PAKISTAN IS MARKET WITH HIGHEST POTENTIAL: ADB LISTS FACTORS STIFLING 'SCF' GROWTH

ISLAMABAD: Pakistan is the market with the highest potential in the region, however, several factors including legal framework as well as the current tax law restrict the full development of Supply Chain Finance (SCF), says Asian Development Bank (ADB).

The bank in its report, "Supply Chain Finance in Central Asia and Caucasus", noted that Pakistan is the market with the highest potential in the region. Pakistan's GDP in 2022 was $376.5 billion. If factoring volume reached a penetration rate of 2.4 per cent (the average in similar markets), the potential factoring volume could be as high as $9 billion.

Several factors restrict the full development of SCF in this market. First, the legal framework needs to adapt to accelerate the use of e-invoicing and facilitate the various products of SCF. Second, the current tax law requires payment to be made directly to the seller to obtain tax credits, which renders SCF product operations untenable. Finally, the growing demand for Islamic banking products is also creating hurdles for the development of SCF, it added.
Despite encouragement from the government and the State Bank of Pakistan, the country's banks are still cautious about offering SCF because of a lack of clarity in the regulations and low awareness of the nuances of SCF.

SCF platforms play a vital role in the adoption and scalability of SCF products. However, the market has seen very limited technology adoption, the report noted.

The Bank stated that as per the estimates of the Small and Medium Enterprise Development Authority, there are more than 5 million SMEs in Pakistan. SMEs contribute 40 per cent of the gross domestic product (GDP) of Pakistan and 25 per cent to its overall exports. Therefore, the National Financial Inclusion Strategy in 2017 set out a plan for SME finance, which included SCF. The market for SCF in Pakistan is relatively new but has been growing gradually, largely because of strong government initiatives since 2017.

Banks and regulators have benefited from knowledge sessions and webinars on SCF done by multilateral development banks such as ADB. A few banks have started offering factoring and/or reverse factoring products, which were developed with the support of the International Finance Corporation (IFC).

The main SCF products currently offered in Pakistan are domestic factoring, known locally as "invoice discounting"; and reverse factoring, often referred to as "supply chain finance."

Market volumes, especially for reverse factoring, are small but growing. There is high suppliers' interest in these products mitigating challenges of supplier education. Notwithstanding that, significant challenges to accessing technology and enabling platforms, as well as fulfilling various compliance and know-your-customer requirements, persist in the market. While there is no specific law covering SCF in Pakistan, the State Bank of Pakistan is developing a framework to cover SCF. The current regulations have few limitations on the adoption of factoring or reverse factoring, e.g., lack of legal structures around nonrecourse factoring and inability to use e-invoicing and others.

Factoring provided by companies or individuals is primarily unregulated and falls under the aegis of the Contract Act 1872 and the articles in the Civil Code. The proposed factoring framework will enable banks to approach the Banking Court for speedier resolution.

The State Bank of Pakistan's electronic Credit Information Bureau has been established to provide credit information. The bank recommended action points which include, continue engagement with development banks and obtain support for training and education, and sharing of international best practices, adopt factoring regulation, providing clear guidelines on the various products so that more banks can design and offer the products, update and implement a legal framework for a Shariah-compliant factoring product and utilize technology to scale up and minimise operational risks.

LIQUIDITY RISKS REMAIN HIGH DESPITE IMF DEAL: MOODY'S

ISLAMABAD: The government's liquidity risks remain high despite the International Monetary Fund (IMF) staff-level agreement, says Moody's Investors Services (Moody's). The rating agency in its latest brief on Pakistan stated that on 29 June, Pakistan (Caa3 stable) reached a staff-level agreement with the IMF over a $3 billion nine-month Stand-By Agreement (SBA) after an IMF Extended Fund Facility programme expired at the end of June.

The agreement is subject to the approval of the IMF's executive board, which is expected to reach a decision by mid-July. If approved this month, the agreement will expire in April 2024.

The SBA, if approved, will alleviate some near-term pressure on government liquidity, it added. Pakistan had very low foreign-exchange reserves of around $3.5 billion as of 16 June, sufficient to cover less than one month of imports and well below the country's external financing needs for the current fiscal year (ending June 2024) and the next few years. We estimate that around $25 billion worth of repayments (principal and interest) fall due in the current fiscal year. The new IMF financing on its own will not be enough to allow Pakistan to meet all its external debt repayments.

However, an IMF disbursement is likely to catalyze financing from other bilateral and multilateral partners, which will be as critical in aiding Pakistan meet its financing needs. “We expect government liquidity risks to remain high, even if the new SBA is approved. It is uncertain whether Pakistan will secure the full $3 billion of IMF financing during the nine-month program. The government’s commitment to continually implement reforms, particularly revenue-raising measures, will also be tested as it prepares for elections due by October 2023.”

Pakistan will need a longer-term financing plan to meet its large external financing needs over the next few years. Such a plan could take the form of another IMF programme that would be in place for a few years, although this could only become clear after the upcoming elections.

Negotiations over any future IMF programme would also take time, even if they succeed. Until a new programme is agreed, Pakistan’s ability to secure loans from other bilateral and multilateral partners will be severely constrained beyond the period of this new SBA, Moody’s added.

CHALLENGES OF INFLATION, EXTERNAL PAYMENTS: SBP GOVERNOR EXPLAINS IMF SBA’S EFFICACY

KARACHI: State Bank of Pakistan (SBP) Governor Jameel Ahmad Tuesday said the country is facing two key challenges of inflation and external payments and after the announcement of IMF’s SBA, it will be easy to tackle these challenges. Talking to media men, at a ceremony held to unveil a new banknote of Rs75 denomination to celebrate 75 years of central bank’s founding, he said that the IMF’s program will also help to clear the path for stuck up inflows from the other international financial institutions and friendly countries. He said that higher foreign inflows will reduce the pressure on external accounts and improve the ability to pay off external debt. He said that SBP is making efforts to bring down the inflation through the tight monetary policy and SBP is likely to achieve a 5 to 7 percent inflation target in the next two years under the medium-term strategy.

Governor SBP said there is no cartelization of the dollar and the ban on imports has been lifted to support the industry. He said that the gap between interbank and open market exchange rates has been narrowed and this will help to increase the remittances inflows through legal channels.

Following the launch, he spoke about the past achievements of the SBP, specifically focusing on its engagement with commercial banks regarding supervision, and the developments therein over the years. He also highlighted the initiatives of the SBP in recent years, with special mention of micro-payment gateway Raast, Roshan Digital Accounts for overseas Pakistanis, encouragement and facilitation of commercial banks for providing digital banking solutions, and development of inclusive policies for different segments of the society, including women, youth and agriculturists.

The Governor also spoke about the Strategic Plan SBP Vision 2028, outlining key areas that SBP will focus on during this period. These include bringing inflation to the target level in the medium term, promoting fairness in the banking system, propagating gender inclusive policies, encouraging green financing, providing a conducive environment for Shariah compliant banking in line with the directives of the Federal Shariah Court, and transforming the SBP into a high-tech, people centric institution. He expressed hope that the whole banking industry would work with the SBP in realizing these goals. At the end of his speech, he appreciated the hard work put into the SBP commemorative banknote, and congratulated the team members on the successful launch of the banknote.

Other notable guests at the ceremony were the Deputy Governors, Executive Directors, Managing Directors of the SBP subsidiaries, Chief Executive Officers/Presidents of commercial banks, officers of the SBP and Sibtain Naqvi, grand-nephew of the renowned calligrapher Sadequain Naqvi, who attended the occasion on special invitation of the SBP. Jameel Ahmed unveiled the Rs. 75 Commemorative Banknote to the applause of the guests.

Addressing on the occasion Deputy Governor, Ms. Sima Kamil, discussed the positive consequences of women’s participation in the financial sphere, and its effects on the quality of financial decisions in the society. Recognizing the gap in financial inclusion between men and women, she highlighted the steps taken by the SBP in collaboration with commercial banks to address this shortcoming. She lauded the results of the Banking on Equality policy spearheaded by the SBP in 2021, and expressed the hope that the future would witness a more equitable participation of the society in all spheres of life.

The Executive Director-Finance & Risk Management, Muhammad Haroon Rasheed spoke about the evolution of the banknote, from design to printing, and appreciated the hard work put into the endeavor by team members. He also elaborated the philosophy behind the colour and design elements of the banknote, and highlighted the legal tender status of the banknote.

On the occasion, Director Finance, Qader Bakhsh gave an interesting talk about the history behind the establishment of the SBP, the challenges faced by the SBP following its establishment, and made special mention of the people who were instrumental in establishing the SBP as a mature central bank.

The Banknote is predominantly blue which has been chosen to impart a sense of stability associated with a central bank. A distinctive feature of this new banknote is the inclusion of a stylized sketch of the State Bank building by the renowned calligrapher and artist, Syed Sadequain Ahmed Naqvi, which shares space with the traditional portrait of the Quaid on the front of the banknote.

The reverse of the banknote is dedicated to the SBP's drive of 'Banking on Equality', represented on the banknote by the portrait of Mohtarma Fatima Jinnah. The reverse also highlights our national commitment to address climate change through depiction of alternative and sustainable energy sources, including wind turbines and solar panels.

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CIRCULAR DEBT SWELLS RS393BN IN 11 MONTHS

LAHORE: The power sector's circular debt jumped to Rs2.65 trillion by the end of May from Rs2.25tr at the beginning of the previous fiscal year — a jump of Rs393 billion, or 18 per cent, in 11 months. It was in stark contrast with figures of FY22, when the debt fell by Rs27bn, from Rs2.28tr at the start of the year to Rs2.25tr by the close, data from the energy ministry's Power Division showed.

According to a document, the total payables to the power sector stood at 1.35tr, followed by Rs101bn to generation companies (Gencos) and Rs800bn as Pakistan Holding Limited (PHL) debt in the fiscal year 2021-22. However, fiscal 2023 saw a massive surge in the payables to power producers, as it jumped to Rs1.77tr, whereas payables to Gencos increased to Rs110bn. However, the PHL debt dropped to Rs765bn.

In FY22, the budgeted but unreleased subsidies were reduced by Rs12bn, but they were increased to Rs72bn in the first 11 months (July to May) of 2022-23. Similarly, the unbudgeted or unclaimed subsidies were reduced by Rs133bn in the fiscal year 2022 but were raised by Rs34bn in July-May. The independent power producers' (IPPs) interest charges on delayed payment increased to Rs105bn in 2021-22 but dropped to Rs87bn by the end of May.

The markup paid on the IPPs' claims by the PHL, which surged to Rs29bn in 2021-22, further jumped to Rs58bn. The pending generation cost — quarterly tariff adjustments (QTA) and fuel charge adjustments (FCA) — fell from Rs414bn to Rs171bn in the 11-month period. The dues pending on the part of K-Electric fell from Rs107bn to Rs57bn, and the power distribution companies' (Discos) losses due to inefficiency fell from Rs133bn to Rs125bn.

Dawn 5-7-2023

RS1.25/UNIT RAISE IN DISCOS' TARIFFS ALLOWED

ISLAMABAD: National Electric Power Regulatory Authority (Nepra) on Tuesday approved an average increase of Rs 1.25 per unit in tariffs of power Distribution Companies (Discos) for third quarter of FY 2022-23 under QTA mechanism to recover additional costs of Rs 46.536 billion from consumers.

The regulator announced its decision a day before a scheduled hearing on FCA of Discos for May 2023 in which CPPA-G sought positive adjustment of Rs 2.05 per unit. Nepra will also conduct public hearing on KE's FCA request of positive adjustment of Rs 1.50 per unit on Wednesday (today).

According to the figures presented by Nepra's Tariff Section team of the total requested adjustment of over Rs 46 billion, Rs 32.889 billion was on account of capacity charges to be paid to power plants. The amount will be recovered from consumers in three months i.e. July, August and September 2023. Initially Discos had sought positive adjustment of Rs 44.456 billion, however, the amount was revised upward after three Discos submitted altered figures from those earlier submitted to the Authority.

New figures indicate that Islamabad Electric Supply Company (Iesco) has sought negative adjustment of Rs 5.139 billion for the third quarter, Lahore Electric Supply Company (Lesco) Rs 12.995 billion, Gujranwala Electric Power Company (Gepco) Rs 6.030 billion, Faisalabad Electric Supply Company (Fesco) Rs 10 billion, Multan Electric Power Company (Mepco) Rs 10.120 billion, Peshawar Electric Supply Company (Pesco) Rs 1.424 billion and Hyderabad Electric Supply Company (Hesco) Rs 4.987 billion, Quetta Electric Supply Company (Qesco) Rs 2.365 billion, Sukkur Electric Supply Company (Sepco) negative adjustment of Rs 143 million and Tesco Rs 3.650 billion.

The total requested amount for variable O&M is Rs 5.076 billion, Use of System Charges (UoSC) and Market Operator Fee (MOP) Rs 11.187 billion and impact of T&D losses on monthly FCA, Rs 979 million. However, impact of incremental units has been calculated at negative Rs 3.842 billion.

Individual QTA adjustments of Discos are as follows: (i) IESCO, Rs 1.3110 per unit;(ii) Lesco, Rs 1.5965 per unit;(iii) Gepco, Rs 1.4752 per unit;(iv) Fesco, Rs 1.9567 per unit ;(v) Mepco, Rs 1.4958 per unit;(vi) Pesco, Re 0.3334 per unit ;(vii) Hesco, Rs 3.3387 per unit ;(viii) Qesco, Rs 1.4611 per unit ;(ix) SPECO, Re 0.1330 and ;(x) Tesco Rs 7.0777 per unit. The average QTA impact will be of Rs 1.2489 per unit.

CPPA-G in its data has included a negative amount of Rs528.9 million on account of capacity charges of Kapco. The Authority noted that Kapco's PPA was amended by CPPA-G, wherein it has been agreed that plant will be operated without payment of capacity charges from July 2021 onward and only energy charges would be paid. Upon inquiry from CPPA-G regarding inclusion of capacity charges of negative Rs528.9 million of Kapco, it has been submitted that claimed cost is on account of trueing up of costs pertaining to previous periods as per the PPA.

CPPA-G, although provided some detail in this regard, however, the Authority has decided to provisionally not consider the claimed amount of Kapco and consider it in the subsequent quarterly adjustments, once the same is verified. Accordingly, the negative amount of Rs.528.9 million has been deducted from the claim of Discos.

SBP ANNOUNCES APPOINTMENT OF PDs, SPDs

KARACHI: The State Bank of Pakistan (SBP) has announced to appoint Primary Dealers and Special Purpose Primary Dealers for Financial Year 2023-24.

Recently, SBP invited applications for selection of Primary Dealers (PDs) and Special Purpose Primary Dealers (SPDs) and Preliminary Primary Dealers (PPDs) for the Financial Year (FY) 2023-24 from all eligible institutions under rules governing Primary Dealer (PD) System. Upon evaluation of all applicants under the criteria laid down in the rules, 10 institutions have been selected for roles as PDs and two selected for SPDs.

Bank Al-Falah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Habib Metropolitan Bank Limited, JS Bank Limited, Pak Oman Investment Company Limited, United Bank Limited, The Bank of Punjab and Citi Bank N.A-Pakistan Operations has been appointed as PDs. While, Central Depository Company of Pakistan and National Clearing Company of Pakistan Limited have been selected as Special Purpose Primary Dealer.

SBP SELECTS 'HABALL' AS SCF MULTIBANK TECHNOLOGY PLATFORM SERVICE PROVIDER

KARACHI: The State Bank of Pakistan (SBP) has recently selected Haball, through an independent and transparent bidding process, to act as the Supply Chain Finance (SCF) Multibank Technology Platform Service Provider. This milestone marks Haball's dedicated commitment to revolutionising Digital Supply Chain Finance and enabling credit in the small and medium enterprises (SME) sector in Pakistan.

After careful consideration and guidance from industry leaders and SBP officials, Haball has been chosen as a Multi-Bank Supply Chain Financing Platform by the SBP. As Pakistan's first B2B Fintech Company, Haball has digitised supply chain collections for its clients and brought efficiency to their business processes. Pakistan is home to 5.2 million SMEs; however, only 0.25 percent of the business community in Pakistan has access to digital banking services, while the majority relies on traditional brick-and-mortar operations.

"The digitisation of the supply chains is a $5 billion opportunity in the country, and roughly 1.5 percent of that value moves through financial services in a manual, broken process that takes 2-3 days for a single transaction," said Omer Bin Ahsan, the CEO of Haball. This estimate highlights the potential of the opportunity this platform can address by digitising the supply chain financing process.

Haball's flagship product, Wisaaq, has already achieved remarkable success. By empowering manufacturers and SMEs to reduce reliance on cash-based transactions and streamline the reconciliation and financing process, which is completely Shariah compliant. Within five months of its commercial launch, Haball had processed $21 million and facilitated digital collections of $12 million in repayments.

This selection aligns with the State Bank's ongoing efforts to promote Islamic financing, especially after the recent verdict by the Federal Shariat Court on the adoption of Islamic Banking, and the prioritisation by the Federal Government and SBP to have a structured implementation plan for Riba-Free banking. By employing Islamic principles of transparency, fairness, and risk-sharing, augmented by digital supply chain entrenchment, SMEs and corporate supply chains can scale their business operations through the liquidity provided by the banks.

“In addition to the supply chain financing for a bank, it will actually offer substantial cross-selling opportunities to the bank because the banks would now have substantial data about the distributor,” emphasised Dr Inayat Hussain, the Deputy Governor of SBP at the Cashless Supply Chain Event 2022. By digitising collections and streamlining financial operations, Haball provides businesses with greater access to working capital, de-risks corporate balance sheets from receivables, and provides the banks with secure agnostic digital payments with same-day settlements and cross-selling opportunities. This paves the way for sustainable economic growth nationwide and Islamic financial inclusion.—PR

BANKING OMBUDSMAN APPOINTED

ISLAMABAD: Acting President Sadiq Sanjrani has signed the summary of appointing Sirajuddin Aziz as Banking Pakistan Ombudsman. Aziz is a professionally qualified and experienced banker who has worked for different organisations in Pakistan, China, Hong Kong, UK, Nigeria, and the UAE. Till recently he was the Chief Executive Officer-Financial Institutions at Habib Bank AG Zurich.

Prior to this, he has served as the president and Chief Executive Officer of other leading commercial banks in Pakistan. Aziz is a Fellow of Institute of Bankers Pakistan (IBP). He was the Editor of the Journal of IBP for over a decade. He is also a Member of Pakistan Institute of International Affairs and of the English Speaking Union of Pakistan. He served on the Board of Governors of various educational institutions and social organisations. He is a regular speaker at prestigious universities and professional forums, where he conducts sessions on a diverse range of subjects. Aziz also participated in televised discussions on finance and economy. Aziz is a regular contributor to national and international dailies, including *Business Recorder*, journals and magazines, articles on varied subjects. He is a published author, with works comprising “In Quest of Mirage,” “Bitter & Sweet – Life & Times of Dad,” “The Essence of Islam” and “Emerging Dynamics of Management”.

LAUNCH OF WORLD DRUG REPORT TODAY

ISLAMABAD: The United Nations Office on Drug and Crime (UNODC) is all set to launch World Drug Report 2023 in collaboration with Ministry of Narcotics Control on Wednesday (today.)

The world drug problem is a complex issue that affects millions of people worldwide. Many people who use drugs face stigma and discrimination, which can further harm their physical and mental health and prevent them from accessing the help they need.

UNODC recognises the importance of taking a people-centered approach to drug policies, with a focus on human rights, compassion, and evidence based practices. Every year UNODC Flagship publication the World Drug Report is launched in accordance with the commemoration of World Drug Day. Attributing to this year’s theme is “people first: stop stigma and discrimination, strengthen prevention”.

R 5-7-2023