Official Journal

MANAGEMENT ACCOUNTANT

Inside

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- Overview of Banking Sector and Impact of CPEC
- Reforms needed to Induce Banking Sector
- Comparison of Non-Performing Loans (NPLs)
- Unemployment and Micro Finance
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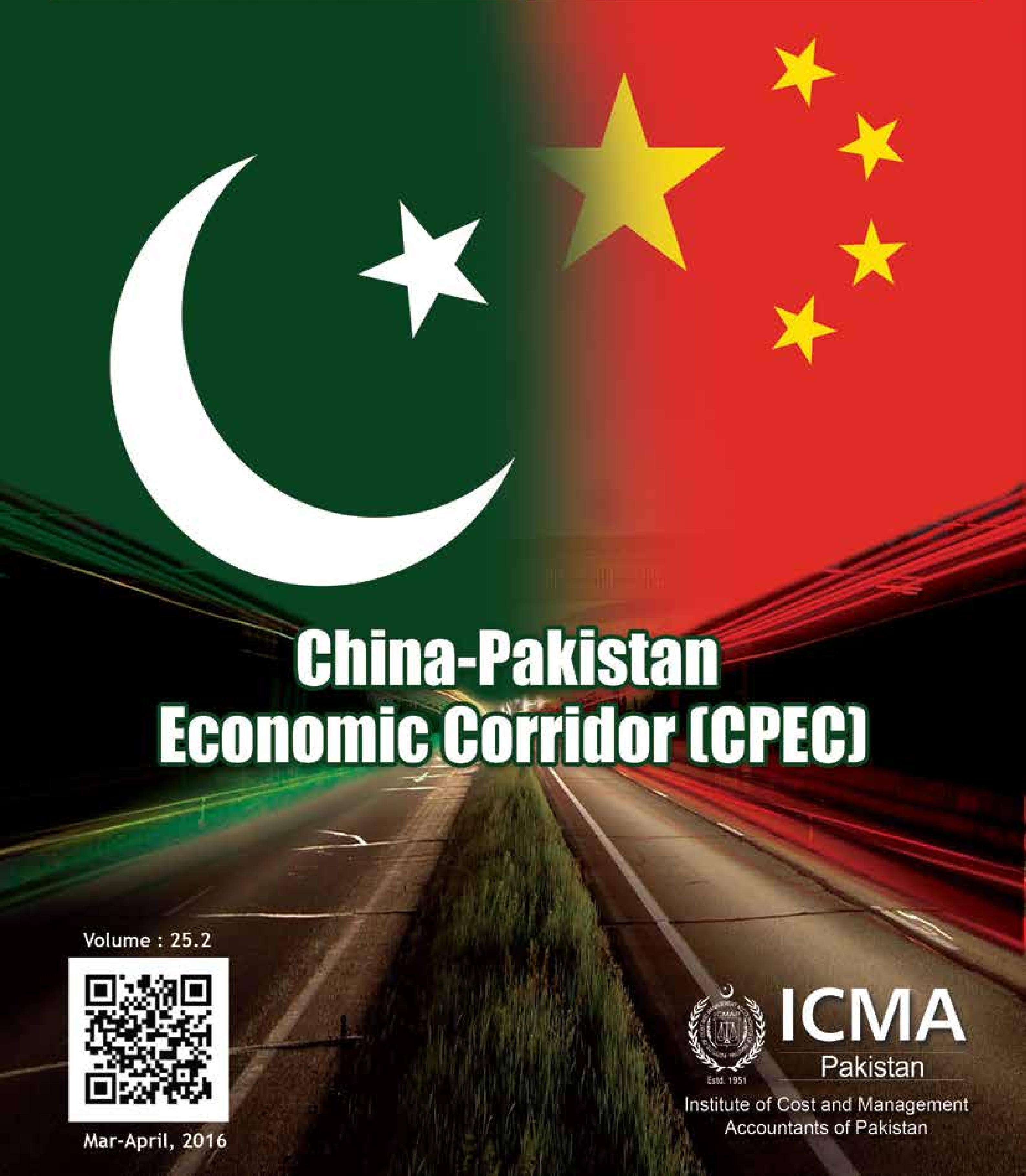


China-Pakistan Economic Corridor (CPEC)

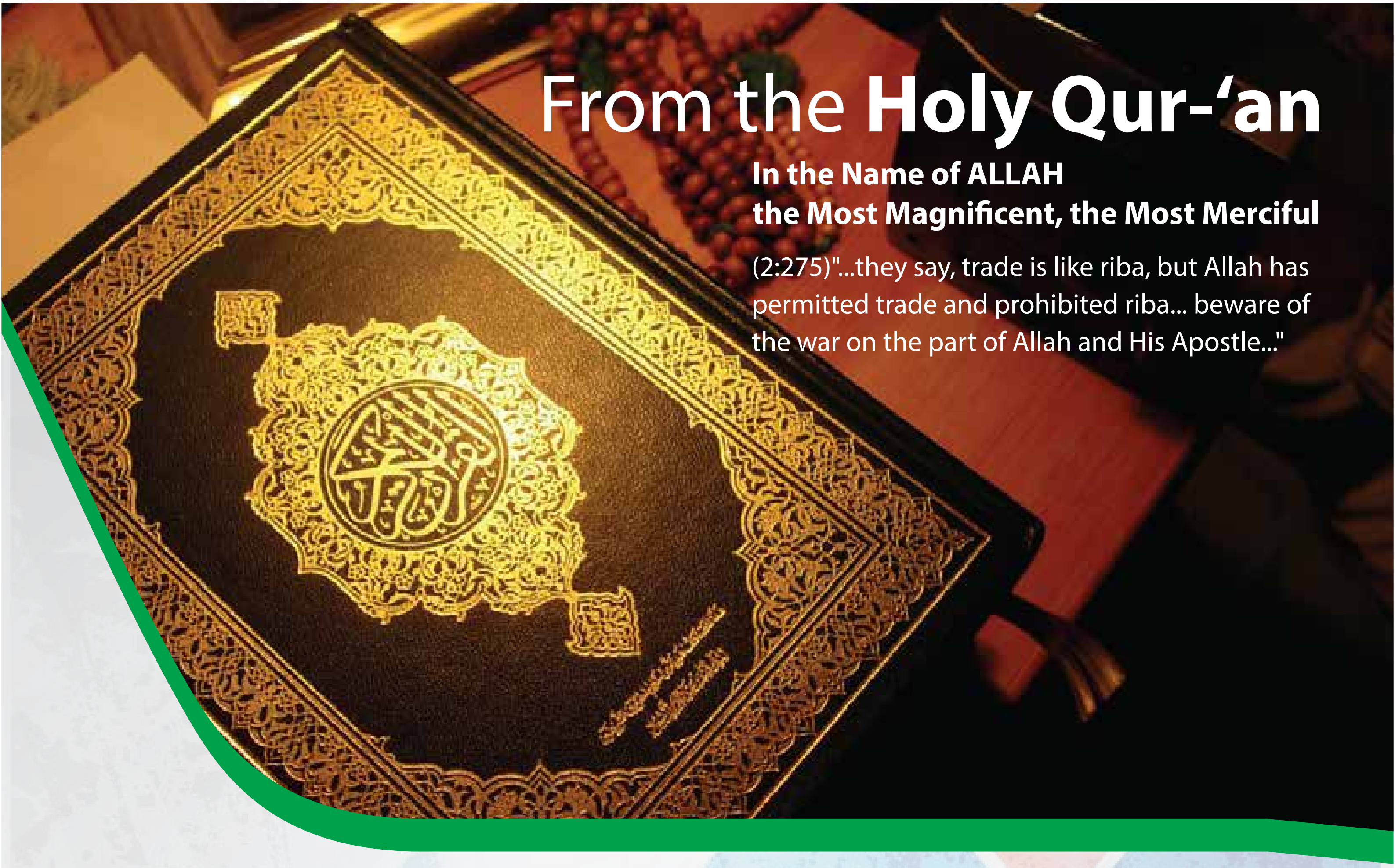
Volume : 25.2

Mar-April, 2016

ICMA Pakistan

Estd. 1951

Institute of Cost and Management Accountants of Pakistan



From the **Holy Qur-‘an**

In the Name of ALLAH
the Most Magnificent, the Most Merciful

(2:275)"...they say, trade is like riba, but Allah has permitted trade and prohibited riba... beware of the war on the part of Allah and His Apostle..."

Vision

To be the Preference in
Value Optimization for Business

Mission

To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy

Core Values

- Competence
- Innovation
- Ethics
- Transparency
- Professionalism

EDITORIAL

CHIEF EDITOR's DESK

The World Bank in its recent report has termed CPEC as the 'game changer' for Pakistan, however it says that to ensure that corridor delivers on its potential, the government need to address concerns and build consensus among all stakeholders. While the report acknowledges improvement in economic growth of Pakistan in FY 2015-16 in view of falling commodity and fuel prices; increased energy supply and better law and order situation, it has also hinted that the prolonged slowdown in China could diminish financial inflows to projects under CPEC.

The above observation by the World Bank supports the theme selected by Research and Publications Committee for the March-April 2016 issue of Journal, which is **"Readiness of Banking Sector to Optimize the China-Pakistan Economic Corridor"**. The basic objective of this issue is to assess the capability and future strategy of our banking sector to capitalize on the emerging business opportunities that lie ahead in shape of financing in CPEC projects.

The special message of Mr. Ahsan Iqbal, Minister for Planning, Development & Reform, who is the driving force behind the CPEC, has added significance to this issue. His encouraging comments that "I welcome the Institute to come forward and share their ideas and proposals on how to bring cost efficiency in CEPC related project" is certainly a morale booster for our Institute and an acknowledgement of the competency of CMA profession.

I am highly indebted to Mr. Sirajuddin Aziz, President & CEO of Habib Metropolitan Bank who responded swiftly to our request for giving time for interview. This shows the commitment of his bank towards CPEC. Apart from his interview, we are also including his article published recently on opportunities and Potential of CPEC. I am also much grateful to Syed M. Husaini, President and CEO of Askari Bank; Mr. Irfan Siddiqui, President and CEO, Meezan Bank; Mr. Azmat Tarin, President and CEO, Silk Bank and Mr. Hussain Lawai, President and CEO of Summit Bank for sparing time from their busy schedule to meet the interview team and sharing their candid views and thoughts.

In the **Focus section**, it is good to see a number of good articles by our members' viz. Mr. Mazhar Mahmood, FCMA; Mr. Badar Nadeem Ashraf, ACMA and Syeda Nuzhat Afreen, ACMA. The Research and Publications Directorate has come up with a well-researched paper in which the Non-Performing Loans (NPLs) of Chinese and Pakistani banks have been analyzed, in addition to evaluating the readiness of banking sector in both countries as well as private sector of Pakistan to optimize the opportunities emerging with the economic corridor. I hope you will find this paper quite informative and interesting.

In the '**Articles Section**', two articles authored by Mr. Ahmed Tariq Bhatti, FCMA and Syed Babar Ali, ACMA have been included which dilates upon the need for micro-financing in eradicating the menace of un-employment, and the costs to economy due to non-utilization of professional services of management accountants.

A Survey Report on "Budget 2016-17 Expectations' is also part of this Issue. This survey has been conducted by the Research Directorate to extract general public's views on forthcoming budget and to capture hopes and aspirations of professionals, students, teachers, traders, businessmen, housewives, etc from the forthcoming Federal Budget.

The '**Other Features**' segment include information on Mega Economic Ventures; Glossary of Management Accounting Terms, Reports on CFO Summit 2016 and Corporate Relations & Communications (CRC) activities.

Dear Readers, we are making all out efforts to improve the quality and contents of Journal. However, we are not getting the sort of feedback from our members that are required to help us evaluate our performance. We have hosted a 'Readership Survey of Management Accountant Journal' and also sent it to all members through email as well but the feedback is not upto the mark. I would urge our members to participate actively in this survey. Have a nice reading. ■

Mohammad Iqbal Ghori, FCMA
Vice President
Chairman, Research & Publications Committee

MANAGEMENT ACCOUNTANT
Official Journal of Institute of Cost and Managemenet Accountants of Pakistan
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May-June 2016

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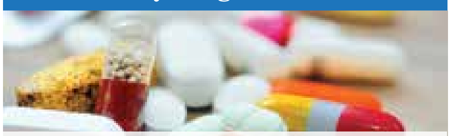
July-August 2016



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President's Message

China-Pakistan Economic Corridor or CPEC is the buzzword in our country and everyone is talking about its impact of Pakistan's economy. CPEC is a game changer for Pakistan. China is the driving force in the implementation of this gigantic project and hopefully will Insha Allah complete this project as planned. The development of Gwadar Port and economic corridor infrastructure would surely bring economic boom in Pakistan that would stimulate business activities, reduce unemployment and lead to overall growth and prosperity.

Involvement of the local banks in CPEC would be a daunting challenge. It was rightly thought by our Research and Publications Committee to bring out this issue of Management Accountant Journal on "Readiness of Banking Sector to Optimize the China-Pakistan Economic Corridor (CPEC). I hope that the articles, write-ups and research papers contributed in this issue would be of great help to the government and concerned government ministries to remove the hurdles that our banks are facing and to gear them to play a vibrant role in optimizing the business potential of CPEC.

Our Institute believes that the Government should consider to conduct comprehensive audit of each project to be undertaken under CPEC through federal and provincial authorities in order to remove any chances of corruption and ensure transparency on CPEC projects. The professional services of cost and management accountants (CMAs) may be utilized for technical evaluation and cost audit of these projects and the reports of such audits could be published on the website of Ministry of Planning.

Similarly, a number of Special Economic Zones (SEZs) are being planned to be constructed alongside the CPEC route where local and Chinese investors would be setting up different industries. The Government must consider announcing a special package of incentives such as concessional credits, subsidies, tax exemptions, reduction in rates of utilities (electricity, gas and water), technology up-gradation fund, etc to encourage the SME sector to set up ancillary industries to support the major industries in the SEZs.

At the Institute front, the National Council initiated new syllabus development exercise and entered into the phase of extensive consultation with the stakeholder which includes details deliberations with faculty, members, seeking opinion from members at large and inputs from the corporate sector. I am further pleased to share that this time National Council has declared Fall 2015 Session Examination results in the record time of 27 days (22 working days) which is 18 days (40 %) less than the standard benchmark of 45 days. It has broken all previous records of declaration of results and further set a new benchmark of declaring onward results in 30 days. I must congratulate the Examinations Committee and Directorate for this remarkable achievement. Another important decision by the National Council during this period was our new initiative to attract meritorious and career-oriented students towards the profession of Management Accounting. The institute besides various other initiatives for computerization and development of information systems has started working on revamping of website to make it more attractive and convenient in accessing information. It also includes mobile application for users to have responsive website while accessing from cell phones. We are committed to bring significant improvement for the profession and the institute and with continuous support of our members' community, I am optimistic we can Insha Allah achieve it. ■

Kashif Mateen Ansari, FCMA

SPECIAL MESSAGE

Ministry of Planning
Development & Reform

Mr. Ahsan Iqbal,
Federal Minister for Planning,
Development & Reform

> "I would welcome the institute to come forward and share their ideas and proposals on how to bring cost efficiency in CPEC related projects that would ultimately benefit the country and the region as a whole"

I am delighted to know that the Research and Publications Directorate of ICMA Pakistan is bringing out a special issue of its official Journal 'Management Accountant' on the theme of "Readiness of Banking Sector to Optimize the China Pakistan Economic Corridor (CPEC)". I congratulate ICMA Pakistan for their timely initiative which signify their foresightedness in realizing the immense strategic importance of this mega joint project for the socio-economic development of Pakistan.

The government believes that Pakistan's future depends on reviving the economy and promoting sustainable and inclusive growth. It is working on Pakistan Vision 2025 which will provide direction and set priorities for future. Our approach to realise goals is collaborative partnership between public sector, private sector, academia and civil society. I believe that the talent is in private sector and academia, especially the professionals like management accountants. It is time to forge a development partnership for translating dreams into ideas, ideas into action, action into development. As far as CPEC is concerned, I strongly believe that Pakistan is going to become an economic hub in South and Central Asia with the completion of CPEC projects that encompasses the areas of energy, road and railway infrastructure, Special Economic Zones (SEZs) and industrial cooperation. CPEC will benefit three billion people and play an instrumental role in integrating the whole region. The CPEC will benefit the most backward areas of the country and this change has started to appear in the form of emerging settlements alongside a section of the western route from Quetta to Gwadar. The CPEC is not a project restricted to the present government's tenure, but a 15-year-long project which will be completed in 2030.

> "I once again congratulate and appreciate ICMA Pakistan for doing a commendable job in playing its role for educating the professional community about the significance of CPEC"

The government believes Pakistan's future depends on reviving the national economy and promoting sustainable and inclusive growth. I am much confident that projects under CPEC will also bring harmony and cohesion in the country. The present government is taking all necessary actions to make sure that CPEC remains transparent and there would not be the slightest compromise on the principles of economy, efficiency and effectiveness at any stage of the project.

I once again congratulate and appreciate ICMA Pakistan for doing a commendable job in playing its role for educating the professional community about the significance of CPEC. I would welcome the Institute to come forward and share their ideas and proposals on how to bring cost efficiency in CEPC related project that would ultimately benefit the country and the region as a whole. ■

President & CEO, Askari Bank
Syed M. Husaini

> "Management Accountants are considered the spine of infrastructure and construction projects, and we see them playing an important role in the development of CPEC."

Syed M. Husaini joined Askari Bank as President and Chief Executive Officer on June 03, 2013. Mr. Husaini is a Masters in Economics & International Finance, along with professional certification by the National Association of Securities Dealers, USA and North American Securities Administrators Association. He has held key positions which required expertise in start-ups of financial institutions, infrastructure, and business development for commercial banks in developing countries, with over 30 years in banking, of which the first 10 years were spent overseas with a number of international banks in South Africa, Kenya and the Middle East. His assignments led him to successfully manage diversified foreign trade finance, commercial and corporate finance, and liability management. Apart from conventional banking, he helped in establishing a micro-finance bank in Karachi, and became the first CEO of that bank. This provided him with a perspective on issues of poverty alleviation and building financial outreach. His other major assignments in Pakistan include President KASB Bank, CEO of a Modaraba, Head of Corporate Banking Group, MCB, and Executive Vice President at the National Bank of Pakistan. Another intellectual dimension of his career has been his association with training. He has been a visiting faculty member at the training centers of BCCI, MCB and Askari Bank.

ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability and what measures your bank have taken to enforce good governance practices for improving internal control and ensuring strong oversight?

SMH: Askari Bank is majority owned by the Fauji Foundation Group and is amongst the fastest growing private sector banks in the country. The exceptional growth posted by the Bank in recent periods is mainly contributed by a greater focus towards business development, backed by good governance policies and practices. The growth has enabled the Bank to enhance our market share of business in terms of customer deposits, loans and advances and total assets. In terms of profits, Askari Bank closed the third quarter of 2015 with a profit after tax of Rs.4 billion despite absorption of an unusual tax levy on the banking sector. It is pertinent to mention that post acquisition by the Fauji Group, Askari Bank has resumed cash payout to the shareholders, and since 2014 to-date has distributed thirty percent cash dividend. Cash dividend had remained suspended for almost seven years prior to transfer of Bank's ownership to the Fauji Group.

Askari Bank fully recognizes the significance of internal controls in present day banking and places greater emphasis on developing, documenting, streamlining and continually improving processes and procedures with the primary objectives of enhanced operational efficiencies and improved customer services. While the internal control environment extends to all facets of banking business and operations, certain units within the Bank are also dedicatedly tasked with ensuring the presence of strong internal controls and proper oversight, including a mechanism that timely identifies gaps and risks along with requisite escalation matrix for adequate remedial measures.

Askari Bank's recent successes have arrived on the back of a strong management that has done its best to ensure the implementation of best practices across the bank, with checks and balances in place at all levels of the institution. These measures have been taken to ensure the efficiency and effectiveness of all Askari Bank employees, as well to make certain that they are working in a progressive environment that promotes ethical practices.

ICMAP: How is your bank dealing with the issue of non-performing loans and what is the progress made in Corporate Rehabilitation Law (CRA)?

SMH: Managing non-performing loans has always been a key area of concern for the banking industry. In our case, NPLs peaked at Rs. 35.066 billion, as a result of book clean-up post Fauji Group acquisition. However, our latest closing shows NPLs declining to Rs. 30.93 billion against total advances of Rs. 218.56 billion i.e. NPLs are at 14.15% of the gross advances compared to an all-time high of 21.12% at the time of change of Bank's ownership. This significant improvement was achieved due to focused approach involving aggressive, continuous and painstaking follow-up of the borrowers for recovery of NPLs.

Corporate Rehabilitation Law is still under process of discussion between stakeholders. Detailed progress may be viewed at: http://www.secp.gov.pk/Reports/2015/Concept Note_CorporateRehabilitationLaw_20150420.pdf

Askari bank will continue to maintain an aggressive recovery stance against bad loans, which has earned the Bank good standing in the market, with a reputation for superior financial management. The Bank has done very well in terms of curtailing the growth of NPLs, while previous against non-performing assets have increased due to the aging of classifies portfolios, resulting in an increase in the coverage ratio from 90 percent in December 2014 to 92 percent as of September 2015. The Bank follows The Financial Institutions (Recovery of Finances) Ordinance, 2001; a decree which covers recovery laws pertaining to all kinds of loans.

ICMAP: Please explain your banks' policy towards SME-financing. Could you share some statistics with regard to bank's lending to the private sector, especially SMEs during last few years?

SMH: SME sector is yet to attract its due importance as conventional lending largely prefers collateral over cash flows. However, Askari Bank aggressively pursues growth opportunities in the SME sector and ensures that SME customers are facilitated in terms of access to credit through strategically located regional credit hubs, as well as through our expanding branch network across Pakistan. Through its hubs, the Bank also creates trade finance awareness, shares its expertise on the subject, as well as offers solutions. Dedicated and specialized credit resources are placed at credit hubs, along with empowered relationship management teams, to effectively serve SMEs at grassroots levels. We are also developing new SME products, as well as working on the increased marketability of existing products and services to the SME sector.

ICMAP: How do you see general emerging economic conditions in terms of challenges and opportunities and especially in the context of China-Pakistan Economic Corridor (CPEC)?

Pakistan is currently witnessing a moment in time which is rich with prospects for a thriving economic future. The economic outlook of the country seems promising on the back of higher industrial growth targets, increased budgeted spending on energy, infrastructure and relief projects, all of which seem to indicate strong GDP growth in the future. The successful execution of these projects, along with accelerated development of the China - Pakistan Economic Corridor (CPEC), is critical to achieving a step change in the country's macroeconomic trajectory.

CPEC has the potential to open up multi-faceted avenues for socio-economic development across the region, with the promise of funding from China for the development of energy resources, infrastructure and trade routes. Pakistan' economy can greatly benefit from the Chinese investments pledged under CPEC as they can bring an end to the power crisis in Pakistan as well as a much-needed trade boost. However, the situation, while ripe with possibilities, also comes with a fair share of challenges. Apposite fund allocation, project execution timelines and security concerns; all these aspects must be factored in while attempting to determine CPEC's success.

ICMAP: Do you think that the banking industry in Pakistan is ready to capitalize on the opportunities of CPEC including massive liquidity and required financing appetite to meet the demand and is there any concrete measure have been taken in this regard?

SMH: If rolled out according to plans currently in the pipeline, CPEC can open up business opportunities at a scale beyond the capacity of any one bank in Pakistan. Realization of the economic corridor will offer all banks across the industry with the golden opportunity to claim their share of the fiscal pie. With an anticipated project-run of 15 years or so, CPEC offers hope of economic stability and growth for the entire region that can lead to long-term trade and development opportunities for financial institutions as well.

ICMAP: Is your bank foreseeing or is in process of investment opportunity in any CPEC related projects such as construction of roads and motorways, energy and telecom projects etc.

SMH: Askari Bank is already involved in several power and infrastructural projects aligned with CPEC, including the upgradation of the Karakoram Highway, and a number of motorway, railway and airport development projects. The Bank is in the process of opening a representative office in China, as well as upgrading its Gwadar branch to better serve business projects associated with the CPEC initiative. We have a strong presence within the Chinese community doing business in Pakistan, and are well-placed to enhance our presence alongside trade routes being developed under CPEC.

Askari Bank is one of the leading banks engaging with Chinese businesses and projects, and is keen to be part of CPEC, as and when any new opportunity materializes.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks and also cost effectiveness in financial products offered to customers?

SMH: Role of management accountants is quite restricted in the banking industry as management accountants are experts of manufacturing/production costing processes. Banks, being financial institutions, are involved more in financial and operational tasks and hence financial accountants are generally preferred over cost and management accountants. However, banks do employ management accountants for their varied arena of diversified divisions and benefit from their knowledge. Askari Bank also utilizes the capabilities of management accountants for several functions, including cost-benefit analysis, expense management and cost control etc.

ICMAP: How do you see the contribution of Management Accountants under CPEC regime specially in the context of infrastructure projects, construction of roads and motorways, energy and telecom projects etc.?

SMH: Management accountants are considered the spine of infrastructure and construction projects, and we see them playing an important role in the development of these sectors as management accountants have knowledge and expertise to give valued input regarding costing of projects, budgeting methods and monitoring thereafter, industry analysis, all of which help in effective decision-making up the ladder.

A project like CPEC can be extremely advantageous for management accountants. CPEC has the potential to open up diverse avenues and opportunities for management accountants, as they will of tremendous value in the decision-making process for various projects. ■

President & Chief Executive, Habib Metropolitan Bank
Sirajuddin Aziz

> "I personally think there is no fine dividing line in the minds of bankers about Chartered Accountants or Management Accountants, and they often use the two terms interchangeably. I presume that CMAs would be more relevant for the manufacturing side while the financial industry needs to explore how we can utilize their professional expertise."

ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability?

SA: In 1991, the banking sector's privatization process was initiated by the Pakistani government, whereby new private commercial banks were licensed to commence operation. HabibMetro was one such bank, even though it did not start its full-fledged operation till October 1992. The Bank went to establish its forte in the niche of foreign trade finance. We have since then emerged as one of the leading trade finance banks in the country and handle a significant quantum of the trade business of Pakistan.

When I joined HabibMetro in 2012, it was a more Karachi-centric bank, with a limited branch outreach in the North. Due to this, the Bank was not able to adequately capture the second leg of transactions in cases where the buyer/seller was based in the Northern part of the country. With this fact in mind, we started expanding our network by penetrating Northern Pakistan. 3 years later, we now have around 276 branches covering 76 cities across Pakistan, from only 168 branches in 2011 that covered just 19 cities.

HabibMetro Bank has grown both in terms of total assets as well as in terms of total deposits and the volume we handle in terms of trade is also significantly high as against the loan book. We enjoy a distinguished advantage in the niche of trade financing – a fact that has also been recognized by the Asian Development Bank (ADB), which nominated HaibibMetro as its leading partner in Pakistan for the year 2015, and among the 12 leading banks in Asia Pacific region supporting regional trade.

ICMAP: What measures have been taken by your bank to enforce good governance practices?

SA: In addition to the regulatory supervision of State Bank of Pakistan - the governing ambit of which circumscribes all the banks operating within Pakistan - there is a Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan that must be adhered to. HabibMetro complies with the regulatory directives of both the SBP and SECP, further to which it also maintains and upholds internal policies & controls to the same effect.

Moreover, Habib Bank AG Zurich Bank, Switzerland (which owns 51% shares of HabibMetro Bank) also has a governance structure with effective check and balances and internal control systems that HabibMetro operates in alignment with.

ICMAP: How is your bank dealing with the issue of non-performing loans and what progress has so far been made in Corporate Rehabilitation Law (CRA)?

SA: The CR Law is still a work in progress. The Pakistan Banks Association (PBA) is coordinating with the Government as the banking industry's representative.

The Pakistani economy did not experience any direct effects at the time of the global financial crisis in 2008 due to the fact that Pakistan neither provides any capital products to the international market nor does it purchase from the international capital market. I had been hinting then in all my interviews that the negative implications of the financial crisis would come later in 2010 or 2011. This eventually transpired into reality when the purchasing power of the West started declining and our textile sector was heavily and negatively impacted.

As far as handling non-performing loans is concerned, this is indeed a very complicated issue, given the impediments and delays that we experience due to an unsupportive legal system. With respect to loan recovery from customers, I personally believe that engaging with the customer and negotiating with them is in the best interests of the bank and customer both.

ICMAP: What is your Bank's policy towards SME financing? Would you like to highlight a few aspects?

SA: SME financing is an area of great interest and focus for the Pakistani banking sector at the moment. The State Bank of Pakistan is also promoting SME financing and has issued prudential regulations for SME financing.

There are two models of dealing with SME lending; one of them being the 'credit scoring model' which does not allow relying heavily on cash flows, and in my personal view, has several inherent risks in our environment. I would say that the 'relationship model' is a better model, as by interacting with the SMEs we can assess their operating cycle for meeting their financing needs. We need to build quality relationship with the SME clients. At HabibMetro, we are following the relationship model where we extend finance to the SME sector.

ICMAP: How do you see the general emerging economic conditions in terms of challenges and opportunities, especially in context of China-Pakistan Economic Corridor (CPEC)?

SA: Boosting trade and reducing fiscal deficit have been recurrent economic areas of focus during the last couple of years, in addition to lingering internal security concerns. On the economic front, the improving indicators paint a positive outlook, which are further complemented by the gradual and systematic eradication of security fears by the law enforcement agencies. Being an optimistic person, I think that things are now moving in the right direction. There is brightness ahead of us Insha Allah.

The future of Pakistan with respect to the CPEC is dependent on how we as a nation endeavor to take maximum advantage of the impending opportunities. China is a pragmatic nation that follows consistent long term policy based on a clear vision; they always think and plan ahead. CPEC is not a new project for them. They have been planning for this for more than two decades and are committed to complete it just like the Karakorum Highway. At the time of constructing the Karakorum, Pakistan built only one third of the roads, whereas two third were built by China. We have to step forward and position ourselves to optimize on the infrastructure-related and economic opportunities that CPEC presents us with; even if we do not meet them half way, China will still do the needfulas the CPEC would lead to drastic cuts in their transportation cost and provide them access to the warm waters of Pakistan as well passage to African and European countries.

Gawadar is one of the deepest seaports and not many countries are blessed with such a valuable geographical asset; it is only 3500 km from the city of Kashgharin China. The geographical boundaries of China boasts coastal cities like Dalian, Qinhuangdao, Shanghai, Ningbo etcthat do have routes towards Europevia the Indian Ocean and the Mediterranean Sea, but these are not efficient distance-wise. By linking with Gawadar, China will be able to get the shortest route to Europe and Africa. Why is Africa so important? Again, China thinks ahead. They have been working with Africa since '80s when it arranged the first China-Africa summit.

China is operating with a long-term plan by investing in, and making inroads towards, emerging economies by building economic corridors. We saw that Taiwan did it and Japan did it, and now China is doing the same. Today, China is funding dams, irrigation and electricity projects in Mongolia, Zimbabwe and other part of Africa to position itself in the emerging continent.

Pakistan has a good opportunity to take advantage of China's plan to gain access to Central Asian Republics, which is a natural market for Pakistani products. If we really want to stay in step with them, we must be proactive.While economic corridor is being built, there would be need for immense facilities like warehousing, hospitals, houses, schools etc. If we cannot provide these facilities to them, they will bring their own labor to build these facilities and we will lose out on enormous economic gains. To prevent this from happening, Pakistan should prepare itself adequately in term of regulatory framework, infrastructure and making facilities available for the Corridor in order for it to become a success.

ICMAP: The private sector lending by banks has fallen recently. Does this indicate any reluctance on the part of industry to make investment in the country or there are other reasons for that?

SA: We have already discussed the eradication of security issues; security concerns should no longer cloud the minds of investors. Availability of energy to the industry, however, remains a valid concern. During my recent visit to Punjab, I observed a remarkable difference in the approach of businessmen in Faisalabad and Sialkot. Business in Faisalabad is subdued due to energy shortage; however, when I went to Sialkot I was amazed by the booming business there mainly due to the initiatives taken by the Sialkot industry to cater to their requirement of energy by installing their own captive power plants. This spirit and their endeavors have positioned the Sialkot industry much ahead of Faisalabad.

As far as bank lending to the private sector is concerned, there has been some improvement with the lower interest regime and with the coming commodity financing season, it is expected to improve further. Moreover, Pakistan's fiscal deficit is also reducing and this is expected to lead to reduced government borrowing from the banking sector – a development that will subsequently create space for private sector lending. As a banker, I believe that if the entrepreneur/businessman is not willing to invest some of his own capital too, then they should not expect me as a banker to invest the depositors' money either. Banks areaccountable to their depositors so I prefer to wait for the creditor to come forward and contributesome capital first.

Secondly, the private sector activityis subdued in the absence of enabling environment. A prime example is thetextile spinning sector, which is undergoing difficult times. InSialkot,investment in R&D has resulted in greater exports to the western market. The football industry of Sialkot is a good example of how the fruits of R&D pay off.

Our textile industry, unfortunately, is not investing in R&D. We are importing cotton from China and India. We did not even maximize the benefit of GSP with the European Union;we failed to use the benefit as a growth stimulant for the textile industry.

We, as a country, cannot attain sustainable long term economic growth with a short term vision. We need to change our approach. Nations progress and develop at the back of long term visionsencompassing over 20-30 years. There is also a need to change the mindset of people in terms of patriotic value and willingness to work dedicatedly towards the betterment of Pakistan.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks?

SA: I personally think there is no fine dividing line in the minds of bankers about Chartered Accountants or Management Accountants, and they often use the two terms interchangeably. I presume that CMAs would be more relevant for the manufacturing side while the financial industry needs to explore how we can utilize their professional expertise. Your question provokes me to now consider how I can optimally utilize the specialized skillset of CMAs to enhance the operational efficiency of HabibMetro. The Institute should work on increasing awareness of the potential of CMAs in banking sector, particularly at theCEOlevel.

ICMAP: How do you see the contribution of Management Accountants under CPEC regime, especially in the context of infrastructure?

SA: The CPEC will result in a greater demand of talented and skilled human resource to transpire infrastructure-related, energy, healthcare etc. projects that are bound to spur when the CPEC becomes a brick and mortar reality. There is no doubt that CMAs will be a critical part of the entire CPEC and the projects that it will fuel. Economic and political realities are built on finance and numbers. And in that particular game, accountants are indispensible. ■

President & CEO, Meezan Bank
Irfan Siddiqui

> “Management Accountants equipped with latest concepts from the world of Financial and Accounting contribute towards the functioning of the bank by undertaking analysis which helps identify opportunities.”

ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability and what measures your bank has taken to enforce good governance practices for improving internal control and ensuring strong oversight?

IS: Meezan Bank, in its fourteenth year of operations, is not only the largest Islamic Bank in Pakistan but is now also the 7th largest commercial bank in Pakistan in terms of branch network with 551 branches in 143 cities. 123 new branches were added during the year – the highest number in the Bank’s history – and this continuous expansion has enabled the Bank to serve customers in every part of the country, commensurate with its Vision to ‘establish Islamic banking as banking of first choice’.

For its deposit customers, Meezan Bank offers a wide range of deposit products -current, savings and term deposit accounts to cater to the diverse saving needs of its customers. Furthermore, in addition to traditional ‘brick and mortar’ branches, the Bank also provides channels such as ATMs, Call Centre, Internet Banking, Mobile Banking, SMS Alerts and Debit Cards – often referred to as Alternate Distribution Channels (ADC), to enable its customers to do their banking transactions at their convenience. The Bank also provides a full range of financial services to large number of corporate clients including multinationals and public sector entities as well as SME customers for meeting their financing and other business needs. In addition, it offers a wide range of advisory services and financing solutions including on & off Balance Sheet structured finance, project finance, syndications and Sukuk to cater both short and long term financing needs of its clientele through Shariah-compliant modes

Meezan Bank is also the pioneer in providing Shariah-compliant consumer financing in the country and offers various consumer asset products to its customers. The Bank is one of the most active and leading players in the country's consumer finance market.

Some of the significant achievements during the period include:

- Deposit base grew by an impressive 24% in 2015 against overall industry growth of 11.5%
- Net Financing Portfolio of the Bank grew by 18.4%, outpacing the average growth of the banking industry that grew by only 7.3%, reaching Rs 208 billion as compared to Rs. 176 billion a year earlier
- Total assets of the Bank grew by 22% to Rs. 532 billion ($5.1 billion) on December 31, 2015 from Rs. 437 billion on December 31, 2014
- Total equity of the Bank now stands at Rs 25.6 billion, up from Rs 23.3 billion a year earlier
- Launch of the first ever Islamic Branchless Banking in the world - Meezan Upaisa
- The Bank has one of the lowest Non Performing Loan (NPL) ratio in the Pakistani banking industry and offers one of the highest coverage ratios at above 100% in the industry

Over the last decade, the Code of Corporate Governance promulgated by the Securities and Exchange Commission of Pakistan, and the very effective implementation of Prudential Regulations by the State Bank, have jointly contributed towards the establishment of international best practices within the banking industry of Pakistan. Management of the Bank has established and maintains an adequate and effective system of internal controls which has the main objective of ensuring effectiveness and efficiency of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations. This is ensured through experienced and independent Board of Directors and a seasoned management team which overviews all the activities of the Bank through committees.

The control activities are closely monitored across the Bank through Compliance, Shariah and Internal Audit departments, which cover all banking activities in general and key risk areas in particular. In addition to the above, the Board of Directors has also formed an Audit Committee which has direct oversight responsibility to ensure the independence of the internal and external audit functions. The Audit Committee meets at least once every quarter to discuss the scope and results of the work performed by the Compliance, Shariah and Internal Audit departments and also meets with external auditors prior to approval of half-yearly and annual results of the Bank. Based on the observations and weaknesses identified by the auditors - both internal and external, and the Compliance and Shariah audit teams, improvements are brought about by the management in internal controls to ensure non-recurrence of those exceptions and elimination of weaknesses to the maximum possible level.

ICMAP: How is your bank dealing with the issue of non-performing loans and what is the progress made in Corporate Rehabilitation Law (CRA)?

IS: Mounting NPLs are haunting Pakistani banking sector for a very long time and are the main impediment in the growth of private sector credit. The best way to deal with NPLs is to avoid them from happening and for that you need a very robust credit screening process, because once a financing goes bad there is very little a bank can do to recover the amount due to our tedious and inefficient legal process. Fortunately, with the blessings of Allah SWT, Meezan Bank has the second lowest infected portfolio in the industry, and we have a dedicated department to deal with all such accounts. Willful default cases are pursued aggressively through court process and circumstantial defaults are dealt in the totally different manner, where our teams engage with the customers to find ways and means to revive the business and settle bank financings.

As far as the Corporate Rehabilitation Law is considered, we are of the opinion that banking industry needs some sort of legislations to deal with this chronic problem, however, it should not be one sided. Its enactment has been delayed for quite some time due to lack of consensus by the different parties involved. I think a law that resolves the problem of growing NPLs in the country without prejudice is the need of the hour.

ICMAP: Please explain your bank's policy towards SME financing. Could you share some statistics with regards to the bank's lending to the private sector, especially SMEs, during the last few years?

IS: Meezan Bank is very keen on expanding into financing the SME sector, which forms the backbone of any emerging economy. In the Pakistani banking scenario, this sector is comparatively less served, thus offering excellent opportunities to the banking sector for extending credit facilities, benefitting the industries in this sector as well as availing the banks an opportunity to expand their business. The comparatively higher returns offered in this sector, especially in the backdrop of continuously declining discount rate, also make it an attractive investment proposition for the Banks.

Meezan Bank's approach in extending SME financing has always been very prudent and we have diversified our portfolio into various sectors such as chemicals, textile, pharmaceuticals, cotton ginning, flour mills and rice husking etc, for effective risk management.

Recently, we have taken steps to facilitate the SME segment, such as program based financing through Karandaz and PMYBL scheme. Furthermore, we have delegated significant approval authority down the line to the Regional level and have also segregated SME staff from other segment staff, both in business and support departments, to enhance focus and improve the response time for this segment.

Following are the statistics of SME financing in the last three years.

Year	2013	2014	2015
Funded Outstanding	2.43 Billion	2.30 Billion	3.17 Billion
Non Funded Business	48.21 Billion	47.28 Billion	55.66 Billion

ICMAP: How do you see general emerging economic conditions in terms of challenges and opportunities and especially in the context of China-Pakistan Economic Corridor (CPEC)?

IS: CPEC would definitely have a positive impact on the economy of Pakistan as we are expecting unprecedented investment in all sectors of the economy. This would help us develop infrastructure, generate employment, help alleviate poverty and boast economic activity in the country. Successful implementation of CPEC Projects would also improve the overall investment climate in the country and would further strengthen Pakistan's case as an investment destination. Timely delivery of projects, law &order situation and ensuring political consensus would be the key challenges to overcome in this regard.

CPEC would make Pakistan become a conduit to international trade in ways never done before - promoting transport, logistics, ware-housing and communications industry directly. This would have a direct positive impact on our manufacturing and trading sectors, resulting in a higher economic growth rate.

ICMAP: Do you think that the banking industry in Pakistan is ready to capitalize on the opportunities of CPEC including massive liquidity and required financing appetite to meet the demand and is there any concrete measure have been taken in this regard?

IS: Yes - indeed. Banks in Pakistan are very well poised to contribute to CPEC and the banking industry is quite capable of providing the necessary support for such a huge undertaking. Although it is not an issue to provide local currency liquidity to such projects; the ability of local banks to generate off-shore foreign currency financing could be a challenge. Furthermore, long term projects need long term funding which requires long term commitment. Also, support of international Credit Agencies and International Funding Agencies like ADB and IDB would be important as they have the much needed appetite for financing long-term infrastructure projects.

ICMAP: Is your bank foreseeing or in process of investment opportunity in any CPEC related projects such as construction of roads and motorways, energy and telecom projects etc.

IS: Yes - Meezan Bank is an active player in this regard and has already committed considerable exposure in terms of financing CPEC projects in various sectors. We feel that this would be a game changer for Pakistan and its economy and people, and we are well-positioned to benefit from this.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks and also cost effectiveness in financial products offered to customers?

IS: Management Accountants equipped with latest concepts from the world of Financial And Accounting contribute towards the functioning of the bank by undertaking analysis which helps identify opportunities both from internal and external business environments through trend analysis, budgeting and market studies. Understanding costs and revenue streams across businesses and customer segments ensures that the bank allocates its resources for best possible deployment contributing positively for the benefit of all stakeholders.

ICMAP: How do you see the contribution of Management accountants under CPEC regime especially in the context of infrastructure projects, construction of roads and motorways, energy and telecom projects etc?

IS: For projects under CPEC, Accounting and Finance tools would help, through implementation of Management Accountancy, for Project Evaluation, determining long term returns from investments / liquidity deployment and evaluating viability of such investment - understanding economic benefit and its impact on our financial indicators and performance. In short, we would be able to make a better understood, well informed, quality decision through the use of Management Accountancy. ■

President & CEO, Silk Bank
Azmat Tarin

> “With regard to CPEC, Management Accountants along with our Investment Banking Group (IBG) will actively seek opportunities in energy and infrastructure projects.”

ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability and what measures your bank have taken to enforce good governance practices for improving internal control and ensuring strong oversight?

AT: We have successfully completed a Rs.10 billion Rights Issue, which enabled us to meet our MCR and CAR ratios. With the capital inflow, we are planning to increase our distribution footprint by adding new branches on the Conventional and Islamic Banking side across the country and also focus on making financing more accessible to the consumers, thus penetrating into segments previously unserved. We have a wide array of asset & liability products presently on the menu, catering to diverse market segments. The Bank’s strategy focused on reducing the cost of funds by decreasing expensive deposits and replacing them with low cost funds. The bank managed its liquidity with stringent risk management and used prudent liquidity management techniques. Our continued focus on booking high-yielding consumer assets was yet another strategic initiative. Within Consumer lending products we have a strong market presence and maintain high growth rates.

ICMAP: How your bank is dealing with the issue of non-performing loans and what is the progress made in Corporate Rehabilitation Law (CRA)?

AT: Recovery of Non Performing Loans (NPLs) of the Bank is entrusted to Special Assets Management Group of the Bank for a focused approach towards recovery of defaulted loans. Despite a deteriorating law and order situation, a sharp economic downturn and past political instability in the country, Silkbank managed to register a significant reduction in the Non Performing Loans (NPLs) of the Bank. The bank showed a strong and robust recovery of non performing advances in the past three years.

ICMAP: Please explain your bank's policy towards SME financing. Could you share some statistics with regard to bank's lending to the private sector, especially SMEs during last few years?

AT: We are working on a relationship based Model in SME. Our focus is to cater to identify the business needs and cash flow requirements of our clients. Our Business assessment model considers Cash flow, Business Turnover as well as industry dynamics. We use outsourced Business earnings estimates in the absence of other reliable data to base our credit decisions on. We have defined our SME target market based on market research and general economic conditions of the country.

ICMAP: How do you see general emerging economic conditions in terms of challenges and opportunities and especially in the context of China-Pakistan Economic Corridor (CPEC)?

AT: We believe that CPEC will bring greater business prospects for the country, which would boost GDP growth in the form of increased fixed capital formation and revival of non-operational industries. Apart from tangible benefits in terms of infrastructure development and power plants, increased engagement with China will also bring technological, social and overall development to the country thus bringing growth to sectors like cement, steel as well as transport and communications.

ICMAP: Do you think the banking industry in Pakistan is ready to capitalize on the opportunities of CPEC including massive liquidity and required financing appetite to meet the demand and is there any concrete measure have been taken in this regard?

AT: A major portion of the banking sector maintains an average CAR of 17%, against the current requirement of 10%.With a 52% banking sector Assets to Deposits Ratio (ADR), we believe most banks are well equipped to avail the opportunity from the demand coming from CPEC. However, we expect the same to translate in their books from 2017 onwards.

ICMAP: Is your bank foreseeing or is in the process of investment opportunity in any CPEC related projects such as construction of roads and motorways, energy and telecom projects etc.

AT: The Investment Banking Group (IBG) is focusing actively on energy and infrastructure projects. In the light of this, we will be looking to advise sponsors of Chinese projects on capital raising and will also be participating in syndications of CPEC projects that meet our returns profile.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks and also cost effectiveness in financial products offered to customers?

AT: The role of Management Accountants is to perform a series of tasks to ensure their company's financial security, handling essentially, all financial matters and thus helping to drive the business's overall management and strategy. The Bank needs to continuously aim at improving performance through three interrelated dimensions of price, cost, quality and service innovation. In order to compete successfully in these three dimensions, effective competitive strategies need to be adopted where management accountants playan important part by providing business insights to the management and steer the decision making process. Additionally, Management Accountants also help the management in evaluating the changing business environment, customers segments & competitors, risk management and financial performance.

ICMAP: How do you see the contribution of Management Accountants under CPEC regime especially in the context of infrastructure projects, construction of roads and motorways, energy and telecom projects?

AT: With regard to CPEC, Management Accountants along with our Investment Banking Group (IBG) will actively seek opportunities in energy and infrastructure projects. In order to perform well, Management Accountants & IBG shall work together in adopting competitive strategies by evaluating the projects that meet the bank's return profile on investment. ■

President & CEO, Summit Bank
Hussain Lawai

> "To ensure cost efficiency of CPEC projects, the Management Accountants can apply their knowledge such as network analysis, budgeting, cash flow management to ensure timely delivery and completion of CPEC projects."

ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability and what measures your bank have taken to enforce good governance practices for improving internal control and ensuring strong oversight?

HL: The Pakistan operations of Rupali Bank Limited were acquired by Arif Habib Securities Limited (AHSL) under the Scheme of Amalgamation approved by State Bank of Pakistan and its name was changed to Arif Habib Rupali Bank Ltd. In October 2007, it was renamed as Arif Habib Bank Ltd. On 31st March 2010, Suroor Investments Ltd, a company incorporated in Mauritius, acquired 59.41% stake in Arif Habib Bank Ltd. In August 2010, Arif Habib Bank was rebranded as **Summit Bank Ltd (SMBL)**. In 2011, Ex-Atlas Bank and Ex-My bank were merged into SMBL, expanding the Bank's geographical outreach and customer base. The merger of three entities brought synergies and access to a wider range of markets and customers. Although summit bank had its own identity but we made Arif Bank as a base. All three banks were in bad condition in terms of liquidity and infected ratio was only 16 percent. It was an alarming situation but we had took over the charge. Uptil now, we have earned 17 billion and from last two years we are in profit. We have a network of 192 Real–Time Online branches and 246 ATMs, which includes 173 on-site and 73 off-site ATMs. SMBL has also established/converted 10 branches into full-fledged Islamic Banking branches together with two Islamic Banking windows. Furthermore, the bank has planned to convert rest of the conventional banking operations into Islamic Banking within a span of 3 years.

As far as SMBL's performance is concerned, let me share some facts and figure here. In terms of **Asset base**, SMBL has shown 27% growth as compared to banking industry's average of 19% growth in total assets. The total assets of SMBL in 2015 stood at Rs. 39.9 billion, including Rs. 32.2 billion of investment in government securities and Rs. 4 billion increase in net advances. SMBL has also surpassed growth in **total deposits** by registering 14% growth as compared to only 12% achieved by the banking industry. The Cost of deposits and CASA of SMBL also improved during the year. Due to prudent lending measures, total share of SMBL's **advances-net** compared to banking Industry fell marginally by 0.09% from 1.97% in 2014 to 1.88% in 2015. As far as **profitability** is concerned, SMBL recorded after-tax profit of Rs. 217 million during FY2015 as compared to Rs. 229 million in FY2014.

SMBL has also taken measures to enforce good governance practices for improving internal control and oversight, starting from the Board of Directors (BODs) level and cascading down to Board Committees and various Management Committees. The Bank has a formal procedure to monitor performance of the Board and Management Committees and all major decisions taken by these committees are forwarded to BODs for review. SMBL has clearly defined board approved SOPs and Manuals to ensure compliance of various policies, laws and regulations. Besides, there are specific day-to-day oversight management functions such as Compliance, Risk Management, Internal Control and Shari'a Compliance & Audit. The Resident Auditors help field functionaries to exercise effective control over branches. Furthermore, the business and operational areas are segregated and have clearly defined reporting lines, responsibilities and goals to avoid conflict of interests. The basic and fundamental controls have been embedded in all the processes and transactions such as segregation of duties, dual custody, limits & approvals, physical verification, reconciliation, etc to avoid manipulations. The head office functionaries along with the field hierarchy are responsible to exercise effective implementation and monitoring of these controls. Internal Control Unit (ICU) is responsible to regularly review the processes to identify gaps, if any, and make recommendations to the management to take remedial measures to fill the gaps. ICU presented all these gaps along with the management action to the Board Audit Committee (BAC) for its review.

ICMAP : How your bank is dealing with the issue of non-performing loans?

HL: Special Asset Management (SAM) Division at SMBL head office in Karachi is responsible to recover non-performing loans (NPLs) on pan-Pakistan basis and it is assisted by two regional offices at Lahore and Islamabad. There is also a management committee viz. SAM Committee, which is responsible to monitor the recovery on NPLs. In the beginning of each year, SAM Division is assigned recovery targets by SAM Committee after reviewing each and every individual NPL account. Despite the fact that as a result of merger, SMBL inherited huge portfolio of NPLs of **Rs.23.4** billion called legacy portfolio, it is making concerted efforts to recover them. Due to these efforts, NPLs have come down from Rs. 23.4 billion as of December 31, 2012 to Rs. 12.2 billion as of September 30, 2015, thereby showing a decline of Rs. 11.2 billion. In the same way, the infection ratio has been reduced from 36% to 23 percent. However, the provision coverage ratio has been increased from 53% in 2012 to 73% in 2015. Year wise position of NPLs, recoveries, infection ratio and provision coverage ratio is as under:

(Rs. in millions)

	2013	2014	2015	Total Recovery
NPLs (Legacy Portfolio)	20,749	15,318	12,227	**n/a**
Recoveries from Legacy Portfolio	2,661	2,490	2,611	**7,762**
Infection Ratio*	36.0%	27.1%	19.0%	**20.6%**
Provision Coverage Ratio**	53.0%	63.6%	76.3%	**72.8%**

* *Infection ratio is computed by taking the ratio of total NPLs against Total Gross Loans & Advances.*

** *Provision coverage ratio is computed by taking the ratio of Provisions held against NPLs to Gross NPLs.*

Our strategy to recover NPLs is that we engage with defaulters on case-to-case basis. We know that there are big names and if we do not support them, not only their but our bank's business will also suffer. We initially suggest them to pay defaulted loans through sale of property for which we offer to ignore interest. This strategy succeeds in fifty percent of the cases, however for difficult defaulters, we have to pressurize them through recovery sue which force them to come to table. For defaulters who are willing to pay but have no capacity to pay, we do not ask them to pay loan, rather we facilitate them. There are many companies who have taken this benefit of our facilitations and are grateful to us.

ICMAP: What is the progress made in Corporate Rehabilitation Law (CRA)?

HL: Our Bank is keenly following the steps taken by SBP and Securities and Exchange Commission of Pakistan in regard to promulgation and establishment of Corporate Rehabilitation Law, which in all respect is a much needed step in furthering growth and protection of business(s) and lenders in Pakistan.

ICMAP : Please explain your banks' policy towards SME-financing. Could you share some statistics with regard to bank's lending to the private sector, especially SMEs during last few years?

HL: SMBL has set up a separate SME Department to provide financing facilities to SME sector. Although, SME financing is covered under overall bank's credit policy, a separate policy for SMEs is under process and will be finalized soon. SMBL has also placed dedicated Relationship Managers (RMs) at Karachi, Hyderabad, Sialkot, Faisalabad, Lahore, Gujranwala, Rawalpindi, Peshawar, etc. Our exposure to SME sector constitutes 25% of our total financing as of December 2015. The total exposure on SMEs has increased from Rs. 16 billion from Dec 2014 to Rs. 20 billion in Dec 2015, showing a 25% annual growth.

ICMAP : Is there any specific role of Summit Bank to support and facilitate the businesses?

HL: We have a 'Business Intelligence' department which develops research reports based on their direct contact and consultation with the different industry sectors and markets. Based on these intelligence reports, we provide guidance to our customers about market dynamics and hurdles. We cannot share every information but we can see the coming problems and notify our customers. Research is a major department. In every international organization there is a research department.

ICMAP: How do you see general emerging economic conditions in terms of challenges and opportunities, especially in the context of China-Pakistan Economic Corridor (CPEC)?

HL: Though CPEC provides one of the rare opportunities for Pakistan to improve its economy, however, to be very frank, exact information about CPEC is still unknown and unclear such as type of investment to be made; whether loan or investment and what will be the percentage of loan etc. Planning Ministry takes the ownership of CPEC but it is also least informed. I visited China recently and found that there was non-clarity about CPEC at their side as well. We just know that this corridor will consist of power projects, industrial zones and Port and infrastructure development. Around 500 people are coming from China to work at the Port. We will make a "tax Free Zone", but who will invest in it is a question to be answered. We know that three power projects will be under taken i.e. Sahiwal Power project will be China's investment; Port Qasim will be a joint venture of both countries and there is also a third one. CPEC is surely a game changer and it has potential for development. All we need the details of the planning and execution of projects that what will be the outcome of 1st year, and 2nd year etc. We also want to know about the capacity of the country's economy. I tell you frankly that our economy has no potential to absorb 46 billion dollars, which is a huge amount.

As far as challenges are concerned, I think that there would be both internal and external challenges. At the domestic level, it would be difficult to develop consensus among the Provinces on CPEC. The Provinces have expressed reservations over the proposed new route of the corridor, which may delay the implementation of various infrastructure projects. Moreover, the poor law and order situation is another hindrance for the smooth functioning of the corridor. In addition, Pakistan's unstable political system carries the potential to delay the implementation of the CPEC. Another big challenge is poor governance, which may hamper progress on CPEC. At the external front, we have to face different political challenges. There is talk with India to stop a diplomatic route to construct CPEC in Gilgit-Baltistan, which it considers to be an integral part of its territory. On the other side, USA has been apprehensive of Chinese strategic access to the Arabian Sea and its presence in the region. It has apparently tried numerous times to discourage Pakistan from involving China in the development. Having said that, there are opportunities for the banks especially those that are equipped with the resources to handle long term financing for power and infrastructure projects, etc. Our bank may consider participating in syndicate of the banks for financing infrastructure and power projects.

ICMAP: Do you think that the banking industry in Pakistan is ready to capitalize on the opportunities of CPEC?

HL: CPEC is poised to attract domestic as well as international investment in projects such as infrastructure, construction, transport, energy, telecommunication, exploration, food, etc. The banking industry has excessive liquidity as well as capacity to participate in such projects by entering into syndicate arrangements among the local banks as well as with international banks, especially Chinese banks. This will help the banking industry to pool its financial resources and expertise which is essential for financing big and complex projects. This is evident from the fact that domestic banks are already capitalizing on the opportunities for financing energy projects such as disbursement of $1.95 billion to development of Thar Block-II 3.8 MT/A coal mining project and associated 2x330MW coal-fired power plant. This project has been lead by Pakistani banks such as HBL, UBL and Bank Alfalah Limited, etc with lender syndicate comprising Chinese banks led by China Development Bank Corporation, Industrial & Commercial Bank of China Limited and China Construction Bank Corporation.

As a result of CPEC, massive investments are in the pipeline, thus there will be enormous opportunities for the banking industry not only in financing mega infrastructure and energy projects but also consumer banking will flourish as a result of increase in earning of masses. The development of such projects will give also boost trade and service sectors such as contractors, builders, transporters, etc.

ICMAP: Is your bank foreseeing investment opportunity in CPEC related projects?

HL: SMBL has a Corporate & Investment Banking Division (CIBD) which is headed by an experienced EVP and manned with talented and capable resources, having presence in South, Central and North. CIBD has the capacity and expertise to finance infra structure projects, therefore, we have participated in a consortium of banks which financed the construction of Hyderabad Mirpurkhas-Motorway project. This motorway was constructed by a South Korean Construction Company on Build, Operate and Transfer (BOT) basis. Further, we have also financed some power projects. With this experience, we will surely consider any proposal for financing projects under CPEC related to energy,. telecom and construction.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks and also cost effectiveness in financial products offered to customers?

HL: Management accountants traditionally have roles to determine cost of products to be provided to customers. Due to increase in competitiveness, management accountants have an expanded role in decision making aspect of banks especially to ensure that financial services provided to customer are not only of highest quality but also cost-effective. Such efficiency is achieved by performing various analyses of the bank's financial products and suggesting a perfect product mix to target markets and thus effectively utilizing funds obtained from depositors.

ICMAP: How do you see the contribution of Management Accountants under CPEC regime?

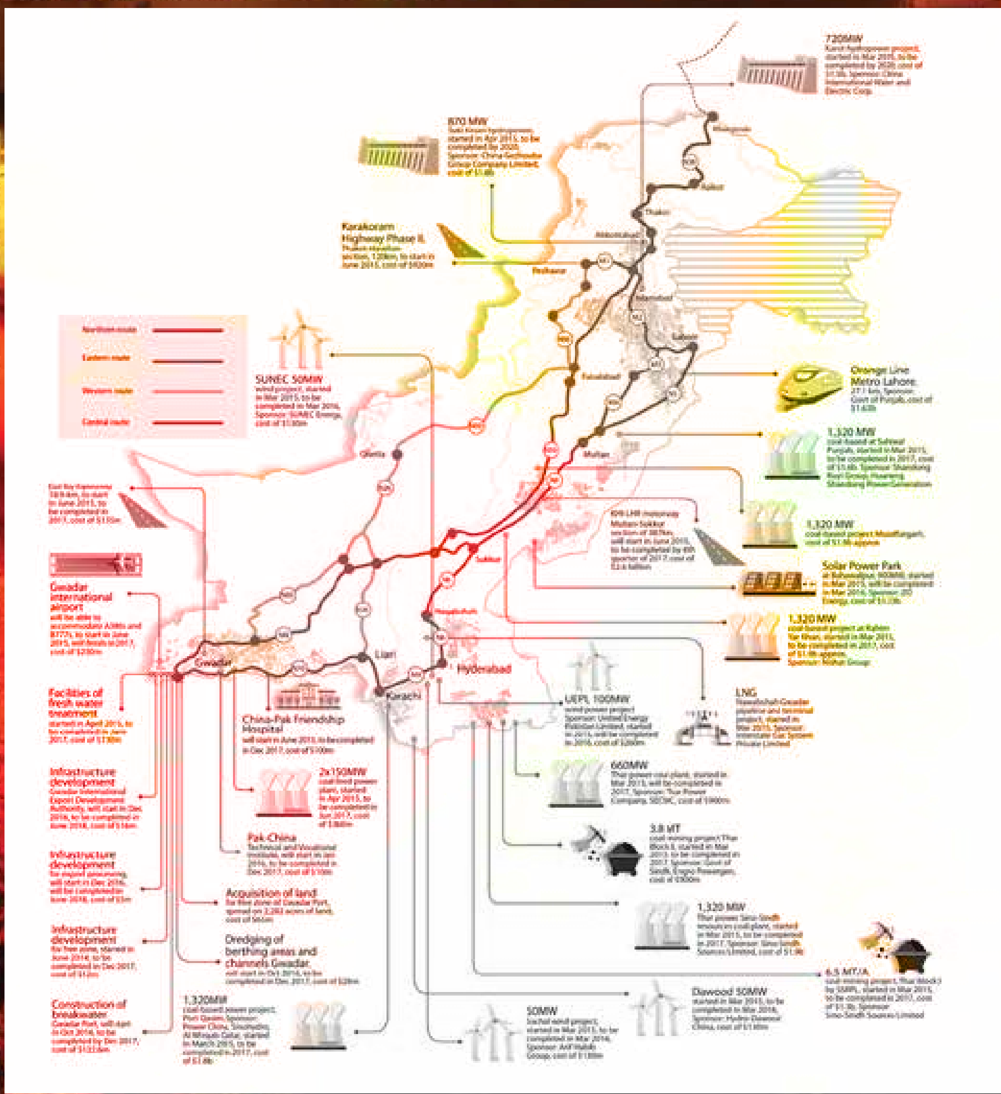
HL: CPEC has opened an era of opportunities both in short and long term for almost all the sectors of the economy. This will also create job opportunities for all categories of employees such as laborers, skilled and semi-skilled workers as well as professionals including Accountants, Engineers, Tele-communication Experts, IT, etc. The role of Management Accountants is very critical in CPEC as decision making will be based on financial and non-financial information provided by them to the decision makers. Therefore, the Management Accountants would have great job opportunities and they will be in a position to significantly influence economically and timely completion of infrastructure projects.

To ensure cost efficiency of CPEC projects, the Management Accountants can apply their knowledge such as network analysis, budgeting, cash flow management to ensure timely delivery and completion of CPEC projects. They can also conduct budget monitoring exercises to check whether the projects are within allocated budget and timeline. Multiple variance analysis can be performed and reasons for favorable/ unfavorable variances can be identified, investigated and rectified. Management Accountants can prepare project reports that would help the relevant stakeholders and leadership to take right and timely decisions for quality results. The strategy right now in many companies is that CFO should be a qualified from ICMAP. While making investment in Steel Mills, our Bank has made it a condition that there should be one chartered Accountant and one Management Accountant in order to manage the costs. We now advice our clients that they should have specific qualification of CMA as they have different type of training as compared to chartered accountants. ■

This interview of Mr. Husain Lawai was conducted few days before his retirement from the position of President and CEO of Summit Bank. He has now been elevated to play his role as Vice Chairman on the Board of Directors of Summit Bank. We are indeed thankful to him for sparing valuable time to share his candid views exclusively for this Journal – Editor

FOCUS SECTION

Readiness of Banking Sector to Optimize the China-Pakistan Economic Corridor (CPEC)



"CPEC and Capacity of Pakistani Banking Sector"

Badar Nadeem Ashraf, ACMA

I highly appreciate the ICMAP Research and Publication Committee's decision to consider the theme of "Readiness of Banking Sector to Optimize the China-Pakistan Economic Corridor (CPEC)" for this issue of 'Management Accountant'. Contribution of financial sector is highly important in the backdrop, where academicians, as well as, policy makers are equally at consensus that financial sector development is an important determinant of economic growth especially in developing world (Rajan & Zingales 1996; Levine 1997, 2005). Topic is so important that Research & Publication Committee's e-mail unintentionally led me to think over the current capacity of Pakistan's banking sector. I started digging out the subject-matter and discovered several important insights which I would like to share for worthy readers.

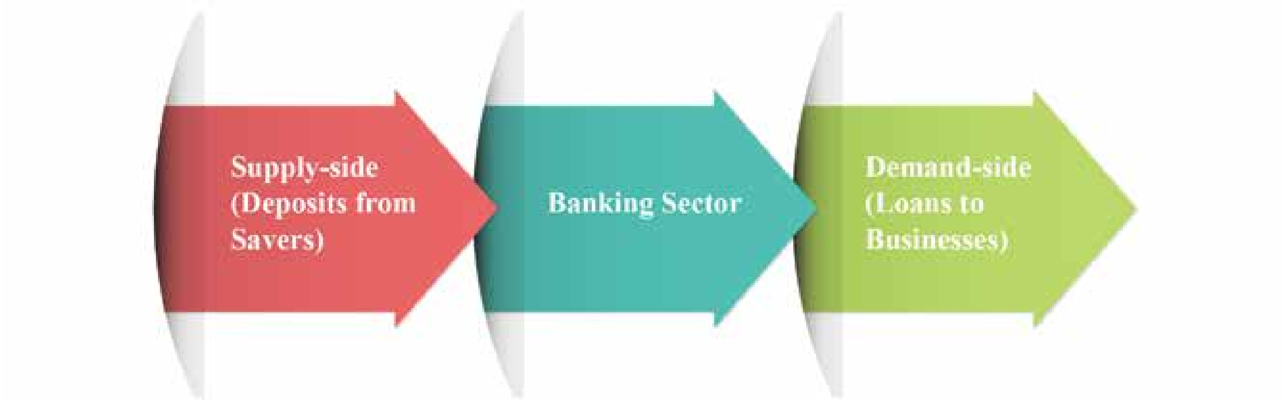
In my analysis, I start by showing the role of banking sector in overall capital allocation process of an economy. Then I identify current contribution of banking sector in capital allocation process in Pakistan. For doing so, I focus on both demand- and supply-sides of banking sector. Specifically, I compare domestic credit and domestic deposit levels of banking sector of Pakistan with other countries and try to identify the capacity of the sector. During my analysis, I also focus on current level of capitalization, risk and noninterest income generating services of overall banking sector.

For analysis, I downloaded data from the Global Financial Development database of World Bank available at the link http://databank.worldbank.org/data/reports.aspx?source=global-financial-development# (Cihak et al. 2012). The Global Financial Development Database is an extensive dataset of financial system characteristics for 203 economies. The database includes measures of (1) size of financial institutions and markets (financial depth), (2) degree to which individuals can and do use financial services (access), (3) efficiency of financial intermediaries and markets in intermediating resources and facilitating financial transactions (efficiency), and (4) stability of financial institutions and markets (stability). This database reports data for different indicators from 1960 to 2013. I use data for latest four years from 2010 to 2013 and for comparison calculate average over these four years for some indicators of interest. Averaging over four years helps in reducing short-term fluctuations in variables. For my analysis, I use World Bank classification of countries based on income-levels for generating averages of variables for benchmarking and comparison. World Bank distributes all countries of world into four categories based on their income levels: high income, higher middle income, lower middle income and low income. I calculated average for each group from downloaded data for comparison. As, Pakistan is classified in lower middle income group of countries, therefore, I use average of any variable for lower middle income group of countries as benchmark for Pakistan.

1. Role of Banking Sector in Capital Allocation Process

One of the main functions of banking sector is to allocate capital. Banking sector attracts funds from savers and channels them to enterprises that use that capital to finance their operations and achieve growth, from start-up phases to expansion--even much later in the firm's life. Without banking sector, borrowers would have difficulty finding lenders (i.e., savers) themselves. Banks take deposits from those who have money to save. Many individuals are not aware that they are lenders providing capital, but many do lend money at least indirectly, for example when they put money in a savings account. Banks can then lend money from this pool of deposited money in the form of loans to those who seek to borrow.

Figure 1 shows this capital allocation model of banking sector where banks channel funds from savers to businesses. Depositors are supply-side for banking sector while businesses are demand-side. In my analysis, I specifically focused on both demand- and supply-side factors to identify the current capacity of banking sector of Pakistan.



2. Demand-side: Domestic Credit in Pakistan

To show the demand-side situation of Pakistan, I compare the 'domestic credit to GDP ratio' and 'private credit by deposit money banks to GDP ratio' of Pakistan to averages of World Bank income country groups. Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises. 'Private credit by deposit money banks to GDP ratio' is a more better measure of banking sector contribution because this ratio specifically measures the private credit provided by deposit money banks as a percentage of GDP. Global financial database calculates this ratio using annual credit and GDP values adjusted for inflation.

Table 1: Comparison of Level of Domestic Credit in Pakistan with Other Countries

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Domestic credit to private sector (% of GDP)						
1	High income	99.62	93.09	98.02	104.74	98.87
2	Upper middle income	47.14	47.56	48.83	49.20	48.19
3	Lower middle income	30.94	31.87	32.53	34.62	32.49
4	**Pakistan**	**21.41**	**18.13**	**16.94**	**16.04**	**18.13**
5	Low income	15.39	16.22	17.43	18.28	16.83
Private credit by deposit money banks to GDP (%)						
1	High income	93.57	92.46	94.09	96.81	94.23
2	Upper middle income	41.99	43.86	45.68	46.03	44.39
3	Lower middle income	28.41	30.29	30.48	32.22	30.35
4	**Pakistan**	**20.98**	**17.83**	**16.89**	**15.32**	**17.76**
5	Low income	14.04	15.99	15.43	15.94	15.35

Source: Global Financial Development Database of World Bank

As shown in Table 1, average value of 18.13 for domestic credit to GDP ratio over the period 2010 to 2013 for Pakistan is quite low as compared to the average of 32.49 of lower middle income countries group over the same period. Despite that Pakistan is classified in lower middle income group of countries, its domestic credit to GDP ratio is low near to the average of low income group of countries. Similarly, 'private credit by deposit money banks to GDP ratio' is also low for Pakistan as compared to lower middle income group of countries. These lower values of both ratios suggest that banking sector of Pakistan has provided lower level of credit to private sector as compared to countries with similar level of development and has potential at demand side to increase lending. This existing low level of credit in Pakistan might be attributed to low credit demand which is likely to be due to several reasons such as energy shortage, instability, low business activity etc., among others. China-Pakistan Economic Corridor project is likely to increase business activity and, by doing so, is expected to increase credit demand.

3. Supply-side: Deposits in Pakistan

To show bank deposits situation of Pakistan, I compare the 'bank deposits to GDP ratio' of Pakistan to averages of World Bank income country groups. Bank deposits to GDP ratio refers to demand, time and saving deposits in deposit money banks as a share of GDP. Global financial database calculates this ratio using annual deposit and GDP values adjusted for inflation.

As shown in Table 2, the average bank deposits to GDP ratio for Pakistan over the period 2010-2013 is 28.66. Although, this value is lower than the average of lower middle income group countries (35.46), but it is also significantly higher than the average of low income group of countries (22.16). This comparison suggests that although the bank deposits to GDP ratio for Pakistan is not at par with the group of countries in which it is categorized (i.e., lower middle income group of countries), it is better than the ratio of 'private credit by deposit money banks to GDP ratio' which in Section 2 is observed quite lower than average of lower middle income group of countries, while only marginally higher than average of low income group of countries.

Table 2: Comparison of Level of Deposits in Pakistan with Other Countries

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank deposits to GDP (%)						
1	High income	79.97	79.05	77.12	82.25	79.60
2	Upper middle income	41.77	41.84	43.13	44.38	42.78
3	Lower middle income	34.37	34.93	34.64	37.90	35.46
4	**Pakistan**	**29.34**	**27.16**	**28.91**	**29.23**	**28.66**
5	Low income	19.98	21.27	24.32	23.06	22.16

Source: Global Financial Development Database of World Bank

4. Existing Capacity of Banking Sector

As we observed in Sections 2 and 3 that supply-side (i.e., deposits to GDP ratio) is sound than demand-side (i.e., credit by deposit money banks to GDP ratio) for banking sector of Pakistan. Now we analyze that, to what extent, the deposit money banks can increase credit within their existing resources. For this, I compare 'bank credit to bank deposits ratio' of Pakistani banking sector with other countries. 'Bank credit to bank deposits ratio' refers to the financial resources provided to the private sector by domestic money banks as a share of total deposits. Domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits. Total deposits include demand, time and saving deposits in deposit money banks.

As shown in Table 3, 'bank credit to bank deposits ratio' is quite low for Pakistan (59.08) as compared to average of lower middle income group of countries. Surprisingly, this ratio is also quite lower than the average of low income group of countries (76.44). The 59.08 value of 'bank credit to bank deposits ratio' indicates that Pakistani banks have significant potential to increase this ratio. Simply stating, Pakistani banking sector has the capacity to increase 'bank credit to bank deposits ratio' from its current level of 59.08 to 79.56 to reach the benchmark average level of lower middle income group of countries.

Table 3: Existing Capacity of Banking Sector

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank credit to bank deposits (%)						
1	High income	105.91	102.16	101.93	102.26	103.06
2	Upper middle income	90.88	93.13	89.53	88.86	90.60
3	Lower middle income	76.65	81.19	81.12	79.28	79.56
4	**Pakistan**	**68.76**	**62.63**	**54.56**	**50.37**	**59.08**
5	Low income	71.77	73.91	81.36	78.73	76.44

Source: Global Financial Development Database of World Bank

Although, banking sector has the potential to increase credit to deposit ratio, however, regulatory capital requirements and level of banking sector risk can hinder the lending increasing capacity of banks. For getting an overview of these two aspects, I compare 'bank nonperforming loans to gross loans ratio' and 'bank regulatory capital to risk-weighted assets ratio' with averages of other groups of countries.

As shown in Table 4, Pakistani banks on average have accumulated higher levels of nonperforming loans as compared to averages of all country income groups. This shows banks have lower margin for increasing lending by further lowering credit standards because it will increase credit risk to higher degree. Notwithstanding higher nonperforming loans, banking sector has good capitalization levels as shown by the 'bank regulatory capital to risk-weighted assets ratio'. State Bank of Pakistan has required all banks to maintain a 'bank regulatory capital to risk-weighted assets ratio' equals 10% from the year 2009 and onwards. 14.69 average of 'bank regulatory capital to risk-weighted assets ratio' over the period 2010-2013 is quite higher than the regulatory requirements of 10% and suggests that banks have reasonable cushion of capital to increase loans.

Table 4: Comparison of Bank Risk and Capitalization

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank nonperforming loans to gross loans (%)						
1	High income	3.95	3.80	3.66	3.60	3.75
2	Upper middle income	3.72	3.61	3.70	3.80	3.71
3	Lower middle income	5.20	4.22	3.67	5.57	4.67
4	**Pakistan**	**14.75**	**16.21**	**14.47**	**12.99**	**14.60**
5	Low income	7.84	6.53	6.80	6.31	6.87
Bank regulatory capital to risk-weighted assets (%)						
1	High income	14.79	14.97	16.00	15.99	15.44
2	Upper middle income	16.87	16.43	16.82	16.11	16.56
3	Lower middle income	16.45	16.05	16.72	17.02	16.56
4	**Pakistan**	**13.97**	**14.58**	**15.35**	**14.85**	**14.69**
5	Low income	20.84	20.04	21.19	22.59	21.16

Source: Global Financial Development Database of World Bank

Project like China-Pakistan Economic Corridor, by increasing integration of Pakistan's economy into world economy, can increase demand for international trade related services. To have an overview of banking sector expertise in trade related services, I use 'bank non-interest income to total income ratio. This ratio refers to banking sector's income that has been generated by noninterest related activities as a percentage of total income (net-interest income plus noninterest income). Noninterest related income includes net gains on trading and derivatives, net gains on other securities, net fees and commissions and other operating income. As shown in Table 5, Pakistani banking sector has lower level of diversification in noninterest income generating activities as compared to averages of all country groups. This suggests that sector needs to improve upon noninterest income generating activities to catch-up with other countries in its income group (i.e., lower middle income group).

Table 5: Existing Services Structure of Banking Sector

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank noninterest income to total income ratio						
1	High income	34.02	34.82	34.07	33.21	34.03
2	Upper middle income	37.06	35.49	36.50	34.77	35.95
3	Lower middle income	33.04	32.18	34.65	31.65	32.88
4	**Pakistan**	**26.19**	**24.22**	**27.74**	**27.75**	**26.47**
5	Low income	45.56	48.17	45.99	45.60	46.33

Source: Global Financial Development Database of World Bank

5. Improvement in Supply-Side to Increase Capacity of Banking Sector

The analysis is Section 3 shows that 'bank deposit to GDP ratio' for the Pakistani banking sector is lower than the average ratio for lower middle income group of countries. This suggests that banks can improve on supply-side and can attract more deposits. To have an overview of banking sector supply side, I compare 'bank branches per 100,000 adults' and 'bank accounts per 1,000 adults' of Pakistan with averages of other country groups. These both indicators show financial access of individuals in an economy. As shown in Table 6, bank branches per 100,000 adults (8.76) in Pakistan are almost comparable with average branches in lower middle income group countries (9.13). This shows that Pakistani banking sector has number of branches at par with benchmark average branches in its group countries. However, number of bank accounts per 1,000 adults (258) in Pakistan is quite low as compared to the average of lower middle income group of countries (399). This suggests that banks need to attract more depositors to increase deposit base. Reasonable number of bank branches but lower number of depositors together suggests that branches are concentrated in few areas. Banks need to expand branch networks to cover more areas and to increase depositors. Banks also can focus on better marketing strategies and can offer innovative financial products to attract higher number of depositors.

Table 6: Comparison of Supply-Side Indicators

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank branches per 100,000 adults						
1	High income	26.04	25.07	24.37	25.63	25.28
2	Upper middle income	19.58	19.69	19.23	20.33	19.71
3	Lower middle income	8.37	8.64	9.49	10.01	9.13
4	**Pakistan**	**8.38**	**8.54**	**8.78**	**9.33**	**8.76**
5	Low income	2.83	2.64	2.95	3.13	2.88
Bank accounts per 1,000 adults						
1	High income	1239.62	1276.44	1029.39	1172.26	1179.43
2	Upper middle income	697.73	725.10	779.16	766.95	742.24
3	Lower middle income	386.38	433.08	383.56	396.14	399.79
4	**Pakistan**	**233.11**	**250.99**	**262.60**	**288.22**	**258.73**
5	Low income	106.47	114.93	132.18	156.48	127.52

Source: Global Financial Development Database of World Bank

However, to attract more depositors, banks need to incur higher costs. To examine the capacity of banking sector, I compare the cost structure of Pakistani banking sector with other countries. For doing so, I use 'bank cost to income ratio'. As shown in Table 7, bank cost to income ratio for Pakistan is quite higher as compared to averages of any of the income group. With existing higher cost to income ratio it seems difficult for banks to incur more costs to attract higher deposits. With this cost structure, banking sector seems to have severe restrictions in improving on supply-side.

Table 7: Existing Cost Structure of Banking Sector

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank cost to income ratio (%)						
1	High income	57.72	60.07	60.25	60.51	59.64
2	Upper middle income	64.30	62.36	62.31	65.19	63.54
3	Lower middle income	58.77	58.09	58.01	56.74	57.90
4	**Pakistan**	**79.66**	**65.73**	**70.42**	**73.77**	**72.39**
5	Low income	62.79	60.74	64.65	62.89	62.77

Source: Global Financial Development Database of World Bank

6. Summary

This article briefly reviews overall capacity of Pakistan's banking sector. Analysis suggests that sector has potential to increase lending capacity by increasing 'credit to deposits ratio' by almost 20% staying within existing resources. However, banks need to improve upon noninterest income generating services to better capitalize on new opportunities due to China-Pakistan Economic Corridor project. Analysis further suggests that banks can attract more depositors to increase depositors' base but, for doing so, banking sector, on average, needs to be more efficient than existing level. ■

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China-Pakistan Economic Corridor (CPEC) Opportunity and Potential

Sirajuddin Aziz

The much touted China-Pakistan Economic Corridor (CPEC) is stirring up a lot of commotion as well as parleys in many circles from various walks of life. Even the indigenous population of Gwadar has opinions ranging from extreme positives to negatives. There are mixed feelings about its implications amongst the general masses. A lobby of politicians is in favour of it and another silently opposing it. How it pans out will ultimately depend on how strategically the cards are played by various stakeholders at national and regional levels.

Good or bad - but consequences there shall be, on the region, of this 3500-kilometre stretch of a corridor. How we capitalise on it could be a make or break situation. But rationally viewing it, there is a potential for massive resource mobility from conception through to completion and then during post completion stages. Statistics indicate that Gwadar is the most poverty struck area in our country. Certainly poverty is the root cause of all the evils germinating in this society which is further fuelled by unemployment and security instability. It is ironic, however, that Balochistan is actually endowed with abundant natural resources such as natural gas, oil, gold, copper reserves and coal and yet lags in comparison on economic development with other units. According to a report, 52% of the region's population lives below poverty line. The coastal areas of Gwadar have the weakest infrastructure, fighting with poverty, lack of basic health and education facilities that are restricted to a princely single 12-bed hospital and a college with 13 classrooms.

The $46 billion that China has committed to invest will be utilised for projects encompassing mining, infrastructure, textiles, energy, etc. This set-up will create an impetus for peripheral infrastructure to be established. There would be mushrooming of Inns, motels, hotels and growth of the entire hospitality industry in the area. We could finally have decent establishments to house our foreign delegates who may visit us off and on (assuming the security side is managed - which will be touched upon shortly). An entire movement will begin around building medical centers and better health facilities for the people who will be integrally involved in this project. Schools will crop up to fill in the learning gaps of the community and that will mobilise scores of teachers who will find new avenues of employment. The doctors will migrate to this part of the country to join the newly created hospitals. The hospitality industry will attract resources and graduates who have specialised in the field of hospitality and have nowhere to go in the saturated metropolitan markets of the country. There will be a boost in the transport industry. The mobilisation of heavy machinery, arrangement of storage facilities such as godowns or specialised cold storage(s) set-up will give a new lease of life to the manufacturing sector.

This flagship project would aim to address the electricity and power shortages by providing energy to the deprived masses and structures of this country which has adversely impacted industry and production at granular level.

“This flagship project would aim to address the electricity and power shortages by providing energy to the deprived masses and structures of this country which has adversely impacted industry and production at granular level.”

This $46 billion project heralds a critical question. Will the labour be sourced from Pakistan or imported from China? Of course, the influx of specialised Chinese labour is expected. Given that there will be Chinese workers, flowing in the country, adequate arrangements will need to be made for their smooth integration into the community. This may involve language centers where translation services are available, recreation sites for our Chinese friends to socialise and integrate. Schools will need to have classes for the Chinese children whilst getting past the language barrier. All of these arrangements will need to be incorporated with a long term view in mind as the families who pour in from China or other parts of Pakistan will at least stay here till 2025 or 2030 at the earliest before they depart and some may even opt to call the newly developed town their new homeland for good - there is potential!

Gwadar would also be recipient to a hike in technology transfer. The new infrastructure will usher in advanced network and technological prowess. The port handling project would become a giant task on its own. This would need to be handled professionally by a well-established resource base. As a result, the port handling responsibility will be best outsourced perhaps to port authorities of the north or south-east Asia like Hong Kong or Singapore.

As evident from the logical flow of expected events, there will be employment opportunities galore and if we don't create a pool of talented employees to fill the multiple resource gaps then chances are that we will have a Chinese invasion happening who will overtake all the indigenous population opportunities who will eventually remain mired in the cycle of poverty and never train to be financially independent citizens. Therefore the leadership of this country needs to be wary of this factor that the Chinese who think 30 years ahead of their time and are meticulously planned due to their practical nature, will take over the local employment stints in no time, if they find us failing to provide the necessary human resource capital. We also need to bear in mind that the Chinese are implementing a similar Eastern Corridor that is expected to reduce their transportation cost drastically for their exports to this region.

The Chinese, through impending CPEC creation, will have access to the Middle Eastern markets. Their sagacity has enabled them to look towards Africa which is a wealth mine of potential. They have a very active role in sub-Saharan Africa at present with thousands of workers deployed there in developmental works and assignments. With the advent of the CPEC their routes to this part of the world would be streamlined dramatically. Their current shipments to Africa, the Middle East and Europe from the North Eastern cities of Dalian, Qiangdao, Shanghai and Guangzhou are routed through the Strait of Mallaca entering through either the Suez Canal or going around the Cape of Good Hope which involves higher transportation cost and this will dramatically reduce once the corridor is used for their exports to these markets.

Pakistan needs to make the right moves to preserve a secure environment for this new development to flourish. At this crucial juncture, we can't afford to stand by and watch the show like a silent spectator. This commitment to move forward and ensure a result-oriented action needs to be at a national level and not restrict its association with any single government that has a 5-year mandate; it has to go beyond and include commitment of all future leadership in Islamabad. We need to unite and take concrete measures to fully capitalise on this golden opportunity. If this were to be left to a specific leadership then the entire motto and drive would wane as soon there is change of guards. Our processes need to be relooked at critically to remove the culture of red-tapism and bureaucracy which is a major bottleneck for prosperity especially towards progress of this nature and scale.

The architects of the economic policy need to understand that Pakistan's access to Central Asian Republics (CARs) is instrumental for our growth and at present the route through volatile mountains of Afghanistan especially in relation to CARs is equivalent to entering the jaws of death. This ultimately hampers trade productivity. If this project gets stalled due to any unforeseen reasons then to avoid economic losses, we can possibly look at creating a small by-pass linking with Tajikistan through the narrow border shared with China. By linking with CARs and South Asia, Pakistan can actually tap into a growing economic bloc.

If executed smartly, this corridor would have positive effects by dwarfing the charity that USA has historically poured out in the form of aid. The CPEC promises investments in infrastructure which can potentially enable Pakistan to become financially independent as opposed to relying on aid funds which go towards short-lived expenses.

It is important to realise that this investment of $46 billion is more than two times the amount of foreign direct investment that our country has received in the past decade nearly. The key factor is now in the execution of the plans. The deals have been signed but nothing would change the fate of this country until solid action is taken. If issues like security, lack of transparency, corruption, procedural redundancies will set in then this entire game will go against Pakistan. Therefore we as a nation need to work together with dedication to get rid of these system-based anomalies and set the wheels of investment in motion. It is time that we expand the 13 classroom-based college and multiply the 12-bed hospital into enviable and state-of-the art facilities. ■

An Overview of Banking Sector and Impact of CPEC

Syeda Nuzhat Afreen, ACMA

SBP introduced massive reform for regulating the banking sector in the country.

Banking in Pakistan started just after independence in 1947, and the scope of banking in Pakistan has been increasing and expanding continuously. First Pakistani bank is the State Bank of Pakistan (SBP) , which is also the central bank of the nation inaugurated by the Quid –e- Azam Muhammad Ali Jinnah. Pakistani banking industry has seen substantial progress in banking sector, financial products development of secondary market, marked by supportive policy framework, consistent positive growth in microfinance and branchless banking, growing private investment, development of vibrant market infrastructure, and increased use of innovative technologies.

Banking sector plays a critical role in economic growth and development performance in any economy. But this critical link is largely missing in Pakistan. Banks in general have done well as an industry but they are far from an integral part of an economic growth strategy which ensures greater availability of and access.

It is to be noticeable and under stood paradigm that there is a significant and strong link between the Financial Sector and the overall economy. State Bank of Pakistan as a banking regulator playing very proactive and pivotal role in development the banking industry of Pakistan. SBP introduced massive reform for regulating the banking sector in the country. Banking sector has two fold impact first they play fundamental role in the economy through development activities second they give resource to general public and other development organisation for strengthen through lending of funds and non-fund base advances, but at the same time this sector also face incapacity due to non-performing loans and to fail recovery of given advances.

In Pakistan, Banks are the common and major resource of supplies funds and the main source of financing to support the national economic performance, bank can also play very important role in developing the small scale business in Pakistan if they device strategy with the help of the government and provide funding on the cheaper rate so that the youth not only able to establish their own business but also able to generate employment opportunities at local level.

However the non-banking financial institutions like Stock Exchanges, mutual funds industry, development financial institutions, provident and pension funds insurance companies are also contributing shares to meeting the financial needs of the economy of credit.

The financial growth of banking sectors in Pakistan has needed to aim to achieve the following:

1. Timely provision of fund to the economic functionaries.
2. Development of small and medium size industry and provision of funds for this purposes.
3. Offer incentive saving scheme to enhance level of saving of the society.
4. Integrity of financial institution and reduction of political loans.
5. Enhance integration and enhancement of online facilities to facilitate business community.
6. Broaden and deepen capital markets by supporting capital market through funding and expertise.
7. Improved the performances of bank in terms of increasing efficiency.

In order to overcome the deficiencies of economy of Pakistan, banks are required to bring improvement in services and financial performances through strengthening financial base of organization.

Efforts of State Bank of Pakistan for the development of Banking Sector in Pakistan.

During the financial year 2014 SBP revised prudential regulations and guidelines for agricultural, micro and housing finance:

1. Implementation of market development initiatives including risk sharing guarantees for SMEs and microfinance sectors.
2. Encouraging innovation in agri and rural financing, livestock loan insurance scheme.
3. Capacity building and awareness programs for banks and consumers. FY14.
4. Developed a viable alternate Islamic banking system.
5. Issuance of Shariah Governance Framework, adoption of Shariah Standard on Investment Sukuk to harmonize Islamic banking industry.
6. Banks surpassed the indicative agricultural credit disbursement target for the year FY15.Against the target of Rs. 500 billion, the banks.
7. Disbursed Rs. 516 billion during the year, which is 32 percent higher than the disbursement of Rs. 391 billion made in the preceding year. The main factors contributing to this substantial.
8. Growth include: SBP's efforts for sensitization of banks about potential of agricultural.
9. Financing, diversification of their agricultural lending portfolio, inclusion of more lending institutions in the agricultural lending scheme.

Agricultural Credit Disbursements
(Amount in Billion)

Bank	FY14 Target	Actual	FY15 Target	Actual
Five Commercial Banks(Big Banks)	188	195.5	252.5	263
Specialized Banks				
ZTBL	69.5	77.9	90	95.8
PPCBL	10	8.8	11.5	10.5
Domestic Private Banks	90.4	84.8	115.5	109
Microfinance Banks	21.6	22.8	28.2	33
Islamic Banks	0.5	1.5	2.3	5
Total	380	391.3	500	516

Performance of MFBs-FY 2014-15 (Micro Finance Banks)
(Amount in millions)

Key Indicators	June, 2014	June, 2015	Growth
Borrowers	1,095.96	1,296.20	18.3
GLP	33,479.27	45,581.50	36.1
Deposits	36,923.13	52,016.29	40.9
Depositors	4,331.08	11,598.52	167.8
Assets	62,419.01	82,837.96	32.7
Equity	13,452.06	16,705.30	24.2
NPLs	1.55%	1.76%	

10 State Bank of Pakistan has adopted proactive approach in promotion of National Financial Inclusion Strategy (NFIS) which was developed during the year in collaboration with the World Bank. the objectives and approach is to devise an strategy envisions a financial system where individuals and firms particularly the unserved and marginalized segments of society can access and use a range of quality payments, savings, credit and insurance services with dignity and fairness. The NFIS will guide efforts to promote financial inclusion over the next five years (2015-2020). The objectives of NFIS are also aligned with the Government's Vision 2025.

Following are the major goals set in NFIS:

- Diversifying the range of basic payments , remittance, and saving products
- Increasing the financing opportunities
- Increasing insurance penetration
- Bringing pensions to more workers
- Developing housing finance products
- Fostering Islamic Finance
- Ensuring consumer protection and increasing financial literacy particularly the unserved marginalized segments of society

IMF Standing about the banking sector of Pakistan

IMF Closely monitoring the Banking Sector of Pakistan in eyes of IMF banking sector performance remains sound, with robust earnings and high solvency ratios, according to International Monetary Fund (IMF) staff report.

1. The banking industry pre-tax profit surged by 49 percent last year mainly attributed to increase in net interest income, lower provision charges and higher non-interest income.
2. The capital adequacy ratio (CAR) increased noticeably to 17.1 percent due to accumulation of profits and fresh equity injection by some banks (including previously CAR noncompliant banks).
3. As of end-December 2014, asset quality has slightly improved with a decline in non-performing loan (NPL) ratio to 12.3 percent and net NPLs to net loans ratio falling to 2.7 percent.

Issues faced by the banking sector in Pakistan

This can be clearly understood if the role of banking sector in development and growth performance is discussed in context of our extremely fragile existing economic conditions especially relating to the persistence of uncontrolled government borrowing banking sector profits and competition General economic conditions in the country are characterized by low growth, high inflation, large fiscal deficit, dwindling foreign direct investment and a ballooning debt level as well as by precarious security situation, poor law and order political instability, growing energy crisis are also weighing negatively on the growth prospects.

In a generally low economic environment and large budgetary commitments including the expensive commodity operations and losses of public enterprises, the government heavily relies on the banking sector to borrowing.

It is the uncontrolled government borrowing to finance its fiscal deficit that is fuelling high inflation while "crowding out" private sector credit and investment. It is also responsible for the persistence of ultra-tight monetary policy, high interest rate. We believe that banking sector in Pakistan is not geared to support high long term growth averaging 7 percent per annum for at least a decade and half to really make a dent in abject poverty levels and for meaningfully lifting living standards of the majority of population.

We believe the banking sector is mainly being used to finance government borrowings and not to support economic growth that depends on investment.

Despite low growth and weak real sector, banking industry continues to enjoy healthy profits due to lack of competition and unchecked cartelization.

Banking Survey 2014

This survey has been prepared by KPMG TaseerHadi& Co. and summarizes the performance of selected commercial banks in Pakistan for the year ended 31 December 2014.

Banking sector in Pakistan has been divided in four categories for the purpose of this survey to facilitate comparison of peer groups:

I. Large Banks: Total assets in excess of Rs. 600 billion.

II. Medium size Banks: Total assets in excess of Rs. 125 billion but less than Rs. 600 billion.

III. Small Banks: Total assets less than Rs. 125 billion.

IV. Islamic Banks: All banks carrying out Islamic banking activities only.

"Islamic Banks" have been presented as a separate category and included in their respective category of Medium and Small Banks based on total assets threshold.

The information contained in this survey has been obtained from the published consolidated financial statements of the banks, statistical bulletins published by State Bank of Pakistan (SBP) and information published in business magazines and newspapers. Where consolidated financial statements were required and were not available, standalone financial statements have been used.

Reference should be made to the published financial statements of the banks and definitions included in this survey to enhance the understanding of ratios and analysis of performance of a particular bank.

The financial statements of Burj Bank Limited and KASB Bank Limited were not published till the date of our publication of survey, and accordingly not included in this survey.

Chinese Banking System and Overview:

The history of the Chinese banking system is showing very positive trend and always been getting the highest priority. Banking was the first sector to be completely socialized.

In the period of recovery phase after the Chinese civil war (1949-52), the People's Bank of China moved enormously and play very effective role to halt furious inflation and bring the nation's finances under central control. Over the course of time, the banking organization was reformed frequently to suit altering environments and new policies.

Initially the Chinese banking system was centralized and was under the Ministry of Finance. During the 1980s the banking system was extended and differentiated to meet the needs of the reform program, and the scale of banking activity rose sharply.

As far as the function of central bank is concerned, the People's Bank of China (the Central Bank) has solely responsibility for issuing currency and controlling the money supply. It also served as the government treasury, responsible to maintain foreign exchange reserves, arranging, maintaining and disbursement of loans, setting exchange rates for currency the main source of credit for economic units, the clearing centre for financial transactions, the holder of enterprise deposits, the national savings bank, and a ubiquitous monitor of economic activities.

Other major Financial Institution is the rural credit cooperatives, were small, collectively owned savings and lending organizations that were the main source of small-scale financial services at the local level. The main objective is to build up and facilitate small scale organisation and entities and responsible to develop micro level institution. This institution is also responsible to handled deposits and short-term loans for individual farm families, villages, and cooperative organizations. Subject to the direction of the Agricultural Bank, they followed uniform state banking policies but acted as independent units for accounting purposes.

Other major financial institutions of the China are Urban credit cooperatives were a relatively new addition to the banking system in the mid-1980s, As commercial opportunities grew in the reform period, the thousands of individual and collective enterprises that sprang up in urban areas created a need for small-scale financial services that the formal banks were not prepared to meet.

The main focus of the Chines Banking system is that they have close control over financial transactions and the money supply. All government departments, publicly and collectively owned economic units, and social, political, military, and educational organizations were required to hold their financial balances as bank deposits. They were also instructed to keep on hand only enough cash to meet daily expenses; all major financial transactions were to be conducted through banks. Payment for goods and services exchanged by economic units was accomplished by debiting the account of the purchasing unit and crediting that of the selling unit by the appropriate amount. This practice effectively helped to minimize the need for currency.

China-Pakistan Economic Corridor (CPEC)

THE China-Pakistan Economic Corridor (CPEC) having a planned portfolio of projects totaling around $45 billion, the size of the 'investment' over the next 15 years, if turn up, will equal the cumulative gross foreign direct investment (FDI) inflows into Pakistan since 1970.

Special Economic Zones (SEZs) set up in different parts of the country to catalyse economic activity and exports. Another beneficial aspect that could develop over a period of time is for a regional value chain to develop between China and Pakistan.CPEC can ultimately be a major backbone or 'highway' for wider regional connectivity between South, West and Central Asia.

The CPEC will generate two-way trade. Hence, Pakistan's imports will rise as well. While some part of the increase in imports will be trade diversion, in effect a shifting of imports from one source country to another with a neutral effect on the balance of payments, a net rise in the import bill should be expected as land connectivity with China improves (especially under the operation of a Free Trade Agreement). The CPEC can be structured and operationalized as a truly networked economic corridor, its benefits for Pakistan will no doubt be enormous. If, however, it ends up primarily as a bilateral strategic project, the economic costs could be substantial.

The CPEC will create huge impact on banking sector both of Pakistan and China all export and import transaction will be routed through banking system. In this respect there is a huge responsibility of the both central banks to develop and offer acceptable derivatives and hedging instruments for the business so that the business will have more financial options to grow. It is an opportunity for Pakistan to develop secondary and market in Pakistan in more faster paces to meet the need of the business introduce conducive business environment, maintain law and order situation form Karachi to Gwadar, develop infra-structure like road and train network from Karachi to Gwadar so that the benefit of CPEC may be taken on timely manner.

Conclusion:

Banking sector are playing very important and proactive role in the development of financial sector and economy of Pakistan.SBP as a regulator playing very active and pivotal role for development of robust and sound Banking sector in Pakistan. However huge public debt and balance of trade imbalance are the major challenges for the economic experts and SBP which not only create the pressure of balance of payment but also create negative impact on the economy .Economic and the monitory policy of the SBP directly affected to the spending and investment opportunities particularly the small scale industries who have less capital to invest and their major reliance on the banks borrowings. Financial market on the other hand very volatile in nature due to huge fluctuations on the foreign exchange availability and drastic changes in the exchange rate. There is a need to adopt consistent policy frame work for development of the small and medium enterprises to develop medium size entrepreneurship to support the economic sustainability efforts by reducing import and enhancing export are the key which will added positive signals in growing and developing of financial sector of Pakistan.

On the other hand China Banking sector has strong grip of economy and acquisition and supplies of funds.The main focus of the Chines Banking system is that they have close control over financial transactions and the money supply. All government departments, publicly and collectively owned economic units, and social, political, military, and educational organizations were required to hold their financial balances as bank deposits. They were also instructed to keep on hand only enough cash to meet daily expenses; all major financial transactions were to be conducted through banks. Payment for goods and services exchanged by economic units was accomplished by debiting the account of the purchasing unit and crediting that of the selling unit by the appropriate amount. This practice effectively helped to minimize the need for currency and the end on the Economic Corridor front we cans say that this corridor not only enhance the trade and economics between the both countries but also provide trade with the other adjacent neighbour of the both countries and major thing is that it will reduce the cost of doing business and enhance the closer relationship among the neighbouring countries. ■

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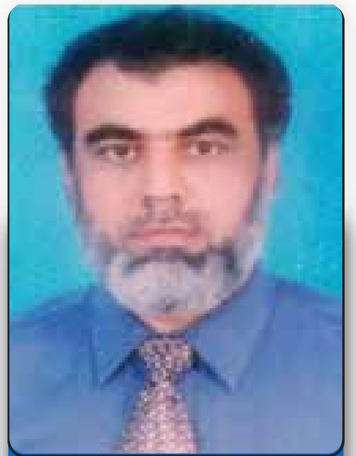
Reforms Needed to Induce Pakistani Banking Sector to Optimize the Economic Corridor

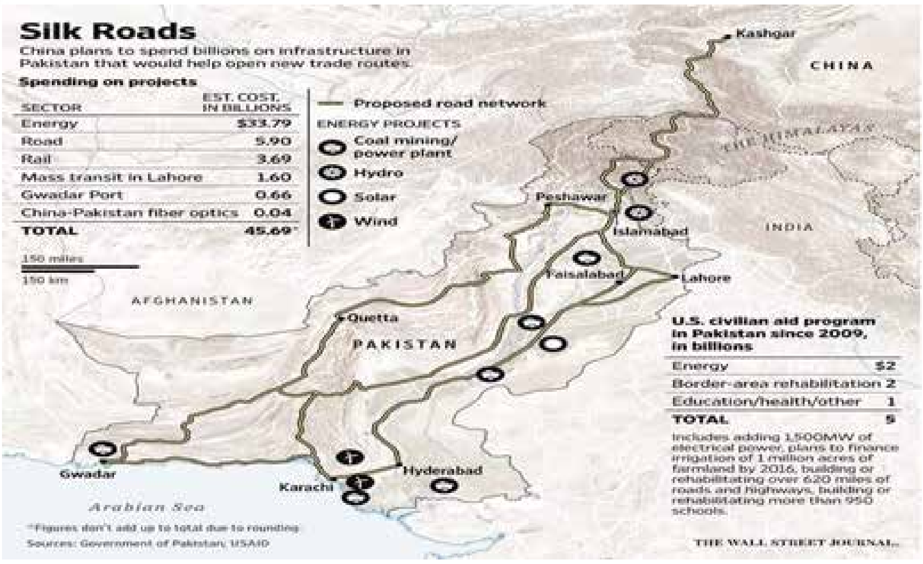


Mazhar Mahmood, FCMA

Pakistan is strategically located at best place of the world. Location of Gwadar port has testified this powerful dictum to push its importance manifold. Now this became an open secret that Gwadar can serve half of world's population and would be the biggest driver of Pak economy. CPEC is a contract that ensures macro-economic coordination between the two countries in the transcontinental flow of economic factors such as capital, technology, information, and HR.

The importance of banking sector is justified all the times either at inception, during the gestation period or at the completion of project. Banking sector drags the economy from marsh of crises whatever phase of trade cycle an economy may be facing. The gestation period of CPEC project is spread over one and half decade that needs the continuous patronage of banking sector around the clock to empower all segments of CPEC to defeat all economic and financial crises, faced during the gestation period, to take it to happy end. This project has a great potential to attract the banking sector in the wake of ever big investment of $45.69 bn of China for any of the countries in the world in one go.

The importance of banking sector is justified all the times either at inception, during the gestation period or at the completion of project. Banking sector drags the economy from marsh of crises whatever phase of trade cycle an economy may be facing.



Both the countries have signed the MoU or Protocol on Banking Services to Agreement on Trade in Services regarding CPEC. Chinese banks like Exim Bank, Industrial and Commercial Bank of China and China Development Bank Cooperation etc are very ambitious for investment in different CPEC projects but, unfortunately, both the countries have made very feeble efforts to open the bank branches reciprocally to strengthen the slogan **"Readiness of Banking Sector to Optimize the Economic Corridor"**.

Following steps are testimony for such a passive behavior on the part of both the countries:

- SBP has awarded banking license to Industrial and Commercial Bank of China (ICBC) to open two branches, one each in Karachi and Islamabad, for banking operation in December 2006.
- The People's Bank of China has also shown interest in opening branches in Karachi & Islamabad.

- Exim Bank of China has no branch in Pakistan, even, the bank is one of the major stake holders in funding the EPEC activities.
- In 2006, NBP signed a MoU for enhancing cooperation in banking and finance with CDB (China Development Bank), under which financing support would be provided for relevant projects in Pakistan and China.
- The HBL Representative Office in Beijing was opened on 22 February, 2006.
- Askari Bank has always attached great importance to the project and has established a 'China Business Development Cell'.

European banks, whose branches are already working in both Pakistan and China, are taking full advantage of this passiveness. Huge efforts are required by the banking sector of both the counties to twist the business from European banking to local banking. I am sure that bankers know more than inked hare or anyone else not in banking business.

Followings are the major drivers that induce the banking sector to get ready to optimize the economic corridor.

1) Chinese government negotiated, for confidence and safe custody of its investors' interest, following terms and conditions with Pakistan;

1.1 Pakistan will assure minimum 18% return on investment.
1.2 Return is linked with Dollar instead of Pak Rupee to avoid the fear of depreciation of Pak rupee.
1.3 Pakistani investor will contribute up 20% investment in all projects
1.4 Government of Pakistan will give sovereign guarantee for continuity of projects.
1.5 Only Chinese companies would extend their bids for these projects and no other country would be allowed to participate in bidding process.
1.6 In the presence of such mutual understanding, especially point IV, the risk for banking industry has spontaneously been minimized.

2) Transfer of loan amounting to $11 billion from China.

Exim Bank of China, China Development Bank, and the Industrial and Commercial Bank of China will financeat heavily-subsidized concessionary loans with an interest rate of 1.6% to 6%. The funding was previously available from IMF and other international institutions from 6% to 12%. This amount would be utilized to build infrastructure projects like road, rail, communication (fiber optics), Gwader port and mass transit system etc. The overland fiber optic cable is being laid by Chinese company Huawei in between Rawalpindi and Khunjerab Pass on Pakistan-China border, a distance of 820 kilometers. About $ 44 million funds has been released and construction has been started few weeks back.

3) Projects during the gestation period.

Banking sector from both the countries have greatest transitory opportunity, during the gestation period of projects, in the following areas:

3.1 Transfer of funds,
3.2 Transfer of machinery and plant with insurance,
3.3 Bank guarantees,
3.4 L/Cs both for import of plants and consumer goods.
3.5 Enhancing the deposits both in local currency and forex,
3.6 Refereeing investors to different consultancy firms like Cost & Management Accountants, Chartered Accountant, engineering and Law firms etc to strengthen the reciprocal informal relationships.

4) After completion of projects.

There is another big permanent opportunity for banks to get substantial and sustainable business after completion of economic corridor. The major areas for the giant opportunities are;

4.1 International trade through L/Cs to reduce risk of both importer / exporter,
4.2 The opportunity to earn a huge money from commercial investment in stock exchange and money market. Previously the major source of income was from investment in TBs which is nonprofessional activity for the banking industry.
4.3 Transfer of forex in between the investors of both the countries as Advance T/T, SWIFT and DD etc.
4.4 Banks role is trade collection through DA / DP (Documents against acceptance / payment).
4.5 Banking expansion opportunities will be available other than three chapter cities of Pakistan.
4.6 To embrace international banking experience at substantial level.
4.7 To increase the deposits with $4 bn toll taxes at the beginning and significant increase afterward.
4.8 Other commercial banks offer services such as trade finance, project finance, payroll, export/ import or business data, collecting of payments and general corporate finance.

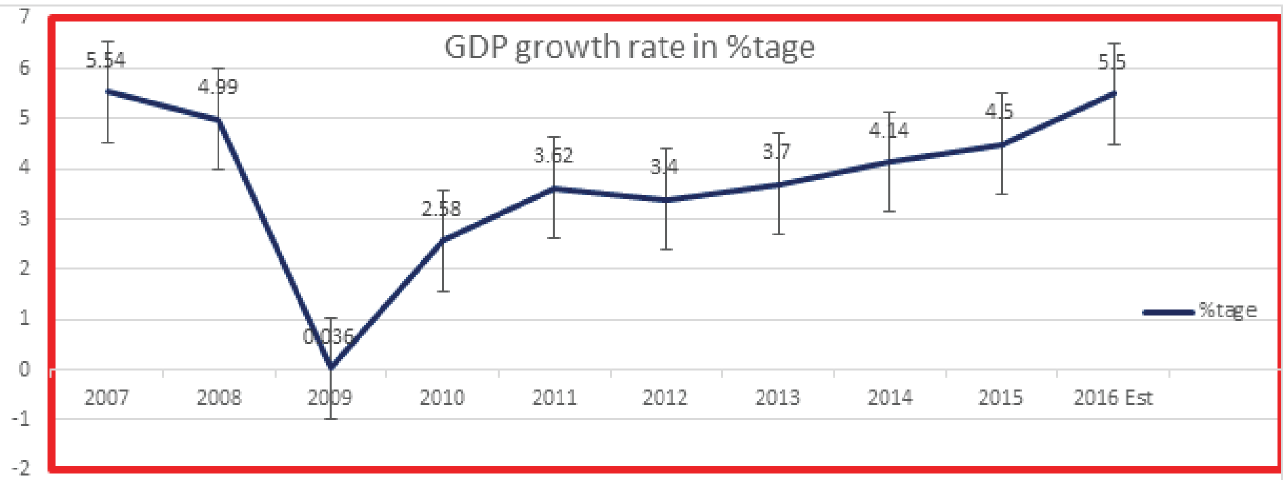
5) Heavy import of coal for coal fire energy projects and increase in export.

It's very peculiar to know that in spite of huge coal reserves, the dependency of coal fire projects would rest on imported coal. Because the excavation process needs a huge cost which has been avoided by the government for the time beings. Banking sector, once again, would find an sample chance to host a huge transfer of funds in between importer and exporter.

Following reforms are recommended to enable banking sector for readiness to optimize economic corridor.

a) MoU between the two countries for opening bank branches should be transformed into contract or legal bindings.
b) The influence of government officials, bureaucrats and politicians should be minimized through certain reforms in shape of policy or code of ethics.
c) More flexible and exclusive forex policy for remittances in between these two countries should be devised.
d) A comprehensive policy of recruitment should be devised to recruit the best HR to appoint the right man at right place.
e) A mandatory training policy should be implemented by the SBP to brought HR in line with the best-market practices of professional banking management at an international level.
f) A separate monitoring bench be appointed to monitor the transaction in between the two countries.
g) Merger of banks, under the ages of CCP, would be appreciated to enhance the paid up capital of banks. This will improve the Capital Adequacy Ratio.
h) Strengthen the Prudential Regulations.
i) Diluting the patronage on nationalize banking and bringing at par with private banking.
Impact of CPEC on GDP / economic growth.

Almost all theories of economic growth have a consensus that all sectors advance by following one another just like, in the situation of economic meltdown, where all economic sectors follow one another from boom to doom and finally to boom. Connectivity with one of the biggest economies of the world, having $ 4,000 reserve, itself pertains an immense importance for the fate of Pak economy. GDP has been increased to 4.2% in 2015 and expected 5.5% in 2016. Economic corridor would ensure the GDP @ 8%, even beyond, with active and wise economic management and active participation of banking sector.



a. Financial sector

Flow of capital in between the two countries would strengthen the both segments of financial sector in the following manner:

- Capital Market: The economic growth would be finitely improving the macro fundamentals of economy which is causative force to boost up the capital market. It is believed that Capital market projects the image of country under the economic myth, "Performance of capital market is a barometer to measure the health of national economy". The giant public companies would also find ample chances to issue the long term bonds, another tangible segment of Capital Market, for capital formation.

- Money Market: General public is more aware of money market than the capital market. Economy depends on supply and demand of economic transactions. Banking sector, forex market, financial institutions and clearing houses are few of derivers from money market to boost the economic growth / GDP.

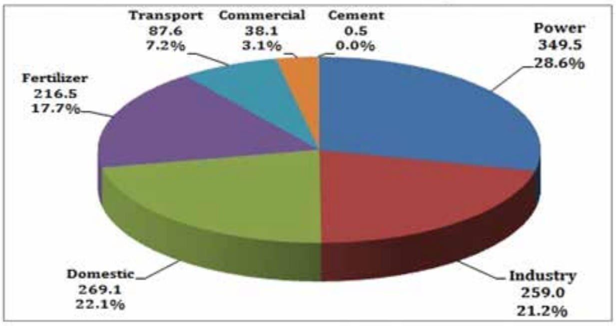
Other three markets (Product, Commodity & Factor) will also see an unmatchable boost after economic corridor becomes operational.

b. Industrial Sector

Pakistan industrial sector is producing almost all industrial and consumer products. Shortage of power / energy due to twin problems of internal mismanagement of economic mangers and world depression has declined the Pak economy to its lowest. Thousands of manufacturing units have been closed or shifted to other countries that dragged down the overall economic growth to1.9% in 2013. Major task of CPEC is to make up the shortage of energy both for industrial sector and households. CPEC will have a tangible influence on growth of industrial sector. Pakistan would also improve its facility to take the advantage of Generalized System of Preference – (GSP) plus status given by the EU to export the $1.5 bn duty free textile goods. Natural gas should be reserved for domestic use and fertilizer production which constitutes 39.9% of total consumption. Remaining 60.1% consumption of natural gas is to be swapped to electricity planned to produce from solar power, coal fire, nuclear and wind mills etc under the wake of CPEC.

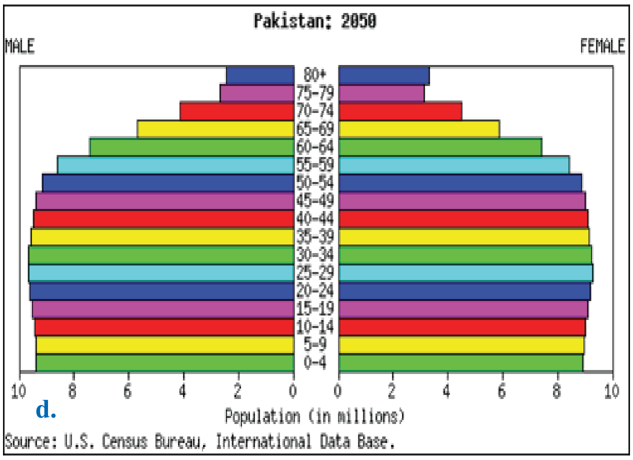
c. Service Sector

Exhibit 3.1 - Sector wise Natural Gas Consumption FY 2014



Source: HDIP Energy Year Book 2014

Recently the increase in unemployed labour force increased to 7% due closure of thousands of manufacturing units on behest of energy shortage. CPEC will cause to revival of sick units, boost in financial sector and overall increase in economic activities will surely push the service sector. Transportation sector would grow more rapidly which is absorbing 14% labor force at present. CPEC will be helpful to accommodate approximately 100 million male labor force in between 10 – 60 years in 2050. It is expected that 50% female labor, out of another 100 million female labor force, would be demanding the jobs.



Agriculture Sector

Agriculture sector is already active to extend of cash crops. It will participate more actively when all other economic sector would see the tremendous progress under the ages of CPEC. Pakistan can play a proactive role, through banking sector, to cater African countries in general and Afghanistan in particular in situation of Risk to Food Security because Afghanistan will meet acute food shortage followed by African countries in near future.

Total area of Pakistan = 79.61 (million hectare)
Reported (confirm holding of people) = 57.07 m. ha
Forest = o4.02 m. ha
Arable area, out of 57.07 m. ha = 23.13 m .ha (40.5 %)
Wheat cultivated area = 8.220 m .ha

More virgin land could be transformed into arable area through bank loans which would be abundantly available after CPEC starts the operations. 8.22million hectare arable area will produce 25 million tons of wheat, for this year, which is sufficient to meet the one year requirement of local consumption

Following precautionary measures are suggested.

- Legal Frame Work for Banking Sector: Both the countries should devise the legal frame work and action plan to empower the banking sector to play the vital role in CPEC activities. Present MoU regarding the banking operation is not sufficient to cater the requirement of the giant investment.
- Unanimity: There should be a complete consensus among the Politicians, Bureaucrats and Pak Army – the three pillars of state.
- Externalities: Only three chapter cities of Pakistan are projected and all sources have been accumulated in these three cities. Further accumulation of sources will produce negative externality. An addition of offices, warehousing, workshops, hospitals, railway hubs and training centers etc will be more advantages and produce positive externalities in second tear cities like Rawalpindi, Peshawar, Faisalabad, Multan, Quetta and Hyderabad rather than in three chapter cities of Pakistan. ■

Writer's Profile:

Mr. Mazhar Mahmood is a Fellow member of ICMA Pakistan and Chief Executive Officer of Mazhar Mahmood & Co. He is also working as General Manager (Finance) in NFRD – an Incubator Centre of 8 Business Units.


RESEARCH PAPER

"Pakistani and Chinese Banking Sector - Readiness for CPEC Project and Comparison of Non-Performing Loans (NPLs)"

By: Muhammad Iqbal Ghori, FCMA, Chairman, Research and Publications Committee
Muhammad Kamran Jamil, Director, Research and Publications and
Shahid Anwar, Joint Director, Research and Publications

Abstract

This paper provides a brief assessment of the global standing and ranking of major Chinese and Pakistani banks and at the same time analyses the current status of the Non-Performing Loans (NPLs) of the banking industry in Pakistan and China. The purpose of the analysis is to judge the capacity of leading banks in both countries in the perspective of China-Pakistan Economic Corridor (CPEC). The research paper also examines the readiness of Pakistani banks to reposition themselves in the backdrop of various business opportunities emerging from CPEC projects by planning ahead and readjusting priorities. The paper also looks at the preparedness of the Pakistani private sector to expand their capacities to exploit the CPEC opportunities.

Keywords: Non-Performing Loans, NPL ratio, listed banks, scheduled banks, private banks, CPEC, economic corridor, energy, infrastructure, Special Economic Zones (SEZs)

Preamble

The China-Pakistan Economic Corridor (CPEC) is said to be a 'game changer' for Pakistan. The two friendly countries whose friendship is regarded as taller than 'Himalayas' and deeper then 'oceans', have embarked upon a new venture which would bring them more closer to each other and would be a win-win game for both. The economic corridor which is going to be built would link Kashgar in China to Gwadar port in Pakistan. For Pakistan, this venture is expected to resolve energy shortages, stimulate domestic and foreign investment, reduce infrastructure bottlenecks, create massive job opportunities and boost economic growth. With US$ 46 billion investment committed, China is going to surpass UAE to become the top sourcing country for investment into Pakistan.

In addition to this massive Chinese investment of US$46 billion, local financing would also be required to meet the project financing demands of CPEC projects. Do our banks, DFIs and capital market have the capability and capacity to cater to the financing requirements and are they ready and prepared to play a dynamic role to maximize the opportunities that are ahead with the implementation of CPEC. As far as China is concerned, it is more focused on transportation network, whereas Pakistan is more concerned with the generation of more electricity. Do our banks have done the homework?

In this Research Paper, we would be making a comparison of the Chinese and Pakistani banking industry vis-à-vis the past and present trend of the non-performing loans (NPLs). We would also be looking at the readiness and preparedness of the banking sector as well the private sector of Pakistan to embark upon the economic corridor potential and opportunities. Before proceeding, let' have a look at some facts and figures about China-Pakistan Economic Corridor (CPEC).

CPEC : Facts and Figures

The China-Pakistan Economic Corridor (CPEC) encompasses projects from road and rail infrastructure to construction of power plants, financial, industrial and agricultural cooperation, development of free economic zones, educational linkage and technology transfer.

The four main components of the CPEC are as under:

1) Gwadar Port (including development of city around Gwadar)
2) Energy Projects (Coal, Hydel, Wind, Solar, LNG etc)
3) Transport Infrastructure (Road, Rail, Aviation)
4) Industrial Cooperation (Gwadar Free Zone and industrial Parks)

As per CPEC-related information available from government sources, the estimated cost to be incurred on 21 energy projects; 4 transport infrastructure projects and 8 projects for the development of Gwadar port and city would be around US$ 44.43 billion.

Sr.	Sector	No. of Projects	Estimated Cost (USD Billion)	
1	**Energy**	24		**34.41**
2	**Transport Infrastructure**			
	Roads	2	6.10	
	Rail Network	2	3.69	
	Gwadar Port	8	0.79	**10.58**
3	**Others** (optical fibre Cable, DTMB)	2		**0.05**
	Total Cost of CPEC Projects			**44.43**

Source: Board of Investment and Planning Commission)

Energy Projects: The main focus of CPEC is on energy which is evident from the fact that out of total CPEC package of US$46 billion, around US$34.41 billion is in private sector, mostly in power generation in IPP mode. These energy projects is estimated to produce 17,045 MW of energy, out of which 6,645 MW energy projects are being actively promoted. Majority of these energy projects, as the government claims, relate to coal and wind and not hydel. One of the coal-based power plants will be installed in Thar to tap the coals reserves in the area and produce around 6,600 MW energy.

The Pakistani government has agreed to grant exemption of withholding tax on interest of loans to those Chinese companies who will be installing power plants as Independent Power Producers (IPPs) under CPEC. These Chinese companies will enjoy all exemptions currently available to IPPs in Pakistan. The modalities would be finalized after signing of treaty between the two countries.

Transport Infrastructure: The Chinese investment of US$ 10.63 billion for transport infrastructure would be made through government to government agreements, including US$6.1 billion for construction of roads; US$3.7 billion for rail networks and US$ 793 million for Gwadar-related projects e.g. construction of Gwadar international airport, Eastbay Expressway etc. The Chinese Exim Bank would be extending assistance to Pakistan at 1.6% interest rate for CPEC infrastructure projects.

Other Projects: The other projects that are part of CPEC-package are construction of cross-border optical fibre cable and Digital Terrestrial Multimedia Broadcast (DTMB) project. DTMB project is in fact belongs to the earlier harvest projects of CPEC and leading Chinese telecom network supplier ZTE has completed this project in March 2016. This project will allow the residents around Islamabad city to receive TV signals once they stall a set-top box. DTMB project signify 'information corridor' that would bring Chinese telecom standards to Pakistan (currently there are 4 telecom standards in the world viz. Chinese, European, Japanese and American)

Industrial Cooperation: A CPEC working group on Industrial Parks / Special Economic Zones (SEZs) have been constituted by the government to identify potential feasible sites for consideration by the CPEC Joint Working Group. BOI Pakistan has already identified potential sites in all Provinces of Pakistan – from Khunjrab to Gwadar – to establish SEZs alongside the Corridor. Each SEZ will target specific products and services based on availability of local raw material, work force and other factors. It is expected that establishment of SEZs will attract domestic and foreign investments and create employment opportunities for both skilled and unskilled workers in Pakistan.

Global Standing and Ranking of Chinese Banks

In August 2015, SNL Financial, a leading global provider of financial information, released its annual ranking of the world's largest banks in terms of their total assets. SNL ranks the largest banks in the world by converting their total assets into US Dollars by using the exchange rate as at end of period measured. This ranking revealed that today China has four out of five top largest banks in the world and overall there are 16 Chinese banks of the top 100 banks of the world (see table-1 and table 2) . USA stands second in the ranking with 11 largest banks out of 100, followed by Japan with 8 largest banks and then UK, France and Germany having 6 banks each in the listing of 100 top banks of world.

Table 1: SNL Financial Ranking of Top Five biggest Banks of the World in 2015 (based in terms of their Total Assets)

Ranking	Name of Bank	Country	Total Assets (USD Trillion)
1	Industrial and Commercial Bank of China Ltd	China	3.452
2	China Construction Bank	China	2.819
3	Agriculture Bank of China Ltd.	China	2.716
4	HSBC Holdings Plc	UK	2.670
5	Bank of China Ltd.	China	2.584

Source: Extracted from SNL Financial's List of top 100 banks of the world

As can be seen from **Table-1**, the Industrial and Commercial Bank of China tops the list with total assets of USD 3.5 trillion, which according to CNN is worth more than the entire value of the British economy. China Construction Bank with total assets worth USD 2.8 trillion ranks second whereas Agriculture Bank of China Ltd. having total assets of 2.7 trillion is at third standing in the list. The only non-Chinese bank in the Top 5 list is HSBC, having its headquarter in London, with ranking of fourth with total assets worth USD 2.67 trillion. The Bank of China is fifth with total assets of USD 2.6 trillion.

Table-2 provides the country-wise strength of all 100 largest banks in the world. As can be observed, 16 of the top 100 banks in the world are in China having total assets worth USD 18.87 trillion. USA ranks second with total 11 banks aggregating total assets of USD 12 billion. Europe, including Russia have 43 out of top 100 banks. If we take individually, Japan comes at 3rd position with 8 banks whereas UK, France and Germany with 6 banks each stands at 4th, 5th and 6th positions.

'The Banker' is a global financial Intelligence magazine and owned by Financial Times Group, UK, and a premier resource for the world's investment, retail and commercial banking sectors. Since 1970, it is regularly publishing world rankings of top 1000, which is a key source of data and analysis for the industry. According to its latest ranking of top 1000 banks 2015, the world's biggest banks continue to lose ground to Chinese rivals and the combined profits of all the Chinese banks in the ranking are almost double than those of USA Banks and ten times bigger than those of UK banks. It is pertinent to mention here that in 2008, both USA and UK banks were more profitable than the Chinese banks.

The 2015 Banker's ranking include 117 Chinese banks, out of top 1000 world banks. It is interesting to note that in 2010, only one Chinese bank could find place in Banker's top 10 banks' rankings, but within a short span of five years, the Chinese banks are now in dominant position, which indicates not only a major shift in global banking industry but also demonstrates the capital strength, improved asset quality and enhanced development potentials of Chinese banks.

Table 2: Country-wise strength of 100 largest Banks of the world- 2015

Sr.	Country	Total number of Banks in List of Top 100 largest Banks	Total Assets of Banks (USD Trillion)
1	China	16	18.865
2	USA	11	11.912
3	Japan	08	9.140
4	UK	06	8.692
5	France	06	8.519
6	Germany	06	4.032
7	Canada	05	3.277
8	Spain	04	2.800
9	Australia	04	2.087
10	Sweden	04	1.776
11	Brazil	04	1.606
12	South Korea	04	1.140
13	Netherlands	03	2.427
15	Italy	03	2.185
16	Belgium	03	0.800
17	Singapore	03	0.856
18	Switzerland	02	2.010
19	Denmark	02	0.764
20	Russia	02	0.631
21	Taiwan	01	0.225
22	Austria	01	0.217
23	Norway	01	0.346
24	India	01	0.432
	Total	**100**	**84.739**

Source: R&P Dept Analysis of SNL Financial's List of top 100 banks of the world

Three Chinese banks are in The Banker's top five slot in 2015 ranking with Industrial and Commercial Bank of China (ICBC) securing first position continuously for the third time. In fact, ICBC with over 460 thousand employees and having over 460 million e-banking and 150 million mobile banking customers, also enjoys the top ranking at the 'Forbes Global 2000' list.

Table-3 shows the list of top 10 banks of the world in terms of their Tier 1 Capital, ranked by The Banker, which includes four banks each from China and USA and one bank each from UK and Japan.

Table 3: The Banker's 2015 Ranking of Top 10 Banks (based in terms of Tier 1 Capital)

Ranking	Name of Bank	Country	Tier 1 Capital (USD Billion)
1	ICBC	China	248.6
2	China Construction Bank	China	202.1
3	JP Morgan	USA	186.6
4	Bank of China	China	184.2
5	Bank of America	USA	168.9
6	Agricultural Bank of China	China	167.7
7	Citigroup	USA	166.5
8	Wells Fargo & Co.	USA	154.7
9	HSBC Holdings	UK	152.7
10	Mitsubishi UFJ	Japan	117.6

Source: The Banker's website: www.thebankerdatabase.com

Global Standing and Ranking of Pakistani Banks

Few large Pakistani banks have been able to get global recognitions and awards from the international financial ratings agencies such as EUROMONEY, The BANKER, The ASIAN BANKER, GLOBAL FINANCE and the ASIA MONEY. Table-4 shows global awards received by Pakistani banks.

Table 4 : Pakistani Banks receiving Global Recognition Awards

National Bank of Pakistan (NBP)

The Bank of the Year in Pakistan	The Banker, UK	2015, 2013, 2012, 2011, 2010, 2008, 2005, 2004, 2002 and 2001
Domestic Retail Bank of the Year	Asian Banking and Finance Magazine	2013
Domestic Technology & Operations Bank of the Year	Asian Banking and Finance Magazine	2013
Best Emerging Market Bank -Pakistan	Global Finance, UK	2006 and 2003
Best Foreign Exchange Bank -Pakistan	Global Finance, UK	2005 and 2004

Name of Award	Global Awarding Agency	Year of Receiving Award
Best Local Trade Finance Bank in Pakistan	Global Trade Review (GTR)	2015, 2014, 2013, 2011
Best Trade Finance Provider in Pakistan	Global Finance Magazine	2014, 2010, 2009
Best Bank in Pakistan	Euro money	2015, 2014, 2013, 2009, 2008
Best Domestic Bank in Pakistan	Asia money	2015
Safest Bank in Pakistan	Global Finance	2015, 2014
Best Investment Bank	International Finance Magazine	2015
The Bank of the Year in Pakistan	The Banker, UK	2014, 2009
No. 1 FX Bank in Pakistan	Euro money	2013
Best Retail Bank in Pakistan	The Asian Banker Magazine	2013, 2012
Best Emerging Market Bank	Global Finance	2012, 2010, 2009
Strongest Bank in Pakistan	The Asian Banker Magazine	2012
Best Foreign Exchange Provider in Pakistan	Global Finance	2009

Muslim Commercial Bank (MCB)

Name of Award	Global Awarding Agency	Year of Receiving Award
Best Bank in Pakistan	Asset Asian Awards (AAA)	2014, 2006, 2003, 2001
Best Domestic Bank in Pakistan	Asset Asian Awards (AAA)	2014, 2013, 2012, 2009
Best of the Best Domestic Bank	Asia money Awards	2014, 2009
Strongest Bank in Pakistan	The Asian Banker Magazine	2014, 2010
Best Bank in Pakistan	Euro money Magazine	2012, 2011
Best Bank in Asia	Euro money Magazine	2008

Allied Bank Limited (ABL)

Name of Award	Global Awarding Agency	Year of Receiving Award
Strongest Bank by Balance Sheet – Pakistan	The Asian Banker Magazine	2014
Best Domestic Investment Bank in Pakistan	The Asset Magazine, Hong Kong	2013, 2009
Best Managed Bank Achievement Award 2013	The Asian Banker Magazine	2013
Best Investment Bank in Pakistan – 2013	Euromoney Magazine, UK	2013
Bank of the Year in Pakistan	The Banker, UK	2011
Best Retail Bank in Pakistan	The Asian Banker Magazine	2011
Best Equity House in Pakistan	The Asset Magazine, Hong Kong	2008
The Banker Deal of the Year – Pakistan	The Banker, UK	2008

Askari Bank Limited

Name of Award	Global Awarding Agency	Year of Receiving Award
Best Bank in Pakistan	Global Finance Magazine	2001 and 2002
Best Consumer Internet Bank	Global Finance Magazine	2002 and 2003

United Bank Limited (UBL)

Name of Award	Global Awarding Agency	Year of Receiving Award
The Bank of the Year in Pakistan	The Banker, UK	2013
Best Domestic Bank in Pakistan	Asia money Awards	2012

Habib Metropolitan Bank (HMB)

Name of Award	Global Awarding Agency	Year of Receiving Award
ADB Leading Partner in Pakistan Award	Asian Development Bank (ADB)	2015
Best GTFP Issuing Bank for South-South Trade	Int'l Finance Corporation (IFC)	2012

Meezan Bank

Name of Award	Global Awarding Agency	Year of Receiving Award
Shariah Authenticity Award	Global Islamic Finance Awards	2015
Best Research & Development in Islamic Finance	Global Islamic Finance Awards	2013
Best Islamic Bank, Pakistan	Asset Triple A Islamic Finance Awards	2015
Best Islamic Retail Bank, Pakistan	Asset Triple A Islamic Finance Awards	2015
Best Islamic Trade Finance Bank, Pakistan	Asset Triple A Islamic Finance Awards	2015
Best Islamic Investment Bank, Pakistan	Asset Triple A Islamic Finance Awards	2015
Best Sukuk House, Pakistan	Asset Triple A Islamic Finance Awards	2015
Best Islamic Trade Finance Deal, Pakistan	Asset Triple A Islamic Finance Awards	2015
The Best Islamic Bank in Pakistan	Global Finance Magazine	2015, 2014, 2013, 2012, 2011, 2010, 2009

Rankings of Pakistani Banks in terms of Total Assets

As per State Bank of Pakistan (SBP), the total assets of all Pakistan banks by end March 2015 stood at Rs. 12,528 billion, showing an increase from Rs. 10,752 billion at end March 2014. In 2008, the total assets of all scheduled banks stood at only Rs. 5,628 billion.

Table 5 : Total Assets of Pakistani Commercial and Specialized Banks (By end March 2015)

Category of Bank	Total Assets (Rs. in Billions)	% share in Total Assets
Commercial Banks (CB)	12,342	98.52%
Specialized Banks (SB)	186	1.48%
Total	12,528	

Table-5 presents the total assets held by commercial and specialized banks in Pakistan by March 2015.

The Research and Publications Directorate conducted a brief analysis of the Balance Sheets of few large and medium-size banks in Pakistan to rank them in terms of highest value of total assets. The analysis reveals that Habib Bank Limited (HBL) tops the ranking with Rs. 1867 billion worth of total assets, followed by National Bank of Pakistan (NBP) with Rs. 1543 billion total assets.

Table-6 shows the Top-5 ranking Pakistani banks in terms of total assets.

Table 6 : Rankings of Pakistani Banks in terms of their Total Assets

Ranking	Name of Bank	Total Assets (Rs. in Billions)
1	Habib Bank Limited (HBL)	1867
2	National Bank of Pakistan (NBP)	1543
3	United Bank Limited (UBL)	1111
4	Muslim Commercial Bank (MCB)	935
5	Allied Bank Limited (ABL)	843

Non-Performing Loans (NPL) of Pakistani and Chinese Banking Industry

The Non Performing Loans (NPL) are those financial assets from which the banks no longer receive interest and/or installment payments. In other words, NPL are called non-performing because the loan ceases to 'perform' or generate income for the bank. High NPLs shrinks the operating margin of the banks and erodes their capital base to advance new loans, often termed as 'credit crunch'. The lower credit supply eventually have a negative on the economic. Normally, Non Performing Loans are the result of economic slowdown, however, these are also due to lack of effective monitoring and supervision on the part of the banks, which do not have any effective debt recovery strategies.

Let's have a look in detail on the Non-Performing Loans (NPLs) of the Chinese and Pakistani banking industry and the policy measures taken by the governments in these two countries.

NPLs of Chinese Banks

The non-performing loans (NPL) of commercial banks in China are continuously on the rise. In fact, it has more than doubled in 2015 from previous year. By the end of 2015, NPL of Chinese commercial banks have soared to 1.95 trillion Yuan (or US$ 296.8 billion) from just 842.6 billion Yuan in 2014. Table-7 shows the volume of Non-Performing Loans of the Listed Chinese Banks since 2008.

The main reason that can be attributed to this huge increase in NPL is overcapacity and slowdown in Chinese economy from 9.5 percent in 2011 to around 7 percent in 2014. This is expected to go down further to 6.5 percent in 2015 and onward. Resultantly, the banks profit also fell down to just 2.3 percent. Majority of these non-performing loans are in manufacturing, wholesale and retail sectors.

According to the data available on the website of China Banking Regulatory Commission (CBRC), both the levels of NPLs and the NPL ratio (defined as total NPLs over total loans) of commercial banks have increased steadily over 16 consecutive quarters, reaching 1.186 trillion Yuan by end September 2015. In the first 9 months of FY 2015, the NPL rose to 343 billion Yuan as against 251 billion Yuan in the corresponding period of last year.

Table 7 : Non-Performing Loans (NPLs) of Chinese Listed Banks

Year	NPL (Billion Yuan)	NPL (Billion USD)	NPL Ratio
2008	476	69.79	2.43%
2009	419	61.35	1.60%
2010	361	54.78	1.16%
2011	351	55.77	0.99%
2012	373	59.87	0.95%
2013	592	97.70	1.00%
2014	843	135.75	1.25%
2015	1950	296.80	1.59%

Table 8: NPL Ratios of Five Big Banks in China (By end September 2015- Q3)

Sr	Name of Bank	NPL Ratio
1.	Industrial and Commercial Bank of China (ICBC)	1.44%
2.	China Construction Bank (CCB)	1.45%
3.	Agriculture Bank of China (ABC)	2.02%
4.	Bank of China (BOC)	1.43%
5.	Bank of Communications (BOCOM)	1.42%

Yuan to USD Exchange rate by end December each year : *6.82 (2008); 6.83 (2009); 6.59 (2010); 6.29 (2011); 6.23 (2012); 6.05 (2013); 6.21 (2014) and 6.50 (2015)*

Source: Website of Chinese Banking Regulatory Commission and financial newspapers

As can be seen from **Table-7**, the NPL ratios of the Chinese listed banks are steadily rising since 2012. NPL ratio of listed banks was 1% in 2013 which increased to 1.25% in 2014 and by the end of Q3 i.e. end September 2015, NPL ratio rose further to 1.59%. It is expected that in 2016, the NPL ratio will touch the 2 percent level. It may be mentioned here that in 2001, the NPL ratio of Chinese banks was as high as 29.8%, which fell to 20.4% in 2002 and further to 13.2% in 2004 and then to 6.2% in 2007. Since 2008, the NPL ratio has been drastically reduced to 2.4% as indicated in Table-7.

In **Table-8**, the NPL ratios of the 'Five-big' state-owned Chinese banks have been highlighted. As can be seen, the Agricultural Bank of China (ABC) has the hightest NPL ratio of 2.02%. In 2013, NPL ratio of ABC was only 1.22% which increased to 1.54% in 2014. Similarly, the NPL ratios of Industrial and Commercial Bank of China (ICBC) increased from 0.94% in 2013 to 1.13% in 2014 and 1.44% in 2015. The same was the case with China Construction Bank (CCB). This signfies a concerning trend for these four-big state owned banks of China as it is eroding their operating profit margins. According to figures available from the China Banking Regulatory Commission (CBRC), by end of March 2015, the aggregate amount of NPLs of the three state-owned Chinese banks (i.e. ICBC, CCB, and ABC) stood at 412.8 billion Yuan which accounted for 58% of total NPL balance of 16 listed banks.

Realing the increasing trend of NPL ratio, these banks are now focusing on reducing their amount of unsecured debts on their books. However, there is still inherent risk due to increasing loans to businesses and lack of any risk management systems, covering the entire process of assessment and management, prior to after grant of credit to businesses.

The growing NPLs are a great concern for the Chinese government. In fact, the economic slowdown in China coupled with weakening domestic and overseas demand and overcapacity in steel and other industries has resulted in increasing financial risks and cash flow problems for the businesses. The Central Bank in China has taken various measures to check this increasing trend in NPLs of commercial banks such as cutting the interest rates and Banks' reserve requirement ratios. The regulators have also introduced some additional capital requirements as well on banking industry.

NPLs of Pakistan Banks

The non-performing loans (NPLs) of Pakistani scheduled banks have increased over the years as depicted in Table-9. The NPLs stood at Rs. 359 billion in 2008, which continuously rose to reach the level of Rs. 618 billion in 2012 and by end of June 2015, NPL has climaxed to Rs. 630 billion. On the other hand, the NPL ratio has shown a declining trend, which is indicative of the fact that gross loans of banks has increased manifold, resulting in persistent decline in NPL ratio from 15.7% in 2011 to 12.3% in 2014 and increasing slightly to 12.8% by end of March 2015.

Table 9 : Non-Performing Loans (NPLs) of Pakistani Scheduled Banks

Year	NPL (Billion Rupees)	NPL (Billion USD)	Infection Ratio (%)
2008	359	4.56	10.5%
2009	446	5.28	12.6%
2010	556	6.50	14.9%
2011	592	6.58	15.7%
2012	618	6.35	14.6%
2013	607	5.75	13.3%
2014	595	5.92	12.3%
2015	630	6.00	12.8%

Table 10: NPL Ratios of Five Big Banks in Pakistan (On January 2015)

Sr	Name of Bank	NPL Ratio
1.	Habib Bank Limited (HBL)	2.7%
2.	National Bank of Pakistan (NBP)	3.7%
3.	United Bank Limited (UBL)	2.6%
4.	Muslim Commercial Bank (MCB)	1.2%
5.	Allied Bank Limited (ABL)	1.1%

Pak Rs. to USD Exchange rate by end December each year:78.75 (2008); 84.40 (2009); 85.60 (2010); 89.95 (2011); 97.27 (2012); 105.50 (2013); 100.53 (2014); 104.90 (2015)

Source: Website of SBP, Banks and financial newspapers

Table-10 shows the NPL ratios of 'Five-big' listed banks in Pakistan, according to which National Bank of Pakistan (NBP) has the highest NPL ratio of 3.7% whereas Allied Bank of Pakistan has the lowest NPL ratio of 1.2 percent. From table-6 it can be observed that ABL is ranked 5th among top-5 banks in terms of total assets, whereas NBP is first in ranking, though it is on top with highest NPL ratio.

Now, let's analyse here the bank category-wise and segment-wise position of non-performing loans. As can be observed from Table-11, more than 90 percent of non-performing loans (NPLs) in the banking industry are with local private banks and public-sector commercial banks. The share of local private banks is pre-dominant with almost 62 percent by end June 2015, followed by 31 percent of public-sector commercial banks. The specialized banks have around 6 percent share in total NPLs.

Table 11 : Bank Category wise Non-Performing Loans (NPLs) (Value in Million Rupees)						
Sr.	**Category of Bank**	**June 2014**	**%share in Total NPLs**	**June 2015**	**%share in Total NPLs**
1	Local Private Banks	380,476	63.91	391,272	62.10
2	Public Sector Commercial Banks	171,294	28.77	196,592	31.20
3	Specialized Banks	36, 829	6.19	38,584	6.12
4	Foreign Banks	6,699	1.13	3,582	0.57
	Total	**595,298**	**100%**	**630,030**	**100%**

As far as sector/segment-wise distribution of NPLs is concerned, it is evident from Table-11 that the 'Corporate sector' has the highest share in overall NPLs of banks i.e. 70.29% in June 2015, followed by the SME sector with around 14% share. The share of agriculture sector and commodity financing in overall NPLs of banks have shown an increasing trend in 2015 as compared to last year, which reflect high loan advancement by banks to these sectors.

Table 11 : Segment/Sector – Wise Non-Performing Loans (NPLs)
(Value in Million Rupees)

Sr.	Sector / Segment	June 2014	%share in Total NPL	June 2015	%share in Total NPL
1	Corporate Sector	415,832	69.85	442,849	70.29
2	SME Sector	89,693	15.07	88,269	14.01
3	Agricultural Sector	36,437	6.12	45,756	7.26
4	Consumer Sector	35,764	6.01	34,066	5.41
5	Commodity Financing	4,649	0.78	6,685	1.06
6	Others (staff loans etc)	12,922	2.17	12,405	1.97
	Total	**595,298**	**100%**	**630,030**	**100%**

Readiness of Chinese Banks for CPEC

In 2014, the GDP growth rate in China was 7.40 percent, which was the lowest witnessed during the last 24 years. However, despite this slowdown, the Chinese growth was comparatively much better than other economies of the world. In March 2015, the Chinese government adjusted its approach towards growth by lowering the GDP growth target to 7 percent for the first time. According to a research study titled 'The World in 2050: Will the Shift in Global Power Continue", it has been projected that China will continue to maintain GDP growth rate of 6.30 percent annually upto the year 2020 before slowing down. However, China will eventually become the World's largest economy (by market exchange rates) in 2028, surpassing the USA. It would not be out of place to quote here a statement made by the Chinese President Xi Jinping at the G-20 Summit in Turkey in December 2015 that "Despite a recent slowdown, China has still contributed 30 percent of world economic growth, which means China is still a major economic powerhouse".

Notwithstanding pressures on Chinese banking industry due to economic slowdown and competition, the emerging trends indicate that the Chinese banks are likely to get a major fillip in their businesses, as a result of some fresh initiatives undertaken by the Chinese Government under its "New Normal' growth strategy, such as 'One Belt and One Road" initiative; China-Pakistan Economic Corridor (CPEC) project, Silk Road Economic Belt and regional integration among Beijing, Tianjin and Hebei and the Yangtze River Economic Belt. All these macro-economic initiatives and developments would certainly motivate the Chinese banks to redraw their regional and international strategies in order to take maximum benefit from the emerging opportunities in the region.

Sustainable economic growth and development depends much on improved infrastructure networks. China has large capital and strong resources with huge foreign reserves, which coupled with its experience in infrastructure construction, places it in a better position to complete these projects as planned and envisioned. The completion of these projects would not only stimulate the global economy but also benefit China and its neighboring countries, including Pakistan, which need more infrastructure investments, as a launching pad to achieve rapid economic growth.

To meet the financing needs of the above projects, China has also taken a lead to establish the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank for BRICS which includes China, Russian, India, South Africa and Brazil. The Asian Infrastructure Investment Bank would help finance infrastructure construction projects in Asian countries. The AIIB is going to commence operations from January 2016 and already fifty countries have become its members, including developed countries like France, UK and Germany. USA, however, has decided not to join AIIB due to its own reservations that AIIB would undermine the role of World Bank and IMF.

Readiness of Pakistani Banks for CPEC

With the initiation of second phase of CPEC-related projects, the banking sector of both Pakistan and China are expected to play a vibrant role in providing finances and working capital to companies who are going to set up businesses and industries in the Special Economic Zones (SEZs). Many banks in Pakistan, who are already part of consortiums to fund different energy and road construction projects under CPEC, have also started thinking and planning about how to exploit the upcoming business opportunities and economic boom with the establishment of Special Economic Zones (SEZs).

According to the information available to Research Department of ICMA Pakistan, major banks are repositioning themselves; re-orienting their internal systems and upgrading their project financing and business development and intelligence departments to take the lead. For instance, the National Bank of Pakistan (NBP) has set-up a new 'Business Development Unit' whereas UBL, HBL, MCB Bank, ABL and Bank Alfalah are in process of upgrading their project financing and business development cells.

Apart from the above preparatory initiatives undertaken by banks, there are some reservations on CPEC as well which are hindering them to finalize medium and long term future business plan such as:

a) Government's reluctance to provide specific, full and final details of CPEC-related projects
b) Non-clarity of financial make-up of CPEC promised funds i.e. actual amount of debt and equity
c) Grievances of Provinces on execution of CPEC projects

d) Confusion about better projections for forex and interest rate movements
e) Concerns related to volatile political scenario in the Middle East
f) Insufficiency of banks deposits for financing or co-financing big CPEC-projects

There are some apprehensions in the banking as well as private sector in Pakistan about our readiness to meet the challenges and to make the most of the upcoming opportunities under CPEC. One major apprehension is that banks in Pakistan are not sufficiently capitalized to undertake the local currency financing of the domestic component of CPEC- related project which is estimated to be around Rs. 800 billion or more. Therefore, there is urgent need for banks to strengthen their balance sheets by resorting to capital markets so as to meet the local currency financing of CPEC projects. At the same time, the Securities and Exchange Commission of Pakistan (SECP) also need to foresee the expanding role of capital market in the backdrop of CPEC and propose some measures in forthcoming budget.

Another apprehension in the minds of businessmen and bankers is that the current interest rate differential between Chinese and Pakistani banks is likely to render the Pakistani banks uncompetitive against their Chinese counterparts in terms of financing of CPEC projects. For this purpose, the State Bank of Pakistan should come forward with a special policy to enable the Pakistani banks to compete with Chinese banks to provide funds to private sector so that they can take up mega projects under CPEC. The capacity of banks also need to be enhanced as even the Chinese banks would also be requiring local financing in Pakistan to compensate their equity cost.

The Government also need to consider establishing a new "Infrastructure Development Bank' to provide rupee components for the projects to be undertaken under CPEC. This is important because China has hitherto not committed to finance CPEC projects from either the 'Asian Infrastructure Investment Bank (AIIB) or its 'Silk Road Fund'. Therefore, all financing is to be done by both sides. In this context, the Pakistani government should allocate sufficient funds under Federal PSDP in the budget 2016-17 as there were no allocations for CPEC in the 2015-16 PSDP financing.

The Pakistani banks need to invest in human and technological resources to become effective partners of banking consortia and syndicates that would be making project financing in CPEC projects. Unlike previous experience of banking consortia which comprised mostly of local and Pakistani-based foreign banks, the CPEC project financing banking syndicates would comprise of local , Chinese and foreign banks not operating from Pakistan. Hence, this would altogether be a new experience for the Pakistani banks and for this they need to invest smartly in their human and technological resources.

Another area which need to be improved by Pakistani banks is to enhance expertise in appraisal of credit proposals and product development. So far, the banks have been making easy money through investment in debt market that brought their advances to deposit ratio to around fifty percent.

Readiness of Private Sector in Pakistan for CPEC

If we look at the preparedness of private sector and industry in Pakistan on CPEC, we observe that they are anticipating great business potential and opportunities. The business confidence is rising as the implementation of CPEC projects is under progress. This is evident from the fact that some , major business groups have even started investing in expanding their production capacities, especially in raw materials to be used in construction such as cement, steel, glass, electric cables etc.

According to research conducted by ICMA Pakistan, Nishat Group is planning to set-up a cement plant in Balochistan whereas Lucky cement is going to install a cement plant in Punjab. Similarly, Younus Brothers, owners of Lucky Cement are contemplating a 'coal power plant' in Karachi. There are other companies dealing in steel, cables and other sectors who are also expanding their production capacities. There are indications that many foreign companies have contacted their Pakistani counterparts to establish joints venture projects in Pakistan to cater to demand of items to be required under the different CPEC-related power and construction projects. There are also news that several Pakistani businessmen and industrialists from Karachi and Lahore have approached the banks to explore the possibility of long term financing in medium and large projects that they intend to launch to exploit the business opportunities emerging from CPEC.

These positive developments will be opening up avenues for our banks to increase their lending to private sector so that they have sufficient working capital available to prepare themselves to meet the impending demands of these products as soon as the work on CPEC is expedited in second phase. ■

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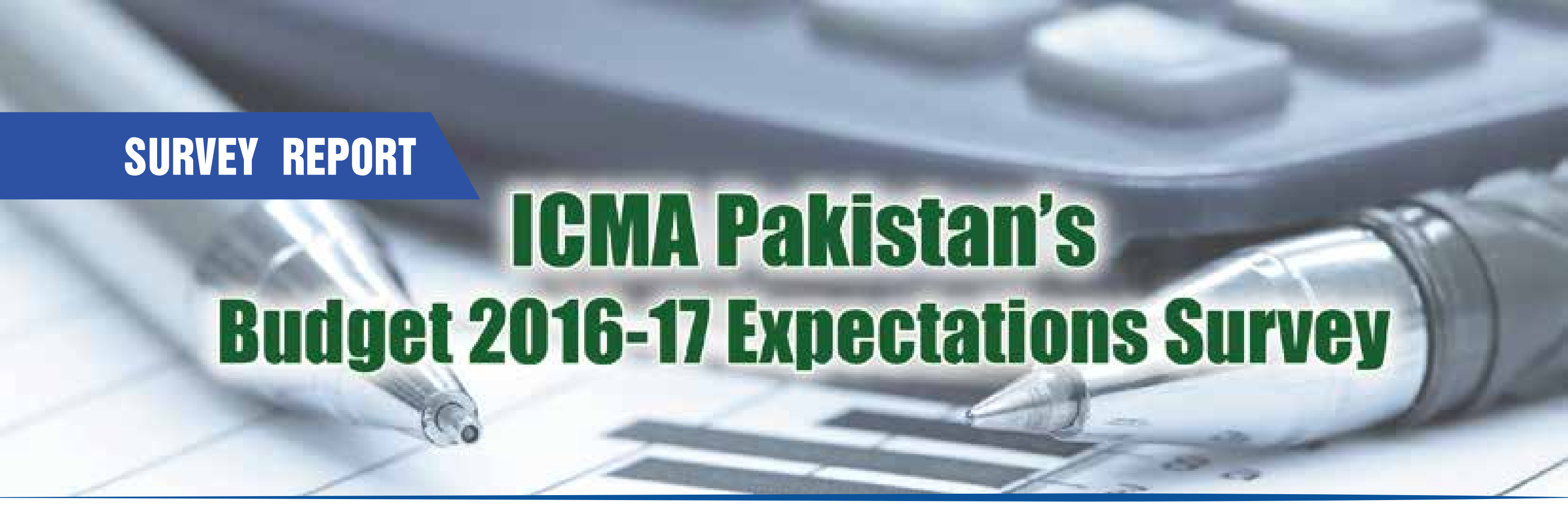
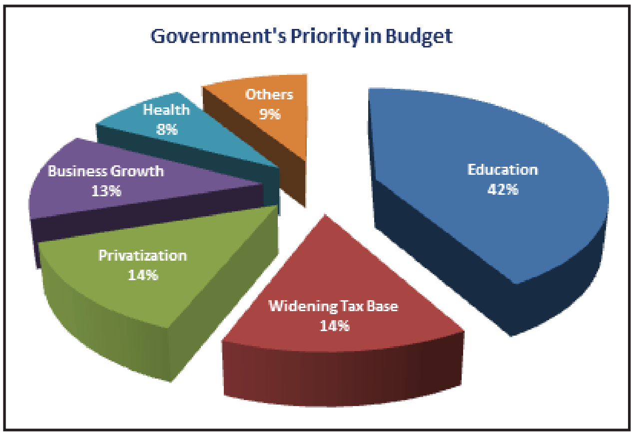


SURVEY REPORT

ICMA Pakistan's Budget 2016-17 Expectations Survey

"Education should be the top most priority in the Budget"



Preamble

The Federal Budget 2016-17 is expected to be announced by the Finance Minister by the end of May or early June 2016. Different initiatives have been claimed by the government to benefit the common man and to stimulate the economic growth. The Research and Publications Directorate of ICMA Pakistan has carried out this Budget 2016-17 Expectations Survey' to extract general public's views on forthcoming budget and to capture hopes and aspirations of professionals, students, teachers, traders, businessmen, housewives, etc from the forthcoming Federal Budget. The outcomes received from this opinion survey will help the policy makers in drawing inferences to assess the trust level of general public on government's initiatives for the betterment of people and national economy. It also reflects the perception of the people on how they want to see the budget 2016-2017.

The Survey comprised of seven questions that aimed at seeking opinion of respondent on their budget expectations; passing on benefit of oil price decline to people; relief to salaried class, government's spending and expected priority area for government. Let's have a look at some of the important outcomes of this survey.

Survey Results

69.3% .....expects that budget 2016-17 will be a traditional budget to appease IMF and may be loaded with new taxes for people and businesses

19% respondents, however, expect that this year the government, after achieving some stability and improvement in economic indicators, including tax revenue collections, is in a position to present a people and business-friendly budget.

56.3% ..... do not expect any kind of measures in budget 2016-17 that could bring some relief to the common man

35% respondents have shown optimism that with improved economic conditions, the government would be offering some kind of relief or concession to the common people.

54% ..... believe that government may offer some relief or incentive to the salaried class in the forthcoming budget

34.7% participants of survey, however, indicate that they do not expect any relief from the government for the salaried class, whereas 11.3% said that they cannot predict anything at this stage.

58.2% ..... expect and hope that the government will pass on the benfit of reduced oil prices in international market to the people

34.7% are of the opinion that they do not anticipate any positive measures from the government to give benefit of decline in oil prices in the international market to the common people. Around 7% respondents are silent in this regard.

64.6% ..... anticipate that the budget would have an impact on prices and prices of esssential commodities would go up

16.3% respondents do not agree with above observation and say that prices of essential commodities would go down after the announcement of budget. Around 19% are of the view that current prices shall remain unchanged.

74% ..... think that government 's spending on non-development expenditue would increase

9.3% have responded that current spending pattern of the government would continue whereas 8.9% believe that spending would rather decrease. 7.7% indicated that to comment on this is quite premature.

74% ..... think that government 's spending on non-development expenditue would increase

9.3% have responded that current spending pattern of the government would continue whereas 8.9% believe that spending would rather decrease, as also claimed by the government. 7.7% indicated that they cannot predict now.

The survey participants were specifically asked to mention one top-most priority area which, in their opinion, the government should focus in the forthcoming budget.

41.7% ..... indicated that government should focus on the 'Education Sector' in the coming budget by allocating more funds

14.3% respondents are of the viewpoint that the primary focus of the government in budget should be to expand the tax base that would help increase revenues. 14% say 'privatization' should be the top priority whereas 12.8% think that priority should be given to 'Business Growth'. ■

Unemployment & Micro Finance

Ahmed Tariq Bhatti, FCMA

According to the report of Federal Bureau of Statistics, the unemployment rate stood at 6% at the end of 2014. Unemployment rate in Pakistan is averaged around 5.45% from 1985 till 2014 (30 years). It was at the highest in 2002 i.e. 7.8% and at the lowest in 1987 i.e. 3.10%.

If we look around us, China reported 4.04% in July 2015 and India reported 4.9% in 2013. The comparison with these two countries is not logical as their population is huge and still they managed to have lower unemployment rate than that of ours.

Unemployment rate measures the number of people searching jobs actively at a given point in time as a percentage of the total labor force available in the country. According to the same report, 56.42 million people are employed at the end of 2014 and 3.58 million people are unemployed. It is also interesting to note though it is out of context that only 0.8 million (1.42%) are tax payers of the total employed work force of 56.42 million (equivalent to 5.6 crore).

Public Sector is continuously sliding downwards the hill. The companies/institutions/corporations in Public Sector are making huge losses and are on the path of their logical death. Governments have made big claims of achievements and the results are just ordinary. The ultimate solution provided by the current government is privatization. Privatization is not a good solution to many economic thinkers. They believe that governments should provide best treatments to the sick units. There have been appointments on political basis for decades that have destroyed the productivity of these units. Appointments should be made strictly on merit basis. Further, the management of these units should be given to professional and qualified people in their areas. So the hopes of recovery in the short term are not high.

Private Sector is steadily improving but its competitiveness is challenged in the region by many countries due to low cost of production and better infrastructure for the industrial growth. The recent blow given to this sector is given by the shortage of energy. Previously, energy was available at high cost but it is not available to the requirements of the industries now, even at higher cost. The market complexion is very interesting. The barriers of entry and exit are tough enough to encourage new people to come and open their production units. There are huge family owned organizations. There is political influence as well in these organizations. Groupings and

Public Sector is continuously sliding downwards the hill. The companies / institutions/corporations in Public Sector are making huge losses and are on the path of their logical death.

> We have to open room for MICRO FINANCING (alternatively known as micro credits or micro loans). Banks should find the people who are skilled and can start their own work with little capital. This capital is normally provided without any collateral. The terms and conditions of the micro loans are friendly.

Mafias??? How new people will come??? Flight of capital??? Brain drain???

WHAT IS THE SOLUTION UNDER THE GIVEN CIRCUMSTANCES?

There is always silver lining in every sable cloud. We have to open room for MICRO FINANCING (alternatively known as micro credits or micro loans). Banks should find the people who are skilled and can start their own work with little capital. This capital is normally provided without any collateral. The terms and conditions of the micro loans are friendly. Every bank should see around such people who are skilled and with little help and finance can start their own work. There are some banks which are already working on this model but their reach and spread is too limited to make them an effective change agent. Micro Financing has produced awesome results in many countries. We need to see around the strength due to natural conditions, resources and skills found in every area and accordingly provide guidance to the people to kick-start their own businesses. In this way, self employed people shall provide employment to other people as well. I think that the amount given under this scheme is so small that can be given without any outside influence. We have large number of people who have education but no job and have skills but no opportunity. These people can be used to such schemes. If we see in Punjab, every city has some specialized industries and small industries. So those areas can be explored and their potential can be utilized. Similarly a chart can be made for the whole country, marking each place for its natural strength, resources and skills found there. And facilitating them with finance and training in those areas. The purpose behind this suggestion is optimal utilization of resources. We have more resources than we require. But they are under-utilized or not-utilized or mis-utilized. The optimal utilization of resources shall reduce unemployment in the country.

SMEDA can play big role in the development and growth of such industries. ■

Writer's profile:

Dr. Ahmed Tariq Bhatti has more than 15 years professional experience of working with reputed companies. He has several years teaching experience as well. He has worked on several research assignments on his own."

It Costs to the Economy for not utilizing potential of Management Accountants

Syed Babar Ali, ACMA

The profession of accounting has seen dramatic events over the period since its emergence – particularly so in the last few decades. Both accounting practitioners and practices have been maligned for crises involving firms, financial markets, economies and for that matter the entire region. In an effort to improve the environment those in charge have been coming up with solutions, some have worked well while others have not.

Professional accounting bodies, all over the world, have been taking appropriate measures to improve and increase the scale of their operations. They have been attuning their curriculum to the business and social dynamics, attracting motivated candidates by changing the structure of the program, and collaborating with other local, regional and international accounting bodies.

In Pakistan the accounting profession has been lagging behind the expectations formed by the stakeholders – while this is true for any country in the world the case might be severe for Pakistan. For that reason the prospective shareholders and lenders lookat financial statements produced by the companies with utter skepticism. Because the financial statements are audited by the Czars,they are supposed to provide some level of assurance to the stakeholders, but not so. Let alone these being relevant and current, the financial statements are not even deemed accurate by the readers. But the Czars of accounting are not concerned. They have the statutory protection to make their pockets deeper by the hour. Therefore, they do not need to show any empathy, for the stakeholders and, for the improvement of accounting profession in Pakistan generally.

Only a handful of accounting firms have been performing their operations with some considerations to the professional and ethical codes. Others have been found to comply only with the wishes of their clients. It is as if there is a dearth of clientele and therefore such compliance is a must for survival. Although the current base of clientele could be small, however the potential base of the clientele is large. If the Czars can bother to look around themselves and notice the number of private limited companies operating in Pakistan - many of them as large as some of the public limited companies - they would know what lies in store.

Institute of Cost and Management Accountants was established in 1966 as a statutory accounting body. The members of the ICMAP have been occupying key managerial positions in private and public sectors in Pakistan. The Institute, sans the effective support of the custodians and supervisors, has been performing very well. Quite normal for them, the Czars have been very successful in sidelining the Institute – the institute which prides itself with a membership tally of about 5,000 and a student's base of about 15,000 individuals. From stripping the ICMAP of cost audit to financial audit they have been doing what they could to establish their dominance in Pakistan. They are so powerful that they can even have an approved national assembly bill rejected in the senate. The marginalized position into which the Czars attempt to throw the ICMAP, creates such negative ambiance that shunts corporates and the quality students from the ICMAP. It is only the untiring efforts from the offices of

Institute of Cost and Management Accountants was established in 1966 as a statutory accounting body. The members of the ICMAP have been occupying key managerial positions in private and public sectors in Pakistan. The Institute, sans the effective support of the custodians and supervisors, has been performing very well.

ICMAP that the impact of this position somehow remains under control.

Because of the curriculum they study, the graduates of the ICMAP are well equipped to serve businessesin a value creating manner. They can play their roles, in the strategic domain of the business, as well as,in helpingthem to create, gather and reportinformation. As aforesaid, the curriculum is designed in keeping with this objective; needless to say, though, that it might require revisions. The management text is replete with philosophies and best practices that the businesses are well advised to incorporate in their operational, tactical and strategic activities. The management practices in the finance and accounting departments of businesses in Pakistan, though, leave much

to be desired. The situation cannot be remedied immediately, butby inducting more graduates from the ICMAP - who obtain a heavier dose of curriculum in management sciences - things can take a right course for businesses in Pakistan. But, with some strong forces working only to destabilize the ICMAP, how could the ICMAP play its part and contribute its services to the businesses and the economy?

In this modern day and age, resources are scarce,and the competition is becoming tougher and tougher. The top businesses in the world are implementing tactics and strategies to eliminate wastages from anywhere in their business model. For this, they need experts across their entire length of value-streams, surely in accounting domain as well. They need accountants who canunderstand what information the value streams managers require,rather than those who can only allocate costsand prepare compliant financial statements. The discussion of lean management is germane here, because the philosophy could soon findfavor with businesses in Pakistan. And even if it is not the case, the ICMAP intends to promote it,as for adeveloping country like ours we need to conserve, expand and prosper sooner than later. We can very well understand where the rigidity of the Czars and their followers can take us with lean accounting.

It is time that the members of the ICMAP should be given the prerogative to perform financial statements audit of all types of companies in Pakistan. The members of the ICMAP would bring the much needed motivation and energy to bring the accounting profession forward. The much talked-about audit expectation gap could be somewhat reduced or at least efforts might be seen to this effect. As a condition, only fellow members might be allowed to enter into the public accounting practice. In return, the fellow members of the Institute of Chartered Accountants might be allowed to perform cost audit of the companies as per the relevant regulations. While the acceptance of this proposal is pending, the cost audit performed by the members of ICAP should not be considered condoned by the ICMAP. Believe me, every member and the student of ICMAP has been long carrying the desire to place these demands.

The introduction of ICMAP should not be seen as a business threat rather it should be seen as a business opportunity to expand the role of accountants and join shoulders to promote corporate governance within the country which still has to do a lot to achieve global benchmarks. ■

Writer's profile:

Syed Babar Ali, ACMA, MBA, CIA, CISA, MS, FRM is Assistant Professor at FAST School of Management and Regional Director, GARP. He is also a member of Research and Publications Committee of ICMA Pakistan.

Pakistan's Upcoming Mega Economic Ventures

China Inaugurates Gwadar Port Free Zone

A 61-member delegation from the Chinese Province of Xingjian, led by the General Secretary of Communist Party, Zhang Chunxian visited Pakistan to inaugurate the Gwadar Port Free Zone on 4th April 2016. The Governor of Balochistan and other officials received the delegation at the airport. At the ceremony, the head of the Chinese delegation highlighted the deep friendly ties between China and Pakistan and said that China is actively taking steps for development in Gwadar. He also provided uniforms to students of Model High School and GDA School, Gwadar.

Pakistan and Iran signs six MoUs

Pakistan and Iran has signed six MoUs to strengthen cooperation in health, commerce, finance and foreign services. Prime Minister Nawaz Sharif and Iranian President Dr Hassan Rouhani witnessed the signing ceremony at the PM House after the delegation level talks between the two countries.

US$1.5 Billion Pak-China IT Park in Islamabad Moves to Execution Phase

The Xinjiang No. 13 Division of Construction Corp, Hami, China has been given a "Go Ahead" to finalize the land identified in consultation with all stakeholders and to complete the other formalities for the establishment of Science and Technology Park in Pakistan. In the connection, the Chinese company has requested for providing a digital map of land and city of Islamabad to start feasibility study. The planned construction area would be in the range of 500 hectares and project would be completed in a time period of 10 years spread over 3 distinct phases of 3, 4 and 3 years respectively. The investment framework constitutes equity participation through providing land by the Pakistani side, while rest of the financing will come from China. The venture shall be of co-ownership between the Pakistani side and the Chinese counterparts. Chinese partners shall attract merchants and project investment. During this period, the project envisages employment generation of up to 150,000 personnel.

Universities on Western Route of CPEC to Start this Year

Planning, Development and Reform Minister, M. Ahsan Iqbal has said that universities in Fata, Zhob, Gwadar and those located on western route of the China-Pakistan Economic Corridor (CPEC) will start functioning this year and produce quality human resource for the CPEC. These institutes are part of the government's efforts along with the focus on infrastructure development and energy production through the mega development programme. Iqbal described the CPEC as a trans-regional project that would benefit three billion people of the region and through enhanced connectivity with other countries. Iqbal called on scholars and the academia to join hands with the government to tackle the challenges facing the CPEC in the optimal utilisation of its potential.

Special Report

CFO - *A Journey Against the Wind*

The National Council's Continuing Professional Development (CPD), Seminars & Conferences Committee of ICMA Pakistan organized 'CFO Summit 2016' on Saturday, March 19, 2016 at Lahore. The theme of the Summit was "CFO - A Journey Against the Wind" and it was attended by over 300 participants from the government and corporate sector, including members of the Institute.

Dr Ayesha Ghaus Pasha, Finance Minister of Punjab, was the Chief Guest at the inaugural session. In her speech, she underlined the need for tapping the potential of urban clusters which could serve as the engine of economic growth and provide employment to labour force, adding that urban centres house more than 40 percent of the total population of the province. She further stated that to develop potential of urban clusters, the Punjab government is giving priority to funding projects in the areas of low cost housing, clean drinking water, sanitation and mass transit facilities. She said that the Punjab Government has increased the allocation for education sector to 27 percent of the total budget outlay for current fiscal year. Dr Ayesha Ghaus Pasha stated that Pakistan has long been experiencing recessionary trend and due to massive national debt the economy was at very low ebb. She was of the view that by increasing revenues and exports, we could have salvaged the position, but things have never gone the way we have been planning. She said the ground reality is that we usually find it difficult to generate enough revenue and increase exports whereas the expenditure position has all along been getting inflated due to inflationary trends.

Mr. Qaiser Ahmed Sheikh, Chairman, National Assembly Standing Committee for Finance, in his speech said that debt servicing is consuming a major share of the country's current revenues, adding that Pakistan's current loan is around 63% of GDP and every percentage costs us an additional Rs.20-25 billion. Sheikh said that even though a lot of funds are arranged through deficit financing, very little is left for development and revenue expenditures. The government is aware of the state of affairs and is taking measures to put the financial and fiscal house in order. He also suggested to diversify the export mix which is presently concentrated on few export items.

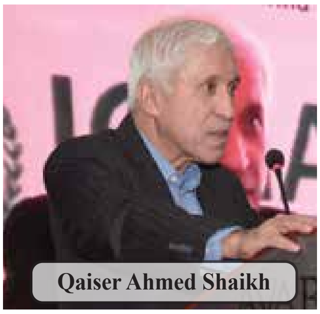
Mr. Anis-ur-Rehman, FCMA, Chairman CPD, Seminars and Conferences Committee welcomed all the speakers and participants and said that over the years


Dr. Ayesha Ghaus Pasha


Kashif Mateen Ansari


Mohammad Iqbal Ghori


Saghir ul Hasan Khan


Qaiser Ahmed Shaikh


Anis ur Rehman


Ehrar ul Hasan


Shahid Hafeez Kardar

ICMAP has been organizing seminars and conferences on crucial national and international issues, which signifies its commitment towards achieving excellence. He said that being fully cognizant of challenges faced by the competitive and demanding business world, ICMAP has been meeting national human resource need through steady flow of professional Management Accountants who are equipped and trained to meet these challenges with full accuracy and efficiency. ICMAP has over 5000 members, who hold senior positions in trade, commerce, industry and government in Pakistan and abroad. With around 15000 registered students, ICMAP is one of the largest professional Institutions in Pakistan.

Mr. Kashif Mateen Ansari, President ICMA Pakistan while presenting overview of the CFO Summit appreciated the role of CPD & Seminars Committee of ICMAP in keeping the members abreast with the latest developments in the profession. On CFO Summit, he said that this event was designed in a manner where experts could share their knowledge and experiences about the challenges and the changing role of CFOs in the present global business environment.

Muhammad Iqbal Ghori, FCMA, Vice President ICMA Pakistan in his presentation briefly touched upon the five IFAC Principles, which he said were the basic guidelines for CFOs. He said that today's CFOs are expected to play four diverse and challenging roles i.e. as a Steward; as Operator; as Strategist and as a Catalyst. In the perspective of Pakistan, he said that CFO's role is changing from 'Stewardship' to 'Strategist' and now Pakistani CFOs are seen as organizational leaders and business partners, in addition to their role as financial gatekeeper. He said that Pakistani CFOs should play the role of 'Chief Investment Officer' for business growth and sustaining industry performance.

Mr. Shahid Hafeez Kardar, former Governor, State Bank of Pakistan and Vice Chancellor Beacon-house National University, who was the Chief Guest at the concluding session of CFO Summit, in his speech said that the Department of the Auditor General remained traditionally responsible for both Accounting and Auditing in public sector till 2001, when the Accounting and Audit functions were separated through creation of a separate organization for maintenance of accounts of the Federal.

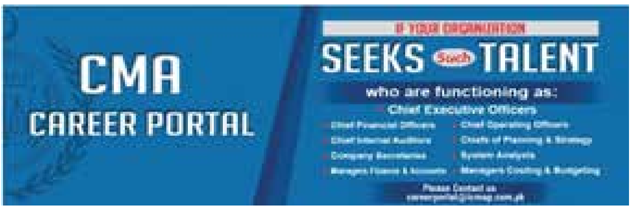
Dr. Ashfaq Hassan Khan, Principal & Dean, NUST Business School National University of Sciences & Technology, speaking on the occasion said that Pakistan needed to get out from "Stabilization First" Policies and focus on growth and job creation.

Other Guest Speakers and Panelists who participated in the Summit were Mr. Syed Ahmed Ashraf, FCMA, Chief Financial Officer, Century Paper & Board Mills Limited, Mirza Munawar Hussain, FCMA, Director, CFE College of Accountancy and Finance, Mr. Muhammad Rafi, FCMA, Former President ICMA Pakistan & South Asian Federation of Accountants (SAFA), Former MD OGDCL, Mr. Muhammad Ashraf Bawany, FCMA, Chief Executive & Managing Director, Linde' Pakistan Ltd., Dr. Abid Ali, FCMA, Executive Director, Rafhan Maize Products Co. Ltd., Mr. Michael Patrick Foley, CEO Telenor, Pakistan, Mr. Khawaja Ehrarul Hassan, Honorary Secretary, ICMA Pakistan, Mr. Saghirul Hassan Khan, FCMA Honorary Treasurer, ICMA Pakistan, Mr. Khalid Mehmood, FCMA, Member, CPD, Seminars & Conferences Committee and Ms. Tanzila Khan, Motivational Speaker. ■

The Corporate Relations & Communication Department

Khawaja Ehrar Ul Hassan, Honorary Secretary ICMA Pakistan is speaking at the launching of Banking manual on the occasion of Corporate Dinner 2015

The Corporate Relations and Communication (CR&C) is one of the major pillars of the Institute which continued to play its effective role. Key role of the CR&C department is to provide competent human resource to the government, industry, trade and businesses. The department's major activities include arranging placements and internships; corporate relationship; dignitary's visits; mentoring & guest



speakers sessions; corporate events and MoUs; training, development and capacity building and all other functions to develop liaison between the Institute and the Corporate World.

Corporate Networking Dinner

Corporate Relations & Communication Department organized Corporate Networking Dinner on December 11, 2015 at a local hotel. Dr. Ishrat Husain, Dean & Director of Institute of Business Administration (IBA) was the Chief Guest at the program.. On this occasion 'Training Manual for banking sector' was also launched. Banking Sector training manual covers four major areas which are Branch Operations, Credit Risk Management, Anti Money Laundering and Combating the Financing of Terrorism and Trade Finance.

CMA Career Portal Launch

In order to facilitate hiring process and create a database where employers can easily access relevant profiles for their hiring needs, It was successfully launched on December 11, 2015 .Now it's an active portal and employers started accessing database for relevant profiles.CMA career portal link the institute, members and employers on a single platform, through this career portal employers and CRC department can easily search for best matched profiles. As part of its activities, the CR&C Department arranges multiple sessions with HR professionals of various organizations for grooming, mentoring and counseling needs of partly qualified students and members.

Provision of Free of Cost Placement Services to organizations

The CR&C Department provide free of cost placement services to the business organizations so they may get appropriate skilled human resource which may create job fit. HR department of different organizations may contact CR&C department and can acquire relevant profiles for positions in the field of finance, auditing, taxation, treasury, corporate law, compliance etc.

Corporate Customized Training Programs

Corporate Relations & Communication Department also conducts customized training programs and workshops for organizations. Organization may contact CR&C Department for their training needs and CR&C will evaluate, plan, develop and execute training programs for their specific needs. Recently in Dec 2015, ICMA Pakistan organized a one month specially designed program for Pakistan Civil Aviation Authority (PCAA) to train their Accounts Assistants working in Karachi and Lahore Centers.PCAA employees who have participated in the program appreciated efforts of CR&C Department for successful execution of the training program.

CPS and IPTS Corporate MoU's

The Corporate Relations and Communication directorate signed various Corporate Partnership and Practical Training MoUs in the years 2015 and 2016. The objectives of corporate partnership MoUs was to provide support to corporate sector in recruiting the best resource; conduct training programs; organize seminars and workshops; collaborate for research; sharing each other's facilities and to initiate CSR activities. In recent months MOUs were signed with Pakistan Pharmaceutical Manufacturer Association, The Kidney Centre, Herbion Pharmaceuticals, TMR Consulting (Private) Limited and Professional Plus.

Orientation Session with New intakes

An orientation session organized at ICMA Pakistan Hyderabad Campus on March 23, 2016 with the new students to encourage & guide them regarding the CMA qualification. The session was facilitated by Mr. Attaullah - ACMA & Mr. Fazal Mehmood Malik - ACMA. Mr. Khawaja Ehrar ul Hassan, FCMA-Honorary Secretary ICMA Pakistan was also present at the orientation.

Two Days Workshop on Interpersonal Skills

A splendid two days workshop on interpersonal skills was organized by the Corporate Relations & Communication Department on April 16 and 17, 2016 at ICMA Pakistan, Head Office, Karachi. This workshop was conducted by an international speaker &, consultant Mr. Wali Zahid. This objective of the workshop is to facilitate the participants on how to advance their interpersonal skills & how to uphold congenial relationships at the workplace. The workshop was attended by 46 participants including members, students and employees of corporate sector.

Glossary of Management Accounting *Terms*

Activity capacity	The number of times an activity can be performed.
Benchmarking	An approach that uses best practices as the standard for evaluating activity performance.
Capital turnover	Sales revenue divided by invested capital.
Decision model	A specific set of procedures that, when followed, produces a decision.
Engineered cost	A cost that results from a definitive physical relationship with the activity measure
Failure cost	The costs incurred by an organization because failure activities performed.
Goal congruence	The alignment of a manager's personal goals with those of the organization.
Hurdle rate	The minimum desired rate of return used in a discounted-cash-flow analysis.
Indirect costs	Costs that cannot be traced to a cost object
Joint venture	A type of partnership in which investors co-own the enterprise
Kaizen costing	Efforts to reduce the costs of existing products and processes.
Lag measures	Outcome measures or measures of results from past efforts.
Manufacturing	The process of converting raw material into finished products.
Nominal interest rate	The real interest rate plus an additional premium to compensate investors for inflation
Operating Income	Revenues minus expenses from the firm's normal operations. Income taxes are excluded.
Payback period	The time required for a project to return its investment.
Quality standards	The quantity of input allowed per unit of output.
Regression line	A line fit to a set of data points using least square regression.
Safety margin	Difference between budget sales revenue and break-even sales revenue.
Task analysis	Setting standards by analyzing the production process.
Unit cost	Total costs assigned to a product divided by units of product.
Velocity	The number of units produced in a given time period.
Work in process	All partially completed units found in production at a given point in time.
Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.

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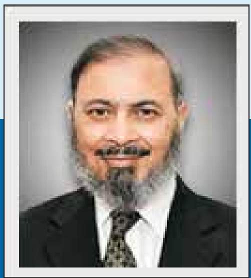

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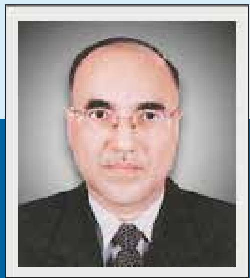

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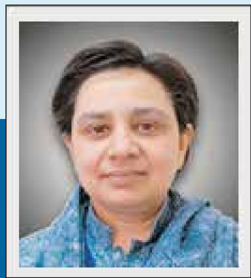

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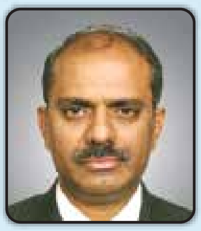

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