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Consignments of imported yarn from India, China:

Aptma for mandatory independent inspection at 3 stages

TAHIR AMIN

ISLAMABAD: All Pakistan Textile Mills Association (APTMA) has requested the Federal Board of Revenue (FBR) to make it mandatory that all consignments of imported yarn from India and China be subjected to independent inspections at three stages to control the excessive imports of cotton yarn by misuse and mis-declaration.

According to a letter written to the FBR, the APTMA pleaded for making it mandatory for all consignments of imported yarn from India and China under the SRO 322 and SRO 450 be subjected to independent inspection at: (i) pre-shipment inspection at the time of export of yarn from Indian and Chinese spinners, (ii) at the port of entry in Pakistan and (iii) at the time of export from the beneficiary.

The APTMA stated that it frequently highlighted the issue of excessive imports of cotton yarn especially by misuse and mis-declaration and the situation has become so critical that over 144 spinning mills have been closed and remaining are on the verge of closure.

During the last financial year 2016-17, over 78,000 tons of yarn has been imported compared to 51,000 tons during the financial year 2015-16. During the period of July 2016 to March 2017 for which PRAL data is available total yarn imports were 61,000 tons and 87% of these imports (53,300 tons) were made under Duties and Tax Remission for Export (DTRE).

During APTMA meetings with FBR on 28th April, 2017 for discussing the issues faced by the domestic textile industry and submission of proposals for federal budget 2017-18, the matter of abuse of SRO 327 and SRO 450 to evade duties against import of cotton yarns was also discussed. It was decided that APTMA's representative will meet with Faiz Ahmed, Chief (Customs) on May 2, 2017.

The meeting with Faiz was quite productive and the matter was discussed threadbare but the meeting remained inconclusive due to constraints shown by the FBR, which are stated as follows:

Presently, around 35 percent of the importers and over 80 percent of the exporters are provided with the facility of green channel, which results in automatic clearance consignments at both import and export stage. In order to impose inspection, the facility of green channel given to importers and exporters, need to be withdrawn and all inbound and outbound consignments will be put in either yellow or red category resulting in delays and over-congestion at the ports.

It will not be possible to draw samples at export stage due to the time constraint.

The FBR under the existing law can only check the samples at its own laboratory or at PCSIR, it cannot get the samples tested by independent inspection companies like SGS, etc, and for this APTMA should contact Ministry of Commerce for taking it mandatory for yarn imported from India to be subjected to pre-shipment inspection in its upcoming import policy.

The constraints mentioned above can only be solved by FBR itself, as it is the regulating authority which not only controls the import and export of goods but also collects the revenue necessary to run the economy of the country. As per SRO 450, it is mandatory that three samples should be collected at the import stage, so the constraint of green channel is not valid.

Furthermore, in the period of first nine months of the current financial year (July- March 2017) the import under the exemption schemes stood at 53,303 tons or 198 tons/day (10 containers), we are of the opinion that proper sampling of ten containers by independent inspection agencies, that too at different ports of entry, is not a momentum breaking task.

In the first nine months of the current financial year, the government has foregone Rs 7.9 billion in duties and taxes on the import of yarn under the exemption schemes, the loss to the domestic economy/ industry is way above it, as the imported yarn is flooding the domestic market and the import is increasing with no end in sight.

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Security threats by Indian border team:

Work on Gulpur Hydropower Project halted

MUSHTAQ GHUMMAN

ISLAMABAD: The Engineering, Procurement & Construction Contractor for 102MW Gulpur Hydropower Project has stopped construction activities and evacuated the project site due to recent security threats posed by Indian Border Action Team.

Daelim Industrial Co Ltd of South Korea leading the joint venture for the construction left the project site Sunday morning by evacuating all the foreigners and local employees for their safety and security.

The 102MW Gulpur Hydropower Project is located in district Kotli of Azad Jammu & Kashmir and so far forty percent of the project progress has been achieved. The project is being implemented by Mira Power Limited a subsidiary of KOEN, Daelim and Lotte.

Despite the efforts of concerned law enforcement agencies to beef up the security of the Project, the contractor decided to evacuate project site as the safety of his employees was paramount and any mishap may lead to divestment of the efforts made by Daelim to secure other projects in Azad Jammu & Kashmir.

An unconventional threat where Indian BAT is planning to target Gulpur Hydropower Project by planting IEDs has never been received before nor has any development project been the target of such a threat. Concerns escalated when Indian print and electronic media launched a propaganda campaign maintaining that Daelim has backed out from the ongoing projects as IFC, ADB and KEXIM Bank expressed their inability to finance the project in disputed area of Jammu & Kashmir.

Korean investors also feel discriminated against as projects under CPEC are being looked after by special security force/division of armed forces formulated under CPEC agreement between Pakistan and China whereas Koreans are left at the mercy of untrained policemen. The dilemma is Korean investors are also forced to pay the salaries and perks to the policemen deployed to provide security whereas in case of CPEC projects NEPRA has recently approved security cost for CPEC projects.

Daelim along with other South Korean companies are determined to harvest the hydropower potential in Azad Jammu & Kashmir for which due diligence study of 500MW Chakothi Hattian Hydropower Project located in district Hattian has been completed and issuance of LOS is under process. The estimated project cost would be 1.3 billion dollars and project is expected to be completed in 6 years.

Daelim along with Korea Hydro & Nuclear Power Company and Lotte Engineering and Construction Company has been awarded LOI for 350MW Authmuqam Hydropower Project located in district Authmuqam of Azad Jammu & Kashmir. The feasibility study is underway and consortium is determined to implement the project on fast track basis. The estimated project cost is 875 million dollars and the project is expected to be completed in 5 years.

When contacted one of the members working on the project confirmed that the contractor has left the site after receiving the threat alert.

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Any bid to damage Indus water treaty deal to create unrest: Asif

SARMAD MAHMUD

SIALKOT: Foreign Minister Khawaja Muhammad Asif on Sunday said that any attempt to damage Indus water treaty agreement will create unrest in subcontinent.

Talking to journalists, he said that Pakistan is peace loving country and wanted cordial relations with all the countries on equal footings. The minister further alleged that India is violating the Line of Control.

Pakistan is showing flexibility just to maintain peace for the largest interest of masses of both the side adding that Pakistan is fully capable to protect its geographical fronts and flexibility showing by Pakistan should not be underestimated, he said. Despite the serious Indian violations Pakistan is making adequate efforts for maintaining peace in the region for the larger interest of the masses of both the sides he said.

The Minister said that Pakistan is making serious efforts to resolving all issues with India through talks because we believe that talks are the best mode to find out ways and means for addressing issues.

He said that India is committing serious human rights violations in the held Kashmir since long and killing the innocent Kashmiris struggling for the liberation of their motherland from Indian yoke. It is high time that Kashmir dispute should be resolved in accordance with the aspirations of Kashmiris and in the light of UN resolutions for sustainable peace in the region, Asif concluded.

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Nepra may re-determine Discos' tariffs for 2015-16

ISLAMABAD: National Electric Power Regulatory Authority (Nepra) is likely to re-determine tariffs of Power Distribution Companies (Discos) for fiscal year 2015-16, which remained unimplemented due to Ministry's stiff resistance, well informed sources told Business Recorder.

The regulator conducted a "secret" hearing last week sans media and civil society. It was attended by the officials of Water and Power Ministry and concerned Discos. The decision will be announced within a couple of days.

The sources said, Ministry of Water and Power Discos had approached Islamabad High Court (IHC) against the determinations, which, according to the Ministry, were unfair and in violation of the Energy Policy approved by the Council of Common Interests in 2013 in which possible recovery targets were also fixed. Nepra had determined the electricity tariff at Rs10.90 per unit for 2015-16 based on year-on-year adjustment, but the government continued charging Rs12.33 per unit which shows that it has been charging Rs1.43 per unit from the consumers over and above Nepra determinations for the entire 2015-16.

According to the Ministry of Water and Power, implementation on Energy Policy 2013 approved by CCI is binding on the regulator, but the latter remains unconvinced with this argument.

Ministry further argued that the financial impact of Nepra's decision regarding recovery and losses targets was Rs 60 billion.

Power Ministry had refused to notify the Nepra determination for FY 2015-16 because the regulator reduced tariff by an average of Rs 2 per unit. As a first in the history of the sector, the Power Ministry required DISCOs to seek stay orders against notification of Nepra's determination in the Islamabad High Court. Furthermore, instead of notifying Nepra-determined tariff and passing on the benefits of a fall in oil prices, the Ministry is regularly finding fault with Nepra and is also holding it responsible for various sectoral ills and inefficiencies.

IHC, sources said, has cancelled all tariff determinations of Discos announced in 2013 and referred back to the regulator with the direction to treat tariff petitions anew.

Ministry of Water and Power maintains that the regulator should give different treatment to Discos like, Hesco, Sepco, Qesco and Pesco where recovery is far less than the target. The targets of losses set by Nepra are also irrational.

"Ministry is ready to accept 100 per cent recovery in Punjab-based Discos but not others where recovery is less than 60 per cent," the sources maintained.

Nepra is being asked by the Water and Power Ministry to pass additional 2.8 percent losses per year to the end electricity consumers. The government had got recommendation from third party that losses are 18 percent instead of 15.2 per cent allowed by Nepra.—MUSHTAQ GHUMMAN

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THE RUPEE: Stable trend

RECORDER REVIEW

KARACHI: The rupee recovered some grounds against the dollar on the money market during the week, ended on August 5, 2017.

OPEN MARKET RATES: The rupee gained 70 paisas in relation to the dollar for buying and selling at Rs 106.60 and Rs 106.80. The rupee depicted no change in relation to the euro for buying at Rs 125.00 while it picked up sharply for selling at Rs 128.00.

INTER-BANK MARKET RATES: The rupee almost traded within a band of Rs 105.38 and Rs 105.40, mainly because of balanced demand and supply position.

OPEN MARKET RATES: On Monday, the rupee managed to recover 20 paisas against the dollar for buying at Rs 107.30 and it also gained 50 paisas for selling at Rs 107.50.

The rupee appreciated by 60 paisas in relation to the euro for buying and selling at Rs 125.00 and Rs 126.00. On Tuesday, the rupee did not move any side in terms of the dollar for buying and selling at Rs 107.30 and Rs 107.50. The rupee drifted lower versus the euro, losing 80 paisas in relation to the euro for buying and selling at Rs 125.80 and Rs 126.80. On Wednesday, the rupee posted fresh gains of 10 paisas in terms of the dollar for buying and selling at Rs 107.20 and Rs 107.40. The rupee was unchanged in relation to the euro for buying and selling at Rs 125.80 and Rs 126.80.

On Thursday, the rupee appreciated by 40 paisas in terms of the dollar for buying and selling at Rs 106.80 and Rs 107.00.

The rupee inched up by five paisas in relation to the euro for buying and selling at Rs 125.75 and Rs 126.75. On Friday, the rupee maintained overnight surge, gaining 10 paisas in terms of the dollar for buying and selling at Rs 106.70 and Rs 106.90. The rupee, however, lost 35 paisas in relation to the euro for buying and selling at Rs 126.10 and Rs 127.10.

On Saturday, the rupee showed further gains versus the dollar, picking up 10 paisas for buying and selling at Rs 106.60 and Rs 106.80. The rupee also went up sharply in relation to the euro, gaining Rs 1.10 for buying and selling at Rs 125.00 and Rs 128.00.

INTER-BANK MARKET RATES: The rupee almost traded in terms of the dollar for buying and selling at Rs 105.39 and Rs 105.40.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the dollar struggled, wallowing near a 2-1/2-year low against the euro, weighed down by US political uncertainty and uninspiring US data that added to doubts about whether there will be another Federal Reserve rate hike this year.

The euro was a shade lower at $1.1732 but remained in striking distance of $1.1777, its strongest level since January 2015 set on Thursday.

The dollar was trading against the Indian rupee at 64.080, the US currency was available at 4.277 versus the Malaysian ringgit and the greenback was at 4.2795 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Monday: 80.65-80.66 (previous 80.65-80.66).

In the second Asian trade, the dollar skidded to a six-week low versus the yen, its outlook clouded by US political turmoil and doubts over whether there will be another Federal Reserve rate hike this year.

The dollar was trading against the Indian rupee at Rs 64.135, the greenback was at 4.276 in terms of the Malaysian ringgit and the US currency was at 6.719 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Tuesday: 80.66-80.68 (previous 80.65-80.66). OPEN MARKET

In the third Asian trade, the dollar extended its modest bounce from 15-month lows on Wednesday, benefiting from a pause in selling of the battered currency as investors begin positioning for key events this week, notably Friday's US employment report.

The dollar index against a basket of major currencies shook off a decline in Treasury yields and was a shade higher at 93.090 after bouncing from 92.777, its lowest since May 2016.

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The euro was unchanged at $1.1806 after being nudged away from a 2-1/2-year peak of $1.1846 set the previous day.

The euro has gained about 12 percent against the dollar so far this year.

The dollar was trading against the Indian rupee at Rs 64.105, the greenback was at 4.287 in terms of the Malaysian ringgit and the US currency was at 6.726 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Wednesday: 80.67-80.68 (previous 80.66-80.68).

In the fourth Asian trade, the dollar inched away from a 15-month low versus a basket of currencies, but was still looking wobbly due to doubts about whether there will be another US interest rate rise this year.

The dollar index, which measures the greenback's value against a basket of six major currencies, rose about 0.1 percent to 92.940. On Wednesday, it slid to 92.548, its weakest level since May 2016.

The euro eased 0.1 percent to $1.1847, backing away from a 2-1/2-year high of $1.19105 set on Wednesday- the common currency's highest level since January 2015.

The dollar was trading against the Indian rupee at Rs 63.573, the greenback was available at 4.284 and the US currency was at 6.727 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Thursday: 80.68-80.68 (previous 80.67-80.68).

In the final Asian trade, the dollar struggled near a 2-1/2-year low against the euro and a seven-week trough versus the yen in the later in the session for potential relief.

The euro added 0.1 percent to $1.1878 and in striking distance of $1.1910, its highest since January 2015 scaled midweek.

The dollar was steady at 110.005 yen after touching 109.855 overnight, its lowest since mid-June.

The dollar was trading against the Indian rupee at Rs 63.660, the US currency was available versus the Malaysian ringgit at 4.275 and the greenback was at 6.719 in terms of the Chinese yuan.

At the week-end, the US dollar was set for its biggest one-day gain against a basket of major currencies so far this year after a strong US July payrolls report and comments from National Economic Council director Gary Cohn about lowering the US corporate tax rate.

The dollar index, which measures the greenback against six major rivals, jumped about 1 percent to a one-week high of 93.774 after the Labour Department said non-farm payrolls increased by 209,000 jobs last month and Cohn's comments. It was last up 0.7 percent at 93.529.

Cohn told Bloomberg TV on Friday that the 35 percent US corporate tax rate should be more in line with the 24 percent average rate among other countries in the Organization for Economic Cooperation and Development.

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Tourism and Economic Growth Project:
WB to provide $50m loan to Punjab govt

RECORDER REPORT

ISLAMABAD: The World Bank (WB) would provide $50 million loan to the Punjab government, according to Ministry of Planning, Development and Reform.

Sources said that the Ministry in a proposal presented to the last Executive Committee of National Economic Council (ECNEC) stated that project was cleared by the concept clearance committee (CCC) of CDWP for negotiating financing arrangements with the World Bank in its meeting held in December 2015.

Subsequently, the World Bank conducted ten studies/assessments under non-lending technical assistance to extract specific insight to map tourist trails, behaviours, preferred tourist routes, seasonal patterns and average tourist load. At present, about 80,000 Sikh pilgrims visit Pakistan in a year but after the major policy changes and large level improvements and expansions, this number is expected to increase three times.

The ECNEC was informed that the project aims at promotion of religious and domestic tourism by providing infrastructure facilities at Taxila Museum/Stupa at Mankiala (Buddhism); Katas Raj (Hinduism); Gurdwara Rori Sahib, Kamoki, Gujranwala (Sikhism); Darbar Sahib, Kartarpur, Narowal (Sikhism); Gurdwara Sacha Sauda, Farooqabad (Sikhism); Uch Sharif (Muslim); Janam Asthan, Nankana Sahib (Sikhism); and Ghulam Farid, Mithan Kot (Muslim).

The locations of the project are Nankana, Sheikhupura, Gujranwala, Narowal, Lahore, Taxila/Mankiala, Bahawalpur, Chakwal, and Mithan Kot. The project would be executed by Punjab Resource Management Programme (PRMP), Planning & Development Department in collaboration with relevant implementing agencies (Communication & Works Department, Department of Archaeology, Tourism Development Corporation Punjab (TDCP), Youth Archaeology, Sports, and Tourism Department, Public Private Partnership Cell, P&D Department (PPP Cell),Walled City Authority Lahore and Evacuee Trust Property Board (ETPB).

The 91 percent financing of Rs 5.775 billion project would be met by the WB loan while remaining 9 percent share would be contributed by the Punjab government.

The meting was told that it is a provincial umbrella PC-I hence the exact estimates for the scope of different works and programme activities are not final and will be determined by the PRMP in collaboration with relevant implementing agencies and stakeholder departments.

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ST on motor spirit reduced

RECORDER REPORT

ISLAMABAD: The Federal Board of Revenue (FBR) has reduced sales tax on motor spirit from 23.5 percent to 20.5 percent, showing a decrease of 3 percent from August 6, 2017.

According to the SRO 757(I)/2017 issued here on Saturday, , the FBR has reduced sales tax rates on certain petroleum products from August 6, 2017.

Sales tax on high speed diesel oil has been raised from 40 percent to 35.5 percent, reflecting a decrease of 4.5 percent. Sales tax on kerosene would continue to remain zero percent during August 2017. As per the SRO, sales tax rate on light diesel oil has been decreased from 1.5 percent to zero percent.

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Experts, economists for expanding transit trade to CARs

LAHORE: Experts and economists on Sunday urged the federal government to increase transit trade area to Central Asian Republics (CARs) and ink more agreements with World Customs Organization (WCO) to enhance exports graph in the country.

Senior Vice President Lahore Chamber of Commerce and Industry (LCCI), Amjad Ali Jawa said that during a recent meeting with WCO, LCCI had sought cooperation through welcoming some degree of necessary support, so that goods could move more efficiently across the borders in CARs.

Member executive committee LCCI Shahzad Ayub urged the federal government for measures to ensure technical assistance with regards to counter terrorism and Supply Chain security.

He further said that export rates could further be enhanced through solid measures by the government in trade facilitation, economic competitiveness, couping emerging challenges to customs, illicit financial flows, customs reforms and modernization sectors. Prominent economist Dr Ashfaq Hassan said that with the efforts of commerce ministry, Pakistan had become a member of TIR convention as United Nations had accepted Pakistan's Instrument of Accession to the Customs Convention on the International Transport of Goods (TIR Convention).

He said this would greatly facilitate Pakistan's trade with Afghanistan, Central Asian & ECO countries and even Europe.

He said that TIR was still in the implementation stage but there was need to merge it with the Transit Trade Agreement to facilitate the movement of goods.

Dr Ashfaq said that Pakistan was already a signatory of TFA and was working with all its neighbors for regularization of Trade, minimizing Tariffs and removing the Non-Tariff barriers.

While answering a question, Dr Ashfaq said that Pakistan Customs with efforts of the federal government was already a part of several WCO initiatives including its Program Global Shield (PGS) and Strategic Trade Control Enforcement (STCE) Programme, under which Pakistani officers/economy experts had received extensive trainings.

Appreciating the endeavour of the government, Dr Ashfaq said that WCO had promised to provide its support to Pakistan in regularization of trade.

He said the WTO had urged Pakistan government to recuperate 'Trade Relations' with all neighboring countries particularly Afghanistan to play a more significant role in the corridor.

Dr Ashfaq said the WCO would provide support to Pakistan in harmonizing Customs data and for fast information sharing to ensure speedy movement of goods across the borders.

He suggested further steps by the government in the areas of the transit trade, tariff duties, harmonizing of customs data and installing a system to evaluate the quantum of smuggling.

A senior official of commerce ministry said the federal government had given Rs 180 billion export incentive to industrial sector during this year to support the declining exports.

He said that the package revolved around cash support and waiver in duty & taxes for five sectors including textile, leather, surgical equipments, sports goods and carpets.

According to the package, approximately 87 percent support would go to the textile and clothing sectors while a mere 13 percent to the remaining four sectors, he added.

He said an investment of Rs 97 billion was being undertaken in the Pakistan Stock Exchange during the fiscal year 2017-18.

The government was aiming to achieve a tax revenue target of Rs 4,330 billion, with Rs 4,013 billion in taxes collected by the Federal Bureau of Revenue (FBR), and Rs 317 billion in other taxes, he said.

To support export sector, the government had suspended the customs duty on the export of raw hides, adding the sales tax on the commercial import of fabric would be set at 6 percent, he added.

It is pertinent to mention here that the World Customs Organization (WCO) was established in 1952, representing 182 Customs administrations around the world (including Pakistan Customs), that collectively process 98 percent of the World Trade.—APP

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Financial sector trends

According to a research report prepared by the State Bank, the penetration of bank credit in the country's economy is quite low compared to the regional and emerging economies and the gap is widening overtime. The corporate sector currently receives 70 percent of the total bank lending and 30 percent of banks' exposure is to only 30 business groups. Focusing exclusively on the corporate sector, banks have marginalised other niche segments like SMEs, agriculture and housing. The overall environment for private credit growth seems to have deteriorated as banks are not effectively performing their core functions of channelising depositors' savings into loans for creditworthy businesses and individuals. Cash-rich conglomerates have increasingly begun using their own resources to fund growth rather than borrowing from commercial banks. Balance of payments constraints have a significant impact on the financial system's liquidity. The country's net foreign assets-to-GDP ratio averaged only 5 percent in 2006-15 compared to 42 percent in Thailand, 36 percent in Malaysia, 18 percent in India and 8 percent in Bangladesh. It appears that high fiscal deficits and higher allocation of banks' liquidity for budgetary lending cannot explain a low level of private credit-to-GDP ratio for Pakistan. India, Sri Lanka, Egypt, Turkey and Malaysia ran persistently high level of fiscal deficits over the past 15 years yet their credit growth over these years was nothing short of enviable. India, Egypt and Brazil had very high levels of bank claims on the government but their banks also managed to contribute meaningfully to the private sector's growth. While contribution of agriculture and SMEs to Pakistan's GDP was about 30-40 percent, these enterprises got only 6 percent of bank credit.

The report of the SBP regarding trends in the financial sector and its comparison with other countries is both interesting and revealing to a certain extent. The fact that a large part of the private sector credit is pre-empted by the corporate sector shows that most of the small businesses in Pakistan are financed by own sources and corporate sector relies more on financing from the banks than on equity market for raising its resources. As such, equity market needs to be developed further so as to use the savings of unbanked segments of society and offer an alternative source of financing for the corporate sector. Of course, as observed by the report, it is true that banks are not effectively performing their core function of financial intermediation by channelising depositors' savings into investment. This may be due to the abundant availability of government securities in the market which are both risk-free and high yielding. The overall credit growth in Pakistan has remained subdued due to banks' higher investment in gilt-edged securities and low deposit base due to depressed per capita income. Credit growth also slowed down due to a sense of uncertainty, security concerns and energy shortages which significantly dented domestic business prospects. It is also true that borrowings from commercial banks have been concentrated within a few conglomerates and priority sectors have been marginalised but this could be due to the fact that banks feel more comfortable in dealing with large known borrowers than small borrowers spread all over the country. Every bank pays lip service to the advantage of financing priority sectors for socio-economic development but would like to lend to the borrowers who are more creditworthy and prepared to offer reasonable rates of return. The country's foreign assets-to-GDP ratio continues to remain low and its impact on system's liquidity is not significant due to consistent deficit in the current account and a low level of foreign exchange reserves compared to the regional/emerging economies. A surplus in the external sector is always expansionary and vice-versa so far its impact on overall liquidity is concerned. However, the observation of the report that countries such as India, Sri Lanka and Egypt experienced a high level of fiscal deficits yet their credit growth was enviable could be argued on the ground of the difference of credit creating potential of banks and the modes of financing the budget deficit in Pakistan and those countries. It is quite possible that the governments in those countries are financing their budget deficits largely through non-banking and foreign sources. Overall, however, the report of the State Bank could be a good base to initiate certain measures to ensure that deserving entrepreneurs and households, which are currently excluded from access to finance, could be enabled to avail bank credit on equitable terms. A case could also be made to persuade the government to rely less on bank borrowings for financing its budget deficit so that more resources could be released for private sector growth. More emphasis on priority sectors and less concentration on large corporate borrowers could also promote entrepreneurship and reduce income inequalities.

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Dar's reappointment

Anjum Ibrahim

Ishaq Dar's reappointment as the Federal Minister for Finance appears to be less a reflection of a sagacious decision by the senior party leaders and more a reflection of not only his continued high standing with former Prime Minister Nawaz Sharif but also, perhaps in part, a seemingly hostile reaction to the Supreme Court verdict in the Panama papers case.

The 28 July judgement refers to Ishaq Dar as Respondent Number 10 and notes that Respondent No 10 had a 91 times increase in income (from 9.11 million rupees to 831.70 million rupees) within a short period of time and directs that a "reference against Respondent No 10 for possessing assets and funds beyond known sources of income" (be filed and)…"the accountability court shall proceed with and decide the aforesaid reference(s) within a period of 6 months from the date of filing such reference(s)". The apex court has appointed Supreme Court Justice Ijazul Ahsan as the monitoring judge for National Accountability Bureau (NAB) proceedings as well as the accountability courts in the case. In his absence Justice Ejaz Afzal Khan, who headed the three-member bench for implementation of the Panama papers case, will supervise the adjudication.

This verdict was passed subsequent to Ishaq Dar's submission of two types of documents – (i) his 34-year-tax record which constituted an impressive number of boxes; and (ii) a letter from the United Arab Emirates Shaikh Nahayan bin Mubarak Al Nahayan that stipulated that Dar provided professional advisory services to him from February 2002 to March 2008 (when Dar was a non-resident Pakistani and not liable to file returns) which enabled him to earn 837.15 million rupees by 2008. Upon becoming a resident Pakistani in 2008 Dar, under Section 11 (5) of Income Tax Ordinance, merged his overseas assets (837.15 million rupees) and local assets (44.83 million rupees) in his wealth statement. The three-member bench implementing the Panama papers case requested banking transactions (deposits) that would support Dar's substantial foreign earnings during the 6 years that he was a non-resident as it is highly unlikely that Shaikh Nahayan bin Mubarak Al Nahayan delivered millions of pounds salary in cash, which has yet to be provided and which, needless to add, if provided, would completely exonerate Dar of all charges.

At present, Ishaq Dar's status is that he has not been disqualified from his membership of parliament but neither does he enjoy immunity from money laundering charges as he quashed his affidavit as approver detailing how money was laundered for the Sharif family in the Lahore High Court in 2010 (during Shahbaz Sharif's tenure as Chief Minister Punjab) – a stance that he maintained with the Joint Investigation Team as well as during the hearings in the Panama papers case. In other words there is a possibility, however remote Dar may think it is, that he may be unable to prove his innocence in which case it would have been appropriate for him to defer accepting the portfolio of Finance.

The waiting period before the final judgment on the matter is a maximum of six months (ending January 2018, well before the next elections) and a true democrat may have preferred to refuse a portfolio till such a time as he was cleared of all charges, leave alone accept a portfolio that his critics maintain has already compromised his ability to legislate appropriately especially with respect to money laundering/benami account holders. In 2016, the then Governor of the State Bank of Pakistan, a Dar appointee, updated the 2010 Anti-Money Laundering/Combating Financing Terrorism (AML/CFT) regulations by adding a subsection titled Politically Exposed Persons (PEP) which made it mandatory for banks/development finance institutions to first obtain approval from their senior management prior to initiating any investigation – senior management on which any federal government can exert considerable pressure. NAB and Federal Investigation Agency (FIA) have initiated no more than 8 cases under AML/CFT since then and when asked by Business Recorder refused to reveal if any of these cases included PEPs.

Shahid Khaqan Abbasi's cabinet has increased the number of ministers from Nawaz Sharif's 29 to 43 but what is noteworthy is that the economic related ministries have not only been consolidated (energy ministry has merged petroleum and water and power ministry while commerce and textiles has been merged into commerce ministry) but the number of supervising ministers has been reduced: the Prime Minister retains the energy ministry and planning and development portfolio (which was previously led by Ahsan Iqbal, an academic, who was playing the lead role in the game changer China Pakistan Economic Corridor) and Commerce would be led by Pervaiz Malik. The question is whether this consolidation would strengthen Dar's hand or the prime minister's?

In this context, it is relevant to note that even the incentive packages announced amidst much fanfare by former prime minister Nawaz Sharif to the agriculture sector (over 300 billion rupees) and export sector (180 billion rupees) were never fully implemented due to Dar's overarching focus on budget deficit reduction; in addition, decisions that accounted for declining exports and rising imports are sourced to the Ministry of Finance (an overvalued rupee and delay in sales tax refunds) rather than the Commerce Ministry; subsidies to the power sector as well as setting the price of imported oil and products by fluctuating taxes on these items is also a decision sourced to the finance ministry. In addition Ahsan Iqbal's growing prominence as the man leading the CPEC effort which was to spearhead Pakistan's growth and development momentum may have irked Dar. Thus it is a distinct possibility that Dar's hand has indeed been strengthened within the cabinet as he is perhaps the man most trusted by Nawaz Sharif.

It is critical to select a cabinet member who, at worst, should not have any conflict of interest in holding that particular portfolio. That is certainly not the case with Ishaq Dar. Had he been given the Energy Ministry or even Commerce Ministry one could have argued that there would be no possible conflict of interest given the ongoing references filed against members of his son's family (by marriage) or his own. That clearly is not the case as the Federal Board of Revenue, Securities and Exchange Commission (SECP), National Bank of Pakistan and State Bank of Pakistan, entities that are under him directly (or under his pervasive influence as the SBP) have been cited as not having conducted any meaningful investigation after the Panama papers leak last year with the former SECP Chairman currently behind bars.

To conclude, one cannot expect Prime Minister Abbasi to either fire Dar or give him another ministry in which case one can only exhort the Finance Minister to do the right thing till the final judgment in his case.

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Presumptive tax, gifts and Section 111(4):

The 'unholy trinity'

Syed Shabbar Zaidi

In the last 25 years, our taxation system, has been haunted by an 'unholy trinity'. This trinity is (i) presumptive tax regime; (ii) no restriction on unrelated/bogus gifts; and (iii) exemption/perpetual immunity for remittance from abroad as laid down under Section 111(4) of the Income Tax Ordinance, 2001 (Ordinance). This 'unholy trinity' has spoilt the substance of our taxation system.

In the following paragraphs, this writer will explain that unless we finish that 'unholy trinity' there cannot be any meaningful improvement in direct tax culture in Pakistan. A substantial part of stakeholders in our taxation system, being tax officers, tax advisors, businessmen, bureaucrats, politicians, generals, etc., are directly or indirectly, expressly or by implication, beneficiaries of this 'unholy trinity'.

Let us first understand the system and the way it works. Direct taxes mean that all incomes above a certain threshold be taxed on net-income basis being 'receipts less expenses'. Incomes not receipts are taxable; not any amount deemed or considered as income. If it is so, then it can be said that there is a 'tax law' in Pakistan but not 'income' tax law.

At the outset, it would be advantageous for readers, not directly involved in taxation law, to understand the concept of presumptive taxation, taxation of gifts, and exemption/immunity under section 111(4) of the Ordinance.

Presumptive taxation

Presumptive tax is one of the unique taxation systems in Pakistan. It is one of the most absurd concepts introduced in the taxation law in any civilized society. In short, under this regime, direct taxation system is totally ignored. In this case, 'income' is not taxed, but the value of import, value of supply, gross receipts, gross commission or sums received on export proceeds, etc. are taxed as 'income' under the presumptive income tax law as is in force. For example, if someone imports a product with a value equivalent to Rs 100,the tax liability is not on the profit/loss made on that transaction but 5 or 6 percent of the value of import. Here value of import is deemed as income. Same is the case with all other sources subject to presumptive taxation system. This system was very rightly challenged in the Supreme Court, and a bench headed by Justice Ajmal Mian in the case of Elahi Cotton Mills Limited upheld the validity of this provision. This, in this writer's view, is the strangest decision on the taxation matter anywhere in the world if the same is read with the Constitution of Pakistan. One may place the case of Elahi Cotton Mills at par with the Maulvi Tamizuddin Khan's case. This is the foundation for the destruction of tax system, as the latter was for democracy. There is an urgent need to issue another judgement, where the earlier judgement is overridden if legally possible. Leaving aside the legal aspect, the commercial effects of presumptive tax system are:

(i) 'Books of account' are not required to be maintained as tax liability is not determined on net income basis;

(ii) There is no need for taxpayer to keep record of expenses as there is no concept of admissibility of expense against income. This encourages payment of expenses out of books. For example, there is no need for exporter to keep record of wages and advertising, etc.; and

(iii) There is no relationship between the 'wealth' of the taxpayer and income tax return as tax liability figure has no relation with income in real sense.

These three actions, which are socio-commercial sins and have effectively been introduced with a purpose, have abolished accounting and book keeping from Pakistani businesses. We do not completely and comprehensively understand the effects of this original sin. Since this crime was committed in the 1990s; therefore, the new generation of taxpayers and tax officers, who emerged after that time, have no idea about the relationship of books of account and tax liability. This is free for all system. It is completely inflationary in character as tax liability is added to the cost of product as the same is based on gross receipt. As a student of taxation, this writer has not seen a bigger crime than this on policy side. All those persons who support this system, for various reasons, are not sincere with this country's economy and its people. Prior to the 2001 Ordinance, there was some concept of imputed income in relation to presumptive income and there was a provision under section 80C(5) of

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Repealed Income Tax Ordinance, 1979. In the 2001 Ordinance that lame excuse was also abolished.

The ultimate effect of presumptive taxation is that there is no official record of wealth actually made by the person. In other words, assets created out of such income are undocumented and the trail for the same cannot be identified. As an illustration, sayMr. A, an importer, may have Rs 100,000 or 200,000 as wealth even if he has done one transaction of import. He is not required to disclose how Rs 100,000 or 200,000 has been made. This appears to be a joke in real sense. Very unfortunately, under the pressure of trading lobbies (presumptive tax is essentially for trading transactions and not for local industrial sector), which is the vote bank of political parties and also the support of dictators, this joke continues to exist in our law. In fact, in each budget, we increase the 'income' subject to presumptive regime because policymakers have an incomplete idea or vested interest with respect to main issues identified above.

Gifts

The second sin is the non-taxability of gifts. In Pakistan, there is no bar on receipt of gift even from unrelated persons. This is called 'bogus gifts'. Mr A can receive gift from Mr B, for an unlimited amount, even though both are completely unrelated.

In the past, there used to be a Gift Tax. This was abolished for vested interest. Then there was a general perception, which was wrong, that gift can only be made on account of natural love and affection. That perception would have limited the gift to 'family' and on account of natural love and affection. That perception was also dispelled, rightly so, as there was no legal sanctity to the same.

We then made a law that in case, if a gift is made by a person in 'cash' then a person should have a National Tax Number (NTN). Whilst doing so, we, intentionally or unintentionally, ignored that a non-resident person can make a gift and there is no possibility or requirement for such person to have an NTN. That law killed the whole objective if the cash gift is from a non-resident person. A window for corruption has been kept open. In the following paragraphs, this writer will relate the foreign gifts to explain the other parts of unholy trinity.

Now, a regular practice is to 'gift' the wealth accumulated through untaxed sources or that sourced through presumptive sources to persons other than taxpayers or taxpayers having a low tax base and persons not expected to be scrutinized.

Our cultural standards are quite similar to India's, which was facing the same problems and despite that fact that they have not made jokes like presumptive taxation, gifts were limited to Rs 25,000 and to family on account of natural love and affection only after 2012. Other gifts are treated as taxable transactions. That provision was challenged but not maintained by superior courts. So in India, the avenue/ window of gift is closed. As per recent report in press, around Rs 100 billion is shown as sources from gifts in returns of income filed by Pakistanis. This represents the sum shown in the returns filed. Gifts between people who do not file return of income are not included. This shows that a very huge sum is maneuvered as gift. In short, bogus gift is a legal mean to park untaxed, evaded wealth.

Immunity from tax

This part of the trinity is perpetual exemption/immunity from tax for foreign remittances under section 111(4) of the Ordinance. Under this provision, an amount received from abroad through banking channel is immune from tax. This is not an 'exemption'. Exemption can be examined by a tax officer. There can be an enquiry about any amount claimed as exempt. Immunity is actually a kind of 'amnesty'. This is perpetual amnesty. Under the law, no tax authority has the right to ask the source from where and from whom such amount has been received. In short, if only one condition being 'that the amount has been received from abroad through banking channel' then such amount become immune from any enquiry about sources and the sum so received becomes a part of wealth equivalent to the taxed wealth. This is a wrong, absurd, discriminatory, illogical, ethically and morally incorrect and corrupt piece of legislation ever introduced in any country. This is an intellectual crime. This legislation is essentially a continuation of the Foreign Exchange Bearer Certificate (FEBC) scheme that was in vogue before the provisions of section 111(4) of the Ordinance or other provisions of similar character. In Pakistan, we keep one window open for corruption.

In simple terms, this provision means that if anybody can maintain availability of funds from abroad then no question can be asked. Our primary objection is not about the exemption from tax for the amount so received. The primary intellectual corruption is immunity from the sources from which such amounts have been received. We are unable to understand about the rationale of lack of right of enquiry. The underlying restriction reflects the criminal intent of providing immunity to transfer of tax evaded wealth to tax haven and then sent back to Pakistan. We all love the UAE being a tax treaty haven. It is only one hour forty minutes flight with around 10 flights going daily. A very large number of our businessmen and politicians also maintain 'Iqamas' for easy travel. So in the name of poor worker remittance, a whole permanent window has been opened to launder tax evaded money through section 111(4) of the Ordinance.

In order to understand section 111(4) of the Ordinance, there should be proper understanding of the prevalent foreign exchange law in Pakistan. Under the Pakistan law, there is effective free exchange for natural persons not being corporate bodies. Such persons can acquire foreign currency from 'open market' by payment in Pakistani rupees, keep them in their foreign currency accounts in Pakistan and remit the same without any involvement of the Central Bank. This is an accepted and legally valid law. There is no confusion on this matter. This writer has discussed all these matters in my earlier articles in this paper by the name of 'Panama Leaks - a blessing in disguise'. Also printed as a book. In summary, if someone has Pakistani Rupee then the same may be sent outside Pakistan without any involvement of the central bank. This is in addition to 'hawala transactions' which is quite difficult to be unearthed and to be brought within the ambit of foreign exchange regulations. Let us admit that we have not done, intentionally or unintentionally, homework to understand 'hawala' and decide how to handle it. It is important to appreciate that such transactions can only be undertaken in big numbers and only in the jurisdictions where there is relaxed tax, corporate, legal and foreign exchange system. One such jurisdiction is only one hour forty minutes away and 'iqamas' are easily available. In short, there are easy ways to send funds out of Pakistan. If we read section 111(4) of the Ordinance with foreign exchange law provisions then it means that same funds can be brought back to Pakistan being immune from all enquiries. Totally kosher money. It is estimated that at least USD 500 million are transferred out of Pakistan which are brought back into Pakistan under section 111(4) of the Ordinance. It is important that such sum should not be measured as the amounts which are declared in the returns filed. It is mostly used to finance untaxed assets, such as real estate and commodity trade being undocumented sector.

The fundamental question which every ordinary student of taxation will ask is whether or not Pakistan's fiscal system can work with this 'unholy trinity'. I had been saying that every sensible businessman, politician, advisor, etc., is aware of this 'unholy trinity'. However, there is no voice against the same. We may be the beneficiaries. Nevertheless, after FATCA and the Common Reporting Standards, the world is changing. We would have to do away with these absurdities.

If we further analyze the matter, we identify that all this intellectual corruption started after 1979, being the Soviet invasion in Afghanistan. A new model was designed, where funds were moved from some places to Pakistan to fight a war. That war has ended. Enemy has changed; however, the Pakistani elite has been taught a lesson that this country is for earning money only. There are legal and valid methods not to pay taxes and park the assets in and outside Pakistan without any fear or enquiry. In other words, Pakistan on account of this 'unholy trinity' is the tax haven for all. A correct model is to be developed now.

We can always give very detailed solution to confuse the matter. I would try to give very simple and practical solutions.

(i) All kinds of presumptive taxes be abolished. In case, if there has to be a policy of no taxation then such industry be taxed at zero rate like exports in India and Bangladesh, however, subject to declaration of income computed on net income basis;

(ii) Provisions relating to 'gifts' should be amended in line with the changes introduced in India;

(iii) Foreign Currency Accounts should be allowed to be maintained by a person who is an NTN holder; and

(iv) Immunity under section 111(4) of the Ordinance be limited to an amount equivalent to USD 5,000 only. For all other transactions, there should be a requirement to disclose the sources and addresses of the remitter.

2. The aforesaid matter apparently looks very simple. However, this represents life and death for our taxation system. Unless and until we break this 'unholy trinity', we cannot achieve any meaningful results.

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Can CPEC weather Pakistan's political storm?

Afshan Subohi

In a highly partisan political environment, China reiterated its neutrality towards the internal affairs of the country by stating its resolve to abide by 'a strategic cooperative partnership with Pakistan'.

Despite this stance the momentum of the CPEC initiative seems to have been compromised over the last two months.

Senior officials in Islamabad, who coordinate with the Chinese side for the CPEC, informed Dawn that the political crisis did hamper the pace of progress, particularly on projects in the pipeline.

"Yes, the divide blurs the line between civil and military leaders as Generals vow to secure and support CPEC related project as much, if not more, than civil political leaders.

"This unity of opinion is not enough. For CPEC to stay on course a conducive investment environment is absolutely necessary", commented a business leader who wished anonymity.

A statement on the subject mailed to Dawn by the Chinese Embassy reads, "It hopes that all parties and sections in Pakistan can prioritise state and national interests, properly deal with their domestic affairs, maintain unity and stability and keep focusing on economic and social development.

"The all-weather friendship between China and Pakistan has withstood the test of time. We believe that the China-Pakistan strategic cooperative partnership will not be affected by the change in the situation inside Pakistan.

"China stands ready to work with Pakistan to continue jointly building the Belt and the Road and build a community of a shared future, which serves the fundamental interests of the two countries and peoples and promotes peace and development in the region and beyond".

Prime Minister Khaqan Abbasi, in his very first speech on the floor of the house after his election, mentioned his intent to fasten the pace of progress on CPEC related projects.

Dr Nadeem Javed, Chief Economist, Planning Commission, admitted the comparative slow down but insisted that the fortnightly coordination committee on the CPEC meets regularly.

The said body is attended by related departments and ministries. It tracks and monitors progress and provides a forum to unwind bureaucratic knots.

"How can anyone deny that happenings of the past two months distracted the government's attention from the economy and compromised its effectiveness? Yes we could have covered more ground had we been able to handle the situation better.

"There were exchanges and two-way travelling by relevant ministers and officials over the past two months but the private sector, particularly in Pakistan, withdrew into its shell, citing uncertainty" he said.

He saw harmony and enthusiasm in state level interaction but was not happy with the level of interest in the private sector. "The reluctance of local investors is hard to digest. Their attitude might change as plans of nine special economic zones start materialising", he said.

"The CPEC is a large package of Chinese investment projects with the potential to transform Pakistan's economy by relieving supply-side constraints to growth through investment in power generation and transport infrastructure.

"If implemented as planned, the CPEC would lift Pakistan's potential GDP growth significantly and catalyse higher private-sector investments and exports.

"However, security-related issues and Pakistan's weak track record of public project implementation suggests that the pace of execution will be relatively slow.

"Moving forward, continued support for the CPEC project across all branches of government will be critical to its success and full implementation," said Moody's in a current report on the country.

Some business leaders contacted blamed the tilt in policies that suit Chinese investors better.

"The policy framework is unfair towards locals. In their enthusiasm policymakers go the extra mile and roll out the red carpets for foreign investors. However, if we ask for what is our due they play deaf", a business leader retorted.

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"PM Abbasi may claim what he wants but hollow words will not in-still confidence in the private sector.

"The government will need to move decisively towards confidence building measures to motivate local investors", he added.

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Investments fall by 0.68pc

From Inpaper Magazine

According to the weekly statement of position of all scheduled banks for the week ended July 21, deposits and other accounts of all scheduled banks stood at Rs11,761.50bn after a 0.65pc increase over the preceding week's figure of Rs11,685.139bn.

Compared with last year's corresponding figure of Rs10,193.372bn, the current week's figure was higher by 15.38pc.

Deposits and other accounts of all commercial banks stood at Rs11,690.320bn against preceding week's deposits of Rs11,615.648bn, showing a rise of 64.00pc.

Deposits and other accounts of specialised banks stood at Rs71.180bn, higher by 2.43pc against previous week's figure of Rs69.491bn.

Total assets of all scheduled banks stood at Rs16,221.306bn, lower by 0.46pc over preceding week's figure of Rs16,297.169bn. Current week's figure is higher by16.45pc compared to last year's corresponding figure of Rs13,929.290bn.

Borrowings by all scheduled banks decreased in the week under review

Total assets of all commercial banks stood at Rs15,972.423bn, smaller by 0.42pc over previous week's figure of Rs16,040.509bn, while total assets of specialised banks at Rs248.884bn, were lower 3.03pc over the previous week's Rs256.660bn.

Borrowings by all scheduled banks decreased in the week under review.

It fell by 5.64pc to Rs2,371.844bn against previous week's Rs2,513.709bn. Compared to last year's corresponding figure of Rs1,714.914bn, current week's figure is higher by 38.30pc.

Borrowings by commercial banks in the week at Rs2,287.372bn were higher by 5.50pc against previous week's Rs2,420.541bn. Borrowings by specialised banks stood at Rs84.472bn against the previous week's Rs93.167bn.

Investments of all scheduled banks stood at Rs8,026.285bn against preceding week's figure of Rs8,081.760bn, showing a fall of 0.68pc. Compared to last year's corresponding figure of Rs7,080.515bn, current week's figure is higher by 13.35pc.

Investments by all commercial banks stood at Rs7,977.135bn, smaller by 0.70pc against preceding week's figure of Rs8,033.016bn, whereas investment by all specialised banks stood at Rs49.149bn against preceding week's figure of Rs48.744bn.

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The Milky Way

By Tariq Khalique

Pakistan is among those countries, which are facing lack of healthy and nutritional diet, especially in rural areas. Despite tall claims, successive governments have failed to deliver on this front, as one out of every five children lacks basic nutrients, which leads to early deaths.

According to United Nations Food and Agriculture Organization (FAO), malnutrition in Pakistan has reached an alarming proportion, as 24 percent of the population is undernourished, while 37.5 million people lack proper diet, which shows that the country has become a major opportunity for activities regarding Corporate Social Responsibility (CSR).

Several food companies have taken this opportunity as a challenge and have started making efforts to improve the situation by utilising their existing resources in providing essential nutrients in low-cost food products.

Nestle Pakistan, a subsidiary of Switzerland-based Nestle SA, is one of those companies, which has taken the task to provide nutritional diet to the people of Pakistan.

Keeping in mind the sensitivity of the issue, Nestle Pakistan established the largest milk plant of Asia and also the biggest milk reception among Nestle World at Kabirwala in 2007. The company vows to maintain quality and provide farmers with resources to access the market and get a good price for their produce.

With billions of rupees investment, the company achieved the top-line growth of 9.1 percent in 2016 through effective product mix, numeric distribution expansion and investment behind brands. The gross margins also improved 226 basis points on the back of favourable input costs and optimisation of value chain through Nestle Continuous Excellence (NCE) initiatives.

The board of directors also recommended a final cash dividend of Rs170/share, in addition to the interim cash dividend of Rs225/share, bringing the total dividend for the year 2016 to Rs425/share as compared to Rs190/share in 2015.

During the period under review, Nestle Pakistan made investment of Rs4.1 billion in expansion and development projects, including Sheikhupura extension and operational reliability, Kabirwala extension and operational reliability, water factories extension and operational reliability, milk collection infrastructure development and extension of distribution and sales facilities.

The company has planned to invest around Rs6.6 billion in automation, operational reliability and capacity enhancement in order to meet consumer demands in 2017.

During a recent visit to Kabirwala Factory (KBF), which was established in 1983 as Kabirwala Dairy and merged with Nestle in 1990, Muhammad Zafar Iqbal, public relations and security manager and other officials of the company briefed a select group of journalists about the working of the plant and showed various sections of the factory. The delegates took round of the factory and witnessed processing and packaging of the products.

The officials said that the company has enrolled more than 5,000 farmers across 1,500 locations and over 1,250 farmers are being paid Rs4 million in a week. In 2016, around Rs80 million had been distributed among the farmers through Mobile Wallet, a service introduced by the company to facilitate small farmers through banking channels.

Likewise, Nestle Pakistan has launched mobile milk management system, a step forward in the digitalisation, as it allows for integration of data entry, collection and data checks in an efficient manner over a shorter and real time against the weekly basis used earlier.

According to the company's annual audited report for 2016, Nestle Pakistan accelerated its manufacturing excellence by striving towards "Going for Zero Loss". Last year, the Kabirwala Factory started implementation of NCE Advanced Practices. Several new projects were completed in the factory premises, which not only help provide good quality milk to the people, but also contributed significantly to the business. KBF obtained ISO 17025, FSSC 22000 and halal recertification during 2016 for delivering best quality products. Safe operations remain the hallmark of the factory, as it achieved the key milestone of 10 million safe man hours in the same year.

Every year, KBF conducts many employee engagement activities. To strengthen gender inclusive culture, special focus was given to facilitate women employees by

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setting up a women forum, a dedicated block and establishment of a day care centre. The factory also has water filtration plants and vocational training centre for women at its premises.

Under its parent company's global philosophy, Nestle Pakistan strives to maintain its commitment to excellence in product safety, quality and services. The company has served the country in times of need such as after the earthquake in 2005 and digging wells in the Thar desert.

Nestle believes in nutrition, health and wellness, and it is endeavouring to enhance the quality of people's lives by offering tastier and healthier food and beverages.

The writer is a staff member

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Opportunity or obligation

By Ihtasham ul Haque

Economic challenges have grown bigger after the Panama papers verdict. The incumbent Prime Minister Shahid Khaqan Abbasi has given his vision to pursue both the reform agenda and continuity in policies with increased emphasis on broadening the narrow tax base - a pledge that may antagonise him with the business community that is already resisting the prevalent economic policies.

In his brief speech made immediately after winning the vote of confidence in the National Assembly last week, the new prime minister, whether for 45 days or the remaining nine months of the current PML-N tenure, said taxes will be recovered from all the potential tax payers.

No doubt Abbasi, who is considered one of the economic heavyweights in the government, looked determined when said he would not be compassionate and the taxation issue was close to his heart without which, he believed, the state cannot function nor any development take place. Nevertheless, he is understood to be facing vicious opposition from the business community largely the traders as was the case with finance minister Ishaq Dar.

This happened for the first time that the third PML-N government experienced tough criticism from the business community that was otherwise on the forefront to bring former prime minister Nawaz Sharif into power. Moreover, with the passage of time, differences between the government and the business community widened over various issues including the filing of tax returns that ultimately brought infamous withholding tax more vocally in the new budget.

Things began to get sour when the government introduced harsher methods to enforce tax laws particularly against non-filers, and elaborately taxed the real estate sector.

Ishar Dar has again named as the finance minister in the new cabinet. Now it is to be seen how strictly Dar takes up his job and implements the taxation policy.

There is an emerging view that the economy has suffered another political uncertainty following the ouster of the prime minister by the Supreme Court. International credit rating agencies including Moody's Investor Services are not assessing the current situation in Pakistan, favourably. Their assessment is not conclusive but they do warn that this could lead to downgrading of Pakistan's current credit rating.

"If heightened political uncertainty and strife among various branches of government disrupt the administration's economic and fiscal agenda, macroeconomic stability and the government's access to external finance could be impaired, weighing on Pakistan's credit rating profile," Moody's Investor Services said last week. It suggested that Pakistan faces problems in obtaining foreign inflows and that the existing political uncertainty must go to implement the economic agenda jointly proposed by both the government and the international financial institutions (IFIs).

The assessment of the New York-based credit rating agency, which is often followed by other such agencies, had affirmed Pakistan's B3 rating and maintained a stable outlook in July this year with important caveats, "any material widening of fiscal deficit, renewed weakening of the external payments position, loss of multilateral/bilateral financial support, or significant escalation in political tensions would also weigh on Pakistan's credit profile".

Sadly, the Federal Board of Revenue (FBR) has continuously fallen short of its ambitious collection aims, and successive governments failed to achieve annual targets after offering relief to various sections of the society.

FBR chairman Tariq Bajwa admitted the other day that the government missed its 2016-17 revenue collection target due to extending Rs170 billion worth of tax concessions. This was the reason, he said, the FBR collected Rs3.362 trillion by June 30 this year against the collection target of Rs3.621 trillion; a shortfall of Rs259 billion. He told the Senate Standing Committee on Finance that the FBR took a hit of Rs111 billion due to the government's decision to not increase the prices of petroleum products. The government also offered Rs16.5 billion relief by reducing sales tax on fertiliser, Rs11.5 billion relief to the former prime minister's textile package, Rs28 billion relief due to zero-rating of five export-oriented sectors and Rs2.7 billion relief to pesticides.

Interestingly, Bajwa said 'no' when the senators questioned him whether the finance ministry considered negative implications of Rs170 billion tax relief while revising downward the tax

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collection target to Rs3.521 trillion. But he did concede that FBR revenue collection target of Rs3.362 trillion was higher by 8 percent over the collection made during the preceding year.

Officials of the FBR invariably accept that the revenue collection through controversial withholding tax regime, though is automatic, it is not collected efficiently because of not having a better monitoring system.

Part of the problem is that no civil or military government devised any coherent tax policy for the corporatisation of businesses to achieve improved economic growth. Since no effort was made in the past to tax all segments of the society particularly by discouraging the informal economy and fixed revenue collection, targets were never achieved.

Tax net cannot be broadened without offering a better investment climate and fair governance.

There is no denying the fact that the third PML-N government got tough against its own favoured business community, whose leaders had always helped Nawaz Sharif come into power, by cracking down on tax evaders and no tax filers. This greatly irked the Federation of Pakistan Chambers of Commerce and Industry and its outfits. Those who thought that the new administration of Prime Minister Abbasi would change the stance, were disappointed when they heard him saying in the parliament that taxation would be his foremost priority.

Over the years, the country's revenues and debt, especially external debt, remained two key challenges that could not be met adequately while declining exports also became a big hurdle to manage any potential growth needed to turnaround the struggling economy.

The PML-N government obtained $35 billion worth of loans in the last four years, including $10 billion for repaying the old debt and the remaining to bolster fragile exchange reserves standing at $16 billion, excluding $5 billion of the commercial banks.

Does the new prime minister have any plan to increase exports which came down to $20 billion and are just 6.7 percent of the total size of the economy? How would he manage $12.1 billion current account deficit? Is there any new strategy to increase foreign direct investment? Is it true that current tax incentives are not enough to lure FDI?

Foreign investors, it is generally observed, are shy of investing because of not having transparent and consistent policies and because of decaying infrastructure and energy shortages in terms of cost of doing businesses; also proposed by the World Bank. The issue gets compounded when the foreign investors seek arbitration for settling disputes in the international court and similar other forums. There are said to be many disputes worth $5-8 billion in various international dispute resolution courts.

On top of all this, the government's efforts become zero when there is no effective mechanism to curb mounting corruption, which $4-5 billion a year in Pakistan.

The list of challenges is pretty long and requires consensus among all the political players for plausible success. Perhaps a new Charter of Economy (COE), as proposed by finance minister Dar on the pattern of Charter of Democracy (COD) can be made. The economy is suffering due to the indifference of all the political players, and this demands attention of all, including the military establishment and the superior judiciary.

This also requires preparing irreversible long term policies that implemented robustly with strong political will to attract local and foreign investors for transforming key economic indicators. The job could be supervised by a board, comprising official and unofficial experts who should be honest, dedicated and well versed in the subject. Once this is done, there will be real economic turnaround.

The writer is a senior journalist based in Islamabad

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Development potential

By Wencai Zhang

Since it was launched 16 years ago, the Central Asia Regional Economic Cooperation (CAREC) programme has built a strong track record in promoting economic cooperation across its member countries.

CAREC has financed more than 176 projects worth nearly $30 billion in four core strategic sectors: transport, energy, trade facilitation, and trade policy. It has made significant progress on many fronts. But much more remains to be done, for instance on tapping new areas of cooperation like tourism, agriculture, information and communications technology, and finance.

That's why member countries agreed last year to create a new long-term strategy to respond to the rapidly changing global and regional landscape, address existing and emerging challenges, complement ongoing national plans, and better connect policies, projects, and people for shared prosperity and sustainable development.

The new strategy is an important milestone and a collective opportunity to unleash the potential of regional cooperation for Central Asia.

It's also an opportunity for CAREC member countries and development partners to think about how to make CAREC more effective, and how to mobilise more support from stakeholders, including the private sector.

Among the main obstacles are lack of economic diversification and concentration of exports on a narrow range of markets and products, which have made CAREC countries highly vulnerable to fluctuations in oil and commodity prices. Several countries' financial balance sheets have suffered from the steep decline in energy prices in recent years. Many economies in the region have also faced growth constraints due to their landlocked location.

For countries in Central Asia to become resilient against such external shocks, it's time to double down on efforts to bolster economic stability, promote structural reforms to diversify economies, and enhance connectivity with other economies.

CAREC is a platform for its member countries to conduct dialogue on policies and actions to tackle these challenges.

Talking to and coordinating among each other will help CAREC countries formulate the economic policies for reform, development, and cooperation. It will also help to establish the right macro prudential policies, early warning systems, and countercyclical measures that can prevent or mitigate the impact of economic and financial crises.

Infrastructure to drive trade

CAREC should continue to support infrastructure development in its member countries. Infrastructure investments generate growth, support economic diversification, and help create an enabling environment for private sector-led development.

There is also an urgent need to boost trade to create business and employment opportunities in Central Asia, where intraregional trade accounted for only 6.5 percent of total trade in the region in 2015. The main problem is production structures that are too alike, and don't complement each other.

Lack of trade openness is another major concern. CAREC member countries need to develop more tradable goods and services, enhance trade facilitation, and promote financial cooperation. Building value chains among members is a top priority of the future economic cooperation and integration.

Infrastructure and trade go hand in hand. Building, upgrading, and maintaining regional infrastructure will boost intra-regional trade and investment as well as transit trade along the transport corridors.

The goal is to move beyond transport corridors into trade corridors and ultimately to economic corridors that involve many countries and sectors.

The strategy will also provide a platform for member countries to launch regional initiatives that complement national actions in support of achievements of the Sustainable Development Goals and implementation of the 2015 Paris Agreement on climate change.

To move the strategy forward, CAREC will build effective linkages and synergies with other regional cooperation frameworks and mechanisms. These include the Belt and Road Initiative, the Partnership for Quality Infrastructure, the Eurasian Economic Union, Shanghai Cooperation Organization, and the Economic Cooperation Organization, among others.

As a regional development bank, ADB has a clear mandate to promote regional economic cooperation. We are keen to work with other development partners in this respect.

CAREC can be a vehicle for future prosperity in a region full of promise. The new strategy is a key step in that journey.

The writer is vice president of the Asian Development Bank

THE NEWS
Monday, 7th August, 2017

Problems and promises

By Zeeshan Haider

After inglorious exit of Nawaz Sharif from the prime minister house, Shahid Khaqan Abbasi has become stopgap prime minister to pave the way for Shahbaz Sharif to eventually take over the reins of power in Islamabad.

Though there are speculations that Abbasi might stay on as prime minister until general elections due next year as younger Sharif was being advised to stay put in Punjab, party's power base, the new prime minister says he is standing in for 45 days as decided by the party leadership.

In his maiden speech in the National Assembly as prime minister, the new prime minister mainly focused on the political situation in the country and repeatedly expressed his loyalty with his ousted predecessor.

However, he unveiled an ambitious agenda which he says he wants to deliver before he relinquishes power.

"I am prime minister of the country and I have not come here to warm the seat but I am here to work," said the lawmaker, who remained loyal to Sharif throughout his 30-year political career.

It is heartening to see him putting economy on the top of his priority list and said he wants to see tax base of the country expanded.

He referred to the latest parliamentarians' tax directory which showed that the lifestyle of the politicians is not in conformity with the taxes paid by them.

Interestingly, this matter was also highlighted in the Supreme Court verdict on Panama Papers case in which judges found the ousted prime minister and his children living beyond their known means.

The new prime minister said agriculture sector, which is the backbone of the national economy, is also one of his main priorities and promised that he would do his utmost to solve the problems faced by this vital sector.

Abbasi frankly admitted that the government could not provide jobs and it has to rely on the private sector to come forward and provide jobs to unemployed youth. In this regard, he expressed confidence that the China-Pakistan Economic Corridor (CPEC) would play an important role in addressing this problem.

Whatever the new prime minister has said is well-meaning and must be appreciated, but the million dollar question is can he deliver what he has promised.

Abbasi himself showed his limitations by saying that his agenda is subject to the approval of the cabinet and the parliament.

Secondly, how can the prime minister deliver on such big promises in less than a year at a time when the party is facing formidable challenges, while his predecessor could not do so in the first four years of his tenure?

Some of the issues, like expansion of tax base, are difficult and politically risky. At the time when the government is heading towards elections and facing tremendous pressure, how can it take politically risky initiatives?

The smooth transition of power after the Supreme Court verdict ensures continuation of the democratic process in the country but such changes in countries like Pakistan, where democratic institutions are weak; do add to political uncertainty which is not good for the economy.

Alarm bells were being rung for the economy for quite some time, and the recent political uncertainty triggered by the ouster of the prime minister has only exacerbated the situation.

Though the new prime minister has assured that the policies made during Nawaz Sharif government would continue and re-appointment of Ishaq Dar as finance minister in the new cabinet is a clear indication to that, the fears about political stability refuse to die down.

These concerns were highlighted by Moody's credit rating agency by saying that Sharif's disqualification could pose risk to continuity of policies.

It warned that heightened political uncertainty and strife among various branches of government could disrupt economic and fiscal agenda, macroeconomic stability and the government's access to external finance which ultimately could weigh on the country's credit profile.

Just last month, the New York-based agency affirmed B3 issuer for Pakistan and maintained a stable outlook for the country. The affirmation was based on the back of robust medium-term growth prospects supported by CPEC as well as the continuation of macro stability-enhancing reforms started under the IMF's three-year Extended Fund Facility programme that ended last year.

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"His (Sharif's) ouster now could trigger another period of political instability, undermining Pakistan's ability to address pressing domestic economic challenges, bolster investor confidence and attract external financial support from official creditors and donors," Moody's said.

Over the past four years, the government reduced the fiscal deficit, introduced more rigorous inflation management, and rebuilt foreign exchange reserves.

However recently, the Moody's says fiscal consolidation has slowed, reserves have declined anew, and external pressures have started to build.

"Continued government commitment to policies that preserve macroeconomic stability gains and advance fiscal consolidation would limit future widening of the twin deficits, supporting Pakistan's creditworthiness. Conversely, slippage from such commitments would exert negative pressure on the credit profile."

The rating agency said the CPEC, if implemented as planned could lift the country's potential GDP growth significantly and catalyze private sector investments and exports but it expressed apprehensions that the implementation of CPEC project could slow down because of political uncertainty.

"Moving forward, continued support for the CPEC project across all branches of government will be critical to its success and full implementation," said Moody's.

CPEC is critical to the economic development of the country and it is heartening to see the new prime minister assuring the Chinese ambassador Sun Weidong that he would ensure implementation of the economic corridor as planned and personally supervise the speedy completion of projects.

The other main challenges for Abbasi's government are fast declining exports and rising current account deficit because of increasing imports.

The government leaders attribute the rise in external deficit to import of machinery for the CPEC, hoping that this concern would be properly addressed once projects under CPEC become functional.

However, analysts say the government needs to address other problems of the exporters like energy crisis, high cost of electricity, return of sales tax, high exchange rate, etc.

Realistically speaking, questions are being raised that whether the government would be able to address even some of these concerns in just ten months or so.

The spiralling circular debt is another big challenge for Abbasi's government. Many analysts fear that the PML-N government would leave a higher circular debt for its successor; much more than it inherited from its predecessor.

The new prime minister has been a key member of Nawaz Sharif government and has been well aware of the economic challenges faced by the country. His performance, particularly on the economic front, would come under increased scrutiny in the coming weeks and months.

The writing is a senior journalist based in Islamabad

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The Nation
Monday, 7th August, 2017

High production cost hitting exports

INP

FAISALABAD - Faisalabad Chamber of Commerce & Industry (FCCI) President Engineer Muhammad Saeed has said the increase in cost of production is the major cause of decline in exports.

“Now, we have been left with only option to restrict our export related activities and focus only on the domestic markets to survive in this changed environment,” he said while addressing a meeting of traders belonging to different groups of ‘Anjuman Tajran’ in addition to the representatives of auto parts, food, confectionery, instalments, flour mills, power looms and sizing etc. He said that FCCI is an apolitical organisation of traders, industrialists and businessmen belonging to this third largest city of the country. “We are fighting for their rights, in addition to playing our fundamental role as bridge between the government and business community,” he said.

Commenting on the prevailing economic situation, he said, “It is the outcome of the policies of previous governments who bitterly failed to resolve the problems confronted by the business community.” He said that Pakistan had faced worst ever energy crisis during former president Zardari regime. “No doubt, Nawaz Sharif government ensured continuous supply of electricity and gas but the price escalation in its price made our exportable surplus uncompetitive in the International markets”, he added.

He was also critical of the difference in gas price within the country as the industrialists from Punjab are getting gas at the rate of Rs1000 per MMBTU whereas, the same gas was available in Sindh at the rate of Rs600 MMBTU.

He also expresses concern on what he termed ‘unilateral decision-making’ by the government and alleged that the worker’s salaries were increased without consulting the real stakeholders. He said that apparently increase of Rs1000 in salary was negligible but its overall impact was unbearable for the industrialists that were passing through a deep crisis from the last many years.

He proposed that instead of increasing salaries of industrial workers, the government should provide subsidy to the workers to fulfil their basic and fundamental needs. He said that the time has proved beyond any doubt that increase in agricultural commodities and salaries of workers have further increased inflation and poverty. Hence, the government should consult the stakeholders and carve out practicable policies through which the objectives of industrial growth could be achieved in addition to providing relief and succour to the industrial workers.

The FCCI president said that political instability has further aggravated the economic situation in the country. After the disqualification of Nawaz Sharif a deep rooted conspiracy is being hatched to eliminate the entire political leadership that could save Pakistan from complete annihilation. He said, “We must create consensus and make collaborated efforts to foil the nefarious designs of anti Pakistan elements.” FCCI Senior Vice President Rana Sikandar-e-Azam and FCCI Vice President Engineer Ahmed Hasan also addressed the meeting and assured to resolve the problems confronted by the business community of Faisalabad.

The Nation on Web
The Nation
Monday, 7th August, 2017

Circular debt a threat to economy: ICST

INP

ISLAMABAD - Islamabad Chamber of Small Traders on Sunday asked the government to resolve the issue of circular debt which has swelled to Rs800 billion, posing serious threat to the economy. Currently, the government is focusing on LNG which is cheaper than the hydel power but open to fluctuation in the international market, said Patron Islamabad Chamber of Small Traders Shahid Rasheed Butt.

He said that government should pay proper attention to the hydel power projects that generate cheap electricity and it is immune from external shocks.

Shahid Rasheed Butt said that power plants using imported fuel generate costly electricity while fluctuations in the oil prices result in miseries of the masses.

The energy sector has become dysfunctional because of the apathy of the successive governments while the PML-N leadership claimed to bury circular debt when it came to power, he added.

He said that energy crisis in Pakistan is a result of decades of indifference and it cannot be resolved anytime soon and it will continue to damage masses and the economy.

He said that dysfunctional power sector continues to deprive 35 percent of the population of grid electricity while the 65 percent have been facing load-shedding.

Pakistan fulfils 32 percent of energy demand through imported oil which is the biggest hurdle in the ample power generation while the circular debt continues to push away the investors.

He said that power transmission and distribution system has developed irreparable faults and at many places it as old as the country is, adding that the power sector is a classic example of the bad governance.