BUSINESS
RECORDER
Monday, 24th April, 2017

CCI to discuss loadshedding, other issues

MUSHTAQ GHUMMAN

ISLMABAD: The government has convened a meeting of Council of Common Interests (CCI) on April 28, 2017 which is expected to be stormy on some issues like amendment in Nepra Act, alleged short supply of gas to Sindh and electricity load shedding etc, informed sources told this correspondent.

To be presided over by Prime Minister Nawaz Sharif, Chief Ministers of Punjab, Khyber Pakhtunkhwaha, Sindh, Balochistan, Gilgt Baltistan and Governor KPK will also attend the long awaited meeting.

The provincial governments have already sent their comments on proposed amendments in the Nepra Act. At least two provinces, Sindh and KP are opposed to any alteration in the Nepra Act aimed at clipping the wings of the regulator, saying that any such move would compromise the independence of the regulator. Balochistan is also in favour of a sovereign regulator. Saif Ullah Chatha who recently retired as Chief Secretary Balochistan after reaching age of superannuation is representing Punjab in Nepra.

Ministry of Water and Power had tailored amendment in Nepra Act but used the name of Cabinet Division. The main purpose of amendments is to clip wings of Nepra by making it mandatory to implement government instructions. Another key proposal is appointment of power sector experts as Members instead of politically favoured retired officers.

The Punjab government has reportedly severe issues with the regulator including delay in determination of generation tariffs and creating " illegal" hurdles. Prime Minister Nawaz Sharif and Chief Minister Punjab have criticised Nepra at public gatherings.

On March 16, 2016, Punjab government, in a letter to Water and Power Ministry accused Nepra saying of deficient performance: "Nepra's performance in providing timely tariffs, particularly for RLNG and solar power plants, has been deficient. The unavailability of realistic market based upfront tariffs has severely affected government's efforts for establishment of new power plants".

However, power sector analysts argue that Nepra is a " semi" autonomous body and following government policy directives issued from time to time, and should not be punished for not exactly doing what the government wants. Cabinet Division has not shared the draft of proposed amendments with the regulator so far.

Punjab government has also accused Nepra of not lowering transmission and distribution losses to realistic levels for each Disco which has led to accumulation of circular debt and financial losses in the power sector.

"Regulator is custodian of this Act for last so many years. It's a pity that draft document has not been shared with the regulator for meaningful input on proposed amendments," said one the power sector analysts.

Nepra maintains that if proposed amendments are approved by the CCI, it will destroy the independence of the regulator.

According to sources, both Ministry of Water and Power and Nepra have also tried their best to get multilaterals to support their respective point of view.

It has been noted that Nepra representatives who attend different meetings are not allowed to defend the decisions and actions of the regulator.

KPK government has complained of not being supplied electricity in accordance with due quota and not extending help in recovery of chronic dues, nabbing electricity and gas stealers. These issues will also be discussed in the CCI meeting in detail. Chief Minister KPK has already raised these issues at different fora besides holding meetings with the Ministers for Water and Power and for Petroleum and Natural Resources.

Chief Minister Sindh Syed Murad Ali Shah who recently threatened to disconnect gas supply to Punjab and take over the offices of Sui Southern Gas Company Limited (SSGCL) due to reduced supply of gas to the province and Nooriabad power plant which is meant to supply power to KE is also expected to raise issues regarding delayed release of

BUSINESS
RECORDER
Monday, 24th April, 2017

water to Sindh due to which sowing of crops suffered.

When contacted Chairman Board of Investment (BoI), Dr Miftah Ismail said that Gas Supply Agreement (GSA) has been signed between the project administration and SSGC according to which 20 MMCFD gas will be supplied to the plant. The plant will start getting one or two MMCFD gas from Monday (today) during trial period. The contract is signed on previous conditions and project sponsors have extended Rs 1 billion guarantee to the gas company he revealed.

Ministry of Water and Power, sources said, will take up the issue of recovery from Sindh in addition to electricity theft. Federal Government recently wrote off Rs 50 billion to Sindh Government with the blessings of former Secretary Water and Power, Younus Dagha, despite resistance from other officials of the Ministry who thought the decision constitutes an extraordinary favour to one province. However, former Secretary Water and Power argued that Discos' billing was not appropriate.

BUSINESS
RECORDER
Monday, 24th April, 2017

Power sector faces severe financial issues

ISLAMABAD: The country's power sector is reportedly facing severe financial issues due to commercial loans of Rs 335 billion raised by the Water and Power Ministry from banks in the name of Discos without prior consultation with them, well informed sources told Business Recorder.

Ministry of Water and Power raised hundreds of billions of rupees from banks from time to time and parked these on the books of Power Holding Private Limited (PHPL); Water and Power Ministry is now raising loans from banks to pay interest on the loans.

One of the Discos' Islamabad Electric Power Company (Iesco) recently approached Central Power Purchasing Agency- Guaranteed (CPP-G) and refused to pay cost of loans raised by the government on its behalf after the company's Board took the management to task.

Iesco claims that its share of total loans after latest revisions as per GoP instructions was as follows: Rs 34.340 billion (principal outstanding) and Rs 7.716 billion mark-up on that loans up to June 30, 2016.

On the first allocation of such type of loan in 2012, (Rs 4.3 billion Iesco portion out of a total loan of Rs 136 billion), Iesco had added this in its tariff petition for 2012-13. However, it was disallowed by National Electric Power Regulatory Authority (Nepra) in its tariff determination. The regulator again rejected Iesco's plea in its tariff petition for 2013-14.

The company further revealed CPPA-G that during Iesco's statutory audit 2014-15 the matter remained an important issue between the statutory auditors and Iesco's management/ Board of Directors(BoD) and it was agreed that Iesco will seek a legal opinion from a prominent law firm regarding treatment of these loans in Iesco's banks accounts.

In order to avoid audit qualifications, Iesco obtained a legal opinion from ORR DIGNAM&Co advocates as required by the statutory auditors.

Iesco in its latest tariff petition has proposed to Nepra that Fuel Component (FC) surcharge levied@ Rs 0.43/ Kwh effective from June 19, 2015 onwards, if meant to cover servicing the loan credit rates, may be reversed and kept at the level of CPPA/ NTDC and funds collected and remitted to CPPA may be utilized for this purpose. Decision on the Iesco's proposal is still awaited from Nepra.

After induction of fresh Board of Directors, the convener audit committee has assigned much importance to this issue and directed Iesco's management to sort out all such debts / credit notes which have been issued by the CPPA but not recorded and their final fate may be decided by cleaning the books as well as current account reconciliation between the two entities.

Iesco's management argues that the significance of figures involved and sensitivity of issue as well as its likely repercussions on its future financial health with Iesco Board pressing hard for earliest resolution, all debts/ credit / CR notes outstanding against Iesco be withdrawn and the amounts collected as FC surcharge and remitted to CPPA be utilized to pay the financial cost of these loans.

Economic Coordination Committee (ECC) of the Cabinet recently approved Rs 25 billion to pay outstanding loans of Discos as the companies are unable to service their loans.—MUSHTAQ GHUMMAN

BUSINESS
RECORDER
Monday, 24th April, 2017

Wapda chief visits Hub Dam

RECORDER REPORT

LAHORE: Arrears in the head of operation and maintenance (O&M) of Hub Dam payable by Sindh and Balochistan governments have risen to above Rs one billion so far– Rs 742 million by Sindh and Rs 290 million by Balochistan.

It was disclosed by the Wapda General Manager (Projects) South to Chairman Pakistan Water and Power Development Authority (Wapda) Lt-Gen Muzammil Hussain (retd) during his visit to Hub Dam.

The Chairman directed the officers concerned to actively liaise with the two provincial governments for recovery of the outstanding dues. He said that Wapda has been spending funds out of its own kitty despite monetary problems since 2013 to bridge the financial gap for O&M of Hub Dam.

Chairman had a detailed round of the spillway and embankments of the project situated in the vicinity of Karachi.

Speaking on the occasion, the Wapda Chairman said that Hub Dam, completed on the River Hub in 1981, has been significantly contributing towards fulfilling domestic and industrial water requirements of Karachi and part of Balochistan including Hub. He said that Wapda is evaluating technical possibilities to save the slippages of precious water to meet the needs of Karachi and Lasbela.

It is pertinent to mention that Sindh gets 63.3 percent, while Balochistan receives 36.7 percent out of the water stored in Hub Dam. At the time of its completion in 1981, the live water storage capacity of the reservoir was 0.76 million acre feet that has been reduced to 0.65 million acre feet due to natural phenomenon of sedimentation. Since completion of Hub Dam, water has been spilled-over seven times, while the quantum of spilled-over water stands at 4.13 million acre feet.

BUSINESS

RECORDER

Monday, 24th April, 2017

Offshore cos, money trail:

SECP may have only limited role

SOHAIL SARFRAZ

ISLAMABAD: One out of the six agencies in the Joint Investigation Team (JIT)-four civilian and two military to investigate Prime Minister Nawaz Sharif and his two sons, Hussain Nawaz and Hassan Nawaz, may have limited capacity, informed sources stated.

Sources told Business Recorder here on Saturday that Securities and Exchange Commission of Pakistan (SECP) would have a very limited role in assisting the JIT in investigating offshore companies or tracking the money trail as the SECP does not have any forensic experts. In 2005, SECP had hired the services of forensic investigator of M/s Diligence, David T Wolfe, to investigate stock market crash of 2005.

As per the existing Companies Ordinance 1984 SECP's role is limited in seeking information of offshore companies though the proposed Companies Ordinance 2017 would, when passed by the Senate, empower the entity to seek details of beneficial ownership of directors in a foreign company; however the beneficial owner would first have to disclose details of his/her foreign investments, including those in off-shore companies under the proposed law. Additionally the ordinance proposes to enhance SECP's role in collecting information on investments made in foreign companies by Pakistanis.

A SECP brief submitted to the Senate Standing Committee on Finance revealed that there was no direct investment made in offshore companies by the companies registered in Pakistan relating to identified individuals as per the financial statements available at SECP. The available record reflects, prima facie, the investments mentioned in the Panama papers, were made by the persons in their individual capacity and not routed through any company's accounts.

Recently, when asked why Federal Board of Revenue (FBR) was not made part of the JIT, Special Assistant to Prime Minister on Revenue Haroon Akhtar Khan stated that the FBR probe in the Panama papers is under way and the JIT would be extended full cooperation if it seeks any assistance from the FBR.

The limitation of the FBR under the law convinced the Supreme Court to exclude representatives of the tax machinery from the JIT but if the need arises, the FBR is ready to extend its full cooperation to the JIT.

Haroon Akhtar said that it is a good omen for the FBR that the SC did not include FBR's representative as the FBR's stance convinced the judges that the income tax law did not permit the tax machinery to open tax cases beyond a five year period.

The FBR has completed its investigations and duly submitted its report to the SC. The FBR has fulfilled all the legal obligations and submitted record of all investigations pertaining to the 400 Pakistanis with offshore companies in tax havens. The probe is under way in cases where owners of offshore companies have responded to the notices of the FBR, Special Assistant to Prime Minister on Revenue added.

BUSINESS RECORDER
Monday, 24th April, 2017

THE RUPEE - Marginal gains

RECORDER REVIEW

KARACHI: The rupee managed to gain modestly against the dollar on the money market during the week, ended on April 22, 2017.

INTER-BANK MARKET: The rupee traded in a narrow band for buying and selling at Rs 104.85 and Rs 104.87.

OPEN MARKET RATES: The rupee gained 30 paisas in terms of the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee, however, fell sharply by Rs 1.50 versus the euro for buying and selling at Rs 113.00 and Rs 114.50.

Commenting on the economic outlook, some experts said that the need for collective efforts by both public and private sectors are necessary to bring the country's economy on track. They also said that earnings of textile earning are declining with the passage of time but the government is not trying to solve this sensitive issue.

They observed that during the announcement of Panamagate verdict, the national currency fell slightly due to slight increase in dollars' buying.

In the meantime, money experts said that the rupee may come under pressure modestly in the coming days.

INTER-BANK MARKET RATES: The whole week, the rupee managed to trade within a narrow band at Rs 104.82 and Rs 104.87.

OPEN MARKET RATES: On April 17, the rupee was unchanged in terms of the dollar for buying and selling at Rs 106.00 and Rs 106.20. The rupee lost 30 paisas in relation to the euro for buying and selling at Rs 112.30 and Rs 113.80. On April 18, the rupee was unmoved in terms of the dollar for buying and selling at Rs 106.00 and Rs 106.20, they said. The rupee lost further 30 paisas in relation to the euro for buying and selling at Rs 112.60 and Rs 114.10, they said.

On April 19, the rupee picked up 10 paisas in terms of the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee shed 40 paisas in relation to the euro for buying and selling at Rs 113.00 and Rs 114.50.

On April 20, the rupee picked failed to sustain fresh gains, losing 10 paisas in terms of the dollar for buying and selling at Rs 106.00 and Rs 106.20.

The rupee also shed 30 paisas in relation to the euro for buying and selling at Rs 113.30 and Rs 114.90. On April 21, the rupee was unmoved versus the dollar for buying and selling at Rs 106.00 and Rs 106.20.

The rupee gained 10 paisas in terms of the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee, however, shed 20 paisas versus the euro for buying and selling at Rs 113.00 and Rs 114.50.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the dollar dipped to a five-month low against the yen as rising tensions over North Korea kept the safe-haven Japanese currency in demand.

The dollar index against a basket of major currencies was down 0.2 percent at 100.390, weighed down following the release of Friday's weak US retail sales and consumer prices data and as flight-to-safety drove US Treasury yields to five-month lows.

The dollar was trading against the Indian rupee at Rs 64.325, the greenback was at 4.403 in terms of the Malaysian ringgit and the US currency was at 6.888 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Monday: 79.81-79.82 (previous 79.80-79.80).

In the second Asian trade, the dollar pulled away from five-month lows versus the yen with comments from US Treasury Secretary Steven Mnuchin and higher debt yields giving the bruised greenback some breathing space.

Still, the dollar was capped by nervousness about Tuesday's economic dialogue between the United States and Japan.

The dollar was trading against the Indian rupee at Rs 64.560, the greenback was at 4.408 in terms of the Malaysian ringgit and the US currency was at 6.8835 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Tuesday: 79.85-79.85 (previous 79.81-79.82).

In the third Asian trade, the

BUSINESS
RECORDER
Monday, 24th April, 2017

dollar index edged away from three-week lows on Wednesday, as a resurgent sterling gave back some of the gains it made after British Prime Minister Theresa May called an early general election ahead of Brexit negotiations.

The dollar index, which tracks the greenback against a basket of six rival currencies, edged up 0.1 percent to 99.633 pulling away from its overnight low of 99.465, its deepest trough since March 28.

The dollar was trading against the Indian rupee at Rs 64.535, the US currency was available at 4.404 in terms of Malaysian ringgit and the greenback is at 6.884 in relation to the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Wednesday: 79.87-79.87 (previous 79.85-79.85).

In the fourth Asian trade, the dollar caught its breath in Asian trading on Thursday, holding above lows hit earlier this week as investors awaited this weekend's first round of voting in France's presidential election.

The dollar index, which tracks the US currency against a basket of six major rivals, was slightly higher on the day at 99.752, moving away from a three-week low of 99.465 plumbed on Tuesday.

The euro edged up 0.1 percent to $1.07200, and was expected to tread water ahead of this weekend's vote. Centrist Emmanuel Macron held on to his lead as favourite to emerge as the eventual victor, a closely watched poll showed, although it indicated that the outcome of the first round of voting on Sunday was too close to call.

The dollar was available against the Indian rupee at Rs 64.660, the greenback was at 4.400 in terms of the Malaysian ringgit and the US Currency was at 6.887 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Thursday: 79.90-79.90 (previous 79.87-79.87).

In the final Asian trade, the dollar caught its breath in Asian trading holding above lows hit earlier this week as investors awaited this weekend's first round of voting in France's presidential election.

The dollar index, which tracks the US currency against a basket of six major rivals, was slightly higher on the day at 99.752, moving away from a three-week low of 99.465 plumbed on Tuesday.

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The dollar was available against the Indian rupee at Rs 64.660, the greenback was at 4.400 in terms of the Malaysian ringgit and the US

Currency was at 6.887 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Thursday: 79.90-79.90 (previous 79.87-79.87).

The euro weakened against the US dollar as investors braced for Sunday's first round of a tight French presidential election.

The euro was down 0.14 percent against the dollar at $1.0699, off the session low of $1.0683. The common currency was 0.33 percent lower against the yen and down 0.27 percent against the Swiss franc.

Polls showing Macron in pole position ahead of the vote and an upbeat Purchasing Managers' Index survey from France helped steady investors' nerves somewhat and the euro was still on pace for its best week in 11 against the dollar.

Still, the options markets suggest investors are concerned about the chances of strong results for far-right candidate Le Pen and far-left rival Jean-Luc Melenchon.

The dollar, which has been pressured lately by weaker-than-expected economic data and worries about the Trump administration's ability to pass tax and fiscal stimulus legislation, rose on Friday as traders squared up positions ahead of the weekend.

BUSINESS
RECORDER
Monday, 24th April, 2017

First-ever locally-hosted PE&VC Fund launched

RECORDER REPORT

ISLAMABAD: IJARA Capital Partners Limited ("IJARA"), a private equity firm licensed in October 2016 has launched the Pakistan's first ever locally-hosted Private Equity and Venture Capital Fund (PE & VC), namely Pakistan Emerging Market Fund–1 ("Fund") worth of $100 million from eligible investors by private placement.

"Such alternate investment vehicles will stimulate economic growth by providing capital from local and overseas investors to those companies having limited access to capital from banking channels or capital markets," said Farrukh Ansari, Chief Executive Officer (CEO) - IJARA in a statement. He emphasised the importance of long term investments through Private Equity Funds.

He said the growth capital would generate strong economic activities in the country by creating new jobs significantly, building and enhancing capacity, attracting foreign exchange and stimulating exports of the country.

"The Fund is designed to give accredited local and foreign investors easier access to private equity investment opportunities in the emerging economy of the country," he said, adding that the Fund seeks to offer broad exposure to a portfolio of private equity investments in the Healthcare, Infrastructure, Real Estate, Information Technology and other high growth yielding sectors with an objective of earning attractive returns.

He said that the Fund would be managed by experienced professionals of IJARA which comprises of seasoned businessmen, advisers and turnaround specialists.

The Fund's CEO further said that for the capital providers, it would be a unique investment opportunity because such alternate investment asset classes provide diversification due to limited correlation with the capital markets. He said that the Fund would have a finite life and eventually it would exit mainly through secondary market sale or through Initial Public Offering (IPO) and thus reaping high returns to its investors. Moreover, at the exit through IPO, a new improved company would be added in the stock exchange and thus providing the opportunity for general public to also participate in the company's growth thereby increasing the efficiency and development of capital markets. He said that due to the efforts of government and law enforcement agencies, investment climate of Pakistan was improved tremendously and with CPEC, Pakistan would emerge as one of the best destinations for local and foreign investment.

"To encourage such private equity investments in Pakistan, Ministry of Finance and FBR have facilitated private equity by allowing tax incentives to Fund investors and investee companies," he said.

Ansari also appreciated the role of Securities and Exchange Commission of Pakistan (SECP) which has been pivotal for the growth of private equity in Pakistan. The Fund has been approved by SECP under the newly promulgated Private Funds Regulations, 2015. The development of locally-hosted PE & VC Funds in Pakistan is the outcome of efforts of Chairman SECP and his dedicated team who are pushing forward the economic development agenda of Government of Pakistan.

"This Fund is only the beginning and IJARA will launch more funds in the future," he concluded

BUSINESS
RECORDER
Monday, 24th April, 2017

Dr Irshad reemployed as FBR chief

RECORDER REPORT

ISLAMABAD: The federal government has reemployed Dr Muhammad Irshad, top official (Grade-22) of Inland Revenue Service (IRS) as Chairman Federal Board of Revenue (FBR) from April 24, 2017 to June 30, 2017.

In this regard, Establish-ment Division has issued a notification.

With the approval of competent authority, Dr Muhammad Irshad shall stand re-employed as Chairman FBR in BS-22 after his retirement, on standard terms and conditions, for the period from April 24, 2017 to June 30, 2017, it added.

BUSINESS
RECORDER
Monday, 24th April, 2017

Further widening of C/A deficit

The State Bank of Pakistan (SBP) revealed a massive deterioration in the current account (C/A) deficit – 6.13 billion dollars in July-March 2017 in comparison to 2.35 billion dollars in the comparable period of last year; or a decline of 160.7 percent. SBP sought to justify this rise by stating that it is natural to expect some widening in the current account deficit when the economy is taking off but warned that it needs to be contained to sustainable levels. The disturbing aspect of these figures is that if this trend continues C/A deficit by the end of the fiscal year (July-June) would be around 8 billion dollars.

The major contributor to a rise in C/A deficit has been a sustained fall in dollar earning activities, mainly exports and remittances, while imports, an expenditure item, remained high.

Exports and remittances have been declining for sometime. While a decline in remittances is attributed to external factors notably the recession in the Middle Eastern countries, prompting them to lay-off foreign workers – a region where a large number of our emigrant workforce is based, yet the decline in exports can be laid at the doorstep of economic policies supported by the Ishaq Dar-led Finance Ministry. An overvalued rupee during a time when other countries, including our competitors India and China, have been depreciating their currencies significantly to make their products attractive in world markets, has accounted for a decline in our exports as our products are no longer competitive in world markets. The reason for this economically extremely flawed decision has been Ishaq Dar's focus on understating the annual interest and principal payable as and when due to external borrowers as well as the Prime Minister's misperception that a stronger rupee reflects a robust economy. The result: a steady decline in exports with exporters pointing out correctly that once an export contract is lost it is very difficult to get that particular buyer to, once again, become a client. In addition, the delay in refunds accounts for liquidity issues for our exporters who were compelled to borrow which further raised their costs of production.

Imports, on the other hand, have remained more or less constant between July-June 2013 estimated at 40.36 billion dollars to 40.45 billion dollars in July-June 2016. This however was in spite of the fact that while in 2013 imports of petroleum products accounted for 14 billion dollars, a period when the international oil price was very high, in 2016 when prices had plummeted only 8.35 billion dollars were allocated for importing oil and products.

So which import items increased? The Ministry of Finance is at pains to insist that machinery imports rose, however, the rise in machinery imports accounts for 2.24 billion dollars between 2013 and 2016, transport (including buses and trucks) account for 155 million dollars between 2013 and 2016. Or in other words, the decline in imports of petroleum and products estimated at 5.65 billion dollars (between 2013 and 2016) are accounted for by a rise in machinery and transport imports of 2.385 billion dollars, less than half the decline in petroleum imports.

The Finance Ministry has been meeting the country's foreign exchange requirements due to a widening current account deficit through massive borrowing. In recent months, with a dramatic decline in programme lending/budget support subsequent to the completion of the International Monetary Fund programme as other lenders - bilaterals and multilateral - confidence level with our adherence to the reform agenda has been compromised, the government has begun to rely on commercial borrowing from abroad which is procured at a higher rate of interest and a lower amortization period.

One would urge the government to urgently revisit its economic policies though unfortunately the Finance Minister resisted all previous warnings by Business Recorder that its flawed policies would lead to a widening of the current account deficit. However, one would hope that now that the disturbing picture has emerged the government would pay heed to some sane advice.

BUSINESS

RECORDER

Monday, 24th April, 2017

The IMF and Pakistan

Anjum Ibrahim

Criticism against the handling of the three-year 6.64 billion dollar Extended Fund Facility (EFF), completed in September last year, has been sustained by the country's independent economists. The reason, so it is argued with a degree of validity, is because the caveats continue even though the Fund is at great pains to emphasize that gains were made during the duration of the programme.

Two questions come to mind. First, what were the gains made during the September 2013-September 2016 EFF? And has the situation changed dramatically during the past seven months, post-EFF, that would justify the caveats? There are three outstanding and need one add extremely disturbing elements that steadily worsened during the EFF and continue to do so till today.

The first relates to the worsening current account deficit. Exports have been steadily declining since 2014 and declined from 25 billion dollars in 2014 to 21.9 billion dollars in 2016 and have been declining each month since then. Imports on the other hand were estimated at 40.36 billion dollars during July-June 2013 (with petroleum products accounting for 14 billion dollars due to rise in international oil prices) and rose to 40.45 billion dollars in the comparable period of 2016 (with petroleum products accounting for only 8.35 billion dollars due to a dramatic decline in the international price). The decline in value terms in imports of oil and products between the two years was a whopping 5.65 billion dollars.

The biggest import rise in monetary terms in 2016 was accounted for by an increase in power generating machinery – from 511.9 million dollars in 2013 to one billion dollars in 2016 - a rise of 489 million dollars. Additionally, the rise in imports of power generating machinery would not lend a comfort level to the general public these days given the ongoing load shedding and the recent reports by government departments including National Transmission and Despatch Company (NTDC), administratively under the control of the Water and Power Ministry that reflect continued poor performance of the sector. Machinery imports per se rose from around 4 billion dollars in 2013 to 6.2 billion dollars in 2016 or a rise of 2.2 billion dollars between 2013 and 2016, transport vehicle imports rose by 155 million dollars during the two years – and the two combined is 38 percent, or not even half of the decline in imports due to petroleum products.

The oft cited reason for declining exports and rising imports (other than petroleum products) is (i) an overvalued rupee and (ii) rising refunds that led to borrowing from the banking sector which raised their costs of production making them uncompetitive in foreign markets. The IMF, during the duration of the EFF when it had considerable leverage, did make mention of the overvalued rupee and made some half hearted attempts to convince finance minister Ishaq Dar to allow the real effective exchange rate to prevail (which was critical if Pakistani exports were to be able to compete internationally especially given the depreciation of currencies of those countries with which our exporters compete), but to no avail. Instead the Fund staff focused on a time-bound reduction in the budget deficit, evidently unconcerned with the resulting escalating reliance on external borrowing, directly from multilaterals and/or issue of Eurobonds/sukuk at rates well above the market rate. The mission leader though did acknowledge in a press conference that the country's rising foreign exchange reserves were largely from borrowing.

Secondly, the energy sector's performance has not improved and claims to the contrary are easily dismissed given the recent rise in unscheduled load shedding. The Minister for Water and Power Khwaja Asif explained the reasons behind the demand-supply gap of 7000MW (according to a Business Recorder report that was not refuted though the Minister claimed 5000MW shortfall in the National Assembly last week) – a level comparable to what was evident during the tenure of the PPP- led coalition government: higher temperatures on the plains sooner than in previous years, slow snow melt in mountains like in previous years leading to hydel generation well below capacity.

The Prime Minister reportedly expressed displeasure at the Ministry's failure to take account of these two factors – a displeasure that prompted no response from the Ministry though Khwaja Asif has been at pains to take on everyone else who has dared to challenge his claims about a marked improvement in the sector's performance: (i) NTDC in a recent report expressed concerns over the sector's poor performance – a report which was cited by the German bank KfW prompting it to conclude that the claims by the Ministry of a marked improvement are 'political' which in turn energized Minister Asif to insist on an apology which was tendered; however KfW added that it was meant to be an internal document and should not have been leaked; (ii) the performance evaluation report of the regulator Nepra based on quarterly reports submitted by the state run generation companies; (iii) the Independent Power Producers (IPPs), the main source of power generation today, invoked sovereign guarantees and the IPP's Advisory Council issued advertisements detailing their woes with the Ministry leading to Khwaja Asif's ire; and (iv) the media for bringing unscheduled load shedding to the notice of the public though one doubts if the public can ever be unaware of the extent of load shedding. In this context the Fund during the three years of the EFF simply insisted on a do-more mantra which effectively implied raising the power tariff, though actual billing was less with the decline in the international price of oil.

Finally, there has been a marked failure in reforming the tax structure and its administration. The inordinate focus of the Fund staff and the government was on total revenue collections instead of on rendering the tax structure equitable, fair and non-anomalous which accounts for heavier taxes on existing tax payers' – a situation that the IMF together with the government must be held accountable for. And additionally, as in the past the Finance Minister opted to reduce the development as opposed to current expenditure to meet the requirement of slashing the budget deficit at the cost of growth. Perhaps this was one of the reasons that prompted the Finance Minister to overstate growth rate.

To conclude, the IMF's conditions and its monitoring of the EFF leave a lot to be desired and one would hope that next time around, a time that economists are agreed would be soon after the general elections 2018, a more informed team both from the IMF and the government side negotiates the terms of the deal.

DAWN
Monday, 24th April, 2017

Violent forces ease economic inequality

ANA SWANSON

Rising economic inequality in the United States has been a major animating force on both the political left and the right.

Whether it is Bernie Sanders promising to rebuild blue-collar communities or Donald Trump pledging to 'make America great again,' today's political platforms often revolve around a return to the perceived 'normal' of a vibrant middle class and more equitable distribution of wealth that America experienced in the 1950s, 60s and 70s.

Yet with a broader look at history, it's clear that period of falling inequality was the exception, and that today's increasing inequality is more a return to the norm. And when inequality did fall throughout history, Stanford University Professor Walter Scheidel argues in a new book, it tended to do so for very unpleasant reasons.

In 'The Great Leveller: Violence and the History of Inequality from the Stone Age to the Twenty-First Century,' Scheidel examines societies from ancient history to the present. He finds that most societies gradually grew more unequal over time, and where those inequalities were levelled out, they were almost always done so by violent forces — war, revolution or plague. The work contains some shocking lessons about the nature of inequality and what that might mean for our future.

Q. How does inequality today compare with history? When have we seen inequality peak, and when has it fallen?

A. If you look over hundreds or thousands of years, you see a pattern of rising and falling inequality. But for most of history, inequality was either rising or stable at high levels. It's rare for inequality to fall significantly. In that respect, the world we live in is a typical environment, in which inequality is rising or has reached very high levels in many countries.

Q. We saw an unusually large drop in inequality during World War I and World War II. Has that shaped people's perceptions of what inequality should look like?

A. It has. The post-war period, the 50s, 60s and 70s, has become the reference point. In that period, economic growth was strong, the middle class was expanding, and inequality was low by current standards. But since the 1980s, growth has slowed, and what growth we have disproportionately benefits the famous one per cent, at the very top at the income distribution.

That marks a real change from the post-war period, and that is understandably perceived as undesirable. But if you look at history more broadly, it's the post-war period that was anomalous.

Q. Your book discusses four factors that have flattened inequality through history. The first one is 'mass mobilisation warfare.' You say that not all wars lead to more equality. What is it about this type of war that does?

A. History has been full of wars, but most don't systematically equalise the distribution of income and wealth. It's really a phenomenon of the first half of the 20th Century. For the first time you have wars on a really large scale, where a large percentage of the adult male population is conscripted, and civilian men and women alike are mobilised for the war effort.

For the first time in history, industrial capacity and the nation state make it possible for government to reshape economic outcomes in a time of crisis. To raise funds for the war, the government raises taxes to extremely high levels — over 90pc on the highest earners in the US in the 1940s. In many countries, the war causes massive physical destruction of capital, housing stock and factories.

The rich lose a great deal. At the same time, unskilled workers are better off, because there is more demand for their labour, and conscription leads to full employment, which drives up wages. A number of things come together in just the right way to greatly compress inequality in the US, Europe, Japan and other countries involved in these conflicts.

Q. What are the other three great levellers?

A. The second factor I discuss in the book is Communist revolutions, which grow out of WWI and WWII in the case of Russia and China. Communist revolutionaries expropriate and nationalise all assets, land and industry. They create a planned economy with set wages and prices. As a result, very little inequality is left in their systems.

But these are very violent events. Tens of millions of people lose their lives. And greater equality only lasts as long as the regimes are in place. Once the Soviet

DAWN
Monday, 24th April, 2017

Union collapses, inequality doubles within just a few years in Russia. When China liberalises its economy in the 1980s, it sees huge economic growth, but inequality rises as well.

The last two forces were more common in pre-modern history. One is the collapse of the state, for example Mayan civilisation, or the fall of the Roman Empire. In these cases, if the earlier state created or reinforced inequality, then its dismantling has the opposite effect. The ruling class is undermined or in extreme cases disappears entirely.

The last is severe epidemics like the Black Death, the plague in late medieval Europe. When massive pandemics kill a large percentage of the population, there is as much land and capital as before but there are fewer workers, and that increases demand for labour and raises wages. The poor are less poor and the rich are less rich, and the gap between them narrows significantly

Q. Every one of these major compressions was driven by something very violent or unpleasant. You argue that peaceful methods of levelling equality, like democracy, education and land reform, aren't nearly as effective, right?

A. That's true. It's not to say that these things don't have an effect. If we didn't have a form of social democracy, redistributive measures and mass education in the US today, conditions would be much worse. But if you're looking for a sizeable reduction in inequality, history indicates that peaceful measures by themselves are not going to make that much of a difference. There are no major episodes of levelling in history that are not associated with some kind of violent disruption.

DAWN
Monday, 24th April, 2017

Lag in Punjab's development spending

NASIR JAMAL

The likely loss in Punjab's estimated general receipts, for the ongoing fiscal year, owing to an expected shortfall in federal transfers and a lower-than-targeted provincial tax and non-tax revenue collection, points a significant cut in its planned development spending for the year.

Punjab, according to officials making the budget for 2017/2018, expects its estimated share of Rs1.04tr from federal transfers (under the National Finance Commission (NFC) award) during the present fiscal year to decrease by almost a tenth, to Rs939bn, because of the projected shortfall of over Rs300bn in the Federal Board of Revenue's targeted tax collection.

Additionally, the province is also struggling to meet its own provincial tax and non-tax collection targets of Rs184.43bn and Rs95.6bn. The civil account for the first eight months of the present year to February show that the overall provincial tax and non-tax revenue collection of Rs149.73bn fell short of the (pro rata) target of Rs186.70bn by almost a fifth.

The government's civil accounts, however, show that it has utilised less than a third of the amount, or just Rs180bn, in the first eight months of the fiscal year

In the first eight months, the province managed to rake up only 55pc — Rs101.89bn — of tax and almost half — Rs47.83bn — of the non-tax revenue targets.

Accounts show the provincial authorities are facing significant deficit in provincial sales tax on services and property tax collection. The government expects 35pc to 40pc growth in its provincial tax revenues over the last year.

"We are looking at a shortfall of between 7pc and 11pc in the total estimated provincial revenue receipts of Rs1.32tr by the close of this financial year," an official told Dawn. "The impact of this revenue loss will primarily reflect in the development spending cut at the end of the year."

The Shahbaz Sharif government had announced development spending of Rs550bn, including the core annual development programme of Rs471.48bn, for the current year.

The estimated development investment for the current financial year is 37.5pc greater than the original estimates of Rs400bn, including core development spending of Rs333bn, for 2015/2016, that the Punjab government planned to finance through revenue surplus of Rs435bn, foreign project assistance and a Chinese loan of Rs85bn for the controversial, $1.65bn Lahore Metro Orange Line Train Project.

The government's civil accounts however show that it has utilised less than a third of the amount or just Rs180bn in the first eight months of the fiscal year. But the officials said the actual utilisation of the development funds will exceed 80pc by the end of the year.

The government's development spending was estimated at the time of presentation of the budget for the present year to create half a million jobs in the province through investment in large infrastructure projects in the transport, energy, irrigation, agriculture and other sectors.

The budget for the next fiscal year, officials said, will aim to achieve the goals the government has set for itself in its three-year Punjab Growth Strategy 2015/2018, which targets to stimulate economic growth in the province to 7pc to 8pc by the end of the next financial year, attract private investment through construction of infrastructure, alleviate poverty and improve security conditions.

Ever since she took charge of the provincial finances, Ayesha Ghaus-Pasha has implemented a slew of reforms to make the budget-making process a participatory effort by involving public representatives, business community and academia, increase development fund utilisation, improve social service delivery, raise tax revenue, encourage accountability of those responsible for implementation of the government policies, etc.

Spelling out her priorities at a meeting with economic reporters in Lahore last week, provincial finance minister Ayesha Ghaus-Pasha had said she intended to carry on the tax and expenditure reforms and implement outcome based budgeting, as well as continue to increase the development budget for the social sector and infrastructure, in the next budget for the year 2017/2018, to create jobs.

"The next budget will also be people-friendly and the social sector — health, education, etc — will continue to get top priority in resource allocations," she said.

DAWN
Monday, 24th April, 2017

"We have been raising allocations for education and health for the past few years and the trend will continue to hold. Besides, the provincial spending on construction of transport, energy, agriculture, and irrigation infrastructure will also continue to receive higher allocations for job creation in the province."

THE NEWS
Monday, 24th April, 2017

INSIGHT

It's not over yet

By Ihtasham Ul Haque

The decision taken by the Supreme Court of Pakistan on the infamous Panama leaks has raised many questions amid the critics, as well as the well wishers of the country. Many now wonder if there would be a violent reaction in the coming days by those who believe the judgement was unfair, which might lead to renewed political volatility and resultant economic instability.

Although the stock market index jumped further to 2000 points after the Supreme Court verdict, the uncertainty continues to haunt the economy, which is already struggling to achieve any real turnaround. The economy, particularly in the presence of increasing fiscal and trade deficits, widening current account deficit, declining both home remittances and foreign exchange reserves, is in dire straits.

The apex court's judgment starts by quoting from the Popular 1969 novel "The Godfather" by Mario Puzo, which recounted the violent tale of a Mafia family. The author selected "Behind every great fortune there is a crime" as the fascinating epigraph of the novel.

Most of the opinion leaders, political analysts and independent economists do not think that the decision on the Panama leaks would help restore both the political and economic stability. They say that the uncertainty has stayed and were yet to go away in terms of witnessing greater economic and business activity across the country.

Air vice marshal (retd) Shahzad Chauhdry believed that the matter was not over, as the apex court has called for the setting up of a Joint Investigation Team (JIT) in seven days which should submit its report in 60 days. The element of uncertainty, therefore, was still very much there. "And this is not good for the economy, though stock market index had greatly improved after the SC verdict," he added.

For the time being, he said, Nawaz Sharif was rescued because there was no overwhelming evidence against him to step down. The issue, he said, has been delayed to have the final outcome of the Panama papers. "But one must take into account the performance of commissions, committees and JITs etc when it comes to deciding any serious issue," he added.

"The truth of the matter, nonetheless, is that the prime minister has escaped any immediate adverse decision by the Supreme Court," the retired air marshal said, who believed that uncertainty would prevail unless something concrete came out of the whole process, and the economy would continue to suffer.

Another noted defence and political analyst Dr Hasan Askari said uncertainty had been removed to some extent, but required winding up of the issue. According to him, as long as the issue was present the dream of achieving economic stability would remain a tall order.

He was not sure that the truth the Supreme Court was trying to find out could be found out by a lower level JIT and asked, "What is the oqat (position) of a FIA (Federal Investigation Agency) additional director to locate truth by going to the prime minister and his family?"

He was of the view that what the prime minister and his family's lawyers had presented in the Supreme Court as proof, would be given to the JIT, therefore, there was no hope to locate new material to make the prime minister guilty of any crime. "Nawaz Sharif has survived, but uncertainty does not seem to be going away which is very bad for our economy and the business environment."

Pakistan Muslim League-Nawaz (PML-N) Senator Anwar Baig said the "party was not over" as the proposed JIT would investigate the issue and report back to the apex court. "My party colleagues have not understood the judgment and started celebrations before time," he added.

"The prime minister has been put on a life support machine for 60 days and this is a worrying factor for our leader," Senator Baig said, and added that the final judgment was still to come, therefore, there was no need to celebrate anything as it would be premature and unconvincing.

The issue, he pointed, out, has thoroughly been messed up by what he termed the "under 19 team" of the prime minister, and it would be difficult to undo. During the last 10 months, the economy of the country has suffered enormously and who knew when certainty would return.

"My main concern is the economy, which is yet to be revived, and this cannot be revived under the prevailing political instability," he said, and

THE NEWS
Monday, 24th April, 2017

added that the Supreme Court judgment has not helped in restoring the confidence of the businessmen and investors.

Seemingly, the politics of protests and violence has not made an appearance as yet, and even the worst political opponents of the PML-N have accepted the decision of the Supreme Court on the Panama leaks.

The stock market too did not react negatively, and remained relatively calm. But who knows what will happen next.

As soon as it was said that the apex court would announce its judgment on April 20 (last Thursday), the prime minister hurriedly rescheduled his political engagements and inaugurated the 717 megawatt natural gas-fired power plant at Bhikki near Sheikupura, Punjab.

There he talked more on politics by accusing his opponents - without naming former President Asif Zardari and PTI chairman Imran Khan - of creating instability in the garb of the Panama leaks issue. The prime minister sufficiently vented his anger and said those who brought load-shedding should be ashamed and that they have no right to talk about power shortage. It was a clear insinuation against Mr Zardari.

The younger Sharif on the occasion was perhaps too excited when he said that if judgment in Panama case was to be remembered for 20 years, Nawaz Sharif's achievements would be remembered for 40 years- some called it a direct message to the superior judiciary to avoid giving any decision against the ruling elite.

One of the things that angered the prime minister too much was the unexpected, nearly 14-16 hours of load-shedding, ahead of the elections scheduled in 2018. Last week, he took back to back meetings to discuss the electricity shortfall which has started ranging between 7,000 to 8,500 megawatts. The shortfall has provided an opportunity to the opposition parties to make a mockery of the tall claims made by the PML-N about ending load-shedding by 2018.

The truth of the matter is that nobody in their wildest imagination believed that electricity shortfall of such a magnitude could be experienced in the summer of 2017, especially after the repeated official claims that more than 3,000MW of electricity had been added into the national grid.

The electricity demand has surged close to 21,000MW against the generation of 13,600MW, leaving behind a shortfall of close to 7,400MW. Questions need to be asked from the federal minister for water and power Khawaja Asif and his junior minister Abid Sher Ali along with other officials, including former secretary Younus Dagha, who reportedly misinformed the prime minister about the actual shortfall.

Insiders say that close to 40 percent water shortage had been anticipated in April this year due to dams' reaching to their dead level. People have also been intrigued as to why some of the Independent Power Producer (IPPs) plants were producing less despite the fact that furnace oil storages of oil companies were full to capacity.

Questions are also being asked about the unexpected load-shedding, which seems to have made an appearance at an inopportune time. It speaks volumes about the menacing circular debt with which the federal government has failed to deal with. This has also forced the IPPs to invoke sovereign guarantees. The IPPS are also refusing to run their power plants to full capacity for want of their dues, which need to be returned to them.

Load-shedding is a serious issue, and gets even graver with time when a government fails to meet its commitments on this behalf. Failing to provide electricity could force a government to leave office or worst, face a defeat in the elections. The previous PPP government experienced their nastiest defeat in 2013 election due to long hours of load-shedding, close to 20-22 hours in a day.

The same is haunting the PML-N government now, which never missed any opportunity to say that the scourge of load-shedding would be eliminated by 2018. Previously, the chief minister of Punjab and the federal and state ministers of water and power had to face embarrassment for giving false dates of the end to load-shedding.

The fact of the matter is that the energy crisis in Pakistan has become one of the most important issues which needs to be resolved as soon as possible to not only save people from long hours of the excruciating hot weather, but also to increase industrial productivity. Providing inexpensive and adequate electricity and gas supply to industries is imperative for economic growth.

Acute energy insecurity because of the growing gap between demand and supply has been causing deindustrialisation and hence the flight of capital. Over 200 small, medium and bigger textile units in Punjab have been closed over the year due to many reasons, including the energy shortages. The situation in Sindh is also very disturbing.

THE NEWS
Monday, 24th April, 2017

Successive governments had been urged by energy experts to revamp the whole energy sector in order to remove years of corruption, malpractices and wrongdoings done within various departments. The frequent change of policies has also been responsible in discouraging investors. Add corruption to it, and many investors have chosen to exit Pakistan. The foreign investors have accused the government officers of seeking money to solve day to day problems.

Shahzad Chauhdry

Air vice marshal (retd)

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These experts today are desperately calling for a paradigm shift in the energy policy and handling of the problems transparently. There is a consensus that challenges in the energy sector can be resolved, provided there is a political will on the part of the rulers as well as the concerned bureaucracy which is often accused of working against the interest of the country.

Experts have urged the government to explore the untapped hydro electric potential, and to focus on the renewable energy sector to address the energy shortage in Pakistan. Questions concerning the power sector cartel and the pricing formula in the energy sector have been raised time and again.

Going forward, there is a need to implement home-grown energy policies and implementing the much needed structural reforms.

The final outcome of the Panamagate scandal after 60 days is important, and so is getting rid of the power crisis, which would be crucial for the government before the country goes to polls in 2018. In case of the failure, the current government could meet the fate of PPP, which experienced the worst ever defeat due to long hours of load-shedding.

The writer is a senior journalist based in Islamabad

The Nation on Web
The Nation
Monday, 24th April, 2017

Cotton yarn grew by 0.67pc in 8 months

APP

ISLAMABAD - Domestic production of cotton yarn and cotton cloth during first eight months of current financial year grew by 0.67 percent and 0.43 percent respectively as compared the production of the corresponding period of last year.

According the computation of Quantum Index Numbers of large scale manufacturing industries released by the Pakistan Bureau of Statistics about 2.285 million tons of cotton yarn produced during the period from July-February, 2016-17 as compared the production of 2.269 million tons of same period of last year.

Cotton yarn production during the month of Feb 2017 was recorded at 287,100 tons as against the production of 281,185 tons of same month of last year. Meanwhile, cotton cloth production in the country during the period under review was registered at 696,750 thousand square meter as compared the production of 693,733 square meters of same period of last year. On month on month basis, cotton cloth production was recorded at 87,300 square meters in month of February, 2017, as compared the production of 86,100 square meters of same month of last year. However, in last 8 months jute goods production decreased by 18.76 percent in last eight months as about 43,709 tons of jute goods were produced as against the 42,721 tons of same period of last year.

The Nation on Web
The Nation
Monday, 24th April, 2017

Over Rs479m released for Revenue Division projects

APP

ISLAMABAD - The government has so far released Rs479.713 million for various projects of Revenue Division out of its total allocations of Rs687.304 earmarked in the Public Sector Development Programme (PSDP) for the fiscal year 2016-17.

Out of the total amount released, Rs242.9 million have been released for development of Integrated Transit Trade Management System (ITTMS) under ADB Regional Improving Border Service Project, according to official data. The government has earmarked Rs347 million for this project under the development fund of the current year.

The government also released Rs105 million for establishing Inland Revenue offices in Pakistan for which an amount of Rs150 million would be spent during the current fiscal year. An amount of Rs25 million have been released for feasibilities of MMC Gwadar, Regional Tax Office Islamabad and Sargodha and Directorate of Intelligence and Investigation IR Karachi.

Similarly, an amount of Rs19 million have been released for construction for warehouse and sepoy barracks for Model Customs Collectoraue, Peshawar for which an amount of Rs25.41 million have been earmarked in the current fiscal year. The government also released Rs21.626 million for construction of new accommodation and overhead water tank in the premises of FBR Complex Spiny Road Quetta. The total allocations for the project have been fixed at Rs30.569 million.

A sum of Rs25.401 million have been released for construction of additional block for Regional Tax Office (RTO) at Gujranwala on which Rs38.899 million would be spent during the current year. In addition, the government released Rs17.765 million for project for security improvement in Karachi Port and Port Qasim for installation of three fixed and one mobile scanner with assistance of JICA.

As many as Rs 26.378 million would be spent on the project during the current financial year, according to the data. An amount of Rs14.532 have been released for installation of elevator at Custom House Lahore while Rs4.490 million have been released for construction of boundary wall around customs land at Chilmas Das Gilgit.

It is pertinent to mention here that the government has so far released Rs562.274 billion for total development projects of various divisions out of total allocations of Rs800 billion earmarked under PSDP 2016-17.

The Nation on Web
The Nation
Monday, 24th April, 2017

Exporters want professional CEO of TDAP

Say ex-CEO damaged country's exports and spent billions on useless exhibitions with no practical output

INP

ISLAMABAD - A large number of exporters have asked the government to appoint some top professional to head the Trade Development Authority of Pakistan (TDAP) to stir the stagnation in exports.

Official source said that the government has so far made no decision on the appointment of the new Chief Executive Officer (CEO). The commerce ministry wants appointment of a bureaucrat while the private sector is recommending appointment of an experienced industry professional to head the organisation.

KP government's Business Advisory Committee chairman and FPCCI former vice president Riaz Khattak said the TDAP should play its role to increase exports with effective and long-term business plans, as up to March the government may only have achieved $16 billion on account of exports in the current fiscal year.

Criticising the performance of TDAP former CEO SM Muneer, he said that the organisation required a full-time executive. Muneer did nothing for exports during his three years term and now was blaming the bureaucracy for poor exports, he added. "We don't want another like him; the government should bring in some professional," he added.

He asked that if Muneer was fed up from the government behaviour then he must have resigned earlier rather to complete his tenure amicably. Khattak further said why Muneer kept silent for three years putting business community in dark for his 'vested' interest.

He alleged that Muneer damaged the country's exports and spent billions on useless exhibitions with no practical output. Renowned horticulture exporter and FPCCI Regional Standing Committee Chairman Ahmad Jawad said that it was the first time in the history of TDAP that former CEO was indulged in trade politics. From the day of assuming the charge in March 2014, Muneer was misleading the chambers of commerce of the country with fake promises, they alleged.

"Now, Muneer should be answerable to the business community of the country that what restructuring measures he initiated? What relief he gave to the chambers and associations from the platform of United Business Group (UBG) and as TDAP CEO," Jawad questioned.

Jawad further said, "We are thankful to Prime Minister Nawaz Sharif that he didn't give extension to Muneer on his bleak performance as TDAP CEO. Now we are hopeful that under the guidance and vision of the prime minister, the commerce ministry would appoint a dedicated and rich experience person as head of TDAP, who may work with an effective business plan so that dwindling exports could be checked."