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The tasks ahead

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The foremost task for the incoming government is to stabilize economy. It's far more complex than seeking loans from the IMF or other lending agencies.

State of economy in Pakistan is more of a governance issue than a financial issue. Loans taken are not effectively deployed for revenue generation to generate income for the state & payback loans. Much of each loan is utilized to fill in budget deficit and sustain loss-making SOEs whose accumulated losses are bleeding the state economy by over Rs 1.3 trillion. Declining tax base, sluggish industry, mounting circular debt, pathetic FDI, woefully low exports and escalating government expenditures add to the challenges. To turn around the country's economy all bleeding points have to be plugged.

The task to turn around the government is humongous. A fresh policy approach must address loan repayments. The situation also underscores the need for renegotiating terms with lenders, mobilizing overseas Pakistanis' support, floatation of short- term bonds, better management of foreign exchange reserves, devising strategies aimed at attracting FDI and boosting exports. Most important is the requirement of massive restructuring, rationalization of obsolete state machinery, positioning of world class economists in governments and replacement of boards and chief executives at SOEs with merit-based professionals. The current Circular Debt challenge is also a governance issue rather than a financial issue.

There is an immediate need for the Audit of Fuel Supply Chain through technical and financial auditors/advisors to conduct audit of fuel supply chain (Oil, Gas, LNG & Coal) and the conduct of fuel distribution & marketing SOEs (PSO, SSGC, SNGPL, etc)with TORs specific to fuel costs (Passover by IPP to Government), idle capacity and power supply to grid billing by IPPs to the government and similar payments to IPPs by the government.

Gencos: Appoint technical & financial auditors/advisors to conduct audit of Gencos with TORs specific to plant aging, fuel efficiency, electricity delivery efficiency, plant efficiency restoration options and similar.

Also, it is necessary to Audit DISCOs with TORs specific to Receivables Gap Analyses, Commercial & Technical Line Losses, and Consumer analysis and similar. The constitutional status of NEPRA & OGRA as independent regulators needs to be restored to supervise all of this. The other important issue which needs immediate government attention is availability and affordability of power.

Although the PML-N government successfully added power to the grid by installing power plants, primarily based on LNG and coal, load shedding still persists and the new fuel mix has escalated tariffs for consumers. Consumers, especially industrial units, increasingly find the electricity tariffs un-affordable. Industry has therefore become un-competitive for domestic market as well as exports.

Electricity tariff in Pakistan is 11 cents as compared to 9 cents in India, 8.3 cents in China and 7 cents in Vietnam. Pakistan now has surplus installed power capacity but is constrained to position it on grid on account of a financial crunch arising out of circular debt, power transmission and distribution limitations.

Also, many plants largely based on HSD are no longer viable while the government continues to pay oil pass through and idle capacity charges. The role of Nepra as a regulator stands compromised while Public Private Infrastructure Board (PPIB) is no longer in a position to protect the interests of private sector. The way forward is to cease further investments on Thermal Power Plants based on imported fuels and just optimize and rationalize the power output from the existing ones in private and public sectors. Future focus should be on indigenous and environment-compliant fuelled hydropower, wind and solar power with base load, based on nuclear power plants.

To mobilize revenue generation is the most vital challenge to turn around the economy of the state. On account of high costs and increasingly difficult environment for doing business in Pakistan, industrialization has slowed down, exports are no longer competitive in global markets, foreign investors do not consider Pakistan as a favorable destination for investments. The World Bank in its annual Ease of Doing Business index 2018 records Pakistan ranking at position 147 out of 190 countries while for reference the rankings of Malaysia is 24, Thailand 26, Vietnam 68, Singapore at 2 and India at 100. In 2007, Pakistan was among the top 20 reformers worldwide and the runner-up in South Asia with ranking at 74 among 175 countries, whereas, India at that time was at 134. In 2008, Pakistan lost this distinction to India followed by systematic slide during the tenures of last two political governments (2008 – 2018). This is reflected in declining industrialization, exports & FDI. The prime reason for the decline was poor governance in all segments.

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