

Innovative flood-financing

Published in The News International on September 22, 2010:

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.

The author is the founder and president of the NGO thinktank, Heartfile. sania@heartfile.org

Implementing the district health system in the framework of primary health care in Pakistan: can the evolving reforms enhance the pace towards the Millennium Development Goals?

F. Sabih, K. M. Bile, W. Buehler, A. Hafeez, S. Nishtar, S. Siddiqi Implementing the district health system in the framework of primary health care in Pakistan: can the evolving reforms enhance the pace towards the Millennium Development Goals? Eastern Med health journal Volume 16 (September) Supplement, 2010.

Impact of wealth status on health outcomes in Pakistan.

A.Y. Alam, S. Nishtar, S. Amjad, K.M. Bile Impact of wealth status on health outcomes in Pakistan. Eastern Med health journal Volume 16 (September) Supplement, 2010.

Corruption in health systems

Nishtar S. Corruption in health systems – Lancet 2010; 376(9744):874.

VIEWPOINT ON DISASTER GOVERNANCE

September 04, 2010: a viewpoint on the attributes of governance and their interplay in disasters has been published in the News International today. This comment flags five governance lessons, evidenced by the response to the recent catastrophic floods in Pakistan.

Disaster governance

Published in The News International on September 04, 2010:

Disasters are a true litmus test of governance. Many attributes of governance interplay in disasters, before, during and after a situation. This comment flags five governance lessons, evidenced by the response to the recent catastrophic floods.

The first attribute relates to strategic planning, which raises an important question: was it possible to predict the behaviour of the monsoons this time round? Whilst it is true that the scale of the disaster could not have been predicted, the calamity clearly hasn't dawned as a surprise.

Findings of a vulnerability mapping of Pakistan as part of a regional study on global environmental issues sponsored by the Asian Development Bank had described the potential effects of climate change on natural resources as far back as 1994 and had suggested strategies to avoid worst impacts. This was also emphasized in the South Asia Human Development Report in 2007 and was reiterated by the report of a Task Force on Climate Change, established under the aegis of the Planning Commission, in February 2010. The latter stated "it is projected that climate change will increase the variability of monsoon rains and enhance the frequency and severity of extreme events such as floods and droughts". International reports have placed Pakistan amongst the top twenty global warming hotspots in the world with low adaptive capacity. It is not clear if these forecasts led to institutional changes to enhance capacity. Pakistan also doesn't have a national security apparatus in place which takes cognizance of human security threats that can be precipitated as a result of

forecasted disasters, with implications for economic, food, energy, community, individual and health security.

Relevant to the case in point, the metrological office had issued an advisory on June 26 that there would be an increased risk of flash floods. It isn't clear why the country's disaster management apparatus wasn't shaken into action in response to this forecast.

Secondly, this should be an opportunity to explore if the country's disaster management frameworks developed subsequent to the October 2005 earthquake are optimally functioning and the weaknesses in the operations of the Flood Relief Commission. Ideas are being mooted to create new commissions and institutions without fully realising that the top down model of centralized bodies and installation of parallel structures doesn't work unless certain governance norms are ingrained. The government must take stock of the existing governance constraints these institutions suffer from and be clear about the manner in which it envisages obviating these in new arrangements. Rather than parallel structures an oversight body may be more appropriate, an option the government is also currently exploring. However, unless the arrangement is mandated with key prerogatives related to scrutiny and accountability, not much will be achieved.

Third, governance of the Indus River and the politics that plague it is a subject in its own right. 'Kalabagh politics' is a classical example of how political expediency interplays in strategic governance decisions. The entire nation is being reminded today that if some strategic dams existed, the scale of devastation would have been much less. What the nation forgets though is that it is the lack of entrenchment of accountability—a governance norm—which manifest itself as inattention to strategic decisions such as the creation of dams.

Inefficiencies and collusion in regulating the Indus River and

the ill planned settlements around it have also come to the fore. The 'politics of canal and flood embankment breaches and' diversion plans are an illustration of how power is abused, systemic protocols are disregarded and political influence is wielded. Spontaneous unexpected collapse of the embankments raises many questions about the quality of infrastructure and the interplay of collusion and rent seeking in the process of awarding contractual agreements. It is ironic that our perennial dilemma centres on water insecurity, with crippling energy shortfall a consequence, despite the existence of waterways whose potential we haven't harnessed by increasing our storage capacity and innovative water management.

In the fourth place, there is a strong interplay of governance in many short term priorities. Coordination is critical at every stage. Pakistan's indigenous population and diaspora have stepped in to help as has the international community. Unfortunately, the country does not have a regulatory framework in place to allow full expression of the potential contribution of volunteers nor does it have frameworks that can enable civil society engagement in a structured manner. It is critical to develop institutional mechanisms, so that Pakistan can leverage the strength of many strong civil society organizations and the socially committed private sector, which have been mobilized in response to the crisis.

Resource management is another problem. It is hoped that support commensurate with the findings of damage assessments—currently underway—is mobilized and that attention is accorded to debt relief. However in order to tap its potential Pakistan will have to institutionalize oversight mechanisms in order to overcome the current trust deficit, which plagues its relationship with some aspects of donor interaction and as a result of which disbursement channels outside of government entities are now being explored.

Other short term priorities include consolidation of

information streams in every sector—health education, infrastructure, livelihood, etc., so as to obviate current duplication and multiple channels of information flow. In the short term the government of Pakistan must also facilitate speedy import of essential food items so that cartelization, which has been a dominant determinant in the recent commodity shortages in the Pakistan doesn't factor into play to exploit the situation.

In the fifth place and in the medium term once relief is over, the task of rehabilitating the victims of a vast humanitarian tragedy and economic revival must get underway. Plans for reviving industrial and agricultural output, rebuilding infrastructure, and supporting poor communities in a post-disaster situation will have to be developed and implemented. This cannot be enabled unless there are additional resources, which are effectively utilized. Diversion of low priority expenditures, a focus on aid effectiveness, cutting back establishment costs has become an imperative. The critical question of increasing Pakistan tax-to-GDP ratio and policy discussions on reform of GST becomes relevant, now more than ever.

Pakistan has been hit by this calamity when there are other mammoth tasks at hand. The calamity has hit at a time when the country is grappling with many competing priorities. The internal security situation is unpredictable, a war is ongoing and fiscal constraints are grinding. There is lack of clarity in governance norms at the overarching level as many things are being reshaped. The federation's relationship with its provinces is being redefined under a constitutional amendment and a new formula for fiscal federalism. Drastic changes have been made in the local government system. Many processes are therefore, in a flux. The country therefore has to grapple not only with the immediate disaster at hand but also the systemic processes, upon which successful relief and rehabilitation is dependent. Success is heavily dependent on the quality and

effectiveness of governance. It is not just the lives and well being of millions of people in poor riverside communities at stake, but a lot more this time round.

The author is the founder and president of the NGO think-tank, Heartfile. sania@heartfile.org