

The Business

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Talks with IMF

Our economic managers held a video conference with the International Monetary Fund (IMF) mission led by Ernesto Rigo for the stalled \$6 billion Extended Fund Facility programme recently in which the Fund team reportedly insisted on raising power tariffs as well as achieving the budgeted tax revenue target of Rs 4.9 trillion for the current year. This comes as no surprise as the second quarterly staff review was stalled in December 2019/January 2020, because the government was unable to do the agreed time bound power sector reforms, which included a raise in tariffs to achieve full cost recovery, as well as the agreed tax revenue target. By February 24, 2020, just before the onslaught of the pandemic, the IMF website noted that a staff-level agreement was reached with respect to the second review but with the Board date set more than a month ahead it was speculated that prior conditions were to be met before approval for tranche disbursement. It is relevant to note that without approval of the second tranche, the IMF will not upload details of the second quarterly staff level agreement as and when reached, and hence specific time-bound details of the prior conditions that would have to be accepted by our economic team leaders are not in the public domain at this point in time.

It is not unreasonable to assume that power and tax sectors remain a source of serious concern for the Fund, as they have been for more than the past three decades. Power sector circular debt has risen to around 2.3 trillion rupees (against 1.2 trillion rupees inherited by the Khan administration) and the government has been dragging its feet with respect to raising rates as per the recommendations of the regulator Nepra. The government raised tariffs last week but that was merely for fuel adjustment for the month of July and not for taking account of rising receivables and distribution and transmission losses. It is indeed a very challenging situation and represents a hard choice for a political government but a balance must be struck that does not negatively impact on the projected 2 percent GDP growth for this year, and actually reduces the budgeted expenditure in total terms rather than in highlighting a reduction in expenditure by the Prime Minister's House or the Presidency, a reduction which is good for optics but which does not appreciably impact on the country's finances. The challenge that the government faces is further aggravated by the coming together of the main opposition parties under one banner and their announced programme of launching agitation against, what they term as 'economic mismanagement of the economy' by the government that has resulted in rising inflation, particularly food inflation.

Economic satire: episode - I

SYED BAKHTIYAR KAZMI

In a library with wall to wall shelves stacked with books, the four gentlemen sat on vintage wingback chairs around an antique wooden centre table, smoking expensive cigars (the Surgeon General warns that smoking can kill you) and drinking a similarly expensive liquid (left to the readers' imagination).

The assistant stood at one side, apprehensive, anxious, and waiting for the Fatman, obese and comical in his suit, to speak. The unwritten rule; Fatman was always the first to respond to real world queries.

Fatman puffed his cigar, exhaled, and looked hard at the minion, his beady eyes humourless: "What fools these mortals be; will they never learn?"

"My friend, be grateful for the little things," moved Sith Lord, who was so named due to his remarkable resemblance to Darth Sidious, "after all, it is because of the stupidity of men that we continue to sit in our ivory tower and act as oracles to each and every economic crises."

"Do they not realize that we are as clueless as they are about the mysterious economy? Despite our laurels, when have we ever carried the day with a workable solution to the real world economic crises? Never as far as I can recall, even the law of averages never worked in our favour," Fatman sounding wistful. "Must you always worry?", admonished Greybeard (the oldest of the lot) "The rulers in pursuit of their own

agenda and for their own selfish interests will continue to support the illusion created by economists; and the naivety of men, the natural tendency of the ruled to kneel, ensures that they never get wiser"

"True, but after spectacular failures over the last century, the Great Depression, the Great Recession, the Asian crisis and what not, it would be rational to worry that the ruled may someday catch on and would stop knocking at the altar of economics," Fatman continued. "Improbable," scoffed Slimy (dubbed as such for reasons we believe self evident), "considering that most people still believe in aliens, ghosts, and the WWE. That said, I wonder what we will name the next great global economic disaster - the almost great recession which was actually a depression."

There was a round of cackling laughter at this. The assistant cringed at this general merriment; it did not bode well when this quartet was amused. "Honestly," sighed Fatman, "Her Majesty almost annihilated the illusion. If she had just persisted."

"Yes, that was a close call. Explaining why a discipline which operates in a nonexistent realm could not foresee a real world crisis would have been next to impossible!" "I dread the day," Fatman muttered thoughtfully, "when an economist decides to expose the secrets of economics - like in the case of that turncoat magician on the television."

"We will cross that bridge when we get to it!" Greybeard declared, visibly irritated, "For the moment, we have to

shed some pearls of wisdom. So, why shouldn't interest rates be increased to 12% when inflation is touching 9%, and is expected to persist for the foreseeable future at the least?"

Slimy nudged Sith Lord with his elbow here, "You were always the imaginative one."

"Interest rates," He began with a smirk, "need to be kept stable because gold is expected to be neutral in the short to long term with downside and upside pressures, the dollar is largely unpredictable vis-à-vis the Yen and the Euro fluctuating because of the Coronavirus - all of which contribute to an unstable global economy - and Modi is a tyrant." "With due respect, Sir!" the assistant here interjected, visibly perplexed, "what has Modi got to do with inflation and interest rates?"

Sith Lord glowered at him; these fresh assistants were such a pain! "What has anything I said got to do with inflation and interest rates? As it is, the world actually believes that interest rates and inflation are correlated, irrespective of the on-ground supply and demand situation. And, don't forget, everyone is gullible enough to believe in the magical conclusions of the supply-demand curve."

The assistant was stumped and appeared confused. Fatman came to his assistance - after all, he too needed to be trained to take up his future role as an economic pundit in some international organisation or other: "Any time you bad-mouth the enemy, everything else you've said becomes the truth. And in any case, nobody challenges economic

sounding jargon lest they appear stupid."

The Assistant nodded. That did make sense. "But sir, what then should be the suggested solution for inflation?"

The Fatman smiled: "You are new, so watch and learn. If economics had any solution for inflation - or anything else, for that matter - there may well not be any financial crises across the globe!"

"But the populace is getting restless!"

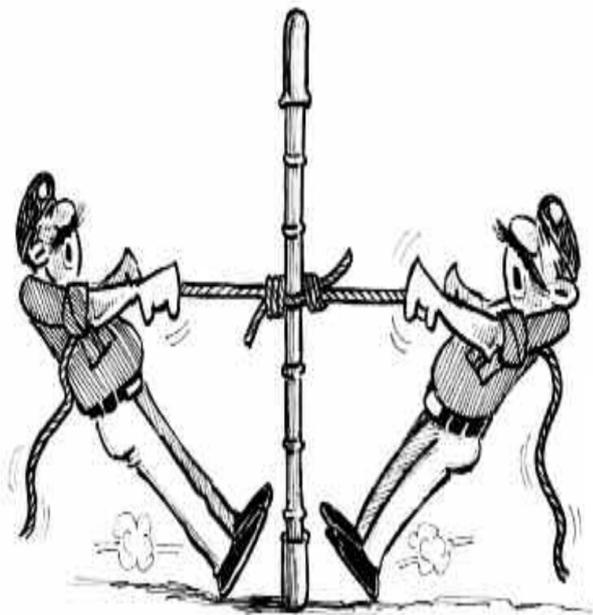
"That is a temporary problem; men have short memories and will soon enough adjust to the new reality of expensive food stuff. In the interim, there are standard guidelines in the playbook: start with announcing a fictitious subsidy, create some political crisis to distract the masses, blame the inflation on international enemies, and cross your fingers and wait."

"A fictitious subsidy, sir?"

"Get the taxman to draft it!" Slimy declared with a guffaw, "Any time he gets his hand on any legislation, the relief becomes more taxes!"

There were smiles all across the table, though the Assistant was unsure as to what was amusing about the taxman's ability to convert incentives into more taxation. "But Sir, the very poor are not even in a position to buy bread; flour prices have hit the roof!"

Slimy cackled. "Well, we can't really use the line about the cake here, I guess!" "The automobile sector," Fatman offered, with a lecherous smile, "for some unknowable reason, has kicked off. How about that: let them



Unpacking universal health coverage

DR ZAFAR MIRZA

Nothing is stronger than an idea whose time has come, said Victor Hugo. Universal Health Coverage (UHC) is such an idea.

Covid-19 has drawn an unprecedented public concern to health affairs. The world has learnt how vulnerable it is to a disease outbreak and how a local disease can swiftly turn into a global pandemic. As the world learns to live with the virus and gradually reemerge out of it, it is time to rethink our health systems, reimagine the future of healthcare and reset our priorities. A post Covid-19 world must embrace UHC with a new commitment. Universal Health Coverage is a visionary construct that must underpin a health system. Let us unpack each of these three words. 'Universal' in UHC means healthcare for everybody in a national jurisdiction. The idea of universality is imperative as every human being needs healthcare. It is also embedded in the idea of the right to health which is etched in Article 25 of the Universal Declaration of Human Rights as well as part of the preamble of the constitution of the WHO. Right to health is recognised in at least 115 national constitutions. Pakistan's constitution does not explicitly provide for the right to health which must be addressed through a constitutional amendment.

Universal also means without prejudice. The national healthcare system must be fair and equitable and must not discriminate between rich and poor, powerful and weak, men and women, old and young, urban and rural, majority and ethnic and religious minorities and even between citizens and temporary residents, as is the case of refugees. In this context, a particular mention of those who cannot pay for health services is of critical importance. The income-poor are more vulnerable to suffer from malnutrition and communicable diseases and they are unable to afford healthcare costs. Governments, generally in low- and middle-income countries (LMICs), do not spend enough on healthcare which has resulted in the emergence of a thriving and weakly regulated private health sector which in many countries dominate the provision of healthcare. In the case of Pakistan, around 70 percent of healthcare is provided by the private providers. This of course poses a special problem for the poor. The concept of UHC hence include a strong dimension of financial protection for those who cannot pay through, for example, a social health insurance system. The National Health Card in Pakistan partially provides financial protection to the poor in case of hospitalisation which is an important step towards UHC.

Let us now turn to 'Health' in UHC. A lay understanding of health and healthcare is generally limited to curative care - getting treatment when sick. Health and healthcare are however much broader terms. The constitution of the WHO defines health as a complete state of physical, mental and social well-being and not just an absence of disease. By this definition, health is much more than just caring for the sick. Based on this conceptualisation, five kinds of health services have been developed and must be equitably provided - preventive health services; health promotion activities; curative health services; rehabilitation and palliative services. A good healthcare system hence has to arrange and provide all five kinds of services. No healthcare system, however, can provide everything to everybody. Resources for

health are always limited and so some kind of prioritisation in health services is inevitable, more so in LMICs. For this, the idea of essential health services has evolved over the last quarter of a century, starting with the 1993 World Bank annual development report which was themed on investing in health with a focus on low income countries. Since then the science of economic evaluation and cost-effectiveness of health services of all five kinds, and even inter-sectoral policy priorities for health, has advanced tremendously, to an extent that in 2017 a nine volume study was launched as Disease Control Priorities, 3rd edition (DCP-3), by the Department of Global Health, University of Washington, involving a nine-year effort by over 500 scholars, policymakers, and technical experts from all around the world.

In essence, this gigantic work has proposed a package of 219 essential health services and 71 inter-sectoral interventions for LMICs that must be funded by the governments. These essential health services, of assured quality, if provided to the whole population can take decent care of the health of a nation. The good news is that Pakistan is the first country to have developed a National Package of Essential Health Services over the last two years based upon DCP-3 which is soon going to be launched and implemented in selected sites and then eventually scaled up at the national level. More on this in a separate column. Delivery of essential health services has to take place through five delivery platforms - community level through community health workers eg lady health workers; Primary Health Care (PHC) facilities (Basic Health Units and Rural Health Centres); first level hospitals like tehsil headquarter hospitals and in some cases district headquarter hospitals; Tertiary level hospitals; and at the population level (using mass media for preventive services and health promotion). Most important in these delivery platforms are community and PHC facility levels as around 60 percent of essential services can be provided at this level. PHC is the foundation of UHC. No country has been able to improve its vital health indicators without strengthening the integrated provision of health services at the PHC level. In Pakistan we have good infrastructure at the PHC level which now needs to be strengthened and operationalised. This would be a lynchpin to advancing UHC in Pakistan. And, lastly, coverage in UHC means covering everybody with essential health services and provision of financial protection to all those who cannot pay. With a very large private health sector and limited public health sector, UHC in most developing countries, including in Pakistan, is not possible without private providers' involvement - especially private general practitioners (GPs) who are providing a big chunk of PHC, largely unregulated and limited only to curative care and aloof to national health priorities. On the one hand, GPs must be upgraded to family physicians through short- and long-term strategies and on the other hand the government should become a strategic purchaser of their services in accordance with an agreed package of quality essential health services. This would be a critical step in advancing UHC in Pakistan. In the nutshell, UHC means, according to the WHO, when all people and communities can use the promotive, preventive, curative, rehabilitative and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose the user to financial hardship.

Power sector in turmoil

FARHAT ALI

Chairing a meeting on energy reforms a few days ago, prime minister Imran Khan expressed his grave concern over the woefully negative impact of the deals the past agreements made with Independent Power Producers (IPPs). Those deals resulted in expensive power and circular debt. The prime minister cautioned that the energy sector in the country has been facing a severe crisis.

The prime minister is absolutely right because his concerns have started to unfold as legitimate. The electricity tariffs have once again been hiked while circular debt continues to grow at an average rate of about Rs1.5bn per day (Rs45bn per month) in 2019-20 and by August this year reached to almost Rs 2.24 trillion with the total payables of the power sector presumably at around Rs 2.28 trillion by last month. The industry is once again up in arms on the issue of tariff increase. The value-added textile industry has rejected the frequent

increases in prices of gas and electricity, stating that the hike in electricity rates to US nine (9) cents per kilowatt-hour (kWh) for the export industry is surprising and not sustainable for exports. Similar concerns have been voiced by other business chambers of the country.

Electricity tariff hike and circular debt constitute two sour points, marring the government-International Monetary Fund (IMF) relationship. Much of the policy on these two points is dictated by IMF on account of its concerns on the security of its lending to the country. The phenomenon of tariff increase and circular debt is a grave issue for over a decade. The PML-N government, following its victory in the 2013 general elections, committed that it would wipe out circular debt in the first year of its governance. The actions taken by the then government, if any, were superfluous; those, in fact, were some acts of financial swapping.

In 2018, the PTI government inherited the power sector in much worse condition than what PML-N government did in 2013. PTI gov-

ernment attempted to confront the issues more aggressively by putting up a fleet of ministers and professionals from the private sector. At the end of its two years of governance the power sector is still in shambles.

During the ongoing PTI rule, the power ministry has witnessed a very large number of transfers and postings of its officials. The ministry appears clueless to move the nation out of these crises. Unfortunately, however, the attempts made in the last two years to set things right in the power sector were ad hoc and superfluous. No serious attempts were made to get to the bottom of the issues. The issues of power tariff and circular debt are interlinked; both are more of governance issues than of financial nature. The years of mis-governance in the entire power sector supply chain have firmly embedded into the system a culture of incompetence, nepotism, corruption and influence of politics and vested interests. This culture is now a way of business in the power sector which defeats all reforms and

change for better. Unless this culture is dismantled and replaced with good governance, no improvement in power sector is expected.

This task is not an easy one; it requires high commitment, radical actions and a 'super' human team for setting things right. There has to be a drastic management and human resource change at all levels, starting from a shop floor to a utility company board. There is also a need for auditing and plugging the gaps in the system and entire supply chain, restoring the role of the regulators.

The government has a choice to decide one of the two available options:

- 1) Get to the bottom of the tariffs and circular debt hikes issues and set things right.
- 2) Prepare for the severe consequences arising out of tariffs and circular debt hikes.

(The writer is former President, Overseas Investors Chambers of Commerce and industry)

LETTERS TO THE EDITOR

Challenge of price hike

It is heartening to note that at least one member of the federal cabinet has conceded the fact that there has been enormous price hike during the ongoing tenure of PTI government. According to media reports, Minister for Planning, Development and Special Initiatives, Asad Umar has acknowledged that prices of sugar and wheat have increased by 73 percent and 53 percent respectively. Umar, a former Finance Minister, who presented statistics of the economy prepared by the Planning Commission, had remarked at a recent cabinet meeting that prices of sugar and wheat increased sharply after the PTI's government came to power.

But this is not enough. Despite Asad Umar's bold admission, the government appears to be

clueless insofar as the challenge of rising inflation is concerned.

Kaleem Umar
ISLAMABAD

Rethinking retirement

I am an engineer and have recently retired from a multinational company. I worked there at a senior position. Throughout my job duration, I paid heavy taxes as required by the law. My job was not pensionable and my hard-earned savings were spent on education and marriages of my children. After my retirement, I couldn't find a suitable job to spend the rest of my life respectfully. I have to rely on my meagre EOBI pension to meet my expenses. The fact is that senior citizens need a consider-

able amount of income to meet their expenses - especially medical expenses. What is the government's policy for those who retired from a non-pensionable job? Will the incumbent government take notice of this critical issue and provide some relief to the people?

Eng Asim Nawab
ISLAMABAD

Know your rights

Every citizen should have an understanding of their rights. I am a graduate, but during my 16 years of formal education I was never taught the constitution. A few students put in extra effort to study the constitution. But isn't it the state's duty to educate its citizens? Now that the government is introducing a Single National Curriculum (SNC), it's time it made sure that schools are teaching our children their rights. The constitution must be taught in