

**PROPOSAL FOR THESIS**  
**BY**  
**ROLL NO 122 KHALID HUSSAIN CHOHAN**  
**MBA2K3**

**Suggested Topic**

**INEFFICIENCY OF GOVERNMENT DEPARTMENTS & ITS  
EFFECTS ON THE ECONOMY OF PAKISTAN**

**About The Topic**

**Pakistan came to existence about 57 years ago but still daily income of more than 66% of its population is less than Rs 100. There is a general misconception in the minds of most of the Pakistanis that corruption of our political leaders alone is responsible for our economic problems. No doubt that corruption is also a factor contributing towards problems but when we realistically analyze the issue as a whole it is only a fraction of overall impact. To quote an example Swiss bank accounts for which Benazir Bhutto and Asif Zardari were convicted by Swiss court amount to \$ 13 million (RS 0.754 Billion) only. The amount seem negligible if we notice that the Nation had to pay a huge amount of Rs 241.30 billion as interest on accumulated public debt in FY 2002-03.**

**The basic reason of our economic instability is the poor performance and mismanagement of different state institutions particularly the public sector. The persistent budgetary deficits have hampered our economic growth. Pakistan's debt at the end of FY 2003 was Rs 3821.6 Billion, which is 95.1 percent of our GDP.**

**Irony is that, as a nation somehow or the other we are unaware or ignorant about the nature and the magnitude of impact of inefficiency and non- performance of various departments on the overall economy of the country. A careful analysis of performance of various national institutions will reveal some very shocking and eye opening facts like the one given below:**

***Line losses of wapda amount to Rs 140 billion per year (General Zulfiqar, Ex Chairman WAPDA). The severity of this statement can be judged if we compare this amount with the annual Defense budget of Pakistan for FY 2002-03 which was Rs 160 billion.***

**I strongly feel that there is a need to create awareness about the impact of such inefficiencies of our institutions on the overall economy of the country, because unless we are aware we can not take the counter measures.**

### **Scope**

**The thesis will focus on gathering/ highlighting the relevant facts about the non performance/ inefficiency of public Sector and its impact on the overall economy of the country in order to trigger awareness in minds of common Pakistanies in general and future leaders/ managers in particular so that each one should be able to play his role to take counter measures.**

### **Methodology**

**The research will be based on the information/ data collected through the relevant news items and articles appearing in the daily news papers and Internet. Due to the time constraints PRIMARY FOCUS will be restricted to the information gathered through “Daily The News” of last 1 to 1½ year.**

**National University of Sciences & Technology**  
**MASTER'S THESIS WORK**  
**REPORT OF PRELIMINARY EXAMINATION**

Student's Name: **KHALID HUSSAIN CHOHAN** NID No: **61101-1264589-5**

Institute: NUST Institute of Management Sciences This is a:  
\_\_\_\_\_ First preliminary examination

Target date as specified on BS Form TH-2 **15 June, 2005**  
Actual Date on which examination occurred **15, June, 2005**  
(For multi-part examinations dates, refer to the final part only)

Results of the examination: \_\_\_\_\_ PASS \_\_\_\_\_ FAIL

<b>Guidance &amp; Examination Committee</b>	
Committee members voting to PASS	Committee members voting to FAIL
1. <b><u>Mr. SABIR JAFFERY, Assistant Professor</u></b>	_____
2. <b><u>Ms. FAUZIA JANJUA, Assistant Professor</u></b>	_____
3. <b><u>Ms. ASFIA OBAID, Lecturer</u></b>	_____
: Mr. HAMMAD ASHRAF, Assistant Professor: Advisor (committee chair)	_____ Advisor (committee chair)

\_\_\_\_\_  
Signature of Advisor

\_\_\_\_\_  
Date

If, following failure of a first examination, a second is to be permitted, please list the conditions that must be met beforehand.

\_\_\_\_\_  
It is the student's responsibility to submit this form to Examination branch within two working days of the examination

For Institute use only

Resolution of this form with Form TH-2: \_\_\_\_\_

\_\_\_\_\_  
DG NIMS

**National University of Sciences & Technology**  
**MASTER'S THESIS WORK**  
**Final Oral Exam**

Institute: NUST Institute of Management Sciences Specialization: HR + Investment & Finance

**ABSTRACT**

Complete 3/4 page abstract of thesis of individual.

Attached as per Anx A.

Open to Public

Location: Class Room No , NUST Institute of Management Sciences Time: \_\_\_\_\_  
Date: \_\_\_\_\_

***Mr. HAMMAD ASHRAF, Assistant Professor***  
(Thesis Advisor)

**National University of Sciences & Technology**  
**MASTER'S THESIS WORK**

WE HEREBY RECOMMEND THAT THE DISSERTATION PREPARED UNDER OUR  
SUPERVISION BY:           **KHALID HUSSAIN CHOHAN**          

ENTITLED:           **Inefficiency Of Government Departments & Its Effects On The Economy Of  
Pakistan**          

BE ACCEPTED AS FULFILLING IN PART OF PHILOSOPHY.

**Guidance & Examination Committee**

Member

1. Name:           **Mr. SABIR JAFFERY, Assistant Professor**            
Signature: \_\_\_\_\_
  
- 2 Name:           **Ms. FAUZIA JANJUA, Assistant Professor**            
Signature: \_\_\_\_\_
  
- 3 Name:           **Ms. ASFIA OBAID, Lecturer**            
Signature: \_\_\_\_\_

**Supervisor / Advisor: *Mr. HAMMAD ASHRAF, Assistant Professor***  
Signature: \_\_\_\_\_

Date :           August, 2005

**Abstract- THESIS**  
**BY**  
**ROLL NO 122 KHALID HUSSAIN CHOHAN**  
**MBA2K3**

**Topic**

**INEFFICIENCY OF GOVERNMENT DEPARTMENTS & ITS  
EFFECTS ON THE ECONOMY OF PAKISTAN**

**About The Topic**

**Pakistan came to existence about 57 years ago but still daily income of more than 66% of its population is less than Rs 100. There is a general misconception in the minds of most of the Pakistanis that corruption of our political leaders alone is responsible for our economic problems. No doubt that corruption is also a factor contributing towards problems but when we realistically analyze the issue as a whole it is only a fraction of overall impact. To quote an example Swiss bank accounts for which Benazir Bhutto and Asif Zardari were convicted by Swiss court amount to \$ 13 million (RS 0.754 Billion) only. The amount seem negligible if we notice that the Nation had to pay a huge amount of Rs 241.30 billion as interest on accumulated public debt in FY 2002-03.**

**The basic reason of our economic instability is the poor performance and mismanagement of different state institutions particularly the public sector. The persistent budgetary deficits have hampered our economic growth. Pakistan's debt at the end**

of FY 2003 was Rs 3821.6 Billion, which is 95.1 percent of our GDP.

Irony is that, as a nation somehow or the other we are unaware or ignorant about the nature and the magnitude of impact of inefficiency and non-performance of various departments on the overall economy of the country. A careful analysis of performance of various national institutions will reveal some very shocking and eye opening facts like the one given below:

*Line losses of wapda amount to Rs 140 billion per year (General Zulfiqar, Ex Chairman WAPDA). The severity of this statement can be judged if we compare this amount with the annual Defense budget of Pakistan for FY 2002-03 which was Rs 160 billion.*

I strongly feel that there is a need to create awareness about the impact of such inefficiencies of our institutions on the overall economy of the country, because unless we are aware we can not take the counter measures.

## **Scope**

The thesis has focused on gathering/ highlighting the relevant facts about the non performance/ inefficiency of public Sector and its impact on the overall economy of the country in order to trigger awareness in minds of common Pakistanis in general and future leaders/ managers in particular so that each one should be able to play his role to take counter measures.

## **Methodology**

The research has been based on the information/ data collected through the relevant news items and articles appearing in the daily news papers and Internet. Due to the time constraints PRIMARY FOCUS has been restricted to the information gathered through “Daily The News” of last 1 to 1½ year.

## **Brief Details**

**The report contains critical analysis of the poor performance of various public sector organizations/ departments and its impact on the economy of Pakistan. Following have been covered by this study:**

■ **Literature Review:** It covers basic literature about the subject ie the brief overview of the economy/ social aspects of Pakistan.

■ **Findings about the inefficient functioning of Public Sector:** It includes basic facts about the following areas:

✚ **Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion**

✚ **Water & Power Sector**

✚ **Transport Sector**

✚ **Industry**

✚ **Government & Legislators**

✚ **Summary indicating impact on economy of Pakistan**

■ **Recommendations**



## **ACKNOWLEDGEMENTS**

I have no words at my command to express profound sense of gratitude and innumerable thanks to **ALMIGHTY ALLAH**, the compassionate and merciful, the only creator and Lord of this Universe, who enabled me to complete the present studies and dissertation. All respects are for the Holy Prophet **MUHAMMAD** (Peace be upon him), who is the greatest scientist of this world and forever a torch of guidance and knowledge for humanity as whole whose moral and spiritual teachings enlightened our heart, flourished our thoughts towards achieving high ideals of life.

At the very outset I deem it a proud privilege to express my sincere gratitude to the respectable and worthy Professor **Mr. Hammad Ashraf** for his guidance which helped me in giving final shape to the Thesis. May **ALLAH** give him a happy life and bless him with good health. **(Aamin!)**

## **EXECUTIVE SUMMARY**

The report contains critical analysis of the poor performance of various public sector organizations/ departments and its impact on the economy of Pakistan. Following have been covered by this study:

■ **Literature Review:** It covers basic literature about the subject ie the brief overview of the economy/ social aspects of Pakistan.

■ **Findings about the inefficient functioning of Public Sector:** It includes basic facts about the following areas:

✚ **Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion**

✚ **Water & Power Sector**

✚ **Transport Sector**

✚ **Industry**

✚ **Government & Legislators**

✚ **Summary indicating impact on economy of Pakistan**

■ **Recommendations**

**TABLE OF CONTENTS**

<b>CONTENTS</b>	<b>PAGE #</b>
CHAPTER ONE- Introduction	1
1.0.0. Background	1
1.0.1. General Misconception	1
1.1.0. Scope	2
1.2.0. What is inefficiency Of Public Sector	3
CHAPTER TWO -Literature Review	4
2.0.0. Historical Perspective of Pakistan	4
2.1.0. Current Developments	10
2.2.0. Factors Effecting Economy	11
2.2.1.Lack of policy-making	11
2.2.2.Disregarding social uplift plans	11
2.2.3.Reliance on foreign assistance	12
2.2.4.Embracing failed foreign economic policies	12
2.2.5. Unjust distribution of wealth	12
2.3.0. Pakistan economy - Quaid and Iqbal’s vision	13
2.4.0. Factors preventing prosperity	14
2.5.0. Tax-Evasion	16
2.5.1. The Nature of Taxation in Pakistan	16
2.5.2. The Process of Taxation and Tax-Collection in Pakistan	17
2.5.3. The governmental uses of tax-money	20
2.5.4. The magnitude of tax-evasion	23
2.5.5. Why do people resort to tax-evasion?	25
2.6.0. Money-Laundering?	26
2.6.1. The nature and process of money-laundering	26
2.6.2. The sources and magnitude of money-laundering	28
2.6.3. The state of legislation regarding money-laundering	29
2.6.4. Why do people resort to money-laundering	32
2.7.0. The Power Sector in Pakistan	32
2.7.1. Introduction	32
2.7.2. A Brief History of Power Sector Reform: Drivers for Change	33
CHAPTER THREE-Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion	35
3.0.0. Poor Planning/ Management	35
3.0.1. Fiscal Deficits	35
3.0.2. Interest on Loans	35

<b>CONTENTS</b>	<b>PAGE #</b>
3.0.3. Trade Deficit	36
3.0.4. Un-allocable Funds	36
3.1.0. Bank Loans	36
3.2.0. Corruption	36
3.3.0. Tax Evasion	38
3.4.0. Smuggling	40
3.4.1. Smuggling of Cigarettes	40
3.4.2. Smuggling of Tea & Spices	40
3.5.0. Miscellaneous	40
3.5.1. Petroleum Prices	40
3.5.2. PASSCO	41
3.5.3. Ministry of Commerce	41
3.5.4. Capital Development Authority	41
3.6.0. Summary	42
3.7.0. Comparison	42
3.7.1. Comparison with Annual defense budget	42
3.7.2. Comparison with Total Public Debt	43
CHAPTER FOUR- Water & Power	44
4.0.0. Rain Water, Floods & Dams	44
4.1.0. WAPDA & KESC	44
4.2.0. Summary	46
4.3.0. Comparison	47
4.3.1. Comparison with Annual defense budget	47
4.3.2. Comparison with Total Public Debt	48
CHAPTER FIVE- Transport	49
5.0.0. Pakistan Railway	49
5.1.0. Pakistan International Airlines	49
5.2.0. Pakistan National Shipping Corporation	49
5.2.1. M.T. Jauhar	49
5.2.2. TASMAN SPIRIT	50
5.3.0. Summary	51
5.4.0. Comparison with Total Public Debt	51
CHAPTER SIX -Industry	52
6.0.0. Pakistan Steel Mills	52
6.1.0. Premium On New Car	52
6.2.0. Environmental Pollution	52
6.3.0. Vehicle Theft	53
6.4.0. Summary	53
6.5.0. Comparison with Annual defense budget	54
CHAPTER SEVEN -Government & Legislators	55
7.0.0. Performance of Parliament	55
7.1.0. Cost of Decision/ policy- Losses Of 9/ 11	56

<b>CONTENTS</b>	<b>PAGE #</b>
7.2.0. Environment	56
7.3.0. NADRA	56
7.4.0. Summary	57
7.5.0. Comparison	57
7.5.1. Comparison with Annual defense budget	57
7.5.2. Comparison with Total Public Debt	58
CHAPTER EIGHT- Summary	59
8.0.0. Final Summary of Losses	59
8.1.0. Summary of Total Annual Losses	59
8.2.0. Total Annual Losses Vs Total Annual Budget of Pakistan for FY 2003-04	60
8.3.0. Summary Of Total Accumulated Losses	60
8.4.0. Total Accumulated Losses Vs Total Public Debt	61
CHAPTER NINE-Concluding Remarks/ Recommendations	62
9.0.0. General	62
9.1.0. Long Term Planning	62
9.2.0. Strong Political System	62
9.3.0. Effective, fair and ruthless system of accountability	62
9.4.0. Self Reliance	63
9.5.0. Human Resource Development	63
9.6.0. Culture of Honesty and Nationalism	63
9.7.0. Performance based Work Environment	63
9.8.0. Balance of Imports & Exports	63
9.9.0. Promoting Culture of Tax Payment	64
9.10.0. Use of Modern Technology & Information Technology	64
9.10.0. Speedy Justice	64
9.11.0. Grooming/ Development of Effective and Honest Political Leadership	64

# ***INEFFICIENCY OF GOVERNMENT DEPARTMENTS & ITS EFFECTS ON THE ECONOMY OF PAKISTAN***

## **CHAPTER ONE**

### **Introduction**

#### **1.0.0. Background**

Pakistan is a country blessed with colossal natural as well as human resources. However, the country has been unable to utilize its true potentials. Even after 58 years of independence we are still included in the group of undeveloped nations. It is not the paucity of resources which is hindering in our way to prosperity rather our attitude both as an individual and as a nation is to be blamed. It is high time that we must analyze our attitudes and identify the sources of our inefficiencies in order to take corrective measures to achieve prosperity and growth. It is with this thinking in mind that the researcher has undertaken this humble effort, so that at least awareness can be evoked in the minds of our public in general and future managers in particular that how inefficiency is affecting our economy at macro level.

#### **1.0.1 General misconception**

Pakistan came into being about 58 years ago but still more than 66% of its population has daily income of less than Rs100<sup>1</sup>. The basic reason of our economic instability, as discussed earlier, is the poor performance of different state institutions particularly the public sector. There is a general misconception in the minds of most of the Pakistanis that corruption of our political leaders alone is responsible for our economic problems. There is another school of thought which believes that perhaps the defense budget is a hindrance in our progress. No doubt that corruption of our political leaders is also a factor contributing towards the problems, but when we realistically analyze the issue as a whole it is only a fraction of overall impact and does not stand out as such. Similarly, when we see the economic impact at macro level the defense budget also does not stand out as the only source of our economic inefficiency. To highlight the difference following figures are worth noting:

- Swiss bank accounts for which Benazir Bhutto and Asif Zardari were convicted by Swiss court amount to \$ 13 million (RS 0.754 Billion) only<sup>2</sup>.
- The public sector losses of Government are hovering at about Rs100 Billion<sup>3</sup> per year.

---

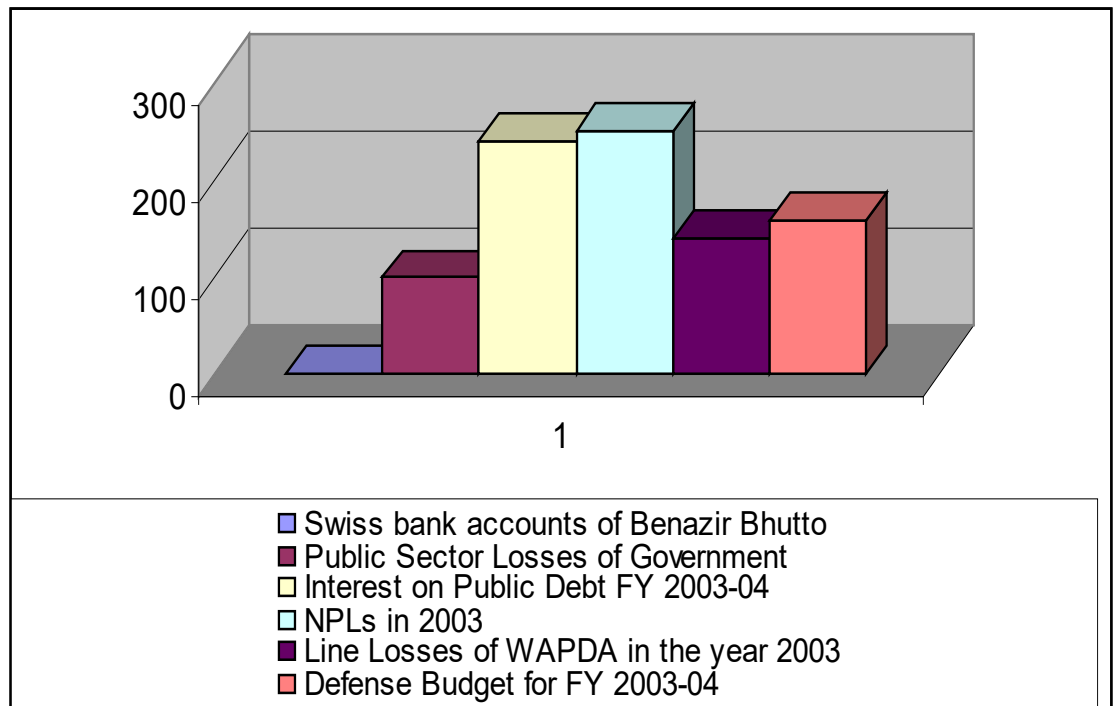
<sup>1</sup> Dawn December 21, 2003

<sup>2</sup> The News August 6, 2003

<sup>3</sup> The Nation October 31, 2003 (from Internet)

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

- Nation had to pay Rs241.30 billion<sup>4</sup> as interest on accumulated public debt in FY 2002-03.
- The defense budget for FY 2003-04 was about Rs160 Billion<sup>5</sup>.
- The line losses of WAPDA in the year 2003 amounted to Rs140 Billion<sup>6</sup>.
- In the last quarter of year 2003 the “Non Performing Loans” (NPLs) amounted to Rs252 Billion<sup>7</sup>.



### 1.1.0. Scope

The research was undertaken to highlight the impact of nonperformance/ inefficiency of various departments of public Sector. Focus of the thesis, therefore, has been on gathering/ highlighting the relevant facts having tangible/ quantifiable impact on the overall economy of the country. The main objective of the study is not to list down any specific

<sup>4</sup> *The News November 17, 2003*

<sup>5</sup> *The News August 17, 2003*

<sup>6</sup> *The News August 2, 2003*

<sup>7</sup> *Dawn November 24, 2003*

**Thesis- *Inefficiency of Public Sector & impact on Economy of Pakistan***

recommendations instead it is an humble effort to trigger awareness in the minds of common Pakistanis in general and future leaders/ managers in particular so that each one should be able to play his/ her role to take counter measures.

Due to the time constraints scope of the study has been restricted to public sector based on the information gathered through news papers (Mainly on daily The News) of last about two years. Therefore all aspects of public sector could not be covered; only those aspects have been covered regarding which information along with tangible/ quantifiable economic impacts was available in the news papers or internet. In order to avoid the controversies and also due to the limitations of time those aspects which involve intangible impacts on economy (like murders, traffic accidents, honor killings etc) has not been the focus of this research and therefore not been discussed.

**1.2.0. What is inefficiency Of Public Sector**

In this research paper inefficiency of public sector refers to the following behavioral or managerial attitudes of public sector organizations/ departments:

- Inconsistency/ short term planning
- Mismanagement
- Inefficiency
- Indifferent attitude
- Corruption/ misappropriations
- Lack of appropriate training
- Lack of awareness about the problems



## **CHAPTER TWO**

### **Literature Review**

#### **2.0.0. Historical Perspective of Pakistan**

Since its inception in 1947 the economic development of Pakistan has been very much lopsided. Its economy has been hit by a large number of shocks in a short span of time than the economies of most other countries. During this time span, the economy witnessed three wars with India in 1948, 1965 and 1971; a number of bad harvest followed by an equal number of good ones; the secession of the Eastern part of the country (now Bangladesh) in 1971; a prolonged recession that engulfed the main commodity-producing sectors (agriculture and manufacturing) from 1970 to 1977; the large-scale nationalization of industries and financial institutions in 1972 which shattered investor's confidence; massive devaluation (57%) of currency in 1977; the large-scale nationalization of industries and financial institutions in 1972; the five fold increase in oil prices in 1973 and manifold in 1979; rapidly accelerating inflow of workers' remittances starting from mid 1970s and equally deceleration thereafter; Afghanistan War also effected the economy adversely; and above all, political uncertainty during 1988-96 which has witnessed the dismissal of three elected governments on various charges and four caretaker regimes for 90 days each have had adverse effect on the economy; and last but not least a worsening macroeconomic balances - particularly, a rising budgetary and current account gaps in the late 1980d which have slowed down the economic activity in the country.

For all the apparent disadvantages regarding the country's development, Pakistan's economy has grown more rapidly than the economies of its South Asian neighbours. Economic policy in Pakistan has been concerned primarily with accelerating the rate of economic growth. It was, therefore, not surprising that Pakistan was acclaimed as model economy for developing countries as far as it growth performance was concerned.

Pakistan's economic performance during the 1960s, 1970s, and the 1980s has been rather mixed. Its growth performance during the decade of the 1960s was acclaimed rather uncritically, as a paradigm of success in developing countries. The real GDP grew at an average annual rate of 6.8 percent, with major advances taking place in the industrial and agricultural sectors. The **Value added in large-scale** manufacturing increased at an annual average rate of 13.4 percent thereby increasing the contribution of manufacturing sector in GDP from 12.9 percent to 16 percent at the end of the 1960s (See Table 1). Many factors contributed to the remarkably high growth rate achieved in the large-scale manufacturing sector. Firstly, the high growth rate in this sector has to be viewed in the context of the low industrial base of Pakistan at the time of independence. Secondly, the high growth rate was made possible by deliberately pursuing a set of policy measures which encouraged private industrial investment; and thirdly, as a result of massive inflow of foreign aid the overall investment rate rising from 14.1 percent in 1960-61 reached to an all time high of 22.8 percent in 1964-65 but averaged at 17.6 percent during the decade of 1960s. The momentum of industrialization was secured through import-substitution and excessive protectionism.

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

The performance of **agriculture** during the decade of the 1960s was remarkable as it grew at an average rate of 5.1 percent per annum. The performance was exceptionally impressive during the last three years of the decade when it grew by an average rate of 8.5 percent per annum. The high growth rate in this period was partly due to the virtual stagnation of agriculture in the preceding decade (agriculture grew at an average rate of 1.6 percent per annum during the 1950s) i.e., it was measured from a lower base. Furthermore, the decade of the 1960s was the period during which the Green Revolution technology was introduced. Much of the high growth recorded during the last three years of the decade was the effects of the Green Revolution becoming more widespread.

The 1970s witnessed a marked slow down in economic activity, partly as a result of specific economic policies pursued domestically and partly as a result of inhospitable international economic environment. The combined effects of both the domestic and external factors were far-reaching. The real GDP grew at an average rate of 4.8 percent, while the agricultural and industrial sectors expanded at an average rate of 2.4 percent and 4.8 percent per annum respectively<sup>8</sup>.

The slow down in agricultural growth can be attributed to the factors like uncertainty created by land reforms (and their selective implementation) in 1972 and 1997, severe climatic shocks, and a cotton virus that depressed production for most of the 1970s. The poor performance of industrial sector was the result of political instability, widespread nationalization of industrial units and financial institutions which shattered investors' confidence. Private sector investment in large-scale manufacturing as percentage of total private declined drastically almost 29 percent in 1970-71 to 12 percent in 1977-78.

The growth momentum which was lost in the 1970s, bounced back in the 1980s. The policy of gradual decontrol, deregulation and denationalization paid rich dividends as the decade of the 1980s matched the growth performance of the 1960s. Pakistan achieved impressive and broad-based economic growth during the 1980s, even in the face of a number of economic and non-economic adverse internal factors. The real GDP grew at an annual average rate of 6.5 percent helped by 4.1 percent growth in agriculture and 8.2 percent average rate of 6.5 percent helped by 4.1 percent growth in agriculture and 8.2 percent growth in large-scale manufacturing. The performance of agriculture sector has been erratic - - experiencing a negative growth rate of 4.8 percent in 1983-84 but a positive growth rate of 10.9 percent in 1984-85. On the average, the agriculture grew at a rate higher than the country's population growth rate. Total factor productivity in agriculture shows that growth in this sector was mainly attributable to growth in factor inputs (labour and capital) with very little or no contribution coming from technical change. This is hardly surprising given the importance accorded to science and technology in Pakistan. The slowing down of agriculture growth reduced its share in the GDP from 31 percent in 1980-81 to 28 percent in 1989-90.

---

<sup>8</sup> Various Issues of Pakistan Economic Survey.

When viewed against the achievement of the 1970s the performance of large-scale manufacturing in the 1980s has been impressive. The large-scale manufacturing sector registered an annual average growth rate of 8.2 percent. The performance could have been even better had the law and order situation coupled with political instability not restrained the growth during the last two years of the 1980s. The confidence of the private sector which was shattered in the 1970s as a result of the nationalization policy was restored to a larger extent. The private sector investment in large-scale manufacturing as percentage of total private investment more than doubled during the 1980s, i.e. rising from 16.1 percent in 1980-81 to 33.9 percent in 1989-90. Labour and capital productivity grew by an average rate of 8.4 percent and 5.0 percent, respectively. However, the total factor productivity increased only by 3 percent during the decade, depicting an annual average increase of 0.3 percent. Such a low contribution of technical progress in industrial growth is a matter of serious concern and demand urgent policy measure to improve the status of science and technology in Pakistan.

**The first seven years (1991-97) of the 1990s** witnessed a sharp deceleration in economic activity for a variety of reasons, including economic and non-economic ones. The real GDP growth decelerated to an average rate of 4.7 percent per annum. Agriculture and large-scale manufacturing registered an average growth rate of 3.8 percent and 3.5 percent per annum, respectively. However, a careful analysis would reveal two distinct behaviour of the economy during the first seven years of the 1990s. During 1990-93 (first tenure of the PML(Nawaz) government), the real DGP grew at an average rate of 5.2 per annum supported by a 5.8 percent growth in large-scale manufacturing and 3.1 percent in agriculture. On the other hand, during the period 1994-97 (second Benazir Government) the real DGP growth decelerated to an annual average rate of 4.3 percent while agriculture and large-scale manufacturing registered a growth of 4.4 percent and 1.6 percent respectively.

The deceleration in economic activity is the direct result of stagnation in agriculture and poor performance of manufacturing. At present there are clear signs of stagnation in agricultural growth. In fact, total factor productivity has either remained stagnant or declined since the 1980s due to resource degradation, failure to adapt technical change, and poor incentives. This is reflected by the fact that Pakistan still imports 4 million tones of wheat and spends almost \$ 1.0 billion on imports of edible oil. The dependence on cotton for strong growth in agriculture is overwhelming. Between 1990-95 cotton contributed almost 30 percent to value added in major crops. Recent developments indicate that the cotton-driven boom has now run its course and that new sources of growth will have to be found. There are clear signs that productivity growth in other major crops is also leveling off.

The performance of large-scale manufacturing during the first seven years of the 1990s has been rather disappointing - it has grown at an annual average rate of 3.5 percent. More so, the growth in this sector has slowed down to an average of 1.6 percent per annum during the last four years. A number of economic and non-economic factors have been responsible for the deceleration of growth in this sector. Prominent among those are: political instability; worsening of law and order situation in the major growth poles of the country; setback to cotton crop and consequential increase in cotton prices which adversely affected the textile and ancillary industries; inadequate power supply along with frequent breakdown of some power units around industrial areas; emergence of significant infrastructural bottlenecks in power, transport and other sectors, and insufficient industrial investment. All

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

these factors have caused virtual stagnation in large-scale manufacturing. Beside these factors, rising cost of production as a result of economic mismanagement over the last four years have further worsened the performance of large-scale manufacturing. In particular, senseless taxation for fiscal consideration created enormous tax anomalies; frequent downward adjustment of currency raised the cost of imported inputs; higher cost of energy, and higher interest cost have badly affected the morale of the business community.

A country's production structure has direct bearing on the performance of **external trade sector** in general and exports in particular. Pakistan's exports have fluctuated widely during 1980-97, increasing as high as by 25 percent and falling as sharply as by 16.7 percent (See Table 2). Despite yearly fluctuation, the 1980s recorded a satisfactory exports growth of 8.5 percent. However, a careful analysis would reveal two distinct behaviors of exports earning during the 1980s. During the first half of the 1980s Pakistan's exports hardly registered any growth, rising at a mere 2.1 percent per annum. This unsatisfactory performance is attributable to world recession and to shortfalls in the output of major export items<sup>9</sup>.

Like exports, imports growth also fluctuated widely during 1980-97, rising as high as 21.4 percent and falling as sharply as by 13.8 percent (See Table 2). Imports grew by an average rate of 4.7 percent during the first half of the 1980s and by 3.7 percent during the second half of the 1980s. Further slowdown in import growth during the second half was due mainly to a fall in world prices of Pakistan's major import items. The first seven years of the 1990s witnessed a growth rate of 8.7 percent per annum due mainly to extraordinary increase in the imports of machinery, transport equipment under the Yellow Cab Scheme, and chemicals. These three items accounted for 52 percent of total imports.

Pakistan is not a major trading player in the international trade. It accounts for, on average, only 0.15 percent of world exports and 0.26 percent of world imports (See Table 3). However, careful analysis suggest that Pakistan is a major trading player in some export items. For example, Pakistan accounts for 18.8 percent (on average) of world market of carpets and rugs, the share of which is continuously declining from 24.5 percent in 1981 to 15.4 percent by 1994. On the other hand, Pakistan accounts for 1.7 percent of world market of textile and clothing, the share of which is rising continuously overtime from 1.2 percent in 1980 to 2.35 percent by 1994. Pakistan is also a relatively important player in the exports of leather and leather goods, accounting for 2.9 percent of world exports. It also accounts for 0.5 percent of world market of fish and fish products (See Table 1).

---

<sup>9</sup> The State of Pakistan's Foreign Trade 1993-94, Ministry of Commerce, Government of Pakistan, November 1994 and Pakistan's Foreign Trade: Key Indicators, Ministry of Commerce, Government of Pakistan, December 1995 and Economic Survey 1996-97.

**Table 1: Share of Pakistan's External Trade in World Market<sup>10</sup>**

Commodities	1980	1985	1990	1991	1992	1993	1994	1995	1996
<b>I. Cotton Group</b>	<b>41.0</b>	<b>49.3</b>	<b>60.1</b>	<b>61.0</b>	<b>61.3</b>	<b>59.8</b>	<b>578.9</b>	<b>58.7</b>	<b>64.1</b>
i. Raw Cotton	14.2	11.2	8.9	6.7	7.5	4.0	1.2	0.8	5.8
ii. Textile	20.2	23.3	29.0	31.6	30.3	30.3	31.9	33.2	33.4
iii. Clothing	6.6	14.8	22.2	22.7	23.5	25.5	24.8	24.7	24.9
<b>II. Rice</b>	<b>17.9</b>	<b>8.9</b>	<b>4.8</b>	<b>5.6</b>	<b>6.0</b>	<b>4.7</b>	<b>3.6</b>	<b>5.4</b>	<b>5.8</b>
<b>III. Leather &amp; Leather Products</b>	<b>6.7</b>	<b>8.6</b>	<b>9.8</b>	<b>9.1</b>	<b>8.6</b>	<b>9.3</b>	<b>9.3</b>	<b>8.0</b>	<b>7.2</b>
<b>IV. Wool &amp; Carpets</b>	<b>9.8</b>	<b>6.1</b>	<b>5.0</b>	<b>3.8</b>	<b>3.5</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>	<b>2.6</b>
i. Raw Wool	0.4	0.7	0.3	0.1	0.1	0.1	0.2	0.1	0.1
ii. Carpets & Rugs	9.4	5.4	4.7	3.7	3.4	2.5	2.2	2.3	2.5
<b>V. Fish &amp; Fish Preparation</b>	<b>2.5</b>	<b>3.3</b>	<b>1.9</b>	<b>1.9</b>	<b>1.7</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.6</b>
<b>VI. Surgical Goods</b>	<b>1.0</b>	<b>2.0</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>
<b>VII. Sports Goods</b>	<b>1.1</b>	<b>1.8</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>	<b>2.9</b>	<b>3.2</b>	<b>2.8</b>
<b>VIII. Synthetic Textile</b>	<b>0.2</b>	<b>1.7</b>	<b>4.3</b>	<b>5.7</b>	<b>6.1</b>	<b>7.4</b>	<b>9.5</b>	<b>7.1</b>	<b>5.2</b>
Others	20.0	18.3	10.5	9.3	9.5	10.1	10.7	141.5	9.3

Pakistan's exports are however highly concentrated on few items. As shown in Table 2, eight categories of exports accounted for 85-90 percent of total export earnings. More interestingly, cotton group alone accounted for 57 percent of export earnings followed by leather (8.5%), rice (7.0%) and synthetic textile (5.2%). Thus, these four items together accounted for almost 78 percent of total export earnings. Further desegregation in cotton group revealed that textile and clothing accounted for 56 percent of total export earnings. Furthermore, almost all the export earnings of cotton group originated from textile and clothing. These two items are therefore, the backbone of Pakistan's export sector. Such a high degree of concentration of exports in few items has led to severe instability in export earnings. A poor cotton crop seriously affects total export earnings, as it has been experienced during 1992-93 and 1993-94, when total exports actually registered a decline.

<sup>10</sup> The State of Pakistan Foreign Trade 1994-95, Ministry of Commerce, Government of Pakistan, December 1995.

**Table 2: Pakistan's Major Exports (Percentage Share in Total Exports)<sup>11</sup>**

Year	Share in the World Market		Share of Major Exports in World Exports			
	Exports	Imports	Textile & Clothing	Carpets & Rugs	Leather & Leather Goods	Fish & Fish Preparation
1980	0.13	0.28	1.19	23.14	2.26	0.42
1985	0.14	0.31	1.16	20.73	3.11	0.60
1990	0.16	0.21	1.64	17.34	2.83	0.37
1991	0.18	0.23	2.25	19.32	2.54	0.34
1992	0.20	0.24	2.26	15.16	2.16	0.41
1993	0.21	0.25	2.34	10.97	1.89	0.61
1994	0.20	0.20	2.35	15.42	1.84	0.39

Pakistan's imports are also concentrated on few items. As shown in Table 3, only 10 categories of imports accounted for almost 80 percent of total imports. A further look at Table 3 suggest that machinery, petroleum and petroleum products, chemicals, edible oils, and transport equipment together accounted for 58 percent of total imports in 1996<sup>12</sup>.

**Table 3: Pakistan's Major Imports (Percentage Share in Total Imports)**

Commodities	1980	1985	1990	1991	1992	1993	1994	1995	1996
Fertilizer	6.6	2.0	3.0	3.5	2.8	2.5	3.1	1.2	3.0
Petroleum & Products	22.8	24.2	16.8	22.1	15.0	16.3	16.3	15.3	16.9
Machinery (non-elec.)	11.9	15.0	17.1	17.7	23.7	21.5	18.6	20.1	17.9
Transport equipment	10.4	8.7	6.8	6.7	9.0	12.7	9.7	8.6	4.7
Edible Oils	4.9	7.7	5.6	5.3	4.4	5.9	5.7	9.6	7.2
Chemicals	1.9	6.2	10.3	9.0	9.6	9.0	8.9	10.2	11.5
Iron, Steel & Products	6.4	4.4	4.7	4.1	4.5	3.8	4.6	4.6	5.2
Grains, pulses	2.2	3.2	6.2	2.3	4.3	5.5	3.4	4.8	4.7
Electrical Goods	4.1	2.8	2.9	2.9	3.2	2.7	3.4	2.7	3.7
Drugs and medicines	1.6	2.2	2.5	2.6	2.3	2.3	2.7	2.5	2.8
Others	27.2	23.6	24.1	23.8	21.2	17.8	23.6	20.4	22.4

<sup>11</sup> The State of Pakistan's Foreign Trade 1993-94, and Pakistan's Foreign Trade Key Indicators 1995-96, Ministry of Commerce, Government of Pakistan.

<sup>12</sup> Statistical Supplement: Economic Survey 1994-95; Economic Advisor's Wing, Finance Division, Government of Pakistan, November 1995 and Pakistan's Foreign Trade Key Indicators 1995-96, Ministry of Commerce, Government of Pakistan, April 1997.

Although Pakistan is trading with a large number of countries, its exports and imports are highly concentrated in few countries. More than two-thirds of Pakistan's exports and imports are concentrated in a group of 12 major trading partners. Further disaggregation reveals that almost 47.5 percent of Pakistan's exports went to the European Union (EU) and North America during 1990-95, followed by 7.6 percent to Japan. Similarly, 30 percent of Pakistan's imports came from the EU and North America followed by 12.9 percent from Japan during the same period in other words, almost 55 percent of Pakistan's exports and 43 percent of imports went to and came from the EU, North America (mainly US) and Japan, respectively.

### **2.1.0. Current Developments**

The present government when took charge of the state of affairs of the country on February 17, 1997 the economy was in shambles. Fiscal situation had reached crisis proportions; the banking system in the public sector was basically insolvent; foreign exchange reserves were in precarious condition; industrial production was stagnating; and most importantly, the people of Pakistan had lost confidence in the country's ability to recover from the severe macroeconomic instability and above all there was a sense of policy drift.

The primary task of the present government was to put a brake on the declining trends in various key indicators of the economy, to avoid default in external sector payments, and to restore the confidence of both the domestic and foreign investors in Pakistan's economy. In order to do so, the present government introduced a series of economic reforms, capital market reforms, banking sector reforms, foreclosure law and the autonomy to the State Bank of Pakistan. The salient features of the tax and tariff reforms include the reduction of maximum tariff rate from 65 percent to 45 percent with the exception of automobiles; the number of slugs in custom duties have been reduced from 13 to 5 with rates of 10%, 15%, 25%, 35% and 45%; suitably cascaded the duties on primary raw materials, intermediate goods, and finished goods with duties ranging from 10% to 45%; tariff rates on a wide range of smuggling-prone items have been brought down to between 10 and 25 percent; the general sales tax (GST) is reduced from 18% to 12.5%; a reduction in personal income tax rates the structure of which range from 5% to 20% and so on. These reforms have now started paying the dividends. The confidence of the international donor agencies, like the World Bank and the IMF on the financial health of the economy have been restored. A three-year \$1.6 billion Extended Structural Adjustment Facility (ESAF) and Extended Fund Facility (EFF) loan agreement has been signed with the IMF which has now been ratified by its Executive Board. It is important to note that the various reform measures which Pakistan has to implement under the ESAF agreement have totally prepared by the Government of Pakistan. Beside restoring the confidence of the international lending agencies the reform packages have also started showing positive results. There are signs that economic revival is taking place. The index of industrial production shows an increase of 6 percent in the month of August; inflation has come down to the single-digit, agriculture is expected to grow by 5.5 percent, revenue collection is on the target, and foreign exchange reserves have increased to \$ 1.4 billion from the low level of \$600 million. A growth target of 6.0 percent for the current

fiscal year (1997-98) is expected to be achieved with rate of inflation declining to 8.0 percent, fiscal deficit to 5.0 percent of GDP and current account gap improving significantly.

Pakistan has been in the grip of economic crisis since its creation. With exception of a few prosperous years, the general economic condition of the people remained hard-pressed all through the last 50 years. However, the intensity and gravity of the economic deterioration and the state of virtual anarchy and disorder that is prevalent during the present rule (more particularly during 1998) has simply no parallel. Though the crisis snowballed during the last 26 years due primarily the wrong policies adopted - premier Sharif and his team ruled the roost for at least the last 15 years. Pakistan's depleting economic conditions can also not be entirely attributed to sanctions imposed after May 28 nuclear tests. Although sanctions have a partial effect, yet the major cause of worsening economy (and which need to be accepted boldly) has been the ill-conceived policies that the government pursued. If the leadership overlooking the real causes believes some IMF/WB loan extension bail out package as the only way out, then there seems no end to the present mire; then it is only the question of time that the country turns insolvent. The decisive moment is at hand. Procrastination aside, government must start making basic structural changes now. Frequent visits to *revered* Washington or supplication before the international monetary bodies shall work no more.

It is a bitter reality that the country's leadership (the present rulers and opposition) does not seem to comprehend the economic problem, what to talk of solving it. The situation is that of total stagnation and recession.

## **2.2.0. Factors Effecting Economy**

To have proper understanding of the issue, determine real causes and suggest appropriate strategy, it thus seems necessary to have a look at the basic indicators of economy since 1972. The analysis of past 26 years of Pakistan economy brings forth the following facts:

**2.2.1. Lack of policy-making:** No effort has been made towards planning and policy-making to set priorities on scientific lines keeping in view the county's requirements. During first 15 years (i.e. till 1987) there was practically no long-term planning. The whole business was conducted based on annual plans and budgets. Thus, adhocism and expediency were central in these policies. Thereafter planning was done with the sole objective to avail more and more aid.

**2.2.2. Disregarding social uplift plans:** No sustained program was developed to develop economic infrastructure, establish industries, increase agricultural production, organize judicious distribution of wealth, and to provide food, education, health and economic opportunities to the common citizens. Thus, the task of developing the economic foundations was overlooked which culminated in the bitter outcome that we see today. Window-dressing in the name of development, protecting the interests of the affluent and providing opportunities to a special class to amass wealth, has been the target of the government and all state organs.



**2.2.3. Reliance on foreign assistance:** For economic development, self-reliance was not resorted to. Nor an approach was followed to develop capability to strengthen national production base on the one hand and on the other, pave way for progress counting on indigenous resources. Contrary to this, the leading factor considered necessary for development have been foreign aid. Consequently, the country was burdened with over Rs. 3000 bn. domestic and foreign debt (more than the total annual GDP). The result is the type of economy depending for its life on others, whose domestic base is most fragile and which is practically mortgaged. In such circumstances naturally our political freedom is badly hurt and is at stake.

**2.2.4. Embracing failed foreign economic policies:** The strategy being followed since last 15 to 16 years is the so-called stabilization policy dictated by the IMF and the World Bank. This policy emphasized reduction in budget deficit, stalling inflation and investment based on privatization and loans. What however actually surfaced is that the external debt increased enormously, unemployment and poverty shot up, while GNP growth per capita went negligible (the rate being half during 1988-98 compared to preceding 10 years), large scale industrial production has been dissatisfactory, the capital productivity has continuously declined (indicative of ill health), budget deficit could not be curtailed as desired and the inflation has been 10.47 per cent against the average 9.61 per cent of 1979-89. These are official figures. Independent economists believe that the actual rate is 50 per cent more than that. In other words, the whole strategy of IMF has just failed.

**2.2.5. Unjust distribution of wealth:** The policies pursued during the past 26 years have added to poverty and increased the rich-poor gap. Availability of actual figures is a problem. Yet whatever is known, indicates that poverty that had declined between 1975 and 1990, again increased after that. If the population below poverty line was 20 per cent in 1990, it went up to 30 per cent in 1995 and was 38 per cent in 1998. It means poverty almost doubled in just 8 years. Household income surveys not only point out increased poverty; they also indicate wealth concentration. Thus rich is getting richer and the poor poorer<sup>13</sup>.

---

<sup>13</sup> *Human Development in South Asia – 1998*, page 17, by Dr. Mahboobul Haq

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

These basic drawbacks emerged as the natural consequence of the IMF/World Bank policy based on structural adjustments and the so-called stability promoting steps. These were in direct conflict with our national priorities. In light of above facts, we stress review on basic policy matters for developing a sound framework for long- and short-term economic reforms.

### **2.3.0. Pakistan economy - Quaid and Iqbal's vision**

Pakistan was created to actualize a society based on principles of justice and fraternity. Our rulers quite often quote Allama Iqbal and Quaid-e-Azam, but unfortunately have never been practically interested in the goals and objectives set by them. For Iqbal, Pakistan stood as an abode for Muslim identity, a piece of land where Islamic law shall be revived, a nation which eventually shall emerge as savior of Muslims from poverty and prejudice and an envious race that shall take the role of leadership in the region. In his 1930 address and correspondence with Quaid-e-Azam, Allama Iqbal clearly mentioned these four primary objectives. Inaugurating the State Bank of Pakistan, Quaid-e-Azam said:

*"The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a Masiha can save it from disaster that is now facing the world. It has failed to do justice between man and man and to eradicate friction from the international field... The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice."*

The elimination of poverty and to work for the welfare of the poor was his priority. He said<sup>14</sup>:

*"I am an old man. God has given me enough to live comfortably at this age. Why should I turn my blood into water, run about and take so much trouble? Not for the capitalists, but for you the poor people. I have seen the abject poverty of the people. Some of them did not get food, even once a day. I feel it and, in Pakistan, we will do all in our power to see that everybody can get a decent living."*

Addressing the National Assembly on Aug. 11, 1947, he had announced:

*"Now, if we want to make this great state of Pakistan happy and prosperous, we should wholly and solely concentrate on the well-being of the people, and especially of the masses and the poor."*

---

<sup>14</sup> Address to Muslim League workers in Calcutta, March 1, 1946

Quaid-e-Azam had identified those segments of the society that posed real hindrance in the way of progress. But those who claim to be followers of the Quaid have only strengthened the same cruel elements against whom the battle of independence he won:

*"Here I should like to give a warning to the landlords and capitalists who have flourished at our expense by a system which is so vicious, which is so wicked, which makes them so selfish that it is difficult to reason with them. The exploitation of the masses has gone into their blood. They have forgotten the lesson of Islam... There are millions and millions of our people who hardly get one meal a day. Is this civilization? Is this the aim of Pakistan? Do you visualize that millions have been exploited and can't get one meal a day? If that is the idea of Pakistan I would not have it<sup>15</sup>."*

Quaid-e-Azam consciously realized that Pakistan should not be dependent on others. He knew that simple privatization was no solution. The state also has a positive role to play, which it should discharge with honesty and high degree of performance. Laying the foundation stone of Valika Textile Mills (Sep. 26, 1947), Quaid-e-Azam said that the objective of our industrial growth should be to minimize our dependence, so that we can play our role in the world affairs according to our position. He had also clarified the importance of judicious tax system, social justice, basic industries and the public sector control and management of the public utilities institutions.

Lamentably, during the past 50 years we have forgotten these lessons. Nothing has been done to change the feudal and capitalist system, which is the real cause of our economic miseries. A few thousand families control the country today and are exploiting all its resources, whereas the masses live in a state of helplessness. The same few thousands today own and control agriculture, industry and trade. They are in politics and enjoy seats of power and authority. Their descendants hold high positions in administration, the army and the police. They are the ones profiting from banks at the same time leading defaulters' list. They own 80 per cent of wealth and have taken billions of dollars out of the country. Being constrained of space, we are not going in details but would like to refer to two recent works *Political Vaderas of Pakistan* by A. Abbas Jafri, and *Who owns Pakistan* by Shahidur Rehman, for a worth update on this affluent minority of Pakistan.

## **2.4.0. Factors preventing prosperity**

The misappropriation, the corruption and the loot that are rampant at all levels, provide yet another dimension of the same oppressive system. Consequently, this self-seeking greedy group has usurped a lion's share of the national wealth. Corruption is estimated to be at least Rs. 500 billion. annually, which amounts to 90 per cent of the budget

---

<sup>15</sup> Address to the Meeting of All India Muslim League, Delhi, April 24, 1946

(More liberal estimates give Rs. 1500 billion, which is 75 per cent of the GDP). If we could get rid of this corruption and the curse of interest (riba), the resources thus saved can eliminate poverty in Pakistan in a few years. Nevertheless, this will be possible only if the reins of power and decision-making are held by the people themselves and their voice is made truly effective. Country should have an honest and capable leadership, which should hold accountable the plunderers and establish a totally transparent governance, in which leadership emerges from the masses, that serves the masses and stays answerable before the people and God Almighty.

Setting proper economic priorities is part of this process. It is the call of the hour that the direction of true self-reliance and economic development is so set as to establish a production mechanism that satisfies the needs of the people. Debt-based development strategy has failed, and has made the country infirm so much so that it survives on external *oxygen* supply. It is time the nation decides to do away with loans and base its economy on self-reliance. For this purpose, we need not default. Over the past 15 years, some 32 countries have re-scheduled their debt repayment. About 11 countries even followed the path of defaulting. We should work out a strategy keeping in view both the best and worst scenarios. The true resolve, however, should be that we are to live within our own means and get only such loans (if at all availed) which enhance our productivity and are thus easily repaid. Unfortunately, the loan politics in Pakistan played a blind game, which never helped to improve production capability. We are rather meeting even our general administrative expenditure through loans and have forgotten the ill consequences that are but natural. We have already touched the closing end, yet our leadership is bent upon seeking further loans to linger on somehow. This is no way to progress; it is suicidal.

Lack of effective accountability is the cause to give rise to malpractice and pave way to unchecked decay. What is currently done in the name of accountability is nothing more than sheer joke. The two big parties, which have set high examples of corruption, have only staged dramas by way of engaging the opponent, during their respective tenure. No one has been subjected to true accountability nor is it possible the way it is being done. Everyone should be accounted for, and that will be done through a system and machinery that is totally independent and none is out of its hold. Then such an accounting can be done by one who is himself clean and above all doubts.

Everybody knows how mercilessly the country was plundered by Benazir Bhutto and her group in PPP tenure and how the money was siphoned out of the country. Now two years have passed and not a single penny could be recovered despite outcry. The same is the story of the Prime Minister's family. He himself admitted that his business concerns have availed Rs. 10 billion from the banking sector alone, which he has not paid back (this amount accounts for 1/15<sup>th</sup> of the total default).

Extravagance continues on the highest scale. The President House and the Prime Minister office consume more than Rs. 2 billion. annually, which together is more than the whole federal budget of the health sector. The information ministry, which is doing nothing but official propaganda, spends Rs. 1 billion per year. Compared to this, the total allocation for research and development (R&D) in the country, is Rs. 14.5 million. Parliament itself is partner in this doll out business. It is neither playing any role to correct the economic

priorities, nor to establish some effective mechanism of accountability to check corruption. So, we are again faced with the question of political will and change of leadership, without which the new chapter of national life is hard to open.

Another apparently subsidiary but very important fact is the lack of reliable machinery to provide correct information and statistics. The Statistics Division first ascertains the mood of the government. Even the State Bank, having attained partial freedom, avoids giving free opinion. There is little open dialogue about policy-making. Radio and TV are but government's maidservants. Attempts are also being made to tame the press. The Parliament forum has lost all its effectiveness. There is no way of general discussion and participation in policy decisions or to avail public opinion about national and international issues. Important international agreements are neither brought to the notice of the nation, nor placed before the Parliament. At best, closed-door decisions are reached in the cabinet, more truly, the cabinet is rather informed, whereas a few top persons take decisions. Resultantly, the country lacks open governance, which is the spirit of good governance. This attitude only encourages corruption and promotes dictatorial tendencies.

## **2.5.0. Tax-Evasion**

### **2.5.1. The Nature of Taxation in Pakistan**

Currently, it is understood in Pakistan that a nation or a society cannot do without a government; and, to run the business of a government, taxes are levied. It is said that the business of a government comprises two things: i) to provide services to the people such as maintaining law and order, and accomplish development works such as build and maintain roads, etc; and ii) (in case of a redistributive state) to provide welfare services such as 'food, clothing, shelter,' and education, health care, etc. For most of the people, it is quite natural a political philosophy!

Obviously, the more duties and responsibilities we assign to a state, the more machinery (bureaucracy, etc.) will it require, and the more expenditures will it incur. Thus, in addition to maintaining law and order, if a state is required to provide everything to its citizens, then its government won't remain limited. It will require more revenue, and will resort to high taxes. Conversely, if its duties are limited to the protection of life, liberty and property of its citizens, it will have no justification to have recourse to more and more taxes.

But all the governments tend to expand, and develop a big state-apparatus, which it with the passage of time becomes difficult for them to sustain without imposing high taxes. As a result, they are caught in a net of clear disproportion: their non-development expenditures outweigh their development expenditures; and, in some cases, their development expenditures, too, can be termed as non-development expenditures as they are spent without producing any tangible results. Such a state because of its erratic policy of taxation turns into an unhappy burden on the shoulders of its citizens.

Pakistani state is such a high tax state. On the one hand, it is not providing the least of the essential services to its citizens; that is, maintaining law and order, and protecting life,

liberty and property of its citizens. On the other, under the slogan of Welfarism, it is resorting to high taxes and control over the lives of the people, and thus it has to sustain an ever-increasing state-machinery. Moreover, it has instituted monopolies, and likes to take care of their interests. And, last but not least, it has gathered around a ring of rent-seekers in the shape of politicians, privileged groups, civil and military bureaucrats, etc. who cause to manipulate its policy of taxation to their own benefit or to the detriment of others.

Another important aspect of the nature of taxation in Pakistan is trade protectionism; or, in other words, another cornerstone of taxation is the protection of local industry. For this purpose, the interests of the consumers, the common citizens, are ignored and, rather sacrificed on the altar of that holy cow, local industry. High duties are imposed on all of the imports, except ones benefiting the privileged ones, to protect the local industry which is inefficient, uncompetitive, and dependent on the help from the government to sustain itself. As a result of this, consumers are forced to buy low quality and expensive goods.

## **2.5.2. The Process of Taxation and Tax-Collection in Pakistan**

In Pakistan, taxes are levied at three levels: federal, provincial, and local. At federal level, Central Board of Revenue (CBR) takes care of the revenue-collection. At this level, there are four major taxes: Income, Customs, Excise and Sales Tax. At provincial level, various departments perform this task. Major taxes at this level are: Stamp Duty, Motor Vehicle, Entertainment, and Electricity taxes. And, at local level, entities of district government levy taxes.

Under the circumstances, as Pakistani government has not been able to form and practice a just, uniform and consistent policy of taxation, the process of taxation in Pakistan is in shambles. Indeed, it has become a tool in the hands of the privileged and powerful elites and groups. They pressurize, bribe or influence the authorities to impose a new tax or increase the rate of an old one to reap the benefits or to harm their rivals. Taxes are imposed and/or reduced to suit this or that elite. “The 1973 constitution had clearly provided that “imposition, abolition, remission, alteration or regulation of any tax” would fall in the jurisdiction of the Finance Bill to be passed by the national assembly. But during the Zia-ul-Hq era when there was no national assembly, this power was usurped by CBR which imposed duties, withdrew duties, exempted industries from payment of taxes and duties, made refunds with retrospective effect when somebody had to be favored, simply by issuing SROs.” Perhaps, it’s never thought of in Pakistan that imposing/abolishing or increasing/reducing taxes should be done in the interest of the broader sections of society.<sup>16</sup>

“The Central Board of Revenue (CBR) can enrich individuals and groups beyond one’s expectation and imagination by issuing the right SRO (Statutory Regulations and Orders) or vice versa turn them into pauper by starting investigations of tax evasion and

---

<sup>16</sup> Who Owns Pakistan? By Shahid-ur-Rehman,, Mr. Books (Pvt.) Ltd., Islamabad, 4<sup>th</sup> Edition August 1998

assessing tax liability with retrospective effect.” In this regard, the ‘politics of tax holidays, rebates and subsidies’ is also too known<sup>17</sup>.

From the point of view of the tax payers, the mechanism of tax-collection is very difficult, complicated and cumbersome besides being time-consuming. “Pakistan today has a mind-boggling taxation system that defies comprehension of the average citizens and experts alike.” The tax-assessing and tax-collecting officials enjoy unlimited discretionary powers, and by using these powers, they harass and blackmail the tax payers, and extort money from them. In Pakistan, it is said that even an honest tax payer can not pay his taxes honestly; he will be forced to bribe the concerned authorities to pay his due tax.

The most corrupt departments in Pakistan are the tax departments. “CBR has the reputation of being corrupt, besides being one of the most politicized departments of the Government of Pakistan. From the office of the chairman to middle and lower ranks, appointments are made in CBR on political and financial considerations. One frequently comes across people in Islamabad with offers of money for appointments or postings in departments under the jurisdiction of CBR. The amount that these people offer, even for a clerical job in customs, income tax or other subordinate departments give a measure of corruption and graft in CBR. . . It is thus not mere coincidence that the chairman of CBR has invariably been the first to go with each change of government since 1988.<sup>18</sup>” That was why, to contain the excesses of tax officials, in the year 2000, the federal government had to establish a separate institution of Federal Tax Ombudsman. Though, its scope and jurisdiction is too limited, but it is playing an important role in redressing the grievances of the tax payers against the tax officials. A cursory look at the following table which details the year-wise figures of complaints filed and disposed of by the office of the Federal Tax Ombudsman can convince us of the notoriety of the tax-machinery in Pakistan<sup>19</sup>:

### **Year-Wise Complaints Filed and Disposal**

<b>Year</b>	<b>No. of complaints</b>	<b>Disposed</b>	<b>Balance</b>
2000	72	72	0
2001	1782	1782	0
2002	1549	1518	31
2003 till 15 <sup>th</sup> October	1469	885	584
<b>Total</b>	<b>4872</b>	<b>4257</b>	<b>615</b>

2 Who Owns Pakistan? By Shahid-ur-Rehman,, Mr. Books (Pvt.) Ltd., Islamabad, 4<sup>th</sup> Edition August 1998

18 Who Owns Pakistan? By Shahid-ur-Rehman,, Mr. Books (Pvt.) Ltd., Islamabad, 4<sup>th</sup> Edition August 1998

19 Federal Tax Ombudsman: role and challenges By Dr. Ikramul Haq

**Thesis- Inefficiency of Public Sector & impact on Economy of Pakistan**

As to the number and rate of taxes, there is no comprehensive study available. But it is generally believed that everything is taxed and is taxed at a far higher rate. “In 1990, Karachi Chamber of Commerce and Industry had established that the industry was subjected to 50 direct and indirect taxes but the statement of Senator Ilyas Bilour, President PFCCI (Pakistan Federation of Chambers of Commerce and Industry) at the Businessmen Conference in Islamabad on March 25, 1997, that 37 government departments and agencies were collecting taxes gives a measure of the proliferation of taxes that has taken place in Pakistan.”<sup>20</sup>

The author of the same book, “Who Owns Pakistan?” has identified 70 major taxes to which consumers and producers are subjected. “In addition there are host of specific taxes like a Research and Development Levy, Drug Manufacturing License and Drug Registration Fee. It can be said safely that there are at least 100 taxes in vogue in Pakistan<sup>21</sup>.”

- **Federal Taxes**

- Income Tax
- Super Tax
- Wealth Tax (abolished. K. A.)
- Gift Tax
- Turnover Tax
- Corporate Asset Tax
- Corporate Income Tax
- Import Duties
- Import Surcharge
- Export Duties
- Iqra Surcharge
- Income Tax on Imports
- Import License Fee
- Import Registration Fee
- Export Registration Fee
- Central Excise Duty
- Sales Tax on Manufactured Goods
- Capital Value Tax
- Export Development Surcharge
- Development Surcharge on Petroleum
- Gas Development Surcharge
- Federal Education Cess
- Workers Participation Fund

---

<sup>20</sup> Who Owns Pakistan? By Shahid-ur-Rehman,, Mr. Books (Pvt.) Ltd., Islamabad, 4<sup>th</sup> Edition August 1998

<sup>21</sup> Who Owns Pakistan? By Shahid-ur-Rehman,, Mr. Books (Pvt.) Ltd., Islamabad, 4<sup>th</sup> Edition August 1998



**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

- Workers Welfare Fund
  - Estate Duty
  - Zakat
  - Ushr
  - Oilseeds Development Cess on Companies
  - Tobacco Cess
  - Cotton Cess
  - Development Surcharge on Electricity
  - Textile Technology Cess
  - Airport Tax
  - Cargo Charges, etc.
  - Capital Gain Tax
- **Provincial Taxes**
    - Professional Tax
    - Property Tax
    - Stamp Duty
    - Vehicle Tax
    - Entertainment Tax
    - Betterment Tax
    - Social Security Contribution
    - Explosive License Fee
    - Provincial Education Cess
    - Capital Gain Tax
    - Punjab Airport Tax
    - Provincial Excise Duty
    - Karachi Dock Labour Board Cess
    - Cess on Hotels
    - Cotton Fees
    - Paddy Development Cess
    - Land Revenue Tax
    - Employee Old Age Benefit Contribution
    - Trade Tax on Jewelers, Garment Shops

Note: These lists are not complete and up-to-date; from time to time, new taxes and duties are imposed, some of the old ones abolished. Now with the introduction of District Government System, an array of newer taxes at the local level has come to play its role. Also, some of the old things are still in existence such as Television License Fee.

### **2.5.3. The governmental uses of tax-money**

The non-development expenditure of Pakistani Establishment has always been on the increase putting undue pressure on the tax payers. For example, “the level of current Government expenditure . . . (increased) at fast pace particularly during the period 1982-83 to 1984-85. As percentage of GDP at market prices, current Government expenditure

**Thesis- Inefficiency of Public Sector & impact on Economy of Pakistan**

fluctuated between 14 and 15 per cent during the period 1977-78 to 1981-82. In the subsequent 3 years the increase in current expenditure accelerated a great deal and as percentage of GDP at market prices it rose from 14.4 per cent in 1981-82 to 17.9 per cent in 1984-85.”

According to a report of the World Bank, Pakistan consumed 10.3 percent of GDP in 2001<sup>22</sup>.

Internationally, Pakistan is considered a ‘soft state.’ But it’s too soft an acronym. Pakistan is one of the most corrupt states of the world. According to the Transparency International’s ranking of the most corrupt countries of the world, in 1996, Pakistan stood 2<sup>nd</sup>.

“Pakistan is one of the countries of the world that has achieved notoriety in terms of its association with twin evils (‘corruption and money-laundering’) and particularly with corruption. The gravity of the situation can be gauged from the fact that the then prime minister of Pakistan, Nawaz Sharif, himself admitted sometime back that the country was losing Rs.2 billion a day or Rs.720 billion a year to corruption. (This is significant because the total revenue collection in Pakistan is a little over Rs.300 billion<sup>23</sup>.)”

After the martial law of 1977, when a civilian government was installed, a new political tradition got started that strengthened the institution of corruption in Pakistan. Members of the parliament were to be given funds to use for the development of their constituencies; these funds were never to be audited.

It goes to the eternal infamy of the first dictator of Pakistan that to appease his supporters and to tame his opponents, he introduced the vicious system of transfer of huge state funds to his MNAs and basic democrats in the name of public development but actually for their own development. Stark corruption received a stamp of approval creating a new political culture. Money and manipulation became the dominant part of politics.

The abiding tragedy is that every succeeding regime, while condemning corruption and maladministration of the dictator, have retained his system of allocation of large amounts of state money to control MNAs and MPAs.

In no other country of the world, members of the legislature are encumbered with the responsibility of executing or supervising development projects. Their sole function is to

---

<sup>22</sup> Index of Economic Freedom 2004

<sup>23</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

frame laws for good governance. Being free of monetary temptations, they jealously guard their independence against the executive authority.

In Pakistan, every MNA, MPA or another public-spirited person should be authorised to submit his scheme of development to the Planning Division for central subjects and to Provincial Planning Boards for provincial subjects to be thoroughly scrutinized. If found suitable, it should be implemented by the normal executing agencies of the government without the intervention of the proposing body or person.

Unless this is done, development funds will continue to be wasted, politicians will continue to be corrupt and the legislators will continue to be subservient to the executive, whether the head of government is a dictator or not or provinces are autonomous or controlled. [The News International Lahore Edition September 3, 2004]

In addition to that most of the elected governments in Pakistan were dismissed by the sovereigns on the charges of corruption, and many a prime ministers and ministers have been and are being tried in the national courts and other country's courts as well.

“It is noteworthy that corruption was the common ground in the dismissal orders of the three governments since 1990. For example, on 18 April, 1993, when the Nawaz Sharif government was dismissed, the dissolution order read that: “Maladministration, corruption and nepotism have reached such proportions in the federal government, its various bodies, authorities and other corporations including banks supervised and controlled by the federal government, the lack of transparency in the process of privatisation, in the disposal of public/government properties, that they violate the requirements of the oath(s) of the public representatives together with the prime minister, the ministers, and ministers of state prescribed in the constitution and prevent the government from functioning in accordance with the provisions of the constitutions<sup>24</sup>.”

Also, “the presidential order of 5 November, 1996, also embodied the similar charges against the Benazir Bhutto who was sacked for the second time. The order read: “Corruption, nepotism and violation of rules in the administration of the affairs of the government and its various bodies, authorities and corporations has become so extensive and widespread that the orderly functioning of the government in accordance with the provisions of the constitution and the law has become impossible and in some cases national security has been endangered. Public faith in the integrity and honesty of the government has disappeared<sup>25</sup>.”

---

<sup>24</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>25</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

### **2.5.4. The magnitude of tax-evasion**

Though, investment is directly related with taxation, but it is the rate of tax that determines the volume of investment. It's a fact that besides political instability and deteriorating law and order situation, high tax rates have played an important role in retarding the growth of domestic as well as foreign investment. Despite utmost efforts of various governments, the volume of investment has been static.

Moreover, high tax rates have discouraged the personal initiative of the individuals. They feel deprived of their hard-earned money. That is why, in Pakistan, doing business legally is said to be a very difficult enterprise.

As has been pointed out earlier, heavily controlled economy has given rise to a parallel economy in Pakistan. The volume of this parallel economy exceeds to that of the formal economy which implies a greater volume of tax-evasion.

According to one study, "since 1973, a remarkable size and an upward trend in the underground economy and tax evasion are noticeable . . . the underground economy grew rapidly from about Rs.15 billion in 1973 to Rs.1115 billion in 1996 . . . the underground economy as a proportion of GDP was about 20 percent in 1973, which increased to 51 percent in 1996.

“. . . the level of tax evasion was about Rs.1.5 billion in 1973, which tremendously increased to Rs.152 billion in 1996<sup>26</sup>.”

It is also noteworthy that “the underground economy grew faster than the formal economy. . . . the underground economy grew annually at the rates of about 27 percent, 14 percent, and 26 percent in 1970s, 1980s, and 1990s correspondingly while growth rates in the formal economy for the same sub-periods were about 18 percent, 14 percent, and 17 percent<sup>27</sup>.”

Another study states that “in the base year (1973), underground economy was 20.27 percent of GDP, and it increased to 25.51 percent in 1991. Between 1991 and 1998 the underground economy increased rapidly; it was 54.52 percent in 1998. However, by 2002 it had declined to 37.25 percent of GDP<sup>28</sup>.”

As to the tax-evasion, according to this study, “it increased from 2.15 percent in 1973 to 3.42 in 1990, peaked at 7.22 percent in 1998 and then 4.17 percent in 2002.

---

<sup>26</sup> The Underground Economy and Tax Evasion in Pakistan: A Fresh Assessment By Zafar Iqbal

<sup>27</sup> The Underground Economy and Tax Evasion in Pakistan: A Fresh Assessment By Zafar Iqbal

<sup>28</sup> Underground Economy and Tax Evasion in Pakistan: A Critical Evaluation By M. Ali Kemal

“There could be various reasons of this sharp increase in the underground economy and tax evasion between 1991 and 1998. For instance, rise in private investment level which increases the overall economic activity (formal and informal), increase in smuggling, etc. Similarly, decline in underground economy from 1998 to 2002 may have various reasons, for instance, decline in smuggling, but probably low level of economic activity is the most important. . . . documentation of the economy is one of the reasons which helped in preventing black economy not to grow faster<sup>29</sup>.”

### **Estimates of Underground Economy and Tax Evasion**

Year	Underground Economy	Tax Evasion	<u>(As Percentage of GDP)</u>	
			Underground Economy	Tax Evasion
1974	18020	1814	20.27	2.15
1975	21756	2219	19.42	1.98
1976	27781	2944	21.15	2.24
1977	31412	3351	20.80	2.22
1978	41832	4644	23.51	2.61
1979	51774	6186	26.35	3.15
1980	66414	8670	28.24	3.69
1981	74784	9814	26.88	3.53
1982	98406	14076	30.36	4.34
1983	104759	13361	28.75	3.67
1984	130796	17215	31.16	4.10
1985	129443	15878	27.42	3.36
1986	155677	20390	30.26	3.96
1987	184308	26698	32.19	4.66
1988	192752	26672	28.54	3.95
1989	210487	30209	27.38	3.93
1990	227245	30473	25.51	3.42
1991	268951	34163	26.35	3.35
1992	390366	53219	32.39	4.42
1993	470124	62913	35.27	4.72
1994	591899	77655	37.92	4.97
1995	758163	104787	40.63	5.62
1996	1004289	144748	47.37	6.83
1997	1233620	164923	50.80	6.79
1998	1449891	193397	54.52	7.22
1999	1146839	152499	39.03	5.19
2000	1094052	141077	34.76	4.48
2001	1298233	169025	38.00	4.95
2002	1388064	175472	37.25	4.71

<sup>29</sup> Underground Economy and Tax Evasion in Pakistan: A Critical Evaluation By M. Ali Kemal

### 2.5.5. Why do people resort to tax-evasion?

The first answer to this question that comes to mind is that people do not want to lose what is their own. The English actor, Charles Kemble (1775-1854), after paying his tax to the tax-collector, said: “Sir, I now pay you this exorbitant charge, but I must ask you to explain to Her Majesty (Queen Victoria) that she must not in future look upon me as a source of income<sup>30</sup>.”

But that is quite a radical position. Sometimes people are willing to pay taxes provided the rate of tax is not too high and is not an unbearable burden on their personal income (one of the findings of a Canadian study tells that a ‘reduction in the marginal tax rates will increase taxable revenues.’ Taxpayers’ Response to Tax Rate Changes: A Canadian Panel Study), the taxation system is simple and intelligible, and they know that their tax money instead of being wasted will be properly utilized. But, in Pakistan the rate of tax is too high. The top income tax rate is 35 %, rated by 2004 Index of Economic Freedom as a ‘high tax rate; whereas the corporate tax rate is 43 %, and is rated by the same Index as a ‘very high tax rate.’

In addition to these factors, a great ‘incentive’ to tax-evasion is a complicated tax system. “Over the last fifty years, this country’s (Pakistan’s) tax regime has become so complex and baffling that a whole legion of accountants is now lucratively engaged in figuring out just which taxes taxpayers have to pay<sup>31</sup>.”

Dr. Ikramul Haq states that “one of the factors responsible for the present situation (‘perpetual crisis of resources for the developmental policies, crisis to meet trade deficit, crisis on account of fiscal deficit’) is the great speed with which black money is generated. The Central Board of Revenue is directly responsible for this as its Mafia-like operations has helped the people to avoid tax on incomes by paying hem “due share.” Through the infamous system of SROs, the CBR’s stalwarts provided “legal” ways and means to the mighty sections of society to amass the very survival of state.”

But, especially in the case of Pakistan, it may be pointed out that since a culture of corruption has taken root, the corruption has become a norm of daily life. The reason is very simple:

***“Corruption is just like snow. It falls on the cliffs of the hills and tax-evasion melts down below”.***

As an American actor, Will Rogers referring to income tax said: “It has made more liars out of the American people than golf.” Too much control, too much law and too much tax tend to make people ‘unethical.’ They start inventing ways to evade what is imposed unethically upon them.

---

<sup>30</sup> The ins and outs of taxes By Kaleem Omar

<sup>31</sup> The ins and outs of taxes By Kaleem Omar

***“Too many taxes can be too much of a good thing, killing the proverbial goose that lays the golden egg<sup>32</sup>.”***

As to this state of affairs, Mr. M. Ali Kemal is of the opinion that “We should improve our taxation policy. It is pragmatic that our tax rates are too high and, if possible, should be reduced to minimum level where every person in the tax net is willing to pay tax. Moreover, people have general dissatisfaction with the way government manages its budget and utilises tax income.”

The overall situation is not much different from what was recorded in a report of a working group in (May/June) 1986. It stated that “Pakistan’s tax system, even after four decades of independence, continues to have essentially the same features as were inherited from the colonial period. The tax receipts continue to be pre-empted almost entirely by current expenditure on general administration, defence and debt servicing. For financing development expenditure, reliance has been placed almost exclusively on internal and external borrowings. The tax system continues to be regressive in character due to its over-dependence on indirect taxes and has failed to be conducive to the achievement of the objectives of growth, efficiency and equity<sup>33</sup>.”

## **2.6.0. Money-Laundering**

### **2.6.1. The nature and process of money-laundering**

In its early years, Pakistan was not considered a favorable center for money-laundering. But “certain developments in the recent past have contributed to a climate conducive for money laundering. The first one was the presence in the 1970s of a large expatriate community exceeding one million, particularly in the Middle East, who relied on non-formal banking facilities to remit their foreign earnings to Pakistan<sup>34</sup>.”

The case of money-laundering, especially in Pakistan, is no different from the ‘crime’ of tax-evasion; here too the government itself is an accomplice. “The ugly face of black money emerges in the corridors of power, political as well as administrative.” [Dr. Ikramul Haq, Money laundering facilitated by tax laws] In fact, “Pakistan has been the worst victim of money-launderers as during the last 30 years, the successive governments showed an extremely benign attitude toward corruption, drug trafficking and tax evasion<sup>35</sup>.”

---

<sup>32</sup> The ins and outs of taxes By Kaleem Omar

<sup>33</sup> Tax System in Pakistan: A Critical Evaluation and Recommendations for Change By Institute of Policy Studies, Islamabad, 1986

<sup>34</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>35</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

The government, on the one hand, introduced laws to counter money-laundering, and, on the other, floated schemes to allow the whitening of black money. All the same, various governments successively introduced novel schemes to declare untaxed and illegal money. They used this ‘weapon’ to win political rivals, to please their allies and to strengthen their rule. “. . . why the government has floated schemes, which provide an easy way for whitening black money, is the fact that many individuals belonging to the party in power having amassed lot of money need to whiten it. In this backdrop such money laundering schemes come handy to the members of the ruling party and their associates<sup>36</sup>.”

Also, “CBR (Central Board of Revenue; responsible for the collection of federal taxes) has never bothered to unearth laundered money, rather always joined hands with the tax evaders and money launderers by providing them unprecedented concessional schemes to whiten their ill-gotten wealth. These schemes were announced by the governments on the recommendations of CBR’s wizards in the name of improving tax collection<sup>37</sup>!”

The other developments, according to Ijaz Hussain, are ‘the burgeoning drug addiction, an almost non-existent problem in the late 1970s, which emerged into a major one with alarming figures of 3.1 million drug addicts out of which 1.5 million were heroin abusers; the introduction of schemes, which provided opportunities and facilities to do so without much fuss; the promulgation of the Economic Reforms Ordinance 1992 which aimed at attracting foreign exchange into Pakistani banks; the introduction of yet another scheme under which any Pakistani citizen can buy government-owned real estate auctioned by a government agency and no questions as to the source of funds will be asked from the buyers of plots as per decision of the government.’

Thus, Pakistan turned into a heaven for money-launderers.

The process of money-laundering is the distancing of the money earned through illegal activities from its original source. At the first stage, ‘Placement,’ the launderer introduces his money into the financial system; at the second stage, ‘Layering,’ the launderer engages in a series of movements of the funds to distance them from their source; and, at the third stage, ‘Integration,’ the funds are merged in the legal economy<sup>38</sup>.

The other principal methods used for money-laundering in Pakistan are as follows<sup>39</sup>:

- Hawala/Hundi. Mostly used by expatriates to remit money to Pakistan.
- Bearer Investment Schemes. In existence for the last two decades providing an attractive opportunity for money-laundering.

---

<sup>36</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>37</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

<sup>38</sup> Money Laundering in A Changed World By Vaknin, Sam (<http://samvak.tripod.com/cv.html>)

<sup>39</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.



In addition, the money to be laundered is mostly invested in real Estate. Various other methods in vogue are: over/under invoicing of imports and exports; bogus imports/exports; double invoicing; currency smuggling; money declared as proceeds of agriculture (since the agricultural income is exempted from tax)/poultry; and bank loan methods<sup>40</sup>.

## **2.6.2. The sources and magnitude of money-laundering**

The underground economy is the main source of black money. It consists of illegal business and financial activities such as drug trafficking, smuggling, insider trading, illegal arms sale, organized crime, bribery, embezzlement, extortion by force, computer fraud schemes, etc. “In Pakistan, the banks, insurance companies, non-banking financial institutions, investment companies, money transmitters and real estate agents are all targets of money launderers. The financial institutions, inadvertently or otherwise, support money laundering by providing means to convert cash into different types of financial instruments, to convert the currency of one country into the currency of another and to transfer funds to other financial institutions.<sup>41</sup>

The latest turn in the process of money-laundering is the replacing of gemstones as a tool for laundering money. The “Western intelligence community has claimed that some very powerful terrorist groups are engaged in using gemstones, diamonds, tanzanite, and other commodities to store and launder money for terrorist activities across the globe<sup>42</sup>.”

According to US Drug Enforcement Administration March 2002 Brief, “Pakistan is not considered a major center for international money laundering activity. However, Pakistan-based traffickers are extensively involved in the production and transportation of opiates and hashish. This suggests that drug proceeds are laundered within the country<sup>43</sup>.”

A 1996 estimate of the International Monetary Fund reveals that ‘money laundered annually amounts to 2-5% of world GDP (between 800 billion and 2 trillion US dollars in today's terms). The lower figure is considerably larger than an average European economy, such as Spain's<sup>44</sup>.’

Another study estimates that ‘approximately \$ 2 billion are transferred each year through the Hundi system alone.’ According to the UNDCP report, the domestic heroin

---

<sup>40</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>41</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

<sup>42</sup> The News International Lahore, Edition June 26, 2004

<sup>43</sup> <http://www.usdoj.gov/dea/index.htm>

<sup>44</sup> Money Laundering in A Changed World By Vaknin, Sam (<http://samvak.tripod.com/cv.html>)

market in Pakistan is around Rs.35 billion (1994 figures) per year and turnover of the heroin industry is 5 % of the 1992-93 GDP and 20-25 % of the total estimated “parallel” economy<sup>45</sup>.

The same report estimates that ‘most of the foreign exchange in the “parallel” currency market was utilized to import foreign goods and for flight of capital during the 1980s. Unofficially funded imports or smuggled goods (through the Afghan transit trade, baggage rules, and diplomatic bonded warehouses among others) constitute 10 % of the official imports. Revenues generated from the sale of illicit drugs were estimated at \$ 1.5 billion in 1992. Drugs earnings averaged \$ 1 billion per year during 1985-91<sup>46</sup>.’

According to a conservative estimate, ‘Rs.600 billion is generated every year by the parallel economy. Add to this, the black money generated through smuggling in goods and narcotics trade that is between Rs.300 billion and Rs.500 billion. This makes a whopping Rs.1000 billion<sup>47</sup>.’ And, according to ‘official and independent experts, ever-growing black money is Rs.1.8 trillion, about 70 % of the total economy<sup>48</sup>.’

### **2.6.3. The state of legislation regarding money-laundering**

Since its inception, the Pakistani state has been infected with corrupt practices. Hence, the laws were also enacted to deal with it. The question is: are these laws sufficient to counter money-laundering as a form of corruption? As to this, two views exist. The first one is that there is no need of further legislation; what we need is the political will to implement these and not to use them for political gains. The second view is that we need further legislation.

Ijaz Hussain is of the view that ‘the survey of legal control of corruption and money laundering . . . shows that Pakistan is not deficient in laws and regulations, which purport to combat and eradicate the twin menaces of corruption and money laundering. In fact they are quite numerous and comprehensive.’

He himself poses the question why then ‘Pakistan has failed to make real headway in effectively dealing with the twin menaces.’ He explains this failure in the following way:

***“One problem with laws relating to corruption is that they apparently propose to create independent institutions to deal with the problem but in the ultimate analysis invest the real power with government bodies. . . Another bane of the accountability laws on corruption is the selectivity with which they are applied. The government in power uses these laws to ruthlessly pursue its opponents but***

---

<sup>45</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>46</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>47</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

<sup>48</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

***when it is a question of accountability of the members of the party in power, these laws do not seem to exist<sup>49</sup>.***

His conclusion is that:

***“it signifies that there is nothing wrong with the laws but the manner and the method with which they are applied is defective. The only way is to apply the laws even-handedly and impartially.”***

This shows the need and importance of the rule of law in Pakistan.

Other writers highlight the need for new legislation.

***“Our country is passing through the worst crisis of resource mobilization manifesting it in the huge budgetary deficits. Revenue has to be collected and all measures both stringent and persuasive have to be taken in that direction. The government has, therefore, to plan in terms of a well-thought-of anti-money-laundering cum asset seizure legislation to draw upon the huge reservoir of the drug and untaxed money<sup>50</sup>.”***

In another place, Dr. Ikramul Haq writes that “in the context of the prevailing grave challenge to combat terrorism, coupled with money-laundering crises, and the problem of ever-growing black money, there is an urgent need to launch a well-thought for anti-money laundering law to block this huge money becoming a lethal weapon in the hands of Mafias who now control the economy as well as governments.”

Another writer addresses the problem in the following way:

***“A great deal can be done to fight money laundering. This includes increasing awareness of the phenomena – both within the government and the private sector – and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.”***

He suggests the following tools<sup>51</sup>:

---

<sup>49</sup> Legal Control of Corruption and Money Laundering in Pakistan By Hussain, Ijaz.

<sup>50</sup> Money laundering facilitated by tax laws By Dr. Ikramul Haq

<sup>51</sup> Dealing with organised financial crime, By Ansari, Kashif Mateen.(The News International Lahore Edition August 29, 2004)

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

- Making the act of money laundering a crime
- Giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets; and
- Building the necessary framework for permitting the agencies involved to exchange information among themselves and counterparts in other countries.

He also suggests that ‘financial institutions must play their role in dealing with the problem. This involves establishing financial transaction reporting systems; customer identification; record keeping standards; and, a means for verifying compliance.’

It’s clear that all this requires more and more regulations and legislation endowing the government with more and more free hand to control the already heavily controlled economy.

After the gory events of September 11, 2001, the government of Pakistan too has given extraordinary importance to the task of countering money-laundering. The State Bank of Pakistan, Securities and Exchange Commission of Pakistan, and other financial institutions are paying more and more attention to the issuance and implementation of rules and regulations to stop the laundering of money.

But, the overall situation in this regard is not satisfactory. Dr. Ikramul Haq points out that:

***“the SECP (Securities and Exchange Commission of Pakistan) and Governor State Bank of Pakistan, perhaps, are not aware of the fact that even today when the Pakistani government, under tremendous pressure from the US and other states, is introducing anti-money laundering law, the CBR is committed to giving a free hand to money launderers assuring them that no question would be asked if they remit their ill-gotten money from outside through banking channels and surrender the foreign currency to the state and get Pakistani rupees as encashment.”***

In this regard, the evidence quoted by Dr. Ikaramul Haq is conclusive: “The CBR in its letter no. F4(34)/ITP/2002 dated 29-02-2002 reaffirmed that “the Department would adhere to its policy of not probing the foreign remittance” brought into Pakistan by any “person.”

He further points out that:

***“in the Income Tax Ordinance 2001, promulgated on the dictates of IMF on 13 September, 2001, a special provision [section 111(4)] has been inserted giving a free hand to money launderers, that no question will be asked to them if they remit (laundered is more appropriate term) their ill-gotten money from outside through banking channels and surrender the foreign currency to the State Bank of Pakistan and get Pakistani rupees as encashment.”***

### **2.6.4. Why do people resort to money-laundering?**

On the face of it, people resort to money-laundering because they are forced to do so just like they are forced to evade tax. It is obvious that people indulge in drug trafficking, smuggling, insider trading, illegal arms sale, organized crime, bribery, embezzlement, extortion by force, computer fraud schemes, etc. Of course, some of them are crimes against property and person; their nature won't change in any society be it a free or an unfree society.

But, when people are unjustly stopped from doing business with one another, and thereby an incentive for more profit is created in that particular area, as in production and trading of drugs, arms, and across the borders trade, they start taking risk to earn higher profits. In case, there is no illegality involved, for example, in drug-trade, the rate of profit in that trade would remain at a normal level; this would discourage people trading that path anymore.

Thus, we may say that the lower the volume of 'black economy' under a government, the lesser the amount of money laundered. It means that the freer the people to pursue their businesses, the lower the volume of black economy, and consequently, the lesser the amount of money laundered.

## **2.7.0. The Power Sector in Pakistan**

### **2.7.1. Introduction**

The power sub-sector of Pakistan stands as a semi-privatized and semi-deregulated public services sector. It supplies electricity to over 11 million consumers, countrywide and has a total installed generation capacity of 17,772 MW. Out of these 17,772 Megawatts, the Water and Power Development Authority (WAPDA) of Pakistan owns 9,884 MW, another 5417 are owned by private, Independent Power Producers (IPPs), the Karachi Electric Supply Corporation (KESC) capacities 1756 MWs while the rest is the installed capacity of nuclear and other co generating industries<sup>52</sup>.

As far as transmission, distribution and customer services are concerned, WAPDA and KESC enjoy a strong monopoly throughout the country. WAPDA is the key player and supplies electricity to the entire country except for Karachi and its surrounding areas, where KESC is the sole supplier.

The course of power sector reforms is accepted to be a gradual process. High fixed costs (both in terms of money and time) characterize the development of services, such as transmission and distribution lines, hydropower and thermal power stations etc., in the power

---

<sup>52</sup> Economic Survey of Pakistan, 2000-01.

sector. Secondly, reforms in power sector (which provides a public service) are highly correlated with other socioeconomic and political agendas pursued by a country.

In Pakistan, the power sub-sector continues to evolve. Apart from expanding in terms of capacity and consumer outreach, many issues, such as efficiency in supply and operations, customer services, and (since very recently) privatization and decentralization are the crucial drivers for change in the sector. The following is an account of recent reforms in the power sub-sector of Pakistan. It must be pointed out in advance that most of the figures and numbers provided in this account are restricted to WAPDA indicators. However, since WAPDA still controls supply to almost all electricity consumers, these indicators will give us a good idea about the general trends in the power sub-sector.

### **2.7.2. A Brief History of Power Sector Reform: Drivers for Change**

Up until the early 1980's, major concerns for power sector reforms in Pakistan were: to expand generation capacity, increase technical, administrative and economic efficiency of existing power systems, and to accelerate the extension of electric service to rural areas.<sup>53</sup>

By late eighties, the Government of Pakistan had realized the importance of developing indigenous energy resources to keep pace with rising demand. Heavy dependence on imported energy due to supply shortfalls raised costs for power production prompting the need for rapid development of indigenous resources under the 7th Five Year Plan (88/89-92/93). Hydro and Gas resources have been developed extensively ever-since. The government also envisaged rational energy pricing (demand management) and institutional changes (especially private sector involvement) in the power sector.

The 90's were a period of drastic political and economic change in Pakistan. The return to democracy gave way to comprehensive privatization and deregulation policies. For the monopolized power sector the need for privatization was further necessitated by increasing costs and diminishing returns in the sector, coupled with constraints faced by the government to finance costly, long term Power Development Programs. It can be contended that this invitation to private sector investments brought out into the open, the organizational and institutional inefficiencies in WAPDA and KESC, which had led to major financial crises within the organizations. Revamping the organization and structure of these companies was the primary power sector agenda for the government.

The 8th Five Year Plan (93/94-98/99) recognized that "issues facing the Energy Sector are, not only restricted to meeting demand in a rational manner but also to restructure hitherto prominently public sector monopolies and to address on a crash and long-term basis, the limitations of the presently proven energy resources." The key objectives of the plan were the promotion of energy conservation, rational use and demand management (especially peak demand reduction), to meet energy demand in a sustainable manner, to increase self reliance

---

<sup>53</sup> 6th Five Year Plan (1983-88), Govt. of Pakistan.

in energy supplies by probing, exploring and exploiting indigenous resources, rationalizing prices, and decentralizing and regulating Energy Sector Agencies to promote self financing along with induction of private sector investment. An emphasis on developing renewable energy resources for power generation was also made.

The main feature of power sector reforms in the 90's, however, was the privatization package introduced in March 1994. It was the first comprehensive policy to be structured for this sector. The package was introduced under the objectives of a new concept of public-private partnership that enabled the private sector to "play a key role in rapid social sector development." The package created maximum incentives for local private investment in the power sector. There was an investment boom attracting both foreign and local private investors. The picture was soon tainted however, when, in the late nineties, with a change in government, majority of the private sector power generation projects were terminated or halted on charges of technical inefficiency and corruption. The power sector earned the country a 'bad name' by increasing risk premiums on foreign investment.

A new power policy was also introduced in 1998, which made the private power sector competitive in terms of price charged. Emphasis was laid on utilizing indigenous energy resources. Restructuring of WAPDA and KESC was another major agenda. The role of international funding agencies (World Bank, ADB, USAID etc.) has been pivotal throughout the history of power sector reforms. These agencies have funded projects for reducing expenses by reducing power losses, power system expansion bonds for private sector, and studied the opportunities available for the development of private sector generation (and distribution) units. The studies conducted by these agencies have been far more effective in providing accurate reliable data complemented by technical assistance for efficient and sustainable power sector development programs.

Under its 1995 Country Assistance Strategy (CAS), the World Bank provided support to government's plans to "reform the energy pricing system, encourage private sector financing and implementation of energy and large infrastructure investments, privatize thermal power plants and *corporatize* WAPDA." Much progress has been made with the preparation of the reforms, which are expected to be completed over the next 3 to 5 years. Also substantial efforts have been made to settle the remaining disputes with the private, Independent Power Producers (IPPs). The success of these reforms depends on the Government's ability to implement the envisaged agreed reform measures including privatization plans.

## **CHAPTER THREE**

### **Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion**

#### **3.0.0. Poor Planning/ Management**

One major reason of nonperformance of our public sector is the poor planning or to be more precise absence of long term planning and hence inefficient management at all levels. This has far reaching impact on our economy both at micro as well as macro levels.

#### **3.0.1. Fiscal Deficits**

It is a well known fact that due to our poor planning and mismanagement our country has experienced large fiscal deficits over the last three decades and currently budgetary imbalance is one of the major macro- economic problems, which the government is facing. The economic impacts at macro level are as follows:

- Total domestic debt has increased to Rs2008.9 Billion at the end of October 2004<sup>54</sup>.
- Total external debt has increased to Rs1969.3 Billion at the end of year 2003<sup>55</sup>.
- Total public debt has increased to over Rs 3978.2 Billion at the end of October 2004 (domestic plus external).

#### **3.0.2. Interest on Loans**

Interest paid on foreign loans is also reflective of poor planning and management at the macro level due to which the nation or the masses are suffering. On December 8, 2004 Senate was stunned to know that Pakistan paid a massive sum of \$ 13.5 Billion (about Rs800 Billion) interest on its foreign loans during last ten years<sup>56</sup>. Nation had to pay rs 241.30 billion as interest on accumulated public debt in FY 2002-03<sup>57</sup>.

#### **3.0.3. Trade Deficit**

---

<sup>54</sup> The News December 16, 2004

<sup>55</sup> *The News November 17, 2003*

<sup>56</sup> The News December 9, 2004

<sup>57</sup> *The News November 17, 2003*



Proper balance between imports and exports are also indicators of good planning and management at macro level of a country. Unfortunately this indicator also speaks of inefficiency of our public sector/ government. According to official sources the trade deficit of Pakistan increased to \$ 2.511 Billion (Rs150 Billion) during first five months (July-November) of FY 2004-05<sup>58</sup>. That means that annual trade deficit would amount close to Rs360 Billion.

### **3.0.4. Un-allocable Funds**

People of Pakistan witnessed another reflection of inefficiency of public sector or the government when a massive sum of Rs57 Billion was placed under the head of “un-allocable” in the revised budget estimates of FY 2002-03<sup>59</sup>. This is unprecedented in the country’s economic history. Placement of such a huge amount under anonymous head is really a bad example of concealment of fiscal data. All this is on the cost of poor masses of the country.

### **3.1.0. Bank Loans**

Due to various reasons the asset quality of bank loans has been very poor in the past years. In an article written by Dr Ishrat Hussain, Governor State Bank of Pakistan that in last quarter of year 2003 the “Non Performing Loans” (NPLs) amounted to Rs 252 Billion and accounted for 22 percent of the advances of the banking system and DFIs<sup>60</sup>. These figures are over and above an enormous amount of loan worth Rs. 20 Billion which has been written off during the first three years of Military Rule in Pakistan<sup>61</sup>. Out of a total of Rs 20 Billion, Rs 11.933 Billion has been written off by public sector banks and DFIs. SBP on October 15, 2002 issued a notice to all the defaulters for settlement of their outstanding debts at fairly convenient terms and conditions. This scheme attracted about 25,000 applications involving a sum of Rs 54 Billion. However an amount of only 11 Billion was settled till July 1, 2003 and remaining amount of Rs 43 Billion was yet to be settled<sup>62</sup>.

### **3.2.0. Corruption**

Corruption is another major source of inefficiency of public sector and has been damaging the economy of our country in a big way. According to the Governor State Bank of Pakistan, if the corruption rate in the country is reduced from present level of 70 percent to

---

<sup>58</sup> The News December 7, 2004 & Pakistan & Gulf Economist November 15-28, 2004

<sup>59</sup> The News June 23, 2003

<sup>60</sup> Dawn November 24, 2003

<sup>61</sup> *The News June 15, 2003*

<sup>62</sup> The News July 1, 2003

20 percent the growth rate could jump up by eight to nine percent<sup>63</sup>. Explaining further the Governor State Bank of Pakistan said that out of each Rs100 allocated for development works only Rs30 are actually spent which results in dilution of benefits to 30 percent of its original potential. This statement of Governor State Bank given on June 11, 2003 is clear evidence that almost 70 percent of our development and other funds are wasted just due to the element of corruption. According to a statement issued in June 2001 by then Finance Minister Mr. Shaukat Aziz, an amount of Rs130 Billion was allocated for the development projects in the country for FY 2001-02<sup>64</sup>. Now if these two statements of highly responsible appointments of the country are combined together one can very rightly conclude that only in year 2001-02 an amount of **Rs91 Billion** out Rs130 Billion of development funds was wasted due to corruption.

Another example of corruption which is hard to forget is Taj Company scam. A colossal amount of Rs2.5 Billion of 23,078 affectees is still stuck due to the Taj Company scam<sup>65</sup>.

In stunning news appearing in daily The News on November 30, 2004 it has been revealed that NAB was probing in to alleged irregularities involving Rs16.5 Billion in the state run oil National Oil Refinery Ltd (NRL). The inquiry in to corrupt practices of the NRL constitutes a look into alleged misappropriation of funds, illegal awarding of contracts, embezzlement in bank accounts and overdraft accounts, deliberate cooking up of account books irregularities in actual and budgeted expenses in contracts, tenders, bidding documents, quotations, prequalification documents etc<sup>66</sup>.

In a report presented in the Senate in December 2004, it was told that NAB recovered Rs2 Billion from corrupt civil- military bureaucracy and Rs0.431 Billion from politicians<sup>67</sup>.

Sales commission is yet another aspect through which public servants are lured in to cause extensive damage to public budget/ money. According to a news report published in the daily The News on January 12, 2005 defence authorities are being persuaded by people having vested interests to go for Rs50 Billion deal for import of NBC suits and kits for Pakistan Army. The report further adds that NBC suits are being offered for purchase at a rate of Rs 35,000 per unit while the experts believe that the same suit can be produced locally at the cost of Rs12,000 to Rs15,000 per unit<sup>68</sup>. In case the people with vested interests succeed in their move it will cause a loss of approximately Rs30 Billion to the Government.

---

<sup>63</sup> The News June 12, 2003

<sup>64</sup> Business Recorder Jun 11, 2001 (*from Internet*)

<sup>65</sup> The News September 2, 2003

<sup>66</sup> The News November 30, 2004

<sup>67</sup> The News December 9 &10, 2004

<sup>68</sup> The News January 12, 2005

The Chairman of Transparency International, Peter Eigen, had observed in mid-2000 “Political elite and other cronies continue to take kickbacks at every opportunity. Hand in glove with corrupt business people, they are trapping whole nation in poverty and hampering sustainable development.” Transparency International had ranked Pakistan as the second most corrupt country in the world.

The latest episode of large-scale misappropriation of funds, which hit the headlines of newspapers, was the finance ministry’s purchase of US\$15 billion from the black market in Pakistan and no one knows where it has gone. The scandal is that the Ministry admitted that it had list, or over-paid, a massive Rs 25 billion in these clandestine transactions to unknown moneychangers and foreign exchange dealers. At a press conference when the finance minister Shaukat Aziz was asked for an explanation on the reported Rs 25 billion loss he repeatedly ignored the question and in return blamed the journalists for being too “illiterate” for asking stupid questions. The press conference was held to release the Economic Survey of Pakistan in Islamabad. The amount of dollars purchased from the market was more than even the total foreign exchange reserves of the country, which is \$12 billion<sup>69</sup>.

The Auditor General of Pakistan had revealed for the first time in his report on accounts of SBP that Central Bank had actually purchased dollars by giving extra money to money changers that had led to a big financial loss of Rs 25 billion to the taxpayers. In 1999-2000, \$2.5 billion were bought. Next fiscal the figure was \$2.9 billion, followed by an increased \$3.9 billion the year after, topped up by \$4.5 billion in 2003-2004. In 1999-2000, Pakistan suffered loss of Rs6.2 billion for the purchase of \$2.5billion. In 2000-2001, taxpayers over-paid Rs9.8 billion to moneychangers when government bought \$2.9 billion from the open market. In 2001-2002, the loss to national exchequer was recorded at Rs2.5 billion when \$3.9 billion were purchased. In 2002-2003 moneychangers were given Rs1.7 billion more than the market price.

### **3.3.0. Tax Evasion**

A culture of avoidance to pay taxes is also one of the major causes of poor economy of our country. To a great extent CBR, due to its inefficiency and complex / user non-friendly taxation system, is responsible for promoting this culture. Resultantly, according to spokesman of CBR, 90 percent of spending in the country was undocumented till 2003<sup>70</sup> . People want to evade tax and try to find ways and means not to come under the tax net.

- This means that Rs152 Billion<sup>71</sup>, which the Government collected in FY 2002-03, was just 10 percent of the total potential tax.

---

<sup>69</sup> Home > Articles >Corruption–The Cancer Paralyzing Pakistan Economy

<sup>70</sup> The News August 1, 2003

<sup>71</sup> The News August 1, 2003

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

- The Government, therefore, lost Rs1368 Billion (90 percent) in FY 2002-03 due to non payment of taxes by the people.

Inefficiency of public sector is also reflective in another news report published in daily “The News” on June 22, 2003, according to which CBR is struggling to make 27,000 businessmen pay GST who did not pay or under paid, but also took away money from government claiming input credit of more than Rs5 billion<sup>72</sup>. There are a total of 156,000 businessmen registered with the CBR. Out of these 156,000, about 14 percent or 22000 did not pay GST in FY 2002-03 while 7000 are those who partially paid their tax. CBR is struggling to make these people pay the taxes and has offered various schemes such as indemnity etc. to make it easier for these people to pay taxes. Records show that many businessmen run a very good business, but when it comes to paying taxes, they show colossal losses and try to evade the taxes.

Inefficiency of CBR is also reflective through its poor internal management/ systems and incapability to safeguard the public money collected as tax. This is indicated in a news report published in the daily “The News” on November 24, 2004 in which it has been reported that a colossal amount of Rs1.25 Billion was drawn fraudulently under the pretext of sales tax refund in the collectorate of sales tax, Lahore<sup>73</sup>. According to details given in the report a company “Sheikh Nooruddin & Sons” with the convenience of the sales tax officials has so far claimed Rs1.25 Billion over and above the actual refund due to them.

There are frequent news reports about tax evasion. If the government starts taking these issues seriously and takes some strict actions against evasion, the measures that will follow will greatly improve our economy. One of the results will be that we will get rid of the illegal and fake products in the market.

Pakistan has always been a haven for tax evaders, but the sad fact is that the government never took concrete measures to eliminate this problem. According to some news reports, the CBR is now planning to take practical steps to stop tax evasion in the sugar and tobacco industries. This is a very good sign. Tax evasion in the sugar industry is destroying our economy. Pakistan is losing more than Rs7 billion every year due to tax evasion only in the tobacco sector. Two major cigarette manufacturing companies are paying more than Rs26 billion in the form of taxes to the government of Pakistan, whereas small companies are paying only Rs20 million for their more than 118 brands. This is a big question for the CBR chairman. I hope he will use his powers and abilities to eliminate this problem.

Illegal cigarette manufacturers in the country are causing Rs 7 billion dent to the exchequer annually through evading tax and duties imposed on the industry<sup>74</sup>. This was

---

<sup>72</sup> The News June 22, 2003

<sup>73</sup> The News November 24, 2004

<sup>74</sup> Daily Times (Pakistan) May 26, 2005

disclosed in a report compiled after a survey conducted by the cigarette industry. The report differentiated the status of taxpaying and tax evaders within the industry and asked the authorities to stop such practices. The report said total 72 billion cigarette sticks were manufactured in 2004, which included 56 billion sticks produced by the legitimate sector while 16 billion shared by illegal manufacturers. "Two major cigarette manufacturing companies paid Rs 27 billion in the head of taxes on less than 20 brands while on the other hand all other companies paid only Rs 20 million on 120 cigarettes brands," said the report. . . . "The mushroom growth of unscrupulous cigarette manufacturers is a matter of concern and it is surely causing loss to the national exchequer."

### **3.4.0. Smuggling**

Increasing of smuggling at a fast pace is causing colossal damage to the economy of the country and is reflective of the inefficiency of government agencies/ departments.

#### **3.4.1. Smuggling of Cigarettes**

Government suffers a loss of Rs6 billion per year due to tax evasion & smuggling of cigarettes<sup>75</sup>. The tobacco industry, which once contributed Rs21 Billion of total tax revenues to government collections is now giving much less. Low quality cigarettes, manufactured in the Far East are dumped in Pakistan through smuggling. These are of below cost prices. Moreover, the Government does not have adequate facilities and laboratories to check them for harmful effects. Since the cigarettes are smuggled, they generate no revenue for the Government and ruin the health of smokers. Also they destroy the tobacco industry of Pakistan.

#### **3.4.2. Smuggling of Tea & Spices**

Smuggling has destroyed the industry of Pakistan. The country has lost an amount of Rs2 Billion due to the rampant smuggling of tea and spices<sup>76</sup>. This criminal practice has damaged the legal trade of these items and strict measures are required to check this illegal activity.

### **3.5.0. Miscellaneous**

#### **3.5.1. Petroleum Prices**

The prevailing system of controlling petroleum prices in the country is a strange system and it seems that instead of looking after the interests of general public or the consumers it is working for the interests of the oil companies. The prevailing system is not

<sup>75</sup> The News September 26, 2003

<sup>76</sup> *The News June 14, 2002 (from Internet)*

only resulting into frequent increases in the oil prices but is also a source of extra burden on the government budget. According to a news report published in the daily “The News” on December 10, 2004, the government has paid a huge sum of Rs2 Billion to the oil companies as compensation for freezing prices of petroleum products at one level despite upward trend in the international market<sup>77</sup>.

### **3.5.2. PASSCO**

The inefficiency of Pakistan Agriculture Storage and Supplies Corporation (PASSCO) and its impact on overall economy of the country can be judged from the news item published in daily “The News” on November 19, 2004, which revealed that wheat supplied by PASSCO to the Sindh Government contained 50 percent sand particles. The report further added that total wheat provided by PASSCO to Sindh was worth over Rs2 Billion<sup>78</sup>. This means that the inefficiency of PASSCO in only one contract has caused a damage of Rs1 Billion to the countries economy.

### **3.5.3. Ministry of Commerce**

The delay in Kinno export caused a loss of \$ 2.7 Million (Rs0.162 Billion) during November 2004. This was stated by All Pakistan Vegetable and Fruit Processors and Exporters Association<sup>79</sup>. The loss was caused due to non-regulation of Kinno exports by Ministry of Commerce and Export Promotion Bureau.

### **3.5.4. Capital Development Authority**

Capital Development Authority (CDA) is yet another department whose inefficiency is contributing towards poor economy of the country. According to a “news report” published in the daily “The News” on December 1, 2004, a huge sum of Rs1.75 Billion of CDA is outstanding against 1,000 defaulters including owners of agricultural farms, and industrial plots.

---

<sup>77</sup> *The News December 10, 2004*

<sup>78</sup> *The News November 19, 2004\*

<sup>79</sup> *Business Recorder November 26, 2004*

### 3.6.0. Summary

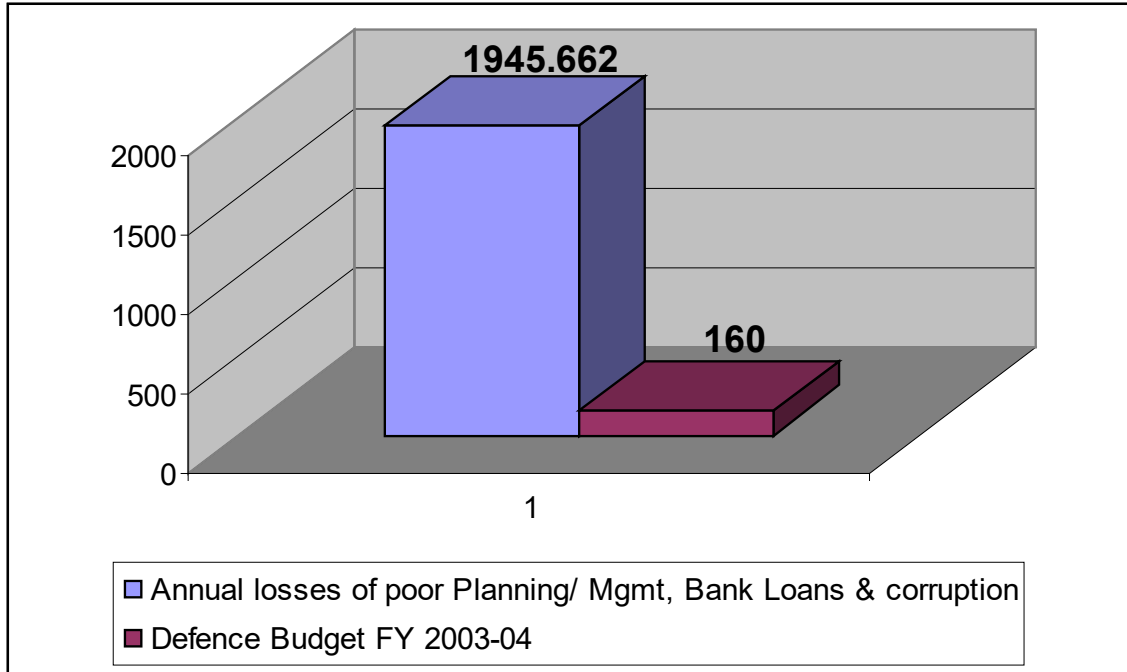
	<b>Losses (Rs in Billion)</b>	
	<b>Annual</b>	<b>Accumulated</b>
• Public Debt	-	3978.200
• Interest on Loans	-	800.000
• Trade Deficit	360.000	-
• Un-allocable Funds	57.000	-
• NPLs	-	252.000
• Written Off Loans	-	20.000
• 70 % Wastage Of Dev Budget – Corruption	91.000	-
• Taj Company Scam	-	2.500
• Misappropriation in NRL	16.500	-
• Corruption bureaucracy/ Politicians	-	2.431
• Purchase of Dollars from open market		25.000
• Defence Contracts	30.000	-
• IT Losses (90%)	1368.000	-
• GST- Input Credit	5.000	
• Fraud- Sales Tax	7.00	1.250
• Smuggling	8.000	-
• Compensation Oil Companies	2.000	-
• PASSCO	1.000	-
• Kinno Export	0.162	
• CDA	-	1.750
<b>Total:</b>	<b>1945.662</b>	<b>5083.131</b>

### 3.7.0. Comparison

Comparisons of above mentioned total losses with annual defense budget and total public debt are covered in succeeding paragraphs.

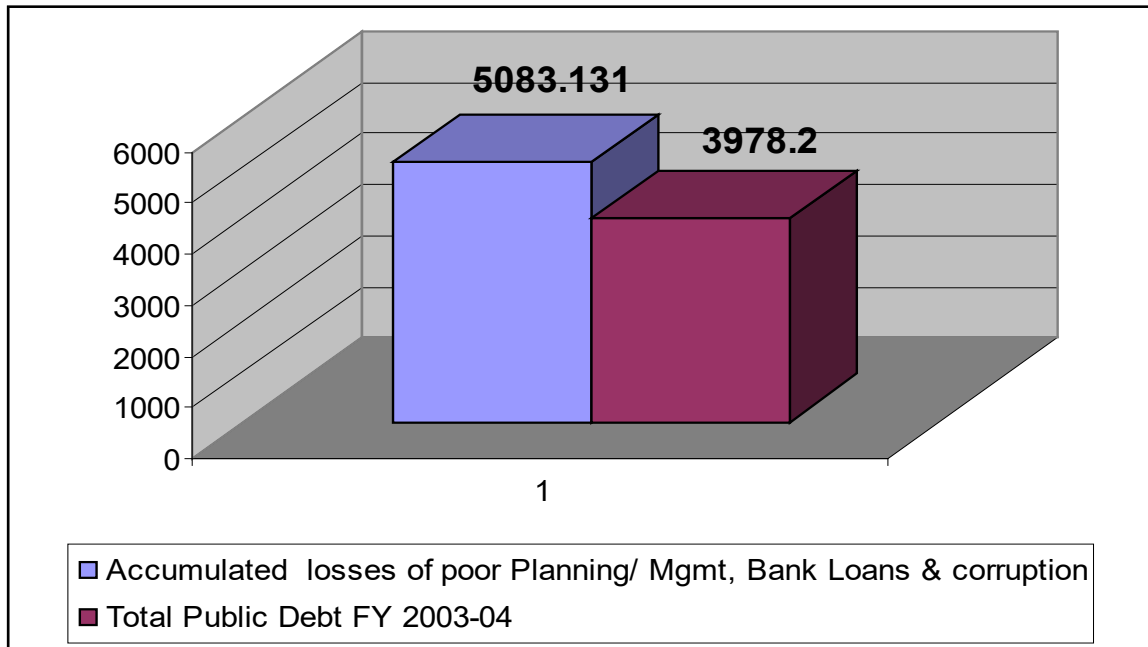
#### 3.7.1. Comparison with Annual defense budget

Comparison between total annual losses of Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion with annual defense budget is shown in the following graph:



**3.7.2. Comparison with Total Public Debt**

Comparison between total accumulated losses of Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion with total public debt is shown in the following graph:





## **CHAPTER FOUR**

### **Water & Power**

#### **4.0.0. Rain Water, Floods & Dams**

Importance of water for human kind and life on the earth ca not be denied however very few of us are conscious about its impact on a country's economy. According to a study conducted by NESPAK, Pakistan has lost an estimated amount of **Rs3 Trillion** by year 2003 due to the non utilization of 1000 Million Acres Feet (MAF) of rainwater<sup>80</sup>. This water flowed into seas un-utilized. The annual outflows ranged between 20 to 90 MAF while the average outflows were 38 MAF from 1975 to 2001. NESPAK has estimated the loss per MAF to be Rs3000.

The country is losing an estimated amount of **Rs60 Billion** per year by delaying the construction of Kalabagh Dam<sup>81</sup>. This is indeed a very big loss to the country. All formalities which include feasibility reports, site selection, finances, cost, logistic problems and completion schedule have been completed. Its construction only requires a nod from the Government.

According to statistics compiled by the Govt. of Sindh, during the floods of 2003, about 3422 villages in various districts of Sindh have been inundated causing huge loss for the government and local people<sup>82</sup>. Moreover, 154 people have died. There was no warning system of floods for the affectees. Had the early warning system been in place, such damage could have been avoided and precious human life would have been saved.

#### **4.1.0. WAPDA & KESC**

The inefficiency of WAPDA & KESC and its impact on our national economy can be judged from following:

- According to John Wall, Country director World Bank, WAPDA, CBR and KESC stand as the most corrupt organization of Pakistan<sup>83</sup>.

---

<sup>80</sup> *The News August 12, 2003*

<sup>81</sup> *The News September 15, 2003*

<sup>82</sup> *The News August 12, 2003*

<sup>83</sup> *Dawn April 30, 2002 (from Internet)*

**Thesis-** *Inefficiency of Public Sector & impact on Economy of Pakistan*

- The accumulated losses incurred by KESC by FY 2000-01 were increased to the level of Rs37.1 Billion<sup>84</sup>. This excluded the losses written off by the Government in the form of equity.
- While sifting through the records of WAPDA, the Auditor General of Pakistan, in the yearly audit for FY 2000-01 detected embezzlements to the tune of Rs1.8 Billion<sup>85</sup>.
- According to General Zulfiqar, Chairman WAPDA, the line losses of WAPDA were 25 percent in the year 2003. This came out to be Rs140 Billion<sup>86</sup>. This means that for every 100 MW of power, WAPDA generates 125 MW.
- During the FY 1999-2000, the Government converted WAPDA's pending debt servicing liability of Rs36.4 Billion into equity. Despite this generous move by the Government WAPDA's losses amounted to Rs8.5 Billion<sup>87</sup> in FY 1999-2000.
- WAPDA has lost Rs54.87 Billion<sup>88</sup> purely due to underutilization of its facilities by the end of FY 2001-02. WAPDA has a total hydropower generation capacity of 5010 MW out of which only 2000 MW power has been generated.
- The Government has provided Rs54 Billion<sup>89</sup> of hard earned foreign exchange to WAPDA for the sole reason of covering its losses. Had WAPDA reduced its losses by employing different measures, it would not have been a burden on the Government but instead it would have been giving revenues to the Government.
- During FY 2001-02 to FY 2004-05, government has injected a huge sum of Rs176 Billion to WAPDA & KESC as subsidies<sup>90</sup>. That means government providing subsidies to the two authorities on the average of Rs44 Billion per year.

---

<sup>84</sup> *Dawn March 24, 2001 (from Internet)*

<sup>85</sup> *The Dawn June 2, 2002 (from Internet)*

<sup>86</sup> *The News August 2, 2003*

<sup>87</sup> *Dawn March 24, 2001 (from Internet)*

<sup>88</sup> *Dawn May 13, 2002 (from Internet)*

<sup>89</sup> *The Nation October 31, 2003 (from Internet)*

<sup>90</sup> *The News February 7, 2005*

**Thesis- Inefficiency of Public Sector & impact on Economy of Pakistan**

- KESC was suffering from huge financial shortfalls in FY 2000-01 and the Government was taking major steps to keep KESC afloat. In March 2001, KESC had a shortfall of Rs56 Billion. The steps that the Government had taken are<sup>91</sup>:
  - Writing off the debt by converting Rs22 Billion debt obligations into equity.
  - Issuing Term Financing Certificates (TFCS) worth Rs11.5 Billion through issuance of 10 yearly bonds.
  - Finance KESC through funding of \$ 225 Million (Rs13.5 Billion) from ADB.
- During the FY 2002-03, the losses faced by only the Power Sector giants amounted to Rs78 Billion<sup>92</sup>.

**4.2.0. Summary**

	<b><u>Losses (Rs in Billion)</u></b>	
	<b><u>Annual</u></b>	<b><u>Accumulated</u></b>
• Non- Utilization Rain Water	53.57	3000.00
• Kala Bagh Dam	60.00	-
• Power Sector Losses	78.00	-
• Losses Of KESC		37.10
• Subsidies to WAPDA & KESC	44.00	
• <u>WAPDA</u>		-
○ Misappropriation	1.88	-
○ Line Losses	-	140.00
○ Under Utilization Losses	54.87	-
<b>TOTAL:</b>	<b>292.32</b>	<b>3177.10</b>

---

<sup>91</sup> Dawn March 24, 2001 (from Internet)

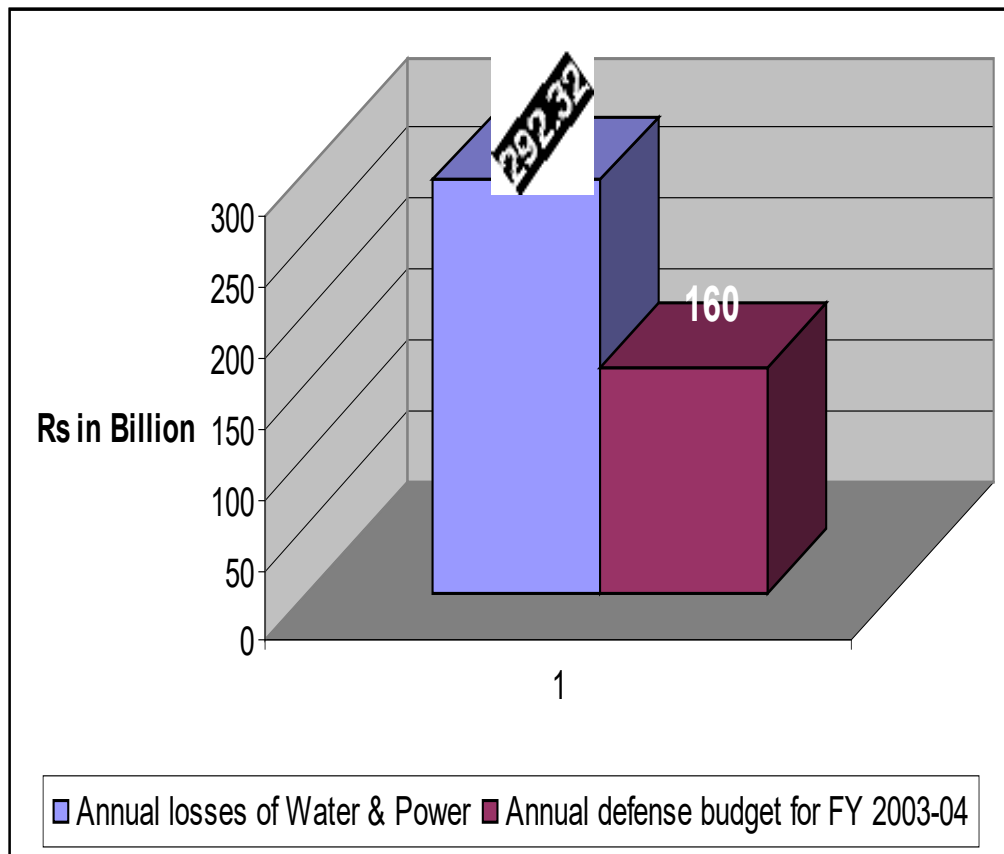
<sup>92</sup> The Nation October 31, 2003 (from Internet)

### 4.3.0. Comparison

Comparisons of above mentioned total losses of water & power with annual defense budget and total public debt are covered in succeeding paragraphs.

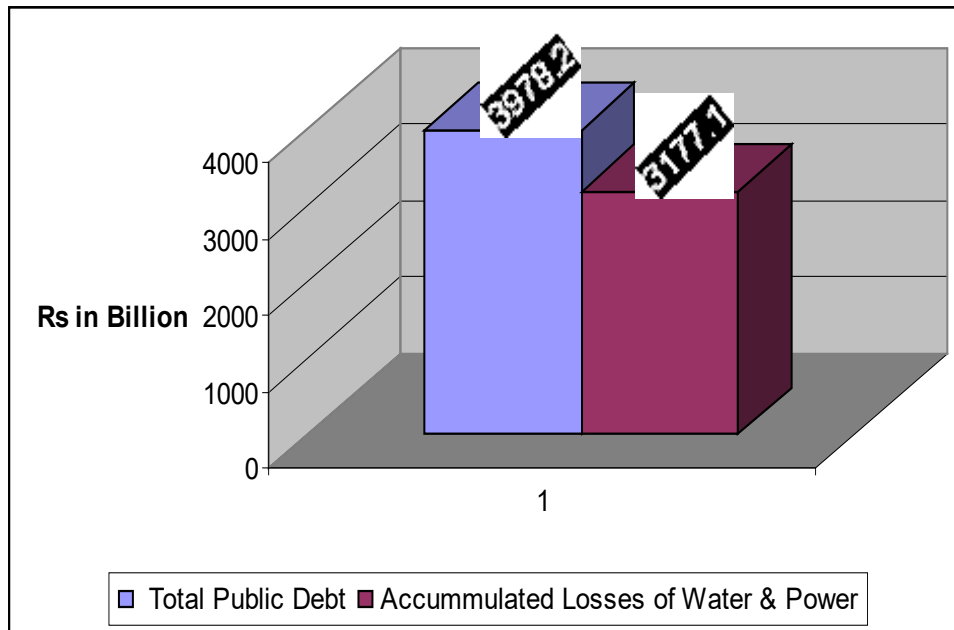
#### 4.3.1. Comparison with Annual defense budget

Comparison between total annual losses of water & power with annual defense budget is shown in the following graph:



### 4.3.2. Comparison with Total Public Debt

Comparison between total accumulated losses of water & power with total public debt is shown in the following graph:



## **CHAPTER FIVE**

### **Transport**

#### **5.0.0. Pakistan Railway**

The inefficiency of Pakistan Railway is a no secret. The losses faced by Pakistan Railway in the FY 2002-03 had increased to whopping proportions of Rs27.9 Billion<sup>93</sup>. The losses are increasing at an increasing rate and the Government seems helpless in this situation.

#### **5.1.0. Pakistan International Airlines**

Pakistan International Airlines (PIA) which was once a profit earning organization is also going in losses due to its inefficient functioning. The losses faced by PIA in the FY 2002-03 had increased to whopping proportions of **Rs7 Billion**<sup>94</sup>. The losses are increasing at an increasing rate and the Government seems helpless in this situation.

Inefficiency of PIA is also reflective through the huge sum of interest it is paying for its loans. It has incurred an interest cost of **Rs370 Million** on loans and restructures debts amounting to **Rs9.63 Billion**. Moreover, PIA has received this interest cost from the Government. Thus PIA has also become a liability on the Government whereas it should have been helping the Government in generating revenues.

#### **5.2.0. Pakistan National Shipping Corporation**

PNSC is the flag bearer shipping company of Pakistan. The inefficiency and mismanagement of PNSC has been causing great damages to the national economy. Some of the examples of inefficiency of the PNSC are covered in the succeeding paragraphs.

#### **5.2.1. M.T. Jauhar**

Inefficiency of Pakistan National Shipping Corporation and its impact on the national economy can be judged from the news report published in the daily "The News" on July 2003. PNSC, which is one of the premier public sector companies of Pakistan, due to procrastination and utter laziness, took 185 more days on M.T. Jauhar. This caused a loss of

---

<sup>93</sup> Dawn March 24, 2001 (from Internet)

<sup>94</sup> Dawn March 24, 2001 (from Internet)

**Rs70 Million**<sup>95</sup> to PNSC and Pakistan. After taking so much time of M.T. Jauhar, the ship was scrapped and declared unfit for use which is another loss for the country.

### **5.2.2. TASMAN SPIRIT**

Tasman Spirit, hired by the PNSC and bringing Iranian crude oil to the shores of Pakistan for PSO refinery broke up into two, releasing approximately 31,000 tones of crude oil into the Arabian Sea, destroying the pristine waters and beaches of Pakistan. It was indeed a major environmental disaster bring huge losses to Pakistan. The Karachi Port Trust (KPT) has sued PNSC for \$ 1 Billion whereas the PNSC has in turn sued vessel's owner<sup>96</sup>.

If Tasman Spirit is compared with Exxon Valdoz, an American Oil tanker, carrying quarter a million tones of oil for Los Angeles split into two thus damaging the pristine waters and beaches of Alaska causing irrecoverable danger to marine life and disturbing the food chain. It also cost \$ 2 Billion (**Rs120 Billion**) for clean up<sup>97</sup>. Such a situation faces Pakistan where marine life has been endangered and the cleanup costs will be much higher. Pakistan is not a member of International Oil Pollution Fund and the claim of salvage and Oil refinery being more than the amount that PNI may pay<sup>98</sup>. Therefore nothing is left for the Karachi Port Trust and the people of Pakistan who suffer the most.

The residents of Karachi are suffering from the great disaster of Tasman Spirit. Different types of diseases ranging from Asthma and allergies to nausea and conjunctivitis has become a commonplace for the residents<sup>99</sup>. This is hurting the country economically due to increased costs of healthcare.

---

<sup>95</sup> *The News July 5 , 2003*

<sup>96</sup> **Pakistan category September 2, 2003** (from Internet) & *The News December 2 , 2004*

<sup>97</sup> *The News September 15 , 2003*

<sup>98</sup> *Dawn September 2, 2003 (from Internet)*

<sup>99</sup> *Dawn September 2, 2003 (from Internet)*

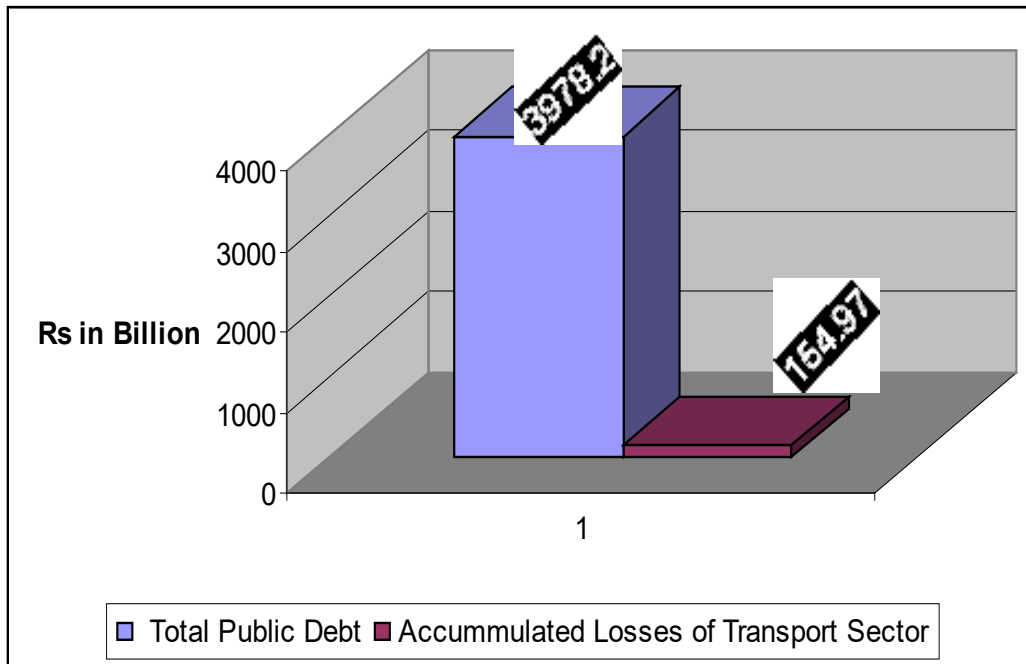
### 5.3.0. Summary

#### Accumulated Losses (Rs in Billion)

• Railway	27.90
• PIA	7.00
• PNSC/ KPT	120.07
<b>TOTAL:</b>	<b>154.97</b>

### 5.4.0. Comparison with Total Public Debt

Comparison between total accumulated losses of water & power with total public debt is shown in the following graph:





## **CHAPTER SIX**

### **Industry**

#### **6.0.0. Pakistan Steel Mills**

Pakistan Steel Mills is supposed to be the back bone of the country, however, its performance has been disappointing in the past years. Inefficiency and mismanagement are the main causes of poor performance of the steel mills. According to data compiled by the Government in year 2001, the accumulative losses of **Pakistan Steel Mills** had reached to colossal amount of **Rs9.5 Billion**<sup>100</sup>.

#### **6.1.0. Premium On New Car**

The way car dealers & manufacturers are exploiting the consumers in the country speaks of the inefficiency/ dishonesty of government functionaries. Not only the car dealers & manufacturers with the facilitation of government officials have been able to create artificial monopoly in the industry but are also compelling the consumers to pay huge sum of premium of Rs200,000 on each delivery of Honda City. Similar premium is also being charged for Toyota Corolla, Honda Civic & Suzuki cars. This has caused a huge loss of **Rs1.3 Billion**<sup>101</sup> in last 2 years.

#### **6.2.0. Environmental Pollution**

Environmental problem of Pakistan is immense. We lose no opportunity to destroy our natural resources. Moreover, many cities of Pakistan have no Sewerage Treatment Plants. Thus the sewage goes untreated into rivers and seas thus destroying our marine life and the environment. No adequate legislations are enforced to stop this activity. Also, the National Environment Quality Standards (NEQS) which have been compiled taking great pains have not been implemented. As a result, the country is losing \$ 1.8 Billion or **Rs105 Billion Annually**<sup>102</sup>.

The air pollution in Islamabad, the capital city of Pakistan is three times the standard acceptable level. This is affecting the health of people living in Islamabad. Moreover, if the capital has these alarmingly high levels of pollution level, the levels of pollution in rest of the country can be imagined to be many times higher than that of the capital. The vehicular emissions in Pakistan are 15 to 20 times more than the acceptable standards. This is costing Pakistan by **Rs25 Billion annually** on healthcare<sup>103</sup>.

<sup>100</sup> Dawn March 24, 2001 (from Internet)

<sup>101</sup> The News September 5, 2003

<sup>102</sup> The News June 9, 2003

<sup>103</sup> The News June 20, 2002 (from Internet)

Usage of dirty fuel in vehicles and increase in traffic has caused the level of lead in blood in the children of Islamabad to shoot up<sup>104</sup>. The internationally acceptable level is 15 micrograms per deciliter but the level in the children of Islamabad is 22.3 micrograms per deciliter which is dangerously high.

There are no proper environmental schemes in the NWFP and approximately Rs500,000 has been allocated in the last budget for environment. But this money was unutilized. Had this money been utilized on good environmental schemes, the living conditions of people in the province would have improved creating a positive impact on the economy<sup>105</sup>.

### **6.3.0. Vehicle Theft**

According to a recent study, approximately 53,880 vehicles having a total worth of Rs10.48252 Billion had been stolen and are yet to be recovered. The average loss amounts to be **Rs1 Billion per year**<sup>106</sup>. The study reveals that after stealing the car, their engine and chassis numbers are changed. All this is done with the consent of Excise and Taxation Officials. This is a huge loss to Pakistan and if controlled, the economy of Pakistan will show a better trend.

### **6.4.0. Summary**

	<b><u>Losses (Rs in Billion)</u></b>	
	<b><u>Annual</u></b>	<b><u>Accumulated</u></b>
• Pak Steel Mills	-	9.50
• Car Premium	0.65	-
• Environmental	105.00	-
• Vehicle Theft	1.00	10.483
<b>Total:</b>	<b>106.65</b>	<b>19.983</b>

---

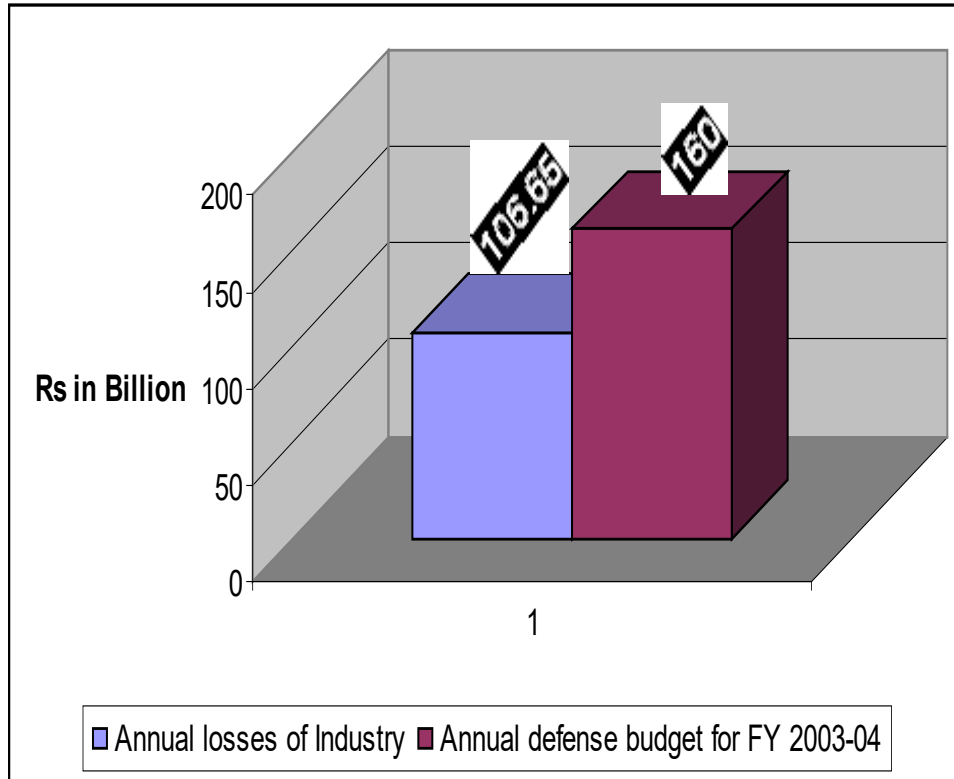
<sup>104</sup> Dawn June 19, 2002 (from Internet)

<sup>105</sup> The Dawn June 6, 2002 (from Internet)

<sup>106</sup> The News July 25, 2003

### 6.5.0. Comparison with Annual defense budget

Comparison between total annual losses of Industry with annual defense budget is shown in the following graph:



## **CHAPTER SEVEN**

### **Government & Legislators**

#### **7.0.0. Performance of Parliament**

The present parliament of Pakistan completed its two year on November 7, 2004. In spite of getting huge sum of privileges & salaries from public money, the parliament has failed to perform any worthwhile legislation during the entire period of two years. The first complete year has been wasted on the issue of LFO and the second year has also witnessed the indifferent and non serious attitude of our legislators towards the business of parliament. Most of the time the parliament was faced with the issue of incomplete quorum, even the ministers and members of treasury benches did not feel necessary to attend the parliament. In most of the time in last two years majority of the parliamentarians just listened to the recitation of Holy Quran and walked out of the parliament<sup>107</sup>. However, all the members of parliament seemed very serious and united in raising their salaries and other privileges/ perks and were successful in revising and getting substantial increase at least thrice in recent years<sup>108</sup>. All this is on the cost of public money. This has been really a source of great loss to the national economy because the performance of this parliament has been highly unsatisfactory. Let us see how it has affected our economy:

- The monthly salaries and allowance of 1170 parliamentarians amounted to Rs1.9 billion per year in year 2003<sup>109</sup>. Now in year 2005 the salaries and allowances have been revised from back date to almost more than double<sup>110</sup>. One can easily conclude that with the revised pay and allowances the annual expenditure which the nation has to make in order to maintain this inefficient parliament has gone up to approximately **Rs4 Billion**. This does not include the additional allowances which legislators get while they are in session.
- Allowances & facilities of PM, CM, federal & provincial ministers, parliamentary secretaries and advisors, annually amounted to over Rs2.5 billion in year 2003<sup>111</sup>. However with the recent increase in the salaries and allowances (effective from July 2004) the figures can be assumed to close to **Rs4 Billion**.
- In addition to the above mentioned expenditures on the legislators and fleet of ministers and advisors there are much more hidden expenditures which the

---

<sup>107</sup> *The News November 28, 2004*

<sup>108</sup> *The News March13, 2005*

<sup>109</sup> *Dawn December 21, 2003*

<sup>110</sup> *The News March13, 2005*

<sup>111</sup> *Dawn December 21, 2003*

government is making on these legislators and ministers. Recently government has approved purchase of 60 luxurious and bulletproof Mercedes Benz cars and 20 Land cruiser jeeps for use by the fleet of ministers/ advisors in the cover of protocol duties at a approximate cost of **Rs5 Billion**<sup>112</sup>.

### **7.1.0. Cost of Decision/ policy- Losses Of 9/ 11**

Government's decision to support "United States of America" after the incidence of 9/ 11, had great impact on our economy. Just to have idea that how a single decision can affect the economy of a country let us have a look on these news reports:

- Pakistan has lost an estimated amount of \$ 8 Million (**Rs0.480 Billion**) airline losses due to the US war in Afghanistan<sup>113</sup>. This is because most of the International Airlines refused to continue their services in Pakistan. Now Pakistan has demanded the US to repay those losses because Pakistan sided with the US in the war as a frontline state.
- As reported by US government, Pakistan suffered a loss of \$ 10 billion (**Rs600 Billion**) due to her support to US after 9/ 11. Interestingly our finance minister has a figure of \$ 1 billion (Rs60 Billion) only<sup>114</sup>.

### **7.2.0. Environment**

Due to absence of adequate legislation on the subject we as a nation are spoiling our environment with each coming day. Even our industrial growth is at the expense of our environment. We are insanely destroying our natural resources. We are paying \$ 1.8 Billion (**Rs108 Billion**) annually<sup>115</sup> as the cost due to absence of adequate legislation and implementation of the national environment quality standards (NEQS). The practice of disposing industrial waste into water reservoirs through drains is dangerously polluting the surface water. Similarly there are host of other neglected areas related to environment which are adversely affecting our national economy.

### **7.3.0. NADRA**

According to Brig (Retd) Saleem Ahmed Moeen, Chairman NADRA, about 350,000 unclaimed National Identity Cards are lying in its office at the Awami Markaz in Karachi.

---

<sup>112</sup> *The News March 11, 2005*

<sup>113</sup> *Contact Pakistan. Com (from Internet)*

<sup>114</sup> *The News June 21, 2003*

<sup>115</sup> *The News June 9, 2003*

**Thesis- Inefficiency of Public Sector & impact on Economy of Pakistan**

The major reasons he gave was wrong addresses given on the National Identity Cards<sup>116</sup>. This has caused an approximate loss of **Rs70 Million**.

**7.4.0. Summary**

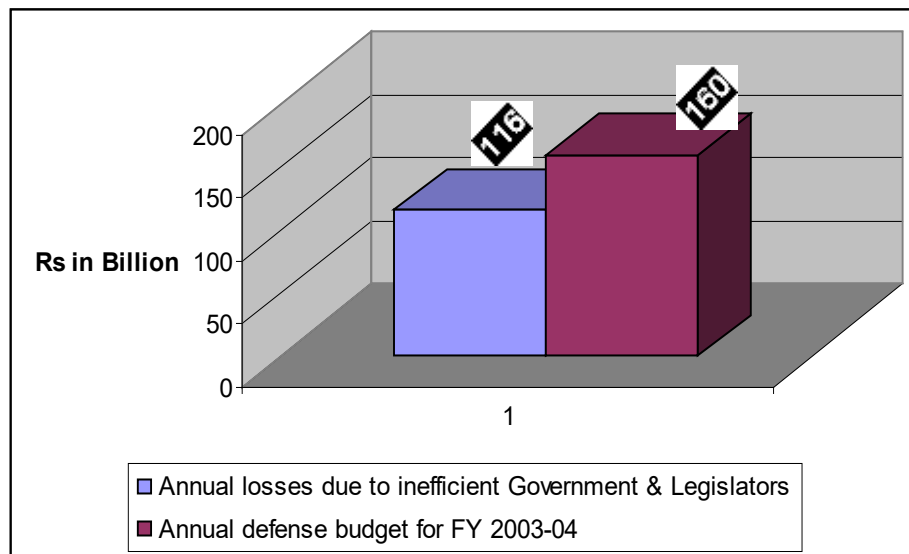
	<b>Losses (Rs in Billion)</b>	
	<b>Annual</b>	<b>Accumulated</b>
• Legislator's Performance	8.00	5.00
• Losses due to 9/ 11	-	600.00
• Environmental Losses	108.00	-
• NADRA	-	0.07
<b>Total:</b>	<b>116.00</b>	<b>605.07</b>

**7.5.0. Comparison**

Comparisons of above mentioned total losses due to inefficient Government & Legislators with annual defense budget and total public debt are covered in succeeding paragraphs.

**7.5.1. Comparison with Annual defense budget**

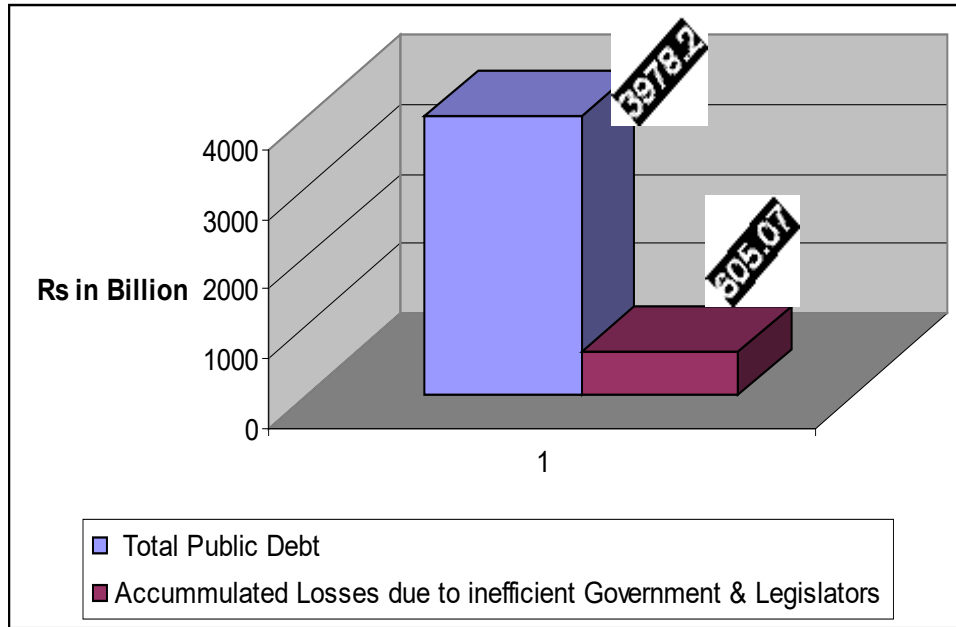
Comparison between total annual losses due to inefficient Government & Legislators with annual defense budget is shown in the following graph:



<sup>116</sup> The News July 6, 2003

### 6.5.2. Comparison with Total Public Debt

Comparison between total accumulated losses due to inefficient Government & Legislators with total public debt is shown in the following graph:



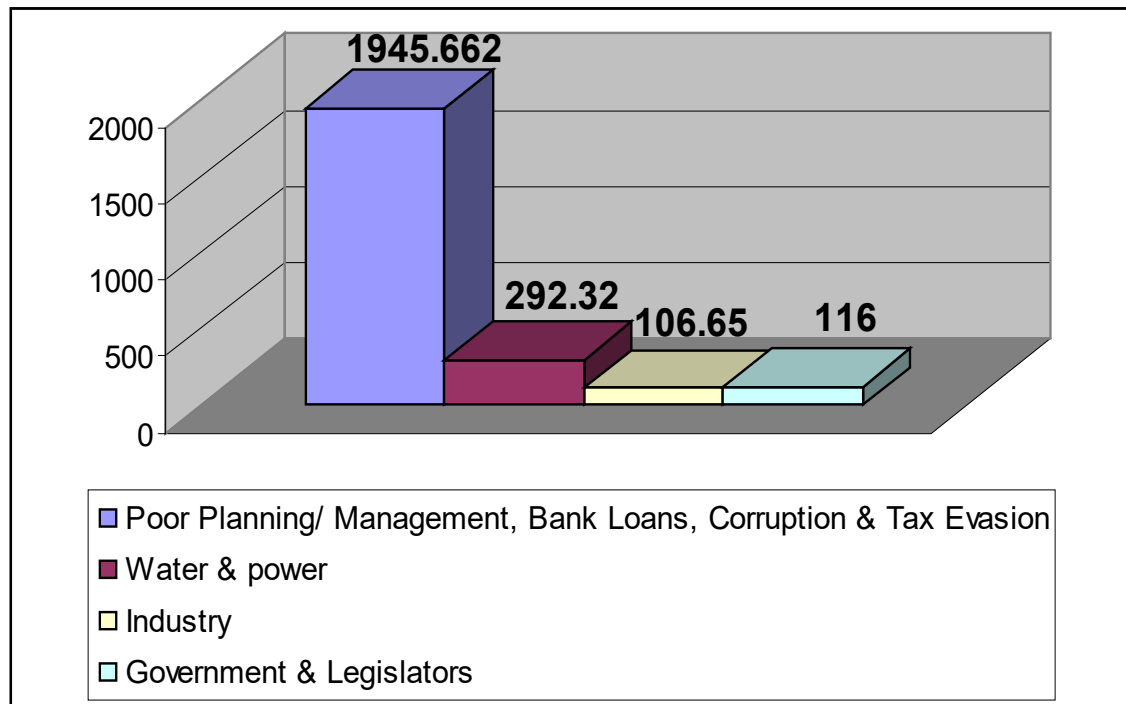
## CHAPTER EIGHT

### Summary

#### 8.0.0. Final Summary of Losses

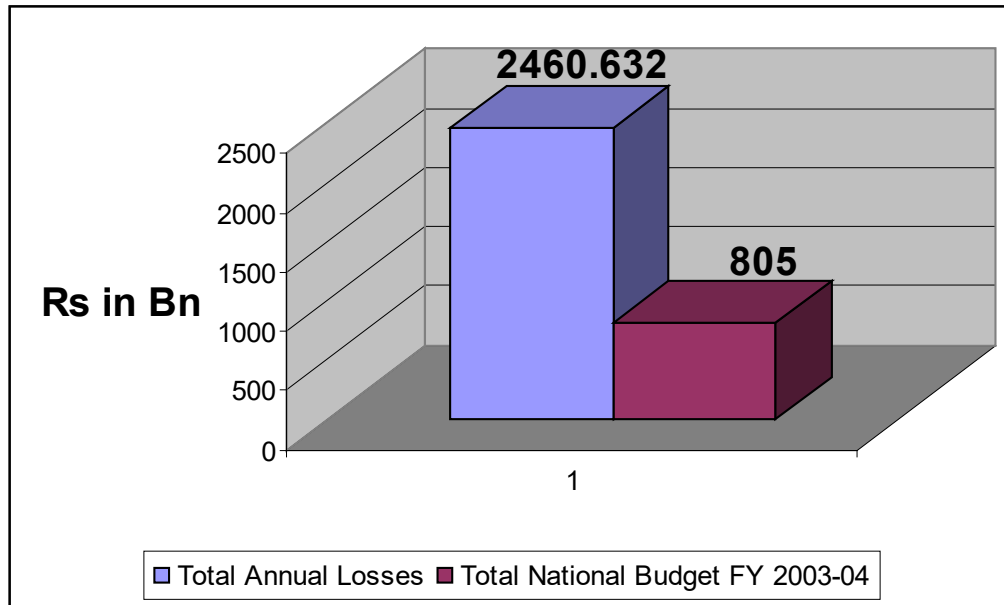
	<u>Losses (Rs in Billion)</u>	
	<u>Annual</u>	<u>Accumulated</u>
• Poor Planning/ Management, Bank Loans, Corruption & Tax Evasion	1945.662	5083.131
• Water & power	292.32	3177.10
• Transport	-	154.97
• Industry	106.65	19.983
• Government & Legislators	116.00	605.07
<b>Total:</b>	<b>2460.632</b>	<b>9040.254</b>

#### 8.1.0. Summary of Total Annual Losses

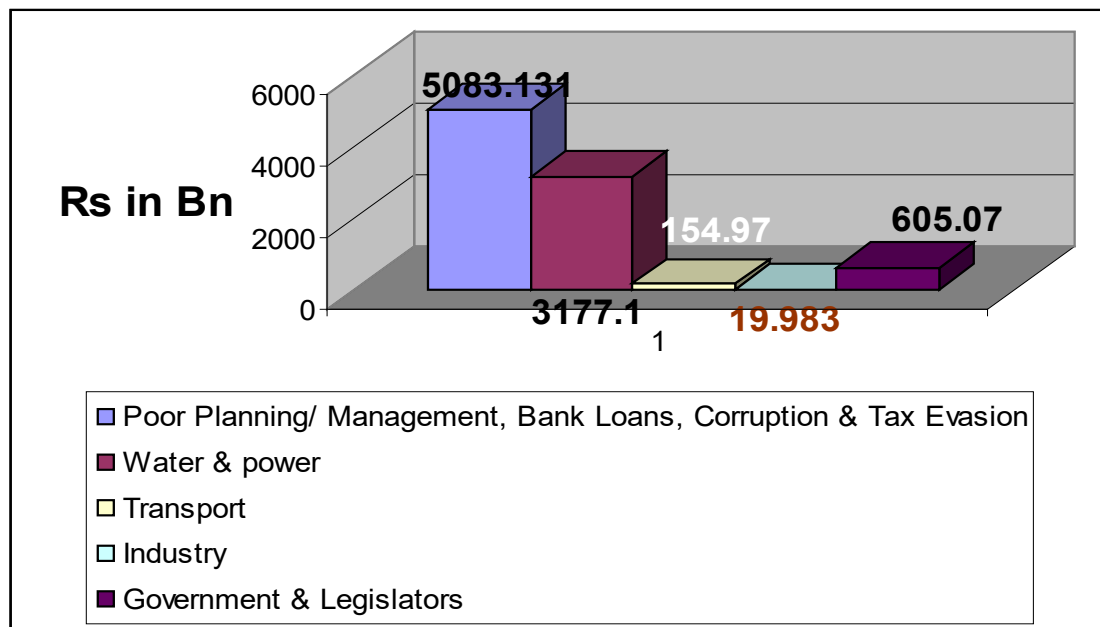




### 8.2.0. Total Annual Losses Vs Total Annual Budget of Pakistan for FY 2003-04<sup>117</sup>

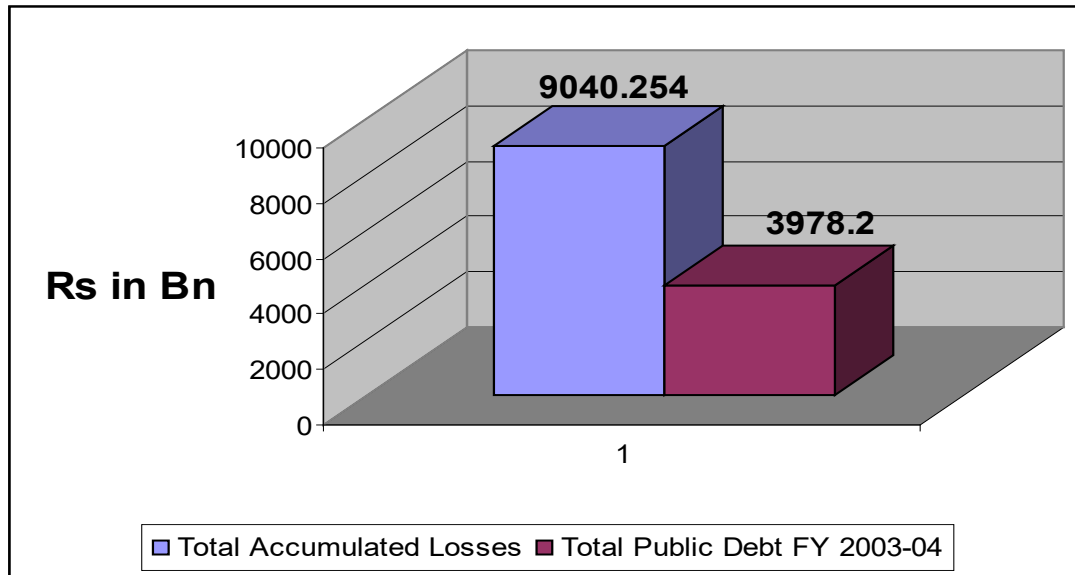


### 8.3.0. Summary Of Total Accumulated Losses



117

The News June23, 2003

**8.4.0. Total Accumulated Losses Vs Total Public Debt**

## **CHAPTER NINE**

### **Concluding Remarks/ Recommendations**

#### **9.0.0. General**

A government that tries to control many things, resultantly, comes to have less and less control of many other things. Perhaps, that was why Ronald Reagan had to say: Government is not the solution to our problem; government is the problem. And, probably, this is why a limited government (in the words of Thomas Jefferson) is considered best because it governs the least. It does not extort money in the name of this or that tax from the people; and, thus, forces them to evade tax. It does not declare this or that thing or act illegal in the name of propriety, morality, equality or welfare of the poor; and, thus, turns them to resort to impropriety, immorality, inequality and continuing willful poverty.

In view of the discussion carried out in the previous chapters, few of the recommendations for improving the performance of public sector and hence for improving the economy of Pakistan are given in the succeeding paragraphs.

#### **9.1.0. Long Term Planning**

In order to achieve desired national economic objectives, there is an need to institutionalize the strategic planning at national level. For this we need to have a pool of think Tanks covering all fields of national/ economic aspects. These think Tanks should act as advisors to the cabinet/ government on all the policy matters. The system should be evolved in such a way that change of governments should have no effects on long term policies of the country. This long term vision/ policy is also need to be cascaded down to each public department/ organization and all concerned should be made conscious of it.

#### **9.2.0. Strong Political System**

Long term vision and planning can not be achieved/ implemented unless, Pakistan has a strong and stable political system which has backing of all the stakeholders of the country. It is high time that we as a country should start thinking for the collective/ national interests rather than having short sighted individual approach on all the community/ social matters.

#### **9.3.0. Effective, fair and ruthless system of accountability**

Corruption has penetrated all walks of our society and needs to be stopped with iron hands. It is suggested that NAB should be made effective to stop this evil. This is not possible unless NAB is given more powers and necessary legislation is carried out where by it is allowed to work with fairness and without any political motives and pressures.

#### **9.4.0. Self Reliance**

Pakistan will never be able to make/ implement policies to suit her own interests unless we learn live with in our own means/ resources. The agencies like World Bank and IMF will keep on exploiting us and we will keep on acting as a tool for looking after others interests rather than making our own decisions until we stop taking loans and donations from others. The huge amount of budget deficits and public debt is a great hindrance in our prosperity and economic growth. We will have to cut our expenditures and pay back the outstanding loans if we are really interested at live like an independent and sovereign state.

#### **9.5.0. Human Resource Development**

To improve the efficiency of public sector departments, there is need to give due importance to human resource development in order to properly equip the managers and staff of all the departments. With out having a man power which is properly equipped and have desired skills it is not possible for departments like WAPDA, Steel Mills, or Pakistan Railways to be profitable.

#### **9.6.0. Culture of Honesty and Nationalism**

In order to achieve our national objectives and goals and to make our departments efficient, we need to revive our lost values like honesty and nationalism. Today we as a Pakistani are very hardworking and efficient when it comes to our individual interests but when its official job/ assignment we are normally very indifferent. That is the reason that our people are highly non productive as part of any public sector organization and the same people display efficiency and hard work of highest order when they are working abroad.

#### **9.7.0. Performance based Work Environment**

In order to get rid of dead woods from government departments, we need to introduce performance based work environment where rewards ie salaries as well as promotions are linked with output of the individuals.

#### **9.8.0. Balance of Imports & Exports**

As discussed earlier our trade deficit is increasing day by day which is a source of backward pull for our economy. At national level we need to control our imports on one hand and exploit export opportunities on the other hand. Simultaneously, we will have to increase not only our indigenous industrial production, but also need to improve the quality of our goods. This is more important in the scenario of globalization and WTO.

### **9.9.0. Promoting Culture of Tax Payment**

Our existing system of taxation is very complicated. It not only encourages the public to find some excuse for evading the tax but is also helping the corrupt taxation officers/ staff in corruption. What Pakistani government needs to do is to keep the rates of taxes low, number of taxes reduced, and the tax net broad-based. As regards, income tax, a far better strategy is to have a flat tax system. And, of course, there should be no exemptions and tax holidays since this is what is used in the interest of the privileged and powerful groups of the society at the cost of other sections of society.

### **9.10.0. Use of Modern Technology & Information Technology**

In order to make our public sector efficient and productive, we will have to get maximum possible benefit of modern technologies including IT/ MIS. In the present competitive environment when the whole globe has been squeezed to almost one market, efficient and intelligent use of these technologies has almost become a necessity. Government needs to plan and coordinate acquisition and use of all modern technologies where ever and when ever these are required in our public sector organizations.

### **9.10.0. Speedy Justice**

One major reason for increasing corruption in our country is that our judiciary system is not only inefficient but is also corrupt. If we really want to root out corruption from our country will have to start the process from the judiciary. We need to focus our efforts for the provision of timely justice to all segments of our society.

### **9.11.0. Grooming/ Development of Effective and Honest Political Leadership**

All above mentioned recommendations are either meaningless or can not be implemented unless we have a right kind of leadership at all levels. In the past frequent military takeovers did not allow the political leadership to bread. For the obvious reasons such unelected governments promoted the corrupt and inefficient people as so called public leaders. If we are really sincere to our country and the people we will have to take all necessary steps to allow our people to elect their representatives without any outside pressures. This is the only way we can bread the right kind of leadership. Present system of election of Nazims/ Naib Nazims (if implemented with true spirit) is a step in the right direction.