



17<sup>th</sup> July, 2014

Mr. Tariq Bajwa,  
Chairman,  
Federal Board of Revenue,  
Islamabad

**Sub: Objection on FBR Tender for monitoring of Manufacturing Industries, an eye wash, and not a serious effort to collect Rs 2,000 billion tax evasion**

Dear Sir,

Transparency International Pakistan has received complaint on the FBR Tender on the expression of interest for setting up of system to monitor manufacturing industries production for eliminating tax theft from the economy.

In this regard FBR is referred to the Cigarettes Tax Stamp project announced by FBR in 2012. TI Pakistan was also included in the team to revise the RFP for that tender. FBR did not process that Project, which required bidders to finance the project with no investment to be incurred by FBR, and the bidder who offered the lowest percentage of additional revenue sharing with FBR would have been awarded the project.

The objections of the complainant are quoted below;

1) That there is no universal system that can monitor production for purpose of tax evasion across hundreds of different products, production processes using varied technologies for production.

2) That even if an industry-product-production-flow specific system is being sought then the solutions will have following weaknesses;

a) Either the production flow by volume or production by weight or production by packs will be recorded. What shall ensure that 1 production line out of many in one factory was not operated without the installed equipment. These production lines can either be monitored by video surveillance which is a primitive idea since a factory may have 10 production lines and would require 30 people to watch the remote video on real time just to know that no fiddling with one of the lines was done. In 5 identified industries FBR will have to monitor 50 odd factories with at least 200 production lines in 3 shifts. Such a counter surveillance is nowhere to be seen and shall require 600 people to do the job. Imagine this system being implemented across all industries in Pakistan

b) Another possible way could be to take ERP data from industry, again there will be issues like not all industry will have all ERP modules. Smaller industry will not have ERP solutions at all. Last but not the least ERP is an internal control system and



cannot be made mandatory for any industry for sake of FBR's incompetence to manage the tax theft through their corrupt inspectors and officials.

c) From the FBR document it seems they are seeking ERP based solution as they are asking implementer's experience in Pakistan. Production monitoring in the world, scope of ERP is only available for Oil and Gas industry internationally and never heard of in Pakistan on a large scale.

3) That a system earlier planned for cigarettes was more logical which was to monitor taxes paid on products for sales in the market. All legal and logical taxes on finished products are payable once the products are clear to be moved out of the manufacturing, hence seeking production record will always require an additional surveillance to track good supplied to the market. How can FBR or any other agency who has taken production record through "indigenous smart system", will reconcile goods supplied to 400000 outlets vs goods produced and monitored through the desired system.

4) That what happened to cigarettes tax stamp project? Was that dropped due to pressure from largest tax paying cartel? Or was that a bribe drive just to collect illicit money by threatening a specific industry by announcing tightening of controls by advertisement given out of public money.

5) That has FBR taken industry in confidence through the associations and chambers of commerce on such a step?

6) That what ensures that the associations and chamber of commerce will not jump in against such a plan and all exercise shall go in vein like in the case of cigarettes tax stamp project failure of FBR?

7) That instead of going for highly expensive new experiment in the world of production monitoring on exchequer's funding, FBR should follow the earlier model of cigarettes tax stamp project, based on no funding by exchequer, and additional collection revenue sharing.

8) That can FBR explain the following apprehensions :

a) Why this EOI will be not trashed like the Tax Stamp EOI for cigarettes?

b) From where in the world FBR has taken the idea for production monitoring? Can they be specific about the solutions and their implementation in different economies?

c) Is it not a fact that this experiment is an effort that the entire process, deemed to fail, is to address the desires of FBR technically, and after its failure FBR will announce that they have tried but the system was not successful? The exercise is being undertaken to allow the corrupt mafia in FBR to continue having a free hand in Tax Evasion as has been the practice since decades now.

TI Pakistan has examined the complaint, and suggest that this whole exercise will cause loss of billions of rupees to the exchequer, as the project is likely to fail, and also many years will be lost to collect the tax evaded money.






In the greater interest of success of plugging tax evasion, TI Pakistan suggest the current EOI may only be proceeded once satisfactory replies to all above queries are provided with sound and solid reasons. FBR must also explain its position for not pursuing Cigarettes tax stamp project which was initiated by FBR and then dropped by them. For all practical reasons and global trend the first monitoring of tax evasion in all economies had been on the heaviest taxed item which without doubt is cigarettes. A sample of four time increase in tax revenue by introducing Cigarettes tax stamp project in one State of India is enclosed for FBR to review and follow.

Transparency International Pakistan is striving to have transparency in procedures and Rule of Law in Pakistan, which is the only way to eliminate corruption and have good governance in country.

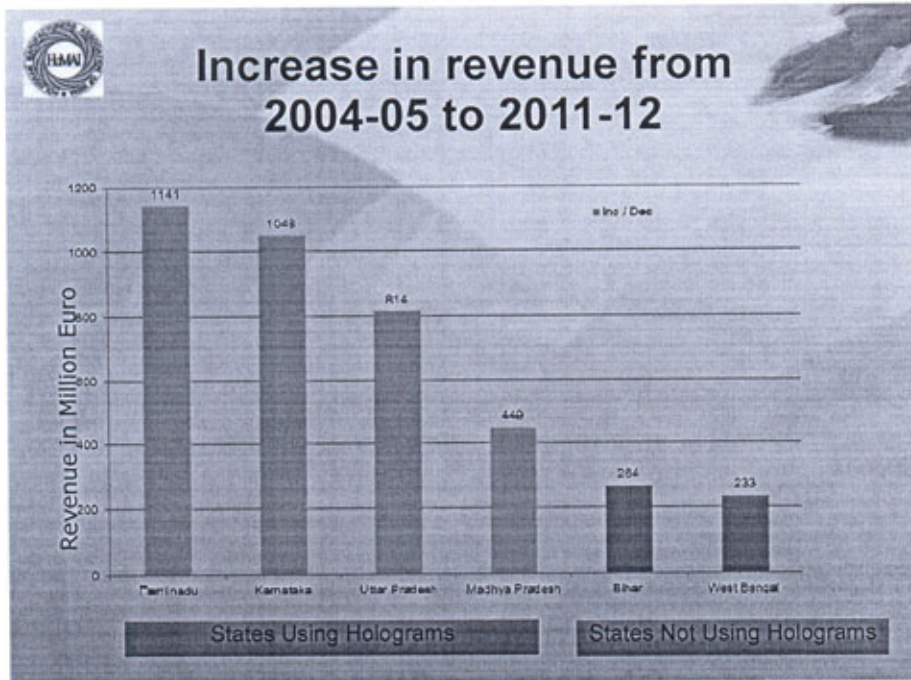
Yours Sincerely,



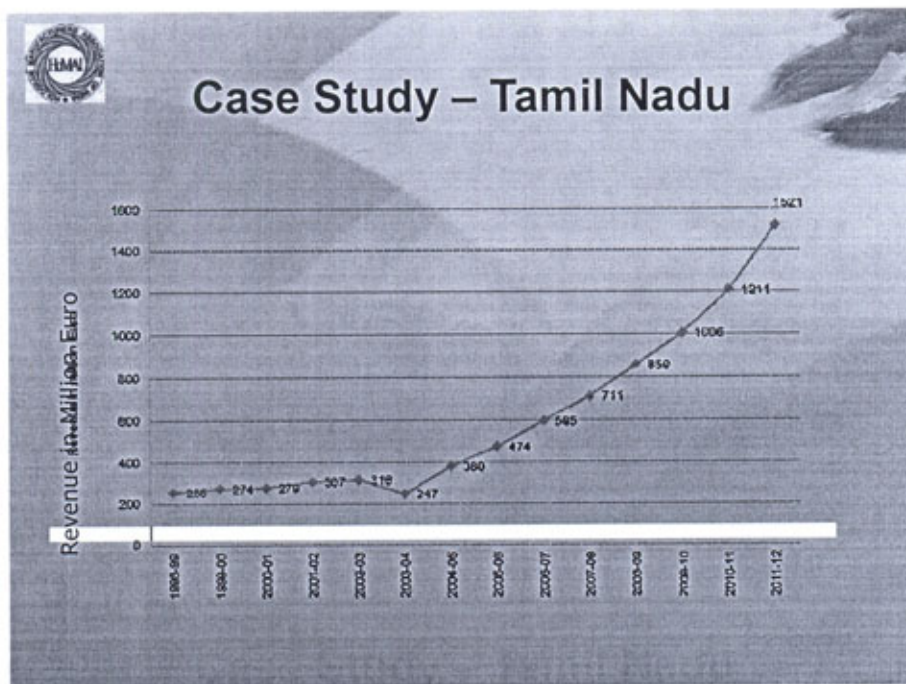
Sohail Muzzafar  
Chairman

Copies forwarded for information and appropriate action under the mandate vested as the bid submission date is 23 July 2014, to,

1. Secretary to the Prime Minister, for information of the Prime Minister, Islamabad.
2. Chairman NAB, Islamabad, with a request to take action under NAO 1999.
3. Minister of Finance, Islamabad, with a request to note that this project is an eye wash patronized by vested interests, and must be streamlined to succeed.
4. Federal Tax Ombudsman, Islamabad, with a request to take action under FTO Ordinance, as FBR seems to be using deliberate delay tactics to avoid real tax collection.
5. Registrar, Supreme Court Pakistan, Islamabad.



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