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## Islamic Economic Revolution of the Century

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# **Islamic Economic Revolution of the Century**

Freedom from national debts in shortest possible time

by

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# Contents of the book

## CHAPTER 1

<b>Introduction</b>	<b>1</b>
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## CHAPTER 2

<b>How MBC System Works: A case study of Pakistan</b>	<b>3</b>
Mbcs In Pakistan: A Case Study	5
Pakistan's Current Economic System	7
Pakistan's Economic System under MBCS	8
Philosophy of MBCS	8
Tax as a Burden	9
The Tax Position in Pakistan	9
Why MBCS can work for Pakistan	10
Changing the Pakistani Mindset	10
A Microeconomic Case For Mbcs	11
MBCS in Outline	12
Why Price Controls?	12
MBCS and Incentives	14
MBCS Prices	15
Calculating the Cost of Coupons	17
The Rationale for a Sliding Scale for Coupon Costs	18
Reasons for Purchasing MBCS Coupons	19
The Household Budget and MBCS	24
MBCS and the Concept of Marginal Utility	26
Why MBCS Coupons Help Businesses	28
Category One Business	28
Category Two Business	29
Category Three Business	29
Savings for Manufacturers in MBCS	31
The Retailer and MBCS	34
Business Operations and MBCS	35
Imports and Foreign Exchange Transactions	38
Imports	38
A Macroeconomic Case For Mbcs	40
What is wrong with the Current Economic System in Pakistan?	41
The Results of Pakistan's System Failure	42
The Way Out of the Crisis	43
How MBCS Produces a Properly Functioning Economic System	44
The Macroeconomic Impact of MBCS on Pakistan's National Value Chain	46
Sustaining the Value of the MBCS Coupon	46
The Government of Pakistan's MBCS Balance Sheet and Cash Flow	47
Corporate Farming	48
End of the Drug Era	49

The True Islamic Banking System	49
The Current State of Islamic Banking	51
The Opportunity for Islamic Banking	51
The Start of Interest-free Banking in Pakistan	53
Interest-free Banking	54
Role of the Central Bank	55
Impact of MBCS on Pakistan's Banks	56
Implementing MbcS	57
The Government of Pakistan's Role in MBCS	57
The Implementation Strategy	57
Multiplication Effect	59
Grassroots Organisation	59
A Flood of Money	60
Deflation And Not Inflation	61
Islamic Bonds instead of Eurobonds	61
Conclusion	63
<b>CHAPTER 3</b>	
<b>MBCS In Developed Countries: The United Kingdom and The United States</b>	<b>65</b>
Developed Countries and MBCS	66
The United Kingdom In Profile	67
The UK Tax System's Effect on Business	68
Flat Rate Taxes	69
Poverty in the United Kingdom	69
Direct and Indirect Taxes	70
How MBCS will work for the United Kingdom	70
Formation of UKMF (United Kingdom Monetary Fund)	71
Multiplication Effect	72
Reasons for Purchasing MBCS Coupons	72
The Economy of the United States	74
The United States In Profile	75
How MBCS will work for the United States	76
Formation of USMF (United States Monetary Fund)	76
Multiplication Effect	77
Reasons for Purchasing MBCS Coupons	77
<b>CHAPTER 4</b>	
<b>Conclusion</b>	<b>81</b>
<b>CHAPTER 5</b>	
<b>Appendix</b>	<b>83</b>
Frequently Asked Questions	83

## Preface

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Dear Brothers and Sisters,

Assalam u Alaikum.

The Islamic Republic of Pakistan from its inception in August 1947 has experienced significant and prolonged challenges in gathering state revenues and balancing the state budget. Every Minister of Finance has had the difficult task of collecting sufficient money through the tax system to fund the essential activities of good government being defence, education, welfare and law and order.

Increasingly, the ability of Pakistan's government (GOP) to carry out a program of reform and embark on a program of targeted expenditure on the infrastructure has been limited by the parlous state of the economy. The root cause of many of these problems is Pakistan's taxation system. The government cannot collect enough money from taxation to fulfill its promises and obligations. As a result, the taxation system in Pakistan has fallen into disrepute, and its inability to raise enough money to meet the government's needs threatens Pakistan's future.

In spite of the efforts of the current government Pakistan is in significant debt and without the practical means to retire that debt. It is also a cause of concern to many citizens of an Islamic State that the debt creates a massive interest burden. Pakistan has also been unable to meet its true needs and 32% of the population live below the poverty line unable to contribute to national growth and development.

The failure of the Government in Pakistan (GOP) to collect enough money to maintain good government has seen many fundamentals of the Islamic state deteriorate to the point where public faith in leaders, government and democracy itself has all but disappeared. Those who pray for good government and law and order are more anxious than ever.



It is our belief that the future of Pakistan can only be assured through financial solvency. Everyone who cares about our country shares this view. It is also our belief that the current tax system has failed Pakistan and will continue to do so. Continuation of the current tax system is not the path to solvency.

Pakistan needs a different approach. We need to speak of state revenues not taxes as this document demonstrates we need new ways of collecting these revenues from a much wider audience. We need a system based on incentives that operates in the unique economic context of Pakistan. We also need to rectify the greatest hurdle of all, the existence of a massive black economy that operates against the law and against the long-term interest of Pakistan.

This document sets out the principles and details of the Mutual Benefit Card Scheme (the MBCS). It has been developed over a period of 5 years with the sole intention of helping revenue collection in Pakistan. It is an initiative from which the sponsor requires no reward save the knowledge that it will help Pakistan to hold its head high once again as a solvent and properly functioning state.

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# CHAPTER 1

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## Introduction

There is nothing certain but death and taxes. Since the earliest days of human history, governments have collected taxes. Ancient, Chinese, Egyptian, and Indian farmers and European feudal serfs paid tithes on their lands. With the rise of the middle classes, accountable governments have levied taxes on incomes, goods, capital and wealth, inheritance, and even windows. Although taxes are an inevitable part of life, societies have had to solve several problems associated with obtaining the money needed to run their governments and maintain their infrastructures: how much money to collect, how to collect it, where to collect it, who will collect it, and how to spend it. Some societies have used religion to guide their tax collection and laws, and other societies have used pragmatism and common sense to create the procedures for collecting taxes and establish laws.

While everyone pays taxes, ordinary, often poorer citizens who cannot pay for good tax advice carry the largest tax burden. From their ranks come the teachers, engineers, doctors, nurses, lawyers, scientists, and other high-value citizens without whom most societies would be so much poorer. It seems unfair that the people who contribute the most to a society's well-being are forced to carry the largest tax load. Modern-day people would be much better off if they lived in a tax-free society.

A world without taxes would be a paradise to many people, but it seems unimaginable, a pipe dream, an illusion. It seems an impossible dream to find a system that eliminates taxes; however, using the mutual benefit coupon system (MBCS), it is possible to create a tax-free world. Although people may laugh at the idea of a tax-free world, many people also laughed at the idea of landing astronauts on the moon, splitting the atom, or curing diseases. Using MBCS, it is possible to

- abolish all taxes,
- fund governments in new and productive ways,

- create incentives for rich and poor citizens,
- promote sensible public and private investment,
- make governments more accountable for spending,
- improve the quality of life for all people, and
- eliminate poverty and illiteracy and the social ills caused by them.

Although MBCS seems like another fad, another 5-minute wonder, it is a system that can achieve this utopian ideal.

MBCS is based on Islamic principles, and it is designed to

- eliminate unfair financial burdens from all sectors of society;
- remove taxes, duties, and levies;
- revolutionize government revenue collection and liquidity;
- eliminate poverty;
- rebuild national infrastructures;
- restore law and order; and
- provide all citizens with equal opportunities.

This book describes MBCS and how it works. It discusses the weaknesses of the present taxation system and its adverse effect on the lives of billions of people. The World Bank and International Monetary Fund (IMF) and their effect on the economies of developing countries are examined. This book compares MBCS in Pakistan and the United Kingdom and MBCS and present financial instruments. There is a discussion about the role of the banking system when MBCS is instituted, and a description of how different countries collect taxes. In addition, this book explains how MBCS can help eliminate the drug trade and terrorism.

## CHAPTER 2

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### **How MBC System Works: A case study of Pakistan**

MBCS is a simple system. In this system, all goods and services under government control are offered to end users and consumers at two prices. The first price is the current or prevailing market price and includes all types of taxes and duties a government collects to meet its budget requirements. This price is much higher than the price offered through MBCS, and it includes most of the taxes and duties. The second price is much lower than current market price because it is offered at almost cost price by the government if purchased at the cheapest price (i.e., six coupons per rupee), and it also depends on the price of a MBCS coupon. This lower price is the incentive for consumers and end users to participate in MBCS.

In order to obtain this lower price, the buyer has to pay for a commodity or service under government control with a certain number of MBCS coupons. The number of coupons will be shown on the bill provided by the government authority. In addition, the bill will also show the current prevailing price, which can be easily calculated by the purchaser because it will always be double the amount of coupons at the current price in rupees: For example, X rupees is the present price, which can be paid in coupons in the form of 2 times coupons. The number of coupons will be two times the amount of rupees. The consumer would pay X rupees or 2 times coupons. Two prices are used in MBCS in order to calculate the coupon price of a good or service. In addition, the current price is kept because it shows how expensive a good or service would cost if a consumer decides not to use MBCS coupons. The savings to the buyer can range from 20% to 60% or more, depending on the rate of coupon. As a result, the consumer gets more for less.

In addition to lower prices, MBCS encourages buyers to participate in the scheme by offering discounts on bulk buys of coupons. As a result, a buyer can establish a price for a commodity or service by timing the purchase of coupons to take advantage of discounts. These discounts also include allowances for duty-free imports instead of cheap coupons or both, and they are offered

in the first, second, and third months of a financial year. After the discount period expires, the rate will be fixed for the rest of the year.

MBCS coupons would be available from a nongovernment organization (NGO) and its agents, and the name of this agency will depend on the government. For example, in Pakistan, this agency could be called the Pakistan Monetary Fund (PMF). Organizations would bid for the right to sell coupons, and the agency selected to operate the monetary fund would employ agents who would receive a 10% commission on all coupon sales. The organization with the lowest bid and the ability to put the scheme into operation in the shortest time would receive the contract. The second-, third-, or fourth-lowest bidders as well as the government would audit the monetary fund. These auditors would work independently on a fixed fee paid by the monetary fund plus a 50% penalty imposed on PMF, which would be 10 times the amount of any discrepancy or fraud. The government would receive the remaining 50% of the penalty.

No rational business, organization, or individual can afford to ignore this scheme if it is offered; therefore, it is reasonable to assume the following:

- People, businesses, and organizations will purchase large quantities of coupons.
- They will purchase them in the early part of the year in order to take advantage of discounts.
- Coupons will be purchased for a number of reasons other than simply paying bills: for example, saving coupons, speculating in sales later in the year, and holding coupons as a hedge against unexpected expenses.
- Coupons will be used at every opportunity to reduce the cost of producing goods and services, from government imports to the point of sale to the end user.

In addition to lower costs, MBCS would include lucky draws everyday, which are like a lottery but without any cost to a person. These draws would encourage people to hold their coupons in the hopes of winning the draw. As a result, the government would have more money than expected because coupons are not being used, the government is not paying interest on them, and they would not be recalled unless the value drops below a certain level. If the value drops below a certain level, the government would buy back the coupons at a low rate in order to increase the value of the coupons.

MBCS has a number of benefits for a government that is having problems collecting enough revenue to meet its needs:

1. At the beginning of each year, the monetary fund would offer MBCS coupons for sale without restriction. MBCS coupons would cover all government-controlled goods and services throughout the entire economic chain; therefore, there should be a large demand for these coupons. The cash raised by the sale of these coupons would go straight to the government through the monetary fund. In

- many developing countries, the initial sale of coupons will produce enough funds to cover the financial needs of a government for several years because the underground economy will merge with the mainstream economy.
2. In this scheme, a government takes the lead in price reductions by discounting fuel, electricity, telephones, and so forth, which would reduce household, agricultural, and industrial costs. This would have a significant, positive impact on economic activity because a reduction in the prices of all essential goods and services with free imports would bring down factory prices and, at the same time, increase profitability, which will be an attractive incentive for new investment.
  3. A government would benefit from increased liquidity, investment, and economic activity. In addition, as the economy grows, the government would sell more coupons.
  4. This new economy is attractive to all parties, and people engaged in the black economy found in many developing countries will migrate to MBCS. It will no longer be attractive to work outside the system because it will be impossible to compete with it on price.

MBCS is a unique, risk-free approach to raising revenue for governments. It does not require a government to give up its current tax system until MBCS proves it is capable of raising enough money to meet a government's needs. Once the system is in place, it will transform dysfunctional economies often found in the developing world into open, transparent, free markets in which the government and citizens co-operate to drive prices down, create surplus budgets, and increase investment. Once a government has accumulated more than enough money to run the country for a year, it would announce a complete tax holiday in which no further income tax would be imposed on any person or businesses. This is the starting point for an industrial revolution.

### **Mbcs In Pakistan: A Case Study**

Pakistan is currently facing many challenges, but its most important challenge is improving the financial credibility of its government. According to the *2005/2006 CIA World Factbook*.

Pakistan, an impoverished and underdeveloped country, has suffered from decades of internal political disputes, low levels of foreign investment, and a costly, ongoing confrontation with neighbouring India. However, IMF-approved government policies, bolstered by generous foreign assistance and renewed access to global markets since 2001, have generated solid macroeconomic recovery the last four years. The government has made substantial macroeconomic reforms since 2000, although progress on more politically sensitive reforms has slowed. For example, in the budget for fiscal year 2006, Islamabad did not impose taxes

on the agriculture or real estate sectors, despite Pakistan's chronically low tax-to-GDP ratio. While long-term prospects remain uncertain, given Pakistan's low level of development, medium-term prospects for job creation and poverty reduction are the best in more than a decade. Islamabad has raised development spending from about 2% of GDP in the 1990s to 4% in 2003, a necessary step towards reversing the broad underdevelopment of its social sector. GDP growth, spurred by double-digit gains in industrial production over the past year, has become less dependent on agriculture, and remained above 7% in 2004 and 2005. Inflation remains the biggest threat to the economy, jumping to more than 9% in 2005. The World Bank and Asian Development Bank announced that they would provide US\$1 billion each in aid to help Pakistan rebuild areas hit by the October 2005 earthquake in Kashmir. Foreign exchange reserves continued to reach new levels in 2005, supported by steady worker remittances. In the near term, growth probably cannot be sustained at the 7% level; however, massive international aid, increased government spending, lower taxes, and pay increases for government workers will help Pakistan maintain strong GDP growth over the longer term.

Increasingly, the ability of Pakistan's government (GOP) to carry out a program of reform and embark on a program of targeted expenditure on the infrastructure has been limited by the parlous state of the economy. The root cause of many of these problems is Pakistan's taxation system. The government cannot collect enough money from taxation to fulfill its promises and obligations. As a result, the taxation system in Pakistan has fallen into disrepute, and its inability to raise enough money to meet the government's needs threatens Pakistan's future. Table 1 shows the extent to which the system has failed and how massive debt has eroded the solvency of Pakistan's government.

<b>Revenue</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>% change</b>
<b>Total revenue</b>	407.69b	479.6b	564.31b	663 b	781 b	1t	15%
<b>Total Expenditures</b>	233.41b	627b	738.29b	868b	1.02t	1.21t	15%

b = billion

t = trillion

Table 1. 5-Year Government of Pakistan Budget Analysis

## **Pakistan's Current Economic System**

The following definitions describe Pakistan's current economic system:

**Cost:** Cost is the actual expenses incurred manufacturing goods or producing services. It includes

- manufacturing/production expenses,
- raw material costs,
- custom duties and other levies paid on imports, and
- conversion costs (i.e., price of electricity, telephone service, gas, and all types of taxes and levies charged during the production process).

**Price:** Price is the selling price of any commodity or service that includes the cost of a good or service plus profit (i.e.,  $\text{Cost} + \text{Profit} = \text{Price}$ ).

**Direct Taxes:** Income tax is the only direct tax in Pakistan. According to estimates by the State Bank Of Pakistan, only 1.2 million people and businesses in Pakistan pay income tax, which is less than 1% of the total population. According to most conservative estimates, at least 10% of the population should be paying income tax.

**Indirect Taxes:** Indirect taxes are paid by approximately 60% of the population. It includes sales tax, custom duties, excise surcharges, and other levies.

Most businesses in Pakistan do not pay the proper amount of sales tax. In order to avoid paying sale tax, Pakistani businesses keep two sets of books: One book is official, and the other book is unofficial. A very small portion of actual sales (approximately 5%) is declared in official books, which results in substantial losses in government revenue. Government tax inspectors responsible for examining the books play a pivotal role in this theft. Not one privately owned business declares 100% of its production. This situation exists because high production costs and high taxes make it impossible for a Pakistani business to be honest about its tax bill and still make enough profit to stay in business.

**Hiked Prices:** Currently, the Pakistani government marks up (i.e., profit) the prices of commodities and services it controls by 100% to 300%. This extraordinary high mark-up in prices may be considered an indirect tax, which is paid by the 60% of the population who pay utility bills or buy fuel.

It is estimated by unofficial government sources that approximately US\$1 billion worth of fuel is smuggled from oil-rich countries and sold in Pakistan at reduced prices. In addition, illegal connections and the theft of utilities by individuals and businesses result in heavy losses in government revenues. Some high government officials participate in these illegal activities.



## **Pakistan's Economic System under MBCS**

The following definitions describe Pakistan's economic system under MBCS:

**Rupee Value:** Rupee value is a current prevailing market price. This price is not applicable to consumers and is only used to calculate the numbers of coupons needed to purchase a good or service. According to the most conservative estimates, if all the direct and indirect taxes were abolished, production cost would be reduced by 50%. This reduced cost, which includes actual cost and profit, is the rupee value in MBCS.

**Coupon Value:** The MBCS coupon value is the price of goods and services, which is twice the value of a current rupee value.

**Coupon:** A MBCS coupon replaces direct taxes, indirect taxes, custom duties, excise taxes, surcharges, and all other levies. The cheaper the coupon, the less tax paid by a consumer or business.

**Actual Price:** In MBCS, the actual selling price is the price a subscriber or consumer has to pay, and this price depends on the cost of coupons. The cheaper the coupon, the cheaper the price of the commodity or service provided by the government.

**Production Cost:** In MBCS, production costs will be reduced by 50% because all direct and indirect taxes, duties, surcharges, and other levies are abolished and replaced by coupons. These taxes are eliminated because the government is able to collect enough money within a few days of implementing MBCS to meet its annual budget.

In Pakistan, 10% of the population (i.e., 15 million people) can easily spend 100,000 rupees in the first few days to reduce their daily bills by two thirds of the previous cost. This will raise PKR1.5 trillion for the government, which is more than enough money to meet the government's budgetary needs. Once this money is raised, Pakistan would be declared a tax-free heaven, even for the foreign investor. This is one of the doors through which money will flood into GOP's treasury. There are five more doors through which money will flow to the government, and these will be described later in this chapter.

## **Philosophy of MBCS**

In MBCS, a current prevailing market price is the rupee value, and the other price is the coupon value. The coupon value is a subsidized price, with an average discount of 40% to 60% compared to the prevailing market price. The price of a coupon will vary between two and six coupons per rupee, depending on the amount purchased, time of purchase, or whether they are

purchased under special registration rules (up to six coupons per rupee during the whole year, depending on the type of registration).

These coupons will reduce the cost of production by at least 40%, which will reduce the cost of living. This reduced price will not be below the actual cost of a good or service and will carry at least a 10% mark-up on the cost price provided by the government.

In addition to taxes, businesses in Pakistan are affected by high duties on imports. In MBCS, it is possible for businesses to use a duty-free option. This option would stop the rampant smuggling that occurs in Pakistan, and it would increase the import of technically and extremely useful high-tech industry products more than 10 times the present rate. MBCS would also increase all other types of imports because of the demand and supply factor. This duty-free environment would not hurt the government because all these imports would be carried out by the private sector, and the only role played by the government would be the removal of these unnecessary duties, which only earn the government PKR75 billion a year.

These duties hurt Pakistan's industries, and there is no incentive for the creation of new businesses. As a result of the duties, the private sector imports or smuggles goods from neighboring countries where these products are cheaper than they would be if Pakistani businesses tried to produce them. For example, the government spends approximately US\$2 billion a year to import fuel. In MBCS, the duty on fuel would be almost nonexistent, and the black market in fuel would become a legitimate market. In MBCS, fuel would be imported by the private sector, and the government would become a partner in this deal and control the price of fuel.

### **Tax as a Burden**

In 2006, the Government of Pakistan collected US\$15.45 billion in direct and indirect taxes. This is equal to US\$2,400 for every man, woman, and child in Pakistan (*CIA Country Yearbook, 2006*). Unfortunately, a small proportion of Pakistan's 160 million people pay most of these taxes:

- Approximately 1.6 million people pay most of the taxes collected in Pakistan.
- These people are gainfully employed, and many of them are owner/managers or professionals.
- These people also pay most of the indirect taxes collected in Pakistan.

Given that the per capita Gross Domestic Product (GDP) of Pakistan is \$2,400, the tax burden being carried by this small group of taxpayers is absurd.

### **The Tax Position in Pakistan**

Several features of the Pakistan tax environment are pertinent to MBCS:

1. A previous attempt to institute a broad-based sales tax on consumption failed because it was unpopular. In Pakistan, 32% of the population lives below the

poverty line (World Bank, 2006), and taxing the poor, albeit indirectly, is deeply resented and politically dangerous.

2. Pakistan has, as conceded by the World Bank and the U.S. government (*CIA World Factbook*, 2006), one of the most promising economies in South Asia. In the mid-to-late 1990s, it was capable of significant GDP growth (i.e., 5%–8% per annum) under the right circumstances.
3. External debt, previous mismanagement, and corruption at the highest levels of government have up to October 1999 prevented Pakistan from achieving its undoubted socioeconomic potential and its rightful place as the leading nation in South Asia.

The existing tax system has failed to retire Pakistan's debt and provide the funds needed to improve the country's infrastructure. MBCS would generate enough money to retire the debt and improve the standard of living for everyone living in Pakistan.

### **Why MBCS can work for Pakistan**

Pakistan's current tax system requires income taxes, import duties, government duties, and price controls. It relies on businesses and individuals to honestly declare all taxable transactions. However, this system is open to abuse, and receipts fall behind economic activity. In addition, higher prices for controlled goods and services as a means of collecting revenue in an economy that is not performing well and with low per capita GDP is unpopular. The high level of taxes and high controlled prices encourage many Pakistani people to avoid paying taxes and buy their goods and services on the black market.

Many people in Pakistan, as in other South Asia countries, believe that taxes are exclusively for the rich; however, this divisive argument is as socially corrosive as it is factually incorrect. In order to create a successful revenue collection system in Pakistan, it is necessary to ensure that the revenue net is spread as far as possible, and there must be a general consensus among those within the net that co-operation is worthwhile.

### **Changing the Pakistani Mindset**

MBCS provides a revenue collection system for the Government of Pakistan, and it is based on a nationwide, dual pricing system for all goods and services and associated profits. This applies not only to GOP-controlled goods and services, but also to goods and services provided by the private sector.

In order to enjoy lower prices, citizens prepay for a MBCS coupon that is used for buying goods and services that have two prices. The revenue from the sale of these coupons goes to the

government through a national monetary fund that sells coupons and collects money. In Pakistan, this national organization would be called the Pakistan Monetary Fund (a private contractor) (PMF), and it would pay revenue collected from the sale of coupons directly to GOP accounts.

MBCS is a revenue system, not a tax system. In effect, the scheme asks businesses and consumers to help the government, and it encourages people to use this system by offering lower prices for goods and services. MBCS is attractive to consumers because it appeals to people's desire to find the best deal for a good or service.

#### MBCS' Economic Appeal

In MBCS, there is no statutory obligation to buy coupons. The scheme relies entirely on the basic human instinct of getting the best deal for the money. Unlike Pakistan's current tax system, MBCS will attract people because it offers guaranteed discounts on goods and services.

The lower prices available with MBCS coupons will attract at least 10% of the population. In addition, it will attract consumers because they will pay a higher price without a coupon. MBCS will eventually attract enough participants to enable Pakistan to eliminate its current tax system. In addition, because coupons will be bought at the start of a financial year, the government will know exactly how much money it will have to fulfill its obligations during the year.

### **A Microeconomic Case For MbcS**

MBCS will affect the microeconomy of Pakistan in the following ways:

- All transactions involving the use of money or credit for goods and services can operate under the scheme.
- MBCS applies to the entire economy, including nonprofit organisations.
- MBCS will reduce household and business costs, which will increase consumer net disposable income (NDI) and business profitability.
- MBCS will have an immediate, favorable impact on economic activity, employment, and government revenues.
- MBCS will affect the supply (e.g., imports, manufacturing, agriculture, and services) and demand (e.g., individuals, households, and business) sides of Pakistan's economy and eliminate supply/demand curve imbalances.
- MBCS revenues will reflect the level of economic activity in the macroeconomy, and the system will grow proportionately with the growth of GDP.
- MBCS incentives will reduce the need for a black market and encourage more people to participate in the open economy.

## MBCS in Outline

In MBCS, a Pakistani consumer would use a prepaid coupon (i.e., in the form of a plastic card/voucher) when purchasing any good or service. The consumer who uses a coupon would be entitled to significant discounts on the listed sales price/cost of utility bills and other purchases.

While the scheme requires the government to discount, in some cases, its indirect tax rate/ fixed pricing to people using coupons, it will increase net tax revenue and upfront revenues and improve cash revenues and cash flows to the government. The short-, medium-, and long-term benefits of increased and timely revenue collection will far outweigh a theoretical reduction in indirect tax rates/price controls.

MBSC will work in the favor of consumers, and businesses will gain significant, preferential advantages by using coupons. Businesses will be drawn into the scheme by the simple pressure of lower prices offered by businesses that participate in MBCS.

MBCS will increase Pakistan's GDP, and this will substantially outweigh the discount aspect of the system. In addition, MBCS will cause the black market to migrate into MBCS-based transactions and increase GOP's revenue net (see Figure 1).

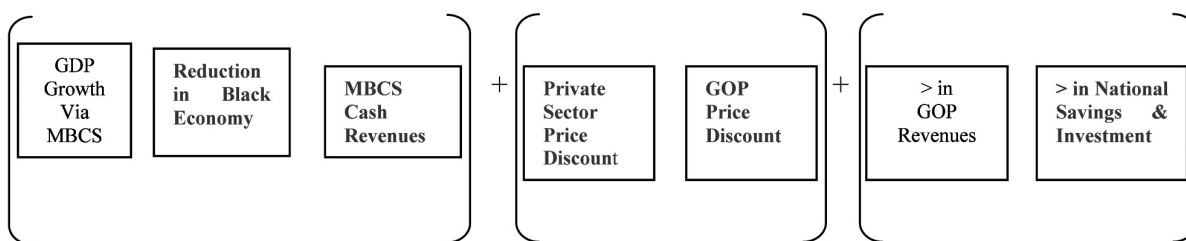


Figure 1. Economic Impact of MBCS

## Why Price Controls?

Pakistan has a long tradition of controlling the prices of a large number of critical items:

- electricity;
- petrol, diesel, and aviation fuel;
- telecommunication services;
- road taxes;
- a large range of consumer items;
- registration fees, stamp duties, and other government fees;
- court fees;
- fixed duties on air travel;
- surcharges on airline tickets;
- railway travel;

- toll taxes and road permits;
- import duties;
- property taxes;
- post office fees;
- fees for passports and identity cards;
- marriage duties;
- fees for private educational institutes and private and government hospitals; and
- fees on all applications to government offices and agencies.

GOP controls prices for a number of reasons, but it primarily controls prices in order to supplement its direct tax revenues with profits from the sale of price-controlled goods and services. In fact, it is the only way it can guarantee it will collect revenue on certain items because a general sales tax is neither practical nor politically acceptable. MBCS would enable the Government of Pakistan to continue the practice of making money directly from sales, and it would model the two-tiered price scheme for the private sector by offering a discount price to consumers who use MBCS coupons. Figure 2 compares current costs for GOP-controlled goods and services and savings under MBCS.

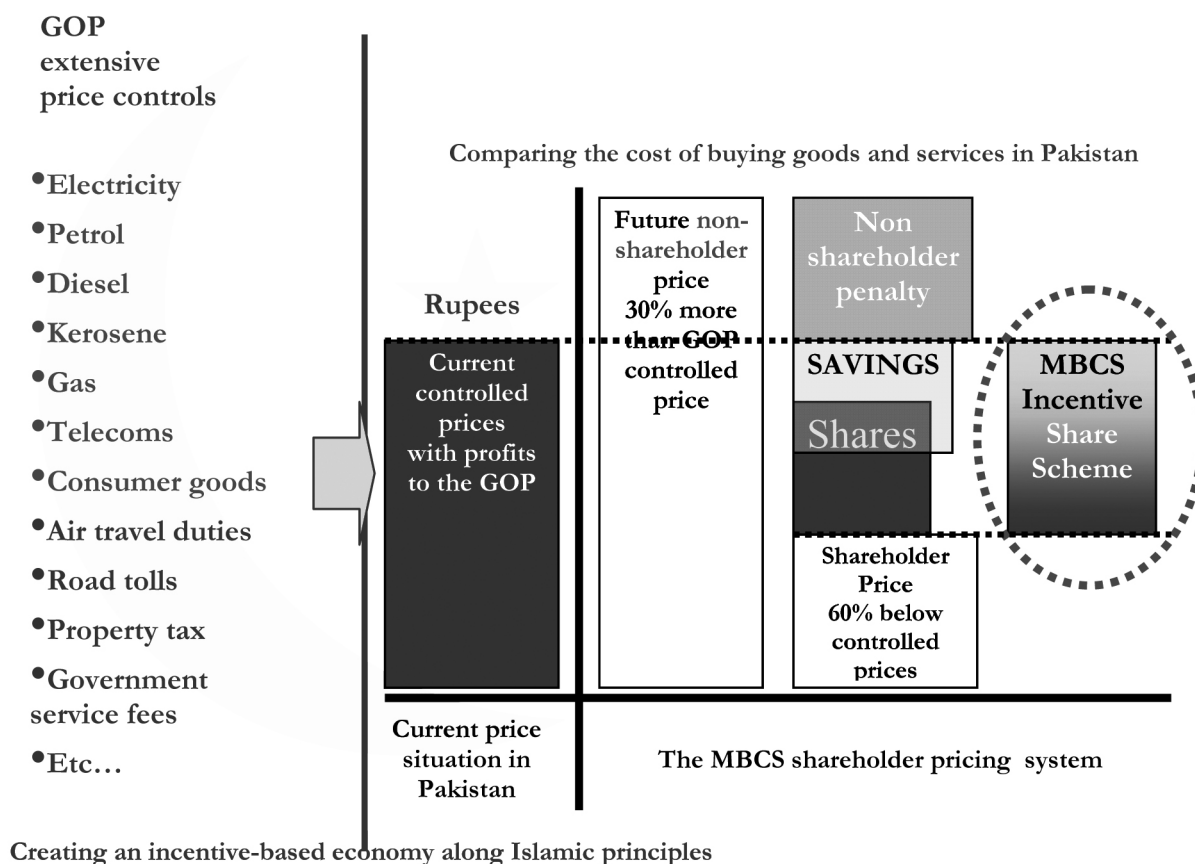
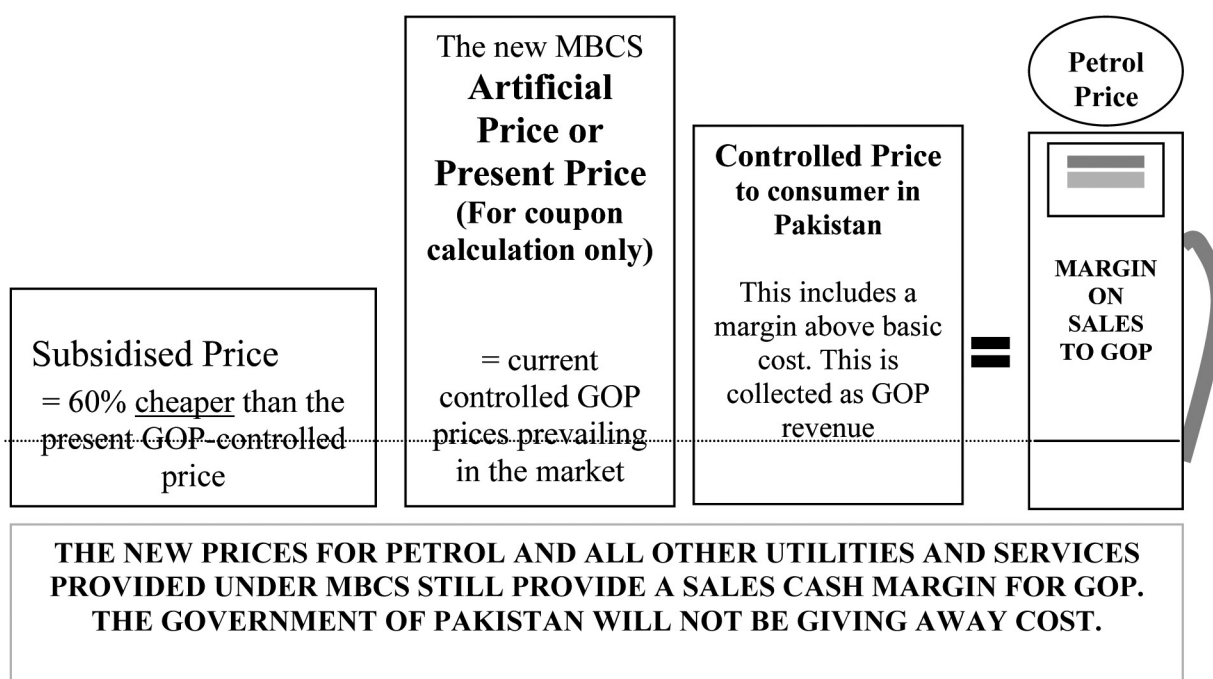


Figure 2. Comparing Costs in Pakistan's Current System and MBCS

## MBCS and Incentives

In the beginning, the government would offer its priced-controlled items at two prices: rupee value and coupon value. The coupon price is lower than the rupee price, which is an artificial price, and it offers a considerable advantage over the artificial price in real cash terms. In order to enjoy the lower price, consumers would pay twice as many coupons as rupees for the same good or service. This appears to be a win-win situation for consumers if coupons are bought at a rate below face value (e.g., six coupons per rupee or even three or four coupons per rupee), consumers would save at least 20%, even if the rate was three coupons per rupee. However, in the open market, the rate of coupons per rupee would always be above five coupons per rupee (see Figure 3).

### How the current price system relates to the MBCS



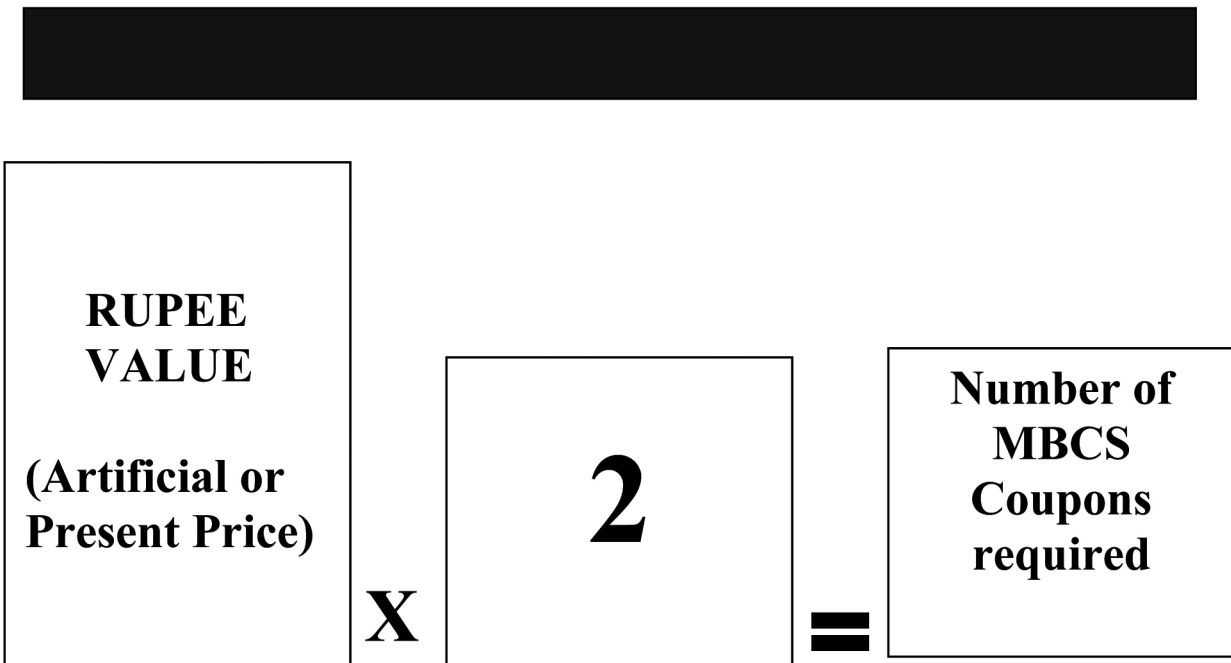


Figure 3. Current Price System's Relationship to MBCS

### **MBCS Prices**

In MBCS, there are two stated prices and one final price (see Figure 4):

1. The first stated price is the artificial price, called rupee value (stated on label/list). This price is used only to calculate the number of MBCS coupons required and will be the prevailing market price.
2. The second price is the with-coupon price, called coupon value (stated on label/list). This price is 40% to 60% lower than current prices and will (depending on the coupon rate per rupee at the time) show how many coupons are needed for the purchase.
3. The third and final price is the actual price in PKR. This is the price in rupees actually paid by the consumer once the number of coupons is calculated.



## WHY DOES THE PRICE VARY SO MUCH? HOW DO I KNOW WHAT I'M PAYING?

- When paying for goods and services under MBCS, the consumer is most interested in the **Actual Price**
- **So what is the Actual Price, and how is it calculated?**

### STEP ONE: HOW MANY COUPONS DO I NEED?

$$\begin{array}{|c|} \hline \text{ARTIFICIAL} \\ \text{PRICE} \\ \hline \end{array} \quad \times \quad \begin{array}{|c|} \hline 2 \\ \hline \end{array} \quad = \quad \begin{array}{|c|} \hline \text{Number of} \\ \text{MBCS Coupons} \\ \text{required} \\ \hline \end{array}$$

### STEP TWO: HOW MUCH DO THE COUPONS COST?

$$\begin{array}{|c|} \hline \text{Number of} \\ \text{MBCS Coupons} \\ \text{required} \\ \hline \end{array} \quad \times \quad \begin{array}{|c|} \hline \text{Cost per Coupon} \\ \text{to the purchaser} \\ \hline \end{array} \quad = \quad \begin{array}{|c|} \hline \text{Cost to the} \\ \text{buyer of the} \\ \text{redeemed} \\ \text{MBCS Coupons} \\ \hline \end{array}$$

### STEP THREE: WHAT IS THE ACTUAL PRICE?

$$\begin{array}{|c|} \hline \text{Cost to the bu} \\ \text{redeemed} \\ \text{MBCS Coupons} \\ \hline \end{array} \quad = \quad \begin{array}{|c|} \hline \text{ACTUAL} \\ \text{PRICE} \\ \hline \end{array}$$

Figure 4. Calculating Actual Price

## Calculating the Cost of Coupons

It is quite easy to calculate the cost of MBCS coupons: More coupons equal lower costs, and earlier coupon purchases in a financial year equals more benefits. The incentive to participate in MBCS is lower prices for goods and services. In addition, consumers are rewarded for buying more coupons early in a financial year. Table 2 shows the benefits of buying coupons in bulk: For example, a consumer could spend from PKR0.05 to PKR0.167 per coupon, depending on the time of year the coupons are purchased.

Table 2. Benefits of Buying Coupons in Bulk

<b>The increasing cost of MBCS coupons over a year</b>				
<b>Month</b>		<b>Official Coupon Cost</b>	<b>Concessions</b>	<b>Open Market Rate</b>
1	January	100% of special concession*	Business registered as without end user customers can buy 600,000 coupons per month at a rate of six coupons per rupee for a registration fee of 100,000 rupees. (Category 1 and 10,000 for Category 2, which is a retailer, and 100,000 for Category 3 which is the Gold Mine)	The rate for coupons on the open market will be a function of those held for surplus requirements and for speculative/trading purposes by individuals, businesses, organizations, and banks and the demand for coupon once the official rates move into a non-concessional period (i.e., the 4 <sup>th</sup> month).
2	February	70% of special concession*		
3	March	50% of special concession*		
4	April	Coupons available on the market at the rates set out in official tables  (Lowest exchange rate)		
5	May			
6	June			
7	July			
8	August			
9	September			
10	October			
11	November			
12	December			

\*During the first financial quarter of each year, MBCS would operate under a special concession arrangement to encourage the maximum upfront purchase of coupons. The concession enables any person, household, or business to buy at a rate of six coupons per rupee in the first month, which is the maximum amount, and will keep on decreasing over time.

## **The Rationale for a Sliding Scale for Coupon Costs**

The financial objective of MBCS is to deliver substantial upfront revenues (i.e., liquidity) to GOP and improve its solvency (e.g., balanced budgets). MBCS uses a sliding scale to encourage people to buy large quantities of coupons early in a financial year. There are four reasons to use a sliding scale for coupon costs:

1. A sliding scale encourages people to buy large quantities of coupons in the first month of a financial year;
2. It encourages the largest possible sales in single transactions.
3. It encourages non bank deposits (i.e., the black market) to buy coupons.
4. It rewards the good customer.

The sliding scale has several implications for consumers:

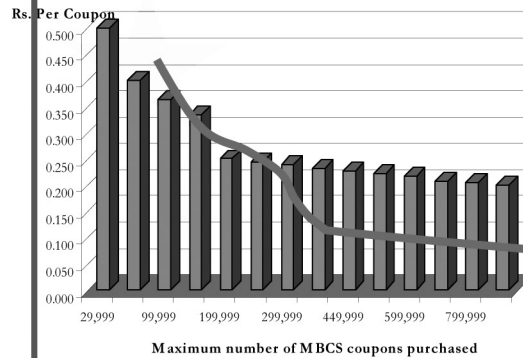
1. Consumers with large cash deposits, whether in or out of the official economy, will be encouraged to buy large quantities of coupons. The coupons will have significant value to high-, middle-, and low-income households because MBCS coupons will be used to purchase all goods and services, from luxuries to necessities.
2. Coupons are bearer entitled, and the holder of a coupon will enjoy its benefits. Therefore, coupons can be traded on the open market and sold at a profit.
3. Buyers of coupons can trade in futures by taking options from traders on their future requirements at mutually agreed rates. This is particularly important because coupons will be available through official channels at their best rates only during the early part of a financial year; however, consumers who can buy more than PKR800,000 worth of coupons would be able to obtain a rate of five coupons per rupee throughout the year.
4. The costs of living and production will be reduced and create consumer demand, savings, and increased profit.

**How does industry and commerce benefit?**

- They can enjoy reduced prices through the MBCS
- They can buy large quantities of shares and get better savings
- Importers can buy relief from duty via the share scheme
- Therefore 'input' and 'transfer' costs can be reduced in the value added process
- Private sector goods and services can be traded in the share system as the shares have redeemable value to the recipient
- Competitive advantage will come to those in the share system
- Consumers will get better prices



**The reducing unit cost of shares (incentive arrangement)**



Shareholders

- Individuals
- Families
- Groups
- Village co-operatives
- Farmers
- Businesses
- Schools
- Hospitals
- Charities
- Pak expatriates
- Tourists

**THE MORE YOU BUY THE MORE YOU SAVE**

**Creating an incentive-based economy along Islamic principles**

Figure 5 illustrates the sliding scale for coupon costs.

**Reasons for Purchasing MBCS Coupons**

There are three reasons why a consumer would want to purchase MBCS coupons:

1. Coupon-based transactions are less expensive than rupee-based transactions.
2. Coupons purchased at the beginning of a financial year are less expensive than coupons purchased later in the year.
3. The cheaper the coupons, the cheaper the price of the goods and services bought using coupons.

The best deals (i.e., rates for coupons) will come through official channels during the first financial quarter. This will attract substantial revenues ahead of purchasing requirements, and it will be a win-win situation for the Government of Pakistan and consumers.

The more expensive official coupon market in the remainder of a financial year will encourage open market trading among businesses and individuals who trade coupon surpluses for shortfalls at negotiated prices. This market is important because it creates a broad-based value for an

exchange market that is independent of GOP price controls. This will further support the growth of the coupon system in the open market.

Banks and financial institutions will be able to trade through their normal distribution channels and provide MBCS coupon accounts as well as normal rupee cash and deposit accounts. Banks will also be able to purchase larger quantities of coupons in the early part of a financial year on a speculative basis and offer these coupons to their customers during the year. Banks can top up customer coupon accounts at agreed rates and times. This trade in coupons will be a very lucrative business for banks and a valuable customer service.

Approximately 10% of Pakistan’s population pays for the basics of modern living, such as telephones, gas, water, electricity, and so forth. MBCS will offer cheaper actual prices on the consumption of these important everyday basics. The following steps show how the price for a basic commodity is calculated using MBCS:

- When calculating the bill for a commodity, the vendor uses present prevailing tariff charges.
- When the bill is paid, coupons will replace PKR and the savings will depend on the rate of coupons when they were purchased. Utility bills will calculate/show the number of coupons required by the user, so there will be no confusion or need for the consumer to do the calculating.
- The coupon value price of the utility will be much lower than the rupee value price.

Figures 6, 7, and 8 show how MBCS affects the price of electricity for large, medium, and small consumers. Table 3 shows the cost of petrol under MBCS.

Pakistan Electricity Billing Authority (Reg. Under MBCS)				
	Calculations		Costs in PKR Coupons	
1	Units last reading	12500		
2	Units this reading	13500		
3	Units consumed*	1000		
4	Rupee Value Price		5,000	
5	Coupon Value Price			10,000
6	Coupons required			10,000



**Coupons**

**10,000**

Total MBCS coupons to pay bill

\*Existing electricity tariff cost to consumer (2004)

PKR5,000 (Actual 4,996)

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	10,000
2	How much do they cost me in Rupees @ 3 per table?	3,333
3	<b>And what is the Total Rupee cost of my bill?</b>	<b>3,333</b>

MBCS coupon table	
Coupons purchased	Cost per coupon

4	<b>*And savings from the existing tariff above?</b>	<b>1,667</b>	1-29,999	0.500
			30,000-59,999	0.400
			60,000-99,999	0.364
			100,000-149,999	0.333
			150,000-199,000	0.250
			200,000-249,999	0.244
			250,000-299,999	0.238
			300,000-349,999	0.233
			350,000-399,999	0.227
			400,000-449,999	0.222
			450,000-499,999	0.217
			500,000-599,999	0.213
			600,000-699,999	0.208
			700,000-799,999	0.204
			800,000 and Above	0.200
			Special Concessionary Rate	0.167

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	10,000
2	How much do they cost me in Rupees @ 4 per table?	2,500
3	<b>And what is the Total Rupee cost of my bill?</b>	<b>2,500</b>
4	<b>*And savings from the existing tariff above?</b>	<b>2,500</b>

How much does the electricity really cost me?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	10,000
2	How much do they cost me in Rupees @ 6 per table?	1,667
3	And what is the total Rupee cost of my bill?	1,667
4	<b>*And the savings from the existing tariff above?</b>	<b>3,333</b>

Figure 6. Electric Bill for Large Consumers in MBCS

The electricity bill			
Pakistan Electricity Billing Authority (Reg. Under MBCS)			
	Calculations	Costs in PKR	Coupons
1	Units last reading	4500	
2	Units this reading	4700	
3	Units consumed*	200	
4	Artificial price	600	
5	Total subsidized price		1,200
6	Coupons required		1,200



	<b>Coupons</b>
<u>Total MBCS coupons to pay bill</u>	<b>1,200</b>
*Existing electricity tariff cost to consumer (2004)	PKR600 (Actual 592)

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	1,200
2	How much do they cost me in Rupees @ 3 per table?	400
3	<b>And what is the Total Rupee cost of my bill?</b>	<b>400</b>
4	<b>*And savings from the existing tariff above?</b>	<b>800</b>

MBCS coupon table	
Coupons purchased	Cost per coupon
1-29,999	0.500
30,000-59,999	0.400
60,000-99,999	0.364
100,000-149,999	0.333
150,000-199,000	0.250

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		

1	How many MBCS coupons do I need?	1,200	200,000-249,999	0.244
2	How much do they cost me in Rupees @ 4 per table?	300	250,000-299,999	0.238
3	<b>And what is the Total Rupee cost of my bill?</b>	300	300,000-349,999	0.233
4	<b>*And savings from the existing tariff above?</b>	<b>900</b>	350,000-399,999	0.227
			400,000-449,999	0.222
			450,000-499,999	0.217
			500,000-599,999	0.213
			600,000-699,999	0.208
			700,000-799,999	0.204
			800,000 and Above	0.200
			Special Concessionary Rate	0.167

How much does the electricity really cost me?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	1,200
2	How much do they cost me in Rupees @ 6 per table?	200
3	And what is the total Rupee cost of my bill?	200
4	<b>*And the savings from the existing tariff above?</b>	<b>1,000</b>

Figure 7. Electric Bill for Medium Consumers in MBCS

The electricity bill			
Pakistan Electricity Billing Authority (Reg. Under MBCS)			
	Calculations	Costs in PKR	Coupons
1	Units last reading	2500	
2	Units this reading	2600	
3	Units consumed*	100	
4	Artificial price	250	
5	Total subsidized price		500
6	Coupons required		500



	<b>Coupons</b>
Total MBCS coupons to pay bill	<b>500</b>

\*Existing electricity tariff cost to consumer (2004) PKR250

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	500
2	How much do they cost me in Rupees @ 3 per table?	167
3	<b>And what is the Total Rupee cost of my bill?</b>	167
4	<b>*And savings from the existing tariff above?</b>	<b>83</b>

MBCS coupon table	
Coupons purchased	Cost per coupon
1-29,999	0.500
30,000-59,999	0.400
60,000-99,999	0.364
100,000-149,999	0.333
150,000-199,000	0.250
200,000-249,999	0.244
250,000-299,999	0.238
300,000-349,999	0.233
350,000-399,999	0.227
400,000-449,999	0.222

How much does the electricity really cost me if?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	500
2	How much do they cost me in Rupees @ 4 per table?	125
3	<b>And what is the Total Rupee cost of my bill?</b>	125
4	<b>*And savings from the existing tariff above?</b>	<b>125</b>

How much does the electricity really cost me?		
I.e. How much benefit do I get from the coupons?		
1	How many MBCS coupons do I need?	500
2	How much do they cost me in Rupees @ 6 per table?	83
3	And what is the total Rupee cost of my bill?	83
4	<b>*And the savings from the existing tariff above?</b>	<b>167</b>

450,000-499,999	0.217
500,000-599,999	0.213
600,000-699,999	0.208
700,000-799,999	0.204
800,000 and Above	0.200
Special Concessionary Rate	0.167

Figure 8. Electric Bill for the Small Consumer under MBCS

Table 3. Cost of Petrol in MBCS

<b>Cost of petrol Under MBC System</b>
--

Rupee Value Price (Current Price) =	<b>40</b>	<b>Rupees</b>
Coupon Value Price =	<b>80</b>	<b>Coupons</b>

Typical Purchaser	Quantity (liters)	Rupee Value Price (PKR)	Coupon Value Price (Coupons)	Four examples of actual cash costs based on number of coupons purchased at one time			
				3	4	5	6
Domestic	1	40	80	26.67	20.00	16.00	13.33
	10	400	800	266.67	200.00	160.00	133.33
	20	800	1,600	533.33	400.00	320.00	266.67
	40	1,600	3,200	1,066.67	800.00	640.00	533.33
Small Business	60	2,400	4,800	1,600.00	1,200.00	960.00	800.00
	80	3,200	6,400	2,133.33	1,600.00	1,280.00	1,066.67
	100	4,000	8,000	2,666.67	2,000.00	1,600.00	1,333.33
Larger Business	200	8,000	16,000	5,333.33	4,000.00	3,200.00	2,666.67
	300	12,000	24,000	8,000.00	6,000.00	4,800.00	4,000.00
	400	16,000	32,000	10,666.67	8,000.00	6,400.00	5,333.33

MBSC would offer a special discount to consumers who buy large quantities of coupons at the start of a financial year. A consumer who buys more than PKR100,000 worth of coupons in one transaction in the first month of the year will receive

- 10,714 liters of petrol at PKR16 per liter, depending on the prevailing price of petrol per liter, or
- any combination of electricity or water or gas at a real price of PKR1 per unit up to a limit of 15,000 units or
- double the above quantities at half the cost of buying the required coupons when settling a bill.



In MBCS, all government-controlled prices (e.g., government fees, post office fees, hospital fees, railway tickets, and airline tickets) will be available by paying twice the number of coupons as the prevailing price (see Tables 4 and 5 for some examples).

Table 4. Example of Economy Class Railway Ticket from Lahore to Karachi

	Net Price (PKR)	Saving (PKR)	%
Cost of 1,280 Coupons @ 3	427	213	33.28
Cost of 1,280 Coupons @ 4	320	320	50.00
Cost of 1,280 Coupons @ 5	256	384	60.00
Cost of 1,280 Coupons @ 6	214	426	66.57

Note. Prevailing price equals PKR640, and price in MBCS equals 1,280 coupons.

Table 5. Example of an Airline Ticket

	Net Price (PKR)	Saving (PKR)	%
Cost of 17,730 Coupons @ 3	5,576	3,289	32.89
Cost of 17,730 Coupons @ 4	4,182	4,863	46.83
Cost of 17,730 Coupons @ 5	3,346	5,519	55.19
Cost of 17,730 Coupons @ 6	2,788	6,077	60.77

Note. Airline tickets (with duties and taxes) under present system cost 8865 PKR. Under MBCS, a ticket can be purchased using double the amount in coupons. Number of coupons required is  $8,865 * 2 = 17,730$ .

All duties will disappear after the system is implemented in total.

### The Household Budget and MBCS

MBCS will deliver real benefits to the basic economic units of consumption: the household and the individual. MBCS enables consumers who plan their expenses to maximize their savings through the calculated use of the marginal coupon cost mechanism. In essence, MBCS encourages purchases in bulk at the start of a financial year. Householders and individuals who are able to assess their needs for the period ahead will be able to accurately decide how many coupons to purchase.

The coupon needs of households fall into four basic categories:

1. basic consumption needs required to sustain living,
2. luxury items that bring comfort over and above basic needs,
3. contingencies that deal with the unexpected in life, and
4. speculation that covers the desire to profit from the investment of surplus funds.

MBCS coupons apply to all these situations, and individuals can use the purchase of coupons to leverage greater value for their money and use the savings to invest.

Table 6 shows a typical middle-class household budget. It should be kept in mind that proposals to include registered businesses in MBCS and the concurrent right of those businesses to import raw materials and finished goods duty free will reduce input costs, transfer prices, and final end-user sales prices.

Table 6. A Typical Middle-class Household Budget

Total Coupon needs	306,357
Coupon cost in one purchase	4.3

**The Householders Monthly/Annual Budget under the MBCS**

	Pre MBCS Price	MBCS Price	15% Coupons	Total Price	Price	Coupons	Total Price	Total Expenses	Total Coupons
<b>Food, water and clothing</b>									
Food	7,280	6,500	975	6,727				6,727	975
Water	728	650	98	673				673	98
Clothing	7,280	6,500	975	6,727				6,727	975
<b>Utilities</b>									
Gas	986			-	660	880	865	865	880
Electricity	8,960			-	6,000	8,000	7,860	7,860	8,000
Telephone	5,227			-	3,500	4,667	4,585	4,585	4,667
<b>Other consumables</b>									
Petrol	4,107			-	2,750	3,667	3,603	3,603	3,667
Diesel	896			-	600	800	786	786	800
Sundry domestic items	3,500	3,045	457	3,151			-	3,151	457
Auto service/repair	7,500	6,525	979	6,753			-	6,753	979
<b>Total</b>	46,463	23,220	3,483	24,030	13,510	18,013	17,699	41,729	21,496
<b>Total for year</b>	557,555	278,640	41,796	288,360	162,120	216,160	212,390	500,750	257,956
<b>One Off Planned Purchases</b>									
Radio	3,500	3,045	457	3,151			-	3,151	457
Fridge	20,000	17,400	2,610	18,007			-	18,007	2,610
VCR	25,000	21,750	3,263	22,509			-	22,509	3,263
Gifts	20,000	17,400	2,610	18,007			-	18,007	2,610
Events	7,500	6,525	979	6,753			-	6,753	979
Holiday/travel	35,000	30,450	4,568	31,512			-	31,512	4,568
<b>Total</b>	111,000	96,570	14,486	99,939	-	-	-	99,939	14,486

Contingencies									
Increased consumption FM	20,000			-			-	-	-
Increased consumption GOP				-	4,500	6,000	5,895	5,895	6,000
Unplanned purchases	15,000	13,050	1,958	13,505			-	13,505	6,000
Unexpected events	10,000	8,700	1,305	9,003			-	9,003	1,305
Estimating	5,000	4,350	653	4,502			-	4,502	653
<b>Total</b>	<b>50,000</b>	<b>26,100</b>	<b>3,915</b>	<b>27,010</b>	<b>4,500</b>	<b>6,000</b>	<b>5,895</b>	<b>32,906</b>	<b>9,915</b>
Speculative and coupon saving account									
Hedge against next year			5,000	1,163				1,163	5,000
Save for Wedding			5,000	1,163				1,163	5,000
School Fees			4,000	930				930	4,000
To sell on market/futures			10,000	2,326				2,326	10,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>24,000</b>	<b>5,581</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,581</b>	<b>24,000</b>
<b>Grand Total</b>	<b>718,555</b>	<b>401,310</b>	<b>84,197</b>	<b>420,891</b>	<b>166,620</b>	<b>222,160</b>	<b>218,285</b>	<b>639,176</b>	<b>306,357</b>

Note. The savings under MBCS are PKR79,379 over pre-MBCS prices, with 24,000 coupons held against the future market at a value of PKR5,581.

### MBCS and the Concept of Marginal Utility

The concept of utility and its relationship to the quantity of any item or service purchased is a cornerstone of microeconomics. Utility is the benefit derived by the buyer from a purchase, and beyond a certain point, the buyer loses the benefit of quantity. This is called marginal utility, and it drives the price people are willing to pay for a good or service. For example, the utility of a glass of water to a man dying of thirst in the desert is very high. The marginal utility of the next glass of water is also very high. The same cannot be said of a man with ample access to free water.

The same concept applies to the MBCS coupon. It is also different because money and MBCS coupons do not satisfy needs directly. They are used to exchange for goods and services that have intrinsic value/utility. However, the MBCS coupon has high utility because it can be used for exchange at value.

MBCS coupons would be purchased to cover a number of useful purposes, and the utility of coupons can be expressed in savings and speculation. All households and businesses would purchase MBCS coupons for four basic purposes, depending on means and disposition:

1. They would buy coupons to save money on planned necessities and luxuries;
2. to provide for unplanned expenditures in the future;

3. to provide room for discretionary expenditures; and
4. to speculate on the price of MBCS coupons using volume purchases or accumulation.

Table 7. Consumer's Use of MBCS Coupons

Generic Coupon Use	Application	Utility or Value	Utility Factor by Income Group		
			High	Medium	Low
Speculative	Store surplus	MBCS coupon purchasers speculate by accumulating surplus coupons or by buying large discounted quantities to sell at profit	Coupon utility is high if the prosperity/ attractiveness to speculation is high	Coupon utility is high if the prosperity/ attractiveness to speculation is high	Coupon utility is high if the prosperity/ attractiveness to speculation is high
	Buy to sell				
	Buy to save				
	Buy to hoard				
	Forward selling				
	Forward buying				
Contingencies	Increased basics	Purchasing more MBCS coupons than planned needs enables discretionary choice in the future. This is of high value when income exceeds the planned expenditure on basics and a few luxuries	High-income consumers will understand the benefit of coupon purchases beyond planned essentials and luxuries	Coupon utility becoming marginal beyond contingencies for increased basics and a few more luxuries	Coupon utility is marginal at best
	More luxuries				
	Marriages, births				
	Gifts				
	Travel				
	Rainy days				
	Poor estimating				
Luxuries	Car	The line between luxuries & basic is very difficult to draw. However, the utility of these items is high for all income groups and is the utility of the MBCS coupons with which to purchase them	Considered as basic needs by many high income groups and. Therefore, high utility for coupons	Utility varies by type of goods or service but coupon purchase utility is still high	Coupon utility is high once basics are met
	TV				
	VCR				
	White goods				
	Computers				
	Holidays				

Basic Consumption Needs	Electricity	High utility for all basic needs; therefore, coupons are essential
	Water	
	Food	
	Petrol	
	Clothing	
	Gas	

It should also be kept in mind that as the net disposable income of a household increases so does their view of utility. Luxuries become essentials. In other words, as GDP grows, consumers will demand more MBCS coupons. The cost reductions created by MBCS will enhance savings and investment.

### **Why MBCS Coupons Help Businesses**

The MBCS coupon system can help all businesses. In order to participate in MBCS, businesses must register with PMF. All businesses that participate in MBCS are divided into three simple categories, which does away with the myriad of registrations currently in place.

#### **Category One Business**

A Category One business passes its goods and services on to an end user (i.e., consumers), and it can register at the start of the year for the upfront sum of PKR10,000 or a multiple of PKR10,000. This fee entitles the business to 20,000 coupons at six coupons per rupee, provided the business can show that it has collected 10,000 coupons. These 10,000 coupons could be purchased on the open market or from a customer. The second option is much more business oriented, and therefore, the business would collect more coupons and charge a lower cash price to increase its number of customers. These coupons would be surrendered to PMF in exchange of new coupons without cost. This would eliminate the repeated use of the same coupons by other people or businesses because there would be a record of the issue date. The collection of coupons depends on the registration fee. The more the registration fee, the more the coupons a business can purchase at the rate of six coupons per rupee. The registration fee would entitle a business to purchase additional coupons for PKR3,334 (i.e.,  $20,000/6$ ). This in itself is a cash rebate, and the value depends on the open market exchange rate or the official rate, whichever is better. Table 8 shows the sliding scale of benefits because there is no actual cash limit to the registration fee, and it is a very cost-effective way for businesses to purchase 1 million or more MBCS coupons.

Table 8. Registration Fees for Businesses

<b>Business Registration Table</b>						
<b>With Registration Fee Purchase</b>				<b>Normal Purchase</b>		
<b>Reg Fee PKR</b>	<b>Coupons Collection Entitlement</b>	<b>Entitlement to No. of Coupons to Purchase @ 6</b>	<b>Amount PKR</b>	<b>Amount PKR</b>	<b>Rate of Coupon</b>	<b>No. of Coupon</b>
10,000	10,000	20,000	3,333	10,000	2.00	20,000
30,000	30,000	75,000	12,500	30,000	2.50	75,000
60,000	60,000	165,000	27,500	60,000	2.75	165,000
100,000	100,000	300,000	50,000	100,000	3.00	300,000
150,000	150,000	600,000	100,000	150,000	4.00	600,000
200,000	200,000	820,000	136,666	200,000	4.10	820,000
250,000	250,000	1,050,000	175,000	250,000	4.20	1,050,000
300,000	300,000	1,290,000	215,000	300,000	4.30	1,290,000
400,000	400,000	1,760,000	293,333	400,000	4.40	1,760,000
450,000	450,000	2,025,000	337,500	450,000	4.50	2,025,000
500,000	500,000	2,300,000	383,333	500,000	4.60	2,300,000
550,000	550,000	2,350,000	391,666	550,000	4.70	2,585,000
600,000	600,000	2,880,000	480,000	600,000	4.80	2,880,000
700,000	700,000	3,430,000	571,666	700,000	4.90	3,430,000
800,000	800,000	4,000,000	666,666	800,000	5.00	4,000,000
and above	and above	and above	And above	and above		and above

### **Category Two Business**

A Category Two business does not trade up the value chain in coupons, but it can still purchase MBCS coupons for its ordinary expenses/purchases. This type of business can register with PMF for PKR100,000 or multiples of PKR100,000. This fee would entitle the business to register for 600,000 coupons per month or multiples of 600,000 coupons at a special rate of six coupons per rupee.

### **Category Three Business**

A Category Three business may elect to establish a special relationship with PMF by agreeing to sell its entire output to PMF for pre-agreed market prices plus 5% in cash or 15% in coupons. In addition, it would be entitled to import all its capital and other needs into Pakistan duty free at a value equal to what it sells to PMF.

The combined effect of a supply of coupons up to 15% of the value generated by production and the reduction of costs through the removal of duty on imported items would improve operating margins. Input costs would be substantially reduced, and output prices would stabilize. In addition, these businesses can earn free coupons, which would further decrease the costs of inputs as these businesses will not have to spend billions upfront (see the Gold Mine section).

### **The Impact of Participating in MBCS**

In MBCS, all three categories of businesses would experience a reduction in the basic costs of doing business. Transforming activity into value for most businesses involves purchasing the following:

- capital equipment,
- materials and finished items, and
- energy.

Each of these items is available to a business under the MBCS scheme. Capital equipment, materials, and finished goods can be purchased through PFM by surrendering plus 5% in cash or 15% in coupons. Imported goods are also offered on the same basis, with all tariffs and duties removed. If this system is strung along the entire chain of business value-added activity, the impact on costs, prices, and margin will be significant.

In MBCS, businesses would have the opportunity to accept cash or cash and coupons at the point of sale. Their customers and competitors may choose for them because it will be difficult to sell goods and services outside MBCS. Price competition will be too intense. Table 9 shows an example of how a business would operate under MBCS. Although this Table relates to a retailer of shirts, it applies to all sellers of goods and services.

Suppliers, retailers and price under the MBCS

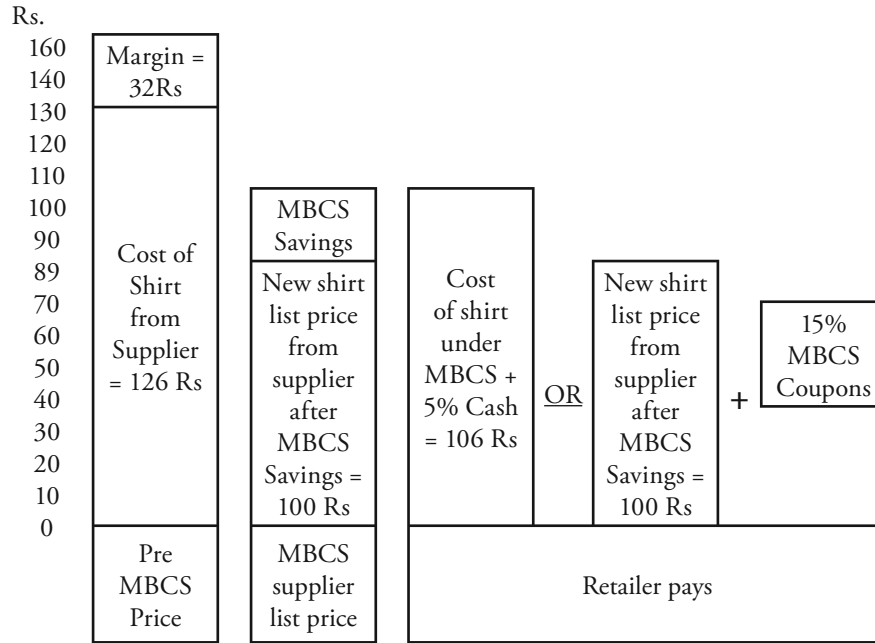


Table 9. Example of Transactions in MBCS

Businesses will also experience lower operating costs if they participate in MBCS. Travel, telephone calls, petrol, registration fees, stationary, computers, and so forth would be available in MBCS, and the reduced prices available using coupons would have a significant, positive impact on expenses and overheads.

**Savings for Manufacturers in MBCS**

Table 10 shows the savings available to a Category One business. This Table describes manufacturing costs based on buying coupons or applying for the duty-free option. The Category 3 registration of PKR100,000 would entitle a business to sell merchandise at a maximum of 10 times the registration fee per month or PKR12 million worth of goods through PMF in one installment or in, at the most, 12 installments, with each transaction not less than PKR1 million. This would reduce the work of PMF to a great extent.

Manufacturers who sell their products through PMF have to deposit 5% in cash or 15% in coupons of the amount of product sold to PMF. This would entitle a producer to purchase coupons at the rate of six coupons per rupee or obtain duty-free imports, depending on the amount sold. The value of the 15% in coupons would be two and half rupees (if the rate is six coupon per rupee) per PKR100. Consumers would happily pay 15% in coupons because the goods are cheaper as a result of the 50% reduction in production costs. Producers would declare 100% or more of their



end products because they want to get back their registration fees by selling extra coupons at the open-market rate, duty-free goods, or options to other buyers.

Table 10. Analysis of Manufacturing Costs in MBCS

Cost Class	Activity	MBCS Analysis					Cash only Price	Non MBCS	MBCS Savings @ 6	Pre MBCS Prices	Real Cost Savings
		Imp. Tariff Price	Cash Outlay	Coupons	Coupon cost @ 6	Total Cash Cost @ 6					
Capex	Imported Machines	1,000,000	703,704	111,111	18,519	722,222	740,741	*	277,778	1,000,000	259,259
	Local Machines	*	475,000	75,000	12,500	487,500	500,000		12,500	550,000	50,000
	Imported Equipment	750,000	527,778	83,333	13,889	541,667	555,556		208,333	750,000	194,444
	Local Equipment		332,500	52,500	8,750	341,250	350,000		8,750	385,000	35,000
Direct Costs	Imported Materials	650,000	457,407	72,222	12,037	469,444	481,481		180,556	650,000	168,519
	Raw Materials		218,500	34,500	5,750	224,250	230,000		5,750	253,000	23,000
	Finished Materials	*	532,000	84,000	14,000	546,000	560,000		14,000	616,000	56,000
	Engineered Items		722,000	114,000	19,000	741,000	760,000	*	19,000	836,000	76,000
	Consumables		53,200	8,400	1,400	54,600	56,000		1,400	61,600	5,600
	Electricity		535,714	714,286	119,048	654,762		1,250,000	595,238	892,857	238,095
	Diesel		415,714	554,286	92,381	508,095		970,000	461,905	692,857	184,762
Other Costs	Travel		636,500	100,500	16,750	653,250	670,000		16,750	737,000	67,000
	Stationary		32,300	5,100	850	33,150	34,000		850	37,400	3,400
	Office Equipment		121,496	19,184	3,197	124,693	127,890		3,197	140,679	12,789
	Sundry Purchases		168,055	26,535	4,423	172,478	176,900		4,423	194,590	17,690
Total		2,400,000	5,931,868	2,054,957	342,494	6,274,361	5,242,568	2,220,000	1,810,430	7,796,983	3,612,086
Coupons required under MBCS Scheme											2,054,957
Coupon Financing @ 10%											17,125
Advantage after Financial Charge											3,594,961
Saving over Previous Real Costs as a %											46.00

Note: Blank boxes indicate that the tariff duty is not available because it changes from time to time.

Table 10 clearly shows that MBCS would save this company 46% of its costs because it would enjoy duty-free imports and reduced production costs. This analysis is realistic because businesses source inputs from GOP and the open market. The cost of coupons is assumed to be six coupons per rupee because the manufacturer requires at least 2 million coupons. These coupons can be

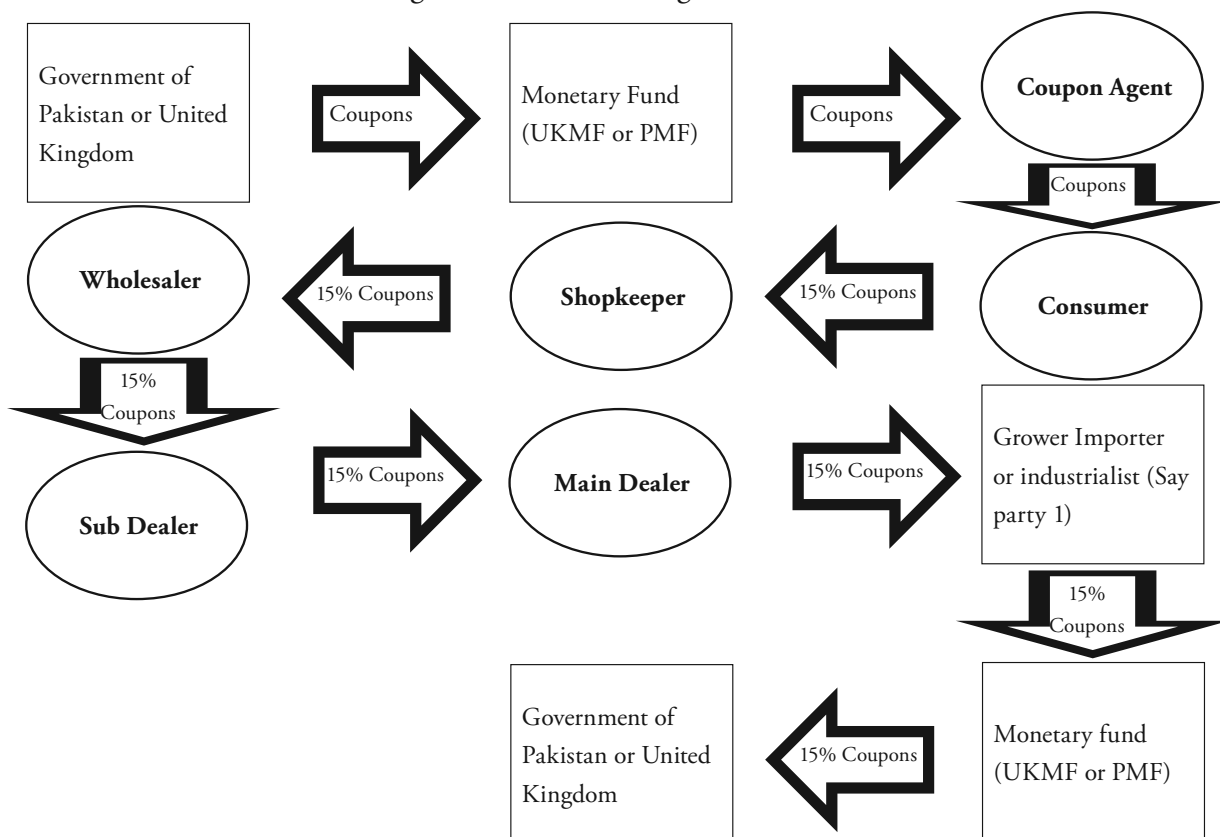
purchased in one transaction, or they can be purchased during registration with PMF at reduced costs up to the first 1 million coupons.

### Gold Mine

MBCS will be a gold mine for the Government of Pakistan because it would receive at least two and a half percent of the profit from everything produced or sold in the market. The gold from this mine would flow to GOP in the following way:

- A Category 3 business cannot invest the billions of rupees needed to buy cheap coupons at the beginning of a financial year, so they would sell their products through PMF. This arrangement would entitle the business to buy cheap coupons or duty-free goods equal to the amount of merchandise sold, and the quota would be 10 times the amount of the registration fee. A registration fee of PKR100,000 would entitle a business to sell PKR12 million worth of goods through PMF per year, but it would have to surrender 15% of the amount sold in coupons to PMF at the time of sale. These coupons would be returned to GOP, and in return, GOP would allow the business to purchase six coupons per rupee or obtain duty-free goods and services throughout the year equal to the amount sold through PMF. These coupons would be resold by GOP, which would keep this profit.

Figure 9 illustrates this gold mine.



## The Retailer and MBCS

The benefits of MBCS will cascade down to independent retailers because the use of coupons and lower prices for manufactured goods will enable retailers to offer consumers lower prices. Retailers will receive special rates for coupons collected from sales and reduce their costs when purchasing stock. Retailers will have the opportunity to discount prices in MBCS and accept MBCS coupons in return for discounted with-coupon prices.

The method for calculating retail prices will be different from the method used to determine the prices of GOP-price-controlled goods and services. The actual cost to a retailer is cash plus the cost of the 15% in coupons. This cost may vary because the actual price paid for coupons is not fixed.

Coupons collected by a retailer can be traded and used for discounting business-related expenses; therefore, they represent value to a business. In addition, under the rules of MBCS, the collection of coupons by registered businesses entitles these businesses to buy two to no upper limit (depends on the registration fee) of MBCS coupons at the rate of six coupons per rupee. Coupons have tangible value for exchange and trading purposes, and therefore, businesses will be able to account for coupons in their financial results.

A retailer of a shirt, for example, will calculate price in MBCS based on a number of business considerations:

- desired operating profit,
- the cost of the shirt,
- desire for MBCS coupons, and
- the competitive policy of rivals.

Retailers of shirts, or any other good or service, are unlikely to ignore MBCS because the price of a shirt outside MBCS makes the shirt business unprofitable. Table 11 shows not only the input cost of a shirt, but also the possible sales price if the vendor decides to sell the shirt for cash and coupons which is much less than the present price.

Table 11. Price of a Shirt in MBCS

The case of the shirt previously sold at PKR168 under the old system											
The retailer's benefits in reduced wholesale costs											
	Pre-MBCS Price	MBCS 5% cash mark-up or 15% coupons									
		MBCS base calculation cost	Cash cost @ 2.5 mkt rate	Cost of shirt from MBCS @ rates 2.5 to 6 for 15% coupons							
				2.5	3	3.5	4	4.5	5	5.5	6
Cost of shirt	126	100	106	106.00	105.00	104.30	103.80	103.30	103.00	102.70	102.50

Sale price	158	For the retailer pricing strategy see below									
Margin @ 25%	32										
<b>Retailer Pricing Strategy</b>											
	Pre MBCS Price	MBCS 5% cash mark-up or 15% coupons									
		MBCS base calculation cost	Cash cost @ 2.5 mkt rate	Cost of shirt from MBCS @ rates 2.5 to 6 for 15% coupons							
				2.5	3	3.5	4	4.5	5	5.5	6
<b>Example I: Cash Only</b>											
Cost of shirt	126	100	106	106.00	105.00	104.30	103.80	103.30	103.00	102.70	102.50
Sale price	157.6		133	132.5	131.3	130.4	129.7	129.2	128.8	128.4	128.1
Margin @ 25%	32		27	26.5	26.3	26.1	25.9	25.8	25.8	25.7	25.6
<b>Example II: 15% Coupon Recovery</b>											
Cost of shirt	126	100	106	106.00	105.00	104.30	103.80	103.30	103.00	102.70	102.50
Cash price	157.6			125.9	124.7	123.8	123.2	122.7	122.3	122	121.7
Coupons collected	0			15	15	15	15	15	15	15	15
Value of coupons	0			6	5	4.3	3.8	3.3	3	2.7	2.5
Total receipts for shirt	157.5			131.90	129.70	128.10	127.00	126.00	125.30	124.70	124.20
<b>Example III: 30% Coupon Recovery</b>											
Cost of shirt	126	100	106	106.00	105.00	104.30	103.80	103.30	103.00	102.70	102.50
Cash price	157.6			112.6	118.1	117.3	116.7	116.3	115.9	115.6	115.3
Coupons collected	0			30	30	30	30	30	30	30	30
Value of coupons	0			12	10	8.6	7.5	6.7	6	5.5	5
Total receipts for shirt	157.5			124.60	128.10	123.30	124.20	123.00	121.90	121.10	120.30
<b>Example IV: 40% Coupon Recovery</b>											
Cost of shirt	126	100	106	106.00	105.00	104.30	103.80	103.30	103.00	102.70	102.50
Cash price	157.6			112.6	111.6	110.8	110.2	109.8	109.4	109.1	108.9
Coupons collected	0			40	40	40	40	40	40	40	40
Value of coupons	0			16	13.3	11.4	10	8.9	8	7.3	6.7
Total receipts for shirt	157.5			128.60	124.90	122.20	120.20	118.70	117.40	116.40	115.60

## Business Operations and MBCS

At the end of each year, businesses draw up accounts that demonstrate their business performance in financial terms. In MBCS, accounting for operations will also show how many MBCS coupons were collected and an assessment of their net worth.

The key question is how does a retailer optimize profits and minimize risk in MBCS. After all, retailers are asked to accept less value prima facie for their goods in MBCS than in the previous system. This question is at the core of MBCS because it applies equally to small, medium, and large businesses, as it does to the Government of Pakistan and its agencies.

A rational business has the following objectives:

- maximize profits and minimize losses,
- maintain a positive cash flow (cash in – cash out = > 0),
- recover at least all direct and indirect operating costs,
- minimize risk, and
- invest cash surpluses in the business.

To achieve these objectives in MBCS, a business will have to

- operate at a level of discount that recovers at least the cash cost of the items for sale, and in this regard, the business can operate separate discount arrangements when the cash costs as a percentage of selling price differ;
- use MBCS to buy wholesale goods and services manufactured in Pakistan and outside under tax-free and discount import arrangements. This would reduce the cash cost to a business and offer greater scope for deciding discount levels;
- use MBCS coupons to discount all cost inputs, including electricity, travel, stationary, equipment, and so forth;
- use discretion when using preferential coupons (i.e., take account of cash positions and the risk in coupon markets);
- use additional coupon facilities to promote growth in business activities/operations; and
- accumulate coupons as a hedge against future needs only if cheaper sources of coupons do not exist.

Table 12 shows a number of operating scenarios. This Table reveals that business operations can be attractive if additional coupon entitlements are exercised. A business would use these entitlements for future trading and growth. A business' choice of the discount scenario and the related returns/risks is a business judgement that tests the business' appetite for risk, returns, and growth.

Table 12 forecasts and analyzes the impact of MBCS on the operations of a small retail business over the course of a business year. It contains the basic elements of a profit and loss projection together with the number of coupons collected during the normal course of business under a number of discount scenarios. A risk analysis is also undertaken below the bottom line to determine the impact on profit of holding large amounts of coupons.

Table 12. Impact of MBCS on a Small Retail Business

<b>Retailer Bottom Line Performance Registered MBCS Business</b>					
	Discount Scheme Chosen				
	40	30	20	10	Old System
<b>Cash Revenues</b>					
MBCS cash sales	6,000,000	7,000,000	8,000,000	9,000,000	10,000,000
Cost of sales	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Overhead cost	200,000	2,000,000	2,000,000	2,000,000	2,000,000
Direct cost discounted for coupons @ 15%	5,700,000	5,700,000	5,700,000	5,700,000	
Overheads reduced by 20% MBCS effect	1,600,000	1,600,000	1,600,000	1,600,000	
Cost of Coupons used @ 6	283,333	283,333	283,333	283,333	
Adjusted cost of sales	7,583,333	7,583,333	7,583,333	7,583,333	
Operating cash profit	(1,583,333)	(583,333)	416,667	1,416,667	2,000,000
Finance charges +/-	(158,333)	(58,333)	41,667	141,667	200,000
Net profit	(1,741,666)	(641,666)	458,334	1,558,334	2,220,000
<b>Coupons</b>					
Coupons collected	8,000,000	6,000,000	4,000,000	2,000,000	
Minimum coupon value @6	1,333,333	1,000,000	666,667	333,333	
Maximum coupon value @ 2.5	3,200,000	2,400,000	1,600,000	800,000	
Medium value	2,266,667	1,700,000	1,133,333	2,358,334	
Cash & Coupon profit best case	1,458,334	1,758,334	2,058,334	2,358,334	
Cash & Coupon profit worst case	(408,333)	358,334	1,125,000	1,891,667	
Cash & Coupon medium case	525,000	1,058,334	1,591,667	2,125,000	
<b>Optional MBCS Scheme</b>					
<b>Additional Coupons</b>					
Additional coupon entitlement	24,000,000	18,000,000	12,000,000	6,000,000	
Cost of buying additional coupon	4,000,000	3,000,000	2,000,000	1,000,000	
Total cash cost of coupons	4,000,000	3,000,000	2,000,000	1,000,000	
<b>Total Coupons Held</b>					
Total collected & purchased	32,000,000	24,000,000	16,000,000	8,000,000	
Coupons used by business above the line	1,700,000	1,700,000	1,700,000	1,700,000	
Balance of coupons	30,300,000	22,300,000	14,300,000	6,300,000	
<b>Coupon Value</b>					
Value of coupon held @ 2.5	12,120,000	8,920,000	5,720,000	2,520,000	
Value of coupon held @ 6	5,050,000	3,716,667	2,383,333	1,050,000	
Median value	8,585,000	6,318,333	4,051,667	1,785,000	
<b>Risk Analysis</b>					
Best outcome	6,536,667	5,336,667	4,136,667	2,936,667	2,200,000
Worst outcome	(5,533,333)	133,333	800,000	1,466,667	2,200,000
Median outcome	3,001,667	2,735,000	2,468,334	2,201,337	2,200,000

Best outcome of capital employed %	56.43	50.43	43.17	34.21	27.50
Worst outcome of capital employed \$	(4.60)	1.26	8.35	17.09	
Median	25.92	25.85	25.76	25.65	
Risk Analysis	High	Low/ Medium	Low	No Risk	High Risk

A business must decide business strategies for upcoming years (e.g., pricing policy). In MBSC, a business would have to decide how much risk it is willing to assume in the form of the number of coupons held/traded. Table 12 shows 40%, 30%, 20%, and 10% discount models, with the balance up to the with-coupon sales price.

In the 40% discount scheme, which means a business accepts 40% of the with-coupon price in MBCS coupons, a business could double its margin, depending on coupon rates. It could also lose money if the rate for MBCS coupons falls below five coupons per rupee. A business' margin drops with the drop of coupons accepted, but so does its risk. A rational businessman would opt for a discount that does not cost money, regardless of the MBCS coupon rate. Risk is reduced considerably after 20%, and margins remain very healthy.

In MBCS, a business would sell many shirt products with different profit margins, which are the critical driver of risk to the enterprise. When margins improve under the scheme, there is more latitude for discounting. This avoids problems associated with cash flow and negative margins. Therefore, a business may choose not to plan its discount across the board but decide on a generic pricing policy of different discounts on different brands and lines, taking account of its cash margin, volume of sales, and the pricing strategies of competitors. In the final analysis, a business would keep an eye on competitors' MBCS pricing policies and how attractive this is to buyers of shirts. This model can be applied to all retail businesses or businesses selling to an end user. It shows how flexible and profitable MBCS can be for well-run businesses.

## **Imports and Foreign Exchange Transactions**

### **Imports**

The importation of foreign currency and goods is another source of value at the microeconomic level in Pakistan. There are two reasons why these imports are important: First, these imports represent significant value in the country, and second, these imports are the single greatest source feeding the black market in Pakistan. Very simply, commodities, goods, and foreign currency smuggled into Pakistan remain, for practical and legal reasons, outside the official system.

According to conservative estimates, Pakistan's black economy is the same size as the official GDP. This situation occurs because all transactions farther down the economic chain involving these goods and money have to be hidden. This submerges at least half of all economic activity

in Pakistan beneath the black waters of an alternative economy. Dealing with the causes of this smuggling will have profound, positive consequences for Pakistan.

### Foreign Exchange Transactions

The *Hawalla* is one of the key black markets in Pakistan, and it denies the government hard currency revenue and real control over foreign exchange. The *Hawalla* is an informal but effective system that enables the flow of currency in and out of Pakistan outside the control of the central bank. It is supported by an extensive global network that caters to Pakistani people’s need to buy hard currency in quantity and outside the official system. The system is also used to support smuggling, which reinforces its need to stay out of official channels. This market is estimated handle US\$4 to 5 billion (PKR240–300 billion) every year. Only US\$1 billion (PKR60 billion) is sent through official banking channels each year. MBCS can attach itself to foreign currency exchange in and out of Pakistan and encourage more money to circulate within the official banking system.

MBCS would offer to buy foreign currency at the official exchange rate and would compete with the *Hawalla* rate by offering extra coupons over and above the official exchange rate. In the long-term, the MBCS strategy is to do away with any need to compete with the *Hawalla* by making the unofficial market uneconomical. In MBCS, the currency seller would receive a rupee draft equal to the value of the amount of foreign currency at the official exchange rate. In addition, the currency seller would receive 18 coupons per dollar remitted through official channels, and these coupons would have a set value in addition to the draft (see Table 13).

Table 13. The MBCS Challenge to the *Hawalla* System

Foreign currency remittance	Hawalla offers		Value	MBCS offers official rate and coupons		Value in PKR-adjusted coupon value		Benefit over Hawalla in PKR per US\$*	
	PKR	Coupons		PKR	Coupons	Low	High	Low	High
1	62	0	62	61	18	64	70	2	8

\*The benefit to the user of these extra coupons will be determined by what he/she does with them. Basic needs would replace coupons consumers would have to buy, or they would be cash in hand if they choose to sell their coupons. For each dollar remitted through official sources, a person would get 18 coupons free of charge, and the value of these coupons would vary according to the open-market rate. This is not a devaluation of the rupee, and the government is not charging indirect tax (which is the coupon). The extract value would, therefore, be somewhere in the range of values for MBCS and would depend on the open-market rate of coupons.



The rate gap would be reversed by offering MBCS coupons with values that exceed the difference between the official exchange rate and the *Hawalla* rate. This would cause the migration of transactions back into the official exchange rate system. The extent of this migration would be determined, in part, by the value of the credits given in relation to the difference in rupees between the exchange rates. The more coupon points offered, the more attractive the system will appear.

A coupon holder using the exchange rate points system could use coupons according to MBCS rules. He/she may use them in the dual-price scheme without having to pay cash for the coupon points. He/she could also use a coupon account transferable to anybody in Pakistan or sold openly on the market for rupees. As a result of MBCS, there would be no devaluation of Pakistan's currency.

The coupon does not constitute cash; therefore, the government is not matching the *Hawalla* rate in rupees but merely offering to reduce taxes through the subsidized price system. The person making the transaction could use the coupon value against any purchase in the mutual benefit coupon system. Therefore, the additional coupon points may be used to purchase consumer goods or utilities at the coupon price.

The system could bring US\$4 to 5 billion a year onto the open and within the official exchange rate system. It would generate revenues (e.g., commissions) for the official banking system and enable the government to accumulate large foreign currency reserves. Therefore, the system would ensure that the Pakistan rupee is not devalued while effectively competing with the *Hawalla*.

The *Hawalla* exists because the government protects the national interest by setting nonmarket rates and denying people the right to hold foreign currency in their own personal accounts. In the long-term, MBCS would render this policy redundant and make all smuggling economically unattractive or redundant.

Rough estimates show that if only 10% of Pakistan's population spends PKR100,000 within 24 hours the government would collect PKR1.5 trillion, which is much more than the PKR1 trillion needed by the government. With the MBCS scheme, the government would collect more than 10 years worth of budgets in 30 days, and the gold mine option would generate 100 times more than the annual budget.

### **A Macroeconomic Case For Mbcs**

MBCS would generate much more revenue for the Government of Pakistan than the present tax system. In addition, MBCS would resolve the systemic crisis that is causing Pakistan's entire economy to seriously underperform.

The macroeconomic impact of MBCS focuses on a number of economic drivers that result in the output of the economy expressed as Gross Domestic Product (GDP). The impact of MBCS

at a macro level focuses on the economic system in Pakistan that supports GDP. This is the way that capital and finance, trade and manufacturing, agriculture and services, tax policy and tax systems, human resources (including employment), national infrastructure, interest rates, imports and exports, and so forth operate together to produce wealth.

Currently, Pakistan is a serious economic underperformer given its resources and talents. The fact that it is recognized as a poor country is used to disguise or ignore a difference between what it can and what it actually does achieve. There is also a difference between what appears to happen and what actually happens in the economy because of the large unofficial market. Pakistan's economy is underperforming because there is no incentive that promotes economic growth. Opportunity abounds outside the official system because there are no duties or taxes, and operating in the cash-based black market enhances profit and liquidity at the expense of the GOP exchequer.

### **What is wrong with the Current Economic System in Pakistan?**

The tax system causes the largest problem for Pakistan's economy. This malfunctioning system threatens to sink the ship of state in an ocean of debt. In addition, this malfunctioning system has a negative effect on all other systems. For example, infrastructure development, stable exchange rates, investment in people and industry, low-cost financing, and so forth are not possible because the tax system is failing. This reinforces economic failure, and beyond a certain point, it can cause the economy to collapse.

The failure of GOP to collect enough revenue through taxation is the result of a failed tax system, and it has forced the government to borrow large amounts of money in order to finance regular government deficits. The vast majority of this is external debt is owed to third parties in foreign and usually strong currencies. Again, when a major part of an economic system starts to fail, then the entire system's performance is in jeopardy.

When a system fails badly, people tend to abandon the system and take what measures they think fit for survival or profit (e.g., tax avoidance and evasion). In the case of Pakistan, this means a large unofficial economy that ignores the obligation to pay tax. In addition, there is a basic cultural dislike of taxes prevalent among sections of the Pakistani population. This does not contradict the failure of the tax system; it merely acts to reinforce that failure.

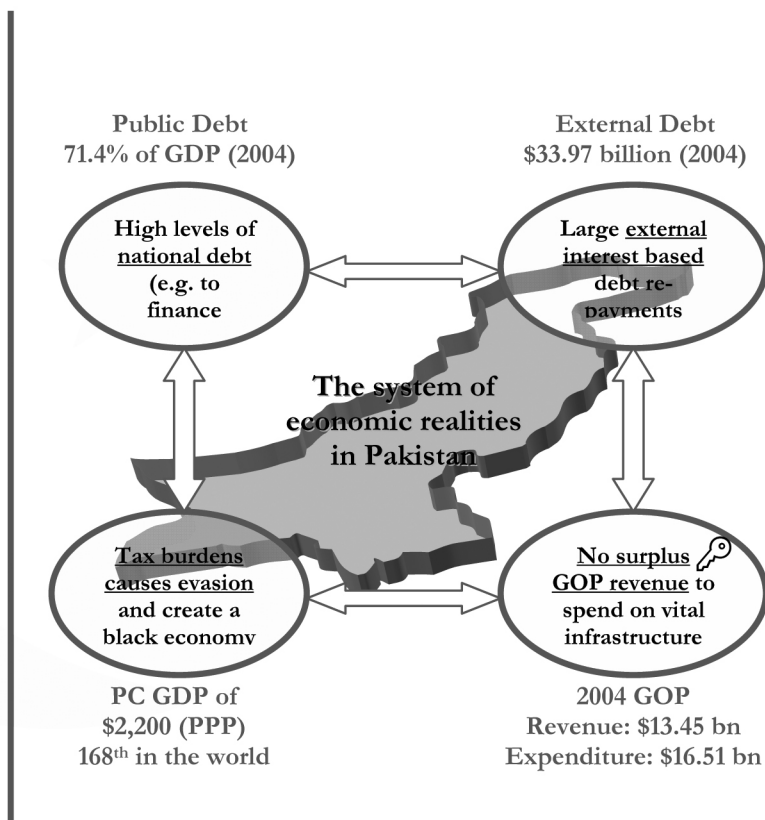
Figure 10 illustrates the fragile state of Pakistan's economic system and why it is underperforming. As with all macroeconomics, it is a complex system that requires skills at the highest level to manage. This is usually the job of government. However, at the grassroots level of any economic system is the investor: the person, corporate body, group of investors, institutions, pension funds, and so forth who decide to defer expenditure/dividends in favor of investment. In Pakistan, the investor is faced with obstacles if he/she wishes to create wealth through investment because of

low returns, high risks, high import duties, high commodity prices, and, most significant, high direct and indirect taxes. On the other hand, the black market abounds with cash and people looking for a get-rich-quick arrangement. No economy in this basic condition can hope to develop long-term strength and growth.

**Pakistan's problems are about 'system failure'**

- **Low government revenues**
- **Low investment** (117th in the world @ 16.4% GDP)
- **Low workforce productivity**
- **Illiteracy at 50%**
- **Burdensome taxes**
- **External borrowing with interest**

Source: CIA Fact book 2005



**What are the economic issues facing Pakistan and many other Islamic countries?**

Figure 10. Fragile State of Pakistan's Economy

### **The Results of Pakistan's System Failure**

There are several reasons for the problems plaguing Pakistan's economy:

- The failure of the tax system to collect the approximately PKR1,200 billion a year (twice the amount currently collected) needed to retire the external debt, provide defense and public services, and invest in infrastructure and human resource development.
- The existence of a PKR1,900 billion external debt that absorbs nearly all the revenue from indirect taxes.
- Insufficient investment in infrastructure and people, which causes serious problems with national productivity and wealth creation.

- An attitude towards government, the law, and the tax system that seriously erodes the credibility of the government and leads to lawlessness and widespread tax evasion.

### The Way Out of the Crisis

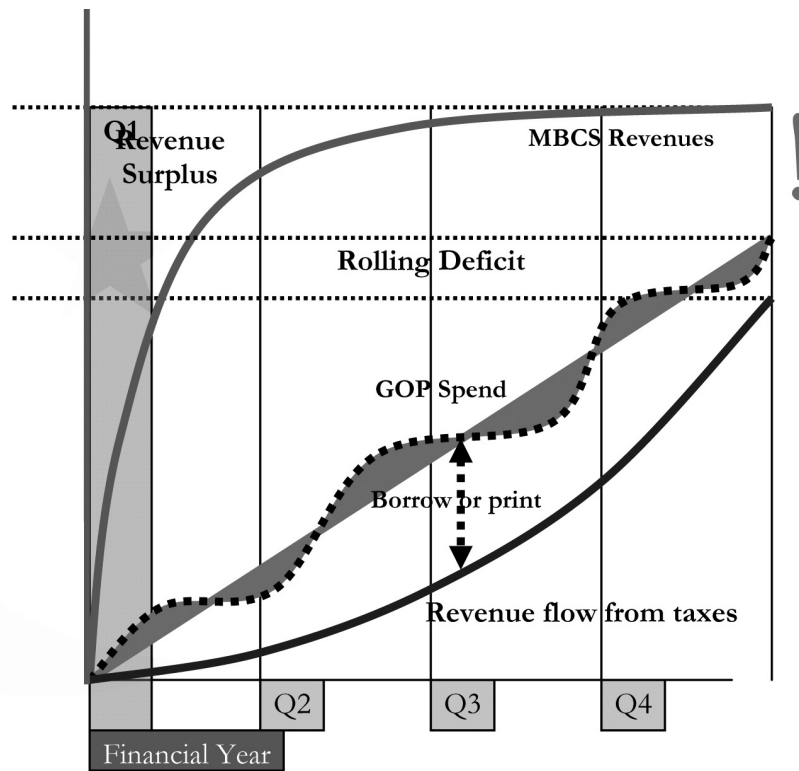
In times of crisis, it is sometimes difficult to see the issues clearly because crisis management shortens and narrows people’s vision. In the case of Pakistan, and other developing countries, it is difficult to look beyond the current system and the way taxes are collected. However, if a solution is to be found, then it must be outside the current tax system. As stated elsewhere and as is generally accepted among experts and the general public, Pakistan’s current tax system does not work and, more important, is unlikely to meet future needs.

MBCS would meet not only the short-term needs of Pakistan, it would also provide a system that creates wealth and prosperity for a large proportion of Pakistan’s population. In short, MBCS would produce four first-order results immediately:

- collect more than PKR1,500 billion in first 30 days of operation and at least 100 times more by the end of fiscal year; and
- enable GOP to achieve short-, medium-, and long-term solvency (i.e., Pakistan would be able to balance its budget, avoid external debt, and invest in the country’s future).

Massive sales of MBCS Shares in Q1 will transform Government Finances

- Improve liquidity from normal tax collection drag
- No short term cash deficit borrowing
- Facilitate budget surplus
- Remove rolling budget deficits
- Repay external debts



Creating an incentive based economy along Islamic principles

Figure 11. How MBCS would improve Pakistan’s Economy

MBCS would produce a properly functioning economic system characterized by

- balanced budgets,
- improved confidence in the system,
- investment in the infrastructure, and
- continuous economic growth.

### **How MBCS Produces a Properly Functioning Economic System**

MBCS works on the principle that

- the Government of Pakistan will discount its current prices for controlled goods and services in order to obtain upfront funds and lower input costs, which will promote the growth of GDP;
- MBCS will transfer value from imports and supplies of goods and services to manufacturing units to the core added-value activities in agriculture, manufacturing, retail, and services;
- MBCS will attract money from the black market because the new MBCS pricing levels will compete with it for customers, and because MBCS provides for speculation, black money will be used to purchase coupons for trade; and
- the *Hawalla* system will become less attractive because MBCS coupons will bridge the gap between official and unofficial foreign exchange rates.

MBCS will produce four first-order (i.e., short-term) results:

1. GOP solvency and improved gross revenues.
2. Improved profitability of all businesses.
3. Reduced black market operations.
4. Increased foreign currency holdings.

MBCS will produce four second-order (i.e., medium-term) results:

1. Net surpluses for GOP and, therefore, more GOP investment.
2. Cash surpluses for Pakistani businesses, which will encourage investment.
3. Eliminate hoarding and increased money liquidity.
4. Reduce foreign debt and eliminate official and unofficial exchange rates.

MBCS will produce four third-order (i.e., long-term) results:

1. Increased national human productivity and health and reduced levels of poverty.
2. Increased private investment and the growth of GDP until it sustains acceptable standards of living for all citizens.

3. A free-market economy with few internal/external barriers and tax burdens and a general awareness that government solvency is critical for maintaining the security, welfare, and prosperity of the system and the people of Pakistan.
4. The ability of GOP and the central bank to plan for future foreign exchange needs, which will stabilize the rupee.

These results depend on the ability of MBCS to deliver significantly more cash to GOP than the current tax system. Table 14 shows how MBCS can solve Pakistan's current systemic problems.

Table 14. Pakistan's System before and after MBCS Implementation

<b>Pakistan GDP and the MBCS Coupons in US Dollars (Billions PPP)</b>										
	<b>Input Cost to</b>				<b>Core Added Value</b>			<b>Sell on Prices</b>		
	<b>Importer</b>	<b>Supply Chain Value 1</b>	<b>Supply Chain Value 2</b>	<b>Supply Chain Value 3</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>	<b>Distributors</b>	<b>Total</b>	
Value of imports	9.20								9.20	
Components of GDP		29.90	29.90	29.90	46.64	43.06	89.70	29.90	299.00	
Pre MBCS output price	9.20	29.90	29.90	29.90	45.75	42.23	87.98	29.90	304.76	
MBCS output price	9.20	28.41	28.41	28.41	44.31	10.90	85.22	28.41	263.27	
Coupons	1.38	4.49	4.49	4.49	6.86	6.33	13.20	4.49	45.73	
	Coupons purchased as a percent of final price								5.20	
	Max MBCS revenues from TVA chain								15.24	
	Min MBCS revenues from TVA chain								7.62	
\$/PKR Exchange Rate	60		GDP Base = 100		100					
<b>Pakistan GDP and the MBCS Coupons in Rupees (Billions PPP)</b>										
	<b>Input Cost to</b>				<b>Core Added Value</b>			<b>Sell on Prices</b>		
	<b>Importer</b>	<b>Supply Chain Value 1</b>	<b>Supply Chain Value 2</b>	<b>Supply Chain Value 3</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>	<b>Distributors</b>	<b>Total</b>	
Value of imports	552.00								552.00	
Components of GDP		1794.00	1794.00	1794.00	2798.64	2583.36	5382.00	1794.00	17940.00	
Pre MBCS output price	552.00	1794.00	1794.00	1794.00	2744.82	2533.68	5278.50	1794.00	17595.00	
MBCS output price	552.00	1704.30	1704.30	1704.60	2658.71	2454.19	5112.90	1704.30	17595.00	
Coupons	82.80	269.10	269.10	269.10	411.72	380.05	791.78	269.10	2742.75	
	Coupons purchased as a percent of final price								5.20	
	Max MBCS revenues from TVA chain								914.25	
	Min MBCS revenues from TVA chain								457.13	

Note: All data concerning GDP, imports, and exchange rate are from the 2002 CIA World Factbook ([www.odci.gov/cia](http://www.odci.gov/cia)).

## **The Macroeconomic Impact of MBCS on Pakistan's National Value Chain**

MBCS will provide the largest contribution to the revenue system when this system is applied to all economic transactions in Pakistan's economy. Economic activity usually involves a string of supporting importers, material and equipment suppliers, and service companies that form a chain to the manufacturer or provider of goods and services. This activity is also supported downstream by logistics and wholesale distributors. This system is often referred to as the value-added chain because it shows how the value/eventual price of a product or service is built up at each stage.

MBCS, through PMF, would offer to buy the total output from agriculture, manufacturing, and certain services from producers at agreed prices plus 5% in cash or 15% in coupons. People would be encouraged to participate in MBCS because they would be able to take advantage of the duty-free importation of capital, material, and goods.

To estimate the impact of MBCS, a simple model has been developed based on existing data concerning Pakistan's GDP and how it is broken down. The model assumes that at the first stage of value addition there are activities by importers and suppliers. Thereafter, the core added-value sectors of agriculture, industry, and services are included, followed by distribution.

The model is simplified because the supply chain of some manufacturing and service businesses can be complex. For example, equipment suppliers have a subchain and distributors who supply factories and offices. Although this chain can be complex, MBCS would produce more revenue as the number of coupon transactions increase.

### **Sustaining the Value of the MBCS Coupon**

The MBCS coupon is intended to have negotiable value throughout its life. While the cost of a coupon is determined by the price paid for it, an unused coupon also has an open-market value because of the demand for goods and services.

The maintenance of value is critical because it is likely that coupon value will fluctuate within reasonable limits. This will encourage people to save coupons in the same way they save shares, savings certificates, and gold and silver.

The MBCS coupon would be subject to the following:

- It would be subject to substantial, continual demand because of the need to sustain economic activity.
- It would be subject to the maintenance of supply management controls to ensure coupons sustain GDP growth without the danger of inflation.
- Open-market operations through PMF agents and private sellers would ensure that buyers/sellers/agents would act in their best interests to maintain a stable, positive market rate.

- The limited period of cheaper coupons at the beginning of a financial year will ensure a healthy open market when official channels dry up or become relatively expensive. This alone will keep minimum open-market rates above or around five coupons per rupee.
- It is anticipated that banks and finance houses will purchase large quantities of coupons at the start of each year and hold them for their customers. As a result, a bank's customers would be able to purchase coupons at any time during the year and in large quantities provided they are willing to pay the bank's risk and profit margin.

### **The Government of Pakistan's MBCS Balance Sheet and Cash Flow**

MBCS will produce revenues in the following areas:

- The sale of GOP price-controlled goods and services.
- Operations in Pakistan's added-value chain.
- The use of MBCS coupons in the retail sector.
- The use of MBCS as an import agency for goods and services arriving in Pakistan for sale or use in the country.

Table 15 and Figure 12 show how MBCS produces revenues. In some cases, these figures are estimates based on broad economic data, and as such, they are no better and no worse than methods deployed by governments to forecast tax revenues.

It is important to remember that the concession made by GOP to start MBCS (i.e., reducing the price of controlled items) is more than compensated for by

- reduced black market activity (i.e., its migration to the open, lawful economy) and
- increased Pakistan's GDP.

Table 15. The State of GOP's Finances in MBCS

<b>Total receipts in billions Rupees</b>						
<b>Revenue Stream</b>	<b>Years from MBCS Introduction</b>					
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Average</b>
GOP-controlled goods and services	500.00	600.0	720.0	864.0	1036.8	744.1
Receipts from retail markets	150.00	180.0	216.0	259.2	311.0	223.2
Receipts from industry and commerce	914.25	1097.1	1316.5	1579.8	1895.8	1360.7
Total receipts from current activity	1564.25	1877.01	2252.52	2703.02	3243.63	2328.1



Beneficial receipts from exchange control	120.00	120.00	120.00	120.00	120.00	120.00
Grand Total	1684.25	1997.10	2372.52	2823.02	3363.63	2448.1
Absorption of black economy %	20	20	20	20	20	20.00
GDP Growth Forecasts	8	10	12	12	13	11.00

Note. This Table does not include the funds and benefits that would result from the Gold Mine, black money, Islamic banking, corporate farming, or foreign investment.

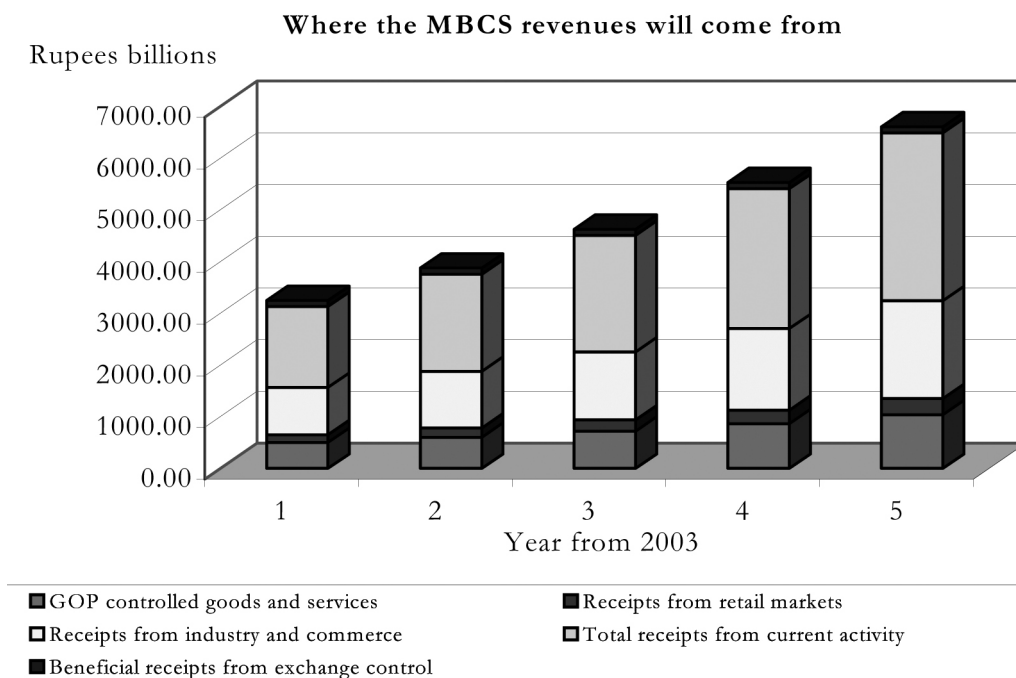


Figure 12. Source of MBCS Revenues

### Corporate Farming

In MBCS, GOP would provide selected corporate farming organizations with up-to-date machinery and equipment, free water, low-cost electricity, and low-cost fuel. Airplanes would be used to spray pesticides and sow seeds. Boundaries would vanish except on paper and in computers, and land could be sold without fear of litigation. The government would share profits with these corporations, which would reduce the subsidies presently paid out by GOP. As a result, every piece of land would be cultivated with high-quality crops and at the cheapest production costs. GOP would export these crops and earn much-needed foreign exchange and use corporate farming agencies to sell these crops inside the country. Therefore, the government would be able to easily regulate the price of these crops.

Although big landlords might not agree to lease their lands to the government at first, they would not qualify for the low-cost equipment and utilities provided by the MBCS scheme; therefore, they would be unable to compete on the open marketplace. In addition, they would be unable to obtain the cheap labor they presently rely on to make a profit. Under these circumstances, large landowners would find that the only way to make a profit would be by leasing their land to the government.

### **End of the Drug Era**

Once all the farmland in Pakistan is cultivated with high-quality crops, there will be no more cultivation of opium or other drug-related crops. All countries will have to adopt this system if they hope to survive in the new world order created by MBCS, and once they do, the evil of drug cartels and drug use will be eliminated.

### **The True Islamic Banking System**

MBCS is based on Islamic principles and guided by the structures found in the Islamic banking system. The Islamic banking system is based on *Sharia* (i.e., Islamic law) and guided by the principles of Islamic economics. This system serves the same purpose as conventional banking, but it is based on the idea of sharing profit and loss. The Islamic banking system is guided by the concepts of *Mudharabah* (i.e., profit sharing), *Wadiyah* (i.e., safekeeping), *Musharakah* (i.e., joint venture), *Murabahah* (i.e., cost plus), and *Ijarah* (i.e., leasing).

In order to avoid charging or paying interest in a mortgage transaction, which is prohibited by Islamic law, the Islamic banking system uses an approach called *Murabaha*. A bank may buy a house and sell it to a prospective buyer at a profit or build a house on turnkey basis. The buyer pays for the house in installments. These installments are the actual loan plus rent, which is a percentage of the prevailing interest rate and which is reduced with every installment. A bank may also use an approach called *Ijara wa Iqtina*. In this approach, a bank will sell a vehicle to a buyer in exactly the same way as it will sell a house. The bank's profit is from the rent of the house or car, not from selling it at a higher price to the buyer. This is true Islamic banking.

In the *Musharaka* approach, a company repays a bank loan by sharing its profits with the bank. This profit-sharing agreement ends when the loan is repaid.

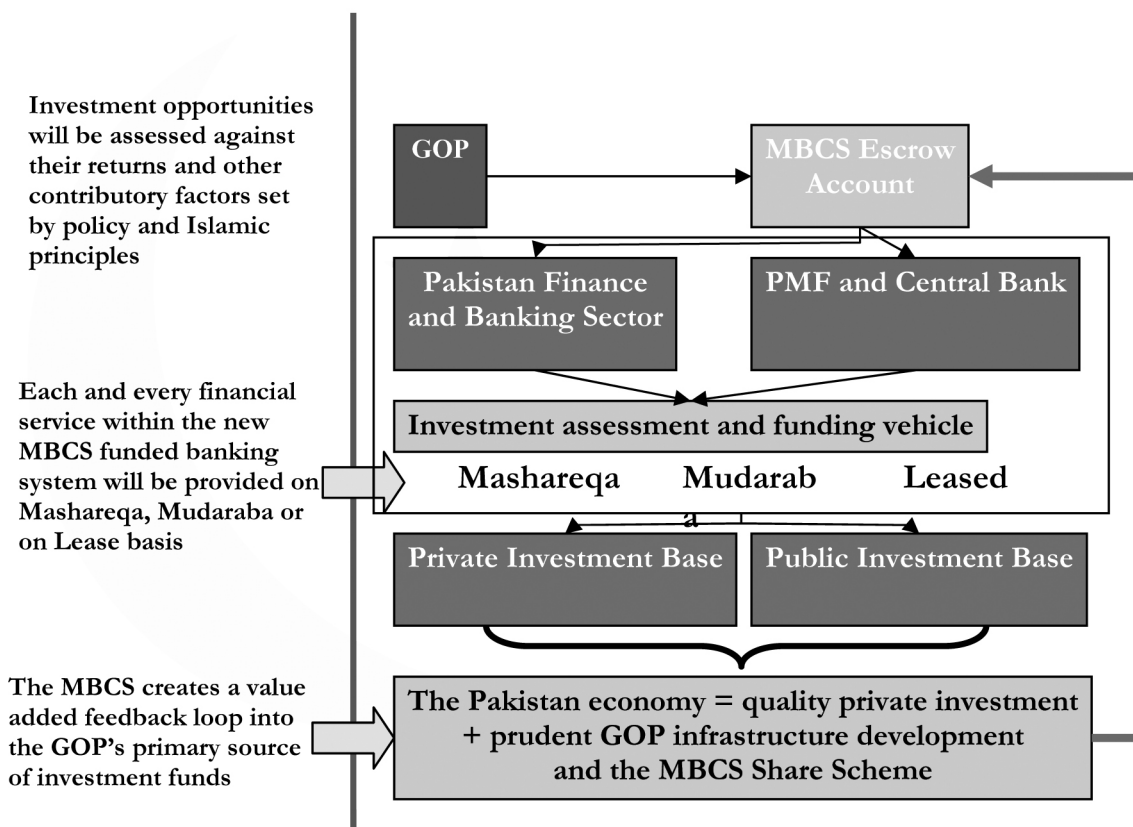
Using the *Mudaraba* approach, a bank and borrower enter into a joint venture. The bank provides venture capital, and the borrower provides the labor. In this way, the bank and borrower share the risk and the profit.

Islamic banks cannot engage in business transactions that violate Islamic principles. For example, these banks cannot invest in businesses that involve alcohol or pork. In addition, they

cannot invest in risky transactions because this is considered gambling, which is prohibited by Islamic law.

Some people believe Islamic banks do charge interest, but they hide it using legal tricks. This is true in a strictly economic sense, but Islamic law allows people (including banks) to buy goods and resell them at a profit as long as there are two clearly separate transactions.

The true form of Islamic banking is *Musharaka* (i.e., partnership, sharing, profit and loss), and this will constitute about 90% to 95% of the major business carried out in MBCS. *Mudarba* and *Ijra* will form the basis for the final 5% to 10% of transactions. Once MBCS is implemented, there will be a massive transfer of funds from private accounts. As a result, private banks will depend on government funds to provide money to businesses and industries. Figure 13 illustrates how Islamic banking will work in MBCS.



Creating an incentive-based economy along Islamic principles

Figure 13. How Islamic Banking works in MBCS

## **The Current State of Islamic Banking**

The pressure to create products to compete with interest-based banking has compromised Islamic banking. Current Islamic banking offers credit cards, consumer product loans, mortgages, and car loans. These services rely on notional financial charges (i.e., rent) that differ little from interest, and these interest-earning services contradict the Islamic principle of partnership.

Financial charges are payable no matter the outcome, and therefore, they cannot be considered Islamic because they impart no risk to the lender. A method of finance that does make the lender a partner in a funded enterprise is not Islamic. Current Islamic banking has the following characteristics:

- It is controlled by policy as much as the promise of economic returns.
- It is closely tied to the printing of money and not the creation of value.
- It creates disinterest among lenders.
- It creates a hedging strategy for investment.
- It is a poor benchmark for judging an investment opportunity.
- It places the entire burden of repayment on the borrower, no matter the outcome.
- It creates the conditions (e.g., high interest rates) that lead to the failure of businesses, projects, and economies.

## **The Opportunity for Islamic Banking**

The time is right for establishing true Islamic banking because

- there are 1.5 billion members of Islam around the world;
- most of these people live in poor (per capita GDP) countries;
- most of these countries have massive external debts owed to the World Bank, IMF, and developed nations;
- most of these countries cannot collect enough money to pay back the interest on this debt; and
- other than the oil-rich countries with small populations and high per capita GDP, balancing budgets, collecting taxes, and investing in infrastructure has become difficult or impossible.

The Islamic world is rich in human resources and intellect. It also owns 75% of the world's energy. In spite of these advantages, the Islamic world is mired in debt, and most Islamic countries have underperforming economies. In order to resolve this dire situation, it is necessary to eliminate taxes and interest because they are not solving the problem.

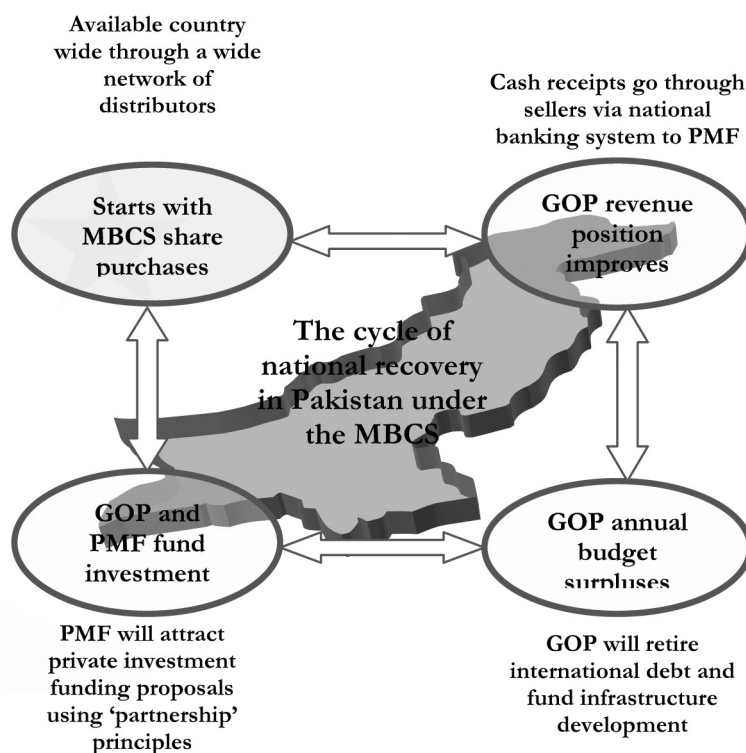
In order to resolve this situation, Pakistan needs to

- create surplus government revenues;
- eliminate interest on money from public life, financial transactions, and the banking system; and
- eliminate direct and indirect taxes as the sole source of government revenue and replace it with a system based on investment and growth.

Pakistan can accomplish national rejuvenation by replacing its present tax and banking system with Islamic banking and MBCS (see Figure 14).

## 10 FAQ's

- Am I really saving?
- How do I know what I actually pay?
- Where/how do I buy shares?
- How much will I pay for them?
- How do I get the incentives?
- How do the poor manage under this system?
- Will shares be accepted everywhere?
- Can private enterprise enter the scheme?
- Can I buy shares after Q1?
- Will shares be tradable between people, groups and businesses?



### Creating an incentive-based economy along Islamic principles

Figure 14. Pakistan's Economic Recovery under MBCS

The key factor for success is Islamic banking's relationship with the depositor. Currently, Islamic banking does not invest enough in image building, and it must shed the image of being esoteric, restricted, high risk, and slow to develop. Islamic banking must develop attractive low-, medium- and high-risk investment products. It must issue credit cards in order to compete with other banking systems. In addition, Islamic banking must develop acceptable short- and medium-

term cash flow financing management facilities for businesses and individuals. In short, Islamic banks must become credible, respected go-betweens that link investment with opportunity.

Although Islamic banks must develop customer services that can compete with interest-based banks, customers also need to become responsible investors. People must be prudent and develop realistic expectations. They must become aware that they have a responsibility to the wider community when they invest. Prudent, responsible investment will help alleviate poverty and ease the burden on people who support the poor. Banks do not own a depositor's money; they just manage it. Therefore, consumers must demand change before there is a shift from interest-based banking to true Islamic banking.

### **The Start of Interest-free Banking in Pakistan**

The Pakistani banking system has been held back by the lack of official liquidity. MBCS would change this by producing funds for the Government of Pakistan. The stronger cash position of GOP would enable the government to become a lender of substance, and this can be used to determine the nature of Pakistan's banking system. The Government of Pakistan could lend on condition that its loans support only Islamic-based banking operations and products. In short, massive cash surpluses would be made available by GOP to the banking sector on the condition that the money would be used to finance schemes that are approved by appropriate *Sharia* committees.

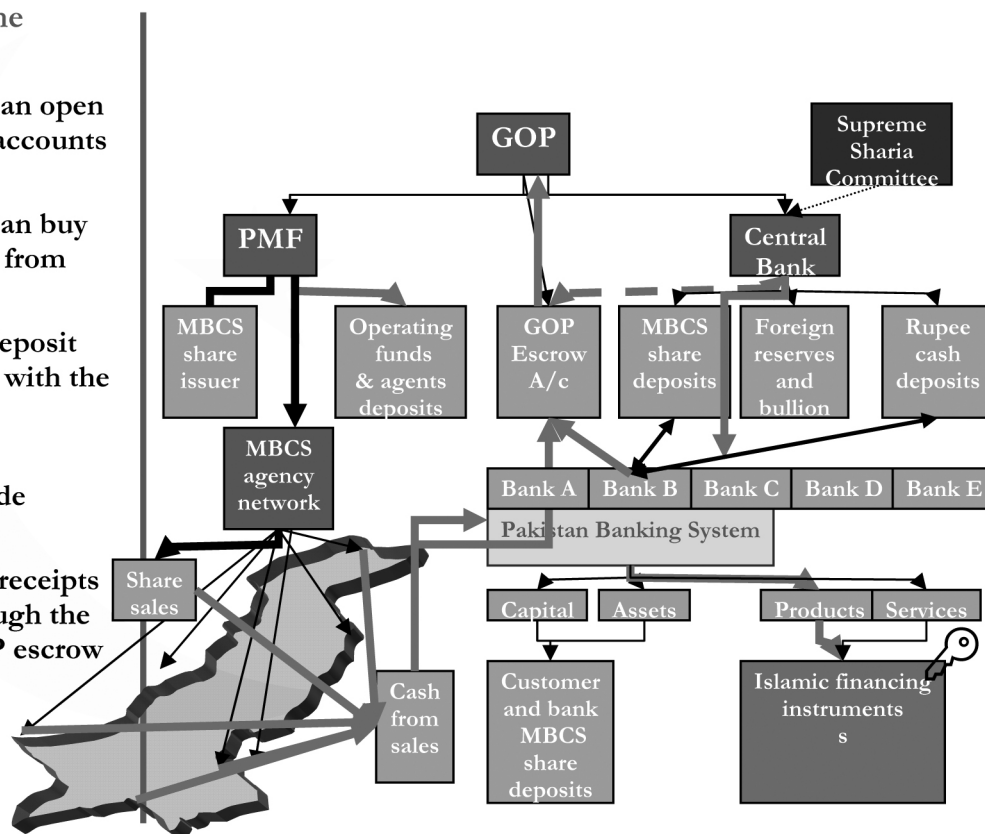
The following interest-free banking instruments are currently being used in the emerging Islamic banking sector:

- Trade financing, where banks use loans to buy and sell commodities and take a margin between the buy and sell prices for financing the trade.
- Leasing equipment, machinery, and buildings for industrial and commercial activities, where the lease is suitably marked up to acknowledge the value of the property to the business.
- Mortgage-based loans to households based on a calculation of a fair market rental for the property.

MBCS would promote interest-free banking because it will reduce the risk of project failure and enable bankers to make more accurate forecasts about project revenues and profits. Figure 15 illustrates the role of banks in MBCS.

### Banks and the MBCS

- Customers can open MBCS share accounts for deposit
- Customers can buy MBCS shares from the banks
- Banks will deposit MBCS shares with the central bank
- Banks can buy/lend/trade MBCS shares
- MBCS cash receipts will flow through the banks to GOP escrow account



Creating an incentive based economy along Islamic principles

Figure 15. Role of Banks in MBCS

### Interest-free Banking

Interest-free banking seems to be impossible because interest has very deep, firm roots in the global marketplace; however, if MBCS totally replaces current tax systems, interest-free banking becomes a real possibility. Once MBCS is fully implemented, money belonging to the private sector held by banks will be transferred to Government of Pakistan accounts. Once there are few funds available to banks from the private sector, they will have to depend on GOP, which will be more than willing to provide funds, but only on a profit-and-loss sharing basis. Banks will have no option but to take loans from GOP and invest in the private sector on the same basis, but only after making sure the investment is profitable. Any bank constantly losing money will not be given fresh loans and face being closed down. In MBCS, banks will profit from the hundreds of new businesses and industries that would be created by a dynamic, growing economy.

## **Role of the Central Bank**

Under MBCS, banks would follow the following rules when providing loans:

- Investors will deposit a 20% down payment as collateral and deposit it in the bank. The remaining 80% will be provided by the state.
- Investors will have to provide a feasibility study of a proposed project, and it will have to be verified by the bank and certified by the central bank. GOP will be the final authority on the feasibility of a business or industry.
- No cash will be advanced until the project is completed (i.e., turn-key basis). This will eliminate the major cause of bad debts.
- Operating expenses will be paid from the 20% down payment received by the bank. In some cases, the investor may have to put down more than 20% in order to cover operating costs.
- No other collateral is needed.
- Bank will employ a team of experts on a commission basis, and they will be paid from the profit according to a pre-agreed contract. In case of loss, the team of experts will not receive any commission. Any team repeatedly incurring losses will be blacklisted and will not be able to obtain new contracts. This condition will safeguard the bank from major losses.
- Any bank constantly showing losses will not be awarded fresh loans and faces going out of business, so the chances of bad loan or losses are completely eliminated.
- The state will not interfere with any business sponsored by it, but the central bank can and will interfere in the case of loss or fraud.
- The share of the profit will be 40/60, where state will accept 40%, and the remaining 60% will be divided between the investor and the bank when the bank is a partner with an investor.
- Investors or a bank can increase their investment up to 60%, and 40% will be invested by the state. In these cases, the profit margin will be 80/20. The state will receive 20%, and the bank and investors will divide the remaining 80%.
- The distribution of profits between investors and a bank is an internal affair and will not be influenced by the state, but the final contract between the investor and bank will part of the main contract.
- The state will provide duty-free raw material, machinery and other equipment, electricity, telephone service, fuel, and other services below cost. This will increase the profitability of businesses as the production cost for them is reduced. The state will cover the loss incurred by providing below-cost services and recover it from the profit. It is expected that the net income of the state will never be less than



20%, even after providing below-cost services. This incentive will only be given to big businesses, and because the government will be a shareholder in all these businesses, it will realize trillions of dollars in profit every year.

MBCS banking will have some profound effects on the economy:

- Bankruptcy laws will be eliminated and end the unchecked profit of liquidators, which cause tremendous loss to shareholders and investors. The courts will deal with rare cases of fraud.
- The state will establish Islamic insurance and ensure that the investor is protected from an unexpected loss in case of fire or natural calamities. To insure this loss, the investor has to deposit 5% of the profit in a government account for a time period decided by the investor. If there is no catastrophic event, the state will refund the investor's money minus the profit the state has earned from it. The investor is secured, and the loss is covered by state. With all these checks and balances, the chances of major loss are less than 0.1%, which can be covered by the profits the government earns from the thousands of investors who participate in this insurance scheme.

The central bank will play an important role in the MBCS banking system. Its experts will check every feasibility study before allowing a bank to go ahead with an investment.

### **Impact of MBCS on Pakistan's Banks**

Interest-free banking will increase banks' profits because hundreds of new businesses and industries will take advantage of the large amount of money available with a 20% down payment as collateral. Banks will also make profits by buying and selling coupons to their coupon account holders. Interest-based banking will be eliminated because there will be no money available to invest. Even if money was available, it would be impossible to attract people willing to borrow money on an interest basis.

In MBCS, consumers would have only one account, and this account would earn profit on a daily basis. This profit will not be based on interest; instead, consumers will earn profit on a profit-and-loss sharing basis. Consumers would be able to open a government account or a bank account, and this will be guided by the best rate of return.

Credit cards would be available to consumers, but their spending limit would be restricted to the amount of money they have in a bank account. Every month the profit would be calculated according to the deposits remaining in that account. This will solve the problem of overspending, which is a prevalent problem in developed countries.

## **Implementing Mbcs**

### **The Government of Pakistan's Role in MBCS**

MBCS requires the wholehearted endorsement of the Government of Pakistan, and people must recognize its role as the sponsor of MBCS. Laws must be put in place to establish MBCS and a system for distributing coupons, collecting revenue, and overseeing and administering the scheme. The government would also play a key role in setting policy.

Each year, the Finance Ministry would determine the total coupon value and the denominations and terms and conditions for coupon use, and it would take into account the number of coupons already in circulation. The coupons would have a face value representing rupees, and it would be necessary to exercise monetary controls to prevent inflation and keep the supply within reasonable limits that neither hinder activity nor cause a reduction in a coupon's face value. This is already a common part of fiscal policy.

In essence, the government would authorize the issue of coupons at a value approximating the needs of the state budget and the anticipated level of economic activity. As prediction is an art and not a science, budget surpluses and deficits arising from windfalls and shortfalls would have to be managed in the medium- to long-term (i.e., through the next year's budget or through emergency mid-term budgets). The government would have to control MBCS policy and strategy because it is a state revenue system. It would also need to ensure that MBCS remains relevant in concept, objectives, and implementation.

The following criteria will ensure the ongoing success of MBCS:

- MBCS must be accessible in all parts of the country and for Pakistani expatriates abroad.
- It is necessary for the system to continually make goods and services available at realistic prices.
- There must be real discounts for using coupons.

If these issues are always addressed, the system will take care of itself because demand for coupons will always exist.

### **The Implementation Strategy**

The following is not intended as an exhaustive description of implementing the system. Instead, only the basic features of implementation are discussed.

Prior to the launch of the scheme, the Government of Pakistan must tender contracts that cover the following tasks essential to the launch and administration of MBCS:

- A general management and administration contract.

- A card/coupon design, security, and manufacturing contract.
- An audit contract.

These contracts will form the structure for MBCS in Pakistan.

There are certain activities that must be performed in order to make the scheme a success:

- Publicizing and marketing the system throughout Pakistan.
- Setting up the coupon infrastructure (i.e., logistics) so the card/coupon system is available throughout the marketing area.
- Printing and manufacturing coupons.
- Entering into contracts with coupon vendors.
- Gathering, consolidating, controlling, and accounting for the revenue received from the sale of MBCS card/coupons.

It will be necessary to simplify the administration and revenue-gathering functions in order to ensure MBCS is a success. Therefore, it may be best to assign all of the roles set out above to one particular organization. However, there are also benefits to awarding the above contracts to different, competent organizations in Pakistan.

It is assumed that a major Pakistani bank or banks can play management/administrative roles in the nationwide structure gathering revenues from card/coupon sales and consolidating them into a national interest account made available to the government. A bank that administers MBCS will be given a percentage of the net proceeds. This involves no cash outlay by the government.

It may be considered prudent to hand the administration of the coupon system to the same bank, provided it has a network of branches with access to the anticipated source of revenues. This will ease administration costs and enhance accountability.

In order to make coupons available to the largest number of people, it will be necessary to recruit coupon vendors. In order to cover the entire population of Pakistan, it may be necessary to employ as many as 2 million coupon vendors in cities, towns, and, in some cases, villages. This would improve the employment situation among the many educated Pakistanis who are currently unemployed.

Each coupon agent will be employed on 10% commission bases, so PKR100 worth of coupons will be sold for PKR90. These agents will be registered with PMF and pay PKR5,000 a year, which will be used by PMF to establish a network of offices and modern communications throughout the country. It is estimated that at least 10,000 offices will be needed to serve the coupon agents. Each coupon agent will be required to sell PKR300,000 a month, and this can be increased according to demand. An agent who cannot pay the PKR5,000 fee will be required to sell PKR150,000 until he/she is able to pay the registration fee.

### **Multiplication Effect**

Investors who purchase PKR100,000 worth of coupons to sell to people who cannot purchase large quantities of coupons during the discount period (i.e., six coupons per rupee during the first month of a financial year) would be able to negotiate a 5% to 7% discount from the coupon seller, who would pay this out of his or her 10% commission. The coupon seller would be willing to give an investor this discount because the investor would need to purchase large quantities of coupons during the discount period. In this scheme, the investor would sell coupons at the discount rate and keep the 5% to 7% negotiated with the coupon seller as profit. As a result, instead of only 5% of the population being able to take advantage of the discount period, at least 50% of the population would be able to take advantage of the low rates available during the discount period. Not only would this benefit large numbers of average people, it would also provide GOP with more money.

### **Grassroots Organisation**

Coupon vendors will retain a percentage of all sales. This will be their only form of payment. It is incentive based and promotes far more activity than a government salary.

The use of references, educational requirements (e.g., minimum O level standard), and forms of collateral guarantees will ensure competent people become vendors. Cash deposits may be deemed suitable under the circumstances. Most vendors will be students or unemployed people.

Simplicity is the key to success, but it may be necessary to establish a supervisory level because of the number of card/coupon vendors involved in selling MBCS coupons. This supervisory layer should be kept to a minimum so the effectiveness of the card/coupon system is not affected and to prevent abuse. Using an existing bank structure/organization appears to be the most logical and expedient method for creating an instant administrative framework. (See Figure 16 for details about the structure of MBCS in Pakistan.)

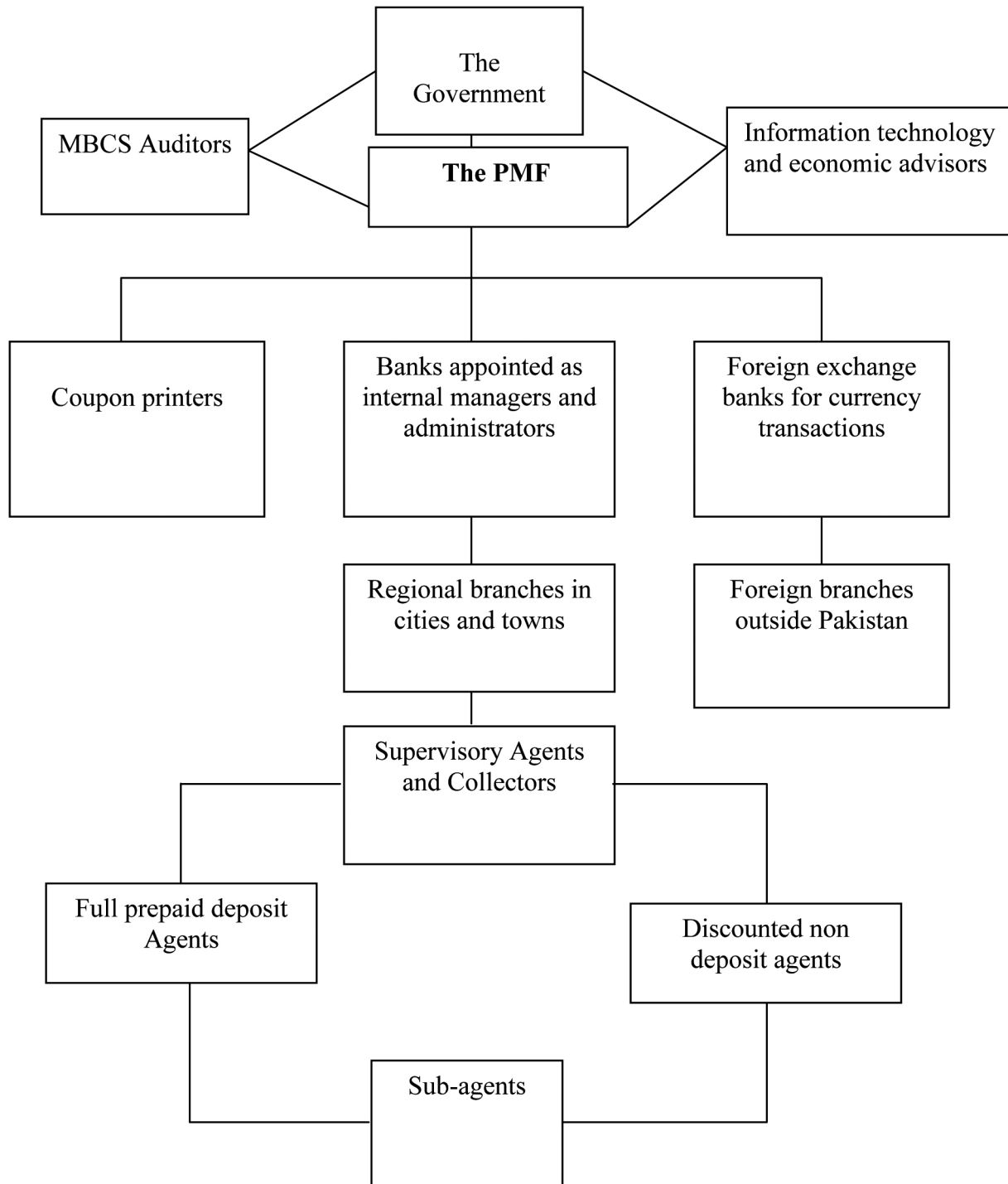


Figure 16. The Proposed Structure of MBCS in Pakistan

### **A Flood of Money**

As mentioned earlier, there is a flood of money waiting to wash into government accounts. This money will come from a number of sources:

- Massive sale of coupons: It is expected that within one month 10% of the population will buy PKR1.5 trillion worth of coupons, and its multiplication effect will generate another PKR3 trillion because at least 50% of the population will join in this massive incentive scheme.
- Black money: According to very conservative estimates, approximately US\$100 billion is being used for smuggling purposes every year. All this money will plunge into the sea of profit as soon as MBCS is implemented.
- Gold mine: This is considered the backbone of every country's economy, and it will replace taxes such as GST, sales tax, and VAT. For example, it will generate PKR90 trillion for Pakistan every year.
- Corporate farming: The government will earn trillions of rupees from corporate farming, although it is difficult to estimate the exact figure at this stage.
- Islamic banking: The government will be a shareholder in every big business, and the potential revenue generated through this source is unimaginable.
- Foreign investments: With no tax and low-cost services and commodities provided by the government, it will be difficult for foreign investors to resist investing in Pakistan.

### **Deflation And Not Inflation**

Once MBCS is implemented, the government will control all imports, exports, agriculture, and major businesses. This will eliminate the control of these economic areas by cartels. This will help stop inflation because MBCS will eliminate the price hikes cartels use to improve profits. Without these price hikes, there will be no inflation. Although inflation will be eliminated in MBCS, there is a possibility of deflation. This possibility will exist as long as the government remains true to the incentives that drive MBCS.

### **Islamic Bonds instead of Eurobonds**

The following criteria must be used to float Islamic bonds (i.e., MBCS coupons):

- No interest will be paid on these bonds (i.e., coupons).
- They will not increase the debt burden of the government and should not require any guarantee to print them.
- Bonds must be available on a supply and demand basis at all times and have no restriction on the amount.
- Bonds must benefit everybody when used with real currency to purchase goods and services.

- Bonds cannot be hoarded and should be available from different sources; however, the rate may differ from day to day and from place to place.
- Everybody must have the opportunity to buy bonds at the cheapest rate.
- Buying and selling bonds must occur like any other commodity, but unlike other commodities, these will never be in short supply.
- Bonds must have an unlimited shelf life.
- Daily, weekly, or monthly interbank rates must be based on actual currency but without interest.
- Bonds must be available to registered businesses at the cheapest rate throughout the year.
- People must be able to buy bonds 24 hours a day, 365 days a year.
- People must be able to buy unlimited amounts of bonds.

MBCS will result in the following benefits for Pakistan and its people:

- Because of the strong profit incentive, the government will sell bonds worth PKR trillions every year, and there will be massive revenue collection by the government early in the fiscal year and throughout the year.
- There will be a strong incentive to buy bonds using foreign currency, which will result in large hard currency reserves.
- There will be daily lotteries to provide average citizens with a chance to share in the profits earned by the government.
- There will be no kickbacks as is the case in the sale of Eurobonds, which only benefit a few highly placed people.
- Black money will be used to purchase these bonds. This flood of black money will enable the government to invest in big projects, such as dams to produce electricity and oil/gas field and mineral exploration.
- All spare and unused money or valuables will be used to buy these bonds for business purposes and reduce the cost of all types of bills and commodities.
- These bonds will reduce costs at least 10% to 20% from the present price and at least 50% when these bonds are bought at the cheapest rate.
- The sale of these bonds will provide job opportunities for millions of unemployed, educated people.
- Bonds can be treated just like money. That is, they can be held in bank accounts and withdrawn through ATM machines.
- Bonds will be available in the form of debit cards.
- Even the poorest person should be able to buy and sell bonds at a prompt margin.

## **Conclusion**

Pakistan has been used as an example of MBCS because the country is at a crossroads. What is undertaken in the next 3 to 5 years will have a profound effect on the long-term political stability and financial security of Pakistan and its international prestige. The improvement of the Government of Pakistan's liquidity is vital to Pakistan's political stability and financial security. Pakistan cannot afford more budget deficits. Current levels of GOP indebtedness require a regular restructuring of external debt as well as massive interest payments.

Many Pakistani people believe there is fixed or diminishing wealth in Pakistan. The people and government appear to be fighting against this vanishing wealth, and taxation is their battleground. This idea is flawed and dangerous because it fails to see the promise of growth held by a solvent government able to build roads, schools, hospitals, ports, airports, and other infrastructure projects, which would inject vital value into the economy and increase the GDP of Pakistan. In other words, a solvent government will produce a bigger cake for everyone to share.

MBCS provides Pakistan with the opportunity to work its way out of the downward spiral of diminishing value and diminishing tax revenues. By improving the government's ability to collect revenue and spend it wisely, the country's economy can move in a positive direction. In addition, MBCS revenue would increase the growth in GDP. The country could once again pay its way in the world without the need for foreign loans. It is necessary to reverse Pakistan's downward economic and political spiral and fulfill the expectations of its citizens. It is time to establish an economic system that enables Pakistani people everywhere to hold their heads high.





## CHAPTER 3

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### **MBCS In Developed Countries: The United Kingdom and The United States**

MBCS is a government revenue system that has a wide range of applications to national economies. It is not solely a system for helping developing economies and poorer countries. It can also be used by developed and advanced economies. Indeed, in the fast-growing global marketplace, today's economic giants are being challenged by the Asian tigers, and in order for them to compete, they need to respond in an innovative and responsible way. No economy can rest too comfortably on its past economic performance or its assumptions about the future. In fact, in the new global marketplace, governments need to rethink how they collect and use revenue.

According to Michael Porter of the Harvard University Business School, national economies can be classified using the following four basic characteristics:

1. factor driven,
2. diversified production base,
3. research and development, and
4. wealth driven.

These characteristics show the path from dependence on extraction industries to the achievement of wealth using investments. Of course, all four conditions can co-exist in any economy; however, Porter suggests that an economy's stage of development can be determined by identifying which characteristic dominates an economy.

It is also possible to identify a nation's stage of economic development by examining its citizens' quality of life. The United Nations uses the Human Development Index (HDI) to measure the quality of life in each country. Although HDI uses a broad range of measures,

economics is a core measure because the richest nations tend to have the highest HDI scores. Table 16 shows some sample HDI scores.

Table 16. Sample HDI Scores

<b>HDI Rank</b>	<b>Country</b>	<b>Human development index (HDI) value 2003</b>
1	Norway	0.963
2	Iceland	0.956
3	Australia	0.955
4	Luxembourg	0.949
5	Canada	0.949
6	Sweden	0.949
7	Switzerland	0.947
8	Ireland	0.946
9	Belgium	0.945
10	United States	0.944
11	Japan	0.943
12	Netherlands	0.943
13	Finland	0.941
14	Denmark	0.941
15	United Kingdom	0.939
16	France	0.938
17	Austria	0.936

Source: Human Development Report Office New York

HDI measures not only GDP, but also education, health services, literacy, communications, population characteristics, and so forth to obtain a broad assessment of a country's quality of life. Wealth in itself is not enough to assess a country's quality of life; instead, how wealth is used is a key factor in measuring the relative development of a country. In addition, it is necessary to examine a country's tax system and how it affects that country's development. The tax systems used in developed countries do not appear to have a negative effect on quality of life, but in spite of appearances, MBCS could improve life in developed countries faster than their current tax systems.

### **Developed Countries and MBCS**

It is believed in some quarters that the richer a country becomes the more it relies on taxes to improve its citizens' quality of life. The ultimate examples are the Scandinavian countries of Sweden, Denmark, and Norway. However, these examples of high quality of life have nothing to do with tax policy; instead, they are the result of social policy. For example, the Arab Gulf states

currently have the world's highest GDPs, and in the main, their citizens do not pay any taxes. They do, however, score much lower on the UN HDI than the Scandinavian nations. Given their aspirations to improve their citizens' quality of life, how long these oil-rich countries (i.e., factor-driven economies) can remain free of direct and indirect tax is a moot point.

The key issue for all states seeking to improve their citizens' quality of life is the distribution of wealth and income. In those countries with high HDI scores, the distribution of wealth and income is characterized by a large middle class capable of creating real wealth and funding good education, health, and national investment through taxes because the middle classes always contribute far more to national economics than the rich classes.

Is a tax system the best way to forge ahead nationally? Can it be replaced with a new system that is more efficient and acceptable? There is little doubt that taxes are unpopular, and governments continuously try to balance taxes within a social contract and the wealth available to tax. Indeed, in the most advanced economies, taxation has become a multi-headed monster that includes direct, indirect, local, and so-called stealth taxes (i.e., government charges for services). Low-tax governments, such as Margaret Thatcher's and Ronald Reagan's governments in the 1980s, were popular, but these governments underinvested in core public services and infrastructure. Therefore, how does a government obtain revenue and invest in the life of a nation without resorting to taxation?

The United Kingdom and the United States, like the top eight industrialized nations, collect taxes post facto (i.e., after wealth has been created). These countries have high HDI scores, and they use taxes to improve their citizens' quality of life. However, they do not operate revenue collection systems that encourage economic growth. Therefore, this chapter examines how MBCS could be used in these countries to improve their citizens' quality of life and stimulate economic growth.

### **The United Kingdom In Profile**

The United Kingdom has 60 million people, and its annual government budget is UK£552 billion ([www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)). Since 1945, every British Chancellor of the Exchequer has had to balance external trade deficits and internal budget deficits with an economy that has at times (e.g., 1945–1950, 1960–1967, 1972–1982) been fragile.

Taxes have played a major role in the economic fortunes of the United Kingdom. Since 1945, successive governments have used taxes to regulate economic activity and pay for the country's massive external debts caused by World War II and a reduction in its trading position. Until the government of Margaret Thatcher (1979–1990), British governments practiced Keynesian economics and saw taxation as a means to regulate and stimulate economic activity. It implied

the omnipresence of government in economic life, and as a result, there was a proliferation of state-owned industries.

A watershed in government thinking occurred in 1979 when a new Conservative government was elected to end the economic gloom and lackluster performance that had prevailed since the end of World War II. Free market economics and minimum government intervention became the mantra of Margaret Thatcher's (the United Kingdom's first woman prime minister) aggressive and determined administration. The message was clear: Remove the restrictions of government and reduce taxes as an incentive for people to embrace enterprise and create wealth.

Margaret Thatcher's re-election in 1983 marked a turning point for the United Kingdom. By 1990, as a result of low taxation and the sale of state-owned assets, Thatcher's government revolutionized the way British people thought about wealth, work, and enterprise. This contributed to a resurgence in private and personal investment, home ownership, and greater spending by consumers who were more confident about the future than they had been in 50 years.

Since 1997 and despite a commitment to maintain a free market philosophy, the United Kingdom has become involved in a debate about the Thatcher legacy, and successive Labor government budgets have set aside, albeit indirectly, the low tax policy. Although the United Kingdom has the fifth-largest economy in the world, it is mired in high personal debt, increasing stealth taxes, 15% VAT, and fears concerning its competitiveness in the global marketplace. In addition, the Thatcher government, and its economic policies, is being blamed for the socioeconomic dysfunction of state services (e.g., health and education services).

The United Kingdom's internal debt is UK£37 billion, and it has UK£456 billion in external debt. The pound is on float with other international currencies, and its preset rate varies between US\$1.36 dollars and US\$1.45 dollars per pound. The unofficial unemployment rate is 5%, and 5% of the population lives below poverty line. Government revenue is between UK£500 and UK£520, and the 2006 budget is UK£552.

### **The UK Tax System's Effect on Business**

The United Kingdom's increasing taxes and the complexity of its tax system are having a negative effect on businesses. The Engineering Employers' Federation (EEF), which represents more than 6,000 manufacturing, engineering, and technology-based businesses, points out that tax is increasing the cost of doing business in the United Kingdom, and businesses are finding it difficult to take advantage of strong, stable economic growth.

A competitive, low-cost tax system is an important part of how a government can help businesses remain competitive in the global marketplace. The UK government is promoting innovation and improved skills, but rising business taxes are making it difficult for businesses to compete with companies in countries that are designing tax systems to attract high-value

industries. In order to create a better environment for business, the United Kingdom needs alternative approaches to those parts of the current tax system that inhibit economic growth.

In 2005–2006, UK businesses will pay an additional UK£2.2 billion in corporation tax and UK£5.5 billion in taxes such the Climate Change Levy. Between 1997 and 2006, only a few OECD countries have had higher tax increases than the United Kingdom.

Although the business community understands the need to invest in the UK's infrastructure and improve public services, it is unhappy with the inefficient use of some the UK government's revenue and believes this waste will hurt long-term economic growth. The UK business community suggests that there should be no more tax increases and the system should be simplified.

### **Flat Rate Taxes**

Experts suggest that the complexity of a tax system causes more problems for businesses than the level of tax, and they point out that high-tax Scandinavian economies are among the most competitive in the world. Many UK businesses believe a flat rate tax is the best solution to the United Kingdom's current tax problems because it appears to be a simple system; however, this solution is not necessarily the best way to improve the business climate.

More than three quarters of the business community believes a flat rate system will cut the red tape that now complicates the UK tax system. They think it will be less time consuming and easier to administer. Although it looks simple on the surface, some experts point out that this system depends on the level of the flat rate. They state that the United Kingdom's inheritance tax has a single rate, but there are loopholes and opportunities to reduce this rate. They fear that a flat rate system could become as complicated as the current tax system. In addition, these experts believe the flat rate would have to be close to 30% in order to meet the government's funding needs.

It is clear that the current tax system in the United Kingdom is not encouraging economic growth, and it is time for a change. MBCS would eliminate the need to tax businesses and encourage the economic growth needed to keep UK businesses competitive in the global marketplace.

### **Poverty in the United Kingdom**

Currently, 5% of the UK's population lives below the poverty line. There are many reasons for poverty:

1. unemployment,
2. low wages,
3. large population,
4. direct and indirect taxes, and
5. illiteracy.

Poverty causes serious social problems, and it can be responsible for

- a breakdown in law and order,
- terrorism, and
- illegal immigration.

It is assumed that almost all the reasons listed as causes of poverty are the result of a lack of good governance. In other words, it is the fault of the state. Governments disagree, and they usually point out that they do not have the money to address these problems and eliminate poverty. MBCS has been devised to eliminate poverty.

### **Direct and Indirect Taxes**

Governments collect much of the money needed to operate from direct taxes. Most direct taxes are income taxes, which everyone who works must pay; however, in many countries, people claim more expenses than they incur and underreport their income. As a result, the government is not able to collect the taxes they are owed. This kind of corruption is very common in developing countries. In order to increase revenue, governments often impose taxes on many state-controlled commodities and services, which indirectly increase the cost of production and the cost of living for average citizens.

Indirect taxes on essential commodities inhibit people from establishing new industries. In order to reduce the burden of indirect taxes and have any chance of making a profit, businesses often

- do not declare their total production or
- do not register themselves as a production house, which is common in developing countries.

As a result, governments do not receive the funds they need to operate and end up with budget deficits that spiral out of control. Although there does not appear to be any way out of this vicious cycle, MBCS offers a way for governments to raise the money needed to meet its obligations.

### **How MBCS will work for the United Kingdom**

The UK currency is the pound, and one pound has 100 pence. In MBCS, each penny would buy five MBCS coupons if UK£25,000 worth of coupons were bought in the first 30 days of a financial year. In the next 30 days, the rate would be four coupons per penny. In the third month, the rate would be three coupons per penny, or UK£30,000 could be written off the duty on goods imported in the United Kingdom. This would fall to UK£15,000 in the second month and UK£10,000 in the third month. It is also possible for a person or business to take half coupons and half duty-free merchandise in any month. All of these options require a deposit of UK£25,000

in the first month. If 20 million people purchase UK£25,000 worth of coupons, then the total amount collected in the first 30 days would be UK£500 billion. With the multiplication effect, at least 30% of the population would join in this incentive-based fund, and the amount of revenue would increase to UK£750 billion, which is much more than the projected budget for 2006.

In addition to the multiplication effect, the government would also earn revenue from the following sources:

- black money,
- gold mine,
- interest-free banking, and
- corporate farming.

### **Formation of UKMF (United Kingdom Monetary Fund)**

The UK government would give a contract to sell MBCS coupons to an organization with the lowest bid. This agency could be called the United Kingdom Monetary Fund (UKMF), and it would have to employ 1.5 million people as coupon agents. These agents would receive a 10% commission for every coupon sold, and they would be selected from unemployed people who are literate. The United Kingdom spends approximately UK£105 million on social security and approximately UK£56.8 million on unemployment benefits a year. These costs would be eliminated after the implementation of MBCS.

Coupon agents would receive a monthly quota of UK£100,000 after paying a UK£500 yearly registration fee to UKMF. This fee should be more than enough for any private organization to establish and maintain the 10,000 offices needed to facilitate the sale of coupons throughout the United Kingdom. This is in the best interest of UKMF because the more offices the more coupons will be sold. Coupon agents would be able to provide customers who buy large amounts of coupons with discounts out of their 10% commission. These discounts can range between 4% and 8%, depending on the client. Agents who cannot pay the registration fee at the start of a financial year would have their quota cut in half until they pay the annual fee.

The second, third, and fourth unsuccessful bidders for the contract to sell MBCS coupons would be appointed auditors of UKMF. These auditors would be independent of the government. Any case of fraud detected by these agencies would also be verified by the government agency that collects taxes. These auditors would be paid a fee by UKMF, and they would receive 50% of any penalty imposed on UKMF, which would be 10 times the amount of the fraud.

In order to obtain the lowest rate for MBCS coupons, it is necessary to buy at least UK£25,000 worth of coupons in the first month of a financial year, and it is estimated that at least 20% of the UK population can afford to buy these low-cost coupons. At first glance, it appears that this



system favors the rich and penalizes the poor; however, there are two ways in which low-income people can obtain low-cost coupons:

1. Groups of low-income people can combine their funds and buy low-cost coupons.
2. A rich or clever businessperson can buy low-cost coupons and negotiate a 4% to 8% discount from a coupon agent. He or she would be able to sell these coupons at the lowest rate to people who are unable to raise UK£25,000 and retain the discount as profit. This process can be repeated throughout the first month and result in high profits for the seller and low rates for the buyer.

### **Multiplication Effect**

Investors who purchase UK£25,000 worth of coupons to sell to people who cannot purchase large quantities of coupons during the discount period (i.e., five coupons per penny during the first month of a financial year) would be able to negotiate a 4% to 8% discount from the coupon seller, who would pay this out of his or her 10% commission. The coupon seller would be willing to give an investor this discount because the investor would need to purchase large quantities of coupons during the discount period. In this scheme, the investor would sell coupons at the discount rate and keep the 4% to 8% negotiated with the coupon seller as profit. As a result, instead of only 20% of the population being able to take advantage of the discount period, at least 50% of the population would be able to take advantage of the low rates available during the discount period. Not only would this benefit large numbers of average people, it would also provide the UK government with more money. For example, if 20% of the population buys UK£25,000 worth of coupons, then the government will raise UK£350 billion. If another 30% of the population buys UK£25,000 worth of coupons, then the government will raise another UK£450 billion, which is much higher than the amount needed for the 2006 budget. In addition, the amount that may be raised by an influx of black money is unimaginable.

### **Reasons for Purchasing MBCS Coupons**

It is clear that businesses and the UK government would reap substantial benefits from MBCS. In addition, average consumers would experience a reduced cost of living and, as a result, an improved quality of life. There are three reasons why a consumer would want to purchase MBCS coupons:

4. Coupon-based transactions are less expensive than pound-based transactions.
5. Coupons purchased at the beginning of a financial year are less expensive than coupons purchased later in the year.

6. The cheaper the coupons, the cheaper the price of the goods and services bought using coupons.

The best deals (i.e., rates for coupons) will come through official channels during the first financial quarter. This will attract substantial revenues ahead of purchasing requirements, and it will be a win-win situation for the UK government and consumers.

The more expensive official coupon market in the remainder of a financial year will encourage open market trading among businesses and individuals who trade coupon surpluses for shortfalls at negotiated prices. This market is important because it creates a broad-based value for an exchange market that is independent of UK government price controls. This will further support the growth of the coupon system in the open market.

Banks and financial institutions will be able to trade through their normal distribution channels and provide MBCS coupon accounts as well as normal cash and deposit accounts. Banks will also be able to purchase larger quantities of coupons in the early part of a financial year on a speculative basis and offer these coupons to their customers during the year. Banks can top up customer coupon accounts at agreed rates and times. This trade in coupons will be a very lucrative business for banks and a valuable customer service.

MBCS will offer cheaper actual prices on the basics of modern living, such as telephones, gas, water, electricity, and so forth. The following steps show how the price for a basic commodity is calculated using MBCS:

- When calculating the bill for a commodity, the vendor uses present prevailing tariff charges.
- When the bill is paid, coupons will replace cash and the savings will depend on the rate of coupons when they were purchased. Utility bills will calculate/show the number of coupons required by the user, so there will be no confusion or need for the consumer to do the calculating.
- The coupon value price of the utility will be much lower than the cash price.

For example, a telephone bill may be UK£10. In MBCS, the consumer could pay the bill with 2,000 coupons. If the coupons were purchased for five coupons per penny, the bill would be UK£4, which is a savings of UK£6.

As described in chapter 2, MBCS is an incentive-based system that will greatly reduce the cost of living for average people and reduce production costs for businesses. It will also raise more than enough money for the UK government to balance its budgets and eliminate its debts. Table 17 shows the effects MBCS will have on the United Kingdom's financial situation.

Table 17. The Effects of MBCS on the United Kingdom's Financial Situation

<b>Current System (amount in billions)</b>	<b>MBCS (amount in billions)</b>
total budget = £552	proposed budget = £600 (this is the most conservative estimate of revenue received within the first 30 days of a financial year)
Unemployment = 5%	unemployment = 0%
current debt (approx) = £475	total debt = £0.00
current VAT on retail sales = 15%	government-controlled aid = 3%

### **The Economy of the United States**

The United States has the largest economy in the world, with a per capita GDP of \$42,000. In this market-oriented economy, private individuals and businesses make most of the decisions (e.g., when to expand capital plant, lay off workers, or develop new products), and federal and state governments purchase goods and services from the private sector. Although they have a large amount of freedom in the United States, it is more difficult for U.S. citizens and businesses to enter foreign markets than it is for foreign companies to enter U.S. markets. The United States is one of the most technologically advanced societies in the world, and although the gap has narrowed since World War II, it is a leader in computers and medical, aerospace, and military equipment. The widespread use of advanced technology has resulted in a two-tier labor market: The people in the bottom tier lack the education and the professional/technical skills of the people in the top tier, and the bottom tier people do not enjoy the same pay raises, health insurance coverage, and other benefits as people in the top tier. Since 1975, the top 20% of the population has received most of the gains in household income. The U.S. economy is resilient, and it has been largely unaffected by events such as the September 11 terrorist attacks, the devastation caused by Hurricane Katrina (in 2005), and the soaring oil prices in 2005 and 2006. In spite of its resilience, the U.S. economy faces long-term problems caused by inadequate investment in its economic infrastructure, rapidly rising medical and pension costs associated with an aging population, large trade and budget deficits, and the inability of people in lower economic groups to improve their income.

The U.S. tax system is complicated. Most people find it difficult to understand, and the United States spends millions of dollars every year collecting taxes. MBCS would eliminate this complicated system and enable the United States to spend the money used to collect taxes on more useful projects. Although tax consultants would not be necessary in MBCS, they would be able to find employment in this system.

## **The United States In Profile**

Approximately 295.7 million people live in the United States. Its annual budget is US\$12.2 trillion, and it has an annual deficit between 3% and 3.5%. The U.S. debt is US\$52 trillion. The unofficial unemployment rate is 5.1%, and 12.1% of the population lives below the poverty line. Budget collection varies from US\$7 to 7.8 trillion, and 2006 government expenditure is predicted to be US\$12.2 trillion.

The following list of taxes shows that the U.S. tax system is quite complex:

- **Corporate Taxation:** Corporate profits are taxed at a corporate tax rate, and dividends paid to shareholders are taxed at a separate rate. This system is called double taxation because corporate profits paid to shareholders are taxed twice.
- **Individual Taxation:** Wages and salaries, pensions, bonuses, commissions, business income, dividends, interest, capital gains, rent, and royalties are taxed in the United States. Taxes are also collected for any overseas investments of a U.S. citizen. In addition, U.S. citizens and residents must pay an estate tax on inheritances.
- **International Company Taxation:** U.S. companies that operate overseas must pay taxes on their profits. The laws concerning these taxes are very complex and require professional help to avoid penalties.

**The U.S economy is like a giant oak tree that has rotten roots, hollow stems, and dying leaves, and it is quite possible that this mighty tree will fall and bury every nation relaxing under its shade. MBCS is the fertilizer that can bring the U.S. economic tree back to life.**

### **Effects on its economy**

The following articles show the problems facing the U.S. tax system.

1. **There Are A number Of Unexploded Bombs Hidden In The U.S. Economy**  
(By [Martin Hutchinson](#) Washington, DC, Sep. 6 (UPI))
2. **King Kong Debt Meets Middle Class Life**  
(By [Stacy A. Teicher](#) | [CS Monitor](#) | Aug. 23, 2004)
3. **What If US Debts Are Unloaded Abruptly In A Deliberate Attempt To Destroy The American Economy?**  
([Sun Aug 8, 2004](#) | [WASHINGTON \(AFP\)](#) )
4. **I.R.S BANKRUPT TOO: US Taxpayers Are Increasingly Willing To Cheat**  
(By [Albert B. Crenshaw](#) | [Washington Post](#) | [August 4, 2004](#) )
5. **US: Borrowing More and More Isn't Fiscally Responsible**  
([August 4](#) ([Bloomberg](#)). )

### **How MBCS will work for the United States**

The U.S. currency is the dollar, and one dollar has 100 cents. In MBCS, each cent would buy five MBCS coupons if US\$50,000 worth of coupons were bought in the first 30 days of a financial year. In the next 30 days, the rate would be four coupons per cent. In the third month, the rate would be three coupons per cent, or US\$30,000 could be written off the duty on goods imported in the United States. This would fall to US\$15,000 in the next month and US\$10,000 in the third month. It is also possible for a person or business to take half coupons and half duty-free merchandise in any month. All of these options require a deposit of US\$50,000 in the first month.

### **Formation of USMF (United States Monetary Fund)**

The U.S. government would give the contract to sell MBCS coupons to an organization with the lowest bid. This agency could be called the United States Monetary Fund (USMF), and it would have to employ 50 million people as coupon agents. These agents would receive a 10% commission for every coupon sold, and they would be selected from unemployed people who are literate. The United States spends about US\$3.6 billion a year (USA Department of Labor and Employment) on social security and unemployment benefits, which would be eliminated after the implementation of MBCS.

Coupon agents would receive a monthly quota, and they would be able to provide customers who buy large amounts of coupons with discounts out of their 10% commission. These discounts can range between 4% and 8%, depending on the client. Agents who cannot pay the registration fee at the start of a financial year would have their quota cut in half until they pay the annual fee.

The second, third, and fourth unsuccessful bidders for the contract to sell MBCS coupons would be appointed auditors of USMF. These auditors would be independent of the government. Any case of fraud detected by these agencies would also be verified by the government agency that collects taxes. These auditors would be paid a fee by USMF, and they would receive 50% of any penalty imposed on USMF, which would be 10 times the amount of the fraud.

In order to obtain the lowest rate for MBCS coupons, it is necessary to purchase at least US\$50,000 worth of coupons in the first month of a financial year, and it is estimated that at least 20% of the U.S. population can afford to buy these low-cost coupons. At first glance, it again appears that this system favors the rich and penalizes the poor; however, there are two ways in which low-income people can obtain low-cost coupons:

3. Groups of low-income people can combine their funds and buy low-cost coupons.

4. A rich or clever businessperson can buy low-cost coupons and negotiate a 4% to 8% discount from a coupon agent. He or she would be able to sell these coupons at the lowest rate to people who are unable to raise US\$50,000 and retain the discount as profit. This process can be repeated throughout the first month and result in high profits for the seller and low rates for the buyer.

### **Multiplication Effect**

Investors who purchase US\$50,000 worth of coupons to sell to people who cannot purchase large quantities of coupons during the discount period (i.e., five coupons per cent during the first month of a financial year) would be able to negotiate a 4% to 8% discount from the coupon seller, who would pay this out of his or her 10% commission. The coupon seller would be willing to give an investor this discount because the investor would need to purchase large quantities of coupons during the discount period. In this scheme, the investor would sell coupons at the discount rate and keep the 4% to 8% negotiated with the coupon seller as profit. As a result, instead of only 20% of the population being able to take advantage of the discount period, at least 50% of the population would be able to take advantage of the low rates available during the discount period. Not only would this benefit large numbers of average people, it would also provide the US government with more money. For example, if 20% of the population buys US\$50,000 worth of coupons, then the government will raise US\$30 trillion. If another 30% of the population buys US\$50,000 worth of coupons, then the government will raise another US\$50 trillion, which is much higher than the amount needed for the 2006 budget. In addition, the amount that may be raised by an influx of black money is unimaginable.

### **Reasons for Purchasing MBCS Coupons**

It is clear that businesses and the US government would reap substantial benefits from MBCS. In addition, average consumers would experience a reduced cost of living and, as a result, an improved quality of life. There are three reasons why a consumer would want to purchase MBCS coupons:

1. Coupon-based transactions are less expensive than dollar-based transactions.
2. Coupons purchased at the beginning of a financial year are less expensive than coupons purchased later in the year.
3. The cheaper the coupons, the cheaper the price of the goods and services bought using coupons.

The best deals (i.e., rates for coupons) will come through official channels during the first financial quarter. This will attract substantial revenues ahead of purchasing requirements, and it will be a win-win situation for the U.S. government and consumers.

The more expensive official coupon market in the remainder of a financial year will encourage open market trading among businesses and individuals who trade coupon surpluses for shortfalls at negotiated prices. This market is important because it creates a broad-based value for an exchange market that is independent of U.S. government price controls. This will further support the growth of the coupon system in the open market.

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- When calculating the bill for a commodity, the vendor uses present prevailing tariff charges.
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- The coupon value price of the utility will be much lower than the cash price.

For example, a telephone bill may be US\$10. In MBCS, the consumer could pay the bill with 2,000 coupons. If the coupons were purchased for five coupons per cent, the bill would be US\$4, which is a savings of US\$6.

As described in chapter 2, MBCS is an incentive-based system that will greatly reduce the cost of living for average people and reduce production costs for businesses. It will also produce more than enough money for the U.S. government to balance its budgets and eliminate its debts. Table 18 shows the effects MBCS will have on the United States' financial situation.

Table 18. The Effects of MBCS on the United States' Financial Situation

<b>Current System (amount in trillions)</b>	<b>MBCS (amount in trillions)</b>
total budget = \$12.2	projected budget = \$50 trillion
unemployment = 5.1%	unemployment = 0%
current debt (approx) = \$52	total debt = \$0.00
current VAT on retail sales = 15%	government-controlled aid = 3% (gives incentive)
inflation @ 3.2% per annum (approx)	total deflation
industrial production growth rate = 3.2%	industrial production growth rate above 100%
black money runs into trillions of dollars	no black money





## CHAPTER 4

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### Conclusion

The mutual benefit coupon system (MBCS) is based on Islamic principles that prohibit interest and taxes. Interest and taxes have driven most of the world's population into poverty, and MBCS eliminates these two evils and offers the best hope for eliminating poverty in the shortest period of time. Most non-Muslim countries might consider MBCS a tool to spread Islam. As a result, they may be hesitant to implement MBCS; however, they will have no chance for survival if other countries implement it. The country that implements MBCS first will become an economic leader.

In order to raise enough money to meet national budgets, it is necessary to use a system of revenue collection that encourages people to participate in the scheme and produces large amounts of cash for a government quickly and at no extra cost or risk. The mutual benefit coupon/card system is an incentive-based revenue system that replaces current tax systems and encourages people to invest in their countries. MBCS is designed to:

- eliminate unfair financial burdens from all sectors of society;
- remove taxes, duties, and levies;
- revolutionize government revenue collection and liquidity;
- eliminate poverty;
- rebuild national infrastructures;
- restore law and order; and
- provide all citizens with equal opportunities.

MBCS is a very simple system. There are no checks and balances, hardly any documentation compared to the documentation in existing systems, and no chance of corruption. In addition, there is zero risk to existing government systems that generate revenue.

MBCS is easy to implement. It would be easy to find enough people willing to work for a MBCS agency, and all coupon venter positions would be filled in weeks. A country's treasury would print coupons instead of bonds. A monetary agency could be set up in one week. As a result of the large amount of money coupons vendors would make, it would take the monetary agency little time to establish its network, and this network would not cost the government any money. Given the benefits of MBCS, it would not be difficult to pass the legislation needed to implement the system.

No country can survive without implementing MBCS because this system will eliminate poverty, create massive employment, create an industrial revolution, improve law and order, eliminate drug-related problems and crimes, and eliminate the terrorism that is fueled by poverty. Any country that does not implement MBCS would face a public revolt and would be replaced by a government willing to implement this system.

A world without interest payments, poverty, and taxes, a world where law and order are the norm and a person has the opportunity to reach his or her potential on a level playing field would be a paradise to most people, but this paradise seems like a pipe dream, an illusion. It seems like an impossible dream to find a system that would eliminate interest payments and taxes and, at the same time, improve people's quality of life and enable them to reach their potential; however, using the mutual benefit coupon system, it is possible to create a world that is free of interest payments, poverty, and taxes. With MBCS, it is possible to create a paradise on Earth.

## CHAPTER 5

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### Appendix

#### Frequently Asked Questions

**Note: Pakistan and its current economic situation are used as examples in these FAQs.**

#### **What is a MBCS coupon?**

A MBCS coupon can be viewed as a mandatory payment for goods and services. The bearer of these coupons would be entitled to significant formularized discounts on the listed sale price/cost of goods and services if these coupons are used with a cash payment. In the government sector, a consumer can pay in coupons instead of cash, and the coupons will be worth double the amount of currency. In the private sector, goods and services would be purchased with 15% in coupons and the rest in cash.

#### **How can these coupons be used? What are the benefits of using these coupons?**

These coupons would be used to obtain reduced prices for goods and services offered by the government and the public sector. These coupons will bring down the cost of living for a household consumer and reduce production costs for businesses.

#### **Who will sell MBCS coupons, and who will be eligible to sell coupons?**

Unemployed and preferably educated people would be hired as MBCS agents. These people would have, at least, matriculated. They would be required to register with PMF for an annual fee of PKR5,000. PMF would conduct an intensive but short training course, and it would offer a 10% discount to agents and assigned them a monthly quota of coupons worth PKR300,000, which would enable a coupon agent to earn up to PKR30,000 a month.

**What if a person cannot pay the PKR5,000 registration fee?**

If a person cannot pay the PKR5,000 registration fee, then his or her monthly quota will be reduced by 50% until the agent has paid the full registration fee.

**How do you control the artificially raised prices and subsidized prices of the commodities/services produced by private sector?**

MBCS does not control the prices of the private sector; instead, it helps control prices by reducing the cost of production by at least 50% and eliminating taxes and import duties. Therefore, there is no artificial price or overprice in the private sector, and each product or service will be cheaper than the artificial price if the consumer uses 15% in coupons and the rest in cash.

**Why pay for expenses that will be incurred in the future?**

Purchasing coupons for future purchases will ensure that the consumer pays reduced prices because the coupons are inexpensive and will buy products and services with reduced prices.

**Is there any financial incentive for this advance payment other than coupons?**

No, there is no other financial incentive, and the consumer would get coupons according to the prescribed sliding scale. However, consumers who buy coupons during the discount period would receive more coupons for their money and be entitled to waivers for import duties. In addition, they would be able to sell coupons at a profit when the cost of coupons increases later in a financial year.

**Does the purchase of PKR100,000 worth of coupons entitle the consumer to any duty-free imports?**

A person or business that purchases PKR100,000 worth of coupons in the first month of a financial year is entitled to import PKR500,000 worth of goods and services duty free.

**How will the government control the under-invoicing of goods and services?**

People under-invoice in order to evade duties and taxes. There will be no need to under-invoice when custom duties are partially or completely waived.

**People who invest PKR100,000 receive extra coupons, or they have the option to import goods and services duty free; however, people who invest less do not receive these benefits. Why?**

Incentives such as extra coupons or a waiver of duties are available to people spending PKR100,000. Although some people cannot buy this many coupons on their own, groups of low-income people can combine their funds and buy low-cost coupons. Even if they cannot raise enough money to

buy large amounts of coupons, they will still receive a 30% to 60% reduction in their cost of living when they use their coupons. In addition, a rich or clever businessperson can buy low-cost coupons and negotiate a 4% to 8% discount from a coupon agent. He or she would be able to sell these coupons at the lowest rate to people who are unable to raise PKR100,000 and retain the discount as profit. This process can be repeated throughout the first month and result in high profits for the seller and low rates for the buyer.

**How can a government generate the same amount of revenue in subsequent years if coupons are valid indefinitely and are in circulation right from the very first day?**

The use of coupons is not restricted to individual consumers. Traders, manufacturers, importers, agriculturists, and corporate entities will also require coupons for their day-to-day use. These coupon users will buy and sell their merchandise through the Pakistan Monetary Fund (PMF). Spare coupons can be sold on the open market at a profit or surrendered to the government to obtain duty-free options.

**The use of black money in this system will not generate the same amount of revenue in subsequent years. What remedies are available to the government?**

The government will invest black money or extra cash in high-tech companies, big business, and land reforms, and it will receive a profit from these investments every year. Therefore, the government will not have any need for black money after the first year.

**What is the organizational structure of PMF? How does it operate?**

PMF will be a private organization selected by an open-bidding process. It will be responsible for selling coupons through agents, collecting funds from agents, and depositing these funds in government accounts. PMF will operate regional offices, which will monitor branch offices in each city in their region. These branch offices will be linked by the latest information technology and will be located in the smallest village.

**How will PMF ensure transparent operations?**

In order to ensure PMF's operations are transparent, the next three lowest bidders will be appointed auditors for a fixed fee. In addition, in the case of fraud or mistakes, these auditors will receive 50% of any penalties (i.e., 10 times the amount involved) imposed on PMF. The government will be the fourth auditor.

**Why will PMF need 10,000 offices with 50,000 employees?**

These offices and employees will be administrative in nature, which will ensure smooth, transparent operations, and they will be responsible for maintaining a record of coupon sales. In addition, they will dispense coupons to coupons agents.

**How will PMF monitor sales and control revenue collection from coupon agents?**

Each agent will have a monthly quota of 300,000 coupons. No agent can sell coupons beyond his or her quota. This will ensure that each agent has the same opportunities, and each agent would be able to earn up to PKR30,000 a month.

**How would PMF eliminate or minimize the chances of coupon agents committing fraud?**

All PMF records will be computerized, and a record for each agent will be maintained, which will reduce the chance of fraud or error. Any fraud or complaint against any agent will result in the termination of his or her services. The profits from fraud will be small, so most agents will not jeopardize their jobs for small payoffs.

**Currency is supported and backed by reserves. What supports or backs MBCS coupons?**

Coupons do not need to be supported or backed by reserve currency because they can only be bought with actual currency, If a person does not have the money, his or she will not be able to purchase any coupons.

**Who will print MBCS coupons, and how will they be kept secure?**

The government will print MBCS coupons using the same infrastructure, standards, and security measures used to print present currency notes. Large amounts will be available as debit cards, which will add security, and coins for lower denominations and notes for larger denominations will be available.

**What will be the size, color, and denominations of MBCS coupons?**

MBCS coupons will be in the form of currency notes but have a different color and size. Their denominations will vary from 1 coupon to 5,000 coupons. At later stages, MBCS can be issued in plastic card form similar to credit/debit cards.

**What will it cost to print MBCS coupons?**

Compared to the revenue generated by MBCS, the cost of printing is negligible, and the only expense will be the paper or cards because this system will use the staff and equipment now used to print currency.

**The system looks very complicated and hardly possible to implement. Is this true?**

MBCS might seem complicated, but even people with limited education can understand it because it only involves two equations and is far simpler than the present tax system, which is only possible to understand with the help of tax consultants. In addition, the money system has been shifted from a binary system to the decimal system, which is considered difficult to understand and implement and used by very few people. Also, coupon agents will educate people about the system.

**Will MBCS radically change Pakistan's taxation system?**

There will be no change in the tax structure (i.e., direct taxation) until and unless the government is able to meet its revenue needs using MBCS. Until that time, the tax system will remain intact. In addition, there will be no change in indirect taxation; however, MBCS coupons will eventually be the only indirect taxation.

**Is there a time limit on the waiver in custom duty?**

The waiver of duty will be offered for a limited period of time. After a concessionary period, this waiver will not be available, and the person or business will be subject to the present duty structure. Category 3 businesses that sell their products through PMF will be able to import duty-free goods or services equal to the amount sold through PMF throughout the year.

**How will this system help alleviate poverty?**

This system will bring down the cost of living, and the necessities of life will be available for 30% to 60% less than current market prices. In addition, this system will promote the creation of new industries and increased production in existing industries, which will increase the number of available jobs. This will definitely help reduce poverty in Pakistan. In a very first week, all unemployed people will be able to get a job as a coupon agent and earn a decent living at no cost to the government.

**How can a poor person obtain coupons at the lowest rates?**

Groups of low-income people can combine their funds and buy low-cost coupons during the discount period. In addition, for a security deposit of PKR100, a person can buy coupons throughout the year for four or five coupons per rupee.

**Will MBCS create real economic activity?**

Yes. MBCS will produce an industrial boom because there will be no tax, no duty, and production costs will be reduced by 50%. This will create jobs and increase exports and reduce imports.



### **How will MBCS affect industry in Pakistan?**

Pakistan could be an economic giant if its socioeconomic constraints are removed. MBCS will remove these constraints and enable high-tech industries to grow. This growth in industries will reverse Pakistan's trade balance.

### **What benefits or incentives are available to a person spending PKR100,000 to purchase coupons in the first month of a financial year?**

A person spending PKR100,000 to purchase coupons in the first month of a financial year will be having following benefits: (1) If a person does not want coupons, he or she can receive a waiver of PKR500,000 on import duties for any legal imports, depending on the market rate of goods; (2) they can use a mixture of coupons and waivers (e.g., 300,000 coupons and a waiver of PKR250,000 on import duty); (3) they can receive 600,000 coupons for routine bills throughout the year; (4) they can sell coupons for a profit at later stages once the concessionary period lapses; and (5) they can enter a draw for PKR10 million, which will be held daily during the first month of a financial year.

### **What is the life of coupons? Do coupons have a due date?**

There is no due date, compulsory period of use, or expiry date for MBCS coupons. All coupons will have an unlimited life and will continue in circulation in the same way currency circulates.

### **What will the government do if the value of coupons drops to PKR0.1667?**

The Government of Pakistan will intervene and buy back coupons at a cheaper price and raise the price of coupons. This will not happen because coupons can be surrendered for a duty-free option, provided 100,000 coupons are surrendered.

### **What effect will MBCS have on real estate?**

MBCS will likely crash the real estate market because the profit margin for coupons will be much higher than the profit margin for property; therefore, it will be cheaper to build a house than buy one. It is estimated that it would cost 50% less to build a house under MBCS.

### **How will MBCS affect the stock market?**

Initially, MBCS will crash the stock market; however, it will recover and rise to new heights as a result of the elimination of taxes and a decrease in the price of government-controlled essential goods. Ultimately, the stock market will cease to exist because it is a form of gambling, and investing in coupons carries almost no risk. In addition, this type of speculation or gambling is forbidden in Islam.

**Does implementing MBCS pose any risks to the government?**

MBCS is a unique, risk-free approach to revolutionizing the collection of government revenue. It does not require giving up current taxes until the system produces enough money to fund government activities. After that, MBCS will transform Pakistan into an open, transparent, free market where the government and citizens co-operate to drive prices down, create balanced budgets, and increase general investment. Therefore, there is absolutely no risk to the government.

**When will the government declare a tax-free holiday?**

Once the government has collected enough revenue, it will remove all taxes. This will further decrease prices. It is expected that the government will collect more than PKR500 billion in the first 2 hours of a financial year because of the incentives offered by MBCS, especially to people holding black money, which will be the main source of revenue collected in the first month.

**This system does not provide everyone with equal incentives. Why?**

The system is designed to provide financial incentives to everyone. Everyone will receive lower prices when using coupons and cash to purchase goods and services.

**IMF puts many types of pressure on countries such as Pakistan. How will a country that implements MBCS deal with these pressures?**

At present, the government is forced to borrow short-, medium-, and long-term loans from IMF in order to finance cash imbalances, unplanned shortfalls in tax revenue, and infrastructure development. MBCS will create a positive cash flow for the government and lead to actual cash surpluses, which will eliminate the need to borrow money and make it possible to repay current loans.

**How will MBCS help establish Islamic banking?**

The government must abandon all interest operations and use its cash surpluses from MBCS to promote investment through co-operation and partnership with the private sector. It would use surplus cash to establish and strengthen an Islamic financing system. The government would provide cash needed to finance this banking system.

**How will MBCS support Islamic banking operations?**

The banks in Pakistan will offer MBCS coupon accounts. The banks would have to establish special mandatory coupon deposits. They would become as important a seller of coupons as PMF. All investment in the private sector would be done through banks, with 80% of the cash provided by the government and 20% provided by the investor. The bank would be responsible for overseeing the business, and the government would provide all commodities and services below

cost when the government is a partner in the business. The government would receive 40% of the profit, and 60% would be divided by the bank and investor. The state bank would oversee the whole lending process.

**People and organizations may hold more coupons than required. Is not hoarding forbidden by Islam?**

In Islam, hoarding is not allowed because of its practical effects on the supply of critical items such as grain, water, and so forth. In MBCS, people would not be able to exercise monopolistic powers because coupons would be freely available from PMF agents and private sellers. In addition, the central bank could intervene if banks try to manipulate coupon rates. In this system, hoarding is not possible because coupons would always be available from the government and the private sector.

**Will MBCS isolate Pakistan in international market? How will the government deal with imports and determine business relations with other countries under this system?**

MBCS is an internal system, and imports and business relationship with other countries will continue in the same way they do today. The only thing that will change is the waiver of duties under certain conditions, which has nothing to do with exporting countries.

**WTO does not allow any subsidy, and MBCS is based on subsidized prices. Therefore, how can the government implement this system?**

Subsidy means selling at below-cost prices. In MBCS, cost price plus profit plus coupon value is actually the buying price. Therefore, there is no question of any subsidy. In addition, abolishing direct and indirect taxes is not a subsidy.

**How does MBCS compensate the government for the loss of revenue from reduced prices for commodities and the waiver of duties?**

The sale of MBCS coupons would more than compensate for the loss of revenue from reduced prices for commodities and the elimination of duties. In fact, the revenue generated by MBCS would many times the amount of money collected from the sale of commodities and duties.

**What is the benefit of coupons to the general public?**

Coupons would reduce the price of every commodity or service provided by the government, and they would reduce the prices of goods and services provided by the private sector by 40% to 60%.

### **How will it be possible for the government to collect PKR500 billion in the first 24 hours of a financial year?**

According to conservative estimates, 10% of Pakistan's population (i.e., 10 million people) would be willing to spend PKR100,000 in order to reduce their cost of living by 40% to 60%, and this would generate more than PKR500 billion (e.g., PKR100,000 x 10 million = PKR1000 billion). The remaining 90% of the population would also use this system and generate even more money. Moreover, people would purchase large number of coupon in order to participate in draws worth PKR10 million that will be held daily throughout the first month of a financial year. Therefore, the government will raise more than PKR1000 billion in the first month and five times this amount by the end of year.

### **How does this system support foreign exchange transactions?**

Under MBCS, any person remitting money from abroad through legitimate channels will receive 18 coupons for each dollar. This rate would vary according to market conditions and would always be above the *Hawala* rate (at least 5%). This incentive would eliminate the need for the *Hawala* system. The government would sell surplus dollars to registered moneychangers at a slightly higher rate (19 coupons per dollar). In this way, the public need for foreign exchange would be met without any difficulty.

### **How does this system support foreign trade?**

As discussed above, MBCS reduces production and business costs by 50%. In such conditions, industrialists will have better opportunities for setting up new units or expanding/modernizing existing units. The low cost of manufacturing will make Pakistan's products very competitive on the international market. Very good quality products produced by hi-tech machinery and low prices will boost exports and domestic consumption, and consequently, imports would be reduced and Pakistan's trade balance would improve.

### **Does this system benefit government employees?**

MBCS would generate large amounts of money for the government, and as a result, the government would be able to improve its salary structure (i.e., increase salaries by at least three times present rates). This increase in salaries would improve the financial situation of employees, which, at present, makes them susceptible to corruption. Therefore, the level of corruption among government employees would decrease.

### **What is the incentive for people with black money to participate in MBCS?**

MBCS would enable people with black money to enter the legitimate economy and import goods duty free and sell these goods through PMF. This would double their profits and eliminate the risks associated with smuggling.

### **Why sell saving certificates when selling MBCS coupons will generate more money?**

In 2006, the Government of Pakistan printed 40 billion saving certificates and offered them at an interest rate of 11.6%. If all these certificates are sold, Pakistan's internal debt will increase by PKR50 billion. MBCS coupons would generate all the money needed by the government and would not increase the government's internal debt.

### **How will MBCS help a business that does not deal with customers?**

This type of business can pay a registration fee of PKR100,000 and buy coupons every month at six coupons per rupee. This business can get 600,000 coupons for only PKR100,000. The higher the registration fee, the more cheap coupons a business can purchase. The only condition is that the business must produce evidence of business operations and prove the registration fee has been paid. More than one business can pool their resources to take advantage of these cheap coupons.

### **How will MBCS help a business dealing with customers?**

This type of business can pay a registration fee that is not less than PKR10,000. They can buy twice the amount of coupons collected from customers. For example, with a registration fee of PKR10,000, a business can collect up to 10,000 coupons a month and buy 20,000 coupons at a cost of PKR3333, while collected coupons will be replaced without any cost with new coupons. The collection of coupons will be according to the business' annual fee as shown in the coupon table. With a registration fee of PKR100,000, a business can collect 100,000 shares and buy three times the amount of collected shares at the rate of six coupons per rupee. The higher the registration fee, the more coupons a business can purchase at the cheapest rate. A shopkeeper would be eager to sell his or her merchandise for coupons plus cash. The amount of coupons accepted by a shopkeeper would depend on his or her needs. On the other hand, a customer would be more than happy to purchase merchandise with the help of coupons because coupons would reduce the price of merchandise because they have been purchased at a reduced rate.

### **How will MBCS affect the cost of living?**

The cost of living will decrease as a result of the elimination of taxes, 50% decrease in the cost of goods and services, and pay raises.

**Will MBCS create inflation? Will people buy more goods and services than they need?**

MBCS will not create inflation because this system will result in a decrease in prices. It is true that with MBCS people will have more money to buy more goods and services, but that does not mean they will buy more than they need to improve their standard of living.

**If a business uses MBCS' duty free option to purchase a 40 lakh rupee car for 12 lakh rupees, what will prevent it from selling the car for 40 lakh rupees?**

When a business imports a 12 lakh rupee car using MBCS and tries to sell it for 40 lakh rupees, no one will buy it because they will be able to import the same car for 12 lakh rupees.

**How will MBCS help low-income people?**

Any person who uses government goods or services (e.g., travelling by railway) can use MBCS coupons to obtain substantial discounts. For example, a railway ticket to Karachi may cost 400 rupees. In MBCS, the ticket may cost 800 coupons. If the coupons are purchased for six coupons per rupee, then the ticket will cost two thirds less than the cost to purchase a ticket using rupees. With coupons, a person will be able to save 40% to 70% on government-controlled goods and services, depending on the rate for coupons.

**What is the cheapest price a person or business will be able to pay for MBCS coupons?**

Coupons can be purchased for 16.67 paisa per coupon, but this rate will only be available in the first month of a financial year or if the buyer has a special registration arrangement with PMF.

**It has been suggested that MBCS can operate at the same time as a current tax system. How will this work if people have to operate under existing tax laws?**

It would be necessary to enact legislation that safeguards the interests of a person using coupons, and the government would not question a person's source of income.

**Has MBCS been used by any country?**

To the best of our knowledge, no country has used MBCS to generate revenue.

**How will MBCS affect the fabric of our institutional makeup in terms of conceding power, authority, and so forth? How long would it take to be universally accepted and agreed?**

Authority tends to corrupt, and absolute authority corrupts absolutely. A large amount of time would have to be devoted to not antagonizing people in power. This is why PMF would be an autonomous institution. As soon as Pakistan becomes economically self-sufficient and debt free, MBCS would spread like wild fire.

**It seems unrealistic to predict that MBCS will solve Pakistan's revenue problems in 30 days. Is it not true that a project of this magnitude can easily take a few years to implement?**

It can take several years to implement a system such as MBCS. In order to ensure a smooth transition from the current tax system to MBCS, PMF will operate as an independent system that operates parallel to the current tax system. Once MBCS shows that it can work, the current tax system will become redundant.

**Can coupons be stolen?**

Yes. The possibility of theft exists for any type of currency or bond.

**No marketing and advertising expenses have been mentioned during the discussion about MBCS. Why?**

The one million coupon agents would educate the public about the benefits of using MBCS coupons. In addition, PMF would need to educate the public using some television and radio commercials.







## **About the Author**

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I am an ophthalmologist by profession and have worked in a private hospital. I have 35 years of ophthalmic experience and have always initiated new techniques in the field of ophthalmology. My last ten years have been dedicated to the field of practical economics and this is why I have discovered these secrets of the economic field to which the economic world has been blind. So my incentive based system is nothing but it works along with the human nature and this is why I have devised this system to help the mankind.





