The official flagship Journal of ICMA Pakistan

MANAGEMENT ACCOUNTANT

This issue features ……………

- An exclusive write-up on Tax Reforms Agenda
- Proposed Reforms and Priority Action Plan for new Government by ICMA Pakistan
- Five focus articles by ICMA Pakistan's Members
- Survey Report on Expectations from the new Government

Exclusive Interviews

Ehsan Malik
CEO, Pakistan Business Council (PBC)

Usman Hayat
CEO, Audit Oversight Board (AOB)

"ICMA Pakistan optimistic about Finance Minister's capabilities to steer the country out of present economic crisis"

Economic Agenda
for the New Government

Volume : 27.5
Sep-Oct 2018

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

O you who believe, do not devour each other's property by false means, unless it is trade conducted with your mutual consent. Do not kill one another. Indeed, Allah has been Very-Merciful to you. (29) Whoever does that out of aggression and injustice, We shall cast him into the Fire. This is an easy thing for Allah. (30) If you abstain from the major (sins) out of what you have been forbidden from, We shall write off your minor sins, and shall admit you to a noble entrance. (31) Do not covet something in which Allah has made some of you superior to others. For men there is a share of what they earned, and for women, a share of what they earned. Pray to Allah for His grace. Surely, Allah is All-Aware of everything. (32)

(Surah An-Nisa, Ayat 29 to 32)

Translation : Mufti Taqi Usmani
http://www.quranexplorer.com

Respecting the sanctity of the Qur'anic verses is the duty of all of us

قرآنی آیات کا احترام ہم سب پر فرض ہے۔

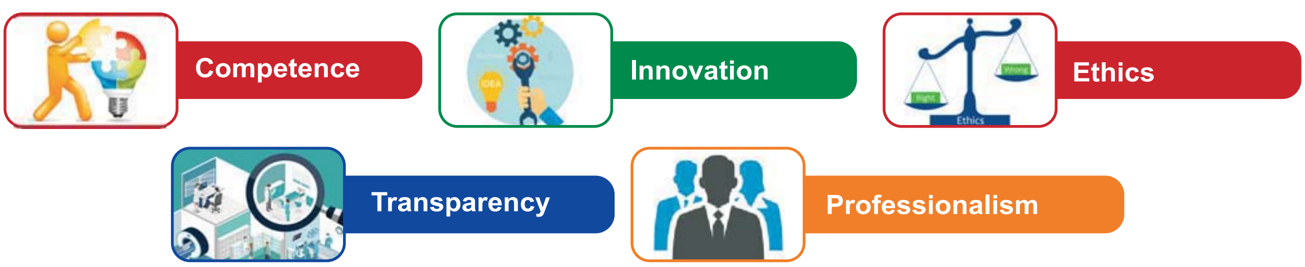
Vision

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



This Journal is also available on ICMA Pakistan's Website : www.icmap.com.pk/management_accountant.aspx

MANAGEMENT ACCOUNTANT
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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

Our Next Issues

Nov-Dec 2018
Big Data Analytics and the Finance Professionals

Jan-Feb 2019
Public – Private Partnership

Mar-Apr 2019
Institutional Reforms and Governance

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

Volume : 27.5 I September-October, 2018

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ICMA Pakistan

from the Desk of President

Pakistan is South Asia's second largest economy but due to persistent economic mismanagement, the country is passing through challenging times at the moment. The new Government which has assumed office just three months back is facing the predicament of tackling the acute balance of payment crisis and huge financing gap, which according to IMF assessment stands in the range of $10 to $12 billion. IMF further predicts that the budget deficit would cross 6 percent of GDP during current fiscal year.

In the above backdrop, the government is looking out for different options for revenue generation, which also includes approaching the IMF for bailout package. If we finally get a deal from IMF, we would have to compromise on IMF conditionalities such as currency devaluation, imports liberalization, sharp hike in gas and electricity rates; increase in interest rates and disclosing loans under CPEC projects. The currency devaluation condition would certainly result in hike in prices of all commodities in the country. The general public is already much perturbed due to recent increase in gas prices and any further hike in gas and electricity prices would make their life miserable and difficult; and could also lead to public agitation. On the other hand, the conditions of imports liberalization and increase in interest rates would also tend to destroy our local industry and badly impact the flagging economy.

It is good to see that in this dismal economic scenario and anticipating tough IMF condionalities, the Prime Minister Imran Khan is exploring other options as well and his recent visits to Saudi Arabia and China is a step in this direction. It is heartening that Saudi Arabia has pledged to deposit $3 billion directly as balance of payment support and another one year deferred payment facility of upto $ 3 billion for oil imports. ICMA Pakistan is of the viewpoint that with the assurance of US$ 6 billion overall financial support from Saudi Arabia, Pakistan would now be at vantage and an improved position to negotiate with the IMF. This would also provide a breathing space to the government to implement its economic reforms which would take around six months to one year to yield results.

ICMA Pakistan is continuously in touch with the Government through its various ministries and regulatory bodies to supplement its efforts in salvaging the country from the present deep economic crisis. We have assured the government representatives during our interaction with them at their offices as well as in different programs of the Institute where they were invited as Chief Guests; that ICMA Pakistan would always be at their disposal for any technical and professional guidance and support. We have received an encouraging response from the policy makers and in this context we were suggested to provide some pragmatic ideas and proposals for improving governance and productivity of Public Sector Companies (PSCs). Accordingly, the Institute organized 'Expert Forums' at Karachi, Lahore, Islamabad, Peshawar and Quetta where some concrete suggestions were put forward by our members and other public sector experts. These proposals are under compilation and would be submitted to government for consideration.

I am happy to know that the Research and Publications Committee of National Council has also drafted a set of 'Priority Action Plan for the first-quarter of new Government' which covers almost all the spheres of the economy. These proposals would also be presented to the Federal Finance Minister personally. I am sanguine that the government would give special consideration to our proposals.

I hope that our members will appreciate the initiatives that the current National Council have taken and would extend their whole-hearted cooperation and support by providing us their valuable input and suggestions on how our Institute and its members can assist the government in different spheres.

Zia ul Mustafa, FCMA
President ICMA Pakistan

ICMA Pakistan

from the Desk of Chief Editor

As the new PTI-led Government took charge of office, the Research and Publications Committee took a proactive stance by not only developing a first quarter priority action plan for the government but also deciding to bring out the current issue of Management Accountant on the theme of 'Economic Agenda for the new Government'. The priority action plan covers some actionable suggestions under 15 different heads which are being published in this issue for the consumption of all stakeholders including members and students of the Institute; other professionals, economic experts, researchers; government officials; trade and industry and journalists. I would like to put in place my deep appreciation to R&P Committee, supported by R&P Directorate for developing this useful document which contains diversified solutions for tackling the present issues facing our national economy, that could be worth consideration by the government.

A Survey was conducted to get an initial feedback of our members on their expectations from the new Government. Albeit judging any Government's performance over a short span of its governance seems premature, the purpose of this survey was to capture a snapshot of the expectations of members on how the new government is faring and how much are they confident that this government would deliver, especially in dealing with current economic issues. The report of this survey is part of this issue. I hope the readers would find the outcome of survey quite interesting.

The exclusive interview section features two interviews of Mr. Ehsan Malik, CEO of Pakistan Business Council and Mr. Usman Hayat, CEO of Audit Oversight Board. We are really thankful to both these dignitaries for sharing their viewpoints with ICMA Pakistan on the subjects falling under their purview. We look forward to transform these interactions into concrete collaborations for mutual benefits.

In the Focus Section, we are delighted to receive and publish an exclusive article, co-authored by Dr. Ikramul Haq and Huzaima Bukhari, renowned lawyers and writers, in which they have proposed agenda for tax reforms which is worth reading for our members, especially those who are in practice and doing tax consultancy. Mr. Badruddin Ahmed Quraishi, a Fellow member of ICMA Pakistan and currently serving as an Inland Revenue Commissioner at LTU, Karachi has also contributed a very insightful write-up on 'Reforming Tax System and Administration' based on his over 9 years work experience with the FBR, Tax Advisory firms and Ministry of Finance. Other members who have shared articles in this issue of Journal include Mr. Qaiser Mufti, FCMA; Mr. Tariq Hussain, FCMA; Mr. Haider Abbas, FCMA; Mr. Mazhar Mahmood, FCMA and Mr. Rizwan Ahmed, ACMA. I am really indebted to all our authors for their valuable contribution.

The Research and Publications Committee has decided in advance about the themes for next three issues so as to provide sufficient time to our members and other writers to contribute research-based articles. The themes selected are:

a) Nov-Dec 2018 issue on '**Big Data Analytics and the Finance Professionals'**
b) Jan-Feb 2019 issue on **'Public -Private Partnership'**
c) Mar-Apr 2019 issue on **'Institutional Reforms and Governance'**

I hope that our members would start making up their minds on which theme or sub-theme they would like to share articles. For any comments or suggestions for improvement, please send an email on **rp@icmap.com.pk**

Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

Exclusive

Interview

"ICMA Pakistan members have deep insight that could help Pakistan broad-base its exports, encourage import substitution and create employment. We can also collaborate on promoting corporatization and on broadening the tax base"

Ehsan Malik

CEO, Pakistan Business Council

ICMA Pakistan: At the outset, please apprise us about the objective, role and functions of Pakistan Business Council?

Ehsan Malik: The Pakistan Business Council is a research-based business advocacy body composed of over 70 of the largest private sector businesses in Pakistan, both local as well as multi-national. Its objectives are to advocate policies for the sustainable growth of Pakistan. With a broad-based membership from 14 important sectors of the economy, the PBC, is not a chamber of commerce or a trade body and it does not lobby for the interest of a particular sector or member. Turnover of PBC members together represent every ninth Rupee of Pakistan's GDP and in aggregate they contribute 25% of the tax revenues and export earnings.

As part of its outreach and to lift the capacity and capability of businesses that do not necessarily belong to it, the PBC has established a Centre of Excellence in Responsible Business which focuses on promoting gender balance, generating livelihoods in the extended value-chains and encouraging greater responsibility towards the environment.

PBC interacts with various ministries of the federal and provincial governments, multilaterals like the World Bank, and Asian Development Bank and key members of the diplomatic community. It has supported the SECP and the FBR in the development of laws and rules to promote business. Its primary research focus is on trade and fiscal policies and it has published many reports on trade agreements and trade potential in non-traditional export markets. PBC's now annual event called the Pakistan Economic Forum brings together leading thought leaders on the economy. It also engages with the main political parties to develop a national consensus. Ahead of the elections, it issued a 100-Day Economic Agenda for the Incoming Government. The main thrust currently of the PBC is to promote manufacturing in Pakistan under the "Make-in-Pakistan" theme.

ICMA Pakistan: Could you please pinpoint the most critical economic challenges being faced by our country at present?

Ehsan Malik: The country's economic challenges are also PBC's advocacy priorities: jobs, value-added exports, import substitution and an equitable fiscal policy which, off a broad tax base generates higher revenue to invest in more inclusive development. This is essence of PBC's Make-in-Pakistan theme.

Mr. Ehsan A. Malik is currently serving as the Chief Executive Officer of Pakistan Business Council. He is also Director in National Foods Limited, Pakistan. From 1st September 2006 to 31st October 2014, Mr. Malik was the Chief Executive Officer of Unilever Pakistan Limited and a director of Unilever Pakistan Foods Limited. Prior to this he was Chairman and CEO, Unilever Sri Lanka Limited. His earlier international appointments covered Unilever's regional business in Egypt, Lebanon, Jordan, Syria and Sudan as well as Unilever's Head Office in UK. These preceded senior commercial and financial roles at Unilever Pakistan. He is also a Member of the Board of Directors of Abbott Laboratories Pakistan Limited and IGI Life Insurance Limited.

Successive governments have failed to address the fundamental flaws affecting Pakistan's economy. As a result, the country has had to knock on IMF's doors on twelve times in the last 28 years. Pakistan has prematurely deindustrialized. Role of manufacturing in GDP has declined as has Pakistan's share in world exports. We have become a nation of traders. The fiscal policy relies on imports for almost half the revenue. Manufacturing, which represents 13.5% of GDP, is burdened with 58% of the taxes. Energy and labour costs are twice those of Bangladesh. Consumption represents 80% of Pakistan's GDP. A large part of this is reliant on imports. Investment at 15% of GDP is half that of India and its rate of growth at 4.8% is less than half that of Bangladesh and Vietnam. Last, but not the least, Pakistan has poorly negotiated trade agreements, in particular with China, which has seen Pakistan exit manufacturing even daily use items like shoes.

ICMA Pakistan: What is PBC's stand on the mini-budget presented by the new Government?

Ehsan Malik: PBC appreciated that the mini budget presented was motivated primarily by a desire to reduce the fiscal deficit. Whilst supporting the partial reversal of deep tax cuts granted by the previous government, PBC was disappointed at the proposal of blanket withdrawal of restriction on non-filers from buying new cars and real estate above a value of Rs. 4 million.

PBC has consistently advocated the broadening of the tax base and the documentation of the economy, as has the PTI. Therefore, it was surprised at this retrogressive step. It would have been understandable if exceptions were made for non-resident non-filers or their dependents. To promote local industry, it may also have made some sense to remove the restriction on locally assembled cars up to a certain value. But to allow non-filers to buy cars of any value, including imported luxury vehicles, goes totally against documentation of the economy. The argument that the record of non-filers involved in these transactions will be used to broaden the tax base is also not credible as such records have failed to do so in the past. The only rationale appears to be tax revenue. It is a pity that revenue expediency prevailed over principle, something that we hoped would not happen in Naya Pakistan. PBC was delighted that the government accepted its recommendation to maintain the restriction, with a few sensible exceptions.

PBC supported the government's thrust to curb imports so long as it did not impact local production. To support domestic industry, PBC had been recommending cascading duties and tighter controls to quell under-invoicing and misdeclaration of imports.

The PBC has been advocating the need to revive industry, create employment, promote exports and encourage import substitution. Whilst it welcomed the relief given to five export industries in the revised gas prices, higher input cost for the rest of industry runs counter purpose to encouraging import substitution. PBC reiterated its recommendation to separate tax policy from tax administration, substantial infusion of technology and fresh talent into the FBR, fiscal policy that encourages capital formation and the restoration of group taxation as enacted in the Finance Act 2007. PBC hopes that the government will address these recommendations soon.

The PBC is composed of the leading private sector companies from fourteen important sectors of Pakistan's economy, which include automakers. This was an excellent example of PBC advocating polices that are good for the country instead of one of the sectors that its members belong to.

ICMA Pakistan: Do you expect the new Government can bring radical changes in government, especially in FBR and SECP?

Ehsan Malik: I believe the government has the resolve to address the fundamental flaws in the FBR. FBR needs to be infused with both technology and fresh talent. Technology will assist it to harvest information on non-filers provided by those deducting withholding taxes and what is available from many other sources to broaden the tax base. It needs to change the main KPIs for FBR. The primary KPI should be tax collected from new tax payers. In the absence of this, the tax man chases current tax payers. Threat of harassment is as much a put-off for non-filers as is paying taxes.

I believe SECP has done a good job in strengthening corporate governance but has suffered from political meddling in its leadership. An example of that was the insertion of Section 452 into the Companies Act 2017 which discriminates against the corporate sector. Nowhere in the world is company law used to gather information on shares held in foreign companies. Besides, now the Foreign Assets Declaration and Reporting Act 2018 has superseded the Companies Act 2017.

ICMA Pakistan: What hindrance our export industry is mainly facing and what measures you suggest to boost our exports?

Ehsan Malik: Uncompetitive exchange rates, high input costs, energy shortfall, plant closures, reliance on commodities and basic goods in which we are unable to compete with a low-labour cost country like Bangladesh, concentration on the EU and the USA, shortage of cotton, low productivity of agricultural sector and Pakistan's hitherto poor security conditions have all hampered our exports. In the last decade and a half, whilst our share of world exports has declined, Bangladesh's more than doubled and Vietnam's grew seven-fold.

We have started adjusting our exchange rate to a more realistic level and the government is trying to protect the export industry from higher energy costs. With a five-year export policy, business will gain the confidence to invest in additional capacity and improve its capability to produce more value-added items. Delayed release of tax refunds and rebates mars cash flow. The government needs to address this.

> "A comprehensive industrial policy should start by resolving the many conflicts between various government ministries which operate in silos. Especially, trade, fiscal and power polices need to be reconciled. The PBC looks forward to working with like-minded institutions, including ICMA Pakistan to achieve this"

ICMA Pakistan: Do you think the presence of professionals and experts on the Boards of Private and Public Sector companies can improve their efficiency and productivity?

Ehsan Malik: The likelihood of professionals reviving public sector units is low so long as the public sector units remain under the line control of ministries. Secondly, many of these units need capital investment to regain scale and improve productivity. PIA is a case in point its fleet is inadequate and ageing. So professionals are a necessity but capital and political commitment are as important. Last but not the least, specialist restructuring experience is required. There are 190 public sector units. The government should start with restructuring a few at a time instead of taking on all. The Kazakhstan and Malaysia models of sovereign funds worked under more autocratic regimes. In Pakistan we have a democracy, strong labour laws, a vibrant media and activist judiciary to contend with. However, a determined approach with the full backing of the parliament can succeed in stemming the billions of Rupees of losses.

ICMA Pakistan: Do you think going to IMF for bailout package is the most preferred option for new Government? What new avenues for revenue generation would you suggest to government for reducing dependence on IMF?

Ehsan Malik: In its 100-Day Economic Agenda for the Incoming Government, the PBC had advised that instead of managing the short term crises, the government should go for a well-structured reform programme such as IMF's. We still hold this view. Reliance on the lender of the last resort under a structured programme, as opposed to banking on however well-intentioned help from friendly countries is preferable. The latter does is ad-hoc and without technical support. Besides, there is no such thing as a free-lunch!

ICMA Pakistan: What are your views on the CPEC projects? Do you think the interests of local manufacturing sector are being adequately safeguarded in the CPEC contracts or you have some reservation on them?

Ehsan Malik: Job creation is the No. 1 priority for the country, yet jobs are seldom explicitly mentioned in the context of CPEC. Leaving aside the low level of Pakistani labour involvement in the CPEC projects, Pakistan can be more proactive in securing a high percentage of the reported 20 million jobs that will be displaced in China due to the rising cost of labour. There is opportunity to partner the Chinese in textiles and other labor-intensive industries. This would also be a way to reduce the trade deficit, as would China allowing our exports parity on tariffs with ASEAN, Australia and New Zealand. It should act as the "big brother" in renegotiating the Free Trade Agreement.

Neither the State Bank nor the Ministry of Planning have a long term forecast of foreign exchange inflows and outflows associated with CPEC. Estimates of outflow range from $3 bn to $ 5 bn per annum. Will our incremental export earnings cover this?

Like financial flows, we have yet to see an aggregate environmental impact of CPEC power and infrastructure projects. What is known is that our reliance on coal for power generation will increase from nil to 18% of the fuel mix by 2024. Whilst significantly below India and can be justified as a cost reduction measure, the environmental impact when added to 7,000 truck movements up and down daily along the CPEC highways will be considerable and needs to be shared.

The Chinese will be granted long term leases at concessional rates to set up in Special Economic Zones where they will also enjoy 20-year tax holidays, water, power and effluent treatment facilities and where trade union activities will be suspended. Will this undermine existing businesses in the rest of the country? Will it incrementally add to jobs and exports?

CPEC is the single largest investment since the British built the irrigation system over a hundred years ago which still irrigates much of the country. If we get infrastructure that is equally enduring, CPEC will definitely be a game changer. However there is a tendency in Pakistan to treat CPEC like the proverbial gift horse which you don't look into the mouth of. CPEC is not a gift and will need to be paid for. The Chinese need CPEC as much as we do. Securing Pakistan's economy i.e. jobs, exports and tax revenue should be as much a priority for the Chinese as it is for us. If we don't act now, our economy will suffer. The gift horse may prove to be a Trojan horse! There is a dire need for transparency.

ICMA Pakistan: Do you think there is need for a comprehensive 'Industrial Policy' to boost our industrial sector and how PBC and ICMA Pakistan can join hands to propose a blueprint for industry policy?

Ehsan Malik: A comprehensive industrial policy should start by resolving the many conflicts between various government ministries which operate in silos. Especially, trade, fiscal and power polices need to be reconciled. Agriculture, which is a provincial domain needs to be revived to allow industry to add value. Sixty percent of Pakistanis reside in rural areas and forty percent of labor is engaged in agriculture, so a well-coordinated set of polices leveraging on Pakistan's agricultural potential will touch many more people in a deep manner. The PBC looks forward to working with like-minded institutions, including ICMA Pakistan to achieve this.

ICMA Pakistan: What areas you suggest where PBC and ICMA Pakistan can hold joint seminars and undertake joint research?

Ehsan Malik: I think we could work together to identify factors that impact competitiveness of Pakistan's main industrial sectors. ICMA Pakistan members have deep insight that could help Pakistan broad-base its exports, encourage import substitution and create employment. We can also collaborate on promoting corporatization and on broadening the tax base.

ICMA Pakistan: How do you see Pakistani economy after two years from now?

Ehsan Malik: In two to three years, I see a more economically stable economy. The pain that is inevitable between now and then will result in stronger governance and accountability. Our exports will benefit from realistic exchange rates, more competitive energy tariffs and long term policies. Our tariffs will be cascading, allowing industry to integrate better into global value chains by maximizing value-addition, even on imported inputs. Smuggling and under-invoicing would have receded as the government comes down hard on restoring discipline. Housing and manufacturing will have created thousands of jobs. Pakistan's external and fiscal account would be more balanced.

The Editorial Board thanks Mr. Ehsan Malik, CEO, Pakistan Business Council for giving his exclusive interview for Management Accountant Journal.

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Exclusive

Interview

"We see strengthening of audit committees as one area in which professional accounting bodies, such as ICMA Pakistan, can help further our shared mission of enhancing audit quality"

Usman Hayat

CEO, Audit Oversight Board (AOB)

ICMA Pakistan: Please tell us briefly about your board, regulatory role, level of independence and key stakeholders that come into your domain.

Usman Hayat: AOB was established by our parliament as an independent regulator through Part IXC of SECP Act 1997 in August 2016. Its purpose is to work in the public interest to enhance the quality of audit of financial statements of public interest companies (PICs). This is how we help protect the interest of investing public and other stakeholders, such as lenders, employees, and the Government.

There are seven members of AOB. These members are appointed by the Federal Government at the recommendation of a nominating committee. This nominating committee comprises four ex-officio members and one member to be co-opted by the ex-officio members. The ex-officio members are Secretary Finance, Chairman SECP, Governor SBP, and President ICAP. AOB's key institutional stakeholders, as implied by our law, are the Federal Government, SECP, SBP, and ICAP.

The law that established AOB states that a member of AOB shall be a person who possesses qualification and experience in relevant fields such as accountancy, business, finance, law, or economics. The current Board comprises of highly experienced and well-reputed accountants, lawyers, and investment professionals. There is no practicing auditor on our Board. One of our Board members is also a member of ICMA Pakistan.

ICMA Pakistan: Please tell us about the organization, where is your office based, and the profile of AOB's staff?

Usman Hayat: We are a professionally run organization. Currently, we are a small team of eight professionals. We have a simple organogram with essentially two sub-teams, the regulatory team and the support services team. Our staff is highly qualified. Within this small team, we have three members of ICAP, three members of ACCA, one member of CFA Institute, and one member of ISACA. That is in addition to some academic qualifications such as a Master's degree. We also have people who have experience of working in both Pakistan and abroad. What we lack in size, we try to make up for through professionalism.

Our office is located on the 14th floor of ISE Towers in Islamabad in Blue Area. It is small but a modern office. In terms of management style, we follow a polite-but-firm approach. We are also a very open regulator that actively seeks to engage with audit firms to discuss professional matters. Our aim is to meet representatives from every firm that registers with us to benefit from their expertise in the challenges being faced by the audit profession. Similarly, we try hard to stay updated with international practices and have been reaching out to international regulators and subject matter experts through video conferences in this regard. Those who have visited our office tend to get pleasantly surprised by our austere and professional approach to managing our work.

ICMA Pakistan: Please tell us about the scope and approach of audit inspection program of AOB?

Usman Hayat: Conducting audit inspections is a core function of AOB. It is clearly stated in section 36K of Part IXC of SECP Act, 1997. Inspections are also specifically mentioned in one of the principles of International Forum for Independent Audit Regulators (IFIAR). According to IFIAR's principle 8, audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities. Internationally, independent audit regulators take the lead in directly inspecting auditors of PICs. Pakistan's model is inspired by the Japanese model, which is relatively unique. In the Japanese model, majority of direct inspections are carried out by the local institute, JICPA, and the independent regulator, CPAAOB, oversees the work of the institute and also independently carries out recurring risk-based direct inspections. So far, the focus of our inspections has been on the work being performed by ICAPs Quality Assurance Board and Quality Assurance Department.

> "We are entirely open to and interested in working with ICMA Pakistan on development matters"

ICMA Pakistan: What is your opinion about the quality of audit in the country? What measures AOB has taken so far to improve the quality of audit in Pakistan?

Usman Hayat: The overarching reason AOB has been established in Pakistan is to enhance audit quality. This is also the primary purpose for which audit regulators are established throughout the world. Defining and measuring audit quality is a complex task. There is much data collection and research work that needs to done on audit quality indicators and market perceptions of audit quality in Pakistan. Currently, we are in a transition phase where an independent audit regulator has become operational and its presence is being felt. As required by Part IXC of SECP Act 1997, AOB has registered audit firms that seek to audit the financial statements of public interest companies. This registration was the critical first step in enhancing audit quality because AOB conducts inspections pertaining to registered audit firms. Following the registrations, we have conducted a walkthrough and an inspection of the work being performed by ICAP's Quality Assurance Board and Quality Assurance Department. We have analyzed the Quality Control Review Framework (QCRF) and are in the process of improving it. This is our primary area of focus. Improving the quality of QCRF improves audit quality of nearly 120 firms which subject themselves to QCRF, it is the rising tide that lifts all boats.

ICMA Pakistan: Can AOB register and regulate audit firms run by members of ICMA Pakistan?

Usman Hayat: AOB administers Part IXC of SECP Act, 1997. It is the legislature that makes the law and decides the scope of AOB. The legislature has confined AOB's scope to auditors of financial statements of public interest companies. Part IXC of SECP Act 1997 defines auditor as a chartered accountant within the meaning of Chartered Accountants Ordinance, 1961 being a person qualified to be appointed as auditor of a company under the companies law. I understand that most members of ICMA Pakistan are working in the industry but some of its members are also auditing private limited companies with paid-up capital below Rs 3 million. These private limited companies tend not to be PICs. These reasons explain why AOB is currently not registering and regulating auditors who are members of ICMA Pakistan. However, we are entirely open to and interested in working with ICMA Pakistan on development matters.

ICMA Pakistan: How is AOB funded?

Usman Hayat: AOB's scheme of funding is given in our law. It comprises grants from the Federal Government, voluntary contributions from the stakeholders, borrowing, fee from audit firms and PICs, earnings from investment, and any other grants permitted by Federal Government. AOB was established with an initial Rs 30 million voluntary contribution by SECP. Later SBP, also provided a contribution of Rs 30 million. This year we have billed the PICs for the annual supervision fee. Fee from audit firms is a relatively small part of our total funding.

ICMA Pakistan: What are some of the opportunities and challenges facing AOB?

Usman Hayat: There is room to improve audit quality, from strengthening QCRF, carrying out recurring direct inspections, working on audit quality indicators, providing high quality CPD, and engaging with audit committees. In my view, the biggest opportunity for AOB is presented by those within the auditing profession who care deeply about their profession. They are de facto supporters of enhancing audit quality. We are trying to meet as many audit practitioners as possible. Our doors are open and we welcome a candid dialogue on professional matters. Of course, we also find an opportunity in the professional accounting bodies. Although they are membership bodies, they also serve public interest through education, regulatory responsibilities CPD, and advocacy. As regards challenges, our principal challenge is that we are a new organization. I joined in March 2018 and most team members also joined in 2018. It takes some time to establish operations and create brand recognition. Once our funding becomes more stable, we will expand our regulatory team and will, In Shaa Allah, overcome this challenge and make the most of our opportunities.

ICMA Pakistan: In what areas do you think ICMA Pakistan and AOB can jointly conduct policy research and capacity building trainings?

Usman Hayat: ICMA Pakistan is a well-established statutory professional body. You have more than 5,000 members and 15,000 students. These are impressive numbers. We have had the pleasure of meeting your president and executive director and we appreciate their interest in working with AOB. We see strengthening of audit committees as one area in which professional accounting bodies, such as ICMA Pakistan, can help further our shared mission of enhancing audit quality. Not much has been done in this area in the past. There is a need to conduct research and carry out capacity building of audit committee of PICs. Our PICs need audit committees that have the skills and experience, and the understanding of internal and external audit. Arthur Levitt, a well-known chairman of US SEC once said that "qualified, committed, independent and tough-minded audit committees represent the most reliable guardians of the public interest". The audit committee are in a particularly advantageous position to check that all concerned are doing their part, including financial managers, and internal and external auditors. Working with professional accounting bodies, including ICMA Pakistan, we can enhance audit quality by strengthening the audit committees of Pakistan's PICs, including those in the public sector. A strong audit committee will enhance checks and balances across the workings of PICs also making them more sustainable. This would be a worthy contribution to Pakistan's economy.

The Editorial Board thanks Mr. Usman Hayat, CEO, Audit Oversight Board (AOB) for giving his exclusive interview for Management Accountant Journal.

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Agenda for Tax Reforms

The Editorial Board thanks Dr. Ikramul Haq and Ms. Huzaima Bukhari for sharing this article exclusively for ICMA Pakistan's Management Accountant Journal

Dr. Ikramul Haq

Huzaima Bukhari

As the new government in control of affairs for another term of five years (2018-2023) has expressed resolve to revamp the entire tax system, it seems imperative to present for public debate a new model so that after deliberations and input from all stakeholders some concrete, viable and comprehensive proposals are finalised for implementation. Unfortunately, all efforts in the names of tax reforms till today have failed as these were suggesting patchworks in the existing outdated system without suggesting re-engineering and redesigning of the entire system. We need paradigm shift that brings not only adequate revenues but also ensures sustainable business growth and incentives for knowledge-based economy. This article presents such a model - innovative, simple, fair, people-friendly and growth-inductive.

Existing tax structure & fiscal restraints

Presently, all broad-based and buoyant sources of revenue are with the federal government and contribution of provinces in total tax revenues is 6 percent - in overall national revenue base (tax and non-tax revenue) it is around eight percent. This has made them totally dependent on the federal government for transfers from divisible pool - the National Finance Commission Award as envisaged in Article 160 of the Constitution. What makes the situation more disturbing is the fact that right of provinces to levy sales tax on services is encroached by federal government through levy of presumptive taxes on services under the Income Tax Ordinance, 2001, sales tax on gas, electricity and telephone services and excise duty on a number of services.

Before the independence, the provinces had the exclusive right to levy sales tax on goods and services within their respective physical boundaries. This was snatched from them in 1948 and was never restored. In the given circumstances when federations like Canada and India are moving towards harmonised sales tax on goods and services, there is a need to debate the issue in public and Parliament for reaching a consensus.

It is an established fact that federal government even after levying all kinds of irrational and expropriatory taxes has miserably failed to reduce the burgeoning fiscal deficit. The Federal Board of Revenue (FBR), the apex revenue authority at the federal level, has been persistently failed meet even the downward revised budgetary targets, what to speak of realising the real revenue potential, which at federal level alone is not less than Rs. 8 trillion.

For the fiscal year, 2017-18, the former government allocated the revenue target of Rs. 4013 billion to FBR that was later revised downward to Rs. 3935 billion. FBR collected only Rs. 3751 billion. It collected income tax of Rs. 1441 billion against the target of Rs. 1562 (deficit of Rs. 121 billion). Sales tax collection at Rs. 1488 billion against target of Rs. 1541 billion witnessed shortage of Rs. 53 billion. FBR also faced a shortfall of Rs. 16 billion under the head Federal Excise Duty as it collected Rs. 216 billion whereas the target was Rs. 232 billion. Only collection under customs exceeded the target by Rs. 6 billion against the assigned target of Rs. 600 billion. The overall shortfall of Rs. 184 billion vis-à-vis the revised target of Rs.3935 billion and that of Rs. 262 from original target pushed the fiscal deficit to a record Rs. 2.5 trillion as on June 30, 2018. The expected windfall of nearly Rs. 100 plus billion under amnesty schemes - domestic and foreign - till July 31, 2018 could not help much in easing our economic woes.

Tackling twin menaces of underground economy and tax evasion has always been a failure in Pakistan. The total revenue collection by FBR in 2016-17 was Rs. 3368 billion. It missed the original target by a wide margin of Rs. 250 billion. In 2015-16, FBR, despite imposing additional taxes of Rs. 360 billion, allegedly blocking over Rs. 220 billion refunds and taking Rs. 30 billion as advance failed to meet the third-time revised target showing shortfall of Rs. 222 billion vis-à-vis original target of Rs. 2810 billion, which was first reduced to Rs. 2691 billion and then to Rs. 2605 billion.

Income tax collection in fiscal year 2014-15 was Rs. 1033.7 billion and projection for 2015-16 was Rs. 1307 billion. The actual collection, reported by FBR, is Rs. 1220 billion - showing shortfall of Rs. 87 billion. Collection of sales tax in 2014-15 was Rs. 1088 billion and projection for 2015-16 was Rs. 1230.3 billion. By raising sales tax on POL products from 17% to 30-50%, the government managed to collect Rs.1329 billion in 2015-16. Customs collection in 2014-15 was Rs. 306 billion and projection for 2015-16 was Rs. 348.5 billion. After levying regulatory duty on over 300 items, it was increased to Rs. 404 billion in 2015-16. Federal Excise collection in 2014-15 was Rs. 162 billion. Against projection of Rs. 200.9 billion, actual collection for 2015-16 was Rs. 177 billion.

Bridging the tax gap

Tax gap of a country is measured by the amount of tax that remains uncollected due to non-compliance with tax laws. Pakistan Tax Gaps: Estimates by Tax Calculation and Methodology, a joint study of FBR, Andrew Young School of Policy Studies at Georgia State University and World Bank, provides in detail, tax gaps by type of tax and describes the methodologies and data used for such estimates. The report prepared in December 2008 by Rubina Ather Ahmad (FBR) and Mark Rider (Andrew School) says that views expressed "are of the authors and not of the Government of Pakistan". For fiscal year 2004-2005, according to this report, Pakistan's federal tax gap was Rs. 409.5 billion or approximately 69% of actual tax receipts of Rs. 590.4 billion. Terming this as "conservative estimate", the report claims direct tax gap at Rs. 262.8 billion (around 143% of actual collection of Rs. 183.1 billion) and indirect tax gap at 146.7 billion (36% of actual tax collection of Rs. 407 billion). In 2008, the data selected was for fiscal year 2004-2005 and tax gap was estimated at 45%. Since then tax gap has increased and according to FBR's own admission it is not less that 70% of actual tax potential.

The failure to tap real tax potential poses a tough challenge to both the federal and provincial governments. Poor performance of FBR adversely affects the provinces as they are overwhelmingly dependent on what the Centre collects and transfers to them from the divisible pool. Provinces are not ready to collect taxes wherever due and generate their own resources after establishment of local governments as envisaged under Article 140A of the Constitution. Centre is unwilling to grant the provinces their legitimate taxation rights while it collects too little to meet their overall financial demands. The size of the cake - divisible pool - is so small that nothing substantial can be done to come out of debt enslavement and to spend adequately for the welfare of the people, no matter to which part of the country they belong.

Distorted tax base & fiscal consolidation

Fiscal consolidation should be as growth-friendly as possible. In general, tax base-broadening reforms are identified as growth-oriented reforms. To the extent that they reduce distortions to economic decisions on work, saving, investment and consumption, they should increase output and improve social welfare - Choosing a Broad Base - Low Rate Approach to Taxation, OECD Tax Policy Studies No. 19

The policymakers (sic) sitting in the Ministry of Finance and FBR always make a totally fallacious assertion that "only 0.9 percent of the population of the country pays income tax". It is shocking that even the top men of FBR do not know the difference between a "taxpayer" and "return filer". Secondly, they are keen to retain higher rate of taxes (both under income tax and sales tax laws) on narrowed tax base rather than imposing lower taxes on broader base. It has been mentioned many times [**'Of taxpayers & non-filers'**, *Business Recorder*, October 27, 2016, **'The tax base',** *Business Recorder*, November 2, 2012, **'Ailing tax system',** *Business Recorder,* August 21, 2015 and **'Improving tax compliance'**, *Business Recorder*, November 16, 2012] that there are 90 million unique mobile users who pay advance **income tax payers in Pakistan** but returns filers are pathetically low (merely 1.4 million by end of July 2018).

The poor collection under income tax head testifies to the fact that it is not tax on total income base, but indirect tax on many items that include many others, consumption, expenditure, investment, and in many cases just transactions that are devoid of any income-yielding activity. For example, a person sells a house of his brother who lives abroad and on withdrawing cash on his instruction has to pay tax under section 236P of the Income Tax Ordinance, 2001. A salaried person, after paying tax under section 149, is compelled to pay tax on cash withdrawal (section 231A).

Tax base under indirect taxes (sales tax and excise) is also extremely narrow. About 82 percent of entire sales tax and federal excise duty comes from the top 100 companies. Failure to harness the real tax potential (**'Oppressive taxes & unabated outflows'**, *Business Recorder*, February 20, 2015) is the real dilemma of our policymakers. The existing tax structure is not only detrimental for economic growth but also not yielding required revenues for the State. The economic managers have failed to realise that excessive taxation on savings does not increase government revenues. Once income has been taxed then savings and transactions should not be taxed. Is there any country in the world where banking transactions and withdrawal of cash are being taxed like it is done in Pakistan?

Our successive governments have been taxing the poor and giving extraordinary benefits to the rich. Abuse of taxpayers' money for personal comforts and luxuries of the ruling elite is the main malady. The government's yearning for "more and more taxes" has become a source of irritation for the citizens who argue that they get nothing in return and their plight is worsening every day.

Political economy of tax reforms

The debates and discourse concerning political economy of tax reforms in Pakistan lack objective analyses and rational approach as evident from the book, published by Oxford University Press, The Role of Taxation in Pakistan's Revival, edited by Jorge Martinez-Vazquez & Musharraf Rasool Cyan. The book contains nine chapters, which are in fact, studies conducted for 7-year-long [December 7, 2004 to December 31, 2011] Pakistan Tax Administration Reform Programme (TARP), carried out with total cost of US$149 million, out of which US$ 102.90 million came as loan from World Bank. The book confirms why TARP was a great failure - on its conclusion not only did tax-to-GDP ratio fall substantially, there was a tremendous decrease in the number of return filers. After reading the book, an irresistible conclusion which can be drawn is that prescription of the World Bank (WB) and International Monetary Fund (IMF) suggesting "more taxes" without growth, equity and delivery of social services to the citizens is a lethal pill, based on a diagnosis by a quack rather than by a qualified physician.

In civilized, democratic countries income tax laws recognise the cost of living alone or with family - expenses to nurture children are always taken into account. The laws, thus, allow deductions/allowances according to size of family. In Pakistan, FBR not only denies any such allowance or deduction, but extorts advance income tax even from the lower-income earners and their family members having no income on facilities like mobiles. Adding insult to injury, FBR expects them to file tax returns to get the money withheld as refund, whereas the cost to get it is much more than the amount due and chances of harassment after filing return are obnoxiously high.

The so-called "experts" on Pakistan's taxation system, at home and abroad, do not try to comprehend the basic elements of a repressive system, let alone suggesting ways to reform it. Their popular slogan is more taxes to improve tax-to-GDP ratio, but no concern for utilisation of money collected as taxes and its ruthless abuse for providing extraordinary perks and perquisites to the ruling elites. They want what is prevalent in the West without studying and considering the mundane realities of Pakistan where the State is not providing even security of life and property, what to speak of taking care of fundamental needs of all citizens - the denial of fundamental right of free education to children under Article 25A is the most glaring example of State's apathy.

The real issue of taxation in Pakistan is lack of a judicious balance between direct and indirect taxes. Appeasing the rich and mighty and lavish spending on comforts of elites is the main cause of the huge budgetary gap. Such wrong policies are continuously increasing miseries of the people, 12.7 percent of Pakistan's population now lives below $1.25 per day, which is categorised as extreme poverty - **World Development Indicators (WDI) 2015**. Non-collection of taxes from the rich and generously extending exemptions/concessions is the root cause of our unjust tax system.

The existing tax system is not taxing the rich 5 million and main collection is from indirect taxes. Resultantly, income and wealth distribution disparities are rapidly widening in the country leading to social and political unrests. Under the given scenario, efforts are needed both at federal and provincial levels to enlarge the size of the pie by shifting to growth-oriented taxation - see details in Chapter 16 of Return to Prosperity by Arthur B. Laffer & Stephen Moore.

Though many authors, including ourselves, have presented suggestions for reforming the existing tax system and raising taxes to the level of Rs. 8 trillion at federal and Rs. 4 trillion at the provincial levels has already been given - **New Tax Model**, Business Recorder, August 28, 2015, our more-loyal-than-the-king stalwarts sitting in Ministry of Finance & FBR want "advice" and "assistance" from IMF & World Bank that miserably failed in the past. Their predicament can well be explained in the following couplet of great Urdu poet Mir Taqi Mir:

Mir kya sada hein beemar howe jis key sabab
usi attar key londey s ey dawa letey hein

(What a simple soul is Mir; he seeks medication from the healer's boy who is the cause of his ailment).

The present tax system and policies are detrimental for economy, social justice, business and industry. Those who possess more economic power (income and wealth) should contribute more to the public exchequer and vice versa. The ability-to-pay principle is regarded as the most equitable and just method of taxation and emphasized upon primarily for its redistributive role. In Pakistan, our rulers have completely deviated from this principle which, is in fact, a constitutional obligation of the government. Political economy of tax reforms must be studied from this fundamental perspective, if some meaningful change in nation's life is desired.

Real dilemma of tax system

The real dilemma of our tax system is that it is not equitable. The burden of taxes is less on the rich and more on the poor. In the face of this stark reality, the government since 1991 has been resorting to regressive taxation like presumptive taxes in income tax and turnover taxes in the shape of multi-point sales tax. Over the period of time our tax system has become rotten, oppressive, unjust and target-oriented. There is a dire need to discuss philosophical framework, principles of equity and justice that should be the main concern of our tax policy; not mere achieving of targets set out by the foreign donors. Our worthy tax managers are more concerned with meeting budget targets through presumptive tax regime which is a distortion under the direct tax legislation shifting tax incidence on consumers rather than the actual income earners.

The great divide between the poor and the rich will further expand if the present tax policies continue. We may manage to collect higher taxes but it will not serve the real purpose of redistribution of wealth which is at the core of any direct tax philosophy. On the one hand we are not collecting taxes according to capacity to pay and on the other, annual targets are fixed to further squeeze the already dried tax base. During the colonial era when salt tax was imposed, the visionary leaders of that time staged a revolt against such high-handedness. But now in the so-called post-independence age the IMF/World Bank imposed rulers are playing havoc with the life of the common man by levying exorbitant tax on salt and many other every-day items. It is tragic that neither the politicians nor any public-spirited NGO have agitated against this injustice.

We can collect much higher taxes if the present tax laws are rationalised and incompetent, inefficient and corrupt tax machinery is overhauled. Our tax revenue potential is not less than Rs. 8 trillion provided that the existing tax base is made wider and equitable, tax machinery is completely overhauled and exemptions and concessions available to the privileged sections of society are withdrawn. To achieve these goals we do not need any loan from anyone. If we take money from World Bank or any other lender them then we are bound to follow their conditions because beggars cannot be choosers. Many local experts can do the reform work either voluntarily or at much less cost than what may be wasted on foreign consultants at the commands of World Bank and others.

Taxes and self-reliance

For achieving the goal of fiscal decentralisation, local governments' financial resources must commensurate with the responsibilities provided for by the constitution and the law to ensure welfare of the people and ensure sustainable growth at grass root level. Part of the financial resources of local authorities should derive from local taxes and spent for providing universal entitlements and development. Pakistan must follow the model of welfare states where resources available to local governments are based on a sufficiently diversified and buoyant nature to enable them to keep pace with the real evolution of the cost of carrying out their tasks.

Expropriatory taxation

The yearning for "more and more taxes" by successive governments - civilian and military alike - has become a source of irritation for the citizens. They argue as why to pay taxes when in return they do not even get basic amenities of life. In a true social democracy people pay taxes as their collective responsibility while the State looks after their needs. Pakistanis are subjected to exorbitant taxes as the country is caught in debt enslavement. The major reason for tax defiant behaviour is lack of trust in the government - abuse of taxpayers' money for personal comforts and luxuries by the rulers. The State has failed to protect the life and property of the people, what to talk of providing them basic needs e.g. health, education and civic amenities. The populist argument against paying taxes is 'why we should pay when the government cannot even ensure safety of our lives.' This scenario and narrative is paving the way for radicalisation of society. Our so-called experts have never thought of analysing this as a significant internal security threat.

Taxpayers (including businesses) should share the burden of protecting those who are vulnerable as a result of change, either through well-designed social protection measures or retraining, not through excessively rigid job protection measures and inflexible labour regimes that penalise productivity. That is why a fair and transparent tax system is so essential for maximising economic growth. In this regards, a detailed study [**Towards Flat, Low-rate, Broad and Predictable Taxes**, Islamabad: PRIME Institute, April 2016] is available that can be debated publically to find a workable tax model for Pakistan. Politicians must have the courage to achieve a sensible balance between income, capital and consumption taxes. And they must also have the courage to spend, not on ill-designed social programmes introduced more to collect votes than social returns, but on important investments in creating human capital (e.g. education, training and health), and necessary public infrastructure to increase the productivity of the economy.

Taxes for growth and prosperity

One of the main tools of tax policy is to increase the level of savings and capital formation in the private sector partly for borrowing by the government and partly for enhancing investment resources within the private sector for economic development. On the contrary, Pakistani economic managers have not only failed to achieve this goal, they are ruthlessly taxing capital gains arising out of immovable property and shares to destroy creation of capital and incentives for investment that can boost growth. Tax is a byproduct of growth. With more growth we would have more taxes. The prevalent anti-growth taxes are the real cause of retarded economic growth, burgeoning fiscal deficit and insurmountable debt burden.

Recent years have experienced closure of large industries and stagnation in growth. Besides inefficiency, corruption and incompetence of FBR, inconsistent, illogical, burdensome, complicated and expropriatory tax policies have forced the business community to search for safer havens abroad, depriving the country of invaluable capital. Similarly, foreign investors are reluctant to avail the tremendous Pakistani talent that goes to waste for lack of proper funding.

Collection dilemma: flat-taxation is the answer

At present, both the centre and provinces are not collecting taxes according to their respective potential due to weak enforcement and inherent problems of an out-dated tax system. Total tax potential of Pakistan is around Rs. 12 trillion if agricultural income tax and other provincial and local taxes are also collected efficiently. As shown below, at federal level, income tax alone can be collected to the tune of Rs. 8 trillion provided the entire undocumented economy is brought into tax net.

Tax System in Perspective

The ever-growing size of parallel, undocumented economy has much to do with the way taxes are being administered for the last many decadesfrom a tax compliant public to a tax rebellious one, from high tax-to-GDP ratio to an obnoxiously low one, from greater revenue from fewer taxpayers (2 million) to very low revenue from a broad-based population (approximately more than 20 million), from a relatively thriving economy where debts were at their lowest to an apparent prosperous one where share of debts is 68% of the GDP, from a comparatively greater reliance on direct taxes to a complete turn-around towards indirect ones (even in the garb of income tax law which is essentially a form of direct tax), from relative simplicity of compliance to complicated procedures both at the federal and provincial levels especially in the aftermath of the Eighteenth Constitutional Amendment for which the earlier government takes immense pride. Even the Inland Revenue Service has transferred a major portion of its responsibilities of collecting tax, on withholding tax agents leaving very little to justify its own existence.

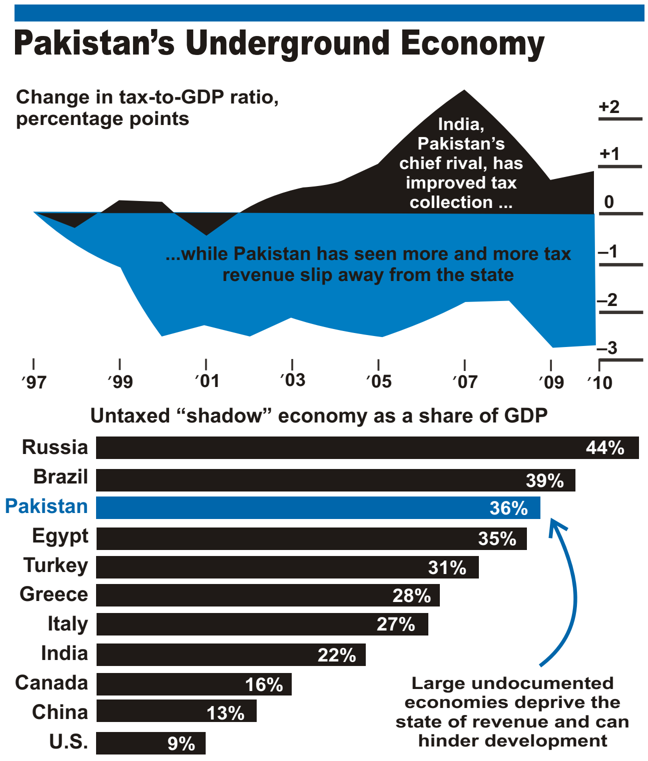
In short, all that could have been done has been done to make the life of a compliant taxpayer as miserable as possible and snatching from him that little iota of motivation that was egging him on to be an obedient citizen of this country. The helplessness of seeing one's hard-earned money going down the drain has compelled many to look for greener pastures around the world where their taxes would trickle down in the form of some benefit coming back to them. With this in mind, it becomes imperative at this stage to rethink and devise a scheme that would alleviate the sufferings of the common man and help generate substantial revenue for governments to function comfortably. Our country is rich in resources and its people are very generous. There is no doubt that a logical scheme of things capable of sucking in large revenues without disrupting the common man's life would be a welcome respite from the constant lashing by tax collectors.

Another important factor that discourages compliance with tax laws is the extremely complicated and cumbersome nature of procedure involved in being registered with the revenue authorities. Even the corporate and educated class finds it difficult to comprehend, follow and observe the simultaneously applicable innumerable legal obligations, what to talk of the illiterate and ordinary man on the street. If a survey is conducted with respect to merely the advance tax provisions (almost 75 in number), it would reveal how a person is supposed to be aware of so many avenues where either tax is being withheld or he is himself paying income tax and the consequences of these taxes, the credit of which he may or may not be allowed to take while filing his return. In the first instance, a highly meticulous record of all such transactions that invoke taxes would have to be maintained and secondly, an even higher level of grasp over the law would be required to apply it.

Black economy and tax losses

Tackling the twin menaces of black money and tax evasion has always been a failure in Pakistan. The study, **What is hidden, in the hidden economy of Pakistan? size, causes, issues and implications,** by Ahmed Gulzar, Novaira Junaid and Adnan Haider, shows that corruption and tax evasion are not only causing an expansion in the size of the informal economy but also hampering the growth rate, thereby adding more to economic uncertainty, income inequality and poverty. Successive governments, instead of dealing with these issues have been pardoning and appeasing tax evaders through various laws and amnesty schemes.

The result is obvious - there is an ever-growing informal economy, which is ironically declared as **The Secret Strength of Pakistan's Economy.** Only 25 percent of the economy is taxed if the undocumented sector is taken into account. It means that tax gap in Pakistan is 75%. The tax-to-GDP ratio is much less than what is claimed by FBR. They do not take into account informal (untaxed) part of economy.



GRAPHIC BY BLOOMBERG BUSINESS WEEK, DATA, ASIAN DEVELOPMENT BANK. PAKISTAN FEDERAL BOARD OF REVENUE, TAX JUSTICE NETWORK

The New Paradigm

Under the afore-stated situation of imbalances, a fresh approach and a renewed policy are urgently needed to replace the entire taxation system for fiscal stabilization. The equation is simple. Federal government needs at least Rs. 8 trillion of revenue (for meeting all development and non-development expenditure along with retirement of expensive loans), for which determination of a fair tax base is imperative. The current complex system, only favours a few thousand officers and their staff along with people having money power and who can blatantly flout the law. It is possible to suggest a simple flat rate tax that is neither burdensome nor difficult to implement but it would deprive the bureaucracy and some vested-interests who would be most likely to oppose it. Nonetheless there is no option but to dismantle the existing, out-dated and anti-growth tax system if we have to overcome the twin but inter-related malaises of fiscal deficit and debt burden.

The tax system that will work smoothly for Pakistan, keeping in view our peculiar socio-economic circumstances and mind-set of masses, must be a flat rate with no compliance hassles. All taxes should be merged into one single tax with complete assurance to the masses that they would be free from any kind of harassment; and money collected would be spent towards their welfare. The agenda of fair taxation cannot succeed if wastage of public funds and its abuse by the rulers continue unabated. The quid pro quo for paying taxes is as important as the system to collect tax. Where the public is blamed for not paying their due share, public authorities are equally, if not more, responsible for indulging in corrupt means taking cover of complicated procedures that eventually lead to poor collection of revenue.

The tax base with respect to direct tax vis-à-vis fair distribution of incidence can be achieved by imposing 10% flat rate tax on net income of individuals with minimum alternate tax of 2.5% on net wealth, and reducing corporate tax rate to 20%. This kind of simple taxation would induce voluntary compliance provided all the citizens are aware of the fact that competent and effective tax machinery exists having a tax intelligence system that can easily detect tax avoidance. Without this deterrence even the new system which is a great deal simpler, will be unworkable. Nowhere in the world is proper collection of taxes possible without a strong enforcement apparatus. However, the apparatus should be friendly and firmfriendly, to the extent of educating and guiding the people for fulfillment of their tax obligations, and firm to the extent of punishing willful defaulters.

As far as sales tax is concerned, it has been emphasized time and again that Pakistan needs harmonized sales tax (HST) on goods and services which should be 10%. This envisages collection through a National Tax Authority which should replace all existing authorities at both federal and provincial levels.

The further details of simplified, flat-rate taxation can be seen in our paper, **Towards Flat, Low-rate, Broad and Predictable Taxes**, available at *http://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf*

The National Tax Authority (NTA)

National and provincial assemblies should pass a law agreeing on establishment of NTA responsible for collecting all taxes imposed by the federal and provincial governments. This would facilitate people to deal with a single revenue authority rather than multiple agencies at national, provincial and local levels. The mode and working of NTA can be discussed and finalised under Council of Common Interest [Article 153] and its control can be placed under National Economic Council [Article 156].

The provinces should also feel responsible for better and efficient tax collection. Presently they are isolated and rely on distribution from the divisible pool whereas the Federal Board of Revenue annually collects less than the assigned revenue target. The responsibility to collect revenues should be joint and several giving a participative sense to all federating units.

The NTA should consist of officers and staff representing the federation of Pakistan as in taxes, both the centre and provinces have equal stakes. If the size of the pie grows every federating unit will get more and the Centre will also have more money at its disposal. For NTA, an all Pakistan Tax Service should be established. Recruitment for All Pakistan Tax Service must be independent of the present Central Superior Services structure. Competent people having knowledge in accounting, law, IT and administration should be selected through a special Board, comprising members from the existing Federal and Provincial Public Service Commissions.

Conclusions

1. If we want optimum collection of taxes fairly and without hampering growth, it is imperative to abolish the present tax laws and enact new ones.
2. Collection of taxes through a single national authority as suggested above.
3. Establishment of a Tax Intelligence System sending quarterly information to potential taxpayers about their economic activities so that they can be informed in advance as to how their incomes and expenditure should finally look like in their tax declarations.
4. Prudent spending of public money through a transparent process enjoying the confidence of the people.

About the Authors: *The writers are lawyers and partners in Huzaima, Ikram & Ijaz; and also Adjunct Faculty at Lahore University of Management Sciences (LUMS)*

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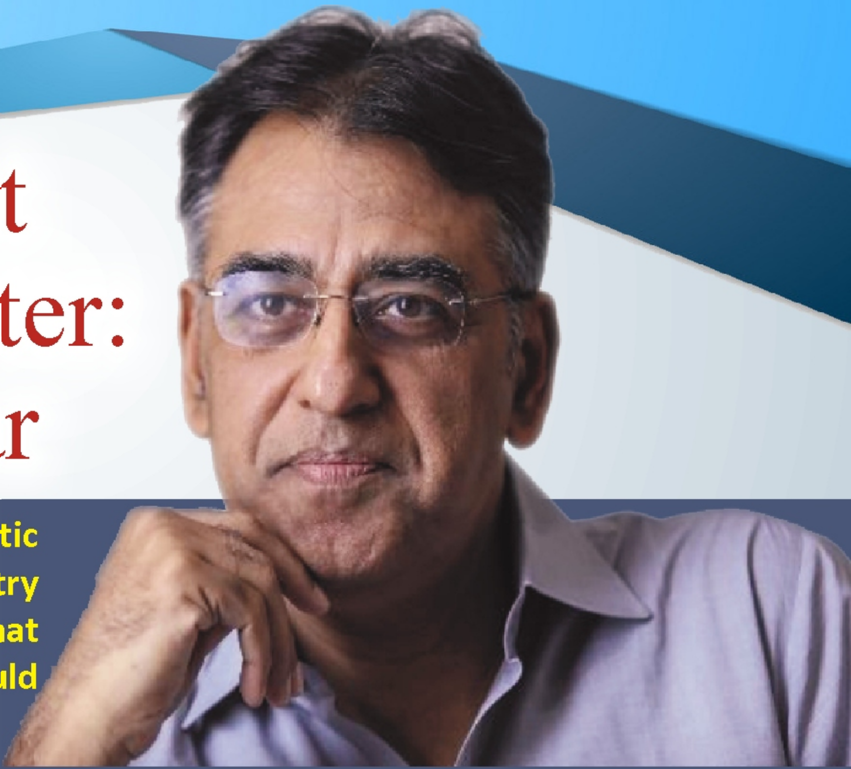
The Incumbent Finance Minister: Mr. Asad Umar



"ICMA Pakistan much optimistic about his capabilities to steer the country out of present economic crisis and that his initiated policies and reforms would stand the test of time"

By Editorial Board

ICMA Pakistan has always contributed its due role in the corporate and economic policy making through provision of professional input in shape of budget proposals and policy recommendations to the government and regulators. At the same time, it has remained a consistent policy of the Institute to maintain strong liaison and coordination with the corporate and economic intelligentsia of the country to learn from their accumulated knowledge, wisdom and experiences which greatly helps us in research and policy development. The government officials, economic experts and professionals are invited in different programs and events organized by the Institute to provide a useful platform for knowledge gaining by our members, students and other participants from the corporate, business and academia sectors.

The Institute realized the visionary and leadership qualities of Mr. Asad Umar when he resigned from the exalted position of President, Engro Corporation in April 2012 and entered the mainstream politics by joining Pakistan Tehreek-e-Insaf (PTI) in the same year. ICMA Pakistan invited Mr. Asad Umar as a Guest Speaker in an International Conference on the theme of 'Leadership, Innovation and Sustainability through Management Accounting' organized on 30th August 2013 at Karachi. It was the first-ever participation of Mr. Asad Umar in any function of the Institute. In his speech, he shared thoughts

International Conference on Leadership, Innovation and Sustainability through Management Accounting | August 30, 2013 | Karachi

> "ICMA Pakistan believes that Mr. Asad Umar's choice as Finance Minister is a good omen for the country"

and practical experiences of being in a leadership position of a conglomerate. His speech was a great source of learning for the participants, especially for students and qualified members. The second appearance of Mr. Asad Umar was as a Guest Speaker in a Session on 'Economic Potentials of Pakistan' organized by the Lahore Branch Council of ICMA Pakistan under its 'Thought Leaders' Lecture' series in May 2015. Speaking on this occasion, Mr. Asad Umar, who was then a member of the National Assembly after winning in 2013 general elections, highlighted the potentials in Pakistan and proposed some initiatives for the progress of national economy.

ICMA Pakistan believes that Mr. Asad Umar's choice as Finance Minister is a good omen for the country. Though at this critical juncture, the country is faced with formidable economic challenges, however, the economic team presently at helm of affairs under dynamic leadership of the Finance Minister is doing its utmost to change the things around and steer the national economy out of present deep crisis. Definitely, economic revival and stability would take its time and we, as a nation, should keep patience and wait for good time to come when policies and reforms being undertaken now would yield results in near future.

Mr. Asad Umar as Finance Minister is going through a tough phase at the moment but having the intellect, vision and understanding of the core issues and their solutions, it is expected that he would deliver as per expectations reposed on him by the Prime Minister Imran Khan. His corporate career is indicative of the fact that he is not a materialistic person, rather a goal-oriented professional. When Asad Umar took over as President and CEO of Engro, it was just a fertilizer manufacturing company with a small petro-chemical subsidiary. Under his leadership, the company transformed into a diversified industrial conglomerate with interests ranging from fertilizers, foods, petrochemicals, chemical storage, energy and commodity trading. What is interesting to note is that under his stewardship, Engro was able to grow its revenues exponentially from just 12 billion in 2004 to Rs. 114 billion in 2011. This speaks volumes about his leadership qualities. However, time would testify how much successful he would be in his role as Finance Minister.

Mr. Asad Umar has on his credit diversified experience which we expect, would provide him greater leeway in developing and implementing reforms in different economic and industrials sectors. In 2010, he was awarded Sitara-i-Imtiaz by Government of Pakistan for his public service and engagement in promoting the cause of Pakistan through investments, social service and more. Similarly, he received an award of excellence from Marketing Association of Pakistan (MAP) in recognition of his contributions to the field of marketing and management and his positive role in Pakistan's economy. Unlike other finance ministers, Asad Umar has watched the capital market operations more closely while he was one of four non-member directors appointed by the SECP on the board of the then Karachi Stock Exchange in 2006. He was also Chairman of Pakistan Business Council (PBC) which was formed in 2005 as an advocacy forum to improve the general business environment of the country. He remained as Directors on the boards of State Bank of Pakistan (SBP); Karachi Stock Exchange (KSE); Oil and Gas Development Company (OGDC); Pakistan State Oil (PSO); Port Qasim Authority (PQA); Pakistan Centre for Philanthropy and other boards of companies.

Lecture on Economic Potentials of Pakistan
May 2015 | Lahore

> "Mr. Asad Umar as Finance Minister is going through a tough phase at the moment but having the intellect, vision and understanding of the core issues and their solutions, it is expected that he would deliver as per expectations reposed on him by the Prime Minister Imran Khan"

By looking at the above career profile of Mr. Asad Umar, it looks certain that the country would not only come out of the present economic crisis under his leadership but would also be able to move ahead to join the fastest-growing economies of the world in very short span of time.

One lesson that we learn from Mr. Asad Umar's career is that it is now imperative that professional people like ex-corporate executives, educationists, doctors, lawyers, engineers and accountants join the mainstream politics so that policy-making shifts away from traditional politicians into the hands of enlightened and competent people from the middle class. This is the only panacea for all our social and economic ills.

ICMA Pakistan wishes all the best to the incumbent Finance Minister and looks forward to working with the new Government to supplement its efforts in reviving the national economy and achieving rapid economic growth and prosperity in future. Long live Pakistan.

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Proposed Reforms for Economically Prosperous Pakistan

– Priority Action Plan for New Government

By Research & Publications Committee, ICMA Pakistan

The Research and Publication (R&P) Committee headed by Chairman, Mr. Muhammad Yasin, FCMA and comprising of members viz. Mr. Muhammad Shahid; Dr. Salman Masood; Mr. Muhammad Azhar Khan; Mr. Salman Haider; Syed Mubashir Ali; Mr. Danish Naeem; Mr. Rashid Mehmood; Mr. Saqib Masood; Mr. Sohail Anjum and Mr. Muhammad Shoaib, has finalized, after threadbare discussion, a **'first-quarter priority action plan'** for consideration by the new Government. The proposed action plan encompasses pragmatic solutions to wide-ranging problems and issues presently being faced by the country at both the internal and external fronts. These issues, inter alia include rupee devaluation; lackluster foreign lobbying; opposition's allegation of election rigging; water shortage; energy crisis; dwindling exports; defective tax system; corruption; inefficiencies of public sector organizations; huge public expenditures; etc. The Action plan has been unanimously approved by ICMA Pakistan's National Council for presentation to Mr. Asad Umar, Federal Minister for Finance, Revenue and Economic Affairs.

The Editorial Board has thought it prudent to publish this proposed action plan with relevance to the current issue's theme on 'Economic Agenda for the New Government' for the benefit of all stakeholders i.e. members, students, government, trade and industry, professionals, economists and experts. Any comments or observations on the action plan may please be forwarded to the Research and Publications Directorate of ICMA Pakistan on email address: ***rp@icmap.com.pk***

A. Stabilizing Pak Rupee Value and Inflation

1. Pak Rupee is the worst performer in Asia this year, according to a basket of 13 currencies compiled by Bloomberg. Pak Rupee has been devalued four times during the last 8 months. In December 2017, Rupee value stood at 105 against one Dollar.
2. This sharp devaluation in Rupee has unleashed a new wave of inflation in the country and created additional problems for business and industry. It has multiplied the cost of doing business and badly affected the industrial, manufacturing and agriculture sectors as Pakistan has to import fertilizers, food items, oil, machinery and industrial raw material.
3. The new Government need to take urgent measures to end volatility and bring stability in the local currency as weaker rupee would not only increase cost of doing business, especially for companies that are import-dependent; but will also make cost of imported raw material high for the exporters.
4. The Government must immediately form a Task Force at SBP that may comprise of financial experts, economists, representatives of FPCCI and Professional Accounting bodies like ICMA Pakistan to ascertain the factors weakening the value of rupee and check the possibilities of undue speculations and malpractices in the operation of foreign exchange markets. This will help stabilize rupee and restore the confidence of the business community.
5. The new Government may consider to immediately waive of all kinds of taxes and levies on essential commodities like flour, sugar, rice, ghee, oil and dairy products to bring some relief to general public.
6. There is an urgent need to restrict government borrowing to curtail excessive monetary growth leading to inflationary pressure. A ceiling may be imposed by the government itself.
7. The Government should make immediate crack down on hoarders of food items, (irrespective of their political affiliations) that result in artificial inflation.
8. Government may consider forming nation-wide network of 'Consumer Societies or Associations' to assert pressure on Retailers Associations not to charge excessive profits on essential items. The provincial government may be asked to support these Societies.
9. From the perspective of common people, the government should put in place an effective national price-control mechanism to control and check sustained inflationary pressures and undue profitability in market by determining actual cost of every product sold and discouraging hoarding. ICMA Pakistan would be pleased to extend its professional services in cost determination and audit

B. International Lobbying Campaign

10. The new Government need to initiate a well thought-out campaign for international lobbying with the objective to

sort out thorny issues in its relations with neighboring countries and USA. In this context, a 'Consultative Group' may be formed where foreign policy and diplomatic experts may be invited to present pragmatic solutions to these issues and challenges for consideration of the new Government.

11. Pakistan has been placed on 'Grey List' of Financial Action Task Force on Money Laundering (FATF) which seems part of an orchestrated campaign of certain international quarters to isolate Pakistan. Due to inclusion in the grey list, Pakistan will be portrayed as a country sponsoring terrorism with a weak financial system which would compel IMF and other international donors not to lend to Pakistan. There is need to adopt a cautious approach in dealing with this issue.
12. USA has recently shown its concern that the multibillion-dollar road and rail network, which is part of China's 'One Belt, One Road' initiative, passes through a disputed territory. Similarly, USA-China recent Trade War has its implications on CPEC. There is need to adopt sagacious policies so that Pakistan can act as a catalyst in facilitating USA-China talks on CPEC and other issues.
13. The new Government must boost economic cooperation with GCC countries and enhance trading relations with Iran, Turkey and Central Asian States using ECO platform to improve economic outlook.
14. The new government must hire the services of international lobbyist organizations to portray the soft picture and positive image of Pakistan as a 'peace loving country' as well as an 'emerging economy' with lot of investment opportunities for foreign entrepreneurs.

C. Addressing Election Rigging Issues

15. Almost all the political parties in the country who now constitute a 'combined opposition' have made allegations of rigging in the recently held general elections. This is a serious issue and need to be addressed on war footing basis otherwise the combined opposition can give a tough time to the new Government in the implementation of its economic manifesto and policies.
16. Though PTI Chief Mr. Imran Khan in his very first speech after gaining victory in elections, has promised to investigate charges of allegations raised by the political parties. These words of promise need to be transformed into reality otherwise it would cast a bad image of the new Government.
17. The new Prime Minister, soon after taking charge, must constitute a 'Task Force' that may be tasked to submit its Report in one month. The proposed Task Force may comprise one representative each of all political parties; Election Commission of Pakistan (ECP); Judiciary; EU Election Observation Mission (EU EOM) and Pakistan Journalist Association (PJA).

D. Water Conservation Policy

18. Water is a big challenge for new Government that need to be tackled on 'war-footing basis'. Pakistan is likely to face a major water crisis by 2025 which may slow down our agriculture growth. According to research by American University, Pakistan is among the top ten countries in the world which is suffering from water crisis. As per IMF, Pakistan is ranked 3rd among the countries facing intense water crisis and might run dry by 2025, causing a drought-like situation. The main reason behind this acute shortfall is that India has recently blocked water flow from India to Pakistan.
19. The new Government must take bold decision to initiate work on Kalabagh, Dasu and Diamer-Basha Dams. According to a recent report, 40 million acre-feet (MAF) of water is draining into the sea due to lack of dams. The Kalabagh Dam has a capacity to store 6.4 MAF of water, the Diamer-Basha Dam can store 5.8 MAF, and the Dasu Dam can store 6 MAF of water. If these three dams are completed, then lot of water will be saved from being wasted which may aid in reducing the water shortage.
20. The Government may develop a national action plan for combating chronic water shortage and devise realistic water policy with population-based distribution of water resource.

E. Managing Energy Crisis

21. To deal with problem of rising energy costs for manufacturing sector, new Government must consider locking the tariff structure for next five years so that investors can be sure of their five-year planning.
22. A Special Task Force may be formed to take immediate crack down on 'energy thefts' throughout the country to reduce losses in electricity transmission and distribution. It is estimated that 40% of IPPs are non-operational due to circular debt, which has exceeded Rs 500 billion and is likely to further rise due to low recovery and higher incidence of power theft and line loses across the country.
23. In those parts of country where national grid do not exist, business community may be allowed to set up their own power projects (solar and wind based) without the prior permission of NEPRA.
24. A Committee may be formed immediately to finalize a national plan to generate electricity through use of waste materials of crops like sugarcane bagasse, cotton waste, rice husk etc.
25. Instead of importing expensive oil and gas, we can import cheaper clean coal for power generation. The coal price is stable in international market which will help bring stability in electricity prices.
26. The Government must focus on building large number of small dams on Public-Private Partnership (PPP) basis to generate hydel power and to boost agriculture productivity.
27. The Government may provide interest-free loans (to be paid in easy installments) to public in urban areas (initially in Karachi, Lahore and Islamabad) to install small solar panels in their homes to generate energy. For this purpose, funding can be obtained from international donor agencies.

F. Diversifying Exports

28. Pakistan faces a widening trade deficit that has led to continuous decline in foreign exchange reserves and weak currency. There is urgent need to boost exports to curb the trade deficit. At present, we completely depend on export of textiles and raw agriculture products which will never help us to increase exports beyond US$ 30 billion. There is need for increasing exports of value-added products.
29. A forward-looking and long term export policy need to be developed that provide significant incentives for diversified value-added products. Various Free and Preferential Trade Agreements (FTAs) signed with different countries which did not brought benefits to Pakistan may be reviewed.

30. Incentives announced for exporters under Prime Minister's package may be provided in cash through commercial banks as is being done in Bangladesh; The exports refunds should also be adjusted against the tax liabilities of exporters.
31. There is also need for diversification in export products as well as markets for sustained export growth. Africa, South and Latin America and Central Asian countries are the non-traditional markets for Pakistan's exports and have huge potentials for enhancing exports.
32. Trade Development Authority of Pakistan (TDAP) need a complete overhaul and re-structuring as it has totally failed in boosting national exports and providing value added service to exporters.

G. Restructuring Tax Regime

33. The new government may consider to initiate policies that push direct tax collection and reduce the burden of indirect taxes on businesses and individuals by restructuring tax regime and administration.
34. All taxes should be merged into one single tax with complete assurance to tax payers that they would be free from any kind of harassment and money collected would be spent towards their welfare.
35. All existing indirect taxes, both at the federal and provincial levels may be replaced with Harmonized Sales Tax (HST) on goods and services as practiced in Canada and other countries.
36. The regular tax payers may be offered tax incentive scheme to settle their old and pending tax issues through which the government can generate substantial tax revenues.
37. Multiplicity of taxes and departments should be abolished and different investigative departments under FBR may be merged into one Department.
38. A policy-making body, separate from FBR may be formed having representatives from the Planning Commission, Ministry of Finance, Ministry of Law, FBR, Professional Bodies like ICMA Pakistan, ICAP, Tax Bar Association, Chamber of Commerce and Stock Exchange. This body should make amendments in tax laws and finalize the Finance Bill well before the announcement of budget in Parliament.
39. At present businesses are registered with different authorities such as SECP, FBR etc. All of them are not active tax payers. All business registrations and renewals should be made under a single 'Business Registration Authority' which would help broaden tax base and increase revenues.

H. Strengthening Public-Private Partnership (PPP)

40. The government and private sector should engage into a mutually supportive relationship and work collectively for industrialization, leading to rapid economic growth. The private sector should play a leading role in all economic activities whereas the government's must only provide a regulatory and supportive role to facilitate business and remove impediments to industrialization. The professional institutions like ICMA Pakistan should also be associated by the government in this regard.
41. A Joint Government-Business Forum (JGBF) may be formed, comprising of Ministers of Finance, Commerce, Industry, and Investment (from Government side) and Presidents/ Chairmen of Chambers and industry Associations (from private sector) that meet regularly on quarterly basis to resolve problems faced by trade and industry as well as to seek their proposals in framing economic policies.
42. A renowned business personality of each province may be nominated as 'Special Advisor' to the Chief Minister for advising him about business concerns and to identify areas for future business growth.
43. A member nominated by ICMA Pakistan may be appointed as 'Consultant' in each Province who will be providing technical services to the local governments in developing and sustaining cost-efficient public development projects under PSDP scheme. This would ensure huge savings for government.

I. Developing Integrated Industrial Policy

44. The Government must develop and announce an 'Integrated Industrial Policy' and set up a Permanent Task Force to implement the strategies to speed up industrialization in the country. The capital goods industry and the services sector should be given priority in proposed policy.
45. The government should develop and announce a comprehensive SME Policy in consultation with private sector to address the key issues of SME sector and ensure them a conducive environment to play a leading role in driving the economy towards fast growth trajectory.
46. SBP has introduced several financing schemes for SMEs but commercial banks are reluctant to take risks. SBP may come up with financing scheme in which risk is shared equally by SBP and commercial banks by virtue of credit insurance.

J. Agricultural Reforms

47. The new Government must introduce agricultural land reforms that may cover streamlining farm sizes and land holdings, to bring positive change in lives of small farmers.
48. Due to urbanization, many productive agricultural lands are being turned into residential area with construction of different housing schemes. This need to be discouraged by new Government as it would lead to decrease in our agricultural productivity in the long run.
49. Punjab's average yield for wheat, sugarcane, rice and maize remains 25-45% behind average yields in the Indian Punjab. This deficit is costing Punjab about $6 billion in nominal GDP every year. There is need to bring improvements in seed provisioning mechanism and irrigation costs.
50. In Pakistan the Support Price for only four agricultural crops viz. Wheat, Sugarcane, Rice and Cotton are announced by government, whereas in India, the Minimum Support Price (MSP) of 23 agricultural crops are declared by the government. The new Government must look into this and try to develop support prices for more crops after studying the Indian example for farmer' benefit.
51. Around 37.26 million citizens are malnourished. A National Food Security Policy 2018 was announced by the previous Government in March 2018 which aims at promoting sustainable food production systems in Pakistan. The new Government need to review this

national food security policy and bring more improvement before implementation to tackle this serious issue confronting the citizen.

52. The new government must consider to withdraw taxes on water, electricity, seed, pesticides and fertilizers to enable the cotton growers to achieve maximum cotton production and compete regionally in terms of the input cost. There is also need to bring investment in agricultural infrastructure and supply chain to make agriculture sector globally competitive.

K. Controlling the Twin Deficits [Fiscal Deficit + Trade Deficit]

53. Pakistan's economy is facing twin deficits. As per May 28, 2018 SBP's Monetary Policy Statement, fiscal deficit for FY2018 is projected at 5.8% of GDP whereas trade deficit for first 10 months of FY2018 stood at 11% of GDP. According to Fitch Ratings [one of 3 big credit rating agencies in world] Pakistan's fiscal deficit is likely to rise to around 6% of GDP in FY 2018 whereas the current account deficit is likely to reach 5.3% of GDP in FY 2018.

54. To tackle the twin deficits, the new Government must take immediate steps which may include approaching friendly countries like China, Saudi Arabia and Turkey to provide loans on easy terms to enable Pakistan to come out of this crisis. If required, SBP may be advised to impose cash margin on imports of more products to curtail imports which has of late increased substantially on speculation that rupee will devalue further. This would help curb trade deficit and Forex reserves.

55. The Government need to explore new avenues for raising revenues for improving the fiscal deficit. A well-thought out policy must be designed in long run to reduce dependence on IMF loans and bailout packages. We must rely on our own resources to manage national economy. Malaysia and Turkey are good examples that Pakistan can follow as they did not resort to IMF loans despite tough challenges.

56. Government may announce a special package of incentives for overseas Pakistanis to set up SMEs in Special Economic Zones in Pakistan. This would give impetus to inflow of funds by expatriates that may help improve balance of payment position and also result in industrial and economic growth.

L. Combating Corruption and Inefficiencies of PSEs

57. The new Government may consider to appoint people from the Private Sector having good track record of management, organization and administrative skills as heads of Public Sector Entities (PSEs) like PIA, Railways, Pakistan Steel Mill, PEPCO, NHA, PASSCO, TCP, Utility Corporation etc

58. A 'single government holding company' may be formed to replace and take up role of different administrative ministries in controlling PSEs. Independent boards of directors may be formed and empowered to govern these PSEs with clear mandates, targets and accountability.

59. A 'code of conduct' should be framed for the public servants and parliamentarians. Through an act of Parliament, it should be made obligatory to follow the code. There should be continuous and effective audit of personal accounts and bank accounts of politicians and bureaucrats.

60. Political will is the key driver of systematic change in corruption environment. An anti-corruption reform be undertaken in public and civil services.

61. NAB should be given more powers and independency to check corruption cases. It should be truly independent of any executive or political control to investigate into allegations of corruption against politicians, bureaucrats etc. The business community and the civil society may be associated in anti-corruption reforms and initiatives to keep a check and balance on NAB.

M. Curtailing unnecessary Public Expenditures

62. Non-development expenditures constitute a big portion of government spending which need to be cut down in order to utilize this money on productive developmental avenues. This would eventually spur economic growth in the country. The new government must, therefore, consider to reduce unnecessary public expenditures and try to keep its activities within budgetary allocations.

63. Overlapping or redundant departments/divisions in government ministries may be abolished or right-sized to curtail unnecessary expenditure. Similarly, unnecessary recruitment should be stopped and additional staff should be appointed in other departments according to the requirement.

64. There are various government projects which are incurring continuous heavy losses to the treasury. Such projects need to be identified and closed down to save precious money running in millions of Rupees being incurred on them for keeping them in operation. The other alternative is to offer them to the private sector for taking over the loss-making entity at reduced price offers.

65. The new government may conduct an 'Expenditure Reforms Analysis' to determine direction and deployment of revenues raised as a result of various tax and tariff reforms. An 'Expenditure Reform Curriculum' may be developed that cover a detailed cost benefit analysis of government expenditures as well as analysis of adopting optimal approach for gradual shifting and reformation. Once the optimal expenditures are identified, it will be economically efficient to set targets for tax collections and revenue utilization. Cost and Management Accountants may be associated for this task.

66. The release of funds for PSDP projects is on basis of formula which is 20% in first quarter; 30% each in second and third quarters; and 20% in fourth quarter. It is observed that actual utilization. The new Government may make it a policy to conduct detailed audits to assess actual utilization of PSDP funds prior to release of next installments. This would lead to lesser expenditures and bring transparency.

N. Improving Ease of Doing Business and Investment

67. The new Government may consider to form a 'Regulatory Reforms Committee or Commission' to coordinate all the initiatives taken by different Government Ministries/ Division in developing and implementing regulatory, economic, financial, capital market, governance and other

> "The Cost and Management Accountants (CMAs) may be associated by new government in developing rescue plans for the revival of inefficient Public Sector Entities (PSEs) like Pakistan Railways, PIA, Pakistan Steel, etc. They can help such units in overcoming their management-related problems and achieving efficiencies and maximum production capacity"

reforms. In Brunei Darussalam, Columbia and Rwanda, such Regulatory Reforms Committees have been formed which ensures coordination of efforts across different agencies, and reports directly to President. Other countries like China, Korea, Taiwan, Malaysia have formed regulatory reforms committees.

68. The proposed Regulatory Reforms Commission may carefully re-examine all the laws and regulations, having an impact on the ease of doing business and suggest necessary changes and improvements to improve ranking in the Doing Business Report of the World Bank. Special focus should be given to lower the regulatory barriers in line with international best practices.

69. One window facility or 'one-stop shop' should be provided for those entrepreneurs, both local and foreign, who intend to start new business. All procedural and legal requirements should be simplified and completed in shortest possible time. For this purpose, exclusive 'Facilitation Desk/ Cell' may be established in the Board of Investment and the Registrar of Companies offices.

70. The system of 'Commercial Arbitration Courts' need to be strengthened for expeditious discharge and settlement of commercial and financial disputes, as Civil courts are heavily burdened with backlog of civil cases. This would help bring down transaction cost; encourage robust commercial activity and facilitate FDI. Introduction of e-filing cases in commercial courts may also be considered.

71. Corruption and red-tapism in bureaucracy is a major deterrent to investment. The new Government must take stringent actions to provide a transparent mechanism for investors with less contact with bureaucracy. This would eliminate the 'hidden cost' of doing business e.g. bribes to regulators and tax authorities etc. and create a conducive business climate and ease the business start-up process.

72. The government should ensure better use of information technology to make governance transparent and efficient. It may consider introducing online and computer based services to ease business start-up, such as for construction permits and property transfers.

O. Engaging Management Accountants to achieve Cost and Economic Efficiency

73. The cost audit regime may be enhanced to all the manufacturing industries in Pakistan to achieve economic efficiency and control general market inflation. Cost audit reduces the cost of production and eventually the benefit passes on to the general public in shape of reduction in prices.

74. The Cost and Management Accountants (CMAs) may be associated by new government in developing rescue plans for the revival of inefficient Public Sector Entities (PSEs) like Pakistan Railways, PIA, Pakistan Steel, etc. They can help such units in overcoming their management-related problems and achieving efficiencies and maximum production capacity.

75. Poor planning and governance; unclear scope definition, procurement leakages, etc. are some of the key reasons for the failure of PSDP projects in Pakistan. The new Government must consider to carry out 'cost audits' of PSDP Projects which can be done by the cost and management accountants.

76. CMAs can offer professional expertise to private sector in reviving sick and low-operating industries, especially textile mills and fertilizer plants. As Consultants, CMAs can help textile sector in diagnosing the reasons of sickness or idleness and putting such units in operating condition.

77. The Management Accountants can play a vital role in setting and monitoring of prices. In the telecom sector which is a specialized field, the Management accountants can extend services to telecom operators of Pakistan for setting their valuation as market forces are determining prices. Similarly, they can assist OGRA in reviewing the existing tariff regime for natural gas sector.

78. Public delivery system in Pakistan is not to the satisfactory standards as there is absence of control mechanism for effective utilization of public funds and resources. This leads to wastage or misuse of public money. It should be made pre-requisite for Local bodies to develop a 'Cost Accounting Sub-system', in addition to existing financial management system, as an instrument to support local government management. This would lead to better efficiency, effectiveness and economy in resource application. The professional expertise of Management accountants could be utilized in developing and administering the 'cost accounting sub-systems' at provincial and local bodies' levels.

79. Comprehensive audit may be undertaken of all CPEC-related projects to ensure transparency. The professional services of cost and management accountants may be utilized for technical evaluation and cost audit. The reports of such audits be published on the website of Ministry of Planning.

80. Cost and Management Accountants may be associated in the economic policy making, especially in the introducing zero-based budgeting concept in the budget process to bring down costs and productive allocation and utilization of budgetary resources which are not utilized by departments.

Wish all the best and assure ICMA Pakistan's whole-hearted support and cooperation to the new government

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Reforming Tax System and Administration

Pakistan, at the moment is faced with a crucial fiscal situation. Despite efforts at reform and improvement in revenue collection in the recent years, Pakistan's budget deficit has been growing; from Rs. 1349 Billion in financial year (FY) 2015-16, to Rs. 1863 Billion in FY 16-17, and to Rs. 2260 Billion in FY 17-18.

There are only two fundamental ways to deal with the deficit, either increasing the revenue or decreasing the expenditure. Regrettably, in Pakistan, government's endeavors in both these areas leave much to be desired. Efforts at reducing expenditures and increasing revenue, primarily through increasing tax effort and recovery, have not brought substantial dividends in the past. There is a near consensus that given the structure of Pakistan's government and economy, there exists considerable potential for reduction in expenses and increase in revenue; perhaps, more as to the latter than the former.

Regards the tax revenue, for instance, Pakistan's Tax-to-GDP ratio is 13.1% . According to the World Bank, it is "one of the lowest in the world" and the Bank estimates that "it is still half of what it could be for Pakistan." The IMF has a similar view: "Pakistan's tax-to-GDP ratio has remained low by international comparison," lower than that of India, Turkey, Thailand, and Egypt. It estimates that Pakistan has the potential to reach a tax-to-GDP ratio of 22 percent.

Broadly, since our revenues fall short of our expenses, we need to focus more on increasing the former and reducing the latter; and on revenue side, it is the tax revenue, which has got the potential, and should remain the focus of government effort and reform.

This study has undertaken to look at the history of fiscal and taxation reforms undertaken in Pakistan and to recommend further actions that the government might take for improvement. Precisely, this study relates to:


Badruddin Ahmad Quraishi, FCMA

a. Analyze previous failures in resource mobilization;

b. Devise strategy to raise the tax on GDP ratio to the international standards within 2 to 3 years (short term);

c. Examine the success stories of Punjab Revenue Authority (PRA) and Sindh Revenue Authority (SRA) and identify lessons for other tax collecting agencies; and

d. Formulate recommendations for the next budget (FY 19-20) along with action plans and key performance indicators for various actors.

This report will focus primarily on taxation side of the fiscal equation.

Statement of the problem

In the backdrop of the above, the following questions have been framed for research and analysis:

Table - 1 (In Millions of Pakistan Rupees)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total Revenue	**3,637,297**	**3,931,042**	**4,446,979**	**4,936,723**	**5,228,015**
Tax Revenue	**2,564,509**	**3,017,596**	**3,660,418**	**3,969,248**	**4,467,160**
Federal	2,374,540	2,811,773	3,377,145	3,647,476	4,065,788
Provincial	189,969	205,823	283,273	321,772	401,372
Non Tax	**1,072,788**	**913,446**	**786,561**	**967,475**	**760,855**
Federal	1,023,414	837,831	693,247	887,976	614,157
Provincial	49,374	75,615	93,314	79,499	146,698
Total Expenditure	5,026,016	5,387,767	5,796,302	6,800,520	7,488,395
Current Expenditure	4,004,582	4,424,747	4,694,294	5,197,854	5,854,267
Of which Markup Payments	1,147,793	1,303,767	1,263,368	1,348,435	1,499,922
Defense	623,085	697,821	757,653	888,078	1,030,407
Development expenditure & net lending	1,236,528	1,140,604	1,314,104	1,680,657	1,621,682
Statistical discrepancy	215,094	177,584	212,096	77,991	12,446
Budget Deficit	**1,388,719**	**1,456,725**	**1,349,323**	**1,863,797**	**2,260,384**
Financing	**1,388,719**	**1,456,725**	**1,349,323**	**1,863,797**	**2,260,380**
External	**511,727**	**181,032**	**370,465**	**541,390**	**785,166**
Domestic	**876,992**	**1,275,693**	**978,858**	**1,322,407**	**1,475,214**
Non-Bank	553,330	366,138	191,843	276,629	352,719
Bank	323,662	892,057	787,015	1,046,778	1,120,495

Summary of Consolidated Federal and Provincial Budgetary Operations, 2015-18[1]

[1] Ministry of Finance, Islamabad

a. What measures can be taken to deal with the fiscal deficit Pakistan is facing at the moment?

b. Which area, out of revenue and expenditure, is more critical and important for these measures to be taken?

c. If taxation area is the one that is more critical, what measures can be taken to improve the tax collection?

Our revenues of around Rs. 5 trillion are not enough to meet our expenditures of around Rs7.5 trillion and we are recovering taxes at 50% of our potential.

Situation Analysis:

The current fiscal situation of Pakistan's economy is reflected in the Table-1.

Table-1 indicates the following:

During the last three FYs (2015-16 to 2017-18), total revenue of the government has increased by 9.5%, while its expenses have increased by 13.5%. Resultantly, the deficit over these years has been increasing by 30%.

The major and substantial source of government's revenue is tax revenue, Rs. 4467 Billion, out of Rs. 5228 Billion (2017-18), (85.44%).

Government has been financing its deficit through lending from domestic (65.3%) as well as foreign sources (34.7%).

The report has analyzed the current expenditure of the Government to see what can be done to better manage and reduce government expenses, and to assess how much potential benefit can be drawn out of this.

The Table-2 shows breakup of Pakistan's Current Account Expenditure for the FYs 17-18 (revised) and 18-19. An analysis of above brings the following to the fore:

a. It is evident that the expenses incurred on Defence, repayment of loans and markup payments are areas in which no major reduction can be brought about in the short, or even medium, terms. It seems that, in context of loan repayments and markup payments, we will have to bear the burden of our past actions taken during the last years.

b. Similarly, given the geostrategic situation Pakistan is in, it is unlikely that we will be able to bring about any reduction in the defence spending.

c. At best, the potential areas for any saving through reduction in expenditure are only Subsidies, Grants and non-salary part of the cost of running civil government.

d. Major heads of government's subsidy include subsidy payments to Power Sector (Rs. 118 Billion) and PASSCO (Rs. 16 Billion). These subsidies are aimed at equalizing the cost of electricity across different parts of the country; and are mostly paid out to set off the impact of bad governance, including power theft, in the power sector. It is true that this subsidy should be done away with, but practically, this

Table - 2 (Rupees in Million)

	Classification	2017-18	2018-19
i	**Mark up Payment**	**1,526,204**	**1,620,230**
	Mark up on domestic Debt	1,332,001	1,391,000
	Mark up on Foreign Debt	194,203	229,230
ii	**Pension**	**333,355**	**342,000**
	Military	253,000	259,779
	Civil	80,355	82,221
iii	**Defence Affairs and Services**	**999,237**	**1,100,334**
	Defence Services	995,949	1,097,949
	Defence Administration	3,288	2,385
iv	**Grants and Transfers**	**461,638**	**477,924**
	Grants to Provinces	26,485	28,000
	Grants to others	435,153	449,924
v	**Subsidies**	**147,604**	**174,746**
vi	**Running of Civil Government**	**402,076**	**463,371**
	Salary	217,284	242,742
	a) Pay	108,475	128,011
	b) Allowances	108,809	114,731
	– Non Salary	184,792	218,129
	– Others	—	2,500
	Current Expenditure (i to vi)	3,870,114	4,178,605
vii	**Foreign Loans Repayment**	**428,165**	**601,754**
	Total Current Expenditure (includes foreign loans repayment)	**4,298,279**	**4,780,359**

Summary of Current Expenditure 2018-19

cannot be done unless the governance issues in the Power sector are dealt with and addressed.

e. Similarly, the Grant by the Government of Pakistan include payments to provinces, AJK, Gilgit Baltistan and federal government entities for their immediate development or contingency needs. Since, most of these are need-based, these payments are quite inelastic in nature and cannot be reduced or done away with in a single go.

The above analysis shows that while there is a need and requirement for the government to reduce its expenses in certain areas, it is also evident unequivocally that the resultant savings will not be sufficient enough to finance the deficit we are facing.

The quantum of fiscal deficit that Pakistan is facing can only be met with by increasing the government's revenue. On this side, the non-tax revenue, which was Rs. 845 Billion in FY 2018 (revised), is relatively inelastic. Its major sources included markup and Dividend (Rs 210 billion) Pakistan Telecommunication Authority (PTA) (Rs. 6.8 Billion), surplus profits of the SBP (Rs. 260 Billion), Foreign Grants (Rs. 34 Billion), Passport and copyright fees (Rs. 28 Billion) and royalties on natural gas (Rs. 36 Billion) and oil (Rs. 17 Billion). It is evident that most of these incomes and receipts are not prone to any increase as a result of increased effort. For higher receipts, government will have to increase the rates and charges for various services, like licenses and passports etc., which, in the opinion of this WG, are already optimal.

The historic data also confirms this assertion since there has not been any major change in receipts under these heads in the recent years, except the foreign grants (including Coalition Support Fund), which is dependent on many extraneous strategic, diplomatic and political factors.

The real answer to our fiscal question lies in increasing the tax revenue, which offers substantial potential increase. As indicated in the introductory paras, both the World Bank and IMF have assessed that given an efficient and effective tax administration and policy, we can double our tax revenues.

For countries not endowed with valuable natural resources, the foremost indicator of robustness of a state's machinery to collect taxes is tax-to-GDP ratio, which at the moment stands at 13.1%. This ratio averages 21% is emerging market economies and goes upto about 38% in OECD countries. In India, it is 17.1%, in UK 34.4%, in USA 26% and in Turkey, 24.9%.

There has been an increase in this ratio in the recent years owing to government's increased focus on tax effort; in 2009, it was 9.1%, and save for a year or two, it has increased on year on year basis.

There are many reasons behind this much-lower-than-potential tax recovery.

The current state of affairs of the taxation system in Pakistan leaves much to be desired. There are only 1.21 million citizens paying income tax, in a population of 208 million, i.e. less than 1% of the population. FBR reports that out of 3.9 million people registered as income tax payers, only 50% of the 1.2 million, who file tax returns, actually pay tax.

Out of the total Income Tax collected, 77% is collected from the corporate sector and 23% from individual taxpayers. The tax net fails to reach far and deep. Only 25,000 out of over 65,000 companies registered with the Securities and Exchange Commission of Pakistan (SECP) actually filed a tax return (approximately 38% of the total). Of these, 40% did not declare a profit; only 1% of the companies accounted for 79% of Corporate Income Tax collection.

Similarly, in other sectors, the situation is no different. Out of 500,000 practicing doctors in the country, duly registered with the Pakistan Medical and Dental Council (PMDC), only 14,000 filed their tax return. Out of approximately 500,000 registered lawyers, only 5,000 practicing lawyers actually filed a tax return.

In the absence of a robust and penetrating Income Tax regime in the country, we have increasingly moved towards a very broad Withholding Tax Regime, which has been more of a 'convenience' for the government, rather than an optimal policy. There are 60 or more withholding income taxes on various services that everyone obtaining that service has to pay. State Bank of Pakistan reports that there are more than 57.5 Million people gainfully employed in the country; and broadly speaking, all of these are taxpayers as they obtain services in the course of their normal life. On the other hand, since the majority of these taxpayers either don't qualify to pay Income Tax, or just don't file their Income Tax return, no one gets the refunds.

It is not therefore surprising that out of total income tax revenue, 70% is collected through the withholding tax regime. Major contribution in this comes from mobile phone service providers, banks and private schools etc.

Regards the Sales Tax, which amounts to 40% of the Total Revenue, it is noteworthy that only 146,891 persons are registered for Sales Tax in the country, and out of these, only 29,082 are actually paying any tax under this head.

The indirect taxation regime, such as the Sales Tax on petroleum, supply the large bulk of government revenue; a narrow base of few large companies account for most of the rest. This has led to the tax system becoming inequitable, unfair and inefficient.

There are many reasons for this state of affairs. Exemptions (from Income Tax, as well as Sales Tax), weak enforcement of law and large-scale culture of non-compliance undermine the tax collection. One major reasons for tax noncompliance lies in the economy's being informal and undocumented. Various studies have concluded that more than half of Pakistan's economic activity takes place in this informal part.

Other factors include lack of consideration for values and integrity, incentivization for dishonesty in the shape of Tax Amnesty schemes, Presumptive Taxes and lack of documentation, Adhocism in terms of Economic and Fiscal policy, Tax evasion, widening gap between the rich and poor, Exemptions, concessions and reduction in tax rate, trust deficit between the tax collector and payer, no effective concept of Tax Payers' Rights, Inadequate Tax Payers' Facilitation, Lack of Research and Analysis, Inadequate focus on technology and training of users, lack of capacity of FBR Staff, weaknesses in terms of integrity of Data and its ownership.

An idea about the potential of improvement in tax collection can be had from the fact that different sectors contribution in the

GDP of Pakistan is seriously disproportionate with their shares in the revenue. For instance, the services sector contributes 55% towards the GDP, whereas only 28% of government's revenues are from this sector. Similarly, agriculture's share in GDP is 22.8%, while its contribution in Total Revenue is only 1.2%. The mismatch is drastic in Industrial sector, which contributes to about 20% of GDP, while pays 70% of Total Revenue.

IMF has advised that "Pakistan needs to bolster revenues through broadening the tax base and improve compliance in order to generate resources for reducing public debt, while it must increase spending in priority areas such as public investment, health and education".

Pakistan's tax system is also mired with multiplicity of taxes, overlaps and redundancies. According to the World Bank, it takes 594 hours of work for a taxpayer to prepare his papers and case for paying taxes. According to another World Bank supported study, "Paying Taxes 2015", out of 186 Countries surveyed, Pakistan ranked 172 in difficulty of tax compliance. It is no surprise therefore that Pakistan's tax base is very narrow, and those paying taxes find compliance complex, time consuming and full of ethical breaches.

It has been widely held and reported that tax rates in Pakistan's taxation system are too high and not optimal. For instance, Corporate Income Tax rate in Pakistan is 30%, against the regional average of 25%, with the rate in India at 34%, Sri Lanka 15%, China and Bangladesh, 25%. The rate of sales tax is rather the highest in the region. In Pakistan, it is 17%, whereas in India, it is 15%, Bangladesh 15%, Sri Lanka 11% and in Afghanistan, it is 10%.

It has been variously argued that these rates need to be brought down to increase the tax collection and to attract more taxpayers into the tax-net. The FBR however believes otherwise and argues that the correlation between lowering of rates and increase in revenue may not work as expected in a predominantly undocumented economy like that of Pakistan. The WG believes that it is likely that collection may dip downwards a bit after the rates are lowered but in due course, the correlation will work and will lead to more revenue generation. The government need to brace for a small dip as it reduces the tax rates. But since, owing to political expediency, the long term is usually sacrificed at the altar of the short term; and therefore, no one has been willing to take the 'hit' for a longer term benefit.

Dr. Ishrat Husain, in his latest book, 'Governing the Ungovernable: Institutional Reforms for Democratic Governance', has rightly highlighted that under the existing tax system, less-privileged segments of society are subjected to oppressive taxation." He has found the existing taxation and fiscal system to be suffering from 'elite capture'. Similarly, given the inequities, loopholes, gaps and inefficiencies of the system, others have termed Pakistan as an 'onshore tax-free paradise'.

Tax Reforms in Pakistan; History and Past Experience

Generally, the main focus of the taxation system reforms in Pakistan, during the past three decades, has been aimed at broadening the tax base, rationalizing tax rates, simplifying procedures, strengthening tax administration and improving and promoting tax culture.

Nonetheless, despite all efforts and even assistance from international donors and organizations, the expectations remained unfulfilled. Despite good quality road-mapping and strategizing, desired outcomes could not be achieved for want of will and resolve on part of the political and organizational leadership.

The World Bank and other donors funded a multi-million dollar programme, Tax Administration Reform Project (TARP) for improvement of tax effort. Regrettably, it did not usher in the desired results. At the end, TARP failed on nearly all counts in meeting revenue targets, broadening of tax base, implementing the sales tax comprehensively, increasing share of direct taxes and improving tax-to-GDP ratio. At the end of TARP, our tax-to-GDP ratio nosedived to 8.8% from 9.4% in the year when the programme started!

Despite having both money and the expertise, FBR could not introduce an effective automated tax intelligence system to bridge the huge tax gap., as reported by the World Bank in, "Implementation, Completion and Result Report", a document issued on the completion of TARP.

On the issue of reforms history in the FBR, the Chairman of the Tax Reforms Commission's had a candid insight when he stated, "underlying the "long and sordid" history of our tax reforms is "unsuccessful implementation (of reform ideas and measures)".

During the recent years, governments and FBR have been adopting and implementing many serious reform measures.

A Tax Reform Commission (TRC) was constituted in year 2014, in order to review and rationalize direct and indirect taxes, rationalization of import tariff, review of autonomy and administrative structure of FBR along with creation of border force to deal with the illegal movement of persons and goods. The TRC submitted its recommendations to the Government in February, 2015. Subsequently, various interventions have been brought about on the basis of these recommendations. A brief over is presented in the following:

a. In order to ensure level playing field for all taxpayers, SROs/concessions worth more than Rs 290 billion have been withdrawn during three years commencing from FY 2015. However, socially sensitive and essential concessions have been retained and transposed to the relevant laws. FBR's powers to issue any concessionary SROs has been done away with, which has now been entrusted to the Economic Coordination Committee (ECC) of the Cabinet.

b. Import Tariff and Corporate Tax Rates have been rationalized. Regards the import tariff, the number of slabs has been reduced to only four (4), and peak slab tariff has been reduced to 20% from 30%. Similarly, the tax rates for corporate taxpayers, other than banks, has been now reduced to 30%, in order to promote tax culture and corporatization in the country.

c. The Benami Transactions (Prohibition) Amendment Bill, 2016 has been passed and promulgated. This will curb the benamidari and ensure better documentation.

d. System of Differential Taxation to increase the cost of business for non-filers has been gradually introduced in the recent years. Points of differential rates include sale and purchase of immovable property, registration and transfer of ownership of motor vehicle, cash withdrawal from banks and payment of profit on debt and dividend income. This differential has helped increase number of filers from around 750,000 in FY2013 to more than 1.3 million in FY2017.

e. The Computerized Identity Card (CNIC) number has been made the National Tax Number (NTN) in order to facilitate individual taxpayers by absolving them from the otherwise cumbersome process of registration. It will further help in documentation of economy and broadening of tax base.

f. New tax regimes have been introduced and older ones strengthened; like introduction of valuation tables to be used as minimum price benchmarks for immovable property, withholding tax on transfer of immovable property and capital gains tax.

g. For corporate taxpayers, separate Zones have been created and their matters pulled out of traditional territorial based jurisdictions.

h. International agreements for exchange of information have been recently executed, for instance, Multilateral Exchange Convention with OECD, Bilateral Agreement with Switzerland on exchange of information.

In addition to above, in the recent years, FBR has made many serious interventions regarding automation and usage of information technology in its operations. These include introduction of Sales tax Real Time Invoice Verification System (STRIVE), customized SAP application for ensuring proper monitoring of withholding sales tax, parametric algorithmic selection of audit cases, online verification services to citizens (notices and exemption certificates), the ADC system, automatic Verification of Companies and Directors at the time of registration with SECP (VOSS), Web Online Customs (WEBOC) system (which deals with 90% of business) and most recently, the Electronic Data Exchange (EDE) system (to verify invoices for imports from China).

From the above, it is evident that FBR and the government have indeed been attentive to the 'need to reform and improve', and that many important, far-reaching and productive measures have been taken. But on the other hand, when measured against the available potential for tax collection in the economy, it is equally evident that a lot still needs to be done, in terms of reforms.

The “unsuccessful implementation” crisis and challenge is not unique to the tax system; it is rather rampant everywhere across the public sector. Nonetheless, given the significance and importance of our tax system and revenue collection, it is incumbent that as a matter of priority, the FBR and the taxation system rises above all others, and accepts and introduces reforms in its culture and working.

The Success Stories; PRA and SRB & Coordination Issues

In the aftermath of 7th NFC award in 2010, the sales tax on services was devolved to the provinces. As a result, all four provinces have made their own revenue authorities to collect this tax. In Sindh and Punjab, these authorities have done a great job and are increasingly generating more revenue and widening their tax base. Tables 3 and 4 show this progression over the last seven years.

It is noteworthy that the tax collection of SRB increased from Rs. 25 Billion in 2012 to Rs. 100 Billion in 2018 (4 times); PRA's collection during the same period increased from Rs. 22 Billion to Rs. 110 Billion (5 times); whereas, FBRs collection during the time increased from Rs. 1883 Billion to Rs. 4013 Billion (2.1 times). There can be many reasons for this, like tapping of hitherto untapped tax potential (sales tax on services); but the achievement and success of PRA and SRB must be acknowledged and appreciated.

This, in a way, is also indicative of the wide and huge potential of Pakistan's economy in returning more revenues to the government.

The reasons behind these success stories are not difficult to identify. Both of these are new organizations; these are smart and lean (only a few hundred employees), fully automated and relying on use of information technology. Interestingly, a substantial portion of their officers belong to government cadres and are working on deputation; but despite this, their output and productivity in these new and modern organizations is many times higher than in their parent organizations. And last but not least, both PRA and SRB pay market based remuneration to their employees, which has a direct bearing on the employees' motivation and commitment levels.

Further, reduction in the sales tax rates (from 14% to 13%) helped SRB attract more companies from other provinces to Sindh, for the purposes of Sales Tax. Disallowing input tax in sectors with concessionary rate has also resulted in increase in effective tax rate from 4% to 10%.

During the recent years, many issues regarding coordination and duplication of taxation between the FBR on one hand, and the provincial collectors on the other. These include the following.

1. Input Adjustment with FBR is pending since many years. Taxpayers claim input from PRA / SRB against the tax paid to FBR on imported goods/domestic purchases. Claims of about Rs.8 billion from FBR are pending for verification & remittance.

2. The Federal Excise Duty on services is yet to be withdrawn by FBR, prima facie in violation of 18th Constitutional Amendment and 7th NFC Award. FBR is still charging FED, for instance, on air travel, carriage of goods by air, chartered flights, ports and terminal operators and toll manufacturing.

3. FBR is still taxing toll manufacturing under (Federal) Sales Tax Act 1990 and not discontinued it.

4. The matter of compensation to provincial governments regarding transportation by oil tankers is still pending decision. The provinces have agreed upon a formula to share the proceeds on the basis of 50:50 between the originating and terminating province at standard rate of 15%; but Ministry of Petroleum and Natural Resources is yet to resolve this matter completely and make the lost revenues good to the provinces (Rs. 3 to 5 Billion, estimated).

Complications (issues and challenges)

Bringing about reforms in the tax collecting agencies, particularly the FBR, is rife with various issues and challenges. Foremost among these is the archaic, outmoded and bureaucratic culture, which leads to inefficiencies, redundancies and loopholes in the tax system.

Similarly, the legal framework of taxation also needs to be reexamined and firmed up, so as to remove duplication of taxes, elimination of redundant taxes and multiplicity of taxes. The number of taxes needs to be reduced to a few dozen from more than a hundred at the moment.

The enforcement mechanisms on the whole need revamping. At the moment, other than involving the alleged defaulting taxpayer in long legal battles, there is actually no deterrent. Legal processes and administrative capacity of FBR needs to be revamped to make it a potent organization.

The interaction between the taxpayer and the FBR is also problematic. The tax collector's face should be friendly and gracious for a compliant taxpayer; and after a default is smelt, it should be intimidating. The FBR, on the other hand, deals with all taxpayers, compliant as well as otherwise, with a single face, which is mechanical, impersonal and does not change according to the payer's conduct.

The taxation system, like all other components of the state in Pakistan, is also hostage to the 'elite capture'. People just don't pay taxes, rather expressly resist, avoid and refuse, and everybody just gets along with this. Strong resolve and tactful handling at the level of political and bureaucratic leadership is required to break out of the elite capture.

Conclusion

Based on the research and analysis of the existing state of affairs, the following conclusion has been drawn:

a. Increasing the Tax Revenue is the most effective and sustainable way to deal with the fiscal deficit Pakistan is facing at the moment; particularly because the other means, i.e. decreasing the current expenditure and increasing the non-tax revenue, although important in their own stead, cannot fill the fiscal gap.

b. To measure the effort and success in increasing the tax revenue, our national key performance indicator is to increase the tax to GDP ratio.

c. To improve this, we need to deal with the challenges related to the narrow tax base, reliance on indirect inequitable taxation, outmoded taxation procedures, ineffective enforcement mechanisms and lack of innovation in finding out potential taxpayers and instances of tax evasion.

Vision: To make Pakistan's tax collection machine, particularly the FBR, an effective, efficient, a firm-but-polite tax collector so as to generate maximum resource, to be invested in the people of Pakistan for their betterment

Mission: To increase Pakistan's Tax to GDP Ratio from current 13.1% to 18% in next five years, with a targeted increase of 1% per annum; and increase the number of tax payers by 0.5 million each year up until 2023

The target in light of projected GDP growth should be fixed for the next five years, i.e. 5% per annum.

Recommendations with Action Plan and Measurable Indicators

In order to achieve the above mission, The following five strategic goals are discussed along with relevant actions to be taken, timelines and key performance indicators.

Strategic Goal One: Broaden the Tax Base in Pakistan

Actions to be taken	Key Performance Indicator(s) & Timelines
Increased emphasis by the provincial governments in recovering sales tax on services so as to remove the 'gap' between the sector's contribution in GDP and tax recovery	25% increase in revenue per annum by provincial authorities over next five years
Grant immunity from tax audit for first three years, or a lower tax rate for new filers; including guarantee that financial records older than a year will not be audited	Immediate. Amendment in law required.
Introduce law to ensure that – all credit card holders in the country are tax filers – all companies registered with the SECP are tax filers – all professional registered with their regulatory bodies like PMDC, PEC etc. are tax filers – all purchasers of motor vehicles and immovable property worth more than 4 million are tax filers	Immediate. Amendment in law required. 100% coverage in two years.
Introduce law to ensure that all tax payers disclose their properties and assets situated out of Pakistan; in case of default, the law should provide forefeiture of equivalent amount of assets in Pakistan	Immediate. Amendment in law required.
Minimize tax expenditure by way of rationalizing tax exemptions, concessions, rebates and zero rating	Conduct rationalization survey within 6 months. Reduce tax expenditure identified in the survey by 100% within next 12 months.

Actions to be taken	Key Performance Indicator(s) & Timelines
Introduce law to prohibit and criminalize cash transactions above a specified size in different sectors, starting from real estate and automobile sectors	Amendment in law required. Cover both sectors over three years.
Introduction of a short course in tax return filing and preparing a corps of persons who can render their services in assisting others in filing their tax returns	Immediate. Start with large cities, 1000 facilitators in year 1; followed by other cities over 5 years.
Initiation of a pilot programme involving creating of an office of District Taxation Officer, to facilitate citizens in processing all of their tax cases	Develop district offices in twenty district in Pakistan, other than provincial headquarters, in two years.
Distortions in the Value Added Tax system, like upfront payment, Sales Tax from manufacturers at retail price, final tax regime, etc. should be removed.	Conduct needs assessment within 6 months. Remove distortions identified by 100%, gradually, within next 5 years.
A high level commission, preferably headed by a senior federal minister, and comprising of representatives of all provincial governments, should be formed with a specific mandate of reducing the level of informal economy and increasing documentation.	Immediate.
Change in the targets-based approach of FBR in dealing with its officers; the emphasis should rather be placed on tax generation.	Immediate. FBR to notify new performance evaluation parameters.

Strategic Goal Two: Improve Enforcement Mechanisms

Actions to be taken	Key Performance Indicator(s) & Timelines
Solution of coordination issues between the Federal Government & Provincial Governments on account of Sales Tax on Services	Basis framework is in place; strive for resolution in 6 months
Introducing Tax Benches in all High Courts to deal with current pendency (Rs. 2000 Billion) and swift disposal of cases later on	Immediate. Amendment in law required.
Provision to ensure deposit of at least 20% of tax demand as the taxpayer approaches High Court in suit or writ	Constitutional Amendment Required
Provision to bar stay orders by the High Court, on any order other than the final assessment order	Constitutional Amendment Required
Introduction of a 'Assessment Integrity Index' measuring quality of an officer's assessment orders, measured against %age of orders upheld, amended and set aside by higher authorities	Model preparation, 6 months Amendment in service rules and issuance of instructions, next 6 months

Strategic Goal Three: Decrease Reliance on Indirect Taxes

Actions to be taken	Key Performance Indicator(s) & Timelines
Use the information from Withholding Tax Agents and bring high-end payers into the direct tax net.	Immediate. Number of new tax payers added into the system.
Under the self-assessment scheme, the income tax and sales tax refunds should be processed automatically and funds credited to the payer's bank account online.	Immediate. 100% cases of refunds less than 1 million be shifted to online mode.
Incentivize BMR by allowing more tax credit from 10% to 20% or initial depreciation by at least 50% to promote industrialization and tax credit for installation of new industry is to be extended beyond 2019 to further 5 years i.e. 2022 under section 65E of the Income Tax Ordinance.	Immediate. Amendment in law required.

Strategic Goal Four: Adopt Data Warehousing and Processing

Actions to be taken	Key Performance Indicator(s) & Timelines
Introduce trainings of staff to make full use of recently introduced 'National Data Warehouse' for better detection of tax evasion, identification of new tax payers and evidence collection by the tax collectors	Immediate. Complete trainings of relevant officers within six months. Introduce modules in induction and in-service trainings.
Develop and increase linkages between data maintained by banks, airlines, immigration, hotels, NADRA, provincial tax authorities and FBR so as to identify potential tax payers and instances of evasion of tax.	Conduct scope survey within 6 months identifying legal amendments, if required. Accomplish linkages and amendments within next 12 months.

Strategic Goal Five: Improve organizational capacity

Actions to be taken	Key Performance Indicator(s) & Timelines
Policy making should be separated from the implementation and enforcement of tax policy. The Revenue Board should be separated from the rest of the FBR.	Immediate. Amendment in Rules of Business required.
The thus separated Board should be backed up and supported by a research institution cum think tank. The latter will inform the Board on analysis of existing policy, new interventions required and international trends, based on research.	Immediate. Financial and human resource would be required. The Board should be operational within six months along with the research backbone.
Rationalize the staff by short-sizing the non-computer literate staff and inducting only the ones who are computer literate; moving from bottom heavy to a smart and lean automated organization	Conduct situation survey within six months. Implement survey recommendations within next 12 months.
FBR should redesign and rethink about its face interacting with the taxpayers; it should be friendly and gracious while dealing with compliant taxpayers; and intimidating where default occurs. This change may be brought about by giving incentives to staff, trainings and keeping them motivated.	Conduct a study to identify newer means for performance evaluation of staff, incentives structure, and legal amendments required, within six months. Implement measures within next 12 months.

Contingency Plan (Plan - B)

In a crisis situation wherein if the international lenders like IMF and friendly countries regret any fiscal support, and the fiscal deficit of Pakistan turn into a fiscal crisis, and the following policy options are required to deal with it.

a) Launching a public campaign inspiring people to stop using luxury imported goods for a certain period of time;

b) Cutting down public expenditure by reducing subsidies in the power sector; passing onto the losses to the consumers concerned for the time being;

c) Shutting down the deficit making public sector enterprises like Pakistan Steel Mills and PIA's loss making parts. This should be followed by downsizing of large public sector organizations where staff has become redundant after adoption of automation. The surplus staff may be offered a subsistence allowance during a period of time and then laid off completely. A legislation may be brought about to implement these measures.

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About the Author: *The writer is a Fellow member of ICMA Pakistan and is serving as Inland Revenue Commissioner at LTU, Karachi. He has over 9 years work experience with FBR, Tax advisory firms, Ministry of finance..*

Proposal for Reform in the Insurance Sector


Tariq Hussain, FCMA

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remained very modest as compared to other jurisdictions, the insurance penetration is hanging around 0.08 of GDP while the insurance sector remained underdeveloped relative to its potential. As of December 2016, the industry's total premium revenue stood at over PKR 265 billion sharing 180 billion by life insurance companies and 85 billion by non-life insurance companies with an average growth over last five year 8% of non-life insurance companies and 15% growth of life insurance companies. In addition, a government owned reinsurer continues to benefit from a mandatory minimum 35 percent share in the treaties of non-life insurers.

Country	Total Insurance Premium as % of GDP
China	2.98%
Germany	8.57%
India	3.86%
Pakistan	0.80%
Turkey	1.45%
USA	14.1%
Indonesia	1.85%

Source: http://www.helgilibrary.com/indicators/index/total-insurance-premium-as-of-gdp/czech-republic
For Pakistan, author's estimate based on data from Insurance Association of Pakistan and State Bank of Pakistan.

The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid up capital requirements as USD4 million, with the condition of bringing in at least a minimum of USD2 million in foreign exchange and raising an equivalent amount from the local market. The minimum capital requirements have been increased in a phased manner, though they still remain modest by international standards, at PKR500 million for non-life and PKR700 million for life insurers.

Currently there are 40 non-life insurers operating in the market, including three general Takaful operators and two state-owned companies. Approximately 65 percent of the market share in gross written premium rests with the top three players.

There are nine life insurers, including two family Takaful operators and one state-owned corporation in the life insurance sector.

There are two dedicated health insurance companies in the market along with two foreign life insurance companies and two non-life foreign companies. The market has witnessed introduction of new products in the lines of health, crop and livestock insurance. New distribution channels such as Bancassurance, websales and Telesales are also growing rapidly.

Back Ground of regulatory regime

The Insurance sector until end of year 2000 was under the regulatory purview of the Ministry of Commerce. At that time, the private sector insurance industry was fragmented and suffered from operational inefficiencies, while the public sector insurance companies enjoyed privileged status due to its nature of captive business. During the said period, the insurance industry was regulated through the outdated Insurance Act, 1938. Capital adequacy requirements for the General insurance industry were grossly inadequate, registration/ supervision fees for insurers were low and the statutory solvency margins were based on obsolete principles. The Act was repealed by the Insurance Ordinance, 2000 in August 2000. During year 2001, the regulatory/ supervisory responsibilities of the insurance sector were shifted from the Department of Insurance at the Ministry of Commerce to the Securities and Exchange Commission of Pakistan (SECP).

Seventy-seven foreign insurance companies were dominating the Pakistan market post partition when the strength of local insurers was only seven. In 1952 Government established Pakistan Insurance Corporation to promote the local insurance industry and the number of local insurance companies increased to 60 while the number of foreign companies was reduced to seven. In 1976 National Insurance Corporation (NIC) was formed, with the purpose of undertaking General Insurance business relating to any public property.

The only law given to SECP pertinent to insurance was the Insurance Ordinance, 2000; however, SECP also ensures the compliance of Companies Ordinance, 1984 by the insurance companies. Additionally, in year 2002, Ministry of Commerce notified Insurance Rules, 2002 made under the Insurance Ordinance, 2000. In the same year, the SECP, in order to effectively supervise the insurance industry, also issued additional rules known as SEC (Insurance) Rules, 2002. Both set of Rules are diverse to each other, as each of them only addresses the areas defined to be under the purview of respective authorities. Also, in year 2005, the Takaful Rules, 2005 were issued in the year 2012 Takaful rule 2012 and the Insurance Companies (Sound and Prudent Management) Regulations, 2012 have been issued to prescribe fit and proper criteria for the chief executive officers, directors and key officers of the insurance companies. The SECP recently issued Insurance Rules 2017

Functions of SECP Related to Insurance

Following are the areas which SECP is executing as a Regulator of Insurance sector in Pakistan. Registration of insurance companies, insurance broker and surveyors under the Insurance Ordinance, 2000; and

1. Framing of new guidelines or directions under the Insurance Ordinance, 2000;
2. Regulation and checking of insurance companies and intermediaries;
3. Monitoring of reinsurance courses of action/settlements; and
4. Supervision of insurance companies, reinsurance companies, insurance brokers and surveyors.
5. Increase insurance penetration in Pakistan and
6. Encourage and provide enabling and vibrant regulatory regime which ensure fastest growth of the insurance sector.

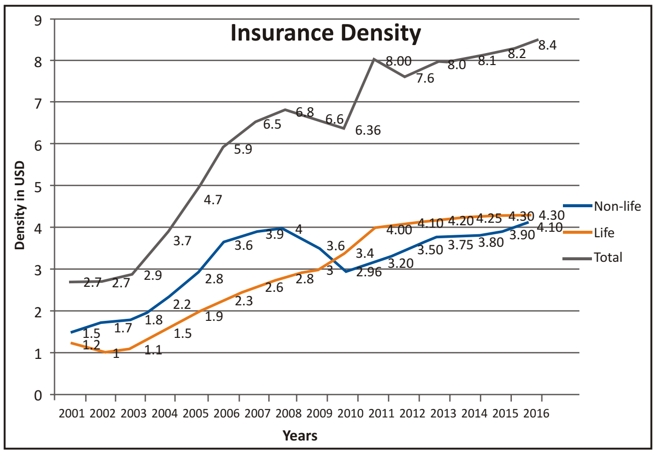
Regulatory Framework

The insurers registered in Pakistan are mainly follow below mentioned primary laws and rules:

- Companies Ordinance, 1984;
- Companies (Issue of Capital): Rules, 1996;
- Insurance Ordinance, 2000;-
- Insurance Rules, 2002; - SEC [(Insurance), Rules 2002;
- Takaful Rules, 2012;
- Insurance Companies (Sound and Prudent Management) Regulations, 2012;
- SEC (Microinsurance) Rules, 2014;
- Third Party Administrators for Health Insurance Regulations, 2014;
- Insurance Rule 2017.

Insurance Density

Graph showing the results of **Insurance Density** in Pakistan; Insurance density is used as an indicator for the development of **insurance** within a country and is calculated as the ratio of total **insurance premiums** to whole population.



Source: SECP annual Report2010- 2016
(SECP not published AR 2018 and Density not available since 2017)

Insurance Penetration

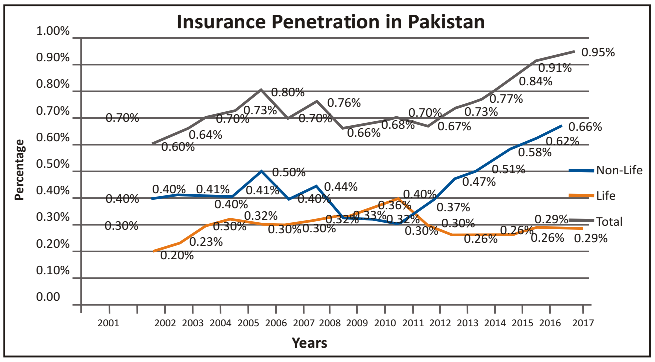
Penetration rate indicates the level of development of **insurance** sector in a country. Penetration rate is measured as the ratio of **premium** underwritten in a particular year to the GDP

The insurance penetration has also witnessed the growth from 0.7 percent in year 2001 to 0.95 percent in year 2017. Please note that SECP has not yet published date for 2018.

Graph Showing Non-Life Insurance Growth from the year 2001 to 2017

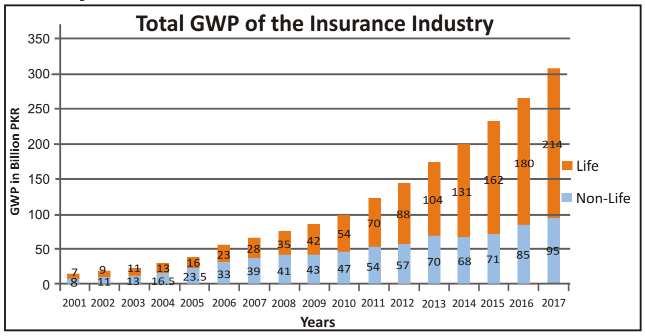
Total Gross Written Premium of Insurance Industry in Billion PKR

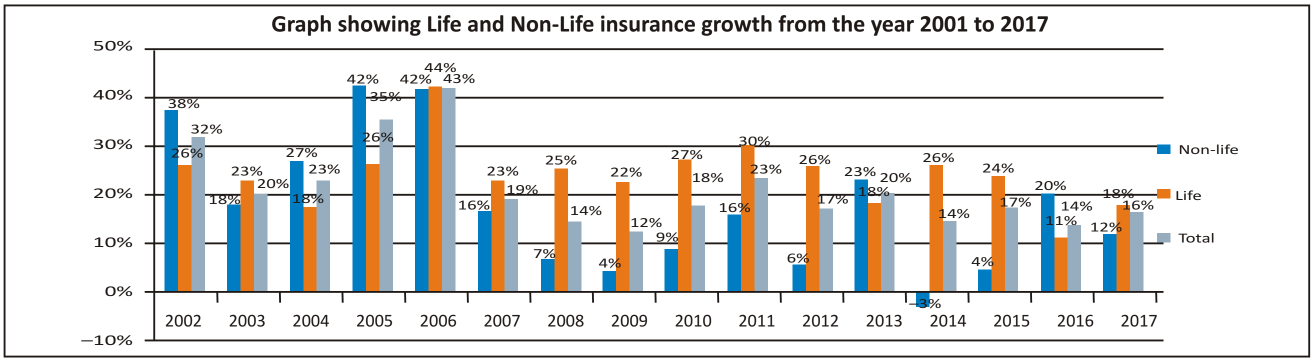
S.No	Year	Non-Life	Life	Total
1	2001	0.40%	0.30%	0.70%
2	2002	0.40%	0.20%	0.60%
3	2003	0.41%	0.23%	0.64%
4	2004	0.40%	0.30%	0.70%
5	2005	0.41%	0.32%	0.73%
6	2006	0.50%	0.30%	0.80%
7	2007	0.40%	0.30%	0.70%
8	2008	0.44%	0.32%	0.76%
9	2009	0.33%	0.33%	0.66%
10	2010	0.32%	0.36%	0.68%
11	2011	0.30%	0.40%	0.70%
12	2012	0.37%	0.30%	0.67%
13	2013	0.47%	0.26%	0.73%
14	2014	0.51%	0.26%	0.77%
15	2015	0.58%	0.26%	0.84%
16	2016	0.62%	0.29%	0.91%
17	2017	0.66%	0.29%	0.95%



Source: SECP Annual Report 2010-2017, 2018 annual report is yet to be published

Graph Showing Total Gross Written Premium (GWP) of the Industry for Life and Non- Life





Gaps in the Insurance Regulatory Framework of Pakistan

Showing the Comparison of Private Non-Life and Public Non-Life Insurance

S.#	Year	Private Non-Life	% Increase Pr. N-Life	Public Non-Life-NICL	Total	% Increase Public NL
1	2001	6	100%	2	8	100%
2	2002	8	147%	3	11	112%
3	2003	9	162%	4	13	163%
4	2004	12	218%	4	17	177%
5	2005	19	336%	4	24	187%
6	2006	29	503%	4	33	196%
7	2007	34	600%	4	39	192%
8	2008	36	625%	5	41	242%
9	2009	37	645%	6	43	266%
10	2010	41	708%	6	47	273%
11	2011	47	827%	7	54	290%
12	2012	50	874%	7	57	296%
13	2013	64	1116%	6	70	268%
14	2014	62	1075%	6	68	282%
15	2015	64	1124%	7	71	292%
16	2016	80	1393%	5	85	228%

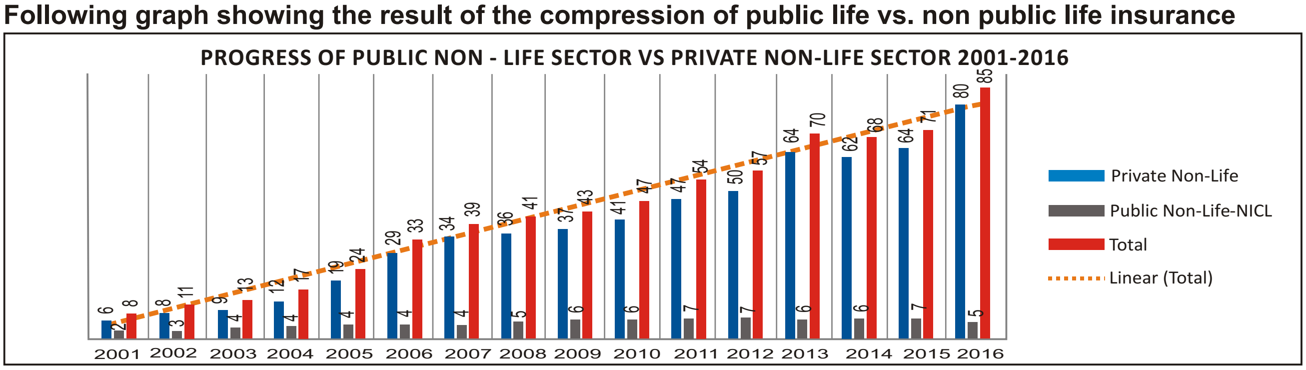
Note: 2017 and 2018 annual report of NICL not available, hence above comparison restricted till 2016.

Total Life Assurance Industry Performance 2001 -2016

S.No	Year	Private Life	Public Life SLIC	Total	% Increase
1	2001			6.9	100%
2	2002			8.7	126%
3	2003	0.82	9.88	11	123%
4	2004	1.6	11	13	118%
5	2005	2.1	13.8	16	126%
6	2006	6	16	23	142%
7	2007	9	19	28	123%
8	2008	12	23	35	126%
9	2009	14	29	42	121%
10	2010	18	36	54	127%
11	2011	25	45	70	130%
12	2012	39	49	88	126%
13	2013	45	59	104	118%
14	2014	61	70	131	126%
15	2015	88	74	162	124%
16	2016	96	84	180	111%

Note: 2017 and 2018 annual report of SLIC not available, hence above comparison restricted till 2016.

Following graph showing the result of the compression of public life vs. non public life insurance



Problems faced by Pakistani Insurance Sector

1. SECP enforcing fixed capital regime which is a dead signal for small companies, paid up capital should be flexible and liked with the premium written / risk under taken by the insurer.
2. SECP enforcing and tightening small insurance companies and avoiding large scale companies which is involved largely in the corruption.
3. Due to gaps in insurance regulatory frame no reinsurance companies entering into Pakistani market as a registered re-insurance broker and billions of Rupees premium every year going outside Pakistan
4. People regulating insurance sector don't know about the dynamics of Pakistani insurance market
5. Insurance surveying rules are pending, despite having consensus
6. More than 80% sector based on Karachi but department shifted to Islamabad to facilitate a non-insurance person having no experience of handling insurance matter to promote as who do not want to sit at Karachi and have close ally of one of the power full commissioner in the SECP.
7. Out dated Insurance Ordinance 2000 required urgent updating, already complete comprehensive amendment proposed done by me during my tenure .
8. http://www.pakistaneconomist.com/2017/01/16/pakistan-needs-financially-strong-insurance-industry-prompt-need-set-independent-regulatory-authority/ ***(my article)***
9. Need to provide equal level playing field to all insurance companies.

Recommendations:

SECP to achieve strategic growth of the Insurance sector strong liaison with the insurance companies as well as their representative body. This is the fact that the regulator has tired achieve significantly but we still find out a wide gap , Pakistan insurance penetration is lowest among the peer countries and the SECP being the apex regulator of the Insurance sector need to do more for the development and protection of insurance sector in Pakistan. There is a dire need for needed for overall improvement of the sector, enhancement in the overall all insurance regulatory framework and supervisory system, Increase capacity of the insurance division in term of staffing, technology related to unified regulatory framework. Work for the improvement of viability of insurance business and competition. The major area where the regulator need to work are as follows;

1. Amendments in Insurance Ordinance 2000

While the Insurance Ordinance 2000 has introduced a number of laudable reforms, but has omitted a number of elements that are key to a modern risk-based supervisory regime. It represents a significant shift from the previous Insurance Law of 1938. The resultant problems, including limited prompt corrective action power, are exacerbated by a lack of in-house specialist (including supervisory) skills. Also it is clearly not addressing the risk based supervision as required by the industry and licensing requirements. During recent past, the division of responsibilities between the Ministry of Commerce (MOC) and

SECP has been clarified, but still it is required that the Commission is delegated with necessary punitive and civil prosecution powers, in line with the IAIS Principles and international best practices. It is also the need that all regulatory and supervisory responsibility for insurance should lie with SECP or with a separate independent regulatory body for insurance as in the India and other countries, including that of associated legal reform, and responsibilities relating to ownership and implementation of governance of the public sector insurers. Also the law is clearly silent on the provisions of the Anti-Money Laundering.

2. Gap between Assessment and Implementation of IAIS Insurance Core Principles

The International Association of Insurance Supervisors (IAIS) is committed to developing standards that can be used by insurance supervision throughout the world. The IAIS principles, standards and guidance papers represent best practices, or targets, for supervisors to work towards and can be implemented in a flexible manner depending on the circumstances within each jurisdiction. Pakistan is the first country who have successfully completed assessment of insurance core Principles but unfortunately the recommendations and Gaps identified by the IAIS is still not implemented neither even the regulator is willing to implement the gaps arises during assessment.

3. Bogus Insurance Companies

The general insurance industry is facing prevalence of bogus insurance companies issuing spurious Motor vehicle Third party insurance Policies for motor vehicle for Registration Purposes. To eliminate the issuance of bogus motor third party insurance certificates by unauthorized persons/ entities and to ensure that uninsured vehicles on the country's roads have proper insurance cover issued by registered insurance/ takaful companies, there is a clear need to develop comprehensive legislation by involving all concerned stakeholders and benefit the road victims by encouraging people towards purchase of genuine motor third party covers thereby also contributing towards development of the insurance industry. The Commission has taken very proactive steps in this respect and working with all the Provincial Government and their Motor vehicle registration department, in this respect an updated list of valid insurance companies sharing on quarterly basis to curb the fight against bogus insurance companies but implementation is still not get any success.

4. Terrorism Pool

After the September 11, 2001, attacks in the United States and the current war on terror going on in Pakistan - have made strikingly clear, terrorism has developed into a threat that affects every aspect of society and knows no national boundaries.

Large scale terrorist attacks can threaten insurers' assets from two sides: insurance companies would sell assets to generate the liquidity required to pay major claims in multiple business lines life, health, property, etc. - and at time see the values of those assets considerably diminished due to the reaction of the capital market to the terrorism event. As a result, the overall potential loss for insurance may be significantly higher than the loss from the coverage alone.

In the light of these facts, it must be concluded that loss events beyond a certain scale-notably, not only affect society and the economy but also surpass the risk capacity of the insurance industry. The only answer is the concerted efforts in which governments work hand in hand with insurers and reinsurers. Effective solutions involve a risk partnership among insured's, insurers, reinsurers, capital markets and governments. In such risk partnerships, governments should primarily act as facilitators in order to protect the financial resilience of the insurance industry. As risk carriers of last resort, they are the only bodies capable of providing sufficient capital to insure against the most extreme terrorist attacks. And as regulators, they ensure that adequate and coherent legislative frameworks should be in place.

Most of the countries in the world have developed Terrorism Pools as a result of public-private partnership. Pakistan also needs a Terrorism Pool on urgent basis. Some initial work and consultative session already in place and SECP and PRCL already did some ground work in this respect, there is a need to expedite these

5. Microinsurance

So far this has been a failure to launch and promote insurance in rural areas. Microinsurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of atypical risk-pooling and marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes. The institutions or set of institutions implementing micro-insurance are commonly referred to as a microinsurance schemes. There is a strong need to draw a comprehensive regulatory framework for microinsurance as well as encourage the insurance companies to manage this product line actively. Also there is a clear need of modeling of microinsurance exposure and pricing of risk as well as standard microinsurance policy design, while developing microinsurance policy distribution and accounting systems/ framework. Due to the unique nature of modalities in Microinsurance, special underwriting guidelines for microinsurance plans also needs to developed. In order to increase the microinsurance penetration, a strong public awareness and relations campaign and training programs for microinsurance managers, policy holders and policy makers is also required.

6. Crop Insurance

In 2008, a task force chaired by President of HBL Bank Limited and constituted by Governor State Bank of Pakistan, submitted its recommendations in respect of commercially viable and sustainable Crop Insurance Scheme, covering Agri-Loans. Developed in the light of these recommendations, National Insurance Company was the first to launch its crop insurance products, covering Agri-Loans. The Government has also announced its policy to provide Crop Insurance covering small farmers, insurance cost for which will be borne by the Government. It is clear that SECP must provide comprehensive guidelines to the insurance industry to enable them to develop this product and cater to the huge demand in the market. This product will also increase the insurance penetration in the country.

7. Commerce/ Web Sales

Recently, there has been an introduction of a new technology for selling insurance products in Pakistan by few leading insurers, where a couple of Insurers are providing quotes through their websites. Some of the other features include online sales and claim processing. This is an important area where Commission has to issue clear guidelines so as to ensure that this sales channel is utilized effectively without any malpractices and frauds.

8. Need for Regulatory Capacity Building

A cross-jurisdictional analysis shows that on an average, about 80 persons (excluding administration and secretariat services) per supervisory authority are responsible for supervising insurance companies. It is also encouraging that on an average, more than half of this staff are economists and/ or accountants, while the prudential supervision involving monitoring of accounts, solvency/ capital control, examination of statutory returns, on-site inspections, etc. represent only close to 40% of all supervisory activities.

Although, the SECP is focusing on the capacity building of the Insurance Division, but it has been encountering serious constraints due to willing to appoint on merit and department mostly filled with the officers of relatives and near of Commissioners without considering merits. Additionally, there has been a freeze on foreign trainings, unless the programs are fully-funded by the donors. Attributed to this constraint, the supervisory staff at the Division is totally deprived of the opportunity to blend and interact with the other Regulators in the region, develop understanding of their systems, best practices and learn from their experience. It is vital that the supervisory resources at the SECP are well trained so that they can effectively take regulatory monitoring and enforcement functions as well as legislative reforms, absence of which will counteract the soundness and transparency of insurance industry.

Change of insurance regulatory office from Karachi to Islamabad, lack of capacity within the SECP staff and higher management, Lack of proper insurance broker regime, reinsurance regulator regime, insurance surveying regime, insurance agent regime and finally the lack of supervision and enforcement capacity of SECP the reason who still not able to implement and administer transparent and vibrant insurance sector in Pakistan and that why the insurance penetration of Pakistan is lowest in the region even from the Srilanka and Bangladesh.

9. Set up of an Independent Regulatory Authority

Last but not the least there is a dire need to set up an independent regulatory authority namely The Pakistan Insurance Regulatory Authority (PIRA) is the need to the day so that the insurance subject and industry may get special attention which would be wholly responsible for the affair of insurance sector, it's development and growth in Pakistan .

About the Author: Mr. Tariq Hussain, *FCMA, M.Phil. (Economics) is former Director / HOD Insurance Division, SECP.*

Accountability of Public Institutions by 'The Legislature'

'Accountability breeds response-ability' (Stephen R. Covey)

Father of the nation, Quaid-e-Azam Muhammad Ali Jinnah, while addressing his presidential speech to the Constituent Assembly on August 11, 1947, said,

"……The second thing that occurs to me is this: One of the biggest curses from which India is suffering - I do not say that other countries are free from it, but, I think our condition is much worse - is bribery and corruption. That really is a poison. We must put that down with an iron hand and I hope that you will take adequate measures as soon as it is possible for this Assembly to do so…… The next thing that strikes me is this. Here again is a legacy which has been passed on to us. Along with many other things good and bad, has arrived this great evil- the evil of nepotism and jobbery. This evil must be crushed relentlessly. I want to make it quite clear that I shall never tolerate any kind of jobbery, nepotism or any influence directly or indirectly brought to bear upon me. Wherever I find that such a practice is in vogue, or is continuing anywhere, low or high, I shall certainly not countenance it….."

Haider Abbas, FCMA

The great evils which we inherited as a legacy from British India and unfortunately have not been able to curb include corruption, bribery, jobbery, nepotism, misuse of powers, and lack of rule of law. Successive governments, after independence with varying degree of focus, have tried to curb these menaces to put the institutions on the track of good governance and accountability. But the desired result is still a cry for the moon. Accountability is one of the main pillars of good governance. It involves being answerable to all the stakeholders of an organization for all actions and results. It is an absolute requirement of success.

Historically, the word 'accountability' is derived from clan of accounting, we can say, literally from bookkeeping. The roots of this concept can be drawn from the rule of William I, in 1066 after the Norman conquest of England. In 1085 he required all the property holders in his kingdom to show a count of whatever they possessed. And the possessions along their values were listed and recorded in so called Domesday Books by royal agents. The king also had sworn oaths and allegiances from all landowners. This practice was not only used for taxation, but laid a foundation of governance in royals. *(Dubnick, 2002)*. It is defined according to Webster dictionary as: 'The Accountability is an obligation or willingness to accept responsibility or to account for one's actions". 'Accountability is when one party must have to report and take the responsibility of all its actions" stated by the law dictionary. It shows that it has become a sign of good governance by responsibly accepting every action.

As per the Annual Corruption Perceptions Index 2017, the Transparency International has ranked Pakistan at 117 out of 180 countries. Pakistan was awarded with a score of 32 on scale of 0 to 100 with 0 being highly corrupt and 100 being very clean. In comparison, India stood at 81 by scoring 40 and Bangladesh at 143 by scoring 28. According to Global Innovative Index 2018: "Pakistan remained least innovative country in the world (109 out of 136 countries)"which is caused by the consistent corruption that has handicapped our public institutions. The root of corruption is seeking accountability to the wrong people for wrong reasons. The deteriorating condition of public sector institutions particularly Pakistan Steel Mills (Rs. 200 Billion Loss in 2018) and Pakistan International Airline- PIA (Rs.360 billion Losses in December, 2017) is the talk of the day in media, academia and social gatherings. As per Annual Report 2017 of National Accountability Bureau (NAB), the watchdog has recovered Rs.295.6 billion since its inception in 1999. The report further says that complaints of 26551were reported during the year 2017. Furthermore, the monster of ever increasing power sector circular debt which touched Rs. 1.18 Trillion tells how the public sector institutions e.g. in power sector, are performing. In the wake of this prevailing situation, it is dire need of the hour to revisit and revamp the accountability mechanism in the public institutions.

Objectives and Scope of the study:

This study aims to deliberate upon the role of public representatives in the parliament/legislature to ensure good governance and accountability in Public Institutions (Pis). The legislative oversight tools and practices particularly the business of the Standing Committees will be touched upon and way forward will be suggested to make oversight role more effective so that PIs may better perform with more responsibility and accountability.

Tools of accountability

There are various tools available to ensure organizational accountability of public institutions in Pakistan. These tools may be divided into internal and external tools. The internal tools include organization's own policies, rules, practices, values, traditions, management style, organizational culture and internal audit. The tone set at the top has trickle-down effect. If hard work and good performance with due care of efficiency, effectiveness, honesty, integrity and compliance with rules/regulations are encouraged and valued at top, the whole organization will strive to move in this direction and as a result either productivity will be multiplied or will result in better service delivery. If the tone is set otherwise, the outcomes will accordingly be in the form of losses, malpractices and corruption. The external accountability tools include audit (under companies Act and constitution of Pakistan by Auditor General of Pakistan), regulatory requirements of reporting, compliance with code of corporate governance and procurement regulations, probing and investigation by Federal Investigation Agency (FIA) and National Accountability Bureau (NAB) in case a problem is reported or identified and Parliamentary (Legislature's) Oversight.

Preamble of constitution of Pakistan guides that the state has to exercise its power and authority through the chosen representatives (legislature) of the people so that the principles of democracy, freedom, equality, tolerance and social justice, as enumerated in Islam, shall be fully observed. Besides representation and legislation, the parliament has a very important yet challenging role of oversight of executive arm of the state. The Article 91(6) of the Constitution of Islamic Republic of Pakistan states that, *"The Cabinet together with Minister of State is collectively responsible to the Senate and the National Assembly"*, and according to Article 130(6) of the constitution: *"The Cabinet shall be collectively responsible to the Provincial Assembly"*.The statutes and policies framed by the legislature are implemented by the executive. There are various ministries, divisions, departments and other public institutions responsible to execute the mandatory functions entrusted by the state. The required financial resources in the form of budgetary demands for grant are put by the Parliament/Legislature at the disposal of public institutions to perform the assigned tasks in the form of service delivery to people of Pakistan or product development. The Legislature, in turn, has the authority to oversee the administrative and financial performance of public sector institutions.

Under Article 67 of the Constitution of the Islamic Republic of Pakistan, each house has made its own rules for regulating its procedure and conduct of business, commonly known as Rules of Procedure and Conduct of Business. These Rules prescribe the detailed procedure that how to run the business of the concerned house. The authority and procedure of oversight and accountability of the ministries, divisions, departments and institutions have been prescribed in these rules. Most of the oversight and accountability business is carried out through standing committees. These committees are considered as the eyes, ears, hands and brain of the Parliament as these monitors all the activities of related ministries of the government. Regarding committees it is said, "Congress in session is Congress in Exhibition, while Congress in its Committee Room is Congress at work". (Joseph P. Haris)

Under the Rules of Procedure of all the Houses which include the National Assembly (Rule 198), the Senate, the Provincial Assemblies of Balochistan, Khyber-Pakhtunkhwa, Punjab and Sindh, Gilgit-Baltistan Assembly and the Legislative Assembly of AJK, provide that each ministry/department of the government shall have its own standing committee of the respective House. The standing committee of the respective ministry/department has the mandate of not only examine Bills referred to the committee by the House and submit its reports to the House but also empower to examine the expenditures, administration, delegated legislations, public petitions and policies of the ministry/department concerned and its associated public bodies and may forward its report of findings and recommendations to the Ministry and Ministry shall submit its reply to the Committee. In addition to these departmental committees there are two non-departmental dedicated committees namely the Public Accounts Committee, the Committee on delegated legislation and Committee on Government Assurance. The summarised rule position of various houses is given as follows:

Senate of Pakistan

Rule 166 (4) of Rules of Procedure and Conduct of Business of Senate: A Committee may examine suo moto the *[budgetary allocation and its utilization,] administration, delegated legislation, public petitions and policies of the Ministry concerned and it's attached corporations and public bodies and may call for views of the Ministry. After examining the views of the Ministry, the Committee shall make a report to the Senate, which may make such recommendations thereon as it may deem fit:

**[Provided that the Committee shall bi-annually examine the budgetary allocation and its utilization by the Ministry concerned and present a report in this regard before the House within forty-five days.]

National Assembly of Pakistan

Rule 201(6): PSDP Review by each standing committee and recommendation during Feb 1 to March 1

Rule 201(7): within thirty days of the recommendations of the Standing Committee on PSDP, the Ministry concerned shall submit to the Committee its report-

(a) of inclusion of the recommendations in the Federal Budget for the next Financial year; or

(b) Showing reason of non-inclusion of the recommendations in the Federal Budget.

Rule 201(4): A Committee may examine the expenditures, administration, delegated legislation, public petitions and policies of the Ministry concerned and its associated public bodies and may forward its report of findings and recommendations to the Ministry and the Ministry shall submit its reply to the Committee.

Provincial Assembly of Sindh

Rule 167(7): A Committee may examine the expenditures, administration, delegated legislation, public petitions and policies of the Department concerned and its associated bodies, and may forward reports of findings and recommendations to the Department and the Department shall submit its reply to the Committee within a period of two weeks.

Gilgit Baltistan Assembly

Rule 152(1): A Committee shall review and evaluate the performance of the department and formulate recommendations for introducing improvements and increasing efficiency of the concerned department.

Rules of procedure of the Provincial Assemblies of Balochistan, Khyber-Pakhtunkhwa, Punjab and Legislative Assembly of Azad Jammu And Kashmir have yet to be updated in this regard.

Other tools:

There are other parliamentary oversight tools enlisted below that can enhance accountability of the executive by the legislature such as:

- o Question Hour
- o Cut motions
- o Adjournment motions
- o pre and post budget sessions
- o Calling attention notices
- o Resolutions

Way forward to improve accountability of PIs through Parliamentary Oversight:

The accountability of Public Institution, in true sense, can be ensured if the public representatives play their oversight role effectively. To make the oversight role more effective the following suggestions are put forth:

- o Adequate provisions may be added in the Rules of Business (these rules prescribe the roles and responsibilities of the executive) and Rule of Procedures and Conduct of Business of every house so as to further empower the standing committees.
- o Required resources in terms of logistical, intellectual, technical and expert support may be provided to the standing committees so as ensure smooth functioning of the committee.
- o The recommendations of the Committee or House should be binding upon the concerned Public Institution.
- o The frequency of the committee meetings may be enhanced and immediate remedy of the issue/problem may be recommended.
- o After having done detailed study and analysis of existing statutes, rules, regulations, policies and standard operating procedures of every public institution, necessary amendments may be made in accordance with the international best practices. An independent yet accountable monitoring and evaluation mechanism may be evolved so as to ensure implementation and compliance of the statutes, rules and regulations by the executive.

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About the Author: ***Mr. Haider Abbas*** *is Director General Finance at Pakistan Institute for Parliamentary Services (PIPS). He is a Fellow Member (FCMA) of Institute of Cost & Management Accountants of Pakistan and a Certified Internal Auditor (CIA) from Institute of Internal Auditors-USA besides holding a master degree in economics from University of Karachi. Mr. Haider Abbas has overall experience of over 18 years in the areas of accounting, finance, internal auditing and taxation.*

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Proposed Model for Economic Revival and Employment Generation

The first and foremost priority of any government is to maintain macroeconomic stability in the best interest of the country as well as general public. There are three primary and two secondary macroeconomic objectives to pave the way for economic development (see Table-1). The secondary objectives are innumerable but the most important of them are to manage the trade balance and Budget balance. All these indicators have close mutual impact on one another. Mostly, there is always a trade-off in between two most wanted macroeconomic indicators. For example, devaluation / depreciation increases the exports that improves the Balance of Payment (BoP) but, at the same time, foreign debts would increase with same percentage. Similarly, expansionary policy and increasing the money supply in the market through different monitory / fiscal tools, will surely increase the economic growth rate but, at the same time, inflation shoots up which is a killer of growth rate as well as political stake of government. To maintain balance between or among these macroeconomic indicators is analogous to walking on knife edge. To maintain these three basic macroeconomic indicators within the tolerance limits is an art that would ensure the desired economic growth through any of the economic model adapted.

Table 1: Three Primary Objectives of Economy

Sr.	Objectives	Acceptable standard	Remarks
1	To reduce unemployment	3%	Mild unemployment always persists due to structural, cyclic, fractional, seasonal, regional and classical unemployment
2	To increase economic growth rate and size of GNP	No Limit	The size that will ensure ever-increasing per capita income than previous year. Better to benchmark with advance countries.
3	To reduce inflation	3%	Rise in employment will naturally lead to both demand- pull and cost-push inflation. That should be restricted to 3 percent

1) Economic model for employment creation

Major objective of this model is to increase employment and finally the Gross National Product (GNP). How we come to know that objective has been achieved is very interesting? There are three basic indicators or yard sticks to measure the economic progress and satisfaction level of people in any country which are GDP growth rate; un-employment rate and inflation rate. The last ten years trend and dynamics of these three primary indicators are provided below to assess the future prospective;

a) GDP or Economic Growth Rate:

Economic Growth Rate which was 3.6 % in 2013 has surged to 5.8% in 2018. The potential in growth rate is now above 7% due to end of power shortage and terrorism; presence of young labor force; populous country constituting a big market and abundant natural resources. But there is acute trade of between GR and CPI.

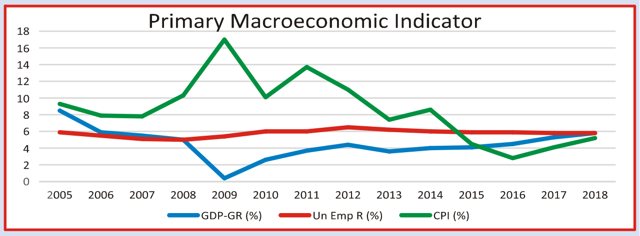
Mazhar Mahmood, FCMA

b) Unemployment Rate:

It is more vulnerable in Pakistan depending upon government policies. It has continuity in declining trend since 2013 from 6.2% to 5.8% in 2018. Acceptable unemployment rate is 3% that naturally persists due to structural, frictional, seasonal, regional, classical and cyclic unemployment.

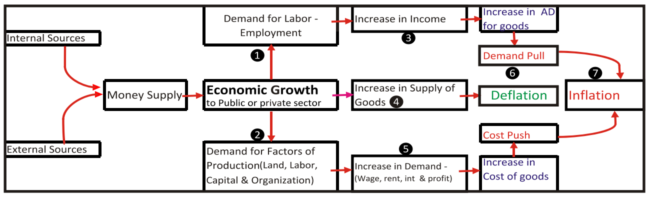
c) Inflation or CPI:

It would strongly depress both growth rate and employment if exceeds, at any time due to any reason. The era of 2008 is the best example when energy crises instigated the inflation upward, as evident from the graph, unemployment increased and GDP decreased sharply in 2009. The situation improved in 2016 when inflation declined from GDP rate as energy crises starts declining. The continuity of such trend is most desirable when both unemployment and inflation will be lower than GDP growth rate.



Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP-GR (%)	8.5	5.9	5.5	5.0	0.4	2.6	3.7	4.4	3.6	4.0	4.1	4.5	5.3	5.8
Un Emp R (%)	5.9	5.5	5.1	5.0	5.4	6.0	6.0	6.5	6.2	6.0	5.9	5.9	5.8	5.8
CPI (%)	9.3	7.9	7.8	10.3	17	10.1	13.7	11	7.4	8.6	4.5	2.8	4.1	5.21

The supply of money through fiscal or monitory policy plays dual role i.e. at one end these policies ensure economic growth and at the other these curtail the inflation. Both higher economic growth and low inflation can be achieved very wisely and tactfully through application of these polices.



The economic growth, on one hand, would increase employment or income of general public that would push the Aggregate Demand (AD) for goods. This will create DEMAND PULL INFLATION if Aggregate Demand (AD) is more than Aggregate Supply (AS) or AD ≥ AS. Secondly, due to economic growth, the demand for factors of production (Land, Labor and Capital & Organization) will increase that will push demand for high rent, wage, interest and profit. Ultimately, the high cost of factors will increase the cost of product that would be designated as cost push inflation. Thirdly, the economic growth would increase the supply of goods, as more people would be working, by utilizing more factors of production. More supply of goods would reduce prices or reciprocate inflation. As the supply of goods from all sectors, especially industrial sector, is better in 2017/18 than 2013 which was one reason to curtail the inflation for last 5-years.

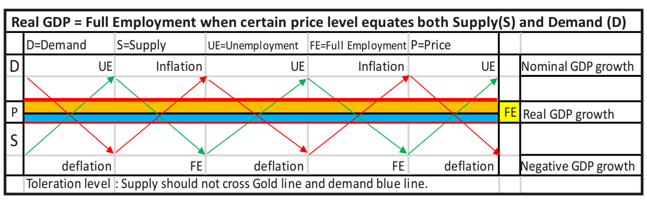
2) Desired Equilibrium among three macroeconomic indicators

a) **Unemployment:** When supply exceeds demand and **deflationary** situation is created that would decline GDP. Equilibrium of AS and AD at price / inflation rate that creates unemployment is **not acceptable**.

b) **Full Employment:** When AD exceeds AS and **inflationary** situation is created that would inflate the GDP because no supply after full employment level. Equilibrium of supply and demand at higher price / high inflation rate is also **not acceptable** because demand is not met by supply.

c) **Real Growth:** When AD and AS are equated by the price that ALL THREE FACTORS remain within tolerance limit, as mentioned in graph, where one observes neither inflation nor deflation is **acceptable** equilibrium.

d) **Inflation:** Inflation has direct relationship with employment, however, both types of inflations, demand pull and cost push, can be controlled, to some extent, by twisting variable in both situations along with changes in demand and supply.



3) General public's wish or demand for goods/ services:

All stratums of society (general public, business community, students, labors etc.) mostly expect the government investment in projects providing three types of goods called PUBLIC GOODS, BASIC GOODS and ECONOMIC GOODS. A brief description of these three goods is provided below:

a) **Project Offerings - Public Goods:** Public goods are non-commercial; non-excludable and non-rivalrous in nature. Therefore, it is sole responsibility of government to provide public goods having no reciprocate consideration from general public. Inhabitants expect the government to invest in these types of projects through PSDP, in road infrastructure; construction of boulevards/ overhead bridges / underpasses, traffic system, public parks, fool-proof security, protection and projection of heritage and Icon of city, projects creating positive externalities, external defense and pollution free environment. Batter quality of public goods makes a city presentable. Presence of quality public goods ensures an easy access to the basic goods and onward to economic goods. Public goods are more important than two other goods. Private sector will not invest in projects producing public goods which are offered free of cost to inhabitants.

b) **Project Producing - Basic or Social goods:** The general public also expects the government to invest in basic goods like hospitals, educational institutions, energy production, food/shelter/ clothing, media, transportation like metro bus /electric train, communication like telephone / cell phone / fiber optics and equitable justice. Private sector also jumps in and starts providing the basic goods to general public as a commercial activity due to consideration of profit unlike public goods. Therefore, private sector invests in city which is presentable or having more public goods provided by the government.

c) **Projects Producing Economic Goods / Services:** It means the consumable items pertaining certain utility that need human efforts to bring them in consumable good or service. All the goods produced by industrial sectors and services produced by professional are economic goods and services. These public and basic projects need huge amount of goods and services from economic projects for continuity of sustainable operations. Multimillions Human Resource, in term of employment and entrepreneurs, is required to produce and distribute these goods to public and basic projects. The provision of public goods and basic goods need heavy investment that induce both private and public sectors to establish industrial estates, Plants, machineries, transportation, offices, businesses, production, distribution, financial and multination service industry to produce goods and services for public, basic and, even, economic projects itself. Private investors would invest and host their HOs in the city which is presentable like Karachi, Lahore & Islamabad where public goods are abundantly available due to focal cities of government. These three-chapter cities became sustainable, as compared to other cities, regarding reduction in poverty level only. Over-investment both by government and private sectors have turned these cities unsustainable w.r.t other criteria. Environmental problem, due to over crowdedness of resources, turned these three cities unsustainable so much so that they could not make place in first 100 sustainable cities at SUSTAINABLE CITIES INDEX at world level. No doubt, multibillions investment created the multimillion employment and entrepreneurs, in under discussion cities, but could have produced more externalities had, a portion out of it, been hosted in second tier cities of Pakistan.

Projects & its products (Goods / Services)

Classification	Public			Basic			Economic		
	Projects		Goods / Service Produced	Projects		Goods / Service Produced	Projects		Goods / Services
Projects & products	Road infrastructure	F	Easy & fast movement	Hospital	F	Health	Agriculture Sector	F	Food intake raw material
	Traffic system	o	Safe movement	Educational Institutions	o	Knowledge reservoir	Mining & Quarrying	o	Industrial raw material
	Public Parks	r	Recreation	Energy	r	Power	Industrial Sector	r	Finished Goods
	Foolproof security		Individual protection	Food, shelter & clothing		Prime necessity	Transportation		Carriage
	Heritage & Icon		Common pride	Media		Information	Whole sales & Retail		Distribution
	Positive Externalities		Common advantage	Motorways/ Rail/ Airports		Travel lings	Professional		Services
	External Defence		Collective protection	Telephone / Cell Phones		Communication	Financial Sector		Financial services
	Environment		Common air quality	Courts		Legal rights			
Nature	Noncommercial, non-excludable & non-revalorious			Necessity of life & Commercial			Commercial		
Responsibility	Prime responsibility of Government as no payment is charged from the user.			Public Private Partnership. Both Private and Govt. sectors may or may not charge for goods and services.			Private public Partnership. Both government and private would definitely change the used of goods or services.		
Dependency	Independent			Mostly dependent on Public Goods / Projects			Partly dependent on Public and partly on Basic Goods / projects		
Property	A Public good may be a Pure public good, both public & basic or pertaining the properties of all three public, basic & economic good at a time.			A basic good may be pure basic like charity hospital or EDI centre where employees also work voluntarily or may be basic & economic good like any other hospitals / schools			Economic goods are only economic as goods as available against payment and employees get salary. Consideration is there.		

4) Economic Model to generate employment

a) **Top down Traditional Economic Model for Urban Areas:** Top down economic model means that when Government starts mega or macro level project, through PSDP, and consequently business, employment, money and other benefits travel from macro to micro level to all sundries due to interaction of multiplier and accelerator. Top down economic model is best fit for urban areas to make all cities sustainable, one by one, with plenty of pubic, basic and economic goods for general public. Economic growth percentage must be exceeding both unemployment and inflation (CPI) in short run. Inflation can be controlled through combination of Fiscal and Monetary policies.

b) **Presentable & sustainable Urban Areas:** Autonomous investment of government through PSDP is the starting point. This investment should be made to create public goods that will make city presentable. Private sector will spontaneously jump in with multibillion investments to create the basic and economic goods that will generate multimillion jobs and entrepreneurs. Availability of all three public, basic and economic goods to inhabitants will make the city sustainable. All these three areas will improve the basic macroeconomic indicators that can also be wished by all the countries.

c) **Down top economic Model for Rural Area:** Funds should be directly utilized by the community to in agriculture sector that would create huge employment and entrepreneurs as this sector is innately labor intensive. The benefits in term of employment, induced investment, taxes to exchequer would travel from Micro level to Macro level due to interaction of multiplier and accelerator. The writer has also designed an economic model," Community Entrepreneurship Economic Model CEEM" for village communities for optimum utilization of land and labor resource by induction of capital.

d) **Sustainable Rural Areas:** Demarcation of entire country into arid arable, canal arable and hilly arable areas is also available. Formulate the separate strategies to grow different crops, fruits, vegetable, substitutes for imported crops and like one. Agriculture land of Punjab and Sindh are fully utilized to some extent. Only rain-fed arable resources, Pothowar plateau, is under-utilized in term of both land and human resources due to shortage of capital. A little investment to build the MINI DAM at every 4 KM will create huge employment and business entrepreneurship by full utilization of all resources as agriculture is an innately labor-intensive job.

e) **Import substitution of edibles:** We cannot manufacture a substitute of heavy machinery but the land, under consideration, can be utilized to produce the substitute of edible items, ghee/pluses etc., to save the huge amount of Forex.

f) **Secondary Objectives:** Trade deficit and budget deficit can be improved if both parts of the economic model are aggressively utilized.

g) **Precautionary Measures:** Following precautionary measures should be adopted to ensure economic growth / creation of employment within controlled inflation:

- Demand Pull Inflation can be controlled when Aggregate Supply equates Aggregate Demand or AS ≈ AD. More employment means more supply of goods and less inflation.
- Cost Push Inflation should not go beyond 2 percent and it should be controlled by maximum wage rate through fiscal policy, interest rate through monetary policy and check on profiteering administratively. Maximum Rent be announced for main areas to reduce cost of doing business.
- Equating Demand & Supply: Mild increase / decrease in supply / demand are to be accepted so that price / CPI may not cross the tolerance limits or range of ± (percentage of GDP rate) in short run. In other words, economy should operate near Full Employment Level with ± (percentage of GDP rate).

5) Application of Economic Model

The above model can be applied in the following areas for creation of employment or growth & size of GNP.

a) Presentable and Sustainable Cities:

A Presentable City is a product of Government and Private Sector partnership which develops automatically. A city is a presentable having many indicators mentioned under PUBLIC GOODS. For example, Attock and Sargodha are less presentable as compared to Lahore and Islamabad. And are less attractive for investors to produce the basic goods and economic goods in former than later cities.

A Sustainable city is an old concept in advanced countries. Now 17 goals of SGDs also included the sustainable city as per UN declaration. One of the indicators is delivery to general public. A city cannot be a sustainable until it is made presentable by the government. Government just take initiative and patronizes certain activity that fascinates the attention of relevant private investor and concerned stratum of society. For example, launching DHA residential scheme, millions of people and private investors, construction companies, suppliers etc. posed confidence and made multi-billion investments that pushed a huge quantum of local economic activity. Knowing that DHA is presentable under government patronage, private sector spontaneously jumped in with heavy investment for construction of commercial plazas, residential sectors, hotels, banks, schools, hospitals, supply chain shops, commercial offices and so on.

Consequently, such steps of government made location presentable and private sector made it sustainable as we often see in case of three-chapter cities of Pakistan. These three-chapter cities which are presentable, to extent of Pakistan, due to extraordinary patronage of government are over flooded with private investment with all resources which, otherwise, would have been allocated to other cities of Pakistan to make them sustainable too. Poor air quality due to massive traffic, abundance of factories and other activities in Lahore, Islamabad and Karachi did not allow them to make place in first 100 sustainable cities in the Sustainable Cities Index. There is a serious imbalance of government patronage that made the entire country unsustainable by limiting to these three-chapter cities. Let us see Three PPPs, accepted criteria, for a city to be sustainable.

b) Determinants of a Sustainable City:

There are three major factors that make the city sustainable. When Government patronizes a city growing in a manner that people would enjoy the risk-free social life, favorable environment and plenty of economic opportunities are available. Let us explain three focal areas;

- **Planet / Environment:** The Planet / city must be planned to make it pollution free which is now, the worst enemy of human beings, of course more than terrorism. Some of the initiatives in this regard which come under public goods are to construct boulevards to accommodate plantation or green belts; producing power from renewable energy; consumption of energy to minimize smoke, if fossil fuel energy is used, using transport on type of energy emitting less smoke, renewable energy, efficient waste management & recycling, efficient traffic system ensuring no traffic jam, making natural catastrophe risks or disaster management possible through vast roads or boulevards.

- **People/ Social:** A city must be equipped with institutions providing opportunities to inhabitants for quality of life which consists of quality of residence, health, education; income inequality, work life balance, and security are few among the others. These are also called the BASIC GOODS.
- **Profit / Economic:** These public goods and basic goods like metro, ministries, law and order institution, colleges, universities, hospitals, government offices, dams, power & energy sector, manufacturing, distribution and financial sectors etc. produce millions of economic goods in term of both jobs and entrepreneurs. Tourism also plays an important role in local economy for creation economic goods. These elements are also called ECONOMIC GOODS AND SERVICES.

c) Strategy to transform existing cities into Sustainable Cities:

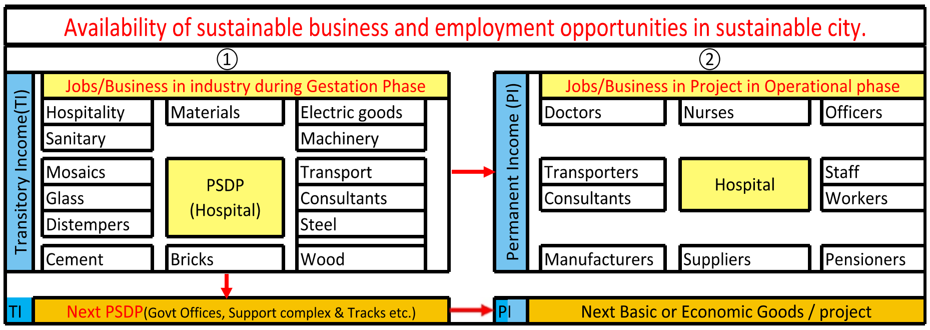
Strong management and commitment of government for the following actions are required;

Making the city presentable under government initiative and patronage.

- All second-tier cities having population in range of 3 to 6 miles e.g. Rawalpindi, Peshawar, Faisalabad, Multan and Hyderabad should be revamped one by one within five years. Subsequently the third-tier cities be also revamped on the same lines and so on.
- New boulevards to be constructed outside/ around the city for spherical expansion.
- Construction of not less than five story buildings be allowed to promote vertical construction along these boulevards to save the land for next generation.
- Boulevard must comprise of road for vehicles, electric railway track, space for multistoried plazas on both sides, service lines and planned housing schemes on both sides behind the plazas like Blue Area.
- Government should take initiative to construct /demark the sites for basic goods like District offices, schools, colleges, hospital, support stadium and high-rise residential flats etc. along both sides
- Mandatory plantation on both sides of boulevard and houses in town.
- Special parking, for all traffic coming from other cities or outstations, should be made at different places around this circular railway or boulevards.
- Traditional construction, Mohalla's type growth, should be completely banned. Only presentable houses construction to be allowed on planned and licensed township.

Private Sector investment a spontaneous partnership.

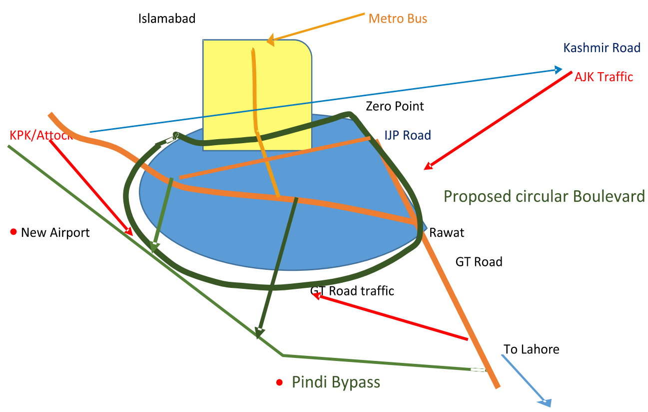
- Private sector will jump in and do multi-billion investments on projects having government patronage.
- This series of economic activities will continue for distant period for generating income of business and job seeking stratums such as construction of roads, electric railway tracks, hospitals, universities, high rise commercial plazas and green belts etc. All public, basic and economic projects need the services of economic projects and, finally, huge employment and businesses would be generated. Transitory income through employment and business is generated during gestation period of project and, later on, it would be



transformed into permanent income when project becomes operational. It will produce diversified POSITIVE EXTERNALITIES if commissioned in second tier cities than three-chapter cities of Pakistan. Let us see, for example, how a huge employment and entrepreneurial activities generated in different sectors of economy if only single project is started under PSDP.

- After making a city sustainable, the government should conduct national or international economic, social or cultural events in these cities to get the attention of national and international media. This would crop up the quest in inhabitants of other national and international cities to know about the host city.

Brief layout plan to make Rawalpindi / Islamabad sustainable cities – An example



d) Advantages of Proposed Economic Model

FOR PEOPLE

- **Public Goods:** Public goods, under government patronage, make the city sustainable and fascinate that private sector to invest in projects producing basic and economic goods.
- **Basic Goods:** All health, education, tourism, disaster management and security related issues can be well managed and address in sustainable city.
- **Easy Access to Basic & Economic goods:** Inhabitants would enjoy an easy access to these amenities or basic goods and economic goods through public goods or projects.
- **Unplanned Localities – A liability:** The low earning capacity constraints the inhabitants for low investment in houses in Mohalla type localities, makes them content on low earnings and, consequently, their less expenditure depresses the local economy due to vicious circle hence developed. No further employment can be generated in such types of localities which become a heavy liability on both Government and society forever.
- **Planned Localities – An Asset:** A planned locality, like DHA, Bahria, Clifton, HCA of Islamabad and Model Town etc. restrict the low-income earners to their native villages.

Inhabitants of such localities always have handsome income due to their high productivity. Most of the houses, hence constructed, need a house keeper, a cook, a watchman etc. These planned localities are big asset to generate further employment which is our core issue.

- **Migration Restricted:** Migration of low productive people to urban areas, from outstations, can be restricted so that such liability may not further strengthen the vicious circle already exist.
- **Induced Demand:** It would be generated through interaction of multiplier and accelerator that would invite further investment in projects producing basic and economic goods. This process would create further employment and entrepreneurs and finally rise in quantum of GNP.

FOR PLANET

Reduction in pollution mainly due to:

- Reduction in distance travelled by thousands of vehicles from one corner of Rawalpindi to other corner of Islamabad because all basic and economic goods (offices, educational institution hospitals and private sector HOs etc.) are accumulated within 3-4 KM at extreme north of twin cities.
- Parking of outstation public transport beyond proposed boulevard will surely help to improve air quality.
- Rawalpindi Bypass will be an important source to accommodate cargo transport comprises of multi thousands long vehicles which are now passing exactly in-between the twin cities and creating massive pollution number killer of future.
- Circular electric train at proposes boulevard will transports multimillion people from one corner to another corner of twin cities. It will be an additional advantage for reduction of pollution.
- Avoidance of Traffic James which is routine matter in both the cities would save both time and money. Further it would reduce the anxiety due to traffic jams and burning extra fuel.
- Green belts and mandatory plantation at streets and houses would reduce concentration of Carbon Dioxide and produce the Oxygen to create pollution free investment.

Others

- Cities can be made sustainable due to hurdle free waste management.
- Disaster management is possible in well planned hurdle free urban areas.

FOR PROFIT

Sustainable Business:

Most of the businesses are sustainable in these three-chapter cities at the cost of second and third tier cities having no government patronage. Cost of doing business is too much as compare to second and third tier cities. A serious attention is required to create more sustainable cities to distribute the national resources throughout Pakistan. Now the fifty percent proposed houses for poor should be built in second tier cities. Big business would also be sustainable if second and third tier cities are made sustainable.

Employment Creation:

All government offices and economic activities, except the mandatory federal and provincial offices, should be established in other cities as Australia and America avoided accumulating all resources in their respective Capitals. More sustainable jobs will be created at the door step of people which is their basic right. Karachi has better jobs and business opportunities than Lahore, Lahore better than Islamabad and Islamabad better than Rawalpindi or Peshawar. More opportunities for employment and business mean less poverty level which is one the indicator of sustainable city. More investment in second tier cities would create multiple EXTERNALITIES in second tier cities than three-chapter cities. Look at the graph reconciling the above statement were poverty is less in three-chapter cities;

Multi-dimensional Poverty Index (SPDC-2007)

Town	% of below Poverty Level	Rank	Province
Islamabad	8.00		ICT
Karachi	9.15	1	Sindh
Rawalpindi	11.32	2	Punjab
Lahore	11.60	3	Punjab
Gujrat	12.72	5	Punjab
Mansehra	20.74	15	KPK
Sukkur	24.96	22	Sindh
Khairpur	27.41	27	Sindh
Nowshera	27.98	28	KPK
Quetta	34.15	41	Baluchistan
Peshawar	36.51	50	KPK
Chagai	76.91	98	Baluchistan

https://iknomics.wordpress.com/2011/04/12/district-level-poverty-in-pak

FOR TOURISM

Normally Government makes the city presentable through legal cushion or patronage and private investors make it sustainable. A presentable city attracts the tourism that will generate huge local economy. Our three-chapter cities are attracting the tourism but tourists do not take notice of other un-presentable cities.

e) Sustainable Villages:

To-down economic model has been suggested to make the urban areas sustainable which would ensure the inhabitants the public goods, basic goods and economic goods. But on the other hand, down-top economic model is suggested for rural areas. Basically, this model works like CLUSTER FARMING.

CEEM – Foundation, created under section 42 of companies Act 2017, would be platform/ hub of this model. Focus is only rain fed arid area of Pothowar plateau and hilly areas having minerals and fruits enrichment. There is no dire need of all public goods for rural areas which are naturally available there. Village community needs few basic goods and plenty of economic goods and services for sustainability.

Following are current problems in rural areas which are making it unsustainable regarding the provision of economic goods, of course, the employment or entrepreneurship to dwellers;

Current Problems:

1) Huge labor force searching the employment. Mostly there persists structural, disguised, cyclic, regional and seasonal unemployment which are the reasons causative of more unemployment in rural than urban areas.
2) Division of inherited land has been turned into so small holdings where economies of scale do not operate as currently crops are cultivated individually. Mostly formers are incurring more expenditure than wheat crop harvested.
3) There is acute shortage of water and also capital to create water reservoir (Mini Dam) for extensive farming which would be the HUB of top down economic model. Millions cubic meter rainfall water go waste.
4) There is seldom timely rainfall that is a big hindrance to induce the agriculture farming. Water shortage has main problem to push all human resources, land and other sources dormant.
5) The village community has limited the cultivation to wheat only and abandoned the other crops like maze, groundnut, pluses, barley and mustards etc.
6) Most of the land remains virgin for six months.

ICMA Pakistan

Estd. 1951

7) Community culture has been dried up which changes the social and economic priorities. Centuries old community trend of mutual interaction for all social, cultural and economic events has totally been ruined.

8) The annual produce, now, is not sufficient for their annual requirement. Before 70's these farms were producing surplus, which was disposed of in markets. Entrepreneurship concept was there.

9) A huge population is shifting to urban areas which are making them unsustainable.

Population Shift		
Year	Rural	Urban
1980	80%	20%
2000	64%	34%
2020	51%	49%

Population Growth		
Year	Status	Population (Million)
1981	Actual	84
2000	Actual	139
2020	Expected	210
2050	Expected	275

Current Potential:

- Potential HR, best sites for mini dams for to stock rain fall water, is available for rival of economy.
- Underutilized land available which was dropped by individuals due to non-viability.
- Village community is ready to surrender their small and fragmented holdings to form a one unit / cluster to take the advantage of economies of scale.
- Arable area in Pothowar is 0.77 m ha (1,902,670 acre). This model is for only 100-acre area.

f) Community based Entrepreneurship Economic Model (CEEM):

The legal framework of CEEM is briefly enumerated below:

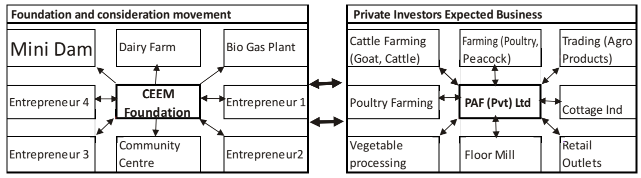
- A Community based Entrepreneurships Economic Model - CEEM foundation, under section 42 of companies Act 2017 will be registered to serve the specific community (a village).
- Foundation would construct a mini dam, a dairy farm and a bio gas plant. Hence a waste of wheat (Chaff) to be used as a fodder to buffalos, buffalos waste (Dung) to Bio gas plant to produce electricity and slurry (waste) of bio gas plant to fields as an organic fertilizer.
- All small and fragmented holdings would be surrendered to CEEM-Foundation to form a CLUSTER for all sowing, growing and marketing activities.
- Function of CEEM Foundation would be to extend financial and technical help to all individual farmers.
- The government transfer one-time fund to above mentioned CEEM based foundation. It would be self-sustainable, afterward, as working with all individuals on 50% consideration.
- All the family heads will be the members of Foundation.
- All the inhabitants of community will be directly or indirectly involved in farming activities in terms of entrepreneur and/or employee.
- A family unit will be called an "Entrepreneur" having a partnership contract with foundation to use their lands on 50/50 share bases.
- The foundation will provide the managerial, financial & technical facilities to community for cultivation to make the farming sustainable. The operational activities will be the responsibility of Entrepreneurs as per their previous practice.
- Owner ship of Holdings will remain with entrepreneurs and will be transferable to the next of kin as usual. Foundation

Before CEEM

Factors of Production	Community		CEEM- Foundation	
	Contribution	Expenditure	Contribution	Expenditure
Land	√	√	X	X
Labor	√	X/√	X	X
Capital	√	√	X	X
Organization	√	√	X	X

will remain aloof from any direct litigation or patronization or involvement of such litigation on the behest of any third party.

- Private investor would be inducted to invest in different manufacturing and farming activities.
- Responsibilities of both community and foundation after partnership would be;



g) Financial and Operational Framework:

The Financial and operational Framework of CEEM is provided below:

Government will transfer one-time fund to CEEM Foundation as per pre-feasibility for one village community. Maximum two such pilot projects be started at initial stage.

- Foundation would finance the construction of dam, dairy farm and bio gas plant and other irrigation arrangements.
- Bio gas plant is to produce the gas which is to be used to pump water from dam to fixed concrete tankers. Sprinkle method be used for irrigation.
- Foundation would bear all the expenses for use of machinery for sowing, growing and harvesting while entrepreneurs would be the part of all manual activities as have been doing before CEEM.
- At the time of harvest, 50% produce would be handed over to CEEM Foundation.
- Entrepreneurs would sell surplus produce through CEEM Foundation can dispose of the produce direct to market or PAF (Pvt) Ltd for further processing.

After CEEM

Factors of Production	Community		CEEM - Foundation	
	Contribution	Expenditure	Contribution	Expenditure
Land	√	x	x	√
Labor	√	x /√	x	x
Capital	x	x	√	√
Organization	x	x	√	√

Market for agriculture produce:

Production is not a matter rather marketing at individual level for huge production is too difficult and not viable financially. The best alternate is cluster marketing under ages of CEEM-Foundation. Major task is to grow the Consumer goods (convenience goods). Followings are the responsibility of each of Foundation and Private Limited Company';

- **Self-Sustained Foundation:** Growing agriculture produces (Wheat, maize, pluses, groundnut and vegetables, fruit and dairy products etc.) in coordination with community.
- **Private Limited Company:** Cattle farming, Goat farming, poultry farming, Vegetable farming, Ostrich farming, vegetable processing and another cottage industry).

- **Marketing:** It would be the responsibility of CEEM- Foundation management to contract different bulk user and exporters for disposal of mass production;

h) Trade Deficit:

Trade deficit remained the most disturbed macroeconomic indicator in the history of Pakistan. There are too many reasons that compel the economy, at any time, towards worst Trade Deficit position.

Major Edible Imports "000"

A. Food Group	2017		2018		Average		
	US$	Rank	US$	Rank	Total	Average	Rank
01. Milk and Cream including for Infants	235,077	4	281,709	4	516,787	258,393	4
04. Tea	517,346	3	577,261	2	1,094,607	547,303	3
07. Palm Oil	1,775,118	1	1,907,138	1	3,682,256	1,841,128	1
09. Pulses	830,806	2	450,853	3	1,281,659	640,829	2
	3,358,347		**3,216,961**		**6,575,308**	**3,287,654**	

Short measures have been adopted by all previous governments for temporary relief. Long term strategy is required to reverse them. All edible items can be easily produced in Pakistan and around US$ 3.5 b trade deficit can be reduced. Followings are suggestion to reduce the demand for imports of edible items.

- **Palm Oil:** There are sufficient land (23 million hectares at pan Pakistan) and other resources to grow corn, canola, groundnut and olive as substitute of palm oil to produce ghee. Pothowar plateau is the best place to produce all four crops as a substitute of palm oil and pluses etc.
- **Milk / Dairy Products:** Pakistan is 3rd in world ranking to produce 50 b liters of milk per year (https://www.dawn.com/news/1400370). Raw milk can be converted into akin imported products under the ages of government by giving the incentives to business community.
- **Tea:** About 260-million-hectare land is required to produce tea equal to imported quantity. Fortunately, Pakistan has about 360-million-hectare land available in Murree, Abbottabad, Mansehra, and Sawat etc.
- **Over All Imports:** Now, the measures suggested by FATF, under the wake to curb the terrorism financing and money laundering are a big opportunity to reduce the imports. Money laundering through under / over invoicing and other means can be controlled if Pakistan adopts financial discipline suggested by FATF
- **Other Measures:** The government should sign MoUs / Contracts with different countries for export of HR. Similarly, we have good relationships with Gulf and African regions and our Embassies in these countries should be given targets for both visible and invisible exports.

i) Budget Deficit:

There are two major options to reduce the budget deficit either to increase the revenue through different tools or cut the expenses reserved for capital and revenue expenditure. But this is not so simple because such action has multi-dimensional negative impacts on economy. One main purpose of budget is to curb un-employment which is core issue of this article. Following are measures, in brief, to reduce the budget deficit in long run;

a) Top down economic model in urban areas, after completion of project, will become a revenue generating activity in the long run and help in reducing budget deficit.

b) Employees in multinational companies and entrepreneurs will pay taxes to national kitty.

c) Starting the projects and legal cushion will induce the private sector to invest in basic & economic goods that would reduce the pressure on capital expenditure PSDP.

d) Promotion of agriculture in Pothowar region would reduce the budget deficit.

e) All three models will increase GNP that would be helpful in reducing the budget deficit.

f) All big SOEs should be privatized.

g) Transfer payment (BISP etc.) in budget sheet should be translated into invest in remote areas.

h) Merge the different related ministries to reduce the revenue expenditures admin cost.

i) Efficiency enhancement measures should be focused instead of incremental budget.

j) Waste Management and Research:

This is the most important area which is flagrantly ignored. Few of the areas are highlighted;

a) Bio gas plant culture should be developed in rural areas.

b) Shopping bags to be converted into bitumen as a substitute like India.

c) Restructuring the brick manufacturing process to save billion-rupee soil, water, and fossil fuel. Instead of tradition bricks, hallow blocks should be manufactured to save 30% cost and 20% (6,000 MW) electricity to avoid ACs. Because use of hallow blocks in construction reduces temperature up to 10 percent.

d) Multibillion-rupee fuel can be saved if boulevards construction instead of traditional roads.

e) A strategy to preserve vegetable and fruit by transforming into pickles, jams, sauce, packed vegetable and packed fruit.

f) Mini dam should be declared a public good for Pothowar, rain fed area, to utilize million-acre virgin lands (Waste) to grow vegetables, fruit, trees, crops and to start the animal husbandry as a cottage business.

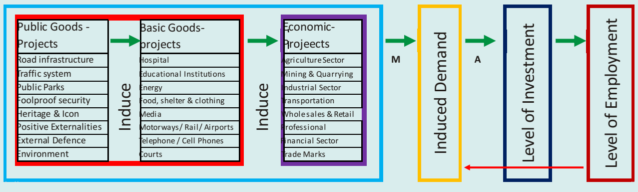
g) Shifting fossil-based power production projects on renewable energy production projects.

h) Electric power trains, on special tracks, to be encouraged for mass transit in mega cities.

i) Research for a disruptive invention in any of the field to boost the economy like computer, cell phone, Google and Facebook etc.

k) Conclusion

Well presentable Public Goods producing projects attract the Basic Goods producing projects and both attract the induced demand for Economic Projects to produce economic goods & services. This induced demand would determine the level of investment. Level of investment would determine the level of employment. With interaction of, hence, Multiplier & Accelerator GDP and employment would be booted to some extent. More employment would increase the production / supply that would bring the inflation down. More investment would create more employment which is our core issue provided that both inflation and unemployment rate not cross the GDP growth rate.



__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.

Analysing Reasons for Low Saving and Investment in Pakistan

Rizwan Ahmed, ACMA

What is saving and its motives

Investment funds is the part of wage not spent on current consumptions. Since a man does not comprehend what will occur later on, cash ought to be spared to pay for unforeseen occasions or crises. A person's auto may breakdown, their dishwasher could start to spill, or a therapeutic crisis could happen. Without investment funds, surprising occasions can turn out to be huge money related weights. Along these lines, investment funds enables an individual or family to end up fiscally secure.

As per (Birkeland 2013), "Reserve funds is the part of extra cash not spent on utilization of buyer merchandise but rather collected or put specifically in capital hardware or in paying off a home loan, or in a roundabout way through buy of securities"

Funds are made out of family investment funds, corporate reserve funds and government investment funds. The total of these funds make up the Gross National Savings, which add to the capital amassing which is one of the wellsprings of financial development.

Cash can likewise be spared to buy costly things that are too expensive to purchase with month to month pay. Purchasing another camera, acquiring a vehicle, or paying for an excursion would all be able to be proficient by sparing a part of pay.

There are two courses for a person to gauge his putting something aside for a given bookkeeping period. One is to appraise his salary and subtract his present uses, the distinction being his sparing. The option is to look at his asset report (his property and his obligations) toward the start and end of the period and measure the expansion in total assets, which mirrors his sparing.

Saving Motive

The sparing thought process is extremely straightforward and that is to stay arranged for what's to come. The sparing rationale of people and additionally the foundations is pretty much same.

(Keynes 1936) recorded eight thought processes in why individuals spare cash. These thought processes were duplicated by (Browning and Lusardi 1996) with one additional rationale included: the initial installment intention:

1. To develop a hold against unanticipated possibilities (the preparatory thought process)
2. To accommodate a foreseen future connection between the pay and the necessities of the individual (the life-cycle rationale)
3. To appreciate interests and thankfulness (the intertemporal substitution thought process)
4. To appreciate a bit by bit expanding consumption (the change rationale)
5. To appreciate a feeling of freedom and energy to things, however without a reasonable thought or unequivocal aim of particular activity (the autonomy rationale)
6. To secure a masse de man oeuvre to complete theoretical or business extends (the endeavor thought process)
7. To grant a fortune (the inheritance thought process)
8. To fulfill unadulterated stinginess, i.e. nonsensical however tenacious hindrances against demonstrations of use accordingly (the eagerness intention)
9. To gather stores to purchase houses, autos, and different durables (the up front installment intention)

In the present worldwide activity advertise, the factor of professional stability is getting to be open to the progression of time and along these lines, keeping up money related security later on is turning into a matter of profound worry for the people.

The propensity for investment funds is a crude propensity yet these days it is ending up extremely essential.

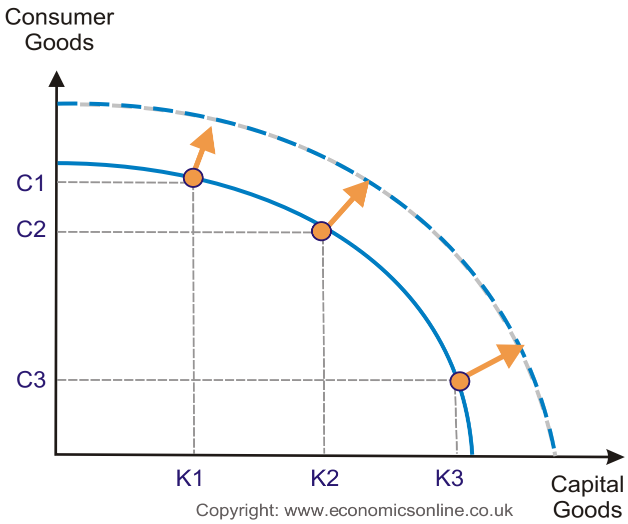
To secure future, numerous individuals lean toward the alternatives of speculation. It is likewise intended to give development to the cash. It is additionally a sort of funds however then it is conflicting with the customary idea of sparing and sparing thought process.

Economic Growth

Wikipedia characterizes Economic development as "Financial development is the expansion in the swelling balanced market estimation of the merchandise and ventures delivered by an economy after some time. It is ordinarily estimated as the percent rate of increment in genuine GDP, or genuine GDP, normally in per capita terms. Development is generally ascertained in genuine terms i.e., swelling balanced terms to take out the misshaping impact of expansion on the cost of merchandise created.

Monetary development is the expansion in the products and ventures delivered by an economy, normally a country, over a drawn out stretch of time. It is estimated as rate increment in genuine (GDP) which is total national output (GDP) balanced for expansion. Gross domestic product is the market estimation of every single last great and administrations created in an economy or country.

Economic growth has two meanings:



1. Firstly, and most generally, development is characterized as an expansion in the yield that an economy creates over some stretch of time, the base being two back to back quarters.
2. The second importance of financial development is an expansion in what an economy can deliver in the event that it is utilizing all its rare assets. An expansion in an economy's profitable potential can be appeared by an outward move in the economy's generation plausibility outskirts (PPF).

The least difficult approach to indicate monetary development is to package all merchandise into two essential classes, customer and capital products. An outward move of a PPF implies that an economy has expanded its ability to deliver.

There are just a couple of approaches to produce monetary development. The first is a revelation of new or better monetary assets. A case of this is the revelation of gas fuel; before the disclosure of the vitality creating energy of gas, the monetary estimation of oil was generally low. Fuel turned into a "superior" and more profitable monetary asset after this revelation.

Another approach to create monetary development is to develop the work constrain. All else equivalent, more specialists produce more financial merchandise and enterprises. Amid the nineteenth century, a bit of the powerful U.S. monetary development was because of a high inundation of modest, beneficial foreigner work.

A third method to produce monetary development is to make unrivaled innovation or other capital merchandise. The rate of specialized development and capital development is very subject to the rate of reserve funds and speculation, since reserve funds and venture are important to participate in innovative work.

The last technique is expanded specialization. This implies workers turn out to be more talented at their artworks, raising their efficiency through experimentation or basically more practice. Reserve funds, speculation and specialization are the most steady and effortlessly controlled techniques.

Government strategies effect sly affect a nations financial execution.

INVESTMENT

Dispensing rare assets to capital products, for example, hardware, is alluded to as genuine speculation. On the off chance that an economy delivers more capital products than shopper merchandise, at point An in the outline, at that point it will develop by more than if it allotted more assets to customer merchandise, at point B, underneath.

To accomplish long run development the economy must utilize a greater amount of its capital assets to deliver capital as opposed to purchaser merchandise. Therefore, ways of life are decreased in the short run, as assets are occupied far from private utilization. In any case, the expanded interest in capital products empowers more yield of shopper merchandise to be created over the long haul. This implies ways of life can increment later on by more than they would have if the economy had not made, for example, here and now forfeit. Consequently economies confront a decision between elevated amounts of utilization in the short run and the long run.

There is an exchange off between the short and the long run. In the short run, the economy must utilize assets to deliver capital as opposed to purchaser products. Ways of life are diminished in the short run, as assets are occupied far from private utilization. Be that as it may, in the more drawn out run the expanded interest in capital merchandise empowers more yield of customer products to be created. This implies ways of life can increment by more than they would have if the economy had not influenced the here and now to forfeit.

Investment Spending

Cash spent on capital merchandise, or products utilized as a part of the generation of capital merchandise, or administrations. Venture spending may incorporate buys, for example, apparatus, arrive, generation data sources, or foundation. Speculation spending ought not be mistaken for venture, which alludes to the buy of budgetary instruments, for example, stocks, bonds, and subsidiaries. Additionally called capital development.

Government Consumption versus Government Investment

The connection between monetary development and government spending, or all the more by and large the extent of people in general segment, is a vital subject of examination and level headed discussion. A focal inquiry is regardless of whether open part spending builds the long run consistent state development rate of the economy. The general view is that open use, strikingly on physical foundation or human capital, can be development improving in spite of the fact that the financing of such uses can be development deferring (for instance, as a result of disincentive impacts related with tax assessment). Government movement may specifically or in a roundabout way increment add up to yield through its cooperation with the private segment.

At the point when the economy needs here and now request boost, that jolt can originate from spending on foundation, i.e. government venture, foundation spending has long-run benefits and can enable the economy to become speedier. Consequently, it appears like framework spending is the undeniable decision, since it has both short-run and long-run benefits.

Controlling government spending is especially critical due to globalization. Today, it is winding up progressively simple for occupations and money to relocate starting with one country then onto the next. This implies the reward for good approach is more prominent than any time in recent memory, yet it likewise implies that the punishment for terrible arrangement is more prominent than any time in recent memory.

Investment to GDP in Pakistan

Business conditions have remained progressively troublesome for interest in Pakistan, especially with the political vulnerability of 1990s, fear based oppression in 2000s, and disintegration of general peace in huge urban communities, similar to Karachi the center of financial exercises of the nation. The ominous business conditions in Pakistan have not just kept remote financial specialists from the nation, yet additionally prevented nearby organizations from extending as well as reinvesting. Resultantly, the venture rate in Pakistan, which was around 18 percent in 2000s, declined to just 15 percent lately.

For that pointer, The World Bank gives information to Pakistan from 1960 to 2016. The normal incentive for Pakistan amid that period was 17.42 percent with at least 11.56 percent in 1960 and a most extreme of 21.47 percent in 1965. The capital interest in Pakistan and different nations is figured as the buys of new plant and hardware by firms, as percent of GDP. A high number is useful for long haul financial development as present venture prompts more prominent future generation.

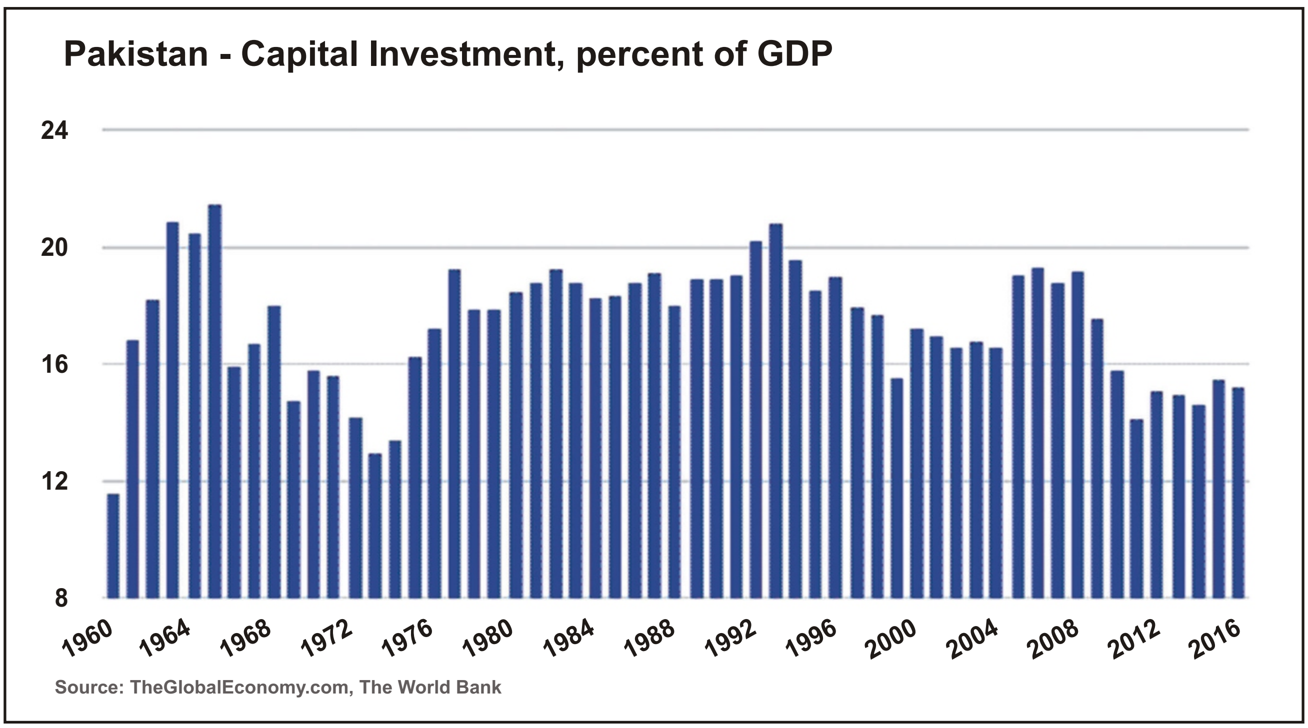
Declining Foreign Investment

As local assets are deficient to fund the interest in creating economies, remote direct speculation (FDI) is a feasible outer asset to fill the hole. FDI not just aides in enhancing generation forms, it likewise contributes in exchanging innovation, limit working of local people and better item advancement.

Pakistan has been pulling in outside organizations since autonomy. In any case, there are numerous periods of ups and down, because of changing government strategies, local business conditions, and worldwide monetary condition. In early time of 1950s, and 1960s, FDI got essentially because of open approaches also expansionary techniques of remote organizations. This pattern was demoralized by the nationalization of 1970s. In 1980s and ahead, FDI again expanded because of ideal strategies and motivations for remote organizations.

Low Savings Rate

While outside reserve funds are critical in financing the sparing venture hole, the most dependable wellspring of assets for interest in a nation is its own particular sparing Pakistan's



record in this viewpoint is likewise not empowering. National investment funds as percent of GDP were around 10 percent amid 1960s, which expanded to over 15 percent in 2000s, yet declined a while later. Pakistan's sparing rate additionally contrasts negatively and that in neighboring nations: most recent five years normal sparing rate in India was 31.9 percent, Bangladesh 29.7 percent, and Sri Lanka 24.5 percent.

Correspondingly, household funds (estimated as national reserve funds less net factor wage from abroad) additionally declined from around 15 percent of GDP in 2000s, to under 9 percent lately. Local reserve funds are basic for manageable development, since inflow of salary from abroad (settlements and other factor wage) is unverifiable because of recurrent developments in world economies, trade rates, and outer stuns.

Financial Savings

Low level of sparing is one part of the issue; other similarly essential issue is channelizing of sparing through monetary segment for their effective allotment to venture. It is discovered that under 50 percent of the national investment funds discover its way in to money related division. The rest is utilized as a part of land or other type of capital arrangement by casual ways. Strikingly, money related investment funds (i.e., reserve funds kept in type of monetary instruments) declined strongly to 22 percent of the aggregate national reserve funds amid 2000-05 a time of land boom. Incidentally, the loan costs were likewise low amid this period.

How to increase investment and saving?

With enhanced security circumstance and business conclusions in the nation, we anticipate that venture will get going ahead. Enthusiastically, nature of low swelling, low worldwide oil costs, and moderately more secure outer full scale adjusts has given a space to government to address basic issues.

The immediate part of the administration incorporates open interest in framework (basically in power and gas dispersion, development, transport and human capital), which swarms in private venture. Given the solid overflow of instruction on profitability development, people in general speculation on R&D and better range of abilities is basic. An attention on growing system of specialized and professional instruction organizations, and setting up industry-the scholarly community linkages can yield productive outcomes.

Regarding local asset activation, the part of the money related segment is basic. Business banks specifically should center around opening family reserve funds put in land and valuable metals (e.g. gold), and afterward channelize them into gainful ventures. Likewise, more plans are expected to pull in legally binding sparing plans in private area like annuity, provident reserve, tip, maturity advantage plans, and in addition little investment funds (like board of trustees/bisi framework) into the formal money related framework. Another territory is extending the system of Islamic keeping money and offering aggressive rate of profit for Islamic budgetary instruments.

The part of the administration can't be overemphasized. For instance, given government's overwhelming dependence on business banks for financing its monetary deficiency, banks have minimal motivating force to offer appealing sparing plans and reinforce their ability to back long haul ventures. In this way the administration ought to decrease its general spending shortfall, and furthermore center around activating assets from non-bank division.

Role of Management Accountant in Economic Growth

Management accounting is a process of creating and using cost, quality, and time-based information in an organization to make effective decisions. Management Accountants have many roles to play in the growth of an economy. The growth and development of every economy hinges on how resources are wisely managed and multiplied. Cost Saving is the back bone of Economic Growth and this is the main role of Management Accountant to advise, how cost can be saved in different projects and activities. Some of the roles of the Management Accountant in Economic Growth are listed below:

Providing information

In the role of providing information, management accounting in a globalized economy have to break away from the traditional scale of providing only internal information to the external market and inform the top management team and decision making team on external parameters concerning as well as affecting the business among them; competition, changing market environment, and threats. This information is then put into the formulation of the economic' policies and strategic plans in which the management accounting team is a core partner.

Investment Appraisal

Without investment, the economy will not develop and grow. Investment appraisal is the process of evaluating an investment opportunity in the face of both financial and other non-financial factors in order to determine the worthwhileness of the investment opportunity. Management accountants are the professionals that can effectively perform this function with minimal resources being expanded.

Cost Savings

There is an old saying that one does not get rich by earning and throwing away. Same goes to economic development and growth. Costs must be minimized for the economy to grow. Knowledge acquired from cost and management accountant is the most powerful tool that give management the best advice on cost savings.

Fraud Fighting

The world economy has lost so much from the activities of the fraudsters. Management accounting plays a vital role in the development and implementation of fraud prevention and internal control systems within their businesses. Management accountants are trained and educated to be at the front seat in the fight against fraud.

About the Author: ***Mr. Rizwan Ahmed*** *is Associate Cost & Management Accountant (ACMA), and currently working as Manager Accounts in a private company. He also did M.Phil. with specialization in Finance.*

Survey Report

Corporate Sector's Expectations from the New Government

By Research and Publications Directorate, ICMA Pakistan

Survey Objective

The new Government has completed almost two months in office during which it remained focused on the formation of Cabinet and economic teams; setting policy directions; and initiating massive reforms programs in different sectors. The Research and Publications Committee thought it prudent that an initial feedback may be obtained from its members, employed in the corporate sector, as to how they feel the new Government is faring and how much are they confident that this government would deliver, especially in dealing with the current economic issues. Though such surveys are only snapshots and attempt to feel the pulse of respondents at a particular point of time, however, the outcomes of such surveys definitely provide a useful guideline for the policy makers to readjust or realign policy priorities to bring it in line with the expectations of stakeholders, including the general public; trade and industry;, investors and professionals.

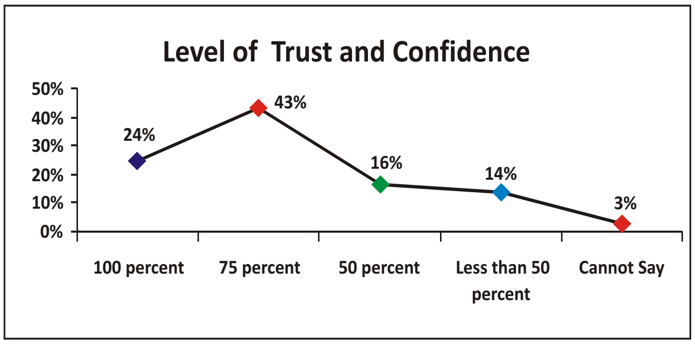
Survey Methodology

The feedback survey questionnaire was uploaded on Institute's website on 10th October 2018 with connecting link to Google Drive to provide an opportunity to participants to submit responses online. The members were also sent emails and SMS with short link of survey to provide their input online from their mobile devices. The deadline for filling-up the online survey was 24thof October 2018.

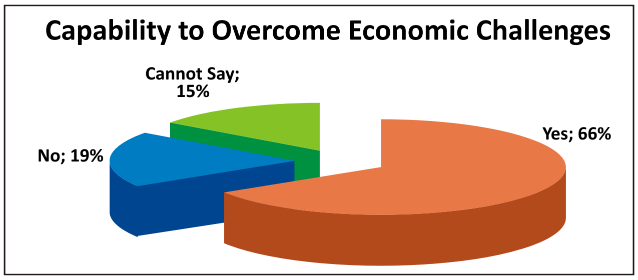
Survey Results

67% shows over 75% trust and confidence level on Government

The survey participants were asked to rate their 'level of trust and confidence' on the present government by selecting any option from 100%; 75%; 50% and Less than 50 percent. The responses reveal that around 67% members have shown over 75 percent trust and confidence level i.e. 24% mentions 100% whereas 43% say 75 percent. About 16% have indicated 50 percent trust level. These responses signify a positive perception of the new government and points towards the fact that members of ICMA Pakistan have high hopes on the present government and that the country can progress and move forward under the present leadership.

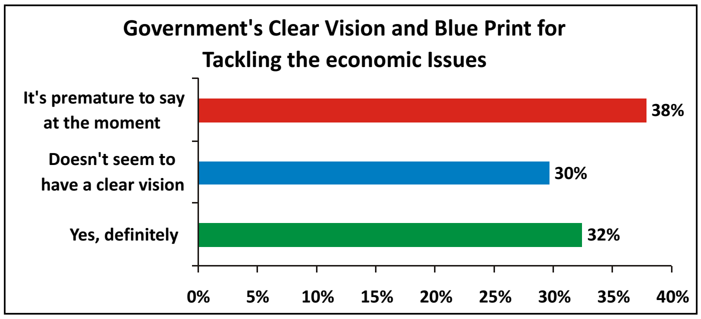


66% believes government has capability to overcome economic challenges

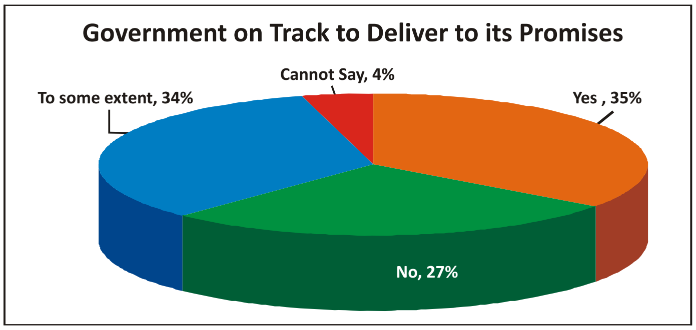


The responses to this question correlate to high level of trust and confidence as shown by survey participants in the previous question. Around 66 percent respondents have indicated confidence that the present government possess the capability to overcome current economic challenges. However, 15 percent respondents think that it is premature to say anything on this matter. There are around 19 percent members who say that the government lacks capability to deal with economic issues at hand.

Another related question was about the new Government's clear vision and blue print for tackling the economic issues. Majority of members (38%) have preferred to refrain from responding to this question and ticked on the option of 'It is premature to say at the moment'. However, 32 percent survey participants say that in their opinion the government definitely has a clear vision to deal with the economic issues. Almost equal percentage of respondents (30%) has indicated that the present government does not have any clear vision.

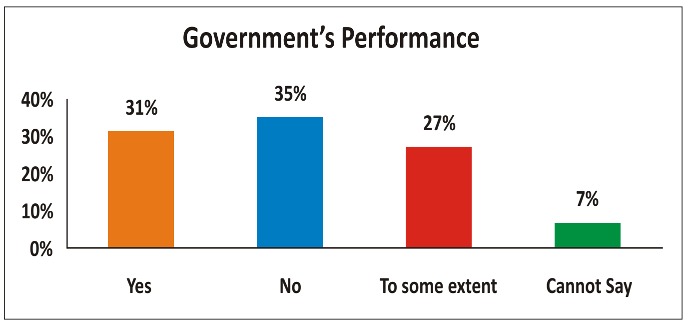


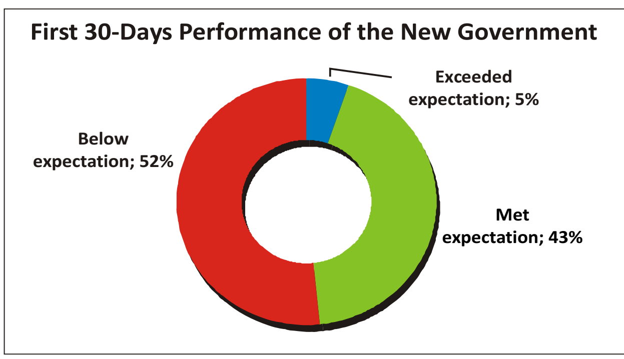
35% thinks Government on track to deliver to its promises but performance so far not matching their expectations



A question was posed to members whether in their opinion the new PTI-led Government is on track to deliver to the promises made in its election manifesto. Around 69% respondents have endorsed, though 34% out of them have agreed partially. In the opinion of 27% respondents, the Government has not been able to fulfill its promises made before elections and as envisaged in its manifesto. A very small percentage (4%) of the survey participants are of the view that it is premature to judge the performance of government.

To another related question about whether new government's performance so far matches your expectation, around 35% participants have responded in negative, whereas 31% have indicated satisfaction on performance of the government. There is a good percentage [around 27%] of survey respondents who have conveyed their partial agreement on government's performance which may presumably be due to narrow time-frame available before them for performance assessment. Around 7% members have chosen not to answer this question.

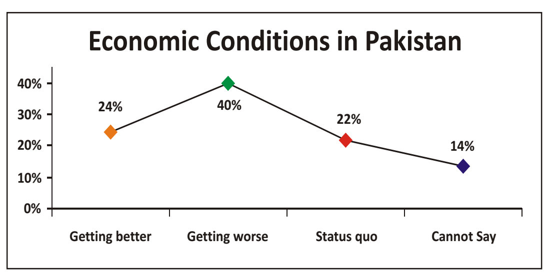




To a similar question on expectations, around 52% respondents said that the first 30-days performance of the new government is 'below expectation', whereas 43% members are of the viewpoint that the government has met their expectations. A small percentage of respondents i.e. 5 percent have marked on option of 'Exceeded expectation'. There seems to be mixed response mainly due to the narrow-time frame for performance assessment, as indicated earlier. The non-expectations can transform into confidence once the government demonstrates a clear vision and policy as well as take immediate steps to overcome the economic issues.

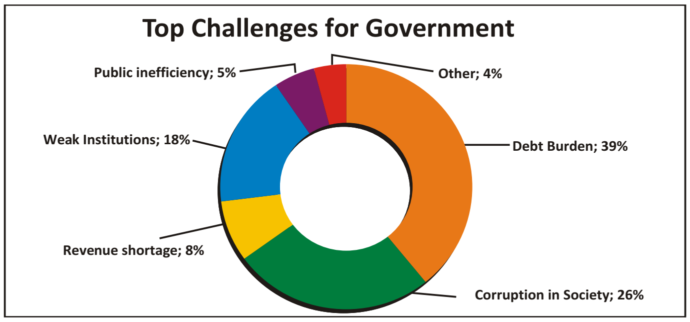
40% considers overall economic condition becoming critical

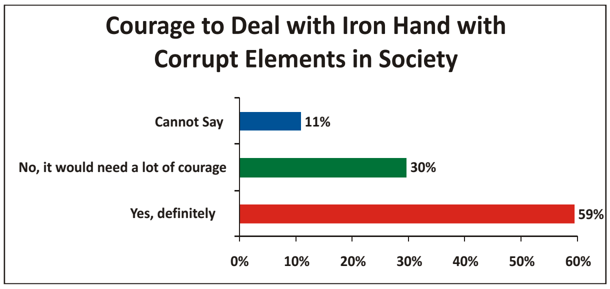
Apart from questions seeking feedback on expectations from the new Government, the survey participants were also asked to share their viewpoint on the overall economic conditions in the country. About 40% of respondents consider that the present economic conditions are becoming critical with every passing day, especially when a new Government has just taken charge of affairs of the country and is yet to hold its firm grip to tackle economic challenges. Around 22% members have termed the present economic situation as 'status quo'. In the opinion of 24% survey participants, the economic conditions are getting better.



65% thinks Debt burden and Corruption as top challenges for Government

The survey participants were required to pinpoint the top-most immediate challenge confronted by the new Government and in this context a set of issues was also provided for selection of one option. Around 39% of respondents termed 'Debt burden' whereas another 26% indicated 'Corruption in society' as the foremost challenges that need to be dealt with by the present government on war footing basis. About 18% respondents pointed to 'weak institutions' as one of the highest challenges for the government.

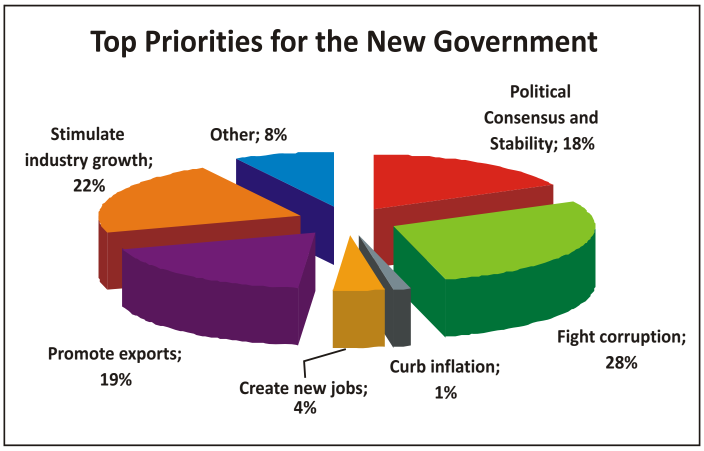




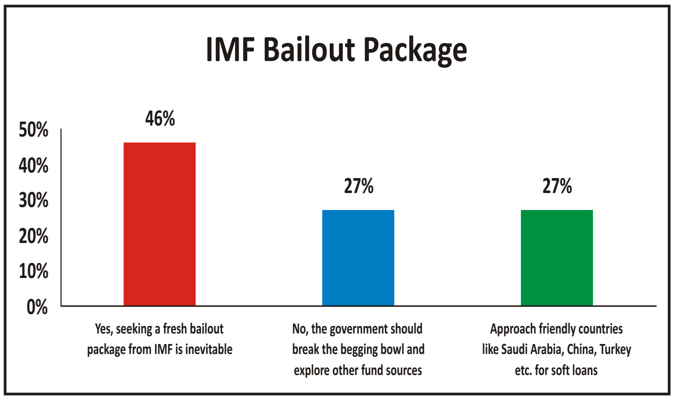
In pursuance of above question, feedback was also invited from members whether in their opinion the 'new Government has the courage to deal with iron hand with corrupt elements in society'. Though 59% participants have responded in affirmative, 30% of them have said that the government needs to display a lot of courage to root out massive corruption which has shattered the very structure of the society. Further, an aggressive drive against corrupt and unscrupulous elements would make them hostile and against the government.

87% says combating corruption; industry growth; boosting exports and political consensus as top four priorities for the new Government

The survey participants were provided several options to express their views on what should be the top-most priority for the new government in correcting the major socio-economic ailments. A mixed response has been received from respondents with no one option getting the highest priority. The survey results, however, indicate that there is consensus that 'corruption' stands as the top priority, receiving 28% responses; followed by stimulating industry growth (22%); boosting exports (19%) and political consensus and stability (18%). Few survey participants in the 'Other options' pointed towards civil services reforms; strengthening institutions; promoting good governance in public sector organizations and improving auditing structure as few of the other priority areas which merits the attention of the government.

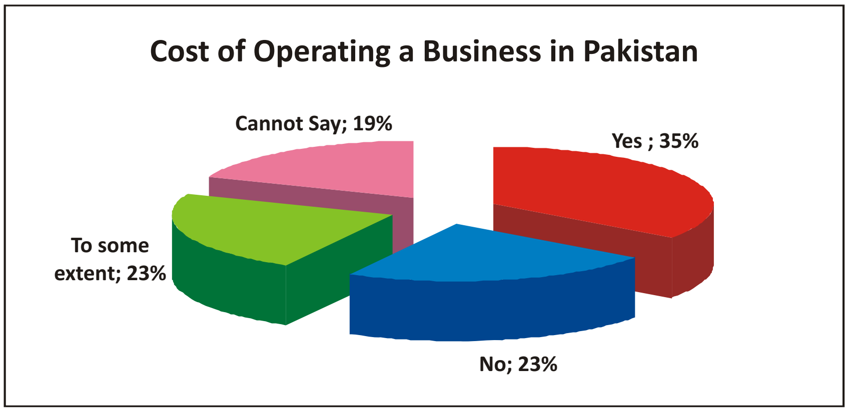


IMF Bailout Package: 46% says it is inevitable; 54% favours to explore other options like approaching friendly countries for soft loans



Keeping in view of the current scenario when the government is weighing options for going to IMF for a fresh bailout package and at the same time approaching Saudi Arabia and other countries for seeking financial assistance, a question was raised to survey participants whether in their opinion what should be the preferred policy of government in this regard. Around 46% respondents have categorically mentioned that seeking a fresh bailout package from IMF is inevitable to rescue the country from the current economic crisis. However, around 54% respondent have indicated that the government should break the 'begging bowl' and explore other funds sources such as approaching friendly countries like Saudi Arabia, China, and Turkey to get loans on soft terms.

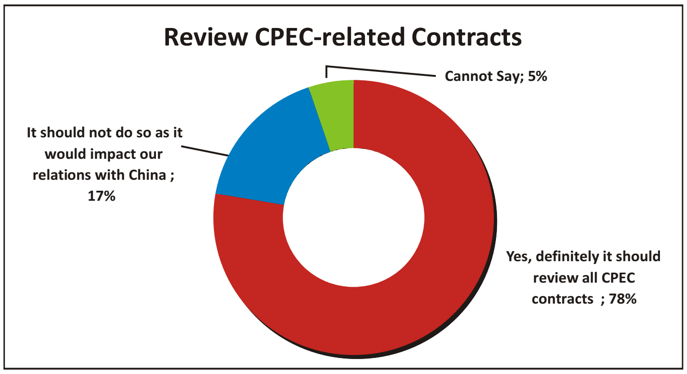
58% believe cost of doing business to improve



Presently, the cost of operating a business in Pakistan is considerably high because of unconducive socio-economic environment. Consequently, Pakistani businesses are at a comparative demerit in regard of operating costs against their competitors in the region. Considering this fact, the survey participants were asked as to what they expect the 'cost of doing business' in Pakistan will improve as a result of new government's economic and institutional reforms in coming years.

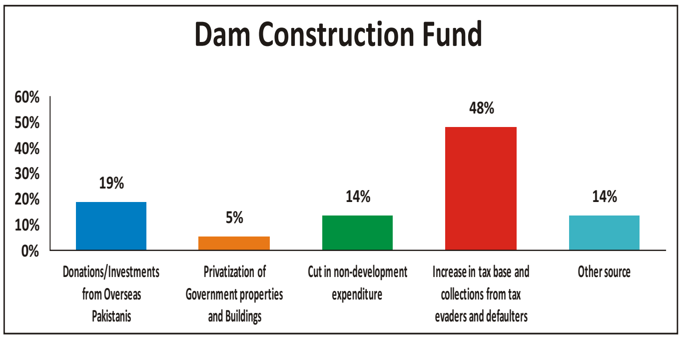
The responses to this question are quite encouraging for the government as almost 58% have conveyed in positive, though 23% have agreed partially. Some 23% respondents do not see any improvement in doing business cost in the near future. A good number of members (19%) have avoided to respond by preferring to mark on 'Cannot say' option. This signifies their observation that it would be premature to predict about the impending scenario unless the initiatives taken by the government to this effect is weighed on merit.

CPEC: 78% says CPEC contracts be reviewed to safeguard local industry



Though it is being generally said that CPEC is a 'game changer' not only for Pakistan but also for world trade, however without disagreeing with this fact, some reservations are also being expressed by different quarters in Pakistan, especially from the trade and industry representative bodies that CPEC would not be a win-win situation for both countries as preferential treatment and tax exemptions offered to Chinese companies by the government poses a threat to the local business and industry. In this perspective, a question was raised in survey that 'Do you expect the new Government to review CPEC-related contracts to safeguard local business interests'. The outcome of this question suggests that majority of the management accountants (78%) are of the view that contracts must be reviewed by the new Government, whereas 17% of them have observed that we should not do so as it would impact our relations

Dam Construction Fund: 48% opines to catch tax evaders and defaulters



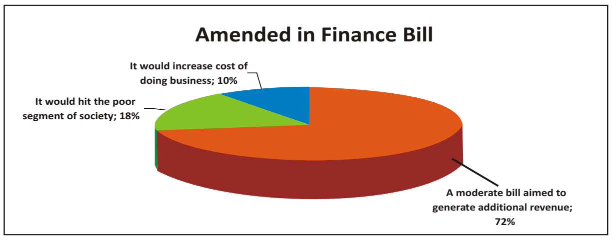
According to a recent report of IMF, Pakistan ranks third in the list of countries facing acute water shortage. Reports by the UNDP and Pakistan Council of Research in Water Resources (PCRWR) also warn the authorities that Pakistan will reach absolute water scarcity by the year 2025.

Assuming the significance of this issue, one of the survey questions was about knowing participants feedback on the priority source of government to collect funds for construction of dams in order to meet the impending water shortage. Majority of the respondents (48%) have opined that the Government should increase tax base and catch tax evaders and defaulters to generate revenue from which allocations may be made for dam construction. Around 19% have indicated that the government should focus on donations and investments from overseas Pakistanis; 14% have emphasized on cutting the non-development expenditure and 5% have suggested that all Government properties and buildings must be privatized whose money may be donated for the building of dams. In addition to given options, the survey participants have also made other good suggestions which are:

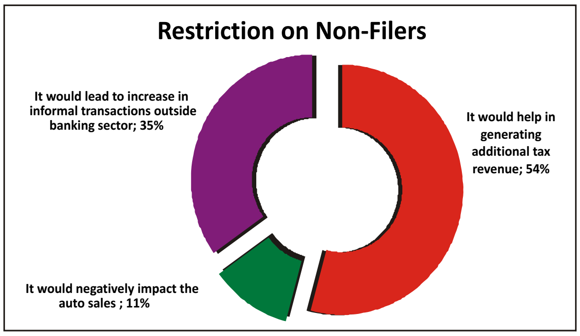
- Issuance of Sukuk (Islamic bonds)
- Approach World Bank and Asian Development Bank
- Bring looted money of corrupt people back to Pakistan
- Arrange funds from money market through IPOs, TFCs etc.
- Impose tax on agricultural income

Amended Finance Bill: 72% terms it's a measure to generate revenue

The Finance Supplementary (Amendment) Bill, 2018 has been approved by the National Assembly which made several amendments as proposed by the new government. One question in survey related to this bill. Majority of survey participants (72%) termed it as a moderate bill aimed to generate additional revenue. Around 18% of respondents think that the bill would hit the poor segment of society whereas 10% were of the view that it would lead to increase in the cost of doing business in the country.



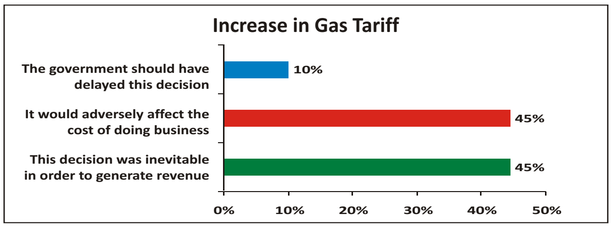
Restriction on Non-Filers: 54% welcomes decision and said it would generate tax revenue for Government



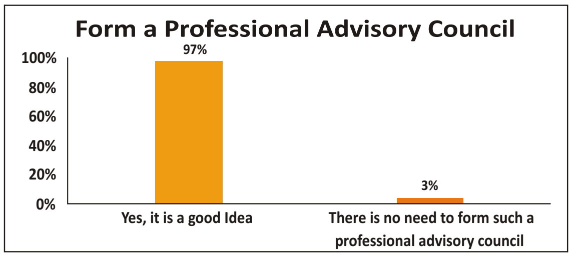
Initially, the government decided to allow non-filers to purchase vehicles and properties, however, subsequently realizing that it would discourage honest tax payers, it reintroduced restrictions to buy cars and property on tax non-filers. The opinion of survey participants was sought on the government's policy on non-filers as announced by the Finance Minister in mini-budget. Majority of members (54%) have welcomed this policy and termed it as an initiative to generate additional tax revenue which is much needed in present circumstances. On the other hand, 35% respondents believe that it would lead to increase in informal transactions outside the banking channel. Around 11% think that this restriction on non-filers to buy cars would negatively impact auto sales.

Increase in Gas Tariff: 45% favours and 55% opposes the increase

The survey participants were enquired to share their opinion on recent 30% increase in gas tariff for industry. A mixed response has been received with 45% favoring this decision as a means to generate revenue, whereas 45% say that it would adversely affect the cost of doing business. Around 10% participants are of the opinion that the new government has taken this decision in haste and it should have delayed it for some time.



97% proposes Government to form a Professional Advisory Council

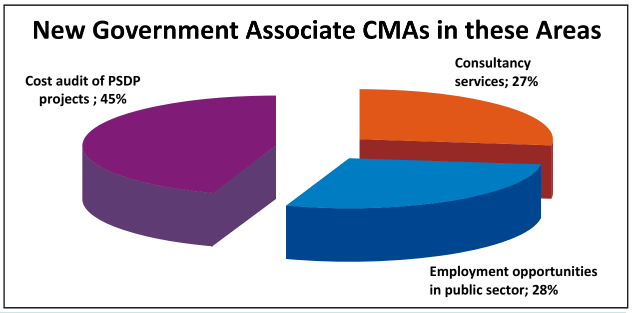


The opinion of members of ICMA Pakistan was invited on the proposal to recommend to the Government to form a 'Professional Advisory Council' having representatives of national accounting bodies to seek professional input on budget and other corporate laws and policies. This feedback on this question reveals that 97% members have appreciated and supported this idea and recommended that Institute should take this up with the Government. Only 3% respondents opine that there is no need to form the proposed Council.

45% suggests cost audit of PSDP projects by CMA professionals

The members participating in the survey were asked about the preferred areas so that the Institute may approach the new government with proposal to associate the Cost and Management Accountants (CMAs) in these areas. The following areas have been identified by members:

- Cost audit of PSDP projects **[45%]**
- Employment opportunities in Public Sector **[28%]**
- Consultancy Services **[27%]**



DISCLAIMER: The views expressed by survey the participants do not necessarily reflect the views of the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan)

Impulsive & Compulsive Dispensations

A dispute or a contention is decided in favour or against the contender. Resolution of the dispute may be definite, firm, directory or substantial. Order in a suit may be collateral or incidental to the issue. To the end of interpreting, finding in a dispute will have to be whether the adjudication contained a direction - spelling consequences of not providing the same. It may otherwise be ticklish to find landing of the order.

Defining the word **"Directory",** "Black's Law Dictionary" provides: "Under a general classification, statutes are either *"mandatory" or "directory," and, if mandatory, they prescribe, in addition to requiring the doing of the things specified, the result that will follow if they are not done, whereas, if directory, their terms are limited to what is required to be done."*

Essence of a legal order is normally firmed by its conclusion. Effect of an order flows through its words. As a general classification, statutes or orders are mandatory or directory. In terms of statutory provisions or a court's order, the effect or force carried by a legal dispensation makes it obligatory or otherwise. Observance of a directory provision is not legally mandating.

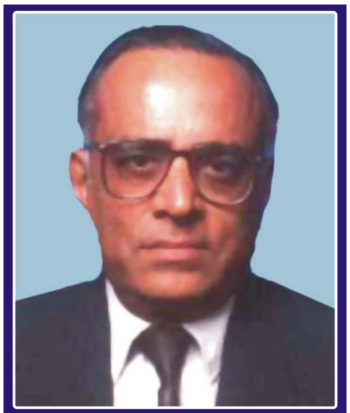
When mandatory, laid down is the result that will follow when not acted upon. Desired result may be provided when it is directory.

Required in an adjudication is distinction between mandatory, directory and discretionary provisions. Mandatory provision gives no discretion. It is intended to be followed. However, when in a directory situation, failure to obey does not render into nullity an act done in disobedience.

A discretionary power leaves the donee (totally) free, at his discretion, to act or not to act in relation to a proposition. Non-compliance of a mandatory requirement lends to nullification of the consequential act.

P. Ramanatha Aiyar defines the word **"Mandatory",** in the following terms:

"A "mandatory" provision in a statute is one which must be observed, as distinguished from a "directory" provision, which is one which leaves it optional with the department or officer to which it is addressed to obey it or not, as he may see fit. The directions in a statute which are not of the essence of the thing to be done, but which are given with a view to the orderly and prompt conduct of the business, any by a failure to do which the rights of those interested will not be prejudiced, are not commonly to be regarded as mandatory.


Qaisar Mufti, FCMA

With reference to mandatory provision, he is of the view:

A provision is said to be mandatory where the procedure prescribed by it, if not followed, has the effect of invalidating any action taken contrary to it."

The Oxford Dictionary of Law describes **"mandatory order":** *"A prerogative order from the High Court instructing an inferior tribunal, public official, corporation, etc., to perform a specified public duty relating to its responsibilities (see also JUDICIAL REVIEW); for example, an instruction to a statutory tribunal to hear a particular dispute". Crawford says: "Prohibitive or negative words can rarely, if ever, be directory. And this is so even through the statute provides no penalty for disobedience."*

Mandate is a contract by which one gives authority to the other to act on his behalf, for him and in his name. A standing order is a mandate. Mandate has to be obeyed exactly. It is cancelled on death of the mandator, on his bankruptcy or when certified insane. A direction with no obligatory force is 'directory'. A directory provision leaves the decree holder free to use or not his discretion.

At the time of its making, an enactment may be mandatory or directory with reference to doings in relation to the same. Directory enactment is to observe substantially, not exactly. The law contains line, travel around which it is desirable not essential. Abidance of such law is discretionary. Depending on situation, directory or mandatory provisions may change colours. If object of the enactment is defeated by holding a statute directory, the statute will be taken as mandatory. Breach of a mandatory law provision is invalid. However, the act may be valid in case the law position is directory, although relevant observance may give rise to a penalty, provided by the statute.

When directory, compliance is a matter of convenience. Compliance is not essence of the act desired or course directed. Such order is optional to act on the part of the authority to which the order is addressed. However, compliance directed can not be avoided when order is mandatory. When the statute is directory, omission to act in keeping with the order does not void proceedings which follow.

There should be reasons for making an order. Reasons for making the order need to be communicated to the affected parties. The rule of non-arbitrariness is the guide. The duty to record reasons may be impliedly, inferred. In the event of a statute providing consequences of nullification or failure to comply with a prescribed requirement, there can be no question on 'mandatory' status of the order. This has to be read and understood as such.

When a law directs an act or acts to be done, prescribing also the way for doing the same it may be an absolute enactment or mandatory. To be followed substantially, is a directory enactment. Thus a law or order which provides 'a way advisable but not essential' is directory, as against a law mandating the act absolutely essential.

To distinguish between the two, "Black's Law Dictionary", traces efficacy of "Directory", as follows:

"Under a general classification, statutes are either "mandatory" or "directory," and, if mandatory, they prescribe, in addition to requiring the doing of the things specified, the result that will follow if they are not done, whereas, if directory, their terms are limited to what is required to be done. A statute is mandatory when the provision of the statute is the essence of the thing required to be done; otherwise, when it relates to form and manner, and where an act is incident, or after jurisdiction acquired, it is directory merely".

P. Ramanatha Aiyar brings fore the distinctive in the following terms:

When a statute is passed for the purpose of enabling something to be done, and prescribes the way in which it is to be done, it may be either an absolute enactment or a directory enactment. The difference between the two is that an absolute enactment must be obeyed or fulfilled exactly, but it is sufficient if a directory enactment be obeyed or fulfilled substantially."

Intent of the law is ascertained not only from the language in which it is clothed. To be looked at is form, design, consequences and following identified by the law. The words 'may', 'shall' and 'must' are clueful. However, these may not be decisive.

Justice G.P. Singh in his 'Principle of Statutory Interpretation', says:

""For ascertaining the real intention of the Legislature", points out SUBBARO, J. "the court may consider inter alia, the nature and design of the statute, and the consequences which would follow from construing it the one way or the other; the impact of other provisions whereby the necessity of complying with the provisions in question is avoided; the circumstances, namely, that the statute provides for a contingency of the non-compliance with the provisions; the fact that the non-compliance with the provisions is or is not visited by some penalty; the serious or the trivial consequences, that flow therefrom; and above all, whether the object of the legislation will be defeated or furthered".

An act done in breach of mandatory provision is invalid. But if directory:

(i). should be substantially complied with to make the act valid.

(ii). the ones which even if not complied with have no effect on legality.

Non-compliance of directory provisions may or may not give rise to a penalty. When the statute imposes a penalty but does not expressly provide nullification as a consequence of non-compliance of the statutory injunction, it would be a question of construction whether the legislature's intention is to lay down an absolute prohibition or just to make the offender liable for the penalty.

Generally, statutory provisions which do not relate to essence of thing to be done and compliance of which is a matter of convenience, rather than substance, are "directory". While mandatory are provisions which relate to essence of thing to be done i.e. matters of substance. So goes the dissertation of Black's Law Dictionary. However, the narrative does not help through the haze surrounding. What is a matter of substance? Who will decide whether a particular issue is of substance? Respective parties will be within their forts to have contentious postures. Given a real life situation, there may be conflicting responses. To one what may be substantial, may not be so to the other. The controversy may have to be set at rest by a state functionary or by a court, which in real life situation it is.

P. Ramanatha Aiyar defines the word **"Mandate rule",** as follows:

"The doctrine that, after an appellate Court has remanded a case to a lower Court, the lower Court must follow the decision that the appellate Court has made in the case, unless new evidence or an intervening change in the law dictates a different result."

The general rule is that an absolute enactment must be obeyed in its entirety. But it is sufficient if a directory enactment be obeyed or fulfilled substantially. There can be no universal principle, as to the use of words, which may indicate as to what is a mandatory or directory. "Shall" in certain legislature has given imperative commands. That is how the thinking of law gurus is. A typical example of directory provision can be traced in a law which does not prescribe a specific period for completion of tax assessment which has to be completed within a reasonable time. This will be a directory law.

Does not exist there even a thin line to demarcate between directory and mandatory provisions, a jurist has remarked. Lord Campbell holds that there can be no universal divisions with reference to directory and mandatory provisions. Maxwell says: 'it is impossible to lay down any general rule for determining whether a provision is mandatory or directory'. Summed-up, there can not be a generalized answer to the proposition. In case of directory enactments or orders there has to be substantial qualification satisfying. Compliance is to be word by word in case of mandatory provisions.

The Supreme Court of Pakistan, in Zia Haider Rizvi and others vs. DCWT, Lahore, 103Tax121 & 2011PTD610, decided on 05-01-2011, ruled:

*"**20.** There is no absolute test by which, it may be determined whether a statute is mandatory or directory, the primary rule is to ascertain the legislative intent as revealed by an examination of the whole Act."*

The words "think necessary" or "consider necessary" denote a discretion but not an unfettered discretion. The discretion is not to be arbitrary, vague and fanciful, but legal and regular. Within the limits, the individual who exercise discretion is quite free. If he ventures outside the frontiers he is not. If he takes into consideration fantastic matters which are foreign to subject matter, his power to decide the matter according to his will ends.

Exercise of power has to be by the designated person on whom it is conferred. In the absence of law provision permitting exercise of the powers by a delegate, vesting powers in the person named by the law would be mandatory. Such powers can not be exercised by a person other than the one mandated. If a public duty is required to be performed within a specified time, it is a right given to the affected. It does not mean an application made in this behalf shall be deemed to have been granted after expiry of the stated period.

The enabling words are construed as compulsory i.e. mandatory whenever the object of power is to effectuate a legal right. When a tax law provides that 'the authorities may rectify any mistake on face of the record', the court would readily infer a duty to exercise the power which is invested in aid of enforcement of a citizen's right. Words in a statute: 'the magistrate may take cognizance of a cognizable offence' are construed to be "must take cognizance", mandatory.

In Sainik Motors vs. State of Rajasthan, AIR 1961 SC 1480, Justice Hidayatullah observed: *"The word "shall" is ordinarily mandatory but not so interpreted if the context or the intention otherwise demand"*. He continued: *"The essence of the rule is that where consultation has to be made during the performance of a public duty and an omission to do so occurs, the action cannot be regarded as altogether void, and the direction for consultation may be treated as directory and its neglect, as of no consequence to the result"*.

Exceptions to advice on mandatory words may be: (a) when performance in keeping with the direction is impossible and (b) when conditions or mandatory requirements in a statute, in the interest of a particular person are waived by that person if no public interests are involved.

Statutory ability is mandatory for enforcement of a right. While considering the non-compliance with a procedural requirement to a claim, it has to be kept in view that such a requirement is designed to facilitate justice and further its ends. If the consequence of non-compliance is not provided by the law, the requirement may be held to be directory. For example section 3 of the Limitation Act provides that subject to certain provisions of the Act, every suit instituted, appeal preferred and application made, after the limitation period prescribed therefore by First Schedule in the Act, shall be dismissed although limitation had not been se-up as a defence. This has turned otherwise a directory into a mandatory provision.

As consequence of a law provision, the court is enjoined to dismiss a legal proceeding instituted after expiry of the prescribed period.

Nature and design of the relevant statute as also consequential effects of travel, one way or the other compliance and non-compliance, together with other provisions will have to be gone over. By reference to treatment of a provision directory or mandatory, to be studied would be whether compliance with requirement of similar provisions in other laws the question is avoided and whether object of the legislation will be defeated or furthered. Serious or the trivial consequences that follow therefrom, may also have to be gone over.

A power to be exercised 'after approval' of a named authority is not mandatory without such approval. When the requirement is only 'approval' not 'prior approach' the action will be valid. However, if disapproved, it looses force.

Mandatory rights of a citizen, including implied conditions and procedural requirements to deprive his liberty, have to be strictly followed. "Numerous cases dealing with arrest and preventive detention emphasize this principle", so asserts Justice G. P. Singh, former Chief Justice Madhya Pradesh (India) High Court. A statutory power can be exercised by the person who has been given these powers by the law. This is mandatory. The powers may also be exercised by the delegate, if delegation is made in terms of the statute. When an action can be taken 'for reasons to be recorded', recording of reasons is mandatory. Action can not be taken without recording the reasons as such whether the order in question is executive or in the nature of subordinate legislation.

About the Author: *The writer is Advocate & Corporate Counsel.*
E-mail: mufti1002001@yahoo.com

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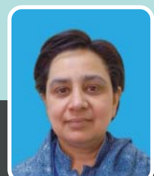

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