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Mian Muhammad Nawaz Sharif
Prime Minister of Pakistan

Muhammad Ishaq Dar
Finance Minister

Honorable Prime Minister

You announced the export-led growth package

on **10th January 2017** to lower cost of doing business for export oriented industry enabling to increase Exports, Investment and Employment

Unfortunately, due to delay in the disbursement of duty drawback amount the industry is facing severe liquidity crunch

Textile Industry Requests

- To allocate funds under the already announced scheme for disbursement of duty drawback to exporters against realization of export proceeds on immediate basis, and
- To pay all outstanding refunds of sales tax to claimants against RPOs already issued with immediate effect

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New gas connections:

Sindh irked by PM's 'electoral' approach

MUSHTAQ GHUMMAN

Chief Minister Sindh Murad Ali Shah has protested against non-implementation of Article 158 of the Constitution and provision of gas connections by Prime Minister to select areas on political grounds. In a letter to Prime Minister Nawaz Sharif, (copies of which has also been sent to Chief Minister Punjab, Mian Shahbaz Sharif Chief Minister, Balochistan Sanaullah Zehri and Chief Minister KPK, Pervez Khattak, Minister for Petroleum and Natural Resources, Shahid Khaqan Abbasi) Chief Minister Sindh said that he was writing with reference to a widely reported news related to provision of 97 natural gas projects worth more than Rs 37 billion, mostly located in Punjab, by relaxing moratorium on expansion of such schemes.

According to the Chief Minister Sindh, expansion of new gas network in Punjab, which produces only about 3% of gas but consumes over 42% of the total gas produced in the country, is in complete disregard of Article 158 of the Constitution which accords priority to the province where well head is situated.

"Currently, SSGCL is not entertaining any request for provision of gas to new consumers both in urban and rural areas of Sindh citing moratorium imposed by the federal government. The company has even declined supply of gas to Khairpur Special Economic Zone (SEZ) which is Pakistan's 1st industrial park with SEZ status under SEZ Act 2012. Similarly, it has also refused to supply gas to 9 small industrial estates in different parts of Sindh Province for which Government of Sindh has already paid to SSGC," he claimed.

The Chief Minister further stated that in urban centers of Sindh, thousands of applications for domestic connections are pending, whereas, in rural areas SSGCL is still trying to complete the schemes funded by the government of Sindh in 2012. He further claimed that the Council of Common Interests (CCI) in its last meeting held on December 16, 2016, constituted a committee headed by Federal Law Minister to interpret constitutional provisions including Article 158. The committee held its meeting on March 3, 2017 and decided to submit a policy for consideration of CCI to implement Article 158. "Provision of natural gas connections to politically selected areas at the cost of gas producing province is a source of discontent and is also detrimental for national harmony," Shah maintained.

He requested Prime Minister to direct Petroleum Ministry to implement Article 158 of the Constitution in letter & spirit and refrain from diverting natural gas from Sindh. He further requested to remove the unilaterally imposed moratorium and direct SSGCL to provide gas connections to all domestic, industrial and commercial sectors in Sindh.

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Thar coal-fired projects:

Governments bicker over tariff

MUSHTAQ GHUMMAN

The proposed alteration in tariff for upcoming Thar coal-fired projects has reportedly become a bone of contention between the federal and Sindh governments as the latter has severely criticised the Centre for seeking a 15 to 20 percent reduction in levelised tariff of Thar projects.

This scene was witnessed at a public hearing held in National Electric Power Regulatory Authority (Nepra) on Tuesday presided over by Chairman Nepra Brigadier Tariq Saddozai(retired). Hamayat Ullah Khan (Member KPK), Saif Ullah Chattha(Member Punjab), Syed Masood-ul-Hasan Naqvi (Member Sindh) and Major Haroon Rashid (retired) were also present. Sindh government's team was led by Chairperson Sindh Board of Investment (SBI) Naheed Memon. No official from the Ministry of Water and Power attended the hearing as it had already dispatched its comments. However, Private Power & Infrastructure Board (PPIB), an arm of Water and Power, was duly represented.

According to Chairperson SBI, Chief Minister Sindh, Syed Murad Ali Shah maintains that tariff for Thar coal fired projects which expired on January 19, 2017, should continue so that the investment plans started by Sindh Engro Coal Mining Company (SECMC) may not stop. A number of investors are in the pipeline and have already given their commitment so it is not prudent at this stage to announce new tariff.

"We cannot dis-incentivise current policy at this time as project development will halt. Substantial work is still needed including infrastructure issues. The Sindh Government has to work hard on it. Obviously when investors will come, the process will continue and if investors are discouraged at this point of time, this process will stop," she added.

Naheed Memon argued that imported fuel will create problems in future for the power sector.

When Chairman Nepra welcomed comments from the Ministry of Water and Power and suggested that it should have been better if a representative from the Ministry had attended the public hearing, Chairperson SBI angered at the Water and Power Ministry for seeking for lower Thar coal-fired plants tariff by 15-20 percent, said the officials of the Ministry are right now at the Governor's House in Karachi. She said Sindh is still facing substantial load shedding. She further contended that if Thar coal-fired projects are completed, dependency on indigenous fuel will increase and circular debt will decrease because presently circular debt is standing at the same high level.

Another official from Sindh government expressed surprise at the mention of air cooled technology for the upcoming Thar coal power plants. He said a study is under process on availability of water for upcoming projects and claimed there is no issue of water for 5000 MW power plants. The capacity of existing developed and under-developed blocks in Thar is 10,000 MW.

It was also argued that everyone has been misguided with the argument that different costs, including the EPC cost, have declined. Naheed Memon said that Ministry of Water and Power should be realistic saying that the risk is not yet over. "Let the mine open and let generation start. With retraction from existing tariffs our investors will be disheartened," she added.

Syed Akhtar Ali, former Member (Energy) Planning Commission, maintained that 12 per cent IRR is given to investors across the world but in Pakistan it is 20 per cent. He argued that interest rate was 17-18 per cent when 20 per cent IRR was announced whereas now interest rate has declined to 6-7 per cent. He further stated that Thar is not a new thing. Power plants have already been set up in Thar (India) and insisted that Kibor plus three per cent margin is too high. The representative of PPIB, in his arguments said that tariff for Thar coal-fired power plants should be rationalised, adding that investment in not dependent only on IRR.

Current LBOD scheme is sufficient for 4x330 MW. Water component of 0.52 cents / KWh is allowed under

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Nepra's upfront tariff. The following options are available for fulfilling water requirement: (i) expansion of LBOD scheme to make water available for future IPPs following resource estimation at source. This expansion will have to be financed by GoS/ IPPs/ others and will have to be compensated in the tariff. Approximate required cost may be 0.78 cents/ kWh versus base case of 0.52 cents/ kWh; and (ii) use of air cooling (or hybrid) technology instead of wet cooling technology. IPP can be run using air cooling technology or with water (hybrid technology) but this would require increase in CAPEX, increase in auxiliary load, decrease in thermal efficiency and decrease in plant factor. The required cost would be 1.27 cents/ kWh verses base case of 0.52 cents/ kWh.

"Revision in benchmarks should be market-based which should also include law and order cost and country risk," he continued. According to Shamsuddin Sheikh, CEO SECMC, Nepra should play its role in developing tailor-made tariff that accounts for unique needs of Thar (eg water component), providing adequate incentives that help attract necessary investment and allow a separate fixed FCC component to ensure mine fixed cost recovery.

Sheikh who got upfront tariff for his projects, did not oppose competitive tariff, but said, the true benefits of Thar coal can only be realised if mine is expanded to its optimal capacity.

Talking about water supply to the plant, he said enough ground water and drain water can be generated from eight IPPs which can be treated through advanced High Efficient Reverse Osmosis (HERO) to run 2-3 IPPs. The required cost is slightly above case of 0.52 cents/ kWh.

"Since Thar coal tariff is most sensitive to expansion of mine, Nepra should consider the pros and cons of reducing tariff versus the risk of non-expansion and/or delayed expansion. Based on this, SECMC is of the view that maintaining the same tariff (with appropriate) adjustment for steel price indexation) is the best way forward," he continued.

SECMC requested Nepra to announce separate tariffs for IPPs using wet-cooled technology (either source of water) and air-cooled technology. The regulator was also asked to encourage IPPs to use ground water and/or drain water. A couple of other interveners also commented on the fixation of new tariff for the upcoming Thar coal-based projects.

The upfront tariff for Thar coal based power plants was determined on July 9, 2014 which was subsequently notified by the Ministry of Water and Power on January 20, 2015. The validity of the upfront tariff was two years from the date of its notification. The tariff expired on January 19, 2017. The levelized tariff for 330 MW power plants on foreign financing was 8.5015 cents for units and on local financing 9.5643 cents per unit. For 660 MW power projects, the notified tariff was 8.3341 cents per unit for foreign financing and 9.5668 cents per unit for local financing. The notified levelised tariff for 1100 MW Thar-coal fired power plants was 7.9889 cents for foreign financing and 9.1368 cents for local financing.

The Authority on January 4, 2017 decided not to extend the upfront Thar coal tariff and initiate proceedings in respect of tariff for future projects. The Authority in its letter of January 13, 2017 also solicited Ministry of Water and Power's point of view as to how many more MWs from Thar coal are being envisaged along with a timeframe but no response was received. A reminder to the Ministry of Water and Power regarding update, spelling out the timeframe and MWs envisaged from Thar coal projects was also sent on March 15, 2017.

Ministry of Water and Power, in its comments stated that three blocks of Thar-coal are included in the CPEC and in order to provide economies of scale, each block must achieve a capacity of more than 15-20 million tons per annum which means generation of around 7,500-9,000 MW cumulatively. At present, tariff on Thar coal is available to projects of around 3,600 MWs.

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Controversial Advertisement:

PPIB sends legal notices to 13 IPPs

MUSHTAQ GHUMMAN

Ministry of Water and Power has started arm twisting Independent Power Producers (IPPs) demanding payment of overdue arrears against the power sector. As a first step, Private Power Infrastructure Board (PPIB), an arm of the Ministry, has sent legal notices to 13 IPPs for giving an advertisement in the newspapers through IPPAC (Independent Power Producers' Advisory Council) for allegedly violating Implementation Agreements (IAs). Two more legal notices are expected to be issued through Central Power Purchasing Agency (CPPA) for alleged violation of Power Purchase Agreement (PPA) and violation of commitments.

The legal notice issued by the PPIB to 13 IPPs highlights the following: (i) Implementation Agreement of September 18, 2007 was executed by and between the Company and the President of the Islamic Republic of Pakistan for and on behalf of GOP; (ii) pursuant to the terms of the IA, GoP guarantee of November 14, 2007 for payment obligations of the power purchaser under and pursuant to the PPA was issued to the company; (iii) the contractual framework pursuant to the IA and the terms of the guarantee provides a detailed mechanism in relation to rights and obligations of the parties thereto respectively including but not limited to Dispute Resolution, Notices, Confidentiality etc; (iv) the company, in excess to the contractual framework has resorted to extraneous means to malign the GoP and its entities, initially got published in two newspapers on March 5, 2017, an advertisement with the heading "circular debt soaring again" containing ill-founded, baseless, disparaging, maliciously false statements and insinuations through Independent Power Producers Advisory Council (IPPAC); (v) the company, thereafter, purportedly called upon the GoP guarantee without adhering to the terms and conditions of the IA and the guarantee; (vi) despite making such purported call on GoP guarantee which was not admissible and process-able as per the terms thereof hence rejected, the company once again, got published in newspapers on March 6, 2017 and March 8, 2017, advertisements containing therein similar contents as of advertisement o f March 5, 2017, however with an addition of negative campaign as to the countdown of the purported GoP default; (vi) despite rejection of purported call on the guarantee by PPIB through its letter receipt was acknowledged by the company in a meeting held on March 13, 2017 and commitment of the company to resolve all issues/matters under and in accordance with the contractual framework, the company once again got published on March 6, 2017 , advertisements conveying therein postponement of the said purported call on guarantee for another 10 days without having any legal basis and valid claim lodged with the GoP and ; (vii) the advertisements and subsequent advertisements contained intentional and knowingly untrue and incorrect facts and figures, evidencing the presence of improper and wrongful motivation being maliciously and tainted with bad faith.

According to the PPIB, the legal authority of the IPPAC is also called to question to make such a public claim against the GoP and its entities considering that neither the GoP nor any of its agencies or wholly owned companies has entered into any legally binding contract to purchase power or matter incidental thereto from the IPPAC. The re-course of any claim or dispute, notice or disagreement as stipulated in the IA and the guarantee cannot be made by a third party, thus the GoP reserves its rights to proceed against such 1PPAC and its officials in its capacity as its purported representations

The power sector " facilitator" further stated that 'libelous' publication contained in the advertisements has compromised efforts of the GoP to facilitate and boost local as well as foreign investment in the country and publishing of such 'malicious' advertisements is construed as serious attempt to distort the factual scenario and propagate a false and misleading perception of panic, unrest and distress within the industry as well as public at large to harm the national interests and tantamount to create civil unrest by alleging the sovereign default.

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"The contents of the advertisements have also scandalised sub-judice matters before competent courts unlawfully and illegally against the settled legal norms and to which the courts have exclusive jurisdiction to take cognisance thereof and accordingly appropriate proceedings may be initiated against the company," PPIB added.

Managing Director PPIB argued that the contents of the advertisements, without having regard to the contractual rights and obligations of the parties, published for circulation to public at large, in extremely uncalled for, baseless, flippant, waggish assertions and threats, is a serious continuous attempt by the company to hamper peaceful resolution of disputes and to jeopardise conducive investment climate and initiatives undertaken by GoP in relation thereto, being against the national interest, is required to be dealt with in accordance with the applicable laws of the land.

IPPs have been directed to denounce the contents of the advertisements and retract the advertisements and subsequent advertisement in the same manner and mode immediately and tender an unconditional written apology within seven days from the date of issuance of this legal notice.

IPPs have also been directed to refrain from any such libel and disparaging statements with immediate effect and any sort of publishing, directly or otherwise, for public at large or any specific interest group or persons either through print or electronic media or through any other mode having circulation to general public or any specific interest group or persons in relation to matters required by the Parties to be resolved under and in accordance with the terms of the IA and the Guarantee or otherwise;

MD PPIB has also threatened that in case of failure on IPPs part to comply with the legal notice and/or any procrastination GoP without prejudice to any other legal rights and remedies under the IA and laws of Pakistan and shall have the right to initiate legal proceedings (civil and criminal) including but not limited to file suit for defamation and/or damages at their risk and costs.

Barrister Asghar Khan, a leading attorney of energy matters, when asked to comment on the situation, argued that there is a need for defusion of confrontation and further aggravation between the Government and IPPs. There should be mediation between the Government and the IPPs in accordance with contractual commitments and rights and obligations of the parties. As an initial step the outstanding amounts should be reconciled and payment of outstanding amounts be negotiated in a structured manner that provides relief to the investors and consumers.

He suggested that Nepra as a regulator should intervene suo motu for resolution of dispute as per its powers and functions under law to avoid any adverse effect on the operation of electric power services and for ensuring continuity of power supplies. On the status of project agreements with IPPs, he was of the view that the project agreements although marked as confidential are public documents and their terms and conditions are open to public scrutiny. He maintained that this information is required to be in public domain for ensuring transparency.

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THE RUPEE: Rates firm

RECORDER REPORT

The rupee sustained its overnight levels against the dollar in the proccess of trading, dealers said The rupee did not show any visible change versus the dollar for buying and selling at Rs 104.85 and Rs 104.86 respectively, they said.

INTERBANK MARKET RATES: OPEN MARKET RATES: The rupee maintained overnight levels against the dollar for buying and selling at Rs 106.30 and Rs 106.50 respectively, however it gained 15 paisas in terms of the euro for buying and selling at Rs 114.60 and Rs 116.10 respectively, they said.

In the second Asian session, the dollar limped off multi-month lows against major peers, with much of the lift from the "Trump trade" now gone. The greenback had taken a beating as market participants saw the prospects for a US fiscal spending boost from President Donald Trump significantly diminished by his failure to pass a key healthcare reform bill.

"Clearly, the dollar is reacting to concerns that President Trump might not be able to push through his legislative agenda, given the fact that they've ditched, at least for now, healthcare reform," said Mitul Kotecha, head of FX and rates strategy for Barclays in Singapore. The dollar was trading against the Indian rupee at 65.035, the greenback was at 4.415 in terms of the Malaysian ringgit and the US currency as at 6.885 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Tuesday; 79.66-79.67 (previous 79.65-79.65).

Open Bid	Rs. 106.30
Open Offer	Rs. 106.50

Interbank Closing Rates: Interbank Closing Rates for Dollar on Tuesday.

Bid Rate	Rs. 104.85
Offer Rate	Rs. 104.86

RUPEE IN LAHORE: The Pak rupee was unchanged on buying side while it appreciated by 10-paisa on selling side against the greenback in the local currency market on Tuesday.

According to currency dealers, the trading of the greenback resumed on its overnight closing trend of Rs 106.10 and Rs 106.50 as its buying and selling rates, respectively. At the close, no change in its value took place as it sustained its overnight closing trend of Rs 106.10 on buying counter.

However, in the absence of selling spree, it slid to Rs 106.40 on selling counter respectively, they added. Moreover, the local currency showed stability and stayed unchanged on buying side at Rs 132.10 against the British pound. However, it appreciated on selling side and ended higher at Rs 133.00 as compared to Monday's closing rate of Rs 132.80, they said.

RUPEE IN ISLAMABAD AND RAWALPINDI: The rupee remained firm against the dollar at the open currency markets of Islamabad and Rawalpindi here on Tuesday. The dollar opened at Rs 106.50 (buying) and Rs 107 (selling). It closed at the same rate. Pound Sterling opened at Rs 130 (buying) and Rs 131.50 (selling). It closed at the same rate.

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Audit of banks:

FBR to implement uniform WHT system

SOHAIL SARFRAZ

The Federal Board of Revenue (FBR) will implement a uniform system of withholding tax audit of banks to streamline withholding tax collection from banking sector on real time basis. Sources told *Business Recorder* here on Tuesday that the initiative of withholding tax audit of banks was taken by Regional Tax Office (RTO) Rawalpindi.

The guidelines on the withholding tax audit of banks were prepared by the said RTO and Chief Commissioner RTO Rawalpindi Muhammad Tanvir Akhtar shared the procedure with the FBR. The FBR discussed the withholding tax audit of banks with the Chief Commissioners of Large Taxpayer Units (LTUs)/RTOs having jurisdiction over banks. An in-depth analysis of the said procedure was carried out by the FBR with the concerned LTUs/RTOs. The said LTUs and RTOs have fully endorsed the new system of banking audit which would be implemented across the country. A consensus has been developed among the FBR and its field formations that the new audit system of banks has addressed all key issues of banking sector.

After obtaining approval of the FBR Member IR Operations, the FBR has circulated the procedure of withholding tax audit of banks to the concerned LTUs/RTOs having jurisdiction over banks for compliance, sources said.

Sources said that the beauty of the new system is that it would ensure privacy and confidentiality of client's data of banks. The system has also addressed all issues raised by the banking sector. The guidelines of RTO Rawalpindi on the withholding tax audit of banks revealed that commercial banks in Pakistan normally avoid any type of withholding tax audit, mainly quoting the following reasons:

Firstly, banks have fully developed centralised & credible software for tax withholding which works in a foolproof manner. Secondly, withholding audit trespasses into the privacy and confidentiality of their client's data. Thirdly, the volume of banking transactions is so huge that physical checking is neither possible nor advisable. Fourthly, as withholding agents banks are rendering free services to FBR which in return should further burden the banks. The real irony is the fact that IR field formations holding jurisdictions over the banks tend to accept the said reasons without raising even very valid questions.

Notwithstanding the merits/de-merits of aforesaid reasons put forth by the banking sector the real question is why to conduct the withholding audit of banks. Keeping in view bank's core business (money business), the risk of misuse of available government money is quite high. Inland Revenue (IR) Wing's increasing dependence on banks has gradually eroded the writ of tax department which needs to be restored, report said.

Various studies and exercises conducted by tax authorities confirm the factum of tax avoidance in bank's withholding regime. Bank's sample withholding audit during FY 2011-12, steered by Directorate General I&I-IR and conducted by LTU Karachi and a study on bank's deductions u/s149, conducted by RTO Rawalpindi during 2015-16 are witness to this assertion, it said.

A recent study conducted by RTO Rawalpindi, (which has been shared at the Conference of Commissioners (Tax Withholding) held at FBR on 21st February 2017) opens a new window in this area. During this study it has been revealed that all banks, operating anywhere in the world open, maintain and operate General Ledger A/Cs(hereafter GL A/Cs) for tax withholding purposes. GL A/Cs function in line with the cardinal accounting principle ie double entry system. During normal banking operations whenever and wherever A/C of any bank customer, employee, related parties or banking company itself is debited on account of tax deduction/collection, simultaneously a credit entry has to be passed in some corresponding A/C. Though any specific title of such corresponding A/Cs is

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immaterial, yet generally these destinations A/Cs are termed as GL A/Cs. These A/Cs are actually withholding tax A/Cs, exclusively meant for tax deduction/collection. The field formations holding jurisdiction over the respective banks are fully entitled and authorised to excess the said GL A/Cs as privacy provisions do not apply here. It is neither client's privileged and personalised data nor it entails any tax probe in any individual case, the report said.

The RTO Rawalpindi report said that the exercise of bank's withholding audit can be divided into two major components ie withholding tax audit under customers related provisions and that of bank related provisions. For both audit segments following course of action is recommended for a quick, directional and meaningful withholding audit of banks. This withholding audit module is based on RTO Rawalpindi's aforesaid snap/test audits of bank's withholding regime.

Bank's Withholding Audit: Customers related provisions: IR field formations having jurisdictions over the banking companies may draw the following check list along with the recommended course of action: Firstly, a complete and exhaustive list of bank branches (with branch codes) of the bank under audit should be prepared. (There can be situations where withholding provisions get invoked even at overseas branches of Pakistani banks). Secondly, preparation of a complete and exhaustive list of withholding provisions (after consulting bank's latest audited accounts) attracted in the cases of each individual bank. Thirdly, requisitioning of the details of GL A/Cs, opened, maintained and operated by the bank under audit for tax withholding purposes. Fourthly, obtaining complete bank A/C statements of said GL A/Cs for the period under audit. Once GL A/Cs statements for the period under audit are obtained, the following audit steps are recommended to check the veracity of banks version.

Check list also included chronological accuracy: complete data (date wise & month wise) is available. Structural accuracy ie tax withholding from all branches (to be identified through specific branch codes) is being reflected. Branch wise segregation would further help in this regard.

Transactional accuracy: The nature and volume inflow of credits from branches exactly matches with outflow towards state exchequer. This is the most important aspect of the whole audit because the possibility cannot be ruled out that taxes withheld by the banks are remitted to the tax department against bank's own tax liabilities. Procedural accuracy: Timelines as prescribed under law are fully complied with. While checking procedural accuracy audit party may like to check the total time consumed by the respective branches and HQs both. Penalty for delay alone may result in creation of a substantial tax demand.

Cross-sectional accuracy: That adjustable and non-adjustable taxes collected/withheld by banks are not mixed with each other. Similarly profit posted by various branches need to be cross-matched with the taxes deducted against the profit. Legal accuracy: The mechanism for segregation of filers/non filers, application of withholding tax rates, and above all the mechanism for allowing exemptions need to be checked under various withholding provisions.

Banks Withholding Audit: Bank related provisions: The concerned field formations may draw the following check list along with the recommended course of action: In case of salary, check list include complete details of house/car and other personal loans/advances and stocks/shares (respective bank) availed by bank employees/executives so as to see tax treatment of perquisites; details of all incentive/reward schemes along with payments made during the period under audit; documentation mechanism while allowing tax adjustments against current withholding liability; tax withholding treatment in cases of employees hired through outsourcing/HR consultants and payment mechanism and timelines for deduction & transmission.

In cases of rent of hired premises, list of hired properties and rent paid (for bank operations); list of cases where adjustable/non-adjustable advances (including amounts advanced for the construction or refurbishing of premises) or refundable securities have been paid; list of cases where through contractual arrangement regular repair & maintenance is being made and property taxes are being paid by banks; list of cases where private residential houses, rest/guest/farm houses & apartments have

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been hired by the bank.

In cases of contracts & supplies, list of all contractors and suppliers with amounts paid u/s 153 during the period under audit; random cross-checking of filers/non filers; accuracy of tax rates and rational & mechanism for exemptions. In cases of brokerage/commission, check list included details of payments made under above heads during the period under audit.

In case of auctions, the check list included details of auctions (forfeited properties, vehicles, plant & machinery and stocks) made during the period under audit (similar other provisions can be added keeping in view the cases of individual banks).

Online tax withholding audit: Future course of action: Directorate General (Withholding) IR may like to steer online audit of bank's withholding operations. The rationale and proposed mechanics of this exercise revealed that the GL A/Cs are actually withholding tax A/Cs, exclusively meant for tax deduction/collection, therefore the field formations holding jurisdiction over the respective banks are fully entitled and authorised to ask for direct/ online excess to the said GL A/Cs.

Moreover banks provide online access to their customers whereby they can ascertain debit/credit transactions, transfers to/from and balances of their respective A/Cs. Tax department deserves the same for GL A/Cs meant for parking and transmission of withholding tax collection/deduction.

Under the proposed mechanics for online withholding tax audit, the RTO Rawalpindi report suggested the development of uniform software, integrated with all withholding tax related GL A/Cs, maintained by the banks. This access, by no means aims at customers individual/personalised data, therefore it should not create any alert in the banking sector, including State Bank of Pakistan. This action is permissible u/s 237A of Income Tax Ordinance, 2001.

The aforesaid software may hyperlink all withholding tax related GL A/Cs maintained at individual bank branches with the centralised GL A/C at bank HQs. This linkage would facilitate cross-verification of the veracity of individual tax withholding transaction ie nature, volume and time frame of deduction and final payment.

This software may provide window for queries raised by the audit officer and the response by the banking company, ideally visible to the supervisory officers as well. Apart from transparency this move would showcase the quality of audit observations and the final settlement.

This IT application would streamline the tax withholding processes in banking sector on real time basis, in a way that over the period of time vigilant monitoring of withholding taxes shall replace the formal and cumbersome withholding tax audit, the RTO Rawalpindi report added.

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Tax collection/deduction:

FBR unveils draft of amendments to IT rules

RECORDER REPORT

The Federal Board of Revenue (FBR) has proposed change in the procedure for collection/deduction of tax by a person other than the federal/provincial governments under section 160 and Sixth Schedule of the Income Tax Ordinance 2001. Through SRO 206 (1)/2017 issued here on Monday, the FBR has issued draft of certain further amendments to the Income Tax Rules, 2002.

Under rule 43 (payment of tax collected or deducted), as required under section 160 and under the Sixth Schedule to the ordinance the tax collected or deducted under Division II or Division III of Part V of Chapter X of the Ordinance, Chapter XII of the Ordinance or Sixth Schedule to the Ordinance shall be paid to the commissioner by way of credit to the federal government: Where the tax has been collected or deducted by the federal government or a provincial government on the day the tax was collected or deducted.

In the aforesaid Rules, in rule 43, for clause (b), the following shall be substituted, namely: "(b) where the tax has been collected or deducted by a person other than the federal government or a provincial government,-

(i) by remittance to the government treasury or deposit in an authorised branch of the State Bank of Pakistan or the National Bank of Pakistan, within seven days from the end of each week ending on every Sunday; and (ii) by remittance abroad to a non-resident through State Bank or any other banking company, prior to remitting abroad of the amount from which tax is to be deducted or collected," proposed amendment added.

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CPEC: framing the right policy issues

Now that the majority of CPEC early harvest energy and infrastructure projects are well underway, Pakistan needs to think about what it wants to achieve out of CPEC. As Asad Umar appositely put in a recent BR Research interview "I keep asking the government that you are showing such beautiful black roads in Balochistan, but can you tell me which Pakistani products will flow on this road to which Chinese market? What is our competitive advantage in those products? Where in Pakistan will they be produced? Who will produce them? And the answer to all of the above is we don't know."

Fortunately, these questions are now at least being asked, and research on these topics from chambers and business associations has kicked off. However, a strong partnership is needed between the public and private sectors to tap the most out of CPEC. The Consortium for Development Policy Research (CPDR) hosted a policy talk last week titled "How local business can benefit from CPEC", which identified some good points about this still elusive subject.

According to Hassan Khawar, a public sector reform expert, the government should take heed from the Chinese who let the private sector take the lead in formulating the economic strategy of setting up industries in specific regions. Since the signing of the FTA a decade ago, Pakistan's trade deficit with China accounts for 40 percent of our total trade deficit now.

Clearly, this fact highlights the importance of preparation when it comes to policy interventions for CPEC. Some pertinent questions that need to be answered include: How do policymakers wish to structure Pakistan's economy in the long run? The aim here should be to transition from our current labour intensive low skill bracket to a high skilled knowledge economy. Granted it will take time, but that is the reason it is classified as a long term goal.

Another important aspect that needs to be taken into account is the negotiations with the Chinese to get a fair deal. But the fairness depends on awareness; so a lot of homework still needs to be done to frame the kind of policy initiatives that will transform the local industry.

The government also needs to put in a lot of thoughts in the upcoming renegotiation of the FTA with China in a post CPEC scenario. It is imperative that extensive private sector consultation be done before analyzing any trade terms with our Chinese counterparts.

Lastly, when it comes to incentives, Mr. Khawar importantly pointed out that there should not be blanket incentives; rather they should be aimed at specific industries that need to be promoted for a given time period. In addition, preference should be given to provide back loaded incentives for industrial zones such as tax credits for R&D expenditure.

CPEC has the potential to be more than some energy and infrastructure projects, and a big catalyst in making that happen will be the policy interventions for promoting Pakistan's economy. If done correctly, these have the power to unleash the true potential that an economic corridor could provide.

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Reducing trade costs to promote exports

Salamat Ali

Pakistan is making strenuous efforts to increase its trade flows. It has automated its border clearance procedures and recently signed the WTO's Trade Facilitation Agreement (TFA). Earlier, it made some fundamental changes in its trade policy; for instance, it introduced zero-rating scheme for vital exporting sectors in 2005 and subsequently signed trade agreements with China, Sri Lanka and Malaysia. These reforms have contributed to increase in trade flows but the country has yet to see the appropriate trade response commensurate with its trade potential. This article analyses the issue of trade promotion from a micro perspective and makes some recommendations to make Pakistan a trading place.

During the last decade, the dynamics of international business have changed rapidly. Previously it was generally thought that countries engage in trade but now it is widely believed that it is the firms, not countries or industries, that conduct international business. A cursory look at the trading pattern of Pakistan's exporters indicate that most of them sell large quantities in the home market. This is because international trade is costly, particularly in Pakistan (Figure 1). Before engaging in trade, firms must incur fixed and sunk costs of production, transportation, and development of distribution network in export markets. A firm should be able to meet these costs and make substantial operating profit. These costs are incurred upfront but profits are deferred and uncertain. Therefore, these costs deter most firms from engaging in international markets.

Broadly speaking, there are three categories of trade costs along the supply chain: behind the border, at the border, and beyond the borders.

Behind-the-border costs pertain to transportation of goods from factories and farms to gateway airports or seaports, as well as other barriers, such as credit constraints, and product and labour market regulations. Geographically Pakistan is a semi-landlocked country with access to seaport through the Arabian Sea only but its manufacturing and exporting activities are unevenly distributed in the hinterland. The most important component of trade costs relates to inland transportation. Owing to long internal transportation, Pakistan's geography becomes a natural non-policy barrier to trade through sea. Fortunately, the China Pakistan Economic Corridor (CPEC) project would reduce trade costs within Pakistan by significantly increasing connectivity. The CPEC will provide a network of road and railways to link remote manufacturing facilities in hinterland to seaports of Karachi and Gwadar. This improved connectivity will reduce the costs of transportation and curtail travel time. However, these behind-the-border costs are just one component of cost of doing international business.

Second important component of trade costs pertains to crossing international borders. At-the-border costs involve preparation and filing of documentation, and chasing them with customs authorities, freight forwarders and shipping agents. Pakistan has streamlined these procedures to a great extent. Reforms in customs administration and the enhanced use of information and communication technology have significantly reduced these costs. These border-related costs would drop further over time because of the ongoing reforms, especially as the implementation of the TFA sets in.However, one important component of trade costs at the border is relatively higher import tariffs, which needs rationalisation. Like many other developing countries, Pakistan obtains a substantial share of revenues from border taxes. Although the rate of customs duty has dropped substantially, the effective rate has not changed much because of many other taxes levied at the import stage. The ADB reckons that Pakistan's import taxes are highest in the region.

Relatively higher border taxes directly affect Pakistan's trade in three important ways: i) they impede the use of imported inputs as industrial raw materials for exports. As exports and imports are two sides of the same coin, a tax on imports is basically a tax on exports; ii) high import tariff shields inefficient domestic producers. Tariff

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rationalisation will remove this protection and foster competition, which in turn will push these inward focused firms to explore international markets, leading to an increase in exports; and iii) the reduced tariffs will improve cash flows of existing exporters and incentivise them to expand their output and diversify their products as big exporters are also big importers.

The third component of trade costs relates to market access beyond the borders. Pakistan's trade regime, which so far has been multilateral in nature, needs considerable revisiting. As multilateral trading system has not made much progress, the world stands divided in various regional trading blocs. Currently more than 700 free and preferential trading agreements (FTA/PTA) exist between WTO members and Pakistan is a member of only six such agreements. Moreover, the world is witnessing the emergence of mega trading blocs such as Trans-Pacific Partnership, and Transatlantic Trade and Investment Partnership in Asia and Europe, and the continent-wide FTA in Africa. Pakistan needs to engage in these regional and extra-regional agreements to improve the comparative advantage of its export-oriented firms. The increase in market access owing to the PTAs could incentivise more firms into exporting, and existing exporters to expand their product set. Pakistan's own FTA with China is a best example of the trade effect of these agreements. Pakistan signed FTA with China in 2007. At that time, only 1,100 firms were exporting to that market. Last year, the figure was around 2,000, raising the trade volume from $3 to $16 billion.

To facilitate exports, Pakistan needs to take a holistic approach to reduce trade costs along the supply chain. The CPEC will reduce behind-the-border trade costs but the country still needs to focus on reducing trade costs at the border by rationalising tariffs, and those beyond the borders by negotiating trade agreements. Moreover, it needs to focus on upgradation of skills which are critical to increasing production capacity, and a country can only export what it produces.

(The writer is an empirical trade economist pursuing a PhD in the University of Nottingham, UK. He can be reached at Salamat.ali@alumni.lse.ac.uk.)

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Hectic trade activity on cotton market

RECORDER REPORT

Hectic trade activity was witnessed on the cotton market on Tuesday as some mills indulged in forward buying as ginners were ready to oblige them, dealers said. The official spot rate was unchanged at Rs 6750, they said. In Punjab, prices of seed cotton were at Rs 3700-3800, as per 40 kg, they said.

In ready session, around 22000 bales of cotton changed hands between Rs 6900-6950, they said. Cotton analyst, Naseem Usman said that growers from Shahdadpur sold 6000 kg of seed cotton to ginners for June 5-20 delivery (per kg Rs 3400 for the new season.

Commenting on the rise in volume of business today, he also said that the ginners were a little bit in a hurry, so that they preferred to sell at current levels as prices were matching with their psychological levels. Other brokers said that there is acute shortage of water for the new season, may cause decline in crop, particularly cotton production.

ICE cotton futures edged lower on Monday following a slide in agricultural commodities, which saw US wheat, corn and soybean futures touch their lowest this year. The May cotton contract on ICE Futures US settled down 0.53 cent, or 0.68 percent, at 76.94 cents per lb. It traded within a range of 76.90 and 77.73 cents a lb. Total futures market volume fell by 3,726 to 24,346 lots.

The following deals reported: 5000 bales of cotton from Karachi (Exporter to Mill) at Rs 7000, 1000 bales from Hasilpur at Rs 6850/6900, 400 bales from Liaquatpur at Rs 6785, 400 bales from Kabirwala at Rs 6900, 400 bales from Chistian at Rs 6900/6925, 1000 bales from Multan at Rs 6925, 1248 bales from Faqirwali at Rs 6925/6950, 400 bales from Ahmedpur at Rs 6950, 2600 bales from Sheher Sultan at Rs 6950, 2000 bales from Sadiqabad at Rs 6950, 3400 bales from Rahim Yar Khan at Rs 6975, 400 bales from Shujabad at Rs 7000, 400 bales from Fort Abbas at Rs 7000, 1200 bales from Lodhran at Rs 7000 and 1400 bales from Hasilpur at Rs 7100/7300 (Conditional), they said.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2016-17 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/16" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL

Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi	Spot Rate Ex-Karachi As on 27.03.2017	Difference Ex-Karachi in Rupees
37.324 Kgs Equivalent	6,750	135	**6,885**	**6,885**	NIL
40 Kgs	7,234	145	**7,379**	**7,379**	NIL

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Cotton little changed ahead of crop plantation report

RECORDER REPORT

ICE cotton futures held nearly flat on Tuesday as market participants remained cautious ahead of a federal acreage report due later this week. The market is likely to stay quiet until the crop plantation report is out, according to Rogers Varner, president of Varner Brokerage in Cleveland, Mississippi. The US Department of Agriculture will release its prospective crop plantings report on Friday. "I think the acreage is going to be quite big and even though I understand that exports are fabulous I'm bearish," said John Bondurant, a trader in Memphis, Tennessee.

The May cotton contract on ICE Futures US settled down 0.06 cent, or 0.08 percent, at 76.88 cents per lb. It traded within a range of 76.70 and 77.51 cents a lb. Total futures market volume rose by 2,474 to 26,829 lots. Data showed total open interest fell 907 to 281,927 contracts in the previous session. The dollar index was up 0.53 percent.

New York cotton

RECORDER REPORT

The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
May'17	77.00	77.51	76.70	76.88	14:20 MAR 27	76.94	-0.06	14721	76.94
Jul'17	78.25	78.81	78.10	78.28	14:20 MAR 27	78.31	-0.03	7473	78.31
Oct'17	-	75.53	75.53	75.53	14:20 MAR 27	75.53	-0.07	11	75.60

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Will someone give Exports a chance?

SHABIR AHMED

Pakistan is an issue-a-day country. Some tragic ones, like the terrorist attacks, that we cry over, promise action, and get on with life. Some sad ones - the Tayyaba torture case, for instance - that are deeply disturbing to our collective conscience, but we move on. Some not-so-comic ones - Panama, Haqqani, Ayyan Ali - that keep us riveted even when we know the end game.

Jammed in our revolving door of issues we lose sight of where we are headed. Not that the danger signs have not been posted - demographics, declining quality of human resource, growing inequalities, a dysfunctional political system where good governance is deemed bad politics, collapse of a shared value system.... Through this thicket of thorny issues, a little sapling is pushing itself out: Exports.

Growing trade deficit and decreasing FX reserves are making us notice this troublesome shoot that we would rather dismiss as a weed. Hallelujah. Even the Ministry of Commerce has taken note! Engineer is no longer blaming the world. He has now wheeled his guns towards the other Ministries.

MoC also wishes to breathe new life into the dead-on-arrival Strategic Trade Policy Framework 2015/18. With only a year of STPF remaining, it has sought stakeholder inputs for a 'mid-course' correction! Our exports continue to maintain their downward spiral. On the back of steady annual declines they are down from $25 billion in 2011 to $20.8 billion last year. First eight months of this fiscal they have tripped another 4%, contributing to a 34% growth in trade deficit.

This when the Accountant tells us the Economy has been doing extremely well - and notwithstanding the duty-free market access to the EU! Three fundamentals explain our failure to export more: We have not much to export, we have little incentive to export, and we have no compulsion to export.

We continue to try to sell what we produce and not produce what sells. Over the years, the export mix has not changed. It largely remains commodity-based, with little value addition and less innovation. This makes us susceptible to adverse terms of trade. Add to that the pathetically low levels of productivity and you have an uncompetitive export base.

We have also dis-incentivized exports by making the domestic market more lucrative through high tariff walls and unchecked cartelization. Established exporters are now shifting their focus from exports to the less competitive and growing market at home.

Foreign assistance, remittances, and borrowings that shift the burden to the coming generations (instead of the politically unpalatable alternative to have the present generation 'pay' for reforms), have combined to make the case for Exports less compelling. Plus, the promise of 'faux-FDI' (foreign companies targeting the protected domestic market through purchase of white goods, food, and fast moving consumer goods businesses; or banking, or producing electricity at guaranteed rates of return) makes it hard to keep your eye on the export ball. Yes, in years to come it will lead to large outflows, but the thinking seems to be 'live for today; tomorrow is someone else's problem'.

We have said this before and we say it again: the kind of quantum leap the Professor envisions, and the Engineer despairs of, is just not possible with our existing export base. The bribe of 'export packages' is not the answer. A pro-export industrial policy, that especially targets export-oriented FDI (eFDI), is. We urgently need an Industrial Policy that promotes export growth. You can include job creation, revenue generation, efficient usage of infrastructure and other deliverables as well, but give primacy to export growth. It should provide incentives - tax breaks/subsidies, protection, favourable access to inputs like capital and utilities - that are geared to predetermined export targets. Economies of scale, advanced technology, productivity -enhancement and professional management should be the Policy enablers. To check inefficiencies and rent seeking the incentives would need to be time-bound and on a declining scale, with penal clauses for not meeting the targets.

In theory, a robust domestic

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market can help exports: it provides the 'bulk' to support export of surpluses on marginal cost basis. Our industry, however, is structurally handicapped to compete in foreign markets. It lacks scale, technology, and managerial competencies; and has been rendered inefficient by the abominable protection levels and a weak competition commission.

Egregious protection levels, by definition, make the need for ever-increasing protection unavoidable. The inefficiency that protection breeds makes it harder for domestic industry to compete against foreign competition that is constantly innovating and raising productivity levels.

High import duties are antithetical to exports. There is ample empirical evidence to support that. Not just because a tax on imports translates into tax on exports, and reinforces anti-export bias by artificially making the domestic market more rewarding, but, more importantly, it defies integration into global value chains. It also discourages eFDI: it is instructive that we do not have a single instance of eFDI. All the exporting majors, even African horticulture, have a significant foreign footprint.

It is the third fundamental - Export not a priority - that skewers the export drivers: industrial policy, tariff rationalization, competitiveness. It is a classic case of policy choice: if the government thinks it can better manage the current account deficit through borrowings, rather than exports, the obvious policy preference will be to maintain high tariffs, strengthen the rupee - and withhold refunds.

Does it matter if this policy choice barters long-term gains for short-term expedience? Who is there asking for export-enhancing reforms that do exact a price? What we see is full page adverts begging for more regulatory duties, campaigns striking the fear of the Lord if we don't do something about imports from China. What we see is the SBP running down its reserves to protect an overvalued rupee. What we see is an industrial policy that favours import substitution, and thinks special economic zones (aimed at domestic market) will cure our manufacturing ills.

Many years ago, Stanford Professor Judith Goldstein argued in her well-received paper Impact of Ideas on Trade Policy 'change is most likely to occur in periods of crisis'. Haven't we got to the tipping point yet? Sorry Engineer. The fight is too much for you. We also understand why your able Commerce Secretary would rather train civil servants than fight a losing battle.

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NFC award

RECORDER REPORT

The Senate took the government to task for 'deliberately' delaying the 9th National Finance Commission (NFC) award and declared the delay as a violation of the Constitution. Article 160 (1) of the Constitution stipulates that "within six months of the commencing day and thereafter at intervals not exceeding five years, the President shall, constitute a National Finance Commission consisting of the Minister of Finance of the federal government, the Ministers of Finance of provincial governments." The President did constitute the NFC as required, however, negotiations have stalled due to what many perceive is Article 160 (3 A) of the Constitution which stipulates that "the share of the provinces in each award of NFC shall not be less than the share given to the provinces in the previous award."

The federal finance minister and other functionaries of his ministry have, in private conversations, repeatedly maintained that the 7th NFC award granting 57.5 percent of revenue from the divisible pool to provinces effective 2011-12 leaving the federal share at 42.5 percent is insufficient to meet the needs of the Centre. This claim is strengthened by the fact that in the last 9th NFC meeting held in December 2016 the finance minister proposed that the provinces allocate 3 percent from their gross divisible pool for a National Security Fund and an additional 4 percent for the development of Special Areas, including Federally Administered Tribal Areas, Azad Jammu and Kashmir and Gilgit-Baltistan. The provinces, as was to be expected, rejected the proposal and thenceforth there has been no meeting of the NFC in spite of the reported commitment by the federal government that it would schedule one in January this year. A recent press release by the Finance Ministry noted that the next budget would be formulated on the basis of the 2010 NFC award which has generated considerable angst in Sindh and Khyber Pakhtunkhwa - provinces which are not under the administrative control of the ruling PML-N. Or in other words, the onus of resolving issues relating to the next NFC would be left with the next government with elections scheduled in the first half of 2018.

This deferral, analysts argue, would provide the federal government with breathing space for the election year budget that would require considerable releases for PML-N parliamentarians for development work - a request from the latter has already been made to the Prime Minister during the meeting of the parliamentary committee of the PML-N on Tuesday. In addition, he may well be considering the possibility, though many may challenge the probability, of PML-N forming a government in provinces currently under the administrative control of opposition parties to facilitate his proposal to get the provinces to dish out 7 percent additional resources from the divisible pool for security and special development. However, he would be well advised to recall that the PPP government was unable to compel the Sindh government to allow the Federal Board of Revenue to collect sales tax on services on its behalf and it is doubtful if a provincial finance minister would toe the party line instead of the financial needs of their province.

Be that as it may, there are some sources of revenue that are not part of the divisible pool and which include gas infrastructure development cess (145 billion rupees), petroleum levy (150 billion rupees), other indirect taxes (ICT) 5 billion rupees. In addition, 16.9 billion rupees is collected under Workers Welfare Fund by the FBR and together they add up to 8.75 percent of the taxes collected by FBR and which are not shared by the provinces. In addition, the receipts from non-tax revenue have been declining given that Coalition Support Fund has not been reimbursed as quickly as requested and with this source likely to dry up soon one would hope that reliance on this source in the next budget should be realistic.

To conclude, the best way to meet the expenditure needs of the federal government is not to begrudge the provinces their due share but instead to raise revenue through implementing taxation reforms, including enhancing the tax base through heavier reliance on direct taxes (though not in the withholding tax mode as many of those taxes are on services/goods and are in the sales tax mode) that have been identified decades ago through multilateral technical assistance.

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Ginners fear large-scale bankruptcies

PARVAIZ ISHFAQ RANA

KARACHI: Around 400 ginning units are in trouble after the Federal Board of Revenue (FBR) increased its tax demand under the Normal Tax Regime (NTR).

The ginning industry has called the FBR's move "illegal and unjust". Sources said the FBR recently issued notices under the NTR, creating a huge tax liability for ginning units.

The ginning sector was earlier paying taxes under the Final Tax Regime (FTR) at the rate of one per cent.

There are around 1,300 ginning units in the country. Punjab and Sindh have 1,000 and 300 units, respectively.

Around 400 units are either closed or inoperative due to the unavailability of sufficient phutti (seed cotton) following short crops for the last two years.

Pakistan Cotton Ginners' Association (PCGA) Chairman Dr Jassu Mal T. Leemani told Dawn that ginners were paying 1pc final tax, but the FBR has now "illegally" placed them under the NTR.

Dr Leemani said ginning units paid 1pc tax on the value of lint under the FTR irrespective of their profit or loss. But switching to the NTR is forcing many ginners to declare bankruptcies.

The ginning sector is facing hardship as cotton production came down from 15 million bales to around 10m in the last two seasons.

Due to a production loss of one-third, 400 ginning units did not function this season, he said. "The industry will collapse if the FBR presses for more taxes. Many ginners have told the PCGA that they will not be able to operate their units in the next season," he said.

It will be more damaging if the ginners pass on the tax burden to growers, he said. Cotton growers have suffered immensely due to bad crops following heavy rain, pest attack and climate change for the last two seasons, he added.

Dr Leemani said he met the FBR chairman twice to resolve the issue, but it yielded no result.

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Advance deals begin in new cotton crop

THE NEWSPAPER'S STAFF REPORTER

KARACHI: Brisk activity witnessed on the cotton market on Tuesday amid reports that growers and ginners have started striking advance deals in the new crop.

Panic buying at the outset took the trading volume to a record level as ginners were keen in disposing of their unsold stocks, which have dipped below 400,000 bales.

Spinners lifted all lots offered for sale. It seems that ginners want to generate liquidity for the new crop which is expected to hit the market in June.

A deal for 6,000kg from new crop (2017-18) has been finalised at Rs3,400 per 40 kg between a grower from Badin, Sindh and a ginning mill of Shahdadpur, Punjab with delivery in June 5 to 20, market sources said. Meanwhile, the world's leading cotton markets gave mixed trend with New York cotton stood steady and China easy.

The following major deals were reported to have changed hands on the ready counter: 5,000 bales sold by an exporter to a spinning mill in Karachi at Rs7,000, 1,000 bales, Hasilpur, at Rs6,850 to Rs6,900, 1,000 bales, Multan, at Rs6,925, 1,248 bales, Faqirwali, at Rs6,925 to Rs6,950, 2,600 bales, Sheher Sultan, at Rs6,950, 2,000 bales, Sadiqabad, at Rs6,950, 3,400 bales, Rahimyar Khan, at Rs6,975, 1,200 bales, Lodhran, at Rs7,000 and 1,400 bales, Hasilpur, at Rs7,100 to Rs7,300 on credit.

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Sindh opposes gas provision to 'politically selected' areas

HASAN MANSOOR

KARACHI: Sindh Chief Minister Syed Murad Ali Shah said on Tuesday the provision of natural gas connections to politically selected areas at the cost of gas-producing Sindh province was a source of discontent and 'detrimental to national harmony'.

In a letter he wrote to Prime Minister Nawaz Sharif, the chief minister said: "I am writing with reference to [the] widely reported news related to provision of 97 natural gas projects worth more than Rs37 billion, mostly located in Punjab, by relaxing moratorium on expansion of such schemes."

Mr Shah said the expansion of new gas network in Punjab, which produced just about three per cent of gas but consumed over 42pc of the total gas produced in the country, was in complete disregard of Article 158 of the Constitution which accorded priority to the province where the well head was situated.

He deplored in his letter that currently, the Sui Southern Gas Company was not entertaining any request for provision of gas to new consumers — both in urban and rural areas of Sindh — citing moratorium imposed by the federal government.

"The company has even declined supply of gas to the Khairpur Special Economic Zone (SEZ) which is Pakistan's first industrial park with SEZ status under SEZ Act, 2012. Similarly, it has also refused to supply gas to nine small industrial estates in different parts of Sindh province for which the Government of Sindh has already paid to SSGC."

The letter said that in urban centres of Sindh, thousands of applications for domestic connections were lying pending, while in the rural areas the SSGC was still trying to complete the schemes funded by the Sindh government in 2012.

SINDH Chief Minister Syed Murad Ali Shah says Punjab produces just about three per cent of gas but consumes over 42pc of the total gas produced in the country.

The chief minister recalled that the last meeting of the Council of Common Interests on Dec16, 2016, had constituted a committee headed by the federal law minister to interpret constitutional provisions, including Article 158.

He added the committee held its meeting on March 3, 2017, and decided to submit policy for consideration of the CCI to implement the Article 158.

Mr Shah said the provision of natural gas connections to politically selected areas at the cost of the gas-producing province "is a source of discontent and is also detrimental for national harmony."

He went on: "I, therefore, request you to please direct Ministry of Petroleum & Natural Resources to implement Article 158 of the Constitution in letter and spirit and refrain from diverting natural gas from Sindh," urging the prime minister to remove the unilaterally imposed moratorium and direct the SSGC to provide gas connections to all domestic, industrial and commercial sectors in Sindh.

"I earnestly look forward for a positive response in this matter of national importance, please!" the letter concluded.

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Thar coal

Centre wants cut in expensive tariff, Sindh opposes

THE NEWSPAPER'S STAFF REPORTER

ISLAMABAD: The federal and Sindh governments seemed working on contradictory policy directions on electricity tariffs for future power projects based on Thar coal.

This became public when the Sindh government on Tuesday demanded continuation of existing expensive tariff for Thar coal-based power projects and the federal government demanded 15-20 per cent cut in existing rates that were offered to 'early bird' investors to open up Thar coal deposit.

At a public hearing presided over by National Electric Power Regulatory Authority (Nepra) Chairman Tariq Sadozai, independent experts on the other hand suggested that future rates for Thar coal-based power plants should be in line with competitive market rates for other sources and the practice of preferential treatment to any specific fuel should be brought to an end for a fair market environment.

The hearing was attended by an unusually large number of participants as the regulator sought views for international competitive based tariff for Thar coal investments instead of old incentivised cost plus tariff structure that expired a few months ago. The Nepra panel also comprised all the four provincial members.

Former member Planning Commission Syed Akhtar Ali said the 20pc return on investments for early investors was too high and ended up somewhere around 30pc when calculated also for tax exemptions and sovereign guarantees for debt arrangement. His argument was that other fuels on average were given 15pc internal rate of return and 1pc incentive should have been enough for Thar coal-based plants.

He said it was also misstatement that Thar coal was an unknown territory because plants were already operating across the border on the same structure. Also advised that interest rate of Kibor plus 3pc was very high which should be allowed on the basis of some professional study to have a long-term view.

A representative of the Private Power and Infrastructure Board (PPIB) told the hearing that the highly incentivised tariff for Thar power plants had already expired that offered guaranteed return on equity which should now be rationalised. He said it was a misdemeanour that investment would move out if return on equity was replaced with competitive bidding based tariff.

A note sent by the Ministry of Water and Power was read out at the hearing which advocated reducing levelised tariff for Thar coal-based power plants by up to 20pc. Nepra, noted with concern that the ministry had not deputed a representative to the hearing to take note of what was happening in the market and comments coming from all sides even though the ministry was one of the most important stakeholders.

The regulator has started suo motu proceedings for the development of new tariff for Thar coal-based power projects through reverse competitive bidding (lowest tariff) as the previous tariff expired on Jan 19, 2017 after completing its two year-term. The old upfront tariff ranged between 8.5 cents to 9.5 cents per unit for various capacities and funding sources.

The power ministry said the highly incentivised tariff for Thar coal-based plants was offered, and notified on Jan 20, 2015, due to lack of investor interest in the power sector at that time due to security reasons, uncertainties over infrastructure connectivity with Thar coal and expensive interest rates.

The situation has changed now, the ministry claimed, saying the policy objective has been achieved through higher investor interest in Thar particularly triggered also by CPEC investment. It said three Thar blocks of coal were now on the CPEC having a total capacity of up to 9,000 megawatts while the previous rate was applicable to 3,600MW of plants in different stages of implementation.

The ministry said the construction and engineering cost had dropped by 10-15pc over the past couple of years while interest rate had come down from 9.5pc to 5.75pc and the project completion time could be secured in 30-36 months against 48 months. It argued that investment now should be attracted in super-critical technology.

Shamsuddin Shaikh, the chief executive officer of Sindh Engro Coal Mining Company that is currently in the process of coal mining and setting up of power plant said the previous tariff was

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applicable to a total of 10 power plants currently in difference stages of implementation and demanded that the same tariff should be allowed for another four plants for the coal mine expansion.

He said even if the tariff was changed its notification should not be delayed beyond June 2017. He argued that the benefit of lower tariff should be weighed against non-expansion of coal mines and opined that even if the tariff appeared on the higher side its overall benefits would be greater.

A representative of Oracle Power working on another block of Thar coal said it would be unfair to offer 20pc internal rate of return for block-2 of Sindh Engro Coal and reduce it for others.

Representatives of the Sindh Investment Board argued that energy shortage is an extraordinary situation requiring extraordinary steps to encourage fresh investments in Thar to bridge this gap. The crux of the argument was 'don't disturb the existing arrangements until power production starts from Thar".

The Sindh government also sought extension in previous tariff for a few months because investors were upbeat in setting up of power plants.

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Banks advised to facilitate tax collection

THE NEWSPAPER'S STAFF REPORTER

KARACHI: In order to facilitate the collection of government duties/taxes, the State Bank of Pakistan (SBP) has advised the National Institutional Facilitation Technologies (NIFT) to provide a special clearing facility at 5pm on Friday.

In a statement on Tuesday, the SBP advised banks to keep their relevant branches open on March 31 until such time that is necessary to facilitate special clearing for government transactions.

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40 Kgs	7,234	145	7,379

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MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	104.50	104.70	106.30	106.50
UK	130.94	131.19	132.70	134.20
Euro	113.36	113.57	114.60	116.10
S.Arabia	27.87	27.92	28.25	28.45
UAE	28.45	28.51	28.90	29.15
Japan	0.9472	0.9490	0.9527	0.9727

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.84	6.09
Six months	5.88	6.13
One year	5.91	6.41

LIBOR

Special US dollar bonds for Mar 27

Three months	1.15189 %
Six months	1.42433 %

THE NEWS
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FBR may propose amending concealment of income, source of remittance laws

KARACHI: The Federal Board of Revenue (FBR) may propose major amendments to laws related to concealment of income and questioning the source of foreign remittances in the upcoming budget 2017/2018, official sources said on Tuesday.

The sources said a meeting to discuss the next year's federal budget was held in FBR headquarters, Islamabad last week to take input from tax offices before finalising the tax proposals.

Sources in Large Taxpayers Unit (LTU) Karachi said the unit had proposed changes to Section 111 and Section 111 (4) of Income Tax Ordinance, 2001 for taking action against concealed income which was discovered after five years.

Discussing the source of foreign inflows, it was suggested since the immunity from questioning was not available in any other law, the Income Tax Ordinance, 2001 should be amended.

An official of LTU Karachi said as per law the tax officials had been authorised to initiate legal proceedings against concealment such as: any amount is credited in a person's books of account; a person has made any investment or is the owner of any money or valuable article; a person has incurred any expenditure; and any person has concealed income or furnished inaccurate particulars of income.

The official, however, said the tax officials had been restricted to initiate legal proceedings in those cases that were discovered within five years.

The official said LTU Karachi had proposed that the time restriction in case of identification of concealment should be withdrawn, and the law amended so a person is liable to explain the source of income in case concealment is detected any time in the past years.

The unit also proposed amendment to monitor the inflows of foreign remittances in order to avoid money laundering incidences.

Under Section 111(4) there is exemption from questioning the source of foreign exchange remitted outside Pakistan through normal banking channels, and that is encashed into rupees by banks.

The FBR meeting also discussed the Protection of Economic Reform Act, 1992, which had given blanket immunity from questioning the source of foreign remittances. As per the FBR interpretation of the amendment made to the act in 2002, the immunity was withdrawn.

The official said the FBR authorities had agreed to further deliberate on the amended law, and would propose amendment to Income Tax Ordinance, 2001 to question the source of remittance sender. The official said the meeting was unanimous that the incentive had been reportedly misused and should not continue in future.

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SBP's banking conduct survey 2016

Banks dispose 0.772mln consumer complaints

Erum Zaidi

KARACHI: Banks managed to address almost all the consumer complaints received during the past year, the central bank said on Tuesday.

The State Bank of Pakistan (SBP), in its maiden banking conduct survey report, said banks received 0.781 million complaints from consumers and disposed 0.772 million in 2016.

"Empirically, the banks themselves handle and dispose of around 98 percent of the total consumer complaints whereas only two percent are escalated to Banking Mohtasib of Pakistan, SBP, courts, etc," it added.

"The quantum of complaints being received and handled at banks makes them a crucial arena of redressal for consumers."

The report was based on stock taking from the 50 banks and development finance institutions through a questionnaire focusing on the regulatory expectations regarding the following key drivers affecting complaint handling at the banks.

Last year the State Bank of Pakistan issued consumer grievance handling mechanism (CGHM) to banks. "It was encouraging to observe that around 74 percent of the respondents have revamped their complaint handling policies in 2016 signaling incorporation of the standards issued under consumer grievance handling mechanism," said the Bank.

Eighty six percent of banks have explicit policy on complaint handling. In 2016, private banks received 80 percent of consumer complaints, followed by Islamic banks (nine percent) and public sector banks (nearly eight percent).

Seventy eight percent of respondent banks have a full-fledged department for complaint handling. "It was also promising to note the change in reporting lines from business nodes to non-business/independent units like service quality," the Bank said.

Banks are required to put in place a complaint handling policy and delineate detailed procedures to deal with complaints for persistency and accountability. The SBP expects banks to address the possibility of conflict of interest, while adopting relevant structure of complaint handling function.

"It is expected that banks as per their clientele will develop and enhance complaint lodgment modes," the SBP said. The survey found that a total of 343 employees/officers exclusively work on complaints.

As per the complaints numbers provided by the banks, a complaint handling officer on an average dispose of at least nine complaints per day along with investigating other complaints, which appear to be on higher side defined in consumer grievance handling mechanism.

It further found that 60 percent of the banks have complaint management system (CMS). "When asked about the structure and integration of complaint management system, out of the 30 banks that have CMS, 60 percent asserted to have CMS that is integrative and can be used by branches, call centre, higher management, etc," it said.

The survey found that most common exclusion from the scope of consumer complaints is human resource issues. Likewise, exclusions of complaints lodged through unregistered numbers suggest a possible inconvenience for the consumers. "Non-inclusion of auto teller machine claims under complaints is also non-conducive to the essence of effective and responsible complaint handling," the bank said.

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Poor farmers face uphill battle with Pakistan's climate extremes

BAKRANI, Pakistan: Since his father died in 2011, Moeez Assadullah has been looking after his family's farm alone.

The 21-year-old tends the 3 hectares (7 acres) of land without the help of his two brothers, who lost interest in farming when they realised that more erratic weather was making agriculture an unreliable source of income.

They now work at a brick kiln in the nearby town of Larkana. But Assadullah has taken a risk, and come up with his own plan to adapt to shifting weather patterns.

Three years ago he stopped growing rice on the farm in Bakrani, a village a few miles from Larkana, in southern Pakistan's Sindh province. The crop was too labour intensive, and took too long to get to harvest, he said.

Now he squeezes out a living for his family cultivating vegetables that grow more quickly and require less water. "In view of the rapidly changing weather and upheaval in it, growing a six-month rice crop that requires huge irrigation and care was not a viable option compared to growing vegetables," he said.

Many of Pakistan's farmers are trying to adapt to changing climate conditions – a process that can prove difficult for those with little in the way of education or savings to help them make the required switches.

Richer farmers, with more land, money and education, meanwhile, are finding the switch easier. That reality suggests Pakistan may face a future where an uncertain climate forces the poor – who cultivate over 80 percent of the country's agricultural land - out of farming unless they get help, experts say.

Failing small farms could undermine government efforts to achieve sustainable agriculture and food security, and to eradicate poverty, hunger and malnutrition, experts warn. "Providing the poor farmers with required technical, financial and institutional support is key," said Khuda Bakhsh, an agriculture scientist at the COMSATS Institute of Information Technology in Vehari, in Punjab province.

In Bakrani, Assadullah, after abandoning rice, is growing traditional varieties of cauliflower, spinach, green chilli, cabbage, tomatoes and onion. He says that in his village many farmers with larger plots of land are adopting water conservation technologies, such as drip irrigation.

He would like to join them, but the installation costs – up to $700 per hectare – are too high, he says. But 80 km (50 miles) east, in Khairpur, 38-year-old Nawaz Somroo is using lasers to grow more cotton on his father's more than 80 hectares of land.

Unlike the self-trained Assadullah, Somroo is a graduate in agricultural science from Faisalabad Agriculture University, one of the Pakistan's top agricultural schools. With his education and access to more money, Somroo has been able to adopt improved cotton varieties with higher yields. He uses the latest laser technology to make his fields level, which helps him reduce water consumption by nearly 60 percent.

Somroo said that until 2012 his father cultivated a traditional cotton variety. But at the university, Somroo learned about a seed variety bio-engineered to be pest resistant and introduced it on the family farm. Yields jumped by about a third. Now, he says, other farmers consult him about ways to achieve similar improvements.

Akhter Ali, an agro-ecologist and food security expert at the International Maize and Wheat Improvement Centre's (CIMMYT) office in Islamabad, said Pakistani farmers who want to adopt climate-smart agriculture are hindered by a lack of technical know-how and financial resources.

But resource-poor farmers could be encouraged to stay in farming through things like on-farm demonstrations, help diversifying crops and adjusting the timing of cultivation, and better access to new crop varieties and water management techniques, he said. Credit schemes for small-scale farmers and subsidised access to technology could also help, he noted.

He said a recent CIMMYT study showed that farmers who adapted to changing weather had achieved 8-13 percent better food security than those who did not, and poverty was 3-6 percent lower. Pakistani provincial agriculture departments have launched a few programmes to boost farmers' ability to cope with climate change.

Starting this year, a three-year World Bank-funded effort is underway to help 16,000 small-scale farmers in Sindh province adapt their livestock and

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vegetable farming, said Sohail Anwar Siyal, the Sindh provincial agriculture minister.

The $88 million scheme aims to improve the productivity and market access of small- and medium-scale farmers by improving their knowledge and access to technology. Late last year, Punjab's chief minister also launched programmes to help farmers with everything from new financial support to a distribution of more than 5 million smartphones.

Apart from making up-to-date weather forecasts accessible, the phones will be used to send information about the latest cultivation technologies, farming methods, potential disease outbreaks due to abrupt weather changes, and measures to protect against extreme weather, he said.

The province will also make 1 million interest-free loans available to small-scale farmers and give free farmland to graduates of agriculture universities.

In 2016, the Gilgit-Baltistan provincial government similarly launched a seven-year, $120-million initiative for economic transformation through climate-resilient mountain farming, in collaboration with the UN's International Fund for Agriculture Development.

The effort has focused on everything from organising farmers into producers' groups to introducing high-value climate-resilient cash crops, said Rai Manzoor, Gilgit-Baltistan's food secretary.

Such measures are seen as key in Pakistan as summer monsoon rains, which have traditionally come in late June or early July and ended in September, have for several years arrived only in mid or late August and lasted into October.

"Focusing on young smallholder poor farmers and imparting to them new knowledge about coping with climate change impacts" – as well as helping with subsidised technology and small loans - is "critical for achieving household food security and poverty alleviation," said Sikandar Hayat Khan Bosan, Pakistan's minister for national food security. —Thomson Reuters Foundation

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Sindh CM writes to PM

While banned in Sindh, how gas is being supplied in Punjab

Azeem Samar

KARACHI: The Sindh chief minister wrote a letter to the prime minister on Tuesday asking him to implement Article-158 of the Constitution in letter and spirit by preventing the diversion of natural gas from Sindh to “politically-selected areas”.

Copies of the letter were sent to the federal petroleum and natural resources minister and the chief ministers Punjab, Balochistan and Khyber Pakhtunkhwa. The letter read, “I am writing with reference to widely reported news related to the provision of 97 natural gas projects worth more than Rs37 billion, mostly located in Punjab, by relaxing moratorium on expansion of such schemes. The expansion of new gas network in Punjab, which produces only three percent of gas but consumes over 42 percent of the total gas produced in the country, is in complete disregard of Article 158 of the Constitution which accords priority to the province where well head is situated.

"Currently, the Sui Southern Gas Company Ltd is not entertaining any request for provision of gas to new consumers - both in urban and rural areas of Sindh citing moratorium imposed by the federal government. The company has even declined supply of gas to Khairpur Special Economic Zone which is Pakistan’s first industrial park with SEZ status under SEZ Act 2012. Similarly, it has also refused to supply gas to nine small industrial estates in different parts of Sindh province for which the government has already paid to SSGC. "In the urban centres of Sindh, thousands of applications for domestic connections are pending.

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SECP grants authorisation to float new Rs500mln modaraba

ISLAMABAD: The Securities and Exchange Commission of Pakistan (SECP) has granted authorisation to Eman Management (Private) Limited (EMPL) to float Orient Rental Modaraba, having capital of Rs500 million, a statement said on Tuesday.

This is the second successive authorization by the SECP in the current month to float a modaraba, which shows the growing interest of prospective investors in Islamic finance especially in the modaraba sector.

The new modaraba will engage in providing rental equipment solutions, operations and maintenance services to its customers on ijarah basis. The equipment selected for rental will include a fleet of power generation equipment, commercial vehicles, material handling equipment and construction machinery, it added.

All the business transactions of the Orient Rental Modaraba will be in conformity with Shariah and based on the principles of risk and profit sharing.

The proposed paid-up fund of Orient Rental Modaraba will be Rs500 million, out of which modaraba certificates of Rs350 million will be subscribed by EMPL, ASJN Holdings (Pvt.) Limited, sponsors and associates while remaining certificates worth Rs150 million shall be offered to the public. The certificates of the modaraba will be listed on the Pakistan Stock Exchange.

Earlier, in terms of Section 10 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the federal government's constituted Religious Board had cleared and certified that the proposed business of the modaraba specified in its prospectus is not opposed to the injunctions of Islam.

It is expected that addition of Orient Rental Modaraba in the Non-Banking Finance sector would contribute in promoting business in conformity with the Islamic injunctions and provide further opportunities to the public to invest in Islamic financial institutions in the country.

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NA body directs textile ministry to facilitate cotton growers

Staff Reporter

ISLAMABAD - National Assembly Standing Committee on Textile Industry has directed the Ministry of Textile to facilitate the cotton growers by making Trade Cooperation of Pakistan (TCP) operational.

The meeting was held in Directorate of Marketing and Economic Research, Pakistan Central Cotton Committee PCCC, Multan under the Chairmanship of MNA Khawaja Ghulam Rasool Koreja. The committee also directed the ministry to coordinate with the government of Punjab for extending the lease agreement of the land of Central Cotton Research Institute Multan, said a handout from National Assembly Secretariat.

The committee recommended that incentives should also be given to the cotton industry to develop the interest of farmers in cotton growing so that the huge revenue could be added to the national exchequer. The committee was of the view that the strength of scientists and staff should also be increased in order to make the research work more effective in cotton growing.

The committee appreciated the efforts of the ministry for encouraging the growth of cotton by using modern techniques and methods however, recommended that awareness should be given to the cotton growers and farmers through electronic and print media which could be helpful to increase the cotton growth in the country. The committee recommended that Pakistan Central Cotton Committee (PCCC) should make efforts for increasing the area of cotton growing and also fixed the support price so that local farmer could be benefited.

Earlier, the committee was briefly apprised about the research work of new cotton varieties for better cotton production and improving soil health by using modern techniques and methods.

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SECP grants authorisation to float modaraba of Rs500m

Our Staff Reporter

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