Exclusive
Interview

Mr. Illango Patchamuthu
Country Director Pakistan
The World Bank

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ICMA Pakistan: Pakistan has improved its ranking in World Bank's EODB Index 2020? What made it possible?

CD-WB: Pakistan's Doing Business (DB) ranking improved by 28 positions to 108 from 136 out of 190 economies in the DB Report 2020. It is an unprecedented jump in the country's DB history. Pakistan's DB score improved from 55.31 to 61. This score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. It highlights that the country is consistently closing the gap between its regulatory environment and global good practices.

Pakistan's DB ranking is based on the regulatory performance of Lahore and Karachi (weighted 35% and 65% in the index respectively). A large part of the jump in the ranking was due to the good coordination between federal and provincial entities. This was a concerted national effort and had robust political ownership, leading to Pakistan gaining global recognition as a top reformer. The collaborative spirit between Federal, Punjab and Sindh governments, and the cross-learning from each other also greatly contributed towards institutionalizing the reforms.

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Finally, the use of technology dashboards to allow high-level monitoring of progress towards individual reform steps was also a great help.

ICMA Pakistan: The Government is committed to fast-tracking EODB reforms. How is the World Bank Group supporting these initiatives?

CD-WB: Pakistan has made great progress in the last two years, but there is a lot more to do. The country will maintain this momentum as the DB ranking is very competitive. Consistent and long-term ownership will be needed to improve further to achieve the goal of 25 out of 190. The World Bank Group is fully committed to supporting the government in implementing a multi-year DB Reform Strategy, supported by a consolidated package of technical and financial assistance. In addition, while DB rankings are based on the regulatory environment in Punjab and Sindh, we are also supporting similar reforms in other geographical and thematic areas.

At the federal level, we are supporting the implementation of the Regulatory Modernization Initiative of the Prime Minister of Pakistan. This will help to simplify, streamline, modernize and automate regulatory compliance including e-payments of fees and charges to obtain registrations, licenses, permits and no-objection certificates for investing in and operating a business in Pakistan.

In Punjab and Sindh, we are supporting the government to eliminate unnecessary and manual interface with the business. The Government of Sindh's project, Competitive and Livable City of Karachi (CLICK) is a great example of a city-level regulatory reform deep-dive to transform the largest business center of Pakistan. An example from this is the Sindh One License Enterprise (SOLE) which the government of Sindh is planning to implement. This will allow firms to obtain a SOLE certificate, eliminating the need for multiple licenses to operate a business.

ICMA Pakistan: Do you think there is a need for further reforms in the area of enforcing contracts to build the trust of investors?

CD-WB: At 156 out of 190, Pakistan lags significantly in the Enforcing Contracts indicator for DB. It is critical that Pakistan develops an automated and fast-track mechanism for settling commercial disputes. The World Bank Group is assisting Pakistan's efforts to reduce the time and cost involved in business litigation, such as through the establishment of an alternative dispute resolution center in Punjab. A lot more work is needed, such as automation of the process, dedicated commercial courts/benches, and promotion of alternative dispute resolution. These measures will contribute to building investor confidence in Pakistan.

ICMA Pakistan: Pakistan is still beset with innumerable economic challenges. How these could be surmounted?

CD-WB: Pakistan's frequent boom and bust cycles have constrained the country's economic prosperity. Pakistan is emerging from yet another macro-economic crisis, which repeats every four to five years. Short periods of relatively fast consumption-driven growth are followed by severe deceleration.

Some of the main contributing factors are few policies leading to macroeconomic imbalances, poor coordination and harmonization of fiscal policy between the federal government and provinces, and incomplete implementation of structural reforms. Recurring macroeconomic crises and structural bottlenecks have contributed to low private investment levels.

Over the last two decades, Pakistan's average annual private investment rate has been approximately 10 percent of GDP, which is less than half of South Asia region's average and a third of developing East Asia. One of the key immediate challenges is the lack of appropriate structures or institutions to plan, coordinate and implement policy across the country. To move out of its boom and bust cycles, the country needs to i) enhance the policy and institutional framework to improve fiscal management, and (ii) improve the regulatory framework to foster growth and competitiveness.

ICMA Pakistan: In its 2020 Global Economic Prospects Report, the WB has projected Pakistan's current year growth rate at 2.4%. What Pakistan must do to improve upon this projected growth target.

CD-WB: Growth is projected to decelerate to 2.4 percent in FY20 as the government maintains tight fiscal and monetary policies to achieve macro-economic stabilization. Growth is expected to recover in FY21 as external demand picks up, macroeconomic conditions improve, and structural reforms currently being implemented in fiscal management and competitiveness take effect. Pakistan must change its growth model from consumption-led to investment-led in order to sustain economic growth. It needs to focus on increasing investment by attaining macro-economic stability, enhancing

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the business environment by removing infrastructure bottlenecks, simplifying and making tax laws more transparent, reforming institutions, developing financial markets, increasing technological readiness and market access, as well as facilitating business development to encourage entrepreneurial activity and maintaining consistency in policies. Finally, for growth to be sustained, the country also needs to invest in its human capital, to ensure it has a productive, healthy and educated workforce in the coming decades. Bringing women into the workforce will be a critical element of this.

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ICMA Pakistan: Pakistan's tax-to-GDP ratio is one of the lowest in the world? What are the main reasons and how can we push it up?

CD-WB: Pakistan's low tax-to-GDP ratio is the result of numerous tax exemptions for various sectors and low levels of tax compliance. Pakistan managed to increase its tax revenues from 10% of GDP in FY2013 to 13% in FY2018 by limiting tax exemptions and introducing improvements in tax administration both at the federal and provincial levels. In FY2019 however, tax revenue dropped to 11.6% of GDP due to tax cuts given before the elections. This sharp decline in revenues demonstrates the importance of tax policy, which can have a quick impact by increasing or decreasing the universe of taxable economic activities. The FY2020 budget rescinded most of the previous year's tax exemptions, so tax revenue is expected to rebound to around 13% this fiscal year.

In the coming years, Pakistan needs to double its efforts to increase tax collection to close the budget deficit and expand fiscal space for spending on infrastructure, health, and education. This can be done by expanding the use of information technology and modern tax administration practices such as risk-based tax audit to detect tax evasion and enforce compliance. At the same time, it will be important to maintain a prudent tax policy that minimizes tax exemptions for inefficient industries, which not only deprives the budget of tax revenues but also damage the economy by bolstering low-productivity sectors.

ICMA Pakistan: What are the key hurdles impeding the growth of start-ups and entrepreneurship in Pakistan?

CD-WB: Two major hurdles include: Access to Finance and Mentoring gap

Access to finance: There has been a lot of activity in the entrepreneurial ecosystem in Pakistan in the last few years. New angels and Value Chain (VC) funds have come into the ecosystem, and it is becoming easier to raise funding. However, there are still gaps in the value chain of funds. There is no early-stage fund in Pakistan. Due to the lack of high risk, and small checks at the start of a business, startups are not able to gain enough traction to get to the VC stage. There is some angel investment activity but there is also a need to professionalize angel investors to reduce the risk for startups and to create high performing and professional angel syndicates that can co-invest in riskier deals.

Mentoring gap: There is still a need for specialized technical experts. This includes industry-specific mentoring as well as general mentoring around investment readiness. This means helping entrepreneurs get the skill set to raise funding from professional investors, create financial dashboards, reach company valuations, and negotiate term sheets successfully.

ICMA Pakistan: What support is the World Bank is providing for SME development in Pakistan?

CD-WB: The WBG is supporting the development of the SME sector in Khyber Pakhtunkhwa and Punjab, through the 'Economic Revitalization of Khyber Pakhtunkhwa and (erstwhile) FATA (ERKF)' and 'Punjab Jobs and Competitiveness Program for Results (J&C PforR)'. Under ERKF, matching grants have been awarded to over 2,200 SMEs across Khyber Pakhtunkhwa and Newly Merged Districts (including to 115 women-owned SMEs). It has also provided business development services and training to the SME owners. This has created over 9,000 jobs. The project is also financing the tourism sector promotion activities including training of travel and tour operators. The J&C PforR has helped Punjab improve investment climate and ease of doing business reforms. These include streamlined business registration procedures, labor law reforms (to ensure compliance with ILO's GSP+ Labor Conventions), and cluster development initiatives (CDIs) for four export-oriented clusters in Punjab including auto parts, leather footwear, surgical instruments and apparel.

The Bank is also providing technical, financial and implementation support to the governments of Khyber Pakhtunkhwa and Punjab through dedicated tourism development projects which aim to improve the tourist infrastructure and destination management, strengthen the tourism industry value chains, and engage in training and skills development programs for the SMEs in the hospitality sector.

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ICMA Pakistan: Please highlight WB's projects to improve Public Financial Management in Pakistan, including the PIFRA project?

CD-WB: The Pakistan Improvement of Financial Reporting and Auditing (PIFRA) Project was completed in 2012. This helped improve the public financial management (PFM) landscape by bringing basic financial discipline at all levels of government. Over 500 government entities and around 7000-line managers benefited from the financial accounting and budgeting system. This facilitated processing and recording millions of government transactions in a single database and generating reconciled information on a virtually real-time basis for tracking poverty expenditures, timely audits, and informed decision making. As a result of the project, the audit cycle has been reduced from 33 months to 8 months.

The WB is now supporting the Government of Pakistan in the next level of PFM reforms. The 2019 Public Financial Management Act was enacted by the Parliament, which is mandating reforms in budgeting, reporting, public investment management and cash management. We are adopting a whole of the country approach, to ensure consistency in PFM reforms across all levels of government. The federal government has adopted a Treasury Single Account Policy which will address a chronic issue of government funds deposited in commercial bank accounts leading to weak cash management. Steps are being taken to deepen the use of Integrated Financial Management Information System and e-procurement, improve the systems to help decision-makers with real-time information and make financial data available to the citizens. We are also simplifying and decentralizing payment and procurement functions. PFM act requires each ministry of the federal government to create a position of Chief Finance Officer in addition to the Chief Internal Auditor. Budget Manual is revised to support the implementation of the PFM Act. Accounting Policy and Procedure Manual is revised to support simplification and digitization in account and reporting and the Auditor General is supported in auditing in an IT environment.

ICMA Pakistan: What role professional accountants can play in assisting the World Bank in bringing financial stability in the country?

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CD-WB: The World Bank has been engaging with the accounting profession in Pakistan at different levels. We funded the 2018 Financial Reform for Economic Development Forum in Asia (FRED III) which brought together professional accountants across Asia to explore the role of professional accountants in decision making.

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ICMA Pakistan: The Management Accountants can be associated as 'Consultants' and 'Advisors' in World Bank-funded projects to ensure their cost competitiveness and efficiency? What do you say in this regard?

CD-WB: Management Accountants can play an important role in projects. World Bank-funded projects have Financial Management Specialist to ensure efficiency and cost competitiveness, and also often require inputs on technical areas such as digital payments or revising and updating the Chart of Accounts.

ICMA Pakistan: What are your comments on the proposal of signing an MoU with ICMA Pakistan for long- term working relationship?

CD-WB: We appreciate your offer for collaborating with ICMA Pakistan. There are many ways of collaborating and partnering without MOUs. This approach has produced tangible mutual benefits for the World Bank Group and its partners.

*The Editorial Board thanks **Mr. Illango Patchamuthu, Country Director Pakistan, The World Bank** for giving his exclusive interview for Management Accountant Journal.*