PIPFA JOURNAL

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[23:116] 'Did you then think that We had created you without purpose, and that you would not be brought back to Us?'

[23:117] Exalted then be Allah, the True King. There is no God but He, the Lord of the Glorious Throne.

[23:118] And he who calls on another God along with Allah, for which he has no proof, shall have to render an account to his Lord. Certainly the disbelievers will not prosper.

[23:119] And say, 'My Lord, forgive and have mercy, and Thou art the Best of those who show mercy.'

بِسۡمِ اللّٰہِ الرَّحۡمٰنِ الرَّحِیۡمِ

اَفَحَسِبۡتُمۡ اَنَّمَا خَلَقۡنٰکُمۡ عَبَثًا وَّ اَنَّکُمۡ
اِلَیۡنَا لَا تُرۡجَعُوۡنَ ﴿۱۱۶﴾
فَتَعٰلَی اللّٰہُ الۡمَلِکُ الۡحَقُّ ۚ لَاۤ اِلٰہَ اِلَّا ہُوَ ۚ
رَبُّ الۡعَرۡشِ الۡکَرِیۡمِ ﴿۱۱۷﴾
وَ مَنۡ یَّدۡعُ مَعَ اللّٰہِ اِلٰـہًا اٰخَرَ ۙ لَا بُرۡہَانَ
لَہٗ بِہٖ ۙ فَاِنَّمَا حِسَابُہٗ عِنۡدَ رَبِّہٖ ؕ اِنَّہٗ
لَا یُفۡلِحُ الۡکٰفِرُوۡنَ ﴿۱۱۸﴾
وَ قُلۡ رَّبِّ اغۡفِرۡ وَ ارۡحَمۡ وَ اَنۡتَ خَیۡرُ
الرّٰحِمِیۡنَ ﴿۱۱۹﴾ ع

PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANTS

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President’s Message

I am pleased to present this edition of PIPFA Journal: the first being issued, following my election as the President of your Institute.

A combination of grossly adverse factors, such as limited economic freedom, mounting spending, ever increasing national debt and inflationary pressures, have collectively posed a hindrance to the government's ability to revitalize the economy. Nothing, but pursuing the obvious remedies comprising of a vigorous hunt for greater fiscal consolidation through domestic resource mobilization, accompanied by a reduction in the size of the government and a significant improvement in the efficiency of public sector spending, can get the economy out of its prevailing downhill descent.

Any improvement in the macroeconomic position of the country, in the near future, continues to pose a tough challenge to the policy makers. To make the matters worse, the global economy too is not showing any signs of coming out of its existing state of chaos, leaving no room for betterment in the prospects for any increase in the demand for Pakistan's exports. Additionally, the energy and water shortages and the worsening internal security situation are likely to pose severe constraints for growth in FY 2011_12. However, the economy could benefit from large initial productivity gains as capacity utilization begins to increase from a low base. For the longer term, it can be stated that, without a resolution of Pakistan's perpetual structural challenges, such as raising the level of domestic resource mobilization or promoting higher productivity in the economy, growth and investment will continue to stay under pressure and the prospects unpredictable, if not gloomy.

This is a time of extraordinary economic depression. Uncertainties in the country are forcing the local entrepreneurs to shift their investment to neighboring countries, especially to Bangladesh. A country, which is around twenty-five years younger than our own homeland, but whose GDP growth rate in 2011 was twice as much as that of Pakistan.

This justifiably is the time, when Public Accountants are more important than ever to the future success and health of the Pakistani Economy. Current financial problems, particularly in the public sector departments, demand a changeling role to be played by Public Accountants of the country. In my capacity, as the President of your Institute, I firmly believe that any improvement in the performance of our Public Sector, in the future, lies in the professional input made by our Public Accountants.

Chairman Publications Comittee’s Message

Boosting our export is a short term imperative, but it is also important in the long term because it supports thousands of jobs for Pakistanis in times when unemployment is a national concern. Pakistan's ability to execute in terms of boosting its export potential has been proven with the historic records of the past few months of 2011. These figures despite a crunch in global trade make the future trajectory for Pakistan promising as well Enhanced exports, both in terms of volume and the price that Pakistani commodities and services fetch in the international markets are important in creating a positive business climate.

Foreign Direct Investment plays a very important role in boosting of exports. Pakistan's current investments of USD 1.6 billion in 2010/2011 reflects not just the real capital coming into the country but also assist in creating the surge in production through economies of scale. Foreign investment also plays a crucial part in technology transfer and the achievement of international export standards. Over the last quarter century, foreign investment has accelerated at a fast pace and shifts in the flow of investment are now reshaping the global economic landscape. Inward FDI stock roughly tripled worldwide over the past decade and that holds true especially for developing countries.

Today there are about 80,000 multinational corporations (MNCs) are operating worldwide and this has more than doubled since 1993. Foreign investors not only bring fresh capital, technology, competitive spirit and ideas to new markets such as Pakistan, they also bring jobs. Investment not only drives jobs and innovation, but it also increasingly drives trade.

Finally, I would like to commend the PIPFA Journal Team for this milestone achievement. I also look forward to PIPFA Community achieving greater success in promoting Pakistani Accountancy expertise and resources internationally in the upcoming years.

The resources which would never been used for Benefit!

By: Shabbir Ahmed Pasha, APA

Pakistani people are dying while sitting in a land full of riches. Perhaps this is the horrid yet true picture of reality in most developing countries in the world.

Pakistan covers an area of 796,095 km2 (307,374 sq mi), approximately equaling the combined land areas of France and the United Kingdom. It is the 36th largest nation by total area although this ranking varies depending on how the disputed territory of Kashmir is counted. Apart from the 1,046 km (650 mi) coastline along the Arabian Sea, The country is strategically located between South Asia, Central Asia, and the Middle East. Land is a valuable natural resource which include an extensive natural gas supply, some oil, hydro power potential, coal (although not high quality), iron ore, copper, salt, and limestone. Agricultural products are wheat, cotton, rice, sugarcane, eggs, fruit, vegetables, milk, beef, and mutton. Primary industry includes textiles, food processing, pharmaceuticals, construction materials, shrimp, fertilizer, and paper products. Major exports are textiles, rice, leather goods, sports goods, carpets, rugs, and chemicals. Pakistan imports petroleum, machinery, plastic, edible oil, iron, steel, tea, and paper.

Many Pakistanis are proud of their motherland. Every elementary school student is taught that the country is rich in natural resources. The citizens' pride is rooted in the fact that the country is geopolitically important and can survive on its own - unlike Singapore, for example, which basically lives from its neighbors' resources.

Ironically, these same children have to grow up witnessing or experiencing extreme poverty. This is more painful given the dreams they hold after being taught about the richness of their land.

There is a long list of cases in which corporations - local and foreign - exploited and polluted the land, leaving toxic waste behind for the local people. From the human rights violations and destruction of peoples' livelihoods caused by mining companies, to the environmental damage by the leather industry in Karachi, to a plethora of cases of mercuric materials in drinking reservoirs, corporations have brought evil consequences to Pakistani people.

Joseph Stiglitz, the 2001 Nobel Prize recipient for economic sciences, famously remarked, “Most countries with large (production) of natural resources do more poorly than those without, which is an irony.” The film “Blood Diamond” depicts a related situation in Africa, where exploration for diamonds institutes a civil war, disrupts a nation's political stability and subjects its people to torment and anguish. One character vividly remarks, “I hope they do not find any more diamonds, otherwise we will start killing each other”. The same is for Pakistan where we would not find any more natural resources, otherwise we will start killing each other again.

Though it may sound treacherous, at some points I almost wish this land were poor - and that may indeed be the wish of many Pakistanis. The very inception of economic principles stems from resource scarcity; that is why their core mantra is one advocating efficiency in modes of production.

Imagine if the world provided sufficient natural resources that people could simply pick basic necessities - food, water, housing materials and clothes - from their immediate surroundings. In that scenario, economic principles may not even be needed. There are several caveats to ponder.

First, is it even true that our world does not provide sufficient resources to make this a reality? Is it even the case that resources are scarce, or is it human activity - greed, pure and simple - that makes it so? Humans always want to have what others have, even if they have more. Is it axiomatic that nature cannot naturally reproduce resources that humans have consumed?

Secondly, assuming that natural resources are scarce by nature, not by human greed, is it morally acceptable to suggest that those who are the most efficient at production get the biggest share of natural resources, while others who are less eficient should live at their mercy?

This is not to suggest that there is no place for economic principles, but they are not without flaws and not without vested interests. I would argue that those deficiencies manifest as the root cause of the torment many developing countries

are suffering.

The very idea of insufficiency, or "resource scarcity," pushes those with so-called "technology and capacity" to take over the management of the world's resources; the idea of not having enough makes them look elsewhere. Natural resources become the prima donna, and everyone fights over her.

Without the technology and capacity developed countries command, developing countries will always lose in a game of resource management and accumulation. That is why in the fields of oil, gas and mineral extraction, developing countries rabidly engage in joint venture agreements with foreign corporations from developed countries. The popular myth is that without foreign corporations, developing countries would not be able to extract these resources.

Do you know that;

- Pakistan recently discovered one low and four low-to-medium quality coal seams in the Punjab. Low sulphur coal was recently reported at the Baluchistan and near Islamabad. Bituminous, sub-bituminous, and lignite coal have been found in Pakistan.

  Coal reserves are estimated at 175 billion tons. This would equate to 618 billion barrels of crude oil. When compared to oil reserves it is more than twice the amount of the top four countries. If at KSA's current usage, the reserves would last more than 200 years.
- Natural gas production is at a high level in Pakistan. Estimated reserves are 885.3 billion cubic meters (as of January 2009). Gas fields are expected to last for another 20 years. The Sui gas field is the largest, accounting for 26% of Pakistan's gas production. Daily production is 19 million cubic meters a day. Under the barren mountains of Balochistan and the sands of Sindh, there are untouched oil and gas reserves.
- Forests are limited to 4% of Pakistan's land; nonetheless the forests are a main source of food, lumber, paper, fuel wood, latex, and medicine. The forests are also used for wildlife conservation and ecotourism.
- Pakistan has large gold/copper ore deposits at Saindak. There are large deposits of rock salt in the Pothohar Plateau. Pakistan's mineral resources include reserves of gypsum, limestone, chromites, iron ore, rock salt, silver, precious stones, gems, marbles, tiles, sulphur, fire clay, and silica sand.
- About 28% of Pakistan's total land area is under cultivation. Pakistan boasts one of the largest irrigation systems in the world. According to Wikipedia, "the most important crops are cotton, wheat, rice, sugarcane, maize, sorghum, millets, pulses, oil seeds, barley, fruits and vegetables, which together account for more than 75% of the value of total crop output." The fertile lands of Punjab are ready to feed a population twice that of current Pakistan.
- Pakistan has a long history of exporting small amounts of uranium. In 2006 Pakistan produced about 45 tons of uranium.
- The fishing industry plays a role in the national economy of Pakistan. The coastline is 814km and fishery resources still have room to grow. Fishing in Pakistan is a major source of export earnings.

But for every exploration we have to look towards other countries. Perhaps it would remind you about the Saindak Metals and many more alike.

According to economic schemas imported by developed countries, developing countries would not be able to extract those things "efficiently." In reality, the uneven playing field is exploited by huge corporations that wield mighty bargaining power in their domestic econo-political arrangements - which in Pakistan are called "corruption" and dictate the share division of natural resources and the procedural rules for their extraction.

The practical implications are not only frowned upon, but also suffered by many people in Pakistan. That is the cancer of the irony, purely because of unrestrained human greed.

Quots of the Quarter

"It sounds extraordinary, but it's a fact that balance sheets can make fascinating reading."
Mary, Lady Archer
(1944-), British scientist

The economy depends about as much on economists as the weather does on weather forecasters.
Jean-Paul Kauffmann

The waste of money cures itself, for soon there is no more to waste.
M.W. Harrison

In the old days a man who saved money was a miser; nowadays he's a wonder.
Author Unknown

Inflation is taxation without legislation.
Milton Friedman

When written in Chinese the word "crisis" is composed of two characters - one represents danger and the other represents opportunity.
John F. Kennedy,
Address, 12 April 1959

When a man is in love or in debt, someone else has the advantage.
Bill Balance

The government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.
Ronald Reagan

If all the economists were laid end to end, they'd never reach a conclusion.
George Bernard Shaw

We musalmans in general and youngmen in particular do not know the value of money. A paisa saved today is two paisa tomorrow, four paisa after that and so on and so forth. Because of our addiction to living beyond means and borrowing money we lost our sovereignty over this Sub-continent.
Quaid e Azam Muhammad Ali Jinnah
(In Ziarat Balouchistan, 1948)

Transparency International's corruption perception index 2011

Global & Regional Analysis

By: Prof. Dr. Khawaja Amjad Saeed

PRELUDE

The general perception in the world is that corruption is rampant with varying degrees of its level. With the presence of state machinery, courts, anti-corruption laws, social activists, civil rights champions, on-watch organizations and other stakeholders corruption continues and the corrupt elements, some instinctively and some due to compulsion - socio-economic, consider corruption as their birth right and outsmart the existing anti-corruption system. Their moves are smarter and prompt. They achieve their objectives in accumulating corrupt money through various techniques. Some are due to loopholes in the laws. Others create opportunities for plunder and loot innovatively, leaving no evidence to prove in a court of law. No wonder the normal techniques require radical changes by new thinking of tackling the corrupt and uprooting the corrupt systems. For this new fully trained breed of persons and bodies, bejeweled with Forensic approach, are needed to crack at the corrupt elements. Their affluence bounces with few exceptions in which case the level of corruption is low. However, in the past the theory of corruption was based on two factors namely, Need and Greed. According to world renowned Psychologist namely, Maslow, there are five hierarchy of needs of an individual. The first level of needs consists of basic needs (normal food, shelter, clothing, water, health, education and related aspects). It is the call of the day that every state must meet these basic needs. In the 1973 Constitution of Pakistan, under Article 38, these needs have been described as meeting: “Well-Being” of the social and economic conditions of the people. However, if these basic needs are not met, people resort to corruption and try to meet their basic needs to keep their soul and body together. The governments in the world have introduced several measures to help alleviate poverty so that people meet their basic needs and come out of the poverty trap. However, there is a need to start innovative income generating schemes and help develop a framework for self employment to alleviate poverty.

During the current democratic set up of Pakistan, inflation has been increasing and announcements were made by the Government of Pakistan to provide cushion against it by increasing the salaries of government employees. Several political parties in Pakistan have fought their elections basically with one slogan, in original or modified shape, that basic needs of the people will be met. However, this dream appears to be the agenda of tomorrow. The earlier these issues are addressed, the better. Consequently, the dividends are going to be in the shape of social stabilization, higher standard of living, prosperity, visible signs of all around feeling of happiness and self-satisfaction. The government in power should focus their attention in this respect as this will be the first step toward developing a framework with stakeholders support for reduction in the level of corruption.

People in Pakistan are living under high social tensions. The dream to provide basic necessities of life to them, what to talk of targeting higher standard of living across the board, has not yet crystallized and appears to be an agenda of tomorrow, if not distant tomorrow. Under Article 38 of the 1973 Constitution of Pakistan, it is obligatory on the part of the Government of Pakistan to ensure well-being of the people. The concept of well-being has been visualized to mean that the basic criteria for Happiness Index which was developed by Nobel Laurate, Joseph Stigler, who, on the invitation of Mr. Sarkozi, President of OECD, developed it in 2010. The present democratic government ought to accept it on self-accountability basis and deliver the goods in a befitting manner so that the basic needs of the people which is their Constitutional obligation are ensured and provided. Present democratic government deserves congratulations for restoring the above Constitution of Pakistan in its original shape. However, its implementation in all walks of life under various Articles of the 1973 Constitution of Pakistan is the crying need of today. In this respect, the Government is urged to carefully study and later develop strategic plan to fulfill their obligations under Articles 03, 16, 37 and 38. Accordingly, corruption caused through need will be watered down and considerably reduced. In this respect, the top leadership is urged to follow simple life and serve as model of austerity for the Nation as a whole. This will have positive domino impact.

The second factor is greed which needs a different solution. A positive solution lies in inculcating the spirit of contentment and with a firm faith that every body is to stay temporarily in this world and every deed performed is being accounted for and recorded and on the Day of Judgment one will be facing accountability for frauds, financial defalcations and all other actions which fall within the purview of corruption.

It is generally believed that, in Pakistan there are 26 Accountability Institutions. However, those who indulge in corruption have outsmarted these institutions through that intelligent and tricky by-pass approaches. They defeat the Rules and Regulations, resort to corrupt malpractices and have believed in their understanding of PWD (Pakistan Works Department) to mean "plunder without danger". CPI 2011 continues to highlight these aspects. Enough material is available on the internet regarding the wealth of plunderers from several developing and developed countries. They have kept the untaxed and illegal wealth abroad. Some of the plunderers leave their countries. Some have been killed. Some are under trial. Some are enjoying scot free life. Most of the people who resorted to high corruption are enjoying luxurious life in Switzerland across the lake in Geneva. It is surprising that Switzerland claims to be a neutral country but is a safe heaven to plunderers, looters and financial dacoits. Their financial malpractices are primarily responsible for the poverty in several countries of the world. It is high time that wealth plundered and looted money out of the countries is brought back to original country so that social stability can be ensured and high standard of living can follow through alleviation of poverty and narrowing the gap between rich and the poor.

The height of misfortune is that unlike the above two factors resulting in corruption, the world has seen a rising curve of corruption supported by a third factor namely, lust. The unending desire of getting extra rich overnight and with an electronic speed has been instrumental in adding fuel to the fire. No wonder, corruption continues to be upswinging. Even, based on CIP 2011, corruption has been increasing in several countries.

Divine guidance against corruption

Allah has provided magnificent guidance for not resorting to corruption. This aspect has been covered in various Quranic Verses. The perception of those who take graft and think that it is their right to do so is also being exposed. In this respect, some references from Al-Quran are quoted below:

"Do not cause corruption on this earth. They say we are but reformers". [Al - Quran: 2-10]

Based on above Quranic verse, those who cause corruption and accept it think that they are reformers. They are sadly mistaken in this respect.

Similarly, another Quranic verse strengthens and reinforces the above message as per another Quranic Verse:

"Unquestionably, it is they who are corruptors, but they Perceive it not". (Al-Quran: 2-11)

In Al - Quran, Allah has categorically expressed that He dislikes corruption and human beings on this earth must fulfill their obligations in the right manner. Two Quranic Verses in this respect are quoted below:

"And Allah does not like corruption". [Al - Quran: 2 - 205]

"And fulfill the measure and weights and do not deprive people of their due and cause not corruption upon the earth after its reformation". [Al - Quran: 2 - 11]

Allah has admonished those who are corrupt that they will be destined to hell. In this respect, relevant Quranic Verse is quoted below:

" Those who ...... spread corruption on earth - for them is the curse and they will have the worst home". [Al - Quran: 13 - 25]

Constituents

This piece presents introduction to Transparency International (TI) and CPI 2011. Topics included are vital facts relating to CPI 2011. Statistical Analysis of CPI 2011, Regional Analysis of G-8 and SAARC and some recommendations. These aspects are briefly reviewed now.

Transparency International

Transparency International secretariat is located in Berlin, Germany. TI was founded in 1993. It is a civil organization leading the fight against corruption globally. It has several chapters located throughout the world. Lot of information about TI can be accessed from its website: www.transparency.org

In December 2011, TI released Corruption Perception Index (CPI) 2011 relating to 182 countries. Every country in the world has anti-corruption laws, regulations, rules, and institutions. Despite these, corruption exists in every country with varying degree. Various governmental agencies, international foundations and corporations are funding TI.

Corruption Perceptions Index

CPI is a composite index that draws a multiple expert opinion surveys that consist of poll perception of corruption. CPI 2011 covers 182 countries. It scores countries on a scale from zero to ten. Zero indicates the highest level of perceived corruption and ten indicates the lowest level of perceived corruption.

Vital Facts: Cpi 2011

The higher the scale of CPI, the lesser is the corruption. The lower the scale, the higher is the level of corruption. The least corruption was seen in three countries namely, New Zealand (9.5) Denmark and Singapore (9.4) and the highest was observed in Somalia and North Korea (1.0), Myanmar (1.5), and Afghanistan (1.3). Pakistan earned 2.5 which fortunately is higher than Kenya (2.2), Russia (2.4) and Venezuela (1.9).

CPI 2011 results have been drawn from 17 surveys. This is based on perceived levels of corruption by Transparency International. One may or may not agree with the results.

Some of the following countries showed improvement in CPI 2011 as compared to 2010:

Japan, United Kingdom, Belgium, France, UAE, Bostwana,

Taiwan, Rwanda, Cuba, Bangladesh, Iran, Pakistan, Russia etc.

The deterioration from 2010 Slovenia, Oman, Saudi Arabia, Czech Republic, South Africa and many others.

Statistical Analysis

Our calculated average of 182 countries relating to CPI 2011 is 4.4 against a scale of 10. The range is very high i.e. 8.5, the highest being 9.5 and the lowest being 1.0. This represents 1.91 times the average and shows that some countries have least corruption and many have high corruption. This is a disturbing factor - resulting in social destabilization, high crimes, presence of social evils and steadily rising street justice.

The frequency table presents a comparison of CPI 2001 to CPI 2011. The calculated average for 2011 is 4.4 and Pakistan's CPI is 2.5 out of 10.0

Frequency Table

Table 1: CPI 2001 TO CPI 2011

Group	CPI 2011*	CPI 2010	CPI 2009	CPI 2008	CPI 2006	CPI 2003	CPI 2002	CPI 2001
9.7 - 8.0	14	14	14	12	16	15	14	13
7.9 - 6.0	18	18	20	21	17	13	13	13
5.9 - 4.0	34	34	32	32	25	25	22	20
3.9 - 2.0	102	98	92	86	92	68	46	41
1.9 - 1.1	14	14	22	29	13	12	07	04
Total	182	178	180	180	163	133	102	91

** The highest grade is 9.5 out of 10.0*
Source: Computed from data downloaded from: www.transparency.org

Regional Position

In this respect, two regions have been selected by us namely, G-8 and SAARC.

G - 8

G-8 constitutes the richest group in the world in terms of economic power. It originally consisted of all seven (7) countries and later Russia was also included. Therefore, the total number today is eight. The least corruption was observed and perceptively perceived in Canada (8.7) and the highest level of corruption was perceptively received in Russia (6.6). G-8 countries average is 6.51 against the calculated aggregated average of 182 countries of the world of 4.44. The range is namely, 6.3 which is 0.95 times the average - showing high variation in CPI 2011 for G-8 countries. Canada (8.7), Germany (8.0), Japan (7.8), United Kingdom (7.8), United States (7.1), France (7.0), Italy (3.9), and Russia (2.4).

The above released data by TI through CPI 2011 reveal that even amongst the richest countries of the world which are popularly known as G-8, corruption does exist, although, it is below the overall average. However, Italy got 3.9 which is less than the overall average of 182 countries of the world and Russia has lower rank (2.4) than the global average of CPI 2011 which is 4.44.

SAARC

The least corrupt country in SAARC is Bhutan (5.7) and the highest corrupt country is Afghanistan (1.5). Its average is 2.93. Except for Bhutan, all other SAARC countries are below the global average 4.44. This speaks volumes of high rate of corruption to the detriment of the socio-economic systems obtaining in these countries. Their position is: India (3.1), Sri Lanka (3.3), Bangladesh (2.7), Pakistan (2.5), Maldives (2.5) and Nepal (2.2). It is high time that these issues be given a focused attention in the next SAARC Summit and an action plan is initiated to ensure declining curve of corruption which based on CPI 2011, is increasing. Rather than reacting to CPI announcement, a pro-active approach be followed to ensure the declining curve of corruption in future. Accordingly, CPI for 2012 may present a different outlook which hopefully should be better the one of 2011.

Recommendations

Corruption is a complex problem. Some ascribe it equivalent to a spreading cancer. Consequently, the problem first needs to be tackled at three levels, such as:

1. The first level is moral reformation. For non-Muslim countries accredited value system need to be enforced for strict compliance by changing the mindset of the people regarding corruption. In Muslim world divine value system contained in Al-Quran (16: 90) needs to be communicated, indoctrinated and implemented. Consequently, the change of mindset will be the beginning of reducing, if not uprooting corruption from the society.
2. It is obligatory on the part of every state in the world that basic necessities of life are met so that their Constitutional obligations are complied with and people live with a sense of contentment. Austerity backed life style in all walks of life should be operationalized. The lead should be provided by our democratic government at the highest level.
3. Logistical efforts by all stakeholders as mentioned above need to be undertaken for developing a disciplinary code governing corrupt malpractices. According to Global Integrity Index 2008, a positive tribute was paid to Pakistan, stating that it had strong anti-corruption legal framework. However, it was reported that implementation was lacking and, therefore, corruption was rampant and growing. Based on CPI 2011, Pakistan had a score of 2.5 out of 182 and 10.0 against the average of 178 countries of the world which has been calculated by us as 4.44. This shows that we are still below the average and there is a need for strong implementation of at least the existing anti-corruption framework to reduce the level of corruption so that we can achieve a higher score and thus may move to lesser corrupt countries bracket.

Economy - The Islamic Paradigm

By: Muhammad Aqib Ali, APA

Islam is not only a religion; it is a complete code of life which guides its followers in every matter whether petty or important and covers absolutely all facets of human life. Islam, as compared to other religions, does not separate religion and worldly life. It entails that all worldly activities i.e. social, political, economical etc must be performed and done according to the tenets & guidelines given by Islam through the glorious Holy Quran and Sunnah (sayings and actions) of the Holy Prophet (Sallallahau Allaihaye Wassallam). The Quran says: "My Prayer, and all my (other) acts and forms of devotion and worship, and my living and my dying are for God alone, the Lord of the worlds" [6:162]. The idea of Islam, being a way of life, can be comprehensively understood by looking at the exemplary and ideal life of the Prophet of Islam Muhammad (PBUH) who guided the believers of the religion on all aspects of human life from personal hygiene to social behavior, from family life to work ethics, from business dealings to fulfilling contracts. The life of the Holy Prophet (PBUH) - the ideal human being, ratifies this very fact that Islam is a "deen" and not merely a "madh'hab".

As discussed above, we can clearly realize the brilliance of Islam as a comprehensive code of life that covers all facets of human life including all spiritual, personal, economical, social, political and intellectual issues. And when we analyze precisely the economic system that is based on the laws and principles of the Holy Quran and Sunnah of the Prophet (PBUH), we come to know that it is actually a perfect system of economy that emphasizes universal standards of economic justice, socio-economic welfare and, equitable distribution of wealth/resources to all sections of society. Islam discourages concentration of economic resources in all its forms. Prohibition of Riba, imposition of Zakat and other such obligations play a vital role to prevent this accumulation of wealth in few hands and hence lead towards an economy that benefits both the poor and the rich. The Islamic economic system is perfectly poised and balanced as compared to other economic systems such as Socialism or Capitalism. The economic system derived from the Islamic principles has some distinguished features such as right to ownership (subject to some conditions), free but regulated market forces, Zakat and other levies imposed by Shariah and law of the land, interest-free transactions, and above all, the just and equal distribution of wealth which ultimately mitigates the gap between the rich and the poor and keeps this gap within acceptable natural limits. When this gap widens as a result of economic disparities, the society is threatened by many social evils because the poor consider the rich as their enemy and the sense of deprivation is so severe that the poor can go beyond all limits. The Holy Prophet (PBUH) himself sought refuge from poverty. Islamic economic system emphasizes that an economy should be regulated and administered in such a way that both, the ones who have the primary right (ones who directly contribute in the production process, factors like labor and enterprise etc) to wealth and the ones who have the secondary right (the poor and the needy who do not participate in the production process), as discussed by Muhammad Imran Ashraf Usmani in his book 'Guide to Islamic Banking' , must get their due share. When there is inequality and injustice in resources distribution, there will surely be problems like poverty, crime, corruption etc. To sum up, it can be said that the focal point or one point agenda of an economic system based on Islamic Shariah is the equitable and just distribution of wealth and then there are other significant aspects like prohibition of Riba (Interest), Zakat, right to own and operate business etc.

If we analyze profoundly we can list down these five chief attributes of an Islamic economic system and their difference with conventional economic system:

(i) The Ultimate Objective is Not the Fulfillment of Human Desires:

The main objective of Islamic economics is not the satisfaction of human wants through the best utilization of scarce resources whereas this is the ultimate goal in conventional economics. The whole economic setup revolves around the phenomenon of meeting unlimited human wants with limited resources through efficient resource allocation and consumption under the conventional economic paradigm. However, the Islamic economic stance leads towards another ultimate objective of attaining the pleasure of God while meeting the human economic needs as a parallel rather secondary objective.

(ii) Collective Welfare:

Islamic system of economy emphasizes the collective well being of all individuals in a society but the conventional economics only believes in individual welfare or individual interest. The materialistic or conventional economic setup assumes that the individual welfare focus will automatically lead to the collective well-being of all the individuals which is inherently flawed.

(iii) Money has No Value in itself:

According to Islamic economics, money has no value of its own but it is a measure of value and operates as an exchange of value. This feature of money makes it incapable to be traded as a commodity because something which has no value cannot be sold or bought and hence cannot earn anything on its own i.e. any reward or return in any shape like profit or interest. According to both Islamic and conventional economic viewpoint, anything which does not carry any economic value cannot be considered a subject matter of any economic transaction. But the conventional economic stance ignores this fact to earn undue consideration on money.

(iv) Money has No Time Value:

Islamic system of economy does not recognize the concept of time value of money which is a foundation of interest based transactions. In contrast, conventional economic system thrives on this concept. As a result of this concept holding primary importance in conventional economics, many ills are inserted into the economy like interest, risk free earnings and so forth. The kingpin of conventional economy i.e. the interest or 'riba' is based on this very principle of time value of money.

(v) Independent but Regulated Markets:

The conventional economic system operates on the assumption that the interests of individuals will converge by themselves within an economy and encourages free and totally independent operation of market forces, but the Islamic economic system opposes this theory and calls for a degree of regulations to make sure that these market forces are not given as much liberty that they can disrupt the natural and smooth functioning of the whole economy.

Tip of the Quarter

Take small steps : It's your way to a better future

Small steps are often overlooked in this speed crazy world where everything must be fast, needed now and the faster you achieve your goal the better. And you cannot really say slow is better and that some things take time in this age of speed. If you do, you are at risk being looked upon with scornful eyes. How you dare even suggest that, they say.

1. Small Steps, Not Giant Leaps

Well, I am here to tell you to take small, steady steps. I am sure you want success fast. The faster the better, right? As I get older, I am not really sure if there is a finish line. Because if there is a finish line, what then? I tend to see career or life as a series of marathons now. So, take little steps instead of one giant leap. There is no such thing as a giant leap to career success.

2. Distance Is A Series Of Small Steps

You must remember that distance can be covered by a series of small steps. It can also be covered by a flutter of fast paced sprints. But the difference is, if your finish line is finite - then well, you know the type of stamina you need in order to cover that distance. Do you? That is an important question.

When I first started working, I did not know where I will be 17 years later. You may have a general idea but life takes you on many surprises. Do not be shocked this race you are participating in takes many forms and detours.

I am in favor of small steps as it allows you to cover a greater distance while conserving energy and being able to enjoy the view at the same time!

3. Patience

Sure, easier said than done. Patience some say is an over rated virtue. I am not sure I agree. You need lots of patience on your journey to career success. And if you buy into the small steps philosophy then you will need even more patience. Things take time to reveal themselves to you. Especially good things that appear bad initially.

4. Keep Walking

So long as you keep walking, there is no stopping you from where you want to go. The image of Forest Gumprunning comes to mind. Of course that is an exaggerated example but do imagine, if you take small steps and do not stop, how far can you go in the span of time you have? People who think about sprinting do not know that you can run out of stamina before the finish line reveals itself. Worst of all, the finish line they imagine for themselves is actually a mirage. Then what?

5. It's Ok To Detour

When you take little steps, it is ok to take a detour. Such is life and such is work too since work is a big part of life. So, it's ok to explore a little. Make wrong decisions and learn from it. Most times, what we like, what we are good at, and our talent does not reveal itself when we do the safe thing. It rears it's head when we least expect it.

6. Potholes, Humps and Uneven Surfaces

It is also easier to navigate the road when you take little steps. Especially one that is filled with potholes, humps and uneven surface, which appears to never end. But it's ok, because when you take small steps you begin to understand the character of these roads.

7. Who Knows What's Ahead

You don't. At best you have an inkling of what you want and you pursue it. The secret is so long as you take small steps, conserve your energy and be patient; eventually the finish line will be worthwhile.

That is how it is; you make a decision and take a risk. Who knows where all your effort to plan, to act upon the plan will take you? But with small steps you know you will get there.

Asian Development Outlook

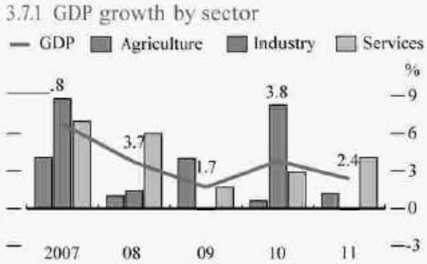
PAKISTAN

The economy was under pressure in FY2011 from the aftermath of extensive flood damage, energy shortages, security issues, and a burgeoning fiscal deficit-as well as persistently high inflation, despite monetary policy tightening. Still, the current account moved to a small surplus on strong exports and remittances. Growth is expected to pick up modestly in FY2012, largely on agriculture. However, to get the economy back on a high growth track Pakistan must overcome its long-standing macroeconomic and structural imbalances.

UPDATED ASSESSMENT

For the fourth year running, Pakistan was trapped in low growth in FY2011 (ending 30 June 2011). Severe floods in July-August 2010, higher oil prices, power shortages, and security pressures held GDP growth to an estimated 2.4% (Figure 3.7.1), slightly lower than the 2.5% projected in the Asian Development Outlook 2011 of April. Sector performance was uneven. Agriculture showed growth of only 1.2%, despite a pickup after the floods. Solid growth in livestock and minor crops as well as good wheat and sugarcane crops was offset by a fall in cotton and rice harvests.

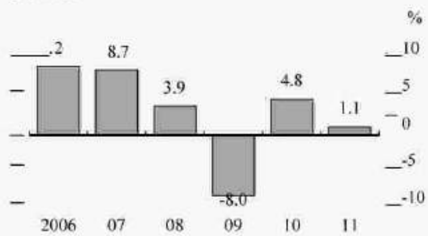
3.7.1 GDP growth by sector



Source: Ministry of Finance. *Pakistan Economic Survey 2010–11*. http://www.finance.gov.pk

Increasingly severe and unpredictable power outages undermined industry, which virtually stagnated (down 0.1%). This outcome was due to a large fall (about one-fifth) in electricity output, in part caused by a sharp drop in natural gas production and flood damage. Power supply problems in turn hit production in areas such as cement, metal industries, electronics, and textiles, as well as exporters' ability to deliver on schedule. Agro-based industries were less affected, bolstered by the good wheat and sugarcane harvests. Growth in large-scale manufacturing came in at 1.1% (Figure 3.7.2). Finally,

3.7.2 Large-scale manufacturing index growth



Sources: State Bank of Pakistan. *Economic Data*. http://www.sbp.org.pk (accessed 31 August 2011); Federal Bureau of Statistics. *Statistical Yearbook 2011*. http://www.statpak.gov.pk

construction eked out a mere 0.8% expansion as public spending shifted from projects to flood relief, and reconstruction work started only after a delay.

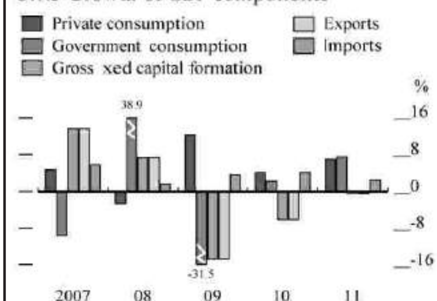
Services (up 4.1%) accounted for most of the growth. The expansion was led by public administration and defense (13.2%) as well as social services (7.8%), which were partly supported by external financing for flood relief. Growth slowed sharply in transport, storage, and communications services, partly on weakness in key public enterprises, including Pakistan Railways and Pakistan International Airlines. Their performance-as with so many public enterprises-remained impaired by lack of fiscal discipline and governance issues.

From the demand side, public and private consumption provided the only impetus to growth in FY2011 (Figure 3.7.3). Investment declined for the third straight year, taking the investment-to-GDP ratio to only 13.4% in FY2011, from 22.5% in FY2007. The poor showing stems from several factors, including the downdraft in the economy, weakness in the investment climate, and security issues.

Inflation surged after the summer 2010 floods, due largely to food supply shortages and higher transport costs. Food price inflation eased somewhat during the second half of the fiscal year, falling from a peak of 21.2% (year on year) in September to 15.7% by June, averaging 18% for FY2011. Overall inflation averaged 13.9%, up from 11.7% in the previous year (Figure 3.7.4). Inflation pressures are widespread, with more than half the items in the consumer basket posting double-digit increases during the year. Core inflation also stayed in double digits all year, underscoring the broad-based inflation pressures entrenched in the economy.

The State Bank of Pakistan (the central bank) kept interest rates high in FY2011. In July 2010, it raised the discount rate by 50 basis points to 13%. As inflation picked up and the fiscal position weakened, it increased the rate in September and November 2010. It then maintained that 14% rate in its next three successive policy announcements (January, March, and May 2011), as the current account strengthened and government borrowing from the central bank fell off. In response to an expectation of easing inflation, the central bank reduced the rate to 13.5% in July 2011.

3.7.3 Growth of GDP components

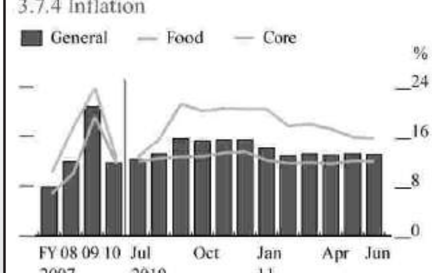


Source: Ministry of Finance. *Pakistan Economic Survey 2010–11*. http://www.finance.gov.pk

The provisional fiscal deficit for FY2011 is estimated at 6.2% of GDP, about the same as in FY2010. It surpassed the 4% of GDP budget target for FY2011 announced in June 2010 before the floods. Higher costs for subsidies and security, unforeseen flood-relief spending, and additional borrowing to ease liquidity shortages in the power sector contributed to pushing out the deficit. Current outlays were about PRs300 billion over budget, equivalent to 1.6% of GDP.

Estimated spending on defense (2.5%

3.7.4 Inflation



Source: State Bank of Pakistan. *Annual Report 2010–11* and *Economic Data*. http://www.sbp.org.pk (accessed 25 August 2011).

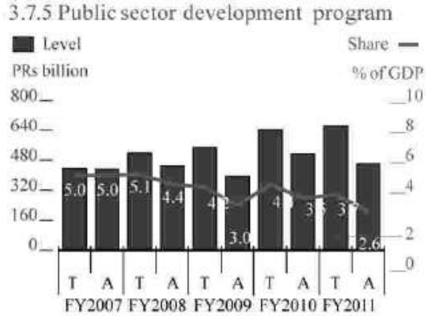
GDP), interest payments (4.0%), subsidies (2.2%), and pensions (0.5%) exceeded federal tax and nontax revenues by 0.6% of GDP. Adding government operating costs (1.1% of GDP), there is a gap between Federal Board of Revenue receipts and current spending of about 1.7% of GDP.

Development spending was cut to provide resources for flood relief and to contain the deficit. The public sector development program was set to increase by nearly 30% to PRs663 billion at the time of the FY2011 budget, with a federal allocation of about two-fifths of the total and the balance for provincial budgets. Spending, however, fell well short of target as resources were released for federal and provincial relief operations.

Estimated total development spending came to only PRs462 billion, or 2.6% of GDP (Figure 3.7.5).

The 16.7% estimated increase in federal tax revenue fell short of the 20% target, as a variety of revenue measures-including revocation of sectorwide exemptions in the sales tax scheme-proved politically difficult to enact. In response to slower than projected receipts, a surge in current spending, and a fall in foreign inflows,

3.7.5 Public sector development program



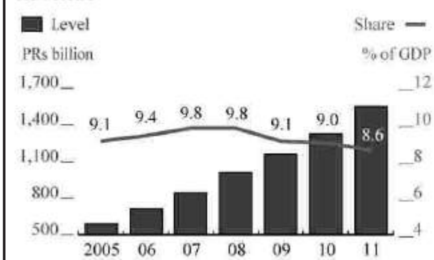
A = Actual; T = Target.

Source: Ministry of Finance, *Pakistan Economic Survey 2010–11* and *Federal Budget 2011–12*. http://www.finance.gov.pk

various short-term measures were put through for March-June 2011 (including a 15% income tax surcharge, an increase in special excise rates, and removal of the sales tax exemption for domestic and imported agricultural inputs such as tractors and fertilizers). They were expected to raise PRs56 billion (about 0.3% of GDP). But despite them, tax revenue is estimated to have fallen relative to GDP, from 9.0% in FY2010 to 8.6% in FY2011 (Figure 3.7.6).

Broad money growth accelerated to 15.9% from 12.5% in FY2010, largely owing to increased government borrowing. This item-all from commercial banks-jumped by 46% in FY2011 to PRs579.5 billion. Credit to the private sector inched up by about 4%, constrained by the economic slowdown. With investment activity in the doldrums, the credit growth largely

3.7.6 Tax collection by the Federal Board of Revenue



Source: State Bank of Pakistan. *Economic Data*. http://www.sbp.org.pk (accessed 31 August 2011).

reflected the additional working capital requirements of higher prices for key inputs and trade finance (in light of increased exports).

Buoyed by higher commodity prices (especially for cotton and textiles), a surge in workers' remittances to $11.2 billion, flood-related assistance, and inflows from the US Coalition Support Fund, the current account posted an unexpected, small surplus of $436 million (Figure 3.7.7).

Merchandise exports recorded a rise of 29%, half due to textiles, and the other half to food (surplus wheat stocks were exported) and a strong gain in other manufactured exports (Figure 3.7.8).

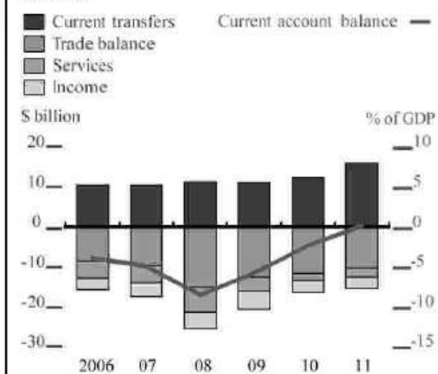
Imports, reversing the decline of the previous 2 years, climbed by 14.5%. With their estimated volume up by only about 1%, nearly all the import increase reflected high prices for petroleum products, food, and intermediate goods, including large

3.7.1 Select economic indicators (%)				
	2011		2011	
	ADO 2011	*Update*	*ADO 2011*	*Update*
GDP growth	2.5	2.4	3.7	3.7
Inflation	16.0	13.9	13.0	13.0
Current acct. bal (share of GDP)	-1.7	0.2	-2.3	-1.3

Source: ADB estimates.

postflood requirements of raw cotton. Imports of machinery fell by about 5% as higher imports of telecommunications

3.7.7 Components of the current account balance



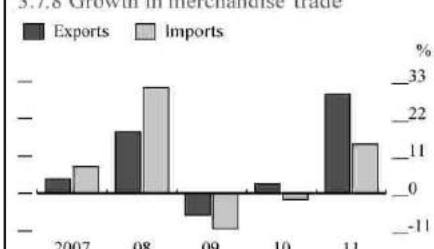
Source: State Bank of Pakistan. *Economic Data*. http://www.sbp.org.pk (accessed 31 August 2011).

and textile machinery were outweighed by a decline in imports of power generation, office, and electrical equipment (reflecting weak investment activity).

The financial account surplus fell to only $1.9 billion in FY2011-from $5.1 billion in the previous year and $9.9 billion in FY2007-largely due to a large drop in official borrowing. Modest inflows of portfolio investment partly offset the slight reduction of direct investment inflows (on lower telecommunications and oil and gas exploration), which slowed to $1.6 billion.

Foreign exchange reserves strengthened

3.7.8 Growth in merchandise trade



Source: State Bank of Pakistan. *Economic Data*. http://www.sbp.org.pk (accessed 31 August 2011).

to $18.2 billion and, with positive developments in the external account, helped stabilize the exchange rate vis-à-vis the US dollar: the Pakistan rupee depreciated by only 2.0% in FY2011, after a 6.3% drop the year before.

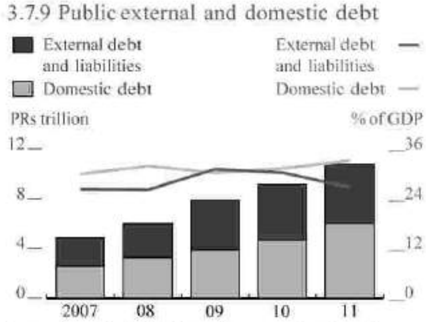
Domestic public debt rose by 29.2% to PRs6.0 trillion (33.3% of GDP) by end-FY2011, while external public debt rose to $56.3 billion (PRs4.8 trillion), or 26.6% of GDP (Figure 3.7.9). The average maturity for domestic public debt has fallen to 18 months and, with interest rates above 12%, interest costs were equivalent to about 35% of federal tax revenue in FY2011. The shortening maturity for domestic debt raises both rollover and interest rate risk. Most external debt is, though, contracted at a modest average interest rate and relatively long tenors.

PROSPECTS

The economy is forecast to strengthen slightly in FY2012 from FY2011, to 3.7%, buttressed by agriculture's expected recovery (albeit depending on weather conditions) and continued expansion of services. Growth in large-scale manufacturing is likely to be muted, given that power supplies are unlikely to improve much. Repairs to the transport network should provide some relief from high transport costs.

Pakistan must average 7% annual growth to absorb the 3% increase in its labor force each year. Its population is young, with more than 65% under the age of 30. Yet recent experience-with average economic growth of less than 3% in FY2008-FY2010-has been too little to take advantage of these favorable demographics. The National Economic Council recently endorsed a Framework for Economic Growth to guide efforts to improve future growth and employment prospects (Box 3.7.1).

3.7.9 Public external and domestic debt



Source: State Bank of Pakistan. *Economic Data.* http://www.sbp.org.pk (accessed 31 August 2011).

Slow growth in agriculture in recent years reflects the general decline of the sector since the rapid growth of the 1980s, when it expanded by more than 5% a year on average. Water shortages and low investment in irrigation infrastructure over the years have led to a general decline in agriculture productivity. Agriculture needs structural reforms to bring about higher productivity, transformation, and diversification, but with the sector accounting for 44% of total employment, such reforms would reduce labor requirements, and so other sectors would have to create jobs to absorb agriculture's released workers.

Inflation is expected to stay high, easing back only slightly to an average of 13.0% in FY2012 because of the planned upward adjustments in domestic electricity prices, the restoration of automatic pass-through of fuel price increases to consumers, and strong inflation expectations built into the economy.

Realizing the budget for FY2012-with a lower deficit of 4.0% of GDP-largely depends on containing subsidies (Figure 3.7.10) and boosting revenues. The budget is expected to gain from steps to cut power and other subsidies by 57% relative to FY2011. While efficiency gains in the power sector have somewhat reduced the need for tariff differential subsidies, ending subsidies depends on the pace of power sector reforms. Revenue receipts are projected to increase by 23% from FY2011, relying primarily on efforts to curtail tax evasion. The FY2012 budget ended sales tax exemptions for 500 items, but reduced the sales tax by 1% to 16%.

3.7.1 Framework for Economic Growth

The National Economic Council endorsed a framework for economic growth in May 2011 to exploit the economy's expanding labor force.

The framework takes a holistic approach promoting competitive markets, higher productivity, better governance and public service delivery, innovation, and entrepreneurship. It aims to restore Pakistan's annual GDP expansion to 7%-the estimated rate needed to absorb new labor force entrants-by streamlining the public sector and fostering private sector-led growth.

For the latter, it prioritizes addressing growth-inhibiting rigidities in the legal and regulatory framework (including zoning laws, land ownership issues); improving governance and cultivating appropriate incentives; and shifting the government's role to one

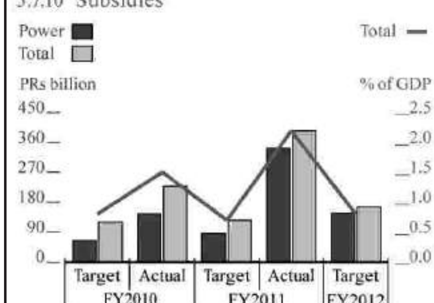
of regulation and strengthening the business environment.

The framework acknowledges the importance of raising the competitiveness of cities (as hubs for commerce) and building better physical connectivity-with a greater role for the private sector-as important change drivers.

Net external financing (excluding grants) for FY2011 is expected to be limited to only PRs8 billion, as repayments due on short-term loans amount to more than $1 billion. Given forecast external financing and grants of PRs127 billion, the rest of the targeted deficit (PRs716 billion) would need to be financed from domestic borrowing. Since the government has agreed to limit borrowing from the central bank in FY2012, commercial banks and nonbank institutions will need to provide financing of about 3.3% of GDP, as in FY2011.

The budget for FY2012 projects the public sector development program to expand to PRs730 billion, an increase of 58% over the FY2011 provisional figure. Achieving this ambitious target, in view of limited external resource availability, will depend on fully mobilizing budget resources and pushing through measures to contain current expenditure.

3.7.10 Subsidies



Source: Ministry of Finance. *Federal Budget 2011–12* and *2010–11.* http://www.finance.gov.pk

The current account is seen weakening in FY2012 because of slower export growth of 8% (mainly reflecting less favorable export prices) and import growth of 14% (mirroring still-high commodity prices and some economic strengthening). Workers' remittances are set to stay strong, providing a buffer for the larger trade deficit and limiting pressures on foreign exchange reserves as external debt service payments climb sharply. The current account deficit is projected at 1.3% of GDP, lower than the Asian Development Outlook 2011 projection of 2.3%.

"*Source: Asian Development Outlook 2011 Update: Preparing for Demographic Transition*"

STATE BANK OF PAKISTAN

Pakistan holds enormous potential for economic growth despite challenges: Yaseen Anwar

Mr. Yaseen Anwar, Governor, State Bank of Pakistan (SBP) has said that Pakistan holds enormous potential for economic growth. 'I am, personally, optimistic about the country's future, and confident that our economic managers - who have steered the country through much choppier seas - will guide this resilient economy to the path of stability and prosperity,' he added.

Delivering his key_note address on “The State of Pakistan's Economy” at a seminar organized by the Management Association of Pakistan (MAP) at a local hotel in Lahore, he emphasised that our economy's resilience may well be unparalleled as we have survived two major floods; one catastrophic earthquake; a war on one border; and a balance of payments crisis - all in the past decade without any bouts of hyperinflation, a run on bank deposits or a deep recession. 'This only goes to show the enormous potential for growth that the country holds,' he added.

He said that while Pakistan's economy is going through some testing times, the challenge in front of us can scarcely be classified as daunting. 'Our twin deficits are, in my opinion, the most significant challenge at the moment. Even then, it is not the size that's the problem; it's the situation.

And unlike the problems that engulf the economies of the West, we know precisely what needs to be done. In that regard, we are extremely fortunate,' SBP Governor added.

Mr. Anwar said: 'we know what our problems are. Unlike many other countries, the solutions to our problems are straightforward. All they require is a good measure of willpower and the determination to see reforms through these interesting and challenging times.'

He said that despite the fiscal deficit, the country's debt to GDP ratio has not increased substantially; in fact, it has declined in the last three years. 'To put this in perspective, Pakistan's debt to GDP ratio is half that of most European countries and one_third that of Japan, he said, adding that most of the country's debt is denominated in rupees and the external debt is long_term in nature. Thus, I believe there is absolutely no chance that Pakistan will be facing a Greece_like debt crisis anytime in the near future,' Mr. Anwar added.

SBP Governor said that the resilience of the economy manifested itself in the pace of recovery that was witnessed after the flooding in Sindh in the early part of FY12. The improvement in food supplies has already dampened food inflation, which has been edging down continuously, he said, adding that this is especially good news for the lower strata of society, which spends roughly half of its income on food. 'Headline inflation has followed suit and fell to less than ten percent for the first time in two years,' he said.

Mr. Anwar said that our textile and sugar industries are expected to do well this year and added that construction activity has also picked up with support from the rise in remittances; a growing population; and the initiation of public sector development projects.

He pointed out that growth across the real sector has been constrained significantly by our energy problems. However, the government is very well informed about the energy situation and has been taking steps to alleviate the problem, he said, adding that such step was the debt swap that was recently conducted to free up liquidity for companies across the energy sector, increase power generation and reduce the level of circular debt in the energy sector.

SBP Governor said that all stakeholders are conscious about the challenges that the economy faces at present, and discussions have been extremely frank and straightforward. To help manage the deficit without too much of an impact on economic growth, the State Bank has ramped up efforts to broaden and deepen financial markets - both primary and secondary, he said and added: 'we have undertaken an initiative with the SECP to develop debt markets in Pakistan, and we believe that this will go a long way towards mitigating the negative effects on the economy of government borrowing from commercial banks.

Mr. Anwar said that we are working towards the development of the Corporate Debt market that would lead to a secondary market, thereby creating ample liquidity to absorb the circular debt as a long term remedy. 'The depth and breadth of the market comprising both institutional and individual investors, would also alleviate government borrowing from SBP and the commercial banks, he said, adding that naturally monetary policy would then become more effective in managing inflation.

He said that SME, agriculture and housing finance are engines of growth. Our banking structure currently is not performing its key role as a financial intermediary as none of these sectors have been adequately penetrated, he said and added that we are working to develop the Corporate Debt market to facilitate financing.

SBP Governor said that it is the financing of the current account deficit that will remain a challenge this year. 'Net financial inflows have slowed down to only $1.9 billion in FY11 after peaking at $8.7 billion in FY07. To manage the situation, the Bank (SBP) has entered into currency swap agreements with Turkey and China in order to mitigate the pressure of any adverse development in the developed world on our external accounts and reserves,' he said, adding that other such arrangements are in the pipeline with other countries that could relieve pressure on our external accounts.

'Aside from the currency swaps, the largest bank in the world, Industrial Commercial Bank of

China (ICBC) opened its branches in 2011 in Karachi and Islamabad. Soon I will be announcing another foreign bank's entry into Pakistan that reflects offshore investor confidence improving. Clearly, there is much to be optimistic about,' he added.

SBP Governor said that our reserve management policies are transparent and the State Bank has not experienced any substantial pressure on its reserves yet - despite the recent repayment of a $400 million installment to the IMF as we start paying our loans. 'The foreign exchange market did not react adversely to this large outflow, reflecting the confidence it places in SBP's policies and procedures,' he said, adding that the State Bank managed to successfully manage market expectations and avoid any untoward movements in the exchange rate.

He said that the State Bank also remains dedicated towards managing excessive exchange rate volatility, while clamping down on speculative pressures on the rupee, to provide a stable exchange rate environment for the domestic industry. 'SBP's efforts to incentivize the transmission of remittances, through formal channels, has also borne fruit, as remittances have increased markedly in the past few years, and supported our external accounts, he added.

SECURITY & EXCHANGE COMMISSION OF PAKISTAN (SECP)

SECP frames code of corporate governance for public sector companies

ISLAMABAD, March 24: The Securities and Exchange Commission of Pakistan (SECP) has formulated the draft Public Sector Companies (Corporate Governance) Regulations, 2012 in order to improve the governance framework of Public Sector Companies (PSCs). These draft regulations have principally been based upon the Code of Corporate Governance, which has been customized in the context of PSCs in the light of the OECD's Guidelines on Corporate Governance of SOEs.

PSCs are public sector enterprises, operating in corporate form, which are directly or indirectly owned and controlled by the government, whether federal, provincial or local. The draft regulations have been placed on the SECP website (www.secp.gov.pk) for soliciting the opinion, comments and suggestions from stakeholders and the public.

These regulations have been designed in view of the distinct governance challenges faced by the PSCs in Pakistan. The inefficiency of such companies is choking the economy and draining fiscal resources, necessitating urgent restructuring of their operations. Various recommendations have been made in the draft regulations aimed at optimizing the efficiency, enhancing the transparency in operations, and providing a mechanism for accountability of those charged with governance.

The Federal Government had constituted a Cabinet Committee on Restructuring of Public Sector Enterprises (PSEs) in January 2010 to improve their overall corporate governance and service delivery, and to move to a structural surplus and increased public sector savings.

Subsequently, in October 2011 the Federal Government formed a task force on corporate governance of PSEs with the mandate to examine the prospects of developing a regulatory mechanism for improving the governance of PSEs and enhancing board effectiveness and empowerment through a range of measures.

The measures to improve the governance of PSCs include undertaking board composition reforms by including a certain number of independent non-executive directors on the boards of such companies, ensuring continuity in the tenure of board members, separating the roles of chairman and chief executive, forming specialized board committees, undertaking training and capacity building of the board members, strengthening the internal control mechanism, augmenting the disclosure and transparency requirements, and undertaking periodic performance evaluation of the board members, etc.

Federal Board of Revenue

FBR Performance Reviewed - Revenue efforts are on track, Advisor.

A meeting on FBR's performance was held on 20th February 2012 under the chairmanship of Dr. Abdul Hafeez Shaikh, Advisor to Prime Minister on Finance and Revenue. The meeting was attended by the Deputy Chairman Planning Commission, Chairman FBR, Secretary Finance, Secretary Planning and officials of the Finance Ministry and FBR. The meeting concluded that the revenue efforts are on track with the expectation of meeting the budgetary target of Rs. 1952 Bn for FY11-12. Analysis of month to month performance figures for the first seven months and for the remaining months of the year were reviewed. Chairman FBR apprised the meeting that FBR's net collection for the first 7 months was around Rs. 975 Bn which is a growth of more than 26 percent over same period last year. Administrative revenue efforts of FBR were also thoroughly scrutinized. In the first seven months these administrative measures generated about Rs. 40 Bn. Advisor on Finance and Revenue outlined additional administrative efforts of Rs. 50 Bn which will be needed in the remaining four months of FY12. These efforts would focus on audits, broadening of tax base, and collection from demands created, stuck-up arrears and recovery of illegal sales tax adjustments. A detailed presentation on progress on broadening of direct tax base was made. The Advisor on Finance and Revenue instructed FBR to accelerate the pace of registration of new taxpayers. The Advisor reviewed the performance of each tax region laying out a plan for the Chairman FBR to further strengthen the performance of the concerned Chief Commissioners to ensure fulfillment of their targets. Advisor on Finance and Revenue while commending FBR's efforts further emphasized the need to continue focus on broadening of tax base, tax compliance and enforcement of tax returns. The Advisor also laid out the principles for the forthcoming budget. He directed that the tax system should be simple, transparent, consistent and predictable.

IFAC News

International Accounting Standards Board (IASB)

Economic Conditions Continue to Challenge Preparers and Auditors Alike; Focus Must Include Going Concern Assumption and Adequacy of Disclosures

(New York, December 28, 2011)-The global economy continues to experience difficult conditions as the effects of the financial crisis-for example, on corporate cash flows and access to credit-persist. Volatility in capital markets, and issues including measurement and disclosure of exposures to sovereign debt of distressed countries, continue to create uncertainty. The impact of these issues and uncertainty has wide-ranging financial reporting implications that often extend beyond national borders.

These and other current economic conditions present unique challenges for management of entities, those charged with governance, and auditors in meeting their responsibilities, including assessing an entity's ability to continue as a going concern and making relevant disclosures in the financial statements and, as appropriate, the auditor's report.

In light of the current environment, the International Auditing and Assurance Standards Board (IAASB) reminds auditors of their important responsibilities under the International Standards on Auditing (ISAs) and that the appropriateness of management's use of the going concern assumption is a matter to be considered on every audit engagement.

Prof. Arnold Schilder, Chairman of the IAASB, commented, “Difficult economic conditions give rise to many important audit considerations, but none more important-or more difficult-than evaluating management's assessment of an entity's ability to continue as a going concern and determining the appropriate auditor reporting in the circumstances.”

“Auditors must remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. We cannot stress enough the importance of professional skepticism and judgment in evaluating financial statement disclosures and the implications for the auditor's report when a material uncertainty exists relating to events or conditions that, individually or collectively, may cast doubt on the entity's ability to continue as a going concern.”

The 2009 IAASB Staff Audit Practice Alert, “Audit Considerations in Respect of Going Concern in the Current Economic Environment,” highlights matters relevant to the consideration of the going concern assumption in the preparation of financial statements. Among other matters, it addresses factors relevant to the assessment of going concern; the period of time considered in making a going concern assessment; financial statement disclosures; forming an opinion on the financial statements and the implications for the auditor's report.

“While this Audit Practice Alert was released in context of the 2008-2009 credit crisis, many of the matters addressed in it are equally relevant today. For example, an entity may be experiencing a decline in its financial health, or may have material uncertainties arising from direct or indirect exposures to sovereign debt of distressed countries. Auditors are therefore encouraged to review the Alert and, importantly, the relevant requirements in the ISAs,” emphasized Prof. Schilder.

IAESB

Revision of the International Education Standards

The International Accounting Education Standards Board (IAESB) is still progressing in its project to revise and redraft its suite of eight International Education Standards (IESs). Recent developments include the following:

- The redrafted IES 7, Continuing Professional Development, was approved at the IAESB at its October 2011 meeting, and will be issued upon approval of due process activities by the Public Interest Oversight Board.
- Redrafted and revised IES 1, Entry Requirements to a Program of Professional Accounting Education; IES 4, Professional Values, Ethics, and Attitudes; IES 5, Practical Experience Requirements; and IES 6, Assessment of Professional Capabilities and Competence were released for exposure in 2011, with comments received from international stakeholders of the IAESB and the global accountancy profession. They are expected to be approved in 2012.
- The remaining three IESs, IES 2, Content of Professional Accounting Education Programs, IES 3, Professional Skills and General Education, and IES 8, Competence Requirements for Audit Professionals, are expected to be released for exposure in 2012. The IAESB looks forward to receiving comments from the international education community and IFAC member bodies on those proposed revisions.

IESBA Proposes Changes to Code of Ethics Definition of Engagement Team

The International Ethics Standards Board for Accountants (IESBA) today released for public exposure proposed changes to the definition of “engagement team” in the IESBA Code of Ethics for Professional Accountants (the Code).

The proposals address comments received by the International Auditing and Assurance Standards Board on its Exposure Draft (ED) on ISA 610, Using the Work of Internal Auditors. A number of respondents to that ED pointed out the perceived inconsistency between the independence requirements for external auditors under the Code and the use of internal auditors to perform external audit procedures.

“Through this Exposure Draft, the IESBA seeks to ascertain whether the proposed changes to the definition adequately clarify the term "engagement team" and eliminate the perception that the Code and the ISA are in conflict. The IESBA believes this will contribute to more consistent application of the Code, which is critical to our mission to support the global adoption and implementation of the Code of Ethics," said Ken Dakdduk, chair of the IESBA.

How to comment

The IESBA invites all stakeholders to comment on its proposals in the Exposure Draft, Proposed Change to the Definition of "Engagement Team." To submit a comment, visit the IESBA website at www.ifac.org/ethics. Comments on the Exposure Draft are requested by May 31, 2012.

IPSASB

IPSASB Publishes International Public Sector Conceptual Framework Consultation Paper For Comment

The International Public Sector Accounting Standards Board (IPSASB) today released for comment a consultation paper as part of its project to develop a conceptual framework for the general purpose financial reporting of public sector entities. The Conceptual Framework is the IPSASB's key strategic objective from 2010 through 2012, and is of fundamental importance to the future of global public sector standard setting for at least the next 10 to 15 years.

The Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports" (CF-CP4), explores concepts applicable to the presentation of information in the general purpose financial reports of public sector entities. It is not limited to the financial statements.

The Consultation Paper describes what is meant by presentation of information, and explains that presentation covers both display and disclosure. It reviews an approach to presentation of information that involves: presentation objectives based on user needs; application of the qualitative characteristics to presentation decisions; and three presentation concepts. The three presentation concepts are: select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely; locate information in a way that meets user needs; and, organize information to make important relationships clear and to support comparability.

"The Conceptual Framework provides the set of principles that underpin the IPSASB's standard-setting activities over the long-term," explained IPSASB Chair Andreas Bergmann. "CF-CP4 breaks new ground by considering presentation from the broader perspective of financial reporting rather than adopting a narrow focus just on the financial statements. Given the central role that the Conceptual Framework will play in the IPSASB's future standard-setting activities, I strongly urge all stakeholders to submit comments on this Consultation Paper."

How to Comment

To access the Consultation Paper and the At-A-Glance document, which provides a summary of the Consultation Paper, or to submit a comment, please visit the IPSASB website at www.ipsasb.org. Comments on the Consultation Paper are requested by May 31, 2012.

NEW ELECTED MEMBERS OF BOARD OF GOVERNORS, PIPFA

The following three members have been elected as member of Board of Governors, PIPFA in its 18th Annual General Meeting for a term of 3-year

MIAN MUHAMMAD SHOAIB

Mian Muhammad Shoaib is a Fellow Member of PIPFA and an Associate Member of ICAP. Currently he is associated with Pak-Gulf Leasing as Chief Financial Officer and Company Secretary. He has been serving PIPFA since 2005 as a member of the Board of Governors. He has been actively participating and making contributions to the Institute's activities since 2005 as member of various committees.

MR. MUHAMMAD SHARIF

Mr. Muhammad Sharif is a Fellow Member of PIPFA and ICMAP. Currently he is associated with Punjab University as Additional Treasurer. He is serving PIPFA as a member of the Board of Governors since 1998. He has been actively participating and making contributions to the Institute's activities since 1999 as Chairman and member of various committees. He remained President, PIPFA during the year 2008-2009. He had also associated with ICMAP as a Member Branch Committee, Lahore.

MR. SAJID HUSSAIN

Mr. Sajid Hussain is a Fellow Member of both PIPFA and ICAP. After becoming member of ICAP in 1990 he started practice in his own name and in 1995 established SKANS School of Accountancy and served as Principal till 2000. After then Mr. Sajid is working as Chief Executive Officer of SKANS Education Network. He served as a member of the Board of Governors of PIPFA during 1993-97 and then 2005 to 2011. He has been actively participating and making contributions to the Institute's activities since his association with the institute as Chairman and member of various committees.

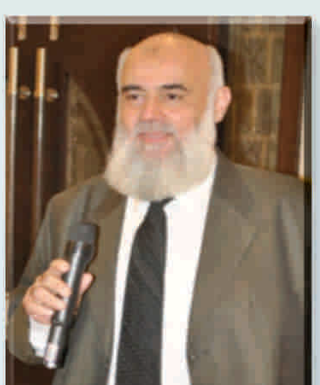
PIPFA New Office Bearers For 2012

Pakistan Institute of Public Finance Accountants in its 91st Board meeting, has elected new office bearers for 2012. Mr. Mian Muhammad Shoaib has been elected as the President of the Institute for the year 2012. Further, Syed Imtiaz Hussain Bukhari as Vice President, Mr. Shahzad Ahmed Awan as Secretary and Mr. Adnan Zaman as Treasurer/Joint Secretary have been elected for the same term.

Seminar on "PERFORMANCE MANAGEMENT" at Faisalabad

In the view of contemporary world requirement and for Continued Professional Development(CPD) of its members, students and other professionals, PIPFA a leading Professional Accounting Body of Pakistan has paved a hallmark for fraternity by arranging a seminar on "Performance Management" at Faisalabad which got a significant success, applauded by the participants (Members, Non Members and Students. The topic of "Performance Management" was found very much relevant with current requirements of Professional Accountants in Industry and Practice which has become a cause of large attendance in seminar.

The Seminar Presented by Mr. Ahmad Saleem, FCA



PIPFA'S CAREER COUNSELING SEMINARS

In continuation of PIPFA awareness campaign and marketing strategy a couple of Career Counseling Seminars were arranged at Islamabad & Karachi for awareness of the Accountancy Profession as another option for students in selecting their career path.

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