Three-year reform plan for IMF exit strategy

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THE country requires a comprehensive three-year action plan for domestic reforms, in addition to solidifying external accounts, to ensure a smooth exit from the International Monetary Fund (IMF) programme and transition to a self-sustained, non-inflationary growth path.

The broad contours of such reforms are quite well known. What is needed is to build a consensus among political parties, federal and provincial governments, and the private sector.

Key elements of the plan should be finalised with timelines, responsibilities and milestones, and must be approved by parliament to ensure continuity, consistency and predictability — the missing elements responsible for the poor track record of previous reform efforts.

Govt must focus on increasing investment, controlling fiscal deficits, devolving services, addressing energy crisis and reforming civil services

The reform agenda should focus on raising the investment-to-GDP ratio to 20 per cent by FY28, containing a fiscal deficit of 5pc of GDP and a primary surplus of 3pc, devolving basic service delivery to local governments, overcoming the energy crisis, and reforming civil services.

Investment in key sectors

Public sector investment through its own budgetary resources has to move up to 5pc through fiscal consolidation measures. Public-private partnerships and private investment have to escalate to 15pc by doubling credit to the private sector, especially SMEs, farmers, and sectors such as construction, housing and tourism.

The main reason the country keeps getting into a balance-of-payments crisis is that the domestic productive capacity in industry and agriculture falls short of aggregate demand when it crosses the 4pc growth barrier and results in higher imports. To remove this constraint, agriculture, industry and export sectors must be expanded through investment and productivity gains to make them competitive.

Private equity and venture capital funds, development finance institutions, takafuls, insurance companies, and pension and endowment funds must be reinvigorated to participate in both equity and debt capital market transactions.

Private investment has already touched an all-time low due to coercive and arbitrary measures, harassment and threats to existing investors, and an unfavourable business climate. Distinguishing legitimate profit-making from rent-seeking is crucial to attract new investment.

In agriculture, the productivity of small and medium farmers can be boosted by providing certified seeds, fertilisers, pesticides, adequate water, agriculture equipment and credit. Contract farming in certain crops has proved successful and should be encouraged for replication in other crops as well.

Rainwater harvesting can augment water supplies. Warehousing, cold storage, farm-to-market roads, refrigerated vans, and agri malls will help reduce waste, substitute imports and ease inflationary pressures.

The private sector's investment in intermediate goods production must increase, with a focus on industries such as petrochemicals, oil and gas exploration, and engineering goods. Additionally, regulatory reforms should eliminate outdated rules that hamper business growth.

Strengthening public financial management

On the fiscal side, the country must focus on reducing domestic debt and interest payments to avert future excessive borrowing.

The revenue-to-GDP ratio should be pitched at 15pc, with taxes contributing 12.5pc and non-tax 2.5pc. The breakdown of the Federal Board of Revenue (FBR) and provincial and local taxes would be 10.5pc and 2pc, respectively. The expenditure-to-GDP ratio should be aimed at 20pc, with a big jump in development expenditure to 5pc.

The FBR should drive digitisation to minimise taxpayer interaction, utilise AI-driven analytics, promote digital invoicing and QR codes and simplify tax processes, among other things. Provincial governments can generate additional revenue by collecting agricultural income tax from large landowners and improving urban property tax collection.

Urban immovable property tax should be assessed and collected by the metropolitan or municipal corporations and committees and town councils. Other steps may include cadastral surveys, removal of exemptions, and heavy penalties for non-utilisation of plots.

On the expenditure side, the burden of interest payments would be eased by reducing the policy rate if inflation remains under control. Other savings would accrue from targeted subsidies for food, energy and fertilisers.

Restructuring the federal and provincial governments, reducing surplus manpower, and privatising loss-making state-owned enterprises (SOEs) will also bring considerable savings.

On the development side, increased recourse to public-private partnerships for infrastructure projects should be encouraged. Public expenditure should be raised for research and development in agriculture, industry, climate change, digital infrastructure, technical and vocational training, etc.

Inequitable burden-sharing between the Centre and provinces can be alleviated by adopting an integrated approach to the management of public finances. The budgetary framework and assignments to the federal and provincial governments (without disturbing the NFC award) should reflect national priorities and targets, approved and monitored by the National Economic Council.

Devolution of local govts

A common citizen's daily life revolves around livelihood, education of the children, health care for the family, safety and security, clean drinking water, sewerage, transport, etc. Most of these functions are discharged best at the local level.

Mobilisation of local resources is much easier as the perceived benefits are visible. The Constitution has defined the third tier of the government without a separate schedule defining the functions of the local governments.

Such a schedule needs to be inserted in the Constitution. Following that, the NFC award would make allocations for the federal, provincial and local governments separately.

Major cities like Karachi, Lahore and Islamabad can generate their own revenue through financial decentralisation, while NFC allocations should consider poverty and human capital investment, rather than population size alone.

Energy sector reforms

The energy sector has become a major hurdle for industrial and export growth and is unaffordable for middle-income consumers. The transit towards a competitive market for buyers and sellers should be brought to culmination by privatising distribution companies (Discos) or placing them under management contracts, with the returns contingent upon performance-linked indicators.

Private retail companies would work towards increasing the connections for power so that capacity payments are reduced. A politically tough decision to do away with uniform pricing throughout the country would have to be taken.

Targeted subsidies for energy should be managed through the Benazir Income Support Programme (BISP), ensuring only those in need benefit. Expanding transmission capacity, decommissioning inefficient public-sector generation companies, and restructuring gas distribution companies are also critical steps for energy sector reform.

Civil service reform

The capacity and capabilities of more than three million civil servants is Pakistan have eroded over time and weakened the institutions of governance. The reforms aimed at producing merit-based competent professionals of high integrity responsive to the public needs have been designed.

The entire civil service structure, from recruitment to compensation, must be modernised, with a focus on reducing unnecessary staff and incorporating domain experts into high-level positions. Equality of opportunity, transparency and promotion and compensation-based performance should be the hallmarks of the modern civil service.

Finally, transitory movements such as a fall in oil prices, increased liquidity or a decline in global interest rates should not deter the policymakers from pursuing the above agenda vigorously and uninterruptedly.

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