

MANAGEMENT ACCOUNTANT

Focus Section

- Public Private Partnership – A Way Forward
- Global Successful Models of PPP
- PPP and its Scope in Pakistan
- PPP in Health Sector
- PPP – Challenges and Barriers

Special Messages

Emmanuel Nyirinkindi

Director, Transaction Advisory Services
International Finance Corporation (IFC)

Yoji Morishita

Head of the Office of PPP
Asian Development Bank (ADB)

Exclusive Interviews

Muhammad Tanvir Butt

CEO, PPP Authority
Government of Pakistan

Agha Waqar Javed

Member P&D Board- Head PPP
Government of Punjab

Khalid Mahmood Shaikh

Director General, PPP Unit
Government of Sindh



Public Private Partnership

Volume : 28.1



Jan-Feb 2019



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, when you transact a debt payable at a specified time, put it in writing, and let a scribe write it between you with fairness. A scribe should not refuse to write as Allah has educated him. He, therefore, should write. The one who owes something should get it written, but he must fear Allah, his Lord, and he should not omit anything from it. If the one who owes is feeble-minded or weak or cannot dictate himself, then his guardian should dictate with fairness. Have two witnesses from among your men, and if two men are not there, then one man and two women from those witnesses whom you like, so that if one of the two women errs, the other woman may remind her. The witnesses should not refuse when summoned. And do not be weary of writing it down, along with its due date, no matter whether the debt is small or large. That is more equitable in Allah's sight, and more supportive as evidence, and more likely to make you free of doubt. However, if it is a spot transaction you are effecting between yourselves, there is no sin on you, should you not write it. Have witnesses when you transact a sale. Neither a scribe should be made to suffer, nor a witness. If you do (something harmful to them), it is certainly a sin on your part, and fear Allah. Allah educates you, and Allah is All-Knowing in respect of everything. (282)

(Surah Al-Baqara, Ayat 282)

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



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Professionalism

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Challenges for Documentation**

July-Aug 2019

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and Professionals**

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

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Views or opinions expressed by the
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ICMA
Pakistan



President's *Message*

I am pleased to issue this message for publication in the Jan-Feb 2019 issue of Management Accountant which is on the theme of 'Public-Private-Partnership (PPP)'. I appreciate the Research and Publications Committee for choosing this important theme which is quite pertinent in the present economic scenario when our Government is all set to offer lucrative incentives to the foreign entrepreneurs for capital investments in Pakistan which may also take the shape of joint ventures and PPPs.

Let me take this opportunity to extend heartiest felicitations, on behalf of ICMA Pakistan and on my own behalf, to the Prime Minister Imran Khan and his Government on the recent successful visit of the Crown Prince of Saudi Arabia, Muhammad Bin Salman to Pakistan during which USD 20 billion worth of MoUs were signed between the two brotherly countries. ICMA Pakistan is quite sanguine that this visit would open up new vistas of bilateral economic cooperation and stimulate growth in Pakistan and the region, especially in consolidating the entire gamut of our relations with China and Saudi Arabia under CPEC. ICMA Pakistan will always be ready to offer its professional role, whenever required, for projects to be undertaken in Pakistan.

As far as PPPs are concerned, it is good to see that endeavors are being made in our country to promote PPPs and for this purpose a Public Private Partnership Authority is already established by the Government, in addition to functioning of PPP Cells at Sindh and Punjab. I am happy to know that our R&P team under the leadership of Mr. Muhammad Yasin, Chairman had useful interaction with the heads of these agencies and hopefully this would lead to opening up of the professional role for our CMAs. I am told that discussion is at initial stage for signing an MoU with the PPP Board, Planning & Development Department of Punjab Government for joint collaboration.

At the Institute's front, your Council is striving hard and interacting with regulatory bodies on the single agenda of enhancing the existing role and scope for CMAs and for this purpose I had meetings recently with Mr. Farrukh H. Sabzwari, Chairman SECP during which the issue of enhanced audit rights for CMAs was raised. He has assured to look into this matter on merit. Similarly, I had a very good meeting with the High Commissioner of Canada to Pakistan who also arranged my meeting with the Senior Trade Commissioner of Canada with whom the matter related to qualification recognition with CPA Canada as well as collaboration with academia in Canada came under discussion. We are also in active interaction with the Higher Education Commission (HEC) for securing enhanced equivalency of CMA qualification. I hope you will appreciate these initiatives.

Zia ul Mustafa, FCMA
President, ICMA Pakistan



from the Desk of **Chief Editor**

I am really pleased to present the first issue of the year 2019 which explores the significance and future potential of public private partnerships, abbreviated as PPPs, and how this could help bring economic progress and prosperity in Pakistan. I may mention here that this theme is quite distinctive and for the first time in the history of Journal, we are bringing out any issue on this theme. Hence, I am quite sure that our members and readers would gain useful knowledge and insight on PPPs from this issue. The issue not only covers our interactions in shape of exclusive interviews with heads of relevant PPP authority and PPP Units, but also some valuable articles contributed by our members and experts in the area.

Let me begin by expressing my profound gratitude to Mr. Emmanuel Nyirinkindi, Director, Transaction Advisory Service, International Finance Corporation (IFC) and Mr. Yoji Morishita, Head of the Office of Public Private Partnership, Asian Development Bank (ADB) for sending their 'special messages' for publication in this issue on PPP. We acknowledge and recognize the support of both IFC and ADB in the economic development of Pakistan and also appreciate their words of appreciation for ICMA Pakistan and the expectations they have from our Institute in promoting PPPs in Pakistan.

I am also indebted to Mr. Muhammad Tanvir Butt, CEO of Public Private Partnership Authority (PPPA); Mr. Agha Waqar Javed, Member P&D Board- Head PPP Cell, Government of Punjab; and Mr. Khalid Mahmood Shaikh, Director General, Public Private Partnership Unit, Government of Sindh, for sparing their precious time to give exclusive interviews which are being published in this issue. We expect and hope that in pursuance of our interactions, collaborative efforts would be made in promoting PPPs in Pakistan and also creating awareness amongst our members and other stakeholders about the need for establishing PPPs, especially in the areas of education, health, infrastructure, energy etc.

The Focus Section contains worth reading articles contributed by our four valued members viz. Jalal Ahmed Khan, FCMA; Mr. Wasful Hasan Siddiqi, FCMA; Mr. Muhammad Yasin, ACMA and Mr. Anwer Iqbal, ACMA and an exclusive write-up by Mr. Javed Iqbal Mirza who is senior staff member at The News International, Jung Group. I am really thankful to all these writers, especially Mr. Javed Iqbal Mirza for choosing our Journal to publish his insightful article.

In the Articles section, our most senior member, Mr. Qaiser Mufti has shared another write-up wherein he has put forward pragmatic suggestions and solutions for the revival of Pakistan Steel which merits immediate attention of the Government. The Articles Section also includes an exclusive write-up by Dr. Shahida Wizarat, one of the renowned economists of our country, in which she has commented on the major challenges faced by the Third World countries. I also thank Mr. Rashid Mahmood, member of our Research and Publications Committee for sharing his article on 'Accounting Software for Businesses' which I hope, would be quite informative especially for small businesses.

The Research and Publications Department has contributed two write-ups under the 'Special Feature' segment on 'Finance Supplementary (Second Amendment) Act, 2019. I hope that the readers will greatly benefit from these contributions.

I would request our members to suggest some themes for future issues of MA Journal. Your suggestions in this regard will help us to finalize the themes in advance. Please share your comments on email: rp@icmap.com.pk

Muhammad Yasin, FCMA

Chairman, Research and Publications Committee



IFC

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Finance Corporation**
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PPPs Can Build the Foundation for the Sustainable Growth That Pakistan Needs

Modern infrastructure is key to unlocking economic growth and social development in countries around the world. But growing populations, aging infrastructure and rapid urbanization are straining the capacity of nations to deliver essential services such as clean water, power, health care, sanitation and transportation.

Fiscally sustainable investment in infrastructure can help overcome these challenges, however, it requires innovation and close cooperation between the public and private sectors. It is encouraging to see this happening in Pakistan. I am delighted that the Institute of Cost and Management Accountants of Pakistan, a premier professional institution with a nearly 70-year history, is helping increase awareness in the business community about public-private partnerships (PPPs). It is demonstrating that expanding the scope of PPPs in Pakistan can help deliver sustainable development.

“I am delighted that the Institute of Cost and Management Accountants of Pakistan, a premier professional institution with a nearly 70-year history, is helping increase awareness in the business community about public-private partnerships (PPPs). It is demonstrating that expanding the scope of PPPs in Pakistan can help deliver sustainable development”



Emmanuel Nyirinkindi

**Director, Transaction Advisory Services
International Finance Corporation (IFC)**

Today, 85 PPPs are active in the country-with investment reaching nearly US\$24 billion. Most of these projects are in the electricity sector, but there have also been a few in transportation, sanitation and health care. Transportation projects have largely been partnerships between public sector companies; private sector participation has been limited.

By 2040, Pakistan will need nearly half-a-trillion dollars in investment in infrastructure. That means more private investment in infrastructure, health care and education is essential. Pakistan can better leverage well-structured PPPs to attract more investment and increase the efficiency of these investments. The central and provincial governments have created the necessary legislation, and PPP institutions need to support this.

Mr. Emmanuel Nyirinkindi joined IFC in 2006 as a Senior Investment Officer. He was the Regional Manager of IFC's Public-Private Partnerships Advisory Services for Africa prior to moving to Washington, D.C. where he assumed a role as the 'Global Head of Public-Private Partnerships' in IFC's Central Advisory Services Unit (CAS) prior to becoming the Director of the Transaction Advisory Services Department. Over the past decade, Mr. Nyirinkindi has established a strong record of leadership and execution in advising governments in designing and bringing to market commercially robust PPP projects that provide high quality, affordable, and efficient infrastructure and social services to the public across a variety of sectors.



Other developing countries are also seeking ways to mobilize private sector capital and spur innovation to maximize the effect of public funds. There is growing recognition that national infrastructure plans and strong governance structures can make a big difference. Before choosing a delivery mechanism, governments should assess a project's characteristics—affordability, maintenance and reinvestment, for example in the context of the entire sector. That will enable them to assess where a PPP best fits their needs, or where the public sector will be best placed to deliver.

At IFC, we've been helping governments in developing countries maximize private finance and expertise for 30 years. Between 2008 and 2018, IFC's PPP Transaction Advisory Team advised and closed on 104 projects in 40 countries. These projects will result in over US\$22 billion in private financing being invested in developing countries, putting in place the power and transportation infrastructure needed to grow their economies and create jobs. The projects are expected to directly benefit 83 million people-by delivering better access to electricity, water, sanitation, and health care services.

“ By 2040, Pakistan will need nearly half-a-trillion dollars in investment in infrastructure. That means more private investment in infrastructure, health care and education is essential ”

Over the past year, we have seen a significant shift in the way PPPs are perceived around the world in terms of benefits and risks. More governments are considering PPPs to help deliver the infrastructure and services their citizens need. They better understand the complexity of PPPs as a procurement method, and they are more strategic in when to use them. This includes looking at new ways to combine public and private financing to solve environmental challenges in fiscally sustainable ways.

We have seen a growing number of PPPs related to climate change and urban infrastructure. Private sector involvement in renewable energy, water, and sewage treatment is growing, and the benefits to people are clear. IFC's Scaling Solar program—a “one stop shop” aimed at creating viable markets for solar power in each client country—has helped decrease power prices, making solar not only a cleaner source of energy but also more affordable and accessible. In Senegal, we saw record-low tariffs of less than 4-euro cents per kilowatt-hour-rates unheard of only a few years ago.

It's fascinating to see how attitudes have changed regarding PPPs—governments are now asking how and where the sector can help them reach development goals. Moreover, countries are now looking to PPPs to help solve big development challenges by going to scale. IFC is committed to helping governments make informed decisions about improving access to high-quality infrastructure and services. This includes using PPPs when appropriate.

IFC's strategy in Pakistan is to develop integrated solutions that address the government's specific challenges while leveraging private sector expertise and funding. Our approach has been to focus on projects that have the potential for private sector participation, and to develop successful, well-balanced PPP transactions. We believe that will help lay the foundation for the sustainable growth that the country needs.

ADB Committed to Promote Public Private Partnership in Pakistan for Economic Growth

I am delighted to know that the Institute of Cost and Management Accountants of Pakistan is publishing this issue with a focus on Public-Private Partnership (PPP). As Asia's premier multilateral development institution, ADB has strongly promoted PPP's in energy, transport, urban and social infrastructure over many years.

In 2014, ADB established a dedicated Office of Public-Private Partnership (OPPP) which has been working with our developing member countries for capacity building, project preparation and PPP transaction advisory services (both for public and private sector clients). In 2018, we have successfully closed three advisory mandates: (i) a new National Government Administrative Center in the Philippines, (ii) Dhaka Bypass Road in Bangladesh, and (iii) smart water and wastewater facilities in New Clark City in the Philippines. We also operate the Asia Project Preparation Facility (AP3F) which is working on delivering early stage PPP project preparation for our developing member countries.

ADB is actively participating in supporting PPP initiatives in Pakistan to deliver much needed public infrastructure with private sector participation, along with development of

“ We at ADB's OPPP, look forward to collaborating with ICMA Pakistan in promoting the cause of sustainable and bankable PPP projects as well as project preparation and PPP related capacity building in Pakistan ”

Yoji Morishita

Head of the Office of Public Private Partnership (OPPP)
Asian Development Bank (ADB)

effective fiscal risk vetting and management functions. ADB has signed two loan agreements of \$100 million each, to mobilize private sector investments across various sectors and support fiscally responsible PPPs, in Sindh and Punjab. ADB is also providing technical assistance to support federal PPP and infrastructure financing initiatives through a dedicated technical assistance of \$3.27 million. These projects are co-financed by DFID, Government of the UK.

In recognition of the role that private sector can play in delivering key infrastructure and service outcomes, ADB arranged a first ever multi-stakeholder strategic Public-Private Partnerships Seminar at Bhurban Hills near Islamabad from 14 to 16 May 2018 that widely attended by senior government officials and stakeholders from the federal and provincial governments. The conference strategized PPPs as a vital part of ADB's proposed Strategy 2030 in Pakistan, with two key agendas for: (i) expanding private sector operations; and (ii) catalyzing and mobilizing financial resources for development to deliver infrastructure development.

ADB will continue to work closely with the federal and provincial governments to leverage private sector resources to supplement public sector development endeavors, specially to meet rising investments needs of the country, and boost economic growth in Pakistan. We at ADB's OPPP, look forward to collaborating with ICMA Pakistan in promoting the cause of sustainable and bankable PPP projects as well as project preparation and PPP related capacity building in Pakistan.



Muhammad Tanvir Butt

CEO, Public Private Partnership Authority (PPPA)

ICMA Pakistan: Please briefly mention about the history, mandate and functions of PPP Authority?

MTB: Infrastructure Project Development Facility (IPDF), a Section 42 company, was formed by the Ministry of Finance (MoF) in 2006 to assist the implementing agencies (IAs) in the development, structuring and procurement of their infrastructure projects on Public Private Partnership (PPP) basis.

In 2016, the Finance Division initiated a process for enacting a Public Private Partnership (PPP) Law and accordingly the PPP Authority Act was promulgated in March 2017. Under Section 3 of PPPA Act, IPDF was converted into PPP Authority and notified by Finance Division in June 2018.

The PPP Authority is an independent body corporate, having a Board comprising of seven members. The Board and the Authority have the exclusive jurisdiction to undertake PPP projects under the PPPA Act. The functions of the Authority as provided in the Act are outlined below:

- a) Ensuring projects are consistent with national and sectoral strategies
- b) Ensuring value for money for the Government
- c) Assessment of fiscal risks for the Government
- d) Advise and facilitate Implementing Agency(s)
- e) PPP Projects, not requiring government support, shall be approved by the Board under the PPP Act

“Research and training is vast area where PPPA and ICMA Pakistan can work together especially in the development of new modes of PPP and project structuring considering the evolving trends in applicable financial standards, tax incentives, project auditing procedures and mechanism and most importantly the project risk mitigation”

- f) PPP Projects that require VGF from the Authority shall also be approved by the Board
- g) Undertake both green-field and brown-field projects including on-going projects funded by PSDP
- h) Support the Government in achievement of annual development targets through Private Sector participation

ICMA Pakistan: What projects have so far been completed by the Authority and how many are in progress?

MTB: In fact, PPPA has been established recently and therefore any infrastructure project has not been developed so far from its platform due to lengthy and complex nature of PPP projects. However, a number of PPP projects are in progress with various government agencies/departments including WAPDA, NUST and Ministry of foreign affairs.

ICMA Pakistan: What are the key objectives of PPP policy pursued by your Authority and how it is benefitting the economy?

MTB: The key objective of the PPP policy is to bring in private sector investment for the development of infrastructure projects and reduce the fiscal burden of GoP while ensuring the following at the same time:

- a) Projects risks are adequately identified and transferred to private sector
- b) Projects are structured in a manner that attracts private sector investment and mobilizes capital markets
- c) Value for money is ensured for the GoP by implementing projects on PPP basis
- d) Projects development is in line with the sectoral development policies of the government

The development of infrastructure projects on PPP basis will bring in cost and operational efficiency through private sector

“PPPA has the mandate and potential to take up projects as long as such projects are in line with government's development strategy and offer value for money to the government”



Mr. Muhammad Yasin, Chairman, Research & Publications Committee is presenting a memento on behalf of ICMA Pakistan to Mr. Muhammad Tanvir Butt

expertise. Also, private sector involvement in development projects will play crucial role in the development of capital markets which historically remained restricted to traditional/Government financing.

ICMA Pakistan: What institutional arrangements are made by the government for successful implementation of PPP program?

MTB: PPPA was formed by virtue of PPPA Act, 2017. The Authority has an independent Board of Directors to regulate and approve the Federal PPP transactions. Under the PPPA act, the Authority will establish a Risk Management Unit (RMU) to adequately identify, quantify and mitigate project's risks so that these risks are adequately transferred to the private sector in a manner that cumulative contingent liabilities arising out of these projects remain within the budgeted limits of the government. The other major arrangement under the PPPA act is the development of Viability Gap Fund (VGF) to provide fiscal support to such projects that are not financially viable but have substantial economic and social impact, considering the government priorities.

ICMA Pakistan: What is the role of Infrastructure Project Development Facility (IPDF) operating under the Ministry of Finance?

MTB: IPDF was established by the Finance Division in 2006 after approval by the then Prime Minister. The Prime objective of IPDF was to advise, facilitate and assist the Ministries/ Departments/Government agencies in developing and procuring infrastructure projects on PPP basis. IPDF formulated a PPP policy approved by the Economic Coordination Committee (ECC) of the Cabinet in 2010 to properly execute its aforesaid functions. IPDF successfully completed PPP with NHA including:

- a) Overlay and modernization of Lahore-Islamabad Motorway (M2)
- b) Construction of Karachi-Hyderabad Motorway (M9) on BOT basis
- c) Construction of Lahore-Sialkot Motorway on BOT basis
- d) Construction of Habibabad Bridge on BOT basis

“ Under the PPPA project development procedures, it is the responsibility of Implementing Agency (IA) to conduct feasibility study for its project. Financial part of such feasibility studies is generally carried out by finance professionals from institutes like ICMA Pakistan and other similar professional organizations ”

ICMA Pakistan: What is the scope and potential for establishing PPP with private sector in areas of social sector and transport?

MTB: PPP is a mode for infrastructure development including both physical and social infrastructure. Under the Act, PPPA's role is to supplement the government's sectoral and overall strategy for the development of infrastructure. PPPA has the mandate and potential to take up projects as long as such projects are in line with government's development strategy and offer value for money to the government.

ICMA Pakistan: What policies are pursued by PPPA to attract private sector investment in infrastructure projects?

MTB: There are three main areas where PPPA works to attract private sector investment including:

- PPPA assists government agencies to develop such policies that incentivise private sector to participate in the development of projects. These incentives include provision of land to private parties free of any encumbrances, development rights, utilities etc.
- While projects are actually under structuring phase, PPPA ensures that private party's returns are adequate corresponding to the risks transferred to private party and are well protected.

“ PPPA assists government agencies to develop such policies that incentivizes private sector to participate in the development of projects ”

- The other policy parameter is to develop the project in a manner that is bankable so that it helps the private party to meet its financing needs from local/international financial institutions so that the project meets its development timelines.

ICMA Pakistan: Is PPPA involved in any public-private venture project under CPEC?

MTB: PPPA has been established recently and it has not been involved in any CPEC project. Most of the CPEC projects are delivered under government to government (G2G) arrangements. However, PPPA will take up any such projects under CPEC that is suitable candidate for development on PPP mode.

ICMA Pakistan: What do you say about engaging management accountants as Consultants for conducting feasibility studies for development of PPP project structures as well as preparing cost and financial models?

MTB: Under the PPPA project development procedures, it is the responsibility of Implementing Agency (IA) to conduct feasibility study for its project. Financial part of such feasibility studies is generally carried out by finance professionals from institutes like ICMA Pakistan and other similar professional organizations. So, it would be more productive to engage with IA's.

ICMA Pakistan: Can you identify areas where ICMA Pakistan and PPPA can jointly work together such as consultancy, research and arranging training programs on PPP?

MTB: Definitely, considering the PPP scope, research and training is vast area where PPPA and ICMA Pakistan can work together especially in the development of new modes of PPP and project structuring considering the evolving trends in applicable financial standards, tax incentives, project auditing procedures and mechanism and most importantly the project risk mitigation.

The Editorial Board thanks Mr. Muhammad Tanvir Butt, CEO, Public Private Partnership Authority (PPPA) for giving his exclusive interview for Management Accountant Journal.



Agha Waqar Javed

Member P&D Board, Head PPP Cell, Planning & Development Department, Govt. of Punjab

ICMA Pakistan: What is the structure and mandate of PPP Cell Punjab?

AWJ: The PPP Cell, Planning & Development Board is serving as a focal point for supporting all PPP initiatives in Punjab with the mandate to promote and facilitate partnerships with private sector. PPP Cell serves as a Secretariat to the PPP Steering Committee providing project appraisal and policy advice to stimulate private investment in provincial development. Institutional PPP framework includes a high-level PPP Steering Committee, PPP Cell, Risk Management Unit and PPP Nodes.

PPP Cell maintains Viability Gap Fund (VGF), which is utilized for PPP projects where the projects doesn't provide enough revenue to cover requirement by the private party. Besides this, the Cell manages a Project Development Facility (PDF) available to engage transaction advisors for project preparation and transaction execution. A PPP toolkit for facilitating each step of project lifecycle is available online as well as in printed format along with templates of various essential documents. PPP Cell has developed template concession agreements, model financial documents along with VFM analysis, project appraisal checklists, sample transaction advisory agreement to facilitate government agencies as well as private parties to undertake projects under PPP mode.

“PPP Cell will be pleased to foster a partnership with ICMA to develop requisite PPP expertise for students and practitioners by designing and delivering certification courses and training modules on various aspects of PPPs such as project identification and development, transaction structuring, financial and value for money analysis, risk analysis, contract management, legal documentation, etc.”



Mr. Muhammad Yasin, Chairman, Research & Publications Committee, ICMA Pakistan in an interview session with Mr. Agha Waqar Javed, Member P&D Board | Head PPP Cell, Planning & Development Department, Govt. of Punjab.

“The single largest PPP project in the province is the Lahore Ring Road Southern Loop (I&II) which has been constructed with the private investment of over PKR 20 billion”

ICMA Pakistan: Can you briefly identify few of the landmark PPP projects under development in Punjab?

AWJ: Afforestation in five districts of South Punjab is one of the landmark PPP projects awarded to private sector. The project will revitalize the timber industry in addition to restoring flora and fauna by plantation of indigenous species as Government share. Establishment of Food Grain Silos is another flagship project designed to address problem of wastage of food grains stored in open gunjis. The single largest PPP project in the province is the Lahore Ring Road Southern Loop (I&II) which has been constructed with the private investment of over PKR 20 billion. Dualization of Sheikhupura-Gujranwala Road is under financial close, construction of road is expected to be started from March, 2019.

A number of projects in social infrastructure sector are in feasibility development phase which includes Combined Effluent Treatment Plants in Lahore and Faisalabad. Similarly, are resorts at Uchali Lake and Attock Khurd, water metering in Lahore, pathology labs, schools for special children, etc. A pipeline of over 20 projects across various sectors of the economy are planned to be launched in fiscal year 2018-19.

ICMA Pakistan: How successful is PPP Cell Punjab in attracting private capital investments in infrastructure and other projects?

AWJ: Public Private Partnership is a forerunner for a new wave of private investments from investors from Pakistan and abroad, which in turn will pave the way for sustainable and affordable infrastructure facilities and services. PKR 30 billion have been invested in PPP projects which are already operational while investments to the tune of PKR 40 billion are ripe as projects have been awarded where construction phase is expected to start shortly after completion of contractual formalities.

ICMA Pakistan: Which countries are mostly interested in establishing projects in Pakistan under PPP mode? Please share details.

AWJ: Successful PPP projects have led to attract the interest from local and international investors. So far, investors from

“Successful PPP projects have led to attract the interest from local and international investors. So far, investors from China, Turkey, Denmark, Japan, South Korea, France, UAE, Malaysia, Sweden and Greece have expressed keen interest in our project pipeline”

China, Turkey, Denmark, Japan, South Korea, France, UAE, Malaysia, Sweden and Greece have expressed keen interest in our project pipeline. Currently, a Swedish company Opus Inspection is successfully operating a PPP project titled Vehicle Inspection Certification System (VICS).

ICMA Pakistan: Do you think trust deficit exist among the private investors for investment in public sector?

AWJ: Trust deficit between public and private sector is a reality and presents a major challenge in streamlining PPPs in the development agenda. The trust deficit is largely due to factors that impact ease of doing business as well as due to inertia to change from public funded to partnerships projects. The Government is cognizant of this issue and in the past two years taken concrete steps to improve doing business



Mr. Muhammad Yasin, Chairman, Research & Publications Committee is presenting a memento on behalf of ICMA Pakistan to Mr. Agha Waqar Javed.

“ Trust deficit between public and private sector is a reality and presents a major challenge in streamlining PPPs in the development agenda ”

conditions by undertaking investment climate reforms. Furthermore, the demonstration effect of successful PPP projects has also helped in reducing the trust deficit. There is a however much room for improvement and the PPP Cell is also contributing by developing risk backstopping instruments to enhance project bank ability which in turn helps improve investors' confidence in PPP opportunities in Punjab.

ICMA Pakistan: What is the role and composition of PPP Steering Committee?

AWJ: Public Private Partnership (PPP) Steering Committee is a statutory forum that comprises of 12 members including Minister of Planning & Development as Chairperson, Minister for Finance as Vice Chairperson, two members of Provincial Assembly of the Punjab nominated by the Speaker of the Assembly, Chairman P&D Board, Secretaries to the Government: Finance Department, Law & Parliamentary Affairs Department, Communication & Works Department, concerned Government Agency, two experts from private sector to be nominated by the Government of the Punjab, and Member (PPP), P&D Board.

PPP SC is mandated to formulate policies, supervise implementation of PPP Act, and operate as the final deciding authority with regard to PPP projects in the province.

ICMA Pakistan: Management Accountants be coopted as Consultants on Steering Committee to advise on cost efficiency? Your views please.

AWJ: This is a very good suggestion and we will certainly explore the possibility of involving ICMA members and experts in project development.

ICMA Pakistan: Can you share with us the progress on PPP projects undertaken in social sector in partnership with IFC?

AWJ: Government of Punjab has signed a Framework Agreement on Transaction Advisory Services with IFC. Under this framework agreement IFC will facilitate Government of the Punjab in identification of potential PPP projects, project preparation, mobilization of funds for external consultants, and implementation.

ICMA Pakistan: Can you identify areas where ICMA Pakistan and PPP Cell Punjab can jointly work together such as consultancy, research and arranging training programs on Public Private Partnerships?

AWJ: ICMA is a prestigious institution mandated to improve and promote the profession of Management Accounting in

“ We will certainly explore the possibility of involving ICMA members and experts in project development ”

Pakistan and is engaged in organizing trainings, undertaking research work and publications. PPP Cell will be pleased to foster a partnership with ICMA to develop requisite PPP expertise for students and practitioners by designing and delivering certification courses and training modules on various aspects of PPPs such as project identification and development, transaction structuring, financial and value for money analysis, risk analysis, contract management, legal documentation, etc.

The Editorial Board thanks Mr. Agha Waqar Javed, Member P&D Board, Head PPP Cell, Planning & Development Board) for giving his exclusive interview for Management Accountant Journal.



Khalid Mahmood Shaikh

Director General, Public Private Partnership (PPP) Unit Sindh

ICMA Pakistan: Please apprise us about the rationale behind establishing PPP Unit in Sindh and its mandate?

KMS: The thematic development of public and private sector collaboration in Pakistan is not new, rather dates back to 1950's whereby state-created credit institutions played an increasing role in allocating finance to private sector industry. The first dedicated PPP unit of sorts was created in 1994 in the form of Private Power and Infrastructure Board ('PPIB') as a "One-Window Facilitator" on behalf of the Government of Pakistan (GoP) to promote private investments in power sector. The precursor to PPPs in Sindh in terms of initiatives taken include the establishment of Sindh Institute of Urology and Transplantation ('SIUT') as a body corporate through an Act of the Sindh Assembly, followed by the intervention of the Sindh Government in the form of Sindh Education Foundation ('SEF'), which was established under the Sindh Education Foundation Act, 1992 as a semi-autonomous organization with a mandate to support education in the province. The third intervention that involved private sector participation for delivery in public sector was PPHI for provision of Primary Health Care in Sindh. The last major intervention with the public private partnership theme which predates the PPP Act is the establishment of Sindh Engro Coal Mining Company ('SECMC') in 2009. The projects being undertaken within its mandate are listed among top prioritized projects in the China Pakistan Economic Corridor.

The formal development of public private partnerships started off with the establishment of the federal PPP Unit, or

“There is potentially a huge scope for projects and services that can be delivered by collaboration between the public and the private sector in Pakistan. Professional bodies such as ICMA Pakistan can bring cost efficiencies to improve the delivery of PPP Projects, as well as create market awareness”

the Infrastructure Project Development Fund ('IPDF') in 2006 through Ministry of Finance, Government of Pakistan. IPDF was to provide advisory and facilitation services to ministries and other autonomous bodies to structure, develop and procure infrastructure projects through Public Private Partnerships. By virtue of Public Private Partnership Authority Act the IPDF has been converted into Public Private Partnership Authority. Based on the themes as highlighted for the federal PPP regime, the Sindh Government framed its own PPP regulations and established its own PPP Unit (housed under the Sindh Finance Department) under technical assistance from the Asian Development Bank and by virtue of the Public Private Partnership Act, 2010. The PPP Unit acts as the secretariat to the Public Private Partnership Policy Board and provides support to the implementing agencies in development of viable PPP project structures.

ICMA Pakistan: What is the role and functions of PPP Policy Board of Sindh in formulating PPP policy? Who are its members?

KMS: The broad theme of Public Private Partnerships as envisaged under the PPP Act 2010 envisages development of infrastructure and services. The Sindh Government seeks to utilize private sector resources for financing, construction, maintenance/operation by introduction of modern technologies and management techniques. The PPP Framework seeks to incorporate principles of competition, optimal allocation of risks, and procurement transparency in PPP projects.

The Institutional framework of Sindh Public Private Partnership Program places the Public-Private Partnership Policy Board at the top in the governance chain, and attributes to the Board, the formulation of Public-Private Partnership policy based on Governments goals and objectives. The Board accords final approval to all the projects selected for implementation under the PPP mode. The members of Board include in Table-1.

From the very inception, the Policy Board is involved in the approval process as it approves the procurement of transaction advisors and external consultants, whose funding is utilized from the Project Development Facility. The Board considers any direct or contingent support for a project proposal submitted by a Line Department and determines whether that such support is fiscally sustainable, subsequently ensuring that such support is included in the provincial budget.

In terms of administrative matters, the Policy Board's role is to implement guidelines and coordinate implementation of the Public Private Partnership policy by the Line Department. At any stage, the Board may approve, reject or send back for reconsideration the recommendation submitted by an Agency including the approval for the contract award to a private party.

Table-1: Members of PPP Policy Board of Government of Sindh

i.	Chief Minister Sindh	Chairman
ii.	Minister, Finance	Vice Chairman
ii-a	Minister Law and Parliamentary Affairs	Member
ii-b	Minister Planning and Development	Member
iii.	Chief Secretary	Member
iv.	Minister of concerned department	Co-opted Member
v.	Two Members of Provincial Assembly of Sindh to be nominated by Chief Minister	Members
vi.	Additional Chief Secretary (Dev.), Planning and Development	Member
vii.	Secretary Finance	Member/ Secretary
viii.	Secretary of the concerned Department	Co-opted Member
ix.	Director General Public-Private Partnership Unit	Ex-officio Member
x.	Three (3) members from the private sector to be nominated by the Chief Minister	Members
xi.	Sectoral Specialist to be nominated by the Chief Minister	Member
xii.	Chief Executive Officer of Project Support Facility	Member

The Board also assist the Agencies in solving major problems impeding project preparation and implementation and as such the Board is the final deciding authority for all the projects.

ICMA Pakistan: What are the criteria for financing of a Public-Private Partnership project? How PPP unit is facilitating in the process?

KMS: Within the Public Private Partnership Framework, it is principally the role of a line department and the PPP node housed within the department to identify and prepare a project and define a selection criterion before tendering it. Such projects are identified and conceptualized from the line department's master plans within its sector and/or geographical area using criteria such as supply, and demand gaps, social and economic benefits, financial attractiveness, risks and uncertainties involved. Additional considerations are the catchment area of the project including estimated number of beneficiaries, its poverty scorecard indicators from NADRA, Pakistan Poverty Index and education & health indicators from deputy commissioner's officer. Schedule I of the PPP Act defines the sectors where PPP projects can take place. Few of those are works and services, health, education & energy.

Government support in a PPP Project is subject to the Public Private Partnership Act, 2010. The conceptualization of projects entails that the Line Department shall provide evidence that it has assessed other options within the partial or full control of the Government that can reduce capital and/or operating costs i.e., availability of land, support infrastructure such as buildings, access roads, water supply, electricity availability, gas pipelines, environmental/ resettlement/relocation costs, etc., payment/waiver/discounts on taxes/duties, payments for any disputes, settlement costs or to meet upfront.

The procurement process is governed by Sindh Public Procurement Rules. Once a project is conceived on such sound footing financial assistance is available only for the projects which are economically and socially important but may not be viable financially if constrained by factors such as the affordable user fees, initial capital requirements and revenue needed to generate a fair return on investment. Such support is injected into the projects in the form of capital subsidy

(including equity and debt commitments) or operating support (including minimum revenue guarantees).

For providing such support the PPP Act enabled the establishment of the Viability Gap Fund ('VGF') to make such requisite payments on a periodic basis over the life of the project and/or on an upfront capital subsidy basis using a Net Present Value ('NPV') calculation.

The preparation of PPP Projects shall consist of a feasibility study, initial environmental examination, environmental impact assessment, risk analysis. As a condition of VGF, the PPP agreement/concession contract should provide required detailed service levels and linked payments to such levels of service delivered or standards achieved by the private sector partner. An acceptable independent system of measuring that performance must be put in place by the Government Agency.

The financing facility for funding the viability gap has evolved through a foreign assisted project namely Enhancing Public Private Partnership Investments in Sindh, developed and financed by the Asian Development Bank. The said project has created the PPP Support Facility ('PSF') and now represents a formal independent VGF institution that has been incorporated as a ring-fenced section 42 Company under the Companies Act of 2017. The PSF will be used to enhance corporate governance and transparency and is intended to better ensure (i) rigorous use of Value for Money ('VFM') analysis of VGF proposals (taking into account both costs of the PPP project and the public-sector comparator and measurement of quantifiable and qualitative value added to the PPP project), (ii) approval only of VGF structures that appropriately addresses the risk allocation intended under the PPP Act, and (iii) taking necessary steps to explore viable alternatives for risk mitigation prior to any consideration of cash collateralization practices. The PSF shall be responsible for managing all project risks such as political, regulatory, macroeconomic, business and technical risks over the concession life for VGF exposure and for all existing VGF commitments.

ICMA Pakistan: Can you provide brief details of few key projects in Sindh which are being established under PPP mode?

KMS: Sindh rolled out its PPP program with its flagship road project, Hyderabad Mirpurkhas Dual Carriageway. The 60 km road constructed at a cost of PKR 6.8 billion was essentially a tolling road with the provincial government filling in the gap funding in terms of equity, soft loan, minimum revenue guarantee ('MRG') and minimum support guarantee ('MSG') to provide investor cushion on mark-up on commercial loan. This was succeeded by the PKR 4.5 billion Sir Aga Khan Jhirk Mulla Katyar bridge which at 1.7 km is the longest bridge over River Indus. The last completed project was the 49 km portion National highway (N5) from Karachi (Ghaggar Phatak) to Thatta, which was constructed at the cost of PKR 8.8 billion. Sindh government is also set to begin construction on what will then become the largest bridge over River Indus, i.e. the 2.2 km PKR 14 billion Ghotki Kandhkot Bridge Project. This will be followed by the 40 km long Malir Expressway Project.

Under the social services sector, the School Education & Literacy Department ('SELD') has outsourced forty-three (43) schools for ten (10) years. These schools were constructed from USAID-Sindh Basic Education Program ('SBEP') along with 25 Priority Schools (grouped with reconstructed schools) under the Education Management Organization ('EMO') project to credible partners like The Citizens Foundation, Charter for

Compassion, Beaconhouse Public Schools, IBA Sukkur and HANDS to name a few. On similar lines, the Health department contracted private partners for performance-based management contracts of medium term (5-10 yrs) for selected underperforming health facilities specifically RHCs/THQs/DHQs/RBCs and health services such as diagnostic services, ambulance services and health trainings such as nurses/ mid-wifery and paramedics and a few select provincial/district health development centers. Some of the prominent partners in the collaboration are Indus Hospital, Aman Foundation, HANDS, IHS and MERF.

Early success has enabled PPP portfolio to expand in sectors including energy, transport, local government (roads & parks), agriculture, culture & tourism, information technology and even development of a special economic zone. The table below illustrates the latest PPP project pipeline.

S.#	Project Name	Line Department
1	Khairpur Wholesale Dates Market	Agriculture, Supply and Prices
2	Larkana Fruit & Vegetable Mandi	Agriculture, Supply and Prices
3	Solar Dehydration Plant for Dates	Agriculture, Supply and Prices
4	Lab-e-Mehran Tourism (Sukkur)	Culture, Tourism and Antiquities
5	Teachers Training Institute for Education	School, Education and Literacy
6	Education Management Organization	School, Education and Literacy
7	Domicile & PRC Automation	Information, Science and Technology
8	Malir Expressway Project	Local Government
9	Karachi Theme and Safari Park Project	Local Government
10	50 MW Power Plant for K-IV Phase I Project KWSB	Local Government
11	Dhabeji Pumping Station KWSB	Local Government
12	Dhabeji Special Economic Zone	Sindh Board of Investment
13	Special Education Project	Special Education Project

ICMA Pakistan: What challenges you are facing in improving trust level between the public and private sectors? How PPP unit is developing effective partnerships with private sector for establishing PPP projects?

KMS: As is the case world over, one of the first things that private sector investors look while investing is a proven track record and firm counterparty commitment. While PPPs in Sindh predate the enactment of the PPP Act and establishment of the PPP Unit, within less than a decade the PPP Program in Sindh has executed a multitude of projects. When the PPP program started, there were just a handful of financiers, EPC contractors, legal, technical and financial advisors willing to participate. There was also a massive trust gap between the public and private sector to begin with, however with passage of time, the PPP Program has enabled successful delivery of mega projects across the province of Sindh alongside participation of well reputed local and international companies such as FWO, Sachal Engineering and Deokjae of South Korea.

In the development of PPP projects, the Sindh Government took

onboard the services of well reputed transaction advisors in the areas of finance, law and engineering. These advisors enabled vital structuring of highly complex and innovative PPP projects. Credible names that have contributed are Ernst & Young (EY), United Bank Limited, AF Fergusons, KPMG, Deloitte in terms of financial assistance; HaidarmotaBNR, Ahmed & Qazi and RIAA Law in terms of legal assistance; EA Associates, Techno Consultants, Loya Associates within engineering/technical assistance. Despite initial bottlenecks as PPP Program has steadily developed, the willingness and participation of transaction advisors has increased, and the results are being demonstrated in terms of ever improving financial structures.

With early harvest successes the same banks that were initially hesitant to provide financing to PPP Projects are now active financiers in PPP projects and that too at coverage levels that are significantly lower than before, thereby indicating increased risk appetite towards the Government of Sindh. Notable financiers include major banks such as HBL, UBL, MCB and NBP.

One of the most substantive steps towards building confidence in the PPP process is the establishment of an escrow financing mechanism and an independent monitoring process. The escrow mechanism operates by way of one-time standing instructions to the escrow agent bank whereby funds dedicated to any project are placed under a secure arrangement. The funds can only be utilized when the private partner in the PPP project demonstrates by way of performance that is being monitored by an independent technical expert and subsequent payments are verified by the independent auditor as derived from the original financing model. However, if for any reason the private partner's performance is lacking, not only will he not receive the payments for the components not yet delivered, but they will also be penalized for not meeting any requisite performance standards. If the government has failed to fulfil any of its obligations under the contract, or there is any adverse financial impact created out of an event not under the control of either party, such financial impact and its eventual disbursement is

“The participation of private partners in the PPP process in multiple areas continues to increase, such as interest shown by credit rating agencies, other financiers such as mutual funds and professional bodies such as the ICMA Pakistan. This bodes well for the PPP program in times to come”

also determined through the independent monitors. Some of the names of the independent auditors and independent experts are Fergusons, Loya Associates & AASA Consulting.

The participation of private partners in the PPP process in multiple areas continues to increase, such as interest shown by credit rating agencies, other financiers such as mutual funds and professional bodies such as the ICMA Pakistan. This bodes well for the PPP program in times to come.

ICMA Pakistan: Can you share the progress on the Malir Expressway Project being built as PPP project?

KMS: The Local Government Department, Government of Sindh launched the Malir Expressway Project in January 2018 on Two Stage Two Envelop bidding procedure. This project shall be an access-controlled six-lane two-way facility, starting point of which is before Jam Sadiq Bridge on Korangi Road that is on the right bank of Malir River and travelling along the Malir River up to the existing Link Road between N-5 and M-9 (2.4 km short of M-9). From the Link Road junction point, the alignment will take a left turn and following the Link Road route up to M-9, the approximate length of expressway is 39.4 km. The exiting portion of the Link Road between N-5 and M-9 will need modification to meet the requirements of expressway typical cross-section. Similarly, the existing trumpet interchange on M-9 will also be modified to meet the design requirements of the expressway. The project will provide a southern route which will be able to reduce the travel time to 25 minutes only.

In first round of procurement, the bidders were required to submit technical proposals. Based on their technical inputs received from local and international participating bidders, the stage two Request for Proposal ('RFP') has been floated. The financial close for the project is expected to be achieved by July 2019. Malir Expressway Project to date is the biggest PPP Project being undertaken by the Sindh Government.

ICMA Pakistan: How you see the potential of PPP projects in Sindh as compared to other Provinces? What issues are faced by PPPs in Sindh?

KMS: Sindh is self-sufficient in terms of its resources. Access to the Arabian Sea's warm waters has enabled it to set up Karachi Port handling about 60% of the nation's cargo, and Port Qasim which handles 35% of the nation's cargo. Karachi also has two potential ports in the form of Ketu Bander and Shah Bander. In terms of energy resources, Sindh has the highest production of gas which is 73% of country's total production and 56% of country's output in terms of barrels of oil. Sindh also has the highest area wise potential reserves of shale gas and shale oil alongside having abundant quantities of coal spread over an area of 9,000 km² in Tharparkar. Sindh Engro Coal Mining Company ('SECMC') which is a form of PPP that pre-dates the PPP Act is operating in Block II the reserves of which alone are sufficient to support 50,000 MW of energy.

With regards to renewable energy, abundant solar irradiation of 5.5 kwh/m²/day in northern Sindh can potentially generate 10 GW of solar energy. Additionally, creeks network in the Indus Deltaic region, extending over an area of 170 km along the 990 km coastline that Pakistan shares with the Arabian Sea can generate 900 MW.

Agriculture crop yields remain low in Sindh currently earning only USD 1 billion in rice exports whilst in terms of potential, Sindh can generate around USD 4 billion from rice exports alone. With the second largest population of Pakistan at 55 million people from all across Pakistan, Sindh can potentially be

a powerhouse of Pakistan in terms of resources and financial capital. PPP interventions within these areas are subject to the constitutional rights of various governments.

Because of the Constitutional (18th Amendment) Act, 2010, most functions related to the social sector delivery in the areas of health and education have been devolved to the provinces. Dedicated interventions by the Government of Sindh are needed to enhance infrastructure in Sindh and there is huge potential to enhance service delivery in areas of health, education and other social services under PPP mode. Sindh government recently approved USD 6 million (approximately PKR 840 million) Sindh Road Network Master Plan 2020 – 2040, the terms of reference of which include data collection for 53,000 km-long road network in Sindh. The plan entails opportunities for future construction and/or operation & maintenance of roads under Public Private Partnership mode, which will result in improved access to far reaches of Sindh. This will have a positive impact on agriculture and tourism driven projects which the Government of Sindh is already working on under the Public Private Partnership mode.

In terms of education, whilst 42,383 schools of elementary, secondary and higher secondary education were functional in Sindh, yet 55% children aged between 5 and 16 in Sindh are out of school. It is estimated that upto 80% of the school going pupils were concentrated in 11,000 schools which prompted Government of Sindh to identify 4,524 high priority schools for infrastructure improvement and improvement in quality of education. Many of these will be part of the outsourcing plan under the Public Private Partnership.

Government of Sindh also has upwards of 1,400 facilities in primary health care and in the range of 150 facilities for tertiary health care. Whilst many of these are already part of the PPP outsourcing conducted to date, many others can yet be outsourced, and emphasis can also be placed on supporting health care facilities in urban slums under PPP mode.

Thus, PPPs entail a vast framework of opportunities that can be undertaken by the Sindh Government and with early harvest project under the belt, utilizing the Sindh PPP Act 2010 and political ownership behind it, Sindh is poised to enhance upon its tag of the forerunner of the Public Private Partnership Program in Pakistan. Interestingly, Sindh PPP program being sub-sovereign in nature does have limits in terms of non-funded guarantees it can raise for financing. It is hoped that with the concept of PPPs catching on all over Pakistan, the state would provide facilitation to PPP Projects with exemptions from taxation and other guarantees.

ICMA Pakistan: What do you say about engaging management accountants as Consultants to ensure cost efficiency of PPP projects in Sindh?

KMS: It is pertinent to mention that given the massive scale of projects carried out under the PPP mode, the government seeks to ensure maximum cost efficiency/minimum leakage in project associated costs. For the very same purpose, the government hires competent accounting and finance specialists from reputed professional bodies including, but not limited to ICAP, ACCA, CFA and ICMA Pakistan, to bring in their expertise and help the government develop sound projects from an overall perspective. In fact, in a bid to reform working structures across the province, the government has already hired many members from the aforementioned bodies to help them in areas such as internal audit, financial management, tax advisory amongst others.

“ The government hires competent accounting and finance specialists from reputed professional bodies including, but not limited to ICAP, ACCA, CFA and ICMA Pakistan, to bring in their expertise and help the government develop sound projects from an overall perspective ”

ICMA Pakistan: Can you identify areas where ICMA Pakistan and PPP Unit Sindh can jointly work together such as consultancy, research and arranging training programs on Public Private Partnerships?

KMS: There is potentially a huge scope for projects and services that can be delivered by collaboration between the public and the private sector in Pakistan. Professional bodies such as ICMA Pakistan can bring cost efficiencies to improve the delivery of PPP Projects, as well as create market awareness.

As far as research is concerned, the PPP literature, particularly for PPP interventions taking place within Pakistan are fairly limited, hence there is a need for academic research into PPP models. Already there are early signs that PPPs are said to increase exponentially at the federal and provincial levels due to the budgetary constraints of respective governments. Therefore, there is a need for research to be published.

In terms of training there are a host of stakeholders involved in the PPP program. The training aspect can be imparted towards the officials of the government, private parties such as commercial banks, and potentially employees of private sector so that they can understand how PPPs work and develop/propose potential PPP projects that can be executed.

It may also be noted that currently there are no proper knowledge banks or institutions that impart PPP specific knowledge. ICMA Pakistan can leverage from this market gap by designing PPP knowledge programs and trainings for students and professionals alike. Moreover, ICMA Pakistan can also include PPP based knowledge in their curriculum to give their students an edge over other professional bodies. Besides the aforementioned, the two bodies can also collaborate in developing knowledge sharing platforms, conducting training sessions and workshops on various topics such as financial modelling skills etc.

The Editorial Board thanks Mr. Khalid Mahmood Shaikh, Director General, Public Private Partnership (PPP) Unit Sindh for giving his exclusive interview for Management Accountant Journal.



Public Private Partnership: A Way Forward

The Editorial Board thanks Mr. Javed Iqbal Mirza, Senior Staff member at The News International for sending his exclusive article for publication in this issue of Management Accountant

Pakistan is ranked 122nd on the World Bank's Logistics Performance Index (LPI) which suggests massive infrastructural barriers limiting the country to optimize its trade potential. Despite eminent infrastructure deficit, Pakistan has not capitalized the buoyant private sector, which is sitting on ample cash surpluses and looking for profitable opportunities.

Although, realizing the need to leverage private sector investment to procure public assets and development of infrastructure projects, government, in the year 2006, established Infrastructure Project Development Facility (IPDF) through Ministry of Finance to provide advisory and facilitation services to ministries and other autonomous bodies to structure, develop and procure infrastructure projects through Public Private Partnerships (PPPs). However, it took until 2017 that the Public Private Partnership Authority Act came into being and IPDF was converted into Public Private Partnership Authority. The Act mandated the Authority to establish a regulatory framework to attract domestic and foreign private investment in the development of public infrastructure through transparent and fair procurement process.

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The binding constraints of PPP development in Pakistan lay in lack of institutional capacity across the appraisal chain through which PPP transactions are supposed to be processed, from conception to execution, i.e. within the government.

PPPs have emerged as a key from through which healthcare, education, housing, transport and water are defined, delivered, and evaluated in developing countries. They are viewed as a way of accessing additional funding streams to deliver projects and programs. In general, PPPs are shared financial and governance arrangements between the public (the state) and the private sector.

The focus of PPP sector in Pakistan is concentrated on roads, while even more efficient means of transport and logistics i.e. the railway remained neglected until recently when a freight train from Karachi to Lahore was started in partnership with Marine Group.

Under the auspices of Public Private Partnership Authority, there is no completed or upcoming project for healthcare, education, housing or water.

According to State Bank of Pakistan (SBP) estimates, Pakistan loses about 4 to 6 percent of its Gross Domestic Product (GDP) due to inefficiencies. Logistical bottlenecks increase the cost of production significantly. This has a significant impact as Pakistan faces stiff competition from the likes of India and China in the export markets.



Javed Iqbal Mirza

The focus of PPP sector in Pakistan is concentrated on roads, while even more efficient means of transport and logistics i.e. the railway remained neglected until recently when a freight train from Karachi to Lahore was started in partnership with Marine Group

To improve and expand infrastructure, Pakistan's needs are massive and its resources are limited. Not only there is limited fiscal space, there are also gaps in public sector capacity to build and operate infrastructure.

It is estimated that less than half of the infrastructure investment can only be covered by the public funds. The rest of the investment can be attracted from the private sector by providing a combination of policy reforms, institutional support, incentives and financing modalities.

The difference between PPPs and privatization is that privatization takes over a publicly owned entity while PPPs are more like a merger, with private and public sector sharing risks and benefits. For the public sector, the main incentive is that the private sector is also sharing funds and risks. Since the private sector is considered more efficient than the state in running entities and is also likely to charge actual costs of services from customers, the burden of subsidies can be minimized.

The other advantage is that the public funds can be freed for other social economic projects to improve the socio-economic conditions in the country. PPP can bring new technology and provide a better allocation of resources with less fiscal burden on the government.

True, the multi-billion-dollar China Pakistan Economic Corridor (CPEC) plans to address much of the country's infrastructure requirements, but it does not absolve the policy makers as well as the private sector. In fact, this calls for even more aggressive approach towards exploiting public private partnership, in the benefit of all.

While taking large foreign currency loans to fund infrastructure development is a popular approach in developing countries such as Pakistan, there are numerous risks involved. For example, excessive borrowing of foreign loans may in fact deteriorate the balance of payments deficit. Furthermore, the risk of a possible devaluation of the local currency and the consequent effects on the economy may restrict development and growth of the local financial market. To avoid this, countries like Pakistan should preferably meet their infrastructural financing needs through local capital markets.

PPPs are believed to have the unique capacity to fulfill the Sustainable Development Goals (SDGs). The United Nations Agenda 2030 for sustainable development encourages countries to build PPPs.

In Pakistan, the power generation sector, a de-facto federal responsibility by virtue of the national integration of power transmission infrastructure, has been developed under PPP arrangements for a number of years. This has occurred under a regulatory policy that guarantees a rate of return on private partner's investments in power generation, plus an upside to reward efficiency.

Until recently, Chief Justice of Pakistan took suo moto notice of 'excessive' payments of Independent Power Producers (IPPs) and remarked, "Agreements made with independent power producers (IPPs) have become a noose around our necks".

Policy commitment and continuity of policy despite changes in political regimes is a must. In the 1990s, Pakistan had a severe setback when the Ehtesab Bureau opened inquiries into the award of IPPs and started creating difficulties for Hub Power Company, forcing the foreign investors to eventually exit.

In other forms of infrastructure-services projects, the federal government also needs to provide support in the form of minimum revenue guarantees that can act as a safety net on the commercial risk of the project and yet create incentives for the private sector to generate core and non-core revenues from the project.

But there have been constraints on the ability of the federal government to provide this kind of viability gap financing to date. Recent constitutional reforms have devolved to provincial governments the main responsibility for most forms of infrastructure development. But this devolution still has to be matched with financial and technical capacity development at each provincial government.

Sindh and Punjab are the two largest provinces of Pakistan and account for roughly 77 percent of Pakistani population, and 85 percent of the country's GDP. Bankable PPPs can be implemented in these provinces, which can not only have demonstration effects on the overall PPP market in Pakistan, but also help start closing the infrastructure gap in the country.

Asian Development Bank (ADB) notes that the infrastructure and social service needs of Sindh and Punjab outpace the

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Asian Development Bank (ADB) notes that the infrastructure and social service needs of Sindh and Punjab outpace the provincial fiscal space that is currently available for new infrastructure investments

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ADB has conducted detailed recent diagnostic exercises on PPP frameworks in Punjab and Sindh, and on the current status of implementation of provincial PPP projects. Little progress has been made in Punjab since the introduction of the PPP Law and remaining guidelines, whereas Sindh has been able to, with some important lessons learnt, reach financial closure on a handful of transactions. At different stages of PPP development, both Punjab and Sindh face, with different degrees, institutional and capacity gaps.

PPPs are a very effective way of leveraging private capital and expertise for delivering public goods. However, the PPP decision process requires important investments in analytical work before transactions can be effectively executed. Governments lack funds for building capacity of their own staff, (especially in provincial governments), conducting project feasibilities, financing transaction advisories, etc.

A comprehensive capacity and institution-building response is required from development partners to address the current needs of provincial PPP development in Pakistan. With a major focus on Punjab and Sindh, the provinces that dominate the economy of Pakistan are at more advanced stages of PPP development.

Experts argue that to overcome the long-term financing problem faced by the private sponsors, an Infrastructure Financing Facility should be established to meet the long-term financing needs of infrastructure projects. Multilateral institutions such as the World Bank, ADB, ISDB, Asian Infrastructure Bank, bilateral institutions such as China Development Bank and domestically, pension funds, endowment funds, EOBI, provident funds and insurance companies should be prime investors in this facility. Debt capital markets should be tapped for issuing Sukuks and long-term bonds to mobilize resources.

A comprehensive capacity and institution-building response is required from development partners to address the current needs of provincial PPP development in Pakistan

Most emerging market countries have created national organizations dedicated to developing PPP projects and enabling their commercial financing through appropriate credit enhancement techniques. An institution can provide the entire spectrum of a PPP project requirements, i.e. originate, evaluate and structure, identify and negotiate the cost coverage-viability gap shortfall, for the project; then proceed through to raising the financing consortium, where it may take a debt and/or debt and equity position in the transaction for its own account. It may continue association in an advisory role thereafter, in smoothening start-up issues and helping with regulatory fine tuning as the project evolves.

India has three institutions at the federal level, besides a variety of them set up by individual states. Two at the Federal level, IDFC and IL&FS, are listed public companies that provide the entire range of services described above, sometimes initiating and managing projects as sponsor and key investor.

The role required of an infrastructure development financial institution very much depends on the stage and momentum of infrastructure development in a country. Where the backlog is significant; where the 'originating' capacity within the public

Pakistan's power policy, through inadequate attention to the importance of the right sequencing, has resulted in more expensive but still non-commercial PPP arrangements

sector is absent; where commercial or development banks have not developed models and practices suitable to raising the substantial and long-term funding needed, it would be most desirable to have institutions that could both originate and finance projects.

Government policy needs to be developed after scrutiny of suitability for what segments of the entire chain in an Infrastructure sector will be considered for PPP. For example, water and sanitation cover bulk water; water distribution; sewerage; and water recycling plants. What will be opened to PPP and what are the best practice models available globally? How will progressive PPPs in respective sectors be sequenced?

Lack of follow up with privatization of power distribution has resulted in a costly generation sector, with no willingness for new bidders to require less than the government guaranteed cost-plus return. Latin America did not open power generation to PPPs, until the power distribution had been commercialized, so that the generator took the risk on the distribution company.

Pakistan's power policy, through inadequate attention to the importance of the right sequencing, has resulted in more expensive but still non-commercial PPP arrangements.

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Global Successful Models of Public Private Partnerships for Economic Development

The primary objective of joint ventures or private partnerships is to acquire the necessary capability that a nation does not possess in terms of technical skill or capital injection. It not only results in a good business model but also serves to upgrade social structure and induct new skills and behavior patterns in the society's societies migrate to a higher income level, they tend to become less rigid in its ideas, more accommodating and competitive in nature. The speed of change brings in an attitude to adjust and benefit from changes taking place in the society. That is the history of human evolution.

In this article, we will be looking at successful economic development models adopted by different countries and how our country can learn and emulate them. The models discussed are Arabian model with rich oil resources; Indian model of software industry and Chinese, Japanese and German models.

Arabian Model

The Arab countries including UAE, Saudi Arabia, Qatar and Kuwait are rich in oil resources. They possessed capital but did not have the necessary technical specialized skills to develop themselves. They found the necessary joint venture partners having the required technical skills and expertise to develop their infrastructures, models of governance and taxations. Similarly, in case of Airlines they had the oil which could be sold either as crude oil or at five times the price as aviation fuel. They partnered with western nations who had airplanes as well as experience to run airlines. Gulf nations are earning on fuel while Europe is earning on aircrafts and airline management. All these changes that we witness during the last thirty years since oil prices have jumped substantially has seen a sea of change in the minds and behavior of Arab population in these countries. They have leapfrogged economic progress besides developing socially in their countries. One may deduce from these developments that there has been growth of intellectual behavior over the years.

Indian Model

The Indian Software industry is another example that generates around US\$101 billion through exports for India. The Indian banks were not allowed to import software for their use from abroad. The in-house software development injected huge know-how in the economy. The private software houses that first started serving the local industry, eventually gained financial strength to enter the US market with million-dollar performance bonds. The initial finances of big banks and intellectual capital of academia bonded together to produce most lucrative partnership. The only helping hand provided by the Indian government was to assist in incubation of world software model by supporting the local IT talent.



Jalal Ahmad Khan, FCMA

China Model

China adopted 'Open door' policy in 1978 and since then it has attracted huge foreign direct investments (FDI). By the end of September 1994, over 210,000 foreign-funded ventures were approved with pledged investment of USD 275 billion. Since the 1990s, the Chinese Government also made it obligatory for foreign companies to enter into partnership with a Chinese company for starting any business in mainland China.

Since the 1990's, the Chinese government has enforced a policy dictating the foreign companies who wishes to do business in

mainland China must enter into a partnership with a Chinese company. Specifically with respect to manufacturing, the policy required that a foreign company's operations in China "be at least 50% Chinese owned," which mandated a joint venture between the foreign and Chinese companies. A joint venture is "a business arrangement in which two or more parties agree to pool their resources for the purposes of accomplishing specific task.

Under this arrangement, foreign companies, including American manufacturers, gained valuable access to rapidly expanding Chinese markets, while Chinese companies benefited from the influx of capital and exposure to technology from international sources. Notwithstanding these mutual benefits, the joint venture policy has raised questions of whether Chinese firms have unjustly appropriated certain technologies and intellectual property from its American partners, as tensions over trade escalated between the United States and China in recent weeks.

During strict communism era from 1949 to 1978, we observe that China maintained tight control on inflation. Even after opening the economy to privatization in Deng's era, the prices remained lower and inflation was extremely low. Since 1978, the cost of doing business was low. The Chinese economy generated high export potential. Cost of goods manufactured normally range from 60% to-80% of total cost. With low material and labor cost, China provided base an edge in international export market for its joint venture partners. China developing consumer base was another advantage to industries offering new products to bulging middle class.

This Chinese JV policy of Public and Private sector in innumerable sectors, including aviation and railways not only gave them a jumpstart in technology but also helped in technology transfer. Consequently, the standard of living of people and social behavior of the society towards life and competence changed considerably. China of today, in many ways, is very different from the China of 1978.

German and Japanese Models

In the second World War, both Germany and Japan, despite showing high technological development and sophisticated war technology; were eventually defeated and totally devastated. However, they had their social model and intellect in place. The capital infusion of Marshall Plan and opening up of US markets not only helped them to stand upon their feet but influx of new technology once again made them the leading nations. Japan, a country without natural resources, is today the 4th largest export economy in world. In 2016, Japan exported US \$688 billion and imported US\$575 billion, resulting in a positive trade balance of US\$113 billion.

Proposed Model of Public-Private Partnership for Pakistan

When we look at economic conditions in Pakistan, we find that revenues and tax collections by Government are much lesser than annual recurrent expenditures. Similarly, our exports are far short of imports. Foreign loans and workers' remittances that could have been used on projects of national development are presently being used in filling the existing trade gap. The local currency deficit caused due to shortage of taxes to non-development expenses are met by use of National Savings and banks deposits.

Banking Deposit are 12.6 trillion in 2018 whereas national savings are 18 trillion, as per report published in newspaper. Over the years, 50 percent of banking deposits have been used for Government expenditures. A country that was quoted as an example of development during the Ayub Khan era has fallen in bad times. Precisely, the government fiscal expenses are far more than its tax revenues. In Current exchange account, our trade export is US \$ 18 billion against an import of US\$ 40 billion. Consequently, we have a persistent current account deficit despite receiving inflow of workers' remittances over the years. Pakistan ends up borrowing more loans to pay older loans and to cover its current account deficit.

To get out of this quandary, Public Private Partnerships can assist not only in developing export and import substitution organizations but also in helping the government in education and health sectors. It could also help reduce both the fiscal and balance of payment deficits. Some strategies of establishing public-private partnerships in following organizations and sectors are presented below for consideration by the Government:

Pakistan Steel Mill (PSM)

The Pakistan Steel Mill is constantly generating losses over the years. It is high time to think about a new strategy for its revival and rehabilitation. We have been paying for its raw material by export of our textiles. The Steel mill land and facility could be leased out for 40 years at a nominal rate to Japanese or Russian firm who are willing to invest in mineral mining and infrastructure to bring the raw material from our mining sites to Steel Mill. They can also be willing to install a modern steel and share on variable cost basis Mills profit with the government of Pakistan on export and local sale. This strategy will upgrade our mining facilities and earn us foreign exchange instead of losses being faced by the government.

Pakistan International Airlines (PIA)

The aviation market like container shipping has changed over the years. The Arab airlines not only have an advantage of cheaper fuel but they also have feeder service from regional airports like Dhaka, Bombay, Delhi, Karachi, Islamabad to their base station in Dubai, Abu Dhabi, Qatar and take a large number of passengers to destinations in Europe and US. PIA without fuel advantage or having its locally manufactured cheaper aircraft and less access to regional airport is no longer competitive to regional aviation passenger market. However, we have the advantage of numerous landing rights and our own national's traffic. In case any bigger airline viz. Chinese, Turkish, is willing to take PIA on a long-term lease, run our inland services and pay us say US\$ 200 million per year, it could be considered a good deal. No unqualified pilot would be flying our aircrafts anyway.

Energy Sector

Energy is where we pay for most of our import. At times, the import bill on energy has reached US\$20 billion annually. Russian and Chinese partnerships could be very beneficial to us. China has a large energy production from coal and Pakistan has large coal deposits. Chinese firm has developed interest in Hubco plant and has already converted it from fuel to gas unit. Chinese are interested to buy 'K-Electric' as well and intend to use Thar coal for electric generation. Similarly, Russia is fuel and gas supplier to Europe and would be willing to invest in fuel related projects in Pakistan. Russia has already offered to build

the Iran Pakistan Fuel and Gas Pipeline. If persuaded, they may agree to extend Iran electricity lines to Baluchistan. Drilling rights could be given to Russian companies to our advantage for new drilling blocks.

Mineral and Mining Sector

Beside Energy, there are other minerals that could be extracted to earn foreign exchange for the country but we neither have the capital nor the required know-how and expertise to exploit these resources. Interestingly, the Chinese are working in this sector with Central Asian and African countries with a unique formula. The Chinese would invest in mining facility and infrastructure and 50 percent of mining output is taken by the Chinese on international prices and adjusted against their investment. The Pakistan Government could also enter into such kind of arrangement with Chinese companies to develop our mineral and mining sector.

Agriculture & Livestock Sectors

The yield per acre of wheat and rice is lower in Pakistan as compared to other nations. We need public private partnerships to create model farms in each district to teach latest technologies in terms of water and soil management. Pakistan has to find those partners who could assist us in this regard. However, developing new high yield varieties for various crops remain the responsibility of Government Research Institution.

Poultry is the cheapest source of protein; its production has been doubled from 2006 to 2015. However, we still have potential for export to Iran and Middle Eastern markets. Munno's and K&N are the two big players in this market but we still need partnerships with foreign governments and Retail chains in our export market.

The growth in Beef and Mutton production lack a systematic approach to its production. New Zealand and Australian beef and mutton animals are far more in weight than our animal breeds. Public Private Ventures are required with these international firms in terms of breed and feed management to improve our breed and meat production. Similarly, in Shrimp and fish production, some efforts have been made by our Government for developing fisheries; however, any substantial progress is not visible. Public Private Partnerships with Japanese/ Thai firms could produce the desired result. Sindh is more suited for such ventures. In terms of milk production, we are one of the highest producers. Though Nestle and Engro packed milk are easily available in market, we still need foreign collaborations to develop export markets.

Textile Sector

The production of cotton crop in Pakistan grew from 3 million bales in 1982 to 13 million bales in 1992 and at present it is hovering between 10 to 11 million bales. We observe that prices of garments are more than five times the yarn prices. We have the advantage of cotton production but instead of upgrading our industry and creating JVs with international retail outlets, we are selling our yarn to Korea, Japan, Bangladesh and Hong Kong who obviously are taking advantage of value addition. Well-equipped export houses in Public Private Partnerships are needed to develop interest of buyers in our production houses.

Exports of Cotton Yarn from Pakistan [FY 2012-13 to FY 2016-17]

Year	Quantity	Value	Unit Value
	(000 Kgs)	(US \$ 000)	(\$/Kg)
2012-13	737,586	2,252,952	3.01
2013-14	663,895	1,997,338	2.75
2014-15	671,293	1,849,389	2.74
2015-16	423,624	1,264,922	2.98
2016-17	455,345	1,243,745	2.73

Source: Trade Development Authority of Pakistan.

Education Sector

Education is unfortunately a neglected sector of our society which need high capital outlay to come in line with the modern requirements. We need a sort of 'Marshall Plan' given to Europe by the US after the Second World War. Europe leaned on US for its reconstruction after the war and Greece could lean on Europe after its recent financial collapse. We could possibly lean on China who is our all-weather friend.

Schools and colleges need to be built throughout the country which must be managed by District and Local governments under a public private program whereby NGOs like Citizens Foundations and others be encouraged to finance and operate them. The Chinese have successfully developed world class universities whereas we do not have them in Pakistan. It is a fact that education in Pakistan before nationalization was considered of a reasonable standard. Qualification of Dow Medical and NED had world-wide recognition.

The development of human resource is imperative for national development. Rethinking and foreign help in terms of ideas and strategies is essential. We need numerous applied research-based institutes that we missed out in our development strategies. Universities should embark on field extension programs where students under a structured program develop new ideas in technical and business development for industry and services. Encouraging and developing structures to turn our young graduates in SME is essential.

Health Sector

There is need for Public Private Partnership to undertake a comparative price study of Chinese and Western medicine. The general perception is that Chinese medicine for our eastern diseases are relatively cheaper. Chinese could be persuaded to establish number of over 1000 bed hospitals in various parts of the country, run them and train our doctors. Our pharmaceutical industry is robust enough to locally develop Chinese medicine with local raw material.

Urban Economy

There is high business potential in urban areas where both creative ideas and energy is needed to develop our talent. Public Private Partnerships are needed to develop SMEs (small & medium enterprises) for our young business graduates who would be our future business leaders.

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Public Private Partnership and its Scope in Pakistan



Muhammad Yasin, ACMA

Government of Pakistan can get benefits of PPP if sector-specific PPP policy framework is developed and its commitment and continuity is followed despite of change in the Governments

A joint and long-term contractual relationship between two or more government holdings and privately-owned organizations to work for the best interest of public is known as Public Private Partnership. Public Private Partnership is generally referred to as "PPP", "P3" or "3P". PPP involves private sector to provide design, finance, development, operation and maintenance of particular project in the best interest of the public against which the Government provides a Charge/ Tariff which is dependent on performance of task.

PPP is the best way for the government of any country to achieve the desired task in limited financial resources and allows the risk sharing and development of innovative projects in the larger interest of the public. Furthermore, PPP allows the public sector to use the expertise of private sector and do the things / service delivery in an efficient mechanism.

In PPP, both public and private sector organization have certain duties and responsibilities. Generally Public sector organization is responsible to plan and identify the need of the specific project and Private sector is responsible to design, construct, operate and maintain the project infrastructure to deliver the required service to the public sector. According to the responsibilities, PPP is generally divided into following forms:

a) Traditional PPP

In this form the involvement of private sector is only restricted to building or

operation the infrastructure, rest of the tasks i.e. Identification of need, solution to fulfill the need, financing, operation and maintenance is done by Public Sector. This is traditional form of PPP which is widely used to construct roads, maintenance of any building or school etc.

b) Designing and Construction

In this form the private sector is responsible to design and construct the infrastructure, whereas the public sector is responsible to identify the need, propose the solution, finance and operate and maintain the infrastructure. This form of PPP may be used to design and construct Government buildings, Plazas, Public recreational centers etc.

c) Design, construct and Operate and Transfer

In this form the designing, construction is done by private sector and identification of the need of the project, proposed solution is provided by the public sector. However, Private sector is responsible to operate the infrastructure for limited period of time and transfer it to the Public Sector organization.

d) Design, construct, Finance and Operate

In this form the designing, financing, construction, operation and maintenance are done by private sector and public sector is only responsible for identification of the need of the project, provision of proposed solution. This type of PPP is widely used for energy projects.

PPP is very vast and complicated concept and many of its other forms are available worldwide, however these forms can be linked with above major forms.

Worldwide PPP has improved the public infrastructure and services in less delivery times, better value for money and increased innovation across a range of sector. However, implementation of PPP is not an easy task due to involvement of political, legal, regulatory and institutional hurdles. Therefore, we need to work hard and find efficient ways to overcome the hurdles in order to get better outcomes from PPP.

Steps in a Life of PPP

To accomplish this task, we need to understand following three major steps involved in Life of a PPP;

- The **first step** in origination of PPP is planning which consist of making of rules and regulation framework for PPP, budgeting, timelines, priorities and risk frameworks. This step is very crucial for the success of any PPP. Any mishandling or mismanagement of this step may lead to huge loss of public interest.
- The **second step** consists of analysis of available options, establishment of performance standards, signing of agreements, making of deal structure, securing the future performance of private sector i.e. through performance bonds etc. This task may be achieved through competitive procurement process. This step starts from bidding process and ends at financial close of the project.
- The **third step** consists of performance of duties by both the parties i.e. public and private sector. This step includes designing, construction, operation and maintenance and transfer of assets or service delivery to Government. This may also include any dispute resolution, claims, counterclaim, arbitration and renegotiation etc. This long-term operational step has huge dependency on the first step. If governance structure, policies and timelines are established effectively then there are more chances of the success of the third step.



Developed countries are benefitting from PPP in many sectors i.e. transport, energy, tourism, residential and education etc. Canada has established York region transit a bus rapid transit service through PPP model through York region partnered with York consortium which comprise of seven private sector firms. Under this project six routes are operational currently. Canada has also build Ontario Highway 407 on this model. Similarly, China has also signed multi billion agreement with private groups to establish Shantou coastal new town which includes development, infrastructure construction. Other developed countries like United States, United Kingdom and Japan are also using this Model for public projects.

Pakistan has also adopted the model of Public Private Partnership majorly in energy sector and developed Independent Power producers (IPPs) some of these IPPs are performing very well. In recent past, Pakistan has established Two LNG import Terminals at Port Qasim Karachi through Public Private Partnership, which are successfully providing the LNG re-gasification services to Government and adding value

to reduce the energy demand and supply deficit. Government of Pakistan has also established Public Private Partnership Authority (PPPA) through which different projects Like Modernization of Lahore to Islamabad Motorway, Construction of Habibabad Flyover, and Conversion of existing 4-lane super highway into 6-lane Karachi Hyderabad Motorway, have been done on BOT basis.

There are many sectors which needs special attention and adoption of PPP model to enhance the effectiveness and efficiency. Some of these follow:

a) Tourism:

There is wide scope of tourism in Pakistan especially in northern areas and some areas of Baluchistan. The tourism development corporations in Pakistan may establish Special Purpose Vehicles (SPV) for development of particular tourism area through PPP wherein the private party may invest in designing, construction, operation and maintenance of that particular tourism area and profits from such area may be shares between that SPV and private party. This will attract foreign investors to visit Pakistan.

b) Education:

In Pakistan people are giving preference to private sector institutions for education of their children at the level of Grade-1 to Grade-10 and most of the children who join Government schools for primary education, leave schools due to many reasons i.e. quality of syllabus, less trained teaching staff, Non-effective school operations etc. Government of Pakistan can engage private sector to utilize their abilities and innovations in the education sector for Teachers training, admission campaigns, syllabus designing and alignment, infrastructure development.

c) Municipal Works and social welfare:

Government of Pakistan can engage the private sector for infrastructural developments and operations of Public buildings, Public housing schemes as announced by Prime Minister of Pakistan, Parking facilities, transport facilities on build Transfer and Operate basis (BTO).

Other Sectors:

PPP model can also be used in development of industrial parks, environment protection mechanisms, information technology and other sectors.

Conclusion

Over the past one- or two-decades Public entities are using PPP as instrument for infrastructure development and delivery and this has become a growing segment worldwide. Adoption of PPP model can vary from country to country and sector to sector. Government of Pakistan can get benefits of PPP if sector-specific PPP policy framework is developed and its commitment and continuity is followed despite of change in the Governments.

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Public Private Partnership in Health Sector: Case Study of Health & Nutrition Development Society (HANDS)

Public-Private Partnerships (PPPs) are being widely used as a procurement method by governments all over the world. The objective of such partnerships is to better serve the public through partnering arrangements with the private sector.

In PPP program, the Government sees itself becoming more of a regulator and less a provider of public services. A clear and fair sharing of risks in financing, developing, operating and maintaining infrastructure services between the public and private sector, based on a mutual commitment to achieve a desired public sector outcome while obtaining appropriate rate of returns for the private sector, is a distinguishing feature of PPP projects and essential for their success.

The capital and operational expenses incurred by the private investor can be recovered under the PPP modality by charging users for the service provided or via fixed (or partially fixed) periodic payments (annuities) disbursed by the public sector over the concession period, or by a combination of both.

The Sindh Government has taken the steps in partnering with private service providers/social sector to take initiative in implementing different projects in education, health, infrastructure etc.

Government of Sindh has contracted out government health facilities across the province, including District Headquarters (DHQs), Taluqa Headquarters (THQs) and Rural Health Centers (RHCs). The government awarded the performance-based management and services contracts to the nationally and internationally accredited organizations. The transparent process was concluded with the assistance of the Public Private Partnership (PPP) Node of Health Department by signing of Management Contracting Out agreements under the Sindh

Public Private Partnership Act, 2010. In the first phase, agreements were made with five organizations for the following regions in Sindh:

- 1) DHQ Badin (Dist; Badin)
- 2) Rural Health Centers All (except RHCs at Thatta and Sujawal), THQ Nawabshah, Larkana and Naushero Feroze
- 3) Sindh Ambulance Service (All Districts) initially District Thatta and Sujawal
- 4) RHCs/THQ/DHQ Thatta, Sujawal
- 5) Bin Qasim, Gadap Town (All Units), DHQ Khairpur

The organizations agreed to perform on the Key Performance Indicators (KPIs) and their performance will be measured and assessed by the third party i.e. Independent Expert (IE) and Independent Auditor (IA) monitoring mechanism. The Partner Entity will also be responsible for ensuring the availability of basic equipment, furniture and fixture in line with the services provided by the Unit/ Facility.

Case Study Health & Nutrition Development Society (HANDS)

Health Department, Government of Sindh under PPP through a performance-based agreement handed over the management



Anwer Iqbal, ACMA

and administration of thirty-four health facilities to the Health and Nutrition Development Society (HANDS) in November 2016, including two Sindh Government Hospitals (SGHs), two Rural Health Centers, twelve Basic Health Units, six Maternal Child Health Centres and twelve Dispensaries.

'HANDS' having vast experience in the health sector was founded by Prof. A. G. Billoo (Sitara-e-Imtiaz) in 1979. It is one of the largest Non-Profit Organization of the country with an integrated development model and disaster management expertise throughout Pakistan.

Goal and Objectives of the Project

The primary goal of this PPP project is to bring about improvement in health status of under-served communities by strengthening healthcare services using Minimal Service Delivery Package (MSDP) and Essential Primary Healthcare Services (EPHS) in the assigned health facilities.

The objectives of PPP Hands project are to:

- 1) Significantly improve coverage and utilization of the services and quality of care, by implementing the quality standards of health department as agreed quality indicators and to provide equitable access of services to the population.
- 2) Ensure that communities are increasingly involved and satisfied with the publicly financed health services and facilitates in community participation in planning, designing, delivery and evaluation of services
- 3) Build the capacity of health workers so that they can provide better services to the communities within the available budget specified for the purpose

Challenges faced by HANDS

In initial phases of the project there were difficult times for the management. HANDS had to implement the project with almost 75 percent of the available Government appointed staff. It was really tough for HANDS to establish its writ in the government Health Facilities (HF). The management of HANDS started to prioritize the existing issues in HFs and ensured that availability of staff, medicines and required equipment remained on top of its priority list. Furthermore, there were renovation/repair of HFs, functionality of completely ruined HFs, focus on specialized MCH services, and availability of major secondary health services, especially in both SGHs.

HANDS measured the status of these health facilities (HFs) and revealed the following 25 challenges:-

Facilities-related challenges:

- 1) Lack of diagnostic and curative facilities. Diagnostic services were available in only one HF only.
- 2) HFs were not open for extended period of time
- 3) 70% people receiving health services paid to private practitioners and were under-treated /maltreated.
- 4) Non-equipped and non-functional facilities
- 5) 10 HFs were running without any medical officer
- 6) There was neither any operation theatre nor any neonatal care unit
- 7) Legal electricity connection was available at only 08 facilities

- 8) Only 06 facilities had water supply while 02 facilities had gas connections
- 9) Only 03 facilities had wheel chairs and stretcher
- 10) Out of 34 HFs, only one facility had functional generator
- 11) Half of HFs did not had boundary walls
- 12) Family planning services was available with 05 facilities
- 13) More than half of the facilities did not had functional toilets
- 14) For 34 facilities, only 03 ambulances were under operation
- 15) The ultrasound and x-ray machines were not functional in any of the facilities
- 16) 06 HFs were completely ruined and 25 were partially damaged.
- 17) Emergency rooms were not upto the mark and lacked the essential equipment
- 18) All HFs were devoid of security systems
- 19) No record keeping system was available
- 20) No proper waste disposal system was available
- 21) Lack of Expanded Program on Immunization (EPI in most of the HFs)

Staff-related challenges:

- 22) Absenteeism of healthcare staff de-motivated public to seek healthcare from these outlets
- 23) Irregularity and unpunctuality of staff
- 24) Female HCPs were either not available or not punctual in majority of HFs
- 25) Attendance of staff was 36.6 percent against the 568 filled positions

Remedial measures taken by HANDS

Hands took the following remedial measures in order to cope up with the above-stated challenges. Resultantly, these measures have revived the lost credibility and patients have started coming back:

- 1) Installed Bio Matrix attendance system and CCTVs Cameras for monitoring
- 2) Increased HR attendance in HFs by 88 percent
- 3) Improved regularity and punctuality of staff
- 4) Appointment of staff against vacant positions
- 5) The operation theatre equipment including OT table, lights and all other required instruments placed in the operation theatre after its renovation
- 6) X-Ray services are now provided in HFs
- 7) Ultra Sonography facility is made available in HFs
- 8) Emergency/Causality Units were upgraded
- 9) Established the Institute of Paramedics and Community Midwives
- 10) Established the Neonatal Intensive Care Units (NICUs) where required
- 11) Launched Waste Disposal Management System in all HFs.
- 12) Established 24/7 helpline to provide ambulance services for patient's transportation, emergency services and receive complaints for information and action



- 13) Networking with partner organizations for integrated health services in District Malir
- 14) District Health Information System (DHIS) was made functional to streamline and ensure continuity in the flow of information and reporting
- 15) Measures taken for smooth provision of electricity to HF's such as PMTs installed, connections upgraded and generators provided.
- 16) Constructed the boundary walls of HF's and replaced completely demolished HF's with container clinics. Toilets were also reconstructed/renovated
- 17) Established supply chain for medicine and other health supplies
- 18) Furniture and medical equipment's were provided in all HF's
- 19) Provision of EPI services
- 20) Provision of security system

Achievements by Hands

Following dashboards show the achievements since the facilities handed over under PPP agreement in December 2016 (first month after handing over) vs. November 2018:-

Conclusion

PPP is in the interest of poorest of the poor and it is also beneficial at all socio-economic levels. PPP is also transparent

way of doing business and result-oriented. Hence, the government must implement public private partnerships in health and other fields. By acting as a regulator, the Government can transfer the basic services to the people in a quick time with optimal quality and satisfaction of stakeholders. The Government may provide resources and perform effective monitoring and ensure accountability of both partners. In this partnership, as being the performance based, the payment by the government is based on meeting of certain Key Performance Indicators (KPIs) for monitoring of which Independent Expert (IE) and Independent Auditor (IA) are hired with mutual consent and payments are released after certification provided by the experts.

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Public Private Partnership Challenges and Barriers

Prelude

Public-private partnership (PPP) means partnership between an agency of the government and the private sector in the delivery of goods or services to the public. A PPP comes into existence from the moment one or more public organizations agree to act in concert with one or more private organizations.

It is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. Governments have used such a mix of public and private endeavors throughout history. However, the late 20th century and early 21st century have seen a clear trend towards governments across the globe making greater use of various PPP arrangements.

It can be safely said that it is a funding model for a public infrastructure project such as a new telecommunications system, airport or power plant. The public partner is represented by the government at a local, state and/or national level.

PPPs are best seen as a special kind of contract involved in infrastructure provision, such as the building and equipping of schools, hospitals, transport systems, water and sewerage systems.

Public-private partnerships between a government agency and private-sector

company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers.

Public Private Partnerships or PPP as is commonly referred to across the globe, has become an important means for governments to procure public infrastructure. The most well known type of PPP involves private finance for the provision of public infrastructures under contractual terms, in which the procuring government department receives infrastructure and post-construction maintenance and operational services from a consortium of private sector companies. The private contractors would usually receive periodic payments (also called unitary charge) from the procuring government department, which are linked to the performance of the former with respect to the project outputs specified by the department. In some cases, the private sector could instead receive remuneration through users' charges, such as in privately operated toll roads. PPP contracts are normally long-term from fifteen to thirty years and in some cases even going beyond this time frame.

Nature and Applications of PPP

The principal feature of PPP as acclaimed by the governments presently using or proposing these models is that the private sector gets involved in the delivery of public



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Public-private partnerships between a government agency and private-sector company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers

infrastructure as the main financiers. This arguably would allow more public sector projects than what could be funded through government capital alone, and at the same time, project management and execution could improve as the private capital comes to be at risk.

Infrastructure PPPs as a phenomenon can be understood at five different levels:

- i) a particular project or activity
- ii) a form of project delivery
- iii) a statement of government policy
- iv) a tool of government, or
- v) a wider cultural phenomenon

Different disciplines commonly emphasize different aspects of the PPP phenomena. The engineering and economics professions primarily take a utilitarian, functional focus emphasising concerns such as project delivery and relative value-for-money (VfM) compared to the traditional ways of delivering large infrastructure projects. In contrast, public administrators and political scientists tend to view PPPs more as a policy brand, and as a useful tool for governments to achieve their objectives.

Public Private Partnership (PPP) advantages:

- o Ensure the necessary investments into public sector and more effective public resources management;
- o Ensure higher quality and timely provision of public services;
- o Mostly investment projects are implemented in due terms and do not impose unforeseen public sectors extra expenditures;

Long Term Infrastructure Contracts

PPPs often involve a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the taxpayer. In other types capital investment is made by the private sector on the basis of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government.

Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the



government may provide a capital subsidy in the form of a one-time grant, so as to make the project economically viable. In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by guaranteed annual revenues for a fixed time period. In all cases, the partnerships include a transfer of significant risks to the private sector, generally in an integrated and holistic way, minimizing interfaces for the public entity. An optimal risk allocation is the main value generator for this model of delivering public service.

PPPs provide a unique perspective on the collaborative and network aspects of public management. The advancement of PPPs, as a concept and a practice, is a product of the new public management of the late 20th century and globalization pressures. The term "publicprivate partnership" is prey to thinking in parts rather than the whole of the partnership, which makes it difficult to pin down a universally accepted definition of PPPs.

Public Private Partnership (PPP) Examples in Developing Countries

In Malaysia, PPPs were officially launched by government under the 9th Malaysia Plan. In 2009, a new unit under the Prime Minister's Department known as Privatisation and Private Finance Initiative Unit was established, currently known as 3PU. 3PU is the core agency with the responsibility to coordinate the Privatisation and the PPP projects. At present, the Malaysian government is undertaking 52 projects in the construction stage with an estimated value of RM62.7b, mainly in the transport sector, followed by energy and water supply and management sectors (PwC, 2012).

Jordan's first PPP was the rehabilitation and expansion of Queen Alia International Airport (QAIA), the country's largest airport and one of only two international gateways into the kingdom. The project secured \$900 million of private investment, with certain multilateral organisations taking lead role as lenders, joined by another six commercial banks. QAIA is not only the Middle East's first full airport PPP (concession), but the first to use Shariah-compliant (Islamic) finance. The new airport, expected to have created 23,000 jobs, has allowed Jordan's importance as a tourist and economic center to grow. The government has been released from subsidizing the airport and is now earning concession fees, which reached \$71.7 million in





2011 (Kenny & Lavanchy, 2013). China has also undertaken major PPP projects in the transport sector for developing subways in five major metropolitan areas, with a combined value of over a Yuan 100 billion (De Jong et al., 2010).

Within the energy sector, something that is currently perhaps of utmost importance for consideration by the Government of Pakistan, Indonesia and Thailand have adopted PPP models. Thailand is underway developing a PPP-based 1,600 megawatt (MW) gas turbine combined-cycle power generation plant in the Nong Saeng district of the Saraburi Province. The plant is aimed at responding to increasing power demand in a country associated with robust economic growth. It aims to provide reliable and least-cost power to prevent supply shortfalls, promote efficient combined cycle technology and base load alternatives to coal-fired generation. The energy sector PPP in Indonesia involves building a new 2,000 MW coal-fired power plant in Central Java, in order to keep up with growing electricity demand and to attract further private investment into the country. The plant will improve access to electricity to 7.5 million people and mobilize over \$3 billion in investment. The project is also the first to benefit from a new form of government guarantee provided by the Indonesia Infrastructure Guarantee Fund (IIGF), established not only to guarantee PPP projects, but also to provide consistent risk assessment of PPP projects (ibid).

Challenges and Barriers

Public-private partnerships have seen a large increase over the years in part because local and state governments rely heavily on the growing number of non-profits to provide many public services. Entering into a public-private partnership can be rewarding as well as destructive if not done with caution and education. Partnerships need balance from both parties as well as continuous maintenance. If entered into lightly, one can find its organization falling in various areas proving to be one of many partnership failures.

- i) **Flexibility** between the two partners as the contract and staff involved throughout the process: If one party feels they are losing some of the control they may work on adopting more rules and regulations throughout the process instead of working together to be flexible and mediate an issue.
- ii) **Timeline:** Non-profits are working on a long-term timeline. Many of their goals can only be achieved with long-term commitment; this is where their focus will lie. For-profit organizations are more short-term oriented because of short-term goals focusing primarily on profitability. Finally, government agencies' timeline

depends a lot on election timelines and therefore can change regularly.

- iii) **Focus of the project:** Partners may not have the same focus when entering into a partnership even though they think they might.
- iv) **Funding priorities:** When parties cannot agree on where funding should go this can sometimes lead to losses in time, resources, and the overall funding for the project. Funding priorities for government bodies looks typically at where the public's funds were spent in relation to the contract made. This then typically is looked at as in how many hours of participations, forms filled out, meals served, etc. Neighborhood organizations or small and local non-profits saw a broad source of funding during the early years but there has been a shift in funding more recently reducing the overall funding and seeing more of it go to larger agencies focusing on large grants.
- v) **Accountability:** With the rise in public-private partnerships there is also a rise in the responsibility that the non-profits tend to hold. With the government relying on many more of these organizations to provide the public services they cannot it is also proving difficult for the government to hold these non-profits responsible. When responsibilities are not set to the letter this can cause some in managerial positions to take the back seat, seeing their counterparts taking the initiative to get tasks done. This leaves an unbalance of work and sometimes those with the most skills are not doing the job. This can also be brought on by under management causing more problems such as a lack of focus for the projects, mismanaged funding, and mis-communication.

Too many projects and partnerships can also lead to a lack of accountability. When there are too many tasks they seem to all fall short of the hoped perfection. Some partners may be taking over roles of others because accountability has not been well defined. This can also lead to some taking advantage of others when they note the any weakness. This can cause a distrustful partnership.

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Economic Package for Investment and Export Promotion: A Synopsis of Finance Minister's Speech

By Research and Publications Department, ICMA Pakistan



The Federal Finance Minister, Mr. Asad Umar, presented a 'Package of Investment and Export Promotion Measures for Industrial Revival' on January 23, 2019 through the Finance Supplementary (Second Amendment) Bill of 2019. This was, in fact, the third Finance Bill for the current fiscal year which was presented in the Parliament. According to the Finance Minister, this was not a budget, rather a corrective package aimed at addressing various sectors of the economy, especially to stimulate investment and industry.

The Research and Publications Department of ICMA Pakistan has extracted the salient features and policy direction and measures taken by the government, as highlighted by the Finance Minister in his speech while presenting the Finance Supplementary (Second Amendment) Bill, 2019 for information and ready reference of our readers.

Economic Situation when the new Government took charge on 18th August 2018

- 1) Fiscal Deficit was 6.6% of GDP
- 2) Current Account Deficit was US\$ 19 billion
- 3) Circular Debt was Rs. 1.2 trillion
- 4) Finance losses of SOEs were 1.4% of GDP
- 5) Forex Reserves were depleting [pay for only 6 weeks of imports]
- 6) Exports were stagnant
- 7) Imports were increasing
- 8) External Debt was growing

Justifications for Government-managed Adjustment

Government-managed adjustment had become inevitable in order to avoid following risks:

- (1) Risk of Default on Debt Servicing
- (2) Risk of lesser chance for arranging credit in international markets
- (3) Risk of massive compression of all categories of imports, including energy and raw material
- (4) Risk of adverse impact on export growth and employment
- (5) Risk of massive depreciation of rupee and increase in interest rates

Adjustment Options available for the Government

First Option: To front-load all the corrections by removing imbalances to stimulate the economy to recover to a high growth and productive employment trajectory early in the term of new Government.

Second Option: To take a more gradual adjustment path maintaining a balance of price adjustments when needed and, at the same time, vigorously pursuing structural reforms to strengthen the foundations of the economy.

The government opted for the second option i.e. for the gradual adjustment in structural reforms for two reasons.

Reason # 1: To protect the vulnerable segment of society as high cost of full adjustment in first two years would fall disproportionately on the poor, and the public safety nets will not be able to mitigate the full cost.

Reason # 2: To undertake much-needed structure reforms to provide solid foundations for economic recovery in order to lessen the need for strong and rapid stabilization actions which impacts the vulnerable segments of society.

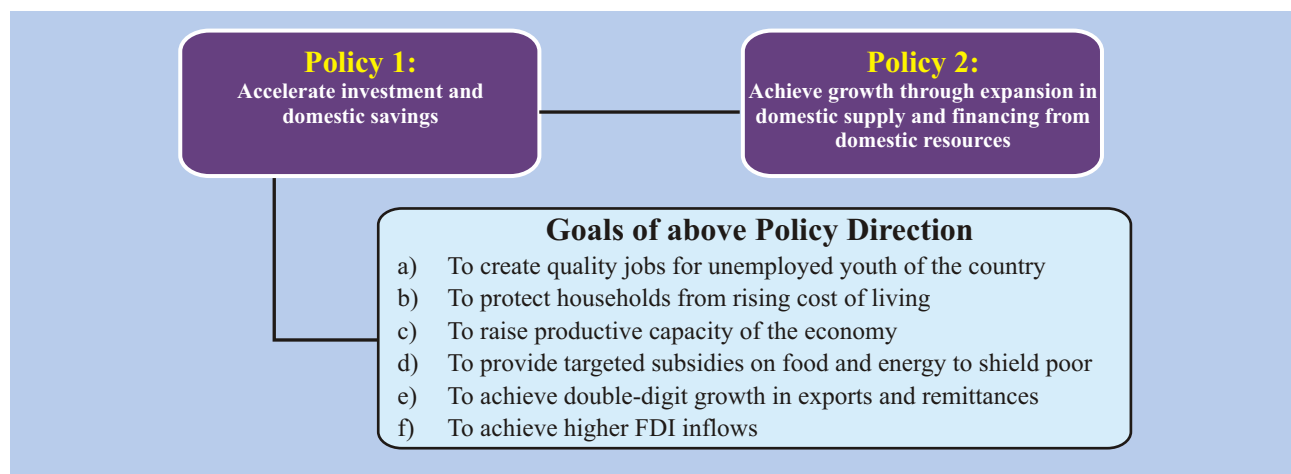
Difficult Decisions taken to Stabilize the Economy

Sr.	Decisions taken / Efforts Made	Outcome of Decisions / Efforts
1.	Mobilization of additional financing from friendly-countries in the form of: a) Short- and Medium-Term Loans b) Deferred Payment on Imported Oil c) Deposits in the Central Bank of Pakistan	a) Improvement in Balance of Payment Position b) Avoidance of painful sharp adjustment c) Financial space and time to pursue a balanced strategy of macro-economic stabilization and structural reforms
2.	Supplementary Budget approved in October 2018 with additional tax and expenditure measures	a) Reduction in Fiscal deficit from 6.6% of GDP in FY 2018 and an estimated more than 7% of GDP for FY 2019 b) Reduction in Current Account Deficit from 6.1% of GDP in FY 2018 to 5.2% in FY 2019
3.	Rationalization of Electricity and Gas prices	a) Improvement in financial health of energy utilities b) Reducing burden on budget and part finance the huge overhang of circular debt of energy sector.
4.	Adjustments made in Exchange rate by 10 percent and tightening of monetary policy by 250 bps.	a) Reduction in Trade deficit by 5 percent b) Reduction in Current Account deficit by 4.4 percent c) Growth in remittances by 10 percent d) Growth in private sector credit by 100% in first 6 months of FY e) Growth in agricultural credit by 22 percent since last year

Structural Reforms taken for improving Fundamental Weaknesses and Gaps

Sr.	Fundamental Weakness and Gaps in Economy	Structural Reforms Taken by Government
1.	Revenue-Expenditure Weaknesses / Gap a) Weak revenue efforts and narrow tax base b) Weak and under-resourced tax administration c) Tax policy has revenue focus d) Tax policy has questionable fairness and equity e) Tax system has inbuilt dis-incentive against revenue collection at federal and provincial level f) Lack of political will of previous Governments to adequately tax the powerful and untaxed segments	a) Separation of tax policy and tax administration b) Creation of Specialized Tax Unit for foreign assets c) Tax broadening measures d) Extensive use of IT for Data Mining and detection of under reporting e) Economic Advisory Council working on various structural issues and its report has been approved by Prime Minister and to be released
2.	Export-Import Weaknesses / Gap a) Large and growing gap between exports and imports b) Surging imports 75% imports consist of fuel and industrial raw materials c) Stagnant exports dominated by low-valued added textiles and lack of product & market diversification d) Exports failure to make transition from low technology to high technology e) Falling competitiveness in international markets	a) Expansion in domestic supply for creating exportable surplus b) Reducing cost of production through greater reliance on local produced fuels for power generation c) Aggressive promotion of renewable energy d) Adopting a flexible exchange rate regime e) Diversify exports by supporting micro, small and medium enterprises
3.	Saving-Investment Weaknesses / Gap a) Past policy focused on accelerating growth through large scale borrowing to finance investment. b) Investments in Pakistan is lowest in region i.e. almost half the level in India and Bangladesh. c) Low level of savings with national saving rate of only 10.8% of GDP is main factor behind low Investments. d) Non-conductive business and investment climate created by multi-tiered regulations and taxation	a) Government's aggressive policy to improve exports, savings and investments b) Package for Investment and Export Promotion is step in this direction c) Recommendation of EAC are being implement on all key issues.

Future Economic Policy Direction to be followed by Government



Future Social Development Policy Direction to be followed by Government

Poverty	a) The Government to spend substantial sums for poverty alleviation. b) The Government to start a graduation program for people to move out of poverty through assets transfer
Education	a) The Government to expand the scope of Waseela-e-Taleem program to almost entire country to enroll as many out of school children of poor families in schools
Health	a) The Government to increase the coverage of 'Insaaf Health Card' across Pakistan b) The Government to reduce incidence of stunting among children through better nutrition
Housing	a) The Government to build low-cost housing and in first phase houses for very poor segment will be built b) The Government to establish Rs. 5 billion revolving Fund to provide Qarze-e-Hasana to needy families c) Low income house tax reduced to 20% from 39%

Measures for reducing 'Cost of Doing Business'

- Settlement of arrears of Gas Infrastructure Development Cess [GIDC] and reduction in overall rate of GIDC
- Efforts underway for reducing cost of compliance with tax laws and rationalizing burden of taxation
- Modification of all federal taxes, income tax, sales tax, FED and customs tariffs to remove anti-business distortions and provide a pro-growth and pro-investment framework
- Requirement of filing withholding statements by agents in respect of tax collections under Section 165 of ITO have been made bi-annual instead of monthly to save businesses from hassle and extra transactions.

Tax Incentives to promote lending by Banks

The Reforms package proposes tax incentives to promote lending by banks to the following 3 priority sectors which can prove to be the drivers of economic growth and lead to creation of employment opportunities:

- SMEs
- Low cost housing
- Agriculture

Incentives to Banks for advancing Loans to SMEs, Low Cost Housing and Agriculture

SMEs	The Government proposes to reduce tax rate on Bank's income arising out of additional SME financing to 20 percent instead of current applicable rate of 35 percent. The additional financing will be worked out on basis of average advances to SMEs during 2018. It will be applicable from tax year 2020 to 2023.
Low Cost Housing	The Government proposes to reduce tax rate on Banks' income from additional low-cost housing finance above base line during 2018 to 20 percent instead of current applicable rate of 35 percent. It will be applicable from the tax year 2020 to 2023.
Agriculture	The Government proposes to reduce tax rate on Banks' income arising out of additional agricultural financing in excess of base line during 2018 to 20 percent instead of current applicable rate of 35 percent. It will be applicable from the tax year 2020 to 2023.

The taxable income of Banks from such advances in above three categories will not be subjected to Super Tax.

Measures to facilitate compliant taxpayers

- Advance Tax on cash withdrawals [0.3%] by tax filers has been done away with whereas tax on non-filers (0.6%) will continue until the time they file returns and become tax filers.
- Withholding Tax on cash withdrawals from PKR bank accounts which are solely funded through foreign remittances from Pakistani expatriate have been abolished.
- Advance Income Tax collected on purchase of certain instruments [Demand Draft, Pay Order, Online Transfer etc.] from Banks against cash by tax filers have been abolished.

Measures to encourage the Corporate Sector

- To lower tax burden on corporate sector and promote economic activity, super tax on non-banking taxpayers is proposed to be abolished after tax year 2019. For banking companies, super tax @ 4 % shall continue.
- To give confidence to business community, it has been reiterated that gradual reduction in non-banking corporate tax rate provided through Finance Act 2018 shall continue to reach the target rate of 25% in 2023.

Measures to promote Investments in Manufacturing and Stock Market

- The Board of Investment (BOI) is piloting a bill for suitable amendments in Special Economic Zone Act, 2012 to become part of First Schedule to Customs Act, 1969 and related laws, which will facilitate investments in SEZs.
- Advance Tax on purchase and sale of shares @ 0.02% of share value by the members of a Stock Exchange registered in Pakistan have been abolished to facilitate and increase investment and business confidence.
- From Tax year 2019 onwards, the capital losses on trade of shares and securities have been allowed to be carried forward for a period of three years for adjustments against capital gains on stock exchange.
- From Tax year 2019 onwards, the payment of dividends between sick and cash strapped companies may be subject to reduced rate of tax in proportion to their share holding if they are availing group relief facility in that tax year. The objective of this measure is to encourage investment in such companies.

Measures to incentivize setting up of new Industries and Projects

- To encourage Greenfield investment and industrialization, exemption has been granted from payment of sales tax on plant and machinery to be used for setting up new industry for production of taxable goods. At present, sales tax exemption on plant and machinery is available only to specified sectors.
- To encourage building up of reserves for investment in new projects as well as for BMR of existing projects, tax on undistributed profits levied on certain public companies have been abolished after the current year.

- Industrial units to be set up for manufacturing plant and machinery and other related items used exclusively for generating renewable energy have been exempted from income tax for a period of five years.

Import Compression measures

The Federal Finance Minister in his speech said that import compression measures taken by the Government during last few months to narrow down the trade deficit have yielded positive results i.e. non-oil imports have decreased by 12.8 percent whereas there is reduction of 23 percent in respect of imports pertaining to 1994 tariff lines alone in December 2018. There has been significant decline in import of luxury items, especially during last two months. The government intends to continue the same policy to further narrow the trade deficit. The following import compression measures have been proposed through the Finance Supplementary (Second Amendment) Bill of 2019:

- To discourage imports of luxury cars and jeeps, the rate of Federal Excise Duty (FED) have been enhanced from 20% to 25% for cars and jeeps upto capacity 3000 cc and to 30% for cars exceeding 3000 cc.
- To discourage imports of CKD Kits of locally assembled cars and jeeps, FED@ 10% has been levied on cars and jeeps with engine capacity exceeding 1800 cc.

Measures to provide relief to Importers

- The commercial importers have been taken out of the 'minimum tax regime' and tax deducted on imports made by them shall now be treated as their 'final tax liability'. Earlier, through Finance Act 2018 the tax deducted at the time of import was changed from final tax to minimum tax for commercial importers.
- The penal surcharge of about Rs. 400 million on overstayed goods of over Rs. 5 billion lying uncleared in bonded warehouses is proposed to be waived off to provide relief to importers of industrial inputs as well as business community who are facing liquidity crunch.
- The concessionary custom duty @ 5% on import of newsprint have been exempted to reduce input cost of newspapers and support media industry. However, existing condition of certification by APNS will continue.

Measures to provide relief to Exporters

To clear up the outstanding income tax and sales tax refunds of the exporters so as to ease their liquidity issue, it has been proposed that the Government would issue 'promissory notes' with following details:

- Promissory notes shall have a maturity period of three years
- Reasonable profit shall be paid on these promissory notes
- Claimants shall be able to raised cash by selling these notes in market
- Taxation laws to be amended to include provisions for refund payment in this manner

Measures to promote Exports

- Review of Regulatory Duty Regime on export side is underway. In first phase, the regulatory duty on copper & lead products exported under DTRE and Manufacturing Bond schemes has been removed.
- Revamping of export promotion schemes like DTRE and Manufacturing Bonds and Export-Oriented Units is underway for optimal utilization by exporters in SMEs.
- Automation of all export promotion schemes, particularly DTRE and Duty Drawback is underway to ensure speedy clearances of raw materials / goods imported under said schemes.
- An exercise has been initiated by government to unify the regulatory framework of export schemes which would be part of the Finance Bill 2019 for implementation in FY 2019-20.
- The facility for import of RBD palm oil / oilien under the DTRE Scheme which is presently confined to business units located in KPK and Baluchistan, has been extended to Sindh and Punjab as well.

Measures to encourage domestic Manufacturing Industry

After an extensive exercise carried out by the government to identify those high tariffs which adversely affect export competitiveness and domestic production, regulatory and custom duties on below categories have been reviewed:

- Certain raw materials / inputs (impacting 135 Tariff lines) meant for plastic, footwear, tanning, leather, home appliances, diaper and chemical sectors have been identified for reduction of Customs Duties and Additional Customs Duties (ACD) as well as removal/ reduction in applicable rates of Regulatory Duty (RDs).
- The proposals for reduction/ removal of RDs and reduction in Custom Duty on import of Plastic Moulding Compound would be implemented with passage of this Finance Bill whereas the proposals for reduction in Custom Duty / ACD rates on remaining items would be implemented by March 31, 2019.
- In order to sustain domestic vending sector and encourage local manufacturing of auto parts, Regulatory Duty is proposed to be removed on import of input materials (around 200 Tariff Lines) used in manufacturing of auto parts by the local vendors.

Measures to simplify Tariff and Tax structure

- **Uniform Tax Slabs on Imported Mobile Phones:**

At present various duties and taxes e.g. RD, WHT, Sales Tax and Mobile levy are levied in different slabs on mobile phones which has resulted in a complicated taxation structure. The government has simplified the fiscal treatment by introducing uniform slabs based on C&F import values of a set. This measure will ensure that low-end cell phones are charged at a low rate whereas higher taxes are levied on high-end phones.



- **Income Tax for Small Shopkeepers:**

A large segment of small businesses, including shopkeepers, are part of undocumented economy and outside the tax system. It is proposed by the Government to introduce simplified tax schemes for small shopkeepers. Initially, such scheme will be applicable in Islamabad Capital Territory and later extend to rest of country.

- **Review of Custom Tariff:**

The custom tariffs are being reviewed to bring suitable changes in tariff structure to enhance competitiveness of manufacturing and export sector. This would be effective from March 2019 and include sectors of Chemicals & Plastic; Textiles, Steel, Home Appliance; Paper & Paperboard; Machinery & Capital Goods.

Relaxation in Restriction for Non-Filers to purchase Motor Vehicles

The tax non-filers have been allowed to book, register or purchase a new locally manufactured motor vehicle upto 1300 CC in order to stimulate production of local vehicles and benefit automobile industry and associated vendors. The withholding tax rates for non-filers on such registration is proposed to be enhanced by 50% of existing rates.

Reduction in Minimum Withholding Tax on Small Marriage Halls

To provide relief to low-and middle-income segments and small business, the minimum rate of advance adjustable income tax applicable on marriage halls, marquee, commercial lawns etc. have been reduced from Rs. 20,000/- to Rs. 5000/- subject to condition that the function area is less than 500 sq. yds.

Tax concession for companies participating in National & International Sports Leagues

To promote sports activity and to encourage participation of international players, it is proposed to abolish advance tax at the time of auction of franchise rights, from participating teams in national and international sports leagues organized by any Sports Board or entity established by the Government for the purpose of governing a recognized sport. This provision shall become applicable from July 1, 2019.

Provisional assessment for Taxation of Off-shore assets

Provisional assessment has been proposed in case where an offshore asset, not declared in the income tax return or wealth statement, is discovered by any government agency, such off-shore asset would be subject to summary assessment and tax shall be immediately recoverable on provisional basis. This amendment will ensure better recovery of tax from off-shore assets detected and will promote tax compliance.

Amendments made in Income Tax Ordinance, 2001 through Finance Supplementary (Second Amendment) Act, 2019

By Research and Publications Department, ICMA Pakistan

Preamble

The Finance Supplementary (Second Amendment) Act, 2019 which was presented by the Federal Finance Minister on January 23, 2019 in the Parliament proposed a number of significant changes and amendments in the Income Tax Ordinance, 2001. The Act was debated in the Senate of Pakistan which made some recommendations in the proposed Bill. On March 04, 2019, these recommendations were introduced for discussion in the Parliament by the Government so as to take nod of the Lower House to make them part of the Act. Finally, the Act was passed by the Parliament on March 06, 2019. In his concluding speech, the Federal Finance Minister Mr. Asad Umar, said that this was a reform act, not aimed at generating revenue; rather it was intended to bring improvement in economic situation; ensure friendly environment for investors and create more opportunities for industries.

The Research and Publications Department has prepared this brief paper on the amendments made in the ITO 2001 through the Finance Supplementary (Second Amendment) Act, 2019 which has been passed by the Parliament on March 06, 2019. Almost 30 amendments have been proposed in the Finance Supplementary (SA) Act, 2019 i.e. 11 amendments in different Sections of ITO, 2001; 6 amendments in First Schedule; 12 amendments in Second Schedule and 1 amendment in Seventh Schedule to ITO 2001. A brief summary of these amendments is provided below:

Amendments made in Income Tax Ordinance, 2001

Clause (4) of the Finance Supplementary (Second Amendment) Act, 2019 has made further amendments in the Income Tax Ordinance, 2001 which shall come into force at once, except clauses 13 (A)(b) and 13(B)(f) which shall come into effect from the first day of July 2019. A brief description of these amendments along with relevant clause of FS(SA) Act 2019 are provided below:

1) Section 4B - Super tax for rehabilitation of temporarily displaced persons

[Amended thru Clause 4(1) of Finance Act]

Through the Finance Act 2015, a new Section 4B was inserted in ITO, 2001 thereby imposing a super tax for rehabilitation of temporarily displaced persons for tax years 2015 to 2020. Through the FS(SA) Act 2019, the applicability of super tax has been extended beyond 2020 by inserting the word 'onwards' [instead of 2020] in Section 4B.

2) Section 5(A) - Tax on undistributed Profits

[Amended thru Clause 4(2) of Finance Act]

Tax on undistributed profits has been abolished after tax year 2019.

3) Section 37(A) - Capital gain on disposal of securities

[Amended thru Clause 4(3) of Finance Act]

Carry forward of capital losses has been allowed for tax year 2019 and onwards for three years.

4) Section 49-Federal Government, Provincial Government and Local Government income

[Amended thru Clause 4(4) of Finance Act]

The exemption is extended on income of Federal Government from sale of spectrum and licenses to renewal of licenses.

5) Section 99B - Special procedure for small traders and shopkeepers [New Section inserted]

[Amended thru Clause 4(5) of Finance Act]

Federal Government has been empowered to prescribe special procedure for scope and payment of tax, filing of return and assessment for small traders and shopkeepers

6) Section 123 - Provisional assessment in certain cases [New sub-section 1A inserted]

[Amended thru Clause 4(6) of Finance Act]

IT Commissioner has been authorized to issue provisional assessment order or provisional amended assessment order to a person for the last completed tax year, taking into account the offshore asset discovered by him or any department or agency of Federal Government or a Provincial Government.

7) Section 148-Imports [sub-section 8(a) has been omitted]

[Amended thru Clause 4(7) of Finance Act]

The tax collected on certain commercial imports under the Section 148 will now be treated as 'Final Tax'

8) Section 165 Withholding Statements [sub-section (1) amended; sub-sections (2) & (2A) substituted]

[Amended thru Clause 4(8) of Finance Act]

The requirement for filing of withholding statement has been made 'bi-annual' instead of 'monthly'. The statements shall have to be submitted by prescribed persons on or before 31st July in respect of half year ending on 30th June; and on or before 31st January in respect of half year ending on 31st December. Further, the Income Tax Commissioner has been empowered to call for withholding statement for any period as notified.

9) Section 227C - Restriction on purchase of certain assets

[Amended thru Clause 4(9) of Finance Act]

Through the Finance Act, 2018, the government had inserted a new Section 227C whereby restrictions were imposed on non-filers on booking, registration or purchase of a new locally manufactured motor vehicle or for first registration of an imported vehicle; as well as on registering, recording or attesting transfer of any immovable property, exceeding five million rupees.

In the Finance Supplement (SA) Act, 2019, it was proposed to substitute clause (i) of Section 227 thereby providing exemption on 'locally manufactured motor vehicle having engine capacity not exceeding 1300 CC; locally manufactured motorcycle, motorcycle-rickshaw and rickshaw; locally manufactured agricultural tractor'. However, through Finance Supplementary (SA) Act, 2019,

exemption has been granted to 'locally manufactured motor vehicle' without specifying any details as given in Act.

10) Section 230E - Directorate-General of International Tax Operations [Amendment]

[Amended thru Clause 4(10) of Finance Act]

Through the Finance Supplementary (SA) Act 2019, the Government had proposed to omit Section 230E from the ITO, 2001 thereby abolishing the office of Director General of Transfer Pricing. However, through the Finance Supplementary (SA) Act, 2019 passed by the parliament the government has amended Section 230 E thereby establishing a specialized tax department with the name and title of 'Directorate General of International Operations' which has been tasked to exclusively deal with the cases of undisclosed offshore assets and income of Pakistanis held abroad.

The Directorate shall be imposing and recovering taxes from them and interact directly with foreign tax jurisdictions for exchange of information. The Directorate shall have a Director General and as many directors, additional directors, deputy directors, assistant directors and officers as FBR may appoint by notification. The Directorate has also been empowered to conduct transfer pricing audit in cases selected for such an audit by the Director General.

11) Section 233A - Collection of tax by a stock exchange registered in Pakistan

[Amended thru Clause 4(11) of Finance Act]

The advance income tax on members of stock exchanges has been abolished from 1st March 2019.

FIRST SCHEDULE

12) First Schedule, Part I, Division IIA Rate of Super Tax

[Amended thru Clause 4(12) (A) of Finance Act]

Super tax on non-banking persons has been abolished after tax year 2019 whereas super tax on banking companies will continue with fixed rate of 4 percent upto the year 2021.

Particular	Rates of Super Tax							
	Banking Companies				Non-Banking Companies			
	2018	2019	2020	2021	2018	2019	2020	2021
Existing rate	0%	4%	3%	2%	3%	2%	1%	0%
Proposed rate	4%	4%	4%	4%	3%	2%	0%	0%

13) First Schedule, Part II, Proviso Clause (b) Rates of Advance Tax

[Amended thru Clause 4(12) (B) of Finance Act]

Advance income tax rates have been specified on the C&F value of imported mobile phones. On C&F value exceeding US\$ 500, the advance tax would be Rs. 5,200/-

Sr.	C & F Value of Mobile Phone (USD)	Tax (Rs.)
1	Up to 30	70
2	Exceeding 30 and up to 100	730
3	Exceeding 100 and up to 200	930
4	Exceeding 200 and up to 350	970
5	Exceeding 350 and up to 500	3,000
6	Exceeding 500	5,200

14) First Schedule, Part IV, Division VI Cash withdrawal from a bank

[Amended thru Clause 4(12)(C)(a) of Finance Act]

Advance income tax @ 0.3% on cash withdrawal exceeding Rs. 50,000 by tax filers has been abolished. Advance tax @ 0.6% on cash withdrawal by Non-Filers shall remain applicable.

15) First Schedule, Part IV, Division VIA Advance tax on Transactions in Bank

[Amended thru Clause 4(12)(C)(b) of Finance Act]

Advance income tax @ 0.3% on purchase of banking instruments by tax filers has been abolished. Advance tax @ 0.6% on purchase of banking instruments by Non-Filers shall remain applicable.

16) First Schedule, Part IV, Division VII, Clause 1 - Advance Tax on Purchase, Registration and Transfer of Motor Vehicles [Amended thru Clause 4(12)(C)(c) of Finance Act]

Advance tax on purchase, registration or booking of motor vehicles by Non-Filers is proposed to be increased as under:

Advance Tax on purchase of Motor Car and Jeep by Non-Filers

Sr.	Engine capacity	Previous rates	Proposed rates
1.	upto 850cc	Rs. 10,000	Rs. 15,000
2.	851cc to 1000cc	Rs. 25,000	Rs. 37,500
3.	1001cc to 1300cc	Rs. 40,000	Rs. 60,000
4.	1301cc to 1600cc	Rs. 100,000	Rs. 150,000
5.	1601cc to 1800cc	Rs. 150,000	Rs. 225,000
6.	1801cc to 2000cc	Rs. 200,000	Rs. 300,000
7.	2001cc to 2500cc	Rs. 300,000	Rs. 450,000
8.	2501cc to 3000cc	Rs. 400,000	Rs. 600,000
9.	Above 3000cc	Rs. 450,000	Rs. 675,000

17) First Schedule, Part IV, Division XI Advance tax on functions and gatherings [New proviso added after Table]

[Amended thru Clause 4(12)(C)(d) of Finance Act]

Advance Tax on functions of marriage in a hall, marquee or a community place with total area of less than 500 square yards or, in case of a multi storied premises, with largest total function area on one floor less than 500 square yards, has been reduced to 5% of the act ad valorem or Rs. 5,000 per function [previously Rs. 20,000] whichever is higher.

SECOND SCHEDULE

18) Second Schedule, Part I, Clause 66 Exemption from Tax on Income derived by institutions

[Amended thru Clause 4(13)(A)(a) of Finance Act]

Exemption from tax on income has been granted through this Finance Supplementary (SA) Act, 2019 to the following three other institutions:

- National Disaster Risk Management Fund
- Deposit Protection Corporation and
- Surmaya-e-Pakistan Limited

19) Second Schedule, Part I, Clause 103C added - Exemption from Tax on Income derived by a Company

[Amended thru Clause 4(13)(A)(b) of Finance Act]

Exemption from tax has been granted on dividend income derived by a company, provided the recipient of dividend for the tax year has availed group relief under section 59B, computed according to the formula $A \times B/C$; where A is the

amount of dividend; B is the shareholding of the company receiving the dividend in the company distributing the dividend; and C is the total ordinary share capital of the company distributing the dividend.

20) Second Schedule, Part I, Clause 126 I Profits and gains derived by a taxpayer from an industrial undertaking
[Amended thru Clause 4(13)(A)(c) of Finance Act]

The tax exemption on profit and gains has been enhanced and extended to manufacturers of plant, machinery and equipment for dedicated use in renewable generation set up between 1st March, 2019 and 30th June, 2023 for five years.

21) Second Schedule, Part I, Clause 126N added - Profits and gains of a company from a green field industrial undertaking
[Amended thru Clause 4(13)(A)(d) of Finance Act]

Tax exemption has been provided on profits and gains of a company from a green field industrial undertaking for a period of five years incorporated on or after the first day of July, 2019 provided that the green field industrial undertaking is not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan before the commencement of the new business.

22) Second Schedule, Part IV, Clause 11 A - Exemption from Specific Provisions [addition of four sub-clauses after clause xxx]
[Amended thru Clause 4(13)(B)(a) of Finance Act]

Exemption has been granted from minimum tax u/s 113 of Income Tax Ordinance, 2001 to four institutions namely:

- (a) National Disaster Risk Management Fund
- (b) Deposit Protection Corporation
- (c) Surmaya-e-Pakistan Limited and
- (d) Green field Industrial Undertaking;

23) Second Schedule, Part IV - Exemption from Specific Provisions [addition of new Clauses 36B, 36C, 36D & 36E]
[Amended thru Clause 4(13)(B)(b) of Finance Act]

Exemption has been granted from Section 150 and Section 151 of Income Tax Ordinance on the following:

- (a) Exemption from Section 151 on Profit on debt paid on promissory notes and sales tax refund bonds issued under the provisions of the Sales Tax Act, 1990 [New Clause 36B]
- (b) Exemption from Section 151 on profit on debt paid on Pakistan Banao Certificate [New Clause 36C]
- (c) Exemption from Section 150 and 151 on Sarmaya-e-Pakistan Limited [New Clause 36D]
- (d) Exemption from Section 151 on profit on debt paid on bonds issued under the Federal Government Duty Drawback Bonds Rules, 2019 [New Clause 36E]

24) Second Schedule, Part IV-Exemption from Specific Provisions [addition of a new Clause 60D after Clause 60C]
[Amended thru Clause 4(13)(B)(c) of Finance Act]

Exemption has been granted from Section 148 on the import of firefighting equipment by industrial undertakings, set up in the special economic zones established by the Federal Government.

25) Second Schedule, Part IV - Exemption from Specific Provisions [addition of a new Clause (38D) after Clause (38C)]

[Amended thru Clause 4(13)(B)(d) of Finance Act]

Exemption has been granted to National Disaster Risk Management Fund from tax deductions under Section 151 and Section 153

26) Second Schedule, Part IV - Exemption from Specific Provisions [addition of a new Clause (81A) after Clause (81)]

[Amended thru Clause 4(13)(B)(e) of Finance Act]

Exemption has been granted to banking companies from filing withholding statements for furnishing information of taxes collected and deducted under Section 231A and Section 151.

27) Second Schedule, Part IV - Exemption from Specific Provisions [addition of a new Clause (95A) after Clause (95)]

[Amended thru Clause 4(13)(B)(f) of Finance Act]

Exemption has been granted on auction of franchise rights to teams participating in national or international sports league organized by any board or other organization established by the Government in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by Government. It will be effective from July 01, 2019.

28) Second Schedule, Part IV - Exemption from Specific Provisions [addition of a new Clause (101A) after Clause (101)]

[Amended thru Clause 4(13)(B)(g) of Finance Act]

Exemption from payment of withholding tax has been granted on Pak Rupee accounts subject to condition that the deposits in said accounts are made solely from foreign remittances by Pakistani expatriates.

29) Second Schedule, Part IV - Exemption from Specific Provisions [addition of a new Clause (111) after Clause (110)]

[Amended thru Clause 4(13)(B)(h) of Finance Act]

The taxable income of banking company has been exempted from additional financing in specific sectors from super tax. Accordingly, the provisions of Section 4B shall not apply on taxable income of banking company subject to reduced rate of tax at 20 percent under rules 7D, 7E and 7F of the Seventh Schedule for tax years 2020 to 2023.

SEVENTH SCHEDULE

30) Seventh Schedule, Rule 7C [addition of new Rules 7D, 7E & 7F after Rule 7C]

[Amended thru Clause 4(13) of Finance Act]

The Seventh Schedule to ITO 2001 has been amended through insertion of following new Rules to provide for reduced rate of tax on income of banks arising from additional financing to Micro, Small & Medium Enterprises, Low-cost Housing, and Farm Credit:

- (7D) - Reduced rate of tax for additional advances to micro, small and medium enterprises
- (7E) - Reduced rate of tax for additional advances to low cost housing finance
- (7F) - Reduced rate of tax for additional advances as Farm Credit

Note: wherever the word 'Finance Act' has been used, it means the Finance Supplementary (Second Amendment) Act, 2019.



Pakistan Steel Up for Partnering

It can not be overemphasized that Pakistan does need a steel mill. What is being projected is that revival of the existing structure is not feasible. Pleaded is another set-up. Pertinent questions in this regard would be: What is the outline for a new set-up with infra-structure of the specie? Larger than the present? Astronomical! Then the questions given are: Where is the compatible site for the new (would be) steel mill, in the event present land etc. is disposed? What is the real or replacement cost of family silver suggested to be dispensed with? What is the idea on cost of a new steel mill and where are the resources for its financing? What would be time frame for show-up of the dreamed upcoming to be? With eye on obsolescence: What is the projection for economic life of the new venture? What is estimated opportunity cost? No answers to these questions are in sight. Taking another instance: Do the concepts of 'cost of production', 'economic' or 'uneconomic capacity' hold water in the context of the new mill to be?

Coming to 'economic capacity', this scribe is of the view that the conception is tied with right sized inflows. Flows get underway with economic activity going. Inappropriate paraphernalia affects size of the inflows.

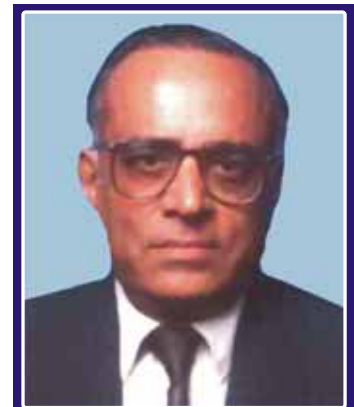
"Steel mill is a venture which can be stated as harbinger of progress, agent and multiplier of development in its own right, sine qua non for move on the road to multi-facet emancipation". Gains out of steel mills go farther than what direct money flows can measure. Here are cited steps, initiation of which will help inflows of the steel mills:

1. 'Whether the plant can be segmented', should be studied. Capacity utilization of some segments may push proportionate utilization of the plant. Segments which are believed to be not wholly dependent on operation of the main machines should be segregated for independent revival.

To be probed is possibility of running (some) segments of the steel mill as independent units. To measure the segmental cost only real / relevant additional operation costs should be accounted. 'Real costs' of such segments shall comprise direct labour, related material and power

consumption plus direct overheads. This may pave way for economic production by 'not so far duly activated' segments.

Gradual categorization of segments and operation could pave way for revival of the project as a whole.



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2. In the initial stage of rehabilitation program, designing and production of machinery parts to be used for production or as a component of production, with steel procured from the market, be pursued.
3. Possibility of electricity generation, on differential cost basis for sale to KESC etc. should be gone into.
4. For 50% dues to banks and financial institutions, the steel mills may issue secular period bonds carrying rate of return and redemption period agreed between the parties. Balance 50%, comprising principal and the levies of interest / profit sharing etc. applied to the steel mill, be waived.

To be reckoned is that this may not be too harsh a step in relation with the financial institutions, whose chances of recovery, as of now, do not appear insight, particularly in view of dim possibilities of the mill turning corner and title of the land not being with the steel mill.
5. Utilities viz. SSGCL and KESC etc. should be content with steel mills bonds in their favour for 50% of their dues payable over a period of five years, carrying interest at the Bank Rate. The utility companies should be empowered to have the bonds discounted from the money market.

6. Bonds may be issued towards unpaid salaries / wages due beyond a period of two years. Cases involving arrears of salaries beyond two years may be referred to a select committee to decide on merit viz. issuing secular period bonds for the dues beyond two years.

7. Balances of federal, provincial or local governments dues outstanding, apparently payment of which is not feasible near around, be written off.

A tax holiday of say ten years in respect of all taxes, federal, provincial or local be provided.

In case, the federal government is unable to make the provincial government etc. yield to this proposition, the matter may be got resolved by the federal government through conciliation or arbitration. The dues should be finally adjudged in accordance with the arbitrators award.

8. On expiry of the five years period, after re-commissioning of the mills, experts should come-up with prescriptions with reference to taxes to be loaded to the steel mill for the then five years ahead.

9. The Income Tax Laws should have no 'period limit'. With reference to claim of Pakistan Steel for tax relief on account of losses incurred. Pakistan Steel should be empowered to make full adjustments for the losses sustained, without a period bar.

10. The Government may provide a rebate of upto 50% on future income tax liability for a period of 10 years commencing with re-commissioning of the mills.

11. In case of goods imported attracted higher than 10% duty etc., the government may provide a bounty of 10% on such levies of steel mills' imports, by way of bonds. At the steel mills option, these bonds should be adjustable against all sorts of dues payable to the federal government.

12(a) Steel mill should develop a chemical engineering university or a seat of learning of the sort having ado with steel manufacturing.

(b) To ensure continuous flow of talent to the steel mills, Universities at Karachi, Lahore, Peshawar and Quetta may be induced by the Federal Government to offer scholarship to students with First Class in their Intermediate to pursue further studies in steel mills related operations.

(c). In collaboration with Pakistan Council of Scientific & Industrial Research (PCSIR), Husain Ibrahim Jamal Institute (HIJI), Pakistan Engineering Council, Engineering Development Board etc., the steel mill should steer Ph.D. Programs having direct ado with formulation, production, procurement and marketing of steel mills production.

13(a). Steel mills' size is big. Problems are numerous, multi-faceted, multi-pronged. It is obvious that a normal Board of Directors with normal wisdom and with limited time at its disposal should not be expected to swim through its troubled waters, to duly attend to the typical issues confronted. Particularly when one is cognizant that the directors time out to attend the mills' meetings is a matter of routine.

(b) The steel mills should have 5/6 (parallel) sub Boards sitting to cater the relevant exigencies. Decision taken by a sub-board should be taken for decisions of the apex Board of Directors, who, should stamp these as a formality. Other than constitutional issues, these sub-boards should be possessed with all the normal powers of a Board / chief executive.

Main Board's decision making should be passed on to these sub-boards, dealing with different subjects / issues.

(c) The Main (Apex) Board should be vested with powers to decide the issues relating to jurisdiction of the sub-Boards. Besides managing conflicts between the sub-boards, its duties should include bringing to light frivolous references by the government functionaries.

(d) The governmental references should normally be addressed to the functional heads of the sub-boards. There should be no qualm for a reference back suggesting (to the government officials) that the matter should better be referred to a different authority. Side by side, the government should minimize technical referencing to the Pakistan steel administration. The Board should be able to quip back, to stay away from a particular query.

(e) The apex / co-ordination board should simply endorse / stamp decisions of the sub-boards, basically to fulfill requirements of the Company & other laws.

(f) Reporting at each sub-Board meeting should include relevant progress on areas like procurements, production, sale inventories, exports, imports, financial projections and capacity utilization. In reporting, besides monetary units, 'outcome' in physical terms should also be given. The assumption being that this would ameliorate capacity utilization. Believed is that, this will go to improve efficiency of the mill.

(g) Regular items on the agenda of the different sub-boards should also be to the end of exploring gains through down stream projects, contribution to pool of know how of steel making, upping skills / muscles for export earnings and addition to strength of the mills otherwise.

(h) Decisions making within the steel mills Board of Directors domain should be transferred to the sub-boards



on the basis of their nature rather than on their size (monetary outlays).

- (i) Unlike the conventional, the steel mill should have a figure head for the position of Chief Executive whose main task should be co-ordination.
- (j) With multi-disciplinary mix, the Main (Apex) Board should be there for the purpose of resolution of issues in the different (steel mills) sub-Boards, inter se, as also issues with the government.

The Board's job should include reporting the ministerial and technical delinquencies of government officials in relation with the steel mill, if any, direct to the Establishment Division. For action on the delinquencies of the officials, the committee should go into at the end of each quarter.

- (k) The committee of elders or super Board should better be (an independent) organ of the federal cabinet with exclusive domain, not sub-ordinate to the cabinet.

This suggestion is with a view to dissuade petty governmental functionaries from fiddling with the steel mills functioning. The steel mills issues would be 'another headache' for the government's section officers etc. dovetailing which they may not be very possessed with to.

14. Representatives of one of the leading chartered accountants firms should determine and plan schedule for liquidation of steel mills liabilities etc., not being dues to federal, provincial / local governments.

Representatives of the firm should draw plan for payments to be made in settlements of debts. Such plans may also form Pakistan Steel's basis for negotiations with the claimants.

- 15(a) Induction of officers in the steel mills, Grade-17 and above, should be by a committee consisting nominees of:
 - (i). IBA
 - (ii). ICMAP
 - (iii). ICA.
 - (iv). Agha Khan University
 - (v). Board of Directors of the Steel Mill

The above committee should also decide elevation cases of steel mills officers in Grade-17 and above.

- (b) The above committee at 15(a) above, with the inclusion of a nominee of Federation of Pakistan Chambers of Commerce & Industry (FPCCI), should make



recommendation for nomination of Directors of the company for a single three years terms. The government may, however, allow a director to stay as such for a maximum of three terms.

The Chairman nominated by the Government should serve at the pleasure of his appointing authority.

16. Directors from private sector should be solicited. Private sector equity in the company should be restricted to 10% to 15%, who should collectively have one director on the board nominated by FPCCI.
17. Steel mills provides a learning arena for many traits, in particular metallurgy. With facilities available for 'hands on' training, this could be a big learning ground. For admission to which students from abroad may also be induced.

Experts in related disciplines should visit universities and seats of learning abroad to sell space for mutual learning at the steel mill.

Side by side, professors of eminence from other countries should be approached to deliver lectures at the steel mills. This step, besides being revenue generator over a secular period, may open new vistas for operations of the mills, besides binging goodwill to the project and to the country.

- 18(a) A reconstruction exercise should be underway the mills. Assets redundant should be written-off with the intention of their sale in future. Loss arising between the subsisting values and the carried values should be booked. Similar treatment should be meted to the work force. Only selected should be retained.
- (b) Capital of the steel mill should be reduced by the amount of losses booked. After the suggested exercises, the balance sheet should candidly bring out this position.
- (c) Fresh capital should be inducted, enabling the steel mill functioning.

The above steps will go to discipline the mills, usher computation of proper return on equity, facilitate future dispersal of shares, serve the object of expansion.

19. All procurements, detailed by the respective Boards, should be made by the Chief Executive within the overall control of the Apex Board.
20. Directors on the Apex Board, not being government functionaries, should be nominated by the Federal Government for a three years term.

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Accounting Software for Businesses

This is the era of automation and today almost every department in an industry needs automation and apply accounting applications to speed up their operational systems. Big companies have better resources and funds to implement ERP systems whereas the small and medium companies have limited resources but they want good inside information about business.

Accounting application not only saves time and cost but it also leads to efficient report generation. The accounting softwares are much critical for any organization because they signify the back bone of any company. Before selecting an accounting application, few things need to be kept in mind such as: what is main requirement of business? which application can fulfill this business requirement? what is the cost of accounting software? how much time needed for implementation? what would be cost saving result of software implementation etc.

There are following two major categories of accounting software which are available in the market:

Customize Software

This software is a user-specified software and developed for a specific industry or group of users keeping in view their customer's preference and requirement. The industry has to develop this application from scratch. The developers of this application first understand the basic requirement of business after which they develop the software by using any computer language, hence it results in efficient report generation. The client has total control over the application. This application does not have any unnecessary features available. As far as its disadvantages are concerned, the customized software takes more time for implementation and it also involves high cost as compared to standard software, due to the fact that it is developed for a particular client. The cost varies with company to company, starting from Rs 30,000 to as much as million Rupees. Further, the customize software may

not be compatible with the new technology as well.

Standard Software

Standard software has a different layer. These applications can be customized but its basic structure cannot be changed. Some of these applications are quite cheap because standard reporting tools are available for every kind of industry. There are major four layers of standard software as under:

Small or Personal Accounting Software:

These are generally targeted towards single user or shop keepers. This software only gives you one side of report such as cash sales; cash collection; budgets and simple account reconciliation. This type of software is very low cost and easily available in the market. A student of computer language can also build this kind of software. In Pakistan, value of these software is from Rs 10,000/- to Rs 30,000/-. Major example of these software is **Point of Sale**. It only provides you total sales and total cash etc.



Rashid Mahmood, FCMA

Small or Personal Accounting Software

Advantages	Disadvantages
Data entry is simple and every person without basic computer knowledge can punch data on computer	Very few information available.
It provides information in very quick time	Cannot process big data
Low implementation and maintenances cost due to its nature.	Only one or two modules available
Low reliability on software provider	

Low-Range Accounting Software:

The low-range accounting application helps in performing basic accounting transactions and get the basic financial statements within limited range. These are inexpensive applications and provide good results. Cost of these software starts from Rs. 50,000/- to Rs. 1,000,000/-. Examples of these applications are, QuickBooks, Sage 50, FreshBooks, Tally, Xero, Zoho Books, Microsoft Account Software, Myob etc. Major modules cover under this software are Payroll; Sales; Purchase; General Ledger; Inventory; Project; Budget etc. Some of these applications have drill down functions.

The following low-range applications along with available modules and features are famous in Pakistan. These applications

Low-Range Accounting Software

Advantages	Disadvantages
It provides financial and non-financial reports within low cost. The cost is even lower than other mid-range and high-range applications	It has limited reporting and cannot provide inner reports of every industry. These applications don't have feature to build a new report.
It provides up to 90% of reports for business. Few systems can be customized up to some extent.	It has limited data security features and provides low security for business.
Its implementation is completed in the time period between one month to six months.	The User of these applications has limitation. It cannot be implemented on large scale business.

are best for SMEs and are not only cost efficient but also cater to 90% business requirement.

Sr.	Low-range Applications	Modules and Features
1.	QuickBooks This application is mostly used in USA, Canada and Europe. It commands almost 80% of small business in these areas. It is also very famous in Pakistan and UAE. It has cloud and desktop facility as well.	Cash and Bank Management; Sales Management; Inventory Management; Purchase Management; Production Management; Project Management; Budget and Forecast Management; General Ledger; Accounts Receivable; Accounts Payable and Multi-Currency.
2.	Peachtree This application is mostly used in USA, UK, UAE and Saudi Arabia. In Pakistan this application was initially very popular but later replaced with QuickBooks. Peachtree cost is lower as compared to QuickBooks.	Cash and Bank Management; Sales Management; Inventory Management; Purchase Management; Production Management; Budget and Forecast Management; General Ledger; Accounts Receivable and Accounts Payable.
3.	Tally ERP Although its title mentions the word 'ERP' but it does not have ERP feature. It is very famous in India and UAE but in other countries it is not so much popular.	Cash and Bank Management; Sales Management; Inventory Management; Purchase Management; Payroll Management; Production Management; Budget and Forecast Management; General Ledger; Accounts Receivable; Accounts Payable and Multi-Currency.
4.	MYOB This application is mostly used in Australia and New Zealand. Its major use is in small industries.	Cash and Bank Management; Sales Management; Inventory Management; Budget and Forecast Management; General Ledger; Purchase Management; Accounts Receivable & Accounts Payable.

Mid-Range Accounting Software

Advantages	Disadvantages
These are more flexible than the low-range applications and can be customized up to a limit set by developer. They have feature of desktop and cloud environment and these are mostly used in cloud environment.	These applications are costly as compared to the mid-range product and they also do not have more features despite having the price difference.
These applications have features of specific industry.	User of these software needs more training and time, thus incur more cost.
These applications have feature of integration. All reports are available on same window.	It normally takes 6 months to two years to implement this application. Thus, it requires more time and cost.
These applications have very strong security features.	

Mid-Range Accounting Software:

Mid-range market covers multinational area. This type of software has maximum clientage in the market. Cost of these applications are from Rs. 1 million to Rs 3 million, depending upon the requirement and number of users. These applications have characteristics of low range and high range accounting software. Examples of mid-range software include SAP B1, Microsoft Dynamics GP, Odoo, The Access Group etc. Here are some advantages and Dis-advantages of Mid-Range Accounting Applications.

The following mid-range applications along with available modules and features are famous in Pakistan.

Sr.	Mid-range Applications	Modules and Features
1.	SAP Business One It is a very famous application among the mid-range accounting applications and has core 15 modules.	Administration, Inventory, CRM, Resources, General Ledger, Production Sales, Project Management, Purchase, Budgeting, Accounts Receivable, Accounts Payables, HR Fixed Assets Management and Banking.
2.	Microsoft Dynamics This application is used mostly in USA, UK, Ireland, Middle East and Pakistan.	Forecasting, Supply Chain, Inventory Management, General Ledger, Banking, Fixed Asset Management, Project Accounting, Accounts Payable, Accounts Receivable, HR, Manufacturing and Multi-Currency.

High-Range or Enterprises Resource Planning (ERP):

ERP allocations are considered as enterprise application as it provides all features and is used by every segment of business. It can handle and analyze large data and provides results for each business function. This software has limited clientele but have high value than the low-range or mid-range software. Cost of these applications are so high that only big companies can afford them. Cost of ERP solutions start from Rs 4 million or more. Examples are SAP S/ Hana, Oracle Financial Suits, Sage 300, Microsoft Dynamics AX, ERP Next etc.

High-Range or Enterprises Resource Planning (ERP)

Advantages	Disadvantages
It is most flexible system and provides all information of a business or industry. Senior Management can see all departments at one place.	It is highly expensive system and unaffordable for small companies. Its cost starts in millions and goes to billions. Maintenance cost is high, depending upon nature of ERP system.
It has single reporting system and management can analyze the performance of all departments and take decision very quickly.	
It has secured and centralized security systems and the management can create their own security rules.	It requires normally one to three years to implement this application. Sometimes it takes even more than 3 years.
It has multinational or global reporting and management can compare performance of every geographical area i.e. comparison of data from one country to other country.	
These systems are most efficient system due to Business Intelligence module. Big data can be analyzed and report generated expeditiously.	These applications have high cost on implementation and it cannot be switched from one ERP to another.

SAP ERP is most famous ERP applications which has maximum client in the world. It has following modules:

Sr.	SAP ERP Applications	Modules and Features
1.	SAP FICO [Financial and Controlling]	General Ledger, Accounts Receivable, Accounts Payables, Bank & Cash Management, Budgeting & Monitoring, Fixed Assets Management, Funds Management, Treasuring Management and Multi Currency.
2.	SAP Controlling	Product Costing, Profitability Analysis, Job Cost, Project Costing, Sales and Distribution, HR, Production & Planning, Marketing, Quality Management, Plant Maintenance, Project & System, Supply Chain, Business Intelligence, Big Data/ SAP Hana.
3.	Oracle Business Suite Oracle is also very famous application. Cost of this application is very low as compare to SAP.	Administration, Integration, Marketing & Sales, Order Management, Logistics, Supply Chain, Procurement, Manufacturing, Project Costing, Accounts Receivable, Accounts Payable, General Ledger, Fixed Asset Management, HR, Risk Management, Lease Management, CRM, Budget
4.	Microsoft Dynamics AX: This ERP system is owned by Microsoft and applied to control activities of a business.	Cash and Bank Management, Financial Management, Production, Sales Management, Project Management, Procurement, Administration, General Ledger, Accounts Receivable, Accounts Payable, Retail Management, Business Intelligence, Supply Chain Management, Marketing, Inventory Management, CRM and Budgeting.

Conclusion:

Before selecting an accounting application, every businessman must first read the internal requirement. It is better to hire a consultant to analyze the system requirement. If any system fulfills 90 percent requirement with low budget then it would not be feasible to implement a costly system for small and medium industries.

About the Author: *Mr. Rashid Mahmood* is a Fellow member of ICMA Pakistan and currently he is working as a CFO in Mahmood Pharmacy (Pvt) Ltd. Having more than 15 years of multifaceted experience in industries like Production, Trading, IT and Services, he also has expertise and proven ability in Management consultancy as well as systems study, structuring, standardizing, and streamlining financial reporting processes. He has also successfully delivered ERP trainings to many local and multinational companies and institutes.



Major Challenges Faced by Third World Countries: Our Individual and Collective Response

The Editorial Board thanks Dr. Shahida Wizarat for sending this article exclusively for Management Accountant Journal of ICMA Pakistan

In this paper, I will try to identify the threats emanating from challenges that our countries are facing and suggest how we can face up to them, both individually and collectively. What are our responsibilities as individual citizens, students, researchers, governments and regional powers. We all have to play our roles if we want to save our countries' civilizations, established order and our future generations.

Challenges from Globalization

While some countries have certainly benefitted from globalization, the most spectacular example is that of China. China has used liberalization very cleverly and effectively to become a global power. There are other examples as well such as Malaysia, Singapore, Turkey and Indonesia those have brought development to their countries. Their remarkable development reflects what a difference honest and sincere leadership can make to a country.

But, the vast majority of countries in the Third World have not been able to turn things around for the better. This is particularly true about countries those have been borrowing from the international financial institutions for budgetary support. Piasecki and Wolnicki (2004) state that only 20 to 25 percent of the global population directly benefits from globalization, while for the remaining population, the benefits are either marginal or nonexistent. And, out of total world population of six billion, only 1.8 billion can afford goods and services available in the world market.

Trainer (2000) summarizes it well when he says:

"Third World development is increasingly being seen as a process of vast, systematic, institutionalized and legitimized plunder. -- Third World countries have been developed into a condition in which their productive capacity, their land, labour, forests and fisheries now produce mostly for the benefit of a relatively few rich people elsewhere."

He says as a result, Third World governments are unable to direct foreign investment towards the needs of their citizens and prevent actions that hurt their national interest. An example of this is the tremendous increase in Genetically Modified (GM) crops acreage in the Least Developed Countries (LDCs) which according to the FAO has surpassed their acreage in the Developed Countries (DCs).

According to Wizarat (2013a) most of the food retailers in Karachi reported that they import lentils and fruits from Australia, Canada, India, etc., where there is widespread use of GM seeds. What is even more disturbing is that many DCs have given large tracts of land to their farmers to grow GM crops for export and aid to LDCs only. These crops are not allowed to be sold in the domestic market till such time that their effects on health in LDCs have been studied. On the other hand, many western NGOs have got vast tracts of land in Pakistan where they are growing organic foods for western consumers whose health matters. Pakistan has not passed the Labelling law and consumers are totally unaware of the hazards from the foods they are consuming.

The World Health Organization has reported that increase in cancer has been of an epidemic nature all over the world. The same is corroborated by available data on the increase in the incidence of the disease in Pakistan. Cancer wards in leading Pakistani hospitals have witnessed a tremendous increase in the



Prof. Dr. Shahida Wizarat

number of patients in recent years. As a result, citizens in countries like Pakistan have been turned into guinea pigs!

Challenges from Militarization and Conflict

The second major challenge facing LDCs is the widespread and endemic conflict which has enveloped these countries. Countries across Asia, Africa, Middle East, etc. are engaged in sectarian, ethnic and ideological conflicts. A common feature of these conflicts is that populations are polarized systematically into ethnic, sectarian and ideological groups with intensities varying in different countries. Some countries are in the fore front; others are somewhere in the middle, where conflict is brewing up but has yet to result in open warfare; while some are on the back burner. For countries that are front runners, these divisions have led to clashes and wars, leading to fragmentations, civil strife, instability and break down of established order as has happened in Afghanistan, Iraq, Libya, Sudan, Somalia, etc.

In an earlier Wizarat (2013b) study I found that one percent increase in world conflict increases GDP of Developed Countries (DCs) by 7.7 per percent, while resulting in decline in GDP of Least Developed Countries (LDCs) by 3.8 percent. This results in instability, flight of capital, death and destruction in these countries, with negative impact on investment, employment and growth. While the peace and harmony in the DCs is conducive to growth, which gets a further boost due to export of armaments from the armaments producing countries in this group.

Challenges on Account of Limits to Growth Theory

Jeffrey Sachs (2005), a leading US economist with links to policy makers in Washington explores whether global development is sustainable if the developed countries continue to grow at their long-term per capita rate of 1.6% per year, while countries in Asia and other parts of the world grow at their spectacular rates, resulting in four to six-fold increase in world GNP. He says as world energy supplies are already stressed out with very alarming consequences on climates and environment. Sachs says that the world will run out of oil and gas and might have to switch to coal. He says Australia, United States, China, India, etc. have enough coal reserves and energy is not likely to limit growth in the present century at least. But such large-scale consumption of coal will destroy the climate and the ecosystems. He, therefore, concludes that DCs and countries in Asia and other parts of the world cannot continue to grow at their present rates.

Extending the limits to growth theory further, Trainer (2000) says that it would not be sustainable for people all over the world to emulate the living standards of rich countries like Australia. He says:

"We can only live like this because we are taking and using up most of the scarce resources, and preventing most of the world's people from having anything like a fair share."

Responding to these Enormous Challenges

Without sounding alarmist, the dangers that lie ahead have to be recognized and policies formulated to respond to these to pre-empt them in countries where they are still in a nascent stage. The response will vary from country to country depending on the extent to which the crises have affected them. We have to

respond to these enormous challenges both individually and collectively. The question we need to ask ourselves is: how can we prevent the free fall of our countries into chaos and disorder?

First, as citizens we must be ready to sacrifice private benefits for the larger collective benefits of the society in which we live.

Second, as students, civil society members, media, intelligentsia and other state institutions we have to ensure that we pre-empt the polarization of our countries into sectarian, ethnic, ideological and political groups. Each one of us will have to play our role to pre-empt the polarization.

Third, in order to prevent governments from adopting socially detrimental policies like borrowing from the IMF, coming under pressure from companies that manufacture GM seeds, we will have to form pressure groups and become socially and politically active.

Fourth, as researchers we should do more relevant research rather than just rigorous research aimed at increasing our publications in academic journals or paid research just to earn more money.

Fifth, governments in LDCs should establish research centers to do relevant research, especially on the challenges confronting us and formulating our response. Network between academics and research centers in the region should be promoted.

And **finally**, the role of regional players in stabilizing societies and adopting a collective response will be beneficial. Closer economic, political and strategic integration of countries in the region will give countries the strength to face up to these challenges.

The Shanghai Cooperation Organization (SCO) countries have great potential towards ensuring that the region becomes self-sufficient in food, fuel and armaments.

And this involves getting the economists, strategists and international relations experts, policy makers, diplomats, education, psychology, commercial and media professionals to put their heads together to provide solutions to the present predicament in which we find ourselves.

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About the Author: Dr. Shahida Wizarat did her Masters from USA on a Rotary Foundation Graduate Fellowship and PhD in Economics on a British Council scholarship. She has authored three books and over 70 research papers published in international and national journals and newspapers. She has served as editor of Pakistan Journal of Applied Economics and Professor; Director of Applied Economics Research Centre (AERC), Chief Editor Pakistan Business Review and Director Research IOBM. She has also served on board of directors of Karachi Stock Exchange. Currently, she is HOD of Economics and Dean College of Social and Economic Development (CESD) at Institute of Business Management (IOBM).



Economy Watch

Brief Analysis and Update by Research and Publications Department, ICMA Pakistan

'Pakistan Banao Certificate' (PBC) Launched for Overseas Pakistanis



Prime Minister Imran Khan, on 31st January 2019, launched the 'Pakistan Banao Certificate' (PBC) which is the first sovereign retail instrument being offered by the Government of Pakistan that provides a medium for overseas Pakistanis to contribute in their country's development and earn handsome returns. Pakistanis having

Pakistan Origin Card (POC) shall be eligible to subscribe the PBCs registered in the Securities General Ledgers Account (SGLA) maintained at State Bank of Pakistan (SBP).

The PBCs are available for 3 years and 5 years maturity with profit rates of 6.25% and 6.75% per annum respectively payable semi-annually. Minimum investment amount is USD 5,000 or higher in the integral multiple of US\$1,000 with no maximum

limit. PBCs will be exempted from withholding tax and deduction of Zakat.

PBC is being offered for subscription through a specially designed Web-Portal where the investor will have to get register and provide investment and bank account details. The certificates will be issued electronically on receipt of funds in State Bank of Pakistan Account given on the portal. The investor receives confirmation of issuance of certificates both through email and updation of their account on portal. The investors can view status of application by accessing web-portal through their respective User ID and Password. The overseas Pakistanis having foreign bank accounts can encash PBCs in dollars/rupees anytime but redemption in dollar before first year will levy its one per cent. The Government will also hold roadshows in UK, Europe and Gulf countries to convince overseas Pakistanis to buy PBCs.



Pakistan announces Visa-free Entry to Citizens from 50 countries



Pakistan has announced a 'New Visa Policy' under which citizens from 175 countries would be granted e-visa facility while citizens of 50 countries would be offered visa on arrival

facility. The primary objective of launching the new visa policy is to promote tourism in Pakistan.

The Federal Information Minister, Mr. Fawad Chaudhry, while announcing British and US citizens of Indian origin would also get a visa on arrival facility. He said that those coming to Pakistan on a tourist visa would be allowed to visit all parts of the country including Azad Kashmir and Gilgit-Baltistan without no objection certificate.

Under the new visa policy, the business visa facility would be extended to 96 countries from present 68 countries. Similarly, the Diplomatic visa term has been extended to three years while student visa term would be for two years. Further, IATA registered tour operators would be allowed to arrange visits of tourists' groups in Pakistan.

Reduction in Petroleum Prices



The Government has reduced the prices of petroleum products during the months of January and February 2019. The below table shows the applicable rates of petroleum products during these two months:

Prices of Petroleum Products during January 2019 and February 2019

Sr.	Petroleum Product	December 2018 (Price in Rs. per Litre)	January 2019 (Price in Rs. per Litre)	February 2019 (Price in Rs. per Litre)	Reductions in last two months
1.	Ms 92 RON	95.83	90.97	90.38	Rs. 5.45
2.	HSD	110.94	10..48	106.68	Rs. 4.26
3.	Kerosene Oil	83.50	82.98	82.25	Rs. 0.52
4.	LDO	77.44	75.28	75.0	Rs. 2.41

Compiled by: R&P Department, ICMA Pakistan

Pakistan's Long-term Credit Rating Downgraded by S&P



The New York-based rating agency, M/s. Standard & Poor's (S&P) has downgraded Pakistan's long-term credit rating from 'B' to 'B-

Negative' and has stated that Pakistan's economic outlook and external position have deteriorated well beyond its previous expectations and that the prospects for a rapid recovery in fiscal and external settings are now diminished. S&P has promised to raise the ratings on Pakistan if the economy materially outperforms its expectations, strengthening the country's fiscal and external positions. At the same time, S&P has warned that ratings could be lowered further if Pakistan's fiscal, economic or external indicators continue to deteriorate, such that the government's external debt repayments come under pressure.

According to S&P, the GDP growth rate would fall to 4% in 2019 from 5.8% in 2018 and it would stay at around 3.5% for the next two years i.e. 2020 and 2021 and fall further to 3.3% by 2022. Moreover, S&P has estimated Pakistan's GDP per capita at just over US\$1,500 in 2018, with lowest per capital GDP growth of about 1.5% due to fast growing population. It has forecast that annual real GDP growth would average 3.6% over 2019-22 period. It also estimates that pressure on external accounts would increase further in 2019 whereas government debt to rise by 70.2% of GDP by the end of FY 2022. The S&P also projected the country's narrow net external debt to rise to more than 170% of current account receipts from just below 140% the previous year.

Sukuk bonds to be launched to finance Circular Debt

The Economic Coordination Committee (ECC) has approved the proposal of raising Syndicated Islamic Term Finance Facility of Rs. 200 billion from Islamic banks against already approved term sheets for cash settlement of circular debt which stood at Rs. 1.415 trillion as of December 31, 2018. This amount of circular debt also includes old stock of Rs. 607 billion against which syndicated term finance facilities were already executive on behalf of Power Holding Company Ltd besides the remaining and fresh build-up payables of Rs. 808 billion.

The finance ministry and a consortium of six banks have already finalized the funding arrangement and repayment mechanism. The consortium is led by Meezan Islamic Bank and comprises

BankIslami Pakistan, Faysal Bank Limited, MCB Islamic Bank, Dubai Islamic Bank and Al-Baraka Bank.

The bond will have a 10-year maturity at a rental return of a base rate plus a margin of 100 basis points and Takaful cost. The base rate will be defined as six-month KIBOR asking side prevailing on the base rate setting date, subject to a floor and cap. The bonds will entail half-yearly rental repayments from the date of drawdown and repayment would be made directly by the State Bank on the basis of a budgetary allocation by the finance ministry.



Mobile Wallet Scheme launched to promote home remittances



To accelerate the flow of home remittances through banking channels and facilitate expatriates with a reliable, swift and cost-effective conduit to transfer

money to Pakistan, the State Bank of Pakistan (SBP) has launched a Mobile Wallet (M-Wallet) Scheme for promotion of

Home Remittances. These M-wallets are specifically called Branchless Banking Home Remittance Accounts (BB-HRA).

Under the scheme, banks in partnership with telcos have introduced new, or tag the existing, M-wallets for home remittances. Users of these M-wallets will be able to receive home remittances in their accounts and use them when needed to withdraw cash or transfer funds, make purchases or pay bills. Every US dollar equivalent of money received in these accounts will also be provided with an airtime of two rupees equivalent in their mobile phones.

Forex Reserves rises to USD 14.8 billion on Inflows

Pakistan's foreign exchange reserves increased by USD 1.545 billion for the week ended January 25, 2019 owing to foreign inflows from Saudi Arabia and UAE as per official figures released by the State Bank of Pakistan (SBP). The country's foreign exchange reserves increased to USD 14.802 billion for the week under review as compared with USD 13.257 billion a week ago. The official reserves of SBP increased by 1.518 billion for the week ended January 25 as against \$6.636 billion a week ago. During the week ending January 25, 2019, SBP received inflows of USD 1 billion each from Saudi Arabia and UAE as placement of funds. After taking into account outflows relating to external debt and other official payments, SBP reserves increased by USD 1.518 billion during the week. The reserves held by commercial banks also increased by USD 27 million to USD 6.648 billion from USD 6.621 billion.



P&G invests over USD 50 million in new plant at Karachi

P&G



Procter and Gamble (P&G), the maker of world-renowned products such as Ariel, Pampers, Pantene, Head & Shoulders, Safeguard and Always, has invested over USD 50 million in a state-of-the-art hair care

manufacturing plant at Port Qasim, Karachi. The new manufacturing plant has begun operations and is producing renowned hair care brands Pantene and Head & Shoulders.

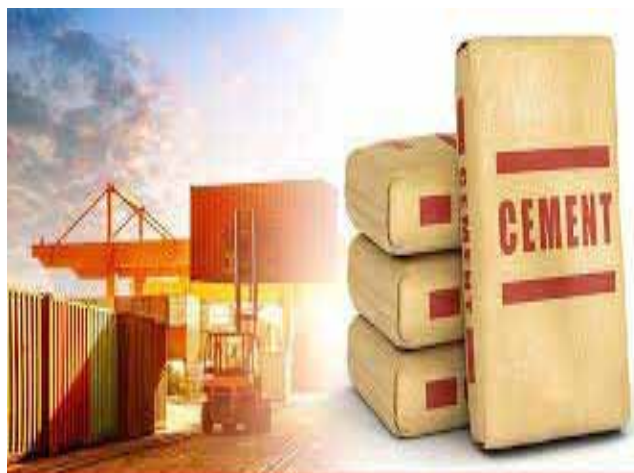
The Company's 58-acre land in Port Qasim is P&G's mega manufacturing facility site with opportunity for future investments and expansion. P&G's hair care manufacturing plant investment is a vote of confidence in the future of the country. It has also resulted in socio-economic benefits such as import substitution in tens of millions of dollars and creation of direct and indirect jobs.

Growth in Exports of Garments and Cement



The exports of ready-made garments and cement have witnessed growth during the first half [July-Dec] of FY 2018-19. The ready-made garments exports stood at USD 1.261 billion during July-Dec 19 as against USD 1.249 billion during last year - showing an overall growth of 0.8 percent. According to Pakistan Bureau of Statistics (PBS), overall textile exports during the period showed nominal growth of 0.06 percent by going up from USD 6.64 billion last year to USD 6.65 billion. On year-on-year basis, the exports of readymade garments increased by 3.59 percent during December 2018 compared to the exports of December 2017. The exports of readymade garments during the month under review were recorded at USD 2.38 billion compared to the exports of USD 2.30 billion.

Cement exports witnessed an increase of 32.40 percent during the first half of FY 2018-19 from USD 16.015 million in FY 2017-18 to USD 17.662 million in FY 2018-19. In terms of quantity, the exports of cement witnessed a nominal decrease of 0.37 percent by going down from the exports of 11,200 metric tons to 11,159 metric tons, according to data released by PBS. On year-on-year basis, the cement exports during December 2018 witnessed an increase of 78.02 percent compared to December 2017. The cement exports in December 2018 were recorded at \$25.890 million against the exports of \$14.543 million in December 2017.



China-Pakistan Economic Corridor (CPEC)



CPEC Phase-1 to complete by October 2019

The Phase-1 of China Pakistan Economic Corridor (CPEC) would be completed by October 2019. This has been stated by Mr. Yao Jing, Ambassador of China to Pakistan recently.

CPEC SEZs projects to be completed on fast-track

The Federal government has decided to fast-track work on two more prioritized Special Economic Zones (SEZs) being set up under CPEC and directed ministries to resolve issues hampering progress on earlier three prioritized zones. The Economic Coordination Committee (ECC) of the cabinet directed the Ministry of Energy to prepare a plan for providing 740 megawatts of electricity and 170 million cubic feet of gas per day (mmcf) to the zones to be set up under CPEC. The work on CPEC SEZs has remained stalled due to delay in finalization of their administrative structures, incentive packages and availability of utilities. The ECC has also decided to include the Islamabad SEZ and Bostan SEZ, Balochistan in the list of priority zones as well as to amend the SEZ Act to give more powers to the provinces for approval of these zones. It may be noted here that in May 2017, Pakistan had submitted a list of nine prioritized zones to China to be built under CPEC framework. Of these, three zones viz. Faisalabad, Rashakai in KPK and Dhabeji in Sindh had been prioritised for the first phase of implementation.

CPEC Energy Projects

Under the CPEC, a total of 15 energy projects were planned as the priority with a total generation capacity of 11,110 MW and till date seven (7) projects have been completed and are in operation. Zonergy 300MW Solar Park, 50MW Dawood Wind

Farm, Jhimpir UEP wind power project, Sachal 50MW Wind Farm, Sahiwal 2×660MW Coal-fired Power Plant, Port Qasim 2×660MW Coal-fired Power Plant and Three Gorges Second and Third Wind Power Projects have been completed. These projects have added 3240 MW to Pakistani national grid, amounting to more than 11% of the total installed capacity of 29,000 MW in Pakistan. The CPEC energy projects include hydro, solar, wind and coal-fired power plants. The major coal-powered plants use super-critical thermal technology, which is the most advanced environmental control technique for coal-fired plants currently.

Two separate hydropower stations being completed under CPEC framework will generate 1,620 MW electricity and are likely to start commercial operation in next three years. These projects are:



- (1) Karot Hydropower station with an installed capacity of 760 MW at river Jhelum at a juncture of Azad Kashmir and Punjab province is expected to start commercial operation by December 2021.
- (2) Suki Kinari Hydropower Station with an installed capacity of 870 MW at River Kunhar, Naran in Mansehra District of Khyber Pakhtunkhwa is likely to start commercial operation by December 2022,

In total, six energy projects including Suki Kinari HPP, Korot HPP, Engro Thar Block-II coal-fired power plant, TEL Mine Mouth Thar Block-II coal-fired power plant and CPHGC coal-fired power plant will be completed in next few years throughout the country.

(Source: official websites of Ministry of Finance, GOP; Ministry of Commerce; Board of Investment; Federal Board of Revenue (FBR); CPEC, in addition to daily newspapers and own analysis of R&P Department, ICM Pakistan)



REGULATORY WATCH



First Quarterly Report on State of Economy released

The State Bank of Pakistan (SBP) has released on 29th January 2019 its First Quarterly Report on State of Pakistan's Economy for FY2019 according to which the overall macroeconomic environment remained challenging during this period. The primary concern was the steep rise in global crude prices, which not only reinforced the already strong underlying inflationary pressures in economy but also eclipsed emerging improvements in external sector. Fiscal pressures also remained intact as expenditure rigidities allowed only a limited room for the government to maneuver. Responding to these challenges, the new political regime immediately announced cuts in development spending, partially reversed tax relief measures, and also explored avenues to bridge the external financing gap.

Some of the salient observation in the quarterly report are summarized below:

- o 6.2% GDP growth target seems unachievable with more policy focus on macroeconomic stabilization.
- o Decline in Forex reserves by USD 1.4 billion and Depreciation in Pak Rupee by 2.2% during the quarter.

- o Decrease in production of all major kharif crops due to lower water availability and decline in cultivation area.
- o Growth of 7.5% in consolidated revenues and 11% in expenditures during the quarter.
- o Higher Fiscal deficit was financed through increased government borrowing from domestic and external sources
- o Import bill during the quarter stood at USD 4 billion.
- o LSM Sector contracted by 1.7% during Q1-FY19, after recording a healthy growth of 9.9% during Q1-FY18.
- o The SBP Report underlines the importance of the continuation of right mix of policies and in this context, it emphasizes on initiating structural reforms to stimulate productivity and push up growth momentum.

The report can be downloaded from link: <http://www.sbp.org.pk/reports/>



Monetary Policy announced: Policy rate raised by 25bps to 10.25%



The State Bank of Pakistan (SBP) has announced the monetary policy through which the benchmark interest rate has been increased by 25 basis points to 10.25 percent with effective from 1st February, 2019. The policy was unveiled by the Governor SBP, Mr. Tariq Bajwa on January 31, 2019 after the meeting of Monetary Policy Committee (MPC).

It was stated by Governor SBP that key monthly indicators are showing visible signs of deceleration in domestic demand whereas the current account deficit was narrowing, albeit gradually. This, along with an increase in financial inflows are contributing to reduced pressures on the country's external accounts. He noted that these developments were encouraging and have served to reduce some economic uncertainty.

To read the full Report please click on link: <http://www.sbp.org.pk/press/2019/PR-31-Jan-19.pdf>



Door-to-door Survey to be launched to identify tax evaders

The Federal Board of Revenue (FBR), in order to broaden the tax base, intends to launch nation-wide campaign which also includes door-to-door survey for identifying tax evaders. During this survey, information would be collected from hundreds of thousands of residents living in posh areas of the major cities to identify potential tax evaders. FBR will kick-start the national campaign from posh sector of E-7 Islamabad. FBR will seek information through survey forms. Through this form, the FBR is seeking details about the name of the owner, the Computerized National Identity Card (CNIC) number,

National Tax Number (NTN), occupation/profession, date of acquisition of property and monthly rent. The FBR team will collect details about the size of plot, ownership as per record of CDA, building (floors) and rented portion if any. This exercise would be expanded to Defense Housing Authority and Bahria Town in Rawalpindi and other posh areas of Karachi, Lahore and Peshawar simultaneously in the coming weeks. FBR also plans to co-opt university students for this campaign to share its workforce burden.



Rs. 5.4 billion recovered from 0.2 million tax dodgers

FBR has recovered over Rs. 5.4 billion from 0.2 million tax dodgers. As per report released by FBR, around 0.5 million notices were issued during the period from July 2013 to June 2017 as part of campaign to broaden tax base. The Report also mentions that around 40 percent or over 0.2 million

of people filed income tax returns on receipt of notices. The FBR received Rs. 5.4 billion with returns. During the years 2013-2014 to 2015-2016, against the target of 300,000 notices, FBR issued 465,165 notices and enforced 132, 505 income tax returns.

ICMA Pakistan wishes a very happy
'INTERNATIONAL WOMEN'S DAY- 2019'
to all the readers of Management Accountant



Better the Balance, Better the World

Women are the architects of society and a source of great inspiration for all of us. The participation of women is a pre-requisite for the development of the country.

ICMA Pakistan is a supporter of 'women empowerment' and increased role of women in different spheres of life. It thinks that our women should discover their talents, passions and capabilities and use them to reach their goals and contribute towards the betterment of the society and nation.

The professional women in Pakistan are especially a role model for the women in other countries as they are not only contributing their best in all walks of life but also managing both their professional and personal lives efficiently. ICMA Pakistan takes pride of the fact that our qualified women CMAs are playing a pivotal role at key positions in the government and private sector of the country.

We congratulate all women across Pakistan on this occasion and wish them a brighter future.





Management Accounting Terms

Activity output	The result or product of an activity.
Budget	Plans of action expressed in financial terms.
Common costs	The costs of resources used in the output of two or more services or products.
Direct labor	Labor that is traceable to the goods or services being produced.
Exchange rates	The rates at which foreign currency can be exchanged for the domestic currency.
Fixed activity rate	Fixed activity cost divided by the total capacity of the activity driver.
Grade	The extent of a product's capability in performing its intended purpose, viewed in relation to other products with the same functional use.
Heterogeneity	When there is a greater chance of variation in the performance of services than in the production of products.
Indirect labor	All costs of compensating employees who do not work directly on the firm's product but who are necessary for production to occur.
Just-In-Time (JIT) manufacturing	A demand-pull system whose objective is to eliminate waste by producing a product only when it is needed and only in the quantities demanded by customers.
Kanban system	An information system that controls production on a demand-pull basis through the use of cards or markers.
Least square regression method	A cost –estimation method in which the cost line is fit to the data by statistical analysis. The method minimizes the sum of the squared deviations between the cost line and data points.
Marginal cost curve	A graph of the relationship between the change in total cost and the quantity produced and sold.
Nominal interest rate	The real interest rate plus an additional premium to compensate investors for inflation.
Operating leverage factor	A measure of operating leverage at a particular sales volume. Computed by dividing an organization's total contribution margin by its net income.
Post audit	A follow-up analysis of an investment decision, comparing actual benefits and costs with expected benefits and costs.
Quality product or Service	A product that meets or exceeds customer expectations.
Return-on-investment Pricing	A cost-plus pricing method in which the markup is determined by the amount necessary for the company to earn a target rate of return on investment.
Segment margin	The contribution a segment makes to cover common fixed costs and provide for profit after direct fixed costs and variable costs are deducted from the segment's sales revenue.
Total contribution Margin	Total sales revenue less total variable expenses.
Unrealized external failure (societal) cost	Environmental costs caused by an organization but paid for by society.
Velocity	The number of units that can be produced in a given period of time (e.g. output per hour).
Waiting time	The time during which partially completed products wait for the next phase of production.
Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.



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Accountants of Pakistan
Research & Publications Committee

ICMA Pakistan invites Proposals for Federal Budget 2019-20

The Federal Government has started preparing budget for next FY 2019-20 and intends to complete final estimates of federal receipts and expenditures latest by March 14, 2019. The Finance Minister is tentatively scheduled to present the budget before the federal cabinet sometime in May 2019. In this context, the Finance Division has issued 'Budget Call Circular' for FY 2019-20 to all the Federal Ministries/ Departments with the advice to initiate the budget making process.

ICMA Pakistan has always played its advisory role in developing Fiscal Budget proposals and presenting the same to the Ministry of Finance, FBR and other relevant Government Departments. These proposals are prepared by our Research and Publications Directorate in consultation with members of Institute and other stakeholders, including Chambers, Associations, economic experts etc. The budget document contains tax proposals as well as sector and industry wise issues and solutions.

We the Management Accountants, by virtue of our professional skills and having deep insight of the problems of business and industry, are in a good position to contribute some pragmatic proposals in developing pre-budget proposals by ICMA Pakistan. I would urge upon our members, especially those well-versed in taxation laws, to come forward and submit their valuable inputs for the forthcoming budget on email address: rp@icmap.com.pk

Regards,

Muhammad Yasin, FCMA

Chairman, Research & Publications Committee



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Articles Invited

The Editorial Board invites articles, write-ups, views from members, professional writers and authors in the Management Accountant Journal. The articles should be original and not previously published anywhere. These would be peer reviewed based on prescribed criteria for acceptance/revision/rejection.

All articles should be forwarded electronically on email: rp@icmap.com.pk

Themes for Next Issues

Mar-Apr 2019	May-June 2019	July-Aug 2019
Institutional Reforms and Governance	Informal Economy: Challenges for Documentation	Business Start-ups and Professionals

General Themes / Topics: The suggestive topics to be considered for publication in the Journal are as under:

- | | |
|----------------------------------|--|
| 1) Accounting and Auditing | 6) Business Management & HR |
| 2) Cost Management | 7) Sustainability & Social Accounting |
| 3) Tax and Economy | 8) Risk Management |
| 4) Banking and Finance | 9) Project Management |
| 5) Corporate Governance & Ethics | 10) Management Information Systems (MIS) |

In addition to above specified topics, articles with special reference to the significant role of management accountants in the following areas shall also be preferred:

- | | |
|--|---|
| 1) Role In different manufacturing industries e.g. textiles, cement, energy etc. | 4) Role in resolving current economic issues (e.g. energy crisis etc) |
| 2) Role in different services sectors e.g. banking, insurance, telecommunications etc. | 5) Role in improving tax revenue collection and management |
| 3) Role in improving efficiency of Public Sector Entities (PSEs) | 6) Role in cost reduction and improving profitability in different industries |

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Examiners' Comments

Winter 2018 Examinations

Financial Accounting Managerial Level-2



Question No. 2

(a) Preparation of Statement of Cash Flows:

This part of the question required examinees to prepare statement of cash flows, using indirect method, of Shekhani Limited. Overall, good performance was observed as most of the examinees well attempted this part. However, following shortcomings were observed:

- Many examinees failed to correctly calculate the amounts of income tax paid, bank loan amount repaid, issue of shares in the year and dividend paid. Resultantly, the net cash flows from operating activities was not correctly calculated by them.
- Some of the examinees did not include loss on disposal of 'property, plant and equipment' (PPE) while calculating PPE additions for the year. Therefore, they did not get correct amount of net 'cash flows from investing activities'.
- Many examinees could not calculate exact amount of net 'cash flows from financing activities' as they did not include dividend paid and/or repayment of bank loan.

(b) Explanation of Different Reserves:

In this part, the examinees were required to explain different reserves. However, most of the examinees attempted this part but only a few were able to properly explain the given reserves.

Question No. 3

(a) Rectification of Errors:

This part asked examinees to prepare a 'suspense account' along with all necessary correcting journal entries. Overall, performance was good as majority of the examinees well attempted this part. Even then, following mistakes were made by them:

- Majority of the examinees failed to prepare the suspense account with all correct figures.
- Most of the examinees passed incorrect rectifying journal entry in case of fourth error which was related to sales return.

(b) Suspense Accounts:

This part required examinees to explain the purpose of a suspense account. Good performance was observed as examinees produced relevant and to-the-point answers.

Question No. 4

Receipts and Payments Account and Balance Sheet:

This question required examinees to prepare receipts and payments account and balance sheet of Providence Club from income and expenditure account and given additional information. Examinees performed well in this question with the exception of following shortcomings:

- Some examinees could not calculate the actual amount of salaries paid for the year, which was to be calculated by adding the outstanding amount of 2017 and deducting the outstanding amount of 2018 from the salaries expense for the year 2018.
- Purchase value of sports equipment was not calculated correctly by many examinees as they did not account for depreciation expense in their calculations.
- Many examinees also could not calculate the correct figure of subscriptions received as they added the amount received in advance instead of deduction and deducted subscription amount outstanding instead of addition as at December 2017.

Question No. 5

(a) Statement of Financial Position:

In this part, examinees were asked to prepare statement of financial position of Adnan Brothers. Almost all the examinees attempted well and got good marks.

(b) Fluctuating Capital Account:

This part required examinees to prepare the fluctuating capital accounts of Mr. Basim and Mr. Farhan. The majority performed well except for a few examinees who did not know the concepts of fluctuating and fixed capital accounts. Instead, they made capital and current accounts separately.

Question No. 6

(a) Consolidation of Financial Statements:

This question pertained to consolidation of financial statements. Performances of examinees were average as following observations were made:

- Many examinees calculated correct amount of unrealized profit but did not know how to treat it in the financial statements.
- Most of the examinees could not figure out the non-controlling interest (NCI) share of post-acquisition reserves correctly as they could not compute correct amounts of fair values of net assets at acquisition and/or reporting date.
- Most of the examinees could not work out the correct value of NCI, which was the major reason they failed to produce exact financial position of the business.
- Group's net profit was not calculated correctly due to wrong calculations of amounts of income tax and finance cost by many examinees, resultantly net profit and total comprehensive income attributable to the owners of the parents was also incorrect.

(b) Goodwill:

Only few examinees performed well in this part which required meaning of goodwill, while other examinees could not clearly describe what goodwill is and why it arises on acquisition. Instead, they just focused on its calculation.

Management Accounting

Managerial Level-2



Question No. 2

(a) Calculation of Daily Breakeven and Actual Volume of Lunches and Dinners:

In this part, examinees were required to calculate the daily breakeven volume and then determine the actual daily volume of lunches and dinners. Overall, very poor performance was observed in this question. The following mistakes were committed by the examinees:

- A common mistake by majority of the examinees was that they did not compute the overall contribution margin and its percentage which was required to calculate the contribution margin of each lunch and dinner. This amount was then to be used to compute the breakeven point of dinners and lunches through an algebraic formula where “x” was the number of dinners annually to breakeven and “2x” was the number of lunches annually to breakeven. Whereas, the examinees had simply distributed the breakeven on a 2:1 ratio.
- Since the above requirement could not be calculated correctly, actual daily volume was also wrongly determined.

(b) Extra Annual Contribution from added Dinners and Lunches:

Since the examinees did not determine the contribution margin ratio in part (a), they were unable to ascertain the annual added contribution margins from lunches and dinners, which had to be then compared with the additional advertising expenditure. Therefore, the impact of increase in operational income could not be computed correctly.

(c) Drop-off in the Volume if the Hotel uses Average Quality Food Ingredients:

In this part, examinees were asked to calculate the drop-off in the volume if the hotel uses average quality food ingredients. Poor performance was observed in this part of the question as the examinees looked simply off track while solving this part. They had to assume “y” the annual volume as the combination of 1 dinner and 2 lunches at the given price. Then the variable cost had to be ascertained based on the ratio calculated in part (a). Next, the food cost had to be ascertained and the reduced variable cost of “y” had to be computed. Lastly, the value of “y” was to be computed and then daily volume ascertained.

Question No. 3

(a) Computation of 'Make' and 'Buy' Costs and Decide whether to Accept or Reject the Supplier's Offer:

Firstly, examinees were required to compute the annual net costs of buying and making. Then the two costs had to be evaluated and a decision had to be taken. Overall very good performance was observed in this part. A few of the mistakes noted were as follows:

- Examinees included the portion of the fixed manufacturing overhead that would continue even if the compressors were purchased from the outside supplier while calculating the relevant cost.
- A few of the examinees had shown a wrong impact of the annual rent which would be received only if the

compressors were purchased from the outside supplier and the facility was rented out.

(b) Important Factors to be Considered while taking 'Make' or 'Buy' Decision:

In this part, examinees were asked to enumerate the factors that would determine whether to make or buy a product. A common mistake made by most of the examinees was that their focus was restricted to the financial aspect and they ignored all other relevant decision making non-financial benefits like:

- Resultant industrial disputes
- Reliability of sub-contractor
- More beneficial use of freed up capacity
- Specialist skill and expertise etc.

Question No. 4

(a) & (b) Computation of NPV:

In this question, examinees were required to compute the NPV of the machines using discounted cash flow technique and taking decision whether to keep old machines or buy new machines. Average performance was observed in this part as it was partially correctly attempted by examinees and following errors were committed:

- Some examinees could not determine the initial investment for buying the new machine and showed the impact on the old machine.
- Some examinees could not compute the amount of salary and overtime expenses of both the machines.
- The amount received from resale of old machines had to be deducted from the initial investment costs of new machines. The examinees had deducted it from the expense of the old machines.
- Few of the examinees treated training and remodelling costs as an annual cost, although, it had to be added as an initial investment costs of new machines.

Question No. 5

(a) Calculation of Annual Ordering and Holding Costs:

Overall good performance was observed in this part. The examinees successfully calculated the annual ordering and holding costs.

(b) Computation of Economic Order Quantity:

Most of the examinees attempted this part correctly. The most common mistake that was observed in this part was that the examinees entered the suggested order quantity in place of the units of a special material to determine the EOQ.

(c) Decision regarding Financial Viability of Availing Bulk Discount:

Examinees were required to calculate the existing cost and the revised cost. The mistakes committed by examinees were as follows:

- They ignored the calculation of the material cost and, therefore, could not determine the actual total existing and revised costs and the actual difference in these costs.

- When determining the existing holding cost the examinees calculated the cost at 90%, whereas, the revised holding cost had to be calculated at 90% to show the impact of the 10% discount in holding cost if bulk quantity was purchased.
- A few of the examinees reduced the revised ordering cost to 90%, although, the discount was only on the holding cost.

Question No. 6

(a) Differences between Budgets and Standards:

In this part, examinees were required to enlist three differences between budgets and standards. The examinees were unable to attempt this theory question as they lacked knowledge of the topic. They failed to differentiate between standards and budgets. The common mistakes made by most of the examinees were as follows:

- They emphasized on the costs instead of enlisting the required differences.
- They wrongly differentiated between different standard and budgeted rates for variance computations against the requirement of the question.

(b) Computation of Missing Data:

In this part of the question, some data relevant to two products was given. Examinees were required to calculate the missing figures i.e., standard sales quantity (of product A); sales price and sales value variances of both the products. Majority of the examinees successfully attempted this part. The remaining examinees were unable to solve the part as they could not calculate the variances correctly. A few of the mistakes committed by examinees were as under:

- Examinees could not calculate the standard sales quantity.
- A few examinees could not correctly ascertain whether the variances were favourable or adverse
- A few examinees could not ascertain the sales value variance, which was the total of the sales price and volume variances.

Question No. 7

(a) Preparation of Budgeted Statement of Profit or Loss:

Examinees were required to calculate the monthly budgeted statements of profit or loss for the months of January to April 2019. They failed to attempt this part successfully as they did not determine the production requirements, opening stock and closing stock of each month. They wrongly deducted the material, labour and overhead costs based on the sales quantity instead of calculating them on the basis of production quantity from the value of sales and then deducting the other expenses.

A few of the examinees were unable to compute the amounts of depreciation to be allocated to each month. They entered the annual amount of depreciation to the expenses of each month, although the total amount should have been distributed equally over the year.

(b) Preparation of Projected Summarized Statement of Financial Position:

In this part, examinees were required to prepare projected summarized statement of financial position. Generally,

poor performance was observed in this part as majority of the examinees was unable to attempt this part correctly. The common mistakes that the examinees had made, are as under:

- Examinees did not deduct depreciation from the total value of the equipment.
- The stock value to be entered in the statement was the closing stock value of April, which was not correctly determined by most of the examinees in part (a).
- Examinees added the values of trade debtors of all the months instead of taking the value of April only.
- The total equity was the total of the net profit/ (loss) of all the four months which again was incorrectly entered as the examinees were unable to attempt part (a) successfully.
- The value of bank overdraft was the balancing figure of the equity and asset sides of the balance sheet but all of the examinees wrongly entered the amount given in the question.

(c) Explanation of Continuous/ Rolling Budget:

In this part, examinees were asked to explain rolling budget. Poor performance was observed in this part as only few of the examinees were able to attempt this part correctly due to lack of knowledge of the topic. They explained continuous or rolling budget as a budget that rolls over to the next period. Although a continuous or rolling budget is that which is constantly updated to reflect the correct operating circumstances and revised projected position at the end of each month/ quarter.

Question No. 8

(a) Advantages of Backflush Costing:

Examinees were required to explain the benefits of backflush costing. Majority of the examinees confused it with 'Just in time costing' and failed to mention the advantages that included following:

- reduction in the number of accounting entries
- its simple nature
- It has no separate accounting for 'work in process'

(b) Calculation of Monthly Optimum Product Mix and Total Monthly Contribution in Monetary Term:

In this part, examinees were asked to calculate monthly optimum product mix and total monthly contribution. Majority of the examinees calculated the monthly optimum product mix with ease. A few of the examinees made the following errors:

- Some examinees did not calculate the return per factory hour which was to be calculated by multiplying the time required on the bottleneck resource with the throughput contribution per unit. Therefore, they could not determine the monthly optimum product mix and consequently could not rank the products correctly.
- A few of the examinees were unable to determine the throughput contribution in monetary terms as they calculated it by multiplying the throughput contribution per hour with the number of units and vice versa instead of multiplying the throughput hours with the throughput contribution per hour to determine the total throughput contribution.

Corporate Governance, Business Laws & Ethics

Managerial Level-2



Question No. 2

- (a) In this question, examinees were required to explain the following u/s 159 'Procedures for Election of Directors' of the Companies Act, 2017:

(i) Time frame for Fixing Number of Directors:

In this part, examinees were required to explain the time frame for fixation of number of directors for election and the authority to fix and change the number of directors. Most of the examinees well attempted the requirement related to the time frame for fixing number of directors, however, the latter part was not answered correctly by a vast majority.

(ii) Calculation of Number of Votes for a Member:

Examinees responded this part satisfactorily as both the requirements were narrated correctly by most of the examinees.

(iii) Division of Votes Held by a Member:

In this part, examinees were asked to explain the division of votes held by a member among the candidates. Overall, this part was well attempted by examinees.

(b) Election of Directors of a Company Limited by Guarantee and Not Having Share Capital:

In this part, examinees were asked to explain the election of directors of a company limited by guarantee and not having share capital. Only few examinees answered it correctly that the directors should be elected in the way mentioned in the Articles of Association of the Company. Most of the examinees answered that each shareholder will be entitled to cast one vote and the directors getting the highest number of votes should be elected and so on and so forth.

(c) (i) Ways of Reducing Share Capital:

This part required examinees to state the ways in which a company may reduce its share capital u/s 89 of the Companies Act, 2017. Overall, good attempts were made by most of the examinees. There were some answerers in more generalized way and some examinees did not attempt it at all.

(ii) Settlement of List of Objecting Creditors:

This part asked examinees to explain how to settle the list of objecting creditors u/s 90 of the Companies Act, 2017. Most of the examinees well attempted this part.

(iii) Penalty on Concealment of Name of Creditor Entitled to Object to the Reduction of Capital:

In this part, examinees were required to state the penalty on concealment of name of a creditor entitled to object u/s 95 of the Companies Act, 2017. Overall poor performance was observed in this part as few examinees were able to mention the correct amount of fine and imprisonment punishable to the officer concealing the names of creditors objecting to the reduction of capital.

Question No. 3

(a) (i) Recipients of Notices of AGM:

In this part, examinees were required to describe the recipients of notices of AGM u/s 134 of the Companies Act, 2017. Majority of the examinees answered the question correctly, however, there were some examinees who answered the question partially writing that only members or directors were entitled to receive notices.

(ii) Provision of Video link Facility for Attending AGM:

This part required examinees to explain the provisions related to video link facility for attending AGM. Overall, good performance was observed in this part as it was answered correctly by most of the examinees.

(b) (i) Closing Register of Members:

In this part, examinees were required to explain provisions regarding the powers of companies to close register of members u/s 125 of the Companies Act, 2017. A mixed response was observed in this part. Only few examinees answered the entire question accurately while some examinees responded by omitting the part pertaining to further extension of the close period by the Commission on the receipt of application by a Company. Similarly, most of the examinees didn't answer the requirement of publication of close period notification by advertising it in at least one Urdu and one English newspaper in case of a listed company.

(ii) Rectification of Register of Debenture Holders:

In this part, examinees were required to explain the circumstances for rectification of register of debenture holders u/s 126 of the Companies Act, 2017. Most of the examinees responded satisfactorily.

(c) Beneficial Ownership of Shareholders or Officers of a Company:

Examinees were asked to explain beneficial ownership of shareholders or officers of a company as defined in Section 2(7) of the Companies Act, 2017. Overall, poor performance was witnessed in this part. Hardly any examinee could answer it correctly. Some examinees were able to give a very basic definition. Some other examinees didn't understand the requirement and ended up defining "officer".

Question No. 4

(a) (i) & (ii) Revocation of License of a Company:

Examinees were asked to explain revocation of license of a company incorporated u/s 42 of the Companies Act, 2017. Overall, average performance was observed in this part. Examinees had good understanding of a Company incorporated under section 42 of the Companies Act, 2017, therefore, they were able to answer that the company shall

stop all its activities except the recovery of money owed to it (if any), shall stop receiving donations from any source etc. However, many examinees could not answer the correct time period required for each of the above mentioned activities.

(b) (i) & (ii) Conditions Requiring Associations and Partnerships to be Registered as Companies:

In this part, examinees were required to explain conditions requiring registration of associations and partnerships as companies u/s 9 of the Companies Act, 2017. Almost, all examinees performed well in this part.

(c) (i) & (ii) Registered Office and Name of a Company:

Examinees were asked to explain the time frame for having registered office by a company u/s 21 and requirements of publication of name by a company u/s 22 of the Companies Act, 2017. In Part (i) of this question, a mixed response was observed. Some examinees answered correctly that the company should have its office registered within 30 days of incorporation whereas a number of examinees narrated this period as 40 days and 45 days. However, part (ii) was well answered.

Question No. 5

(a) Application for Extension of AGM:

In this part, examinees were required to explain the contents stated in the application for extension of AGM as described under Rule 14 of Companies (General Provisions and Forms) Rules, 1985. This was an average answered question. Some examinees could not answer it at all whereas some were only able to mention that the company has to give the reason of delay in holding AGM and the old and new date at which they plan to hold AGM.

(b) Public Offer of Securities:

This requirement was based on public offer of securities under Regulation 3 of the Public Offering Regulations, 2017. Overall, poor performance was observed as most of the examinees were unable to attempt this part. Those who attempted could only write that the company should have profitable track record for the last two years and it should have been in operation for few years.

Question No. 6

(a) Person Treated as Owning Securities:

Examinees were asked to briefly describe a person who is treated as owning securities for the purposes of Section 77 of the Securities Act, 2015. This was one of the most poorly answered questions. Many examinees didn't attempt this question and those who attempted it could not answer it correctly. Some examinees only wrote that a person who holds security is treated as the one owning securities. Only few examinees were able to answer this correctly.

(b) Functions and Powers of Competition Commission:

This part was based on functions and powers of Competition Commission as described under Section 28 of the Competition Act, 2010. Generalized answers were produced by most of the examinees. Majority of the examinees repeated the same point again and again.

(c) Types of Modaraba:

In this part, examinees were required to briefly describe types of Modaraba under Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. This was also a well attempted part with few exceptions. Most of the examinees had fair knowledge of different types of Modaraba.

Advanced Financial Accounting & Corporate Reporting

Strategic Level-1



Question No. 1

(a) Accounting for Share Options:

A large number of students were unable to discuss that how transaction be measured in the financial statements under share option scheme for two service conditions i.e. 'A' and 'B'. Expense is to be allocated on a straight-line basis over the three years to June 30, 2020. But most of the examinees could not allocate the expense and they recognize the full expense in the statement of profit or loss for the year ended June 30, 2018. Same mistake was committed in the recognition of opening balance of retained earnings.

(b) Deferred Tax Implications:

Majority of the examinees gave partial answer to this part without understanding the requirement. Few examinees were able to calculate the correct amount of deferred tax asset as July 01, 2017 and for the year ended June 30, 2018 but they could not explain the implications of deferred tax. Majority could not explain what amount of deferred tax asset will be recognized in the opening and closing of statement of financial position and how much will be recognized in statement of profit or loss.

Question No. 2

(a) Financial Instruments:

This question required examinees to discuss how the given financial instruments should be accounted for in the financial statements of Sahir Limited, which was attempted fairly by the majority of the examinees. However, average numbers of examinees were able to accurately calculate the equity and liability portion of the instrument issued. Few examinees applied incorrect discount rate for the purpose of calculating present value of the interest.

(b) Provisions, Contingent Liabilities and Contingent Assets:

Majority of the examinees accurately explained the recognition criteria of a provision as per International Accounting Standard (IAS) 37. However, they could not calculate the correct amount of decommissioning costs, although it was clearly mentioned in the question that 95% of the restoration cost is related to the removal of the power station and 5% related to the damage caused through generating energy. Due to incorrect calculation of decommissioning costs, calculations of depreciation was also incorrect.

Question No. 3

Consolidated Statement of Financial Position:

Examinees were required to prepare consolidated statement of financial position and statement of profit or loss under two conditions i.e. complete disposal and partial disposal. Majority of the examinees calculated correct amount of goodwill and profit on disposal of Aamir Limited, except few, who could not calculate the correct amount of non-controlling interests (NCI) in the case of complete disposal. While calculating the NCI and share capital amount in partial disposal, they could not calculate the required adjustment. Therefore, majority could not prepare the accurate consolidated financial statements. In calculating profit on disposal in part (b-i), majority could not calculate the correct amount of net assets and NCI and the same mistake was repeated in calculating the group reserves both in part (b-i) and (b-ii).

Question No. 4

Non-Current Assets Held for Sale and Discontinued Operations:

This question was set to familiarize the examinees with how the assets held for sale should be measured and how the impairment loss is recognized in the statement of profit or loss. Examinees were required to provide complete transaction movement during the respective period. However, majority of the examinees accurately explained that how the disposal group, that is held for sale, should be measured and how the impairment loss is recognized in the statement of profit or loss.

Majority of the examinees took incorrect amount of fair value less cost to sell i.e. Rs.70 million and Rs.180 million for 'White' and 'Blue', respectively, although it was clearly mentioned in the question that the fair value less costs of disposal had risen at the year-end to Rs.80 million for 'White' and Rs.190 million for 'Blue'. The increase in the fair value less costs of disposal had not been taken into account by Style Limited.

Question No. 5

(a) Statement of Movement in Unit Holders' Fund:

A large number of students correctly presented statement of movement in unit holders' fund and accurately calculated the required values. However, majority of the examinees did not present correctly the net unrealized appreciation of re-measurement of investments classified as 'available for sale', mainly due to ignorance of net unrealized appreciation in fair value of investments at the beginning of the year.

(b) Mutual Funds:

This part was set to assess the students' knowledge on how an open-ended mutual fund should be presented in the statement of financial position. In this sub-part of the question, majority of the student correctly replied that such instruments shall be treated as putt-able instruments and should be classified as 'equity'.

Audit & Assurance Strategic Level-1



Question No. 1

- (a) (i) In accordance with ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing", examinees were asked to explain the following:

(1) Professional Judgments:

In this part of question, examinees were required to explain Professional judgment. Most of the examinees attempted this question satisfactorily but in a general way. Some examinees were unable to identify the areas in which an auditor should exercise "Professional Judgment" during an audit and a few examinees discussed the points partially.

(2) Professional Skepticism:

In this part, examinees were required to explain Professional Skepticism. Overall, poor performance was observed in this part as it appeared from the answers that most of the examinees were not familiar with the term 'Professional Skepticism'.

(3) Reasonable Assurance:

This part required examinees to explain Reasonable Assurance. The explanation was not adequately given by a number of examinees. Overall, average performance was witnessed in this part.

Conclusively, not only the knowledge of basic guidance on auditing such as ISAs appeared to be

missing, but also the ability to apply and integrate the methodology provided under ISAs was also not present in most of the replies.

(ii) Inherent Limitations of Internal Audit:

In this part of question, examinees were required to explain the inherent limitations of an audit caused by 'the nature of financial reporting', 'the nature of audit procedures' and 'the need for the audit to be conducted within a reasonable period of time and at a reasonable cost'. Only few examinees were able to answer this part properly and it was observed that the majority of the examinees seemed to be confused because they wrote irrelevant inherent limitations of financial reporting.

Further, instead of explaining "the need for the audit to be conducted within a reasonable period of time and at a reasonable cost", most of the examinees explained number of days required to submit financial statements to company for declaration of dividend, legal requirement of publication of financial statements or submission of financial statements before AGM.

(b) Duties of a Company Auditor:

Examinees were asked to explain the duties of an auditor as per section 249 (1) and (2) of the Companies Act, 2017. The examinees were aware of the area examined. Perhaps their knowledge was rusty and the explanations were not orderly as regards the duties of a company auditor.

Moreover, duties of the company auditor were not expressed in accordance with the specific sections of the Companies Act, 2017.

Question No. 2

(a) Pre-conditions of an Audit and Steps to Determine their Existence:

In this part of question, examinees were required to define preconditions of an audit and audit procedures to be followed to determine whether required conditions existed for an audit as per ISA 210 "Agreeing the Terms of Audit Engagements". Only few examinees were able to answer properly while most of the examinees mentioned inappropriate matters like content of an engagement letter, inspection of policies and procedures of an organization, verification of past audit working papers, verification of internal controls etc.

(b) (i) Nature and Purposes of Audit Documentation:

In this part, examinee were required to mention nature and purposes of audit documentation in accordance with ISA 230, "Audit Documentation". Few examinees attempted this part with relevant justification and were able to correctly define nature of audit documentation and purposes of the maintenance of documentation. Most of the examinees were confused and wrongly mentioned audit current and permanent files, retention period of audit working papers, content of engagement letter and few of them mixed up the purposes with the benefits of audit documentation.

(ii) ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements":

In this part, examinees were asked to explain audit procedures required to be followed if there existed non-compliance of laws and regulations in accordance with ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". Overall, poor performance was observed in this part as very few examinees came up with the correct answers. Most of the examinees wrote about ethical guidelines to be considered in business while a few examinees discussed about integrity of organization and mentioned verification of legal expenses, legal notices received from legal authorities, cases filed in a court etc.

Question No. 3

Audit Risks:

In this question, examinees were asked to identify the audit risks, which the auditor needed to consider in the given situation. Overall, poor performance was observed in this question as most of the examinees tried to define different types of risks without specific context. Some of the examinees guessed and could not identify specific risks with reference to the given situation and further noted that none of them calculated ratios.

Question No. 4

(a) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment:

Examinees were required to write risk assessment procedures to be performed for the identification and

assessment of risks of material misstatements at the financial statement and assertion levels as per ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment". This part was well attempted and answered properly by most of the examinees in general form but few of the examinees either misunderstood the requirement or they knew nothing about the required risk assessment procedures to be undertaken.

(b) Audit Procedure for Identification of Litigation and Claims:

In this part, examinees were required to list down the audit procedures to be performed to identify litigation and claims involving the entity as per ISA 501 "Audit Evidence-Specific Consideration for Selected Items". Most of the examinees failed to describe the audit procedures for verification of litigation cases. Below average performance was observed in this part as vouching of legal expenses account, review of minutes and direct confirmation from legal advisor was not mentioned by majority of the examinees.

(c) (i) Initial Audit Engagement:

In this part, examinees were asked to explain Initial Audit Engagement in the light of ISA 510, "Initial Audit Engagements-Opening Balances". Average performance was observed in this part of the question, in which, most of the examinees mentioned verification of opening balances of balance sheet and matched it with prior year balance sheet. Few of the examinees defined engagement letter contents etc.

(ii) Predecessor Auditor:

This part asked examinees to explain Predecessor Auditor in accordance with ISA 510 "Initial Audit Engagements-Opening Balances". Most of the examinees attempted this part of question and, overall, performance was found satisfactory.

Question No. 5

(a) Tolerable Misstatement and Tolerable Rate of Deviation:

In this part, examinees were required to differentiate between tolerable misstatement and tolerable rate of deviation in accordance with ISA 530, "Audit Sampling". It was a general type of question but most of the examinees did not have clear concepts about the aforesaid terms. Below average performance was observed as most of the examinees defined the terms in a very general way.

(b) Factors to be Considered in Evaluating the Results of Audit Sampling:

In this part of the question, examinees were required to explain the factors to be considered in evaluating the sample results in the context of ISA 530 "Audit Sampling". Overall, poor performance was observed as only few examinees were able to give relevant answers and elaborate the exact concept.

(c) ISA 600, "Special Considerations-Audits of Group Financial Statements":

In this part of question, examinees were required to describe the factors that were required to be considered by the group engagement team in determining the type of work to be performed on the financial information of a component and its involvement in the work of the

component auditors in accordance with ISA 600, “Special considerations-Audits of Group Financial Statements (including the Work of Component Auditors)”. Overall, poor performance was witnessed as only few examinees were able to list down correct audit procedures while majority of the examinees provided irrelevant and self-produced answers.

Question No. 6

(a) Emphasis of Matter Paragraph vs. Other Matter Paragraph:

Examinees were asked to differentiate between emphasis of matter paragraph and other matter paragraph as per ISA 706, “Emphasis of Matter Paragraph and Other Matter Paragraph” in the Independent Auditor’s report. Average performance was observed as most of the examinees produced the answers in general form and could not properly mention the circumstances in which the auditor might consider it necessary to include an emphasis of matter paragraph. Few examinees explained where such paragraph is mentioned in the auditor’s report instead of explaining the circumstances in which its inclusion becomes necessary.

(b) Audit Procedure in Case of Non-provision of Written Representation by Management:

This part required examinees to describe audit procedures if the management refused to provide written

representation under ISA 580, “Written Representation”. Most of the examinees attempted this part of the question satisfactorily. Nevertheless, some of the examinees put unnecessary details instead of giving relevant steps. A few examinees mixed auditor responsibilities and internal control system about the reliability of written representation provided by the management.

Question No. 7

ISA 570, Going Concern:

Examinees were asked to describe the audit procedures required for the issues/ conditions identified in the case study and its implication on the review report of the auditors for the financial information as per ISA 570, “Going Concern”. Overall, poor performance was observed as most of the examinees failed to manage the case study and a variety of issues were observed varying from very basic terms to the application of knowledge to offer practical solutions. A considerable majority was unable to properly define the “going concern” assumption and explain its significant implication, the indicative conditions/ factors causing doubts on such assumption and auditor’s action in this regard, which showed examinees lacked the understanding of the professional material in this respect, both accounting and auditing.

Business Taxation Strategic Level-1



Question No. 2

(a) Tax Avoidance Scheme:

Majority of the examinees accurately defined the term 'tax avoidance scheme' as per the Income Tax Ordinance, 2001, except the few, who gave general answers. However, majority could not accurately explain the circumstances under which a Commissioner may exercise his powers to recharacterise or disregard a transaction.

(b) Payment on Execution of Contracts by Non-Resident:

This part of the question required examinees to advise the circumstances under which the taxes are withheld from the payments made to a non-resident person. Majority of the examinees gave accurate answers of this part and no major weakness was found.

(c) Income Tax Treatment of Different Transactions:

Examinees were required to give their views on the tax treatment of each of the given transactions. Majority of the examinees accurately explained the tax treatment of 'disposal of investment in a subsidiary' and 'Research & Development expenditure'. However, majority of the examinees could not accurately explain the tax treatment of 'payment of consultancy fee to a non-resident'. Majority wrote that this income will not be taxed in Pakistan. Although, as per section 152 of the Income Tax Ordinance, 2001, Famous Technologies Limited (FTL) had an obligation to deduct tax at source.

(d) Wealth Statement and Wealth Reconciliation Statement:

In preparing wealth statement and wealth reconciliation statement, following major weaknesses were observed:

- Majority could not accurately prepare wealth statement mainly due to two reasons. Firstly, they could not calculate the accurate amount of capital gain and few simply ignored the capital gain. Secondly, majority ignored the shares gifted to brother and few added it to the opening net wealth.
- While preparing wealth reconciliation statement, few examinees could not calculate the correct amount of business capital and amount of bank loan. Payment of Rs.350,000 towards principal amount was also ignored by them.

Question No. 3

(a) Non-Recognition of Gain or Loss on Disposal of an Asset:

Majority of the examinees accurately explained the conditions of non-recognition of gain or loss on disposal of an asset. Few examinees only wrote two conditions i.e. where the disposal is between spouses under an agreement to live part and where the disposal is by reason of a gift of the asset.

(b) Non-Arm's Length Transactions:

Majority of the examinees accurately explained that the fair market value of the asset at the time of the transaction shall be taken respectively as cost and disposal consideration to the buyer and the seller in non-arm's length transactions.

(c) Entertainment Expenditures:

Majority of the examinees wrote only two entertainment expenditures i.e. expenditures incurred on entertainment at the opening of branches and a person shall be allowed a

deduction only for expenditures incurred on the entertainment of persons related directly to the person's business.

(d) Allowability of the Expenses against Business Income Chargeable to Tax:

Majority of the examinees only wrote the allowance and disallowance of the expenses without any further discussions for the given situations. Majority of the examinees gave the wrong answer that the penalty paid for late submission of withholding tax is allowable for income tax purpose.

Question No. 4

Calculation of Taxable Income and Income Tax Payable:

In this question, examinees were required to calculate the taxable income and income tax payable by Mr. Waqar for the tax year ended June 30, 2018. However, following major weaknesses were observed:

- Majority of the examinees could not calculate the accurate taxable amount of company maintained car. They only took Rs.180,000 (Rs.1,800,000 x 10%) and ignored to proportionate it on four months.
- In calculating taxable amount of rent, majority of them took Rs.960,000 instead of Rs.1,350,000.
- In calculating capital gain on the disposal of shares, majority examinees ignored to deduct the cost from sales proceed of the shares in MZ (Private) Limited.
- While calculating the capital gain on insurance claim of painting, majority of the examinees ignored to deduct the lawyer's fee from the consideration received. Few of them, who calculated the correct amount of capital gain, ignored to take 75% of the capital gain in taxable income, as the holding period was more than one year.
- Some of the examinees wrongly included both the considerations, 'tax credit on investment in shares' and

'premium on life insurance'. Although only one of the two was eligible for tax credit. They had to take 'tax credit on premium on life insurance policy', being the higher amount.

- While calculating tax credit on approved pension fund, majority ignored to take 30% of taxable income of preceding tax year.

Question No. 5

Sales Tax Liability:

In this question, examinees were required to calculate the sales tax liability of Mr. Adeel for the month of October 2017. Examinees attempted this question well, however, following shortcomings were observed:

- Few examinees wrongly added tax on fixed assets in input tax. Although it was to be apportioned.
- Few examinees ignored additional tax of 2% on sales to unregistered persons.
- Sales tax paid on electricity bills was also ignored by few examinees.

Question No. 6

(a) Difference between 'Zero-rated' and 'Exempt Supply':

In this part, examinees were required to enumerate any four features distinguishing the concept of 'zero rating' from 'exempt supply'. Majority of the examinees attempted this part very well and no major weakness was found.

(b) Adjustment of Excess amount of Sales Tax:

Majority of the examinees could not explain that any modification in the already issued tax invoice shall be made through debit or credit note. However, it seemed that examinees had not thoroughly studied this part of the syllabus.

Strategic Management Accounting

Strategic Level-2



Question No. 1

(a) Difference between 'Value Analysis' and 'Functional Analysis':

It was observed that average number of examinees defined 'value analysis' as 'functional analysis' and vice versa instead of stating difference between them.

(b) Calculations through Learning Curve:

(i) In this sub-part, the major conceptual mistake by the examinees was treatment of average cost of eight batches as total cost.

(ii) Most of the examinees were not able to calculate contribution required over life time in this requirement. It was also observed that the examinees were not able to understand the requirement of the question properly and even were unable to calculate the 4th root of the average ratio of direct labour and overhead cost per batch, over the life of the product.

Question No. 2

Calculation of Feasible Option:

This question required examinees to advise the feasible option with the working of annual equivalent cash-flows and perpetual

value of investments. However, majority of the examinees committed following mistakes while attempting the question:

- Miscalculation of tax depreciation on straight-line basis and wrong treatment of saving on tax depreciation/ loss.
- Miscalculation of 1st year depreciation.
- Majority of the examinees treated initial investment as revenue expenditure in tax calculations.
- Examinees were unable to calculate the tax loss on disposal.
- Miscalculation of present value of cash-flows, annual equivalent cash-flows and perpetual value of investment.

Question No. 3

(a) & (b) Transfer Pricing:

In this question, the examinees were required to calculate the transfer price for Alpha Gears Limited (AGL), using general rule, and making decision to accept or reject the special offer, giving remedies for the best interest of the company. However, the following common mistakes were committed by the examinees while attempting this question:

- Majority of the examinees miscalculated opportunity cost (contribution foregone) for Forging Division.
- Some of the examinees were not able to calculate the transfer price at 12% mark-up of variable cost and/ or total cost per set.
- Fixed cost was also taken into calculation, which was not required.

Question No. 4

This question was related to decision-making, based on costing and pricing policies, and recommending advantages and disadvantages for Shah Nawaz Autos. However, following were the part-wise observations:

(a) & (b) Decision-Making to Accept the Offer and Minimum Selling Price:

Average number of examinees were able to attempt these parts of the question. However, few examinees were not able to calculate the contribution for the order. While calculating minimum acceptable price, most of the examinees included the mark-up (10% x 25%) on total and variable cost.

(c) & (d) Advantages of Using Variable Costing Policy and Disadvantages of Pricing Policy, based on Variable Costs:

Majority of the examinees were able to score above average marks in these parts. However, following mistakes were observed:

- Examinees defined 'variable costing' instead of stating advantages thereof.
- Few examinees were got confused between the difference of 'absorption costing' and 'disadvantages of variable costing'.

Question No. 5

This question tested the knowledge of examinees regarding net present value (NPV) analysis for three different economic conditions and selection of a viable project. Nevertheless, following observations were noticed:

(a) & (b) Calculations of Net Present Value (NPV) and Expected NPV and Selection of Viable Project:

Most of the examinees were not able to attempt these parts of the question according to the requirement. Examinees calculated expected cash-flows and/ or expected net

present value (NPV) of three projects incorrectly. Whereas, they were asked to calculate NPVs under three measures and opted wrong decision.

(c) Project to be selected under 'Minimax Regret' Rule:

It was observed that majority of the examinees were not clear about 'minimax regret' rule.

Question No. 6

In this question examinees were asked for calculating expected net present value (NPV) and profitability index (PI) for six projects and their subsequent rankings, advising the company with the feasible project. While the performance of examinees in different parts of the question remained as under:

(a) & (b) Calculation of Expected Net Present Value (NPV), Profitability Index (PI) and Ranking of Projects:

Most of the examinees attempted these parts of the question as per the requirement. However, few of the examinees calculated PI as ratio of NPV and also calculated outflows instead of ratio of PV inflows and outflows.

(c) & (d) Reasons for Rankings Difference and Selection of a Viable Project:

Overall, the result of these parts was above average but examinees committed following few mistakes:

- Some of the examinees defined NPV and PI, while they were asked to mention the reasons for difference between two types of rankings on the basis of NPV and PI.
- Few of the examinees were not able to make possible combinations of project for investment and/ or ignored 'mutually exclusive condition'.

Question No. 7

Computation of measures of performance:

This question tested the knowledge of examinees on calculating various measures [segment margin, average assets, profit margin, asset turnover ratio, return on investment (ROI), residual income (RI) and economic value added (EVA)] for Innovative Furnishing Solutions (IFS). However, most of the examinees were not able to calculate the desired measures correctly due to a principal mistake from part (a), which led to inaccurate answers for other parts of the questions.

Strategic Financial Management

Strategic Level-2



Question No. 1

(a) Forecasted Statement of Profit or Loss:

It was a simplest part of the question, which required examinees to prepare a forecasted statement of profit or loss of Masroor Limited. However, majority of the examinees secured above average marks in this part, but few of the examinees could not perform well. Most of the examinees committed a common mistake of miscalculating the interest expense, tax and dividend.

(b) Forecasted Statement of Financial Position:

The answer to this part was below average as most of the examinees did not know how to apply the relevant subject knowledge in the given scenario. However, few of the

examinees performed well and secured good marks in this part.

(c) Financial Performance Forecast:

The performance of most of the examinees in this part was below average. The forecasted figures should be compared with the current year figures, but no examinee did it as per the requirement of the question. However, ratios were compared by the few of the examinees.

Question No. 2

(a) Determination of Credit Period to be allowed to High Net Worth Clients:

Overall performance in this part was above average as most of the examinees determined the credit period

correctly. However, the common mistake was calculation of incremental contribution of Asad & Co. and Comset (Pvt.) Limited.

(b) Computation of Most Economical Purchase Level:

The performance of most of the examinees in this part was below average as, examinees could not understand the requirement of this part, which was the computation of economical purchase level i.e. discount given to the purchaser needed to be considered, rather than calculation of economic order quantity.

Question No. 3

(a) Computation of Bond Value:

It was a very straight-forward part of this question. Overall performance in this part was below average. However, few of the examinees performed well and secured good marks. The common mistake, in majority replies, was the calculation of remaining term of the coupon interest payment.

(b) Determination of Issue Price of Debentures:

Majority of the examinees performed well in this part of the question. They correctly calculated the coupon rate of interest and present value. However, few of the examinees were failed to do so.

Question No. 4

(a) Earnings per Share (EPS) after Implementing Expansion Plan with all Three Options:

Overall performance in this part was above average. Most of the examinees performed well and secured good marks.

(b) Equivalency Level of Earnings before Interests and Taxes (EBIT) for Two Options:

This part of question required examinees to distinguish the equivalency level of EBIT between two options of additional equity [Option-A] and additional debt [Option-B]. The answer to this part was wholly dissatisfactory as most of the examinees did not know how to apply their knowledge in the given scenario and present them in a logical manner. Very few of the examinees calculated it correctly.

Question No. 5

(a) Calculation of Financial Leverage:

Overall performance in this part was good. Almost all of the examinees performed very well and secured good marks.

(b) Calculation of Profit/ Volume (P/V) Ratio:

This part of the question specifically asked examinees to calculate the profit/ volume (P/V) ratio. However, it was a very straight-forward question, despite this, the overall performance of the examinees in this part was below

average as most of the examinees could not understand the requirement of the question. This clearly showed their lack of in-depth subject knowledge.

Question No. 6

(a) Calculation of Value of Equity:

The performance of examinees in this part was below average. However, following common mistakes were committed by the majority examinees:

- They miscalculated the value of sales (cash inflows) for Year-1 to Year-5
- Most of the examinees were not able to calculate the value of tax correctly.
- They wrongly treated the replacement asset investment amount.

(b) Calculation of Value of Company including Calculated Intangible Value (CIV):

Few of the examinees performed well and secured good marks. The common mistake committed by the examinees was the wrong treatment of return on assets of Dr. Shee Limited, as well as, the miscalculation of value spread. However, the answers to this part were below average, as most of the examinees did not know how to apply their knowledge in the given scenario and present them in a logical manner.

Question No. 7

(a) Calculation of Theoretical Minimum Price:

The performance in this question was exceptionally good as most of the examinees secured good marks. However, few of the examinees did not accurately calculate the theoretical minimum price of 5-month forward contract.

(b) Hedging Positions on Index Future:

In this part, the examinees were required to determine the hedging positions. Most of the examinees could not understand the requirement of the question. However, most of the errors occurred in this part, relating to hedge and future contracts, are highlighted as under:

- Most of the examinees did not incorporate the value of beta and calculated the index value.
- A number of examinees arrived at the final conclusion instead of evaluating the hedging of IFS Limited, ABM Limited and GEF Limited.

(c) Calculation of Overall Profit/ (Loss):

In this part, the requirement was to calculate the overall profit or loss of Mr. Naimat's transactions. Most of the examinees ended their answers at the loss side by adding the loss of both transactions. However, the performance of the examinees was remained average and some of them secured full marks in this part.

Strategic Management

Strategic Level-2



Question No. 1

(a) Organizational Culture:

This question was a case study related to organizational culture and examinees were asked to explain the organizational culture and its personality. Majority of the examinees defined it correctly but were unable to explain it

properly. Overall, the performance was remained average in this part and most of the examinees.

(b) Organizational Culture and Decision-Making:

Examinees were asked to briefly explain the organizational culture at Motosoft Corporation (MC) and the reason for slow decision-making in the company. Most of the

examinees were unable to explain this correctly, as most of points in their answers were just copied from the given case study without proper explanation. However, the performance of examinees remained average in this part.

(c) Types of Changes:

Examinees were asked to explain the three types of changes that MC was facing and most of the answers were out of context, as their explanation was not upto the mark. Overall, marks scored by the examinees were below average in this question.

Question No. 2

(a) Reasons why Firms do not engage in Strategic Planning Process:

Examinees were asked to explain any five reasons why firms do not want to engage in strategic planning process. Most of the answers were as per the requirement and considered correct upto certain extent. Overall, the performance was above average in this part.

(b) Management's Role in Encouraging Ethical Behaviour:

In this part of the question, examinees were asked to explain that what role a management of an organization can play to encourage ethical behaviour in an organization. Here, again, examinees' points were considerable and above average marks were scored by them.

Question No. 3

(a) Pay-for-Performance Plan in an Organization:

It was, again, a case study and examinees, in this part, were just asked to give their opinion regarding pay-for-performance plan in an organization. Overall, the answers were based on mixed opinions and examinees explained generally rather going through the case study. However, examinees' performance was average in this question.

(b) Recommendations regarding Decision-Making:

In this part, examinees were asked to give their recommendations to the organization's Chief Executive Officer (CEO), Mr. Haider Ali, and to the HR Manager, Mr. Aslam Khan, as per the case study about their decision for implementing pay-for-performance plan in the organization. Examinees were able to recommend the ideas but most of them were unable to explain properly. Overall, the performance was below average in this question.

(c) Mistakes and Approach of Mr. Khan:

Examinees were asked to identify the mistakes that Mr. Khan made and what went wrong in his approach for major compensation change. Very few examinees answered the correct points and most of the explanations were not according to the given scenario. However, the performance of examinees in this part was below average.

Question No. 4

(a) Three Stages of Strategic Management Process:

In this part, the examinees were asked to explain the three stages of strategic management process, which was an easy question and answers were also above average as whole.

(b) Constraints and Challenges faced by Managers in External Environment:

This part of the question required examinees to explain any four types of constraints and challenges faced by managers in today's external environment. Majority of the examinees attempted this question but many of them confused it with Porters' Five Forces Model. However, some of the examinees explained it correctly. Overall, the performance was remained average in this part.

Question No. 5

(a) Growth, Stability and Retrenchment Strategies:

In this part, the examinees were asked to explain the three above-mentioned strategies and to highlight the scenario under which each strategy is most appropriate. However, it was an easy question but the answers were not upto the requirement and very few examinees were able to explain it correctly.

(b) Ansoff's Product-Market Grid:

Examinees were simply asked to identify the strategies for the given scenarios according to Ansoff's Product-Market Grid. However, most of the examinees were not able to relate the scenarios with the strategies. Some of the examinees wrote whole paragraphs for the one-liner answers. Overall, the performance was below average in this part.

Question No. 6

(a) Steps for an effective Contingency Planning:

In this part, examinees were asked to suggest five steps for making an effective contingency planning. However, most of the examinees were able to explain the required steps. Overall, the performance was above average in this question.

(b) & (c) Strategy Evaluation and Effective Evaluation System:

In these parts, examinees were required to explain the reasons for getting strategy evaluation difficult and effective evaluation system. Majority of the examinees were not able to explain the requirements accordingly. However, few of the examinees got good marks while most of the answers were irrelevant, based on general statements. Overall performance was below average.

Question No. 7

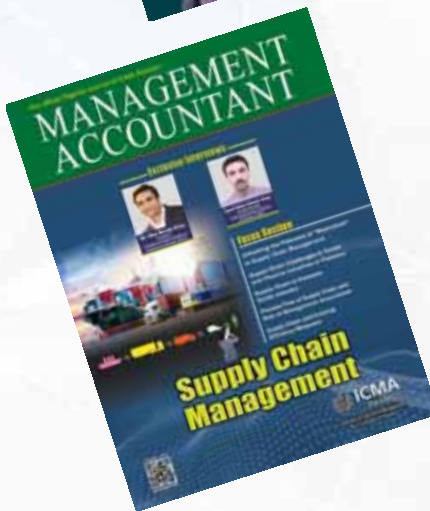
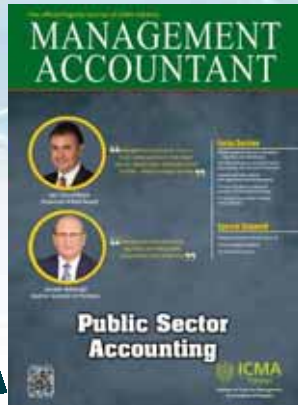
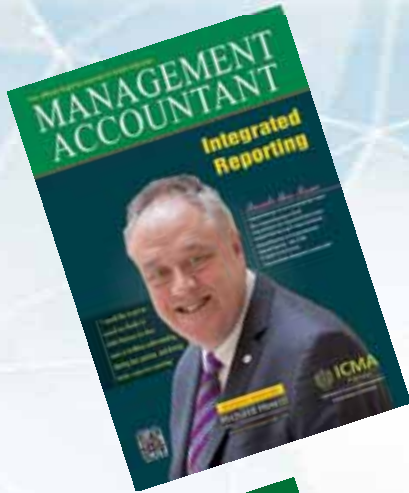
(a) Strategic issues of Small Medium Enterprises (SME):

Examinees, in this part, were required to explain the issues faced by Small Medium Enterprises (SMEs) related to strategic management process. Most of the examinees were aware of the issues and replied accordingly. Overall, a good response was observed in this part.

(b) Strategic Management Process in Non-Profit Organizations (NPO):

Examinees were asked to explain the strategic management processes involved for Non-profit organizations (NPOs). Majority of the examinees were not aware of difference between the process of an organization and an NPO. Examinees replies were based on general statements. Overall, the performance was below average in this part.

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