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Burying the hatchet

Prime Minister Imran Khan at last realised that the federal and Sindh governments would have to work together for resolving Karachi issues that seriously affected the progress and prosperity of this largest metropolis and commercial capital. It was the prime minister, after all, who led the boycott of the PPP (Pakistan People's Party) and wouldn't even engage with the Sindh CM on his visits to the province. The federal government didn't listen to Sindh even when the latter warned it in writing about the locust threat a couple of years ago, even asked for spraying aircraft to preempt the threat; to no avail. It's good then that the PM himself is taking the lead in burying the hatchet also; for the good of the port city and the country's financial hub if nothing else. Speaking at the groundbreaking ceremony of the Karachi Circular Railway (KCR) project, where for once the Sindh chief minister was also invited, the PM couldn't resist the urge to lecture one and all about the most basic things as always, like the importance of a financial hub in this instance, but this time he went further and accepted that the federal and provincial governments would have to join hands to get the job done.

Since there are certain things that the centre can do but the province can't, just like there are other things that Karachi can do for itself but Islamabad cannot be of much help with, surely it's basic common sense for both to divide responsibility and resources to ensure that the chips fall in their places.This is, in all fairness, the very last chance for anybody to do anything for Karachi that might really make a difference. For, here's the country's financial heart, onetime capital, largest and most diverse city, and by far the largest contributor to the federal and Sindh's exchequer, yet reduced to a second-, perhaps even third-, rate shanty town where roads have been littered with garbage for many years, crime is far more common than justice, and even something as basic as water is in the hands of powerful mafias.

The PTI and PPP have got into the habit of disagreeing with each other even before anything is put on the table. In their case, it is not what is being said, rather who is saying it that matters. Maybe they'll forget the past and work together for the time being because both need some sort of momentum heading into the general election and this way both can try to claim any success that comes from this proposed partnership, of sorts, as solely their doing. The long suffering people of Karachi have come to the point where they would not even care about intentions so long as something is done to give them their rights and their city a chance to regain its lost glory.

The growing Taliban chal-

MUHAMMAD AMIR RANA

The reported upsurge in the TTP's terrorist violence in Pakistan in recent months has coincided with the Afghan Taliban's takeover of Afghanistan in August. While there are fears of a further escalation in terrorist violence, the real challenge lies in the persisting shades of religious extremism which have the potential to complicate the country's security and political landscape.

The Afghan situation will have multiple implications for Pakistan in terms of insecurity and militancy, cross-border terrorism, refugees' influx, and economic instability. That is what makes it imperative for Pakistan to continue supporting the Afghan peace process through influencing the Afghan Taliban to enter intra-Afghan negotiations and work towards the formation of an inclusive government. Although Pakistan is confident it can deal with the possible fallout of the Afghan conflict in terms of security and violence, an unstable and violence-prone Afghanistan will certainly encourage violent radical and extremist narratives and movements in Pakistan, which will not be easy to deal with.

Pakistan's religious landscape is fertile for radical ideologies. As the moderates struggle to make themselves relevant in society, the clergy declares them 'innovators' or biddati, who, they say, reject the traditional tenets of the religion. The clergy in Pakistan is largely literalist in its understanding of religion and takes pride in being the so-called custodian of tradition. A literalist mind sees the world through very narrow lenses. Although such a mindset is not healthy for the legal, jurisprudential and academic discourse of religion, more worryingly when it becomes a political stakeholder it tends to absorb radical tendencies easily.

The Afghan Taliban are literalists too, and continue to inspire likeminded militant and religious political actors especially in Pakistan. This is happening across the sectarian divide. The Taliban victory has apparently made them a role model for Deobandi, Barelvi, Ahle Hadith, and even Shia religio-political parties. One must recall the happenings of the late 1990s to understand how the Taliban were then inspiring religious groups in Pakistan. Following in the Taliban's footsteps, a banned sectarian outfit Sipah-i-Sahaba launched a campaign to enforce Sharia rule in district Jhang. The Jamiat Ulema-i-Islam and Jamaat-i-Islami had adopted aggressive and threatening postures. A movement for the enforcement of the Sharia began in certain tribal agencies. A religious leader from district Chakwal had announced a 'death or Sharia' campaign and started a march towards Islamabad. Jihadi groups were glorifying militancy on campuses and in the streets. The banned Jamaatud Dawa was running a successful campaign on media. Local 'Sharia courts' mushroomed with militant groups providing 'speedy justice' to the people. Then 9/11 happened. One can argue that the situation is completely different now: the militants are not on the horizon; the state has eliminated ungoverned spaces; and sectarian groups are under control. But what is important to note is that radical and extremist tendencies persist in religious segments. Certain groups may have been weakened, but their ideology is still nurturing toxic narratives in society. The clergy still controls a vast network of religious schools and generates financial resources to further expand the madressah network, apart from cultivating a political support base.

One institution and one issue will continue haunting the security establishment in the country. The institution is that of the madressah, which has undergone a huge transformation over the last 20 years. The issue is that of 'blasphemy' which multiple religious actors will continue to exploit in order to gain power and keep the pressure on the state and state functionaries. The madressah provides ideological, logistical, and political support to like-minded political and powerful state actors.

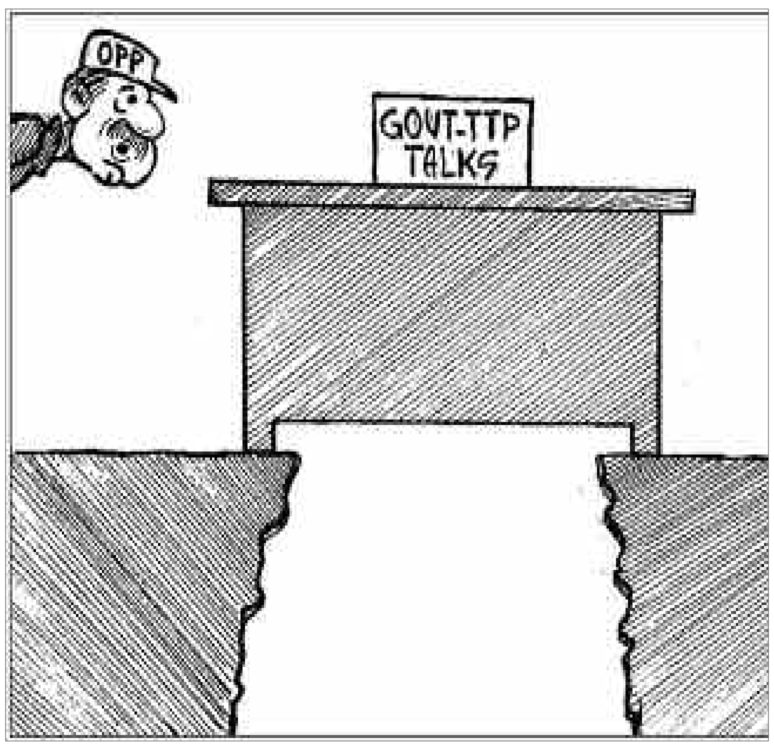
However, a sense of resentment is increasing among madressah graduates, because of market dynamics. Not every madressah graduate can be accommodated in a mosque or madressah. The formal education sector is their top priority, where they have bagged a major job share, but the number of graduates is increasing, and the education sector cannot employ them all. On the other hand, the religious elite, which comprises the leaderships of madressahs, religious groups and religio-political parties, is getting richer and is influential in social and political domains. This paradoxical trend is triggering anti-establishment sentiments among the new madressah generations. The Taliban takeover emerges as an alternative model for them to vent their anger.

The religious leadership has created an impression that the state institutions are under the influence of foreign forces and secular lobbies and have compromised on the issue of protection of the honour of the Prophet (PBUH). Though the prime minister and the heads of other institutions have raised this issue on several international forums and are trying to sensitise it at various levels, these attempts haven't proved fruitful and religious groups, particularly the banned Tehreek-i-Labbaik Pakistan remain suspicious about such efforts. The TLP and similar groups think that a Taliban-style government can force the international community to take strict action against the blasphemous attempts of individuals.

The Taliban victory has increased the confidence of religious groups and encouraged the madressah generations. Any blasphemous act anywhere can trigger anger both in Afghanistan and Pakistan. The Taliban want to consolidate their rule and they will exploit it to the maximum extent. The religious groups in Pakistan will be more aggressive and will follow what the Taliban do in Afghanistan.

State institutions are discussing the issue and may be worried about the implications of the Taliban victory for Pakistan. However, any plan to deal with the situation is still missing. But till now the state has been tolerating the group for many years overlooking domestic and international concerns. The disadvantage of the approach is that religious groups seek legitimacy and political power through such responses. On the other hand, state institutions have been harping on the same argument of 'narratives' and 'counter-narratives' without offering a real-world solution to problems related to extremism.

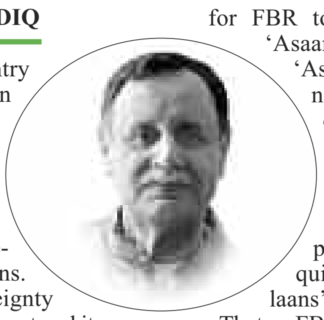
A critical challenge is emerging ahead and the Afghan Taliban's white flags, which were raised at Jamia Hafsa recently in the federal capital, were just one sign of the danger ahead.



How not to collect tax

By its inability to collect taxes, FBR single-handedly acts as the biggest roadblock to Pakistan's progress

NAEEM SADIQ



Any country where less than 2% people pay tax will find it difficult to breathe, much less progress. It will struggle for its existence and become woefully dependent on foreign loans. Its security and sovereignty will be under constant threat and its ordinary citizens will live on the fringes of poverty. This is where Pakistan stands today — thanks to FBR's utter inability and unwillingness to perform the task that is its reason for being.

But let's pause and ponder for a moment. Why must one be overly critical of FBR? Have most other departments not failed just as miserably. Those responsible for education have kept 25 million children out of school. The EOBI has failed to register 90% of workers. The municipalities do not efficiently collect their own garbage and in 70 years we could not create a single nation-wide Emergency Helpline. How is FBR any different?

By its inability to collect taxes, FBR single-handedly acts as the biggest roadblock to Pakistan's progress. It makes Pakistan fail asymptotically, which is a more painful and prolonged version of failure. The only escape route still open to Pakistan is to creatively think of brave new solutions, make massive use of modern technology and bypass its archaic and colonial bureaucracy.

Just as the Sindh Police in the last 70 years has not learnt the difference between a valid and a fake car number plate, the FBR has not been able to understand that there are only less than 0.1% citizens who can fill its complex 'cob-web' based tax return. Thus our system is designed to ensure that 99% people cannot file a tax return. An ordinary citizen wishing to pay say Rs10,000 tax to the government must first pay Rs15,000 to a tax consultant. He will thus do neither. It is impossible for FBR to understand that its 'Asaan' tax app is not 'Asaan'. That all that was needed was to design a one page simple form in Urdu and English which could be filled by even a student of class eight. That the tax payment should not require any PSID, 'challans', or queuing in banks. That an FBR's bank account number, one's CNIC and a mobile phone is all that should be needed to pay the tax. That the FBR's full page newspaper ads on 'Be a Tax Filer' are a waste of tax payers' money. That the FBR instead ought to advertise 'How to be a Tax Filer' and provide easy and simple solutions.

It is mind-boggling that the FBR publicly announces that owners of less than 500 square yards of urban land or cars less than 1000cc need not file a tax return. Thus 98% people of Karachi living in less than 500 square yard homes need not file a tax return. The FBR ought to require every citizen to file a tax return, even when there is no tax liability. Tax return is a great method to expand the formal economy, to know how much is earned by each individual and household and to develop a basis for providing compensation to the needy. A good FBR tax system, requiring all citizens to submit a tax return, should also be able to detect those millions of exploited citizens who are not paid even the minimum legal wage. If FBR was really keen on tax collection, it would have pushed for introducing the wealth tax — a tax that conveniently and with the collusion of the rich elite has been dispensed with. This could not just considerably increase the tax collection but also bridge the rising inequality between the rich and the poor. A modern and pragmatic FBR is central to the progress of Pakistan. A mandatory requirement for filing tax returns and a system that is easy, user-friendly and rewarding is the need of the hour.

The falling rupee

DR FARRUKH SALEEM

Background: Between May and September the rupee fell from Rs152-to-a-dollar to Rs173-to-a-dollar. That's a wholesome Rs21 fall in 123 days. That steep a fall in the rupee's value hasn't happened in the past four decades (since the rupee was delinked in 1982). That's a 14 percent loss in about 80 business days. Between mid-June and the first week of September, the SBP reportedly injected $1.2 billion into the interbank market in an attempt to stabilise the rupee – but to no avail. The rupee kept on falling.

Import-Export: In July-August our imports increased by 73 percent to $12 billion. That's a new two-month record in Pakistan's 74-year financial history. In July-August our exports amounted to a paltry $4.5 billion. That meant a trade deficit of $7.5 billion – another record in our 74-year financial history.

Weaponisation of finance: More than a decade ago, the US Department of Treasury (the equivalent of our Ministry of Finance) teamed up with the Pentagon to undertake financial warfare. Over the past seven years, the role of the US Department of Treasury has evolved – the 'Evolution of Treasury's National Security Role'. Jack Lew, the 76th US secretary of treasury from 2013 to 2017, played an important role in this evolution.

Jack Lew's Initiative 1: "Instead of fighting countries militarily, the US can now cripple them financially." Jack Lew's Initiative 2: "The role of financial tools in advancing US national security." Jack Lew's Initiative 3: "Opening up a new battlefield for the US, one that enables us to go after those who wish us harm without putting our troops in harm's way or using lethal force." Jack Lew's Initiative 4: "Our determination to use all the tools at our disposal to advance our strategic interests." Jack Lew's Initiative 5: "As we continue to employ – and increasingly rely upon – financial measures to help achieve our core foreign policy and national security goals."

In 2019, WikiLeaks leaked a document purportedly drafted by the US Army Special Operations Forces Unconventional Warfare. Here's what the document states: "Like all other instruments of US national power, the use and effects of financial weapons are interrelated and they must be coordinated carefully…...Of particular interest politically are the World Bank (WB), the IMF and the World Trade Organization (WTO)." A 'financial attack' has three distinct characteristics – it is indirect, un-attributable and difficult to detect. Pakistan's tertiary capital – foreign currency and international debt instruments – is under attack. The goal is to cause a liquidity crisis.

On September 13, Secretary of State Blinken told Congress that the US will be "looking at its relationship with Pakistan to formulate what role Washington would want [Pakistan] to play in the future…." On September 27, 22 Republican senators in the 117th Congress proposed a bill "To require the imposition of sanctions with respect to the Taliban and persons assisting the Taliban…." The 'Government of Pakistan' has been mentioned three times. This is lawfare in-tandem with financial warfare.

Pakistan's armed forces routinely assess their vulnerabilities – and then work on developing counter-measures. We need to ask three questions. Question number 1: Have we ever formally assessed our non-military vulnerabilities? Question number 2: Have we ever mapped our financial fault-lines? Question number 3: Have we ever mapped our critical financial functions? Remember, the

Small depositors

NIZAMUDDIN ARSHAD

The State Bank of Pakistan (SBP) has recently doubled the guaranteed amount from Rs250,000 to Rs500,000 per eligible depositor per bank. As the vast majority of depositors are small, typically uninformed and unsophisticated, it is vital to comprehend what this protection entails.

A brief background is in order. SBP established the Deposit Protection Corporation (DPC) in 2018, guaranteeing small deposits in case a bank goes bust. Yet the idea of a formal, ex-ante and explicit deposit protection mechanism, contrary to an arbitrary arrangement cobbled together post a bank failure, is hardly novel. The Federal Deposit Insurance Corporation in the US was the first such agency, set up in 1933 to shore up waning public confidence amid rampant bank failures. Similar schemes are now in place in 146 countries. Establishing a DPC in Pakistan has been a step in the right direction. First, it has proffered a pre-defined mechanism to protect depositors of all banks — public or private, Islamic or conventional, large or small, local or foreign — levelling the playing field somewhat, even if the public perception of some large banks as 'too big to fail' may persist.

Prior to DPC, depositors of private banks were virtually under no formal coverage. Though the government had fully guaranteed deposits of all banks under the Banks (Nationalisation) Act of 1974, the privatisation drive from 1990s onwards led to a concomitant drop in the share of public-sector banks. By 2018, over 80 per cent of the banking system was in the private sector, thus uncovered by the Act. DPC has filled that critical gap. Second, instead of offering a blanket guarantee, DPC aims to protect only small depositors — rightly so. Fully covering all, especially large depositors is neither prudentially desirable (as it exacerbates moral hazard) nor financially viable (as it requires colossal funding). With the recent jump in coverage from quarter to half a million rupees, SBP reported that up to 95pc of all eligible depositors (essentially all types of retail, sole proprietorship and partnership deposits etc) are now fully guaranteed. This amounts to a fairly high degree of coverage, even if the value of coverage, at roughly 2.5 times of our current GDP per capita, is still half of the average for low-income countries. However, the coverage level fares better if viewed against the 80:20 rule of thumb which suggests covering 80pc of all depositors and 20pc of total value. In any case, the full protection of 95pc eligible depositors should significantly mitigate the risk of a bank run, an otherwise natural reaction of uninformed depositors to any rumour of bank failure.

Equally relevant is to note who is uncovered by DPC, whether in part or entirely. This respectively boils down to two categories; first, a fraction (5pc) of eligible depositors with total balance per bank above 0.5 million are only covered up to that amount with the rest uncovered, and second, a group which is ineligible for any coverage at all (primarily government, corporates, and insiders' deposits). Both these exclusions are a part of global best practices. While the case for the latter is obvious, fractional coverage of large depositors is warranted as they arguably have the incentive, capacity, and sophistication to closely monitor their banks' performance and can penalise riskier banks by the timely moving of their funds elsewhere; this helps reduce moral hazard and bolsters market discipline. Failure to exert such pressure could leave big depositors wading through protracted court proceedings for recovery of their uncovered deposits when a bank goes under. Whether DPC has truly nudged big depositors to keep a close eye on their banks' performance is however a moot point. Third, by charging banks an insurance premium for deposit protection, currently at a flat rate, DPC is making banks foot the bill, not the depositors or the government. This should considerably limit, if not entirely remove, the need for use of public funds to bail out private banks in future. At some point, DPC should also switch over from fixed to risk-based premiums, demanding riskier banks to cough up more. Finally, a caveat that deposit protection schemes are no panacea for regulatory shortcomings.

While these mechanisms can forestall bank runs or facilitate orderly closure of a failed bank by ring fencing the savings of small depositors, a robust supervisory regime that continues to ensure a sound banking system would remain a precondition. Moreover, such a scheme can only manage individual, occasional bank failures; handling a systemic banking crisis would fall beyond its scope and resource envelope, inevitably requiring the government to step in. In some sense, DPC is akin to a firefighting system; critical to have but one you wish you never reach a point of using.