The Pakistan
accountant
July - Sept 2019
Magazine of The Institute of Chartered Accountants of Pakistan

Taxation
A Pathway to Economic Prosperity

The Credibility GAP – Fiscal Deficit Vs. Trust Deficit

Female Entrepreneurship in Pakistan

Use of Industrial and Plastic Waste for Road Pavements

Debate
Developing Countries Need Trade, Not Aid

The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

Governance, Transparency and Service to Members and Students

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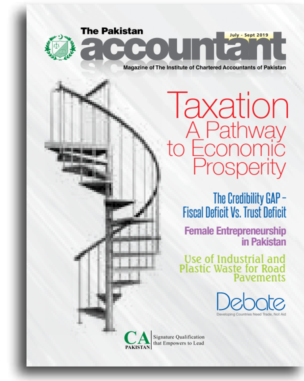
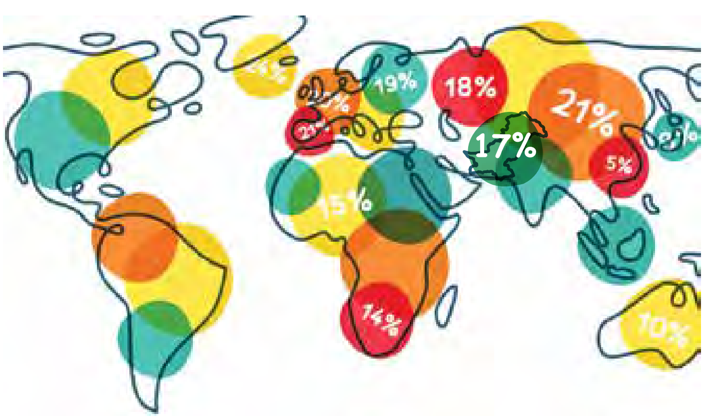
contents



EDITOR'S LETTER

PRESIDENT'S PAGE

COVER STORY



OTHER ARTICLES

DEBATE

Editor's Letter

The one major factor for the economic woes of Pakistan is the poor tax to GDP ratio. Though the direct and indirect taxes form the largest source of revenue receipts to the national exchequer, there is a need for the tax machinery to continuously strive for enhancing the tax to GDP ratio and expand the tax base. After the delegation of authority to collect sales tax on services provided to the provinces, although the provincial governments have been able to enhance their review, yet, this has increased the misery of the taxpayers who are now required to make compliances under various laws before the number of tax authorities. This has drastically increased their cost of compliances and they have to spend a lot of time and money while dealing with different tax authorities. Further, both taxpayers and tax practitioners face problems in the administration and implementation of direct and indirect tax laws, which not only create hassles for the taxpayers but also result in unnecessary litigations with the tax department.

The Institute of Chartered Accountants of Pakistan (ICAP) is committed to work in the national interest for building a thriving tax culture that will help Pakistan to achieve sustained growth. The Institute and its relevant committee have been constantly making efforts to identify areas where reforms are needed; to broaden the tax base, remove ambiguities, effective measures to curb tax evasion and to simplify the process for taxpayers.

Despite of the imposition of a relatively high corporate tax rate in Pakistan, the country's tax-to- GDP ratio is one of the lowest in the world due to which the government's revenue generation always remains weak. In order to manage the deficiency in its resources, the government has to borrow funds. The continuance increase in government borrowings is overburdening the government with the heavy interest cost due to which it is unable to support and sustain the economic growth of the country. The possible way for the government to overcome this problem is to enhance its tax collections by expanding its tax base. It is an admitted fact that even after introducing a number of programs and efforts, the government could not succeed in making proper tax collections and implementing its tax laws. Therefore, the government has to give a fresh look to the issue. It is the need of time to establish an independent policy board of the professionals who would be responsible to evaluate the problems in the current system and formulate a detailed policy for broadening the tax base, simplifying the tax laws, making compliances easy, reducing litigations and encouraging the people to make due payment of taxes. It has to introduce a 'carrot and stick' policy for bringing the people under the tax net who are required to pay taxes and currently not paying taxes. Besides focusing on the taxpayers, it also has to give some strict criteria to evaluate the performance of officials of Federal Board of Revenue (FBR). There is a dire need that focus be shifted towards broadening the tax base instead of collecting the tax targets from the existing taxpayers. The government needs to compare the contribution of each sector towards the GDP and contribution towards taxes and should focus on areas where tax to GDP ratio is not up to the mark.

In order to improve the current status and the system, what we need is an environment where compliance with tax laws comes naturally to the public. The methods for the tax collection requires improvement. Further, the tax officials should be properly trained to deal with the taxpayers more respectfully and dispose of their request and applications timely. Continuous trainings should be provided to the tax officials to implement the legal provisions properly. The system of dispute resolutions be strengthened to avoid undue litigations and undue influences as well. Further, the introduction of professionals in the tax collection system can give better results. These measures can help in achieving the confidence of the taxpayers and will ensure the proper tax collections on timely manners.

It is essential that we adopt the 'do-more approach' for the collection of tax, rather than levying higher taxes; it is very important that the procedures and the laws are made user-friendly and easily understandable by the general public; regulatory authorities charged with the responsibility of collecting tax should be upgraded to enforce compliance. There should be enhanced accountability and transparency from government regarding the management of revenue derived from taxation in terms of provision of public goods and services, as this can help in ensuring better tax compliance among the taxpayers.

In order to ensure the economic prosperity and growth, the Institutes' technical committees remain committed to improve the general understanding of the existing laws through their various publications and participation in forums. Further, they can also encourage and help the revenue authorities in simplification of laws and procedures and removal of anomalies and irritants. A successful pathway for the economic growth and prosperity can only be achieved if all the parties, the taxpayers, the tax professional and the tax authorities, perform their duties honestly and sincerely.

Muhammad Awais, FCA

President's Page

Taxation is the main fiscal tool and source of revenue collection for government in both developed and developing economies. An effective and efficient tax system is crucial and indispensable for economic growth in developing economies. Although Pakistan is known as a country where general public give a large amount of money as charity that helps to fulfill many needs in the health and education sectors that are otherwise considered as obligations of the state, however, due to voluntary nature of such collections, their amount can neither be estimated nor these can always be utilised most efficiently. Taxation is a system that streamlines the utilisation of the taxpayers' money into the acceleration of investment and formation of socio-economic development.

During the current fiscal year, Pakistan has taken substantial steps towards improving its tax system. Government has made a serious effort to document the economy and introduce a tax system that taxes the real income rather than presumptive income and taxes non-business income at a higher rate. However, so far collection of tax revenues is not as per the government's expectation.

There are two major factors hindering the country's economic growth: insecurity and uncertainty. While security has improved significantly over the last few years, little attention had been paid to Pakistan's unfriendly tax policies. Present government has been able to improve Pakistan's ranking from 136th to 108th in the World Bank's Ease of Doing Business Index. However, it is still not very easy to pay taxes in Pakistan. The good thing is that present Chairman of Federal Board of Revenue (FBR) is quite mindful of this fact and has been making concerted efforts to improve the situation.

The situation of economy is however very precarious due to various complications: lack of a healthy culture of paying due taxes, a very high interest rate, a spike in inflation, a weak currency and an uncertain stock market are some of the problems that are hindering the economic growth.

A very large part of our businesses comprises of small and medium enterprises. These organisations have little access to borrowed capital. In the present situation due to a high interest rate, this access is further limited. Thus the major source of capital formation for these businesses is profit earned. A very high rate of taxation would therefore seriously hamper SMEs ability to form capital and thus would lead to stagnation of such enterprises.

A poor tax implementation machinery also puts the compliant in a huge competitive disadvantage viz a viz a non-compliant. The higher the tax rates the bigger the disadvantage of poor tax implementation for the law abiding citizen. We all know that poverty of our tax administration is not going to go overnight. Cultivating a tax culture is also going to take some time and concerted efforts. Till such time that we achieve a reasonable degree of tax compliance and build an efficient infrastructure of tax collection, lowering the tax rates to move the economy may be a good idea.

The situation requires two things for economic growth and increased tax revenue: a very thorough planning of the economy over the next ten years and giving a constitutional cover to such plans and strong political will on the part of the government to provide full support to its economic managers and tax collectors. The government will have to withstand lot of pressure coming from all sectors of the economy. But at the same time, it will have to show the wisdom to understand genuine problems of the businessmen. All of us need to understand that a running business moves the wheel of economy. A moving economy generates taxes. A stagnant or slow moving economy will lead to another horrendous consequence, namely unemployment.

Being a regulator of the profession in the country, The Institute of Chartered Accountants of Pakistan (ICAP) is committed to working in the national interest for building a prosperous tax culture that will help Pakistan to achieve sustained growth. The Institute through its various committees has been a consistent advisor to the government in matters of economic policies, budgets and tax proposals.

The Economic Advisory Committee includes a panel of non-governmental experts from business works on the current economic crisis and possible responses to it and forwards its report to Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP). Also, the Committee on Fiscal Laws reviews existing tax legislations to submit representations for new legislation or to revise existing legislation and participates in creating a pro-active awareness of tax developments as well as sending the budget proposals to the FBR.

The Institute, through its proposals, highlights the need of tax reforms, including suggestions to simplify the law and remove ambiguities in the laws, broadening of tax base and effective measures to curb tax evasion.

Jafar Husain, FCA

State of Public Finances

Dr. Waqar Masood Khan

Pakistan's state of public finances has mostly been tight but it has deteriorated rapidly after the 2009-10 when the last National Finance Commission (NFC) Award went into effect and fiscal management was slack. In this article, we would explain how this state has evolved and what are the key indicators of its precarious nature. We make extensive use of the following Table which captures the evolution of fiscal state in the last six fiscal years while the year of 2009-10 would serve as the base.

Table 1: Evolution of Public Finances (Rs. in millions)

	2009-10	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Working Reference
Gross Revenues	1,974,458	3,412,037	3,662,534	4,080,145	4,549,048	4,696,166	4,435,560	A
Gr. Rev % of GDP	13.46	13.43	13.37	13.79	14.28	13.65	11.50	C=A/B*100
Transfers to Provinces	633,452	1,406,280	1,538,674	1,862,162	1,965,807	2,217,166	2,397,762	D
Transfers as % of GDP	4.32	5.54	5.62	6.29	6.17	6.45	6.22	E=D/B*100
Transfer as % of G. Rev.	32.08	41.22	42.01	45.64	43.21	47.21	54.06	F=D/A*100
Net Revenues	1,341,006	2,005,757	2,123,860	2,217,983	2,583,241	2,479,000	2,037,798	G=A-B
Federal Current Exp.	1,840,662	2,884,730	3,070,319	3,178,434	3,494,316	3,814,468	4,803,897	H
Interest Payments	642,000	1,149,660	1,303,902	1,263,368	1,348,442	1,363,627	2,091,126	I
Defense	578,000	1,074,680	1,208,240	1,150,809	1,220,000	1,230,000	1,146,793	J
Interest + Defense	1,220,000	2,224,340	2,512,142	2,414,178	2,568,442	2,593,627	3,237,919	K=I+J
Fed Curr. Net of Int. Defense	620,662	660,390	558,177	764,256	925,874	1,220,841	1,565,978	L=H-K
Net Rev - Interest & Defense	121,006	-218,583	-388,282	-196,195	14,799	-114,627	-1,200,121	M=G-K
Federal Dev. Expenditures	432,402	874,348	691,347	742,633	867,467	889,833	795,273	N
Fed Dev. Exp. % of GDP	2.95	3.44	2.52	2.51	2.72	2.59	2.06	O=N/B
Federal Total Expenditures	2,273,064	3,759,078	3,761,666	3,921,067	4,361,783	4,704,301	5,599,170	P=H+N
Federal Expend/Gr. Revenue	1.15	1.10	1.03	0.96	0.96	1.00	1.26	Q=P/G
Revenue Deficit	(499,656)	(878,973)	(946,459)	(960,451)	(911,075)	(1,335,468)	(2,766,099)	R=A-P
GDP	14,668,000	25,402,000	27,384,000	29,598,000	31,862,000	34,396,000	38,559,000	B
Rev. Deficit as % of GDP	3.41	3.46	3.46	3.24	2.86	3.88	7.17	S=R/B*100
Fed Exp. as % of GDP	15.50	14.80	13.74	13.25	13.69	13.68	14.52	T=P/B
Federal Deficit	(932,058)	(1,753,321)	(1,637,806)	(1,703,084)	(1,778,542)	(2,225,301)	(3,561,372)	U=G-P
Federal Deficit as % of GDP	6.35	6.90	5.98	5.75	5.58	6.47	9.24	V=U/B*100
Primary Deficit	(290,058)	603,661)	(333,904)	439,716)	(430,100)	(861,674)	(1,470,246)	W=U-I
Primary Deficit % GDP	(1,98)	(2.38)	(1.22)	(1.49)	(1.35)	(2.51)	(3.81)	X=W/B*100
Prov. Current Expenditures	627,000	1,172,917	1,387,070	1,550,018	1,725,704	2,047,000	2,327,881	Y
Prov. Dev. Expenditures	258,000	430,520	499,000	592,400	852,000	892,000	506,166	Z
Total Prov. Expenditures	885,000	1,603,437	1,886,070	2,142,418	2,577,704	2,939,000	2,834,047	AA=Y+Z
Total Fed +Prov. Expend.	3,158,064	5,362,515	5,647,736	6,063,485	6,939,487	7,643,301	8,433,217	AB=P+AA
Federal as % of Total Exp.	71.98	70.10	66.60	64.67	62.85	61.55	66.39	AC=P/AB*100
Prov. as % of Total Exp.	28.02	29.90	33.40	35.33	37.15	38.45	33.61	AD=AA/AB*100

Revenues and Transfers: The key to understanding the deterioration in fiscal finances is the stagnant gross revenues at 13.5% of GDP, which declined significantly to 11.5% last fiscal year. But a larger part of this stagnant stream of revenues was transferred to the provinces. The share of divisible pool going to provinces rose from 46% in 2009-10 to 57.5% at present. As a share of gross revenues, it rose from 32% in 2009-10 to 54.06% last year. The fact that increasingly larger amount of resources are transferred to provinces is also evident from the trend in ratio of Transfers relative to GDP which rose from 4.3% in 2009-10 to 6.22 in 2018-19.

It is only logical to expect that if revenue assignments between federation and provinces were altered in favour of provinces, expenditure responsibilities would be duly adjusted to reflect this transition. Unfortunately, this has not been the case as the federal government effectively continued to maintain high levels of expenditures.

Federal Expenditures: While the revenues were stagnant and larger transfers were made to the provinces, expenditures remained sticky. They were marginally declined from 15.5% in 2009-10 to 13.25% in 2015-16 but have started rising since then and reached as high as 14.5% last year. Note that when expenditures are inflexible and net revenue (after transfers) is on the decline, rising fiscal deficit is the result.

But the more significant development is that the net revenues are woefully inadequate to meet the inelastic expenditures of the government. The two key expenditures are interest payments and defense. Until 2009-10, net revenues were not only sufficient to cover these expenditures but were leaving some balance to meet other expenditures. This situation has long changed as net revenues are woefully insufficient to cover these expenditures. In 2018-19, net revenues were short of these two expenditures by a staggering margin of Rs.1.2 trillion.

Federal Revenue Deficit: Revenue deficit is a measure to assess if the revenues of the government are sufficient to meet its current expenditures. The story here is also distressful. This should not be surprising when net revenues are insufficient to meet even the interest payments and defense, as shown above. But the extent to which we depend on borrowing would be gauged first at the level of revenue deficit, which was 3.4% in 2009-10 and has remained mostly in this range except for an unusual jump to 7.7% in 2018-19. This is reflective of the inelastic nature of current expenditure. But then one has to recognise that without significantly cutting expenditures or raising revenues, such levels of current expenditures are simply unsustainable.

Development Expenditures: With revenue deficit, the entire development expenditure is financed by borrowings, which is fine so long as the development expenditures are efficiently utilised for such projects which would generate future income for the government and society. But unfortunately, the level of development expenditure has been declining as more and more current expenditures were given priority. From 4.71% in 2009-10, the combined development expenditure of the federal and provincial government gradually declined to 2.06% of the GDP last year.

Federal Deficit: Inevitably, on the face of rising expenditures and stagnant revenues, fiscal deficit would be rising. The deficit rose from 6.35% of GDP in 2009-10 to 9.24% in 2018-19. This is a phenomenal increase in spending based primarily on domestic borrowings (mostly from central bank) together with sizeable foreign borrowings. The overall fiscal deficit is arrived at by adjusting for provincial surpluses. Some periods when deficit was low, it was due to those surpluses from provinces, which soon vanished as the election year approached.

Public Debt: Accumulation of deficits is called public debt. It is not a simple addition to the debt. Loss of capital due to rupee valuation due to devaluation also adds to the public debt. The following Table-2 depicts the evolution of public debt during this period.

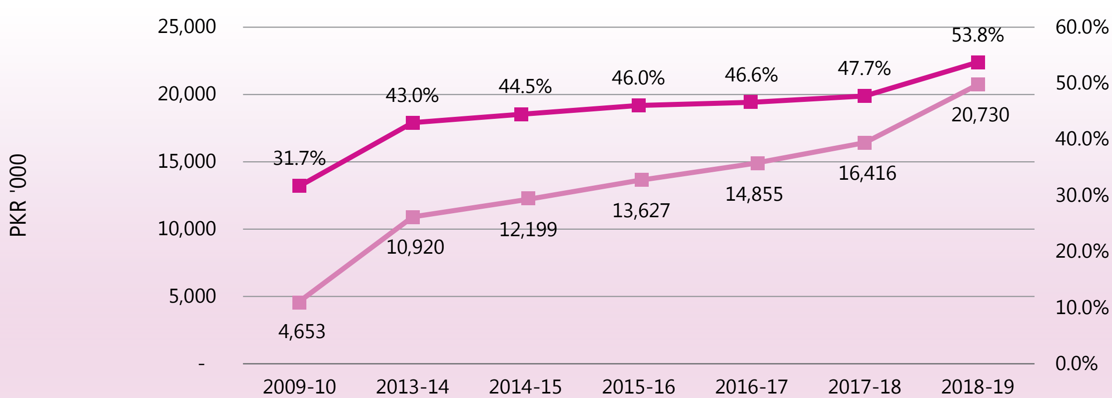
Table-2: Public Debt Accumulation

(Rs. in billions)

	2009-10	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic Debt	4653	10,920	12,199	13,627	14,855	16,416	20,730
External Debt	4357	5,072	5,182	6,051	6,552	8,537	11,976
Gr. Public Debt	9010	15,992	17,381	19,678	21,407	24,953	32,706
Domestic Debt	31.7	43.4	44.5	46.8	46.6	47.7	54.8
External Debt	29.7	20.1	18.9	20.8	20.6	24.8	31.0
Gr. Public Debt	61.4	63.5	63.3	67.6	67.2	72.5	84.8

Table-2A: Domestic Debt Accumulation

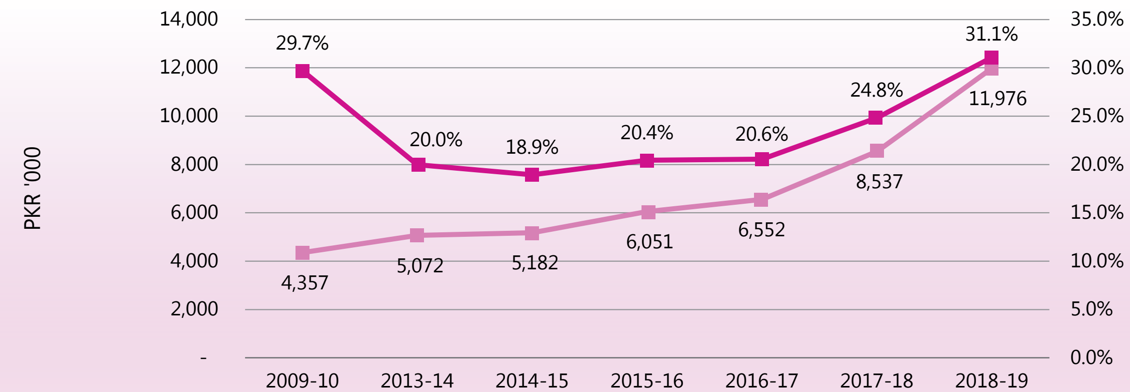
(Rs. in billions)



	2009-10	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic debt	4,653	10,920	12,199	13,627	14,855	16,416	20,730
Domestic debt % to GDP	31.7%	43.0%	44.5%	46.0%	46.6%	47.7%	53.8%

Table-2B: External Debt Accumulation

(Rs. in billions)



External debt	4,357	5,072	5,182	6,051	6,552	8,537	11,976
External debt % to GDP	29.7%	20.0%	18.9%	20.4%	20.6%	24.8%	31.1%

The public debt was 61.4% of GDP in 2019-10 and has gradually risen to 84.8%. Public debt and liabilities (not reported here) have reached 104% of GDP. These are unsustainable levels of debt and liabilities. More worryingly, one sees little hope that this situation is going to be corrected any time soon.

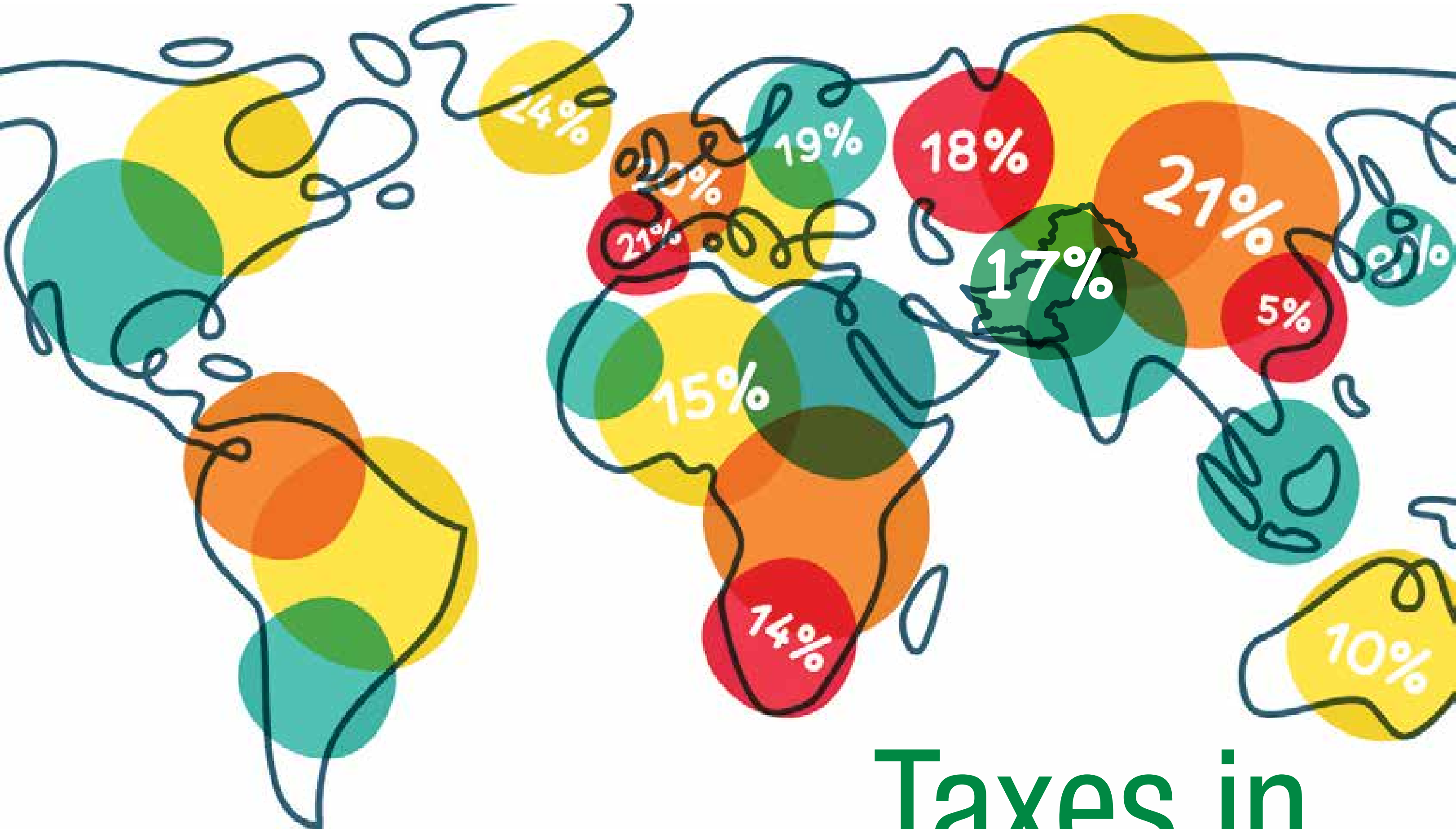
It may also be noted that during this period, the external debt has risen from 29.7% of GDP in 2009-10 to 31% in 2018-19 after falling as low as 18.9%. On the other hand, it is the domestic debt that is at the heart of excessive public debt accumulation. This means much of the domestic credit created during this period has been absorbed by the government leaving little for private sector. With meagre development spending barring a few years, it is clear that investments have been low during this period. Not surprisingly, the period is known for the weakest growth in country's history.

Conclusions: In this article, we have analysed the state of public finances and consequent build-up of the public debt. Evidently, public finances have suffered major imbalances. Post-NFC, the federal government has not adjusted its expenditures commensurate with the transfer of revenues to provinces. Given the fact that provinces are simply spending units, all responsibility for fiscal adjustment, i.e. to bring overall balance in the fiscal account, now devolves on the federal government. But the responsibility has not been fulfilled.

Under the circumstances, as we have explained above, federal expenditures are much higher to be covered in any meaningful measure by the federal share in total revenues. Furthermore, the ability of the federal government to undertake adjustment through tax efforts is greatly compromised by the fact that greater part of increased taxes would be transferred to provinces who are not bound to refrain from spending them. This means that increased taxes are not as effective in restoring fiscal balance compared to expenditure reduction. But we have also seen that net revenues are insufficient to meet even the interest and defense expenditures. Consequently, even if all other expenditures are eliminated, which is an impossibility, significant deficit would remain. This is therefore the dilemma that has caught Pakistan's fiscal management.

Furthermore, with such staggering demands for government financing, private credit would continue to suffer and with it the growth process would remain hampered. Unemployment and poverty are the ultimate consequences of such pathways. Unless there is a radical break from this strategy, we cannot hope to advance toward a pathway to economic prosperity.

Dr. Waqar Masood Khan is a former federal finance secretary, government of Pakistan and ex-Council member of The Institute of Chartered Accountants of Pakistan.



Taxes in Pakistan – Bottleneck

in way towards Industrialisation, Import Substitution & Export Led Growth

Shameer Haroon **ACA**

The fiscal regime in Pakistan is extremely complex due to the different types of direct/indirect taxes and a bureaucracy focused on extracting higher revenue from a narrow base of existing taxpayers. Tax rates in Pakistan are the highest amongst other countries in the region especially the sales tax i.e. 17% which, in a largely undocumented economy, provides incentive to evade. Comparison of Sales Tax rate in Pakistan as against regional countries is tabulated below:

Country	Sales Tax Rate
Pakistan	17%
Singapore	7%
Bangladesh	12%
Sri Lanka	15%
Vietnam	10%

In addition to the higher sales tax rate of 17% (providing incentive to evade sales tax), complexity of tax laws in Pakistan is another factor, which restrains undocumented sector to register under the tax net. Pakistan's position in ease of doing business, as per World Bank Ease of Doing Business 2019 (EODB) Ranking, as compared to India and Hong Kong (best in the world in terms of ease of doing business) is tabulated below:

Country	World Bank EODB Ranking (out of 190)	Number of Taxes
Pakistan	173	47
India	121	13
Hong Kong (Best in World)	1	3

One of the reasons for the high rate of sales tax and heavy reliance on collection through indirect taxes in Pakistan is the fact that the scope of direct taxes is very limited as 61.7% of the total population of Pakistan lives in rural areas and around 38.8% of households are below the poverty line. Apart from this, the major reason for reliance on indirect taxes is because of a large undocumented economy and capacity issues within the taxation system, besides structural problems that have created multiple bottlenecks in government efforts to broaden the tax base. Issue of the extremely narrow tax base is being faced by Pakistan since inception. In the matters of tax collection, tax base is more important than the tax rate. If the base is broad and productive, more tax revenue is likely to be collected with low rates. A regime of high tax rates neither brings in more revenue nor improves prosperity levels. On the contrary, the efficiency costs of high tax rates are huge.

A regime of high tax rates neither brings in more revenue nor improves prosperity levels.

In order to be more productive and to generate more tax revenue, spending as well as capital investment should be encouraged. This idea originates from Islamic teachings as Islam demands its followers to spend whatever they earn in satisfying their needs, investing in business or lending to others to help them satisfy their needs, it keeps the capital in circulation. Positive effects of keeping the capital in circulation can also be witnessed from thriving economic activities during Ramadan and Eid-ul-Adha. On the other hand, tax laws and monetary policy being followed in Pakistan is totally against the concept of generation of tax revenues through promotion of investment and economic activities. Heavy reliance on indirect taxes has restricted the level of economic activities and consequently Pakistan, unfortunately, is moving fast towards premature de-industrialisation. Amongst others, tax on capital investment is one of the main factors for heavy reliance on imported finished goods as heavy taxes on import of plant and machinery discourages investor from making capital intensive machineries. In case an investor intends to setup a manufacturing facility in Pakistan to manufacture goods for import substitution or export promotion, he has to pay upfront (at the time of investment) 17% Federal Sales Tax, 3% Minimum Value Addition Sales Tax, 5.5% Advance Income Tax as well as Custom duties, if applicable. In case, if we ignore custom duties, provincial sales tax on transportation services and ancillary services necessary for installation of plant & machinery, even then the Federal Income Tax and Sales Tax account for a mammoth 25.5% (17+3+5.5) of the total cost of plant & machinery. How would it be financially viable for any investor to invest in heavy capital intensive machinery, which would result in blockage of his funds in the form of Income Tax and Sales Tax refunds specifically in current economic scenarios where return on investment in industries is extremely low, due to high input cost and slowdown in overall economic activities, as compared to the return being offered by fixed income schemes and banks.

Heavy reliance on indirect taxes has restricted the level of economic activities and consequently Pakistan is moving fast towards premature de-industrialisation.

At one hand, capital investment is discouraged through levy of heavy advance income and sales tax and on the other hand consumption is also being discouraged through high level of sales tax @ 17%. Apart from this, the main issue of indirect taxation through sales tax is that the same is not fairly distributed over poor and rich. A person earning millions as well as another person earning in thousand/hundreds are both liable to pay 17% sales tax on their sales taxable consumption, which is one of the biggest reasons for economic disparity and distortion in level of amount available for spending.

Apart from the above, another major issues with high rate of indirect taxes is that the same provides monetary attraction to evade such taxes. Moreover, those registering themselves with tax authorities with intention to pay their due share of taxes are some times squeezed by tax officers forcing them to pay more taxes than the amount already paid by them just to meet budgetary targets of tax officers. Consequently, even those who want to come under the tax net to pay due share of their taxes are usually reluctant to get themselves registered due to the fear of harassment and undue recovery of tax demand, on the basis of flimsy issues, which do not even stand the test of appeal.

Those registering themselves with tax authorities with intention to pay their due share of taxes are some times squeesed by tax officers forcing them to pay more taxes than the amount already paid by them just to meet budgetary targets of tax officers.

Moreover, previously Minimum Value Addition Sales Tax @ 3% (MVAT) at import stage was being collected from commercial importers (in addition to General Sales Tax of 17%) to provide level playing field to manufacturers, however, through the amendments made vide Finance Act 2019, commercial importers (importing items subject to Custom Duty of 16% or less) have been excluded from the ambit of MVAT at import stage. Moreover, previously manufacturers were excluded from the ambit of 3% MVAT, however, through the amendments made vide Finance Act, 2019, MVAT has been levied on import of raw materials (subject to 16% or more Custom Duty) as well as plant & machinery (irrespective of any custom duty) even by manufacturers. This amendment has been made without realising the fact that manufacturer has to pay sales tax on conversion cost and other input cost for processing of raw materials, whereas commercial importer does not incur any such costs, therefore, the same would discourage industrialisation and investment in plant & machinery. In order to promote level playing field to manufacturers as compared to commercial importers, sales tax should on conversion cost, which is otherwise adjustable/refundable, should be abolished.

While making amendments in tax laws, consideration should be given to promote industrialisation for import substitution and export led growth, which will ultimately result in increase in tax revenues in addition to foreign exchange flows and saving through import substitution. Every dollar saved through import substitutions is as good as dollar earned through exports.

The above submissions can also be corroborated from the saying of Hazrat Ali RadiAllahu Anhu, which has also been quoted by the United Nations Development Program (UNDP) in its 2002 Arab Human Development Report as follow:

"Your concern with developing the land should be greater than your concern for collecting taxes, for the latter can only be obtained by developing; whereas he who seeks revenue without development destroys the country and the people."

Every dollar saved through import substitutions is as good as dollar earned through exports.

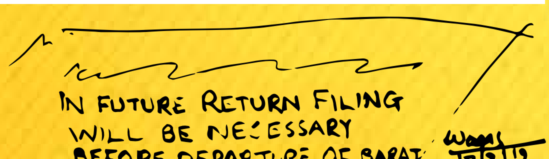
In order to overcome the issues discussed above, following steps should immediately be taken to promote capital intensive investment resulting in creation of job opportunities, industrialisation, import substitution and export led growth:

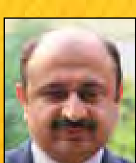
- Taxes should be abolished on capital intensive investment to promote investment in plant and machinery necessary for import substitution and export led growth.
- Manufacturers should be provided with a level playing field as compared to commercial importers.
- Sales Tax rate should be reduced to minimise incentive for evasion and to generate more economic activities.
- Focus should be on broadening the Tax base rather than figure fudging through increase in tax rates.
- Tax revenue should be used productively, efficiently and effectively and for the long term benefit of the overall society. It should not be used for pomp and glory of those in government.
- Justice, equity, economic fair play and moral accountability should be the hallmarks of tax policy, governance and enforcement.
- Tax officers should be held accountable for their actions and neutral appellate authorities be appointed to provide easy and quick access to justice.

Shameer Haroon is a chartered accountant currently associated as member of ICAP Fiscal Laws Committee and Alternative Dispute Resolution Committee constituted by the FBR.

Taxation - A Pathway to Economic Prosperity

Muhammad Waqas Khalid **FCA**





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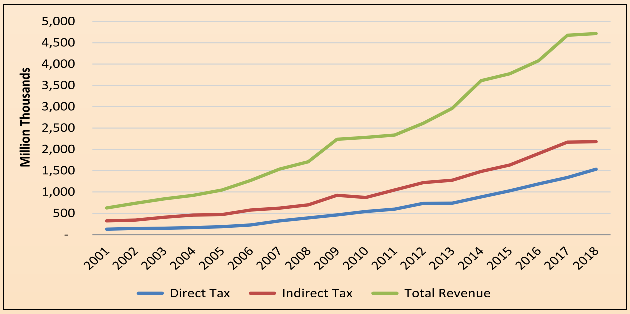
Taxation – Not only a Revenue Measure but also a Policy Tool

Wajahat Rehman

Various studies have confirmed that economic activities of a country are suggestively influenced by the policies for government revenue collection. Revenue Statistics 2017 published by the Organisation for Economic Co-operation and Development (OECD) states that government revenue of OECD member countries (including Pakistan) were largely gathered from taxes. Another study *'The impact of tax policies on economic growth: evidence from South-Asian economies'* by Padda & Akram (2009) concludes that an increase in the tax rate has permanent effect on the level of output per capita, but have no permanent effect on economic growth.



Source: Statistical Bulletin

As per published records, in tax year 2018, direct taxes contributed 32.57% of total government revenue, whereas, indirect taxes contributed 46.28%, which means that 78.85% of total government revenue was alone collected from taxes. This much reliance on tax revenue demands an effective and efficient fiscal policy that does not hinders economic growth.

In developing countries, the main fiscal issue is to make both ends meet – i.e. fight to overcome government expenditures that cause budget deficit by proficiently generating government revenue. Since taxes are the major source of revenue in these countries, therefore, governments often impose excessive taxes. However, numerous researches have confirmed that exploiting taxes in order to manage budget constraints result in reductions in economic activities. Therefore, developing countries like Pakistan treats taxes more as revenue source and ignore its characteristic of policy signal. Signalling is a basic economic concept, which implies that any action taken by the government, signals the market to adjust its economic activity accordingly. Similarly, consumers and producers alter their economic behaviour upon change in tax-related policies. However, government has often failed to anticipate this change in market behaviour, leading to undesired outcome. For instance, in order to document economic activities and capture undeclared income, government disallowed input sales tax related to transactions without Computerised National Identity Card (CNIC) amounting above Rs. 50,000. In corporate sector, this measure mostly effects dealers/distributors/retailers, which in past were not subject to direct disclosure before tax authorities. As a result, market perceive negative signal from this step of government and overall economic activity slowdown.

Considering the above, it is vital to understand taxation as a policy tool so that policymakers would be able to take such fiscal measures that upkeep and flounce economic growth. Accordingly, this article aims to explore the policy side of taxation.

To begin with, it is important to identify tax incidences in economy. In case of Pakistan, we can categorise tax incidences in various ways:

- in term of tax jurisdiction – i.e. federal taxes and provincial taxes;
- in terms of tax types – i.e. direct taxes and indirect taxes;
- in terms of revenue tax – i.e. income tax or withholding;
- in terms of consumption tax – i.e. tax on goods or on services; or
- in terms of tax usage – i.e. general or specific.

Nonetheless, such categorisation is meaningless when it comes to general public. Public is only concerned about its purchasing power – i.e. its ability to allocate earnings to fulfil basic as well as luxury needs, which is incessantly declining. This is the very crucial point to consider for policymakers while using taxation as policy tool. Regardless to the fact that revenue goes either to federal or provincial government, it is direct or indirect, it is deducted as withholding or submitted with return, it is charged on goods or services, it is collected for general or specific purposes – for public it all goes to government, which is responsible for their wellbeing. Therefore, when public does not receives promised basic services, it starts questioning about the usage and allocation of taxes.

The issue that government is collecting taxes but failing to deliver on promises give raise to tax evasions – since direct taxes are considered cost for everyone, therefore, individuals and even corporates are more prone to direct tax evasion, they start concealing their incomes, increases black money circulation and undocumented economy. Income concealment is one of the main issues being faced by tax authorities in Pakistan. First reason is excessive cash base transactions – a salaried person usually declare salary income along with any investment on which tax has already been deducted but intentionally conceal other income which is not trailed. For example, a teacher receives salary from educational institution after deduction of income tax, therefore, he/she declare that salary in income tax return but if he/she provides private tuition, income from this source is not being declared because such income is in cash form and not trailed, same goes with private labour, doctors, lawyers and other professionals.

Another reason is the inability of existing tax system to capture all segments of the economy – agriculture sector enjoys general exemption from income tax, therefore, agriculture income is not reported to tax authorities. Due to such non-reporting, it is becoming hard for tax authorities to block the inflow into black economy. It would be more suitable that agriculture income will only be exempt if reported to tax authorities, this way economic documentation increases along with revelation of demographic productive potential.

On the other hand, indirect taxes are recovered from the end consumer through pricing; therefore, they are not that much evaded by the documented sector. Accordingly, government collect more indirect taxes as compared to direct taxes – in 2018, indirect taxes were 1.4 times higher than direct taxes but such reliance on indirect taxes has a drawback that it increases inflation. Purchasing power of the public is directly affected by increase in indirect taxes. Apart from indirect taxes imposed on purchases made by the end consumer, often government policies result in high inflation by baring adjustment of indirect taxes for business sector.

When manufacturers/suppliers are barred from adjustment of input sales tax, they make it part of production cost and recovered it from consumer through increasing sales price. This results in double effect of indirect taxes. Assuming a manufacturer produces 100 units on which it suffers bar on input sales tax adjustment of Rs. 10,000 which it obviously recovered from customer by increasing price of each unit by Rs. 10. Now at the time of sales, the end consumer pays general sales tax at the increased price (that contain Rs. 10/unit input sales tax barred), resulting in additional sales tax imposed on the disallowed amount of input tax – i.e. tax on tax. Examples include restriction on adjustment of input sales tax of construction materials and packing materials by federal government and input sales tax on reduce rate services by provincial governments.

Another aspect of taxation as a policy tools is its delivery mechanism. As long as taxpayers are not comfortable in dealing with tax authorities, it would not be open and true to government. Individuals with minimum salary suffer tax refunds due to income tax withholdings at various stages, which are not processed and paid back to taxpayers. Even for corporates, refund processing of income tax and sales tax is a hectic exercise. Rubbing salt to injury is the behaviour of tax officials who consider every taxpayer as a tax thief, on the other hand taxpayers sees every tax officer as a corrupt government servant. Existing condition of federal government including federal institutions like Federal Board of Revenue (FBR) is the best example to elaborate the above discussion. The government should come up with a bright idea to manage economic crisis and forces existing system to implement it, which results in even bigger economic crisis. Under such tense environment, even the best fiscal policy would fail to deliver promised results. There is a need to understand the causes of the issue and its implementation.

Considering the above, it is obvious that taxation has a great impact on economic activities. In terms of taxation policy, government has the power to shape the economic activity of each and every participant of economy, either operating in a documented sector or undocumented sector. However, as long as the policymakers focus on revenue side of taxation, Pakistan cannot nurture economic and growth oriented policy. Therefore, it is important to consider taxation more as a policy tool and not restrict it as a revenue measure that satisfies government expenditures and reduces budget deficit. Currently, fiscal policy is crafted with the aim to fill in the budgetary gap. This approach not only hinders economic growth but also fade public trust in government. In order to achieve economic growth through fiscal policy, government's vision should be clear that who will be the beneficiary of this policy; government is aiming to either promote industrialisation and employment or provide relief to public through price reduction. No matter which approach is adopted, if policy is delivered properly and create ease for market participants, government will surly receive its share of revenue.

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Taxation: Opportunity to curtail inequality

Rauf Ali Jan **FCA**

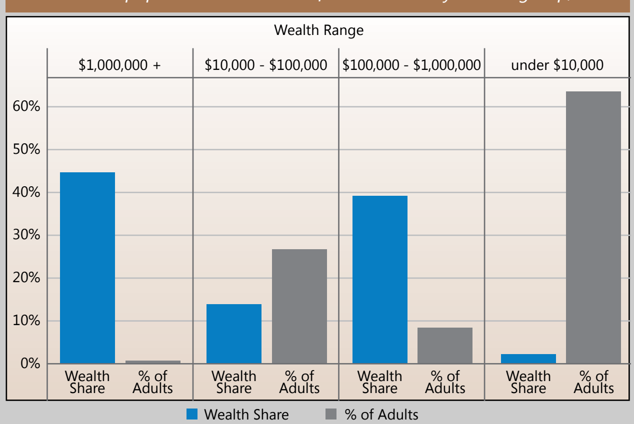
There are several criteria to gauge country's economic prosperity, one of the main would be Gross Domestic Product (GDP), which is used by many economists and institutions. However, for a country like Pakistan where 67% of the population lives in rural areas (World Bank, 2016) and majority of them under the influence of landlords/feudal lords. In my opinion, average GDP may be skewed due to high earners in a country while majority of the population earn peanuts. Hence, the better criteria to assess the economic prosperity of Pakistan is income inequality.

> The world's wealthiest individuals, those owning over $100,000 in assets, are less than 10 percent of the global population but own 84 percent of global wealth.

Income inequality is not something which is applicable to developing countries or Pakistan, it is a global phenomenon. The world's wealthiest individuals, those owning over $100,000 in assets, are less than 10 percent of the global population but own 84 percent of global wealth. If we simplify it, the top 42 billionaires hold the same wealth as the bottom 50% of the world. (Inequality.org, 2019).

The Richest 1% Own 45% of the World's Wealth

Global adult population and share of total wealth by wealth group, 2018

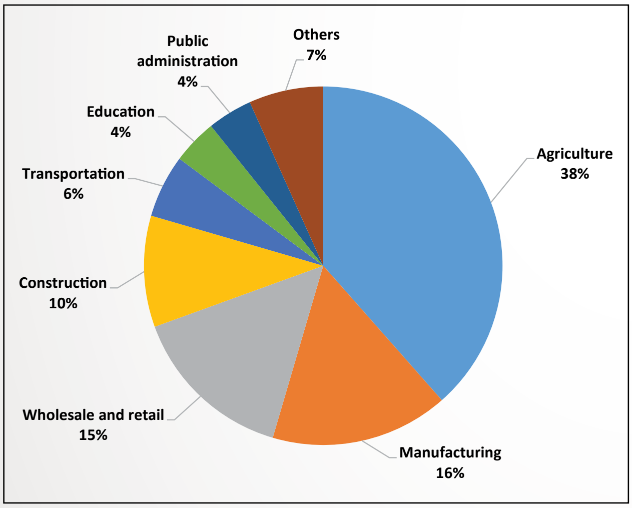


Source: Credit Suisse, Global Wealth Datebook, 2018

Let's first understand what inequality is: Economic inequality refers to how economic variables are distributed—among individuals in a group, among groups in a population, or among countries. Development theory has largely been concerned with inequalities in standards of living, such as inequalities in income/wealth, education, health, and nutrition (United Nations, Development Strategy and Policy Analysis Unit, 2015).

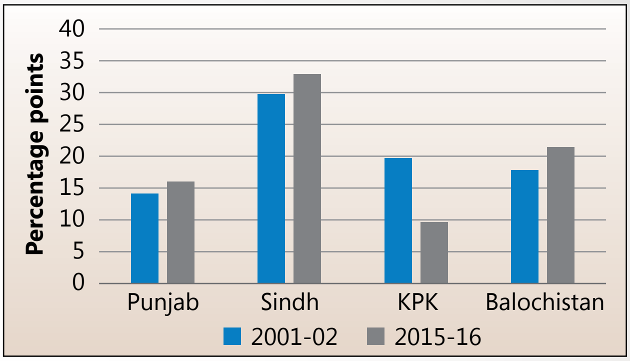
Pakistan is a country affected by income disparities and uneven distribution of wealth, which is evident by the fact that minimum wage in Pakistan is Rs. 17,500 per month ($112) (Daily Times, 2019). Majority of the population is affiliated to the agriculture industry (Pakistan Bureau of Statistics, 2017-18). But the wealth of this industry is being controlled by those landlords who have power, both financial and political and they have restricted that wealth to their strong holds and seldom pay adequate wages to the poor workforce (Muhammad Zia Ullah Khan, 2015). This is also a normal practice in garment industry, petrol or CNG stations, janitorial staff and several other industries where labour is paid even below the minimum wage and are deprived of their basic necessities. (Daily Times, 2019).

Pakistan Employment: Industry-wise Breakup



Between 2001 and 2015, poverty in urban areas declined at an annualised rate of 9 percent, compared with 6 percent in rural areas. Rural areas still account for four out of five poor individuals—the same share as at the beginning of the century (World Bank Group, 2019). This is the point that leads towards the income inequality in vast majority of people settled in rural areas of Pakistan (Muhammad Zia Ullah Khan, 2015). As the chart below indicates, rural-urban inequality gap has increased between 2001 and 2016 (other than Khyber Pakhtunkhwa Province), while Sindh has the highest rural urban poverty gap and it has been growing with time, which depicts a frightening picture of the policies at different levels of the government (World Bank Group, 2019).

Urban-Rural Poverty Gap by Province (Figure 3)



Source: World Bank staff calculations.

Taxation opportunities to overcome inequality:
There are several ways to overcome the inequality in Pakistan as mentioned in several reports of United Nations Development Program (UNDP), Poverty Reduction Strategy Paper (PRSP) of 2010 prepared by International Monetary Fund and Government of Pakistan, Finance Division (International Monetary Fund, 2010), An Assessment of the Medium-Term Development Framework (MTDF) by the Human Development Sector of the World Bank (The World Bank, 2006) and in consultative process for preparing PRSP-II by (A. R. Kemal). The biggest tool to overcome the inequality is to provide opportunities to labour class where they can use their skills and start earning on their own whether through creating small and medium enterprise (SME) or by employment. Inequality cannot be reduced by providing social welfare to a country with population size of 208 million (Swiss Agency for Development and Cooperation SDC, 2018).

- **Progressive income taxes:** The top income tax rate for individuals in Pakistan is 35% (PwC, August 6, 2019) while the average top income tax rate for individuals among the Organisation for Economic Cooperation and Development (OECD) countries is 46.6% (OECD, 2018). The income distribution helps reducing inequality when rich are taxed at the appropriate level as this statistic indicates all the OECD countries are taxing the rich at a much higher rate than Pakistan. This helps with all the infrastructure development and social welfare program the governments can run for the less fortunate to reduce inequality. There is always a fine line that how much a country can tax the rich before they leave the country and start investing in a tax heaven (a country with lower tax rates). As chairman, Federal Board of Revenue (FBR) said decision making in capitalism is not on the basis of patriotism, but it is made by rational approach (Naqeebz, 2019). Hence, the taxation of rich needs to be considered in detail by FBR, where they are taxed at the suitable level not to go to tax heaven but is beneficial for the overall economy of Pakistan.

Pakistan is a country affected by income disparities and uneven distribution of wealth, which is evident by the fact that minimum wage in Pakistan is Rs. 17,500 per month ($112) according to Daily Times, 2019.

- **Curtailing the imports:** Chairman FBR mentioned that in the past Pakistan has followed the policies which were suitable for trade based economies instead of industrial economies (Naqeebz, 2019). Trade based economies favours few individuals who are importing and distributing locally without generating any value for the masses, however, industrial economy creates much more jobs by employing labour directly and indirectly dealing with several local vendors. Correspondingly, in recent past Pakistan has focused a lot on improving the trade deficit (The Express Tribune, August 21, 2019), which gives SME an opportunity to fill the gap by manufacturing the goods and services which are no longer being imported. It will ultimately benefit the employment numbers and economy, which will result in reduction in inequality.
- Accelerating economic growth while maintaining macroeconomic stability which results in employment generation and ultimately better income distribution. This can be achieved by giving tax benefits to SME. Similar to export processing zones, there can be zones for incubators, startups, and the companies registered in these areas can be tax free for certain number of years.

Accelerating economic growth while maintaining macroeconomic stability results in employment generation and ultimately better income distribution.

- FBR can give advantages to the financial institutions which finances the automation / efficiency of agricultural sector, research and development in manufacturing / services sector, invest in cheap power generation, etc. There are several such instances already available, however, this needs to be thorough and augmented such as research and development machines can be depreciated at 100% in the year of purchase and the tax credit for such depreciation can be taken in any year based on company's choice and the SBP's financing scheme for renewable energy (SBP, 2016). Similar policies can be expanded for numerous sectors and to certain regions to support the business activity.
- **Other factors that can be considered are:** reducing the number of taxes being paid, as per one of the survey there are 70 different kinds of taxes being paid in Pakistan (St. Louis Post-Dispatch, 2010), improving governance over taxation system, ease of tax filing and refund process, access to justice in case of disagreement with the taxation authority, educating the taxation authority, etc.

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Taxation - Changing mindsets and restoring trust (gaps)

Saad Gul

Taxes matter. People talk about them, complain about them, and try to 'optimise' them when they can. Governments need tax revenue for the provision of public goods and services, poverty alleviation and to pay for social expenditures. The need for collecting taxes in developing countries, where tax revenue is often less than 20 percent of the Gross Domestic Product (GDP), is particularly acute. Inability to increase revenues through taxes forces countries to borrow – which increases the public debt and can potentially cause a fiscal crisis if the debt to GDP ratio becomes too high, a crisis situation that Pakistan currently faces.

Tax administration is an integral focus of all countries.

Tax administration, therefore, is an integral focus of all countries. Several governments, as they transitioned from developing to developed economies, have implemented significant reforms along their journeys with the aim of attaining higher tax revenue collections, improved taxpayer compliance and more efficient service delivery. Similar to what the current Pakistan government wants to achieve.

Efforts of widening the tax net are underway and some success has been achieved. The tax base has improved in the first year of the new government. As many as 783,039 new taxpayers filed returns as a result of various tools – including simplification of some procedures by the Federal Board of Revenue (FBR). The Amnesty scheme was one of the primary drivers, which added some Rs. 177 billion to the liquidity of national banks.

As a whole, Pakistan still has a long way to go for mass acceptance of the need to pay taxes. Coupled with the lack of public trust in government institutions, the mindset i.e. the aversion to taxes will take more than just enforcement. It is a game of changing mindsets and raising awareness. As well as bridging the trust gap by alleviating poverty, convincing the public that state revenue will be spent on their well-being is another challenge.

In Scandinavian countries, taxes collected by the governments from rich and affluent classes are spent on the welfare of poor and low-income classes. It is like an accomplishment that requires maintenance. The results, however, differ from country to country depending on the nature of the reforms implemented and the circumstances surrounding them. But for others, it is a dream to be chased.

Sadly, Pakistan falls into the latter category. The current tax reform effort has scared a lot of people instead of luring them into the tax net. The consequence? Possibly, more avoidance and evasion. Similarly, a lot of business owners and corporates, who were already paying taxes, are disappointed because they have had to incur higher costs as a result of much higher tax rates and weakening of the rupee.

A primary challenge for Pakistan will be how to raise the necessary revenue in the context of a large informal sector. Many small business owners as well as females, who make up almost half of the country's population, remain elusive to the economy.

How to turn this around? Technology can be a great enabler as well as creator of a conducive environment for doing business. Deployment of technology also improves scrutiny and access to capital markets.

It is unfortunate that we have had incapable and insensitive people in positions of power – who abused, thrived off and laundered taxpayers' money. Although, this has widened the trust gap between the government and citizens, we must understand that if we don't pay taxes, the government would not have resources to run the country. This will enforce more borrowing and ultimately lead to an even higher debt ratio including myriad spillover adverse effects.

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For tax reforms to be successful in Pakistan, they must be driven by both the tax administration as well as the government leadership.

This will require, on our part, to learn to trust the new government and be vulnerable. But the government too has to work on restoring public confidence in state institutions. The government, it seems, has started doing it's part. Now it's our turn.

Plainly, for tax reforms to be successful in Pakistan, they must be driven by both the tax administration as well as the government leadership.

Secondly, this requires a mindset transformation of both tax administrators and taxpayers.

Thirdly, early success of tax reforms must be matched with visible improvement in public service to restore trust of the masses.

Fourthly, tax administrators must be empowered to perform their duties without political interference – this one will be a major challenge when it comes to implementation.

Fifth, tax laws and reforms must be applied equally to all taxpayers.

Last but not the least, incentives like salary increments for tax administrators must be matched with an increased probability of detection of corruption and punishments such as guaranteed termination of employment should a tax official be found involved in graft.

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Effects of Taxes on Economic Growth

Owais Mukati **FCA**

Globalisation has increased the effect of taxes on growth. It has also affected the stability of revenue from corporate sources. Countries with small, open economies highly dependent on foreign investment, trade and skilled migration, and with well-developed web-based commerce, have to be increasingly aware of the effect their tax mix can have on their competitiveness.

The Organisation of Economic Cooperation and Development (OECD) has ranked taxes from most to least growth-friendly – with recurrent taxes on immovable property (e.g. land) having the least negative effect on growth followed by consumption taxes, other property and environmental taxes, and personal income tax. Corporate taxes have the greatest negative effect on growth.

The challenge of tax reform is to balance improvements in efficiency with complementary measures to maintain or promote fairness and ensure the fiscal sustainability of all levels of government.

Compared to many developed countries and advanced developing countries, the tax system does not support growth as well as it could. This is due to the large amount of tax revenue generated from income and corporate taxes, which tend to distort incentives more than other taxes, along with the application of exemptions and concessions which add administrative complexity and cost to the tax system.

High taxes on business deter investment, encourage the movement of activities offshore and encourage artificial strategies to avoid tax. Tax revenues generated from these sources are also quite volatile across the business cycle.

Tax revenue generated by consumption taxes, are generally more stable and encourage saving. Expenditure cuts and increases to growth-distorting taxes, such as company tax, personal income tax and stamp duty, will reduce economic growth and have broader impacts on the poor and vulnerable.

High taxes on business deter investment, encourage the movement of activities offshore and encourage artificial strategies to avoid tax. Tax revenues generated from these sources are also quite volatile across the business cycle.

Tax reforms are mainly directed towards the fiscal role of taxation and underestimated its regulatory, social and stimulating roles. This short-term fiscal policy negatively affects private sector development, investment and employment and led to the rapid growth of an informal economy.

Reforms in taxation are directed towards reducing the tax burden, optimising the structure and rates of taxes, simplifying and unifying the tax system, as well as increasing the stimulatory and regulatory functions of tax policy.

The shift to a simplified system of taxation substantially reduced tax burden of small businesses and tax administration procedures became less cumbersome and costly, mainly in bookkeeping and reporting. Medium Size

Most revenue should be raised through those taxes which impose the smallest penalty on our economic wellbeing, are simple to understand and impose the lowest costs to collect. The challenge of tax reform is to balance improvements in efficiency with complementary measures to maintain or promote fairness and ensure the fiscal sustainability of all levels of government.

Enterprises (MSEs) were eligible to use either simplified or general accounting procedures based on their preference.

Indirect taxes, which bring the highest revenues to the government budget, fulfil mainly the fiscal role of taxation, while direct taxes fulfil regulatory and stimulating roles. In order to strengthen the regulatory and stimulatory roles of taxation, the government reduced the tax rates of some direct taxes. Reduction of the tax burden is one of the instruments for stimulating local producers and developing entrepreneurial activities.

At present, 72 percent of the tax burden is on the industry in Pakistan, while 38 percent is on remaining 80 percent of the economy which is inherently by unfair system and against industrialisation. There is enormous pressure on the government to raise tax revenue indiscriminately without concerns of impact on the economy or relatively on poor people.

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As a percentage of income, tax paid including the income tax is flat. There is no progressivity in our income tax system unfortunately. Because 68 percent reliance on withholding tax has actually made income tax somewhat look like an indirect tax.

Both the Federal Board of Revenue (FBR) and provinces should agree upon the harmonising of taxation system. Presently, the provinces took stance that single tax return could be devised but the single tax collection point would be difficult to implement. They argued that even the European Union (EU) had failed to implement a unified collection mechanism despite being advanced in technology. The National Finance Commission (NFC) is the appropriate forum and special working group has already been established recently to ensure harmonisation of tax collection among the center and provinces.

They would have to move towards National Tax Collection Agency as currently the FBR and provincial revenue authorities are using same portal of Pakistan Revenue Authority Limited (PRAL) for filing of tax returns. He cited example of India where sales tax on goods is the domain of the provinces and sales tax on services is the jurisdiction of the federal government but in Pakistan it was altogether different. They have made an arrangement so it could be done here in Pakistan as well. If taxation is not the subject of the CCI, what the CCI is for. If taxation is not domain of the CCI, it should be included in the CCI to deal with this critical issue of taxation of all four provinces. A Single Tax Agency for Sales Tax should be established to deal with the issues of registration, filings, collection and audit/ assessment.

The Single Tax Agency can provide one window operation and synchronisation of particulars required for registration. It should be linked with National Database and Registration Authority (NADRA), banking, Securities and Exchange Commission of Pakistan (SECP), income tax and customs databases. Under the plan, only one registration number should be valid for all taxes/jurisdiction/business transaction and there should be single active taxpayer list for all taxes.

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HOW Do We Fix… All of It?

Muhammad Farrukh Siddiqui **ACA**

The structure of the taxation system of any country plays a vital role in the economic progress of the country. Taxation forms the basis of any government's fiscal policy, which involves different strategies adopted by the government to adjust its tax rates and spending to influence the economic well-being of the country.

Now, does that mean higher tax rates will lead to economic prosperity? No, that's not necessarily the case. Higher the taxes, the more people will spend their time in finding means/modes to avoid the taxes rather than spending this time on productive activities.

The other way round may be to reduce the tax rates which is likely to encourage investment, saving and contribute to the economic growth. However, this strategy is also not that straight forward as the same would result in reduction in the government's income which may lead to budgetary/ fiscal deficit unless other options such as broadening of tax base and reduction in government spending are adopted. So in other words, it would require a very delicate balance.

Basically taxpayer, whether an individual or a corporate body, perceives taxes as a burden. The most important thing the state can do is to secure the trust of the people in respect of the tax reforms/strategies, i.e. citizens should be satisfied that their hard-earned money would not be misused in any other non-state or personal activity and will be used solely on the welfare of the people.

The government can invest the money earned from taxes, in return, to provide better health facilities, competitive education, good governance, infrastructure development, public transportation, housing schemes, etc.

Local businesses also flourish when tax is imposed on the business sector. It works like a vicious cycle. The government can fund various loans to the citizens through the taxes earned by trade. This improves their expenditure pattern, hence further increasing consumptions.

Another important element of the system is to ensure that tax is imposed on all spheres of the economy equitably. No one class should feel that they are being overburdened with taxes.

In the end, it could be argued that no one strategy can be associated with economic growth. It should be a mix of the two. Incentives in the tax rates given to increase investments and savings, coupled with a strategy to broaden the tax base and ensuring that all the segments of the society are paying their taxes, can be considered as an optimal strategy.

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Taxation – Pathway to Economic Prosperity

Hina Kazi **FCA**

Introduction

Pakistan, in the current scenario, is facing a major dilemma as to how to raise sufficient revenue to meet the ever-increasing current account deficit, improve fiscal imbalance and fulfill other economic needs of the country. One of the many options that are considered is raising revenue through increased taxation and bringing about major tax reforms; in fact, this is one of the fundamental challenges facing the country's economy for decades now. Over years, taxation is one area that is not only ignored and overlooked by those who are supposed to abide by them; but the collection of low tax revenue on a consistent basis depicts improper planning and implementation on part of law and policymakers. In Pakistan, tax to GDP ratio is about 12%, one of the lowest in the Organisation for Economic Co-operation and Development (OECD) countries which usually raises tax about 34% of their GDP. This represents quite a gloomy situation prevalent in the country.

Why it is difficult to raise tax revenue?

Now, the question is, how to increase the level of desired tax revenue? This takes

Taxation is one area that is not only ignored and overlooked by those who are supposed to abide by them; but the collection of low tax revenue on a consistent basis depicts improper planning and implementation on part of law and policymakers.

People are unwilling and most reluctant to contribute their money to national kitty in the form of taxes. They don't realise that it is their duty and an incumbent obligation on them as a citizen of the country to pay taxes.

us to first look into the causes which have prevented the country from having a broad tax base. A few major causes are:

- **Attitude and mindset of the general public:** People are unwilling and most reluctant to contribute their money to national kitty in the form of taxes. They don't realise that it is their duty and an incumbent obligation on them as a citizen of the country to pay taxes.

- **Lack of trust in government:** When we talk about people evading taxes, it is mainly because of the lack of trust in the government. Such people hold views that their money will not be used for their welfare or development but will go into the personal wealth of the ruling class.
- **Corrupt tax officials:** Tax department is being run by the majority of staff who are governed by immoral values to let people evade their state duty by filling their pockets. This leads to the decline of faith on part of those honest taxpayers who are willing to do their state duty even though, they are aware of the corruption present in the system.
- **Ineffective laws and implementation:** Weak and ineffective laws are in place due to which there exists no system whereby individuals are made to file tax returns. There are less than 2 million tax filers in a country of more than 200 million people which is hardly 1%. People are controlled by a mentality where they prefer to pay more taxes being non-filers rather than become filers and avail low tax rates and other benefits. Many on Active Taxpayers List (ATL) do not even bother to pay taxes.
- **Lack of accountability:** Strict tax laws are not enforced in letter and spirit. Penalties in the form of heavy fines and criminal punishment in case of non-compliances with tax and other related laws are only on paper and not practised in its true sense. This serves as a great encouragement to the tax evaders and non-filers as they know the crooked ways and means to avoid paying taxes.
- **Ambiguous laws and regulations:** Many times, tax laws are not easily interpretable and those who want to abide by them have a limitation if they don't understand what is expected of them.
- **Lack of automated system:** Systems in place makes it difficult for people to file tax returns properly. Information technology systems are not properly developed and people find lots of hassles and difficulties in even logging on to it and submitting their tax returns due to which many exceed the deadline. This is one of the major loopholes in the current system.

What tax reforms are required in the country?

The new government that took over reins of the country for over a year now is determined in taking the nation out of the dark hole to routes of economic prosperity. Taxation is one area that has the most potential to contribute to the economy and, thus, is considered that 'Taxation is a pathway to economic prosperity.' Taxation does not only provide resources to the government in the form of public and development expenditure but it also serves as a tool for industrial and economic expansion in the country.

The biggest challenge is to improve the capacity to detect tax evaders by implementing systems whereby this section of society is usually influential and dominant are caught and made to abide by laws and regulations. Their coalition with corrupt tax officials is the social evil growing in the current system and needs to be eradicated from the root. The dishonest officials in the tax department must be replaced with capable and trustworthy ones. Tax evasion is one particular menace which needs to be tackled with stringent accountability and harsh punishment should be given to both tax evaders and those who are encouraging this practice.

Honest taxpayers should be protected at all costs and assured through a transparent system as to how their contributed tax money is used for their welfare and national prosperity. Also, they should be assured that tax evaders will be taken into account and will not be offered benefits and facilities available to them, otherwise, they will be discouraged. The inequitable, regressive and unfair taxation system in practice needs to be reformed on an urgent basis.

The government officials, being the leaders should set an example in the form of paying taxes themselves so that people follow their lead as people always follow leaders. If the leader pays tax, followers will also pay tax. With this practice, public confidence will be regained in the government authorities. Big talks will not work unless supported by practical examples by these mighty ones. Tax culture and ethics should be widely promoted and implemented with all intensity and strength.

Massive structural tax reforms are the need of the day. To perform tax function more effectively, the disjointed taxation system needs a positive restoration of entire tax administration and tax policy at both federal and provincial level. Successful taxation systems of various countries should be studied and adopted by our government to raise the targeted tax revenue. For effective running of various tax agencies, rational tax policies should be formulated and implemented along with pragmatic tax collection methods. User-friendly information technology systems should be designed and officials-in-charge be trained to use them properly and efficiently as Pakistan, being a country of billions, cannot be expected to be run efficiently on manually operated taxation system and structure. Effective audit of the tax department should be conducted and the loopholes are identified and addressed in a timely manner. A reliable and independent tax judiciary system should be in place which takes cares of legitimate demands of taxpayers in respect of any disputed amount, assessments and other queries and complains.

Complicated tax laws and procedures must be substituted with simplified codes and procedures and available in both English and Urdu languages for all masses to understand and execute. Tax returns should be simple and understandable for all. Submission of tax returns should be made convenient and accessible to the IRIS system to expedient in order to avoid extreme traffic on submission deadlines.

Tax breaks/concession or tax holidays, allowed in many areas, should be reduced, if not completely removed for instance, exemptions on intergroup dividends, enterprises set up in special economic zones, profits and gains derived from electric power generation and transmission projects, etc. This way, the richest people of the country who have the most capacity to pay taxes are given relief and burden falls on the less affording class of the society.

Current tax reforms undertaken in the country

Major tax reforms that are currently underway in the country are:

- In order to curtail the practice of charging sales tax by unregistered seller/supplier, FBR has asked the general public to check the Sales Tax Number (STRN) on receipts or invoices issued to them by these sellers/suppliers at the time of purchase to confirm whether the supplier is registered or not. If the seller/supplier is not registered, he is not entitled to recover any sales tax from the customer and if he does, he would be liable to penal action.

- A draft of 'Small Shopkeepers Scheme' is issued under Section 99B of Income Tax Ordinance 2001, whereby small shopkeepers are allowed to opt for fixed tax regime based on location and size of the shop. They will not be entitled to audit/examination of their records. However, they will be required to file a one-page return form. Rate of tax will be 2% of turnover or fixed tax rates as notified by Federal Board of Revenue (FBR). Feedback from relevant stakeholders will be taken after which the scheme will be put to the federal cabinet for final approval.
- A draft of automated non-jurisdictional simplified tax regime for traders, both wholesalers and retailers, is issued whereby they would not be required to work as withholding agents. The cash and bank book maintained shall be the only 'Books of Accounts' that would be required to be kept. They will not be entitled to any audit. This scheme will extend to traders with a turnover of less than Rs. 50 million, self-invested equity of less than Rs. 50 million, cost of the fixed asset less than 100 million and the number of employees less than or equal to five.

Weak and ineffective laws are in place due to which there exists no system whereby individuals are made to file tax returns.

Taxation is one area that has the most potential to contribute to the economy. Taxation not only provide resources to the government in the form of public and development expenditure but it also serves as a tool for industrial and economic expansion in the country.

Honest taxpayers should be protected at all costs and assured through a transparent system as to how their contributed tax money is used for their welfare and national prosperity.

Massive structural tax reforms are the need of the day. Rational tax policies should be formulated and implemented along with pragmatic tax collection methods.

However, the criteria will increase by 10% each year in order to account the economic progression in the business. All person falling under this scheme shall be required to file simplified return of income by September 30, 2019 along with simplified wealth statement accompanied by due payment of tax. Return and wealth statement may be revised without the approval of CIR within 60 days.

- Through Finance Act, 2019, the category of non-filer is replaced with a new category of persons not appearing inactive taxpayers list. Such persons will be subjected to 100 percent increased rate of taxation. They will not only be penalised for not filing tax returns but an effective enforcement way is created to make them file returns. A new Section 100B is introduced whereby collection or deduction of advance income tax, computation of income and tax payable thereon shall be determined in accordance with the rules in the newly introduced 10th schedule. This schedule prescribes the way to be adopted by the Inland Revenue Department to enforce returns from persons who make financial transactions yet prefer not to file returns.
- As per FBR Circular No. 9 of 2019, purchasers of immovable property are now required to explain the source of investment of property up to the FBR value of the property. Previously, they were required to explain the source of investment to the extent of the recorded value of the property as they were paying 3% of the difference between the two said values, if the FBR value exceeded recorded value at the time of registering or attesting the transfer of property. With this in practice previously, they were saved from explaining the source of investment of the property.
- Through amendment made in Finance Act 2019, FBR has deployed its teams at Karachi and Lahore ports and airports to monitor tax collection at import stage from importers dealing in retail goods/third schedule items. It has been observed by FBR that sales tax is not being collected at actual retail price as mentioned in Finance Act 2019 as price lists are still not been incorporated in WeBoc system of customs. Thus, the team is to ensure proper entry of all retail items in WeBoc\system and create a connection with custom authorities at ports in respect of the proper implementation of valuation of third schedule items. Also, they are required to submit their weekly report to FBR in respect of the implementation of new budgetary measures at the import stage.
- In order to discourage practice of tax evasion on cash gifts, Section 39 of the Ordinance is amended through the Finance Act 2019 to clarify that any cash gift not received through cross-cheque or banking channel including receiving from relatives like, parents, grandparents, siblings, spouse, children, etc. will be chargeable to tax under the head, 'Income from other sources.'
- Through Finance Act 2019, if the amount of foreign exchange remitted from outside in Pakistan exceeds Rs. 5 million in a tax year, an explanation can be sought from the Commissioner. If the amount is explainable, no further proceedings will be undertaken, otherwise, the amount will be added to income and chargeable to tax.

Conclusion

Effective enforcement of taxation laws is not possible with only one-time implementation of the above reforms but these measures should be an on-going process. Drastic steps are required to be taken now to get rid of corruption and bribery that is part and parcel of the system. The tax department is to run on toes in order to address the deficiencies and threats present in the system in order to meet the targeted tax revenue in the ensuing years. So many hopes and lots of expectations are on the radar from the new rulers who have made promises to bring the country to paths of economic prosperity by transforming the taxation system.

References: Various newspapers.

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Fundamental Tax Reforms are Imperative for Economic Stability

Muhammad Faizan **ACA**

Taxation, besides providing funds to governments to manage their operations, also serves as a vehicle for industrial expansion and economic growth. In Pakistan, the ill-directed, irrational, regressive and unfair tax policies, laws, regulations and procedures are causing a hedonistic effect on the industrial and business expansions. The core stress on meeting profit targets, without appraising its impact on the economy, has drastically crippled trade and industry. It is not possible to enhance revenues with stagnant economic activities and over-taxing below-par economy. The major confront is the generalisation of taxes and creating ease of executing business.

Economists generally agree to the fact that true tax reforms, where marginal tax rates are reduced whereas tax base is broadening and the revenue collected remains the same, are good for economic growth and prosperity.

Nonetheless, where the imposition of the tax system that reduces the revenue or purchasing power of the end consumer, is not in favour of the economic prosperity of the country as it diminishes national saving and also creates deficits.

In the Finance Act 2019, instead of implementing a solution to identify tax evaders through a Tax Intelligence System, more tax obligations have been imposed on withholding agents. With a motive to improve tax compliance regime, realistic reforms need to be implemented at all levels. Successful models of various countries should be premeditated, debated and espoused after making necessary changes to suit peculiar conditions.

In order to develop the economic prosperity, the tax system needs to be deployed in a manner that it ultimately leads to equality and should not create unnecessary

To improve tax compliance regime, realistic reforms need to be implemented at all levels.

burden or pressure, particularly on the middle and low-class society. These categories are targeted very easily since their disposable income remains the same whereas, tax increases which ultimately reduces their purchasing power and increases poverty.

Taxation tends to influence the business decision at all levels, it affects the financing decision, investment or dividend decision. Increase in tax rate ultimately reduces the net income derived in these activities and can affect such activities as well.

With a motive to increase the number of taxpayers, Tax Amnesty Scheme was introduced with the objective to bring the unregistered individuals in the tax regime and allow them to disclose their wealth and assets at a fixed rate of tax.

Another major thought arises that where the amount, so collected in the category, of tax is spent. Let say, if the tax so collected is used by the government to crutch up education loans, then this boost up the cost of education and hence contribution growth in higher education. However, in some cases, it has been observed that tax rates are increased particularly on tobacco and cigarettes in various budgets. Now, the question arises with respect to the intent that actually lies behind the decision to actually diminish the consumption of such products or just to penalise the end-users consuming such products. So, it is not interesting to ask about 'growth' in the theoretical perspective. The only real questions are 'growth of what' and 'who decides?'

Having said that, the economy of a country and ultimately economic growth is measured through several metrics. One of them is tax to Gross Domestic Product ratio; higher the ratio is, higher the tax is being collected. The tax to GDP ratio of Pakistan increases from 9% to 11.1% from FY 2014 to FY 2018. However, the said ratio sinks to the lowest in five years at 9.9% in FY 2019. Against the annual target of Rs. 4.4 trillion, the Federal Board of Revenue (FBR) could provisionally collect Rs. 3.82 trillion (includes Rs. 43 billion on account of tax amnesty) including Rs. 16 billion in book adjustment. It not only missed the annual target by nearly Rs. 578 billion but also witnessed negative growth in the collection as compared to the previous year. For the new fiscal year 2019-20, the International Monetary Fund (IMF) has imposed a condition to increase the tax-to-GDP ratio to 12.6% by the end of the year. It will require the FBR to jack up the ratio by 2.7% of GDP in one year. (Source: The Express Tribune).

With a motive to increase the number of taxpayers, Tax Amnesty Scheme was also introduced with the objective to bring the unregistered individuals in the tax regime and allow them to disclose their wealth and assets at a fixed rate of tax. Despite all the challenges, the scheme became the most successful in terms of numbers availing the scheme and the new tax registrations being issued. At the time of publication, 137,000 people had availed the scheme compared to 84,000 over a much larger duration in the 2018 Amnesty Scheme. Out of the 137,000, almost 100,000 were new tax registrations. With the stuck cases being cleared, the number is expected to grow from 137,000 to closer to 150,000. Almost $20 million worth of previously undisclosed assets were declared. However, the tax collection was less as compared to the 2018 scheme owing to the low rates of this scheme (1.5% – 4% for most asset classes) compared to the last one's 5%. (Source: Pakistan Today – Tax Amnesty Results)

Taxation can be termed as a corporate social responsibility that lies over every individual which needs to execute ethically and morally. If an individual is seeking benefits from the country duly provided by the government, then it must return the same in the form of tax which ultimately leads to economic prosperity. The imposition of higher taxes creates burden on the individual as a result percentage of tax filers and taxpayers reduces and activities of tax evasion increases. The government should realise that higher tax rates do not necessarily lead to higher tax collection. The government should bring down the tax rate to a reasonable level and the revenue collection on account of taxes.

Moreover, the government should also focus on reducing the cash transactions and introduce the electronic payment solution at all level to avoid tax evasion which will assist the government in the collection of tax easily. Moreover, corporate tax rates are also high which needs to be considered.

So, keeping in view the different thoughts and systems functioning around the globe, the government should make good tax mechanism and administration to increase the number of taxpayers, identify the areas where tax is being evaded rather than increasing tax rates to pressurise the general public/end-users. An increase in tax rates on regular activities will not create additional revenue for the government but will reduce the business activities and purchasing power of the consumer.

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The Credibility GAP – Fiscal Deficit Vs. Trust Deficit

Mohammed Kamil Gohar **ACA**

Pakistan tax revenue to Gross Domestic Product (GDP) ratio, as per the Economic Survey 2019, during the preceding financial year, was a mere 13.9% along with an overall fiscal deficit of 4.9%. During a recent interview, the advisor to the prime minister on Finance and Revenue quoted that only 40,000 of the 341,000 persons having an industrial connection of electricity and gas are registered under the Sales Tax Act 2019.

Astonishingly, only 1.2% of the total population of the country are bearing the burden of the economy and classified as an 'active taxpayer' (a feather in the cap). We are a nation who are more actively donating to various non-profit organisations for the welfare of the people rather than paying taxes to the government responsible for the welfare of the masses. One wonders 'why this Credibility Gap?' Is the economy struggling under the burden of a fiscal deficit or rather a trust deficit?

Pondering upon this very question, I decided to venture into the minds of the common man, whether salaried or engaged in business activity. The questions people generally ask themselves while paying any amount of taxes are the following: Where will this amount of tax be spent? What benefit would entail to my person against payment of such amount of tax? and if I become an active taxpayer, will I be subject to harassment in terms of proceedings?

Owing to the history of our country's treasury, which has been a victim of extreme forms of corruption and embezzlement, it is only natural for such questions to arise.

Hence, the paradigm of this nation has developed into taking a more pessimistic approach and drawing negative conclusions towards each of the questions raised while paying any amount or nature of the tax. As a result of which, a credibility gap has developed between the people and its elected diplomats/government bodies. The trust deficit, so created, has embedded itself in the mindset of the people and is like 'amoeba' eating away the fiscal health of the country.

Predominantly, the fiscal deficit we have been hearing of since we can remember is only a consequence of a trust deficit. Taxation is a critical ingredient in the quest to ensuring economic stability, improving the overall distribution of wealth and uplifting the standard of living of the people. It is essential that we must figure out a way to rekindle the trust between the people and those acting in a fiduciary capacity for the people.

Barrack Obama, the 44th US president, quoted, "if the people cannot trust their government to do the job for which it exists – to protect them and to promote their common welfare – all else is lost."

A very strong statement indeed, however, knowing the resilience of this nation all else is definitely not lost! The incumbent government needs to devise a plan in order to rekindle this trust.

How can the government win back the trust of the people though? According to a recent report of the Organisation for Economic Coordination and Development (OECD), only 43% of the people trust their government amongst the member countries, stating that it has been a cause for concern of most of the countries. This report highlighted six key areas which a government must focus on to win back the trust of its people.

Reliability: Governments should minimise uncertainty in the economic, social and political environment. Ensuring economic stability for the sound economic policies put in place would increase the reliability of the government in the eyes of its people and investors.

Responsiveness: The interaction between the government and its people is crucial in respect of revitalising the trust between them. The people of any nation would judge the government by how it responds to their needs and how public goods and services are provided to the nation. Moreover, making any citizen feel safe from any form of harassment with respect to government dealings is crucial as well.

Openness: Openness is a crucial element in ensuring trust between the people and the government, especially for devising economic policies or promulgating new laws and regulations. 61% of the member countries of the OECD have reported that increasing the level of trust is their main goal when investing in openness and engaging with citizens.

Better Regulations: According to the OECD report, an improvement in the design and manner in which any regulatory framework is enforced would increase the level of trust between the people and the government. The OECD has suggested that any government should adopt a risk-based approach while promulgating new regulations and monitoring their compliances.

Integrity and fairness: This is another crucial element of trust, hence, the government should ensure that no diplomat or government official should allow a conflict of interest, bias or undue influence to comprise their integrity, fairness and objectivity. Lack of integrity and fairness has been a major contributor towards the trust deficit we are facing today in Pakistan.

Inclusive policy making: Transparency and inclusivity in the policy-making of the government would allow a greater level of trust with the people, especially with respect to the policy being implemented. A good approach to this would be to release new policies/regulations in consultation with the stakeholders.

Although, the incumbent government has adopted a few of the measures listed above and is showing promising signs of revitalising the trust between them and the people; a long journey lies ahead in the quest for regaining trust. However, keeping in view of the fiscal health of the economy and uncertainty, it is crucial that catalytic measures should be adopted in this regard.

Once the people of this nation trust those in power, there would be no need to introduce measures for broadening of tax base nor any form of amnesties which have become a regular feature in this country. When the people get what they expect from any government, the number of active taxpayers and tax to GDP ratio would rise tremendously. One can conclude that it is not taxation alone which paves the way towards economic prosperity but in a bigger picture, it is the taxation and trust of the people in its government which makes/pushes an economy towards prosperity. However, difficult the task may seem though, we must always remember what the father of this nation advised us. "With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve." – Muhammad Ali Jinnah.

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A Discussion on Free Trade Policy

Zahid Farooq **FCA**

Free trade policy is becoming an important issue now a days. In view of many economists, it is becoming inevitable for developing countries. It is being argued that developing countries should adopt free trade policy and remove all hurdles.

A discussion has been started in Pakistan about whether Pakistan should adopt free trade policy or not and if yes, then what types of hurdles Pakistan may face due to this policy and how those hurdles can be removed.

Developing countries like Pakistan have huge gap in the balance of payments and policy like this will surely increase imports, which will eventually further increase this gap and will result in shortage of foreign reserves. Due to this policy, Pakistan may face economically a dead end.

Before going into the details, we should first know what is meant by free trade policy;

The Free Trade Policy is a policy to eliminate discrimination against imports and exports. Buyers and sellers from different economies may voluntarily trade without a government applying tariffs, quotas, subsidies or prohibitions on goods and services.

In case of free trade policy, following main questions may arise specifically for developing countries:

1. How to face issue of balance of payment in case of free trade policy.
2. How to protect local industry.

Before going into the above discussion, we should know what are the benefits/advantages of free trade policy.

ADVANTAGES OF FREE TRADE POLICY

The following are some major advantages in case of free trade policy:

Increased Economic Growth: Increase in competition may result in an increase in economic growth. The local industry is also forced to enhance their capacity, quality and use updated technical knowledge and equipment. Examples can be mobile industry, internet industry and media in Pakistan.

More Dynamic Business Climate: Again, free trade policy may result in healthy competition, which may result in good quality products at low rate.

Lower Government Spending: Many governments subsidise local industry segments. This policy may also result in removal of subsidies to local industry by the government.

Foreign Direct Investment: This policy may also result in increase in foreign direct investments. This will increase in foreign reserves of the country, lowering the pressure of foreign payment on government.

Expertise: Global companies have more expertise than domestic companies to develop local resources. That gives local firms access to these new methods.

Technology Transfer: Local companies also receive access to the latest technologies from their multinational partners.

Increase in Jobs: As local economies grow; job opportunities also increases.

DISCUSSION ON RESOLUTION OF MAJOR ISSUES IN CASE OF FREE TRADE

In my view, the government, with the help of the private sector, should start a study on the following:

- How to resolve issue of balance of payment in case of free trade policy.
- How to protect local industry.

HOW TO RESOLVE ISSUE OF BALANCE OF PAYMENT IN FREE TRADE

My Opinion
In my view, one of the possible solutions may be the following:

- Consider economy of country XYZ.
- Government of country XYZ should first focus on few major countries from where traders of country XYZ imports goods.
- After selection of these countries, a study should be conducted about goods imported and a list of these goods should be prepared.
- Country XYZ should then conduct study on what are the major types of goods being imported from these countries.
- Can country XYZ supply these goods to these countries under current situation or can country XYZ manage to supply these goods in any way?
- If yes, then country XYZ should enter into a free trade agreement with these countries and device payment mechanism.
- This payment mechanism should be like following;
    - An importer of country XYZ can enter into agreements for import of any good from any vendor in these countries.
    - The importer will make payment of these goods to government of country XYZ in local currency.
    - Country XYZ will also collect all applicable taxes at the same time.
    - Country XYZ will issue a certificate to the importer regarding payment.
    - Importer of country A will send this certificate to the concerned foreign vendor.
    - The foreign vendor will give this certificate to his government.
    - The government of vendor will issue payment in local currency.
    - Similar process will be done vice versa for exports to these countries.

The above mentioned agreement of country XYZ with these countries should show all details of mechanism of payment between these countries including detail of:

- Currency exchange rate mechanism which may be the current exchange rate at the time of issuance of certificate.
- Mechanism on how to make balance payment and after what period and in which currency or form.

Out Come of Above Steps

- Foreign currency will be freely available in country XYZ.
- Taxes may be charged and collected in a better way.
- There will be no negative action in respect of foreign currency like under invoicing.
- Exports from country XYZ will be increased.
- Employment level will be increased and so on.
- GDP will be increased.

HOW TO PROTECT LOCAL INDSUTRY

Trade Protectionism
In order to protect local industries, countries normally use Trade Protectionism.

Trade Protectionism is defined as a nation, or sometimes a group of nations working in conjunction as a trade bloc, creating trade barriers with the specific goal of protecting its economy from the possible perils of international trading. This is the opposite of free trade in which a government allows its citizenry to purchase goods and services from other countries or to sell their goods and services to other markets without any governmental restrictions or interference, etc.

There are various methods of Trade Protectionism with the objective to protect a country's economic well-being. These include:

- **Exchange rate controls:** This is a big tool, countries normally use to stop imports and increase exports. Countries normally decrease rate of local currency as compared to foreign currency.

  This policy results in increased revenue for the exporter in local currency while selling goods and services at same foreign currency price.

  Similarly, it results in an increase in the cost of production for importer because importers have to pay more amount in local currency while importing goods at same foreign currency price.

- **Tariffs:** One of major tool is to impose different tariffs to restrict imports of foreign goods and services. These tariffs can be specific in which there is a fixed tax rate or fee for each unit of a product or commodity brought into a country. There are also ad valorem tariffs which are set as a proportion of the value of the imported product.

- **Quotas:** Quotas are direct restriction on the number of certain goods, products, and commodities that may be permitted to be imported into a country. However, while imposing this policy of quota, a country should keep in mind that other countries which effecting from this policy may also impose same policy against exports of importing country.

- **Subsidies:** This policy is normally considered better tool to protect local industry. Subsidies can be in the form of cash payments, low or no interest loans, tax breaks, and government ownership of common stock in domestic companies.

- **Local content requirements:** Government may also impose local content requirement policy to decrease imports by setting a manufacturing requirement in which a stated part or parts of a product must be made domestically. This may be possible by having a percent of a product manufactured domestically or in value terms, such as 70% of its value, must be made locally.

- **Administrative trade policies:** This policy may be imposed by implementing rules, laws, and regulations designed to create serious difficulties for an importer of goods or commodities in a particular country. These policies may include setting high-level health and safety standards and difficult-to-obtain import licenses for foreign producers.

- **Antidumping policies:** Antidumping polices may be used to prevent selling of goods in a foreign market at a price far below their production costs in order to gain a substantial share of that country's market. Anti-dumping rules can also include regulations prohibiting the sale of goods, products, or commodities below its fair market value.

Trade Protectionism is considered not a Good Policy

- Trade protectionism may be a good policy for a country in specific scenario but it may cause more damages to a country's economy which could be more severe. For example, it may result in a global recession, if it is used globally.

My Opinion

Free trade policy always remained a big threat for local industry of mostly developing countries. To overcome this problem, countries normally take measures of trade protectionism like imposition of restrictions on imports through an increase in taxes at import stage, devaluation on local currency, etc. as discussed above.

On the other hand, advocates of free trade policy give an example of communication industry like what happened in telephone and mobile industry. When government allowed, licensing of mobile communication in Pakistan, we saw a great revolution. Even local communication industry in Pakistan, Pakistan Telecommunication Company Limited (PTCL), improved efficiency and prices were also gone down dramatically.

Similarly, example of internet industry with 3G and 4G licensing in Pakistan is being quoted.

In my view, the government should implement free trade policy in following steps:

- A list of goods should be prepared showing, for example, three categories of goods from much necessary or unavoidable to medium and low level goods.
- Free trade policy should be allowed for first types of goods at the start.

The government should then start process import substitution industrialisation. Import Substitution Industrialisation (ISI) is a trade and economic policy which advocates replacing foreign imports with domestic production." "ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialised products."

- This can be done by taking the following steps for local industry:
    - By reducing taxes on these locally produced goods.
    - By providing low cost transportation.
    - By providing technical and financial assistance at low cost.
    - Assisting producers by providing modern machinery at low cost.
    - By providing raw material and other ingredient at the near vicinity of producer in order to reduce transportation cost and time consumed to bring these at place of production.
    - By giving any other incentives to producers.
- When dependence on these first types of goods is almost finished, then this process should be adopted on the next level and goods on lowest level being imported.

Outcome of Above Steps

- Due to increase in competition, quality of products will be increased.
- Production will be increased since government assists in production of goods which were not produced in the country and were imported previously.
- Employment will be increased.
- Government revenue rises due to increase in taxes.
- Inflation level will go down.
- GDP will be increased.

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Corporate Entrepreneurship

Saira Nasir **FCA**

The three traits of entrepreneurship are growth, innovation, and flexibility. The Irish-French economist, Richard Cantillon (circa 1730) defined entrepreneurship as self-employment. Following this in 1816, French economist, Jean Baptiste Say defined an entrepreneur as: "One who utilises all means of production to create profit through the value of the products that are thereby created." The present form of this approach agrees with American management consultant, Peter Drucker's definition of an entrepreneur as, "Someone always searching for change, responding to it, and exploiting it as an opportunity." The focus was on the entrepreneur as an innovator/visionary.

The three traits of entrepreneurship are growth, innovation, and flexibility.

21st century, ecological conditions demand building vibrant core competencies, with its focus on developing human capital, instigating new contemporary organisational structures and cultures, making the use of sophisticated technology. Strategic discontinuities are faced by managers today. Technological revolution and increase in globalisation of business pose a great challenge for companies to remain competitive in this fast-changing business environment. The only thing constant is the uncertainty, discontinuity and abrupt change. The digital revolution is changing the fundamentals of how businesses work. The uncertainty of the situation can be converted into an opportunity by those who keep their businesses aligned with the changing conditions and adopt a continuous process of innovation. It is critical to stay sync with persistent changes by developing and maintaining strategic flexibility in this exceptionally competitive environment. In short, the new competitive environment requires novel types of organisations and leaders must assure the survival by gaining global market leadership.

Conventionally, entrepreneurship is demarcated as an effort of an individual in bringing about change. Corporate enterprise is primarily the shift from an individual to an organisational level. A far-reaching definition holds entrepreneurship as how we create a new economic activity that incorporates all activity that is new to an organisation and then changes its position in the market.

Aim of Corporate Entrepreneurship

The three aims of corporate entrepreneurship are innovation, venturing, and strategic renewal. Though the tactical values of these activities differ from industry to industry, the intentions of these aims form a pattern of activities enabling sustainable progress and growth of an enterprise.

21st century, ecological conditions demand building vibrant core competencies, with its focus on developing human capital, instigating new contemporary organisational structures and cultures, making the use of sophisticated technology.

Innovation

Innovation ranges from new-to-the-world products and services to minor changes in existing products. A new application of current processes is also classified as innovation. Profound changes are brought about in industries, for example, Google's search algorithm swapped prior searching solutions. Inflexible or intransigent organisations fail to introduce far-reaching changes.

Businesses that are most innovative tend to be more diverse. Innovation is both the process whereby ideas are borrowed from different fields and are merged together in new ways. Diversity is a good thing, but it does require greater coordination than just homogeneous teams. Therefore, it is recommended that the numerous ideas of an organisation must align with its cultural values.

Venturing

The second aim in line is venturing. By Sharma and Chrisman (1999), venturing refers to corporate entrepreneurial efforts that follow from or lead to innovations that exploit new markets, new product offerings, or both.[1] The new ventures may not be located within the existing organisation. Internal venturing, activities result in the creation of new organisational units in the organisation while external venturing results in the creation of new businesses outside the organisation. Commonly used, forms are joint ventures and venture capital innovations, which vary in the degree of distinctiveness from the parent company.

The three aims of corporate entrepreneurship are innovation, venturing, and strategic renewal.

Corporate venturing serves many purposes like the development of new organisational competencies as well as enhances knowledge about various business opportunities beyond its current operations. Several risks are also associated with corporate venturing:

- often takes the company away from its traditional core competencies, which leave it vulnerable to competitive attacks.
- integration of existing and new businesses may be difficult due to differences in cultures, goals, and strategic priorities.
- new ventures take away resources from current operations and result in another source of tension in the organisation.

Corporate entrepreneurship can result in significantly altering the balance of competition within an industry or result in creating completely new industries through the act of internal innovation. It is important to guard against these risks. Great managerial skills are required to nurture both existing and new businesses. As many new ventures are cross-divisional in nature, clear and specific, goals which are evaluated regularly, have to be established. It is also pertinent that the organisation must consider that any new venture would require time to develop until they play a positive role for the organisation's financial performance.

Strategic Renewal

Strategic renewal supports corporate entrepreneurial exertions that lead to substantial changes in an organisation's business, corporate strategy, and structure. The premise behind this strand is that the organisation needs to keep itself abreast with the constant changing environment to ensure stable growth and continuity of business.

The process of strategic renewal may pose a challenge to the prevailing cultural assumptions with reference to structure and strategy, influencing all hierarchical levels and business units. The impact on financial performance might be fairly moderate in the short run because of initial costs, and the time required by the members to adapt to the reconfiguration. The result will amplify gradually with the transmission of the new setting.

Importance of Corporate Entrepreneurship in Established Organisations

Corporate entrepreneurship is particularly important for large/established companies. Established companies are usually averse to risk-taking-to innovate. This approach not only provides a benefit of innovation but sets the stage of leadership continuity. It can be viewed as a means of organisational renewal.

Innovation and an equal drive towards venturing works in harmony as the company undertake innovation through the entire organisational spectrum. Venturing pushes established companies to increase their competitiveness by taking bigger risks. As mentioned earlier, these risks may include a redefinition of business concepts leading to the vulnerability of competitive attacks or integration of existing and new businesses.

Businesses that are most innovative tend to be more diverse.

Innovation the process whereby ideas are borrowed from different fields and are merged together in new ways.

Venturing refers to corporate entrepreneurial efforts that follow from or lead to innovations that exploit new markets, new product offerings, or both.

Strategic renewal supports corporate entrepreneurial exertions that lead to substantial changes in an organisation's business, corporate strategy, and structure.

The most important task of today's business leaders is to create an environment in which the entrepreneurship is accepted. This concept would bring in acceptance to innovation and creativity. Leaders who are motivated towards the concept of corporate entrepreneurship must convey and develop trust, embracing the risk to fail and encouraging those around them to take similar planned risks.

Way Forward

Corporate entrepreneurship within an established company would mean "process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company but leverages the parent's assets, market position, capabilities or other resources. It differs from corporate venture capital, which predominantly pursues financial investments in external companies."[2]

Encouraging inspiration is not enough to create an environment of corporate entrepreneurship. It mostly relies on a system of continuous analysis and feedback. Following initiatives need to be taken to achieve full benefit of this style of entrepreneurship:

- **Set broad direction:** Directions should be set to achieve this aim and should be reevaluated on a periodical basis for any new change that has emerged affecting the business environment. Keeping the capabilities in line, articulate a strategic vision that should neither too narrow nor too broad resulting in people not knowing where to start.
- **Strengthen efforts across the organisation:** It is a prerequisite for a leader to promote strategy, but at the same time he is also required to make related adjustments based on the environmental changes and the feedback received from various business units. Continuous experimentation takes place in these business units to enhance the existing product and services which should be taken into consideration while formulating or continuing with an existing strategy. Extensive communication should be put into work to build corporate leadership. Understanding of vested interest and determining how to collaborate with the opposition would ease the path. Right teams should be developed and they should be provided with adequate resources.

Corporate entrepreneurship is a process by which teams within an established company conceive, foster, launch and manage a new business. It differs from corporate venture capital.

Obviously, this kind of capability can hardly be built overnight, and corporate entrepreneurship will always be a rough-and-tumble process with few guarantees.[3] As Mike Giersch, vice president for strategy at IBM, explains, "You've got to be flexible and take some risks. Some things work and some don't. Corporate entrepreneurship is fundamentally a learning process."

[1] Sharma, P., & Chrisman, J. J. (1999). Toward a reconciliation of the definitional issues in the field of corporate entrepreneurship. Entrepreneurship: Theory & Practice. 23(3), 11-27.
[2-3] The four models of Corporate Entrepreneurship, Robert C. Wolcott and Michael J. Lippitz

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Start(ups) and downs

Aamer Abdul Razzak **ACA**

A: Hey, I have a business plan and let's start the business.

B: How much money to be invested?

A: Bare-minimum requirements.

B: What will be our place of business?

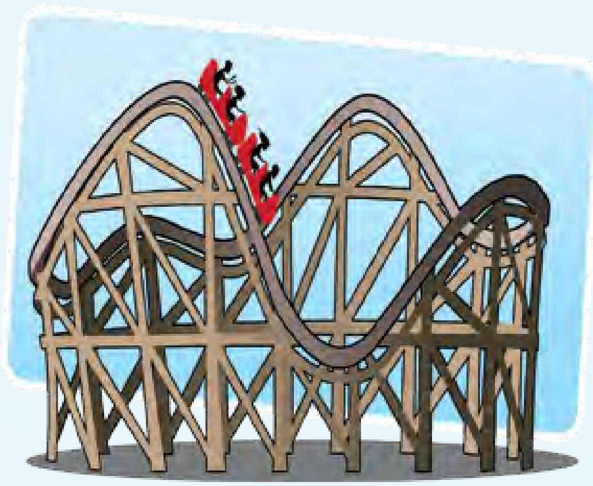
A: We will do it online through Facebook and Instagram?

B: Let's start then.

Most of the startups in Pakistan start in a similar fashion, however, not all of them end up making a success story. Most of the so-called startups or online businesses are started in haste and without proper planning.

As per the research statistics, 70% of startups close within three years, but remember not all closures are because of business failure. People often sell businesses or take up paid employment.

Most of the startups or online businesses are started in haste and without proper planning.



What are startups?

Investopedia, a search engine, explains the startup as "A company that is in the first stage of its operations. These companies are often initially bankrolled by their entrepreneurial founders as they attempt to capitalise on developing a product or service for which they believe there is a demand. Due to limited revenue or high costs, most of these small-scale operations are not sustainable in the long term without additional funding from venture capitalists."

This shows that by definition, the startups are businesses which are not necessarily started with a long term perspective in mind. It generally starts, if clicks, sale it and exit and if it fails, shut it down. The acquisition of Careem by Uber in $3.1 billion is an example where the business was started as a small startup, but it ended up being sold to its global competitor for a hefty amount.

However, operating your own business provides you with great learning experience in terms of:

- Leadership and team working;
- Communication and networking skills;
- Commercial awareness;
- Planning and organisation;
- Adaptability, flexibility and resilience; and
- Independence.

Online market size

However, the number of businesses being launched through social media are increasing by every passing day. Why? There are two obvious reasons:

1. The set up costs and efforts are very low. You can easily set up a Facebook page and Instagram profile and have limited inventory to start.
2. The market of social media users in Pakistan is large. An active shop in the busiest street of Karachi can at maximum expect a few hundreds of customers visiting each day. Whereas, there are 35 million active social media users in Pakistan which can access your product online. Therefore, online businesses do have significant advantage over traditional business model.

The number of businesses being launched through social media are increasing by every passing day.

The online market sales of our country was Rs. 40 billion (including both local and international sales) in 2018 which has almost doubled itself from Rs. 20.7 billion in 2017. This is a big achievement. Though, the big chunk of these sales goes to the giants, i.e. Daraz, Homeshopping, Yayvo, etc., but there is still a good hefty amount left for the small businesses to capture.

Causes of failure

So, why do these so called startups fail? Some of the top most reasons for their failure are as follows:

Lack of planning: Most of the small startups are started abruptly without any proper planning on the part of the founders or owners. Before starting any kind of business or investing time or money, one needs to analyse the market and consumer needs.

Time management: Most of the startups are initiated by salaried class or by individuals which are already earning an active income from some other sources. Due to their active involvement in their main stream income, they hardly get enough time to manage the new startup. Further, in some cases, people do start their businesses in excitement, however, with the passage of time, they start to lose interest and end up in complete shutdown of the startup.

Weak co-founders: These startups are generally started in pairs or partnerships which are difficult to carry on in a long term relationship. Generally, one weak partner can derail the whole business.

Lack of marketing skills: Marketing is a specialised field and most of the newbies ignore its cost and complexity. Using the right channel to reach the right audience in the most cost-effective manner is the key to success. In most cases, individuals choose the wrong marketing channel that increases their cost without the desired impact.

Money: Funding is the key to all business activities. The availability of the adequate funds gives its founder the flexibility in operating and expanding the business. The founders generally fail to properly plan or budget the amount of funds required to operate and market the business. Even if they budget all the costs, they rarely achieve to raise the total budgeted amount. One of the other key factor that is missing in estimating the required amount of funds is the initial period of losses, in which the founder is required to bear the cost of the business until it reaches break even.

Unwilling to push beyond one's comfort zone: These businesses are started by the founders because of their interest in any particular activity. However, they may not be willing to expand the business due to their limited interest or the lack of time they want to invest in the startup.

Finding the right people for the job: Startups are usually short of resources and can't get the job done in bulk, hence, they often look for freelancers to get their work done. Freelancers though provide a cheaper option, it is still, very difficult to ensure the quality of work with these freelancers.

Risk Mitigation

With so many risk factors and the rate of failures of startups, why is the number of startups increasing every passing day? The simple answer is the ease of commencement of business, lower funding requirement, and limitations of the job market. However, to make your business a success, the following success factors should be kept in mind:

1. **Plan properly:** It is important to plan every small aspect of your business idea in different success scenarios. You need to know the best and worst that can happen to your business. The old saying 'hope for the best and prepare for the worst' applies here.
2. **Market research:** It is very important to research whether you have a market for the idea you want to launch. This requires careful segmentation of the customers who are more likely to use your product or service.
3. **Marketing:** Once you have identified your market, choose your marketing channels accordingly. In any new startup, the marketing cost is a hefty amount which needs to be spent smartly.
4. **Love what you do:** Your idea should aspire from your passion. You are likely to do well in the segment which you love.
5. **Exit at the right time:** In most cases, the founders of the business are not able to realise the full potential of their business idea due to money and time limitations. Most startups exit the market by selling their ideas after a successful launch. This exit needs to be timed well to earn maximum return of your idea.

The online market in Pakistan is huge and is still evolving and requires innovative products and services to be sold without investing large capital. However, a careful evaluation should be done to take calculated risk.

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Female Entrepreneurship in Pakistan Taking on the Challenges

Saud Masud

Entrepreneurship matters

Entrepreneurs are essentially problem solvers who identify gaps in markets through pursuit of opportunity or drive of necessity and provide relevant and innovative solutions thereby making communities, institutions and economies more productive and efficient. Entrepreneurs not only strive for independent income but also foster job creation and in certain instances become strong change agents for positive social impact.

Where we stand today?

Developing entrepreneurship-supportive ecosystems is a cornerstone of any socioeconomic policy formulation and in Pakistan, we have some ways to go before we start harvesting the fruits of our total human resource potential including women.

The ground reality is as follows:

- According to United Nations, Pakistani women make up 49% of total population or roughly 101 million, however, Female Labour Force Participation (FLFP) rate is around 25% compared to Male LFP rate at roughly 82%.

- Pakistan's gender wage gap is around 34%, i.e. more than double compared to world average of 16%.
- Female unemployment rate is twice that of male unemployment
- Women, on average, take up only 22% of professional roles and 3% of leadership roles in the workforce.
- According to the Global Entrepreneurship Monitor (GEM), Pakistan's Female/Male TEA ratio (Total early-stage Entrepreneurial Activity) is around 0.05, i.e. women entrepreneurs in nascent or new businesses constitute only 1% of their respective population vs. male counterparts at 21%.
- United Nations Educational, Scientific and Cultural Organisation (UNESCO) data reflects that in the 15-23 age bracket only 68% of girls can read and write well below 83% for boys and high level of literacy skills allow women to earn 95% more than women with minimal literacy.
- World Economic Forum's (WEF) 2018 Global Gender Gap Index ranks Pakistan 148 out of 149 countries, below Syria and Iraq and just above Yemen. This index measures 1) economic participation and opportunity 2) education attainment 3) health and survival and 4) political empowerment and in each of these categories, Pakistan ranks 146, 139, 145 and 97 respectively.

The above datapoints clearly flag structural gaps in Pakistan and female educational capacity appears to be at the heart of these inequalities. As Pakistan begins its ascend towards a knowledge-based economy, we have a unique opportunity to develop the country's female human capital potential and significantly enhance this demographic's entrepreneurial contribution to both the economy and society.

Spirit and timing

Nearly four years ago I started teaching business management and soft skills courses as a visiting faculty member at various Pakistani universities. Since then I have conducted dozens of seminars and engaged with thousands of young students, professionals and male and female entrepreneurs. I have also had the good fortune to meet with and train female artisans from remote areas of the country on how to leverage technology in scaling their home-based businesses.

What I have found consistently is that the typical Pakistani female entrepreneur appears unphased by the daunting statistics mentioned above and is not just highly motivated about successfully commercialising her idea but also enthusiastic about the opportunities rapid economic changes and technology may bring her way. She senses a global thematic change making today and foreseeable future the *era of the entrepreneur* and her growing role in society via this trend – an opportune time to seek out sustainable empowerment and relevance.

And while the spirit of the female entrepreneur remains inspired and ambitious, there are clear headwinds we must address in order to best channel this potent spirit for productive outcomes. To assist women in Pakistan into the new *era*, we need to actively invest in select *pillars* of the basic entrepreneurial ecosystem.

The entrepreneurial ecosystem

The Global Entrepreneurship and Development Institute's Global Entrepreneurship Index (GEI) annually measures the health of the entrepreneurial ecosystem in 137 countries worldwide. The index is composed of three sub-indices (Attitudes, Abilities and Aspirations) and fourteen pillars/ecosystem components across these sub-indices (Chart 1). In 2018, Pakistan's overall GEI score was 16% with a global ranking of 120 of 137. Pakistan's strongest pillar or ecosystem area was new Product Innovation (#10) while **weakest was Risk Acceptance (#3)**. We also note that relative to Asia-Pacific peer-average, Pakistan had the **widest gap in Human Capital (#8)** followed by Risk Capital (#14).

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To promote female entrepreneurship in Pakistan to its optimal impact we must prioritise our energies on Risk Acceptance and Human Capital aspects.

Chart 1. GEI Index Components and Pakistan's Comparative Position

Sub-index	Pillar #	Component of entrepreneurship ecosystem	Considerations	Pakistan	Asia-Pacific	Difference
Attitudes	1	Opportunity perception	Can identify opportunities & are institutions supportive?	26%	33%	-7%
	2	Startup skills	Necessary skills to start a business?	6%	31%	-25%
	3	Risk acceptance	Is there risk appetite?	2%	29%	-27%
	4	Networking	Connectedness and geographical concentration?	11%	34%	-23%
	5	Cultural support	Supportive of entrepreneurship as career path?	21%	32%	-11%
Abilities	6	Opportunity startup	Motivated by opportunity vs. necessity?	11%	42%	-31%
	7	Technology absorption	Size of tech sector and adoption of new technology?	14%	31%	-17%
	8	Human capital	Highly educated & well trained?	10%	56%	-46%
	9	Competition	Unique products?	21%	32%	-11%
Aspiration	10	Product innovation	New product development?	49%	56%	-7%
	11	Process innovation	Assess to STEM expertise?	21%	37%	-16%
	12	High growth	Growth-oriented businesses?	35%	47%	-12%
	13	Internationalisation	Global offerings?	14%	33%	-19%
	14	Risk capital	Individual & Institutional investor interest?	5%	40%	-35%

Source: GEDI, Vector Partners (Pvt.) Limited

Focusing on what matters most

Based on my experience, I believe the core issues facing Pakistani female entrepreneurs are Attitudes and Abilities with Risk Acceptance and Human Capital as respective foundational challenges. These issues appear to contribute disproportionately more to heavy inertia or fear of starting a venture and/or resistance to growing a business. I also believe Aspiration, as defined by GEI framework, is a comparatively secondary issue at current maturity levels of the ecosystem, although still holding significance within the overall entrepreneurial ecosystem, e.g. access to adequate risk capital is a key challenge in Pakistan.

Keeping in line with Pareto's Law or the 80/20 principle, I have singled out the two above-mentioned pillars out of fourteen as the ones to be worked on for maximum outcome benefits to the ecosystem and economy. I strongly believe that to promote female entrepreneurship in Pakistan to its optimal impact **we must prioritise our energies on Risk Acceptance and Human Capital aspects.**

Here are some hopefully 'pillar-supportive' and constructive suggestions for female entrepreneurs and other stakeholders in the ecosystem:

Risk Acceptance (Attitudes):

- Realise that risk is both to the upside and downside hence do not always associate risk with a negative connotation as most inadvertently do given natural tendencies.
- Women need to understand that it is OK to fail! Most businesses do fail regardless of founder's gender. Failing forward or accepting failure towards progress is still a success.
- Risk-taking should be encouraged and rewarded in society and in the workplace.
- Regulatory bodies need to develop personal and business bankruptcy laws that provide fair protection for entrepreneurs.

- Don't weight every risk in your business equally and know that not all variables may be controlled at any given time. Instead, focus on the product innovation and development as the main risk under one's control and that too within the parameters of available funding.
- Identify pivot strategy in case business does not progress a planned, i.e. predetermined steps to shift market focus or product development.
- Identify exit strategy in case business operations become unrecoverable with little to no salvage value, i.e. follow a predetermined checklist of performance measures and if they fall short of acceptability, initiate business wind-down process.
- Document the process leading to outcomes, e.g., if a marketing campaign was launched, what steps were taken and how each step had to be executed despite unique setback risks in order to achieve specific customer awareness outcomes? This documentation allows entrepreneurs to reflect on how often they take on risks in varying capacities and that healthy risk acceptance is key for completing any task.

Human Capital (Abilities):

- Emphasise practical skill acquisition regarding business acumen, specific product or service-related competency and high-impact life skills.
- Promote continuous education at every stage of life to create a flexible life-long learning environment – you are never too old to learn aiming for a better future.
- Supplement formal education with regular attendance of professional seminars and entrepreneurial conferences – relevant ex-classroom experience strongly augments learning.
- Actively pursue a growth mindset by incorporating positivity, resiliency, resourcefulness, self-belief and perseverance in daily activities and routines.
- Build self-awareness and gain proficiency in time management by attending relevant workshops or taking related online courses.
- Collaborate with like-minded female entrepreneurs on certain projects leveraging individual strengths towards mutually targeted outcomes – live engagements help significantly boost confidence in one's capacity.
- Promote apprenticeship and internship programs for women specifically so they may gain exposure within preferred social and professional environments.
- Provide scholarships and/or subsidies for continuing education.

Conclusion

We must not overlook other aspects that affect female entrepreneurs more than male counterparts in Pakistan, namely, cultural resistance, fewer funding channels, greater personal commitments in managing family affairs alongside a new business venture, etc. These complex challenges will take time and societal evolution to bear in favour of female entrepreneurs, however, by promoting awareness around risk and skills, meaningful internal pressures faced by female entrepreneurs may be substantially alleviated. Mitigation of such inertia-laden burdens may just become the catalyst helping women in Pakistan launch their innovative ideas into marketplaces backed by greater confidence and much-needed clarity.

Society's call-to-action is straightforward – support entrepreneurship in Pakistan regardless of gender but especially when it comes to women entrepreneurs. There is a balance between cultural norms and enterprise growth as evidenced by thousands of home-based kitchens, tutoring centres, salons, health and wellness services, etc., run by wives, mothers, sisters and daughters across Pakistan. It is time we collectively stand by our women for them and for our country's brighter future.

Saud Masud is a consultant with more than two decades of experience in finance and management across Wall Street, Silicon Valley, Middle East and Pakistan. As a visiting faculty, he also teaches business courses at various universities.

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External Sharīʻah Auditors in Islamic Banking and Finance Industry: Challenges of Qualification and Professional Competency

Muhammad Asghar Shahzad and Raees Khan

Islamic banking is a new phenomenon; the interest is strictly prohibited in Islam and hence, Islamic banks and financial institutions have to work without the involvement of interest. Quran ordains,

> *"Believers! Hold Allah in fear and give up all outstanding interest if you do truly believe. But if you do not do so, then be warned of war from Allah and His Messenger. If you repent even now, you have the right of the return of your capital; neither will you do wrong nor will you be wronged."(Quran 2:278-279).*

The modern Islamic banking is being evolved as a *Sharīʻah* compliant alternative to the conventional banking system (Shahzad and Hameed 2018). Islamic banking is growing at a rapid rate in all over the world. In Pakistan, starting from 2002, Islamic banking has taken around 15 % of the total commercial banking in the country. Islamic banking assets in Pakistan increased to Rs. 2,790 billion by the end of March 2019 showing an increase of Rs. 132 billion during the quarter January to March 2019. (Islamic Banking Department (IBD) SBP (SBP) 2019)

The main difference between Islamic and conventional banking is *Sharīʻah* compliance in products and services. In order to ensure *Sharīʻah* compliance in Islamic banks, the SBP issues guidelines time to time and the most comprehensive set of guidelines in this regard is the Shariah Governance Framework 2015 (Shahzad and Rehman 2017; Shahzad, Saeed, and Ehsan 2017). In 2008, the SBP issued guidelines for Sharīʻah compliance in Islamic banking Institutions. These guidelines were applicable to all full-fledged Islamic banks, Islamic banking windows and Islamic banking branches of conventional banks. According to these guidelines, all Islamic banking institutions were required to appoint *Sharīʻah* advisor and in order to examine whether the transactions of Islamic banks are in conformity with the *Sharīʻah* rules and principles, the IBI(s) were instructed to introduce internal *Sharīʻah* audit.

To further strengthen the *Sharīʻah* compliance environment in Islamic banking institutions, the SBP issued *Sharīʻah* Governance Framework in 2015. There were many improvements as compared to the previous guidelines i.e. appointment of *Sharīʻah* supervisory board instead of one *Sharīʻah* advisor, their qualification was also improved. In this *Sharīʻah* Governance Framework (SGF), all Islamic banking Institutions were instructed to include external *Sharīʻah* audit but the SGF did not specify the qualification or

To strengthen the Sharī'ah compliance environment in Islamic banking and finance industry and to mitigate the Sharī'ah noncompliance risk, it is recommended that the State Bank of Pakistan should review the qualification criteria (FAPC) for the Sharī'ah auditors.

experience of the external *Sharī'ah* auditors. (Shahzad, Saeed, and Ehsan 2017; Shahzad and Rehman 2017; SBP 2015). Later in 2018, the State Bank revised the *Sharī'ah* governance framework. Besides some other amendments in the *Sharī'ah* governance framework, explanation was also given regarding external *Sharī'ah* Audit.

In Pakistan, starting from 2002, Islamic banking has taken around 15 % of the total commercial banking in the country. Islamic banking assets in Pakistan increased to Rs. 2,790 billion by the end of March 2019 showing an increase of Rs. 132 billion during the quarter January to March 2019.

In order to have an independent assessment of the *Sharī'ah* governance and compliance environment of IBIs, the *Sharī'ah* governance framework 2018 bounded all IBIs to include an independent and objective assessment of the conformity of IBI's operations with *Sharī'ah* rules and principles. The audit firms will have to take appropriate measures to have the capacity, in relation to resources and methodology, to conduct the *Sharī'ah* audit of an IBI. The responsibility of the external audit firms to take appropriate measures for capacity building of their staff for conducting *Sharī'ah* audit by providing them training in Islamic banking or by engaging *Sharī'ah* scholar members in their audit team but the *Sharī'ah* scholar members must have qualification according to Fit and Proper Criteria (FAPC) prescribed by SBP for the appointment of *Sharī'ah* supervisory board members. The external *Sharī'ah* auditor will follow the sequence provided below:

1. Essentials, Regulations, Instructions and Guidelines issued SBP including the *Sharī'ah* Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), as adopted by SBP with suitable modifications, if any; (SBP 2018)
2. The rulings of *Sharī'ah* board of SBP as notified by SBP; (SBP 2018)
3. Requirements of the applicable Islamic Financial Accounting Standards as notified by the Securities and Exchange Commission of Pakistan (SECP) and as circulated by SBP; (SBP 2018)
4. Approvals and rulings given by the SB of an IBI in line with the SBP directives, regulations, instructions and guidelines issued in accordance with the rulings of *Sharī'ah* Advisory Committee of SBP. (SBP 2018)

The SECP has also issued *Sharī'ah* Governance Regulations on November 2, 2018 which states that; "Every *Sharī'ah* compliant company and company issuing *Sharī'ah* compliant security shall be subject to external *Sharī'ah* audit for every financial year which may be undertaken by the existing external auditors or an independent external *Sharī'ah* auditor. For the purpose of these regulations, the provisions of Sections 223 and 247 of the Act, shall be followed with regard to external *Sharī'ah* audit and the external *Sharī'ah* auditor, respectively and the audit firm shall preferably have expertise in Islamic finance. The scope of external *Sharī'ah* audit shall include an independent and objective assessment of compliance of operations with the *Sharī'ah*." (Chapter VII: 2.1) (SECP 2018)

This short study provides an overview of the present circumstances regarding the importance of External *Sharī'ah* Audit in Islamic banking market and major challenges. The main challenge to this industry is lack of skilful and qualified man power. Realising the current curricula of reputed Accountancy Institutions who produce certified Accountants and auditors lacks the topics related to Islamic banking products and services, besides as suggested by the SBP the audit firms should hire *Sharī'ah* scholars on the basis of *"Shahadatul Almiya Fil Uloomal Arabia wal Islamia" or Takhasus fil Fiqh wal Ifta* or *Sharī'ah* background. (Ayub, Shahzad, and Rehman 2019) These persons will not have adequate knowledge and experience of accounting and auditing knowledge as per FAPC. (SBP 2018) However, the AAOIFI has suggested a solution regarding the qualification of an external *Sharī'ah* auditor;

> "The auditor shall be knowledgeable about Shari'a Rules and Principles. However, he would not possess the same level of knowledge as that of SSB members and thus the auditor shall not be expected to provide interpretation of these rules and principles." (AAOIFI 2015)

The nature of job of an external *Sharī'ah* auditor is very sensitive as compared to the financial audit, in financial audit the external auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. But in external *Sharī'ah* audit the auditor will be responsible to give opinion that the transactions and contracts are in compliance with *Sharī'ah* rules and principles which increase the level of the confidence of banks customers. Moreover, *Sharī'ah* audit in Islamic banking industry would assure the shareholders regarding the application of *Sharī'ah* rules and principles in the product and services of the Islamic financial institutions. In this way, *Sharī'ah* governance and audit would be evidenced the important paradigms of Islamic financial institutions with regards to accountability and transparency of *Sharī'ah* guidelines in the Islamic banking transactions. Thus, *Sharī'ah* compliance and audit would help the Sharī'ah auditor to express an opinion that the financial activities carried out by a financial institution in the Islamic banking industry don't violate the Sharī'ah governance principles throughout its business operations.

In order to have an independent assessment of the *Sharī'ah* governance and compliance environment of IBIs, the *Sharī'ah* governance framework 2018 bounded all IBIs to include an independent and objective assessment of the conformity of IBI's operations with Sharī'ah rules and principles.

Keeping in view the nature of the job of an external *Sharī'ah* auditor, the AAOIFI, Bahrain is offering Certified *Sharī'ah* Auditor Certification which is not sufficient. In Pakistan, it needs attention from the accountancy bodies to produce qualified *Sharī'ah* auditors in Pakistan. As mentioned in the SGF:

> *"The Institute of Chartered Accountants of Pakistan (ICAP) may develop comprehensive guidelines to conduct external Shari'ah Audit in consultation with external Audit firms." (SBP 2018)*

Therefore, to strengthen the *Sharī'ah* compliance environment in Islamic banking and finance industry and to mitigate the *Sharī'ah* noncompliance risk, it is recommended that the SBP should review the qualification criteria (FAPC) for the *Sharī'ah* auditors, as the *Sharī'ah* scholars don't have adequate knowledge of accounting and finance however, the auditors have lack of knowledge in *Sharī'ah*. It is the responsibility of the SBP to revisit the qualification and professional competency criteria for the external *Sharī'ah* auditors in consultation with the accountancy bodies i.e. Institute of Chartered Accountants Pakistan (ICAP). Secondly, the accountancy bodies should issue manuals for the *Sharī'ah* audit, and thirdly the accountancy bodies i.e. ICAP, Institute of Cost and Management Accountants of Pakistan (ICMAP) should frame a comprehensive capacity building trainings or certificate program for the auditors in the field of Islamic banking and finance, Islamic law in collaboration with SBP, SECP and reputed *Sharī'ah* bodies which may be compulsory for the individuals associated with *Sharī'ah* Audit of Islamic banking and finance industry.

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Challenges facing the profession in Asia Pacific

Some of the earliest known writings discovered by archaeologists are accounts of ancient tax records on clay tablets from Egypt and Mesopotamia dating back as early as 3300 to 2000 BC.[1]

For as long as civilisations have been engaging in trade or organised systems of government, methods of record keeping, accounting, and accounting tools have been developed out of the need to record trade and business transactions.

As companies flourished and developed, spurred on by the industrial revolution in Europe and the United States, shareowners, bondholders, bankers and others who had a vested interest in a company's results were created. The demand for reliable accountancy and the need for more advanced cost accounting systems soared, and the profession rapidly became an integral part of business and financial systems.

This rising public status of accountants helped to transform accounting, and from this the accountancy profession emerged.

Fast-forward to today, and it is recognised that a strong accountancy profession continues to lie at the heart of any thriving or stable economy. What has changed is how the world now operates. The confluence of globalisation, the gravitational pull of the global economic centre towards the East

led by China, India and Japan, and industrial revolution 4.0 means that Asia Pacific is uniquely positioned for the future.

According to *Accountancy in Asia-Pacific,* the accountancy market in the region had a compound annual growth rate of a whopping 7.2% in a span of just four years between 2011 and 2015.[2]

Asia Pacific is a region of contrasts, and its accountancy profession is no different – it is well-developed in certain countries, emerging in others, including in some fast-growing economies, and in less developed countries has barely started its journey towards international standards.

So, what are the challenges that the accountancy profession today needs to face – in Asia Pacific where 50% of the world's top 10 economies reside[3] and especially in Asia, the fastest growing element. Some of these challenges are not new. What is new is the environment in which these challenges exist.

CAPA members identify the challenges

The Confederation of Asian and Pacific Accountants (CAPA) took a look at the challenges in June 2019 in Kuala Lumpur, Malaysia, during an interactive session for its members, whose professional accountancy organisations represent close to 2 million accountants in the world. The session gathered insights from 36 leaders and representatives from 26 organisations across 18 jurisdictions.

The challenges identified in the session, coupled with findings from other research, revealed four key themes, namely: Complexity and Markets – the macro issues, and People and Reputation – the issues for the profession to directly address.

Complexity

Impact of rapid technological changes

Technological advancement in the last two decades has been occurring at an astounding pace. According to CAPA's members, the impact of rapid technological changes is one of the 'top three' issues that keeps the profession awake at night.

The impact of digitisation has several facades for the accountant. On one side, development of technology and tools has changed the way in which work is done. For example, Computer Assisted Audit Techniques and Tools (CAAT) have resulted in changes to the way audits are performed. In some instances, sampling sizes are now extended to 100 percent of accounting entries, something that was not possible in the days of manual audits. Assessment of application controls over computer-based accounting systems is now absolutely imperative. On development fronts, technologies such as Blockchain, Cloud Computing, Artificial Intelligence (AI) and Robotics Process Automation (RPA) have impacts on finance functions and systems. This gives rise to further challenges, including cyber security threats, though the benefits can outweigh the issues.

Another key challenge is the expansion of skillsets required by an accountant – firstly, to understand what these developments are and how these impact their work; secondly, the need to train or retrain finance personnel to operate within this technological landscape; and thirdly, to have the ability to manage effective relationships with IT departments and staff.

Building on this, another side to the façade is the 'people' aspect and their ability to cope with these changing trends. Potentially, what is learnt and assessed in the first year of a 4-year education program may be obsolete by the end of the fourth year. It is therefore necessary for the accountant to adapt, adopt and manage the technological changes of today. The accountant also needs to be prepared for a future where there will be further technological progression.

Keeping abreast of regulatory requirements

With the advent of multinational business organisations, and oversight by public regulators or institutions charged with upholding overall public interest, it is inevitable that legislation, regulations, codes and standards arise. Together with large and robust financial and regulatory systems, both the quantity and complexity of rules and regulations have heightened in recent years. A case in point is addressing tax avoidance in the form of the Organisation for Economic Co-operation and Development's (OECD's) Transfer Pricing guidelines first issued in 1995, with the latest edition in 2017; as well as the Base Erosion and Profits Shifting (BEPs) project by the OECD and G20. These developments have resulted in many transnational organisations seeking advice on how to best comply, with all eyes on the accountants to play a key advisory role.

In some jurisdictions, it may be challenging to meet deadlines for reporting (e.g. public interest entity announcements) or to deliver on services, and long working hours can become the norm for the profession. Coupled with heightened requirements and information needs – especially after the corporate scandals in the past two decades – the expectations of an accountant's role and responsibilities have increased. The professions' role in tackling fraud and corruption is also under debate and scrutiny. It is therefore not surprising that regulatory related issues were raised as a key concern by CAPA members, and most noticeably from those based in Asia.

Markets

Adapting to the rapidly growing economies in Asia

Based on the International Monetary Fund's Regional Economic Outlook: *Asia Pacific* published in October 2018, the region is very much at the forefront of global economic growth, accounting for more than 60 percent of world growth and projected to grow at 5.4 percent in 2019. The Asian Development Bank in its *Asian Development Outlook 2019 (ADO 2019)*, highlighted India and China as the two fastest growing economies in developing Asia, which continue to post strong growth despite headwinds of softer global economic activity and prolonged trade tensions. The former country moving from a mainly agrarian economy, and the latter a centrally planned and closed economy, are both growing at exponential rates. China is an exporting platform for the world and India has the fastest growing services sector in the world.

The profession's role – to rise to the call to support clients ranging from small and entrepreneurial businesses to large conglomerates – is not an easy role to play. The growth rate of some businesses in Asia can be astounding and the profession must be able to keep pace.

Further, the rise of emerging industries, particularly in e-commerce like Alibaba, ride services like Uber or online marketplace and hospitality services such as Airbnb, present their own set of challenges for the profession as they challenge traditional brick-and-mortar business models with actual physical assets.

Changing client needs

Globalisation, digitisation, differing business structures and combinations, and the trend towards increased entrepreneurship, particularly start-ups with new innovative business ideas, have required the profession to reinvent and evolve. The traditional record keeping, 'bean-counting' profession has given way to the accountant as a business advisor. Services such as audit, assurance and tax may remain central to professional services firms, but other advisory services are now significant. The challenge to evolve to meet changing client needs was specifically flagged by our members in South Asia.

Sustainability and growth of the Small-and-Medium-sized Practices (SMPs)

SMPs continue to make up a large part of the profession worldwide, particularly in many of the developing countries in Asia. In many areas of the world, SMPs are believed to employ the majority of professional accountants working in practice, typically serving small- and medium-sized entities (SMEs). Although there is no standard definition of what constitutes an SME, the *Edinburgh Group* research estimates that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment and contributing significantly to countries' gross domestic product (GDP).

The sustainability and growth of the SMPs therefore have great bearings on SMEs which are crucial to the health, stability, and sustainability of economic growth for both developed and developing economies. However, the ability of SMPs to grow, sustain and keep abreast of developments in an ever-increasingly complex global marketplace, remains trying.

Demand for greater transparency and accountability in public sector financial management

CAPA is a strong proponent of the effective management of public finances – known as Public Financial Management (PFM). In one of CAPA's earlier publications, *"Improving Financial Management in the Public Sector – The Eight Key Elements of PFM Success™"*, it was noted that PFM is fundamental to the development and growth of individual economies. Governments are responsible to their citizens and taxpayers for implementing effective systems of PFM and for utilising those systems to safeguard, and ultimately enhance, a country's economic sovereignty.

Governments and the public sector have come under increased scrutiny in recent years, perhaps due to the advent of the knowledge economy where information is now more accessible and available to the person on the street, who in turn have grown into being more sophisticated and informed users of information. Their expectation is for the public sector to deliver greater value and be more transparent and accountable in the management of finances. Reforms to PFM have been called for in some countries, with the aim of greater fiscal prudence, transparency and efficiency, including the strengthening of treasury functions, more systematic public investment planning and implementation, and the adoption of appropriate accounting and auditing standards.

Accountants therefore need to be able to understand the intricacies and specific needs of PFM and how to support their governments to do the right thing.

Given the unprecedented climate of change, the ensuing complexities, and an ever-evolving marketplace, the question is whether the profession in Asia and the Pacific is able to keep up. Can the profession meet these challenges? Can it be better prepared and further strengthened for future changes? And what are the immediate matters and challenges that stand in the way? We ponder these questions through two spectrums – People and Reputation.

People

War for talent

A popular phrase coined by McKinsey & Co., and a book of the same name published by the Harvard Business Press in 2001, the 'war for talent' predicts that the crucial force that will make or break firms in the next two decades will be their ability (and mindset) to attract, develop, and retain managers (or employees) at all levels. Two decades on, the forecast has proven true. The war, to win the best and the brightest to the accountancy profession in an increasingly competitive landscape, continues to be very real today and especially so for a dynamic region, where choices are aplenty. For CAPA members, 'attracting and retaining talent' came up as another of the 'top three' issues affecting the profession in Asia Pacific. Interestingly, this was true for both developing and developed professions in the region.

Many studies have been undertaken to understand the expectations and needs of the 'millennials' and/or Generation Z. In fact, not too long ago, the challenge was to understand Generation Y who in the past decade have become the new leaders in the profession and in businesses. Organisations that were able to adapt and understand that the traditional styles of work, processes and benefits needed to be redefined and fine-tuned, thrived better than those that did not. Further, Asia Pacific is unique in that it harbours some of the world's youngest populations but is also home to some of the most aging populations, for example, Japan.[4] Accordingly, human capital practices and processes need to acclimatise and evolve to meet the expectations and demands of the different modern-day workforces in the various nations. The question is whether the key employers of the accountancy profession are able to adapt and flourish based on these challenges.

Skills gaps

The skillsets and ability of talent in emerging Asia, which houses differing educational standards, may not be able to meet the needs arising from the speed of growth in some economies. For example, *ADO 2019* noted that a number of recent surveys and studies show that investors and businesses in Cambodia are constrained by a widening gap between the skills the workforce possesses and those it needs. This could be said of the accountancy profession, which is trying to develop rapidly to meet the required needs.

A further example is Myanmar, one of Southeast Asia's fastest growing economies currently in the process of democratic transition. Recognising the critical role that the accountancy profession can play in attracting investment for sustainable growth, in April 2018 the International Federation of Accountants (IFAC) partnered with Association of Chartered Certified Accountants to commence its first accountancy capacity building project in Southeast Asia to assist the Myanmar Institute of Certified Public Accountants (MICPA) in its work to strengthen the profession in Myanmar. The Myanmar government's support of the project demonstrated the recognition that a sustainable professional accountancy organisation can act as the cornerstone of the profession in the country and contribute positively towards economic reforms.

Evolving roles in finance

The roles of finance leaders and accountants have changed. Expectations of accounting firms and their service offerings have changed. CAPA members underlined the heightened demand in the region for more 'specialist' skillsets as opposed to the more traditional 'generalist'.

Professional accountancy bodies are reacting and readying their members to deliver more value. By way of example, CPA Canada's *Foresight: Reimagining The Profession* initiative explores the drivers of change and reimagining how they will shape the future of the profession. Chartered Institute of Management Accountants *Future of Finance* research has built a picture of what the finance function in a digital world looks like, and Association of Chartered Certified Accountants explores *EQ (emotional quotient) in a digital age.*

Further, with advancements in AI, accounting software and computerisation of rote processes, the profession's role has moved towards analysing and reporting on data. In fact, many finance departments have pivoted from cost centres to service centres and the finance heads or leaders have now taken on a more strategic role alongside the business leaders or CEOs.

Reputation

The professions' reputation has taken some hard knocks in the last two decades mainly due to the occurrence of some major corporate collapses, some involving malfeasance. While the blame cannot be solely placed on any one individual, firm or indeed the accountancy profession alone, the scandals and the apparent failure to identify or report accounting anomalies have often left a sour taste in the minds of the public. Corporate scandals such as *Enron, Worldcom, Freddie Mac, Satyam, Olympus, Toshiba and now Carillion* have shocked the world and led to, or has played a part in, some displacement of trust in the accountant and the auditor.

Accountants and the accountancy profession, in comparison to some other occupations and industries, still command a reasonably good level of respect and trust. However, trust can be quickly lost and efforts to maintain must be continuous. As certain quarters question the audit quality and the market concentration of large firms, supplying both audit and other services and its impact on 'independence,' how the accountancy profession reacts will determine its future reputation.

Meanwhile, a pertinent point that also comes to mind is one of 'relevance.' In light of all that has happened and the developments taking place globally, deep consideration must be given to whether the accountants and auditors are providing what the market wants and needs. Historically in Asia, recognition of the value of the profession to the marketplace has been and continues to remain low in many countries, evidenced by the comparatively lower fees the market is willing to pay when benchmarked to the more developed countries in the West. Given the concerns regarding reputation and relevance, perhaps it is not surprising that CAPA members in both developed and emerging markets recognised that demonstrating the importance and value of the profession is vital, making it the final 'top three' challenge arising from the interactive session.

Perhaps the market has already spoken in part with the rise of Integrated and Sustainability Reporting – a hint of what the market is asking for of the 'new' accountant, someone who is able to connect the dots and help makes sense of information and numbers. Quoting Professor Jacob Soll from the University of South California in ICAEW's Economia publication "...a new sort of accounting education needs to emerge, not simply to produce great technicians – we are doing that – but to also create accounting leaders who can take part in societal and international debate at all levels."

What seems essential now is for the many stakeholders in the profession, whether in Asia Pacific or globally, to work together. Creating an inventory of key and possible challenges, such as in this article is but only one piece of the larger picture. The need to build on the relevance of the profession both now and for the future, as well as the call to build and/or rebuild the brand and presence of the profession, and harness the myriad of opportunities presented by current times, needs to be approached in a strategic, holistic manner.

Optional Statement

[*Insert PAO name*] is a member of the Confederation of Asian and Pacific Accountants (CAPA). CAPA is a regional organisation representing 33 national professional accountancy organisations (PAOs) operating in 24 jurisdictions in Asia and the Pacific. These PAOs, referred to as CAPA's members, represent close to 2 million accountants across the region. CAPA is one of four regional organisations (ROs) recognised by the global accountancy profession, which is represented by the International Federation of Accountants (IFAC).

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Strengthening Our Membership through Toastmasters

Naeem Akhtar Sheikh **FCA**

As local business environments mature, and a host of new technologies come into play, the expectations of professional accountants is changing significantly. Professional accountants' roles have shifted to be a business leader with strong financial and technical skills as well as soft skills, such as effective communication. When the International Federation of Accountants (IFAC) Professional Accountancy Organisations (PAO) Development Committee met in October 2018 and discussed the future professional accountant, several attributes related to communications were cited: relationship builder, creative thinker, and influencer among others.

The Institute of Chartered Accountants of Pakistan (ICAP) is proud of the respect its membership brings in both the domestic and international market. Its members are professionally and technically competent and required to complete several years of practical experience plus continuing professional development during their careers.

However, ICAP was concerned that members might lack some of these soft skills, which are now necessary to effectively meet market expectations. This gap contributed to serious career stagnation. Many members were technically equipped to lead their organisations but lacked the communication and leadership skills to shape and influence growth. How could ICAP pivot to support its members in this much-demanded area?

ICAP quickly realised that enhancing leadership and effective communication is not a one-time endeavour. It requires constant reinforcement and practice through a structured program with proven results.

Considering member diversity in experience and age, a classroom environment was also ruled out. Individuals would need a place outside their work environment to continuously practice. Moreover, members would need to be the main drivers and be committed to strengthening their skillset.

Toastmasters

With these needs in mind, ICAP turned to Toastmasters, the international organisation that develops professionals' leadership and communication skills. It operates in the form of clubs and is a 'learn-by-doing' initiative. ICAP encouraged its members to form a Toastmasters club to raise awareness amongst new and existing members on the need to develop and enhance communication and leadership skills.

The first club was successfully initiated in Lahore, Pakistan in 2012 under the mentorship of experienced toastmasters. ICAP readily endorsed the initiative and provided administrative, marketing, and logistical support. The program was so successful that ICAP members in other cities initiated similar Toastmasters clubs. Clubs are now successfully operating in all major cities in Pakistan.

Impact

Participating members saw immense value in the initiative. They reported a boost in confidence, improved networking skills, refined performance in interviews, enhanced board-meeting management, and enriched team management and leadership skills.

Some members have gone on to complete the Toastmasters' extensive and rigorous educational program and become Distinguished Toastmasters. Others have completed Toastmasters' Competent Communicator and Competent Leader certifications. These individuals have in turn mentored new members within the Toastmasters program and volunteer by regularly speaking at continuing professional development events, workshops and seminars.

The Toastmasters clubs also bring together people with unique and varied learnings, experiences, and diversity. The clubs welcome guests, including Toastmasters from other nations. Its positive impact is also being recognised by key stakeholders – the Federal Board of Revenue (FBR) has approached ICAP about supporting their own Toastmasters club.

At ICAP, we cannot overstate how a new approach to life-long learning has strengthened our membership.

How is your organisation supporting members to become future leaders? Please post in the comments below or get in touch with IFAC to share examples on the IFAC Gateway.

Naeem Akhtar Sheikh is a chartered accountant and past president of ICAP. He is also a member of SAFA IFAC's PAO Development Committee.

Ethics – Why varies from person to person?

Inam ul Haque **FCA**

I was always of the view since my teenage that anything can be good or bad, right or wrong, ethical or unethical, moral or immoral but cannot be both at the same time. However, my experience in life proved me that this is not the case. I have experienced in my life that one single act is termed as 'ethical' by the person doing that act, whereas the same is termed as 'unethical' by recipient or anyone else. It means that any specific act can be both ethical and unethical in the opinions of different people. In order to understand the meaning and the historical background of the word 'ethics,' I searched its definition and found as follows:

- The discipline dealing with what is good and bad and with moral duty and obligation. (Source: Webster)
- Moral principles that govern a person's behaviour or the conducting of an activity. (Source: Oxford living dictionary)
- A branch of philosophy that involves systematising, defending, and recommending concepts of right and wrong conduct. (Source: Wikipedia)

Anything can be good or bad, right or wrong, ethical or unethical, moral or immoral but cannot be both at the same time.

The English word 'ethics' is derived from the ancient Greek word ēthikós (ἠθικός), meaning 'relating to one's character,' which itself comes from the root word êthos (ἦθος) meaning 'character, moral nature.' This word was transferred into Latin as ethica and then into French as éthique, from which it was transferred into English (Source: Wikipedia). Ethics seeks to resolve questions of human morality by defining

concepts such as good and evil, right and wrong, virtue and vice, justice and crime. As a field of intellectual enquiry, moral philosophy is also related to the fields of moral psychology, descriptive ethics, and value theory.

These definitions indicate that what is considered as right or acceptable in a society stands as right and acceptable to all without any exception. Now, the question arises why any act is termed as right and acceptable (that is ethical) by one and wrong and unacceptable (that is unethical) by other(s) and vice versa? I mean, why my definition of right or wrong is different from the definition of right or wrong of someone else? If I believe that my 'specific act' is ethical in line with the moral values of the society I live in, then the same should be taken as ethical by the whole society. But this is not the case in some circumstances.

The definition of right or wrong varies from society to society, but it remains the same within a specific society.

I know that the definition of right or wrong varies from society to society, but it remains the same within a specific society. If something is considered as right and acceptable in say England that may not be considered as right and acceptable in Pakistan and vice versa, but what is considered as right and acceptable in Pakistan should be right and acceptable for all in Pakistan.

But, in my life I have faced/observed many such situations, especially problem situations where contradictory claims were made by different parties as to single act claiming the same to be ethical and unethical at the same time. What is the reason behind such differences in our understanding/opinions? When I thought about the reasons studying such problem situations in detail, I came to know that we assess 'acts' in relative terms considering the reasons giving rise to or behind such acts, as part and parcel of the act and, therefore, my opinion with respect to a single specific act may be different from the opinion of someone else as everyone has his own reasons or justifications. Let us understand this with the help of a few (assumed) examples:

- Mr. A is of the view that his subordinate Mr. B has some 'behavioural issue' so he gives him 'some treatment' by his acts but considers his acts to be 'ethical' for the reason that Mr. B deserves that treatment. Whereas Mr. B is even unable to understand why Mr. A is doing with him what he is doing and considers Mr. A's acts as 'unethical.' (both have their own reasons and justification)
- Mr. A came from the office and saw that his wife is sleeping. He did not eat lunch at office and therefore, expected that the dinner will be ready before his arrival. In his view, his wife did wrong for the reason that he was hungry, whereas his wife considered the same as 'not wrong' for the reason that she couldn't sleep well at night and remained too busy for the whole day and was tired.

- Mr. A complained via email about some decisions of his team leader Mr. B where Mr. A believes that Mr. B has not done justice to him. Mr. B is of the view that Mr. A was better to discuss the same in person with him and termed the 'email' as an unethical act whereas Mr. A believes that it was his right and Mr. B is to listen and address his complaint that calling his email as an unethical act.

Above examples indicate that whether any act is ethical or not depends on one's opinion and any act can be termed as 'ethical' by one and un-ethical by others and vice versa. In some situations, I noted that sometimes our acts are based on our judgement about the others and if we think that the other person is not loyal to us or is against us, we treat him/her accordingly and believe that we are doing the 'right thing.'

And sometimes, our behaviour with others also depend on some past event or incident where we believe that our recipient didn't behave with us properly and we try to settle the old scores and believe that whatever we did to him/her was less than what he/she actually deserved.

I have *Alhamdulillah* read the Holy Quran with translation and commentary and have also read the life of the greatest personality of the world Hazrat Muhammad SAW. When we see the teachings of Islam and, we see that Islam do allow us to take revenge in case we are hurt or dented by others, but require us to take care of two very important aspects:

- That we can take revenge only to the extent we are hurt/dented. If we violate the limit when taking revenge, then we will ultimately become cruel and the opponent (the cruel) will become innocent on the Day of Judgement.
- However, it is in our own interest if we ignore and forgive.

Everyone is responsible and accountable for his/her own deeds. Behave 'ethically' with the people no matter how they behave with you.

Meaning thereby that If we forgive, we will be rewarded by *Almighty Allah* on the Day of Judgement and there is no doubt that reward of *Almighty Allah* will be the best reward.

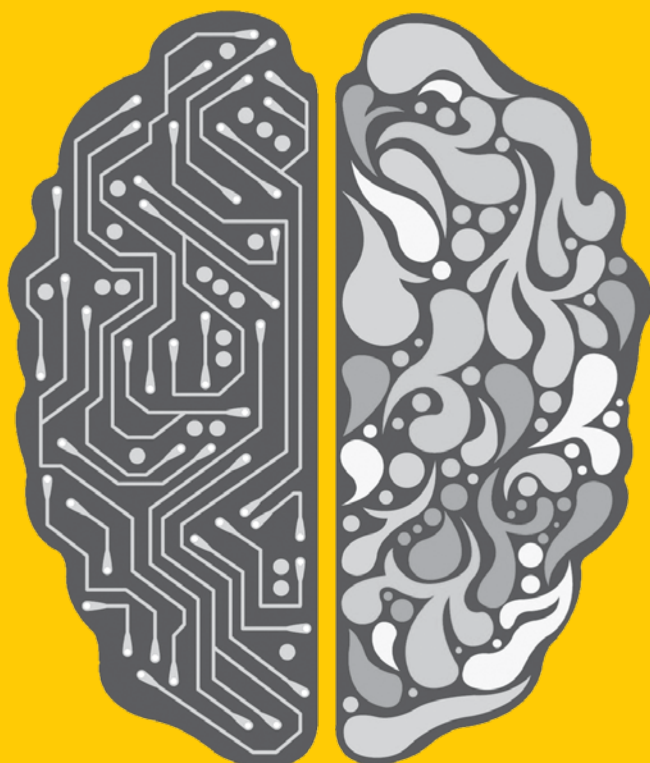
The Holy life of the Holy Messenger of Allah Hazrat Muhammad SAW is full of many such incidents where the Holy Prophet SAW had not only ignored and had forgiven the ill behaviour of people/his haters but had also behaved in the best possible manner with them. The lesson that we need to learn from the Holy life of the Holy Prophet SAW is that we need to behave 'ethically' even if other(s) is/are not behaving ethically with us.

So in my opinion, the definition of ethics should be in relative terms that, whatever one intends to do with other(s), if done to him/her, in the given circumstances, will be acceptable to him/her is 'ethical,' otherwise not.

If something, done to me will be acceptable to me, that will surely be acceptable to the others as well and hence, will be ethical for all. Even if I misbehave with anyone, I never expect that he/she should reciprocate in the same manner rather I expect that he/she will ignore and forgive and will behave in a good manner with me. Islam says like for your brother what you like for yourself.

Everyone is responsible and accountable for his/her own deeds. Others' deeds are with them and my deeds will go with me. Therefore, I will think of, be worried for and should endeavour to correct myself and to behave 'ethically' with the people no matter how they behave with me, for the pleasure of and reward from the *Almighty Allah*.

Inam ul Haque is a chartered accountent working as partner and captain quality control in RSM Avais Hyder Liaquat Nauman, Chartered Accountants.



AI or EI?

What are the most in-demand skills of 2019 to supercharge your career?

Javed Akbar **ACA**

EI plays a crucial role in today's digital world. The more and more we are relying on machines to do our jobs, human skills are marked as the next competitive advantage for the businesses.

There has never been a more exciting time to be in business than now. The fourth industrial revolution that we are living in today has brought enormous opportunities, however, it has created an ever-increasing pressure to upskill in order to stay ahead of the curve. The skills are getting outmoded at light speed. On one side, we are witnessing arguments that bots are replacing human capital while others argue about the importance of human-only characters such as Emotional Intelligence.

The primary issue today's professionals are facing is that with every passing day, it's getting tougher to navigate the complexity of this business era in which the fundamental pace of change is only accelerating. To sail smoothly through this, we need to hone our skill sets. However, we as business people are perplexed about our skill development; there are a lot of questions to answer such as: Should we focus on Artificial Intelligence (AI) or Emotional Intelligence (EI)? Should we bother about blockchain or keep our creative side upfront and polished? A recent LinkedIn study reported there are at least 50,000 professional skills in the world (Petrone, 2019). With limited time that they could squeeze from their busy schedules, for business professionals an important consideration is: of these tens of thousands, which skills should be prioritised for learning in the start of the year to keep our fit for this exciting business era?

What is Emotional Intelligence?

Amid these questions and concerns, there has been increased discussions about emotional intelligence – referred to as EI or Emotional Quotient (EQ). Before we explore further about the in-demand skills of this industrial age, let us first understand what EI is. It is defined as the ability to identify one's own emotions and those of others, harness and apply them to tasks, and to regulate and manage them (ACCA, 2018). There is a growing research body which demonstrates what skills are required to enhance EQ. The broader range of competencies include self-awareness, growth mindset, change readiness, creativity, and ethics and belief. EI plays a crucial role in today's digital world. The more and more we are relying on machines to do our jobs, the way our next generations are pushing technology manufacturers to produce cutting edge tech gadgets and increasing tech enabled machine-based service models targeting whole universe as their potential customers, human skills are marked as the next competitive advantage for the businesses. A number of these skills are combined under the umbrella of EI.

> **There is a growing research body which demonstrates what skills are required to enhance EQ.**

Historically speaking and as generally accepted, emotions and accountancy are far from each other. However, to remain relevant and go beyond the orthodox accounting roles, which are progressively been classified as targets for automation through Robotic Process Automation (RPA), the present and future chartered accountants and business leaders need a more balanced set of skills such as creativity and emotional intelligence, beyond technical knowledge. Today's chartered accountants need to complement their strong analytical and reporting skills with emotional maturity.

> **Today's chartered accountants need to complement their strong analytical and reporting skills with emotional maturity.**

WEF's The Future of Jobs Report 2018

In September 2018, World Economic Forum (WEF) published a report titled The Future of Jobs Report 2018. This research-based report highlighted the future skills and jobs trends, which highlighted the top jobs with declining trend and top jobs for which demand is increasing. This is one of the two studies I have referred in this article. The report clearly highlighted a continued fall in demand for manual skills and skills related to the management of financial and other resources as well as basic technology skills. On the other hand, the report vividly emphasised that skills trending in demand are analytical thinking and innovation. WEF 2018 further highlighted, "Human skills such as creativity, originality and initiative, critical thinking, persuasion, and negotiation will likewise retain or increase their value, as will attention to detail, resilience, flexibility and complex problem-solving. EI, leadership and social influence as well as service orientation also see an outsized increase in demand relative to their current prominence."

Table 4: Comparing skills demand, 2018 vs. 2022, top ten

2018	Trending, 2022	Declining, 2022
Analytical thinking and innovation	Analytical thinking and innovation	Manual dexterity, endurance and precision
Complex problem-solving	Active learning and learning strategies	Memory, verbal, auditory and spatial abilities
Critical thinking and analysis	Creativity, originality and initiative	Management of financial, material resources
Active learning and learning strategies	Technology design and programming	Technology installation and maintenance
Creativity, originality and initiative	Critical thinking and analysis	Reading, writing, math and active listening
Attention to detail, trustworthiness	Complex problem-solving	Management of personnel
Emotional intelligence	Leadership and social influence	Quality control and safety awareness
Reasoning, problem-solving and ideation	Emotional intelligence	Coordination and time management
Leadership and social influence	Reasoning, problem-solving and ideation	Visual, auditory and speech abilities
Coordination and time management	Systems analysis and evaluation	Technology use, monitoring and control

Source: Future of Jobs Survey 2018, World Economic Forum.

LinkedIn, in their top skills of 2019 study, mentioned that this year's list reflects a change in employers' priorities.

The upsurge of RPA and AI is only increasing the importance of soft skills, as they are precisely the type of skills robots can't automate. No wonder 57% of senior leaders surveyed by LinkedIn said soft skills are more important than hard skills.

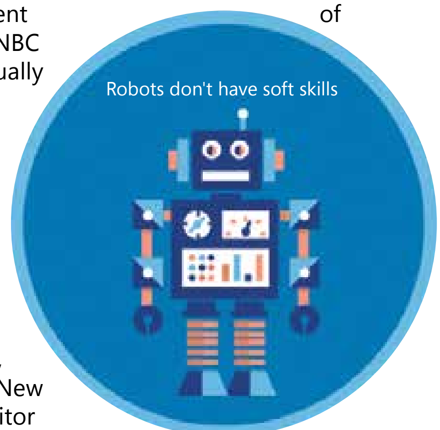
What LinkedIn found in their Top Skills of 2019 study?

On January 1, 2019, LinkedIn, based on detailed analysis of exhaustive LinkedIn data (hundreds of thousands of job postings) at granular level, published a list of skills that companies will need most in 2019 (Petrone, 2019). Paul Petrone (2019), editor of LinkedIn Learning, mentioned that this year's list reflects a change in employers' priorities. "Interestingly, the newcomers to our list were uniquely human traits: among soft skills, creativity and adaptability joined the list for the first time, and among hard skills, people management was a new addition."

The prominence of more human skills in the report suggests that employers recognise the importance of embracing modern technologies as well as recognising those things technology can't do: connect with other people, engage in out-of-the-box thinking and quickly adapt to new priorities or problems (CNBC, 2019).

Are robots going to take our jobs?

Are robots going to take our jobs? Yes, they will take a fair share. However, if you have the right skill set, you will not only sail smoothly in the untidy waves but will thrive. Employers are really looking underneath the surface and the focus is clearly shifting from specific titles and experience towards the skills that a potential employee may bring. At tech giants like Facebook, this is especially true. Facebook's vice president of human resources Janelle Gale was cited in CNBC (2019), "Skills really matter the most...we actually value skills over experience in the grand scheme of things." To strengthen a soft skill is one of the best investments you can make in your career, as they never go out of style. Moreover, the upsurge of RPA and AI is only increasing the importance of soft skills, as they are precisely the type of skills robots can't automate. No wonder 57% of senior leaders surveyed by LinkedIn said soft skills are more important than hard skills (Petrone, 2019). Chartered Accountants Australia and New Zealand (CA ANZ) (2016) in their Future Auditor series report had an excellent advice, "The secret of success is not in predicting the future, it's about creating people who can thrive in a future that cannot be predicted." Among the many skills, from two publications referred above, creativity is my top bet! It's a done deal to help you thrive in the unpredictable future.



New categories of jobs will continue to emerge, and the existing jobs will be displaced at a relatively fast pace. Hence, the skill sets required in both existing and emerging professions will change. To win the race of relevance in this fast-revolutionary disruptive industrial era, the professionals are compelled to hone their skill sets. While, reskilling is required in several new technical hard skills, a new set of soft skills and human skills are equally in demand. Creativity and critical thinking leads the list.

Stay tuned for a look at most in-demand hard skills of 2019, and how to build them. In the second article, I will explore further about these skills.

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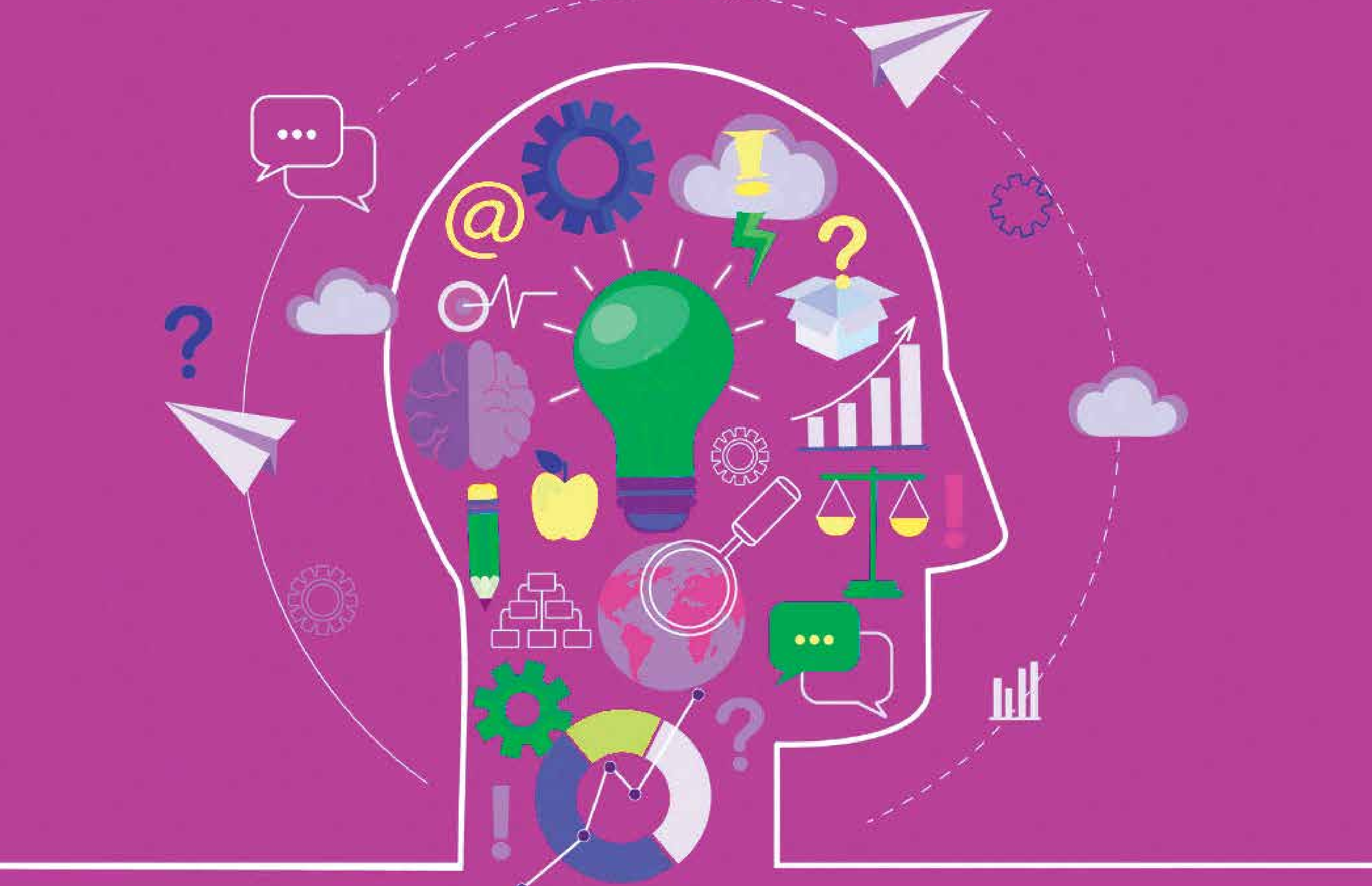
Liberation and Traps of Accountants' Mindset

Dr. Muhammad Asif Jaffer



You would have heard accountants' jokes, "A professionally qualified accountant groom refusing to sign a marriage contract because the bride's signatures on her ID card and marriage contract do not match." Or "When an accountant debits spouse, then credit goes to parents." Or "What do accountants suffer from which ordinary people do not? Depreciation." Or "Why don't accountants read novels? Because the only numbers in them are page numbers."

A rather detailed and interesting one is that of an interview in which candidates from all functional disciplines were there and the interviewer asked just one question; what is 2+2? The engineer simply answered 4; lawyer argued that since it is neither 5 nor 3, so it must be 4, designer altered the sequence made 22, and accountant asked the interviewer "What do you want it to be?"

Although these are mere jokes, the essence of these jokes is not totally imaginary. Why the majority of accounting professionals end up with a directorship in Finance or become a CFO, while the majority of CEOs are simple business graduates with no deep functional knowledge. Being part of professional accountants' community and

Accountants traditionally tend to count more and spend less, save more and use less, doubt more and trust less, plan more and try less, ask so many questions, do too many calculations and identify too many risks and threats.

then worked in academia as well, I realised that our specialty creates biases for which costs are sometimes greater than the liberties that we get. Organisations hire us because we have critical eye, we are good at numbers, and because we sense 'something wrong,' yet these attributes are not always assets rather prove to be liabilities sometimes (see my own bias, I am using accounting jargons). I realised that our specialty and recurring practice puts us in some traps which we even do not realise. We, as accountants, traditionally tend to count more and spend less, save more and use less, doubt more and trust less, plan more and try less, ask so many questions, do too many calculations and identify too many risks and threats.

Good relationships need trust, and trust is probably the most important human attribute that suffers in accountants' lives, as they are inclined to accept objective evidence and ignore the rest.

It's probably okay in the context of our professional duties, but the problem starts when it starts affecting our personal and social lives (although this segment of our lives is now restricted to weekends). Subconsciously, the traps that we are caught in are like when we keep looking for substantial appropriate evidence in our family affairs, follow Standard Operating Procedures (SOPs) and approval procedures for all household issues and matters, try keeping documentary evidences and books of accounts for all household expenses, daily reconciliations of personal pockets ins and outs, fine segregation of duties among children, applying materiality principle on daily complaints from spouse(s) and alike. Some go extreme and apply the accrual basis on family time, attention, and love, which are supposed to be on a cash basis. Some go to more extremes and apply going concern and fair value principles to old parents and define their relationships accordingly.

From a philosophical perspective, the way knowledge had evolved, rather developed and shaped in the era of materialism; every functional discipline and its knowledge are compartmentalised that create some specific biases, known or unknown. Since the unity and purpose of knowledge are missing in the definition of modern knowledge developed in the West, deep segregated knowledge compartmentalisation has resulted which fixes filters to all the sensory signals that we process, and the perceptions are then shaped according to those filters. These filters or lenses create mindsets and the mindset reinforces the filters and biases. Even if such compartmentalisation is not true, we cannot escape biases. Intellectually, human knowledge and his problem-solving ability are always limited. Herbert A. Simons, American economist, calls it Bounded Rationality, which means that the rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of capabilities, especially time, they take to make a decision. Another reason is the fact that even if we have all such requisite information and resources, we humans are not calculation machines. Our emotions and biases (known or unknown) makes us humans. No two humans in altogether same conditions would have the same conceptions, feelings and perceptions.

The resulting mindset shapes the conception of the world around us and also shapes the stereotypes and perceptions of others about us. When confronted with a problem or a decision to be made, engineers mostly talk of technical design, lawyers concerned about limits, and accountants about numbers. That is why multidisciplinary committees are formed in good organisations for important strategic decisions. That's good for organisations, but what about personal and family life. We cannot find a balance there.

As a result of these biases and their encroachment to our personal and social lives, relationships suffer; and as Salman Asif Siddiqui, founder and director Educational Resource Development Centre, says, the first and most important determinant of quality of life is good relationships. This includes the relationship with self, with God, with people around us, and even with the environment and nature. Good relationships need trust, and trust is probably the most important human attribute that suffers in accountants' lives, as we are inclined to accept objective evidence and ignore the rest.

We need to learn that humans are more important than machines, that love, trust and sympathy cannot be reflected in the bottom lines of even statement of comprehensive income. Identifying risks and looking for internal control weaknesses is not always productive for social life. So what's the message? I remember professor Oliver Trendell's words that he uttered during the review of my thesis; it is not bad to have such biases, as these are the results of how humans have evolved over time; what is needed is an awareness that we have that awareness to counter such biases intellectually and work against them when required. Not let our mindset indulge in our personal and family lives; there is no second chance.

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July - September 2019 The Pakistan Accountant 65

Use of industrial and plastic waste for road pavements

Muhammad Ali **ACA-ICAEW**

Pakistan generates at least 30 million tons of solid waste per year. Some sources claim this number is as high as 48 million tons, whereas it is estimated that solid waste generation is increasing by 2%-3% per year. Out of this, 77 thousand tons per day is generated in main metropolitan areas whereas 70% to 80% of this waste is collected for proper disposal.

City	Solid waste generation/day in tons
Karachi	9,440
Lahore	6,510
Faisalabad	4,883
Rawalpindi	3,841
Hyderabad	3,581
Multan	3,385
Gujranwala	3,125
Sargodha	2,930
Peshawar	1,888
Quetta	326

Source: www.export.gov

According to the United Nations Development Program (UNDP) environmental project report on solid waste management published in 2016, Pakistan's plastic waste is at fourth position amongst all solid wastes collected. In the absence of proper disposals and landfills sites for this solid waste, the environmental damages are increasing day by day.

Like in other countries, this plastic waste can be used in the construction of roads in Pakistan too. This is relatively a new idea. It was back in 1997 when Gary M. Fishback, Coyote, N. Mex, Hilary Stelmar, and Dennis M. Egan proved that road pavement is possible with plastic waste. These plastic roads are more weather resistant than the conventional roads constructed with bitumen. These roads have more useful life becuase these roads do not absorb water and have a more flexible surface which means fewer repair works. The mixing of asphalt with melted plastic reduces the viscosity of the mixture which means lower temperature, lower carbon emissions, and lower volatile organic compounds.

Pertinently, Pakistan imported approximately USD 76 million worth of Bitumen in 2018. Thus, the use of plastic waste for road pavement provides opportunity for significant import substitution, and result in substantial savings of foreign exchange. The payment details on imports made in US Dollar for Bitumen during the year 2018 and 2019 are as follows:

Year	Qty import	Rate per ton	PKR	USD
2018	195,509	61,323	11,959,315,712	76,248,509
2019 to date	1,902	61,323	2,569,556,346	16,341,620
			14,528,872,058	92,590,129

Source: https://geniusimpex.org/pakistan-import-data/
Pakistan import data is based and assembled from invoices filled and Bill of lading with Pakistan customs.

Only the selected type of plastics can be taken and used for a better asphalt mix. For example, plastic which will be selected has to be melt within the temperature that asphalt manufacturers use for asphalt. Asphalt manufacturers do not heat their asphalt above 180-degree Celsius otherwise the bitumen releases harmful chemicals. So the polymer groups that have melting point above 200-degrees Celsius cannot be used in the asphalt mix. Only that plastic waste can be used which ensures that there are no microplastics present in the resulting asphalt. To lay a plastic road, 6% of the bitumen content is replaced/extended with waste plastic. This accounts for approximately 3 kg replacement/ extension for every 1,000 kg of asphalt made. Thus, waste plastics in a plastic road account for 0.3% of the total asphalt tonnage mix.

During the year 2011-12 in Jamshed Pur, India, a road of 12-15 kilometres with four meters' width was constructed from waste plastic which helped reduce 7% of bitumen. For every one kilometer, approximately a ton of bitumen was saved. During the year 2015, a highway was also constructed in Banglore, India where for every one kilometre (with four meters' width), approximately 4,000 tons of plastic waste was used (Indiatimes.com). Same is the case in Indonesia where the roads were constructed from plastic waste in areas like Bali, Surabaya, Bekasi, Makassar and Solo. Another example can be seen at Zwolle, the northeast part of the Netherlands, where a road for bicycles was constructed on September 8, 2018 by a Dutch company Volker Wessels. The plastic involved in this project was common post-consumer. In January 2019, the department of transport in the United Kingdom also announced a budget of 1.6 million pounds sterling for trial construction of these roads. A company named MacRebur won this contract.

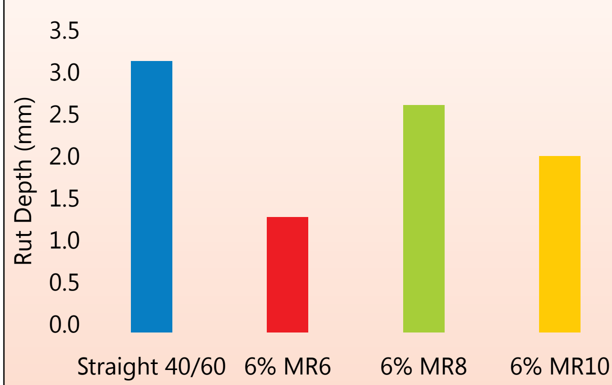
According to the director of airport pavement research program at University of the Sunshine Coast, Australia, Dr. Greg White, "The recycled plastic improved the deformation and fracture resistance, had mixed and minor effect on the moisture resistance, and increased the structural contribution of the asphalt to the pavement. No adverse effect was detected about toxic fume generation or hazardous leachate. It is recommended that recycled low melt-temperature plastic is used as an alternative to conventional polymers for bituminous binder extension and modification, particularly in high-stress areas, where resistance to deformation is important to long-term surface performance."

As per Dr. White's published research report, the indirect tensile results of plastic roads in comparison with conventional roads at 20 degrees was also in the favour of plastic roads.

According to the 8th symposium on pavement surface characteristics Brisibane, Queensland, comparative laboratory testing of two typical UK asphalt mixtures indicated that asphalt containing the recycled waste plastic products showed improved deformation resistance and fracture resistance compared to conventional 40/60 penetration grade binder.

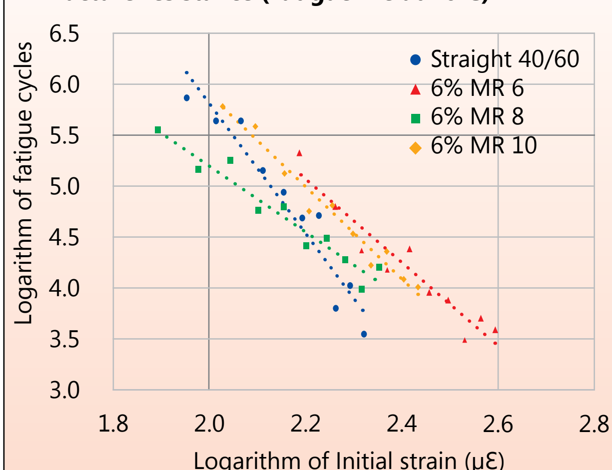
What are the benefits?

Deformation resistance (wheel tracking at 60°C)



What are the benefits?

Fracture resistance (Fatigue life at 20°C)



When the plastic has been treated, it is preferred that it be used as soon as possible, preferably within a day or days of treatment, or that the treated plastic be kept out of contact with free-flowing air or sunlight until used.

Although plastic waste is already in use of manufacturing plastic furniture and polyester yarn, there is a need to determine the most optimum use of this waste. There is a need to take concrete steps for the maximum collection of industrial and commercial plastic waste.

Under the light of these research reports, it is a request to all the concerned government organisations and relevant ministries such as National Engineering Services of Pakistan (NESPAK), National Highway Authority (NHA), Frontier Works Organisation (FWO), Ministry of Science and Technology, and Planning Commission, to consider all aspects of optimum utilisation of solid waste for roads pavements and the implementation of this methodology here in Pakistan. This project will also help these state-owned organisations to win international projects by quoting the lowest bid prices. A trial run can also be started from road repair works and later on for regular road construction works.

This strategic decision will help in reducing construction cost, savings of government spending on infrastructure, reduction of import of bitumen, control of pollution, and minimising environmental damage. These plastic mix asphalt-based roads are also very helpful in constructing durable and water-resistant roads in hilly areas of Pakistan.

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Board's Value - Practical Observations and Recommendations on Part of Corporate Governance Regulations 2017

Adil Farooq Qureshi **ACA**

The Board of Directors (BoD) of a company serves to set overall direction, corporate strategy, vision, mission, values, policies of the organisation and carry out its fiduciary duties with a sense of objective judgement and good faith in the best interest of the company and its stakeholders including shareholders, employees, community and environment. In actual practice, the requirements regarding the depth and breadth of powers and responsibilities of BoD have increased far more than previously perceived, not to mention compliance and regulatory risk in listed companies.

In Listed Companies (Code of Corporate Governance) Regulations 2017, the responsibility of apprising role, obligations, powers and responsibilities of the board has been rested with the chairman (or gender neutral, chairperson) through a letter at the beginning of each term. However, it would be preferable if the same is prescribed by Securities & Exchange Commission of Pakistan (SECP) to ensure uniformity, provision of indiscriminate information and proper communication to board members.

An effective board should not necessarily be a comfortable place.

Once it is agreed upon that governance needs to be made better, then no excuse be put forward hindering the appointment of independent, female or non-executive directors. It is the responsibility of the company to sufficiently acquaint and continue assessing the needs for directors with the company's business, risk environment and control structure, so that they may keep themselves abreast of the changing dynamics and feed contribution based on their different perspectives, other experiences and assessment of stakeholders' expectations.

The BoD is also responsible for sound internal control system and governance of risk by establishing risk management policies and continuous review of such systems. The board is able to discharge these responsibilities in an effective manner only if detailed risk and control reporting is made by the executive management. A clean report, suggesting that everything is going fine and smooth will not suffice. If all practices adopted by management were 'best,' why should the board bother reviewing and questioning? Because, overall responsibility lies with 'those charged with governance' i.e., the board.

The fact of the matter is in these cases – and I am mentioning the most encompassing responsibilities of the board – generally, the board is seen relying solely on the information provided by the management and with that effectively the responsibility deems delegated which cannot be shifted/transferred as per the relevant law and regulations. The responsibility of the management in this scenario is to transparently and timely share quality information to board members. Information that is relevant for making decisions on the issue(s) at hand. And the boards should develop a questioning and challenging mindset in order to have rigorous discussion/arguments on management proposals. An effective board should not necessarily be a comfortable place.

Continuing with the same corollary, though it is appreciated that SECP has included Directors' Training Program (DTP) for female executives and heads of department from certain financial years in corporate governance regulations, the BoD should ensure that the executive managements, must, on first priority, train their executives and senior management in facilitating board members; and also ensure provision of timely information to board and its committees so that the managements are prepared with an appropriate 'responding' mindset when the board develops the 'questioning' mindset.

One of responsibilities of the board is to set direction, policies, values and demonstrate behaviours consistent with the culture and values defined for the entity. That's never going to be achieved through 'quarterly' meeting. So, one of the important aspects of 'tone at the top' becomes effective communication across the organisation to exhibit and emphasise such behaviours and values where needed. However, it seems lacking in most of the significant areas of board's role.

Value addition is the evaluation of management proposals on right parameters and highlighting areas of improvement. Value creation, on the other hand, pertains to those proposals or tasks, which have not been put up by the management, but should have been.

I would like to accentuate a bigger issue from this. The board is expected to add value to management proposals but we see this happening only with respect to specific areas of expertise of the directors. What really should be the target of the board is value creation but we seldom observe it in our boardrooms, especially from non-executive or independent directors. Value addition is the evaluation of management proposals on right parameters and highlighting areas of improvement. Value creation, on the other hand, pertains to those proposals or tasks, which have not been put up by the management, but should have been. A combination of both these elements ensures effective discharge of their responsibilities.

But in order to do so, the board members need to get out of their comfort zones and learn new skills and areas. For this, the boards may take initiative to further enhance their skills and expertise apart from prescribed training requirements. It is the responsibility of the boards to question the management on all activities going on in the company to ensure that nothing artificial is being carried out. This is especially necessary to identify, detect or highlight red flags towards window dressing, fraud and similar prohibited transactions or operations and ensure that the company is operating strictly within the boundaries of its stated objects and objectives.

The boards need to certify the robustness and effectiveness of risk management and internal control systems through audit committee.

As described above, the boards need to certify the robustness and effectiveness of risk management and internal control systems through audit committee. Therefore, the committee should ensure that they have matching quality information to independently assess the aforementioned objective. You would've heard the quotation 'garbage in, garbage out' in the context of systems implementation. But it holds true for all processes as well. The intention with which you implement the process would ensure that no other result is achieved. Only when the board is presented with relevant qualitative and quantitative information on risk management and internal controls framework, would they be in a position to assess its soundness. In turn, this would necessitate implementation of such systems by the management.

Evaluation of board and its committees is another area of concern. It is a great thing that corporate governance regulations have introduced evaluation of board committees as well in addition to previous requirement of board evaluation only. Now that the pool of independent directors is being maintained by an independent institution, the governing institute should ensure that relevant and high quality independent directors are consistently placed on the boards of listed companies. Such a process may include mentioning areas of expertise and strength of relevant directors so that seeking company find it easy to arrive at the right choice.

Similar are the issues of setting materiality, risk tolerance levels and devising succession plans for board members as well, which not only need immediate attention of managements, boards but also consultants and auditors in order to assist boards in doing so and discharging their own duties. Once the process is set up in the right direction and intent, the path covered, however small, shall bear its fruits in the short, medium and long terms for all the stakeholders of the organisation.

Adil Farooq Qureshi is a chartered accountant working as chief financial officer and company secretary of a power company.

Debate

Developing Countries Need Trade, Not Aid

Sarfraz Nadir, FCA
Sydney, Australia

Developing countries are often stuck in a swirling debt cycle from which they struggle to emerge. Aid, as we know it, is rarely free; in most cases, it is simply loans at concessional terms and loans have to be repaid. Even if it is 'free aid', there may be conditions governing how it can be utilised. So, trade? Yes, but first there must be a more enabling environment for the population to meet the challenge of growth which is stifled by nepotism and incompetence. This requires steady investments in infant health and nutrition. Education systems need to be standardised, de-politicised and cover ethics, civics and values. Only then will a meritocracy eventually take hold, resulting in a supportive business environment, strong legislature, good governance and accountability for all. Foreign investors and trade partners are really attracted to this sort of thing!

Muhammad Farrukh Siddiqui, ACA
Karachi

Aid, although quite useful in the short term for developing countries but it may be of little importance in creating sustainable economic growth. Aid, in the short run, provides foreign cash inflows which are very useful in improving the current account deficit of developing countries, however, in the absence of carefully crafted economic policies and growth strategy the aid is likely to go to waste.

Other disadvantages of aid are that it may be given by developed countries to fulfill their western agendas rather than to play its part in the economic prosperity of the countries. Aid is likely to create a culture of dependency in developing countries which may become a barrier to sustainable economic growth. Due to the above facts, it is more beneficial for developing countries to negotiate trade instead of aid from developed countries as trade is more likely to create jobs, increase developmental activities and above all play its part in sustainable economic growth.

Sajid Laeeq, ACA
Lahore

Give a poor man alms and he will be a beggar for life; give him a skill and he will have a purpose of life. The same phenomenon applies to the developing countries. Aids have always acted as a sedative for them rather than a stimulant. Continuous aids have inadvertently created a dependency on aids for survival. One aid after the other and it goes on and on till the country reaches the verge of bankruptcy.

The access to trading platforms instead gives a developing nation a route to prosperity. It brings jobs, technological and infrastructural developments and most importantly it enables the country to feed the masses on its own. Further, the trickle-down effect of one window of opportunity could result in numerous possibilities for the country in the long run. The path to self-sufficiency for a developing country may be strenuous yet with the policy of trade instead of aid, it's more of a realisable vision than a vagabond's dream.

Hasan Mehdi, ACA
Karachi

I would agree with the topic because aid is that financial or non-financial support which in the past, been consumed for day to day operations of our country, e.g. would be short term running finance, which ends up being exhausted rather than providing us with future-oriented opportunities which increase in GDP of the country in the long run. Rather than aid, if we are given the equivalent amount of trade opportunities to the untouched sector, we will find our way ourselves to further strengthen our products and make a mark in the international markets and boost our exports and building avenues for future investment and employment opportunities within our country. Our export products are already recognised all over the world as quality products, but the demand and supply gap, i.e. either because of limited production capacities or not provided with equal opportunities for entering into new markets. Investments should always be focused on capital intensive projects even if possible, through short term borrowings because these investments provide us with return in the long run and boost our economy. All that we ask for is, free and fair trade, and the world will see it.

Muhammad Tabish Anjum, ACA
Karachi

The said topic is more crucial in the current economic scenario of our country. The country is facing serious economic crises and approaches to International Monetary Fund (IMF) for the Aid amounting $ 6 billion that increase the overall amount owed by Pakistan to the world, i.e. $ 92 billion.

Aid always comes with strings attached. No aid is free and associates with a cost that makes liable the recipient country to pay such burden. Recently, by IMF program, the cost suffered by normal people in Pakistan in the form of restructuring of tax rates, lower/elimination of subsidies, increase in utility rates, etc. While in trade, both the nations get equal representation. Trade enhances the development and reduces poverty by generating growth through increased commercial opportunities and investment, also broadening the productive base via private sector development that results in increased employment opportunities.

Concluded that the country's government should introduce strategic actions for development like timely settlement of export refunds, provide tax incentives, loans at a lower rate to exporters, etc.

Muhammad Hassan Aftab, ACA
Dubai

An everlasting debate though, aid would always keep a developing country in a struggling economy phase unless there are some stringent timelines or goals attributed to the outcomes. Aid is purely dependent over the economic fertility of the patron country, and likely to be hampered, in case there are anticipated economic twists for the donor/developed country. On the contrary, trade, once triggered, would keep its momentum irrespective of the economic health of the developed country. Trade, if launched strategically, has a cyclical effect on the overall economic wheel of the developing country, featuring improvements in the infrastructures, apposite use of technology and compact processes, trained labours, job creations, more investments, joint ventures and consortium leading to improvements in the peoples' knowledge base, and quality of life of a human being, with little harms to the environment.

Bushra Aslam, FCA
Islamabad

Developing countries need both trade as well as aid. Trade allows a country to convert its commodities, i.e. wheat, rice, cotton, potato, textile and other products for economic activity and foreign currency. It allows the country's economy to grow, earn more tax revenue and make itself ready for the future. However, aid is also important to ensure famine relief. Aid can bring skills and education to a country. It can teach people how to do things. Aid can also open doors to trade, for example, building infrastructure such as airports and roads, for a country, which does not have resources for the same. This helps to set up industrial units in a country. Aid can be abused, but so can trade. However, trade requires both parties to freely agree to the terms and conditions. The big risk with aid is it requires dependence on the aid-giving party, for example, certain political conditions, which may not be suitable for the country.

Muhammad Faizan, ACA
Karachi

It's always the choice of the state to either trade or opts for aid. In this present scenario, both trade and aid are two sides of the coin.

A country in the phase of development boosts its economy through various means, particularly by trade. This does not eventually result in a resilient economy but also increases the purchasing power of the consumer.

Developing countries completely have confidence and always inclined on the road to trade as this jettison their dependency from other countries for their sustenance to operate their country. It also facilitates the country to build a congenial relationship with the other countries and earn sufficient foreign exchange to build a reserve for the country. It also creates ample job opportunities for its workforce as well.

On the other side, developing countries do need strong financial viability to trade and with perspective to build such viability they require aid.

Somehow, nowadays many countries opt for the precise route to meet its requirement by asking for aid from developed countries which eventually bound them with heavy mark-up payments against the aid which does not only deteriorate the position of country affairs but establish circumstances for further aid with no end to it.

Though, both trade and aid play a vital role in the development of the country. Trade helps in boosting the economy of the country whereas, aid assists in preserving and sustaining the financial viability.

Muhammad Athar Jamal, ACA
Karachi

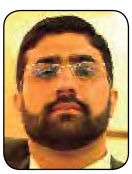
An interesting topic for debate ICAP has chosen that developing countries need trade but not aid. In my view, it is a proven fact that trade and investment (local and foreign direct investment) bring down poverty level all over the world and it has a positive and significant impact on poverty reduction. It also inculcates good growth and positive factors in stimulating economic growth among developing economies. Hence, the world is now becoming more integrated and goods and services are crossing borders in line with globalisation and regionalisation processes. It has caused an increase in people's welfare and decrease in poverty in the region. This negates the commonly held perception that developing countries and underdeveloped states need foreign aid to combat economic woes and achieve growth and development.

Therefore, in my overall analysis, Pakistan must opt for a new mantra no more aid but trade. Through this, I am sure that with a positive attitude towards trade and investment, overall co-operation among masses and say no to aid, Pakistan would prosper and would go high with double-digit growth in the economy. May Allah keep Pakistan in good hands and lead it towards growth and development, Aameen.

Asim Azher, ACA, FPFA
Lahore

Developing countries require a sustainable approach to uplift the economy. Trade is the best option to promise the distribution of wealth to different beneficiaries, i.e. shareholders, staff and more importantly their family. With the enhanced trade, relative markets tend to grow indirectly as well; means of communication and infrastructure improves which at one hand reduce the cost of product while broadens the user base on the other hand. Various social, ethnic and sectarian differences are reduced when society interacts more frequently with through trade and education. The economic development thus achieved can further improve the global economy through quality products at a competitive price.

The dilemma with the aid is; about 20-30% funds or even more are repatriated in most of the cases in the form of foreign staff salaries and through state sanction criteria on procurement of high-value items. Usually, the economic benefits are short-termed like three to five years which leads to unemployment and high expectations when the aid is not available.



Muhammad Talha, ACA
Islamabad

Trade not aid is a good idea for the economic development of developing countries. However, it has not been successful due to the following reasons: Developing countries mostly export raw materials. While developed countries have imposed huge tariff on raw materials, making it difficult for supplier from developing countries to sell its product in those countries. For example, Middle Eastern countries export $4.2 billion clotting goods to the United States on which they pay on average fifteen percent tariff. While annual exports of France of manufactured goods to United States amounts $ 34 billion on which imposed tariff is merely two percent; and Developed countries provide subsidies to their local producer, making it difficult for supplier from developing countries to capture those markets. Despite of recurring efforts in 1994 and again in 2001 (Doha Conference), less efforts are being made by developed countries to reduce subsidies for their producer, specially related to agriculture and textile goods. Hence, so far, very little is being done for trade not aid.

Usman Shahid, ACA
Lahore

For any economy to survive, trade is a backbone which encompasses all essential processes namely production, storage, marketing and transportation and also includes income-generating services as well. In this world of globalisation, no country can prosper independently by producing and consuming itself. Trade through an exchange of commodities has made possible for the economies to grow by making industries to specialise in production activities including acquiring excellence in the quality and technical advancement.

Developing countries are struggling to maintain steady economic growth with rising inflations, increased external debts, current account deficits, unemployment, political instability and law and order issues. In order to prosper, the best possible way lies in the industrialisation and trade. This comes with increased productivity and optimal use of scarce resources which in turn improves the standard of living of the society and overall boost the economic growth.

There is no doubt that hard-pressed economies of the developing countries are in dire need of financial aid to kick-start their economies but this is only a temporary arrangement. In cases where institutions are corrupt, the financial aid received by the countries are not channelised properly for the purposes it was sought and it eventually becomes a burden to the economy in the form of an increased external debt which in turn forces the countries to cut their social and development budgets (thus, a low human development index). So, in my point, developing countries need trade and investments to self-sustain and prosper.

Shiraz Noordin, FCA
USA

According to the renowned philosopher Maimonides, “Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime.” I believe that this quote strongly resonates with the discussion topic for today. Rather than just bestowing philanthropy on a developing country, I would argue that it would be better to teach and involve them in the trade so that they can themselves work towards improving their situation rather than just being reliant on others. Additionally, I believe that trade would render them sustained economic stability, while aid would confer economic stability at only a given period of time.

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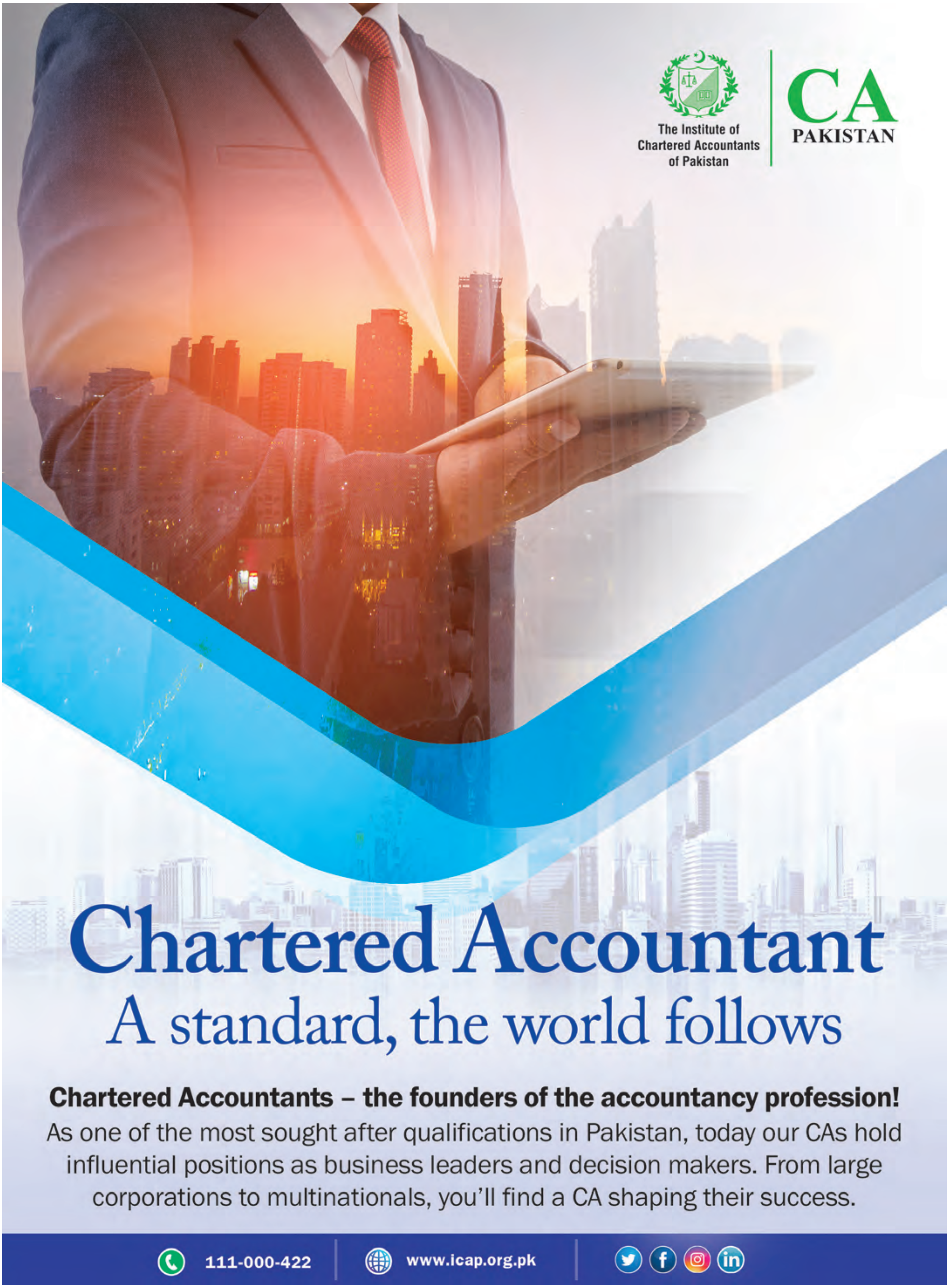
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