Strategy for Combating Corruption
In
Pakistan

by

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Introduction
The significance of corruption in Asia is highlighted by the fact that whenever a political regime has crumbled in Pakistan and some other countries in South Asia, a major and often decisive cause has been the prevalence of official misconduct among politicians and administrators, and the concomitant spread of corruption among businessmen. The current Pakistan regime has rightly concluded that in order to provide a stable system for the future, corruption from all segments of the society must be eliminated. This task has been identified as a priority objective and is being pursued with full commitment. Incidentally strict accountability is also a major public demand, as they believe that this non-political government can deliver on this issue.

PART-I GENESIS OF CORRUPTION IN PAKISTAN

Historical Perspective
1.1 In order to develop practical anti-corruption strategies it is imperative to understand the phenomena of corruption in its historical and political context. Traditionally, the south Asian countries were/are ‘plural societies’. The colonial rule abetted in fragmenting the loyalties through all forms of corruption and nepotism. The culture of nepotism was further promoted in the colonial system of administration by award of lands, titles and jobs to the groups supporting colonial objectives.

The Post Independence Imbroglio
1.2 Land Awards. The transition from colonial rule to independent status accompanied the largest Exodus of recent history. Settlement of the millions of homeless through allotment of land/property created the first largest opportunity for corrupt practices. Fake claims were approved of the favourites.
1.3 The Bloated Public Sector. Nationalization programme in 1970s, besides being a poor economic option opened the gates of upsizing state institutions/corporations through politically motivated recruitment. Placements of party loyalists on jobs became new form of nepotism and corruption. The bureaucracy was inducted into the public corporate sector, which resulted in collusive mode of corruption both at individual and organizational levels.

1.4 The Private Sector Cooperatives. In the decades of 70s and 80s the remittances from overseas Pakistanis were misappropriated by private sector through setting up of Housing and Finance Corporations. As a result public money to the tune of Rs. 13-14 billion went into the coffers of these corporations.

1.5 Drug Money. Pakistan saw the entry of drug money into its economy in the early eighties inducing corruption and strengthening the underground economy.

1.6 Foreign Aid and Investment. The process of liberalization of foreign investment specially energy sector was less than transparent. Many quarters
have questioned the utilization of foreign funding for less prudent economic projects.

1.7 **Informal Structure of National Economy.** A vibrant, informal and undocumented economy coupled with lax procedures even in the formal sector of the economy have provided the opportunities to both the entrepreneur and the tax managers to indulge into unfair practices.

1.8 **The Institutional Erosion.** Powerful ruling elites motivated by private interests and weak institutions have fortified political misadventure. The institutions of Legislature, Executive and Judiciary have together failed to establish a system of checks and balances. These institutions have been politicized and power remains concentrated with few blessed. A new class of businessmen-politicians has gradually acquired the control of national politics and economy. This institutional failure is the main cause of corruption in Pakistan.

**PART-II THE CORRUPTION MATRIX**

2.1 **General.** It is generally believed that in terms of frequency, the incidence of corruption is the highest in law enforcement agencies. In terms of the amount of corrupt money changing hands, taxation departments, state-owned banks and development finance institutions, power sector utilities, and civil works departments probably account for the lion’s share. Together, these departments and institutions annually handle transactions in the order of approximately Rs.1.3 trillion. According to informal estimates, as much as 20% or so of this amount may be siphoned off as kickbacks and commissions by those handling these transactions. The resulting illicit income flows could amount to 10% of GDP (See Box 2)

2.2 **The Tax Regime.** Pakistan’s taxation system is characterized by widespread tax evasion, lack of documentation, existence of large untaxed sectors and a weak administrative capacity to collect taxes resulting in as much as 50 percent of the total urban income going unreported. As per recent estimates, annual tax evasion stands at Rs.218 billion.

2.3 **The Public Sector Banking.** Public sector banks, which have dominated the financial sector since the nationalization of banks in the 1970s, have experienced serious deterioration in their loan portfolios mainly because of political interference in their lending and loan recovery decisions. Non-performing loans increased from Rs.25 billion in 1989 to Rs.173 billion as of end September 2000. State owned banks have been the major source of bad loans, amounting for approx 83% of bad loans in the entire system. A large part of this is a willful default on loans that are accumulated with the intention of not being returned. Much of this bad debt is concentrated among a small number of influential borrowers. About 90% of the defaulted loans are owned by the top hundred defaulters. Worst still, recently, the system protected such defaulters. In many cases, loan amnesties were granted. Loan recovery efforts by officials of public sector banks were undermined by fear of politically motivated retribution.
Moreover, judgments issued by banking courts against loan defaulters could not be implemented because of the influence of defaulters.

2.4 **The Public Sector Expenditures.** Due to a non-transparent process and weak accountability system the public sector expenditures are prone to misuse of official powers, kickbacks and pilferage in the utilities sector revenues which are attributable to the theft in connivance with the officials.

2.5 **Underground Economy.** The burgeoning under ground economy, and smuggling in large part are symptoms of wide spread corruption in Pakistan's public sector. The underground economy is estimated to have expanded at an annual rate of 26% over the last 23 years as compared to average annual growth of 17% in normal GDP.

### Box-2

**NAUTRE AND ROUGH ESTIMATES OF CORRUPTION IN PAKISTAN’S PUBLIC SECTOR**

<table>
<thead>
<tr>
<th>Form of Corruption</th>
<th>Modus Operandi</th>
<th>Enabling/Facilitating Factors</th>
<th>Rough Size of Transactions</th>
<th>Rough Estimate of Illicit Incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans</td>
<td>Loans given based on instructions or orders from politicians, with no or highly inadequate collateral, little expectation of repayment</td>
<td>Politicized appointments and transfers of bank managers</td>
<td>Rs. 470 billion Approx</td>
<td>Rs. 47 billion (10% of gross disbursement of loans)</td>
</tr>
<tr>
<td>Tax Evasion</td>
<td>Collusion between tax officials and taxpayers</td>
<td>Discretionary powers of tax officials, complex tax laws, lack of internal accountability</td>
<td>Rs.436 billion</td>
<td>Rs.218 billion (50% of tax collection)</td>
</tr>
<tr>
<td>Public Sector Development Programme</td>
<td>Kickbacks in the award of civil works</td>
<td>Lack of transparency in award of contracts for public works and procurement, inadequate supervision of contracts, lack of internal and external accountability</td>
<td>Rs.116.3 billion</td>
<td>Rs.29 billion (25% of public sector investment)</td>
</tr>
<tr>
<td>Import of petroleum and its distribution in the domestic market</td>
<td>Kickbacks</td>
<td>Lack of transparency in negotiating import contracts and allocation of quotas in the domestic market</td>
<td>Rs.67 billion</td>
<td>Rs.4 billion (5% of total amount of transactions)</td>
</tr>
<tr>
<td>Government current expenditure (other than debt servicing, salaries, utilities, subsidies)</td>
<td>Outright pilferage of public funds, misuse and misappropriation of public assets</td>
<td>Public sector’s monopoly or near monopoly in provision of basic services (health, education) lack of internal and external accountability</td>
<td>Rs.94 billion</td>
<td>Rs.9 billion (10% of government current expenditure)</td>
</tr>
<tr>
<td>Public Utilities and Public Sector Corporations less gas companies</td>
<td>Collusion between staff of public utilities and customers, extortion, embezzlement, favoritism in commercial transactions</td>
<td>Subsidized pricing of some utilities, monopoly or near monopoly of the public sector, lack of internal and external accountability</td>
<td>Rs.175 billion</td>
<td>Rs.26 billion (15% of transactions)</td>
</tr>
<tr>
<td>Law Enforcement Agencies and Judiciary</td>
<td>Extortion, collusion of criminals with law enforcement and judicial personnel</td>
<td>Discretionary powers of the judiciary and law enforcement agencies, lack of internal and external accountability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total** | Rs.1358 billion | Rs.333 billion, or 10.4% of GDP |

*Sources: World Bank note on corruption in Pakistan Economic survey of Pakistan 1999-2000*
PART-III  THE SHORT COMINGS OF ACCOUNTABILITY

3.1 The Review of Accountability. Many governments in the past have attempted accountability drive in some form but these could never materialize into potent efforts effecting the spread of corruption in the society. Main causes of failure are explained below.

3.2 Lack of Political Will. Implementation of a fair and just accountability lacked in the priorities of successive Governments. The democratically elected governments used accountability either as a tool of political victimization or were not strong enough to implement true accountability. Frustrated with slow and misguided accountability, the public demand has gained momentum in the last decade.

3.3 Weakness of Accountability System. Even the existing ineffective laws and procedures for checking corruption by bureaucrats and politicians were not correctly implemented. Most of the anti-corruption agencies were controlled by the executive, and their independence and neutrality was questionable. In recent years corruption has taken progressively more complex forms like money laundering, off-shore accounts/trusts and shell companies. Pakistan anti-corruption agencies lacked professional expertise to detect and investigate such white-collar crime.

3.4 Incompatible Legal and Judicial System. Legal institutions in Pakistan are understaffed and lack trained administrators, modern management systems, and technology. Instead of serving as a facilitator of legitimate economic transactions, the legal system is widely perceived to be an obstacle to economic efficiency. For example, suits for recovery of money can take over 15 years, while transactions in land are vulnerable to legal challenge due to the lack of a sound system of land registration.

PART IV:  THE CURRENT EFFORT

4.1 Accountability Drive

- Structure. National Accountability Bureau has been established at Islamabad while the bureau's regional offices are spread over each province. The Bureau is provided with sufficient means of collecting information, conducting investigations and prosecuting the cases. The cases are filed in designated accountability courts equal to the status of High Courts working under the Chief Justice of Pakistan.

- Objective and Principle. The present accountability drive aims at deterring corruption in the country by prosecuting high profile cases of corruption in every segment of the society. A serious attempt is being made to curtail the corruption of private sector, government organizations and politicians. While striving to achieve the objective NAB is constantly guided by National Priority of Economic Revival, not crossing the pain threshold of society and untainted judicial process.
• **Legal Framework Highlights.** An Ordinance was promulgated to set up National Accountability Bureau (NAB) so as to eradicate corruption and corrupt practices and hold accountable all those persons accused of such practices.
  
  - The law comprehensively covers the spectrum of corruption and corrupt practices, including aspects of money laundering.
  - The willful default of banks and government dues has been included as a criminal act under this Ordinance.
  - The responsibility for investigation rests with Accountability Bureau whereas judicial function and the judicial process is fully controlled by the independent judiciary.
  - The accused is entitled to appellate rights up to the higher appellate forum i.e. Supreme Court.

• **Will of the Government.** For the first time in the history of Pakistan, an accountability drive has been instituted which is unbiased, transparent and proceeding without exceptions. Cases in the present accountability courts include those of ex-prime ministers, ex-chief ministers, senior bureaucrats, armed forces personnel’s etc.

4.2 **Results Achieved**

There are 195 cases of corruption registered in the courts in less than one year. Out of which 55 cases have been decided and 10 accused were acquitted.

- The range and scope of the process involves 50 politicians, 47 bureaucrats and businessmen. It includes two Prime Ministers, six Chief Ministers, ten Federal Ministers and 19 top-level bureaucrats including senior military officers.

- The direct financial recovery due to current drive to-date in one year is approximately US 450 million dollars which includes 443 million US dollars of the bank defaulted amount

- Beside direct recoveries, huge savings have been effected in Government Sector Corporations amounting to 123.00 million dollars.

- Almost 500 cases are under investigation at the moment. It is expected to influence virtually every segment of society and organization.

- Some professionally challenging cases unearthed and successfully investigated include:-
  
  - Serious Fraud Cases of amassing wealth & property abroad.
  - Siphoning of ill-gotten money/kickbacks through Shell Companies.
  - Massive land grabbing and financial scams involving huge sums of money.

- At present Pakistan has extradition treaty with 26 countries. Negotiations are under way for extradition of some of the accused persons.

The summary of result achieved in investigation and prosecution is: -
<table>
<thead>
<tr>
<th>Investigation</th>
<th>Prosecution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized</td>
<td>- 487 Cases Filed in Courts</td>
</tr>
<tr>
<td>Completed</td>
<td>- 82 Cases Decided</td>
</tr>
<tr>
<td>Under Progress</td>
<td>- 360 Convicted</td>
</tr>
<tr>
<td>Closed</td>
<td>- 45 Acquitted</td>
</tr>
<tr>
<td></td>
<td>- 140 Cases in Progress</td>
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**The Vision for the Future**

4.3 **Documentation of Economy and Re-structuring of Tax System.** Recognizing that a very large informal economy and complex taxation system are the root cause of corruption, the government is addressing these issues by following:

- A massive drive on documentation of economy is being carried out with the help of Pakistan Army, to bring on record the real economy for widening the tax base. Through this effort about 1.0 million residential and commercial units would be registered. This process would eliminate the revenue slippages quite effectively.
- The entire tax department is being restructured to bring in computerization with the purpose of reducing contact between tax collector and tax payer.
- Work on simplification of tax laws is in the pipeline.

4.4 **Deregulation of Economy.** An ambitious programme of privatization of public units in the Energy, Financial and Communication sectors is already underway. Unless absolutely in the public interest, the requirement of Government sanctions/approvals are being minimized and planned to be eventually eliminated.

4.5 **Civil Service Reforms.** The government has initiated studies for reducing the size of bureaucracy and number of public sector organizations and ministries. The right sized bureaucracy would be a well-paid and competent work force available to the government.

4.6 **Devolution of Power & Responsibility**

Successive governments in Pakistan have supported the idea of devolution, but, this support has not been translated into action. The present Government of Pakistan included devolution of power to the grass-root level as one of its main objectives. The plan envisages to establish genuine democracy at the lower levels in a manner so as to ensure that power is transferred to the people comprehensively and irrevocably. Under this devolution plan, public representatives at district level will manage their own finances and developmental activities in an open and transparent manner. Exclusive monitoring would also be ensured through designated bodies of public representatives. Vested with power and their own stake in development, the new setup will hopefully be more responsive to the needs of effective accountability.
Conclusion

The present government has already demonstrated its commitment to combat corruption. However, in the long term, corruption can only be addressed if the state of economy of country allows the government to fulfill needs of society and institute transparent and efficient systems. The global financial system should also not provide incentives for transferring and utilizing ill-gotten money in the safe heavens outside the country. Given the current economic potential of the country, a large informal economic sector, evolving socio-political trends in the society, a deliberate but persistent accountability drive is the best option for Pakistan.