LC RESTRICTIONS: WORLD BANK ASKS GOVT TO EXEMPT PROJECTS FUNDED BY IFIs

ISLAMABAD: The World Bank (WB) has urged the government to exempt IFIs (International Financial Intuitions) funded projects from LC restrictions as such actions are delaying projects, well informed sources in WAPDA told *Business Recorder*. This issue was raised by a representative of World Bank at a meeting convened to review projects being funded by the Bank presided over by Secretary Ministry of Economic Affairs Dr Kazim Niaz.

The World Bank team which attended the meeting comprised of County Director, Najy Benhassani; Gailius J Draugelist, Operation Manager; Dr Aliya Kashif, Tobias Akhtar Haque, Lead Country Economist and Task Team Leader (TTL) PRR, Irum Touqeer, Public Sector Specialist and co- TTL for PRR, Amjad Zafar, TTL CRISP, Namoos Zaheer, Muhammad Saqib, Energy Specialist and others. “WB highlighted the LC issue which is delaying the project progress and disbursements. The Bank suggested that IFI-funded projects should be exempted from such requirements as foreign currency will come into the country anyway,” the sources said, adding that Secretary, Economic Affairs agreed to take up the matter with Finance Division.

The Secretary MoEA briefly noted that conducting review of World Bank-funded Federal portfolio is aimed to encourage the implementing agencies to stimulate their efforts to not only achieve early set targets of their respective projects/ programs but also to cover the overdue targets to help enhance the disbursement of foreign resources. He informed the participants that where the sponsoring/ executing agencies consider it impossible to achieve certain targets then they need to consider restructuring by getting approval of competent fora or otherwise to formally ask for cancellation of funds allocated against risky targets so that these funds may formally be diverted/ reallocated to pipeline projects. He further highlighted that continuous engaging borrowed financial resources for unachievable targets is neither justified nor tolerated beyond certain time limit.

The following were the project/ program wise discussions and decisions taken thereon;

1- National Transmission Modernization (phase-1) project: The meeting was informed that the project implementation faced delays owing to late hiring of project design consultant and later award of contracts, particularly due to slow decision making at the higher levels in NTDC. Absence of a permanent MD has led to delays in decision making in the past. A capacity development plan for overall NTDC is under preparation for past many years which can be funded under the project.

The Technical Evaluation Report (TER) of Islamabad West Station is now with the World Bank for final approval. Bids of projects were received in December 2021. After approval of World Bank, financial proposals will be opened followed by combined evaluation and contract award. 20 per cent advance payment to selected contractor will be ensured by end June 2023.

The representative of NTDC informed that land acquisition process is ongoing and the payment process will be completed by March 15, 2023.

The Team Task Leader (TTL) World Bank highlighted the issue of two change orders which are pending approval at the level of MD and Board. WB also highlighted the LC issue which is delaying the project progress and disbursements and that IFI funded projects should be exempted from such requirements as foreign currency will come into the country anyway. Secretary, Economic Affairs agreed to take up the matter with Finance Division.

The meeting decided that NTDC will complete land acquisition including payments to ensure its possession by mid March 2023. NTDC will also ensure on-boarding of contractor for Islamabad West Sub-Station by mid March and advance payment by June 2023 and resolve the change in order issues.

II- CASA-1000 Electricity Transmission and Trade Project: The project faced initial delays owing to the key issue of land acquisition. Now the implementation pace of Pakistan part of the project is advancing well and is at par or ahead of other partner countries. However, the implementation of Afghanistan part of the project is at a halt.

The Project Director highlighted the need of arranging additional financing which primarily emerged due to SDR-USD exchange rate. Secretary Economic Affairs agreed to facilitate NTDC in bridging the financing gap. Deputy Secretary (WB), Economic Affairs also highlighted the need of quick utilization of $ 600,000 grant funds which have been made available by WB for addressing the capacity issues.

The TLL WB stressed for speedy Resettlement Action Plan (RAP) payments to the affected people for electrode station and along with route of the HVDC and timely utilization of grant funds.

The meeting decided: (i) NTDC to ensure completion of Pakistan part of the project within extended closing date; (ii) revised PC-1 to be processed and approvals obtained from competent fora to help timely engaging the additional financing WB, and (iii) early finalization and implementation of capacity building plan, utilizing the grant funs including activities such as language and management training programs at NUML and LUMS.

III- Dasu Hydropower (transmission line) project and Dasu Hydropower (phase-1) project: The representative of NTDC informed that three contracts (Lot-1, Lot-2 and Lot-3) have been finalized and advance payment for these contracts is partially made and is partially under process. Land acquisition for Mansehra Grid Station is done and payments will be completed by end March 2023.

The project team stated that Pattan issue has been resolved and work started. Secretary Economic Affairs appreciated the efforts of WAPDA, NTDC and local administration for resolving the Pattan issue. He; however, highlighted the need of extra vigilance and close coordination with local administration to avoid untoward situation again. In response to query from DS (WB) Economic Affairs, Member Finance (WAPDA) shared that progress on full utilization of Partial Credit Guarantee (PCG), will be ensured after conclusion of agreement with IMF and progress on it will be shared accordingly.

The meeting decided that WAPDA and NTDc to ensure: (I) quick implementation of 132-KV transmission line in Pattan area including main 765-kV Dasu transmission line. WAPDA and NTDC to put in place proper monitoring mechanism and strengthen coordination with Commissioner Hazara and Local Administration to avoid any obstructions in the construction work by local.

IV- Electricity Distribution Efficiency Improvement Project: The project is facing delays owing to slow progress on preparatory work (opening of assignment account, setting up PMU's and preparation of implementation plan). The opening of assignment accounts took too much time due to non pursuance of the case with Finance Division by the Ministry. It was agreed that Power Division and Discos to sit together with Finance Division to speed up the account opening process and for speeding up the implementation of activities to ensure possible disbursements.

The TTL WB, while highlighting the need of E&S side, asked for early filling of environment and social safeguard positions. Secretary Economic Affairs desired the Ministry to share update on procurement plans, work plan and budget plan with WB.

The meeting decided that Power Division will not only facilitate Discos in timely opening of their Assignment Accounts but also ensure opening of Assignment Account of its own part of the project. Power Division and Discos to ensure sharing of their procurement plans, annual work and budget plans with WB and share the update with Ministry of Economic Affairs immediately.

HESCO, MEPCO and PESCO to ensure the creation of environment and social safeguard positions and hiring against these positions on priority basis by March 15, 2023. The meeting also decided that WAPDA shall replace trash racks by June 30, 2023 and ensure completion of all remaining minor works including clearance of liabilities to clean financial closure of the project.

WAPDA and NTDC have been directed to speed up implementation of Tarbela 5 Extension. NTDC will ensure quick RAP payments under 500-kV transmission line component.

LCs: GOVT LIKELY TO GIVE STEEL SECTOR BIG RELIEF

ISLAMABAD: The government is likely to give top priority to the steel sector products by allowing opening of the letters of credits (LCs) for import of steel scrap and other steel-related items. In this regard, the Ministry of Industries and Production has received a letter of the Engineering Development Board (EDB). The EDB has written a letter to the Ministry of Industries and Production on the appeal to declare steel industry raw material (scrap) as essential item/ material. The matter has been examined in EDB and it is submitted that State Bank of Pakistan issued a circular on December 27, 2022 to prioritize/ facilitate the imports of different sector/ industry under which the import related to essential sector such as food and pharmaceutical is facilitated beside imports related to energy/ export-oriented industry or project/ agriculture inputs, etc.

The EDB is of the view that the import of any type of raw materials, as are not manufactured locally, for the manufacturing of engineering goods may not be restricted at import stage in order to support and provide a level playing field to the local manufacturing industry. Further, steel sector products are used in the construction industry for which the local manufacturers of steel bar/ rods are importing steel scrap therefore their issues regarding import of steel scrap, i.e., opening of LC may be favourably considered, the EDB added.

R 13-3-2023

GOVT EYES RUSSIAN CRUDE OIL AT $50/BARREL

ISLAMABAD: Top officials of the Petroleum Division are trying to procure Russian crude oil at close to $50/barrel, $10/barrel below the cap price imposed by G7 countries on Russian oil in the wake of the war on Ukraine, sources said.

The current Brent crude price stands at $82.78/barrel. However, Russians are more interested in completing all the prerequisites before to inking an agreement that includes the mode of payment, shipping cost with premium, and insurance cost. Following that the country would respond about the discount in base price of the crude oil, senior officials involved in the virtual talks with their counterparts in Russia told The News. They said that the shipping of crude oil from Russian ports will take 30 days owing to which the per barrel transportation cost would incur at $10-15/barrel. However, the talks between Moscow and Islamabad are going in a positive direction with the hope that the GtG deal on Russian crude import will be inked soon before the end of the current month of March. To a question, they said, the government has decided not to divulge the mode of payment to Russia against the import of crude oil. However, the authorities are weighing their options to either use Pakistan National Shipping Corporation (PNSC) ships for transporting crude from the Russian port or to use the Russian tankers. “We also have to keep in mind the landed cost of Russian crude as the crude vessel will arrive in 30 days, owing to which per barrel shipping cost would hover at $10-15,” the official said, adding that Moscow has not agreed on the discount yet. “We fear that the maximum discount would be offset by the shipping cost of the crude oil.”

However, state minister Musadik Masood Malik said in his televised presser that Pakistan would get a 30 percent discount on crude oil prices.

The government would import one Russian crude oil ship to test the landed cost as compared to the existing cost of crude being imported from ADNOC of UAE and Saudi Aramco. To this effect, the secretary of Petroleum Division is in Karachi to further deliberate with the top management of PARCO, PSO, Pakistan Refinery Limited and other refineries regarding the import of Russian crude oil to process it for finished products.

In case, the test ship’s cost is found lowered enough to bring down the prices of petroleum, oil and lubricants, Pakistan would give a green signal for cargos of Russian oil in a month which may be 2-4 in number. Since Pakistan is facing a US dollar liquidity crunch, it would pay Russia in the currencies of friendly countries that include China, Saudi Arabia, and UAE.

The officials said that the ship carrying Russian crude will have the NICL (National Insurance Company Limited) and Pakistan Reinsurance Company Limited (PakRE) will reinsure the asset (ship with crude oil).

The State Bank of Pakistan (SBP) which earlier showed hesitance for any transaction with Russian banks keeping in view the G7 regulations and the US and EU countries, has now shown a willingness to talk with the Russian counter bank over a payment mechanism for oil import in three currencies other than dollars.

TN 12-3-2023

RECOVERY OF ACTUAL GAS COST: PETROLEUM DIV PROPOSES AMENDMENTS TO LAW

ISLAMABAD: Petroleum Division has proposed amendments to the Natural Gas (Development Surcharge) Ordinance, aimed at recovery of actual cost of gas, and to penalize defaulting consumers, well informed sources told Business Recorder.

The Natural Gas (Development Surcharge), Ordinance, 1967 was promulgated for levy and collection of a development surcharge on natural gas and for matters connected therewith. The Gas Development Surcharge (GDS) is essentially a differential margin of sale price and prescribed price of the natural gas meaning thereby that this differential margin will emerge when sale price exceeds the prescribed price. The net proceeds of GDS so collected under the Ordinance and Rules are being transferred to the provinces under the NFC Award 1990.

The Ordinance has gone through a number of amendments from time to time since its enactment in 1967.

Petroleum Division argues that with the passage of time and evolving conditions, especially after establishment of Oil and Gas Regulatory Authority (OGRA) under OGRA Ordinance, 2002 many of the functions exercised by the Petroleum Division stand devolved to OGRA. These functions primarily include determination and notification of gas producer and consumer sale prices being performed by Petroleum Division prior to OGRA. Although amendments were made in the GDS Ordinance and the rules from time to time to cater for the changed circumstances but it could not be done in totality which has led to generation of audit paras by Directorate General of Audit Petroleum & Natural Resources. These audit paras normally question the liberty of the gas companies for payment of GDS and interest thereon in the absence of time limit specified in the Ordinance and Rules.

In addition, a new phenomenon has emerged during past many years whereby in the absence of adequate raise in consumer gas sale prices, the differential margin between sale prices and the prescribed prices is resulting in negative GDS whereas the existing law doesn't cover such scenario. Similarly, gas selling companies listed in schedule of the Ordinance adjust/ offset the negative differential margin against payments from sectors where the sale price is greater than the prescribed price or simply where the positive differential margin emerges.

Petroleum Division, in its proposal, has also argued that a backlog of GDS payables (Principal and interest/LPS) have accumulated towards power plants due to circular debt.

The issue has been discussed a number of times in the meetings of Public Accounts Committees and it was advised that appropriate amendments to the existing GDS law should be made to enforce the recoveries and consequential punitive measures.

In order to address the anomalies in the present GDS law, Petroleum Division has suggested certain amendments which have following salient features: (i) definitions for 'sale price' and 'prescribed price' have been amended in view of fact that these are now under the ambit of OGRA Ordinance, 2002 and the rules made there under; (ii) definition for 'negative differential margin' and 'late payment surcharge' have been added to wriggle out of the issues being faced by the gas companies when their sale prices are lower than the prescribed prices.

The GDS on this account would not be chargeable as well as it would not attract LPS; (iii) Gas companies have been authorized to net-off 'positive differential margin' with 'negative differential margin' while remaining within same financial year in cases when gas companies are advised to sell gas at a lower sale price than the actual cost of gas or prescribed price resulting into negative GDS; (iv) penalty for disconnection of gas supply to dedicated consumers who consistently default in payment of GDS liability.

In view of the existing anomalies, Petroleum Division has submitted the following proposals for consideration and approval by the competent forum: (i) in principal approval may be granted for the proposed amendments as per the draft Bill "The Natural Gas (Development Surcharge) Amendment Act, 2023" in terms of Rule 16(1)(a) of the Rules of Business, 1973; and (ii) Law Division to vet the proposed draft Bill "The Natural Gas (Development Surcharge) Amendment Act, 2023" in terms of Rules 27 (2) and (3) of the Rules of Business, 1973.

R 13-3-2023

REVENUE FROM CORPORATE SECTOR DROPS 30PC DUE TO MASSIVE CLOSURES

LAHORE: Revenue generation from the corporate sector has dropped by 30 percent due to massive closures, particularly in the textile sector, said sources in the Corporate Tax Office (CTO) Lahore. They said the number of closed-down units is on the rise, which is hampering the revenue growth over the last eight months, ringing alarm bells in the Federal Board of Revenue (FBR).

The sources feared a downward revision in the overall revenue target, which has already witnessed a drop of Rs240 billion during the first eight months of the current fiscal year.

Accordingly, they added, the Board would have no option but to revise the overall collection target at the end of the last quarter ahead. It is also worrisome for the tax authorities in the CTO Lahore that the revenue shortfall has been witnessed under income tax. Therefore, they said the Board was considering collecting advance tax from leading companies. It has also issued verbal directions that taxpayers should pay against the current demands to meet the revenue gap. Also, they said, the Board may also opt for generating revenue through fake demands and exemptions to meet the revenue target.

The tax experts have pointed out that a shortfall in the FBR's collection for the first eight months of the ongoing fiscal year, Rs 240 billion to be precise is not a surprise, as the factors like import curbs, high and persistent inflation, and the hawkish monetary policy has contracted the economy, squeezed production and reduced incomes, so it's only natural for tax receipts to shrink as well.

Corporate firms are found deducting contributions made to unapproved gratuity funds while computing the income of their employees under the head of "income from business". Sources have pointed out that most of the leading corporate firms are doing such mistakes and misinterpreting the income tax law on misguided advice from their tax consultants.

Sources have further pointed out that all such endeavours fall under the category of tax avoidance, which ultimately hit the revenue generation task of the department. Undue delay in the retirement of Letters of Credit (LCs) documents by banks is also causing troubles for the corporate sector, as forged documents submitted by their international suppliers for the clearance of credit documents against fraudulent deliveries are adding insult to their injuries. In most fraudulent transactions, the sellers/suppliers ship substandard, below-weight, and worthless materials, and forge their credit documents in accordance with the contractual terms and conditions. R 12-3-2023

INDUSTRIALISTS ALLEGE HARASSMENT BY EOBI OFFICIALS

PESHAWAR: Industrialists have alleged that officials of the Employees' Old-Age Benefits Institution and other institutions harassed them in the name of record checking. During a meeting with federal minister for Overseas Pakistanis and human resources development Sajid Hussain Turi here, Industrialists Association Peshawar (IAP) president Malik Imran Ishaq and other industrialists that the manufacturers, who set up units in the Industrial Estate Hayatabad Peshawar, faced problems about the EOBI-related issues as well as 'illegal' allotment of flats in Regi Model Town. He called for an end to the harassment of industrialists and an effective resolution of their issues.

The minister told visitors at the Hayatabad Industrial Estate that the federal government was striving to resolve the issues of businessmen and industrialists on a fast-track basis. "We are taking all possible steps to promote industrialisation and provision of all facilities to the business community," he said. Mr Turi said that authorities shouldn't carry out industry-hostile actions and initiatives. He said all those actions carried out were intolerable as they caused unrest among the business community and industrialists in the province.

The meeting was also attended by former provincial governor Engineer Shuakat Khan, caretaker minister Fazal Elahi, former president of the FPCCI Ghazanfar Bilor, senior vice- president of the Industrialists Association Peshawar Ayub Zukuri, vice-president Ghulam Mohiyuddin and executive members, president of the Sarhad Chamber of Commerce and Industry Mohammad Ishaq, former presidents of the IAP Malik Niaz Ahmad and Zarak Khan and the secretary general, members of the association, and industrialists.

Responding to the demands made by participants, the minister said that initiatives would be taken for the development of industrialists. He said harassment of businessmen and the misuse of authority by the EOBI officials would be checked effectively. Mr Turi said he would ensure a meeting of industrialists with the chairman of the EOBI on the matter. He said he would chair a meeting to resolve the issues of industries with the EOBI for the payment of fee at the rate of Rs170 per month as decided by the Supreme Court.

The minister said that governing bodies in the centre and province should be restructured with equal representation of members as recommended by business platforms.

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