

# Innovative flood-financing

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Financial constraints, which parallel the unprecedented need for financing to rebuild and rehabilitate in the aftermath of the recent floods are calling for efforts to mobilize resources to bridge a huge gap. Currently, several conventional channels are being utilized and explored further to achieve that objective. There have been public pronouncements to the effect that the Public Sector Development Program (PSDP) will be radically reshaped with priorities for reallocation of development resources redefined and that a reformed GST will be levied with effect from October 1 to bridge the fiscal gap. Beyond humanitarian assistance, which has come in from conventional and other, local and international sources, international development actors have been mobilized. Bilateral sources have made some pledges with major chunks of support inflowing in-kind. However some have realigned priorities within existing committed envelopes towards flood rehabilitation and relief. A number of soft loans and multilateral grants have been announced, but above all, the contributions of individuals have been colossal in terms of support of every conceivable nature.

But the scale of the devastation is just too massive and the resource-need far too large for conventional sources to fulfil, as a result there is shortfall, which will become more apparent as the damage needs assessment is completed. This creates an imperative to explore innovative approaches for generating, targeting and utilizing resources. Three points are being articulated within this context.

The first relates to innovative means of revenue generation. A few examples from the policy sphere of health are being highlighted to underscore the relevance of out-of-the-box

solutions. For example, international experiences show that a very small earmarked indirect tax imposed on specific products or transactions can raise significant revenue. Although it is accepted that in Pakistan, with very high indirect taxation, an adverse ratio of indirect to direct taxes and plans to levy the reformed GST underway, the idea of an 'earmarked flood tax' could be met with resistance. But the key element in the kind of indirect tax being referred to herein is the very low charge. Such taxes are imposed on specific products or transactions and are collected by the retailer and forwarded to the taxation authority. There are many examples around the world where such taxes have been considered as humanitarian contributions and have provided significant resources. For example, Brazil's *CPMF*, a tax on bank account transactions set at 0.38%, and levied on paying bills online and major withdraws raised an estimated US \$ 20 billion per year and provided funding for 87% of the funding for the government's social protection program (*Bolsa Familia*) before it was voted down. Similarly a solidarity contribution or 'tax' on airline tickets represents 72% of UNITAID's financial base. This was initially introduced in France. As of today, 13 countries have implemented the tax and others in the process of joining. UNITAID attests to the fact that an international solidarity micro levy is well accepted by the public and causes no economic distortion. Countries have also been exploring the feasibility of a 'digital' or a 'bit' tax, which involves a charge on traffic over the internet.

Voluntary business and consumer contributions are another innovative means of mobilizing resources, and can be a source of flood financing. These are donations made by individual consumers and operate in different ways. In one model there is voluntary linking of a donation to the payment for a service (e.g. payment of mobile phone bills or payment of income tax); in other arrangements these can be automatic. Voluntary contributions have less certain funding streams than a tax, but once established are reasonably predictable.

Similarly, financing innovations can also be relevant to debt relief. The latter is increasingly becoming a rallying cry, especially in the case of organizations and individuals associated with the Campaign for the Cancellation of Foreign Debt. However such ideas should ideally centre on an appropriate instrument. For example, debt relief has previously been enabled in Pakistan through the Poverty Reduction Strategy Paper instrument, on the condition that the freed up resources were used for poverty reduction. Similarly, Pakistan has been part of Debt2Health, an initiative, of the Geneva-based Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), under which the German government relinquished the right to partial repayment of loans on the condition that Pakistan invests the freed-up resources in approved programmes of GFATM.

Insights can also be gained from the financing arrangements within the health sector's global product development partnerships (PDPs). PDPs operate on a not-for-profit basis and as 'quasi venture capital funds' in the domain of developing world health. They raise funds from a wide range of public and philanthropic sources, select the projects that offer the likely highest health return for investment, and closely monitor and manage the progress of the portfolio they have invested in. As a result, they act as a major consolidator of public funding, of investment risk, and of global coordination in their given field. Given the need to tap into private sector resources, some useful lessons can be gained from these experiences in the current scenario particularly with reference to the construct of the multi-donor trust fund which donors appear to be working towards. A 'partnership fund' can enable harmonizing and coordinating aid and pooling aid in support of a particular strategy, the fundamental premise enshrined within the Paris Declaration on Aid Effectiveness. It could also harness the potential within philanthropy in Pakistan's indigenous context.

Secondly, there should be a renewed focus on infrastructure financing through the public-private route. Even before the flood, this had become essential due to the gap between the need for infrastructure investment and the fiscal space within PSDP, which allowed this. After the flood, the huge need to rebuild infrastructure at a time of great fiscal crunch makes this approach one of the few viable options. However, not all projects will be commercially viable. The government's PPP institutional machinery, the Infrastructure Project Development Facility, can be useful in ascertaining viable options.

Thirdly, a financing instrument, which can enable and enhance the government's capacity to deliver services through purchasing services from and contracting the private sector, is important. Purchasing is an important policy tool for Pakistan as majority of services are provided by non-state entities in any case. These private sector entities can be an important stakeholder in the process of rebuilding, particularly in the area of health and education as the infrastructure in these two areas has been destroyed in the flood hit areas.

The deep social pain that this crisis has inflicted can only be eased with an unprecedented response, for which resources are critical. Innovative solutions offer an option to mobilize additional resources. Whilst these options exist, their application in Pakistan will depend on the government's capacity to plan in the local context and implement in an environment where there are many systemic constraints. There are many challenges in implementing the taxes being referred to herein as they may not necessarily appeal to politicians and consumers and may require complex legal changes and ongoing regulation to ensure compliance. The success of infrastructure PPP's depends upon fiscal and legal prudence of the government and their ability to build safeguards and share risk in a manner that is mutually beneficial, both to the

public and private sectors. Likewise contracting-out necessitates a new set of institutional norms and regulatory frameworks. Although these challenges appear daunting, they can be overcome with careful evidence-informed planning and the right institutional competencies. The need to think out of the box has become imperative in the post-flood situation; the gap is just too large for conventional sources to bridge.

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