropolitan cities with an elected Mayor as the Chief Executive of the City



### Way Forward

- Term and family limits (in a single assembly tenure) for parliamentarians must be introduced
- The focus of parliamentarians must be on policy and decision-making through legislation
- No development funds are to be expended through a member of parliament
- Parliament must not be taken as a way to ministership



### 1.3. Elections

#### Issue

Electoral procedures are flawed to the extent of being anti-democratic and not representative of the general public.



#### Way Forward

- Introduce staggered elections
- Direct elections for the Senate
- Reduce Assembly limit to 03 years
- Consider compulsory voting
- Consider internet/e-voting procedures
- Consider proportional representation, ranked choice, second-round voting and NOTA (None of the above)



### 1.4. Cabinet

#### Issue

A large cabinet causes governance inefficiency through expanding current expenditures, unnecessary division and overlapping work, increasing planning and decision stakeholders, and frequent portfolio changes.



#### Way Forward

- Limit cabinet members from parliament to 10
- Experts should be inducted into the cabinet
- Total cabinet members must not cross 25
- The cabinet must focus on Monitoring and Evaluation (M & E) of the policy decided through parliament and implemented through relevant institutions





## 1.5. Police

### Issue

Patron-client relationship, politicization and corruption in the police department hinders efficient and effective crime detection, prevention and maintenance of public order, thus warding off healthy economic activity, particularly foreign direct investment (FDI). What lacks is a local police force. All policing and investigation comes under federal and provincial – delinked with the local dynamics.



### Way Forward

- Police force must be brought under the local government and delinked from the centralised control
- Federal Investigation Agency (FIA), Rangers and other such law enforcement and investigative agencies can rest with the federal government
- Police Order 2002 must be implemented as an immediate reform measure
- Investigations should be separated from other functions of the police, i.e. law and order, patrolling etc.
- Police should be given operational independence
- In the long run, Pakistan's police should transition from the mindset of a police force to that of a local police service





## 2. Sludge and Deregulation

Economic growth is not limited to just traditional economic indicators. Instead, in modern times as has been practiced globally, growth is supported by seemingly minuscule but significantly important areas. This involves a modern civil service and a network of independent organisations across the economy.



### 2.1. Bureaucracy

#### Issue

An outdated bureaucracy, laws and processes slow down the whole state machinery. Pakistan's bureaucracy is at the core of all the menaces. It is linked with sludge – the unnecessary bureaucratic frictions, dead capital and control over policies – hindering growth, innovation and development.



#### Way Forward

- The generalist colonial examination to recruit for a lifetime must be scrapped
- Lifetime career guarantees to be replaced with continuous recruitment at all levels
- No service hierarchies as in the current system, with guarantees to any group to be in controlling positions
- No transfers across government to allow any single group to control all activities, especially given the costs incurred
- Compensation to be market-competitive but monetized
- Discontinuation of perks, plots, privileges, ex-officio appointments, and arbitrary allowances
- The pension should be fully funded and invested. Moreover, pensions should be portable, even across the public and private sectors, to allow and encourage mobility
- Digitization of the processes is a must



## 2.2. Autonomous Agencies

### Issue

Bureaucratic control over the running and management of government institutions and agencies adds an unnecessary layer of power. Currently, the Principal Accounting Officer (PAO) rule makes all agencies to be centralised, which imbues bureaucratic control and sludge, causing delays in effective and efficient service delivery.



### Way Forward

- Regulatory or public service delivery agencies, educational institutions, especially universities, Public Sector Enterprises (PSEs) and others, must be operationally autonomous with clear goals, operational transparency, and reporting guidelines
- The powers of PAOs and budgets need to be devolved to the agencies concerned
- The requisite governing bodies shall do performance management







### 3. Economic Policy Focus

Sustained economic growth has always taken a back seat in the country's political landscape. Many economic issues stem from the lack of efficient performance of growth drivers. There is a continued focus on increasing revenues at all levels. The international organizations International Monetary Fund (IMF), World Bank and others also emphasise reducing budget deficits through increasing revenue, which is counterproductive by acting as a growth barrier. There is no focus on managing expenditures and pushing for economic growth to resolve the twin deficit issue.



#### 3.1. Independent Planning Commission

##### Issue

Ministry of Finance right now manages the budget in haste, often without considering the medium term, economic growth and employment. Understandably, its focus is the annual budget and adjustment needs in the country. What is lacking is medium-term budget management, economic growth policy and coherent infrastructure development. These roles of the Planning Commission have been lost and need to be resurrected.



##### Way Forward

- Planning Commission, like the central bank, needs to be made independent of politics and headed by a relevant expert
- It must be in charge of making the medium-term budget and managing it
- Quarterly public reports on the performance reviewed by the Planning Commission must be made to the parliament
- Planning Commission must be in charge of the planning division. The current duality is hurting the efficiency of the system
- The Planning Commission and all ministries at the highest level must coordinate the medium-term budget processes before reporting to the parliament
- Investment, exports and productivity must be focused on for more significant economic growth
- The Planning Commission must be tasked with submitting a report to the parliament bi-annually for review and debate, followed by directions on future policy making
- The report must also be made open to public hearings for the inclusion of diverse views
- All proceedings of the parliament and the public hearings must be made part of the public record





## 3.2. Budget Making Process

### Issue

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



### Way Forward

- Establishment of a Parliamentary Budget Office to advise and support the parliament in the budgetary process
- The budget proposed by the parliamentary budget office and the final budget passed must be publicly available
- Implementation of the budget in its full essence must be ensured. Mid-term budgets through supplementary finance bills must be avoided
- Five-year plans must again be introduced to ensure consistency of budgetary and policy direction



## 3.3. Debt Management

### Issue

Pakistan has a severe debt problem, with a worsening debt profile, particularly its ballooning external debt. Debt sustainability is a continued risk pushing Pakistan to a default-like situation regularly.



### Way Forward

- Establish an autonomous debt agency (consolidating all debt functions and at par with the central bank and the independent planning commission) with the mandate to oversee and manage Pakistan's long-term debt profile
- Debt management reports must be submitted to the parliament for a quarterly review, followed by a mandatory debate and discussion with possible directions for the future by the parliamentarians
- The report must also be made open to public hearings for the inclusion of diverse views
- All proceedings of the parliament and public hearings must be made part of the public record



### 3.4. Public Investment

#### Issue

Public Investment is inefficient and fails to drive significant economic activity. It is focused mainly on hard infrastructural development, with no project review after completion. The allocation of the Public Sector Development Programme (PSDP) is highly politicized.



#### Way Forward

- The focus must be diverted from hardware to the software of the economy, such as investment in research and development (R & D), developing human capital, universal internet access, and procedural and administrative reforms in all aspects of government
- There must be limited national development projects at the federal level, while most of the effort and focus must be on reforms
- A lot of effort must be made by the planning agencies at all levels to coordinate their work to develop the national infrastructure
- Ensure timely completion of the projects funded through public investment schemes, followed by full review and feedback on the effectiveness of the completed projects
- Parliament must develop and monitor complete transparency in this process through regular reporting





### 3.5. Meritocracy and Operational Independence

#### Issue

The appointments in many government organizations and departments, including Public Sector Enterprises (PSEs) are politically or bureaucratically managed, thus compromising the merit and performance of these organizations and departments.



#### Way Forward

- Appointments must be made through a pre-defined mechanism and by an independent Board of Governors
- Organisations must be given operational independence, and performance must be reviewed against defined Key Performance Indicators (KPIs)
- Bi-annual reports on progress against KPIs must be submitted to the parliament for review and debate
- The tenure completion or continuation of the organization or departmental head must be linked to achieving the minimum threshold cut-off of 60 per cent KPIs. Failure to achieve 60 per cent KPIs in two consecutive reviews shall result in removal from the position
- The establishment division must present all departments and their heads annual performance reports



### 3.6. Public Sector Enterprises

#### Issue

PSEs are loss-making entities for the government, with repeated bailouts by the government for these PSEs inefficiencies and losses. The PSEs have become white elephants with mammoth losses for the national exchequer.



#### Way Forward

- PSEs must have a budget constraint and not be bailed out by the government repeatedly
- PSEs must be run through a corporate set-up, including an independent Board of Governors (BOG) and not be under the influence of bureaucracy or ministries. All PSEs must be answerable to the cabinet and parliament against pre-defined objectives and KPIs
- Unchecked hiring, primarily politically motivated, must be immediately eliminated. Hiring must be against only the number of positions sanctioned by the PSE's BOG
- Inefficient and unnecessary PSEs must be privatised entirely through management transfer to the private sector or even closed down

## 4 Developing Markets

Economic growth cannot be achieved without increasing economic activity and transactions within the economy. For a smooth, efficient and significantly increased number of transactions, it is essential that well-functioning markets exist. For this, the government must rethink its role in the market. Instead of being involved as a player, its role should be that of a facilitator, through effective and only necessary regulations, while also performing the duties of a watchdog in case of any violations. Information availability and competition are the most critical factors for effective and efficient markets.



### 4.1. Real Estate

"Urban Sprawls", thanks to mushrooming housing societies and a culture of plot files without any land title enforcement, have become a massive issue in the real estate sector. The existence of multiple land rates for taxation purposes acts as a barrier in allowing the real estate market to develop, as information hiding has been incentivized through regulation. Subsequently, limited big players have gained control of the real estate transactions influenced by speculative activities per will.



#### Way Forward

- Abolish multiple price administration practices, i.e. Federal Board of Revenue (FBR) rate and District Collector (DC) Rate
- Online multiple listing model must be followed with an auction mechanism embedded into the market
- Review and update rental laws to promote the rental investment industry
- Encourage Real Estate Investment Trust (REIT)
- The focus must be diverted from urban sprawl to vertical expansion of the cities



### 4.2. Agriculture

Significant government footprint is present in agriculture, including input, output and storage. The government is highly entrenched through various price settings and signaling at production and selling stages, such as minimum support price, procurement of wheat etc. Massive bureaucratic friction is also present in the necessary processes, such as new seed approvals, while a lack of robust policies, including effective water use policy.



#### Way Forward

- The government footprint must be reduced in the input markets such as fertilizer and water markets
- No fixing of minimum support price
- Allow the private sector to enter the procurement and transportation business. The government should not be involved in procurement from farmers
- Approval for new seed varieties must be processed quickly and swiftly
- Water used for irrigation must be fairly priced to encourage efficient cropping pattern

## 4.3 Energy



### 4.3.1 Electricity

#### Issue

Continued power shortages and transmission losses act as growth constraints. The government is heavily present in the electricity market and has been unable to address the inefficiencies. Additionally, circular debt is a massive burden on the economy and keeps increasing.



#### Way Forward

- Restructuring focus must be on renewable energy for electricity generation
- Renewable sources for electricity generation shall be used to develop a retail supply market for off-grid areas
- Prepaid billing must be introduced
- Distribution Companies (DISCOs) must be decentralized
- A uniform tariff system must be eliminated



### 4.3.2 Gas

#### Issue

Repeated gas shortages and supply issues, particularly for LNG, are a norm. A large government footprint adds to the inefficiency of the gas sector.



#### Way Forward

- Retail management must be outsourced to reduce theft
- High quality and latest measurement devices must be used to address the issue of Unaccounted for Gas (UFG)
- Eliminate "Return on Assets" to allow gas distribution companies to profit via operational efficiency
- Introduce a single consumer tariff based on a cost-of-service
- Revisit long-term LNG agreements and allow purchase by other parties (third-party access) on short-term contracts or in the spot market
- Try to find a convergence point between piped indigenous gas prices and RLNG





### 4.3.3 Fuel Oil

#### Issue

Oil prices have been politicized, and no stable pricing mechanism exists. Lack of autonomy to technically determine and implement oil prices is a significant hurdle in developing an efficient market.



#### Way Forward

- Minimise the role of government in pricing and allocation, with petroleum prices determined weekly on a cost-of-service basis linked to international oil prices
- Ex-refinery prices to be based on international practices – the regulator to set an upper limit based on the weighted average of the import prices of all Oil Marketing Companies
- Enhancement of oil trading and vessel chartering expertise of Pakistan State Oil. Outsource oil procurement based on performance contracts. Abolish Inland Freight Equalization Margins (IFEMs)



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While targeted interventions in various sectors are essential for economic correction, there can be no sustained economic growth without working on the macro-level economic fundamentals. The right policies must be put in place to allow the drivers of economic growth to work comfortably. This makes the policies concerning the 3Ts, i.e. Trade, Tariff and Taxation, highly essential. As a result, the following is suggested:



### 5.1. Taxation

#### Issue

The tax regime is highly complicated, focusing only on revenues. The revenues are primarily driven through indirect taxation and an expanding withholding regime, and the tax net remains relatively narrow. Repeated tax breaks, amnesties, and subsidies are counterproductive in revenue collection but also, more importantly, in achieving economic efficiency.



#### Way Forward

- The tax system must be made more progressive while eliminating tax breaks. Instead, universal income tax treatment must be followed
- The tax system must be more straightforward and user-friendly and have increased transparency and fairness
- A revenue-yielding buoyant tax regime must be formulated, with a focus on expanding the tax net and not raising revenue from only the existing taxpayers
- Mechanisms to monitor and catch tax evasion and corruption must be developed and implemented







## 5.2. Tariff

### Issue

Increased protectionist policies through high tariffs, regulatory duties, and bans distort local markets. Reduced openness of the economy is anti-growth and eliminates competition essential for developing local industries and markets.



## 5.3. Trade

### Issue

Increased focus on import restrictions and substitutions has not proved beneficial. Instead, the exports have failed to grow in real terms, and no diversification has been possible.



### Way Forward

- Tariff lines must be rationalized and reduced
- A clear perspective is required regarding the extent of openness, and broader guidelines for policy directives must be present



### Way Forward

- Trade policy focus must be on increased production for export promotion purposes
- A comprehensive long-term export policy must be introduced, supported by a well-chalked-out industrial policy
- A 15-year Export Policy – owned and monitored by an "Export Cell" at the Independent Planning Commission
- It is pertinent to note that the policy should be targeted to enhance competitiveness rather than spoon-feeding



## 6. Modernization



### 6.1. Cities

#### Issue

Non-inclusive cities with unending urban sprawl are anti-growth. Rigid master plans and bureaucratic control have not allowed cities to develop into engines of growth.



#### Way Forward

- Commerce and entrepreneurship must be the driving force behind designing and planning cities
- Rigid master plans must be let go immediately and replaced with loose guidelines
- Zoning should only differentiate between city centers and suburbs
- City management must be handed over to a single authority, i.e. Local Government (LG).
- Vertical expansion must be encouraged by relaxing the floor area ratio
- The rental housing market must be developed through necessary facilitating regulations
- A modern urban transport policy must be adopted
- Street vending zones must be created in all cities
- Unlocking the dead capital must be a priority



- All cities must have well-developed and dense downtowns
- Cities must be developed on the lines and idea of 15-minute cities
- Administrative control should be with LGs instead of the provincial bureaucracy



## 6.2. Internet

### Issue

Lack of universal internet access hinders the growth and development of many sectors and prevents various activities such as online education, telehealth, services, e-commerce etc.



### Way Forward

- Universal internet access at affordable rates is the need of the hour and must be considered a fundamental right of citizens
- Greater internet access will help facilitate and remotely provide services, including education, health, and legal services
- Internet access is essential in providing the youth—who make up the majority of the population—with job and entrepreneurship opportunities, especially with the rise in freelancing and home-run businesses, particularly for females
- Consider fully funding fast internet access across the country till the end of 2025
- Spectrum auctioning must be considered as a way of providing internet access to all areas of the country and not be taken as a revenue generation activity





## Pakistan Institute of Development Economics

It is imperative to realize that the Charter of Economy must not be mistaken for a policy document, instead it is meant to set the direction for future policy frameworks. PIDE recognizes that this proposed Charter of Economy is not a full and complete version. This must be considered as a live document, open to changes and upgradation through consultations and feedback.

Share your comments, suggestions and feedback Write to us at:

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To support this proposed Charter of Economy,  
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