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Hijacked reforms

THE upshot of the upcoming bailout package of the International Monetary Fund (IMF) — whether it is under the Stand-by Arrangement (SBA) or Extended Fund Facility (EFF) — will concern three key areas: reforming the tax machinery, more independence to the central bank and privatisation and revival of bleeding state-owned entities.

These are unfinished agenda items of the previous IMF programme and are expected to become structural benchmarks since most of the prior actions — rationalisation of energy prices, increase in interest rates and currency devaluation — are believed to be already under implementation.

An area where the previous PML-N government had been ‘successfully evasive’ under the previous fund programme was the full autonomy of the State Bank of Pakistan (SBP) and privatisation programme, particularly of the power sector entities, leading ultimately to the accumulation of circular debt close to Rs1.2 trillion for period ending.

The fund views the complete autonomy of the central bank, needed to target price stability and in-line with international best practices, as a low hanging fruit with long term objective. Authorities generally consider it akin to creating a state within the state, compromising ‘sovereign’ powers of the government.

None of the leaders has the slightest idea that the reform committee members include those responsible for massive revenue losses and blacklisted for the very shortcomings these reforms are intended to address

Revival and divestment of State Owned Enterprises (SOEs) to be a difficult but long outstanding crucial target needed to address fiscal haemorrhage in the medium-term — during the tenure of the fund programme.

But the most important area with far reaching consequences for the future of the nation boils down to improving the efficacy of the revenue machinery to expand the tax-base. This is where both the previous programme and government struggled despite consensus among all stakeholders and political parties.

The new government appears equally committed to ensuring good governance and reform civil service, particularly the tax machinery, to address the trust deficit in revenue culture.

Dr Ishrat Hussain, the prime minister’s advisor for institutional reforms and austerity, and the chairman of the Federal Board of Revenue (FBR) would, therefore, be expected to keep an eye on developments within the FBR where the reform idea appears to be falling in the hands of custom officers — the very beneficiaries of the status quo.

A reform committee has been constituted under member customs comprising officers of his close circle. It is working to create a separate board under him; a move that goes against the concept and administrative shake-up of the 2011 FBR reforms in which a separate service — Inland Revenue Service — was created to provide better data linkages and data sharing between direct and indirect taxes for effectively sealing any revenue leakages.

Almost all the members of the reform committee have postings in mainstream customs. As part of the FBR’s reform effort, the team members will successfully secure a fresh relevance to prolong their tenures and at the same time work out reforms to their satisfaction.

The FBR chairman, in the meanwhile, despite being the overall champion of the tax reform, still appears to be trying to grasp the philosophy of reform visualised in literature and best practices and the technicalities of the ground staff.

He appears to be no different than officers of the Pakistan Administrative Service who held the FBR top-slot and struggled to deliver since it is difficult for an outsider to come to terms with the taxmen's talent of indulging imperceptibly in mega revenue frauds and still escaping unnoticed. This can be gathered from the series of meetings and yet little subsequent clarity as the first quarter concludes with substantial slippages on revenue target.

That was why external experts have been advising the separation of policy from revenue administration. A leader from outside the tax machinery can hardly keep pace with the requirement of revenue collection on a day to day basis and yet focus on innovative policy options and vice versa

On the other hand, entrenched custom officers have learned through experience the art of misleading an outsider chairman. In a recent meeting of senior custom officers, a meaningless and legally non-viable agenda item was discussed for hours, a one page unique customs specific performance evaluation form whose application to the isolated island of customs lacked any legal backing.

No wonder then, no questions were asked about the system auditor's report on the electronic clearance system's performance evaluation.

The green channel of the system had been extensively misused in front of custom officers, which resulted in revenue losses of hundreds of billions of rupees. No questions were asked about how the green channel had been running for more than a decade without a system's audit and without the electronic clearance system's performance evaluation.

The prime minister may be anxious to see the FBR reform proposals in a concrete implementable form within hundred days of his rule. His advisor on institutional reforms may be confident of getting FBR reform proposals within time. The FBR chief might also be feeling relief that the reforms are being conceived in reliable and fertile minds.

None of them, however, have the slightest idea that the reform committee members include those responsible for massive revenue losses through green channel and other technology software. These people are facing inquiries for living princely lifestyles beyond means and blacklisted from field postings for the very shortcomings these reforms are intended to address.

A crucial part of civil service reforms envisioned by the prime minister and his adviser may have already been hijacked.

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