

MANAGEMENT ACCOUNTANT

Exclusive Interviews



Mr. Irfan Wahab Khan
President
Overseas Investors Chamber of
Commerce & Industry (OICCI)



Syed Rafeo Bashir Shah
Acting Secretary
Trade Development Authority
of Pakistan (TDAP)

Focus Section

Unlocking the Potential of "Blockchain"
in Supply Chain Management

Supply Chain Challenges in Textile
and Pharma Industries in Pakistan

Supply Chain in Pakistan
Textile Industry

Process Flow of Supply Chain and
Role of Management Accountants

Supply Chain and Evolving
Efficiency Measures

Supply Chain Management

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ICMA
Pakistan

Institute of Cost and Management
Accountants of Pakistan

From the Holy Quran



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

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah . But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.

(Surah Al-Baqarah – Ayat # 275)

Respect the sanctity of the Qur'anic verses is the duty of all of us.

قرآنی آیات کا احترام ہم سب پر فرض ہے۔

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

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Correspondence Address

ST-18/C, ICMAP Avenue, Block-6,
Gulshan-e-Iqbal, Karachi-75300, Pakistan.
Ph: + 92 21 99243900 Ext. 117 / 107
Fax: + 92 21 99243342
Email: rp@icmap.com.pk
URL: www.icmap.com.pk

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Research & Publications Committee would welcome articles on the above-mentioned topic for Journal's forthcoming issues.

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From the Desk of
President

At the very outset, I would like to extend very warm wishes and heartfelt congratulations, on behalf of the National Council of ICMA Pakistan and my own behalf, to Mr. Imran Khan, Chairman of Pakistan Tehreek-e-Insaf (PTI) for an overwhelming success of his party in the recent general elections 2018 and also on assuming the office as the 22nd Prime Minister of Pakistan. The nation has reposed complete trust and confidence in him by voting his party and a lot is expected from him now. It is a fact that in the backdrop of brewing economic crisis, especially at the external front, Mr. Khan faces bigger challenges than he had ever faced on the cricket pitch. The good omen is that Mr. Khan possess inherent capabilities as well as leadership qualities to face the serious economic challenges squarely and pull the country out of prevailing internal and external crises.

Apart from its primary role of producing highly competent finance professionals who are specialized in cost and management accounting, ICMA Pakistan has also remained cognizant of its advisory role to the government and regulatory bodies in corporate and economic policy making. When the previous Government came into power in 2013, the Research and Publications Committee of ICMA Pakistan developed a priority plan for first 100-days of the new government which was presented to them. Many of the suggestions put forward by ICMA Pakistan were duly implemented. This time as well, I am happy to know that the Research and Publications Committee have come up with a set of priority recommendations for the first quarter of new Government which would be personally presented to the new Finance Minister, expectedly Mr. Asad Umar. I hope that the priority plan would merit attention of the newly-formed Government. ICMA Pakistan would always be there to extend a helping hand to the new government in supplementing its efforts to bring economic stability and progress in the country. It is also good to know that the Research Committee has decided to focus the Sep-Oct 2018 issue of the Management Accountant Journal on the theme of 'Economic Agenda for the New Government'.

The present issue [July-Aug 2018] of MA Journal is quite interesting as it focuses on 'Supply Chain Management' which is one of the major contributors to the economic progress of many developing countries. In the perspective of Pakistan, there is growing importance of logistic infrastructure and supply chain management in China-Pakistan Economic Corridor (CPEC). In think that opportunities under CPEC would help the Pakistani business organizations to gain efficiencies in supply chain management for competitive advantage in both local and global markets. I am sure this issue would highlight all these opportunities and present a good reference guide for our members, students and others.

Zia ul Mustafa, FCMA

President ICMA Pakistan



From the Desk of **Chief Editor**

I am delighted to present the current issue of Management Accountant which focuses on the theme of 'Supply Chain Management (SCM) which is an integral part of businesses around the world and quite essential to a company success and customer satisfaction. It is a fact that an efficient supply chain enables a firm to be more competitive in the market place by delivering products to customers as fast and as cheaply as possible without sacrificing the quality. The primary objective of selecting this topic is to carve out the role of management accountants in the supply chain management as the core purpose of achieving cost efficiency is common to both. I am confident that our members would greatly benefit from the valuable articles contributed by our own members who are already in this business.

In this issue, we have received two special messages; first from Mr. William Householder, Chairman of American Production and Inventory Control Society (APICS) and the second from Mr. Malcolm Youngson, CEO of International Federation of Purchasing and Supply Management (IFPSM). I am indebted to both these officials for appreciating the initiative of ICMA Pakistan to publish this issue on supply chain management.

This issue also features two exclusive interviews of dignitaries who head organizations which directly or indirectly have a role in the supply chain system and network in Pakistan. The first exclusive interview is of Mr. Irfan Wahab Khan, President of Overseas Investors Chamber of Commerce and Industry (OICCI) who in his capacity as head of overseas companies operating in Pakistan provided his views on different issues related to investment climate, supply chain issues and how both organizations can jointly collaborate in research and other areas. It was agreed during our interactive session that both ICMA Pakistan and OICCI can conduct research on cost or ease of doing business in Pakistan which could benefit the economic policy makers. The second interview that is part of this issue is of Syed Rafeo Bashir Shah, Acting Secretary of Trade Development Authority of Pakistan (TDAP). TDAP is mandated for export promotion and as such it has a vital role in resolving the supply chain issues being faced by our exporters.

It is reassuring that our members are now taking keen interest in contributing articles in the MA Journal. The last issue on Stock Exchange dynamics is reflective of this fact wherein ten members sent their write-ups in both the Focus and Articles sections. In this issue as well, we have selected articles of seven members. In the Focus section, all the articles are written by our members. I would definitely like more and more members to come forward and ink their experiences in different industry sectors with reference to application of management accounting techniques or even the solutions to relevant industry challenges and operational issues so that these could be a good reference for our other members and students who want to enter that particular industry or sector.

Our Research and Publications Department has contributed a brief research paper on 'Tax Amnesty Scheme 2018' which covers various amnesty schemes offered by other countries; history of tax amnesty schemes in Pakistan; the outcome of amnesty scheme 2018 in terms of total tax collections and cash repatriations and finally the future action plan that is being pursued by the FBR to get hold of the undeclared money and assets.

I hope that our readers, especially the members would find this issue quite interesting. I would appreciate if our readers could send their views and comments on rp@icmap.com.pk so that we can publish the same in 'Letters to the Editor'.

Muhammad Yasin, FCMA

Chairman, Research and Publications Committee

William Householder

Chairman, American Production and Inventory Control Society (APICS)

I was excited to hear that the Institute of Cost and Management Accountants of Pakistan has chosen to focus this issue of Management Accountant on supply chain management to drive awareness of this important field



As the world becomes more integrated, business connects companies from Australia to Zimbabwe and everywhere in between. More specifically, supply chain is the thread that ties these companies around the world together. A supply chain is the global network used to deliver products and services from raw materials to end customers through an engineered flow of information, physical distribution and cash.

I was excited to hear that the Institute of Cost and Management Accountants of Pakistan has chosen to focus this issue of Management Accountant on supply chain management to drive awareness of this important field. Effective supply chain management helps companies ensure that they have sufficient inventory, can fulfill orders in a timely fashion, are able to deliver excellent customer service and more. In addition, success for one member of a supply chain can have positive ripple effects to other vendors and customers up and down the chain.

APICS is the authority on all aspects of supply chain management from sourcing, inventory management and manufacturing to transportation, distribution and even reverse logistics. We offer benchmarking tools to help evaluate companies against their peers and industry standards. In addition, our educational events and publications help our members stay on the cutting edge of evolving trends.

In the 60 years since APICS was founded, supply chain management has transformed from a small operations process to a key, guiding business strategy. Now, supply chain management professionals are commanding more seats at more executive tables because supply chain management is integral to every business.

APICS offers a variety of tools to help companies strengthen their supply chain capabilities. For example, our Supply Chain Operations Reference model version 12.0, which was released last year, helps companies measure, improve and communicate business performance. This latest update incorporates emerging drivers, such as Omni channel, metadata, block chain and others that professionals use to plan and execute their business strategies. The organization also offers corporate training programs that help professionals in a variety of business roles expand their supply chain knowledge. Companies that have participated in these programs have reported reduced costs; increased bottom-line value and free cash flow; improved accuracy metrics; and increased confidence, capability and adaptability among their employees.

APICS also drives professional excellence at individual level. The organization offers three distinct certifications APICS Certified in Production and Inventory Management; APICS Certified Supply Chain Professional; and APICS Certified in Logistics, Transportation and Distribution which together encompass end-to-end supply chain knowledge. Designees demonstrate to their employers that they are knowledgeable professionals ready to take on the challenges of the ever-evolving field.

Supply chain management will become increasingly important in the years ahead as new technologies facilitate business connections and innovative ways achieving success. APICS will play a key role in helping companies design and improve their supply chains and in helping individuals acquire the skills and knowledge they need to lead supply chain efforts in the evolving markets of the future. Learn more about our organization and available resources at apics.org.

Malcolm Youngson

CEO, International Federation of Purchasing and Supply Management (IFPSM)

IFPSM and ICMA Pakistan can join hands to look to develop the relationship and in the future potentially initiate a series of seminars in Pakistan for imparting best global practices in Supply Chain Management to the students and members of the Institute



I congratulate the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) for bringing out special issue of its Management Accountant Journal on the theme of 'Supply Chain Management (SCM)'. I am really thankful to ICMA Pakistan for inviting me to write a special message for this issue.

The International Federation of Purchasing and Supply Management (IFPSM) was incorporated in 1974 when leading National associations from around the world agreed to form a community of not-for-profit organization in order to develop the profession, share best practices and support the growth of associations. Since then the Federation has grown year on year to a network of 45 national and regional associations with a practitioner's community in excess of 250,000. IFPSM facilitates the development and distribution of knowledge to elevate and advance the procurement profession, thus favorably impacting the standard of living of citizens worldwide through improved business practices.

IFPSM is a unique globally recognized federation for the profession across the world. It offers membership to global associations that operates within the purchasing, procurement and supply management sectors. Membership is open to not-for-profit organizations which can demonstrate that they are governed by their members. An Affiliate membership grade is also available for educational organizations such as universities.

As a key initiative to develop the profession, IFPSM created an independently assessed Global Standard for degree equivalent educational programmes. This robust and stringent assessment allows members to submit their educational programmes for assessment and if successful, provides a unique accreditation marque which adds major value to these programmes and supports their development. The Global Standard network encourages organizations from across the profession to support the professions development and provides a platform for inter-organizational support. In this context, IFPSM and ICMA Pakistan can join hands to look to develop the relationship and in the future potentially initiate a series of seminars in Pakistan for imparting best global practices in Supply Chain Management to the students and members of the Institute.

IFPSM launched its newest accreditation standard in September 2015. This quality marque assesses programmes is designed to support development of individuals who are moving through their career in Purchasing and Supply management. The new standard is subject to a rigorous assessment process and if determined to have met the standard, an award will be received that will be applicable over a three year period.

Successful member programmes will receive the standard's marque which endorses the quality of the programme and adds value and assurance to the student that they are choosing a high quality and internationally recognized programme of education.



“ ICMA Pakistan can assist Government of Pakistan in conducting research to see what the cost of doing business is in the regional countries vs Pakistan which is seen by the potential investors in deciding where to divert their future investment in the region ”

Irfan Wahab Khan

President, Overseas Investors Chambers of Commerce and Industry (OICCI)

ICMA Pakistan: Please appraise us about the policy role of OICCI, especially in context of attracting FDI into Pakistan?

Irfan Wahab Khan: Overseas Investors Chamber of Commerce and Industry (OICCI) is the collective voice of all major foreign investors currently operating in the country. Our membership comprising of 190 members belong to 35 countries and are operating in 14 key economic sectors of Pakistan. One of the key objectives of the Chamber is to play a role in policy making. This is done through highlighting issues faced by members and bringing them to the notice of relevant authorities, as well as lobbying with the government on their behalf. Primarily engaged in promoting and protecting the growth of commerce and industry in Pakistan, OICCI serves as the national point of reference for foreign investors in the country and ensures that the views of foreign investors are also appropriately considered and incorporated in the government policymaking, both at the federal and provincial level. OICCI nominees are invited to be members of the policy making board of various government bodies like Board of Investment, Intellectual Property Organization of Pakistan, Board of Governors Pakistan Institute of Trade & Development (Ministry of Commerce), Tax Reform Commission, Tax Ombudsman Advisory Committee, Committees on improving Pakistan's ranking on Ease of Doing Business etc. OICCI view is always

supported by in depth research and analysis of the situation and is therefore given serious attention by all the stakeholders.

As regards OICCI role in attracting FDI, most international trade delegations interact with OICCI to get an independent view of Pakistan investment climate. In these interactions OICCI highlights incentives offered by the government to investors, experience of OICCI members and their success stories. OICCI issues policy statements on matters of interest to investors on subjects like Taxation, Intellectual Property, Perception of Foreign Investors, Business Confidence, and Free Trade Agreements and other matters related to business and these are taken up with the relevant government officials for appropriate incorporation in relevant policies and regulations.

ICMA Pakistan: What is the contribution of OICCI member companies in GDP growth and exports of Pakistan?

Irfan Wahab Khan: I shall just mention a few highlights of the OICCI contribution to the economy and GDP growth of Pakistan for your members to understand the highly disproportionate role of 190 OICCI members in the economy of the country:

- o One-third of all government taxes/levies are contributed by OICCI members
- o Over US\$2.2-2.5 billion in new capital investment annually.
- o Nearly US\$ 9 billion investments out of retained earnings

in last five years; which is nearly as much as the FDI inflow into the country for the same period.

- o Products based on latest international research are available in Pakistan, including in life saving drugs.
- o Members create employment opportunities to about one million people.
- o CSR activities of OICCI members in healthcare, education and other community welfare activities benefits over 20 million persons annually, across the country.

As OICCI members are associates of MNCs operating all over the world, their export activities are generally limited.

ICMA Pakistan: Do you think Pakistan's image as an investment-friendly country has improved? If not, what are the reasons?

Ifran Wahab Khan: Pakistan offers some of the most attractive incentives for foreign investors which are extremely competitive and in many cases better than the incentives offered by other countries in the region. However, the image of Pakistan for the potential foreign investors is not in line with the positive reality. As a consequence, Pakistan is not getting its fair share of the FDI despite significant improvement in the security environment, especially after the 2013 action by the GOP. Besides security concerns, Government of Pakistan (GOP) has also not addressed the key concerns of foreign investors like proactively addressing the issues relating to the gap in policy implementation, adhoc actions on taxation like imposition of Super Tax, Tax on dividend distribution, withdrawal of tax incentive on group taxation, non-settlement of tax refunds and Circular debts. These are some of the issues, which unnecessarily damage the image and attractiveness of the country to potential foreign investors. Most of these issues are easily manageable through good governance and active partnership of the private sector and the Government authorities. That is why OICCI is consistently advocating in the interest of the country to form a Public Private Partnership Forum to be chaired by Prime Minister and including private sector representative from top organizations like OICCI and selected senior Government ministers and officials to, meet quarterly and resolve issues in a manner like the Board of Directors of a leading corporate would function.

ICMA Pakistan: What are the top challenges faced by the foreign investors in Pakistan?

Ifran Wahab Khan: The top challenges are:

- o Negative perception of the country overriding the positive reality. Poor image of the country is deterring new FDI from potential investors but is also making it inconvenient for existing foreign investors who see opportunities to expand but have difficulty justifying new investment in their respective HQ.

“OICCI serves as the national point of reference for foreign investors in the country and ensures that the views of foreign investors are also appropriately considered and incorporated in the government policymaking, both at the federal and provincial level”



- o Reforms needed in the taxation system which is currently focused on organized sector and is cumbersome in terms of procedures. For example, you will be surprised to note that there are 55 different rates of withholding taxes and roughly 47 taxes to be paid by a manufacturing unit operating throughout the country.
- o Absence of an institutionalized interaction forum for Private and Public sector to address key business issues.
- o Gap in policy and its smooth implementation including growing tendency for (over)regulation.
- o IPR (Intellectual Property Rights) laws are good but lack effective enforcement.
- o Increasing Cost of doing business including the additional burden of weak currency.
- o Federal and provincial laws are not harmonized leading to conflicting laws and coordination issues.

ICMA Pakistan: How do you foresee the economic growth of Pakistan in the backdrop of CPEC?

Ifran Wahab Khan: Majority of the OICCI members strongly support the 'CPEC' projects, which is expected to boost the economic activity at a higher pedestal especially in the SME sector due to visible improvement in the infrastructure and energy availability.

OICCI as a responsible body of large foreign investors is regularly engaged with concerned authorities in promoting good governance leading towards a business and investment friendly environment especially in job-creating manufacturing and services sectors, in addition to those under CPEC projects.

Given the government's focus on enhancing the uninterrupted availability of energy at competitive cost, especially after the smooth supply of additional energy from upcoming Thar and imported coal and other alternate energy projects, there is high expectation from ongoing CPEC projects.

After several years of decline in FDI inflow in Pakistan, dropping to a dismal US\$709 million in fiscal year 2014-15, it has again started picking up with US\$2.3 and 2.4 billion FDI received in the last two fiscal years, 2015-16 and 2016-17, respectively. This is mainly due to CPEC related investments. No wonder OICCI members perceive CPEC to be favorable for local as well as foreign investment.

ICMA Pakistan: What measures Pakistan need to take to improve rating in the World Banks' Ease of Doing Business Index?

Ifran Wahab Khan: We are aware that the Federal and provincial governments have a desire and plans to improve Pakistan's ranking and OICCI is also supporting the authorities. We have done considerable work on this subject and are of the view that Pakistan can, in limited time, improve its rating

provided there is ownership of the issue at the highest level at the federal and provincial level, especially in Sindh and Punjab, with full engagement of relevant private sector stakeholders.

Currently, OICCI sub-committees are working on five critical issues which are within the responsibility of provincial authorities and we expect to give our suggestions within next few months.

ICMA Pakistan: We are surprised that as of now the federal government has not fully implemented the Tax Reform Commission report of 2015-16.

Ifran Wahab Khan: We suggest that professional bodies like yours and of Chartered Accountants should also assist the Government in urgently improving Pakistan's rating on Ease of Doing Business parameters.



ICMA Pakistan: What is the standpoint of OICCI on enhancing the tax base in Pakistan?

Ifran Wahab Khan: In short, OICCI has been a strong and consistent proponent of broadening the tax base urgently. In a country of over 200 million with a middle class of over 70 million, it is strange, if not shameful, that we have tax filers of less than 1.5 million, with tax to GDP ratio of around 12% when it should have been around 25 percent. We, however, do appreciate that it is a cultural and historical issue and that the authorities in the past few years have, out of necessity, started paying attention and taken some concrete measures to narrow the gap, but that is not sufficient. We understand that the authorities have considerable data to ensure broadening of tax base provided proper data mining and analytical techniques are effectively applied and implemented.

The OICCI Taxation Proposals for 2018-19 Budget, for example, included the following points in respect of tax enhancing/broadening measures:

- o Broadening of tax base through appropriate legislation to ensure that all income earners pay taxes equitably, including on income from agriculture related activities and all kinds of government and banks saving schemes.
- o All income earners, without exception of any sector, including from agriculture activities, should get themselves registered and obtain proper NTN. Tax authorities should ensure that all NTN holders file annual income tax/ wealth returns and wealth reconciliation statements.
- o Regular coordination should be done with relevant authorities of countries, considered as tax heavens for stashing away illegal wealth, for information sharing.
- o Appropriate laws should be approved and effectively implemented to enable the government to seize local assets, in equivalent value, or levy appropriate taxes, if any person

holds any kind of assets, including foreign assets, for which source of income could not be established.

ICMA Pakistan: What is the viewpoint of OICCI on Federal Budget 2018-19?

Ifran Wahab Khan: After the review of the Finance Bill 2018-19, the OICCI sent a letter to the Finance Minister applauding some bold and positive measures towards documentation of the economy which included, revision of property valuation and restriction on acquisition of immovable properties and new vehicles by non-filers, withdrawal of immunity of foreign remittances exceeding certain threshold, abolition of presumptive tax regime for Commercial Importers and data mining proposal for further tax broadening.

We also appreciated the withdrawal of tax on bonus shares; gradual lowering of corporate tax rate; giving more flexibility for tax on undistributed profits; extension of tax incentive on BMR investment up to 2021 and 20 year tax holiday on deep conversion oil refinery; the decision to limit comprehensive tax audit to one in three years and reducing the payment of the tax demand from 25% to 10% during the pendency of appeal before the CIT Appeals. Furthermore, providing substantial tax relief to individual tax filers was also a positive measure which will benefit a large segment of the population.

However, OICCI also had serious reservations in respect of continuation of Super tax again for 2018 and to withdraw it in installment up to tax year 2020; enhancement of additional customs duty from 1% to 2%, which will impact majority of the imports of the manufacturing sector, including raw material and will have cascading impact on the manufacturing cost and the competitiveness of products in Pakistan; continuation of Regulatory Duty; high Sales tax rates; Minimum Tax regime; the Banking sector once again being ignored with regard to levying the same Corporate tax rates as applicable to the non-banking sector and no mention of the way forward in settling the long pending tax refunds of the corporate sector, like members of OICCI whose pending tax refund have jumped to Rs.58 Billion.

ICMA Pakistan: What do you say about the impact of upcoming general elections on business and investment climate?

Ifran Wahab Khan: The country needs consistent economic growth with stability in its policy and actions. The government post July 25 elections must give top priority to economy may be priority no 1, no 2 and then only address other political and administrative issues. The new leadership must ensure that issues in economic fundamentals are comprehensively addressed in the first two years of the term of the new government with input from all major stakeholders like OICCI. This will require commitment and participation of all leading political parties so that change of government every few years will not result in fundamental change in economic policies, as is done in many neighbouring countries. We also think that higher economic growth can be achieved by leveraging technology and digitization of key economic sectors. New Government needs to think out of box, learn from some of progressive countries in the region and seriously engage with business stakeholders to build better economic and business environment for economy to thrive.

Transparent, consistent and predictable policies are also critical for attracting FDI in manufacturing and other key strategic projects with longer maturity time-frame. This is also critical for providing employment to growing number of employable

professionals and skilled/ unskilled manpower, roughly two million, entering the job market annually in Pakistan.

ICMA Pakistan: Do you think the regulators in Pakistan are playing their due role in resolving the issues of investors?

Ifran Wahab Khan: By and large yes the regulators in Pakistan are playing their due role in resolving the issues of investors. However matters which should be resolved quickly take a long time which contributes to creating uncertainty and increasing the cost of doing business as capital gets tied up before business related to the investment gets underway.

ICMA Pakistan: How the production and logistics environment in a country impact the inflow of FDI? Please comment.

Ifran Wahab Khan: In a business sector, the logistics environment will include everything that enables the flow and storage of goods and services from the point of origin to the point of their respective consumption/usage. Consequently, supply chain and the production environment form an integral part of the end to end process and will include the following:

- o transportation, shipping, receiving, storage;
- o information and its communication;
- o inventory management (storage and warehousing, material handling, packaging, disposal); and
- o technology to manage all the above elements

The availability, efficiency and effectiveness of the above elements determine the Supply Chain Capability of any environment; be it an economic segment, an industry, or even a country. Economies that can exhibit a superior Supply Chain Capability will always be able to provide more opportunities and thus will improve the climate for Foreign Direct Investment.

Weak or unevolved supply chain networks, logistics and infrastructure will invariably increase costs for investors and prove to be barriers for entry and growth. In addition, such an environment exposes investors to risks arising due to low visibility in areas of environmental protection, human rights etc.

Having said that, the Supply Chain Capability of a country is not the only determinant of being able to attract FDI; there are other factors that disturb this capability and can deter inflow of foreign investments. It would be safe to say a combination of factors impact FDI, and the logistics and production environment are one of the significant factors.

ICMA Pakistan: What are the supply chain issues of foreign investors in Pakistan?

Ifran Wahab Khan: As with any supply chain network, specifically for Pakistan, there are strong points as well as some areas of improvement.

Investors may view factors that lead to costs as 'issues'. Supply chain costs increase either due to inefficiencies within the supply chain, or through risks where investors are exposed to the probability of non-compliance of regulations and laws.

Some of the factors that come to mind, with respect to supply chains and their networks in Pakistan, where improvement would prove to be beneficial for attracting foreign investment are as follows:

- o Globally, supply chain sustainability has become a priority. There are laws that need to be followed in connection to Bribery & Corruption, Child Labour, Bonded Labour, Environmental Protection, Safety etc. Even though, most multinational companies in Pakistan, may be able to carry out due diligence of their first tier of suppliers, they may not always have complete visibility of information that provide assurance of their entire supply chain being 'clean'.

- o Trainings for suppliers to gain awareness and increase supply market standards in terms of quality, ethical practices and skills are very few. This basically leads to a supply market where substandard service providers exist and few superior ones. As a result, service segments may have monopolies that escalate costs for investors.
- o Platforms for training skilled labour are limited.
- o There is also room for improvement in Information, Communication and Technology (ICT). Even though, we have seen progress in many companies, smaller suppliers may not be able to invest in such technologies. As a result, only few suppliers will be able to develop competitive edge through automation and efficient flow of information.
- o The biggest challenge for foreign investors is devolution of power to provinces which is creating complications for investors specially those who intend to operate as a trans-provincial entity. The second biggest challenge is the IR landscape of Pakistan, the lack of availability of skilled labor due to dearth of technical training is pulling our manufacture sector back in comparison with regional economies. The recent legal pronouncements and the permanency of contract labour is a big threat to automation agenda. It is pertinent to state that if contract labour issues are not resolved through promulgating appropriate labour legislation the country could loose a big time opportunity to attract investment specially after CPEC goes live.

“ We do appreciate the key role CMA's can perform in promoting Pakistan as a destination of choice for foreign investors not only because of the opportunity it offers but also the competitive cost of production it can offer in competition to the regional countries ”

ICMA Pakistan: Management Accountants having expertise in cost control techniques can play a vital role in reducing cost of doing business? How OICCI can help in utilizing the technical services of management accountants in FDI projects?

Ifran Wahab Khan: OICCI is always supportive of professional approach to issues facing the investors. We do appreciate the key role CMA's can perform in promoting Pakistan as a destination of choice for foreign investors not only because of the opportunity it offers but also the competitive cost of production it can offer in competition to the regional countries.

ICMA Pakistan: Can you suggest few areas on which OICCI and ICMA Pakistan can collaborate for joint research?

Ifran Wahab Khan: ICMA can assist Government of Pakistan in conducting research to see what the cost of doing business is in the regional countries vs Pakistan which is seen by the potential investors in deciding where to divert their future investment in the region. However, ICMA Pakistan has to remain engaged with bodies like OICCI to see the opportunity of additional research which are relevant for potential investors from within and outside the country.

The Editorial Board thanks Mr. Irfan Wahab Khan, President, Overseas Investors Chamber of Commerce & Industry for giving his exclusive interview for Management Accountant Journal.

Exclusive

Interview



“ In order to improve competitiveness of Pakistani products in overseas market there is need to further reduce not only the cost of doing business in Pakistan, but also the competitiveness and productivity of Pakistani Labour ”



Syed Rafeo Bashir Shah

Acting Secretary, Trade Development Authority of Pakistan (TDAP)

ICMA Pakistan: Please highlight role and achievements of TDAP in boosting Pakistan's exports?

Syed Rafeo Bashir Shah: Development of exports is an integrated process involving a host of factors concerning different facets of Pakistan's economy, performance of export entities, dynamics of the international market influencing global trade flows, and global economic growth scenario. Coupled with all of these scenarios, it is basically the endeavors and efforts undertaken by the Pakistani exporter that translates into export growth.

After facing challenges on the export front for the last few years, Pakistan has shown robust recovery in exports during this year (2017-18). According to provisional data of Pakistan Bureau of Statistics, Pakistan's exports during July-June 2017-18 were US\$ 23.2 billion as compared to US\$ 20.4 billion in 2016-17, showing an increase of 13.7%.

At the level of TDAP we have also set targets in terms of activities to be undertaken by the TDAP, like arranging exporters' participation in international trade fairs, organization of foreign trade delegations, holding of single country exhibitions abroad to showcase Pakistan and its products, holding of mega domestic expositions, national exporters training programs etc. TDAP participates in over 150 international trade fairs annually. Similarly, we send and receive

around 40 trade delegations annually to/ from all countries of the world based on our strategic plans for market diversification. Single country exhibitions and road shows in priority countries are also organized which include Sri Lanka, Chile, Thailand, Qatar, Kenya, Kazakhstan, and some other countries, particularly in Africa, Middle East, and the Central Asia.

TDAP works in close collaboration with the Ministry of Commerce and trade bodies, including FPCCI, Regional Chambers, Trade Associations, as well as individual exporters. The objective of this collaborative effort is to produce optimum impact with the available resources through development of synergies and avoidance of unnecessary duplication of effort. TDAP has also been acting as a bridge in development of linkages between international organizations, overseas chambers and trade bodies, foreign trade promotional organizations, etc. Such events have contributed to development of our trade institutions and exporters, in particular SMEs and enhancement of their knowledge about the dynamics of international markets and prevailing best practices in different fields.

Besides this, TDAP has also organized large number of seminars on women entrepreneurship development and specific fairs for the women entrepreneurship development like Blue Fair in Multan, Wexnet at Lahore, and Women Fair at Peshawar,

etc. In addition to these, seminars were held in rural areas for development of entrepreneurship in rural based SME's in areas like Fisheries, WEBOC (Web Based One Customs) awareness, Chilies' export potential, re-financing facility for Agro food exports. Additionally, product development seminars for women entrepreneurs were organized through Program Uitzending Managers', Netherlands at Lahore, Mango Show's in Mirpurkhas, dates show in Khairpur. Similarly in order to integrate and boost the rural SMEs, exhibitions and shows were/are proposed to be held in Swat, Gilgit/Baltistan, apple and cherry shows are scheduled to be held in Quetta. The reason behind all these seminars and events is to educate the local entrepreneurs and exporters about the potential markets as well as product processing and market adaptation techniques.

TDAP has made good progress and achieved significant results if measured from the quantum and quality of activities undertaken and export promotional support extended.

ICMA Pakistan: What initiatives have been taken by TDAP to assist the SME Sector in exporting to international market?

Syed Rafeo Bashir Shah: The efforts undertaken by the TDAP are focused more on the SME sector in Pakistan and the efforts undertaken have already been answered in the earlier question. In addition to the above, in order to create a pool of trained exporters, who are well versed with the art of exporting, TDAP is in the process of launching a new program named "National Exporters Training Program" (NETP). The ultimate objective is to increase exports from Pakistan. The NETP will target both existing and potential exporters. It will aim at strengthening and developing individual entrepreneurs and small and medium-sized companies by providing them a broad yet comprehensive knowledge and skills base necessary to export and work in a variety of industry sectors and functional areas of international trade. Training material for the NETP is being developed by the IBA.

ICMA Pakistan: The industry has concern of high cost of doing business in Pakistan? What is the TDAP's view on this concern?

Syed Rafeo Bashir Shah: In order to improve competitiveness of Pakistani products in overseas market there is need to further reduce not only the cost of doing business in Pakistan, but also the competitiveness and productivity of Pakistani Labor. Accordingly, there is need for creating an even better enabling environment for the export sector and increased support for their capacity building and efficiency enhancement initiatives on a national level. Currently, Pakistan has a very low standing on international rankings for cost and ease of doing business as well as on labor productivity issues.

ICMA Pakistan: What policy reforms need to be taken to reduce high trade costs, especially for trade facilitation, logistics performance and business environment?

Syed Rafeo Bashir Shah: Some of the areas needing attention in this regard are:

- o Infrastructure strengthening (electricity, water, communications, logistics)
- o Improvement of law & order/ security environment

- o Zero-rating of exports (including expansion of sectoral coverage).
- o Skill development, technology, and research support for industry & trade
- o Country image management (country branding)
- o Resolution of liquidity issues of exporters and release of refunds by FBR/SBP
- o Provision of export financing and risk coverage for export sectors (Exim Bank)
- o Vertical export diversification (orientation and facilitation of exporters)
- o Promotion of trade-investment partnerships (export oriented FDIs)
- o Support for export of non-traditional products enjoying higher unit value growth in global markets through entrepreneurship and capacity building

“ In order to be competitive in international markets and achieve meaningful value chain progression our exporters need to improve in this area and exercise much greater control on various aspects of direct and indirect costs ”

ICMA Pakistan: Do you think industries to be set up in economic zones under CPEC would have a positive impact on our export growth?

Syed Rafeo Bashir Shah: As per international research and global experience, special economic zones (SEZs) can be an effective instrument to promote industrialization if implemented properly in the right context, as proven in some of the emerging countries, particularly those in East Asia. More and more countries are beginning to follow this approach for promoting industrialization, attracting foreign direct investments (FDIs) in the manufacturing sector, creating jobs, generating exports and earning foreign exchange. So far, the results are mixed with some countries quite successful such as China, Singapore, Malaysia, South Korea, Jordan, Mauritius, etc., while others still struggling, in particular those in the Sub-Sahara Africa. Our expectations of export growth associated with the CPEC project are positively high.

ICMA Pakistan: Can you identify few supply chain issues of export oriented sector and how these could be resolved?

Syed Rafeo Bashir Shah: TDAP has been playing a significant role to enhance Pakistan's export through various interventions. In supply chain development, TDAP is working hard to address certification issues and has been able to bring in quarantine officers and inspectors from importing countries for

achieving product related compliances and approvals. Prominent products and markets in this context include mango, citrus and poultry/meat exports to Japan, Australia, Egypt, and Saudi Arabia. TDAP has been providing supply chain strengthening support in collaboration with the USAID in agri-support, with CBI in export development, and with JICA for export of textiles and surgical goods to Japan. TDAP is providing Visa Recommendation letters to exporters visiting abroad for business generation and participating in international exhibitions and delegations. On the product promotion and marketing side TDAP provides 60% to 80% subsidy for display of developmental products in international exhibitions. TDAP is also arranging participation in exhibitions of non-traditional sectors such as GITEX, Automechanika, Inter bike, Beauty World Dubai, Beauty Expo- Australia, Foodex Jeddah, Seafex etc. to promote non-traditional sectors of Pakistan. On the domestic supply chain side, the TDAP is now in the process of mapping and facilitating the Services Sector, which has hitherto enjoyed relatively lesser focus. A Technology and Innovation Centre is being developed in TDAP in collaboration with the Ministry of Commerce.

ICMA Pakistan: What initiatives have been taken by TDAP for value added training of supply chain specialist?

Syed Rafeo Bashir Shah: TDAP has established several skill and technology development institutions that are supporting our objective of strengthening the supply chain and increasing Pakistan's exports. Some of these include National Institute of Leather Technology, Karachi; Leather Products Development Institute, Sialkot; Pakistan Institute of Fashion & Design, Lahore; Gems & Gemology Institute, Peshawar; Footwear Training Institute, Charsada; Fan Development Institute, Gujrat; etc.. For the textile sector there are several institutes operating under the Ministry of Textiles. These include: Institute of Textile Technology & Management, Karachi; S.M.A. Rizvi Textile Institute, Karachi; Pakistan Knitwear Training Institute, Karachi; PHMA Institute of Knitwear Technology, Karachi; Pakistan Readymade Garments Technical Training Institute, Karachi; Fashion Apparel Design & Training Institute, Karachi. These institutions not only meet the skill development needs of the exporting sectors but also extend technical support and advisory services to the trade and industry. TDAP also supports export development and supply chain strengthening initiatives of other chambers and trade associations.

ICMA Pakistan: Anti-dumping is based on verification of cost data of industry in which management accountants have expertise. What are your views about obligatory cost audit by the industries in Pakistan?

Syed Rafeo Bashir Shah: Yes, TDAP is in favor of cost audit of industries in Pakistan to optimize cost structures and improve internal controls and efficiencies. However, these should be voluntary rather than obligatory. Keeping in view the developmental state of our industry and costs associated with such audits, these are not expected to be beneficial in hundred percent of cases and could even add to cost of doing business unnecessarily for SMEs.

ICMA Pakistan: TDAP and ICMA Pakistan can undertake joint research. What specific research areas or projects would you suggest to start with?

Syed Rafeo Bashir Shah: Product costing and manufacturing/processing cost optimization is among the weak areas for our SMEs. In order to be competitive in international markets and achieve meaningful value chain progression our exporters need to improve in this area and exercise much greater control on various aspects of direct and indirect costs. Furthermore, there is also a need for studying the cost structures and dynamics of our competitors to learn lessons and improve our cost structures. Accordingly, projects related to market research, value addition, and cost optimization can be taken up in association with the ICMA Pakistan where TDAP acting as a bridge can cultivate useful linkages between trade/ industry and the ICMA Pakistan the benefit of all.

ICMA Pakistan: TDAP and ICMA Pakistan can jointly organize "Industry specific Roundtables" to highlight production and export related issues of the industries. What are your views in this regard?

Syed Rafeo Bashir Shah: Yes, if properly managed, such an intervention could be beneficial for the trade and industry. However, this has to be a sustained activity with proper follow-up and continued support to the sectors and SMEs involved. Accordingly, this would require a longer-term and serious commitment from both ICMA and TDAP.

The Editorial Board thanks Syed Rafeo Bashir Shah, Acting Secretary, Trade Development Authority of Pakistan (TDAP) for giving his exclusive interview for Management Accountant Journal.



TDAP
Trade Development Authority of Pakistan

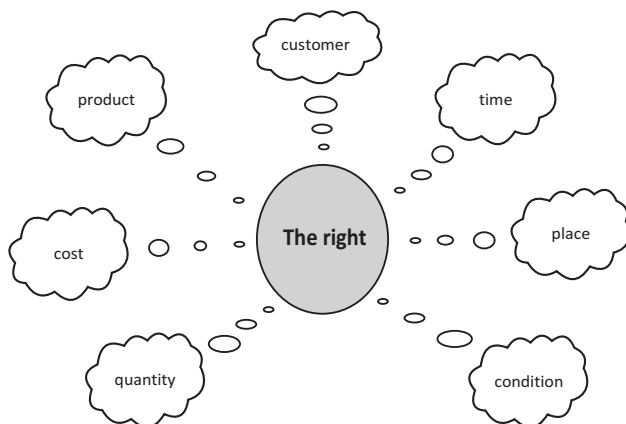


BLOCKCHAIN

Unlocking the Potential of “Blockchain” in Supply Chain Management

The application of blockchain in the supply chain is among the greatest innovations to take root in the supply chain, logistics, shipping industry and global trade. Application of blockchain holds promises to increase visibility, renew viability, reduce inconsistency, increase payment processing accuracy, and eliminate compliance problems. Even though the technology and evolving every day but still it is new, its potential cannot be ignored, and being management accountant & supply chain executives may not understand blockchain Technology.

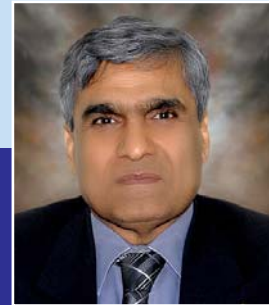
There is a strong belief in the global supply chain that presence of seven “R” is must to have best end to end process



With Block Chain advancement there is a strong possibility and expectation to have all the element of excellence in supply chain and logistics at the desktop of each and every one directly and indirectly involve in supply chain and logistics function.

For many professional in the field who don't know the technology

Although blockchain technology has been a major talking point in the supply chain, 2018 is the year in which blockchain testing

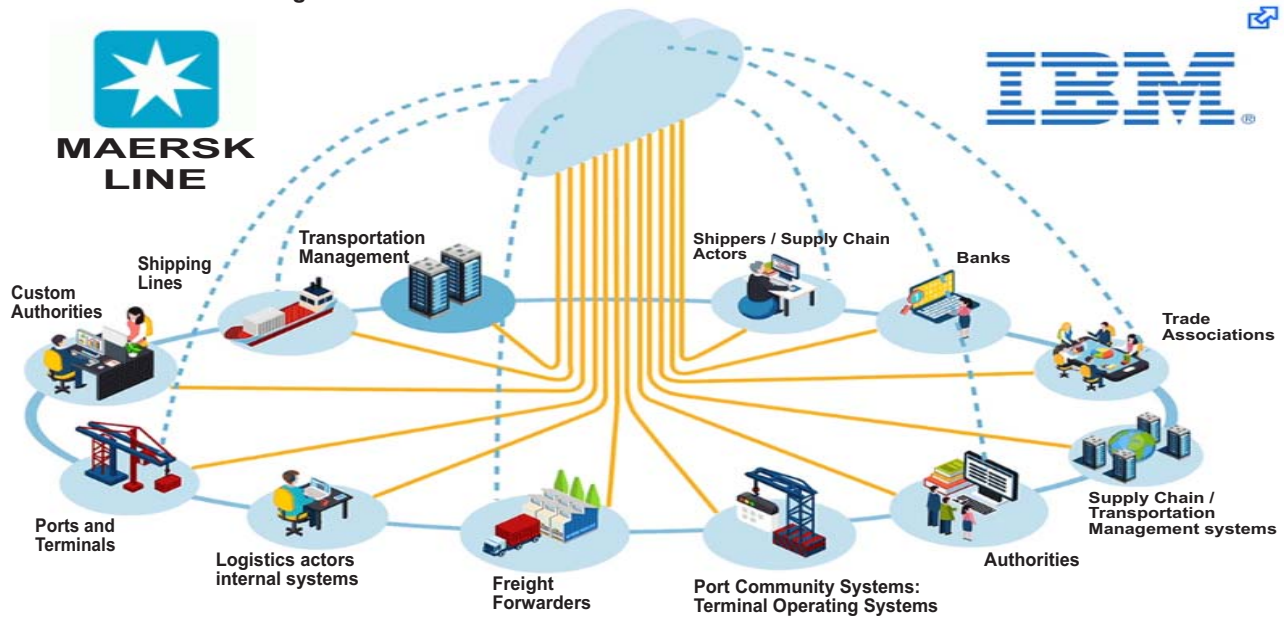


Muhammad Hanif Ajari, FCMA

programs will become real-world platforms, reports ComputerWorld.com. Major companies, like Maersk and IBM, are working on innovative platforms to allow for end-to-end visibility and transparency through blockchain technology. (Refer below how this innovative network is designed which is worth reviewing showing how the interlink in the logistics words are knitted in to end to end Supply Chain through integrated Logistics model). The promise of launching technology means saving billions through the elimination of EDI and paper-based systems, reducing inefficiencies and much more. Today, supply chain leaders remain confused and uncertain about the future of launching technology. They may understand its purpose, but applying blocking technology in the real-world seems out of reach. As a result, supply chain executives may not realize that investment into blocks and technology is the only way to successfully mitigate this change in standard operating procedure. Accountants and Supply Chain professionals need to know why.

Just to understand the impact on the global trade, blockchain in the supply chain will make the \$18 trillion global trade finance market more efficient, reducing conflict and improving collaboration. Blockchain is comparable to the surprise move in

Maersk and IBM Launch Digital Joint Venture



the last few seconds of the supply chain game. If everything goes well and is executed properly, your team will score and win. However, poor planning and inadequate processes will lead to losses that will result in upset. Instead of leaving it up to chance, put your organization first, and learn how blockchain in the supply chain can and will be an invaluable asset in the future of logistics and successful supply chain management.

Why blockchain in the supply chain is an absolute game changer

Supply chain professionals need to stay informed and gain first-mover advantage by evaluating the benefits of blockchain especially across enterprises where there is an exponential value of real-time data, multiple handoffs, and a need for flexibility. This can be particularly valuable in industries with risk-laden products including pharmaceuticals, defense or safety. Early engagement and understanding the value of blockchain is the key to unlocking the full potential of this new technology.

Use of blockchain in the supply chain could be the end-all solution to visibility and more

Use of blockchain in the supply chain is presumed to be the end-all solution to visibility and transparency. Blockchain technology has the potential to correct problems within today's supply chains. The complexity of modern supply chain is extensive. Products may shift between modes, and a large global manufacturing present exacerbates the complexity. The age of e-commerce also means an increased risk of purchasing counterfeit products, the so-called "gray market." Through blockchain technology, consumers can verify the product they purchased, and vendors and suppliers can take the same action. This increases efficiency and reliability within the supply chain.

Supply chain parties using lock chain in the supply chain can review the chain of ownership and provide an added layer of security, as well as a guarantee, to other parties regarding the item in question's value and validity. These are important factors in supply chains that have a direct bearing on the health of the

public, such as the food and medical industries, asserts NASDAQ.

How third generation blockchain networks will transform business

The third generation of blockchain networks has solved many of the problems of the earlier generations.

Money is now pouring into companies developing blockchain-based platforms.

These companies are targeting many traditional business models, especially those that involve brittle and complex B2B and B2C processes.

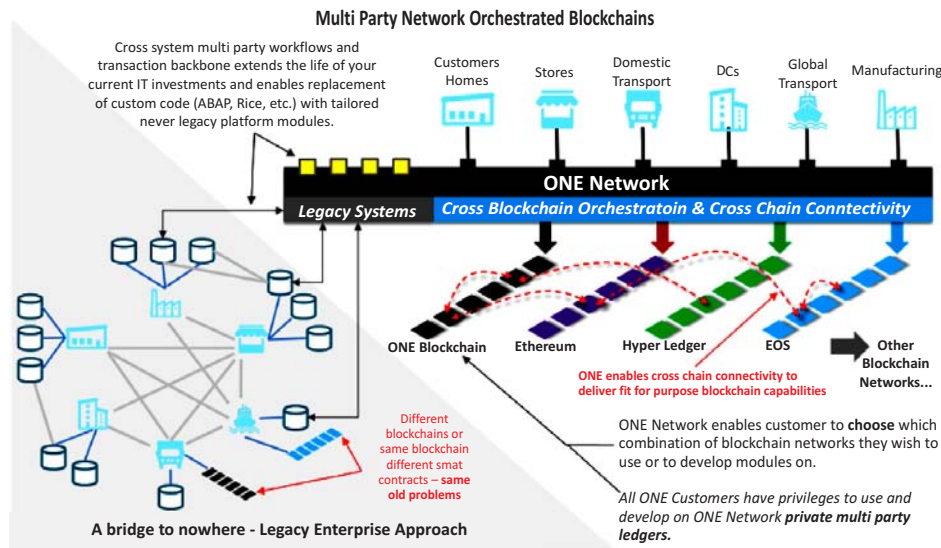
It's time to take steps to prepare for this onslaught it is my humble urge to the perusing CMA as profession or already established CMA professional to enter in to this field and explore the potential of your learning dynamics. Because businesses need to learn how they can exploit and adapt this technology before it disrupts them.

This paper looks at how companies can use blockchain now, with pre-built blockchain-enabled apps, and build their own blockchain enabled apps with an easy to use Software Developers Kit (SDK).

Some of what you'll learn:

1. Why ERP and B2B systems can't compete with blockchain
2. The key differences between traditional centralized enterprise systems and decentralized network systems
3. What the rise of "blockchain-as-a-service" means
4. Why you need a multi-party network service in a blockchain world
5. How to leverage your current IT investments while enhancing them with blockchain
6. What you should know about Smart Contracts and "Proof of Service"

What the next-generation control towers look like



Do you need blockchain to create high ROI wins or allow you to remain competitive? Or, do you want to embrace blockchain to elevate your customers' experiences to gain a competitive advantage?

Actuating blockchain technology within your supply chain requires an enterprise commitment to assess your current business needs, design the appropriate solution and implement this new technology.

In the assessment phase, supply chain management must first identify a valid need for a blockchain solution such as: new paradigms for consumer lifecycle engagement or new models for 1:1 marketing; upgrades in speed, cost

Additional benefits of blockchain in the supply chain for visibility include:

- o The creation of smart contracts to hold vendors and suppliers accountable, maintaining adherence to duties and responsibilities defined within service level agreements (SLAs).
- o Integrated payment solutions, reducing the time between ordering and payment processing, ensuring the proper, timely movement of products. Payment processing also has major ramifications for avoiding violations of international and domestic trade agreement, preventing illicit payments from countries and entities that are sanctioned from doing business with other parts of the world.
- o Ability to create public and private blockchain, protecting proprietary, if not private, information from unauthorized parties.
- o Recording all activities throughout the supply chain, including the quantity and transfer of assets, regardless of the motive transit. This will grow more important as new technologies, including unmanned, autonomous trucks, drones, and even Amazon's proposed floating fulfillment center, emerge.
- o Better customer service levels and far-reaching scalability, resulting from the ability to provide more information regarding a product's manufacturer, origin, transfer, and use.

How this can be possible? This can easily be transcript in the below table showing how interactive partners within and outside the organization linked in a one designed integrated ledger with the tremendous hype around blockchain, it's difficult to know if it is right for your organization.

and quality and a more frictionless engagement with vendors; or, improvements in data storage and transaction processing or improved record keeping.

Blockchain technology is being applied in various industries at different speeds. For example, Walmart's participation in the Blockchain Food Safety Alliance is a strong signal to other food and apparel manufacturers and retailers to build business cases for this technology.

Once the opportunities have been identified, internal capabilities need to be assessed prior to design and implementation. A partnership with a current blockchain provider may provide the enabling technologies to build a digital platform and implement a pilot. A pilot program can validate the business case and the ROI for expansion while identifying any additional barriers to success.

Combining blockchain technology with AI and IoT capabilities can provide exponentially greater benefit by reducing the possibility of error in data capture, and by accelerating decision-making based on transaction information.

FIGURE 2

Blockchain makes data more robust, secure, and error-proof

| | What blockchain can provide | Industry examples |
|------------------|---|--|
| Existence | Proof that a product existed at a certain point in time (for example, land titles or server log files) | Banking, finance |
| | Proof that a asset was owned by a specific user at a certain point in time. Proof that ownership transferred to another party (IP/copyrights, certifications, mortgage titles, escrow accounts) | Banking, finance, legal, government |
| Tracking | Visibility that product ownership transitioned from A to B to C over time (quality/safety recall management, inventory visibility, tracking, and provenance) | Retail transportation, oil and gas |
| Storage | Ability to store encrypted data that can be retrieved but not altered or deleted (health records, identity management) | Healthcare, legal, government |

Source: A.T. Kearney analysis

About the Author: The writer is former Vice President ICMA Pakistan, visiting Faculty IBA and having 35 years' overall experience in renowned National and Multinational Pharmaceutical companies.



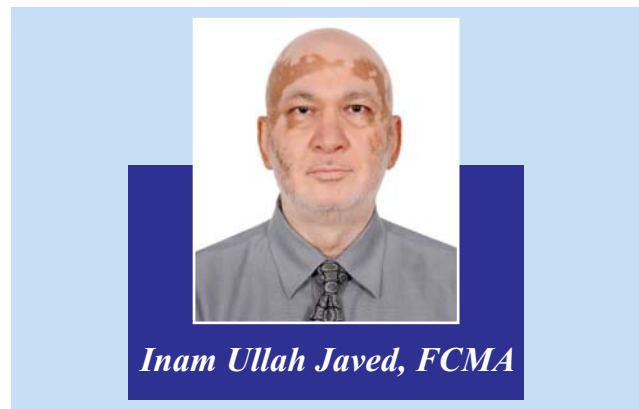
Supply Chain Challenges in Textile and Pharma Industries in Pakistan

Nearly every product that comes into market is the result of combined efforts of various organizations that make up a supply chain. Supply chain management is characterized by the flow of goods, services, money and information - both within and among business entities, including suppliers, manufacturers and customers. SCM includes various types of organizations engaged in transportation, warehousing, information processing and materials handling. The functions that are performed throughout the supply chain include sourcing; procurement; production scheduling; manufacturing; order processing; inventory management; warehousing, and finally customer service. In a nutshell, the goal or outcome of supply chain management (SCM) is to meet the demands of customers more effectively and efficiently by providing the right product with right quantity at the right time and location and in perfect condition.

It would not be wrong to say that supply chain is a connected network of individuals, organizations, resources, activities, and technologies that are collectively engaged in the production and sale of a service or product. Supply chain starts with the delivery of raw materials from a supplier to a manufacturer and ends with the delivery of the finished product or service to the end user. The customer service teams, quality teams and engineering teams are part of the supply chain team of any organization. Some organizations mix supply chain with logistics, however, both are different to each other. Logistics is the management of the movement of goods and is a part of supply chain whereas supply chain management covers many other areas including logistics.

Why Supply Chain Management is Important?

Supply chain management is a systematic way of handling all the activities of an organization with joint efforts of all the departments of organization for ultimate goal to achieve cost savings. An organization can avoid carrying unnecessarily



Inam Ullah Javed, FCMA

excess inventory and all its inventories' associated costs e.g. cost of warehousing and transportation. by using the supply chain management techniques which can result into more profit margin by saving cost.

Your customers most probably measure your performance therefore, it is very important that your supplier and you work together to determine the right metrics to measure their performance. For example, on-time delivery is the most common metric that is measured, but ensure that your supplier and yourself understand the precise definition of on-time delivery that you'll be measuring.

One of the largest expenses in our supply chain is shipping and warehousing cost and it is very critical that your logistics providers are measured and managed to control these costs.

Please be reminded that your inventory is a double-edge sword for your organization. Often, you'll pay your suppliers for your inventory purchases and you'll have the product you just paid for but you haven't received the benefit of that product which only comes when you actually sell it in the market and that's where the inventory management aspect of supply chain management becomes very critical.

Mostly, you would like to have enough inventory on hand that can help you to supply your customers what they want and when they want it. However, you cannot always have too much inventory stock in hand; otherwise you will have pay (possibly) too much money out of pocket. Procurement is one of the part of supply chain management, but it's not the absolute totality of all that supply chain management is.

In our country most of the companies don't consider customer service as a part of supply chain however, if we consider the scope of supply chain management's definition in various industries you will see that supply chain is not complete until your product reaches to the end user. There is nothing better than a customer service team positioned to drive your organization as this is the team which knows what your customers want and when your customer wants it.

On time delivery - both inbound and outbound - is one of the primary functions of supply chain management, customers service belongs in supply chain. At the end of the day, supply chain management is optimized when you are delivering what your customers want and when they want it and doing that by spending as little money as possible to save cost, increase profit margin and achieve customer satisfaction as well.

How to Bring Transformation in Supply Chain of any Organization

The supply chain of any organization can be transformed by adopting the following measures:

- a) **Simplify and duly recognize supply chain with clearly defined functions:** This is the point where a company can take an important step in simplifying and centralizing the previously fragmented supply chain. The organization team will recognize it that every role falls into one of the four basic function groups like planning, sourcing, making and delivering.
- b) **Cost reduction while improving the service levels:** To accomplish the re-organization, each functional group should be assigned a task to find improvement in their area. While doing this, the sourcing group identifies the factors that are causing price increases. Through research and better understanding of how much the product should cost, you can negotiate better contracts prices to achieve the goal.
- c) **Creation of basis for sustaining and enhancing supply chain capabilities into the future:** By establishing a system to ensure supply chain execution in present as well as in near future, the organization should begin a process of taking care in hiring the best available talent for their supply chain leadership team.
- d) **Elimination of Complexity:** Think about the complexity of your business and see how you can simplify your operation by organizing your business with a clear vision as well as well defining the roles and responsibilities.
- e) **Elimination of non-value-added activities:** Get rid of all those activities which are not adding any value into your business.
- f) **Your Costs:** You should know your cost drivers for the goods or materials you purchase or the cost drivers for the

goods and services you offer to your customers. Negotiate better rates with regards to your freight, unloading and delivery costs.

If you follow the above steps your transformation results would be commendable and in future for years the supply chain cost will keep reducing continuously and drastically.

It is always good to centralize the fragmented supply chain. Identify the factors that are causing price increases understand what products should cost and negotiate better contracts.

Collaborative Planning, Forecasting & Replenishment (CPFR)

For any organization that intends to enhance its supply chain management, CPFR is a process which can be used to collaborate and integrate planning, forecasting and other data within the organization by using the data provided by your suppliers and your customers. The CPFR stakeholders are Suppliers; Company and Customers.

In order to use the CPFR effectively and efficiently each of the stakeholders are required to buy into the concept of CPFR which is the only way the corporation supply chain can enhance its supply chain management.

The stakeholders buy in means a commitment from the stakeholders not only agreeing to CPFR, but also to execute it which means resources will be made readily available and prepared for Analysis; Strategy and Planning; Demand & supply and Execution. Please keep in mind that CPFR is not a one-time activity. You are not going to go through the above said point and when you get through with "execution" then sit back and relax. CPFR is a continuous process as it is collaborative. Upon completion of execution it is time begin analysis. Based on results of your analysis, you can set or reset your strategy and planning for the future.

In order to collaborate with your suppliers and customers, you need to share information. Your customers must provide forecasts and your suppliers need to share productions schedules.

If your customer expects you to deliver all their orders on time (i.e. 100% on time delivery) and your goal is 97 percent on time delivery then you and your customers are not aligned. Forecasts and on time delivery are just examples of collaboration on data exchange. You, your suppliers and customers are also going to have to agree on some measure of information-sharing on costs, quality and production lead times.

CPFR doesn't work if it's only done 'as needed. Effective CPFR will only succeed in enhancing your supply chain it is systematically implemented.

Supply Chain Challenges in the Textile Industry

Our textile industry is going through various ups and downs since last many years and one of the purpose of this article is to address the importance of supply





chain management in our textile industry. Firstly' we need to consider the current conditions of textile or apparel industry in our country; analyze the key factors for a successful supply chain management considering the industry globalization.

Now days around the globe many textile or apparel retailers are building a very strong supply chain management to gain the edge of their competitors by offering the best value to their local and international customers therefore, supply chain management has become a very critical in managing the risk, dynamism and complexities of global sourcing. To gain the maximum benefits in business a totally integrated supply chain is must for the textile industry in Pakistan.

It is very important to understand the objectives of supply chain management and its performance measurements to build the most effective and efficient supply chain in textile industry. One of the major aspects of supply chain management is to select the right sources of supply in business environment which can support corporate strategy of the company.

Customers are seeking the best value, long-term relationships with the vendors in this rapidly changing market conditions which has become very critical in textile/apparel industry. The retailers in local or international market are looking for those vendors who can provide the best cost of product in the fastest way and this relationship is regarded as partnership, including activities such as information sharing, joint product design, or sharing even storage spaces.

Organizations practicing supply chain management are seeking to reduce waste throughout the supply chain by minimizing duplication, enhancing quality and harmonizing systems and operations. When the logistics and production processes are accomplished in less time than all the entities in the supply chain can operate more efficiently resulting into reduced inventories throughout the system.

Quality as a Competitive Factor in Textile industry

Traditionally and in general, performance measurement is defined as the process of quantifying the effectiveness and efficiency of the action. The purpose of SCM is to gain good advantage of cost over competitors and customer service. It plays a very critical role in enhancing motivation and communication, monitoring performance and diagnosing problems within the organization. Performance measurement helps in identifying the success and potential of management strategies, and facilitating the understanding of the situation. Performance measures are categorized into two groups; qualitative and quantitative. These measures involve customer

satisfaction and responsiveness, flexibility, supplier performance, and costs.

In most of the cases, there are good number of possible vendors which differ in cost, flexible in production and lead time. Suppliers with lowest cost normally offer virtually no flexibility booking capacity and shipment times of several weeks and most of the times require that the production should be allocated evenly throughout the year. The responsive vendors may have shorter lead times but allow greater flexibility vis-a-vis production commitments. Sourcing strategies must reflect the performance capabilities of the supply base.

Textile sector is one of those many sectors where quality is the important key competitive factors not even in Pakistan but around the globe and I trust that our textile sector must keep in mind the quality of their product which can provide more chances for growth in international market. This quality factor and current competition in market does not only concern the individual firm but, rather, involves the entire supply chain. Certainly, the quality of the final product which reaches in the hands of customer is clearly the result of a chain of successive, inter linked phases which are spinning, weaving, apparel and distribution. Vendors evaluation is a very complicated decision problem.

All choices available in the market should be listed and quantified because they are then converted to weights that are used to prioritize a portfolio of the alternatives. The weights of each element in each hierarchical level are aggregated to the next level.

Cost success factors for a Textile unit

There are three important sub criteria which needs to be considered as cost success factors for a textile unit. The first criterion is the cost which is basically composed of raw material (fabric and trims), the cut-and-sew, packing cost and the vendor's profit. The second criterion is the competitiveness of the landed cost; and the third criterion is the fixed costs which can be considered as the development costs that are put with the related vendor.

Suppliers ability to provide samples in good quality is measured as one of the best quality factor. During the development and production processes there are a lot of samples that are requested from the vendors such as fit samples, shipment samples and promotional samples etc. It is important for the suppliers that the quality of the samples conforms to the buying firm's specifications which is one of the serious issues in our country that quality shipped is not the same as the quality of samples. Moreover, the conformance of the garments to the firm's standards should be tested before the shipment moves. The results of the product integrity (PI) testing should be used as



a sub criterion since it measures the quality of the vendor's production capabilities.

One of the innovation dimensions is to have an in-house design team to support buyer firm with new ideas and details as per the latest market trends. It is important that the vendor has a clear idea about the aesthetics of the buying firm's designer and execute it correctly on the product.

Supply Chain Challenges in Pharma Industry



Most of the global pharma sector or multinational pharmaceutical companies have already embarked on a step change transformation which is very successful and fruitful. In my opinion, our local pharma industry should also embark, if not yet, on a step change transformation journey which the supply chain will play a strategic change management role for the local industry.

During upcoming years, reduced costs, greater agility and improved speed to market, whilst ensuring the regulatory framework in our country, will form a challenging operating landscape for pharma industry. Key to the strategic agenda is to change pharma commercial business model which needs to be addressed. At this point the supply chain can play a vital role as companies will move forward to address their key business challenges. Pharma companies will have to turn more towards direct sales like directly to pharmacies, hospitals, care institutions and patients which can improve margins in their current business.

The **online order** concept and e-fulfillment tools will allow pharmaceutical companies to take greater advantage of direct marketing and sales tools to manage the order management and commercial process through various marketing/sales channels. As a result, there will be clear tendencies towards more direct distribution routes and this will enable greater differentiation per product/market segment. In this regard many pharma companies' key objective will be to develop a more cost-



efficient supply chain with the corresponding organization and infrastructure focusing on network and distribution optimization.

Without any doubt, the supply chain is a critical part of the financially driven business model of pharmaceutical companies. A cost-effective supply chain should be integrally linked to the order to cash cycle which will play more important role in their business model of the future. Traditionally, supply chain performance has not been as strategically important in this high margin sector as it has been in other industries. However, this is changing with the slowing of growth and rising matters more than ever before.

Re-inventing the Supply Chain in Pharma Industry

One of the most important and powerful strategy available to pharma companies in our country is in re-inventing the supply chain. Many of the pharma supply chains are originally set-up to produce items in high volume in factories, which are not noted for agility. Supply chain management is structured to avoid such stock outs even if meant to maintain high level of inventory carrying costs which will eventually result into substantial write offs.

While tackling the issues that threaten the future, pharmaceutical firms must strategically transform their supply chain to facilitate revenue and profit growth which means streamlining the supply chain and making it more flexible, so it can produce and deliver drugs efficiently to meet the needs of a variety of product and market segments at competitive cost levels.

Based on a company's current and future product portfolio and good marketing strategy, the supply chain management should be designed for various activities like' to compete with generics at low price points for mature, off-patent products; to take advantage of higher margins for critical drugs with low demand; and to handle the increased complexity of the new sales channels.

References:

Gary Marion, Lora Cecere; Lars Leetaru; Marcus Ehrhardt; Asli Koprulu

About the Author : The writer is a Fellow member of ICMA Pakistan and presently he is serving as Financial Advisor to CEO in Kuwait Airways, Kuwait. He holds extensive experience within transportation and logistics industry.



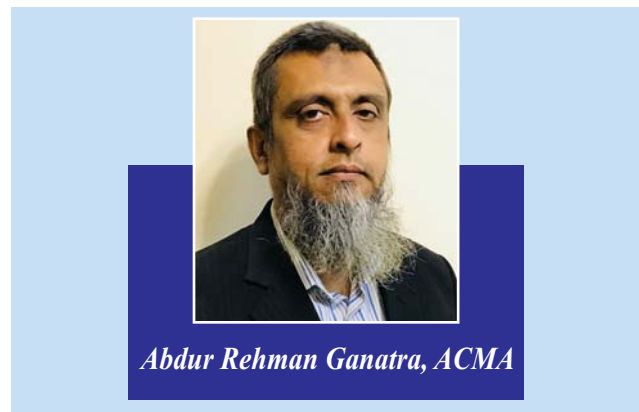
Supply Chain in Pakistan Textile Industry

Pakistan is the leading manufacturer of textile finish goods and 8th largest exporters of textile products like garments, hosiery, home textile, denim, yarn etc. this sector contribute 8.5% to GDP of Pakistan, and through this sector around 45% of labor involve directly or indirectly with this industry. Pakistan is the 4th largest producer of cotton with the third largest spinning facility. Though we can say that this is main commodity of Pakistan which contributes for both GDP growth and employment opportunities for the locals.

In the current era of modernization and new innovations in textile technologies, many organizations are adopting these technologies to compete. Gone are the days of using papers and files for maintaining records, the current state of the art ERP systems have not only eliminated use of paper but have also enhanced management of the resources. Technologies such as RFID tracking systems, have contributed in reducing the overall time of production. All these new gadgets and software with their sophisticated interfaces not only minimize the human interaction but also help in creating an agile manufacturing system thus automatically decreasing the lead time.

Supply Chain Management (SCM) is the corresponding set of procedures to design and implement all steps in the global network used to attain raw materials from different suppliers, transform them into finished goods, and deliver both goods and services to customers. It includes both up stream and down stream flow of information and material.

Textile sector in Pakistan will have to take one step forward to get aware of the new global market competition and create both effectual and receptive supply chains to meet new business challenges. Organizations who desire to become more successful in this sector have rapidly transformed their strategies accordingly and have installed latest machinery, developed and acquired information technology to align with the setup that can flawlessly integrate with the global customer's



requirements. But in Pakistan this revolution is slow paced and far from satisfactory. It is important to evaluate where we stand and what major steps we need to take regarding the better performance in current supply chain practices. The industry should identify the performance parameters that would determine the future success and ensure to capture a significant market share for Pakistan's textiles and garments sector.

The concept of supply chain management in Pakistan's textile industry is nascent. The current understanding of supply is limited to only purchasing and delivery while the process time and lead time is not being accounted. In order to change the perception we have to work on people and organization structure to develop a proper supply chain concepts that will make us prominent in the global textile competition otherwise we couldn't compete in future as the world is changing rapidly.

Pakistan textile industry should focus on Supply Chain Management to enhance competitiveness in the global market place as in the current situation majority of brands are working on supply chain patterns so we need to adopt and implement to boost current Pakistani textile industry.

SWOT Analysis of Pakistan Textile Supply Chain

1. Introduction:

Over the past 25 years, trade liberalization and communication innovations have increased the opportunities for retailers and brands to buy their products from producers worldwide. According to recent studies, these retailers and brands have become "global sourcing companies", outsourcing the production of goods they sell to tiers of competing suppliers and producers through complex international networks, or global supply chains.

These supply chains are driven by the big brands and retailers that have tremendous power in determining price, quality, delivery, and labour conditions for suppliers and producers down the chain. They are segmented into high and low profit steps. Retailers and brands keep high profit steps such as innovation, marketing and retailing. Low profit steps, such as sourcing raw materials, production and assembly, finishing and packing, are outsourced to mid-chain suppliers and low-cost producers worldwide. Thus global supply chains have created labour-intensive exports from low-cost locations. The result is an enormous growth in the number of producers, increasing competition among the world's factories at the bottom of the chain.

SCM is an interdisciplinary field that emphasizes cross functional links and seeks to manage those links to enhance a company's competitive advantage. It involves forecasting, resource allocation, production planning, flow and process management, inventory management, customer delivery, after-sales support and service, and a multitude of other activities and processes familiar and essential to business. Nowadays a never-increasing number of companies rely on supply chain management as a key competitive weapon. Large and small businesses alike have reported remarkable results, including dramatic reductions in cycle time.

2. Objectives

Pakistan textile industry has focused on the lower end of the world textile market in the past, and supplied low cost products with good quality, that is why it has attracted the buyers around the world in that market segment. SCM should be the key focus to enhance competitiveness of Pakistani textile industry. In saturated markets, like textiles, the issue of lead times is of great importance and one of the main driving factors for business sustainability and profitability. There are many textile fashion brands which are manufactured in countries like Pakistan. The fashion cycles of these brands are mainly once or twice per year, making it possible, to some extent, for Pakistani suppliers to respond to their lead times. However, world trends in textile and fashion business indicate clearly that lead times are continuously reducing. This created a new and an advanced demand and supply market where each key player collaborates with its suppliers and shares market information and risks. It seems that Pakistani textile industry may not be prepared for this scenario and may have difficulties in meeting lead times and prices of key markets. The current context of these markets frequently creates changing short run orders causing a strong impact on planning. Despite having latest computerized manufacturing machines, Pakistani companies put less emphasis on demand forecasting, production and inventory planning systems. This results on high costs of operation and late deliveries.

Thus, even with state of the art machinery and access to capital, Pakistani textile industry is compelled to manufacture and export non-seasonal and low value textile products where high capital is required to manufacture at extremely low margins. This reduces the overall competitiveness. Textile Supply Chain Management in Pakistan should have two main objectives: reduction of lead times and costs. Obstacles in achieving these objectives include geographical location, imperfect Logistics systems, scarce Production Planning and Inventory Management systems. The long lead times are the result of all this.

3. SWOT Analysis

SWOT Analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project

Textile industry in Pakistan is one of the oldest manufacturing sectors of the country. People are linked with textile manufacturing for more than 5000 thousand years, evident from the findings at Moen-jo-Daro, an archeological site near Larkana, Pakistan. The statue found from this site bear the proof of dyed/printed fabrics worn by the man and this fabric is produced till today and called as 'Ajrak'. It has its roots in cotton fiber production which is the second most important crop of the country and man-made fibers like polyester, acrylic and viscose are produced domestically. The value chain of textile in Pakistan is expanded from cotton, man-made fiber production, ginning, yarn manufacturing by Ring/Rotor Spinning, fabric manufacturing by Weaving/Knitting, coloring of fabric by Dyeing/ Printing, finishing of the fabric by various mechanical and chemical finishes and their conversion into apparel and made-ups.

In this section we present a SWOT analysis of Pakistan textile value chain and associated sectors.

3.1 Strengths

It is an important industry in Pakistan which captures 46 percent of entire manufacturing sector and 38 percent of industrial employment. Wages are in the lowest side in the world textile industry. The textile manufacturing side is comparatively strong one and enjoys new technology from Germany, Switzerland, Belgium, UK, Japan, USA and China. The capital intensive side of the textile supply chain is therefore in a strong state.

Clothing remained unattended in past but it is improving since late 1990s. Trainings are being launched by government jointly with foreign consultants to improve the skills of local operators and productivity of the processes. There is a strong support from government concerning textile and clothing sector which involves technology upgrading, skill development and research.

3.2 Weaknesses

The per acre yield of cotton production is low due to improper crop management, attacks of viruses and pests on the crops. Picking of seed cotton, storage and transportation conditions add impurities as the standard practices are not followed, deteriorating product quality. Cotton farmers are not familiar with recent developments in cotton farming and forward marketing. Ginning industry is using outdated technology and untrained labor. Lint cleaners are rarely used which can improve the yield at later stages of yarn manufacturing. Manual methods of open sky drying for seed cotton increase contamination and

introduce variations of moisture content. Limited types of man-made fibers are being produced which are less competitive for quality and cost.

The yarn sector is producing coarser counts and traditional yarns although it has the potential to produce medium, fine counts and fancy yarns. The versatility in yarns can give weaving industry a stronger basis. The storage conditions of cotton lint in the factories are not very good so quality deterioration takes place. In general, power loom sector is organized as cottage industry in the country which is facing problems of yarn and power supplies, finance and many others. Efficient fabric manufacturing technology can be incorporated to upgrade these sectors as organized industry.

In coloring and finishing the use of sophisticated color matching techniques and software are nonexistent which could enhance the responsiveness to customers. Strong relationship between quality suppliers and processing industries is very important for consistency of product quality, yield and costs.

The clothing sector is scattered across the country due to nature, size and investment required to setup such a unit. There is a recent move to establish specific hubs of garment manufacturing by providing special zones for the industry. Fashion clothing attracts maximum profits in the international market. The fashion designers lack familiarity with the international fashion styles and market trends. The industry needs to be linked with the international fashion market.

The industry has not fully understood the importance of social responsibility and workers welfare. Transportation infrastructure in the country is in the process of development; the only effective means of freight movement is trucking on the roads. These trucks are low capacity and under-power, manufactured with in the country. Domestic industries enjoy the lowest freight rates in the world but at par lower services. The average travelling speed in the country is 28-40 km/hr compared to 80-90 km/hr in Europe. The over loading is usual which adds to decrease the commercial running speeds of truck and increase the road deterioration pace. The rail transport accounts for less than 5 percent of freight traffic in the country. Domestic customers do not find it appropriate for transportation of their goods on time and safely. The situation of handling ship-to-shore conditions have improved on the domestic ports but the entry and handling charges are 5-9 times higher than other neighboring ports in the region. The updating of ports is in process and it will take some time to observe the improvements.

The departments of marketing, planning, storage, production, quality control, packaging, purchasing, finance, and others are not linked through computer networking for fast and less expensive communication; the advantages of using ICT are not fully understood yet.

Reworks exist in the system. An effective and well understood inspection and quality control policy is needed at all stages of preparation, production and final inspection.

Inventory management needs more attention in respect of planning, use of sophisticated technology and training of personnel. No periodic monitoring of all stocks and their effective categorization exists. Material stores are substandard, record keeping is manual and time consuming, material handling and identification and trace ability needs more care. Suppliers are not fixed and practice of supplier's evaluation needs improvement. The electricity and gas shutdowns cause production losses, quality deterioration and cost increase. The usage of energy is inefficient in majority of sectors.

3.3 Threats to Industry

The industry is facing problems because of non competitive behavior of entrepreneurs, short term & inconsistent government policies, rising regional and international competition, increasing costs of energy and low pace of human resource development.

Machine manufacturing is not properly groomed till now and it requires alot of resources to upgrade the processes with new technology and fulfill their recurring needs. It's producing low technology machinery and certain parts; workshops are associated with manufacturing and repair of the equipment and tools. Without a proper engineering base it will be very difficult to match the future upgrading of the industry. Various types of chemicals are needed along the textile value chain. Companies of multinational origin and domestic as well are engaged with the manufacture and trade of these chemicals. Most of the chemicals are imported in finished forms or sometimes as basic raw material which causes an increase in import bills. Local industries are working without quality management systems and standards; these are required to be formalized.

3.4 Opportunities

There are many related areas to existing manufacturing setup which can be explored and added as arteries, such as non woven, clothing and made-ups for health service industry and technical textiles. Production and usage of petroleum based fibers can extend the scope of textile industry into new areas of versatile and high value applications.

Denim area is strong and products meet the quality standards of many international brands for their retail chains of lower end market. There is need to upgrade these products as high valued. There is although tough competition ahead from leading suppliers of denim which are considered as high quality producers. The culture is rich and has a long history of textiles manufacturing. The cultural trends can be mixed with international fashion to give the world new flavors. There is a need of exploring the creativity of designers and familiarizing them with the world fashions. One of the important directions can be collaborations between domestic and international fashion institutes, fashion houses, designers, research institutes and others. A variety of cultural items are produced for domestic use through hand printing, appliqué work, rug making, hand embroidery, handloom weaving, hand knitting and others techniques. The quality and access of these products can be improved for important export markets.

Information and communication technology skills have been upgraded in the country in recent years. These skilled individuals can be attracted towards the textile industry by providing them opportunities in the textile industrial zones. There is a lot of room in this industry for upgrading the computer and information technology skills of the persons. Many applications of ICT lie with the planning of activities and their integration at different levels, sharing and communication of process and product information among different tiers of the process and customers.

There is need of focusing towards research and development in the areas of new products and improved processes. The need for studying the international business trends and role of trade agreements on these are important. This can be achieved by studies of consultants, researchers, government agencies and all available sources.

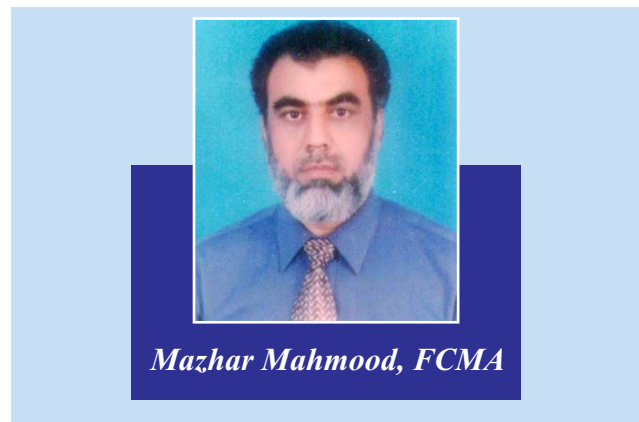
About the Author: *The writer is an Associate member of ICMA Pakistan and is currently serving as GM Supply Chain at Packaging Industry. He holds 15 years of experience in Supply Chain.*



Process Flow of Supply Chain and Role of Management Accountants

There are a number of definitions of Supply Chain Management (SCM) because of its complexity and varied operational stages that leads to smooth flow of goods from the manufacturers to end users. A simple definition of supply management is that it is 'an effective control over flow of goods / services through different complex business processes from manufacturing to consumers - the end user'. Let us elucidate some related terminologies for more clarity;

- o **Flow of goods:** In supply chain management, flow of goods starts from transformation of raw material into finished good; to distributor; to wholesale; to retailer and finally to consumer.
- o **Effective control:** means controlling the flow of goods with value addition, where it requires, with optimum cost; least time; right time and choosing the right channel of distribution.
- o **Complexity:** means consideration of different geographic locations, multi-ethnic human resource, number of business processes, logistic dynamics, contacts, government formalities and many more alike one.
- o **Business Process:** There are number of firms linked with one another to make the chain through which goods travel from manufacturer to end users. (Table-1)
- o **Goods;** Consumers and Industrial goods,
- o **Services;** Logistic, Advisory & Consultancy services.
- o **Customer;** The firm that purchases for re-sale of products (wholesaler, retailer etc.)
- o **Consumer;** The ultimate consumer of the goods
- o **Intermediaries;** The firm/person such as distributor, whole seller, agent, stockiest,



mobiler, jobber and retailer etc in between the manufacturer and consumer is called intermediary.

- o **Marketing;** Marketing is always the responsibility of manufacturer / owner of the product. Quality of product is major focus of manufacturer along with quantity to entertain all purchase orders.

Table -1 : Business Process

| Flow | → | | | | | | |
|--------------------|---|--|--|--|---|--|--|
| Business Processes | Raw Material (Agricultures & Minerals) | Suppliers of Raw material (Individuals, Firms, Companies & State) | Manufacturers (Manufacturing, Refining, Assembling &) | Distributors (Individuals, Firms & Companies) | Sub Agents (Wholesalers, Agents, Stockiest etc.) | Customers (Retailers, Supply Chain Stores, Mega Malls etc.) | Consumers (Individuals, Firms, Companies and State) |
| Conec tivity | Up Stream | | | Down Stream | | | |

The process starts from producers of raw material, goes to manufacturers through suppliers. Distributors are appointed by the manufacturers of goods to deliver the goods onwards to end consumers through sub-agents and customers. All these businesses may be independent of each other or integrated through contracts or absorption/merger. However, sometimes, any business in this cluster can purchase previous or next businesses to create 'up-stream' or 'down-stream' integration. For example, a manufacturer may purchase raw material supplier as an 'up-stream' or a distributor as a 'down-stream' integration for effective control over flow of products to end user.



| Global Logistic Industry Volume - Product Wise | |
|--|-------------|
| Goods | % tag share |
| Technology | 19 |
| Retail | 17 |
| Industrial | 19 |
| Consumer | 23 |
| Health care | 4 |
| Chemical | 4 |
| Automotive | 10 |
| Others | 4 |
| Total | 100 |

- o **Sales;** Sales planning is the responsibility of distributor with coordination of marketing department of manufacturer. Order booking and delivery is pure responsibility of distributor in SCM.
- o **Quality Service** - The core competency of a distributor is quality of its 'delivery service' which covers in time scheduled order booking/delivery and earliest resolution of disputes like return, expiry goods, replacement, replenishment and other payment related matters. The focus of distributor is always on **SERVICE** rather than **PRODUCT**.

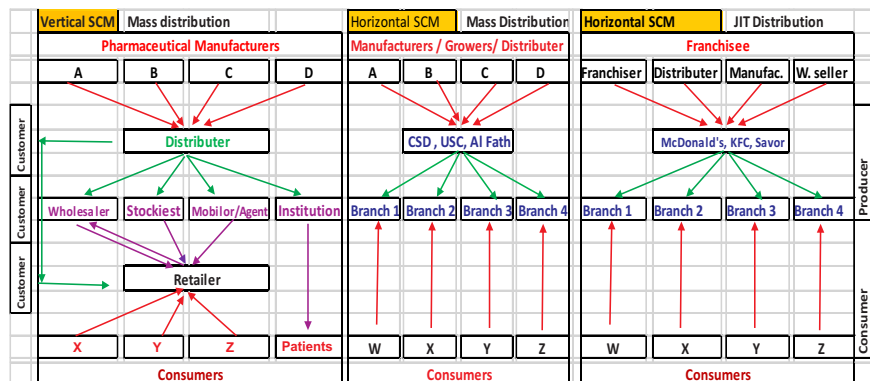
Not a single manufacturing or service producing company in Pakistan attained such a competitiveness to match these companies to enter into list of the giant global supply management companies. Football is the only product that gets momentum every four years. It is absolutely important that Pakistani entrepreneurship community must go for disruptive inventions to achieve the competitiveness to form the giant worldwide supply chain organizations (My previous article on Business Entrepreneurship, covering disruptive inventions, has been published in Management Accountant in July-August 2017 issue).

SCM's Role in Global Economy

Many businesses are now adopting a global approach to sourcing and manufacturing through effective supply chains to achieve **twin objectives** of reducing ownership of raw material sources and managerial control of daily logistics operations and distribution channels. Both material and operational controls consume heavy cost and erode lot of financial resources. These global level firms attracted the world market on the basis of '**Competitiveness**' which is defined as 'the ability of producing a product or service unmatched with competitor, regarding cost and quality, in the global market'. The strategy to achieve these twin objectives is to sell the Trade Marks, Royalty, copyrights, Franchise and other contracts etc. Nestle, Proctor & Gamble, McDonald's, HDL, TCS, Samsung Electronics, H & M, PipsiCo (Lays), Unliver, 3M, Multinational Pharmaceutical Companies and Coco Cola are few of the global supply chain management companies who adopted this strategy. Apple & Samsung are selling the finished goods and DHL, TCS and Deloitte are selling their services through supply chain. Global trade of merchandise in 2017 was US\$ 17.2 trillion while services was US\$ 5.5 trillion. Global freight / logistic volume was US\$ 3.5 trillion. The volume of overall global trade is more than GDP of America the biggest economy of the world. Hence global trade through supply chain plays an important role in global economy by creating millions of job worldwide.

Process Flow of Supply Chain Management (SCM)

There are two major types of Supply Chain called Vertical Mass distribution SCM and Horizontal Just In Time - SCM. Horizontal SC means where franchiser gives too many franchises / open branches in different cities or many branches with the same city where consumers directly approach like McDonald's, KFC, NIEK, CSD, City Super, Metro & USC etc. There is no intermediary in between consumer and Franchiser/producer. Vertical SCM has many layers/intermediaries from manufacturer to consumers like SCM for Grocery, toiletry, Candies, pharmaceutical and kitchen products etc. These mass producers use large sized distributors in channel to transport the goods to end user. Vertical Mass distribution SCM like Muller & Phipps Pakistan (Pvt) Ltd, UDL, IBL are few examples and priority of such producers. Both these types of SCM are depicted in pictorial form as under:





It's very simple to under the supply chain despite of critical intricacies at different stages. **The article is confined to flow of products, type of business entity at all stages, logistic and other unavoidable stapled matters with SCM.** Other mandatory departments like Accounts, Finance, HR, administration and IT are ignored to focus on flow of goods from manufacturer to consumer. Steps in supply chain;

1) Raw Material Supplier

There are different types of raw material used in manufacturing the consumer, durable and industrial products. Most of the raw material comprises of agriculture products, forest, mining, querying and exploration etc. Producers of raw material supply the material directly or appoint agents to supply material to manufacturers and hence create a supply chain (SC).

2) Manufacturer:

There is always heavy investment in material and logistic like Auto Industries Limited, Cherat Packaging Limited, Ferozsons Laboratories Limited, Ghandhara Industries Limited, Agro Industries, Refineries, KFC, McDonald's Searle Company Limited, Fauji Fertilizer Company, Millat Tractors, Lays, Pakistan Steel Mills and Pharmaceutical manufacturers. Franchiser puts the responsibility of investment in material and logistic to the Franchisee to produce the standardized goods. Following are the major functions of manufacturers in SCM;

- a) **Manufacturing:** The major function of manufacturer in SCM is the value addition to transform the Raw Material in Finished or consumable good. Some of the prominent methods of value addition are manufacturing, assembling, processing, refining, baking, molding and weaving etc.
- b) **Ownership of Product:** Manufacturer is the real owner of the product and very active in SCM, to transport the product to consumer door step through effective channels of distribution.
- c) **Marketing and Advertisement:** Manufacturer always spends heavy cost on advertisement to market the product. Manufacturer uses different push and pull marketing strategies. Marketing is responsibility of manufacturer while sales, order booking is the job of distributor.

- d) **Channel of distribution:** Owner / manufacturer of the product carefully appoints distributor as a Supply chain and makes the liaison with distributor with his vibrant marketing team.
- e) **Production Planning:** Mostly production planning depends upon purchase orders both from local distributor and exporters. Planning is done for material, production and financial resources.
- f) **Warehousing & Logistic:** Warehousing capacity is designed to accommodate the optimum stocks. All formalities on the part of government are complied with while designing warehouse. Logistic operation is major focus of large size manufacturing concerns.
- g) **Cost of Material & Control:** Cost of material is borne by the owner who keeps a complete vigilant control over flow of product to the end user.

3) Distributor

The most important segment of SCM is distributor that plays an important role in this chain. Following are the most important consideration and expectation of owner / producer / importer / manufacturer from the distributor:

- o Philosophy and experience of strategic management of distributor.
 - o Delivery system and resources to cover maximum market country wide.
 - o Warehousing as per norms of government policies for particular business.
 - o Effective sales and booking strategy.
 - o Financial strength of distributor.
 - o Quality of MIS and number of reports to be shared with manufacturer.
- a) **Function of Strategic Management in Distribution Industry:**
- o Contracts with manufacturers / importers and liaison afterward.



- o Annual sales budget with the collaboration of manufacturer.
- o Policy and manuals for all activities like sales, inventory management, warehousing, payables, receivables, incentives, expenses, HR, Admin and others.
- o Inventory management.
- o Cash management.
- o Receivable management.
- o Internal audit.
- o Capital decision making suspending or adding the facilities country wide to ensure the coverage for distribution of product.

| Role of Cost & Management Accountants in SCM | Franchiser | RM Supplier | Manufacturer | Distributor | W.Seller | Retailer | Consumer |
|--|------------|-------------|--------------|-------------|----------|----------|----------|
| Prefeasibility | ✓ | ✓ | ✓ | ✓ | ✓ | X | X |
| Planning / Budgeting | ✓ | ✓ | ✓ | ✓ | ✓ | X | X |
| Logistics scheduling | X | ✓ | ✓ | ✓ | X | X | X |
| Delivery Scheduling | X | X | X | ✓ | X | X | X |
| Product Costing | X | ✓ | ✓ | X | X | X | X |
| Delivery Costing | X | X | X | ✓ | X | X | X |
| Capital Assets Management | X | ✓ | ✓ | X | X | X | X |
| Current Assets Management | X | ✓ | ✓ | ✓ | ✓ | X | X |
| Manual / Policies - all the departments | ✓ | ✓ | ✓ | ✓ | ✓ | X | X |
| Accounting / information system | ✓ | ✓ | ✓ | ✓ | ✓ | X | X |
| Internal Audit | ✓ | ✓ | ✓ | ✓ | X | X | X |
| Reporting on performance | ✓ | ✓ | ✓ | ✓ | X | X | X |

b) Function of Middle Management of Distribution:

- o Mostly sitting remote from Head Office playing supervisory and advisory role to HO.
- o Implementation of policies on operational management and reporting the performance of operations to the strategic management at HO.
- o Recommendation or proposals by finding the gaps in operations to make them cost effective or better control.

c) Functions of Operational Management:

- o Control and command over warehousing, order booking & delivery system.
- o Segregating the entire area of a sale point into different territories or belts.
- o Data bank of customers of various territories.
- o Territory wise order booking. Multinational companies use modern techniques (HHT) while small and local companies use manual order booking tools.
- o Scheduling the delivery team to deliver the product to customers for onward sale to consumers.
- o Disputes with customers, if any, to be settled at earliest.
- o To optimize the cost of delivery using different techniques.

4) Wholesale market

Wholesales market is a big customer base segment to dispose of goods both to local customers/ consumers and customers of far flung areas. For instance, Rawalpindi is a big wholesales market feeding entire Kashmir belt and Gilgit / Baltistan to some extent. Distributors invest a heavy amount in wholesale market through receivables. There is a lot of risk of bad debt for distributor in wholesale market.

5) Retailers

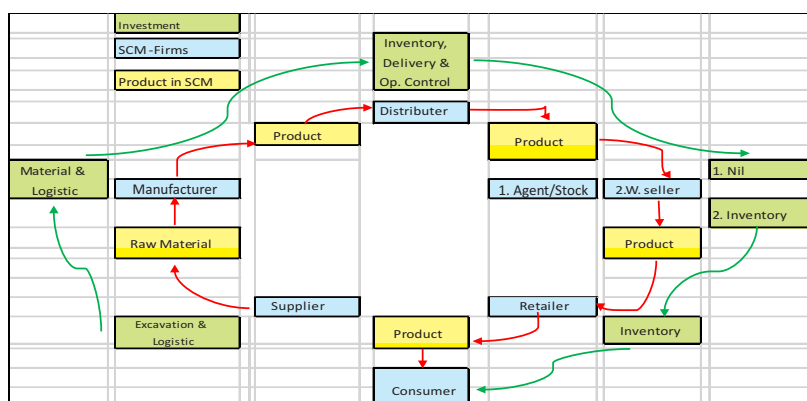
Retailers are the major customers of wholesalers. Distributors also focus on retailers to strengthen the cash flow because most of the sales are on cash basis. There are millions of retailers for all kinds of consumers and durable goods.

6) Consumers

Consumer or end user is the pivot of all up-stream linkages. All above firms conduct survey, formally or informally, to know the behavior of consumers to set the level of investment to cater to their needs. A person is, at a time, a patient, a tenant, a traveler, a smoker, a client or purchaser of all edible goods etc. Consumers allocate the budget for different needs and wants. All investors in the series of up-stream chain are always interested to know the type, quantity and quality of product demanded by these consumers. Producers calculate the level of investment by keeping in mind the aggregate demand of consumers.

Role of Management Accountants

Cost and Management Accountants are playing pivotal role in almost all industries including agriculture, manufacturing, service, distribution, communication, construction and mining/quarrying etc. Their expertise in the field of finance, accounts, audit, product costing, evaluation, monitoring, business policy, tax, budgeting, planning and reporting can make any business viable and flourishing. Management Accountants can play, though not limited, following roles particularly in SUPPLY CHAIN MANAGEMENT.



About the Author: The writer is a fellow member of ICMA Pakistan and is currently serving as Chief Executive Officer of Mazhar Mahmood & Company. He had served as GM Finance at NFRD - Business Incubation Center of 8 commercial units; Zonal Manager Accounts at Muller & Phipps Pakistan (Pvt) Ltd. And Chief Accountant at Kaghan Brick Works Ltd.



Supply Chain and Evolving Efficiency Measures

Economics evolve around best utilization of resources viz. men, machine and material. The subject of 'Macroeconomics' deals with putting the national resources to best possible use by creating employment; raising standard of living; controlling inflation and GDP growth; fiscal and monetary policy and comparative advantage for foreign trade. The article discusses the need of efficient measures to meet the needs of our fast evolving times.

Micro-economics discusses best utilization of resources by an individual firm in order to adapt its products to consumer needs and behavior. The interaction of market demand and supply determines the price. Market types, conditions, and consumer behavior are the influencing factors. The changing consumer preferences and shift in demand could increase, decrease or diminish the demand of a product altogether.

The supply side too has all these factors affecting supply conditions and bearing on raw materials prices. The interplay of factors of production, new technologies, managerial efficiencies and interplay of raw material supply and demand markets could seriously affect supply line pricing and at times limits its supply to a regular source. Natural calamities also restrict supply from a primary source.

In between these two markets i.e. (a) the Supply side, natural resource that eventually is resource for a final product and the (b) Market of consumer demand with their preferences, there is competition between industries and between companies within industries for their share of consumer and industrial spending. Between the Consumer Demand Market and the Supply Chain Markets there is the Industrial or Conversion unit. Production from one end takes the raw material, and to the other end provides the finished goods.

It is the effort of all companies to have high level of productivity; to control costs of production; investment in Inventory and receivable. Marketing is always concerned with



Jalal Ahmad Khan, FCMA



Muhammad Naeem Bhojani

evolving or changing consumer preferences and adjusting product differentiation, price advantages for the sake of profitability.

Inbound Logistics has its own dimensions where regularly JIT inventory of desired raw material quality has to be assured. Due diligence exercises and criteria for selection of suppliers has to be in place too. Adequate cost control measures need to be exercised. These measures are the contributors to the Quality and Costs of our final finished product and buyer satisfaction. In the present day, three factors viz. Marketing, Procurement and Production should be in complete sink with each other to achieve volume and profitability for raw material supplier and the final product producer.

Demand Markets

The Cement industry in Pakistan before arrival of Mr. Shaukat Aziz was short of demand for cement. They were not able to pay their bank loans and were requesting banks to roll over / extend repayment dates. Shaukat Aziz announced a number of development projects. At the same period, the remittance of

workers to Pakistan increased substantially. For these reasons the demand for cement increased substantially in government development and housing sector; prices jumped and further expansion in cement capacity was done. Similarly when river water supply is good in Sindh, we have excess sugar supply awaiting exports. On the other hand, when there is low rain and scarce water supply, sugarcane crops are poor which lead to sugar imports.

In the international market when economic uncertainty gripped US in 2007; with reduced consumer spending a large part of retailing collapsed. Resultantly, the industrial units supplying goods to these retailers were adversely affected. Some of the Pakistani exporters also lost money as US importers refused to lift the goods from sea ports.

The crude oil market was reeling at US\$23 a barrel few years back, however, Chinese economic development and huge demand gave a price push to number of raw materials which ultimately soared oil prices substantially.

Due to exploration of Shale oil, USA has now become a net crude oil exporter and as such it is no longer in the demand markets for crude oil. The crude prices have slumped and other supply restriction factors are changing its future course.

Supply Markets

This volatility in crude market prices has brought a swift reaction from the importing countries whose balance of payment and economic health has been adversely affected. USA is now in Crude Fuel from Shale oil; France is busy converting sea water into electricity; Italy has large hill parks of wind mills and China is busy in substantial reduction in solar panel cost. Markets do not remain the same.

Production Efficiency Development:

Now let us look at our conversion units and how these have moved with time from their crude from the days of Industrial revolution to our modern times with the evolution and growth of human thoughts, intellect, life style, technology and shifting consumer preferences in world economic growth.

In human societies the most organized structures were those of Military and it is from where management initially drew its soul. Even today, in various countries, for the purpose of administration and security, a retired military officer is preferred.

IBM was formed and computers were employed to control logistics of military arms, hardware and ammunition for Second



World War. Civilian logistic experts were also employed by the military. That could be considered the first step to our modern concept of efficiency. Accounting was first used by McNamara in Fords Company in the fifties. In 1970 came the International Accounting Standards.

The computer industry contributed a lot towards mechanization of management information. In late eighties, various layers of middle management were abolished in US; the control and supervision became much easier by easy flow of computerized information. The organization structures became flat overnight and most of the business executives were thrown out in US who later set up their own small companies.

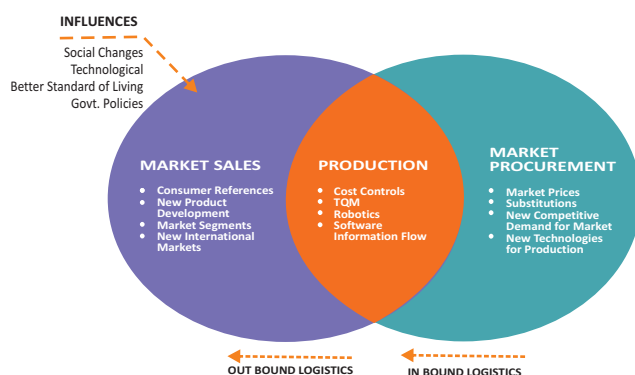
New Competitive Environment

The emergence of Bill Gates and software Industry has brought to us an information age where free flow of information has become a fact of life. Markets, shares, currencies, commodities, freight have all become instantly available all over the world. 'Swift' is being used for settlement of all Dollar transactions between banks in New York. The speed of settlement is amazing. In this environment, all industrial units need to be well connected; well positioned and establish effective networking in order to survive competition in an ever changing consumer preferences and market conditions at both ends of 'Demand' as well 'Supply' sides.

The software, in particular ERP and SAP modules have made the task easier. Retailers in US and Europe are now on line on stock position with their product manufacturers who have spread to regional warehousing. The regional warehouse is on line with the main warehouse. The main warehouses are computer linked with their raw material supplier who continuously gets orders for raw material shortages. De-humanizing the process has made whole system swift and all units engaged in the chain are computer linked and fully aware of demand movement and supply conditions.

The Japanese had introduced JIT inventory system which under the new online ordering system is becoming obsolete. By taking a step further by roboting their assembly lines, they are now attempting de-humanizing number of manufacturing assembling packing functions to further increase efficiency in their production houses. Their master stroke in car business is that various brands of vehicles available in market have the same vendors for specialized parts. They have given financial strength to vendors without which it was near to impossible to meet fast expanding Japanese vehicle demands. Japanese culture and their supply chain management have its strength in not letting down each other - a great advantage in supply chain management.

SUPPLY CHAIN EVOLVING EFFICIENCY MODEL





New Business Culture

In today's world, business units in a value chain have to consider themselves to be a family member with long term interest in each other where challenges and opportunities are for them as a unit. Marketing, Procurement/ Supply Chain has to work hand in hand in a close-knit environment to face the challenges of fast evolving markets of buyer preferences and supplies of raw material and machinery technological changes.

In a holistic situation, production is a conversion unit that essentially has to be highly efficient and cost effective, but money is essentially made in the entrepreneurial activity of buying and selling. Selling to find or develop alternate; better paying customer and procurement/ buying should be fully aware of fluctuations in supply, substitute cheaper and reliable supply and availability of latest technology for organization Production facilities.

As a complete Business solution we should consider sources of supply/procurement chain - One of the Modules with its own emphasis. The Second Module that is always there is the Revenue generating Marketing Module. The Third Module is Production unit; TQC fault free, automated and robotized free of human error as far as possible.

Interestingly shipping Companies have joined hand to buy a common large container ship and share operational expenses



but keep their marketing effort separate to earn profitability separately.

Zara Fashion -- a Fashion Clothes Company was formed in 1975 by an Italian Amancio Ortega. The company sold goods mainly in European retail stores. By 2008, Mr. Ortega was considered one of the leading rich business personality. Irrespective to the smart marketing policies that were adopted for high turnover, the contribution margin came from organizing cheaper cloth supplies from the Far East. Many of US Companies have established themselves in China to take advantage of cheaper raw materials that generate higher contribution margins.

The Procurement market does not restrict itself to look into the alternate raw material supply but also always evaluate the technological advancement in the industry that could adversely affect its competitive position. In Pakistan, we have seen numerous changes in textile machinery which has not only reduced cost of production but also reduced labor employed and improved quality of production.

In Cement Industry it has moved from wet to dry process. The Cement industry has also moved from use of Gas to Coal as source of energy. In Sugar industry Bagas i.e. crushed sugar cane is re-processed to give energy. The Industry has excess energy which it proposes to sell to the Government. Molasses, bye product of Sugar industry, which was used as animal fodder in Europe, is now being mixed up to 20% in Petroleum Products. Fodder Buyers have to look for other sources of comparable supply also.

Conclusion

With the advent of information age, human evolution has picked up unexpected speed. In this era efficiency and adapting to new ideas and technologies are essential to remain alive in a highly competitive age. As economy fluctuates with new policies the definition of best use of man, machine, and material is taking a new shape and meaning.

About the Authors: *Mr. Jalal Ahmad Khan, FCMA is permanent faculty member of PAF-KIET and he was former Executive Director, ICMA Pakistan and Mr. Muhammad Naeem Bhojani, is permanent faculty member of PAF-KIET was Ex Supply Chain Manager at PharmEvo (Pvt.) Ltd,*

Supply Chain Global News

IIoT expected to boost revenues across global supply chain

By James Henderson

The Industrial Internet of Things (IIoT) is set to make a sizeable contribution to the global economy by 2023, according to a new global study launched today by Inmarsat.

Organisations across the global supply chain expect IIoT to be increasing their annual revenues by 10% within five years.

The report said that the Industrial Internet of Things is set to revolutionise how businesses function in the next few years. There will be significantly increased automation and operational efficiency through the use of real time data and machine-to-machine communication right across the planet.

Access to reliable and resilient connectivity, particularly in remote regions or at sea, where terrestrial networks are not available but satellite communications are available, will be essential to the success of many IIoT deployments, it added.

Market research specialist Vanson Bourne surveyed 750 businesses with a combined turnover of \$1.16trn from across the globe. Respondents were drawn from a wide range of industries, including the agriculture, energy, maritime, mining and transport sectors.

Commenting on the findings, Paul Gudonis, President, Inmarsat Enterprise, said: "IIoT is emerging as a major force in the modern enterprise and it's clear that businesses are prioritising satellite technology to transform their operations and achieve competitive advantage.



"Data generated by IIoT infrastructure is expected particularly to bring greater transparency to the global supply chain, allowing businesses to automate processes, reduce operational waste and speed up rate of production, leading to higher revenues and lower costs.

"However, many businesses are struggling with security, skills and connectivity challenges in large scale IIoT deployments. Over half (56%) require additional cyber-security skills and 34% don't yet have access to the connectivity they need."

Supply Chain Management Software Spending Grows to \$12.2bn

The adoption of supply chain management (SCM) software accelerated significantly in 2017 with worldwide revenue growing by 13.9% to US\$12.2bn, according to Gartner - the world's leading research and advisory company. This is happening because SCM technologies are a key component of delivering digital business strategies. SCM technologies create digital value by optimizing the flow of products, services and related information from source to

customer and from customer to source. Cloud offerings are driving growth in the market, partly because more mid-size organizations are adopting SCM solutions to drive digital business models. Mid-size organizations help bolster revenue growth because they are net new customers of SCM products and are not bound by replacement and upgrade cycles from legacy investment.

Special Feature

Tax Amnesty Schemes in Pakistan

- With special reference to 2018 Amnesty Scheme

By Research and Publications Directorate, ICMA Pakistan

Many countries have launched tax amnesty schemes with the objectives of improving tax compliance; enhancing government revenue and encouraging the repatriation of offshore assets by offering generous tax incentives and immunity from prosecution. Generally, such programs have been successful, but some have failed to generate the expected results. According to the OECD, countries may introduce tax

amnesty programmes for a variety of purposes including raising tax revenue; increasing tax honesty and compliance; and/or facilitating asset repatriation in support of economic policy. Before proceeding, let's have a look at different tax amnesty or money whitening schemes or programs offered by different countries:

Tax Amnesty or Money Whitening Schemes offered by different countries

| | |
|------------------|---|
| India | Since 1965, India implemented tax amnesty once in every five or six years. India's budget, in 1965, introduced a scheme whereby an amnesty was granted on unaccounted wealth or income provided 60% was handed over to Reserve Bank of India by May 31, 1965. In 1981, India offered a different tax amnesty. In 1997, a tax amnesty program considered as final tax amnesty which allowed the people to announce taxable assets derived from the previous year based on its gain price, not value of on-going year. In 2016, A four-month amnesty in India resulted in 64,275 declarations, with the average amount declared standing at Rs10.2 million. A charge of 45% was levied on assets declared under the scheme. |
| USA | Several American states also announced tax amnesties. Los Angeles administration collected US\$18.6 million whereas the state of Louisiana collected US\$ 450 million from 2009 tax amnesty program. |
| Australia | A tax amnesty program was introduced in 2014 that prompted thousands of rich Australians to declare billions of dollars in untaxed assets and hidden bank accounts in Switzerland and in other countries. |
| Canada | A tax amnesty scheme called the "Voluntary Disclosure Programme" already exists for income tax and Excise related offences. The Canada Revenue Agency has given this relief for a 10-year period prior to date of filing and covers unfiled tax returns and unfiled information returns such as offshore asset form |
| Belgium | In 2004, the country's legislative house adopted a law allowing individuals subject to Belgian income tax to regularize the undeclared, or untaxed, assets they held before June 1, 2003. |
| Germany | In 2004, Germany had also granted a tax amnesty in connection with tax evasion. |
| Indonesia | Indonesia implemented a nine-month tax amnesty program that ended on March 31, 2017. The program was largely successful as it generated about 80 percent of the expected revenue. The scheme resulted in boosting tax revenues by 3.6 percent year-on-year in 2016. A total of US\$9.61 billion was collected in March 2017. The country had previously given such incentives in 1964, 1984 and 2008. |
| Spain | In 2012, the Spanish government had announced a tax evasion amnesty for undeclared assets or those hidden in tax havens. Repatriation was allowed by paying a 10 percent tax, with no criminal penalty. |
| Italy | Since 1991 until 2014, Italy had a number of tax amnesty programs. Italy had first introduced a tax amnesty in 2001. In 2009, the Italian tax amnesty subjected repatriated assets to a flat tax of 5 per cent and succeeded in whitening a huge amount. About 80 billion Euros in assets were declared, which resulted in tax revenues of 4 Billion Euros. The Bank of Italy had estimated that Italian citizens held around 500 billion Euros in undeclared funds outside the country. |

| | |
|---------------------|---|
| Russia | In 2007, a Russian tax amnesty program had collected US\$130 million in first six months. The Russian programme, however, was not open to anyone previously convicted of tax crimes such as tax evasion. |
| Greece | In 2010, the government of Greece had granted tax amnesty to millions of Greek citizens by paying just 55 percent of the outstanding debts. |
| Turkey | The Turkish government has introduced several tax amnesty programmes throughout the last decade, the latest of which was passed in August 2016 and ran until June 2017. |
| South Africa | South Africa had implemented tax amnesty program three times which was in 1995, 1995, and 2003. In 2003, South Africa introduced a tax amnesty and asset repatriation programme with three objectives: to enable South Africans to regularize their affairs without being prosecuted; to ensure maximum disclosure of foreign assets and to facilitate repatriation thereof to South Africa; and to expand the tax base by disclosing previously unreported foreign assets. |

History of Tax Amnesty Schemes in Pakistan

The Tax Reforms Commission (TRC) in its report had identified tax amnesty schemes as one of the major factors causing distortions in the country's economic system. Over the last 70 years, successive Pakistan governments have announced as many as 10 tax amnesty schemes. The PML(N) Government

announced three schemes viz. for non-filers in trading community; power bill defaulters and the real estate business.

Let's have a brief look at different amnesty schemes announced in the past:

| Year | Regime / Government | Outcome/ Result |
|------|------------------------------|--|
| 1958 | Field Marshal Ayub Khan | Around 71,289 declarations of excess income were filed by 266,183 taxpayers. An amount of Rs. 1.3 billion was recovered which added 7% to the GDP. |
| 1969 | General Yahya Khan | Only 19,600 new tax filers brought into tax net which added only 1.52% to GDP. A total of only Rs. 920 million was recovered from undeclared assets. |
| 1976 | Zulfikar Ali Bhutto | The amnesty scheme was able to recover Rs. 270 million in taxes which added around 2.2% to the GDP. |
| 1986 | General Zia ul Haq | Resulted in small increase in number of tax filers |
| 1997 | Nawaz Sharif (PML-N) | The amnesty scheme brought just Rs. 141 million in taxes. |
| 1999 | General Pervez Musharraf | Around 88,000 persons made declarations. Rs. 125 billion in taxes were collected. |
| 2008 | Asif Ali Zardari (PPP) | A total of only Rs. 2.8 billion was collected from new tax payers. . |
| 2014 | Nawaz Sharif (PML-N) | Amnesty scheme for defaulters of electricity bills was announced under which 30% arrears were waived off on payment of remaining dues. |
| 2015 | Nawaz Sharif (PML-N) | Amnesty scheme exclusively for non-filers in trading community was announced |
| 2018 | Shahid Khaqan Abbasi (PML-N) | Amnesty scheme exclusively for real estate business was announced. |

From the above timelines, it is quite evident that during the periods of Ayub Khan and Gen. Pervez Musharraf, the tax amnesty schemes announced produced positive results.

Amnesty Scheme 2018

Two Tax Amnesty Schemes were announced in April 2018 by the PML (N) Government through promulgation of the Foreign Assets (Declaration and Repatriation) Ordinance, 2018 for undisclosed foreign assets; and Voluntary Declaration of Domestic Assets Ordinance, 2018 for undisclosed income and domestic assets. Both these Ordinances were placed before the Parliament and through the Finance Act 2018, these became Acts as under:

- (1) Foreign Assets (Declaration and Repatriation) Act, 2018 for undisclosed foreign assets.
- (2) Voluntary Declaration of Domestic Assets Act, 2018 for undisclosed income and domestic assets

The above Acts were further amended through the Presidential Ordinances on June 30, 2018.

The original closing date for filing declarations under the amnesty scheme was June 30, 2018, however, the deadline was subsequently extended till July 31, 2018 by Caretaker Government on account of representations from trade bodies, professional associations and general public due mainly to following two reasons:

- (1) short operational period after clearing legal and procedural challenges and problems faced by declarants in the payment of tax on foreign assets and repatriation of liquid assets.
- (2) To remove ambiguities through clarifications and explanations required to provide certainty to the general public and to ensure effective implementation of the schemes.

Applicability and Tax rates

Foreign Assets: Amnesty scheme for foreign assets was applicable on both liquid and immovable assets such as bank accounts, shares and mortgaged properties with rates ranging from 2% to 5% depending on type of assets.

Domestic Assets: The amnesty scheme for domestic assets was applicable on all types of assets and income, with tax rates of 2 percent and 5 percent.

Cash Repatriation: Special tax rate of 2 percent was applicable on liquid assets repatriated into Pakistan.

Outcome of Amnesty Scheme

(As per statistics released by FBR)

- a) Around 82,838 individuals availed both the foreign and domestic tax amnesty schemes which resulted in collections of Rs. 121 billion by the deadline of 31st July 2018.

| Sr. | Amnesty Scheme | Total No. of Declarants | Total Collections (Rs) |
|--------------|------------------|-------------------------|------------------------|
| 1 | Domestic Amnesty | 77,485 | 77 billion |
| 2 | Foreign Amnesty | 5,353 | 44 billion |
| Total | | 82,838 | 121 billion |

- b) Cash repatriation of **US\$ 366 million** [Rs. 42 billion] was achieved under the foreign amnesty scheme.
- c) Both foreign and domestic amnesty schemes were availed on total assets valuing **Rs. 2.5 trillion**.
- d) Total tax paid on domestic assets stood at **Rs. 65.3 billion**.
- e) Out of 5,353 total declarants who availed foreign tax amnesty, the Pakistanis living at UAE stood on top.
- f) The response on tax amnesty schemes was quite impressive till 30th June 2018, however, after extension of deadline upto 31st July 2018 the responses slowed down.
- g) Till June 30, 2018, a total of 55,000 people benefitted through the scheme by paying Rs. 68 billion to FBR.

Future Action Plan of FBR

- a) The Federal Board of Revenue (FBR) has decided to take action against those who do not declare their hidden local as foreign assets after the expiry of the scheme on 31st July 2018.
- b) FBR has issued notices to over 500 Pakistanis with undeclared assets abroad.
- c) FBR would send tax notices to those declarants of amnesty schemes who have not paid the due amount. They will be asked to pay the full 35% tax on their assets.
- d) FBR intend to trace the tax evaders with the help of NADRA who shall be asked to provide details of non-taxpayers regarding banking transaction, booking
- e) FBR has asked other countries to help catch the tax evaders. About 56 countries have shown willingness and officially notified necessary requirement for automatic exchange of information with Pakistan.
- f) FBR is on lookout for non-taxpayers in other countries under the Organisation for Economic Cooperation and Development (OECD). FBR has recently obtained information about immovable properties owned by the Pakistanis in the United Kingdom with the assistance of OECD and the UK tax authorities.
- g) FBR expects to receive details of offshore accounts from OECD nations in September, 2018. Currently, there are 104 signatories of the Convention on Mutual Administrative Assistance in Tax Matters.
- h) FBR also plans to seek details of Pakistanis who have invested in real estate in United Arab Emirates (UAE) and not declared those assets.





Meritorious Article

Forum: Performance Measurement

Performance Measures in Supply Chains

By Kim Langfield-Smith and David Smith

This is one of the Articles of Merit, judged as such under Professional Accountants in Business - Articles of Merit Programme for distinguished contributions to Management Accounting, established by the Professional Accountants in Business Committee (PAIB), (under its former name of FMAC) of IFAC.

Supply chain management (SCM) has received considerable attention in recent years as organisations search for new ways to manage their businesses more effectively. SCM provides organisations with effective ways of responding to supplier and customer requirements and achieving improved organisational performance in the face of mounting technological and competitive pressures (Gunasekaran et al 2001, Elmudi 2002). These outcomes are achieved as SCM focuses on the development of cooperative and trusting relationships between supply chain partners. This often leads to partners working on joint solutions to problems and on ways to improve efficiency across the supply chain, which results in performance improvements for individual partners and the overall supply chain. Such solutions and improvements take advantage of the interdependencies and the quality of the relationships that exist between supply chain partners, and are solutions that may be difficult to achieve by partners individually. The benefits of SCM include cost savings through reductions in inventory, reduction in transaction costs across the supply chain, faster response to changes in market demands, lower product development costs and increased competitiveness and profitability (NRC 2000, LaLonde 1997, Brewer and Speh 2000).

It has been argued that one of the important factors in enhancing supply chain performance is the development of appropriate performance measures (Lambert and Pohlen 2001, Brewer and

Interest in supply chain management (SCM) has increased as organisations seek opportunities to improve performance. Monitoring plays a key role in enhancing supply chain performance by highlighting opportunities for improvements. However, evidence on the use of performance measures in SCM is scant. This paper explains the role of performance measures in SCM, and the difficulties in their design and implementation. The paper discusses frameworks for the development of supply chain performance measures, and presents case studies of performance measurement in Australian supply chains.

Speh 2000; NRC 2000). However, this appears to be a neglected aspect of SCM. Supply chain measures include those used to monitor and manage the organisation's own performance between functional areas -- its own internal supply chain -- as well as measures of how well the organisation is servicing its suppliers and customers. These measures may extend across a range of interlinked suppliers and customers across the supply chain.

This paper explains the benefits of SCM and the role of performance measures, outlines the impediments to the development of effective performance measures across the supply chain, presents some frameworks that have been proposed to overcome these difficulties and reports on Australian supply-chain projects that demonstrate the advantages and difficulties of implementing performance measures.

SCM and its Benefits

SCM is “the integration of key business processes from end user to original suppliers that provides products, services and information that adds value for customers and other stakeholders” (Lambert et al 1998, p. 1). SCM brings together suppliers, distributors, and customers into one cohesive process (Elmuti 2002, Youngdahl 2000). In its broadest sense, SCM involves businesses working with suppliers and customers, and inside their own organisations, to create supportive and cooperative relationships and to enhance overall supply-chain performance. Figure 1 outlines a supply chain from the perspective of a single organisation, illustrating the tiers of suppliers and customers involved. An organisation has a direct relationship with first-tier customers and suppliers, and indirect relationships with second and third-tier customers and suppliers. From a broad industry perspective, the supply chain is much more complex, and may consist of many competing

organisations who share various subsets of suppliers and customers. In addition, there may be direct relationships between suppliers and customers.

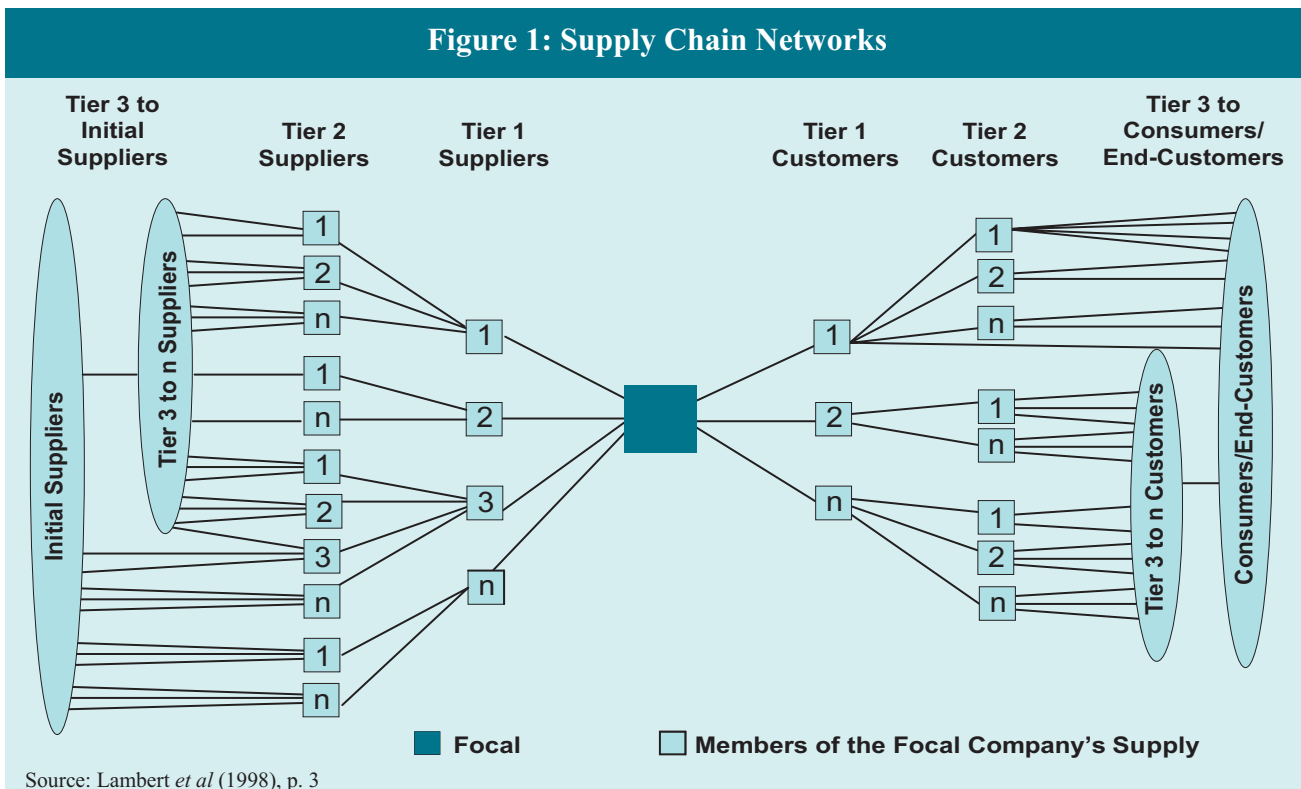
The benefits

The benefits of SCM arise from the collaborative and cooperative efforts of partners that draw on the interdependencies in the supply chain, and many benefits have been claimed. For example, companies participating in MIT's Supply Chain Management Program recorded a 17% increase in sales revenue as a result of improving their SCM programs (Quinn 1997). The benefits of SCM include:

- o cost savings from reductions in inventory;
- o reduction in transaction costs from information-sharing and the introduction of electronic systems;
- o reduction in supplier redundancy;
- o reduced friction, fewer barriers and fewer resources wasted on non-value-adding processes;
- o increased functional and procedural synergies;
- o faster response to changing market demands;
- o lower cost of manufacturing operations;
- o less investment in excess manufacturing capacity;
- o shorter product development cycles and lower product development costs; and
- o increased competitiveness and profitability (NRC 2000, LaLonde 1997, Brewer and Speh 2000).

SCM involves working with suppliers and customers to improve all parties' product design and production processes, to optimise cost and to reduce lead times, while enhancing customer satisfaction. It is through the integration of processes,

Figure 1: Supply Chain Networks



and the realisation that activities in first-tier or even more remote suppliers or customers can affect a firm's performance that performance improvements can be achieved (Croxton et al 2001).

SCM entails looking beyond organisational boundaries. While managers do not always control these areas, activities in immediate or remote parts of the supply chain can affect a company's performance. Many examples can be found in the automotive industry, where SCM is well established (see, for example, Langfield-Smith and Greenwood [1998], who studied how lean manufacturing practices were first conveyed to first-tier and then second-tier suppliers by Toyota Australia in the 1990s).

Industry and government initiatives to promote SCM

Enthusiasm for effective supply-chain management is not limited to individual organisations, or to the commercial sector. Various government entities and industry bodies have highlighted broader community and industry interest and opened the way to new possibilities for SCM. Over the past four years, state and federal government departments have initiated a range of SCM programs.

In 2001, under the National Biotechnology Strategy, the Department of Agriculture, Fisheries and Forestry established the Supply Chain Management Project to address the segmentation of supply-chain development and management for genetically modified (GM) crops (AFFA 2004). An objective was to enhance SCM among commodity suppliers and food processors to implement traceability, segregation and identity preservation systems for non-GM and GM products. Case studies were undertaken to assess the effectiveness of quality systems in tracking the progress of GM foods throughout the supply chains, to validate the integrity of the systems used to segregate and identify non-GM and GM crops

Various government entities and industry bodies have highlighted broader community and industry interest and opened the way to new possibilities for SCM

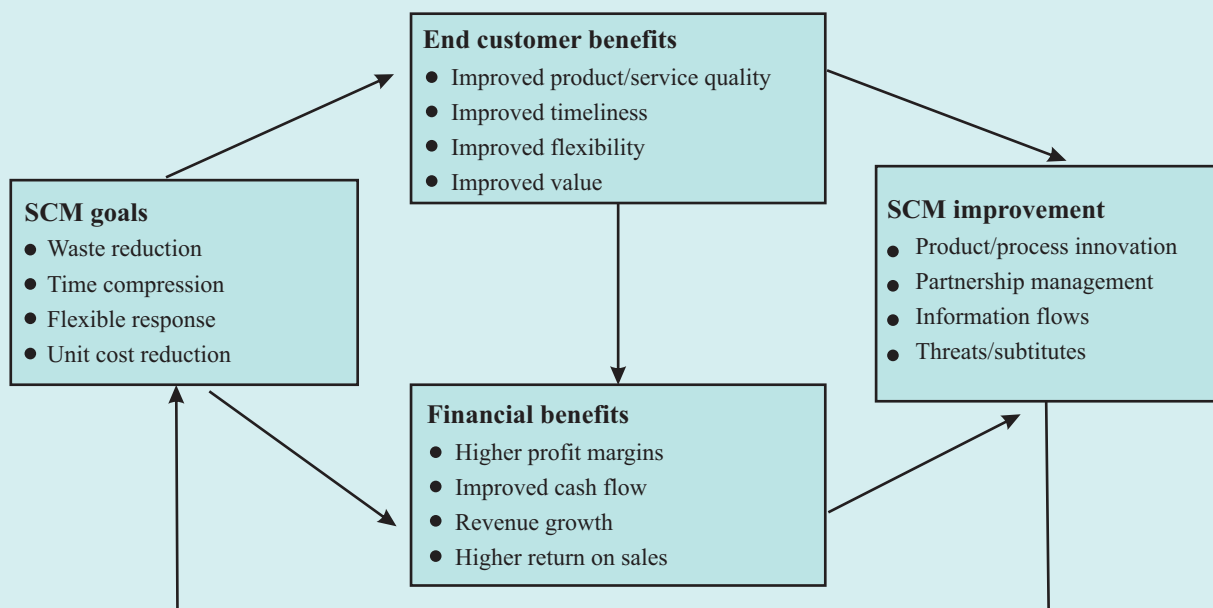
and products, and to identify gaps in the quality-assurance and quality-management systems.

In 2002 the Victorian government, through the Department of Innovation, Industry and Regional Development (DIIRD), launched its Supply Chain Capital Program. The \$1 million three-year program consists of two elements. The first is supply chain collaboration, which involves funding companies to increase their international competitiveness by adopting world-best practice in SCM. The second element is benchmarking supply chain performance, which involves a comprehensive benchmarking process incorporating a detailed survey of SCM practices, approaches for performance improvement and remeasuring the companies' performance after one year.

In 2003, nine e-business projects which promoted supply-chain innovation were funded by the federal government through the Information Technology Online (ITOL) program. Many of these projects were consortiums of SMEs and covered a variety of industry-level supply chains, such as the fresh mango supply chain, sugar industry, health support services, not-for-profit and community supply chains.

The above examples indicate a high level of government and industry interest in encouraging improved SCM practices. However, the development of performance measures is not

Figure 2: Balanced Scorecard for SCM



Source: Brewer and Speh (2000), p.78

Figure 3: Measures for a SCM Balanced Scorecard

| Perspective | Goals | Measures |
|----------------------------------|---|---|
| Financial | 1. Profit margin 2. Cash flow 3. Revenue growth 4. Return on assets | 1. Profit margin by supply chain partner 2. Cash-to-cash cycle 3. Customer growth and profitability 4. Return on supply chain assets |
| Customer | 1. Customer view of product/service 2. Customer view of timeliness 3. Customer view of flexibility 4. Customer value | 1. Number of customer contact points 2. Relative customer order response time 3. Customer perception of flexible response 4. Customer value ratio |
| Internal business process | 1. Waste reduction 2. Time compression 3. Flexible response 4. Unit cost reduction | 1. Supply chain cost of ownership 2. Supply chain cycle efficiency 3. Number of choices/average response time 4. % of supply chain target cost achieved |
| Innovation and learning | 1. Product/process innovation 2. Partnership management 3. Information flows 4. Threats and substitutes | 1. Product finalisation point 2. Product category commitment ratio 3. Number of shared data sets/total data sets 4. Performance trajectories of competing technologies |

Source: Adapted from Brewer and Speh (2000), p.86

considered explicitly in many of the programs. In detailed project descriptions of some government-funded projects examined as part of this research, there was a notable lack of attention to the development of SCM performance measures. For example, under the Victorian government's supply chain collaboration activity, the development of whole-of supply-chain performance measurement is one of the issues nominated as a possible area for funding. However, none of the projects has taken up this challenge.

Difficulties in Designing Supply Chain Measures

Industry experts, consultants and academics have claimed that the intelligent design and use of performance measures (metrics) in supply chains can enhance the success of SCM "by aligning processes across multiple firms, targeting the most profitable market segments, and obtaining a competitive advantage through differentiated services and lower costs. The lack of proper metrics for a supply chain will result in failure to meet consumer/end user expectations, sub-optimisation of departmental or company performance, missed opportunities to outperform the competition, and conflict within the supply chain" (Lambert and Pohlen 2001, p. 1).

Performance measurement is a necessary tool for implementing SCM and achieving supply-chain objectives (Morgan 2004, Chan and Qi 2003). However, efforts to measure supply-chain performance are often underdeveloped and where measures exist, they are usually focused on tier-one customers and suppliers (Chan et al 2003, Morgan 2004, Lambert and Pohlen 2001). This does not capture performance of the overall supply chain; nor does it fully acknowledge the opportunities for cost reduction, quality improvement and improvements in overall competitiveness for each organisation in the supply chain.

Problems with supply chain measures

There is some evidence that performance measures in supply chains are problematic, which prevents them assisting in facilitating effective SCM. These problems include:

- o measures are not always connected to strategy;
- o the lack of a balanced approach to integration between financial and non-financial measures;
- o too many performance measures used, with the number of measures tending to increase over time;
- o no clear distinction between measures at the strategic, tactical and operational levels;
- o a lack of "systems thinking" across the supply chain -- that is, the focus is on individual entities in the supply chain, rather than on the supply chain as a whole; and
- o the difficulty in sustaining a supply-chain context, so that local optimisation is often the focus (Chan and Qi 2003, Gunasekaran et al 2001, Holmberg 2000).

Difficulties in designing supply-chain measures that underlie these problems include:

- o designing appropriate metrics across multiple organisations can be complex, particularly as some partners may participate in several supply chains;
- o consistent definitions of data and measures in the supply chain may not exist and may be difficult to achieve;
- o smaller organisations may not have the time, finances, equipment or information to participate in the analysis;
- o medium-sized organisations may not have skills to convert the information that they have into meaningful measures;

- o partners' information systems may differ in terms of sophistication, complexity and integrity, making it difficult to assess overall supply-chain performance;
- o some partners are unwilling to share information and performance outcomes with others in the supply chain; 2 and
- o managers in some companies have difficulty in maintaining a supply-chain orientation, while also being driven by incentives to maximise performance of their own entity (Morgan 2004, Lambert and Pohlen 2001).

Performance Measurement Frameworks for Supply Chains

In the academic literature, relatively few papers deal with real examples of the performance measurement process in supply chains. Some papers have focused on identifying the performance impacts of using certain measures to evaluate supplier performance. For example, Ittner et al (1999) found that performance gains from supplier relationships were dependent on the use of non-price supplier selection criteria, frequent meetings with suppliers, and supplier certification. Simpson et al (2002) conducted a survey on the nature and extent of supplier evaluation practices, and found that fewer than half of the firms in their sample had a formal supplier evaluation process. Dekker (2003) focused on the use of value-chain analysis in buyer-supplier relationships for coordinating supply-chain interdependence. In his case study, the firm developed mechanisms to better coordinate its relationship with suppliers, one of which was a supply-chain cost model. The specific analyses performed in the case included benchmarking between suppliers, what-if analyses to identify the cost effects of supply-chain changes, and monitoring of supply-chain cost development over time.

The supply chain and logistics literature suggests that the traditional measures used to evaluate and measure supplier performance focus on:

- o time - order cycle time, order fill rates, delivery time;
- o cost - cost per order, cost per unit, storage cost per unit;
- o quality - customer requirements met, consistency of product;
- o return on assets - ROA for investment in logistics assets (Brewer and Speh 2000, Simpson et al 2002).

These measures often focus on the firm and its immediate suppliers, and do not always measure or motivate supply-chain thinking. Brewer and Speh (2000, p. 82) claim that the measures do not provide answers to some important questions:

- o How effectively are firms in the supply chain interacting?
- o How does the supply chain compare with competing supply chains?
- o How flexible is the supply chain in responding to requests for customized packages, orders and products?
- o How much non-value-added time is spent as the product moves across the supply chain?

It seems that very little is known specifically about the process of designing performance measures in a supply-chain context,

or the use of supply-chain measures (Beamon 1999). Lambert and Pohlen (2001, p. 1) claim that “there is no evidence that meaningful performance measures that span the supply chain actually exist,” while Brewer and Speh (2000, p. 91) argue that “supply chain performance measurement is largely uncharted territory.” To address these weaknesses, some frameworks of supply chain performance measurement have been developed.

A balanced scorecard approach

Brewer and Speh (2000) applied Kaplan and Norton's (1996) balanced scorecard framework to supply-chain performance measures. They argue that the four main goals of SCM are waste reduction, time compression, flexible response and unit cost reduction. Waste is reduced in the supply chain by minimising duplication, standardising operations and systems and improving quality. Time compression of the order-to delivery cycle is an important way of improving efficiency, reducing inventory and improving customer service. A flexible response throughout the supply chain includes order-handling and customizing products to meet customer needs cost effectively. Finally, the level of service offered to customers needs to be balanced against costs to reduce unit cost. Thus, improvements in performance of the supply chain in these four areas will lead to benefits for customers as well as financial improvements for supply-chain members. The relationships between the goals, customer benefits and financial benefits are shown in Figure 2.

Brewer and Speh (2000) introduce a dynamic element to their framework by recognising that firms must continually innovate to improve SCM and ensure future profitability for all supply-chain partners. Members of a supply chain can achieve SCM improvements through:

- o redesigning product and processes;
- o improving collaboration and leveraging the knowledge of partners in the supply chain;
- o improving information management to improve decision-making; and
- o better monitoring of the external market to detect new activities of competitors.

Brewer and Speh (2000) used this framework to develop a balanced scorecard for the supply chain. SCM Goals from the initial framework in Figure 2 links to the Business Process perspective of the balanced scorecard in Figure 3, Customer Benefits links to the Customer perspective, Financial Benefits links to the Financial perspective, and SCM Improvement links to the Innovation and Learning perspective.

The SCM balanced scorecard includes measures that encourage partners to think in terms of the interdependencies between supply-chain partners, and to collaborate with partners to address issues and achieve improvements. Examples of such measures include the supply-chain cost of ownership and supply-chain cycle time. Other measures are not integrated, to help partners focus on problems within their own firms.

Brewer and Speh's balanced scorecard, with its emphasis on balancing non-financial and financial measures, measuring performance across the supply chain, and linking measures with the supply-chain strategy and customer service, is designed to overcome some of the limitations inherent in traditional supply-chain performance measurement systems. Yet Brewer and Speh

themselves indicate that there is little evidence that firms have implemented the balanced scorecard in SCM, and that their choice of measures within their scorecard is intended to stimulate discussion on the topic, rather than reflecting practice.

Linking measures to a supply-chain strategy

Another approach to the development of supply-chain performance measures is presented by Lambert and Pohlen (2001), who devised a framework that explicitly considers the relationship between measures and supply-chain strategy. This framework focuses on a series of steps:

1. Map the supply chain from point-of-origin to point-of-consumption to identify the key linkages.
2. Use customer relationship management/supplier relationship management processes to analyse each link (customer-supplier pair) and reveal opportunities for improvements and additional value creation.
3. Measure customer and supplier profit, to assess how the relationship affects the profitability and shareholder value of the two firms.
4. Realign supply-chain processes and activities to achieve performance objectives.
5. Establish non-financial performance measures that encourage individuals to achieve supply-chain objectives and financial goals.
6. Compare shareholder value and market capitalisation of the two firms with the supply-chain objectives, and revise process and performance measures as required.
7. Replicate the above steps for each link of the supply chain.

This framework simplifies a potentially complex process by first focusing on the linkages in the customer company and then moving outward through the supply chain, one linkage at a time. It also provides alignment between process improvements, performance measures, firm and supply chain objectives and individual behaviour. This may enhance the possibility of achieving the synergistic performance outcomes associated with SCM. Like Brewer and Speh (2000), Lambert and Pohlen (2001) indicate that further work needs to be undertaken to test their proposed framework in an actual business setting.

Case Studies of Performance Measures in Supply Chains

While frameworks for developing supply chain measures exist, there is only limited evidence of their use in practice. In addition, common approaches to the development of SCM performance measures have tended to focus on a single organisation and its tier-one suppliers and customers.

The following industry case studies take a different approach to supply-chain performance measurement and improvement, driven in part by the different objectives. The healthcare case develops a common industry framework for measuring, benchmarking and improving cost and service delivery of the purchasing supply chain for individual hospitals. The second case is a collaborative project to deliver environmental improvements and cost savings in the automotive textile supply chain. Both cases demonstrate difficulties that can occur in the development of performance measures in supply chains, and how some can be overcome.

Figure 4: Hierarchy of Supply and Supply Chain KPIs in the Health Industry

| Costs | Working capital | Service | |
|---|-----------------------|---|------------------|
| Cost of procured materials as % of total cost | | Service DIFOTIS | STRATEGIC |
| Supply cost as % of total cost | Stock turnover | | |
| Cost source | | | |
| Cost to deliver | Stock on hand | Supplier DIFOTIS Fill rate On time | |
| Cost of procured materials by product and freight | | Impact of suppl failure | |
| Value of inventory category | Cash cycle | | TACTICAL |
| Cost savings from SCM/streaming | | Forecast accuracy % waste | |
| Cost to spend a dollar | | | |
| Finished goods write-down | Accounts payable days | Source cycle time Supply response time | |
| Jobs with one delivery only | | Order fulfill cycle time | |
| Purchase orders/staff | Active stock units | Supplier rationalisation | |
| Adherence to strategic sourcing | | % standard vs emergency orders | |
| Drill down to transaction level data | | | |

Source: NSCRTF (2003b), p. 19

Performance measurement in the Australian healthcare industry

The National Supply Chain Reform Task Force (NSCRTF) was established in 2000 to facilitate the development of efficient and effective supply chains in the Australian health sector.³ The project takes a “whole of industry” approach and involves the federal and state governments, public and private hospitals, suppliers of services and products to the health sector, and industry bodies. Five working parties were formed to address the following projects:

- o establishing a standards framework;
- o connecting trading partners electronically;
- o coordinating supplier engagement strategies;
- o developing a standardised approach to contract terms and conditions; and
- o establishing consistency for measuring performance and costing supply functions.

It is the last project on performance measurement that forms the focus of this case study. The performance measurement working party consisted of representatives from hospitals,

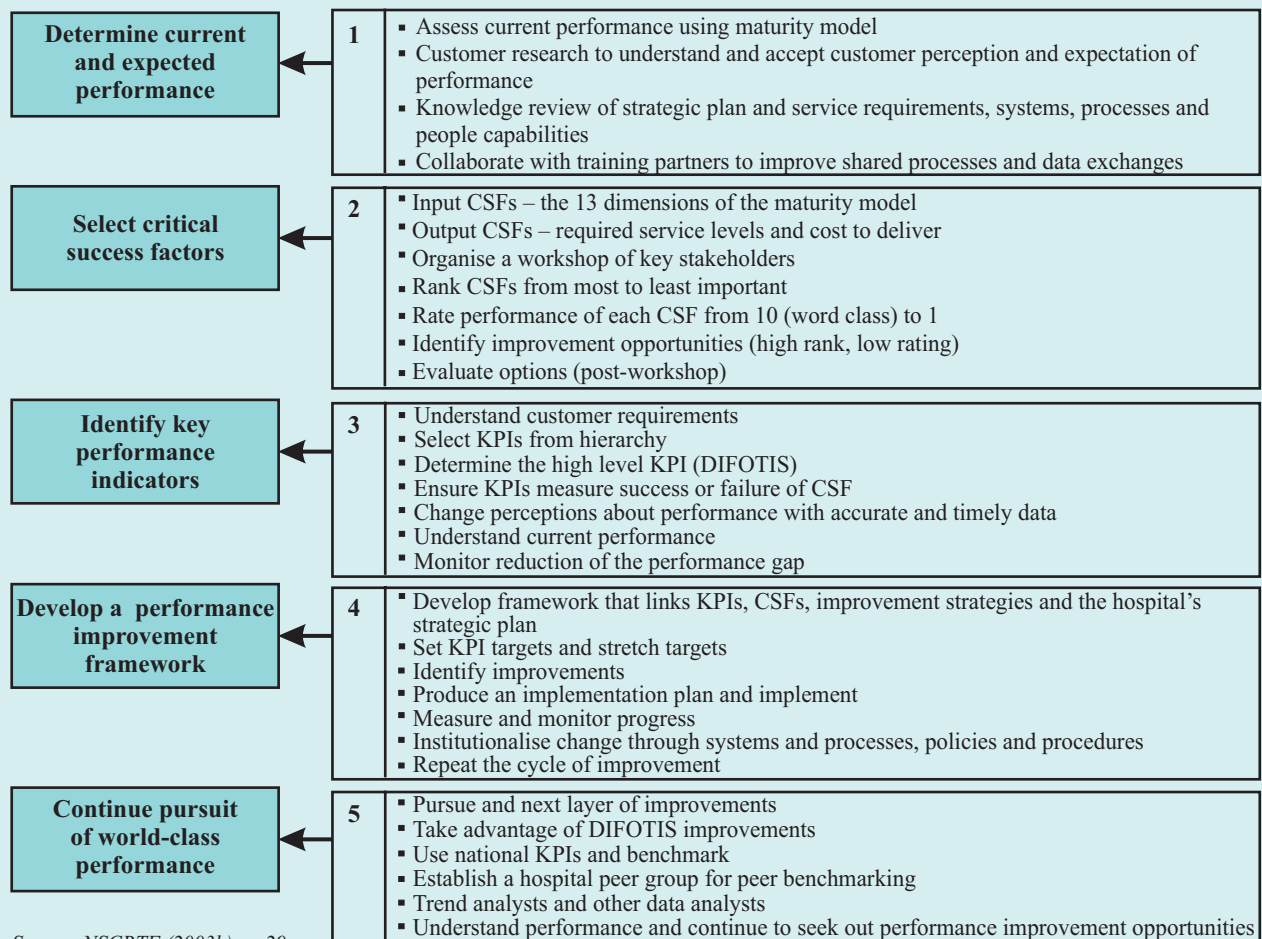
government health departments, industry bodies and suppliers. They found that performance measurement in hospital supply chains was ad hoc, subjective and not validated. They argued that accurate and effective performance measurement would not only enable the hospitals to assess their current performance; it would also help identify the need for change,

Figure 5: Benchmarking for Level 1 Health Industry

| KPI | Performance | | |
|------------------------------------|--------------|-------------|------------|
| Delivery in-full (by line) | <80% | 80-92% | 92-97% |
| Delivery on-time | <80% | 80-92% | 92-97% |
| DIFOT (in-full x on-time) | <80% | 80-85% | 88-95% |
| % | >10% | 10-2.5% | 2.5-0.5% |
| — | >5% | 5-1% | 1-0.5% |
| Total Supply Chain Management Cost | >15% | 15-9% | <9-5% |
| Cash to Cash Cycle Time | >115 Days | 115-95 Days | 95-60 Days |
| Stock Turns (Finished Goods) | <5 Turns | 5-9 Turns | 9-11 Turns |
| | Disadvantage | Parity | Advantage |

Source: NSCRTF (2003b), p. 44

Figure 6: Performance Improvement Checklist for the Health Industry



provide a tool for persuading senior management on the best allocation of resources, and could be used to assess and direct training needs and delivery. This could be used to provide continuous improvement throughout the supply chain. The objectives of the project were to:

- o enable a common understanding of critical success factors (CSFs) for hospital supply chains and a shared focus on what is required to enhance performance in these CSFs;
- o develop global outcomes and process key performance indicators (KPIs) for the total supply chain;
- o develop an agreed process for use of national KPIs;
- o develop a framework for an integrated system of local-level KPIs that reflect national goals;
- o develop a common understanding of the supply chain for costing purposes; and
- o enable the ability to benchmark cost and other performance measures.

An integrated performance measurement system in hospitals would link business priorities of the individual supply departments to those of their larger organisation, and enable managers and staff to better respond to customers' changing needs. The working group identified a three level approach to develop an integrated performance measurement system:

- o identify the business drivers for the hospital sector and changes in the hospital environment and the relationship to supply chain management;
- o use measurement to monitor whether business processes and management strategies are delivering business objectives.
- o use performance measurement information strategically to strengthen supply-chain performance.

SCM is important in improving the effectiveness of the health care industry. The purchase of supplies makes up about 20% of a hospital's costs. However, this function is typically considered to be of tactical, rather than strategic importance (NSCRTF 2003b, p. 8). Recently, the NSW auditor-general was highly critical of the lack of accountability and efficiency in the supply function in the state's hospitals (Auditor-General of NSW 2002). Some shortcomings identified were that information was either unavailable or insufficiently defined to manage the supply chain effectively, current accountability mechanisms were ineffective in driving performance, there was an inability to measure procurement costs and benefits, and there was limited capacity to integrate IT systems, share data and track products through the hospital system.⁴

The performance measurement working party developed detailed frameworks and processes that could be used by hospitals to measure and improve supply chain performance. The critical success factors defined for the sector were service quality and operational efficiency, and the main KPI was delivery (of products and services) in full, on time and in specification (DIFOTIS). Definitions were provided for a number of CSFs and KPIs, enabling individual hospitals to identify performance trends and participate in benchmarking. Figure 4 shows the hierarchy of supply-chain KPIs identified for the health sector, covering both strategic and tactical KPIs. A table containing definitions for each KPI, instructions on how to

calculate the KPI, and an explanation of the causal linkages between upper and lower level KPIs, was developed to allow hospitals to select and measure appropriate KPIs.

An outcome of these comprehensive processes was the ability to benchmark individual hospital performance with other hospitals. A difficulty that organisations face when benchmarking is a lack of consistency in the definition and measurement of performance indicators in other organisations. The NSCRTF's process provides consistency and validity for benchmarking. Figure 5 provides an example of a benchmarking report for six strategic KPIs for the health sector. The categorisation of performance statistics as disadvantage, parity or advantage is based on the performance of 30 health supply chains. Thus, a hospital that has a DIFOT measure of less than 80% is considered to be at a disadvantage, while a hospital with a DIFOT measure between 85% and 95% is at an advantage, compared to their peers in the health sector.

A five-step process was developed for managing continuous performance improvement, within individual hospitals, using a set of recommended CSFs and KPIs. This is shown in Figure 6. The framework emphasises linkages between CSFs (which should incorporate the customer and external supply-chain participants) and KPIs, benchmarking of performance in the health sector, identifying performance gaps, developing improvement strategies, implementing change and engaging in continuous improvement to achieve world-class performance. However, the benchmarking process is more detailed. It includes mapping the trade-offs against various KPIs and undertaking qualitative analyses of performance.

One hospital in the NSCRTF's study, the Royal Brisbane Hospital, was reported to have generated significant performance improvements using KPI reporting. The hospital, which formerly held high levels of inventory and made minimal use of KPIs, now places strong emphasis on continuous improvement in supply management, and emphasises KPI performance data. Inventory has significantly fallen, and measured customer satisfaction levels have increased from approximately 50% to better than 90% (NSCRTF 2003b).

Summary

The health sector performance measurement project focuses on evaluating supply-chain performance and implementing change in individual hospitals' supply chains to achieve industry-wide performance improvements. This is achieved through standardisation of processes and measurement and information-sharing. Performance improvements may consist of planning or policy developments, process improvement, and initiatives such as the development of KPIs and enabling technologies (NSCRTF 2003b). Compared with many manufacturing supply chains, an advantage of this project must have been the relative similarity of the processes, objectives and outcomes for many of the participants in the health sector.

This project illustrates how a SCM perspective can be used to address a common industry problem and how some of the difficulties associated with developing supply-chain performance measures can be overcome, through demonstrating:

- o the synergies that can eventuate through collaboration with industry partners to achieve improvements in systems and performance outcomes for individual partners that could

not have been achieved by the partners individually;

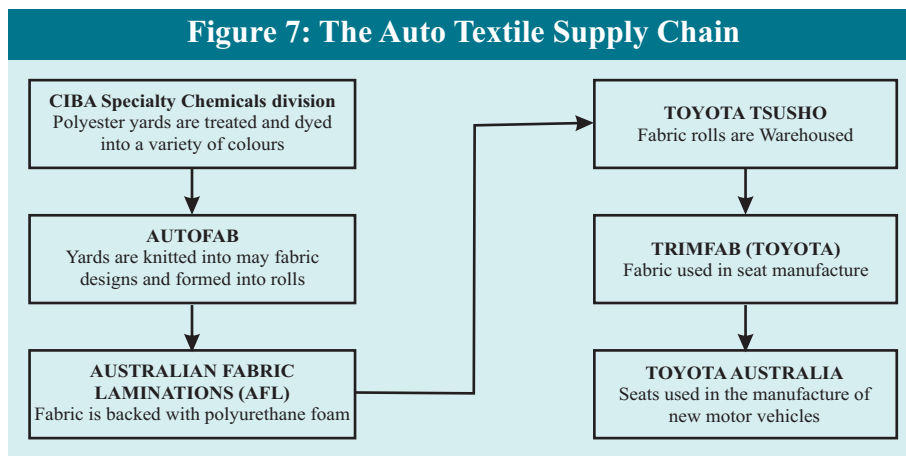
- o how performance measurement initiatives can be designed to link to the wider strategic objectives of a business;
- o how the complexity of determining business drivers, performance measures and benchmarking was overcome through the joint initiative;
- o how the difficulty of developing meaningful benchmarking data can be overcome through joint analysis and consultation, which led to normalising or standardising performance measurement data to allow valid comparisons between the various hospitals;
- o how a structured process can be used to overcome complexity of the development of measures and improvement programs;5
- o the potential for SCM performance measure initiatives to improve the efficiency of an entire industry sector.

Supply chain environmental management in the auto textile industry

In 2001, a supply-chain partnership program was formed to develop an environmental management system (EMS) for supply chains in the textile industry (DEH 2004).6 Companies involved included CIBA Australia, Autofab, Australian Fabric Laminators (AFL), Toyota Tsusho and Trimfab. The objective was to improve efficiencies and reduce waste along the supply chain for manufacturing Toyota seat covers. Figure 7 outlines the linkages in the supply chain and the various activities undertaken by each party. The objective of the program was to develop a partnership between the supply-chain participants to focus on environmental improvement through waste reduction. Specifically, the aims were:

- o to establish a system of communication on environmental issues that couples the partners in the supply chain;

Figure 7: The Auto Textile Supply Chain



- o to provide a management system that evaluates environmental impacts and waste and which develops solutions across the environmental supply chain (EMS);
- o to establish this system as an integral function of the participants' EMS efforts; and
- o to develop improvement opportunities and implementation plans (Infotech Research 2002).

The main environmental issue that arose in the analysis was the high level of waste generated at various stages of the supply chain. For example, the loss of raw materials was considerable (1,419 kilograms a day). The yield for polyester yarn was only 53% and for polyurethane foam 28%. There were limited opportunities for reprocessing laminated fabric waste, which occurred through reject rolls, trim waste and offcuts, and most waste was disposed of in landfill. A supply-chain approach was vital to reduce this wastage, as changes made by one company in the chain could affect production activities at the other companies. "Interfacial waste," which is waste generated when materials are transferred to and from the premises of supply-chain participants, was also addressed. This included 180kg of packaging waste generated each day. Other wastes, such as water and air emissions, were of secondary interest.

Waste auditing, waste streamlining, causal analysis and the development of waste reduction opportunities were applied throughout the supply chain, with a focus on finding

Table 1: Performance Measures and Targets in the Auto Textile Supply Chain

| Objective | Performance targets |
|--|---|
| Solid waste management: Reduce solid waste disposal to land fill by 10% per year | <ul style="list-style-type: none"> ■ 20% reduction in roll off-cut waste by June 2002 ■ 30% reduction in trim waste by Dec 2002 ■ 100% recycling of packaging waster by Dec 2002 ■ 100% recycling of cardboard cores by June 2002 |
| Water waste management: Washing and scrubber waste water stabilisation – no free floating layers or emulsions | Reduce waste water from fabric washing process and scrubber to COD < 500 mg/L by June 2002 |
| Air emissions: No odour or visible plume in stack emissions | <ul style="list-style-type: none"> ■ Reduce stenter fabric input to < 0.3% oils ■ Improve scrubber optimisation to eliminate visible plumes bu June 2002 |

Source: Adapted from Infotech (2000), p.19

cooperative solutions. Material waste was reduced through standardising the lengths of rolls of fabric to reduce off-cut waste, using more optimal cutting pattern layouts, and investigating ways to recycle off-cuts to avoid landfill. Initiatives to reduce packaging waste -- including boxes, plastic wrap, cardboard cores and spindles -- involved the reuse of packaging, reduced packaging, and increased pulping and recycling by external re-cyclers. Improvements that took place in one partner often had positive impacts on the performance of other partners down the supply chain. For example, standardising the length of the fabric roll produced by AFL from 22 metres to 25 metres led to a saving of 43kg of waste materials per day for Trimfab. The return of all cardboard cores to partners back along the supply chain and the recycling of packaging waste resulted in cost savings for all partners. These improvements diverted 36,000kg of waste from landfill each year.

The development of performance measures and the setting of targets and time-lines were important for encouraging change and monitoring improvements. In this project, the measures that were monitored related primarily to waste, which was the focus of the initiative. Examples of these measures and targets are listed in Table 1. However, an outcome of this waste reduction activity was considerable cost savings; for example, the saving from reduced fabric waste was estimated at \$800,000 per year.

During this project, many of the difficulties outlined earlier in this paper were found to exist, as well as some additional issues - but not all of these problems could be overcome easily.

The supply chain was a mix of small and very large firms with differing levels of sophistication of information systems, performance measurement systems and data availability. While the smaller firms did not always collect the needed performance data, the larger firms did. However, these data were not always in the form needed for the supply-chain analysis. This was overcome by the consultant setting up simple data-measuring systems to undertake analysis in the smaller firms. In the larger firms, data needed to be laboriously gathered together from various areas of the business.

Other difficulties included sustaining enthusiasm and motivation among participants, maintaining a supply-chain perspective, and creating effective communication between supply-chain partners. These issues are related. As might be expected, employees who were directly involved in the supply-chain project were also involved in routine operating activities that may have been considered more important to their organisations. Therefore, the time available for some employees to devote to the EMS initiative was limited and enthusiasm and motivation may have been difficult to sustain. In some companies, employee incentives emphasised individual company goals, and these did not always encourage a high level of motivation for the EMS project or commitment to a supply-chain perspective. Thus, effective communication between the supply-chain participants was difficult to achieve. Communication initially took the form of an Internet site where participants could share and pool performance data and monitor performance and solutions. This was not effective, and was followed by the encouragement of e-mail communications, and then finally the consultant directly met supply-chain participants to bring the analysis together.

Information-sharing between supply-chain partners was not a difficulty in this case. However, this may be a function of the nature of the data that were collected, consisting of basic cost data, waste and other physical measures, rather than profit or sales revenue data which could have been regarded as sensitive. Another advantage of this case was that the very specific focus on minimising environmental waste made process improvements achievable, and performance improvements in waste management were immediate and highly visible. However, the limited focus may also have been a barrier to gaining higher levels of commitment and visibility of the project in the partner organisations.

Summary

In this case study, environmental impacts were minimised and costs were reduced throughout the supply chain. This would not have been possible unless an industry perspective was taken -- some changes required the collaboration of several companies. Also, some of the companies were small and could not have afforded to undertake the analysis and implement the changes without the assistance of other parties. Performance monitoring was important to set expectations, encourage progress and assess improvements.

In summary, this case demonstrates the advantages and the difficulties of SCM and designing performance measures:

- o the advantages of SCM partners working together to achieve outcomes that could not have otherwise been achieved by individual partners working alone;
- o how process improvements in partners early in the supply chain can improve the performance of partners further along the supply chain;
- o how collaborative efforts can lead to new opportunities for performance improvements;
- o how the complexity of analysing and measuring performance can be avoided through focusing on a single area of concern, in this case waste reduction;
- o the difficulties of gaining cooperation and maintaining enthusiasm and motivation for the supply chain projects may be more difficult when the initiative is of limited focus and not "core" to the partners.

The EMS project encouraged some of the participating companies to continue their collaboration to further reduce material waste, improve quality and control and improve the efficiency of various production processes.

Summary and Directions for the Future

In this paper, we demonstrated the value of SCM and the need for the development of performance measurement systems that support the SCM ethos or philosophy. SCM has become a dominant way of approaching performance improvement in supply chains where interdependencies exist between partners. SCM provides a way of exploiting those interdependencies to achieve synergistic performance improvement for all parties.

It has been claimed that performance metrics are vital to achieving the advantages of SCM. However, there is only limited evidence of the development of measures that span a

supply chain. Several difficulties in achieving effective performance measures were outlined, and two frameworks for developing supply-chain performance measures were presented. However, it is unclear whether these frameworks are used in practice.

The case studies provide interesting examples of how SCM has been used in a cross-industry context to achieve very different objectives. Notably, in the health sector case, the benchmarking aspect was managed by an independent agent so there was little need for individual hospitals to share detailed information. The analysis was highly structured and managed. The auto textiles case provides an interesting example of how collaboration across a supply chain can provide an opportunity to arrive at solutions that benefit all parties. In both case studies, the outcomes could not have been achieved without a collaborative approach. Several difficulties were found, in the auto textile case in particular, which were hard to overcome, and some of these could have been a function of the very specific focus of the supply-chain project.

It appears that performance measurement in supply chains is in its infancy and there is significant work still to be undertaken in designing and implementing measures. There are several difficulties in achieving this. A clear challenge for organizations involved in SCM is to extend their focus beyond first-tier suppliers and customers to capitalise on advantages that may come from a broader supply-chain focus, and to concentrate on building closer relationships between supply-chain partners to overcome some of the difficulties in designing and developing effective performance measures. Performance measures are important in helping the benefits of SCM to be realised.

Notes

- 1 *Lean manufacturing is an approach that seeks to minimise the resources required for production by eliminating waste (non-value added activities) that inflate costs, lead times and inventory requirements, and emphasising the use of preventive maintenance, quality improvement programs, pull systems and flexible workforces and production facilities.* <http://www.bridgefieldgroup.com>
- 2 *A manager of a government-sponsored SCM program mentioned that this was a common excuse provided when the possibility of developing supply-chain performance measures was suggested. While a company may have developed a certain level of trust with first-tier customers and suppliers, this may not extend to other supply-chain participants.*
- 3 *The material for this case study was taken from publicly available documents produced by the National Supply Chain Reform Taskforce.* <http://www.healthsupplychain.gov.au/index.htm>
- 4 *This performance audit was undertaken in 2001 and 2002, prior to the performance measurement project outlined above.*
- 5 *This framework is specific to the particular consultant who facilitated the process, but is based on well-established frameworks.*
- 6 *Dr John Cummings from Infotech Research undertook this supply chain project on behalf of Environment Australia. The case material is based on discussions with Dr Cummings as well as his documentation of the project.*

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About the Authors: *Kim Langfield-Smith* is in the Department of Accounting and Finance at Monash University; *David Smith* is in the Department of Accounting and Business Information Systems at the University of Melbourne, Australia.



Foreign Remittances and Pakistan Economy: A Pragmatic Review of Abenomics

Background

Migration is an essential facet of globalization, and the number of migrants has increased considerably in recent years. Immigrants have a positive impact on the economies of their home countries through foreign remittances. Remittances are the money transferred by international immigrants to their families in their country of origin. It is not a new phenomenon and is linked with migration that has always been part of human history. It differs from other external capital flows such as foreign direct investment, foreign aid and loans etc. Foreign remittances are the most significant source of foreign exchange earnings for developing nations. In past two decades, these countries have recorded incredible surge in the inflow of remittances through considerable growth in workforce export. The rapidly flourishing economies have become important destinations for people from other parts of the world, especially from economically weak countries. The ten most important destinations for migrants are America, Saudi Arabia, Germany, Russia, United Arab Emirates, UK, France, Canada, Spain and Australia. Whereas, India, China, Bangladesh, Pakistan, Philippines, Mexico, Russia, Afghanistan, Ukraine and the UK were the ten most immigrant source countries (Factbook, 2016). Asia is the region with the largest number of migrants and during last decade annual remittances have increased by 87% to the Asian Pacific region. According to a report published by International Fund for Agricultural Development (IFAD), 80 percent of global remittances are received in 23 countries including China, India, Philippine, Mexico and Pakistan. Asia has experienced robust growth in foreign remittances in last decade with 55% of all the remittances (IFAD Report, 2016).

Remittances are critical for emerging economies to achieve Sustainable Development Goals. In 2016, people living abroad sent approx. USD574 billion to their home country. Remittances are valuable economic resources, especially for developing countries. The importance of remittances to a country's financial health depends not only on the amount of remittances, but also on its size. The countries for which remittances are economically the most important generally share two characteristics: relatively small economies and relatively large diasporas. Foreign remittances are the primary source of increasing investment and consumption in recipient countries which are the signs of economic development. States spent these remittances on poverty reduction, food, health care, educational opportunities and improved housing and sanitation

facilities. These flow to the neediest group of the population and in this way directly contribute to poverty reduction. Remittances draw positive effect even entirely consumed as these are essential for the growth of the society and can commit to higher investment in human and physical capital. But if remittances are merely used for spending not for investment as is the nature of the developing countries, then these can be non-constructive. In this case, they fail to create enough savings that are necessary for economic growth. It is evident from the literature that remittances can reduce the depth and severity of poverty in developing countries, and are associated with higher household spending on health, education and small businesses.



Dr. Babar Zaheer Butt, FCMA

Table 1: Overseas Pakistanis Living/Working/ Studying in Different Regions/Countries

| Country | Population |
|---------------------|------------|
| USA | 918,769 |
| U.K. | 1,510,836 |
| Saudi Arabia | 1,900,00 |
| UAE | 1,300,000 |
| Other GCC Countries | 579,544 |
| EU Countries | 745,000 |
| Oceania | 70,913 |
| Canada | 300,000 |
| Japan | 12,000 |
| Other Countries | 463,894 |

Source: Pakistan Missions abroad through Ministry of Foreign Affairs. <http://www.pbs.gov.pk/content/labour-force-statistics>
Final Year Book 2013-14: Ministry of Overseas Pakistanis and Human Resource Development

Table 2: Workers' Remittances from Different Regions/Countries (Million USD)

| Country | FY 2013 | FY 2014 | FY 2015 | FY2016 | FY2017 |
|---------------------|---------|---------|---------|--------|--------|
| Total | 13,922 | 15,838 | 18,720 | 19,917 | 19,304 |
| USA | 2,186 | 2,467 | 2703 | 2525 | 2444 |
| U.K. | 1,946 | 2,180 | 2376 | 2580 | 2338 |
| Saudi Arabia | 4,105 | 4,729 | 5630 | 5968 | 5470 |
| UAE | 2,750 | 3,109 | 4232 | 4365 | 4310 |
| Other GCC Countries | 1,608 | 1,860 | 2173 | 2423 | 2324 |
| EU Countries | 425 | 492 | 422 | 478 | 550 |
| Australia | 150 | 160 | 176 | 194 | 204 |
| Canada | 177 | 160 | 171 | 176 | 187 |
| Japan | 5 | 7 | 8 | 13 | 14 |
| Other Countries | 568 | 671 | 830 | 1195 | 1462 |

Source: State Bank of Pakistan (Figures rounded and summarized)

Note: Total may differ due to rounding off

Table 3: Foreign Investment (net) in Pakistan by Country-FDI & FPI (Million USD)

| Country | 2015 | 2016 | 2017 |
|---------------------|------|------|-------|
| USA | 823 | (33) | 708 |
| U.K. | 399 | (10) | (288) |
| China | 331 | 1069 | 1234 |
| Saudi Arabia | (64) | 25 | 3 |
| UAE | 225 | 113 | 34 |
| Other GCC Countries | (39) | 8 | (16) |
| EU Countries | 69 | 387 | 244 |
| Oceania | 20 | 45 | (12) |
| Canada | (26) | 13 | 36 |
| Japan | 74 | 36 | 46 |
| Other Countries | 29 | 54 | 43 |

Source: Statistics & Data Warehouse Department, SBP, Net=Inflow-Outflow.

Foreign Remittances to Pakistan and related Economic Facts

Remittances play an important role in the economies of many developing and low-income countries. Pakistan is a labor-abundant country with a high unemployment rate, so, as the neoclassical theory states, if people do not find jobs and/or wages to meet their needs, they will look elsewhere. Pakistan has had a long and rich migration history for decades. Foreign remittances were a crucial source of foreign exchange earnings in Pakistan, since 1970. During last thirty years, the country has received plentiful remittances from the millions of Pakistani's working abroad. In developing countries such as Pakistan, remittances are considered as an vital source of foreign exchange. These remittances have a positive impact on the Pakistan economy, through the improved balance of payments standing and less reliance on foreign debt. The sizable remittances also assisted to recover from the adverse effects of oil price shocks, to reduce the problem of unemployment and to improve the living standards of beneficiary families. Around 9 million Pakistanis are working worldwide. The largest concentrations of Pakistanis overseas are, 54.80% in the Middle East, 26.81% in Europe and 11.90% in the United States. They have not only contributed to the economies of the host country

Table 4: Exports and Imports by Selected Countries/Territories (Million USD)

| Country | 2015 | 2016 | 2017 | 2015 | | 2016 | | 2017 |
|---------------------|-------|-------|-------|---------|-------|---------|--|------|
| | | | | Exports | | Imports | | |
| USA | 3,961 | 3,717 | 3,681 | 1,197 | 1,480 | 2,102 | | |
| U.K. | 1,638 | 1,629 | 1,619 | 772 | 653 | 795 | | |
| China | 2,321 | 1,905 | 1,622 | 7,025 | 8,824 | 10,531 | | |
| Saudi Arabia | 496 | 448 | 359 | 3,313 | 2,060 | 2,410 | | |
| UAE | 1,296 | 1,083 | 1,063 | 7,404 | 6,086 | 7,692 | | |
| Other GCC Countries | 159 | 158 | 150 | 2,351 | 1,326 | 1,362 | | |
| EU Countries | 5,688 | 5,444 | 5,669 | 4,495 | 4,948 | 5,540 | | |
| Oceania | 238 | 258 | 300 | 382 | 350 | 454 | | |
| Canada | 242 | 231 | 236 | 289 | 454 | 434 | | |
| Japan | 246 | 197 | 205 | 1,401 | 1,398 | 1,697 | | |

Source: Statistics & DWH Department SBP



through their services but also secured remittances for their homeland. Approximately 0.84 million workforce proceeded to different countries during 2016, especially Saudi Arabia and the Middle East. (Pakistan Economic Survey, 2016-17). Foreign remittances of the country have grown from US\$15.832 billion in 2013-14 to US\$19.304 billion in 2016-17. They are the second largest source of foreign exchange after exports of the country. Bureau of Emigration and Overseas Employment is responsible for controlling and regulating emigration and looking after the interest of emigrants. Table 1 summarizes the number of Pakistanis living abroad in different countries and regions with the highest concentration in Middle East Countries.

Remittances are fundamental for developing countries, such as Pakistan, for their nurturing and for achieving sustainable development goals. Table 2 outlines foreign remittances received by Pakistan in the last five years, showing an upward trend in remittances. Middle East countries continue to be the leading source of remittances, as expected, followed by the United States and European countries.

Capital inflows play an imperative role in the country's economic health, especially in the development sector. Pakistan is no exception and depends on foreign capital investment for its major projects in the public sector. The figures in Table 3 refer to the net foreign direct investment (FDI) and foreign portfolio investment (FPI) received by the country in the last three years.

divergent from US dependence on imported capital goods. The Middle East, European Countries and Japan are other major Pakistani import destinations.

Incipient Portrayal

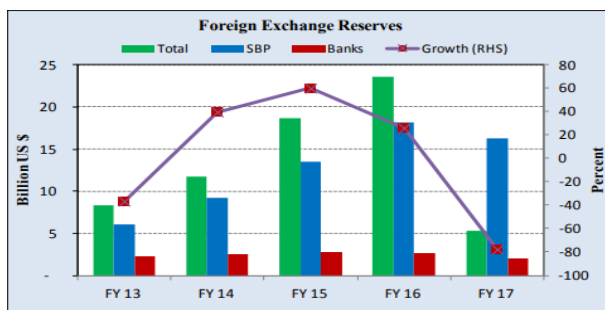
Remittances are the second largest source of foreign exchange reserves after the country's exports. Workers' remittances have tended to increase in recent years by 2016. The Middle East is the largest source of Pakistani emigrants and foreign remittances. However, in recent years, the number of Pakistani workers travelling to the GCC countries has fallen, resulting in lower remittances (2017), particularly at a time when the entire region including Kingdom of Saudi Arabia (KSA) is undergoing unprecedented political and economic changes. The decline in remittances negatively affects the country's foreign exchange reserves.

Following are some of the reasons for the recent decline in number of Pakistani workers proceeded abroad and foreign remittances:

- The slowdown in construction-related activities in GCC countries, especially in Saudi Arabia
- The decrease in oil prices
- KSA slashed its transport and infrastructure budget
- All unemployed family members of foreigners living in the KSA were taxed. Many Pakistanis cannot afford this tax, they have started coming home, and those who would like to live would not be able to send as much foreign exchange as they did before the levy.
- Kingdom's recent decision to allow its women to drive might also impact Pakistani workers, as a large number of whom are drivers, thus affect the flow of remittances to Pakistan.
- The war in Syria and Yemen has also put pressure on the economic health of GCC countries especially Saudi Arabia and UAE which may consequently affect business and job opportunities for foreign workers including Pakistanis.
- These countries are also aiming at promoting jobs for the local population.

The decline in workforce export and falling opportunities of work for overseas Pakistanis living in these countries may keep inflows to Pakistan lower. This situation stresses not only individual workers but the government itself to explore other venues with better opportunities.

Figure 1: Foreign Exchange Reserves of Pakistan



<http://www.sbp.org.pk/reports/annual/arFY17/Stats/Eng/Chapter-9.pdf>
SBP Annual Report-Statistical Supplement FY 17

Figure 2: Manpower Export of Pakistan

| Manpower export from Pakistan | | |
|-------------------------------|---------------------------------|------------------------|
| Period | Manpower export to Saudi Arabia | Manpower export to UAE |
| Cy2013 | 270,502 | 273,234 |
| Cy2014 | 312,489 | 350,522 |
| Cy2015 | 522,750 | 326,986 |
| Cy2016 | 462,598 | 295,647 |
| Cy2017 (Jan-September) | 112,366 | 209,930 |

Source: Bureau of Emigration and Overseas Employment

Increasingly, China is becoming the country with the highest net FDI and FPI in Pakistan under the guise of the Pak-China economic corridor, followed by the United States, European Countries and Japan.

The situation is not very different in the export and import of Pakistan from these countries and regions in comparison with other economic links. China is becoming the primary destination for Pakistani importers because of the economic relations enriched by the Pakistan-China economic corridor and

Three-arrow strategy, Abenomics, refers to the economic policies presented by Shinzō Abe, the Japanese Prime Minister. The Economist has characterized the program as a "mix of reflation, government spending, and a growth strategy that would stimulate the economy out of stagnation that has clasped it for more than two decades. The policy is based on following three attributes (OECD, 2015):

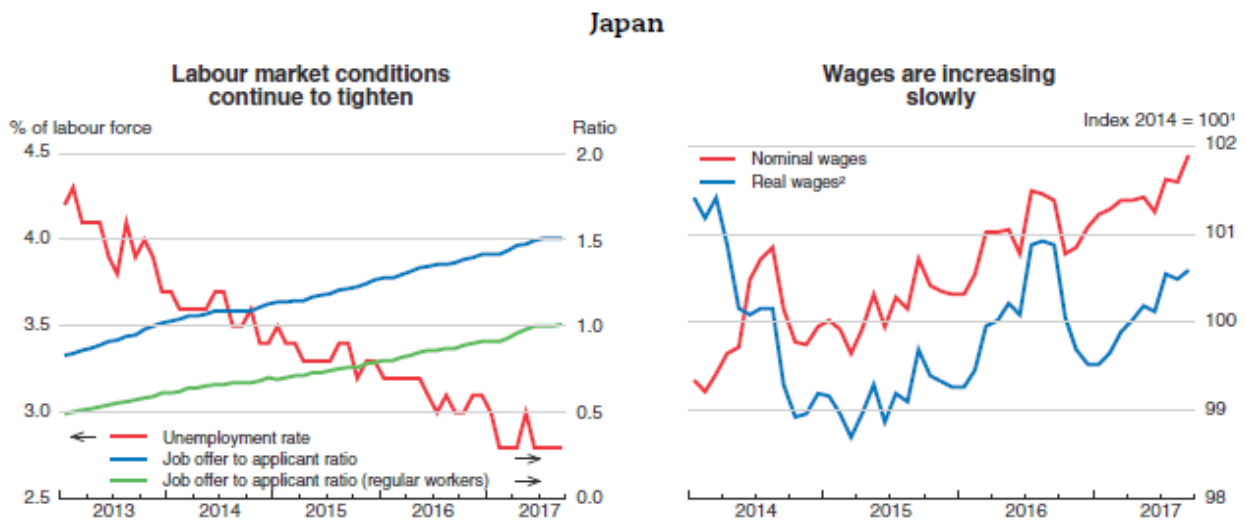
- Bold monetary policy or monetary easing
 - Monetary expansion to increase inflation to 2% target
 - Quantitative and qualitative easing (QQE)
- Flexible fiscal policy
 - Curtail government spending and raise revenues
 - Single rate consumption tax and expanding the personal and corporate income tax base
 - Reform pension, health and long-term care to limit spending growth
 - Breakdown of labor market duality by increasing social security coverage and improving training programs for non-regular workers
- Growth strategy through structural reforms
 - Reduce the declining trend in the workforce by increasing foreign labor and women's employment
 - Participate in high-level trade agreements with different countries
 - Enrich business climate to boost productivity growth
 - Promoting corporate governance
 - Encouraging labour market flexibility and mobility
 - Improving enterprise climate and developing entrepreneurial education.
 - Revitalizing venture capital investments to stimulate start-up and innovation initiatives

- Reduction in state support for SMEs to promote the restructuring of sustainable enterprises and closure of non-viable ventures.
- Shift to a more market-oriented agricultural system through measures such as reducing commodity-specific payments to farmers, accelerating land consolidation and reforming the role of agricultural cooperatives.

One of the central reforms of the Japanese revival strategy is to attract foreign talent in a society where foreign workers play an active role. The Japanese working population (15-64) is falling by more than one million a year and is predicted to decline by 17 percent by 2030 and almost 40 percent by 2050 (OECD, 2015). Foreign workers are less than 2% of the Japanese labor force, well below the average of 10% in European countries and 16% in the United States. The net external labor inflow dipped from 76,000 in 2009 to 35,000 in 2013 (0.03% of the Japanese population) including high-skilled workers who enter Japan on a points-based system. Principally, Japan does not accept low-skilled workers, although foreign trainees (about 140,000) are allowed to stay for three years. Extending use of foreign labor will help to reduce the downward trend in the Japanese workforce. It is hoped that employment will hit its peak in 2018 with the decline in the working age population (Japanese Economic Forecast, November 2017).

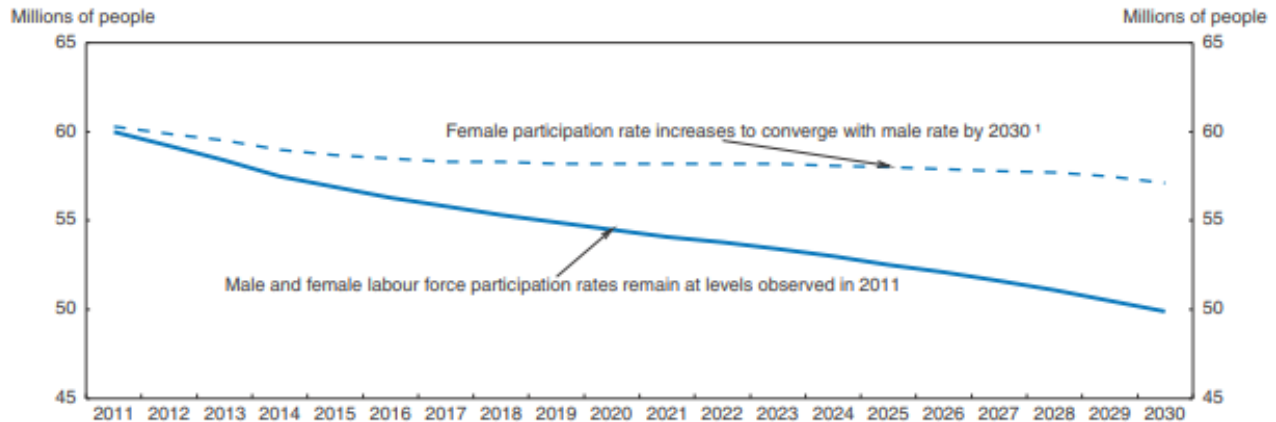
Another critical area is improving the standard of universities and strengthening their links with business and extending their international cooperation for innovation. The number of Japanese universities among the top 500 in the world (compared to GDP) is significantly below the OECD average in 2014, suggesting room to improve quality. The key to quality improvement is to promote the internationalization of universities and strengthen competition. International students count only 4% of the total students in Japanese universities in 2012 which is half of the OECD average of 8%. The number of foreign universities campuses in Japan dropped from 40 in the

Figure 3 & 4: Labor Market Conditions in Japan



1. Seasonally-adjusted data (three-month moving average) based on establishments with 30 or more workers.
 2. Deflated by the consumer price index, excluding rent.
 Source: OECD Economic Outlook 102 database; OECD calculations; and Ministry of Health, Labour and Welfare.

Figure 5. Increasing female employment can help avoid looming labour supply shortages
 Projected size of the labour force, working-age population (15-64)



1. Assuming that the labour force participation rate for men remains constant from 2011 to 2030.
 Source: OECD (2014d).

1990s to 5 at present. Internationalization of education sector can be achieved by boosting the number of international students in Japanese intuitions and stimulating the formation of further foreign universities in Japan.

The Future Prospect

On the eve of declining labor exports and remittances from Middle East countries, it is time to look for alternatives. Pakistan has plausible economic relations with Japan, as evidenced by the above facts. However, the extent of bilateral economic and trade ties, including the export of labor, is not even close to the size to which the world's third-largest economy can offer. There is a great need to work on bilateral relations between two countries, especially when the Middle East is undergoing a particular political and economic restructuring and the relations between the PAK and the United States are also in a new phase. Japan is facing a shortage of labor force because of the ageing of the working class, as evident from below. Under Abenomics, there are two strategies for overcoming the labor shortage: the expansion of foreign workers and the enrollment of international students in Japanese universities that can be hired as non-regular/part-time workers.

Pakistan is a country with a large labor force and a relatively high unemployment rate. The population's composition is sloped towards working age group, with 61.4% of the population falls in the age group of 15 to 59 years. This demographic dividend can be better used for economic growth and the export of labor in the years ahead through appropriate education, skill development and vocational training (Pakistan Economic Survey 2016-17). According to the Japan External Trade Organization (JETRO), Pakistan is considered as the leading Asian country for Japanese companies for expanding operations and hiring local labor. This indicates high confidence of Japanese companies in Pakistan's future economic prospects and the quality of the workforce. Now, it is the responsibility of government authorities to make the most of the potential opportunities in the Japanese economy. The skilled workforce can be exported to Japan in accordance with its legal and technical requirements, and students are encouraged to obtain admission in Japanese educational institutions. A coordinated effort is required from the National Vocational and Technical Training Commission (NAVTTTC), Technical Education and

Vocational Training Authority (TEVTA), Skill Development Council (SDC) and other institutes, for development skills and certification of workforce according to international/Japanese standards. These migrants can work as regular and non-regular workers, which will not only assist in resolving the problem of the ageing workforce in Japan but will also contribute to the economic growth of their home country. The government should provide comprehensive information to prospective migrants and students and also enable them to obtain jobs in Japanese companies and to be admitted to educational institutions respectively. This will help in addressing the potential decline in labor export and remittances of the country.

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About the Author: Dr Babar Zaheer Butt is a Post Doctorate Research Fellow at Graduate School: Tohoku University of Community Service and Science, Japan. He is Fellow Cost and Management Accountant (FCMA) and Fellow Public Finance Accountant (FPFA).



Tax-to-GDP Ratio: A Key Benchmark to Measure a Country's Financial Health

By Atiq Ur Rahman, FCMA

Tax-to-GDP ratio is one of the key benchmarks to measure the financial health of any country and it represents the tax revenue collected by the Government plus the Gross Domestic Product (GDP) of the country. The Tax revenue comprises of all compulsory payments made to the Government such as income tax, withholding tax, sales tax, GST, custom duty, excise etc. whereas the 'GDP' is defined as the market value of all final goods and services produced in a given period of time by all the people and companies in the country. The tax-to-GDP ratio is a key measure of the degree to which a government controls a country's resources and it gives policymakers a measure to compare tax receipts from year to year. Slowing economic growth will mean lower GDP growth and also lower tax collection. On the other hand, increasing economic growth indicate higher GDP growth and more tax collections. The jurisdictions have higher tax-to-GDP ratio also signify heaviest tax burden countries.

As can be seen from the given Chart, the tax collections as a percentage of GDP in OECD countries is increasing and in 2016, it averaged 34.3 percent. Denmark leads the other OECD countries with 45.9% tax to GDP ratio whereas USA stands at 12th position in the list with only 25.5% ratio.

Tax-to-GDP ratio in Pakistan

As per the Economic Survey of Pakistan for 2017-18, the tax-to-GDP ratio remained within the narrow range of 9.1 percent to 10.2 percent of GDP between FY2008 and FY2012 largely due to structural weaknesses in the tax system. Since 2013, the tax-to-GDP and revenue-to-GDP ratios have witnessed a marked improvement.

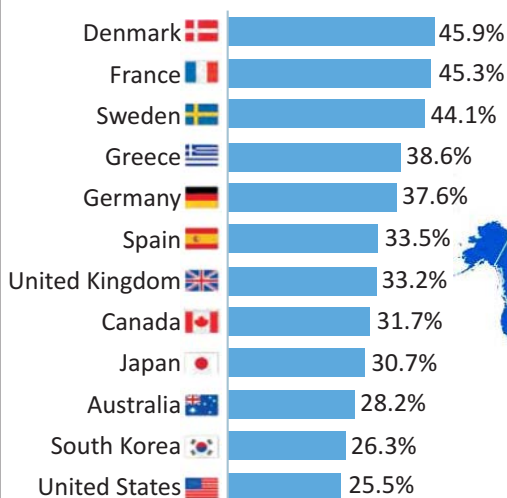
The present government has taken a number of policy and administrative reforms in order to tackle the low tax revenues with objective to improve the effectiveness and fairness of tax administration, promote compliance and broadening the tax base. It is expected that the dividends of these measures will be seen in the near future in shape of improved tax revenue in terms of GDP.

As can be seen from the above table, the overall tax-to-GDP ratio has increased from 9.8% in 2013 to 12.6% in FY 2016, however it went down to 12.4% in FY 2017 on account of relief measures and tax incentives introduced through the Federal Budget 2017.

As per State Bank of Pakistan Report, the growth in direct and indirect tax collection by FBR decelerated to 10.3% and 6.5% in FY 2017 as compared to respective growth rates of 17.8% and 21.8% in FY 2016. The slower growth in tax collection was due mainly to tax incentives provided to support exporting industries,

The Countries with The Heaviest Tax Burdens

Tax as a percentage of GDP in 2016 (selected OECD countries)



* Data for Australia and Japan refer to 2016
Source: OECD



Tax-to-GDP ratio of Pakistan [FY 2007 to FY 2018]

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 (e) |
|------------------|------|------|------|------|------|-------|------|-------|-------|-------|-------|----------|
| Tax-to-GDP ratio | 9.6% | 9.9% | 9.1% | 9.9% | 9.3% | 10.2% | 9.8% | 10.2% | 11.0% | 12.6% | 12.4% | 13.7% |

Note: The above table includes both Federal and Provincial Tax-to-GDP ratios

agriculture and investment in the economy. As a consequence, tax to GDP ratio declined to 12.4% after rising consistently to 12.6% by FY16 from the low of 9.3% in FY2011. The tax to GDP ratio in FY17 was also significantly lower compared to 12.9 percent target for the year.



Reasons for Low Tax-to-GDP ratio

There are many potential reasons for comparatively low tax-to-GDP ratio in Pakistan as compared to other countries which adversely impacts tax collections. Some of these reasons are summarized below:

1. Low per Capita income
2. Low direct tax base
3. Less equitable distribution of national income
4. Parallel and underground economy
5. Vast unorganized sector
6. Tendency for Tax evasion and payment
7. Tax exemptions and subsidies to different sectors
8. Tax amnesty schemes
9. Corruption
10. Sales tax frauds e.g. flying invoices, fake import declarations etc.
11. Non-availability of robust IT infrastructure
12. Inconsistency in economic policies

The tax revenues are highly skewed towards indirect taxes which account for about two thirds of tax revenue. The share of direct taxes has increased to about 38% in recent years from a meager 18.5% during the first half of 1990s but it is still unfavorable compared to other developing countries. The low level of direct tax mobilization is due to weak compliance and enforcement and abundant tax exemptions. Provincial tax revenues also remain small as agriculture, services and real estate sectors remain significantly under-taxed.

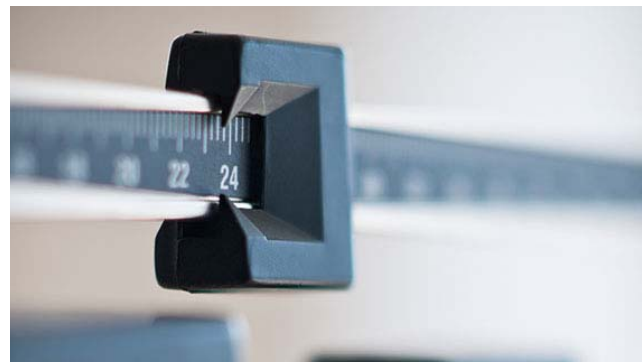
Measures needed for improving low Tax-to-GDP ratio

According to latest Tax Directory, only one third of companies registered with the SECP file income tax returns. It clearly

provides evidence of significant tax evasion in the organized sector. The Pakistan Vision 2025 also include increasing tax-to-GDP ratio as one of the goals related to external sector, in addition to FDI, exports, ease of doing business, ranking and global competitiveness index ranking, Diaspora investment, remittances and per capita income.

FBR has initiated different administrative and enforcement measures to broaden tax base and increase tax-to-GDP ratio, in addition to introducing a simple mechanism for bringing new taxpayers into the tax net. However, a lot more is to be done by FBR and government to bring structure reforms to broaden tax base and create more avenues for revenue collection and simplifying the complex tax system. FBR need to take concrete measures to bring the undocumented and under-taxed sectors into the tax net, especially the affluent class for reducing tax burden on low income groups.

There is need for bridging the tax policy gap as well as tax gap arising from weak enforcement. Minimal use of tax exemptions is needed to refine the existing taxes and to provide level playing field for all sectors of economy. At the same time, it is crucial to strengthen the current enforcement mechanism by enhancing administrative efficiency and capability as well as improving taxpayer compliance through taxpayer services and education. In this context, it is important to strengthen the tax investigation system to create deterrence against tax evasion and bridging the tax gap.



Finally, the entire flawed taxation system need to be revamped in order to improve the tax-to-GDP ratio. The tax procedures should be simplified and taxpayers be motivated to comply voluntarily. The fear to pay taxes need to be removed through awareness and friendly behavior of tax officials.

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About the Author: Mr. Atiq ur Rahman is working as manager finance at MTC. He is fellow member of ICMA Pakistan with diversified experience of more than 15 years in audit, taxation and finance. To further explore finance he is doing MS(Finance) from Muhammad Ali Jinnah university, Karachi.



Excess Borrowing – Solution or Foreign Trap

Government sources reveal that economic crises in Pakistan is touching alarming heights due to which, for the success in general elections of 2018, it has extremely been difficult for the government to keep the prices arrested at reasonable and acceptable limits. The government, in absence of the Finance Minister, is being run by bureaucracy. Circular debts on the country have reached to the maximum. The government of Pakistan, for keeping the financial deficit in control, has requested to Saudi Arabia to supply petrol on credit in reciprocation of 'political support'.

Acute shortage of Furnace Oil has culminated again into load shading on the large scale in the country. Cause of load shading in Punjab is being attached to Smog which has never been the cause of load shading in the past.

In September 2017, the volume of circulating debts exceeded to Rs. 800 billion. Recently, petroleum products prices have been raised by 200 percent for raising tax revenue. This price hike has no concern with international oil price oscillations.

The financial crises, no doubt, will bring energy and power crises because oil import will be dropped to the minimum due to monetary short fall and load shading will be maximum. Though the financial crises and Smog are being considered as the cause of load shading but this fact is oversight that the power generating plants running on furnace oil have already completed their life years back. These outdated plants drink oil rather to consume. Consequently cost of power generation increases. On the other hand, the government is now not in a position to grant subsidy on electric consumption. This is the reason behind the efforts being made to fill the negative financial gap through rise in tax rates.

During first two months of financial year 2017-18, exports from Pakistan amounted to 3.5 billion dollars while imports reached to 9 billion dollars. Total trade deficit during July-August 2017 was 6 billion dollars; 33 percent higher than that of preceding year.

Foreign exchange reserves of Pakistan have dropped below 14 billion dollars. Moreover, remittances sent by Pakistanis working abroad are also being decreased gradually. In combination with all these imbalances, aggregate deficit is increasing due to which current account deficit has reached to 2 billion and 60 million dollars. The current account deficit

indicates that Pakistan consumes more and earns less. Consequently, income-consumption negative gap is being bridged up by borrowing. According to a cautious estimate, Pakistan pays annually 6 billion dollars towards repayment of loans for which dollars are needed. Remitted dollars are hardly sufficient for paying against imports and debt services. Government of Pakistan has been



Prof. Saeed Ahmad Siddiqui

planning for negotiating loans from IMF which, no doubt, will make the ideological base of the country weaker

Annual debt payment is higher than the defense budget of Pakistan. Year 2016 was the record of borrowing from abroad when foreign loans on Pakistan reached to 72.98 billion dollars (7.4 trillion rupees). During 2016, Government of Pakistan borrowed 7.9 billion dollars; more than the previous year. In addition to this, 3.1 million rupees were also borrowed from local commercial banks. If foreign and local loans are added together, apart from loans from China, amount of total borrowing reached to 55 billion dollars during the last 3 years.

Economists opine that in case of continuation of current rate of borrowing, it is expected that the foreign loans will exceed to 75.54 billion dollars or 7.9 trillion rupees. On the other hand, Next year we will have to repay the foreign loans to the international financial institutions worth 11.5 billion dollars.

According to the experts, repayment of loans with loan strategy of the government of Pakistan, foreign loans may reach to the extent of 79.35 billion dollars or 8.3 trillion rupees and with the beginning of 2020, 87.1 billion dollars or 9.12 trillion rupees.

About the Author: The writer is the most senior faculty member of ICMA Pakistan and teaching 'economics' since last forty years at Karachi Campus.



Economy Watch

Compiled by Research and Publications Directorate, ICMA Pakistan

Imports touch record high of \$60.898 billion in FY18

The imports of the country increased by 15.10 percent in the last fiscal year, touching a record high of \$60.898 billion compared to \$52.910 billion in the same period last year. The country's exports slightly enhanced by 14 per cent in the last fiscal year to \$23.228 billion compared to \$20.422 billion in the same period last year.

Exports increased as per market expectations, but the imports are still out of control despite all measures taken by the government. The government machinery including the ministry of commerce had used all tactics to overcome the country's import by imposing huge taxes on 731 items, but they failed to control imports. The trade deficit of the country stood at \$37.670 billion in FY18 compared to \$32.488 billion in the same period of FY17.

The previous government had originally forecast the deficit for FY18 to be in the region of \$25.7 billion and in April it was revised upwards to \$29.4 billion. Ironically, the final trade deficit figure was \$12 billion over what was originally projected by the Ministry of Finance. These latest figures have heightened worries about the long-term viability of the external sector, which the previous PML-N government maintained by getting loans from commercial banks and foreign countries.

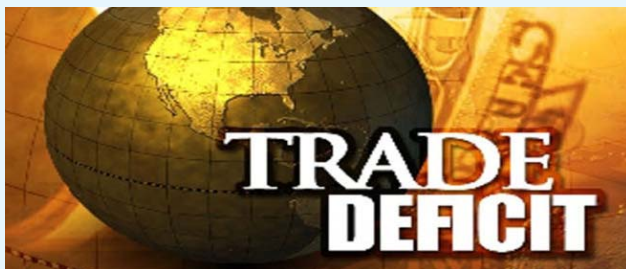
Experts believe cheap imports from China are also impacting import-substitution industries. Due to widening trade deficit, Pakistan's balance of payments is forecast to deteriorate to levels never imagined by the finance



ministry. Also, the current account deficit is projected to surpass the \$16 billion mark, which was recorded in May 2018 of FY18.

The import bill couldn't be reined in even after three round of devaluations, but it added Rs1.190 trillion in public debt as per Director General Debt Office's statistics. And in real terms, imports were \$8 billion higher than last year. For June, the trade deficit rose 46.1 percent compared to June 2018 and this was largely because of record imports worth \$5.7 billion, revealed PBS data. The trade deficit for June 2018 was recorded at \$3.8 trillion, which was \$1.2 billion more than the deficit in June 2017. During June, imports witnessed a 26.2 percent rise, touching \$1.9 billion against exports which recorded a 1 percent fall to only \$1.9 billion

Trade deficit enhances by 16pc to \$37.6bn



The country's exports slightly enhanced by 14 per cent in the last fiscal year to \$23.228 billion compared to \$20.422 billion in the same period last year. Exports

increased as per market expectations, but the imports are still out of control despite all measures taken by the government.

The imports of the country increased by 15.10 per cent in the last fiscal year, which jumped to \$60.898 billion compared to \$52.910 billion in the same period last year.

The government machinery including the ministry of commerce had used its all tactics to overcome the country's import by imposing huge taxes on 731 items, but they failed to control imports. The trade deficit of the country is stood \$37.670 the last year 2017-18 compared to \$32.488 billion in the same period of 2016-17.



REGULATORY WATCH

SECP notifies Regulations regarding further issue of shares

The Securities and Exchange Commission of Pakistan (SECP) has notified draft regulations regarding further issue of shares by companies.

Currently, companies issuing shares by way of right issue, bonus issue, other than right, shares having differential rights & privileges, shares at discount or employee stock option schemes are required to comply with the requirements of the Companies Act, 2017. However, for right issue and bonus issue by listed companies, in addition to requirements of Act, compliance with applicable requirements of Companies (Issue of Capital) Rules, 1996 and Guide on issue of shares otherwise than right is mandatory. Similarly, companies issuing different kinds of shares with varied rights and privileges are required to comply with the requirements of the Act and Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000. Moreover, public companies issuing Employee Stock Option Scheme under the Act are required to comply with the requirements of Public Companies (Employees Stock Option Scheme) Rules,

2001 and Guidelines for the Structuring and Offering of the Employees Stock Option Schemes, 2016. In addition to the above, companies are required to comply with certain directives, periodic disclosure and reporting requirements.

The Commission has therefore notified draft Companies (issue of further shares) Regulations, 2018 with a view to cogently consolidate relevant requirements of the Act, varied directives and specifying certain additional conditions/ requirements. The said draft Regulations have been placed on the website of the SECP for soliciting public opinion. Stakeholders are encouraged to provide their comments through post or through email to ccg@secp.gov.pk.

The Regulations are aimed at streamlining all legal and procedural requirements for issue of further capital, optimum disclosures by companies to all stakeholders and protecting the rights of shareholder.

SECP approves Employee's Contributory Funds (Investment in Listed Securities) Regulations, 2018

The Securities and Exchange Commission of Pakistan (SECP) has introduced Employee's Contributory Funds (Investment in Listed Securities) Regulations, 2018. The new regulations are aimed at improving safety regime for the employees contributing to various contributory funds while keeping in view the growth perspective of the return on such funds. Previously, the employees' contributions were regulated under the Employee's Provident Fund (Investment in Listed Securities) Rules, 2016. The Companies Act, 2017, enhanced the scope of investment out of various contributory funds, instead of just provident fund. This necessitated the notification of the Employee's Contributory Funds (Investment in Listed Securities) Regulations, 2018. The new regulations were prepared after extensive consultations. With continuous innovation in equity and debt markets and development of new products by non-banking finance companies for better returns, contributory funds now have better choices available in the market. As risk and return go hand in hand, the SECP with a view to protecting the hard-earned money of the employees' has notified these regulations. The new regulations prescribe requirements regarding investment out of contributory funds maintained by the companies. They have also addressed major issues of the market participants comprehensively. With respect to risk coverage and enhancement of employees' wealth, the

average total return formula has been replaced with dividend payment of 15% in 2 out of 3 preceding consecutive years. Moreover, three separate asset classes have been introduced, i.e. money, debt and equity market.

In the new regulations, the sector-wise investment limits have been introduced along with security-wise limits on investments other than investment through collective investment schemes. The assigned minimum rating of AA on bonds, redeemable capital, debt securities or instruments issued by a statutory body or listed debt securities has also been reduced/ revised to A instead of AA.

A sub-regulation regarding appointment of investor advisor for direct equity investment of Rs50 million and above has been introduced. In addition, the trust or funds are advised to amend the trust deed and include a clause providing one time option to the new employees for either allowing or not allowing the fund or the trust to make any investment out of their contributory fund or trust under these regulations.

The duly approved regulations has also been placed on the SECP's website, which can be downloaded from the following link www.secp.gov.pk/document/sro-731-i-2018-notification-to-employees-contributory-fund-investment-in-listed-securities-regulations-2018

GLOSSARY

Management Accounting Terms

| | |
|--|---|
| Activity flexible budget | The prediction of what activity costs will be as activity usage changes. |
| Binding constraints | Constraints whose resources are fully utilized. |
| Committed fixed expenses | Expenses incurred for the acquisition of long-term activity capacity, usually as the result of strategic planning. |
| Discretionary cost | A cost that results from a discretionary management decision to spend a particular amount of money. |
| Exchange gain | A gain on the exchange of one currency for another due to depreciation in the home currency. |
| Firewall | A computer or information router placed between a company's internal network and the internet to control and monitor all information between the outside world and the company's local network. |
| Goal congruence | The alignment of a manager's personal goals with those of the organization. |
| Half-year convention | The assumption that a newly acquired asset is in service for one-half year of its first taxable year regardless of the date the service actually began. |
| Independent variable | A variable whose value does not depend on the value of another variable. For example, in the cost formula $Y = F + VX$, the variable X is an independent variable. |
| 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. |
| Learning curve | A graphical expression of the decline in the average labor time required per unit as cumulative output increase. |
| Margin of safety | The units sold or expected to be sold or sales revenue earned or expected to be earned above the break-even volume. |
| Net realizable value | A joint product's final sales value less any separable costs incurred after the split-off point. |
| Operating Income | Revenues minus expenses from the firm's normal operations. Income taxes are excluded. |
| Plant-wide overhead rate | An overhead rate calculated by averaging manufacturing-overhead costs for the entire production facility. |
| Quick assets | Cash marketable securities, accounts receivable and current notes receivable. Excludes inventories and prepaid expenses, which are current assets but not quick assets. |
| Responsibility center | A segment of the business whose manager is accountable for specified sets of activities. |
| Secondary activity | Activity that is consumed by primary activities and / or other secondary activities. |
| Timely information | Data that is available in time for use in a decision analysis. |
| Unit-level activity Drivers | Factors that measure the consumption of unit-level activities by products and other cost objects. |
| Variable overhead efficiency variance | The difference between the actual direct labor hours used and the standard hours allowed multiplied by the standard variable overhead rate. |
| Working capital | Current assets minus current liabilities. |
| Zero defects | A quality performance standard that requires all products and services to be produced and delivered according to specifications. |



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