The Visible Hand of State:
The matters of Economic Coordination Committee

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Economic Coordination Committee of the Cabinet, generally known as the ECC, was formed as an emergency war time committee of in 1965 following suspension of economic and military assistance. Even though the war finished in 17 days, the Committee has existed well over 40 years now.

This paper is a first attempt in Pakistan to look at the ECC mechanism as the linchpin of economic governance in the country. In the absence of any literature, the paper is based on the analysis of publicly available minutes of the ECC meeting, and background interviews of some very senior former government officials, who have worked closely with the ECC. The analysis is based on 40 decisions taken by ECC over 2013-15 time period.

Over the years, both the composition and mandate of the ECC changed extensively. Except for President Ayub Khan, Prime Minister Zulfiqar Ali Bhutto and Prime Minister Shaukat Aziz, the ECC is generally chaired by the Finance Minister/Advisor to the Prime Minister for Finance. ECC comprises of mainly economic ministers, who are directly nominated by the Prime Minister. In its current form, it was constituted in July 2013, consisting of 11 ministers comprising: finance, commerce, communication, industries & production, information, law & justice, food security, petroleum and natural resources, planning & development and reforms, railways, and water & power. The Prime Minister authorized the Finance Minister to chair the ECC meetings, a prerogative normally held by the Prime Minister. Special invitees include: Governor State Bank of Pakistan, Deputy Chairman Planning Commission, Chairman Securities & Exchange Commission of Pakistan, Chairman Board of Investment, and secretaries of all ministries represented in the ECC.

All decisions of the ECC are required to be ratified by the Federal Cabinet under the Rules of Business. However, the present Finance Minister has sought exemption from the Prime Minister and now the ECC decision, once taken, become final.

Mandate:

The mandate of the ECC, as notified by the Cabinet Division, include: (i) consideration of all urgent economic matter and coordination of economic policies initiated by various Divisions of Government; (ii) to identify and propose measures for the gradual attainment of a welfare state; (iii) to keep a vigilance on the monetary and credit situation and make proposals for the regulation of credit in order to maximize production and exports and to prevent inflation; (iv) to determine the future pattern of growth of major industries; (v) to review from time to time the country's import policy and its effect on production and Investment; (vi) to evaluate export performance from time to time in relation to specific policies and measures for the promotion of exports; (vii) to watch the current price situation with a view to ensuring the stability of the prices of goods used by the common man; (viii) implementation of any other task assigned by the Cabinet from time to time; (ix) cases of agreement and licensing for oil prospecting and exploration; (x) monthly/Annual reports on Autonomous Bodies; (xi) cases of non-repatriable foreign investment; (xii) private sector schemes based on more than 50% imported raw material; (xiii) cases involving fiscal anomalies; and (xiv) review of foreign aid utilization

The ECC is empowered: to consider and take decisions on all urgent economic matters in coordination with economic policies initiated by various divisions of the Federal Government. Its official fifteen points mandate is ambitious and over-arching, to say the least.

Constitutionally, the National Economic Council (NEC) is mandated to review the overall economic condition of the country and "shall, for advising the Federal Government and the Provincial Governments, formulate plans in respect of financial, commercial, social and economic policies; and in formulating such plans, it shall be guided by the, Principles of Policy set out in Chapter 2 of Part II"[1].

Overtime, NEC has become a ceremonial platform instead of discharging the assigned mandate and its executive authority has been assumed by the ECC in terms of policy-making on various economic issues and Executive Committee of the NEC (ECNEC) for approving development projects on behalf of NEC. The Constitution requires the NEC to meet twice in a financial year post 18th amendment, it barely meets once a year and there too, hardly any constructive or serious debate takes place on financial, commercial, social and economic policies. Incidentally, the Provincial Governments are not represented on the ECC and quite often decisions affecting the whole economy and entire country are taken without constructive consultation with the provinces. Likewise, quite often it assumes the authority of the legislature by amending the Tax regime through Statutory Regulatory Order without ever referring such amendments for ratification by the Parliament.

The process:

The Rules of Business 1973 requires that where a subject matter being submitted to the ECC for consideration must be shared with the concerned Ministries and their views must be incorporated in the summary before it is table before the ECC. Secondly, the Rules require that there should be a clear seven days notice. However, many a times these obligatory provisions of the Rules are not observed. Frequently, summaries are tabled by the Ministries during the meeting of ECC.

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[1] Article 156 of the Constitution

For example, the proposal of bail-out package for the state-owned Pakistan International Airlines is brought forward by the Aviation Division, with endorsement of the Privatisation Commission, if a State Owned Enterprise (SOE) is also on the cabinet approved list of privatisation.

This paper has only included those decisions, with a clear price tag officially available and has not quantified the dynamic impact of several policies, notifications and exemptions which are approved by the ECC. The following Table 1 is the summary of these decisions.

Table 1: ECC Decisions (July 2013 to August 2015)

No.	Issue	FY	Date	Ministry	Instrument	Rs. (Million)
1	Inland Freight Subsidy for Export of Sugar	2014-15	24-12-2014	Commerce	Subsidy	6,500
2	Transport Rebate for Export of Wheat	2015-16	12-08-2015	Food Security	Rebate	6,242.16
3	Ramadan/Relief Package	2014-15	30-04-2015	Industries	Subsidy	1,500
4	Ramadan/Relief Package	2013-14	15-08-2014	Industries	Subsidy	2,000
5	Wheat Procurement for IDPs	2014-15	15-08-2014	Food Security	Commodities Operation	800
6	Wheat Procurement for IDPs	2014-15	04-07-2014	Food Security	Commodities Operation	2,279
7	Wheat Procurement for IDPs	2013-14	25-04-2014	Food Security	Commodities Operation	832
8	Salaries of Pakistan Steel Mills	2015-16	16-07-2015	Industries/Priv.C	SOE Loan	480
9	Salaries of PSM Employees	2014-15	28-02-2015	Industries/Priv.C	SOE Loan	960
10	Salaries of PSM Employees	2013-14	23-04-2015	Industries/Priv.C	SOE Loan	1,000
11	Procurement for PSM	2014-15	26-09-2014	Industries/Priv.C	SOE Loan	529
12	Restructuring of PSM	2013-14	25-04-2014	Industries/Priv.C	SOE Loan	18,500
13	Salaries of Printing Corporation of Pakistan employees	2014-15	14-03-2015	Cabinet Division	SOE Grant	84
14	Salaries of Pakistan Machine Tool Factory employees	2014-15	19-03-2015	Industries/Priv.C	SOE Loan	96
15	Lease of aircrafts for Pakistan International Airlines (PIA)	2013-14	30-04-2015	Aviation Div/Priv.C	SOE Loan	3,678.71
16	Lease of aircrafts for Pakistan International Airlines (PIA)	2014-15	30-04-2015	Aviation Div/Priv.C	SOE Loan	1,659.49
17	Payment for PIA vendors	2013-14	12-07-2013	Aviation Div/Priv.C	SOE Loan	7,000
18	Lease of aircrafts for Pakistan International Airlines (PIA)	2013-14	27-03-2014	Aviation Div/Priv.C	SOE Loan	2,989.71
19	Lease of aircrafts for Pakistan International Airlines (PIA)	2013-14	03-12-2013	Aviation Div/Priv.C	SOE Loan	12,700
20	Procurement of Wheat for IDPs	2014-15	06-06-2015	Food Security	Commodities Operation	3,440
21	Fuel Price Adjustment for Farmers	2014-15	20-11-2014	Water & Power	Subsidy	22,000
22	Guarantees for Power Distributon Companies	2014-15	10-01-2015	Water & Power	Sovereign Guarantee	25,000
23	Critical requirements for PIA	2014-15	30-10-2014	Aviation Div/Priv.C	Guarantee	12,000
24	Transmission Line for Neelum Jhelum Power Project	2014-15	15-08-2014	Water & Power	Sovereign Guarantee	17,000
25	Facility for PIA	2014-15	26-08-2014	Aviation Div/Priv.C	Sovereign Guarantee	1,000
26	Syndicated Term Finance Facility for Power Sector	2013-14	16-05-2014	Water & Power	Sovereign Guarantee	31,000
27	Guarantee for M/S China Electronics	2013-14	06-01-2014	Defence	Sovereign Guarantee	2,825.03
28	Conversion of PIA Loan into Term Finance Certificates	2013-14	03-12-2013	Aviation Div/Priv.C	Sovereign Guarantee	33,500
29	Renewal of guarantee for PSM	2013-14	30-07-2013	Industries/Priv.C	Sovereign Guarantee	2,000
30	Circular Debt Payment for Power Sector	2013-14	11-09-2013	Water & Power	Sovereign Guarantee	322,000
31	Subsidy on Urea	2014-15	29-10-2014	Food Security	Subsidy	4,190
32	Cost of Inland Transportation for Import of Urea	2014-15	04-07-2014	Food Security	Subsidy	150
33	Import of Urea	2013-14	27-03-2014	Food Security	Subsidy	1,852.50
34	Import of Urea	2013-14	16-01-2014	Food Security	Subsidy	3,705
35	Relief Package in Ramadan	2014-15	21-05-2015	Industries	Subsidy	100
36	Support for Export of Wheat	2014-15	23-01-2015	Food Security	Subsidy	6,342.84
37	Support for Rice Farmers	2014-15	20-11-2014	Food Security	Subsidy	10,000
38	Fuel Price Adjustment for Consumers	2013-14	13-11-2013	Water & Power	Subsidy	2,200
39	Renewal/Grace Period of Term Finance Facility for Power Holding	2014-15	30-10-2014	Water & Power	Sovereign Guarantee	136,450
40	Construction of LNG Terminals at Port Qasim	2013-14	18-07-2013	Petroleum	Budget	46,350
						752,935

The decisions taken by the ECC can be categorized into following:

1. Exemptions: those decisions which allow special treatment to a sector or a firm for any reasons;
2. Contracts: procurement of goods and services on behalf of the government;

3. Sovereign Guarantees: explicit guarantee provided by the federal government usually against a SOE to meet some emergency need;
4. SOE Loans & Grants/Bail-outs: extended directly to SOEs through government transfers;
5. Subsidy & Rebates: Subsidy is offered to certain SOEs to cover difference between cost and price and rebate is like an incentive conditioned with sale/exports proceeds usually offered to private firms.
6. Regulatory Duty/Tariffs: imposed by the ECC on selected goods and services over and above the approved budget;
7. Permissions for Capital Movement and Acquisition: meant for the private sector entities which are obliged to get clearance of the ECC before movement of their capital abroad.

This classification is not exhaustive and does not imply any outright illegality. However the purpose of classification is to show the power that this committee of the federal cabinet has acquired over years without recourse to parliamentary oversight or normal bureaucratic filtration. The decision making process itself lacks transparency and does not lend itself to accountability because of the nature of shared decision making.

Command Summaries

According to a retired government official, who participated in and facilitated many of ECC meetings, the decisions taken by the ECC are not well-informed. The mode of policy proposals forwarded by various ministries on this platform is a "summary". The former official actually considers them "command summaries", where hardly any research is done.

It can be seen from Table 1 that the accumulated monetary impact of the ECC decisions during these two years is a colossal sum of Rs. 750 billion. Just for comparison, last year the entire federal outlay for the development projects was around Rs. 700 billion. When the dynamic impact of its decisions such as exemptions and policies is considered, the real monetary impact may be several times.

ECC, in its goodwill, might be considered as a safeguard mechanism for 'market failure', e.g. the provision of wheat to Temporarily Displaced People, and in some cases, to bridge demand and supply gaps, e.g. in the import of Urea fertilizers, or to control market movements, such as ban on export of rice, or a regulatory duty on import of potato. Thus, it is important to analyze the types of decisions it takes and its monetary impact, something that needs extensive research.

In the absence of a Trade and Industrial Policy, the ECC decisions effectively play the role of Trade and Industrial Policy by the imposition of regulatory duties on various commodities. Unlike an elaborate Trade and Industrial Policy, the ECC decisions are mostly *ad hoc* in nature, often initiated on special requests or instructions.

The decisions taken by the ECC create distortions in the market. For instance, the ECC can approve 'inland freight subsidy on sugar' despite the fact that it is private business transaction or 'regulatory duty on import of potato'. By taking such decisions, the ECC intervenes in the free market process of price determination. By restricting the imports of one commodity and facilitating the export of another commodity, the ECC gives this signal that local commodities may get compensation for their lack of competitiveness. It gives them artificial oxygen.

ECC is also used as a body to get summary approval for political packages such as *Kissan* (farmers) Package. In *Kissan* Package, announced in late 2015, the government announced benefits of Rs. 450 billion for farmers from different sources including direct cash payment to subsidy on inputs. However it was not clear that how the government will finance this package. This was not approved in the budget, and thus ECC used its muscle to force the government owned National Bank of Pakistan to finance part of the package.

The ministries are led by the secretaries and as such, secretaries of all member ministries do attend the ECC meetings. However, none of them is a legal member of the ECC, and participate as observers or as special invitees. This limits their interest in discussions and deliberations and decisions are often taken after a monologue. In general, dissent mechanisms have been muted. In one meeting held on 11th September 2014, for example, the Chair (Finance Minister) "advised all the representatives of Ministries to discuss the issues on which they have opposing views first among themselves and then come to the ECC only for the final endorsement of a well-prepared proposal."

ECC decisions also have far reaching impact on the provincial budgets, however there is no representation from the provincial governments.

ECC as Exemptions Coordination Committee

ECC has come to be known as *Exemptions* Committee of the Cabinet. One very obvious example is a decision of the ECC in the case of China-Pakistan Economic Corridor (CPEC), wherein it allowed creation of a revolving fund for Chinese Independent Power Producers to pay for the 22% of the recoverable power dues- which is typically equal to the circular debt. In its meeting held on 19th March 2015, the "ECC approved Supplemental Agreement with the provision that the revolving account (equal to 22% of monthly invoicing) for the CPEC Power Projects be opened and maintained by the power purchaser for which the Ministry of Finance would provide the guarantee to fund such revolving account in case the power purchaser failed to place and / or maintain the required funds in such account."

Here is another example of an exemption, as noted in the meeting of the ECC on 12th April 2015. ECC approved the exemption of 5% sales tax on wheat bran. The Chairman Federal Board of Revenue (FBR) argued that, the main product of the flour industry was exempt from sales tax and imposing a tax on its byproduct, bran was creating an anomaly which had to be removed. Accordingly, the ECC allowed the exemption of sales tax on bran.

Pakistani laws allow 100% repatriation of dividends and profits to all foreign investors. However, Pakistani firms are not allowed to repatriate their capital outside. Any Pakistani firm which would like to repatriate its capital for an equity injection or a takeover outside Pakistan is obliged to seek the permission of the ECC. In the period under study, ECC considered and allowed four such applications amounting to US$ 366 million. These decisions include: permission to Fatima Fertilizer for equity stake in a US firm by investing $300 million; permission to Attock Cement to invest $24 million in Iraq; permission to RAK Ghani Glass Limited to invest $2.3 million in UAE; and permission to Lucky Cement to remit $40 million.

State Owned Enterprises

As if the control of government on trade of many commodities through Trading Corporation of Pakistan (TCP) is not enough, ECC also controls the TCP and gives policy guidance. For example, the ECC gave approval for the Sale of Lint Cotton procured by the TCP during 2014-15 in its meeting of 8thJuly 2015. Accordingly it decided: "Trading Corporation of Pakistan will sell out the cotton stocks through national /international competitive bidding process…and will fix a reserve price and bids below the reserve price will not be accepted."

The state-owned entities, whether working as corporations or listed companies, get direct direction from the ECC, thus, bypassing any chain of command. On a summary moved by the Ministry of Petroleum and Natural Resources for the Import of Petroleum Products on C&F basis, the ECC decided, on 6th June 2015, that the Pakistan State Oil is allowed to import Premier Motor Gasoline and Low Sulphur Furnace Oil on C&F basis while import of High Sulphur Furnace Oil would be through Pakistan National Shipping Corporation, another SOE.

Loss-making state owned entities routinely approach the ECC for bail-outs, subsidy and guarantees. Their requests are often approved by parking contingent liabilities in the federal budget. There is no way the government can actually anticipate these urgent financial needs of SOEs at the time of budgetary approval that ultimately leads to ballooning of the non-development outlays and hence budgetary deficit.

Government also uses the ECC as an instrument to intervene in the open market processes. For example, in its meeting held on 21st May, 2015, the ECC considered and approved the proposal moved by the Ministry of Industries and Production for the import of additional 150,000 tons of Urea Fertilizer for Kharif Season. Additional import has been allowed with a view to bridge the demand and supply gap and build up sufficient buffer stock. Through this intervention, the government actually suppresses market signals of shortage or surplus which actually distorts the pricing system.

Examples of intervention in the market through the ECC abound and sometimes one wonders what will happen in absence of the ECC? In its decision taken on 9thApril 2015, the ECC referred the matter regarding re-allocation of RLNG to Fauji Kabirwala Power Plant by equivalent reduction from KAPCO, allocation to Rousch Power by allocation from Nandipur power plant along with other issues concerning treatment of transportation charges as non-operating income for both the gas companies, to a Committee comprising Finance Secretary, Secretary P&NR, Secretary Water and Power and Member Gas, OGRA for deliberations. In case of disagreement, the Committee was asked to revert to the ECC. Under a well-functioning market, not just ECC, but for that matter, a government should be least bothered about these allocations.

Regulatory Function

The regulatory bodies largely function as extended departments of various ministries. At times, the ECC replaces even these regulators. A case in point is its role in tariff rationalization. In its meeting of 21st May, 2015, the ECC held detailed deliberations on a proposal submitted by the Ministry of Water and Power on Tariff and subsidy rationalization and approved that the current notified average consumer tariff rate along with its components and surcharges, will be maintained so the total average national tariff will not increase. The government will continue to subsidize the domestic consumers (up to 300 units) and agriculture consumers, and continue to pass on the full cost of service as determined by NEPRA.

Regulatory Duty and Taxes

Usually duties and taxes are domain of parliament which is usually exercised in the annual budgets. However, through ECC, the government not only bypasses the parliament, but also introduces several mini budgets. For example, in its meeting held on 30th April 2015, the ECC on a proposal from the FBR allowed levy of 2% regulatory duty on petroleum crude oil, motor spirit oil and furnace oil. Approval was also accorded for imposition of 2.5% regulatory duty on high speed diesel. The step was aimed to recoup some of the revenue losses due to persistent fall in petroleum products in the current financial year. It was clearly non-democratic.

In a mini-budget unveiled to fetch Rs. 40 billion taxes under the International Monetary Fund (IMF)'s conditions, the government on 30th November 2015, imposed one percent additional Customs duty by raising the maximum slab from 20 to 21 percent, enhanced and imposed Regulatory Duty on 350 imported items, hiked rates for cigarettes, and raised fixed duty on used and old imported cars. Commenting on this decision, the Finance Minister used these words: "The ECC has approved additional revenue measures by raising taxes on the rich, and discouraging imports of luxury items. We have raised tax rates on the basis of one principle with the consent of Prime Minister Nawaz Sharif that it should not negatively impact common man of this country."

Clearly, no other body but only parliament can recourse to new duties and taxation, or new rates of duties and taxes. ECC decision is an open and shut case of violation of the constitution.

Reforms

At times, the ECC may also expedite a decision leading to economic freedom and policy reform. Moving a proposal regarding Pakistan Power Sector Reform, the Secretary m/o W&P informed the meeting, held on 30th April 2015, that pursuant to the 1992 Power Sector Reform plan approved by Council of Common Interest the function of transmission of electric power and transmission facilities vested in National Transmission and Dispatch Company (NTDC). The System Operations was being conducted by NTDC through its various divisions. The reform plan also envisioned the creation of a competitive wholesale power market that would benefit the power sector and the Pakistan economy in general via newly introduced profit incentives, an increase in managerial autonomy and an improvement in managerial accountability.

Can we do without ECC?

ECC over years has become an integral part of economic governance, rather linchpin of economic decisions in Pakistan. It is observed that the Prime Minister Nawaz Sharif is not very particular on calling cabinet meetings. He has also not complied with the constitutional requirement of holding the bi-annual meetings of Council of Common Interest- a top level inter-provincial committee comprising of the Chief Ministers. Similarly, the forum of National Economic Council is very inactive. In the absence of these forums, the ECC has become default cabinet. A logical corollary of this anomaly is that the chair of the ECC- the finance minister- has become default prime minister. It may be just symbolic but the website of the cabinet division shows a few photos of the meetings of the cabinet, chaired by the Finance Minister. The Prime Minister, known for leading bold and far-reaching economic reforms in the past, is missing in action.

In an environment of low budget sanctity, the ECC becomes an instrument in the hands of the government to further deteriorate the budget sanctity. It has become the business arm of the central government. On the other hand, given the lengthy and archaic rules of business that define our governance, the presence of the ECC is also perceived as the vehicle where quick decision making after quick deliberations becomes possible. This saves time and can actually help the government to come over bureaucratic hurdles. However, the bigger question that needs to be asked is not on the existence of the ECC as such. Rather, it should be about the rules of business that has strangulated economic decision making by over-burdening a government with choices it should not have at the first place. *It is not the business of the government to do business*. If this oft-repeated sentence of Prime Minister Nawaz Sharif is adopted as a guiding principle, the government will be relieved of thousands of decisions that it has unnecessarily taken upon itself to make. This will help us in creating a smart, lean and agile central government that will be taking fewer, but well-informed, far more effective and more transparent decisions.

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