WB WILLING TO FUND FAN REPLACEMENT PLAN

ISLAMABAD: The World Bank (WB) has shown willingness to extend financing for government initiative to replace inefficient fans which will cost over Rs 300 billion, official sources told Business Recorder.

In this regard a meeting was held in the PM's Office under the chairmanship of SAPM on Governance Effectiveness Jehanzeb Khan to streamline the implementation of energy efficiency initiatives.

Power Division presented the initial concept of fan replacement program. He apprised that the program envisages replacement of 88 million fans (50m fans in rural households and 38m fans in urban households) at a cost ranging from Rs300 billion (25pc down payment and 75pc bank financing).

Additional Secretary Power Division suggested that NEECA may lead the initiative through a dedicated Project Management Unit (PMU). Discos can facilitate in recovery of money through electricity bills, data reconciliation, and verification of consumers and development of payment gateways between banks, consumers, Discos and vendors.

Additional Secretary Science & Technology Division opined that lower segments may be targeted through BISP and higher segments may be convinced to replace through public awareness and advocacy campaign. He pointed out that provision of efficient fans may be facilitated through BISP, with their beneficiaries as the first to receive them.

Joint Secretary Finance Division highlighted that Poverty Alleviation Division has already been provided additional Rs. 40 billion for BISP, which may be utilized for the program. She also suggested that the possibility of financial mechanism through Karandaz should be explored.

MD NEECA highlighted that the program may also attract carbon financing especially in the wake of current Carbon Credit Rates hovering at $4-6 per unit. He pointed out that gas companies should be also engaged in this discussion as they are ensuring provision of conical baffles and timer devices through on-bill financing mechanism. Representative from State Bank of Pakistan (SBP) highlighted that the financing rate will range from 21-22 per annum for commercial banks - which may not be willing to finance such a small outlay. In case of Micro Finance Bank, the financing rate will inflate to well above 30pc, making the program exorbitantly expensive.

World Bank team briefed the participants regarding 10m Fans Initiatives - a flagship energy conservation initiative.

This initiative will cost around Rs 81 billion. World Bank showed its willingness to fund the initiative. Regarding the eligibility criteria, it was said that the fans will be provided to consumers with consumption of less than 200 kWh per month. These fans will save 5.26 billion kWh per annum - entailing a saving of Rs.130.6bn per annum in terms of electricity cost.

Rapping up the meeting, the Chair appreciated all the participants for the useful discussion and especially Additional Secretary Power Division for conducting a detailed pre-feasibility study.

The Chair highlighted that "Efficient Utilization of Energy" is the over-arching objective of the program. However, to achieve the objective, the following issues require deliberations: (i) workable mechanism to help households pressed by exorbitant power tariffs through replacement of energy efficient appliances; (ii) support for the industry to build capacity for producing energy efficient appliances; (iii) marketing strategy/ campaign to bring about behavioural change of households towards energy efficient appliances through awareness campaign and; (iv) a trackable mechanism for flow of money through which the beneficiaries can directly procure the fan from vendor/ retailer of their choice.

After detailed discussion, the meeting decided that NEECA will arrange a consultation workshop with all stakeholders including Ministry of Science and Technology, Ministry of Climate Change, Power Division, Petroleum Division and Poverty Alleviation Division. The output of the workshop should be a draft PC-1. The procurement ought to be in line with World Bank Procurement Guidelines so that retroactive financing could be tapped. It was also decided that NEECA would develop implementation plan for the program keeping in view that recovery may not start during summer months and 3-4 grace months may provided.

The meeting also decided that inefficient manufacturers may be phased out through stringent standards. PSQCA will present the detail mechanism for enforcement of these standards. Ministry of Industries and Production in consultation with provincial governments shall also ensure enforcement of standards. Mandatory labelling regime for energy efficiency will be ensured.

The meeting was attended by Secretary Industries and Production, Additional Secretary Power, Additional Secretary Science & Technology, Provincial Energy Secretaries, MD National Energy Efficiency & Conservation Authority (NEECA) and senior level representatives from Prime Minister's Office and the World Bank.

R 6-3-2023

GLOBAL BUSINESSES 'READY FOR INVESTMENT' IN RIVERFRONT PROJECT

In various government-to-government and business-to-business meetings held in the United Arab Emirates (UAE) between the Ravi Urban Development Authority (Ruda) and the business community, investors pledged to invest around $600 million in various sections of the Ravi Riverfront Urban Development Project.

The pledges were made on the eve of the three-day Dubai International Property Show (IPS)-2023. During the three-day IPS event, the Ruda authorities represented Pakistan, attracting interested international investors, expatriate Pakistanis, and visitors from various business backgrounds. The authority, according to Ruda CEO Imran Amin, signed seven Memorandums of Understanding (MoUs) at the event and four of the investors visited Pakistan for a site visit to mature the MoUs. After the IPS event, 15 meetings with various parties were held, of which eight were successful and productive leading to portfolio management and inventory liquidation with different firms covering avenues like G2G, B2B and PPP projects generating the Foreign Direct Investment (FDI) of $600 million.

The authorities visited Dubai this week to explore best practices of G2G and PPP projects, H&S Global which is playing a leading role in servicing development giants like Emaar and Damac and ISHRAQ, a hospitality industry firm with a diversified portfolio of hotel property brands. "These meetings provided an opportunity for Ruda to explore potential collaboration opportunities and promote its development projects to a wider audience.

PO 6-3-2023

FD RAISES OBJECTIONS OVER 5ES FRAMEWORK FOR ENHANCING EXPORTS

ISLAMABAD: The Finance Division has raised objections over the 5Es Framework for enhancing exports, while saying that the exercise focuses on exporting goods and ignoring the key potential area of information technology (IT) and financial sector.

The Division submitted its observations and recommendations in response to the 5Es Framework of the Planning Commission. Federal Minister for Planning, Development and Special Initiatives Ahsan Iqbal chairs the 5Es Framework meeting.

The Finance Division has asked that why the focus is only on the textile sector. The performance of this sector remains very stagnant over the years even after huge facilitation by the government. Other sectors should also be explored to reach the potential of Industrial sector, the Division recommended. "We should consider other regional competitors and how they are getting benefits by exploring the IT sector in the global market. Another important is the consistency of the policies to ensure sustainability and growth potential," it noted.

The first E addresses the issue of exports promotion with different initiatives in various sectors like; Manufacturing, Mineral, Investment, Commerce and SMEs. The Finance Division stated that there is also need to increase exports in agriculture and IT sector for which there is need to introduce effective measures. Further, first E should also address to increase the competitiveness of exports so that it can compete with the products of other countries in international market. Besides focus on services exports should also be the part of First E.

The Finance Division noted that export-led growth generally depends upon a number of assumptions like favourable geo-political, global economic situation, political stability, law and order situation, highly developed infrastructure, productive manpower, price competitiveness and high bargaining power in trade negotiations, low population growth rate and substantial research and development expenditure, etc. There is little likelihood of managing the above said factors effectively in case of Pakistan to enable the exports to increase to a level where they could contribute significantly to economic growth. Therefore, it is important to analyse whether export led growth is feasible in context of above-mentioned factors. "Further, we are of the view that to increase exports, there is need to focus on addressing the structural issues. It is also vital to boost logistics in order to lower the cost of doing business and make goods and services more competitive in the global market", it added.

The framework should have little discussion on how to increase the Total Factor Productivity TFP? We are of the view that to improve TFP there is need to increase the efficiency of resource use and technological breakthrough in the economy. This can be achieved by investment in agricultural development projects, macroeconomic stability, education and training, research and development, infrastructure development and institutional reforms, the Finance Division noted.

Besides product and market diversification to achieve sustainable and higher growth in exports, Pakistan needs to improve competitiveness. By adopting more skilled and technology-intensive activities, Pakistan can improve competitiveness, however, improvement in Logistics as a measure of trade facilitation is fundamental for the country's export competitiveness and foreign market expansion for indigenous goods. In this regard, the transport cost can be reduced considerably by introducing effective policy reforms in customs, ports, road authorities and the traffic regulators. Further, there is the quality and efficiency of logistic services. In this regard, a significantly higher investment would be important.

OGRA MANIPULATING PRICING OF PETROLEUM PRODUCTS: OMAP

LAHORE: Oil Marketing Association of Pakistan on Sunday demanded that exchange rate adjustments should be passed on to its actual entities in letter and spirit.

The letter written by chairman OMAP Tariq Wazir Ali to chairman Oil and Gas Regulatory Authority pointed out that it is highly astonishing that the exchange rate adjustment is not truly passed on to the actual rightful entities in letter & spirit. “Exchange rate adjustments are distributed uniformly across all OMCs, i.e., without consideration of who is or is not eligible. Yet, in real sense, it needs to be distributed in accordance with their imports and payments,” the letter said.

Let’s take an example, a genuine exchange rate loss might occur if an OMC imported in M months and sold its products in the same month but was unable to make payment in M+1, M+2, or M+3.

In such a case, it is suggested to create a pool from which funds are given to OMCs based on their real exchange loss or gain or to let OMCs to recoup their exchange loss or gain in accordance with the payment they made in dollars. By making a pool a big factor of hoarding will automatically be curbed. Big companies manage quota allocation in PR meeting enjoying favoritism and get undue and unjustified payments, which is causing a big loss to the country & add to the people’s misery.

OMAP suggested that creation of a pool for such payments, as narrated above will not only bring a harmony and smoothness in disbursement operations making it justified but also prevent hoarding in an effective manner. As per the letter it is evident that the Oil Marketing Industry has lost billions of rupees as a result of the Pakistani Rupee’s rapid depreciation. This industry is already in a dire situation because Letters of Credits (LCs) are being settled / retired at the new exchange rates even though the related goods have already been imported and sold. As of exchange rate losses are being passed on partially, PSO recently brought this issue to OGRA’s attention. According to PSO calculations supplied with OGRA, the exchange loss adjustment for PMG and HSD came to Rs. 16.21 and Rs. 163.02 per liter, respectively, whereas only Rs. 15.74 and Rs. 27.80 per liter were adjusted for current prices starting on March 1, 2023.

OMCs would be under a burden in this situation, and they cannot continue operating with such a price anomaly. That also goes against the officially approved price structure. Resultantly industry is suffering with PKR 35-40 billion losses. The oil marketing sector is still experiencing significant losses and is under a lot of strain. Also, the exchange losses vary based on the products that OMCs import. By applying an exchange loss adjustment through price, while OMCs with a greater percentage of imported products receive less compensation than entitled. Because to this occurrence, OMCs and other entities that acquire or sell the local refineries’ output or have minimal or no imports have unfair and unrealistic advantages.

The letter also pointed out that this unethical activity favors those who engage in the sale of petroleum products that are locally manufactured or procured, yet they manage to receive benefits that are solely intended for petroleum product importers. Due to this anomaly, emerging OMCs are facing an additional loss of PKR 20 billion, in addition to the above-mentioned loss.

The prime reason for these losses is partial settlement, unfair and unjustified distribution of exchange rate losses, taking PSO as benchmark & wrong calculation of formula by OGRA. We strongly suggest that any such amount disbursed in unjustified way should immediately be recovered and should be disbursed to real affecters. Moreover, Emerging OMCs are not getting level playing field with reference to product allocation from refineries. They offer products to emerging OMCs only at the time of low demand and restrict allocations as soon as demand is up.

R 6-3-2023

ASIA’S HI-5 FUEL OIL

SINGAPORE: Asia’s hi-5 fuel oil spread narrowed to nearly 11-month lows on Friday, as market trends continued to diverge for very low sulphur fuel oil (VLSFO) and high sulphur fuel oil (HSFO).

The front-month Hi-5, which is the price difference between 0.5% VLSFO and 380-cst HSFO, narrowed to $143.25 a tonne at the Asia close (0830 GMT), Refinitiv data showed. The spot VLSFO market has softened steadily since early February, driven by higher incoming supplies and tepid downstream demand for bunkering.

The 0.5% VLSFO cash differential slumped for a 12th consecutive session, closing at parity to Singapore quotes on Friday. The differential has always held in premiums since end-May 2021, data showed. Meanwhile, HSFO retained a rally amid strong bidding. The 180-cst HSFO cash differential climbed to $9 a tonne over Singapore quotes, while the 380-cst HSFO cash differential firmed to $8.84 a tonne.—Reuters

SECP ISSUES NEW SHARIAH GOVERNANCE REGULATIONS, 2023

ISLAMABAD: The proposed “Shariah supervisory board” of the Islamic financial institutions would ensure that the financial resources are free from ‘Riba’ (interest) and other elements prohibited by Shariah.

The new Shariah Governance Regulations, 2023 issued by the Securities and Exchange Commission of Pakistan (SECP) revealed that “Shariah supervisory board” means a board constituted, appointed or engaged by the Islamic financial institution to advice it on matters concerning Shariah principles and rules. It would have the mandate to review and monitor to ensure that inflows and outflows of financial resources are free from Riba (interest, usury or any other form), Qimar (Gambling), Gharar (Speculation) and other elements prohibited by Shariah (e.g. drugs and alcohol, tobacco, pork related items, etc.), SECP stated.

It is expected that proposed regulations will further help in achieving the constitutional objective of eradication of Riba and Islamization of the economy.

Every Shariah-compliant company and Islamic financial institution shall form, constitute, appoint, or engage a Shariah supervisory board within such period as may be notified by the Commission, comprising at least two persons meeting fit and proper criteria and other requirements as provided in these regulations. Provided that until a Shariah supervisory board is formed, appointed, or engaged by a Shariah-compliant company or an Islamic financial institution, it must appoint or engage a Shariah advisor registered under these regulations to perform the functions of the Shariah supervisory board.

The term of appointment or engagement of the Shariah supervisory board or Shariah advisor shall be for a period of three years that may be extended further with mutual consent. However, such a term may be capped for the duration of the applicable Shariah-compliant security if it is a redeemable capital instrument. In the case of short-term securities for a period less than a year, the issuer may not retain the Shariah supervisory board or Shariah advisor for that particular security after its issuance, SECP regulations added.

R 5-3-2023

SAUDI ARABIA LOOKS AT TAX RELIEF FOR MULTINATIONALS RELOCATING HQs

Dubai/London: Multinationals that relocate their regional headquarters to Saudi Arabia this year with the aim of securing lucrative government contracts would be “likely” to receive tax relief, said the kingdom’s investment minister, as executives fear they could be taxed in more than one jurisdiction. Many executives said they were still uncertain about the details of the tax regime two years after they were informed of the relocation deadline. Several said a key concern was that, in the absence of a taxation accord between Riyadh and other Gulf states that could fall under the regional HQ’s oversight, subsidiaries’ profits could be taxed twice. “So the moment you designate that entity as your regional head office, all of your regional profits could then be taxable in Saudi Arabia,” said one executive. “That has caused fear and panic across the patch.”

Investment minister Khalid al-Falih said an announcement would be made soon to clarify the regulations. Saudi Arabia, the world’s top oil exporter and the Middle East’s largest economy, announced its regional headquarters programme in 2021, sending shockwaves through the United Arab Emirates, where most regional corporate head offices are based. “It is business as usual for them in Saudi Arabia and outside Saudi Arabia,” Falih told the Financial Times. Operations outside Saudi Arabia “will be taxed in those entities’ country of operations. They will not be intermingled or mixed with the regional headquarters,” he said.

“The guiding principle is that the RHQ special purpose vehicle, which will be created in Saudi Arabia, will be only taxed for the limited — almost nothing — profits that they make within the RHQ . . . Most likely the limited income by the RHQ SPV will be granted tax relief,” Falih said.

The regional headquarters scheme is part of an ambitious plan to make Saudi Arabia less reliant on oil revenues by transforming the kingdom into a trade and finance hub. State-owned enterprises, which dominate the economy, are set to spend hundreds of billions of dollars on new projects over the next decade, attracting multinationals to the kingdom. About 80 companies, including Unilever and Siemens, have already been granted licences to move their regional headquarters to the kingdom, with many expected to be based in Riyadh’s King Abdullah Financial District. PepsiCo announced earlier this month that it had relocated its Middle East chief executive’s office to the kingdom.

The programme underscored the growing competition with the UAE, which for years served as a regional hub for multinationals with its laissez-faire approach to business, socially liberal lifestyle and hub airports.

The UAE, which will start imposing a corporate tax of 9 percent in May, has responded with a range of incentives to attract companies. Saudi Arabia, which levies a 20 percent corporate income tax, has promised its own incentives, including exemptions on visa limits and recruitment quotas for Saudi nationals for 10 years. But they have been overshadowed by the uncertainties on taxation.

Many companies feel they have no choice but to move if they want to win lucrative government contracts in Saudi Arabia, the fastest growing G20 economy with billions earmarked for spending on mega projects such as the Neom new city project.

The taxation uncertainty is "paralysing some people from doing things. It was slowing us down. And then we just talked about it today and said guys, we're going to go ahead and set up that entity in Riyadh," the executive said. Falih said the kingdom did not want to saddle the companies with additional costs. "We realised that we had to do everything we can through policy and regulation to ensure that the companies will not incur additional risks or costs from the alternative jurisdictions for managing their regional operations, and the biggest one of course is taxation," he said. But requirements for all senior executives to be resident in Saudi Arabia had been expanded to include demands that they rent accommodation and are paid salaries into a bank based in the kingdom, said one consultant. "It's getting more onerous," he said. "Every month it's becoming more expensive to rent accommodation and office space as others move in — there just isn't enough supply." Securing international schooling for children has also posed a challenge.

One executive said their company had set up a Saudi regional head office, to oversee operations in other Gulf states such as Bahrain, Kuwait, Oman and Qatar. The UAE office would continue as a regional headquarters for the wider Middle East. To qualify as a regional HQ under the Saudi plans, the base must have oversight of operations in at least two other states.

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