



Yearbook 2007-08

**Government of Pakistan
Finance Division
Islamabad
www.finance.gov.pk**

CONTENTS

S. No.	Subject	Page No.
	Preface	1
	Mission Statement	2
1.	General	3
	Functions of the Finance Division	3
	Organizational Chart of the Finance Division	5
	Organizations of the Finance Division	6
2.	Performance/Achievements of different Wings During FY 2008-09	7
	A. Administration Wing	7
	a) Achievements / performance of Administration Wing	8
	B. Budget Wing	11
	a) The Federal Budget Process in Pakistan	11
	i) The Budget Year	11
	ii) Budget Call Circular	11
	iii) Preparation of Estimates	12
	iv) Annual Development Program (ADP)	13
	v) Resources Estimates	14
	vi) Foreign Exchange Component of ADP	15
	vii) Effect to New Taxation Proposals	15
	viii) Schedule of Authorized Expenditure	15
	ix) Submission of Budget Proposals (Books) to the Federal Cabinet	16
	x) Submission of Budget / Finance Bill to the National Assembly	16
	xi) Submission of Budget to the Senate	17
	xii) Authentication of the Schedule of Authorised Expenditure	17
	b) The Budget Documents	17
	i) Budget Speech of the Finance Minister (Without Tax Proposals)	17

		ii)	Budget Speech of the Finance Minister (With Tax Proposals)	17
		iii)	Details of Demands for Grants and Appropriations (Pink Book)	17
		iv)	Demands for Grants and Appropriations	18
		v)	Budget in Brief	20
		vi)	Annual Budget Statement	20
		vii)	Explanatory Memorandum of the Budget	20
		viii)	Schedule of Authorised Expenditure	21
		ix)	Supplementary Demands for Grants and Appropriations	21
		x)	Estimates of Foreign Assistance	22
		xi)	Budget at a Glance	23
		xii)	Winding-up Budget Speech by the Finance Minister	24
		xiii)	Medium Term Budgetary Financing (MTBF)	24
	C.	Corporate Finance Wing		25
	D.	Economic Adviser's Wing		28
		a)	Economic Scenario & Future Prospects for Pakistan	28
		b)	GDP Growth	29
		c)	Per Capita Income	30
		d)	Consumption	30
		e)	Investment	31
		f)	Savings	32
		g)	Inflation	32
		h)	Monetary Policy	33
		i)	Capital Market	35
		j)	Fiscal Policy	36
		k)	Public Debt	37
		l)	External Sector	38
		m)	Exports	38
		n)	Imports	40
		o)	Trade Balance	41

	p)	Current Account Balance	41
	q)	Workers' Remittances	42
	r)	Foreign Exchange Reserves	42
	s)	Exchange Rate	42
	t)	External Debt and Liabilities (EDL)	43
	u)	Poverty and Income Distribution	44
	E.	Expenditure Wing	45
	F.	External Finance and Economic Reforms Unit Wings	45
	a)	Economic Reforms Unit (ERU)	46
	b)	External Finance (C&B)	47
	c)	External Finance Policy	48
		i) Poverty Reduction Strategy Paper (PRSP) - I	48
		ii) Budgetary Expenditure	49
		iii) Going Forward: PRSP-II	52
		iv) SAARC Development Fund (SDF)	52
		v) Third Party Evaluation of PIFRA-I	53
		vi) Finance Division's Component under PIFRA-II	53
		vii) Implementation of National Gender Reform Action Plan Project (INGRAP)	55
		viii) Public Sector Capacity Building Project (PSCBP)	56
	G.	Finance Division (Military)	62
	a)	Budget Allocation/Expenditure	63
	b)	Accounting of Defence Expenditure	63
	c)	Purchase of Stores	63
	d)	Development Projects	64
	e)	Miscellaneous Activities and Achievements	64
	f)	Program of Activities/Targets	64
	H.	Human Resource Development Wing	65
	I.	Internal Finance Wing	67
	a)	State Bank of Pakistan	67
	b)	National Bank of Pakistan	71

		i)	Profitability of the bank	72
		ii)	Achievements in the Investment Banking	73
		ii)	Achievements in SME	73
	c)		First Women Bank Limited (FWBL)	73
		i)	Background	73
		ii)	FWBL's Model: bridging the Gap between Micro and Small & Medium Enterprises	74
		iii)	FWBL's Financial Performance 2001 – June 2008	76
		iv)	FWBL's Operational Performance 2001 – June 2008	77
		v)	Challenges For 2008 & Future Outlook	78
	d)		Small & Medium Enterprises Sector (SMEs)	79
		i)	Pakistan's SME Sector	79
		ii)	Definition of SMEs	79
		iii)	Problems Faced by SMEs	80
		iv)	GoP's Efforts for the Sector	80
		v)	SME Policy 2007	81
		vi)	Small Business Promotion - Historical Perspective	82
		vii)	SME Development - Recent Steps by the Government	83
		viii)	SME Policy : Objectives , Scope and Principles	84
			Objectives	84
			Scope	84
			Principles	84
		ix)	SME Policy Recommendations	86
			SME Development Vision	86
			SME Policy Statement	86
			SME Bank Limited	86
		x)	Present Status and Achievements	87
		xi)	Profile of SME Bank Limited	89
			Date of Establishment	89
			Legal Status	89

				Number of Branches	90
				Location of Headquarters	90
				Number of Employees	90
		e)	Zarai Taraqati Bank Limited (ZTBL)		90
			i)	Bank's Operations	90
			ii)	Performance during the year 2007-08	91
			iii)	Recovery Operations	92
			iv)	President's Relief Package for the borrowers of ZTBL in Badin, Umerkot and Tharparker Districts	92
			v)	New Initiatives	92
			vi)	Crop & Life Insurance for ZTBL Borrowers	92
		f)	Pakistan Security Printing Corporation (Private) Limited		93
			i)	Important and Vital Activities for the Financial Year 2007-08	93
			ii)	Production of Banknotes and Other Security Products	93
			iii)	New Design Banknotes	93
			iv)	Project for Replacement of Machinery and Equipment for the Printing of Non-Banknote Security Documents	93
			v)	Credit Rating	94
			vi)	Computerization of Operations of PSPC	94
		g)	House Building Finance Corporation (HBFC)		94
			i)	Background	94
			ii)	Vision	95
			iii)	Mission	95
			iv)	Network of Offices	95
			v)	Operational Activities	95
			vi)	Achievements during the Year 2007-2008	96
				Efforts to Improve Recovery	96
				Disbursement	96
			vii)	Future Plans	96
				Focus on Small and Medium Housing Finance (SMH Finance)	96

		viii)	Financial Goals	96
		ix)	Operational Efficiency & Market Perception	97
		x)	HBFC Reforms Program	97
	J.	Investment Wing		98
		a)	Microfinance Sector and Poverty Alleviation	98
		b)	Pakistan Poverty Alleviation Fund (PPAF)	98
		c)	Khushhali Bank (KB)	99
		d)	Joint Investment Companies	100
		e)	Competition Commission of Pakistan (CCP)	101
		i)	Improving Pakistan's Competition Framework	101
		ii)	The Competition Commission of Pakistan	101
		iii)	Activities	102
			Rules & Regulations	102
			Technical Activities	103
		iv)	Advocacy	104
		f)	Securities & Exchange Commission of Pakistan (SECP)	105
		i)	Introduction	105
		ii)	Activities during Fiscal Year 2007-2008	105
			a) Securities Market	106
			Primary Securities Market	106
			Corporate Debt Market	106
			Demutualization of Stock Exchanges	107
			Establishment of Capital Market Institute	107
			National Commodity Exchange Limited	108
			Dissemination of Price Sensitive Information	109
			Regulatory Audit of Stock Exchanges	109
			Enforcement Actions	109
			Enforcement of Laws	109
			Investor in share capital (IPO listed)	110
			Development of Regulatory Laws	110

					Book Building Process	110
					Investor Awareness	111
					Road Shows	111
					Seminars	112
					Advertisements	112
				b)	Corporate Sector	112
					New Registrations	112
					Measures to Promote Corporatisation	112
					Public Facilitation	112
					E-Services Project	112
					Resolution of Investors' Complaints	113
					Other facilitation measures taken by the Commission	113
				c)	Development of Regulatory Laws	113
					Amendments in the Companies Ordinance, 1984 through Finance Act 2008	113
				d)	Future Prospects	114
					Development of Legal Framework	114
					Public Facilitation	115
				e)	Specialised Companies	116
					Registration of Companies	116
					Non-banking Finance Companies (NBFCs)	116
					Establishment of NBFCs	116
					Fresh Licenses Issued	116
					Renewal of Licenses	116
					Enforcement of Laws	116
					Removal of CEO/BOD by Appointment of Administrator	116
					Rehabilitation Efforts for NLRL	116
					Voluntary Pension Schemes (VPS)	117
					Real Estate Investment Trust (REITs)	117
					Appointment of Administrator	117

				Show Cause Notices	118
				On-site Inspections	118
			f)	Insurance Sector	118
				An Overview	118
				New Registrations	118
				Insurance Surveyors and Authorised Surveying Officers	118
				Insurance Brokers	118
				Legal Framework Development	118
				Developmental Activities	118
		iii)		Future Plan For Fiscal Year 2007-08	120
			a)	Securities Market	120
				New Derivative Products	120
				Stock Borrowing and Lending Mechanism	120
				National Commodity Exchange Limited (NCEL)	121
				Others	121
			b)	Specialized Companies	121
				Non-Banking Finance Companies (NBFCs)	121
				Mutual Funds Plans including Investors Protection	121
				Voluntary Pension Schemes (VPS)	122
				Private Equity & Venture Capital	122
			c)	Corporate Sector	122
				Establishment of Facilitation Centres	122
				Off the Shelf (Ready made) Company	123
				Security Measures	123
				Quality Assurance	123
				Abolition of Stamp duty in I.C.T	123
				Scanning and Archiving Project	123
	K.	Prime Minister's Special Program (PMSP) Wing			124
		a)	Infrastructure Project Development Facility (IPDF)		124

		i)	Publication	124
		ii)	Capacity Building	125
		iii)	Project Pipeline	125
		b)	Khushhal Pakistan Fund (KPF)	125
		c)	Infrastructure Project Financing Facility (IPFF)	126
		d)	Competitiveness Support Fund (CSF)	127
	L.	Provincial Finance Wing		128
		a)	Role of PF Wing	128
		b)	Fiscal Relationship	129
		c)	Achievements	130
	M.	Quality Assurance Wing		132
		a)	Introduction	132
		b)	Objective	133
		c)	Scope	133
		d)	Vision	133
		e)	Mission	133
		f).	Quality Policy	133
		g)	Central Quality Objectives	134
		h)	Strategic Quality Management Committee (SQMC)	134
		i)	Documentation Of Procedures	134
		j)	Reporting Of Quality	134
		k)	Organizational Structure of the QA Wing	134
		i)	Strategic Quality Management Committee (SQMC)	135
		ii)	Quality Assurance (QA) Wing	136
		iii)	Departmental QA Coordinators (DQACs)	136
		iv)	Quality Improvement Teams (QIT)	136
		l)	Roles of Quality Assurance (QA) Wing	136
		m)	Achievements of The QA Wing	138
		n)	Information Technology (IT)	139
	N.	Regulations Wing		140

3.	Attached Departments		
1.	Office of the Auditor General of Pakistan		143
	i)	Submission of Federal Audit Reports of Auditor General for the Audit Year 2005-2006 to the President	143
	ii)	Backlog of Previous Audit Reports	144
	iii)	Cash Recoveries Made at the Instance of Audit	144
	iv)	Sub-Committees of PAC	144
	v)	Director General's Conference 2007	144
	vi)	Human Resource Development	145
	a)	Professional Development Program (PDP) Under (CSRU)	145
	b)	Executive Development Program (EDP) under Professional Development Program of CSRU	145
	c)	Professional Certification-Training Abroad under PIFRA (Audit Side)	145
	d)	Training of Officials of the Govt. Departments and Parallel Institutions of Friendly Countries	146
	e)	International Collaboration	146
	vii)	PIFRA	147
2.	Central Directorate of National Savings (CDNS)		148
	i)	Investment Targets for FY 07-08	150
	ii)	Automation of National Savings Organization	151
	iii)	Renovation and Up-Lift of NS Offices	151
	iv)	Restructuring of NS	151
3.	Controller General of Accounts (CGA)		152
	i)	Introduction	152
	ii)	Financial Reporting	153
	iii)	Pension Reforms	154
	iv)	National / International Conferences	155
	a)	Annual Accountants General Conference-2008	155
	v)	International Conference	157
4.	Pakistan Mint		157
	Appendices		

	I	Rates applicable to issuance and Transfer of commercial papers and TFCS	159
	II	New Registrations	160
	III	Names of NBFCS who were issued fresh licences	161
	IV	Investment finance, leasing and housing finance services	162
	V	Insurance industry's potential Growth in premiums	163

PREFACE

In pursuance of Rule 25 of the Rules of Business 1973 and as per practice, the current Yearbook of Finance Division 2007-08, delineates activities undertaken, functions performed by the various Wings / Sections of the Finance Division and its constituent organizations during the year under preview. The Yearbook explains functions, organizational set up, area of responsibility and working set up which is largely imbedded in the activities pursued and accomplished during fiscal year 2007-08. The Yearbook serves as a source of convenience and easy access to the working and achievements of Finance Division and its attached departments / organizations in the process of policy planning for economic development.

The Finance Division is committed to pragmatic economic policies for sustained and equitable economic growth through transparent and efficient financial management.

The Pakistan's economy joined the fast growing Asian economies in the region and recorded robust growth during FY 2003-04 to FY 2006-07 after a lost decade of late 1990's. However, economic performance was severely affected by the exorbitant surge in oil, food and commodity prices in the international market, the political shift, deteriorating law and order situation and domestic disequilibrium between demand and supply in the commodity market affecting all the macro economic fundamentals of the economy during FY 2007-08. As a result, the real GDP growth registered an increase of 4.1 percent against the background of unfavorable domestic and international economic experiences during FY 2007-08.

I hope that this book will serve as a useful reference document.

(Salman Siddique)
Finance Secretary

MISSION STATEMENT OF THE FINANCE DIVISION

To pursue sound and equitable economic policies that put Pakistan on the path of sustained economic development and macroeconomic stability with a view to continuously and significantly improving the quality of life of all citizens through prudent and transparent public financial management carried out by dedicated professionals.

1. General

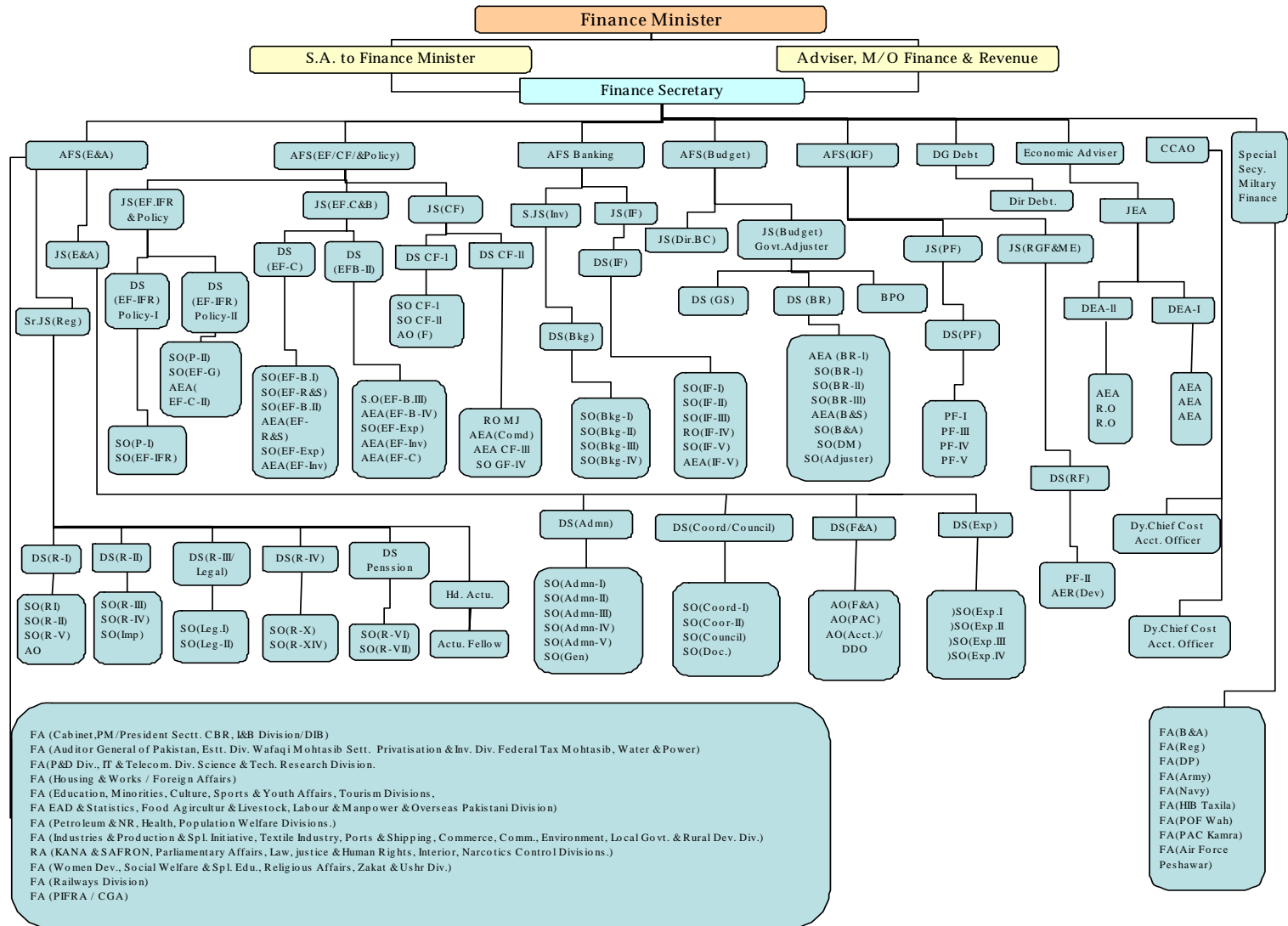
Functions of the Finance Division

The following functions are allocated to the Finance Division under Rules of Business, 1973:-

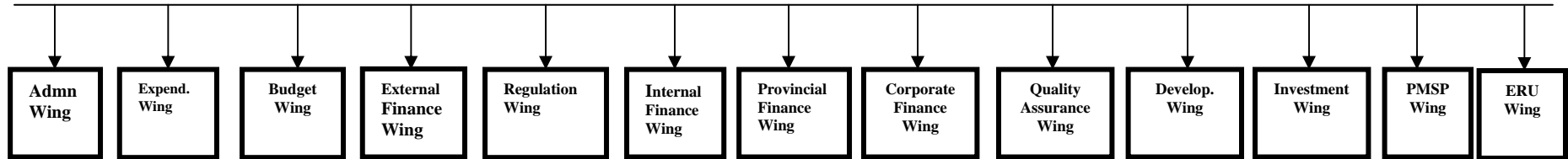
1. Finances of the Federal Government and financial matters affecting the country as a whole.
2. The Annual Budget Statement and the Supplementary and Excess Budget Statements to be laid before the National Assembly; the schedules of authorized expenditure.
3. Accounts and Audit.
4. Allocation of share of each Provincial Government in the proceeds of divisible Federal Taxes; National Finance Commission.
5. Public debt of the Federation both internal and external; borrowing money on the security of the Federal Consolidated Fund.
6. Loans and advances by the Federal Government.
7. Sanctions of internal and external expenditure requiring concurrence of the Finance Division.
8. Advice on economic and financial policies; promotion of economic research.
9. Proper utilization of the country's foreign exchange resources.
10. Currency, coinage and legal tender, Pakistan Security Printing Corporation and Pakistan Mint.
11. Banking, investment, financial and other corporations, that is to say:-
 - (i) Central Banking; State Bank of Pakistan;

- (ii) Other banking (not including co-operative banking) and investment and financial corporations with objects and business not confined to one Province; and
 - (iii) Incorporation, regulation and winding up of corporations including banking insurance and financial corporations not confined to or controlled by or carrying on business in one Province.
12. Company Law: Accountancy, Matters relating to the Partnership Act, 1932.
 13. Investment policies: Capital issues (Continuance of Control) Act, 1947; statistics and research work pertaining to investment and capital.
 14. Stock exchanges and future markets with objects and business not confined to one Province; Securities Regulations.
 15. Financial settlement between Pakistan and India and division of assets and liabilities of the pre-independence Government of India.
 16. Framing of rules on pay and allowances, retirement benefits, leave benefits and other financial terms and conditions of service.
 17. Cost Accountancy.
 18. International Monetary Fund.
 19. State lotteries.
 20. Monopoly Control and anti-Cartel Laws.
 21. Deregulation policies.
 22. Administration of Economic Reforms Order, 1978.
 23. Negotiations with international organizations and other countries and implementation of agreements thereof.

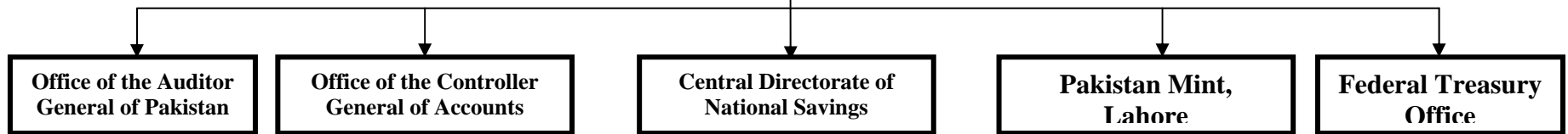
Organizational Chart of the Finance Division



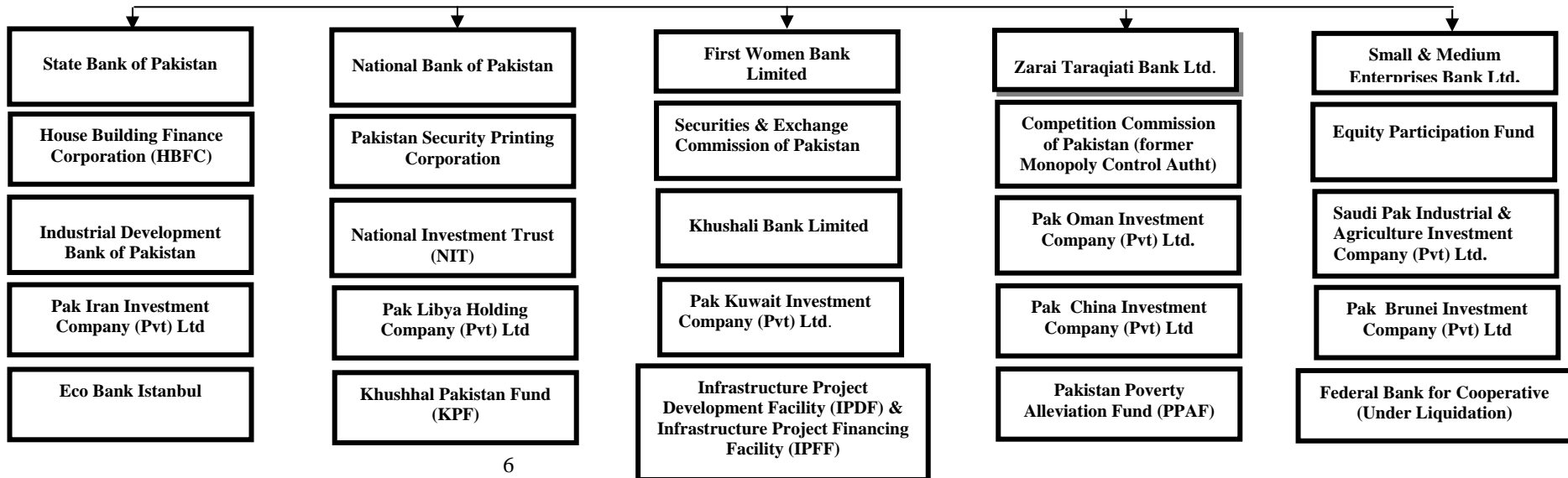
Organizations of Finance Division



Attached Departments/Sub Ordinate Offices



Autonomous Bodies/Corporations/Joint Investment Companies



2. Performance / Achievements of Different Wings

A) ADMINISTRATION WING

In any Ministry / Division / Department, the major function of Administration Wing is to manage official business of an organization smoothly and efficiently by providing effective human resource and logistic support to other units of the organization. The Administration Wing of Finance Division performs the following functions to achieve this goal and objective:-

- To provide competent, trained and professionals human resource in officer cadre (BS-17 and above) through Establishment Division and to create posts according to the requirement of work assigned to Finance Division. Recruitment of staff and their promotion as per Appointment Promotion & Transfer (APT) Rules 1973 and their adjustment through posting / transfer within this Division. WTO ensures timely completion of Annual Performance Reports (PERs) of officers and staff of this Division.
- To maintain discipline in the light of Special Power (Removal from Service) Ordinance, 2000.
- To provide logistic support, facilitate visiting foreign delegates and to provide Customers Service to the general public visiting the Ministry of Finance.
- To make arrangement for the employees of Finance Division regarding hiring of residential accommodation as per Federal Allocation Rules, provision of medical reimbursement, house building, motor car, motor cycle, cycle advances and other advances like GF Fund, etc. Preparation of pension papers for the retiring officers / officials.
- To arrange Annual Audit of the Accounts of this Division and to coordinate in getting reply of the audit observations, draft paras, arrangements of Departmental Accounts Committee (DAC) meetings and to consolidate the replies of Public Accounts Committee (PAC).
- To coordinate submission of replies of National Assembly / Senate questions / Motions / Call Attention Notices, Resolutions, Cut Motions, Notices of Meetings of Standing

Committees on Finance & Revenue and other Committees by the concerned wings for preparation of replies / brief.

- To coordinate implementation of President and Prime Minister's Directives, decisions taken by Cabinet, Economic Coordination Committee on Cabinet, Secretaries Committee, Finance Committee on Defence Planning and Secretaries Coordination Committee. To coordinate, submit and collect various reports, miscellaneous information from attached departments, sub-ordinate offices, autonomous / semi-autonomous bodies, corporations etc. of the Finance Division asked by various Ministries / Divisions.
- To prepare and publish the Yearbook of the Ministry.
- Take effective measures to ensure Internal Security of the Ministry.
- Disposal of public grievances in consultation with concerned organizations under this Division.
- To function as Financial Advisor's Organization in respect of Establishment Division.

a) Achievements / performance of Administration Wing during financial year 2007-2008

- Following the re-structuring / improvement in this Division and creation of new Wings, the Administration Wing remained active to fill in the vacancies in accordance with the prescribed procedure. The appointments made during the financial year 2007-2008 are indicated hereunder:-

Detail of Appointments made during Current Financial Year

S.No.	Name of the posts	Number of vacancies filled in
i)	Deputy Data Base Administrator	02
ii)	Programmes / Assistant Programmes / Computer Specialists	03
iii)	Assistant Economic Advisors / Research Officers	08
iv)	Web Master	01
v)	System Network Administrator	02
vi)	Research Associates	06

vii)	Actuarial Assistant / Assistants / Upper Division Clerks	40
viii)	Steno typists	01
ix)	Store Keeper	01

(Source: Administration Wing, Finance Division)

- This Division has purchased 28 P-IV computers, 63 printers, 8 photocopier fax machines and air conditioners including 5 floor standing Air conditioners (4 Ton) and 5 electric coolers to facilitate the officers and staff.
- In order to maintain the proper fleet of staff cars, four condemned vehicles were auctioned and four new vehicles alongwith a Toyota Coaster were purchased to improve logistics of this Division and to facilitate the officers / officials in their smooth functioning.
- In view of the sensitivity of the security atmosphere and to ensure safety and security of Q-Block, Fire Fighting Exercises were carried out twice / thrice in a year to create awareness and vigilance amongst the officers/staff about the potential safety hazards.
- Protocol services were provided to the delegations of Economic Coordination Organization (ECO), World Bank, Asia Pacific Group, Head of Missions, Ministers, foreign and local delegates, and Services Chief. Besides, such services were also provided to the officers working in Finance Division who went abroad for official visit.
- To improve the service quality of the Ministry, Customer Services Department (CSD) has been established on the advice of the Consultants of Pakistan Institute of Quality Control to handle public complaints / comments / queries / suggestions received through website of the Ministry of Finance, which are forwarded to the concerned sections for appropriate action.
- To update and ensure the continuation of quality services, Departmental Quality Assurance Coordinator (DQAC) meetings were held on monthly basis and all the decisions taken in the meeting were successfully implemented before commencing of the next meeting in accordance with the instruction / guidelines given by the Quality Assurance Wing.

- Hiring facility of residential accommodation was provided to 130 officers / officials during the FY 2007-2008. Medical reimbursement facility was also provided to 115 in-service officers / officials and 39 officers / official retired from Finance Division.
- Revised Budget Estimates 2008-2009 and Budget Estimates 2007-2008 were prepared in respect of Finance Division (Main) in accordance with Budget Call Circular of Budget Wing. All work was completed in the light of instructions given in the Financial Control and Budgeting System. The Revised Budget Estimates 2008-2009 and Budget Estimates 2007-2008 of Establishment Division and its allied organizations were also completed within the target time.
- Business of the Parliament was attended efficiently and table indicating the attendance of National Assembly / Senate questions, adjournment / privilege Motions, Resolutions, Cut Motions / Bill and meetings of the standing committees, etc. is as under:-

Performance Indicators of Council Section

S.No.	Senate / National Assembly Business	Target	Percentage (%) achievement	Shortfall in (%)age
01	Starred / Un-Starred Questions	612	99.9	0.1
02	Privilege Motions	53	100	No
03	Resolutions	287	100	No
04	Adjournments Motions	211	99.9	0.1
05	Cut Motions	1115	100	No
06	Bills	13	99	1
07	Meetings of Standing Committees	31	100	No
08	Security / Gallery Passes	521	100	No
09	Facilitation to Duty Officers	103 times	99	1
10	Visits for Protocol Duties	121 times	99	1
11	Visit to Camp Office	37	98	2
12	Miscellaneous Visits	327 times	100	No

Source: Record of Council Section, Finance Division

- As regard implementation status of different directives / decisions, it is stated that 1098 Prime Minister's directives, 40 Cabinet and Economic Coordination Committee (ECC) decisions relating to Finance Division were received during

the FY 2007-2008, out of which 1025 directives have been implemented. While all Cabinet and ECC decisions were coordinated and implementation status conveyed to the Cabinet Division.

- Total 852 public grievances were received (742 from Prime Minister's Secretariat and 110 direct to Finance Division). All the grievances were forwarded to the concerned quarters for redressal.

B) BUDGET WING

a) The Federal Budget Process in Pakistan

i) The Budget Year

The budget year in Pakistan is from 1st July to 30th June. The Process of budget formulation starts in October each year on issuance of a Budget Call Circular by Ministry of Finance. The original estimates are framed in minute detail by the agencies and departments, which collect the receipts and incur the expenditure, keeping in view the past actual, current trends and future expectations and commitments. These estimates are submitted by the estimating authorities to their administrative Ministries and Divisions who, in turn, examine and pass these on to the concerned Financial Advisers with their recommendations. The Financial Adviser and Ministry of Finance, as recommended by the Administrative Ministries and Divisions, subject the estimates for detailed scrutiny before they are finally accepted for inclusion in the budget.

ii) Budget Call Circular

The procedure applicable to the preparation of the budget estimates for a financial year is indicated by the Ministry of Finance every year in a "Budget Call" issued to the administrative Ministries/Divisions and Departments of the Central Government. The circular contains comprehensive instructions for the preparation and scrutiny of the budget estimates. It also sets out the target dates by which the various stages of budget formulation are to be completed. Since time factor is important, emphasis is laid, among other things, on the strict observance of the budget time table at all stages of budget making.

iii) Preparation of Estimates

The budget estimates for the ensuing year are formulated separately in respect of non-development/current expenditures and development expenditure. The estimates are supported by complete details.

The revised estimates for the current year prepared simultaneously include provision for such expenditure as has been duly authorized and, for which there is reasonable expectation that it will be incurred before the close of fiscal year. In all cases where revised estimates for the fiscal year exceed the authorized grants, these have to be supported by documentary evidence to show that the increase has been duly authorized by the competent authority, and also the manner in which this excess is to be met i.e. whether by appropriation of savings in the existing grants/appropriations from other items or a supplementary grant. In case the revised estimates are less than the authorized grants, the reasons for short utilization of the grants are to be invariably stated.

As the budget is essentially based on the cash accounting system, the estimates are required to be prepared on the basis of what is expected to be actually received or paid for during the ensuing year and not merely the revenue demand or the liability of expenditure falling due in that year.

According to the conventional classification, the budget is divided into two main sections, namely:

- Revenue Budget
- Capital Budget

The revenue budget presents the current or day-to-day non-development expenditure i.e. defence, debt, repayments and running of civil government and other activities which are financed from current revenues derived through taxes, duties and other miscellaneous receipts. The difference between revenue receipts and current/non-development expenditure results in revenue surplus for the year which is transferred to the capital budget. The deficit is met out of borrowings.

The capital budget is designed to create material assets which add to the economic potential of the country. Its main features are that it must involve construction of a work or acquisition of a permanent asset of public utility such as irrigation and industrial projects. With ever increasing investment to promote economic development, the capital budget is assuming increasing importance. The capital expenditure is generally met from the revenue surplus, reserve funds and borrowing for specific or general purpose.

The aforesaid two divisions of the government budget are merged together to work out the resource estimates, which indicate the cash balance position of the Government at the beginning and at the end of the fiscal year.

iv) Annual Development Programmes (ADP)

Provision for development expenditure is included in the budget on the basis of the Annual Development Programmes (ADP) prepared by the Planning Commission in consultation with the Ministry of Finance and the Provincial Governments and approved by the National Economic Council.

The formulation of the Annual Development Programmes is one of the most important aspects of the budget making. Emphasis is laid on drawing-up the Annual Development Programmes so that only approved projects, which go through careful technical scrutiny in the Development Working Party and approved by the Executive Committee of the National Economic Council, or have otherwise received the approval of the competent authority, are included in the Annual Development Programmes. The Programmes, as finally approved by the National Economic Council, is reflected in the budget.

The exercise for the preparation of the Annual Development Programmes starts some time in early November keeping in view the overall requirements of the economy and plan targets, the size of the Annual Development Programmes is fixed and communicated sector-wise to the executing agencies and the Provincial Governments by the Planning Commission. Within the overall allocations so intimated by the Planning Commission, the detailed sector-wise development programmes are formulated by the sponsoring agencies and

finalized after detailed discussion with the Planning Commission. These allocations are then discussed and finalized in the meetings of the Priorities Committee in March/April or in April/May by the Annual Plan Coordination Committee and finally by the National Economic Council. The Annual Development Programmes, as finally approved and incorporated in the budget, presents the blue print for action by the Federal and Provincial Governments and indicates the financial allocations along with physical targets in respect of various development schemes.

v) Resources Estimates

Since the successful implementation of the Annual Development Programmes as an instrument of economic development largely depends upon the availability of resources, the determination of the size of the Programmes is preceded by a detailed exercise in resource estimation. Ministry of Finance undertakes this exercise in coordination with the concerned government agencies, particularly the Federal Board of Revenue (FBR) and the Provincial Finance Departments. The components of resource estimates are:

- Public Savings i.e. the excess of revenue receipt over current expenditure of the Federal and Provincial Governments.
- Net capital receipts of the Federation and the Provinces (i.e. recovery of loans, saving schemes, prize bond proceeds, etc.).
- The Federal Government's estimates of:
 - Foreign economic assistance.
 - Deficit Financing (bank borrowing) to the extent that the latter is warranted by the state of the economy.

As the development outlays in the provincial field are increasing and the provincial resources for this purpose are not adequate, the Federal Government render financial assistance to the Provincial Governments on a larger scale for implementation of their development Programmes.

vi) Foreign Exchange Component of ADP

Side by side with the finalization of the Annual Development Programmes, endeavor is made to estimate the foreign exchange component of the Programmes as realistically as possible. The expenditure in foreign exchange is shown separately from the expenditure in local currency, both in the revenue and capital budget. This also serves as an indication to the administrative authorities that the budgetary allocation for foreign exchange expenditure is not available for expenditure in local currency.

vii) Effect to New Taxation Proposals

The proposals for new, enhanced or revised, taxation, conceived as a part of the budget, are given effect by means of a distinct legislation. This legislation is an integral part of the budget presentation and without it no tax can be levied, enhanced or revised.

viii) Schedule of Authorized Expenditure

After the budget has been approved by competent authority, an authenticated Schedule of Authorized Expenditure is drawn up in the same form as the Annual Budget Statement, in so far as it relates to expenditure. This schedule, approved and signed by the Prime Minister, constitutes the sole authority for withdrawal of money from the Federal Consolidated Fund in the annual budget statement. The schedule reflects the extent of expenditure to be made under a specific grant/appropriation. It also specifies the expenditure charged upon Federal Consolidated Fund and otherwise. The charged portion is always reflected in italics.

Article 82 of the Constitution provides that the expenditure 'charged' upon the Federal Consolidated Fund may be discussed in but shall not be submitted to the vote of the National Assembly.

Article 81 of the Constitution provides that following expenditures shall be charged upon the Federal Consolidated Fund: -

- The remuneration payable to the President and other expenditure relating to his office, and the remuneration payable to

- The judges of the Supreme Court
 - The Chief Election Commissioner
 - The Chairman and the Deputy Chairman (of the Senate)
 - The Speaker and the Deputy Speaker of the National Assembly
 - The Auditor-General
- The administrative expenses, including the remuneration payable to officers and servants of the Supreme Court, the department of the Auditor-General and the office of the Election Commission and the Secretariat of the Senate and the National Assembly.
 - All debt charges for which the Federal Government is liable, including interest, sinking fund charges, the repayment or amortization of capital, and other expenditure in connection with the raising of loans, and the services and redemption of debt on the security of the Federal Consolidation Fund.
 - Any sums required to satisfy any judgment, degree or award against Pakistan by any court or tribunal; and
 - Any other sums declared by the Constitution or by Act of [Majlis-e-Shoora (Parliament)] to be so charged.

ix) Submission of Budget Proposals (Books) to the Federal Cabinet

The Budget proposals prepared by the Ministry of Finance are considered by the Federal Cabinet and approved for presentation to the Parliament.

x) Submission of Budget/Finance Bill to the National Assembly

The Minister of Finance shall, in consultation with Prime Minister and the Speaker, prepare a time-table for the consideration of the Annual Budget by the National Assembly. The Secretary of the Assembly shall intimate the time-table so decided upon to all concerned.

xi) Submission of Budget to the Senate

Prior to the introduction of Legal Framework Order, there was no provision for the Senate to consider the money bill (budget). As per the current provisions, a copy of the Annual Budget Statement (Budget) is transmitted to the Senate at the same time when it is submitted to the National Assembly. The Senate may, within seven days, make recommendations thereon to the National Assembly. The National Assembly shall consider the recommendations of the Senate and may pass the budget with or without incorporating the recommendations of the Senate.

xii) Authentication of the Schedule of Authorised Expenditure

After the budget is passed by the National Assembly, the schedule of authorized expenditure is authenticated by the Prime Minister. The schedule so authenticated shall be laid before the National Assembly, but shall not be opened to discussion or vote thereon.

b) The Budget Documents

i) Budget Speech of the Finance Minister (Without Tax Proposals)

It contains the information on the performance of the economy during the previous year and major efforts proposed to be made during the new budget year for improving the working of the economy.

This document is printed both in Urdu and English.

ii) Budget Speech of the Finance Minister (With Tax Proposals)

It contains proposals for levy of new taxes. The new enhanced or revised taxation conceived as a part of the budget are given effect by means of a distinct legislation called Finance Act. This legislation is an integral part of the budget presentation and without it no tax can be levied enhanced or revised.

This document is printed both in Urdu and English.

iii) Details of Demands for Grants and Appropriations (Pink Book)

This document consists of the following two volumes:

Volume I: Current Expenditure – This document contains Demands and Appropriations relating to current expenditure.

Volume II: Development Expenditure – This document contains development expenditure.

The document containing details of demands for grants and appropriations reflects in detail the budget estimates of last year, revised estimates of current year and budget estimates of the next financial year of the Federal Government. The book is divided into three parts: -

Volume I – Current Expenditure

Part I: Details of current expenditure.

Part II: Details of appropriations charged upon the Federal Consolidated Fund.

Volume II – Development Expenditure

Part III: Details of development expenditure.

Since an expenditure is made for a defined function/object (full details given in the Chart of Classification), the book also presents function-cum-object-wise classification of expenditure of every office/department separately.

Function-wise classifications include expenditures on general administration, defence, law and order, community services, social services, economic services, subsidies, debt servicing, etc. The object-wise classifications include expenditures on establishment charges, purchase of durable goods, construction of works, repair and maintenance of durable goods and works, investments, loans and repayments, etc.

iv) Demands for Grants and Appropriations

Demands for grants and appropriations contain estimates of expenditure on both revenue and capital accounts. Besides, distinctly showing the expenditure, which is charged to the Federal Consolidated Fund under the legal provisions, each demand also exhibits separately summary of functions and object-wise classification. When budgetary allocations for a particular purpose consist wholly of charged expenditure,

these are included in appropriations, which, contrary to demands, bear no serial number.

This book is divided into three parts as follows:-

- Part I:** Demands for current expenditure.
- Part II:** Demands for development expenditure.
- Part III:** Appropriations charged upon the Federal Consolidated Fund.

The demands for each Ministry, as shown in Part I and II, are further bifurcated into two sectors:-

- (i) Expenditure met from revenue
- (ii) Expenditure met from capital

Part III comprises wholly of the 'charged' expenditure. However, the expenditure shown in Part I and II comprises both 'charged' as well as other than charged expenditure. For distinction, the charged expenditure appears in Italics.

The demands and appropriations as appearing in this book are gross amounts. The receipts and recoveries, which are required to be adjusted in accounts in reduction of expenditure, are shown below the relevant demands for appropriations. Three very useful schedules have also been appended at the end of the book. In Schedule I, the demands and appropriations are listed in their serial order indicating the nomenclature of each and further classifying the estimates of gross expenditure into:-

- Sums required to meet expenditure charged upon the Federal Consolidated Fund.
- Other than charged expenditure.
- Total expenditure (Charged + Other than Charged).
- This schedule indicates the total amount allowed to a Ministry/Division under a specific demand/appropriation for expenditure in ensuing year.

Schedule II classifies the expenditure included in the demands and appropriations by major functions, which serves as a means of reconciling these estimates with disbursements out of Federal Consolidated Fund. The schedule will help understanding as to what amount has been allocated for a particular function i.e. health, education, etc.

Schedule III, which indicates the object of current and development expenditure, provides a more useful and informative economic analysis of the expenditure. This schedule gives details as to what specific allocation (under a demand or object as a whole) has been proposed to be allocated i.e. for pay and allowances and other purpose, for instance, purchases, repairs, etc.

v) Budget in Brief

The budget-in-brief attempts a presentation of the budget in a simple language. It deals with all aspects which are important to the economy. This document contains the brief features of revenue/expenditure. It also contains the main features of past year achievements/performances.

This document is printed both in Urdu and English.

vi) Annual Budget Statement

The annual budget statement gives, in broad details and by function classification-wise accounts, the estimates of

- Revenue receipts and expenditure on revenue account.
- Capital receipts and disbursements.
- Transactions anticipated under the debt, deposit and remittances heads.

The estimates of receipts and payments included in the annual budget statement are further segregated into transactions relating to the Federal Consolidated Fund and Public Accounts.

This is a Constitutional document as per Article 80 (1) of the Constitution.

This document is printed both in Urdu and English.

vii) Explanatory Memorandum of the Budget

This compilation exhibits the receipts of the federal revenue as well as capital receipts.

The explanatory notes pertaining to receipts included in 'The Budget' serve to indicate, among other things, the basis on which proceeds of Federal Taxation are shared with the provincial governments and also specify the

provincial shares in the proceeds of various taxes and duties.

viii) Schedule of Authorised Expenditure

After the budget has been approved by the competent forum, an authenticated Schedule of Authorized Expenditure is drawn up in the same form as the Annual Budget Statement, in so far as it relates to expenditure. This schedule constitutes the sole authority for withdrawal of money from the Federal Consolidated Fund to meet expenditure specified in the Annual Budget Statement and the corresponding demands for grants and appropriations.

According to Article 83 (2) of the Constitution the schedule so authenticated has to be laid before the National Assembly but shall not be opened to discussion or vote thereon.

This document is printed both in Urdu & English.

ix) Supplementary Demands for Grants and Appropriations

Supplementary Demands for Grants and Appropriations are prepared in terms of Article 84 of the Constitution. This is to cater for the additional requirement of current financial year i.e. the budget year. It represents details of estimates of additional expenditure from the Federal Consolidated Fund.

This book like budget is also divided in three parts.

- Demands for current expenditure.
- Demands for development expenditure.
- Appropriations charged upon the Federal Consolidated Fund.

One of the two schedules appearing at the end lists the supplementary demands in running serial order with a further break-up of the expenditures by

- Sums required to meet charged expenditure,
- Sums required to meet other than charged expenditure.

The second schedule gives the classification of supplementary expenditure according to various functions,

also showing the original provision and a sum total of both i.e. after adding supplementary allocation to the original budget.

This book is laid before the National Assembly according to Article 84 of the Constitution for obtaining legislative approval to the additional expenditure made during the year.

x) Estimates of Foreign Assistance

External resources mainly comprises of

- Loans and credits from friendly countries and specialized international agencies.
- Grant assistance under Food Aid Convention, World Food Programmes and other specific country Programmes.

The loans, credits and grant assistance, collectively described as foreign aid, fall into four broad categories, namely project aid, non-project commodity aid, food aid and other aid. Project aid generally takes the shape of foreign exchange loans and grants for procurement of project equipment and supplies of services. Project loans are of two types. Whereas loans and credits are subject to subsequent repayment according to the schedule, the grant portion is not to be repaid

- Loans contracted by the federal government for public or private sector projects and generally termed as federal loans.
- Loans contracted direct by public or private sector agencies but guaranteed by the federal government for payment of interest and repayment of principal are called guaranteed loans.

Sometimes, commodities received under foreign aid generate rupee counterpart funds, which either by prior agreement at the time of commitment of commodity assistance or subsequently after generation of rupee counterpart by mutual agreement is made available for specific projects.

Commodity aid as a rule is utilized for commercial imports to lend general support to the economy. The goods

imported under this aid generally are industrial raw materials equipments and spares, consumer goods, chemical and fertilizer and such other commodities as may be specified or may have been generally agreed to or, if the aid is untied, as the country may actually need. Besides enabling the country to meet its requirements of essential commodities, commodity aid also helps generate rupee funds, which augment the country's rupee resources to meet development needs.

Food aid is used for the import of foodstuff, such as wheat, wheat-flour, sorghum, edible oil, etc. From USA, this aid is generally received on loan basis as a part of the surplus agricultural commodities Programmes under public law-480 title I. Bulk of the rupee counterpart generated by this aid is available to Pakistan as loans or grants for specific development projects. Food aid from other sources comprises of food aid convention grants from member countries and grants under the World Food Programmes of the United Nations Food and Agriculture Organization. In most cases, the net sale proceeds of this other type of food aid are required to be deposited as counterpart funds in a separate account with SBP, which eventually become available for the country's agreed uses with mutual consultation.

The assistance under "Other Aid" comprises loans and grants from non-traditional sources generally by way of balance of payments support.

xi) Budget at a Glance

It explains the overall budgetary position covering all aspects both revenue and expenditure e.g.

1. Receipts:-

- i. Tax revenue
- ii. Non-tax revenue
- iii. Total gross revenue receipts (i +ii)
- iv. Revenue assignments to provinces
- v. Net federal revenue (iii minus iv)

2. Current Expenditure.

3. Surplus Available for ADP Financing (1 minus 2)

4. Resources:

- ✓ Internal Resources
 - ❖ Net capital receipts
 - ❖ Self-financing
 - ❖ (by provincial governments / autonomous bodies)
- ✓ External Resources.

5. Development Outlay.

GAP (3 + 4 - 5)

This document is also printed both in Urdu and English.

xii) Winding-up Budget Speech by the Finance Minister

Answers by the Finance Minister on the points raised by the members of the House and detailed explanation regarding various aspects of the budget and the suggestions for accelerating the pace of economic development and social progress form part of winding up Budget Speech of the Finance Minister.

xiii) Medium Term Budgetary Framework (MTBF)

The Medium Term Budgetary Framework (MTBF) project was started in 2003 by the Ministry of Finance. The main aims of the project are to improve fiscal discipline, enhance linkages of government's priorities with the budget and improve efficiency and effectiveness in government spendings. The Department for International Development (DFID), UK is providing assistance for this project.

The project completed its Phase I in July 2006. By that time, five (5) pilot ministries were preparing their budgets as per the MTBF recommendations. The Phase II of the project started by introducing the reform in further ten (10) ministries for 2007-08 Budget. In the fiscal year 2007-08 the revised approach i.e. 'top-down' and the 'bottom-up' component was applied in 24 Pilot Ministries that prepared budget for 2008-09. The revised approach for the ministries included introduction of 'output-based budgeting'. Under this approach, ministries were asked to provide goals, outcomes and outputs and its linkages with the budget 2008-09 and the performance indicators and targets.

The government is looking at options to introduce output based budgeting across the federal government. Also the government is working on reviewing options to introduce Budget Strategy Paper which is to be used as a prime document for formulating budget strategy.

The project is run by the Budget Wing where a MTBF Secretariat has been established under Additional Finance Secretary (Budget).

C) CORPORATE FINANCE WING

Corporate Finance Wing deals with all financial and corporate matters of Public Sector Corporations, which work under the administrative control of various Ministries/ Divisions. The Federal Government provides financial support to Public Sector Enterprises (PSEs) in the shape of Equity injection, advance loans for their working capital requirements and subsidies to meet their, operational cash shortfall, losses, through the GoP's budget. The Federal Government also carries out financial and administrative re-structuring of those organizations whose financial health deteriorates due to some peculiar circumstances. Moreover, PSEs are also provided bank credit allocation to finance their commodity operations under the Government directive and pick up the cost differential in order to stabilize the prices. Government under a policy framework pick up Government guaranteed outstanding and non-performing loans, extended by bank and financial institutions, to the PSEs and other financial losses sustained by them.

Power Sector in Pakistan comprises of two vertically integrated utilities Water and Power Development Authority (WAPDA) and Karachi Electric Supply Corporation (KESC). KESC has been privatized and WAPDA is unbundled into corporate companies, which include 4 Generation Companies (GENCOs) 9 Distribution Companies (DISCOs) and a National Transmission and Dispatch Company (NTDC). These companies are steered by Pakistan Electric Power Company (PEPCO), which is also a corporate body. National Electric Power Regulatory Authority (NEPRA) regulates Generation, Transmission and Distribution of electric power in Pakistan.

Keeping in view the revenue requirements of DISCOs, NEPRA, on 21st November 2008, announced determination for DISCOs based upon the cost, whereby they allowed an average tariff increase of 54%. However, cognizant of the hardships of general public particularly the poor people, Government did not pass on the full

impact of increase in power tariff to the poorest segment of the society i.e. life line consumers consuming upto 100 units per month. For other sections of consumers, 18% (average) tariff increase was passed on. The financial impact of remaining tariff increase is being borne by the Government and corresponding amount of subsidy is paid to DISCOs from budgetary resources.

In order to meet operational cash shortfall created due to unprecedented rise in the prices of Petroleum products in the international market and partial transfers of impact of tariff determined by NEPRA, the government provided huge subsidy of Rs.133.255 billion to power sector during 2007-08 on various counts. Similarly, for 2008-09, budget provision of Rs.111.640 billion has been provided for payment of subsidy to power sector. The detailed break-up of subsidy released during the last year and provided in 2008-09 financial year is given as under:-

Statement Showing Power Sector Subsidies

(Rs. in billion)

Name of Subsidy	Subsidy Paid 2007-08	Budgeted Subsidy 2008-09
A) Pakistan Electric Power Company (PEPCO)		
Inter DISCO Tariff Differential	87.00	82.0
12.5% Subsidy for agricultural tube-wells (GoP share) for Sindh, Punjab and NWFP	1.665	2.044
General Sales Tax (GST) subsidy for protected consumers	21.307	4.000
Tariff Differential Agriculture Tube-wells in Balochistan	3.686	4.796
Sub. Total-I	113.658	92.840
B) Karachi Electric Supply Company (KESC)		
Tariff Differential	15.796	17.00
GST subsidy for protected consumers	3.350	1.285
Tariff Differential Agriculture Tube wells Balochistan	0.133	0.198
Pick-up KESC's payable to Pakistan State Oil (PSO) / Pir Koh Gas Company Limited (PKGCL)	0.317	0.317
Sub. Total – II	19.596	18.800
G. Total (I+II)	133.255	111.640

Source: Budget Document 2008-09

The Government also provides the financial support in the form of subsidy to Public Sector Entities (PSEs), like Trading Corporation

of Pakistan (TCP), Utility Stores Corporation (USC) and Pakistan Agricultural Storage Service Corporation (PASSCO) on essential commodities for price stabilization and subsidies to protect consumers. They were also provided commodity finance through banking system for commodity operations in this regard.

During FY 2007-08 following financial support was provided to Corporate Sector in pursuance of above mentioned government decisions:-

- Subsidy amounting to Rs. 7,303.736 million on account of price differential shortfall to Pakistan Railways.
- Subsidy was given to USC amounting to Rs.5,368.839 million on account of price differential of the goods sold at subsidized rates during FY 2007-08.
- An amount of Rs. 49,704.460 million was released to TCP as subsidy on the wheat, Urea, fertilizer and sugar operations during FY 2007-08.
- An amount of Rs. 25.258 billion was paid to the manufacturers and importers of Phosphatic and Potassic fertilizer as subsidy during FY 2007-08.
- An amount of Rs. 19.000 billion was paid as Research & Development (R&D) Support to Textile Exporters.

In addition to above following financing are provided to Public Sector Enterprises (PSEs):-

- The Finance Division paid Rs. 891.000 million to Pakistan International Airline Company (PIAC) for servicing and repayment of its Bank loans guaranteed by the GOP. The amount was treated as GOP equity in their Capital. Moreover an aggregate amount of Rs. 332.076 million was paid as mark up amount against the bank loans liabilities of People Steel Mills (PSM), Karachi Shipyard & Engineering Works (KS&EW), which was treated as GOP equity investment in their Capital.
- A payment of Rs. 86 million as a GOP bonds issued to Pakistan Oil Development Board (PODB) and Higher Education Commission (HEC).
- An amount of Rs. 98 million was provided to Printing Corporation of Pakistan Press (PCPP) as a GOP loans and Rs. 165 million were provided as

loans for Lahore Garment City Company Limited (LGCCL) during FY 2007-08.

- An amount of Rs.483.235 million was paid as mark up on loan to Pakistan Steel Mill (PSM) during FY 2007-08.
- The Finance Division also paid Rs. 1,133.373 million as GOP grant / compensation to Fauji Fertilizer Bin Qasim Limited (FFBQL), Ghulam Ishaque Khan (GIK) Institute and Pakistan Dairy Development Company Limited (PDDCL).

D) ECONOMIC ADVISER'S WING

a) Economic Scenario & Future Prospects for Pakistan

Fiscal year 2007-08 has been a difficult year for Pakistan's economy. Several political and economic events, both on domestic and external front, occurred unexpectedly. These events include: disturbed political conditions; an unstable law and order situation; supply shocks; soaring oil, food and other commodity prices; softening of external demand; and turmoil in the international financial market. All these events have adversely affected the key macroeconomic fundamentals of Pakistan during the fiscal year 2007-08. The most important aspect, however, has remained the non-responsive stance on account of political expediency in addressing domestic and external challenges during most part of the fiscal year, further accentuating macroeconomic difficulties.

Notwithstanding these developments on national and international scene the performance of some of the key economic indicators has been robust, reflecting the resilience of the economy. Firstly, though economic growth missed the target for the year, a growth of close to 4.1 percent on the back of extra-ordinary developments at home and abroad is by no means a small achievement. Secondly, the services sector continued to maintain a solid pace of expansion at 6.6 percent. Thirdly, the country produced 63.9 million tons sugarcane – the highest production level in the country's history. Fourthly, banking and insurance component of GDP continued their stellar performance, posting growths of 12.9 percent. Fifthly, Pakistan's per capita income, in current dollar terms crossed the US\$ 1000 mark and stood at US\$ 1042, depicting an increase of 15.5 percent. Sixthly, despite continuous monetary tightening, private sector credit has grown consistently and has even outpaced last year's growth. In particular, credit to manufacturing has been steady. Seventhly, despite adverse domestic and external

developments throughout the year, Pakistan's exports posted a decent growth (13.2 percent). Eighthly, at the back of political instability and adverse law and order conditions, workers' remittances recorded a commendable growth, up by 16.3 percent to US\$ 6.4 billion. Ninthly, at the backdrop of extreme political instability and heightened security concern, Pakistan succeeded in attracting US\$ 5.1 billion FDI in FY 2007-08– almost US\$ 13 million more than last year, reflecting continued investor's confidence in Pakistan's economy.

The detailed sector-wise analysis is reported below:

b) GDP Growth

Real GDP grew at a robust rate of 4.1 percent in FY 2007-08 as against the revised estimates of 6.8 percent last year. When viewed in the backdrop of major disruptions of extraordinary nature, economic growth in 2007-08 appears satisfactory. In the medium-term horizon, the real GDP has grown at an average rate of 7.0 percent per annum during the last five years (2003-08). Unlike last year, the growth for the year has not been broad-based as the performance of agriculture and manufacturing have been far from satisfactory. Agriculture grew by 1.08 percent at the back of a negative (-6.4 percent) growth in major crops. Livestock, which accounts for 52 percent of agriculture also failed to lift the growth in agriculture as it posted a modest growth of 4.2 percent. Major crops and livestock, contributing 84.8 percent to agriculture, could not provide enough support to record a decent growth.

The performance of the manufacturing sector remained subdued as it was hit hard by domestic and external factors. The overall manufacturing sector recorded a modest growth of 4.8 percent as against 8.3 percent last year. Accordingly, its contribution to this year's growth declined to 18.5 percent. Large-scale manufacturing, accounting for 70.0 percent of overall manufacturing, suffered from a variety of factors including political instability, frequent eruptions of incidents detrimental to law and order and resulting in loss of working hours, incidence of violence causing damage to property and forcing industries to remain closed for many days, power shortages preventing industries from operating at their capacity level, and higher energy and capital costs. Accordingly, large-scale manufacturing recorded feeble growth of 4.0 percent, down from 8.7 percent last year.

This year's real GDP growth was powered by stellar growth in the construction and banking and insurance sectors, growing by 12.9

percent. The on-going reforms in the banking and financial sector have made this sector highly attractive to foreign investors. This sector has been growing at an average rate of 23 percent per annum over the last five years. Maintaining its past trend, electricity and gas distribution registered a negative growth of 22.0 percent in FY 2007-08.

The services sector continued to perform strongly for the fourth year in a row with 6.6 percent growth in FY 2007-08. This sector has grown at an average rate of 7.3 percent per annum over the last five years. Major contributors to this year's services growth include: wholesale and retail trade, banking and insurance and social services.

c) Per Capita Income

Per capita income is treated as one of the foremost indicators of the depth of growth and general well-being of any country. Per capita income, defined as Gross National Product at current market price in dollar terms divided by the country's population, has grown at an average rate of above 13 percent per annum during the last five years rising from US\$586 in FY 2002-03 to US\$921 in FY 2006-07 and further to US\$1042 in FY 2007-08. Per capita income in dollar terms rose from US\$921 to US\$1042 in FY 2007-08 depicting an increase of 18.9 percent. *Real* per capita income grew by 0.3 percent as compared to 3.7 percent last year. The main factors responsible for the rise in per capita income over the years include: acceleration in real GDP growth, a stable exchange rate and a more than five-fold increase in the inflow of workers' remittances.

d) Consumption

Pakistan's economic growth is historically characterized as consumption-led growth and this is also found true for the FY 2007-08. In recent years, Pakistan's economy has undergone a structural shift which fuelled rapid changes in consumer spending patterns. Pakistan's real per capita GDP has increased at an average rate of 5 percent per annum over the last five years, giving rise to the average income of the people. A more than five-fold increase in inflows of workers' remittances have also influenced the domestic consumption patterns as they have enhanced local purchasing power, especially in rural areas, and provided an important hedge against higher domestic inflation. These two factors have led to a sharp increase in consumer spending during the last five years. The *real* private as well as total consumption

expenditure have grown at an average rate of 7.5 percent per annum during the last five years and played an important role in sustaining a growth of 7 percent per annum during the same period. Against an average growth of 7.5 percent, the real private consumption expenditure decline by 1.3 percent in FY 2007-2008. Investment contributed negative 32.2 percent of GDP growth. National savings have shown their inadequacy to finance the new investment as it witnessed a sharp decline from 17.4 percent of GDP last year to 13.5 percent this year, thereby portraying a sharp increase in the current account deficit.

e) Investment

After reaching a record level of 22.5 percent of GDP in FY 2006-07, total investments declined to 22 percent. Total investment has increased from 16.6 percent of GDP in FY 2003-04 to 22 percent this year, showing an increase of 5.4 percent of GDP in the last five years. *Fixed investment* decreased to 20.4 percent of GDP from 20.9 percent last year. While *public sector investment* decreased from last year's level of 5.6 percent to 5.4 percent, *private sector investment*, however, registered a decline of 0.4 percentage points - declining from 15.4 percent to 15.0 percent. Investment is a key determinant of growth. In FY 2007-08, gross fixed capital formation or domestic fixed investment grew by 15.5 percent in nominal terms. In real terms, it grew by 3.8 percent.

Private sector investment was broad based. The energy sector has played a key role in attracting private sector investment. The overall fixed investment destined to the energy sub-sectors, namely, mining and quarrying and electricity and gas distribution, witnessed their highest increases by growing at 11.3 percent and 7.2 percent respectively in real terms. Other major contributors to overall fixed investment growth are: wholesale and retail trade (5.5 percent); services (10.2 percent); public sector and general government investment collectively grew by 3.9 percent in real terms while public sector investment alone registered a growth of 6.0 percent in real terms. Barring transport and communication, public sector investment in all other sectors rose sharply at high double-digits, thus enabling overall public sector investment to grow at 6.0 percent this year in real terms.

Foreign Direct Investment: FY 2007-08 has been a difficult year for foreign investment in developing countries including Pakistan because of the crisis in the international financial markets. Overall foreign investment in Pakistan was equally affected by the difficult external economic environment and domestic political instability

as well as security concerns. However, Pakistan succeeded in attracting US\$5.15 billion worth of foreign investment in the fiscal year 2007-08 as against US\$5.13 billion in the same period last year. It may be pointed out that last year was an extraordinary year as Pakistan attracted US\$8.4 billion of total foreign investment.

Almost 57 percent of FDI has come from three countries, namely USA, UAE and UK. The United States, with 25.4 percent share, is the single largest investor in Pakistan, followed by Malaysia (12.7 percent) UAE (11.4 percent), UK (8.9 percent), Hong Kong (6.6 percent), Norway (5.3 percent), Switzerland (3.3 percent) and so on. The communications sector, including Telecom, was the most attractive sector for FDI inflows, accounting for 31.5 percent followed by financial businesses (31.2 percent), energy including oil and gas and power (15.1 percent) and trade (3.4 percent).

f) Savings

During FY 2007-08, national savings, at 13.5 percent of GDP, is the lowest since FY 1999-2000 and was able to finance only 61.5 percent of fixed investment in FY 2007-08 as against 83.6 percent last year. Domestic savings also declined substantially from 15.6 percent of GDP last year to 11.5 percent this year.

g) Inflation

A stable inflation not only gives a nurturing environment for economic growth but also uplifts the poor and fixed income citizens who are the most vulnerable in society. Over the last decade, with a few exceptions, inflation around the world had been at a retreat. However, with buoyant global growth, along with higher population growth, rapid industrialization and urbanization in emerging markets, and strong per capita income growth, inflation has started veering its ugly head in many parts of the world including Pakistan.

The CPI-based inflation during FY 2007-08 averaged 12 percent as against 7.7 percent in the same period last year. The single largest component of the CPI is the food group which makes up 40.34 percent of the CPI showed an increase of 17.6 percent. This was higher than the 10.2 percent food inflation observed over the corresponding period of last year. On the other hand, the non-food prices grew at a slower pace compared to last year, averaged 7.8 percent during FY 2007-08 while it stood at 6.0 percent in the corresponding period of last year. The non-food-non-energy inflation was also higher at 8.1 percent in the FY 2007-08 as

against 5.5 percent in the same period last year, on account of the rising house rent and Medicare sub-indices.

The fiscal year 2007-08 inflation on a year-on-year (YoY) basis exhibits a significant increase in price pressures. This year's inflation started with 6.4 percent in July 2007 but continued to accelerate reaching a peak of 17.2 percent in April and ending the year on 12 percent. Food inflation was close to 8.5 percent at the beginning of the year but accelerated sharply to 25.5 percent in April and then mellowed down to 17.6 percent by the end of the fiscal year - recording one of the highest increases since FY 1974-75, when it peaked at 27.8 percent. The sharp increases in prices of some key food items puts a lot of pressure on the poor segment of the society. Significant contributors to this year's upward inflationary trend include house rent, racing to 18.3 percent during 2007-08. Wheat Flour, Vegetable Ghee, Milk Fresh and Rice contributed 42.5 percent to overall inflation. House rent alone contributed 18.4 percent to inflation in FY 2007-08. These items together contributed over 61 percent to overall inflation during the year under review.

High global prices of food, fuel and other commodities driven by a weaker Pakistani rupee, high import prices and gradual removal of fuel, food and power subsidies along with monetary overhang on account of excessive borrowing from the SBP to finance fiscal deficit have been mainly responsible for sharp pick up in prices this year. These factors will continue to exert upward pressure on overall prices in the next two/ three years. The longer and the higher inflationary pressure persists, the greater is the chance for wage-price spiral to gain a firm hold. Pursuance of tight monetary policy will be necessary to prevent the wage-price spiral from gaining strength.

h) Monetary Policy

Monetary policy stance of the SBP has undergone considerable changes over the last seven years, gradually switching from an easy monetary policy to the current aggressive tight monetary policy stance in view of higher inflationary pressures in the country. During FY 2007-08, the SBP continued with a tight monetary policy stance. During the first half of FY 2007-08, the SBP raised the policy rate by 50 bps to 10 percent effective from August 1st, 2007. Furthermore, the SBP zero rated the CRR for all deposits of one year and above maturity to encourage greater resource mobilization of longer tenor and 7 percent CRR for other demand and time liabilities. In the second half of FY 2007-08, the

SBP further tightened monetary policy by raising the discount rate by 50 bps to 10.5 percent. Furthermore, the CRR was raised for deposits up to one year maturity by 100 bps to 8 percent while leaving term deposits of over a year zero rated. In the light of a continued inflationary buildup and increasing pressures in the foreign exchange market, the SBP announced a package of monetary measures on May 21, 2008 that includes; (i) an increase of 150 bps in discount rate to 12 percent; (ii) an increase of 100 bps in CRR and SLR to 9 percent and 19 percent, respectively, for banking institutions (iii) introduction of a margin requirement for the opening of letter of credit for imports (excluding food and oil) of 35 percent, and (iv) establishment of a floor of 5 percent on the rate of return on profit and loss sharing and saving accounts.

In the outgoing fiscal year, domestic and external shocks of extraordinary proportions caused large slippages on the fiscal side. The domestic and external shocks not only increased the size of the fiscal deficit but they also changed the composition of financing. The borrowing requirements increased from Rs. 324 billion to Rs. 777.1 billion - an increase of 140 percent. External resource inflows were adversely affected by these shocks and, only Rs.151.3 billion were materialized against the budgeted level of Rs.193 billion. Pakistan could not complete the transaction of GDRs of the National Bank of Pakistan and could not launch sovereign and exchangeable bonds either. Furthermore, some of the lending from the multilateral banks could not be materialized. These developments had adversely impacted the external resource inflows which remained far below the budgeted level. Thus, the brunt of adjustments on the financing side fell on domestic sources. Against the budgeted financing of Rs. 131 billion from domestic sources, it increased to Rs. 625.8 billion. Within domestic sources, the bulk (*83 percent*) of financing came from banks while the remaining 17.0 percent came from non-bank sources. Most importantly, the borrowings from the State Bank of Pakistan reached an alarming level, which is posing serious complications for the conduct of monetary policy. On cumulative basis, the government has borrowed Rs.688 billion from SBP during the fiscal year 2007-08. Furthermore, credit to private sector grew by 16.5 percent as well during FY08 as against 17.3 percent in the same period of last year. Credit to private sector as percent of GDP is continuously rising since FY 2001-02.

In order to develop the bond market, and to reduce the cost of funds for financing the fiscal deficit in the long run, Government has started PIB auctions since December 2000. In FY 2006-07, the supply of long term government paper started to pick up pace as

the government started to hold primary auctions of PIBs in a more regular and predictable manner. Regarding long-term interest rates, an important development in FY 2006-07 was the extension of the yield curve to 30 years. Interest rates of long term government securities also registered an increase due to the upward revision of the discount rate, and the yield curve moved in an upward direction in the range of approximately 125 to 330 basis points. The SBP mopped up Rs.73.6 billion from the primary market of PIBs during FY 2007-08 as compared to Rs.87.8 billion in the same period of FY 2006-07.

i) Capital Markets

The Karachi Stock Exchange (KSE) is the biggest and most liquid exchange in Pakistan. The premier equity market is benchmarked through the KSE-100 index. A series of domestic and external shocks impacted the performance of Pakistan's stock market in the FY 2007-08. Political uncertainty, less than satisfactory security environment, and a disturbed law and order situation on the domestic front, an international financial market crisis and the downgrading of Pakistan's credit rating by Standard & Poor's and Moody's on the international front, have altogether played major roles in dampening the investors' sentiments in the Pakistan's economy.

Pakistan's stock market has emerged as one of the fastest growing markets in emerging economies in recent years. Local and foreign investors' confidence in the investment environment of Pakistan has boosted the index to peak highs. Pakistan's benchmarked stock market index - the Karachi Stock Exchange - KSE-100 index has increased from 13,772.5 points on June 30, 2007 to 12,289 points on June 30, 2008 – a fall of over 1,483.5 points or a decrease of 10.7 percent. Similarly, Aggregate Market Capitalization (AMC) has increased from Rs. 4,019.4 billion (US\$ 66.4 billion) on June 30, 2007 to Rs. 3,777.7 billion (US\$ 55.2 billion) on June 30, 2008, showing a fall of over Rs. 241.7 billion (US\$ 3.5 billion) or a decrease of 6.0 percent.

Notwithstanding the difficult domestic and external environments, the fiscal year 2007-08 has witnessed large-scale merger and acquisition activities. Several key takeovers have taken place in Pakistan's corporate sector during the year. These include: (i) acquisition of 65 percent strategic stake and management control in Worldcall Telecom by OmanTel, (ii) sell-off of 68 percent shares in Saudi-Pak Commercial Bank to an international consortium consisting of Bank Muscat, IFC and Nomura European

Investment Limited, (iii) acquisition of 15 percent strategic stake in Muslim Commercial Bank (MCB) by Malaysia's largest financial institution, Maybank, with a right to increase its stake to 20 percent after one year, (iv) and acquisition of 95 percent shares of ABN AMRO Bank worldwide by the Royal Bank of Scotland (RBS). These M&A activities, which have taken place at very attractive valuations, have provided support to the valuation in the stock market. Peer group companies' stock prices have also reacted as a result of these acquisitions. The Initial Public Offerings (IPO's) of Habib Bank Limited (HBL) and Arif Habib Bank Limited both came in 1.5x and 5.8x oversubscribed, which is an encouraging development.

j) Fiscal Policy

FY 2007-08 proved to be a difficult year for Pakistan, with several political and economic events transpiring unexpectedly. Due to the instability experienced at the onset of FY 2007-08, the fiscal deficit missed the target of 4.0 percent of GDP this year by a wide margin leading the hard earned macroeconomic stability underpinned by fiscal discipline to be threatened.

The FBR was assigned an ambitious revenue target of Rs. 1,025 billion for FY 2007-08. However, revenue collection efforts were seriously hampered due to political unrest in the country during most of FY 2007-08. In particular, the incidents of December 2007, accompanied with a severe energy crisis and long hours of load shedding, adversely affected industrial production. Resultantly, FBR also suffered a revenue loss of Rs. 35 billion. At the end of June 2008, the net collections reached Rs. 1002 billion, higher by 18.3 percent over the net collection of previous fiscal year, but short of the assigned target of Rs. 1025 billion. A detailed analysis reveals that the gross and net collection has increased by 14.7 percent and 18.3 percent, respectively. In absolute terms, the gross and net collections have gone up by Rs. 136.7 billion and Rs. 154.8 billion, respectively. The overall refund/rebate payments during FY 2007-08 amounted to Rs. 64.0 billion relative to Rs. 82.1 billion paid during the corresponding period of the last fiscal year. Among the four federal taxes, the highest growth of 26.4 percent was recorded in the case of federal excise receipts, followed by sales tax (21.4 percent), direct taxes (15.4 percent) and customs (13.8 percent).

Large slippages have occurred on the expenditure side mainly on account of subsidies on oil, power, fertilizer, wheat and other food items. In addition to this, the interest payment significantly

surpassed their targeted level. Oil subsidy was budgeted at Rs. 15 billion and the price of oil in the international market was US\$50-55 per barrel (Arab Gulf Mean) during the time of the preparation of the budget FY 2007-08. It was also assumed that the government would pass on the rise in international price of oil to domestic consumers. Two factors had a significant impact on the budgetary outlook for the year. Firstly, oil prices continued to rise at a greater pace, reaching as high as US\$ 130 per barrel in June 2008. Secondly, the lack of action on the part of the government aggravated the fiscal situation as the high international price of oil was not passed on to the domestic consumers. In addition, interest payments as well surpassed their targeted level by a significant margin. A sum of Rs. 375 billion was budgeted for interest payments in FY 2007-08. The year ended with interest payments of Rs. 490 billion — surpassing the target by Rs. 115 billion. These developments on the revenue and expenditure sides resulted in massive slippages in the overall fiscal deficit for the FY 2007-08. Against the target of Rs. 398 billion or 4 percent of GDP the overall fiscal deficit increased to 7.0 percent of GDP - the highest in the last ten years.

k) Public Debt

A larger gap in the fiscal and current account deficits cause the public debt to grow at a faster pace. Public debt as a percentage of GDP (a critical indicator of the country's debt burden), which stood at 85 percent in end-June 2000, has declined to 55.2 percent by end-June 2007 – a reduction of almost 30 percentage points of GDP in seven years. The declining trend in public debt is reversed in FY 2007-08, mainly on account of a widening of the fiscal and current account deficits and a sharp depreciation of the rupee vis-à-vis the US dollar. By end-June 2008, the public debt as percentage of full year GDP stood at 56.3 percent. More damage has, however, been done to public debt in the last quarter (April-June) of FY 2007-08, that is, a further widening of the fiscal and current account deficits, increased borrowing from domestic and external sources to finance the deficits, and a sharper adjustment to the exchange rate. The year 2007-08 ended with public debt at around 56 percent of GDP – marking the first time in a decade to see a reversal in trends. Public debt in rupee terms has increased by 15.8 percent in FY 2007-08. Public debt is a charge on the budget and, therefore, it must be viewed in relation to government revenues. Public debt stood at 589 percent of total revenues by end-June 2000 but declined to 393 percent by end-June 2008 – a reduction of 196 percentage points of revenue.

l) External Sector

Both the domestic and external environments play an important role in shaping the country's trade with rest of the world. The FY 2007-08 witnessed a series of developments, both on the domestic and external front, which adversely affected the country's overall balance of payments, including the trade balance. Pakistan's export performance has been impressive in recent years (FY 2002-03 to FY 2005-06) registering an average growth of 16 percent per annum. Pakistan's export performance was dismal in FY 2006-07 as it witnessed abrupt and sharp deceleration to less than 4 percent. When viewed in the back of last year's performance, exports did manage to recover somewhat this year but its performance has remained far short of the average growth of 16 percent achieved during FY 2002-03 to FY 2005-06.

Pakistan's imports grew at an average rate of 29 percent per annum during FY 2002-03 to FY 2005-06 on the back of strong economic growth, which triggered a consequential growth in investment and imports. However, import growth slowed to a normal level in the FY 2006-07 but registered a sharp pick up once again in the FY 2007-08 on account of an unprecedented rise in oil import bills and some one-off elements in the shape of imports of wheat and fertilizer.

m) Exports

Pakistan's exports suffer from serious structural issues, which need to be addressed primarily by the industry itself, with government playing its role of a facilitator. Textile is the backbone of Pakistan's exports but bears various tribulations. These include: (i) low value added and poor quality products fetching low international prices; (ii) the machinery installed in recent years has depreciated considerably relative to Pakistan's competitors; (iii) these machines are power-intensive, less productive and carry high maintenance cost; (iv) augmented wastage of inputs adding to the cost of production; (v) little or no efforts on the part of industry to improve their workers' skills; (vi) industry spending less money on research and development; and (vii) export houses lacking capacity to meet bulk orders as well as meeting requirements of consumers in terms of fashion, design and delivery schedule.

Overall exports recorded a growth of 13.2 percent during FY 2007-08. In absolute terms, exports have increased from US\$ 16.9 billion to US\$ 19.2 billion. Broad categories of exports suggest that with the exception of textile manufactures, all other categories

of exports registered stellar growth. For example, exports of food group were up by 38.4 percent; petroleum group exports registered an increase of 40.1 percent; exports of other manufactures and '*other items*' posted a handsome growth of 39.9 percent and 45.2 percent, respectively. Textile manufactures, accounting for almost 55 percent of total exports, performed poorly as it registered a decline of 2.1 percent.

Exports of the food group, accounting for 14.5 percent in total exports, grew by 38.4 percent. Within food group, rice, accounting for 65 percent, registered an impressive growth of 61.5 percent. Pakistan clearly benefited from the unprecedented rise in international price of rice and this is likely to continue in coming years since Pakistan is a net exporter of rice. Export of textile manufactures, accounting for 55 percent of total exports, not only registered a negative growth of 2.1 percent but also was a drag on the overall performance of exports. With the exception of raw cotton and other textile materials, all other major components of textile manufactures registered negative growth in FY 2007-08. The dismal performance of textile exports can be attributed, besides their structural issues, to rising cost of production owing to increase in domestic cotton prices and stifling power shortages; the deteriorating law and order situation in the country resulting in reported diversion of export orders to other countries; poor quality of cotton on account of contaminated cotton issue has also adversely affected the export of the spinning industry. Furthermore, textile exports appear to have also suffered from the slow down in the US economy, which has been the largest destination for Pakistani exports during the last few years. Export of the petroleum group, accounted for 6.2 percent of total exports. Export of petroleum products and Naphtha registered an impressive growth of 89.2 percent and 19.3 percent, respectively.

Unlike textile manufactures, exports of other manufactures, accounting for 19.5 percent of total exports, posted a stellar growth of 39.9 percent in FY 2007-08. Accordingly, it contributed over 50 percent to this year overall exports growth. The major performers under this category of exports include leather tanned; leather manufacturer; surgical goods; chemical and pharmaceutical products.

Pakistan's exports are highly concentrated in a few conventional items namely, cotton, leather, rice, synthetic textiles and sports goods. The degree of concentration has changed little from the last fiscal year. Like the concentration of Pakistan's exports in a few items, the country's exports are also highly concentrated in only

few countries. USA, Germany, Japan, UK, Hong Kong, Dubai and Saudi Arabia alone account for almost one-half of Pakistan's export. Continuing the past trend, these seven markets remained the major destinations for Pakistani export during the out going fiscal year. US remained by far the major destination for Pakistan's exports.

n) Imports

Imports during FY 2007-08 grew by 30.8 percent to US\$39.9 billion on the back of an extraordinary surge in the imports of petroleum products as well as imports of food group and raw material. Non-oil imports were up by 23.2 percent and non-oil and non food imports surged by 19.1 percent during the same period. Imports of food group were up by 53.5 percent in the FY 2007-08 mainly on account of unanticipated imports of wheat amounting to US\$ 819 million and an extraordinary surge (79.6 percent) in the imports of edible oil due to the sky-rocketing price of palm oil in the international market. Imports of food group accounted for 10.5 percent of total imports but contributed 15.6 percent in the overall growth of imports in the out going fiscal year.

Imports of machinery posted an increase of 14.2 percent in FY 2007-08 reaching to US\$4.3 billion. Within machinery group, imports of power generating machines; construction and mining machines and other machinery showed a substantial increase of 59.5 percent, 17.2 percent and 9.6 percent, respectively. Machinery group accounts for 10.9 percent of total imports but contributed only 5.8 percent in the overall import growth of this year.

Imports of the petroleum group witnessed an extraordinary surge at 55.1 percent, amounting to US\$11.3 billion. Petroleum group accounts for 28.4 percent of total imports but contributed 42.9 percent in the overall import growth for the year. The surge in imports of petroleum group has been the result of an extraordinary increase in the prices of POL products.

As in previous years, the imports of consumer durables registered an increase of 2.0 percent in FY 2007-08. The share of consumer durables in total imports stood at 5.3 percent in FY 2007-08 while its contribution to this year's import growth has been nil at best.

Imports of raw material, accounting for 26.8 percent of total imports, grew by 28.5 percent in FY 2007-08. Fertilizers, iron & steel scrap, plastic material, iron & steel, amounting for 38.8 percent of total raw material imports, grew respectively by 97.6

percent, 63.3 percent, 13.6 percent and 12.8 percent. Imports of raw material contributed 25.2 percent to the overall growth of imports this year.

Like exports, Pakistan's imports are also highly concentrated in few items namely, machinery, petroleum & petroleum products, chemicals, edible oil, iron & steel and fertilizer. These six categories of imports accounted for 73 percent of total imports during FY 2007-08. Pakistan's imports are also highly concentrated in few countries. USA, Japan, Kuwait, Saudi Arabia, Germany, the UK and Malaysia have been the major sources of Pakistan's imports since last ten years. During FY 2007-08, Saudi Arabia, followed by USA and Japan have been the major supplier of our imports.

o) Trade Balance

During the FY 2007-08, the merchandise trade deficit worsened sharply to US\$18.09 billion as compared to US\$ 13.5 billion in the same period last year. The surge in merchandise trade deficit owes to an outsized increase of 28.2 percent in imports that more than offset a modest export growth 3.4 percent.

p) Current Account Balance

Pakistan's current account deficit further widened to US\$ 14.0 billion (*including official transfers*) during FY 2007-08 against US\$ 6.8 billion last year, showing an increase of 103.7 percent. Even when compared to the size of the economy, the current account deficit was substantially high at 8.4 percent of GDP during FY 2007-08 as against 4.1 percent last year. The deterioration in the current account deficit mainly emanated from the sharply rising trade deficit along with increase in net outflows from the services and income account. The strong growth in current transfers on the back of impressive growth in remittances almost entirely offset the deficit in the services and income account, thereby leaving the trade deficit as the fundamental source of expansion in current account deficit.

A month-wise trend in current account deficit can be categorized into two distinct periods. In the initial four month (Jul-Oct) of FY 2007-08, the current account deficit averaged US\$737.5 million and depicted almost 15 percent (US\$518 million) improvement over the same period last year on the back of a small recovery in exports (non-textile) and slowdown in import growth. However, this improvement could not be sustained in the subsequent months

with current account deficit averaging US\$1439 million during November - April FY 2007-08 almost doubled compared to the initial four months. This deterioration in the current account deficit can also be viewed from the fact that Pakistan faced a high average price of crude oil, rising from US\$69 per barrel in July to US\$75 per barrel in the month of October 2007 but surged to US\$106 per barrel in April 2008. Such a massive surge in oil prices caused the monthly oil import bill to rise from US\$703 million in June 2007 to US\$1.3 billion in June 2008. These developments, along with imports of wheat and fertilizer, worsened the trade deficit as well as current account deficit.

q) Workers' Remittances

Workers' remittances registered commendable growth during FY 2007-08, growing by 17.4 percent to US\$6.4 billion as against US\$5.4 billion last year. Higher remittances have two favorable effects on the economy. Firstly, these inflows enhance local purchasing power, especially in rural areas and provide an important hedge against higher levels of domestic inflation. Secondly, they limit the deterioration in the current account deficit due to the worsening merchandise trade deficit caused by the high international price of oil. A major share in remittances growth came from United States, Saudi Arabia, United Arab Emirates, and other GCC countries. Together they accounted for over 78 percent of remittances, with the US taking the lead with 27.3 percent. Pakistan has emerged as the world's 12th largest remittances recipient country during 2007.

r) Foreign Exchange Reserves

Pakistan's total foreign exchange reserves stood at US\$ 11.2 billion as of end-June 2008 significantly lower than end-June 2007 level of US\$15.7 billion. During FY 2007-08, movement in foreign exchange reserves can be divided into two distinct periods. In the first period, reserves peaked to US\$ 16.4 billion at end Oct-2007 while the second period showed significant depletion of US\$ 5.2 billion during Nov-June FY 2007-08 due to net outflows from portfolio investment, and a steep rise in the current account deficit.

s) Exchange Rate

Pak rupee, after remaining stable for more than four years, experienced a depreciation against US dollar during FY 2007-08. The movements in the rupee-dollar parity largely followed the same pattern as witnessed in the case of reserves. During the first

four months of the outgoing fiscal year, Pak rupee remained more or less stable and depreciation in the value of rupee against the US dollar was only marginal. In contrast, Nov-June FY 2007-08 period saw a steep decline in the value of the rupee, mirroring pressures in the foreign exchange market, which arose after November, 2007 onwards. Besides the steep depreciation during FY 2007-08, the exchange rate also remained much more volatile, particularly in mid-December 2007 onward, which prompted the SBP to intervene in the market aggressively, helping reduce the day-to-day volatility in the exchange rate. However, these interventions were not aimed at arresting the fall in the value of Rupee against the US dollar. The month of April, and especially May, witnessed an even steeper decline while the exchange rate remained under pressure, breaching the Rs.64 per dollar mark in the month of April for the first time in six years. Pak Rupee came under intense pressure in the month of May 2008 on account of speculative dollar buying in the market, which prompted the SBP to take severe actions against the money changers to resist the sharp fall in the value of the rupee. The year, however, ended with Pak rupee at Rs. 62.54 per US dollar.

t) External Debt and Liabilities

High and rising external debt burden constitutes a serious constraint for development; a major impediment to macroeconomic stability and hence to growth and poverty reduction; and a discouragement to foreign investment because it creates a high risk environment and exchange rate depreciation. Developing countries, like Pakistan, would need to borrow to finance their development; however, they need to enhance their debt carrying capacity as well. However, the borrowed resources must be utilized effectively and productively so that it generates economic activity.

Pakistan's total stock of external debt and foreign exchange liabilities (EDL) grew at an average rate of 1.2 percent per annum during FY 2001-07, rising from US\$37.2 billion in end-June 2001 to US\$40.5 billion by end-June 2007. However, during FY 2007-08, the stock of EDL rose to US\$46.2 billion - an increase of US\$5.8 billion or 14.3 percent, the highest increase in almost one decade. It is important to note that Pakistan's external debt is contracted in various currencies but for accounting purpose, it is reported in equivalent of US Dollar. Therefore, any movement in exchange rates, especially against US Dollar, would translate into changes in the dollar value of the outstanding stocks of EDL. Pakistan has benefited immensely from the exchange rate

translation effect in the past. Unfortunately, Pakistan was on the receiving end of the translation effect in the FY 2007-08 because US Dollar depreciated against Japanese Yen, Euro, and then SDR. Notwithstanding, the rise in EDL in absolute terms, the burden of the debt, defined in various ways, has declined over the years. The EDL as percentage of GDP declined from 51.7 percent in end-June 2000 to 28.1 percent by end-June 2007 and further to 27.6 percent by end-June 2008. Similarly, EDL, as percentage of foreign exchange earnings, declined from 297.2 percent in end-June 2000 to 121.6 percent in end-June 2006, but exhibiting an increasing trend thereafter reaching to 127.1 percent by end-June 2008. Furthermore, EDL was 19.3 times of foreign exchange reserves in end-June 2000 but declined to 2.7 times by end-June 2005 and exhibiting an increasing trend thereafter reaching to 3.4 times by end-June 2008.

u) Poverty and Income Distribution

The income-consumption module of the Pakistan Social and Living Standard Management (PSLM) Survey provides basic information for measuring the incidence of poverty and distribution of income. Until the first half of the FY 2007-08, the latest estimates available to gauge poverty situation in the country was related to the FY 2004-05. Based on PSLM 2004-05 survey, poverty was estimated at 23.9 percent as compared with 34.5 percent in 2000-01- an improvement of 10.6 percentage points in four years. *It is important to note that the estimates of poverty from PSLM 2005-06 would depict the socio-economic conditions that prevailed during the fiscal year 2005-06. These estimates have nothing to do with current ground realities, which have been impacted by the surge in food and fuel prices, poor agricultural performance and slower economic growth.*

The Center for Research on Poverty Reduction and Income Distribution (CRPID) / Planning Commission estimated the Headcount ratio based on PSLM 2005-06 survey with a view to updating the benchmark of poverty estimates for Pakistan. The latest estimate of inflation-adjusted poverty line is Rs.944.47 per adult equivalent per month, up from Rs.878.64 in FY 2004-05. Headcount ratio i.e. percentage of population below the poverty line has fallen marginally from 23.94 percent in FY 2004-05 to 22.32 percent in FY 2005-06, an improvement of 1.62 percentage points. Poverty in rural areas declined from 28.13 percent to 27.0 percent, showing an improvement of 1.13 percentage points between FY 2004-05 and FY 2005-06. Poverty in Urban areas also registered a decline from 14.94 percent to 13.1 percent during FY

2004-05 and FY 2005-06, thereby depicting an improvement of 1.84 percentage points in the period. Poverty estimate in urban areas became less than half the rural estimates in FY 2005-06 for the first time since 1998-99. *It is important to note that a decline of 1.6 percentage points in poverty Headcount between FY 2004-05 and FY 2005-06 is found statistically insignificant.* Notwithstanding marginal and statistically insignificant improvement in poverty Headcount during FY 2004-05 and FY 2005-06, the consumption inequality during the period has increased marginally to 0.3018 as measured by the Gini coefficient. It may also be noted that consumption inequality is continuously on the rising trend since FY 2000-01, rising from 0.2752 to 0.3018.

These developments will likely be a major contributor to eroding the gains of poverty reduction. Whether these shocks will have any bearing, and to what extent, on the poverty profile of the country in 2007-08 will only be known once the income-consumption module of PSLM 2007-08 will be available sometime in the last quarter of FY 2008-09.

E) EXPENDITURE WING

In accordance with new computerized system of budgeting, accounting and reporting under the PEFRA project, the Budget Call Circular, (containing the procedure and time schedule for submission of Revised Estimates (RE) 2007-08 and Budget Estimates (BE) 2008-09 was issued by the Budget Wing in October, 2007. This system is based on a New Accounting Model (NAM) and a new Chart of Accounts (COA) in place of the existing Chart of Classification (COC). In light of the Budget Call Circular, comprehensive parameters / guidelines were issued to FA's Organization for processing / scrutiny of RE 2007-08 and BE 2008-09 for current expenditure in respect of Ministries / Division / Departments. In order to streamline process of financial scrutiny of REs/BEs, frequent meetings were held with FAs / DFAs to sort out and settle issues with regard to finalization of the budget estimates. The budget for the FY 2008-09 is the out come of the aforesaid exercise under the new system.

F) EXTERNAL FINANCE AND ECONOMIC REFORMS UNIT (ERU) WINGS

The External Finance Policy Wing supervises and coordinates policy making of the External Finance Sector. It negotiates with the International Financial Institutions and governments on issues

related to restructuring of foreign loans and flotation of capital and equity market instruments. Optimal allocation of Foreign Exchange to meet the requirements of Federal Government Divisions, Corporations, Provincial Governments, Public Sector Organizations and Defense Services also constitute an important responsibility of the External Finance Policy Wing. Another major task of the External Finance Wing is to formulate / compile the Pakistan's Poverty Reduction Strategy Paper (PRSP). Economic Reforms Unit (ERU) also functions under the External Finance Wing where the main responsibility is to accomplish targets of economic reforms.

Details of the above and other functions of the External Finance Wing are discussed in the following paras:

a) Economic Reforms Unit (ERU):

Economic Reforms Unit (ERU) was established with the approval of the Prime Minister aimed at achieving the following objectives:

- To formulate a Private Sector Development Strategy;
- To review laws, rules and regulations pertaining to the business environment those are obsolete, overlapping, inconsistent or unduly add to the cost of doing business;
- To act as Quality Filter for new regulations and propose changes that stimulate private sector development, improve transparency, reduce costs and are consistent with international best practices;
- To establish a Better Business Advisory Council (BBAC), comprising representatives from both the private and public sector to advise the government on priorities for private sector friendly reforms at the national, provincial and local levels; and
- To develop a prioritized sector wise reform plan and a roadmap with benchmark for its effective monitoring and implementation, supported by funding interventions, wherever necessary.

The ERU work plan as suggested by Foreign Investment Advisor Services (FIAS) caters to the establishment of the ERU team, comprising Private Sector Development Specialists to be headed by a Director General. Evaluation of the existing system and considering the formation of Better Business Advisory Council has not yet been initiated. However, ERU at its own had initiated the

selection of BBAC members. The formation of BBAC and Cabinet Committee on Private Sector Development is still under consideration.

In the meantime the Prime Minister established Economic Advisory Council (EAC) to provide independent advice on the formulation and implementation of economic policies and reforms agenda (the council meets on first Thursday of every month). ERU was declared Secretariat of the Economic Advisory Council on 15th May, 2008. Since then, the ERU has been providing Secretariat support to the Council. This included preparation of minutes, assistance in organizing meetings and all coordination work. EAC has issued its initial report and also constituted eight committees for examining important issues relating to eight initiatives, which includes:

- Stabilization of Macro Economic Indicators;
- Food Safety / Safety Net;
- Agriculture;
- Power and Energy;
- Human Resource Development;
- Trade / Manufacturing Competitiveness;
- Public Private Partnership; and
- Capital Markets / Financial Sector Reforms.

ERU would also provide assistance to these committees and sub committees.

The Prime Minister also established the Daily Economy Monitoring Committee to analyze various economic indicators. The committee meets on every Monday, Thursday and Saturday. ERU was declared Secretariat of the Committee on 18th July, 2008. Since then, the ERU has been providing Secretariat support to the Committee.

Besides, ERU is also engaged with the World Bank on the following studies:

- Doing Business Indicators at Sub-National Level
- Insolvency and Creditors Right (ICR) Report on the Observation of Standards and Codes (ROSC) in Pakistan

b) External Finance (C&B)

External Finance Wing has done preparatory work relating to the launching of Exchangeable Bond in the International Capital Market and Shariah – consistent rupee denominated Sukuk in the domestic capital market.

The process in respect of Pakistan Exchangeable Bond was initiated in December, 2007. About 11 leading financial institutions made their presentations and based on their recommendations, it was decided that the bond may be launched once the conditions in the capital markets become favorable.

The spade work for raising funds through issuance of Shariah – consistent rupee denominated Sukuk has also been completed. A consortium of M/s Dubai Islamic Bank and Standard Chartered Bank has been appointed as Lead Managers. Faisalabad – Pindi Bhattian Motorway (M-3) has been identified as underlying asset for the Sukuk. The transaction is expected to launch during the first quarter of the FY 2008-09.

c) External Finance (Policy)

i) Poverty Reduction Strategy Paper (PRSP) - I

To arrest the high and rising trend of poverty in Pakistan at the start of the new millennium, the Government of Pakistan formulated an Interim Poverty Reduction Strategy Paper (I-PRSP) in November 2001, which after further refinement was evolved into the Poverty Reduction Strategy Paper (PRSP) in December 2003. With the PRSP having successfully completed its three years of implementation, the government finalized the PRSP-II in January, 2009 which will take into account the recent socio-economic developments. During the PRSP-I term (December 2003 to 2006), 17 pro-poor sectors were identified under five broad headings¹ and have remained the basic framework and main vehicle to channel funds for poverty reduction. The government regularly monitors these expenditures and their respective indicators, the foundation of which lies in the salient pillars of the PRSP-I:

- i. Accelerating Economic Growth in a Stable Macroeconomic Environment;
- ii. Improving Governance and Devolution;

¹ (i) Market access and community services, (ii) Human development, (iii) Rural development, (iv) Safety nets, and (v) Governance.

- iii. Investing in Human Capital; and
- iv. Targeting the Poor and the Vulnerable

ii) **Budgetary Expenditure**

Data on budgetary expenditure is derived from federal and provincial civil accounts. The PRSP Secretariat has, from time to time, published input / expenditure data that encompasses all three tiers of the Government i.e. national, provincial and district (available for some but not all provinces). While data at the National and Provincial levels has been regularly reported, district data was previously not available. However, now with the change from the Chart of Classification based upon the legacy system to the Chart of Accounts based upon the New Accounting Model, developed under the Project for Improvement of Financial Reporting and Auditing (PIFRA), it has now become possible, at selected sites, to separately account for district expenditures. This innovation in classification has been accompanied by the shift to districts of the operation of selected heads of expenditure, notably those pertaining to the sectors of education, health, water and sanitation etc.

The Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005 stipulates that social sector and poverty related expenditures should not fall below 4.5 percent of the GDP in any year and that the budgetary allocations to the education and health sectors in terms of GDP should be doubled over the next 10 years ending in FY 2012-13. The PRSP expenditure as a percentage of GDP has shown an upward trend over the past six FYs (2001-02: 3.8 percent, 2002-03: 4.32 percent, 2003-04: 4.63 percent, 2004-05: 4.81 percent, 2005-06: 4.93 percent, and 2006-07: 4.89 percent). During FY 2007-08, budgetary expenditure on pro-poor sectors amounted to Rs. 572.6 billion, representing 5.46 percent of the GDP. Cumulative PRSP pro-poor expenditure (budgetary and non-budgetary) during FY 2001-08 amounted to Rs. 2,432 billion. The GDP figures at market price for FY 2001-02, FY 2002-03, FY 2003-04, FY 2004-05, FY 2005-06, FY 2006-07 and FY 2007-08 in Rs. million amounted to 4,401,699, 4,822,842, 5,640,580, 6,581,103, 7,623,205, 8,723,215 and 10,478,194 respectively².

Table: Budgetary Poverty Related Expenditure by Sectors:

² Source: Economic Adviser's Wing, Finance Division

FY 2001-02 to FY 2007-08

Sectors	Expenditure (Rs. Million)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Roads, Highways & Bridges	6,340	13,145	22,746	35,181	53,248	60,003	84,825
Water Supply and Sanitation	4,644	3,421	5,799	6,538	10,338	16,619	19,817
Education	66,290	78,447	97,697	116,873	141,702	162,084	182,646
Health	19,211	22,368	27,009	31,426	39,203	53,166	61,127
Population Planning	1,331	3,120	4,689	4,578	10,229	7,002	13,322
Social Security & Welfare	3,664	1,301	4,144	2,030	7,575	4,513	18,942
Natural Calamities	189	410	529	922	19,148	5,008	7,728
Irrigation	10,133	15,535	22,506	37,871	59,819	74,771	83,493
Land Reclamation	1,838	1,733	2,016	2,111	2,673	2,348	3,130
Rural Development	12,325	16,883	18,607	15,369	15,040	22,175	23,334
Rural Electrification	0	0	1,422	4,354	1,000	2,499	2,748
Food Subsidies	5,513	10,859	8,513	5,359	6,021	5,455	54,872
Food Support Programmes	2017	2017	2,804	2,703	3,081	3,458	4,370
Khushal Pakistan Fund*	800	800	590	78	-	20	1420
Low Cost Housing	0	0	423	318	305	299	597
Justice Administration	1,981	2,196	2,437	3,116	5,642	5,081	7820
Law and Order**	31,004	36,293	39,370	47,416	1,115	2,088	2,429
Total Budgetary	166,074	209,043	261,301	316,243	376,139®	426,680®	572,620

Source: PRSP Secretariat, Finance Division, 2008

® Refers to revised figures.

* Expenditure for FY 2001-07 relates to Tawana Pakistan Programmes

** Based on actual expenditure for FY 2006-08.

In addition to budgetary expenditure, non-budgetary expenditure and programmes are also part of the Poverty Reduction Strategy Paper, elaborated below. The PRSP is about bringing the poor and the vulnerable people and regions into the mainstream of development and to make progress in reducing existing inequalities. Direct Transfers are the major tools for targeted interventions to benefit the poor. Under direct transfers, PRSP monitors disbursement to the poor through the following four sources:

- **Zakat:** During the FY 2007-08, Zakat disbursement was Rs. 4.1 billion while the number of beneficiaries was 2.0 million.
- **Pakistan Bait-ul-Mal (PBM):** Amount disbursed by PBM increased from Rs 3.84 billion in FY 2005-06 to Rs 5.52 billion in FY 2007-08, benefiting around 2.1 million households. Being the largest Programmes of PBM, total disbursement under FSP increased from Rs 3.1 billion in FY 2005-06 to Rs 4.4 billion in FY 2007-08, benefiting 1.5 million households.
- **Employees Old Age Benefits Institution (EOBI):** Disbursement through Employees Old Age Benefits Institution (EOBI) increased from Rs 2.9 billion in FY 2005-06 to Rs 4.2 billion in FY 2007-08 with the number of beneficiaries decreasing from 281,000 in FY 2005-06 to 273,000 during FY 2007-08.

Table: Direct Transfers and Beneficiaries (FY 2001-02 to FY 2007-08)

Programmes	Disbursement/ beneficiaries	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08
Zakat	Amount disbursed (million Rs)	5254	8009	5330	3692	4520 ®	4612	4090
	Total beneficiaries (000)	1710	1754	1639	1370	2373 ®	2494	2007
Pakistan Bait- Ul-Mal (all Programmes)*	Amount disbursed (million Rs)	-	-	3159	3270	3838	3911®	5521
	Total beneficiaries (000)	-	-	1614	1671	3130	1460®	2129
Micro- credit**	Amount disbursed (million Rs)	1049	2518	3034	5431	6655	9947	13138
	Total beneficiaries (000)	100	216	286	470	606	906	1154
EOBI	Amount disbursed (million Rs)	1366	1592	1742	1929	2899 ®	3446®	4227
	Total beneficiaries (000)	NA	108	115	121	281 ®	260®	273
All Programmes	Amount disbursed (million Rs)	7669	12119	13265	14322	17912 ®	21916®	26976
	Total beneficiaries (000)	1810	2078	3654	3632	6390 ®	5120®	5563

Source: For Zakat: Ministry of Religious Affairs Zakat and Ushr, for Pakistan Bait-Ul-Mal: Ministry of Social Welfare and Special Education, for EOBI: Employees' Old Age Benefits Institution, Head Office Karachi.

* Includes Food Support Programmes as given in budgetary expenditure

**Comprise of ZTBL (uptill FY 2005-06 only), Pakistan Poverty Alleviation Fund (PPAF) and Khushali Bank. ® indicates revised figures for the given year.

- **Micro-Credit:** PRSP monitors the disbursement of micro-credit through three major sources; Khushali Bank, Pakistan Poverty Alleviation Fund (PPAF) and Zarai Taraqati Bank Limited (ZTBL). Micro-credit disbursement increased from Rs. 6.7 billion in FY 2005-06 to Rs. 13.1 billion in FY 2007-08, whereas the total beneficiaries increased from 606,000 in FY 2005-06 to 1154,000 in FY 2007-08.

iii) **Going Forward: PRSP-II**

The Finance Division has finalized the Poverty Reduction Strategy Paper (PRSP)-II built around the lessons learnt from PRSP-I (2003). This PRSP is one of the prior actions for Poverty Reduction Economic Support Operations (PRESO) with the World Bank amounting to US \$500 million. The PRSP-II chalks out the government's comprehensive nine-point economic reform-poverty reduction agenda including: (i) Macroeconomic Stability and Real Sector Growth; (ii) Protecting the Poor and the Vulnerable; (iii) Increasing Productivity and Value Addition in Agriculture; (iv) Integrated Energy Development Programmes; (v) Making Industry Internationally Competitive; (vi) Human Development for the 21st Century; (vii) Removing Infrastructure Bottlenecks through Public Private Partnerships; (viii) Capital and Finance for Development; and (ix) Governance for a Just and Fair System.

Pakistan's PRSP is a fully participative process, incorporating the views and suggestions of all stakeholders – government, development partners, civil society and the poor communities. The government believes not on growth per se but pro-poor growth, which is essential to address the challenges of unemployment and poverty. Major emphasis will be on commodity producing sectors namely, agriculture and manufacturing, and high employment intensity sectors such as housing and construction, and small and medium enterprises.

iv) **SAARC Development Fund (SDF)**

The 14th Summit of the South Asian Association for Regional Cooperation (SAARC) held in New Delhi on 3-4 April, 2007, it laid down specific guidelines for the creation of the SAARC Development Fund (SDF). Final Agreement for the establishment of SDF was signed by the Foreign Ministers of the member states during the 15th SAARC Summit held on 2-3 August, 2008. The Fund offers concessional and non-concessional funds as well as grants to contribute to regional cooperation and integration through

project collaboration with an aim to reduce poverty in the SAARC Region.

The Charter and the Bye-Laws of SDF have been finalized. Initial paid-up capital of the SDF is SDR 200 million to be subscribed by the Member States in accordance with proportion of the assessed contribution to the SAARC Secretariat Budget. Pakistan's share in the initial paid-up capital comes to SDR 45.04 million. The total size of the Fund would be SDR 1000 million.

v) Third Party Evaluation of PIFRA-I

The Project for Improvement of Financial Reporting and Auditing (PIFRA) was originally approved by Executive Committee on National Economic Council (ECNEC) on 20-03-1996 at a total cost of Rs.2118.018 million (US\$ 37.499 million) consisting of IDA Credit US\$ 29.285 million and GoP share US\$ 8.214 million. It was sponsored by the Ministry of Finance and executed by office of the Auditor General of Pakistan and Controller General of Accounts. The project (PIFRA-I) was in line with the government's vision statement' and strategy to address problems in accounting and auditing by introducing policy changes and aimed at improving and integrating government financial management at Federal and Provincial levels. While approving the PIFRA-II as a sequel to PIFRA-I, the ECNEC decided that M/o Finance would undertake the Third Party Evaluation (TPE) of PIFRA-I.

Pursuant to the ECNEC decision, M/o Finance awarded the worked regarding TPE of PIFRA-I on 27th October, 2007 to M/s Ford Rhodes Sidat Hyder & Co (FRSH). The consultants have submitted 4 monthly reports and the draft of the final report in June, 2008.

vi) Finance Division's Component under PIFRA-II

Introduction to PIFRA-II

The Government of Pakistan has strong commitment to improve Public Financial Management system in the country and to enhance the capacity of the audit and accounts organizations so as to ensure effective utilization of public funds. In order to achieve this objective, the Project for Improvement and Financial Reporting and Auditing (PIFRA-I) was launched on March 20, 1996. Subsequently PIFRA-II was approved as a sequel to PIFRA-I by ECNEC on August 4, 2005 for the duration of 5 years i.e.

2005-06 to 2009-10 with a total cost of US\$ 93 million. The objectives of the project are to:-

- Build capacity to improve accuracy, comprehensiveness, reliability and timeliness of financial and fiscal reporting at all levels of government.
- Improve public financial management, accountability and transparency.
- Enhance the capacity of public sector managers to use credible financial information for better and informed decision-making
- Facilitate oversight of the use of public money and increase national and international credibility of government's financial statements and assurance processes.

Finance Division's Component of PIFRA-II

Under the Component 'Project Management' PIFRA-II provides an amount of US\$ 2.0 million for the contingencies of Federal Ministry of Finance and all four provincial finance departments to be utilized during the currency of the project. The amount of US\$ 0.4 million is to be spent within M/o Finance on PIFRA-related activities, which include Training, Development Expenditure and Financial Management Integrated System (FMIS) in order to enhance fiscal reporting and monitoring activities.

Activities envisaged under PIFRA-II Component:

The major activities to be concluded by the next financial year under the component include:

- Local Training on PIFRA System, System Application Product (SAP) Software, New Accounting Model (NAM).
- Reimbursement of fees regarding local degree programmes / courses
- Foreign training courses.
- Training courses for the Human Resources Development Wing of Finance Division in the fields of Quality and Function.
- Payment to the external auditors for International Standard Organization (ISO) 9001:2000 Certification in Finance Division.

- Interactive search software for books of Rules and Regulations of Finance Division.
- Establishment of Rules Updation Cell by employing Legal Officers, Data / Web Experts, Library Assistant.
- Upkeep of PIFRA Implementation Unit established in EF-Policy Wing.

vii) Implementation of National Gender Reform Action Plan Project (INGRAP)

Ministry of Finance is one of the five implementing partners with the Ministry of Women Development for implementation of the national Gender Reform Action Plan (GRAP) Project which was approved by the Cabinet on 25th May, 2005. It is an umbrella project and Finance Division has been entrusted to implement the following components:-

- Institutional Restructuring
- Policy Reform
- Supporting Financial & other reforms
- Capacity Development Intervention related to Institutional Restructuring
- Capacity Development Interventions related to Policy & Supporting Financial Reforms
- Women Employment in Public Sector Establishments

Overall objectives of the INGRAP are to promote access of women to the economic, political and social fields at the national, provincial and district levels especially to:

- help improve status of women
- promote processes leading towards equal participation of women at all levels of governance
- assure effective implementation of gender equality in relation to international commitments
- enhance women participation in governance
- ensure positive contribution of stakeholders towards the goal of Gender Mainstreaming & Equality

Gender Development Section, Finance Division has got the brochures of INGRAP components of Finance Division printed and has completed the requirements for award of contract regarding following studies:

- Study 1:** Study of the impact of structural adjustment, free trade and Poverty Reduction Strategy Paper (PRSP) on women in Pakistan.
- Study 2:** Development of mitigation strategies and defined gendered safety nets as part of the PRSP process, aimed at countering the feminization of poverty.

These two studies are designed to produce recommendations for changes at the country level in response to the structural reforms that would improve PRSP interventions to impact on women positively. The studies aim to provide a comprehensive review / report with solid and practicable recommendations and action plan to improve the implementation of policy. A comprehensive gendered risk mitigation strategy based on existing policies & programmes with detailed recommendations on increasing outreach and targeting of existing Programmes and developing synergies will be an output of this process.

Reforms to be implemented through GRAP are designed within contemporary development paradigm with women empowerment at its centre, and with a view to enhancing the participation of women across gender and governance spheres through public sector machinery, institutions, policies and budgets by enhancing effective participation of stakeholders in the process. Finance Division, in partnership with civil society organizations, is devising strategies to reinforce envisaged outcome of achieving gender equality through areas of interventions of the Programmes in consultations with Care International in Pakistan, Plan International, Bedari, and Sustainable Development Policy Institute (SDPI).

viii) Public Sector Capacity Building Project

The Public Sector Capacity Building Project (PSCBP) was approved on July 27, 2004 at a total planned outlay of US\$ 61 million (Rs.3,538 million) and being implemented in 20 Federal Ministries / Divisions, 4 Regulatory Authorities and 2 Provinces.

Objectives

The prime goal of the Public Sector Capacity Building Project (PSCBP) is to improve the capacity of the Government of Pakistan at all tiers to implement its ongoing Economic Reforms

Programmes. Focusing on the strategic area, the project has the following three primary objectives:

- i. Broad-based professional development of public sector / officers and strengthening in-country training institutions
- ii. Capacity enhancement in key Ministries / Divisions / Agencies, which are in the forefront of designing, implementing and monitoring policy reforms
- iii. Strengthening of Regulatory Authorities

Achievements

The achievements made under the Umbrella Project during the year are as under:

S.No.	Particulars	Target	Achievements
01	Officers trained	5343	4250
02	Consultants Recruited	65	55
03	Studies undertaken	35	28

Entity-wise Position

Federal Board of Revenue (FBR)

The Federal Board of Revenue was allocated an amount of US\$ 6 million (Rs.348 million) under the Public Sector Capacity Building Project duly approved by ECNEC and all the activities envisaged in the PC-I have been accomplished. The PC-IV of the project has also been prepared and is in the process of approval. Towards this end, a Large Taxpayer Unit (LTU) was setup in Lahore, which is now fully functional. Further five Medium Custom Taxpayer Unit (MTUs), and the Model Custom Collectorate (MCC) Care Pilot was also established. In addition, the Taxpayers Educational and Facilitation Centers are functional and media campaigns are under way.

Civil Service Reforms Unit (CSRU)

The Civil Service Reforms Unit with an allocation of US\$ 23 million (Rs.1334 million) has been created under Establishment Division to work on finalizing and implementing the civil service reforms programmes of the government. The aim of the initiative

is to produce/highly skilled, professionally competent, and target oriented civil service. This unit is specifically involved in the Professional Development Programmes and Executive Development Programmes and other aspects of pay & pension reforms in collaboration and coordination with the Finance Division and other stakeholders.

National School of Public Policy (NSPP)

The NSPP has been established by merging all the existing Federal Government Training institutions. Key area of focus includes curriculum reforms, infrastructure support, and evaluation and improvement of pre-service training Programmes in general. The initiatives are being taken to improve service delivery of the Government servants.

Federal Public Service Commission (FPSC)

The key area of support includes strengthening of entry level examination process, management of promotion examinations, handling of promotions, curriculum development and undertaking needs analysis in coordination with Establishment Division and National School of Public Policy and strengthening education and research.

Finance Division

Besides strengthening the skill gap, a new initiative under this project is creation of Debt Policy Coordination Office (DPCO), which is responsible for formulation of Debt and Fiscal Policies as stipulated in Fiscal Responsibility and Debt Limitation Act (FRDLA), 2005. Both policies were prepared and presented to the National Assembly as per provisions of the Act in January, 2007 & 2008. Moreover Power Cell has been created to analyze the matters related to Public Sector Entities (PSEs) and Power Companies. Another initiative undertaken is the updation & modernization of Books of Rules and Regulations of the Finance Division. These Books have been updated and a consultancy firm has been hired to modernize these books, which will ultimately facilitate the Government and its functionaries to a greater extent.

Commerce Division

An amount of Rs. 58 million was allocated to the Commerce Division under the PSCBP. The project aims at developing the capacity of Commerce Division to fulfill GoP's

obligations under World Trade Organization (WTO), to develop country position on emerging issues relating to WTO, to develop data cell / digital library in the Ministry of Commerce and the capacity to assist the business sector in trade remedy laws and trade related issues. Overall 54 short term foreign trainings have been completed, while the 150 short term local trainings are in the process of finalization in consultation with the local Universities / Institutions, such as Pakistan Institute of Development Economics (PIDE), Foreign Trade Institute of Pakistan (FTIP) etc. For the establishment of a digital library in the Commerce Division, an Information Technology Consulting Firm has been hired, which has to complete its work within one year.

Ministry of Water & Power

An amount of Rs. 87 million was allocated to the Ministry of Water and Power under the PSCBP. Several activities have been initiated by the Ministry of Water and Power to accomplish long term vision for a reformed and a restructured power sector to transform the integrated state owned utilities into professionally managed, competitive, financially viable, and efficient system of electric power generation, transmission and distribution with the participation of private sector; to reform power market and provide a level playing field to all players in the market; and to enhance access to electricity and quality services at affordable prices. Besides this, services of consultants have also been hired for different studies.

Planning & Development Division

An amount of Rs. 313.2 million was allocated to P & D Division. The project aims at strengthening Planning Commission's capacity as a planning and monitoring agency. This involves capacity building to plan, design and appraise implementation and monitoring of development projects as well as poverty assessment and impact analysis.

Ministry of Industries, Production & Special Initiatives

The NSCC has allocated Rs. 58 million to the Ministry of Industries, Production and Special Initiatives. The project aims at strengthening industrial policy formulation and analysing improved capacity building through training; to assist the Ministry in updating of Industrial Policy and preparing an action plan for translating the vision of Industrialization Strategy into reality; to coordinate and interact with other agencies, departments and

ministries, provincial governments, the private sector and research institutes as well as bilateral and multi-lateral donors for the development and formulation of policy; to strengthen evaluation & monitoring of development projects through capacity building of the Ministry by hiring professionals for an interim period and strengthening of Ministry of Industries, Production and Special Initiatives officers through international/local training; and to impart them with modern and relevant training in Industrial Management.

Ministry of Petroleum & Natural Resources

Ministry of Petroleum & Natural Resources has been allocated an amount of Rs. 58 million. A total of 30 officers have availed the opportunity of training under this project. A localized training course was also arranged by the Ministry of Petroleum & Natural Resources on “Multi Disciplinary Inland Foreign Training” and one local course “Project, Planning, Appraisal, Implementation and Management” was also arranged.

Economic Affairs Division

An amount of Rs.58 million has been allocated to the Economic Affairs Division. The project shall coordinate with the Donors in loan negotiations, managing / maintaining external debt and donor funded projects and project different debt relief scenarios under different assumptions of debt servicing to assist the debt sustainability profile of the government in the future years.

Board of Investment & Investment Division

Board of Investment (BOI) & Investment Division was allocated an amount Rs. 29.0 million for capacity building of the institution. Under this project BOI is undertaking investment promotion through media campaign, promoting Pakistan as investment destination, image building through holding investment conferences and seminars within and outside the country and inviting investment delegations from abroad.

Regulatory Authorities Capacity Strengthening

A number of capacity building activities are being implemented by regulatory authorities i.e. NEPRA, PPRA, OGRA, PTA, which are helping these Regulatory Authorities to bridge their skill gap. For the purpose, an exchange Programmes of

international regulatory experts, consultants /advisors has been undertaken.

National Electric Power Regulatory Authority (NEPRA)

NEPRA received a share of Rs. 58 million under the Public Sector Capacity Building Project. The project aims at enhancing NEPRA's capacity to regulate the natural monopoly aspects of the electric power sector; develop a competitive structure for electric power generation; and ensure reliability and adequate supply of electric power. Skill development and development of regulatory institutions are to be the key areas of focus. Under this project 27 officers have been trained so far.

The Public Sector Capacity Building Project of PPRA was approved on May 11, 2004. An amount of Rs. 58 million was allocated for the purpose and PPRA initiated project activities as envisaged in the approved PC-I, which includes improving the capacity of PPRA in developing an institutional framework for procurements in the public sector to ensure transparency. PPRA has launched a series of training Programmes on the Public Procurement Rules, 2004. At least two programmes are being conducted every month at Islamabad in collaboration with various procuring agencies of the Federal Government. Selection of suitable foreign courses for the capacity building of PPRA's officers is under process. The officers shall proceed for training after completion of procedural formalities.

Oil & Gas Regulatory Authority (OGRA)

An amount of Rs. 58 million was allocated to the Oil and Gas Regulatory Authority to strengthen its capacity to improve ability to foster competition, encourage private investment and ownership in the sector and to deal with challenges arising from the proposed restructuring of the gas sector. Under the PSCBP, in house training Programmes for OGRA employees have been initiated and 140 officers have been trained during the year. The training Programmes have been tailored in a way to meet the professional requirements of the utility regulators and to serve as a forum for dissemination of the best regulatory practices being followed throughout the world.

Pakistan Telecommunications Authority (PTA)

PTA received a share of Rs. 62.8 million under the Public Sector Capacity Building Project. Major portion of the allocation is used for hiring consultancy services for the implementation of telecommunication sector reforms and training and scholarships to PTA officers. The focus of the project is to strengthen capacity to regulate the telecommunication sector and implement the telecom deregulation policy, which will open all market segments within the industry for private investors. PTA participated in this project with the aim to strengthen capacity to improve functioning and to improve the overall regulatory environment.

Provinces

Government of Punjab

Government of Punjab received a share of Rs.116 million out of the umbrella project for institutional strengthening and capacity building of its officers. Subsequently, Government of Punjab requested to enhance the limit to accommodate the additional requirements for short term foreign training, therefore, an additional amount of Rs. 58.0 million was allocated.

Government of Balochistan

An amount of Rs. 23.20 million was allocated to the Government of Balochistan to improve the capacity building of its officers.

Other Entities

Women Development Division, Cabinet Division, Statistics Division, Privatization Division, Competition Commission of Pakistan (CCP), KANA Division, Railways Division and the Ministry of Petroleum (Mineral Wing) have also been allocated funds for capacity building of their institutions and they are in the process of undertaking procedural formalities.

G) FINANCE DIVISION (MILITARY WING)

Finance Division (Military Wing) deals with preparation, execution, monitoring of Defence Budget and expenditure relating to the Armed Forces, Inter Services Organizations, Defence Production Establishments procurement of all defence equipment and all other related matter pertaining to them. Finance Division

(Military) has performed the assigned job in accordance with the laid down procedures/instructions and set targets including budget estimates as well as revised estimates and expenditure relating to development projects and miscellaneous stores during FY 2006-07. It is felt that it would not be appropriate to divulge the nature of all its cases/contracts and activities, being classified in nature and financed from classified defence budget. However, it is worth mentioning that while concurring all purchase proposals due care has been exercised for optimum utilization of available resources by applying different financial techniques to get best value for the money. In addition, achievements in other main areas are highlighted as under:-

a) **Budget Allocation / Expenditure**

During FY 2007-08, fifteen cases for Technical Supplementary Grants were processed and approved by competent authority. REs 2007-08 and BEs 2008-09 of the Armed Forces and Allied Departments were scrutinized in detail and on the recommendation of Finance Division (Military) Substantial reductions were made by Finance Division in the Defence Services Budget 2008-09 against their demands, it mitigated the burden on public exchequer. Service-wise/Head-wise expenditure was monitored carefully to keep the expenditure within sanctioned grant.

b) **Accounting of Defence Expenditure**

Defence expenditure/receipts are classified under twenty one main heads and a large number of sub heads, minor heads and detail heads. To cope with the day to day requirements changes are carried in the classification hand book. All proposals on this account were examined carefully to ensure transparency in reporting/booking of expenditure.

c) **Purchase of Stores**

i) Endeavor are always made to meet the operational requirements of the armed forces within the allocated resources. In this regard, extra efforts were made by persuading the procurement agencies to generate healthy competition among the competitors in order

to achieve best possible rates for the desired equipment and technologies for armed forces of Pakistan.

- ii) Indigenization efforts are being supported to provide opportunity to our private sector industry to compete the defence market.

d) **Development Projects**

To bolster our defence, various projects are prepared by services HQs/DP establishment and submitted to Finance Division (Military) for appraisal. It is highly professional job, which requires well trained staff having expertise in a project appraisal field. Financial appraisal of the project is carried out to ensure optimum utilization of resources. Proposals about manpower, equipment and support services requirements are scrutinized on the basis of financial analysis techniques and modern HRM practices.

e) **Miscellaneous Activities and Achievements**

- i) Optimum efforts were made to facilitate armed forces and attached departments of Defence Division for timely flow of finances, strictly within the parameters of existing rules and regulations.
- ii) The trend of expenditure was closely monitored throughout the year to pre-empt over expenditure by the Departments/Services.
- iii) In case where public interest was involved, efforts were made to hold to the tenants of natural justice, without compromising the interests of the state.
- iv) Funds were released in time.
- v) To enhance the performance of this Division, most of the Wings/Sections have been provided / equipped with latest equipment.

f) **Programmes of Activities / Targets**

- i) Timely disposal of all cases.
- ii) Strict adherence of relevant financial regulations and procedures in finalization of cases including financial concurrence.
- iii) Finalization of REs 2007-08 and BEs 2008-09 with due regard to economy in expenditure.
- iv) All the targets assigned to this Division were achieved well in time and within the stipulated period with no pendency at the end of last financial year i.e 30th June, 2008.

H) HUMAN RESOURCE DEVELOPMENT WING:

Under the ISO 9001:2000 Quality Management System being implemented in Finance Division, the following four Quality objectives and thirteen metrics have been assigned to HRD Wing:-

Objective 1 To continuously enhance the core competence of Finance Division

- 1.1: Measure the core competence of the officers of the Finance Division against the benchmark.
- 1.2: Measure the core competence of the officials of the Finance Division against the benchmark.

Objective 2 To enhance the capacity of human resource in the Finance Division.

- 2.1: Average foreign training days per person per year (officers)
- 2.2: Average local training days per person per year (officers)
- 2.3: Average local training days per person per year (officials)
- 2.4: Foreign training cost per person per year (officers)
- 2.5: Local training cost per person per year (officers)
- 2.6: Local training cost per person per year (officials)

Objective 3 Ensure Capacity Building through a bi-annual training plan.

- 3.1: Number of persons schedule for training.
- 3.2: Number of personnel trained against the training schedule.
- 3.3: Number of training courses undertaken against the courses planned.

Objective 4 Evaluate the training outcome.

- 4.1: Measure and rate participants' comments on training provided.
- 4.2: Measure and rate feedback of the immediate supervisors of trainees.

The laid down 'targets' and 'actual realization' for the FY 2007-08 in respect of each metric is given as under:-

Objective 1 To continually enhance the core competence of the Finance Division

Metric No.	Metric Description	Target 2007-2008	Achieved 2007-2008
1.1	Measure the core competence of the officers of the Finance Division against the bench mark.	35%	25.61%
1.2	Measure the core competence of the officials of the Finance Division against the bench mark.	27%	17.50%

Objective 2 To enhance the capacity of human resource in the Finance Division

Metric No.	Metric Description	Target 2007-2008	Achieved 2007-2008
2.1	Average foreign training days per person per year (officers)	2%	4.39%
2.2	Average local training days per person per year (officers)	1%	2.02%
2.3	Average local training days per person per year (officials)	0.75%	1.91%

2.4	Foreign training cost per person per year (officers)	0.21 (Rs. in million)	0.21 (Rs. in million)
2.5	Local training cost per person per year (officers)	0.0097 (Rs. in million)	0.00078579 (Rs. in million)
2.6	Local training cost per person per year (officials)	0.000218 (Rs. in million)	0.0002062 (Rs. in million)

Objective 3 To ensure capacity building through a bi-annual plan

Metric No.	Metric Description	Target 2007-2008	Achieved 2007-2008
3.1	Number of persons schedule for training	129	96
3.2	Number of personnel trained against the training schedule on functional and management quality nature.	84	96
3.3	Number of training courses Functional and Management/ Quality undertaken against the courses planned.	14	52

Objective 4 To evaluate the training outcome

Metric No.	Metric Description	Target 2007-2008	Achieved 2007-2008
4.1	Measure and rate participants comments on training provided	77%	77%
4.2	Measure and rate feedback of the immediate supervisors of trainees	67%	70%

I) INTERNAL FINANCE WING

a) State Bank of Pakistan (SBP)

The urgency for macroeconomic stabilization is now evident throughout the economy, which has been severely buffeted by the concurrent unfolding of several adverse developments, particularly through Second Half (H2) – FY 2007-08, and into the initial

months of FY 2008-09. Global shocks such as an extraordinary and unanticipated rise in food and energy commodity prices disruptions in the international financial markets as well as domestic shocks and policy decisions contributed significantly to the imbalances in the economy during FY 2007-08.

Domestic production was hit by the energy shortages, disappointing harvest of some key cash crops, and policy uncertainty during the transition of governments. Consequently, real GDP growth declined to 5.8 percent in FY 2007-08, down considerably from the 6.8 percent growth recorded in the previous year. Weaker domestic production coupled with strong domestic demand and commodity prices shocks led directly to rising inflationary pressures, a widening current account deficit, declining foreign exchange reserves, rising public debt, a depreciating rupee, etc.

The escalation in inflationary pressures was particularly strong in H2 – FY 2007-08. Annualized CPI inflation soared to 12 percent during FY08 compared with 7.8 percent in the preceding year. The rise in CPI inflation had been muted during the initial months of FY 2007-08, reflecting the effect of earlier monetary tightening by SBP. Notwithstanding, inflationary pressures then rose sharply as: (1) demand-supply imbalances worsened; and (2) the impact of the record increases in international commodity prices was also particularly strong in Pakistan, as the country's ability to absorb the shocks was constrained due to large fiscal and external current account deficits. The consequent acceleration in inflationary pressures (as evident by a surge in CPI inflation Year-on-Year (YoY) from 7.0 percent in June 2007 to 21.5 percent by June 2008) quickly swamped repeated moves by the SBP to further tighten monetary policy and improve its transmission.

Monetization of the large (7.4 percent of GDP) FY08 fiscal deficit aggravated inflation. During FY 2007-08, the government borrowed Rs.688.7 billion from SBP for budgetary support, which is around 90 percent of the total financing requirement of the government for the year. As a result, the stock of MRTBs with SBP reached Rs.1,053 billion by end-June 2008 from Rs.452.1 billion at end-June 2007.

Fiscal accounts reflected strains since FY 2004-05, however, given continued improvement in debt indicators, a sharp increase in developmental spending and earthquake related expenditures generated political acceptability of fiscal expansion and complacency regarding its implications for macroeconomic

stability. The slippage in fiscal accounts during FY 2007-08 is clearly unsustainable due to its adverse impacts on external accounts, inflationary outlook and debt indicators. The abrupt expansion of the fiscal deficit in FY 2007-08 reflects the combination of a slide in fiscal discipline, substantial maturities of very expensive domestic debt as well as the consequences of a subsidy on some key prices in the economy. This raises some important considerations:-

- First, sustainable economic growth requires that fiscal expenditures (particularly discretionary spending) be closely linked to the available resource envelope.
- Second, significant effort is needed to increase tax elasticity and buoyancy. Wherever possible, public expenditure must be focused on the provision of public goods and addressing market failures only.
- Third, the government needs to reduce its role in the determination of key prices in the economy.

The demand impetus from the fiscal deficit and high international commodity prices, contributed to a worsening of the external current account. External current account deficit reached a record high of US\$ 14.1 billion (8.4 percent of GDP) in FY 2007-08 relative to only US\$ 7.0 billion (4.8 percent of GDP) in the previous year. The impact of this sharp deterioration in Pakistan's external account was further exacerbated by a decline in the financial account surplus during the period.

The pressures on the economy have only intensified in the initial months of FY 2008-09, as seen in all key macroeconomic indicators, and downgrades of the country's sovereign credit ratings. Inflation is persisting at 25 percent levels in October 2008, with food inflation touching a staggering 31.7 percent YoY. The inflationary pressures appear to be supported by the continued monetization of the deficit. Government budgetary borrowings from the central bank during Jul-Nov FY 2007-08 reached Rs.378.9 billion as compared to Rs.74.7 billion in the same period last year. The growth of the external account deficit has also accelerated sharply. It grew 98 percent YoY to reach almost US\$ 6.0 billion during Jul-Oct FY 2008-09 as compared to US\$ 3.0 billion in the corresponding period last year. At the same time, international financing flows have also dropped sharply to a mere US\$ 1.1 billion from US\$ 3.1 billion in Jul-Oct FY 2007-08,

reflecting weakening fundamentals of the domestic economy and the deepening international financial crisis.

The drain on the country's foreign exchange reserves, therefore, accelerated. The falling reserves put substantial pressure on the exchange rate and drained liquidity from the interbank rupee market (as the central bank mopped up domestic currency against the provision of forex liquidity). Liquidity drain was so great that interest rates in the money market spiked and triggering rumors of a runs on banks. The SBP, therefore, moved promptly to diffuse the liquidity risks by easing statutory reserve requirements and taking other measures.

Recent decline in commodity prices reflects a mixed blessing.

The recent broad-based decline in international commodity prices appears to offer significant relief on the external account in months ahead. However, as the decline in international commodity prices reflects the expectation of substantial economic slowdown in key exports markets, there is a risk that the overall trade deficit may not shrink as sharply as anticipated. Also, lower international commodity prices may not help reduce inflation. This is because the substantial depreciation of the rupee in recent months would raise import prices in rupee terms.

Thus, in the short-run, policy measures to shrink aggregate demand appear unavoidable.

A combination of contractionary fiscal and monetary policies may also need to be supported, in the short-term only, by restrictive trade regime. If a moderation in demand can be implemented successfully, this would allow for a much-needed sharp contraction of both fiscal and current account deficits as percentage of GDP in FY 2008-09. As a consequence, real GDP growth is likely to fall well below the initial target level for FY 2008-09. The impact of demand management policies on inflation will appear with some time lags. Headline inflation is likely to accelerate above 20 percent during FY 2008-09, before witnessing a fall.

In the medium to long-term, to achieve a sustainable high growth and low inflation, country also needs to support investment by moving to remove structural bottlenecks, reduce the cost of doing business and increase productivity. This is not easy task and requires implementation of well sequenced structural reforms, introduction of second generation reforms as well as attention to promoting public-private investment partnerships to develop physical infrastructure and human capital.

Investment in physical and human resources is another important area for productivity gains. For example, Pakistan has enormous potential in increasing productivity in agriculture. Improvement in training and agri-extension services to gain benefits through increased use of certified seeds, use of appropriate mix of nutrients, mechanization of different activities from land leveling to harvesting, and use of low-water production techniques, may help manifold increase in productivity. Similar, opportunities are available in other segments of the economy.

Correcting the deterioration in macroeconomic imbalances is certain to entail difficult trade offs, and the reforms will likely require disciplined implementation over an extended period, as the economy wears off the stresses from accumulated imbalances and adjusts to a tougher operating environment. However, history also shows us that appropriately planned and sequenced reforms can offer rich dividends, improving the resilience of economy to shocks and allowing more sustainable long-term growth.

b) National Bank of Pakistan (NBP)

Financial Year 2007-08 has been an outstanding year for the bank, recording the highest profit in its history. Wide range of product offerings, large branch network and committed workforce are some of the fundamental strengths that enacted to achieve exceptional results in a very competitive market. Combined with its unique domestic and international footprints, capitalizing on the largest balance sheet and customer base in Pakistan with high cross sell potential, NBP's stand alone AAA rating, its return on equity, which is amongst the highest in the Asian banking industry, and its comfortable capital adequacy ratios have enabled NBP to enjoy a leadership role in the industry.

	Amount (Rs. in Million)		Absolute Growth (Rs. in million)		%age Growth	
	2008	2007	2008	2007	2008	2007
Tier Capital ¹	64,557	48,321	16,236	15,586	33.6	47.6
Assets	762,194	635,133	127,061	57,414	20.0	9.9
Advances	340,667	316,110	24,567	47,272	7.8	17.6
Deposits	591,907	501,872	90,035	38,446	17.9	8.3

Pre-tax profit	28,061	26,311	1,750	7,255	6.7	38.1
After-tax profit	19,034	17,022	2,011	4,313	11.8	33.9
Earnings per share (in Rs.)	23.34	20.88	2	8	11.8	56.8
Return on average equity – Pre tax profit	45.9%	58.0%	-12.1%	-2.2%	-20.9	-3.7
Return on average equity – after tax profit	31.1%	37.5%	-6.4%	-2.6%	-17.1	-6.5
Cost to income ratio	0.30	0.32	(0.02)	(0.02)	-5.2	-7.2
NPLs net of cash provision as a % of total loans	1.8%	2.1%	-0.4%	0.1%	-17.8	7.0
Cash provision / NPLs	84.4%	81.4%	3.0%	-2.7%	3.7	-3.2
Net NPLs as a % of total assets	0.8%	1.1%	-0.3%	0.1%	26.1	14.5

i) Profitability of the bank

The pre-tax profit increased to Rs. 28.06 billion, an increase of 6.6 percent over last year. The earnings per share increased by 11.7 percent from Rs.20.88 in FY 2006-07 to Rs. 23.34 in FY 2007-08. Pre-tax return on equity stood at 45.9 percent, whereas pre-tax return on assets stands at 4.1 percent and cost to income ratio of 0.30 remained one of the highest in the sector. The achievements are plausible despite the fact that NBP had to make additional provision of over Rs.3 billion as a result of withdrawal of Forced Sales Value (FSV). This year NBP also availed the offer to redeem up to 10 percent of its holding in NIT Units held by the bank under Letter of Comfort (LoC) arrangement. This sell-off resulted in a capital gain of Rs. 1.8 billion.

Increase in pre-tax profit was achieved through strong growth in core banking income. The net interest income increased by Rs. 3.5 billion (11.5 percent) due to better yields and volume driven growth spurred by increase in consumer loan portfolio. Dividend

income and capital gains also made a healthy contribution as it increased by Rs. 371 million and Rs. 1,145 million over FY 2006-07 respectively, mainly owing to higher dividends from NIT Units as well as capital gains recorded on sell of 10 percent NIT Units. Advances increased by Rs. 25 billion due to impressive contribution by all business units. Deposits increased by a healthy Rs. 90 billion or 18 percent over last year. The bank's NPL provision coverage ratio also stands at an impressive 84 percent

ii) Achievements in the Investment Banking

NBP's investment banking focuses on origination and execution of project finance, corporate finance, divestitures, financial restructurings, mergers & acquisitions assignments and associated financing solutions. This, combined with the bank's corporate banking expertise, ensures that the bank is able to provide its clients with a complete suite of financing that includes project and structured finance, debt capital markets & syndication, advisory and leveraged finance.

In the FY 2007-08, NBP climbed the ladder to reach the leading position in investment banking despite the challenges and competition in the growing market. It is worthwhile to mention that the bank's Investment Banking Group structured, arranged and executed 35 transactions valued at Rs.220 billion, which has led to the significant enhancement in the fee earnings of FY 2007-08.

We are constantly capitalizing on our resources and expertise in order to anticipate our customer needs and provide them with innovative solutions that are relevant to continuity and growth.

iii) Achievements in Small & Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) remain the main area of focus for NBP and are considered the future growth driver. The growth of SME is important as they generate higher yields and are expected to be a high growth sector in the near- term. The services available to SMEs are similar to those provided to our corporate / commercial customers, including, but not limited to working capital finance, term lending, trade finance, letter of credits and guarantees.

NBP's growth strategy for SMEs revolves around developing a better understanding of the SME market, increasing market penetration through our existing products and newly tailored ones and increasing our capacity to provide SME-specific services to our clients.

c) **First Women Bank Limited (FWBL)**

i) **Background:**

First Women Bank Ltd. (FWBL) was incorporated in November 1989 and commenced operations in December 1989. FWBL is a nationalized commercial bank and a developmental financial institution catering to the special banking needs of women, as such the Bank is a unique financial institution in the world, run and managed by women for the women. FWBL credit policies are designed to promote asset ownership and are customized to the specific economic needs of women, in line with its Charter:-

“Undertaking the conduct of all forms of business of a Banking Company in a manner designed to meet the special needs of women, and to encourage and assist them in promotion and running of trade and industry and practice of profession”.

FWBL has a wider vision than any other commercial bank to cater to women’s economic needs and to encourage them into trade, business, industry and the practice of their professions, to promote economic prosperity and self-reliance in women of urban and rural areas, with the mission:-

“To transform the status of women from passive beneficiaries to dynamic agents of change”.

FWBL is the pioneer bank to launch micro-credit in Pakistan in 1990. The Bank believes that micro-credit alone is not sufficient for empowerment of women; as such the Bank’s micro-finance is complemented by support services. FWBL caters to women at all economic levels of Micro, SME and Corporate clients. The Bank believes that a ‘micro-borrower’ of today, is a potential ‘SME’ and a ‘corporate client’ of the future.

ii) FWBL's Model: bridging the Gap between Micro and Small & Medium Enterprises (SMEs)

(Rs. in Million)

Consolidated Position of Disbursement								
1989 - 2000					2001 – June 2008			
	No. of Borrower	% of Borrower	Amount	% of Amount	No. of Borrower	% of Borrower	Amount	% of Amount
Micro	15,181	78.94	493.9	11.93	19,7554	74.84	386.5	2.90
SME	4,051	21.06	3,646.4	88.07	6,584	24.96	8,766.8	64.80
Corporate	-	-	-	-	22	0.08	3,378.0	25.00
Syndicate	-	-	-	-	27	0.10	999.0	7.40
Total	19,233	100.00	4,140.3	100.00	26,387	100.00	13,531.2	100.00

Grand Total (1989 – June 2008) 45,620

The bank has the best outreach to women during the last seven years (2001 – June 2008) Rs.13.53 Billion disbursed to 45,620 no. of borrower, amounting to Rs.10.55 Billion with 78% financing to women.

- **Credit Products for Women:** FWBL's unique credit products are customized to the specific business & economic needs of women - 'Business Loan for Women', 'Loan for Salaried Women', 'Educational Loan', 'Consumer Loan', 'First Car', 'First Home', etc.
- **Support Services for Women:** The Bank recognizes that access to credit alone is not sufficient to economically empower women. FWBL's credit products are complemented by support services offered through **Business Centres** with components of specialized skill training and business management courses and **Computer Literacy Centres**, which played a very important role in developing computer skills amongst urban poor, unemployed and businesswomen. Computer Literacy Centre's and Business Centre's are currently being upgraded and refurbished.
- **Financial Services Desk (FSD):-** The most powerful product with the core purpose to truly identify, support, and empower women in business with five important facets – Legal Counseling, Tax Consultancy, Marketing, Credit Management and Trade Finance. FSD helps women to empower themselves by providing them technical and legal advice on company's registration, taxation, accountancy and bookkeeping issues to manage and grow their business and gives directions to use the loans to their best advantage, besides offering fast track processing of credit proposals.

- **Collaboration with Canadian International Development Agency (CIDA):** for three-years' financial support of Rs. 6.754 million for Financial Services Desks at Karachi, Lahore and Islamabad, and grant of Rs. 17.340 million for extensive staff training. To date 319 women bankers of FWBL have been provided need-based extensive training in banking through IBP. During the year, 130 officers and executives were provided need-based trainings, including "Effective Branch Management" training in which five managers of FWBL obtained the top positions.
- **Collaboration with International Labour Organisation (ILO-IPEC) combating child labour in the carpet weaving industry:** in the districts of Gujranwala, Sheikhpura and Hafizabad. The Programmes has financed women micro-borrowers in 162 villages, identified 42 micro-businesses, established 830 new micro-business units, provided skilled training to 1594 rural women, distributed micro-credit of Rs. 30.78 million to 2,921 women living below the poverty line. A total of 5,842 children had been weaned from child labour and around 16,000 children educated through non-formal educational centres.
- **Collaboration with MoWD – 'National Fund for Advancement of Rural Women':-** The Ministry of Women Development has collaborated with FWBL for economic empowerment of rural women, involving total cost of Rs. 35 million for the three years pilot project with revolving credit line of Rs. 20 million.

The major objectives of the project are creation of employment opportunities, improvement in income level of women living below the poverty line, focus on creating linkages for development, packaging and marketing of local/ agro-based products and services and revival of the traditional arts and crafts. The project has disbursed Rs.31.776 million to 2,727 women living below the poverty line, with an average loan size of around Rs.12,000 and 957 women had been trained in income generating skills.

iii) **FWBL's Financial Performance 2001 – June 2008:**

The Bank achieved highest ever results in all key financial components, during the last 7 years from 2001 to June-2008 and demonstrate Turn-around through its three-pronged strategy of

‘operational strengthening’, ‘improved management’ and ‘focus on women development’.

FWBL’s Financial Performance 2001 – June 2008

(Rs. in million)

FINANCIAL PERFORMANCE:	Balance as at 31-12-2000 11 Years	Balance as at 30-06-2008 18 ½ Years	Financial Turnaround	
			Growth 2001 – June-08 7 ½ Years	Increase/ (Decrease) %
Net Equity	110	<u>1,071</u>	<u>961</u>	<u>873.6</u>
Balance Sheet Size/ Total Assets	3,870	<u>8,037</u>	<u>4,167</u>	<u>107.7</u>
Deposits	3,398	<u>6,396</u>	<u>2,998</u>	<u>88.2</u>
Advances (Gross)	604	<u>3,187</u>	<u>2,583</u>	<u>427.7</u>
Investments / Lending to FI’s	763	<u>3,331</u>	<u>2,568</u>	<u>336.6</u>
Funded – Per Party Limit	20	<u>211</u>	<u>191</u>	<u>955.0</u>
Consolidated profit before tax	20	<u>1,538</u>	<u>1,518</u>	<u>7,590.0</u>
Net assets value per share (in Rupees)	5.50	<u>37.80</u>	<u>32.3</u>	<u>587.3</u>
M.C.R. (CAR)	14.60%	<u>42.63%</u>	<u>28.03</u>	<u>192.0</u>

The Bank earned highest cumulative pre-tax profits in 7 ½ years (2001 – June-2008) of Rs.1,538 million, an increase of 7,590 percent over 11 years. The pre-tax profits earned in 11 years (1989-2000) was Rs.291 million with a loss of Rs.271 million, as such the cumulative net profit was Rs. 20 million for 11 years.

During the 7 ½ years 2001 – June-2008, the Bank has cleaned-up its infected balance sheet, wiped out accumulated losses of Rs. 138 million by April 2003, absorbed burden of additional provisions of Rs. 352 million, due to shortfall in provisions relating to the years prior to 2001 and also strengthened its internal operations.

The Bank achieved all targets for the FY 2007-08. At year-end deposits were Rs. 7,569 million against target of Rs. 7,000 million; Advances Rs. 3,129 million against a target of Rs. 3,100 million; and profit Rs. 238.422 million against the target of Rs. 220 million.

iv) FWBL's Operational Performance June 2001 – June 2008

To strengthen the systems of internal control, the Bank developed manuals/ polices & procedure, which were approved by the Board of Directors: 'Treasury Manual – November 2003', 'Investment Policy – November 2003', 'Audit Manual – December 2003', 'Guidelines/ Policies and Brochures for Consumer Products – December 2003', 'Country Risk – March 2005', 'Credit Manual – November 2005', 'Policies & Guidelines for Acquisition & Disposal of Assets – November 2005' and 'Maturity-wise Distribution of Deposits & Other Accounts – November 2005'.

The management had established new divisions and hired experienced & qualified professionals since 2001: 'Central Audit & Inspection – August 2001', 'Treasury – January 2002' 'Human Resource – March 2002', 'Finance & Planning – February 2002', 'Segregation of credit division into 'Corporate & Syndicate, 'SME' and 'Micro-Finance' – April 2002', 'Risk Management and Credit Monitoring Cell – March 2003', 'Treasury operations/ Settlements Back Office – March 2003', 'Marketing – September 2003', 'General Administration – February 2004', 'Compliance – July 2004', 'Operations – December 2005',

The Bank had automated entire network of 38 branches by March 2004. To provide quality service to its customers and to compete with the aggressive technological advancement in the industry the Bank has initiated the process of on-line banking and installed ATMs at main branches in Karachi, Lahore and Islamabad, which are connected on real-time basis to over 2000 ATM linked with MCB's - Mnet / 1-Link. With the introduction of SWIFT, inter-bank fund transfer is now possible in line with the banking industry innovations and the Bank is prepared for implementation of "Real Time Gross Settlement" system.

v) Challenges for 2008 & Future Outlook

The crucial challenges being faced by the bank are the internal constraints, due to limited resources and external challenges such as uncertain status, applicability of BNA, lowest paid-up capital, and prolonged inability to meet the minimum capital requirements since 1998. The Bank's focus is to concentrate on the following key areas:-

- Improvement of customer services, marketing skills and close liaison with local business organizations and various

women oriented business - universities, schools, hospitals, lawyers, NGOs and other similar women organizations.

- Aggressive marketing campaign for the credit products: Business Loans for Women, Salaried Loans for Women and Financial Services Desk.
- Our focus is in sync with government's priorities such as lending to SMEs and agricultural credit and micro-finance.
- In line with the Bank's vision statement, the Bank will aggressively continue customized staff trainings to develop an aggressive and dynamic team women bankers.
- Several Human Resources Management and Development initiatives are planned for the future. The introduction of an automated Human Resources Information System will enable the effective tracking of all staff qualifications and experience, providing information for effective Talent Management, Succession Planning and "Work Life Balance" is another area of focus of the female workforce of the Bank.
- Competency based learning initiatives will be introduced to develop skills of staff, and will be cascaded throughout the Bank. These initiatives will provide a solid foundation for the long term sustainability of the Human Resources Assets of the Bank.
- The Bank has plans to further strengthen its IT infrastructure by up-grading core banking applications, offering new products, such as e-banking, Phone Banking, Call Centre, Internet Banking, Utility Bills payment, Point of Sale terminals, Debit Cards, automation of Head Office and centralization of MIS.
- The Bank continues its efforts to comply with the challenges of Basel II accord, the strengthening of internal control systems, and alignment of processes/ procedures for effective risk management.

d) Small & Medium Enterprises (SME) Bank Limited

i) Pakistan's SME Sector

Small and Medium Enterprise (SME) Sector plays an important role in generating and sustaining economic growth in many countries today. Pakistan falls into the category of countries where the potential of SMEs has not been fully exploited. The SME sector has neither acted as the engine of growth nor as a conduit for structural change. SME exports largely tend to dominate the low value-added sectors that rely on traditional technologies and suffer from low productivity. In Pakistan, SMEs account for about

30 percent of country's GDP with 15 percent share of investment and 80 percent of non farm employment. Besides creating jobs for country's male population, the sector is perhaps the biggest employer of female workers.

ii) Definition of SME

Small & Medium Enterprises (SME) as defined by SBP means an entity ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if trading/ service concern) and also fulfills the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:-

- a. A trading / service concern with total assets at cost excluding land and building upto Rs.50 million.
- b. A manufacturing concern with a total assets at cost excluding land building upto Rs.100 million
- c. Any concern (trading, service or manufacturing) with net sales not exceeding Rs.300 million as per latest financial statement

iii) Problems Faced by SMEs

The major constraints faced by the SMEs in their development include an unfavorable business environment, the lack of SME-friendly tax and prudential regulations, cumbersome legal framework, obsolete technology with consequent low productivity, high utility bills and a lack of effective management & marketing skills. Above all, SMEs do not have easy access to institutional credit, which is a major impediment in enhancing investment, business growth and introduction of innovation in this sector.

iv) GoP's Efforts for the Sector

As a vital part of its economic agenda, the Government of Pakistan now accords high priority to the development and promotion of small and medium enterprises (SMEs) in order to tap its full potential and make it a vibrant sector of the economy.

Policy emphasis on SMEs by GoP is justified because these:-

- Foster an entrepreneurial culture and provide resilience in the economy against global economic fluctuations.
- Dominate the fastest growing export sub-sectors.
- Are an important vehicle for poverty reduction and equitable wealth distribution.

- Contribute significantly to the economy in terms of GDP and help in sustaining higher growth rates

The Government's initiatives include the following:-

- Major effort being undertaken to revise the Factories Act of 1934, the main reference for enterprise legislation.
- A new Industrial Relations Ordinance, issued in September 2002, which is the first of a set of six laws amalgamating more than 50 labour related laws.
- Establishing simple business registration and offering a number of financial incentives to facilitate SMEs entry into the formal economy.
- Establishment of a deregulation commission under the chairmanship of the Minister for Commerce to review existing labour, industry, and taxation laws and regulations.
- Improving quality controls measures to achieve competitiveness.
- Enhancing export readiness of SMEs.
- Supporting and revamping of SMEDA (Small & Medium Enterprise Development Authority).
- Organizational Review of Export Promotion Bureau for enhancing its supportive role to promote exports of the SME products.
- A major development that has taken place recently is that in 2005, the State Bank of Pakistan has formulated a new set of prudential regulations. These regulations are aimed at removing the major irritants being faced by the SMEs in their access to credit from the formal sector.
- SME development policy has been launched.
- Hassle free SME business development concept being encouraged by GoP.

v) SME Policy 2007

Having reached macro economic stability in the first five years of the new millennium, the GoP is now looking at second-generation economic reforms to trigger economic growth and reduce poverty. It is realized that the policy interventions implemented during the last five years, though essential, are not sufficient to foster broad based economic growth. Nonetheless, the fiscal space created, as a result of the strict financial discipline enforced in past few years, provides GoP with an opportunity to invest in supporting private sector led economic growth initiatives. This growth, if well distributed amongst various geographical regions and social population groups, may address the three main economic challenges

faced by Pakistan today i.e.

- Poverty;
- Job creation; and
- Rural development.

GoP has identified SMEs as one of the four priority areas for economic growth. The Poverty Reduction Strategy Paper (PRSP) and the Medium Term Development Framework (MTDF) clearly proposes SME development as a key policy option for poverty reduction and private sector development.

The Government is taking a number of measures for private sector development including liberalization of economy, investment promotion; export facilitation, financial sector reforms , capital market reforms and creation of a conducive business environment. There is, however, a need to create an SME focus amongst these policy initiatives to allow significant accrual of economic gains for the SME sector. Interventions focused at SME led private sector development will not only contribute to higher growth rates but will also ensure that the inequalities in income generation and accumulation of wealth are addressed. Inclusion of marginalized groups and geographical areas are mandated by higher incidence of poverty e.g. 34.7 percent in rural areas as compared to 20.9 percent; urban areas. Also an SME led strategy will allow a wide geographic and sectoral spread for investments and job creation including rural areas of the country.

An SME led private sector growth strategy is also in line with the lessons learned in the 1960s industrialization process during which although GDP growth rates of 6.0 + were achieved but the skewed income distribution resulted in rising poverty. The 1960s strategy was primarily based on support to large-scale manufacturing.

The SME Policy Task Force thus recommends that private sector led economic growth strategy should be primarily based on SME development. To achieve this objective a coherent policy framework is presented in recent SME policy document.

The task force feels that unleashing the entrepreneurial potential of the people of Pakistan is the basis on which fast and sustainable economic growth can be achieved.

The policy framework is expected to contribute in enterprise growth based on the human capacity and market opportunities available in the country.

vi) Small Business Promotion - Historical Perspective

While developing the policy framework the task force reviewed the past initiatives in this area. The various levels of the Government in Pakistan have in the past promotion policies formulated and to an extent implemented small-scale business. However, these policies were limited in their scope, to begin with, and are not in line with the dynamics of present time.

Government of Pakistan initiated small industries promotion through formation of the West Pakistan Small Industries Corporation. Although the Corporation created an impact in its early years yet its Provincial success did not sustain its contribution due to various limitations. The following features of the Provincial Small Industries Corporations make them inappropriate and insufficient in present time:-

- Over emphasis on industrial and manufacturing activities with little focus on service sectors.
- Over emphasis on 'hardware' support (land, electricity, machinery, etc. with little or no emphasis on 'software' support i.e. information, business development services, etc.
- Lack of coherent policy framework that determines the role of all relevant stakeholders other than the dedicated institutions created for small scale industry support.
- Lack of complimentary skill development initiatives. The Youth investment, Yellow Cabs and self-employment promotion initiatives of the 1980s and 1990s followed the small-scale industrial promotion policy of the 1960s and 1970s. These schemes were limited in scope and designed as such that they did not address the core issues of enterprise development and employment growth and suffered from political manipulation accruing to bad loan portfolios of banks and loss of public funds. These schemes contributed little in economic growth and employment creation. In some ways these initiatives created the mindset of the banking community that is to date, responsible for a cautious stance towards SME financing in Pakistan.

vii) SME Development - Recent Steps by the Government

In the recent past SMEDA stands out as a significant step towards GoP commitment to SME development. It is created as an

autonomous institution with private sector led governance structure. SMEDA promises to become an important institution spearheading Government's SME development efforts. However, in absence of a coherent SME development policy framework it is unrealistic to expect a single organization such as SMEDA, to be able to implement aggressive SME development initiatives.

Issues to be addressed for SME development fall within the purview of a large number of Ministries and Departments at the Federal, Provincial and Local government levels. SMEDA has no institutional jurisdiction or linkage with such institutions; and SMEDA has limited budget and manpower, posing restrictions on its capacity to launch capital intensive initiatives and extend its outreach. Creation of the SME Bank also marks the Government's commitment towards SME development agenda.

Thus, to provide a coherent policy mechanism, there is a need to develop a comprehensive SME policy for Pakistan that defines the role of concerned public sector institutions. Such a policy framework will provide the required direction and focus for achieving SME-led- economic growth resulting in job creation and reduction in poverty as well. Private sector growth in SME sector (as opposed to the large scale manufacturing) will result in lesser investments per job created, wider geographic and social spread of investments and better income distribution.

viii) SME Policy: Objectives, Scope and Principles

Objective: The objective of SME Policy is to provide a short and a medium to long -term policy framework with an implementation mechanism for achieving higher economic growth based on SME led private sector development.

Scope: The SME Policy suggests concurrent and specific policy measures in all possible areas of SME development:-

- Business environment
- Access to finance
- Human resource development
- Support for technology up -gradation and marketing

A single SME definition is recommended to be applicable to all institutions countrywide to allow uniformity in designing support systems and incentives and also to monitor progress.

The SME Policy also contains an implementation and adjustment

mechanism that identifies the following:-

- Implementation and monitoring mechanism.
- Capacity building requirements of the public institutions.
- Resource allocation and potential sources of funding.
- Linkages with other initiatives and public sector reform processes (Social Sector Reforms).
- Self contained framework for ongoing feedback and adjustment.
- Role of various public and private sector players at Federal, Provincial and Local levels.

Principles: - The policy finds it appropriate to highlight the key principles on which it is based as follows:-

- The recommendations proposed in the SME Policy may be implemented/ supported through an SME Act 2006.
- The SME Policy covers measures for promotion of ‘entrepreneurship culture and support for growth of existing enterprises.
- The SME Policy realizes the different approaches required for supporting Small Enterprises as opposed to Medium Enterprises. Thus, wherever required, separate policy measures are proposed for small and for medium enterprise growth. Women and other marginalized groups are proposed to receive special focus in the SME policy.
- Rural based and agro-processing enterprises are proposed to receive special attention while devising specific support mechanisms.
- SME development offers most viable option for private sector led growth that reduces poverty and creates a large number of jobs all across Pakistan.
- SME development must be at the center stage of all economic growth policies of Pakistan
- SME development in Pakistan will require decisive and concurrent measures in a number of policy areas such as business regulations, fiscal, trade rules, labour incentives and support (Human Resource Development, Technology, Marketing, etc.) leading to an ‘SME Space’ in these domains.
- SMEs face inherent disadvantages (because of their size)

vis-à-vis large firms, which need to be offset by government support mechanisms and incentives.

- Effective implementation of the policy framework will require ownership, commitment and monitoring at highest level of the Government.
- SME development requires provision of level playing field for smaller firms vis-à-vis large enterprises.
- Private sector will be encouraged to play a key role in implementation of the SME Policy including mobilization of capital and operational responsibility for implementing policy measures suggested in this document.
- Financial support to enterprises will be provided wherever possible, at a collective level, and will essentially require resource commitment on behalf of the beneficiaries.

ix) SME Policy Recommendations

- **SME Development Vision**

“SME led economic growth resulting in poverty reduction, creation of jobs and unleashing the entrepreneurial potential of the people of Pakistan”

- **SME Policy Statement**

“To create globally competitive SMEs by creating a hassle free business environment, ensue provision of modern infrastructure & institutional support structures for access to resource services. The Government shall take measures for promotion of women entrepreneurship, development and also focus on neglected / untapped sectors of the economy. Strengthening academia linkages shall also be a key feature of the Policy”.

- **SME Bank Limited**

Consequent to amalgamation of two institutions RDFC & SBFC defunct, SME Bank Ltd. was established w.e.f. January 01, 2002 through an amalgamation ordinance No. LVI-2001, with a clear mandate to support & promote the neglected Small & Medium Enterprise Sector in the country.

One of the major initiatives undertaken by the government of Pakistan was the setting up of a financial institution by the name of SME Bank Limited to exclusively cater to the needs of the SME sector. The Bank was established to meet the needs of this niche market with specialized financial products and services that will

help stimulate SME development and pro poor growth in the country. It is expected to play the role of a catalyst in the industry by developing and perfecting the techniques of credit appraisal, delivery and to develop new product lines for SME financing, which can then be replicated by the mainstream financial institutions of the country.

SME Bank is actively engaged to serve the SME sector by providing credit facilities in the shape of medium – long term financing and leasing facilities. The leasing functions are performed by the Bank’s leasing subsidiary based at Karachi that offers leasing for commercial vehicles, machinery and plant & equipment. The Bank’s disbursements as on **30th June 2008 stand at Rs.1102 million.**

It is expected that the business plan and lending activities initiated by the Bank will go a long way in promoting the SME sector so as to enable it to significantly contribute toward achieving GDP growth target and supplement the recent initiatives of the Government to reduce unemployment and level of poverty in the country.

Besides, GoP also proposes to privatize SME Bank to enhance the SME sector development.

x) Present Status and Achievements

The Bank started its commercial banking operations w.e.f May 2005 to further strengthen the role of the bank in SME sector development. At present SME Bank is operating with 13 commercial banking branches and 14 recovery offices within Pakistan.

- The bank posted an operating pre-tax profit amounting to Rs. 22 million (2007: Rs. 54 million). Reversal of provision, resulting from recoveries of fully provided loans of defunct Small Business Finance Corporation (SBFC) & Regional Development Finance Corporation (RDFC), was Rs. 47 million (2007: Rs.58 million). Profit after Tax (PAT) dropped by 31 percent from Rs. 36 million in the same period last year to Rs. 25 million in the first half of the year 2008.
- Increase in average cost of funds by 117 basis points from July 2007 to June 2008 due to hike in SBP discount rate by 1.5 percent over the said period from 10.5 percent to 12 percent. The discount rate has been further increased by 1

percent in the month of July, 2008. The rising interest rate scenario is likely to have negative affect on profits of the Bank considering the slow privatization process leading to stagnant operational situation of the Bank. Due to privatization of the Bank the SBP has put a cap on branch expansion owing to which the ability of the Bank to mobilize cheaper source of funds has been greatly restricted.

- The recoveries of old portfolio declined by Rs. 67 million against the recoveries of Rs. 213 million for the same period last year primarily due to the demotivation of staff arising from the slow process of privatization of the Bank. Had there been no setback in recoveries of old portfolio the Bank would have posted a pre-tax profit of Rs. 89 million which were 65 percent more than the corresponding period profits.
- Total income amounted to Rs.433 million (2007: Rs.468 million) of which treasury business generated Rs. 160 million (2007: Rs. 208 million) while performance of SME lending operations generated Rs.145 million (2007: Rs.111 million). Rs. 91 million was generated through recoveries of old portfolio (2007: Rs. 143 million). The fall in treasury income is due to encashment of investment for repayment of SBP loan liability in early 2007.
- The performance of SME lending operations showed improving trend as the income from SME operations has been increased by 31 percent over the same period last year.
- During the period under review, disbursements of Rs. 1,102 million (2007: Rs.806 million) were made to 412 SMEs (2007: 464). Total gross portfolio of SME lending stood at Rs. 2,185 million (2007: Rs. 1,083 million) as at 30 June, 2008.
- Total recoveries of Rs. 146 million (2007: Rs. 213 million) were made out of the stuck up loans of defunct Regional Development Finance Corporation (RDFC) & Small Business Finance Corporation (SBFC).
- Regarding the privatization of the Bank, Privatization Commission (PC) is currently engaged in the process of prequalification of potential bidders.

- In view of the SBP restrictions on opening of branches, there is no change in branch network during the period under review and the Bank operates with 13 commercial banking branches and 14 recovery offices.
- The Government of Pakistan (GOP) assisted by Asian Development Bank (ADB) is engaged in working on a Rs.8 billion SME sector development. This programmes apart from other aspects of policy issues relating to SME sector of Pakistan, also envisages restructuring of SME Bank Limited
- At the end of 2006, the bank has met key performance indicators/milestones on schedule:-
 - Rs.4,963 million have been paid to SBP up to December 31, 2006 against outstanding credit lines.
 - Paid up capital has been increased to Rs.2000 million.
- Now bank is heading towards Privatization. In this regard Privatization Commission (PC) has constituted a transaction committee which is represented by members from the PC, SBP, MOF and the Bank. Necessary formalities have been initiated by the PC on February 12, 2007 with respect to appointment of financial advisor for the privatization of the Bank.
- We are confident that with the continued support of all our stakeholders, the bank will successfully be privatized, and continue to support and serve the SME sector in Pakistan on an enhanced platform.

On May 15, 2007, Privatization Commission held a kick-off meeting for privatization of SME Bank. The meeting was attended by representatives from BMA Capital, A. F. Ferguson & Co, SME Bank, and Ministry of Finance. The President & CEO and CFO represented the SME Bank. The meeting was chaired by Mr. Arif Mansoor, Secretary Privatization Commission.

The team of BMA Capital, who has been appointed as Financial Advisor, gave a brief outline about the scope of their assignment and deliverables. BMA Capital also informed the participants that for due diligence they have hired A. F. Ferguson & Co. for

accounting, tax and HR matters and M/S Mohsin Tayabali & Co has been hired for legal matters.

xi) Profile of SME Bank Limited

- **Date of Establishment**

1st January 2002

- **Legal Status**

Public Limited Company

- **Number of Branches**

Islamabad	1
Peshawar	1
Lahore	3
Quetta	1
Karachi	3
Sialkot	1
Faisalabad	1
Rawalpindi	1
<u>Gujranwala</u>	<u>1</u>
<u>Total</u>	<u>13</u>

- **Location of Head Office**

Islamabad

- **Number of Employees**

651

e) Zarai Taraqiati Bank Limited (ZTBL)

ZTBL is the country's premier development financial institution providing financial services to the agriculture sector. The Bank, in its endeavors to augment Government efforts to achieve self-sufficiency in food and marketable surplus in agriculture, has geared up its efforts for delivering high quality, viable and timely financial services to the agriculture sector. ZTBL alone serves about half a million farmers annually and has a share of around 30 percent of the total institutional agricultural credit.

i) Bank's Operations

The Bank operates through a network of 25 Zonal Offices and 342 Branches and a team of 1235 Mobile Credit Officers (MCOs) in the field. Since inception upto 30.06.2008, the Bank has disbursed loan amounting to Rs.524.430 billion. So far the Bank has financed 496,805 tractors and 145,205 tube-wells besides being the major source of financing for farm inputs including seeds, fertilizers, pesticides and insecticides. Priority was also accorded to the provision of more credit for livestock, dairy farming, poultry farming, aqua-culture and financing of oil seed crops.

ii) Performance during the FY 2007-08

During the FY 2007-08, the Bank disbursed an overall amount of Rs.66.939 billion as compared to Rs.56.473 billion disbursed during last year and substantially enhanced its outreach by increasing the number of borrowers served to 593,506. The lending target allocated by the State Bank of Pakistan was Rs.60 billion, which was surpassed by Rs.6.939 billion in the FY 2007-08. Details of ZTBL operational performance during FY 2007-08 are given as under:-

ZTBL operational performance during FY 2007-08

(Rs. Million)

CREDIT OPERATIONS	
Agriculture Credit Disbursement	66,939
Borrowers Served (Numbers)	593,506
Category wise Disbursement	
Production Loans	56,842
Development Loans	10,097
Farm Credit	61,761
Non-Farm Credit	5,178
Crops wise Loans Disbursed	
Rabi Crops	22,803
Kharif Crops	33,513
Economic Group wise Disbursement	
Subsistence	38,228
Economic	20,932
Large	2,602
Loans to Small Farmers	
Disbursement to Small Farmers	57,424
Small farmers as % of total loans	86
Scheme wise Disbursement	
One Window Operations	15,205
Sadabahar / Revolving Finance Scheme	56,694

Tractor/Tube well Financed		
Tractor Financed		13530
Amount		496,805
Tube well Financed		2879
Amount		145,205
RECOVERY OPERATIONS		
Total Amount Recovered		64,734
Network of Operation		
Number of Zones		25
Number of Branches		342
Number of MCOs		1235

iii) Recovery Operations

During the FY 2007-08, the Bank recovered Rs.64.734 billion as compared to Rs.57.251 billion during the previous year showing a growth of 13 percent. In addition to this, an amount of Rs.5.645 billion have also been recovered from charged off / SAM loans during the period under review.

iv) President's Relief Package for the borrowers of ZTBL in Badin, Umerkot and Tharparker Districts

The Bank has implemented relief package announced by the President of Pakistan on 5th May 2007 for small borrowers of ZTBL in Badin, Umerkot and Tharparker Districts. In this package 100 percent waiver of outstanding loans up to Rs.100,000 and are over due as on 30.04.2007 was allowed in January 2008. Total impact of this package was Rs.0.976 billion.

v) New Initiatives

The main thrust of the Bank's operational activities is towards modernization of agriculture to increase farm productivity and generate rural self employment, thereby contributing for alleviating poverty while focusing on small farmers and rural poor. Inline with the policy of Govt. for accelerated development of agriculture sector and to facilitate farming community, the Bank has taken major initiative to introduce some innovative schemes during the FY 2007-08. Summary of these schemes is as under:

vi) Crop & Life Insurance for ZTBL Borrowers

Agriculture is exposed to weather vagaries and other risks, which direly require an insurance cover. In order to mitigate these risks of

the farming community, and inline with the agricultural policy guidelines of State Bank of Pakistan, ZTBL intends to launch a new Insurance Scheme for its borrowers in dairy, tractor/farm machinery and crop production sectors. A proposal for arranging life insurance of Bank's borrowers is also under consideration. The insurance products have been designed keeping in view the nature of ZTBL's clientele, with simple and straight forward claim procedures and based on competitive premium rates. Recently, the Bank has arranged mandatory insurance cover for borrowers availing dairy loan from ZTBL (through Nestle Pak. Ltd only) from Adamjee Insurance Company Limited (AICL).

f) Pakistan Security Printing Corporation (Private) Limited (PSPCL)

i) Important and Vital Activities during Financial Year 2007-08

Pakistan Security Printing Corporation (PSPC) is engaged in printing of Banknotes. Postal and Non-Postal items, Passport and other Security Products of both Government and semi Government Organizations.

Following are the important and vital activities for the FY 2007-08.

ii) Production of Banknotes and Other Security Products

The indent of the State Bank of Pakistan (SBP) for banknotes of various denominations was completed before the close of financial year and all items were delivered in time.

The Corporation successfully printed Election 2008 Ballot papers for National and Provincial Assembly seats for Sindh and Balochistan.

Other Security Products (OSP) Division also successfully met the delivery schedule in respect of Machine Readable Passports, Manual Passports, Motor Vehicle Registration Booklets, Computerized National Identity Cards (CNIC), Postal Stamps & Non-Postal Items, as well as most of the other security products.

iii) New Design Banknotes

During the year, Banknotes of Rs. 20 denomination with new colors and Banknotes Rs. 5 and Rs. 50 denominations with new designs and security features were printed and supplied to the State

Bank of Pakistan. New design banknotes of Rs. 5 and Rs. 50 were launched by the State Bank of Pakistan in July, 2008.

iv) Project for Replacement of Machinery and Equipment for the Printing of Non-Banknote Security Documents

PC-1 Proforma of replacement of machinery and equipment for the printing of non-banknote security documents for Other Security Products has been approved by the Central Development Working Party (CDWP) in April, 2008.

v) Credit Rating

We are pleased to report that once again, Japan Credit Rating (JCR) – Vital Information Service (VIS) Credit Rating Agency in its recent annual review of the Corporation’s credit worthiness has maintained long and short term ratings as AAA (Triple A) (A one Plus) respectively. These ratings reflect the Corporation’s financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitments.

As a matter of policy ‘AAA’ rating is not assigned to Private Limited Companies. However, in the case of PSPC, ‘AAA’ rating has been assigned on the assurance from the Board of Directors and PSPC that the Company will continue to follow the Code of Corporate Governance, which has been adopted voluntarily, although the same is applicable to listed companies only.

vi) Computerization of Operations of PSPC

The customized Enterprise Resource Planning (ERP) applications have been developed and the Computerization of the different modules of Pakistan Security Printing Corporation (PSPC) has been completed in the area of payroll system integrated with Human Resource Information System, Purchase, Sale & Inventory, while Production & Costing and MIS are expected to be completed soon.

g) House Building Finance Corporation Limited (HBFCL)

i) Background

- House Building Finance Corporation (HBFC) was established in the year 1952 as a Statutory Federal Body under HBFC Act 1952 with the objective of providing financial assistance for construction and purchase of

houses to the people of Pakistan. It has now been corporatized since 25th July 2007 and stood incorporated as Public Limited Company.

- It is amongst the oldest housing finance institutions in Asia Pacific region.
- For nearly 50 years it enjoyed the monopoly in housing finance, until commercial banks / private sector housing finance companies entered into housing finance business.
- HBFC has always maintained its business focus on housing needs of low & middle income groups.

ii) Vision

To be the prime housing finance institution of the country, providing affordable housing solutions to low and middle income groups of population by encouraging new constructions in Small & Medium Housing (SMH) sector.

iii) Mission

To be a socially responsible and commercially sustainable housing finance institution.

Target market: - Low and middle income groups of population

Target areas: - No negative list, all legalized residential locations.

Responding to housing needs of low income groups is a social responsibility, beyond that everything has to be 100 percent commercially sustainable.

iv) Network of Offices

HBFC is providing housing finance all over the country through 58 District Offices , 12 Zonal Offices and 34 Representative Offices/Service Agents spread all over the country.

v) Operational Activities

Since its inception in 1952, the Corporation has disbursed Rs.45.124 billion for the construction and purchase of over 4,63,000 housing units, which includes bulk loan/investment of Rs.1759.900 million to 28 Development Authorities/Public and

Private Sector Organizations for the development of sites and construction of houses. At the Government's directive the Corporation also provided about 311,806 Flood Relief Loans of an amount aggregating Rs.600 million for the repair and re-construction of houses damaged by floods and heavy rains. Besides HBFCL has recovered Rs.55.410 billion during the aforesaid period.

vi) Achievements of HBFC during the Year 2007-2008

• Efforts to Improve Recovery

Vigorous recovery campaigns were launched through print/electronic media including personal contacts with the defaulters. The HBFC during the FY 2007-2008 made recovery of Rs.3457.272 million.

• Disbursement

After launching new products (Ghar Aasan , Shandar Ghar, Small Builder Loan & Ghar Assan (Flexi) in March 2002, April 2003, August 2007 & Oct 2007 respectively, HBFC during the FY 2007-2008 disbursed Rs.4371.573 million for construction/purchase and renovation of houses / flats.

vii) Future Plans

• Focus on Small and Medium Housing Finance (SMH Financing)

Under its new vision, the HBFC is primarily focusing on small and medium housing (SMH) finance and provide loans to lower & medium income groups. The commercial banks/FIs focus more on high net worth clients. Under its new vision, HBFC is re-designing its systems and procedures specifically to cater to small and medium housing finance market of lower income and middle income groups of population and the industrial workers class.

viii) Financial Goals

- Enhance paid up capital to Rs.6.00 billion to meet SBP requirement through internal cash generation as well as equity participation of multilateral institutions like IFC and the strategic investors.

- Repayment of SBP's outstanding credit lines in installments with a rescheduling support.
- Control over financial intermediation cost and gradually move the Corporation into a commercially viable and sustainable entity.
- Increase the loan financing product range from 2 to 10 so as to attract large section of clientele.

ix) Operational Efficiency & Market Perception

- Enhance operational efficiency through Manualisation, Computerization, and Human Resource Development.
- Elimination of inefficiencies through internal controls and redesigning reward structure.
- Expansion of outreach from 34 to 110 cities and towns by end of year 2008.
- Gradual enhancement of business volume from present average of Rs.2.0 billion per year to Rs.25 - 30 billion by year 2012.
- Building market perception of HBFC as proactive, efficient and customer-friendly institution.
- Install a fully comprehensive and computerized loan origination, loan processing, loan servicing and accounting Programmes.
- Improve internal working environment and human resource development Programmes.

x) HBFC Reforms Programmes

- Streamlining of loan repayments and accounting systems.
- Development of comprehensive computerized operations.
- Up-gradation of HBFC's branches/office to make them customer-friendly and market competitive.
- Continuity of Business Operations.
- Market Competitive/HRD Programmes.
- Making HBFC's website dynamic and interactive.
- Expansion of HBFC Outreach Programmes (Service Agents Programmes)
- Tele-Monitoring of Borrowers
- Identity Verification:-

- a. Verification of Customers identification.
- b. Employees Attendance.
- c. Google Earth Search

J) INVESTMENT WING

Following are the functional areas of Investment Wing:-

- Company Law – Companies Ordinance,1984.
- Capital Markets, Stock Exchanges, Securities Regulations.
- Microfinance and Poverty Alleviation.
- Joint Ventures.
- Development Financial Institutions (DFIs).
- Monopoly Control and Anti-Cartel Laws.

The details of activities, achievements and progress in respect of the above areas are given as under:-

a) Microfinance Sector and Poverty Alleviation

Government of Pakistan has signed a Loan Agreement with Asian Development Bank (ADB) under Improving Access to Financial Services Programmes for US\$ 320 million to support a reform Programmes, aimed at improving access to credit and other financial services. The loan is accompanied by an ADB Technical Assistance (TA) for which a grant of US\$ 2.5 million has been sanctioned separately. The TA will support timely implementation of measures under the main Programmes. The TA is already in progress and will be completed by September, 2009.

b) Pakistan Poverty Alleviation Fund (PPAF)

Pakistan Poverty Alleviation Fund (PPAF) established in 1997, represents an innovative model of public-private sector partnership sponsored by the Government of Pakistan and funded through the World Bank. PPAF has been established to help the poor in order to enable them to gain access to resources for their productive self-employment, to encourage them to undertake activities of income generation and poverty alleviation and for enhancing their quality of life. PPAF is mandated to work with Non Governmental / Community Based Organizations (NGOs / CBOs), Rural Support Programmes (RSPs) and other private sector organizations.

The targets set for the FY 2007-08 and actual achievements are given below :-

Table Shows Targets / Achievements of PPAF**(Rs. in million)**

Indicators	<u>Targets</u> 2007-08	<u>Achievements</u> 2007-08
Credit and Enterprise Development:		
Sub-Loans (Nos)	652,000	950,142
Disbursement	7,250	9,075
Community Physical Infrastructure:		
Projects (Nos)	3,270	3,931
Disbursement	1,715	1,332
Human and Institutional Development:		
Staff Trainees (Nos)	1,500	3,000
Community Trainees (Nos)	35,000	36,000
Disbursement	350	471
Health:		
Community Health Centers (Nos)	3	8
Disbursement	65	58
Education:		
Schools (Nos)	5	61
Disbursements	65	90
Rehabilitation and Reconstruction:		
Disbursements	8,606	5,671

Source: Pakistan Poverty Alleviation Fund (PPAF)

c) Khushhali Bank (KB)

Khushhali Bank (KB) was established in August 2000, as a part of the Government's Poverty Reduction Strategy and its Microfinance Sector Development Programmes (MSDP), which was initiated with the assistance of Asian Development Bank (ADB). It operates under the supervision of the State Bank of Pakistan (SBP) with commercial banks as its shareholders. Its mandate is to retail Microfinance services and act as a catalyst in stabilizing the country's newly formed Microfinance sector. Thus, KB is the country's first major initiative to bridge the demand/supply gap of microfinance service.

The targets set for the FY 2007-08 and actual achievements are given as under:-

Table Shows Targets / Achievements of KB

	Targets 2007-08	Achievements 2007-08
Coverage Number of Districts	90	88
Disbursement (Rs)	3,966,016,280	4,071,308,000
Active Clients	388,080	310,563
Beneficiaries:		
Male	311,141	294,762
Female	74,890	70,948
Total	386,031	365,710

Source: Khushhali Bank

d) Joint Investment Companies

Pakistan has a rich experience of setting up Joint Investment Ventures with other friendly countries. At present, there are seven such companies set up on 50:50 partnerships namely Pak-Libya Holding Company (PLHC), Pak-Kuwait Investment Company (PKIC), Saudi-Pak Industrial and Agricultural Investment Company (SPIAICO), Pak-Oman Investment Company (POIC), Pak-Brunei Investment Company (PBIC), Pak-Iran Joint Investment Company (PIJIC) and Pak-China Investment Company (PCIC).

Salient features of the seven Joint Ventures as on 30-06-2008 are given below:-

(Rs. in millions)

Company	PKIC	PLHC	SPIAICO	POIC	PBIC	PIJIC	PCIC
Joint Venture Partner	Kuwait	Libya	Saudi Arabia	Oman	Brunei	Iran	China
Year of Incorporation	1979	1978	1981	2001	2006	2007	2007
Paid up Capital as on 30.06.2008	6000	4197	4000	6000	4000	4000	4200*

* Authorized Capital is US\$ 200 million (equivalent in Pak Rupees) to be paid in installments

The major areas of operation of these Joint Investment Companies include project financing, lease financing, equity participation, money market operations, foreign currency deposits, stock market operations, Government securities investments, financial advisory services, financial consultancy and syndication.

e) Competition Commission of Pakistan (CCP)

i) Improving Pakistan's Competition Framework

The government of Pakistan seeks to promote and protect competition in the economy with the private sector acting as the engine for sustainable economic growth. The government realised the deficiencies in the Monopolies and Restrictive Trade Practices Ordinance, 1970 and the limitations it placed on the Monopoly Control Authority (MCA) and, therefore, replaced it with the Competition Ordinance, 2007.

The new law is progressive and seeks to promote and protect competition. The law seeks to (i) encourage businesses to achieve economies of scale rather than taking measures against the undue concentration of economic power, (ii) encourage commercially rational conduct on the part of business enterprises, and (iii) put in place a framework that ensures the free interplay of forces of market competition that promotes business rivalry and consumer welfare.

The law enforcement provisions in the Ordinance are bifurcated into an ex post review of prohibited practices and ex ante assessment of proposed mergers.

Prohibited practices include vertical and/or horizontal agreements, which have the object or effect of reducing competition, abuse of dominant position, and unfair or deceptive trading practices. Under the new law, reviewable transactions include approval of mergers and acquisitions as these can reduce competition by creating a dominant position.

ii) Competition Commission of Pakistan (CCP)

Under the new law, the transition from the MCA to the Competition Commission of Pakistan (CCP or the Commission) took place following the global trend of the establishing of competition agencies that have a broader and more progressive mandate i.e., promoting healthy competition among economic agents.

The Commission is a quasi-judicial, quasi-regulatory, independent law enforcement agency. Fully in keeping with the spirit of the new law, the Commission seeks to be non-discriminatory, to protect competition rather than competitors, to facilitate business growth, to achieve co-ordination with other agencies and the

public, and to maintain integrity in applying the law. As opposed to the normative and prescriptive nature of the previous law, the new law requires the Competition Commission to take a reasoned approach, to carry out studies aimed at promoting competition, and to engage in advocacy through various means in order to create an awareness of competition issues and to promote a culture of competition.

The Members of the Commission were nominated on 12 November 2007. The addition of three accomplished professionals from the legal, academic, and private sectors as members of the Commission added technical strength and versatility to the organization.

iii) Activities

Rules & Regulations

The CCP has moved very quickly over a broad front, starting with the preparation of a three-year roadmap for the Commission and issuance of the agency's full set of regulations necessary for the proper functioning of the Commission. The law is simply an enabling law and without the regulations it cannot be enforced. The Commission drafted the following regulations:-

- Competition Commission (Merger Control) Regulations, 2007.
- Competition Commission (General Enforcement) Regulations, 2007.
- Competition Commission (Leniency) Regulations, 2007.
- Competition Commission (Conduct of Business) Regulations, 2007.
- Competition Commission (Service) Regulations, 2007.
- Competition Commission (Expenditure and Investment) Regulations, 2007.

During the reporting period, the following three Rules were approved by the government:-

- The Competition Commission (Appeal) Rules, 2007.
- The Competition Commission Inquiry (Conduct of Investigating Officers) Rules, 2007.
- The Competition Commission (Extension in Exemption) Rules, 2007.

Rules yet to be approved by the government are as follows:-

- The Competition Commission (Enquiry for Removal from Service) Rules, 2007.
- The Competition Commission (Collection of Fees and Charges) Rules, 2007.
- The Competition Commission (Remuneration of Chairman and Members) Rules, 2007.

Technical Activities

The Commission has been operationally active and has taken significant steps, including a few landmark decisions:-

- All 42 banks in Pakistan were adjudged guilty of cartelisation, of which seven banks and the Pakistan Banking Association were fined an aggregate of Rs.205 million. The banks have taken the matter to Court.
- Active investigations are underway with respect to cartelisation and collusive behaviour on the part of economic agents in three important sectors. In the case of cement, the Commission undertook a forcible search operation for the first time in Pakistan which has, naturally, evoked a rather strong reaction from those affected but garnered appreciation from the general public.
- Active investigation is also underway with respect to a collusive tendering allegation, which pertains to a Government sponsored trust entity.
- The Commission has examined and considered cases brought against Pakistan's leading stock exchange as well as Pakistan's leading oil refinery for abuse of dominance by way of refusal to deal.
- A leading business school has also been effectively penalised and ordered to make appropriate refunds to students who were forced to buy lap-top computers from the school at the time of admission. The business school has also been directed to desist from this practice of tying computer sales to admissions.
- A leading cellular company has been ordered to appropriately arrange the unlocking of SIMs from a particular handset sold by them, and also to clearly disclose and advertise the tie-ins of the handset sold with the related telephony services offered. The bundling of the handset

with other services must be made unequivocally clear in all advertisements and promotional material.

- Two closely-linked and obviously dominant fertiliser companies, substantially owned by an army trust, have been ordered to suitably de-link and separate so that they are incentivised to act as separate entities.

In other activities of the CCP, 50 pre-merger clearances were granted, including one that had to be taken to the second phase of examination. And a large number of exemptions from prohibited agreements were granted. Also, the Commission provided advice on a large number of specific questions raised by business houses.

iv) Advocacy

Competition advocacy is about the promotion of competition though means other than law enforcement. The Commission has been very active in advocacy as required under Section 29 of the Competition Ordinance, 2007. Five seminars, 13 roundtables with groups of businessmen, a dozen TV interviews and four press interviews were held.

A Competition Consultative Group comprising leading business executives, sector-specific regulators and academics, was also set up. A successful first meeting of the group was held in May, 2008.

A Programme of bilateral meetings with sector-specific regulators, such as the State Bank of Pakistan, NEPRA, OGRA, PEMRA, etc., has been started to ensure no perception on their part of intrusion by the CCP in their regulatory domain; rather, the Commission is there to help and serve them in the narrow area of anti-trust, which is not covered by their laws.

On the international front, the Commission has recently begun to establish its credentials by participating in activities of the International Competition Network (ICN), Organization of Economic Corporation & Development (OECD) and United Nation Commission for Trade and Development (UNCTAD). Apart from being represented at various conferences and workshops (including tele-conferences for training purposes) organised by these bodies, the Commission has made written submissions on a variety of anti-trust issues as requested. For example, the Commission participated in the development of questionnaire and finalisation of report as a member of task force on 'Abuse of Dominant Bargaining Position' along with the Japan Fair Trade Commission. October-November, 2007; and provided

comments on the International Competition Network's Operational Framework and Outreach activities in January, 2008.

The Commission is actively participating in ICN's task force on abuse of dominance and have now also been included in ICN's task force on cartels. Information and reviews of the Commission were published in the "Competition and Anti-Trust Review" of 2007 and 2008, and in the Handbook of Competition Agencies, 2008.

The CCP Chairman, Khalid Mirza, was invited to chair one of the breakout sessions in the OECD conference on competition in Paris in February 2008. CCP Member, Dr. Joseph Wilson, prepared a paper entitled "the role of competition law and policy in alleviating poverty in developing countries, which was submitted in the UNCTAD-12 Conference in April 2008.

f) Securities & Exchange Commission of Pakistan (SECP)

i) Introduction

The Securities and Exchange Commission of Pakistan (the Commission) was established in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) and became operational on January 01, 1999. The SECP has been functioning as a body corporate to administer the laws relating to capital market, corporate sector and financial (non-banking) sector. Its core function is to regulate the stock exchanges and the securities market. The Commission has succeeded the Corporate Law Authority (CLA), which was a Government department attached to the Ministry of Finance. The Commission operates under the guidance of a Securities and Exchange Policy Board established under the Act.

Mr. Razi-ur-Rahman Khan is the Chairman of the Commission. In addition, the Commission comprises three Commissioners – Mr. Salman Ali Shaikh, Mr. Rashid I. Malik and Mr. S. Tariq Asaf Husain.

ii) Activities during Fiscal Year 2007-2008

During the period July 01, 2007 – June 30, 2008, SECP's work in the sectors under its purview are summarised below:-

a) Securities Market

• **Primary Securities Market**

A well developed primary market is crucial for resource mobilization by companies to raise funds for expansion and growth plans. The prospectus/offer for sale document of any company inviting public subscription of its securities under the Companies Ordinance, 1984 is required to be approved by the Commission prior to its issue, circulation, and publication. In order to facilitate the issuers and offerers of securities the Commission has issued various guidelines which includes guidelines for the Preparation of Prospectus, Guidelines for the Issue of Term Finance Certificates (TFCs) and Guidelines for the Issue of Commercial Papers.

• **Corporate Debt Market**

For the development of corporate debt market in Pakistan, a high powered committee of bankers and financial market professionals, Debt Capital Market Committee (DCMC) was formed in June 2006 that was assigned the task of identifying key reforms required to facilitate growth of the debt capital market, which remains to be at a nascent stage of development.

High issue cost including the substantially high rates of stamp duties was identified as one of the major impediments hindering the growth of debt capital market. SECP has been actively working on removing the hurdles for the debt market growth, and particularly it has been working on achieving a reduction in the cost of issuance of the debt instruments, particularly the rather high rate of stamp duty applicable on issuance and transfer of commercial papers and corporate bonds. As a result of our persistent efforts, provinces have from time to time reduced the stamp duties and in which case the most recent amendment / reduction were introduced by the Punjab government and NWFP in year 2007.

Apart from the four provinces, SECP also took up the matter of reduction in stamp duty on the issuance and transfer of commercial papers and corporate bonds in the Islamabad Capital Territory. As a result of coordinated efforts of SECP and Ministry of Finance., the reductions in the rate of stamp duty have been notified by the Islamabad Capital Territory through a notification dated April 4, 2008. The present rates applicable to issuance and Transfer of Commercial Papers (TCPs) and TFCs are given in Appendix-I:

- **Demutualization of Stock Exchanges**

The global financial marketplace has become increasingly competitive and fast-moving. By becoming a for-profit commercial organization, our stock exchange will formally end the link between membership and ownership thereby removing the inherent conflicts embedded in a diverse member organization. In doing so, the exchanges will consolidate their position as forward-thinking and powerful financial organizations within the international capital markets.

Keeping in view the significance of this progressive measure, the SECP has been vigorously pursuing the process of demutualization of stock exchanges. While adopting a participative and consultative approach the SECP with the consensus of all stakeholders drafted the Stock Exchanges (Corporatization, Demutualization and Integration) Ordinance, 2007, which was approved by the Federal Cabinet and has been sent to parliament for its approval.

To expedite the corporatization and demutualization process, the Commission, through Finance Act of 2008, sought amendments in the Companies Ordinance, 1984, the Securities and Exchange Ordinance, 1969 and the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002.

During the review period, the Commission also prepared a Communication strategy designed to educate and create awareness amongst stock exchanges, its members and other stakeholders on the process of Corporatization and Demutualization, its merits and steps forward. In this regards, seminars were held at Karachi and Islamabad in collaboration with the stock exchanges. These seminars were widely attended by capital market experts, management and members of stock exchanges, bankers, etc. Moreover, general public and capital market participants were educated on the matter through print and electronic media.

- **Establishment of Capital Market Institute**

The Commission has taken the initiative to establish Pakistan Institute of Capital Markets (PICM), as a permanent platform for development of quality human capital to meet the emerging needs of capital markets and create standards among market professionals.

The institute has been envisioned to develop a pool of trained and certified professionals skilled to deal in conventional instruments and also to develop and trade new and complex capital market

products, like options, index futures, exchange traded funds and commodity futures. The institute will develop curriculums and conduct various licensing examinations leading to certifications for different segments of the capital market. Apart, PICM will also provide a platform for research & development, exchange of ideas and consulting services on capital markets issues.

Being on the vanguard of financial markets development in Pakistan SECP has committed Rs.10 million for establishing this Institute, while the stakeholders have agreed to an initial subscription of Rs.1 million each to the capital. An affiliation and alliance for Mutual Recognition Agreement with a reputed international university or institute is also on the cards.

As a beginning set of its qualification Programmes, PICM will offer Analyst Certification Programmes (ACP), which will be applicable to all individuals providing any kind of investment advice. In this regard, Chartered Financial Analyst Association of Pakistan (CFAAP) has agreed to assist PICM in development of the curriculum for the Programmes and a comprehensive data bank of questions for the certification exam.

- **National Commodity Exchange Limited**

National Commodity Exchange Limited (NCEL), established under the Securities and Exchange Ordinance, 1969, is Pakistan's first electronic commodities futures exchange, which commenced its operations in May 2007. NCEL provides a platform for market participants to trade in commodity futures.

NCEL started its operations with three month Gold Futures Contracts. Subsequently, the Commission granted approval for futures trading in agricultural products including (IRRI-6 Rice - A variety of Rice). Futures Contract (IRFCS) and RBD Palm Olien. IRRI-6 Rice Futures Contract (IRFCS) commenced trading in April 2008 where as NCEL will launch Refined Bleached and Deodorized (RBD) Palm Olien futures contracts in the year 2008-2009.

Further, during the current year SECP approved contract specifications of NCEL Kilo Gold (1kg), Futures Contract and NCEL Mini Gold (10gms) Futures Contract. Once launched, these products will provide investment opportunities to a larger segment of our population and provide impetus for the introduction of gold backed savings and investment schemes in the country.

- **Dissemination of Price Sensitive Information**

Keeping in view the importance of disseminating price sensitive information simultaneously on all the three stock exchanges, the Commission advised the three exchanges to develop a mutually coherent and homogenous system for the purpose. The Karachi Stock Exchange (KSE) implemented an Automated Corporate Announcement System on January 1, 2008 whereby all listed companies have been provided dedicated Universal Access Number (UAN) fax numbers for corporate announcements. The system ensures that upon receipt of fax, the machine automatically uploads the announcement to the KSE website and emails the information on the addresses of all KSE members, while audio announcements are made concurrently. The Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE) have been advised to update their existing automated system in collaboration with KSE.

- **Regulatory Audit of Stock Exchanges**

The Commission during the previous year had advised the stock exchanges to have a comprehensive regulatory audit conducted by external auditors for evaluating the operational and regulatory efficiency of the exchanges to ensure regulatory compliance and satisfactory performance of the exchange as a self regulatory organization. The auditors have conducted a comprehensive exercise in accordance with the terms of reference approved by the Commission and are in the process of preparing final audit reports.

- **Enforcement Actions**

On account of examination of above mentioned returns of beneficial ownership, 14 cases of accrual of tenderable gain of Rs. 143.30 million were detected and processed for its recovery. Out of which Rs. 9.50 million were tendered in favor of the Commission while Rs. 133.00 million were tendered by the beneficial owner in favor of the issuers.

- **Enforcement of Laws**

During the year under review, 4,025 cases of fictitious and multiple applications submitted for subscription of shares of companies in violation of Section 18A of the Securities and Exchange Ordinance, 1969, were reported in 2006 Public Offerings. Orders in respect of 442 such cases were passed and after being proved as fictitious/ multiple applications subscription, money amounting to Rs.9.075 million has been confiscated.

To protect the interest of minority shareholders and to discourage violation of the regulatory requirements in respect of substantial acquisition of shares and takeover of companies, enforcement action, under the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002 (Takeover Ordinance) were taken in the cases of substantial acquisition of shares of Kakakhel Pakistan Ltd. and penalties were imposed on the Acquirers and person acting in concert.

- **Investor in Share Capital (Initial Public Offering (IPO) listed)**

Various types of investors can invest in Initial Public Offerings (IPOs), which includes both resident and non-resident Pakistanis and foreigners. Pakistani investors include:-

- Pakistani citizens resident in Pakistan.
- Companies, bodies corporate or other legal entities incorporated or established in Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be).
- Provident funds / trusts, pension / gratuity funds / trusts subject to the terms of their Trust Deeds and existing regulations. and
- Branches in Pakistan of companies and bodies corporate incorporated outside Pakistan. Investors in the public offerings of shares made in the year under review are mostly small individual investors.

Development of Regulatory Laws

- **Book Building Process**

In order to facilitate the issuers/offers of shares to get fair price for their shares issued/offered, the Commission introduced Book Building Process by making it as part of the listing regulations of the Stock Exchanges. These were made in accordance with the international best practices and standards.

Book Building is a common practice followed in most developed countries and many developing countries have adopted it as well. It minimizes the chances of over/under pricing since the price of shares is determined on the basis of market demand. The issuer company also has the option to withdraw from the market if the demand for the shares is below expectation or does not exist.

Further, the following Rules/Regulations have been drafted:-

- Balloters and Securities Registrars Rules;
- Underwriter (Registration and Regulation) Rules;
- Bankers to an Issue Regulations;
- Debenture Trustee Regulations;
- Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations;

These would be notified after necessary review and due deliberation by the Commission.

- **Investor Awareness**

The Commission by virtue of its mandate is required to protect the interests of general public investing in securities through the stock exchanges of the country. The Commission strongly believes that investors are the backbone of the securities market. They not only determine the level of activity in the securities market but also the level of activity in the economy.

The Commission launched a comprehensive educational campaign aimed at creating awareness among investors about securities market, which include the following steps:-

- Publication of a series of booklets for imparting valuable information/knowledge to the general public.
- Placement of all the rules regulations and securities laws on the official website of the Commission for easy access by general public.
- Placement of a list of member-brokers and their agents registered with the Commission on the website and updated on regular basis. The exchanges have been advised to place list of their members and agents on their websites.
- In collaboration with Central Depositing Company (CDC), holding of various road shows, both locally and internationally.

- **Road Shows**

The Commission organized two road shows at Faisalabad and Gujranwala and the third one in London. In London, Pakistan Equity Roundtable was organized in May, 2008 in collaboration with Financial Time and the London Stock Exchange (FTSE) Group, the global index providers, to create awareness amongst the

international community about developments in the Pakistani capital markets and investment opportunities.

- **Seminars**

The Commission held seminars on corporatization & demutualization of stock exchanges and role of derivatives in emerging capital markets. A media campaign for investors/general public awareness has also started during the current financial year.

- **Advertisements**

In order to warn general public advertisements were published in various local and nation-wide newspapers in Urdu and English in respect of illegal brokerage houses/agents. Moreover, working was in progress for publishing a supplement/special edition in the newspapers in order to educate the investors and potential investors regarding activities of capital market of the country.

Besides, the Commission has chalked out a detailed Programmes for the year 2008 to conduct road shows and to organize seminars / workshops in various cities of the country.

b) Corporate Sectors

- **New Registrations**

Total number of companies at the end of FY 2008 stood at 51,080 as compared to 51,327 at the end of FY 2007. During FY 2008, a total of 4,781 new companies were registered while 3,951 companies were dissolved. The detail of new registrations has been given in Appendix-II.

- **Measures to Promote Corporatisation**

- **Public Facilitation**

- **E-Services Project**

Through the E-Services project, Commission is moving ahead towards the provision of online services to facilitate the corporate sector, practitioners, consultants and general public, at large. The project would facilitate the functions of online availability of name, e-incorporation of companies and e-filing of statutory returns. E-Services application is anticipated to make Companies Ordinance, 1984 compliance processes more efficient and error free.

- **Resolution of Investors' Complaints**

During the year, a number of 1391 out of 1471 complaints of various shareholders were resolved, whereas comments on remaining 80 complaints were sought from the concerned companies. The complaints were mainly relating to non-receipt of dividend warrants, non-encashment of dividend warrants, delay/non-transfer of shares and issue of duplicate shares, non-receipt of annual and interim accounts and wrongful deduction of Zakat other miscellaneous complaints related to the non-holding of AGM, non-circulation of notice of meeting, etc.

Moreover, proceedings were initiated against two companies which failed to transfer shares and fail to prepare and deliver to the Central Depository Company of Pakistan Limited physical share certificates along with transfer deeds for onward delivery of shares to the respective shareholders. Proceedings in the both matters were in process of finalization.

- **Other facilitation measures taken by the Commission**

- Facilitation Centers have been established at Company Registration Offices at Lahore and Islamabad to facilitate the general public and the corporate sector.
- The Companies Easy Exit Scheme is a facilitating scheme launched by the SECP from time to time to provide an easy exit route to the dormant private and public unlisted companies having no assets and liabilities and not carrying on any business, to get their names struck off from the register of companies.
- Through consistent persuasive efforts of the SECP with the Federal Board of Revenue, the Federal Government has approved - vide the Finance Act, 2008 - removal of minimum tax on the companies, through abolition of section 113 of the Income Tax Ordinance, 2001 (the Ordinance).
- Model memorandum of association of 31 sectors have been developed and placed on the Commission's website to facilitate the promoters in registering a company.

- c) **Development of Regulatory Laws**

- **Amendments in the Companies Ordinance, 1984 through Finance Act 2008**

Following amendments were made in the Companies Ordinance, 1984 through the Finance Act, 2008:-

- Increasing the time limit for holding Annual General Meeting (AGM) from three months to four months following the closure of company's financial year, to provide adequate time limit. Penal provision for default in compliance has also been made more rigorous by raising the minimum fine from Rs.20,000 to Rs.50,000 and maximum from Rs.50,000 to Rs.500,000 in case of listed companies while from Rs.10,000 to Rs.100,000 for other companies.
- A consequential amendment has also been made by increasing the interval between the date of financial statements and laying thereof at the AGM, prepared upto a date not earlier than the date of the meeting by more than four months instead of previous three months.
- According to the previous provisions, every company is required to send a copy of the audited financial statements along with the auditor's report and the director's report to every member of the company at least 21 days before the AGM. However, an amendment has been made in this provision requiring that these documents shall now be sent in the form and manner specified by the Commission. The purpose of this amendment is to encourage the companies to file/send each document through electronic mode.
- Earlier listed companies were required to make payment of dividend to the shareholders within 45 days of the date of its declaration and other companies within 30 days. Now, the powers to specify time period for the payment of dividend has been given to the Commission.

d) Future Prospects

- **Development of Legal Framework**
- In order to closely monitor the real estate development sector, Registration Department (RD) has drafted "Housing and Real Estate Development Companies (Establishment and Monitoring) Regulations, which lay down comprehensive regulatory framework for registration, post incorporation compliance and legal requirements of companies operating in housing and real estate development sector.
- To extend the corporate governance initiative to public sector companies, Public Sector Companies (Corporate Governance) Regulations have been drafted in consultation with legal experts.

- In pursuance of the policy conditions of Asian Development Bank (ADB) for release of second tranche of the loan under ADB's second generation of capital market reforms, draft Group Companies (Approval Procedures) Regulations have been formulated.
- With the view to extend the Code of Corporate Governance to associations not for profit, the Commission has drafted rules namely Association Not For Profit (Licensing and Corporate Governance) Rules under the section 42 of the Ordinance, which contain the regulatory framework, requirements and specifically the provisions of the Code of Corporate Governance proposed to be applicable on the associations not for profit.
- Amendments in the Companies (Registration Offices) Regulations 2003 have been drafted in line with the e-Services regime.
- **Public Facilitation**
- In order to facilitate the corporate sector and to create public awareness on various statutory matters, the SECP launched a series of guideline booklets. A total of 22 guide booklets have so far been published covering various aspects/processes for facilitation of the public, including promoters' guide, charge registration guide, etc. Some of the guideline booklets are at the varying stages of finalization.
- A facilitation centre is also being developed at Central Registration Office (CRO), Multan to provide an investor friendly environment while similar centres have been planned to be developed at other CROs during the next financial year.
- A new concept of ready-made / off-the-shelf company is being introduced by the RD. A 'shelf company' would be a previously-incorporated company, which would be readily available for instant off-the-shelf purchase without the time spent in setting up.
- The ISO 9001:2000 certification will be obtained for the Registration Department and eight field offices through Pakistan.
- All the provincial Governments i.e. Punjab, N.W.F.P, Sindh and Baluchistan were convinced and stamp duty was abolished on the registration of Memorandum of Association in order to promote business activities. Efforts

would be continued for abolishment of stamp duty in the Islamabad Capital Territory.

e) **Specialised Companies**

Registration of Companies

Non-banking Finance Companies (NBFCs)

• **Establishment of NBFCs**

No-objections for establishment of two NBFCs, namely Mashraq Asset Management Pakistan Limited and Allied Asset Management Company Limited to undertake Asset Management Services (AMS) were issued during the period.

• **Fresh Licenses Issued**

During the period, three fresh licenses were issued to NBFCs. Details are given in Appendix-III.

• **Renewal of Licenses**

During the period under review, 56 licenses were issued out of which 32 licenses of Investment Finance Services (Investment Banking), Leasing and Housing Finance Services were renewed of 24 NBFC by the NBFC I Wing and 33 licenses of Investment Advisory and Asset Management Services were renewed by NBFC-II Wing, details of which is given in Appendix-IV.

Enforcement of Laws

• **Removal of CEO/BOD by Appointment of Administrator**

Due to misappropriation of funds in the Natover Lease and Refinance Limited (NLRL), the CEO and Board of Directors (BOD) of the Company were removed by appointment of an Administrator to manage the affairs of the Company on February 15, 2008. Fresh deposit raising of the NLRL was ceased on December 14, 2008. Trading in the shares of NLRL was suspended on February 13, 2008.

• **Rehabilitation Efforts for NLRL**

The Company has been declared as sick and its rehabilitation process has been initiated under section 282N of the Ordinance. Expression of Interest has been invited from the corporate entities having sound track record in the financial sector. The interested

parties have been invited to undertake due diligence of the Company.

- **Voluntary Pension Schemes (VPS)**

The Pension Funds under VPS are subject to compliance with the provisions of the VPS Rules, 2005. The rules along with the necessary guidelines and related circulars issued on an ongoing basis, aim to ensure that the pension funds are managed strictly as per the law and the stipulations in respect of areas such as investment and allocation of contributions to the Pension Fund, obligations / restrictions on the Pension Fund Manager, modalities governing contribution to the Pension Fund and the Individual Pension Account, record keeping requirements, financial reporting requirements, provisions relating to the advertisements and invitations, provisions relating to trustee, dispute resolution mechanism, modalities relating to withdrawal of money from the Pension Fund are complied with, at all times. During the fiscal year ended June 30, 2008, three more Pension Funds were authorized. Thus, there are now seven Pension Funds authorized under VPS, out of them, four are Islamic and three are conventional Pension Funds. These Pension Funds are being offered by four Pension Fund Managers.

- **Real Estate Investment Trust (REIT)**

The REITs are subject to compliance with the provisions of REIT Regulations 2008, NBFC Rules and relevant provisions of Companies Ordinance 1984. Since they will be listed on the stock exchanges, therefore, listing regulations and code of corporate governance would also be applicable.

Applications for the permission to form RMC (REIT Management Company) (NBFC) have been received and the same are being scrutinized by the Commission.

- **Appointment of Administrator**

An Administrator has been appointed for Trust Modaraba through an Order under section 20 of Modaraba Companies and Modaraba (Floatation & Control) Ordinance 1980 and canceling the registration of the Modaraba Company on account of mismanagement and misappropriation of the funds of the Modaraba.

- **Show Cause Notices**

During the period under review, Registrar (Modarabas) issued 21 show-cause notices to Modaraba management companies, CEOs and the directors to explain their position against the violations of Modaraba Ordinance, 1980 and Modaraba Rules, 1981. The show-cause notices were issued under sections 19, 20, 21, 23, 32 of the Modaraba Companies (Floatation & Control) Ordinance, 1980 to Modaraba management companies during the period July-June 2007-08 for the better implementation of Modaraba Law.

- **On-site Inspections**

During the period under review, the Non-banking Finance Company Department (NBFCDD) conducted on-site inspections of 20 entities including Investment Banks, Leasing companies, Mutual Funds, Modarabas, and Venture Capital Funds. The on-site inspections revealed financial irregularities and misappropriation of public funds by the managements. In addition, these inspections exposed poor corporate governance in these entities and highlighted the need for the Commission to strengthen its monitoring.

f) Insurance Sector

- **An Overview**

Insurance / Takaful Companies. As on 30 June 2008, forty-seven (47) insurance/takaful companies were actively transacting business, out of which forty (40) (including 2 general takaful, National Insurance Company Limited and Pakistan Reinsurance Company Limited) and seven (7) (including 2 family takaful and State Life Insurance Corporation of Pakistan) belong to non-life and life sectors, respectively.

During the period under review, three companies were issued licences to transact takaful business (two family and one general).

Further, 4 applicants were granted permission to form companies (one each for general insurance, life insurance, health & life insurance, and general takaful).

Though the insurance industry in Pakistan is under-developed relative to its potential (Insurance Penetration: 0.75%), over past few years it has shown potential growth in premiums, which has been shown in Appendix-V.

- **New Registrations**
- **Insurance Surveyors and Authorised Surveying Officers**

During the period, 42 companies were issued fresh insurance surveying licences and 225 natural persons were granted registration as authorized surveying officers, (including 27 insurance surveyors and 16 authorized surveying officers, whose renewal applications were time-barred; hence treated as fresh applicants).

- **Insurance Brokers**

Two applications filed during the review period for registration to act as insurance brokers are under consideration.

- **Legal Framework Development**

To address numerous practical issues, which were not adequately taken care of in the Takaful Rules, 2005 and have been highlighted by professionals, takaful operators and shariah scholars from time to time, an appointed consultant, assisted by a Committee formed by SECP, is now in the process of finalizing the amendments/modifications in Rules.

To review the minimum solvency requirements, including allocation of investments, criteria for admissibility of assets, and reporting on solvency by insurer as part of the regulatory annual accounting returns, a well represented committee was formed in 2007. Based on this Committee's recommendations, currently, finalized modifications / amendments in the rules are in the process of approval and notification by SECP. Actuarial Valuation Regulations, finalized earlier, are part of the said amendments/modification concerning solvency.

Anomalies and weaknesses in the applicable insurance surveying rules and inconsistencies therein with the relevant sections of Insurance Ordinance 2000 were identified. Finalized amendments / modifications in the insurance surveying rules of Insurance Rules 2002 were sent to the Ministry of Commerce in June 2008 for its consideration/notification.

- **Developmental Activities**

To eliminate the practice of bogus motor third party compulsory insurance certificates by unauthorized persons/entities and to ensure that all vehicles on the country's roads have proper insurance cover issued by registered insurance / takaful companies,

SECP after detailed deliberations with Insurance Association of Pakistan, agreed a comprehensive proposal. After approval from the Ministry of Finance, it has not only been conveyed to the respective provincial governments but also they are being pursued jointly by the SECP and the Association for implementation.

As a member of the Task Force on “Crop Insurance” constituted by the State Bank of Pakistan, SECP has contributed towards development and introduction of crop insurance products covering Agri-Loans. Developed in the light of the recommendations of the task force, National Insurance Company has already launched its crop insurance products.

Towards efforts for capacity building, Insurance Core Principles and prudential requirements as standardized by International Association of Insurance Supervisors (of which SECP is a member) for an effective and efficient supervision of the insurance industry, two Programmes of 5 days duration, each have been structured for the ID’s officials. These Programmes are expected to be held in second half of 2008 under World Bank’s – IDF Grant.

ID facilitated the insurance industry by co-ordinating with the concerned stakeholders for expeditious handling of claims due to riots following the tragic incident of 27 December 2007.

iii) Future Plan For Fiscal Year 2007-08

a) Securities Market

- **New Derivative Products**

The Commission is actively pursuing the exchanges to develop new derivative products for the capital market in order to further broaden the scope of trading activity at the bourses.

The Karachi Stock Exchange is currently working on Index options and stock options, which are expected to be introduced in 2008-09. The Commission is also carrying out research on international practices so that the product design of options may become feasible for the local market.

- **Stock Borrowing and Lending Mechanism**

The Commission in consultation with concerned stakeholders has started working on the development of a working mechanism for Stock Lending and Borrowing. The said mechanism is aimed at further enhancing settlement efficiency together with further hedging default risk faced by National Clearing Company of Pakistan Limited (NCCPL).

- **National Commodity Exchange Limited (NCEL)**

National Commodity Exchange Limited is planning to launch currency futures and Karachi Inter Bank Offer Rate (KIBOR) futures contracts for the purpose of offering a diversified range of products.

- **Others**

- (i) Guidelines for issue of shares under the Employees Stock Option Schemes.
- (ii) Standardization of the contents of the prospectus.
- (iii) Implementation of the recommendation of Debt Capital Market Committee (DCMC) report.

b) Specialised Companies

- **Non-Banking Finance Companies (NBFCs)**

- Formulation of an independent NBFC Law to overcome the regulatory and enforcement issues being faced under the present set up where the requirements applicable to NBFCs are divided between the Companies Ordinance and the NBFC Rules.
- Rationalization of NBFCs returns in light of amendments in Rules, Regulations and Ordinance.
- Shifting of Off-site Surveillance of NBFC sector from their periodical returns to computer based Management Information System (MIS) reports.

- **Mutual Funds Plans including Investors Protection**

Securities and Exchange Commission strives to develop the financial and capital market of Pakistan. This can be achieved by, among other things, investor protection, which will increase investors' confidence in the market and catalyze development of the market. Mandatory credit rating and following of international money laundering regulations are examples of such initiatives.

The Commission is in the process of developing the following guidelines:-

- Guidelines for the business of managing discretionary and non-discretionary client portfolio;

- Developed criteria for determining the eligibility of a person for acting as a trustee of a Collective Investment Scheme (CIS);
- Guidelines for the structure of performance based fee to be charged by Collective Investment Schemes;
- Guidelines on investment abroad by CIS;
- Guidelines on appointment of Shariah Advisors by CIS; and
- Guidelines on pricing mechanism and applicability of Net Assets Value (NAV) on CIS.

Various steps including the formation of the above said guidelines will help in development of the Mutual Fund industry. New products such as Long-Short Funds, Exchange Traded funds, and Islamic Income Funds are also under review.

- **Voluntary Pension Schemes (VPS)**

The VPS shall also be promoted as a viable alternative to Optional Separation Scheme (OSS) in Pakistan and that it could emerge as a preferable old age pension choice for all Pakistanis. It is also envisioned that the horizon of VPS shall be broadened by extending tax incentives to all the participants. In this connection, a Pension Fund awareness campaign is also being contemplated as a part of which Frequently Asked Questions (FAQ) relating to Pension Funds are being compiled for placement on the website of the Commission to enhance general awareness regarding the Voluntary Pension System. Keeping in view the size and diversity of OSS arrangements, the development of the framework shall proceed steadily and will take a few years to develop. Once the OSS framework is implemented the possibility of establishing a master trust for both VPS and OSS will be explored.

- **Private Equity & Venture Capital**

The Commission is striving to launch Private Equity & Venture Capital funds in Pakistan and the regulatory framework for the same is in its final phase. The regulations will be notified shortly after seeking requisite approvals.

c) Corporate Sector

- **Establishment of Facilitation Centres**

A facilitation centre is being developed at CRO Multan to provide an investor friendly environment while similar centres have been

planned to be developed at other CROs during the next financial year.

- **Off the Shelf (Ready Made) Company**

A new concept of ready-made/ off-the-shelf company is being introduced by the Registration Department (RD). A 'shelf company' would be a previously-incorporated company which would be readily available for instant off-the-shelf purchase without the time spent in setting up. A detailed concept paper on Off-the-Shelf Company setting out the modus operandi and the expected benefits of the idea has been prepared. The concept as well as modalities is being deliberated after which further action will be taken for awareness creation and implementation.

- **Security Measures**

Security is being tightened further at all the CROs in the wake of the terrorism activities throughout the country. This is essential in order to ensure safety of the employees as well as the visitors and to ensure safe custody of record of companies.

- **Quality Assurance**

The ISO 9001:2000 certification will be obtained for the Registration Department and eight field offices through Pakistan. However, adoption of the standards will have to be done in a phased manner. To start with, the certification of Registration Department and CRO Islamabad is being contemplated.

- **Abolition of Stamp duty in I.C.T**

All the provincial Governments i.e. Punjab, N.W.F.P, Sindh and Baluchistan were convinced and stamp duty was abolished on the registration of Memorandum of Association in order to promote business activities. Efforts would be continued for abolishment of stamp duty in the Islamabad Capital Territory.

- **Scanning and Archiving Project**

Scanning and Archiving Project is currently in progress at CROs Islamabad, Lahore and Karachi and is expected to finish soon. File preparation has been completed at all the CROs. The project will result in creating a transparent paperless environment, besides increasing the overall efficiency of the department.

**K) PRIME MINISTER'S SPECIAL PROGRAMMES
(PMSP) WING**

a) Infrastructure Project Development Facility (IPDF)

The Infrastructure Project Development Facility (IPDF) was established under Section 42 of Companies Ordinance, 1984 on 5th May, 2006. The Board of Directors comprising the following is competent to run the affairs of the IPDF:-

- i) Minister for Finance
Chairman
- ii) Secretary, Finance Division
Member
- iii) Secretary, Planning & Development Division
Member
- iv) Dr. Sania Nishtar, President, Heart File
Member
- v) Mr. Shahzad Ata Elahi, Partner,
Cornelius, Lane & Mufti
Member
- vi) Mr. S. Salim Raza, CEO, Pakistan Business Council
Member
- vii) CEO, IPDF
Member

The company has performed the following work during the year under report:-

i) Publication

- Feasibility Guidelines
- Procurement Guidelines
- Standardized Contractual Provisions (Standard Contract)
- Viability Gap fund Guidelines
- Risk Management Framework (Guarantees)
- Project Development Fund Concept Note
- Infrastructure Project Financing Facility – Draft Business Plan
- Inception Guidelines (Draft)
- Environmental & Social Guidelines (Draft)
- Tariff Guidelines (Draft)

ii) Capacity Building

- Workshop on Unitary Payment Based – 2008
- Workshop on PPP Life Cycle and Municipal Sector – May 2008

iii) Project Pipeline

IPDF's project pipeline has been developed on a "demand-driven" basis meaning that in the absence of formal delegation of projects, IPDF has had to market itself to public sector institutions in undertaking PPPs. While the potential project pipeline is quite long, nine projects are already at various advanced stages of implementation. IPDF has been making efforts to identify and develop a robust project pipeline of infrastructure projects to be developed under the PPP modality. In this regard it has followed a multi-pronged strategy:-

- Pro-active marketing to various agencies / organizations responsible for developing infrastructure projects at all levels i.e. federal, provincial and local governments.
- Projects identified by various relevant agencies / organizations themselves either in response to IPDF's solicitation or otherwise from time to time.
- Projects identified by IPDF through preliminary review of the list of existing projects in the Public Sector Development Programmes (PSDP).

b) Khushhal Pakistan Fund (KPF)

KPF is a company limited by guarantee established by the Finance Division under Section 42 of the Companies Ordinance 1984 on 19th September 2005. The composition of Board of Directors of KPF is as follows:-

- | | | |
|------|--|-------------------|
| i) | Minister for Finance | Member / Chairman |
| ii) | Secretary Finance | Member / Director |
| iii) | Secretary, Planning & Development Division | Member / Director |
| iv) | Secretary, Acting Secretary, Economic Affairs Division | Member / Director |
| v) | Mr. Rashid Bajwa, CEO, NRSP | Member / Director |
| vi) | Mr. Kamal Hayat, CEO, PPAF | Member / Director |
| vii) | Mr. Muhammad Arif Yaqub, CEO, KPF | Member / Director |

KPF envisions a vibrant, dynamic and prosperous Pakistan through filling in the development gaps in neglected strata of the community both urban and rural to improve the quality of life of its citizens. It is designed to function as lean organization, with a professional management and with standards consistent with those of the international development agencies working in Pakistan. It focuses on serving the un-served communities of the country, mainly in terms of basic infrastructure. Based on the emphasis of KPF, it is expected that following benefits will be generated over time:-

- Short-term employment generation among the poorest segment of society.
- Better communication infrastructure and access to markets.
- Increased income particularly in inaccessible areas.
- Better infrastructure for health, education, drinking water and sanitation.
- Improvement in human and social development indicators.

KPF has partnered both public and private sectors across the country in implementation of Community Participation Investment (CPI). Under CPI, KPF through district government (in Baluchistan) or rural support Programmes (in NWFP and Sindh). KPF has financed over 9841 infrastructure schemes in 51 districts of the country with a beneficiary population of about 10.7 million. KPF financing has largely concentrated on drinking water supply (32 percent), communication (23 percent), sanitation (17 percent), etc.

c) Infrastructure Project Financing Facility (IPFF)

Non-Banking Company titled “Infrastructure Project Financing Facility (IPFF)” was established under Section 282 of Companies Ordinance, 1984 by the Government (Finance Division) on 20-04-2007. The Company conducts its business under the supervision of Board of Directors, which comprises the following:-

- | | | |
|------|---|----------|
| i) | Minister for Finance | Chairman |
| ii) | Secretary, Finance Division | Member |
| iii) | Secretary, Planning & Development Division. | Member |
| iv) | Additional Finance Secretary (Budget) | Member |
| v) | Three prominent Private Persons | Member |
| vi) | Chief Executive Officer, IPFF | Member |

The Public Private Partnerships (PPPs) contracts are long term in nature. In the absence of a strong pipeline of PPPs projects and a weak project finance market, there are few many long term debt instruments available in the market that match PPPs contract tenors. The IPFF will provide residual long term, fixed rate, local currency funding to financially viable and bankable Public Private Partnerships Projects.

The Company will be operationalized after issuance of license by the Security & Exchange Commission of Pakistan, which is under process.

d) Competitiveness Support Fund (CSF)

The Competitiveness Support Fund (CSF) is a Company Limited by guarantee established by the Finance Division under Section 42 of the Companies Ordinance 1984 on 26-01-2006.

The CSF is a joint initiative of the Ministry of Finance, Government of Pakistan and the United State Agency for International Development (USAID) to reposition the Pakistan economy on a more competitive global footing. The CSF is providing input into policy decisions, working to improve regulatory and administrative framework and working to enhance Public Private Partnerships within the country.

CSF is providing policy assistance and technical support for a range of industries at the national level. This work encompasses industrial, manufacturing and agricultural sectors across the country and includes federal and provincial agencies. At the highest level of Government CSF is contributing the competitiveness chapter to the Poverty Reduction Strategy Paper (II). It has also developed policy interventions for Special Economic Zones, the motorcycle industry and international investment (via a restructuring project with the Investment Division – Board of Investment). Special studies and actions plans have resulted in reports on automotive vendors, motorcycle manufacture, telecoms and IT and the food industry. In particular, CSF has established and served as a secretariat for the Task Force on Horticulture Competitiveness and Finance.

CSF has set up a system capable of identifying and processing matching grants at the community level for Dairy, Marble and Granite, Gems and Jewelry, Horticulture and Furniture Sectors in order to increase their profits and improve their productivity.

During the year under report the CSF implemented a Programme of sponsoring participation of leading Pakistani journalists in the Innovation Journalism (INJO) Fellowship Programmes at Stanford University in California. The first INJO group delegation comprising three journalists went in 2007 on a six month fellowship Programmes. The second INJO group delegation comprising four journalists went in March, 2008 on a four months fellowship Programmes.

L) PROVINCIAL FINANCE (PF) WING

a) Role of PF Wing

In a federal system of government like Pakistan, fiscal relationship of the federal government with its federating units and inter-governmental transfers plays a vital role for development and national harmony. To achieve these objectives, PF Wing has been assigned the key responsibility to deal with the financial matters relating to provinces and inter-Governmental transfer of resources from Federal to Provincial Governments and other regions of the country. The main functions of the Wing are as under:-

- Distribution of resources amongst the provinces in accordance with the Presidential Order “**Distribution of Revenue and Grants-in-Aid Order**” promulgated under Article 160 of the Constitution.
- Finalization of Budget Estimates and Revised Estimates relating to Provincial Share in the Divisible Pool and Straight Transfers.
- Recovery of cash development loans (CDL) and Salinity Control Area Rehabilitation Project Loans from the province as well as monitoring of cash balance position of provinces with the State Bank of Pakistan.
- Preparation of budget for providing obligatory grants to the Provinces in accordance with aforesaid Presidential Order.
- Transfer of funds to the provinces for federally sponsored provincial projects and budgetary support to Government of AJ&K including development loans and advances.
- Consolidation of Federal Receipts on the Domestic as well as Foreign Loan floated by Federal Government.
- Monitoring of Expenditure on account of Demand for Grants relating to Development Loans and Advances; Other Loans and Advances; Grants-in-Aid and

miscellaneous Adjustments and Other Development Expenditures.

- Appropriation Accounts, Opening of Reserve Funds and matter relating to Public Accounts Committee regarding above demand for grants.
- Federal Support to the District Governments.
- To keep and maintain the civil accounts received from Accountant General Offices of the provinces to see the trend of revenue receipts and expenditure of the provinces and AJK.
- Programmes Loans such as Access to Justice Programmes, Decentralization Support Programmes, etc.
- Releases of Funds under People's Works Programmes-II (erstwhile called Khushal Pakistan Programmes-II) for implementing Prime Minister's directive regarding development schemes.

b) Fiscal Relationship

There are two kind of fiscal arrangements for revenues sharing between the federal and provincial governments i.e. (i) under Article 160 of the Constitution; and (ii) under Article 161 of the Constitution. The National Finance Commission (NFC) is set up under Article 160 of the Constitution and the recommendations of the Commission are implemented through Presidential Order. The resources transfers under Article 161 are to be made on the basis of location of natural resources. The National Finance Commission Secretariat is housed in this Wing. Therefore, the Wing is a focal point for building and strengthening financial inter-governmental relationships between the federation and its federating units i.e. provinces.

The bulk of financial resources are transferred from the divisible pool to meet the needs of provinces. The increasingly improved revenues collection performance by the Federal Government and due to change in the distribution formula through the Presidential Order i.e. Distribution of Revenue and Grant in Aid (amendment) Order, 2006, Federal Government has transferred larger amount of resources to provinces. The comparative statement showing the increase in transfer of divisible pool resources from financial year 2006-07 and financial year 2007-08 is as under:-

(Rs. in Million)

	<u>2006-07</u>	<u>2007-08</u>	% increase
Divisible Pool	325,530.00	389,770.00	19.7
Special Grant	27,750.00	32,426.00	16.9
Total	353,280.00	422,196.00	19.5

c) Achievements

PF Wing was chosen as one of the leading Wings to standardize its working for ISO Certification. Quality Assurance Procedures and quality objectives for the Wing have been designed. PF Wing has been able to achieve the desired target and is now ISO Certified having successful benchmark.

Since the enforcement of the Presidential Order i.e. Distribution of Revenues and Grant-in-Aid (Amendment) Order, 2006, the net Federal transfer to the provinces up to 30th June 2008 are tabulated as under:-

(Rs. in Million)

	<i>Punjab</i>	<i>Sindh</i>	<i>NWFP</i>	<i>Balochistan</i>	<i>Total</i>
Divisible Taxes	219280.65	98909.46	51598.12	19981.36	389769.59
Straight/Others Transfer	8728.48	44017.69	4940.53	10026.65	67713.35
Special Grants (Subventions)/ Grant in Aid	3566.86	6809.46	11349.11	10700.59	32426.02
Development Grants	2845.35	2340.55	1087.77	6136.48	12410.15
Other Non-Development Grants	0.00	250.00	115.10	600.00	965.10
Grand total:-	234421.34	152327.16	69090.63	47445.08	503284.21

During FY 2007-08, PF Wing also played a pivotal role in the execution of PSDP Projects of Finance Division by timely releases of funds to concerned entities and was constantly in touch with the project authorities in order to follow-up the progress of the projects. Release position of the major projects upto 30th June, 2008 is given below:-

Project's Name**(Rs. in Million)**

S.No.		Release
a)	Greater 100 MGD Bulk Water Supply for Karachi (K.III).	144.00
b)	Karachi Package	1212.04
c)	Hyderabad Package	277.50
d)	Nallah Lai Expressway Package, Rawalpindi	450.00
e)	Greater Quetta Water Supply (Main)	1900.00
f)	Gwader Development Authority	1000.00

In order to provide potable water and to improve drainage system in the provinces, Federal Government has provided funding for execution of water supply and drainage schemes in the provinces. The names of schemes and release position of funds for these schemes during FY 2007-08 are given in the following table:-

(Rs. in Million)

i)	Water Supply and Drainage scheme Faisalabad	46.24
ii)	Water Supply Schemes for District Muzaffar Garh	37.00
iii)	Clean water Supply for Depalpur	13.78
iv)	Mirpur Khas Water Supply and Drainage Scheme	50.00
v)	Water Supply Scheme Peshawar	25.00
vi)	Water Supply Schemes at Sighari Dera Bughati	12.00
vii)	Water Supply Scheme at Tillimat in Dera Bughati	4.00
viii)	Drainage Schemes & Sewerage Systems, Okara	3.22
ix)	Sewerage/Drainage South Disposal, Okara	6.25
x)	Urban Drainage Scheme Mirpur Khas	30.00
xi)	Urban Drainage Scheme Sukkur	56.40

xii)	Urban Water Supply Scheme Nawabshah	6.40
xiii)	Urban Drainage Scheme Nawabshah	20.73

PF Wing also deals with Prime Minister's directives issued for financing of development projects pertaining to roads, water supply, supply of gas, village electrification, etc. identified under Khushal Pakistan Programmes-II (KPP-II) . Details of releases made under KP-II upto 30th June, 2008 are as under:-

(Rs. in Million)

PSDP Head	Funds Released
KPP-II (New Projects)	14416.40
KPP-II (Village Electrification)	2747.69
KPP-II (On-going)	91.62

A strategy was designed by the Finance Division for the provinces to prematurely retire expensive Cash Development Loans (CDL) and SCARP Loans. During financial year 2007-08, the following provinces retired their expensive debt to the tune of Rs.9316.910 million. By this way, provinces were benefited by creating fiscal space of Rs.1544.509 million as per details given below:-

(Rs. in Million)

Provinces	Loan Retried	Relief to the provinces	
		Principal	Interest
Sindh	4364.31	220.39	564.32
NWFP	2952.61	00.00	432.73
Balochistan	2000.00	116.01	211.05
Total	9316.92	336.40	1208.10

Thus, PF Wing remained proactive in initiating actions to assist the provinces to improve financial management through a consultative process in the financial year 2007-08.

M) QUALITY ASSURANCE / INFORMATION TECHNOLOGY (QA/IT) WING

a) Introduction

A Quality Assurance (QA) Programmes has been launched in the Finance Division with the approval of the Government w.e.f 28-12-2005, as a pilot project, with the assistance of the Asian Development Bank (ADB). The prime focus of the QA Programmes is to increase the customers' satisfaction level, raise service quality, improve internal working efficiency and give the Division a strong local and global credibility. The basic framework/ model chosen for this function is ISO 9001:2000.

b) Objective

To establish a framework of a Quality Assurance in Finance Division in order to plan, control and improve its performance and enhance its competitive value and customer satisfaction levels.

c) Scope

The Programmes has been implemented in the following two Phases:-

Phase I (Jan 2006 to Feb 2007): In this phase, 5 Wings (i.e Quality Assurance, Administration, Regulations, Provincial Finance and Expenditure) of this Division have been certified complying to ISO 9001:2000 Standard by M/s Lloyd's Register, EMEA of UK, being the external auditors.

Phase II (Jan 2007 to Apr 2008): In this phase, the remaining 12 Wings of Finance Division (i.e Budget, Internal Finance, PMSP, External Finance (Policy), External Finance (C&B), Investment, Corporate Finance, Economic Adviser, Debt, HRD, Development and Chief Accounts & Finance) have been certified by the external auditors in April, 2008.

d) Vision

To manage the national economy in the most efficient and effective manner both at the Macro and Micro levels.

e) Mission

To pursue sound and equitable economic policies that put Pakistan on the path of sustained economic development and macroeconomic stability with a view to continuously and significantly improving the Quality of Life of all citizens through prudent and transparent public financial management carried out by dedicated professionals.

f) Quality Policy

To provide the most effective and efficient financial services to the Federal Government, Provincial Government and the citizens of Pakistan.

g) Central Quality Objectives

In order to implement the Quality Policy, the efficiency and effectiveness of the entire Finance Division, along with its constituent wings have been identified in terms of measurable objectives. Each objective has a standardized procedure, which defines who and how these objectives are measured. Targets are set for each of these quality objectives.

h) Strategic Quality Management Committee (SQMC)

SQMC is the overall sponsor of the QA Programmes and makes strategic decisions through regular review meetings. It comprises Minister for Finance as Chairman, the Finance Secretary as Deputy Chairman and all Addl. Finance Secretaries/ Sr. Joint Secretaries as its members.

i) Documentation of Procedures

In compliance to Clause 4 of the ISO 9001:2000 Standard a Quality Assurance Manual (QAM) has been prepared, which specifies the Quality Management System of this Division and defines/ describes the requirements of the Quality Assurance System as complying with the requirements of ISO 9001:2000 Standard. Similarly, Quality Assurance Procedures (QAP) pertaining to each Wing have been prepared, laying down detailed requirements to be complied with under the ISO 9001:2000 Standard.

j) Reporting of Quality

In order to ensure compliance to the Quality Management System in this Division, Quarterly Quality Reports are being prepared, giving analysis of the defined Quality Objectives and their related Metrics.

k) Organizational Structure of the QA Wing

The Finance Division's deep sense of commitment for the achievement of the Quality goals is understood from top to the lowest level of management and employees. For this reason, the top management has established a Quality Assurance (QA) Wing, which is responsible for coordinating with all the Wings. The QA Wing is being headed by an Addl. Secretary/ Joint Secretary (Quality Assurance).

Programmes Sponsor	Finance Minister. Finance Secretary.
Programmes Leader	Addl. Finance Secretary/ Joint Secretary (Quality Assurance).
Wing's Quality Leadership	Addl. Finance Secretaries/ Senior Joint Secretary of the respective Wing.
Departmental QA Coordinators	Designated Quality Assurance Coordinators from each Wing.
Quality Improvement Teams	All those involved in Corrective, Preventive and Improvement Actions.
Responsibility of Quality	Everyone is responsible for the Quality of his/ her work

i) **Strategic Quality Management Committee (SQMC):** In order to plan, review and control the Quality Policy of the Finance Division at the highest level, Strategic Quality Management Committee (SQMC) has been constituted. The Finance Minister is the head of this Committee; whereas the Finance Secretary is his second in command. In the absence of the Finance Minister, the Finance Secretary chairs the committee meeting, whereas in the absence of both, senior most Additional Finance Secretary chairs the Committee meeting. The Finance Minister and the Finance Secretary ensure that the review meetings of this committee are held timely and are effective for decision making. Every member participates and makes his/ her contribution in each meeting. Following are the major responsibilities of SQMC:-

- To ensure the integrity of the Quality Assurance Programmes in Finance Division.
- To develop and involve all the top management in Quality and Performance Improvement areas.
- To envision and conceive the Service Quality of the Division in light of past and current performances, its Quality Policy and Objectives, its Customers needs, the National needs, Benchmarking with other world-class Ministries from around the world and the local limitations.

- To identify and develop appropriate strategies and action plans to help achieve the Division's quality improvement goals and objectives to motivate and mobilize all the senior and junior employees of Finance Division to understand and follow the quality assurance procedures and objectives.
- ii) **Quality Assurance (QA) Wing:** The AFS/ JS (QA) head this Wing. He / she is autonomous from the influence of any other Wing. For this purpose, he / she reports directly to the Finance Minister and the Finance Secretary. He / she looks after the entire QA Programmes established in the Division and monitors / facilitates the achievement of the Quality Policy and Quality Objectives in the Division.
 - iii) **Departmental QA Coordinators (DQACs):** These are 2-3 designated persons at the level of DS or SOs. They work within their own Wing under their respective Additional Secretaries/ Sr Joint Secretaries. They look after the measurement, control and improvement of Wing's Quality Objectives in close coordination with JS (QA). The actual strength of the departmental QA Coordinators varies based upon the quantum of tasks in hand. The initial composition and any subsequent changes are jointly approved by the respective Additional Secretary/ Sr. Joint Secretary and JS (QA).
 - iv) **Quality Improvement Teams (QIT):** These are small problem solving teams temporarily nominated or made on voluntary basis, tasked to carry out research on root cause analysis and proposing solutions.

1) Roles & Functions of QA Wing

The QA Wing is involved in the following activities:

- **Central Quality Planning:** Making short and long term Strategic Quality Plans.
- **Coordination and liaison with Departmental QA Coordinators:** Regular evaluation and monitoring of the effectiveness and performance of Departmental QA Coordinators.
- **Planning and Conduct of Quality related training Programmes:** Evaluating, recommending, and coordinating training Programmes that affect and improve the service quality of Finance Division or professional capabilities of QA staff.

- **Internal Quality Audits:** Conducting the audits of Quality Programmes in Finance Division.
- **Document Control:** Controlling the issuance, release, approval and ensuring availability of the Quality Manuals, Quality Assurance Procedures and all other external documents that relate to the Quality Assurance functioning only.
- **Formation and Coordination of Quality Improvement Teams:** Promoting, developing, registering, running, monitoring, and evaluation of Quality improvement teams in MOF in liaison with Departmental QA function.
- **Customer Service:** Compiling, analyzing, responding to and taking effective preventive measures on the basis of customer feedbacks received from all stakeholders, including other Ministries/ Divisions, Parliamentarians, World Bank, etc.
- **Rewards, Awards and Events Planning for quality performance within employees:** Evaluating the work done by the Quality Improvement Teams in Finance Division, designing their performance evaluation criteria, arranging prize distribution events and ceremonial presentations, recommending appropriate compensation/incentives for their achievements and extra-ordinary efforts.
- **Newsletter on Quality:** Writing, designing, formatting, printing, and distribution of (Bi-annually) newsletter focused on Quality Improvement in Finance Division.
- **Suggestion System:** Designing and running a suggestion scheme for employees and providing them feedback on actions taken by the Management.
- **Monitoring and Reporting the Performance of Quality in Finance Division:** Taking appropriate inputs to measure the performance of quality in all Wings and Sections.
- **Coordinating Problem Solving Process within Finance Division:** Assisting in formulation of procedure of problem solving corrective actions.
- **Coordinating in Revising Operational Processes:** Identifying the need for changing old work processes in order to enhance efficiency, profitability, and accuracy of operations.
- **Benchmarking and Competitive Analysis:** Monitoring and developing Division's processes along with other helpful organizations in order to learn better ways, methodologies and competitive strategies.
- **Facilitation on Quality matters:** Providing expert advice and guidance to all Wings/ Sections and at all levels of

issues pertaining to the Quality Assurance of Finance Division.

- **Interpretation of Quality for Every Wing/ Section:** Helping the management, staff and employees to correctly and effectively interpret the requirements of long term quality improvements in their respective Wing/ Section.
- **Maintaining Quality Database:** Creating and maintaining effective review, analysis and evaluation of databases for Quality Assurance System of Finance Division.
- **Promotion of Quality:** Designing effective promotional and mass communication campaigns for promoting general quality consciousness, techniques, and approaches, along with raising the passion and significance of this field of activities. This may include poster campaigns, events, write-ups, etc.

m) Achievements of the QA Wing

The achievements made so far by the QA Wing are as under:-

- Quality Policy has been defined.
- Strategic Quality Framework has been defined.
- Quality Assurance Structure of this Division has been established.
- Approved Quality Assurance Manuals (QAMs) and Procedures (QAPs) for all 17 Wings have been prepared and implemented in this Division.
- The Quality Management System compliant to ISO 9001:2000 Standard has been implemented in the Division, which has been certified by the external auditor i.e M/s Lloyds Register, EMEA, Karachi.
- Quarterly Quality Reports on Quality Objectives for all Wings are being prepared and released regularly. 71 Quality Objectives (service standards) alongwith 144 related metrics have been determined.
- Roles and functions of each officer in this Division have been defined in the shape of Job Descriptions.
- Strategic Quality Improvement Plan of Finance Division (2006-2010) has been prepared.
- Review meetings of Strategic Quality Management Committee (SQMC) and Departmental Quality Review Committee (DQRC) of each Wing are being held regularly.

- Customer Services Department has been established.
- In order to involve all employees of the Finance Division in quality and performance improvement initiatives, an Employees Suggestion Scheme has been launched in this Division.
- Central Record Room has been established.
- HRD Wing, being a pre-requisite for implementing this Quality Assurance Programmes, has been established.
- Trainings to build capacity of officers of this Division on 'Quality' related topics are planned and implemented regularly.
- Newsletter titled 'Quality Review' is being published regularly.
- Internal 'Quality' related audits are being held at regular intervals.
- The Web Page on Quality on the Website of MoF is being used to receive web based customer complaints and suggestion in order to streamline the processes of this Division.

n) **Information Technology**

In collaboration with Ministry of Information Technology & Telecom a Project titled 'E-Office Replication at Finance Division' is being implemented. The following are its major activities:-

- **Networking of Q-Block:** Networking on six floors of Q-Block has been completed and also linked to the internet facility.
- **E-Office Configuration:** Servers have been configured at Finance Division, Q-Block. Configuration of Client PCs has been completed.
- **Hardware:** 100 PCs have been delivered, installed and configured. 6 Scanner have also been delivered.

Present status with regard to introduction and adoption of e-Government is as under:-

- **Local Area Network (LAN):** LAN is available at all six floors of Q-Block. Users have the facility to share the data.
- **Internet Facility:** The LAN of Finance Division is also connected with the internet through DSL (512

kbps) connection. All users connected with the LAN have internet facility.

- **IT Training:** Basic IT Training course for the 800 employees (BPS 5 and above) of Finance Division had commenced from 15th Aug 2005. A total of 366 participants have completed the course so far.

Training on “Internal Communication and Movement of File Module” is being imparted to employees of Finance Division.

- **E-Mail addresses:** E-Mail addresses of all the officers have been created and maintained on the mail server of Finance Division.
- **Internal Communication and Movement of File Module:** Finance Division is in the process of replicating “Internal communication and Movement of the file Module” prepared by the MoIT and Telecom. To achieve this, a pilot project titled “E-Office replication at Finance Division (pilot Stage)” was conceived, for which, PC-I amounting to the Rs. 10.77 million was approved.
- **Scanning/ Digitization of Files:** Files of QA Wing have been scanned and migrated to IC Module. Scanning of files of Administration Wing is in progress.

N) REGULATIONS WING

The Government has been very conscious of the erosion in the salaries of the Government servants and pension of retired Government servants due to price hike of essential commodities. During the FY 2007-2008, the government has made following revisions in Pay and Allowances:-

The Pay Scales of the Civil Servants as well as Armed forces personnel of the Federal government were revised @ 15 percent w.e.f. 01-07-2007.

The long outstanding demands of the Clerical Staff were met and the posts of Clerks were up-graded w.e.f. 01-07-2007 as under:-

Sl. No.	Name of the post	Existing BPS	Up-graded BPS
1.	Lower Division Clerk (LDC / Junior Clerk)	BPS-5	BPS-7
2.	Junior Auditor	BPS-5	BPS-7
3.	Upper Division Clerk (UDC / Senior Clerk)	BPS-7	BPS-9
4.	Assistant / Head Clerk	BPS-11	BPS-14
5.	Senior Auditor	BPS-11	BPS-14

Similarly, the posts of Deputy Superintendent, Inspector and Appraiser, etc. of the Direct / Indirect Taxes of FBR were up-graded as shown below:-

Sl. No.	Designation	From BPS	Up-graded to BPS	Total Strength
1.	Deputy Superintendent (Customs)	BPS-14	BPS-15	577
2.	Inspector (Income Tax)	BPS-11	BPS-14	1397
3.	Inspector (Customs & Excise)	BPS-12	BPS-14	1727
4.	Inspector (Preventive Service)	BPS-14	BPS-15	75
5.	Appraiser / Valuation Officer	BPS-14	BPS-15	335
6.	Preventive Officer	BPS-11	BPS-14	389
7.	Examiner	BPS-11	BPS-14	218
Total No. of Posts:				4718

The Pay Scales of the employees of Autonomous / Semi-Autonomous Bodies and Corporations who have adopted Basic Pay Scales Scheme in totality were revised @ 15 percent w.e.f. 01-07-2007.

The Management Grades (M-I, M-II & M-III) were revised @ 15 percent w.e.f. 01-07-2007. The rental ceiling of the Management Grades was also revised @ 10 percent w.e.f. 01-07-2007. Further the Orderly Allowance for the officers holding Management Grades was increased from Rs.2,375 p.m to Rs.3,000 p.m w.e.f. 01-07-2007.

Rates of Foreign Allowance and Entertainment Allowance for the Government officers / officials posted abroad were increased based on UNCPI w.e.f. 01-07-2007.

Pension of civil pensioners of the Federal Government including civilians paid from Defence Estimates as well as retired Armed Forces personnel was increased w.e.f. 01-07-2007 at the following rates:-

Pensioners who retired prior to 01-07-1997 20 percent

Pensioners who retired between 01-07-1997
to 30-06-2007 15 percent

The Government employees traveling by Air on duty are now required to provide used Air tickets / E-tickets plus boarding cards alongwith their TA bill w.e.f. 30-06-2007.

Federal Secretaries / Additional Secretaries Incharge of the Ministries / Divisions have been allowed to travel by PIA Economy Plus Class instead of Economy Class while traveling by Air on official duty within the country w.e.f. 31-05-2008. The aforesaid facility has also been extended to the Federal Minister and Ministers of State w.e.f. 31-05-2008.

ATTACHED DEPARTMENTS

1. AUDITOR GENERAL OF PAKISTAN

Office of the Auditor General of Pakistan being the Supreme Audit Institution of Pakistan is performing its statutory responsibilities of auditing public expenditure as well as revenue under Articles 169, 170 and 171 of the Constitution of Islamic Republic of Pakistan, 1973, the Auditor's General (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 and under Section 115 of the Local Government Ordinance, 2001.

Office of the Auditor General ensures public accountability and fiscal transparency in public sector operations, and helps to bring about improvements in the financial discipline and internal control environment in the executive departments for minimizing the possibility of waste and fraud. Besides promoting transparency, accountability & good governance at all levels of government i.e. Federal, Provincial & Local, the AGP also strengthens parliamentary oversight of Public Funds through its reports to the National, Provincial & Districts Assemblies.

Vision of the AGP is to be a Model Supreme Audit Institution, adding value to the national resources. The Department's mission is serving the nation by promoting accountability, transparency and good governance in the management and use of public resources. Our core values are integrity, quality and partnership and our strategic goals are:-

- Producing timely quality reports for the legislatures and the Government.
- Responding to emerging challenges in the field of audit and accounts.
- Maximizing the value of Auditor General's office by conforming to international best practices.

Following is a brief account of the activities of Office of the Auditor General of Pakistan during the year 2007-2008:-

i) Submission of Federal Audit Reports of Auditor General for the Audit Year 2005-2006 to the President

Thirty two (32) Audit Reports / Appropriation & Finance Accounts relating to the accounts of Federation for the Audit year 2005-2006, comprising 12 Audit Reports, 06 Special Audit Reports, 4 Performance Audit Reports, 1

Finance Accounts and 9 Appropriation Accounts were submitted to the President to be laid before the National Assembly.

ii) Backlog of Previous Audit Reports

There was huge backlog of Audit Reports of previous years up till the year 2005-2006. The previous Public Accounts Committee had completed examination of Audit Reports of the Audit year 1995-1996 & 2000-2001. The Department of the Auditor General of Pakistan is providing all assistance to the National Assembly Standing Committee on Public Accounts in the effort to clear the backlog.

iii) Cash Recoveries Made at the Instance of Audit

Cash recoveries of Rs. 4339.876 million have been effected so far at the instance of audit during the year 2007-2008. It is a remarkable improvement as compared to that of the last year i.e. Rs. 2166.096 million.

iv) Sub-Committees of PAC

Four Sub Committees of the PAC have been constituted in order to clear the backlog of audit reports in the year 2004. Auditor General of Pakistan has provided substantial support to the 4 sub committees as well. The four Sub Committees of the PAC have discussed audit reports / appropriation accounts for the audit year 1995-96 and have partially covered the audit reports/ appropriation accounts for the audit years 1989-90, 1990-92, 1992-93, 1994-95, 1997-98 and 1998-99.

v) Director General's Conference 2007

The Director's General Conference 2007 was held at Islamabad from 22nd to 24th November, 2007. This was a mega event, which was attended by 129 officers belonging to Pakistan Audit and Accounts Service (Auditor General of Pakistan, Deputy Auditors General, Directors General and Directors Audit). The moot was an exercise in introspection with a view to drawing out the major issues for reform. It set in pace a reform agenda to effectively address the unidentified core values of the institution.

vi) **Human Resource Development**

In pursuance of special efforts to professionalism, the cadre in the AGP's departments training and educational development is awarded due focus. 130 officers and officials were got trained in various short and long courses from reputed foreign & local universities/Institutions. Prominent training Programmes are as follows:-

a) **Professional Development Programmes (PDP) Under CSRU**

Through a capacity building Programmes launched by the Civil Service Reforms Unit (CSRU) of Establishment Division with the assistance of the World Bank, 7 officers of PA&AS were selected who proceeded abroad for training. 16 PA&AS officers have completed professional training of one year degree course abroad under capacity building Programmes during 2006-07, and the applications of 28 PA&AS officers have been sent to CSRU for selection for training abroad 2007-08.

b) **Executive Development Programmes (EDP) under Professional Development Programmes of CSRU**

A five week Executive Development Programmes under CSRU has been launched by the Establishment Division for professional development of BS-20 officers. During 2007-08 four PA&AS officers have participated in the EDP for 5 weeks, and completed the training Programmes at the John F. Kennedy School of Government, Harvard University, USA. Further Five PA&AS officers were selected for Fulbright / Chevening /USAID Scholarship during 2007-2008.

c) **Professional Certification-Training Abroad under PIFRA (Audit Side)**

The Department of the Auditor General of Pakistan has undertaken a broad based reform agenda under the platform of PIFRA, a World Bank Funded Project for Improvement of Financial Reporting and

Auditing. It seeks to bring public sector accounting and auditing at par with international best practices. Our major emphasis is on capacity building of Pakistan Audit & Accounts Service and departmental cadre officers in areas relevant day to day working. In this regard, 24 officers of AGP and CGA were sent for acquiring higher degrees. These officers, on return, have been posted in different field offices.

d) Training of Officials of the Government Departments and Parallel Institutions of Friendly Countries

Office of the Auditor General of Pakistan is not only performing its constitutional responsibilities of auditing and preparing the federal as well as provincial accounts but also has taken the responsibilities to equip its officers and officials in auditing, accounting and information technology that meets international standards. For this purpose the Audit and Accounts Training Institutes has conducted a number of long, as well as, short courses and imparted requisite training on said disciplines in collaboration with Asian Development Bank and other Supreme International Audit Institutions. The Supreme Audit Institution of Pakistan organized a five week International Intensive Training Programmes (ITP) in Performance Auditing at its Audit & Accounts Training Institute at Lahore from February 6 to March 10, 2007.

e) International Collaboration

The salient international activities of the office of the Auditor-General of Pakistan are as under:-

- The Auditor-General of Pakistan is currently the External Auditor of the Organization for the Prohibition of Chemical Weapons (OPCW). The Auditor-General of Pakistan has audited the OPCW accounts for the years 2003, 2004 and 2005 and issued audit reports for 2003 & 2004. The Audit Reports were well received at different from of the OPCW. The term of Auditor General of Pakistan

will expire in 2008 as the External Auditor of OPCW.

- Office of the Auditor General of Pakistan has adopted International Organization of Supreme Audit Institution (INTOSAI) Auditing Standards and Code of Ethics like objectivity, political neutrality, integrity, impartiality, competence, professional secrecy and professional development. The department believes that adoption of this code of Ethics and Auditing Standards will help in discouraging parochial, racial, tribal, sectarian and provincial prejudices among employees of Pakistan Auditing Department.
- The Auditor General of Pakistan has been elected as the External Auditor of the United National Industrial Development Organization (UNIDO) for the term 2008-2010.
- Asian Organization of Supreme Audit Institutions (ASOSAI) comprises the Supreme Audit Institutions (SAIs) of 43 Asian countries and provides a forum where developments in the fields of financial management, auditing and accounting are shared between member states. The Auditor-General of Pakistan is a member of the Governing Board of ASOSAI. During the 10th ASOSAI Assembly held in Shanghai, China from October 10-15, 2006 Auditor-General of Pakistan has been selected to host the 11th ASOSAI Assembly in the year 2009 and would become the chairman of the ASOSAI for the term 2009-2012. The AGP is therefore also hosting the 39th Governing Board Meeting of the ASOSAI in November, 2008 at Lahore.

vii) PIFRA

Pakistan is facing serious challenges of good governance in every facet of its economic activity. One of the critical areas in which comprehensive, concrete and coherent effort is needed to initialize good governance is Fiscal Management. PIFRA aims at development capacity for good governance in fiscal management to achieve the vision of strengthened integrated financial management systems (IFMS) of the country. Therefore, in order to

accomplish the mission of promoting accountability, transparency and good governance, the Department of the AGP has launched a project for Improvement of Financial Reporting and Auditing, which is now in Phase-II.

Under PIFRA, series of training workshops on human resource and change management are being organized and held for core staff from PIFRA Directorate, OAGP, CGA and provincial AGs, to boost the sustainability of overall reforms. PIFRA has also introduced a new audit methodology in line with the International Auditing Standards. FABs, the key comment of PIFRA, have achieved the milestone throughout the country. FABs, like other PIFRA components, are working hard to meet the target objectives as envisaged in the PC-I of the Project. 27 sites have been completed. This component has shown extraordinary performance not only in Punjab, but also in other provinces such as NWFP, Balochistan, etc. The performance of the Audit competency centre PIFRA remained exemplary. The training process is also in progress. Financial Audit Manual (FAM) and Audit Command Language (ACL) training were conducted successfully in DG District Audit NWFP and AATI Lahore.

2. CENTRAL DIRECTORATE OF NATIONAL SAVINGS (CDNS)

The history of National Savings Organization dates back to the 2nd World War when the British Government of undivided India launched the savings schemes to meet the war time expenditure. To have a permanent arrangement, a National Savings Bureau was established as an Attached Department of the Ministry of Finance, offices of which were established in almost all provinces of the sub-continent with the objective of popularizing the savings schemes among the masses as well as to supervise, guide and control the working of the agents authorized to sell the savings instruments.

On her independence, Pakistan inherited the same setup. However, in 1953, keeping in view the recommendations of the Public Investment Enquiry Committee, the National Savings Bureau was renamed as the Central Directorate of National Savings (CDNS). In August, 1960, the CDNS was given the status of an “Attached Department” making it responsible for all policy matters and execution of various National Savings Schemes (NSS). In early 1972, the scope of the CDNS was enhanced and it started selling Prize Bonds. Subsequently, it engaged in the operations of other

savings schemes and hence the present status of considerably expanded set up.

At present, Central Directorate of National Savings is operating with a network of 417 offices comprising 12 Regional Directorates, 16 National Savings Treasuries, 369 National Savings Centers, 1 Directorate of Inspection and Accounts, 7 Zonal Inspection and Accounts Offices, 12 Regional Accounts Offices and 2 Training Institutes. CDNS is responsible for mobilization of domestic savings through the sale of various Government securities called National Savings Schemes (NSS). Presently, the following National Savings Schemes are in operation:-

Defence Savings Certificates

A ten years' maturity instrument offering an average compound rate of 12.15 percent p.a. on maturity. The profit in this scheme is paid for completed years on maturity or encashment, whichever is earlier.

Special Savings Certificates (Regd.)/Accounts

A three years maturity scheme available both in form of certificates and accounts providing bi-annual return @ 11.00 percent p.a. for the 1st five profits and @ 12.50 percent p.a. for the last profit.

Regular Income Certificates

A five years scheme providing monthly profit payment @ 11.52 percent p.a. subject to 10 percent withholding tax at source.

Bahhood Savings Certificates

A new savings scheme exclusively launched for widows and senior citizens with maturity period of 10 years, which offers monthly profit payment @ 13.56 percent p.a. The profit earned on this scheme has been exempted from withholding tax at source w.e.f. 01-07-2004.

Savings Account

Savings Account is an ordinary account offering profit @ 8.50 percent p.a.

Pensioners' Benefit Account

A new savings scheme exclusively launched for pensioners with maturity period of 10 years offering monthly profit payment @ 13.56 percent p.a. The profit accrued on or

after 01-07-2004 on this scheme has been exempted from withholding tax at source.

Prize Bonds

A bearer type of security, available in the denominations of Rs.200, Rs.750, Rs.1,500, Rs.7,500, Rs.15,000 and Rs.40,000. The scheme offers prizes drawn on quarterly basis. The rate of return on this scheme works to 8 percent per annum.

During FY 2007-08, the following changes were made in the existing National Savings Schemes:-

- In order to ensure better return to investors in line with the market trend, the rates of return on all the NSS were enhanced by 2 percent w.e.f 24.06.2008.
- To ensure efficient services to the NSS investors availing themselves the facility through National Savings Centers a “Customer Support Centre” was established at CDNS as well as at each of the 12 Regional Directorates.
- To further diversify the range of Savings Products presently being offered, the CDNS is in process of launching new schemes i.e. short-term Savings Certificates and Islamic Products.
- The CDNS is also considering introduction of specialized Savings Products for Non-Resident Pakistanis (NRPs) abroad in collaboration with the active local & foreign banks.

i) Investment Targets for FY 2007-08

The gross and net investment targets of National Savings Schemes for FY 2007-08 were pitched by the Finance Division at Rs.408, 687 million & Rs.43,602 million respectively. Later the Finance Division enhanced the net investment target to Rs.80 billion for the year. Hectic efforts were put in to achieve the investment targets. As per data of FY 2007-08, gross receipts of Rs. 542,093.77 million and net receipts of Rs.79,984 million have been achieved. Despite the mid year review of the target and stiff competition being faced in the wake of vibrant financial sector, having competitive edge in pricing and services, the organization due to the commendable and untiring efforts, being made by its staff, have successfully achieved the given target.

ii) Automation of National Savings Organization

The automation of National Savings is part of the CDNS strategic plan to facilitate the customers with the efficient customer services at its outlets (National Savings Centres (NSCs)). Main Application relating to business activities at NSCs have been developed by the software consultants and is being tested through parallel run at NSC, Civic Centre, Islamabad. After complete testing of all the modules of the Main Application at the said Centre, the system shall be replicated to other 17 pilot NSCs. The arrangements for the said replication i.e. establishment of main Data Centre, installation of hardware & licensed softwares and data entry of historical records to a certain cut off date have already been made. After successful pilot implementation, the system will be replicated at all the NSCs of Islamabad region and then extended to other regions.

iii) Renovation and up-lift of NS Offices

The tough competition being faced by the NSS in the market necessitated the uplift and renovation of NS offices to convert it into an efficient distribution & collection network. The basic purpose is to build a modern savings institution offering better client services and affectively competing in the financial market to hold its huge share in the savings business. With a view to facilitate our investors the process of renovation and relocation of our centers is continued and at present:-

- Most of the National Savings Centres/ offices have been shifted to better/ spacious places.
- The services of professional firms have been hired for renovation and up-gradation of facilities at National Savings Centres & offices to better clientele facilities besides promoting a corporate image. At present more than 30 National Savings Centres have been fully renovated and at about 70% of the Centres, proper seating arrangements have been made.

iv) Restructuring of NS

A detailed in-house study for restructuring of the CDNS was carried out and study report along with the draft law was furnished on Feb-2001 to the Finance Division for consideration. Government announced to convert CDNS into a corporation in the budget for FY 2004-05. Draft law along with the summary for the Prime Minister aiming to convert CDNS into a Corporate Body

was prepared and submitted in November, 2004. Honorable Prime Minister agreed to the proposal in principle. The draft law stands vetted by the SBP, SECP, and Establishment Division and the Law & Justice Division by May, 2006. The matter is pending with the Finance Division.

3. CONTROLLER GENERAL OF ACCOUNTS (CGA)

i) Introduction

On the separation of accounting function from auditing, the office of the Controller General of Accounts (CGA) was established as an independent organization w.e.f 1.7.2001, under CGA Ordinance No. XXIV of 2001. Accounting, Internal Control, Pre-Audit and Payment functions were transferred from Auditor-General of Pakistan and entrusted to the CGA under the above ordinance.

Office of the CGA and its subordinate offices are not only preparing accounts of the Federal, Provincial and District Governments but also maintaining accounts of certain Self Accounting Entities. Apart from preparation of accounts, offices under CGA are also making payments after applying necessary internal checks.

As per section 6(2) of the CGA Ordinance 2001, following accounting organizations, were brought under the Controller General:-

- a) The Accountant General of Pakistan and its sub-offices.
- b) The Military Accountant General and its sub-offices.
- c) The office of the Accountant General of each province and District Accounts Offices subordinate to them.
- d) The Chief Accounts Officers of the Departmentalized Accounting Entities.
- e) Any other Departmentalized Accounting Entity and their sub offices.

Controller General Accounts, under section 6(3) of the CGA Ordinance, 2001, has been declared as administrative head of all the offices subordinate to him with full authority for transfer & posting within his organization.

The main achievements of the FY 2007-08 are as below:-

ii) Financial Reporting

- For the first time in history of financial reporting in the country, the accounts of the Government are now planned to be submitted within three months after close of financial year. Necessary steps have been taken to ensure that this is done for FY 2007-08 accounts.
- The Annual Financial Statements of the Government of Pakistan, the Provinces and the Districts have been given a new format to conform to International Public Sector Accounting Standards (IPSAS). Pakistan shall be one of the leading countries as far as this initiative for better disclosure is concerned. For the first time in the financial history of Pakistan, cash flow statement of Federal Government has been produced to reflect operating, financing and investment cash flows. Provincial and District level reporting is to follow the same format.
- Submission of timely relevant and reliable accounts was an objective hitherto focused on annual accounts only. A major paradigm shift has occurred to ensure timely submission of not only year end financial statements but also monthly accounts and generation of adhoc reports from SAP-R-3 system installed in accounting offices (AGs etc) has been initiated to help in day to day decision making rather than relying on focus on only year end financial statements.
- Budget Execution Report (BER) showing comparison of Budget and Actual Expenditure are being generated by all AGs. Improvements in the formats and presentation are being made.
- FRM formats have been adopted to improve reporting. Data quality is being improved through reconciliation and Quality Assurance Cells (QAC) created in all AG offices.
- Detail object-wise reports are being sent with monthly civil accounts by the AGs. The data for non-productive sites is entered manually.
- Implementation of Commitment Accounting module has been initiated through a Pilot Project being run by AGPR.

- Implementation of Project Accounting has been initiated in the Federal and Provinces Accounts offices.
- Reconciliation is a necessary part of financial management and, is also an effective measure for detecting and deterring fraud and irregularities. Monthly accounts prepared by AGs are reconciled regularly with Principal Accounting Officers (PAOs) to confirm agreement with Division/Department's Accounts. The expenditure duly reconciled and accepted by the departments in respect of Federal, Punjab, Sindh, NWFP & Balochistan Governments ranges up to 94, 92, 90, 95 & 78 percent respectively on average. Fiscal Monitoring Committees (FMCs) at federal and provinces review progress of reconciliation of respective department accounts with those of AGPR/AG's. The Federal and Provincial Governments have, on an annual basis, achieved their target reconciliation levels.
- The accounting procedure of Personal Ledger Accounts (PLA), renamed as Special Drawing Accounts (SDA), has been revised w.e.f 1.7.2007. According to revised procedure, expenditure in accounts is recognized on issue of cheque rather than on release of funds as recorded earlier. It is a step toward keeping the accounts in line with best international practices and General Accepted Accounting Principles.
- As per directives of PM Secretariat, Office of the Accountant General Northern Areas is being created.
- Five District Accounts Offices have also been created in Northern Areas. Special directives have been issued for addressing concerns of pensioners including widows of shaheeds and efficient and corruption free service delivery. Assured full support to Northern Areas Administration on effectiveness of development Programmes.

iii) Pension Reforms

Pension reforms are underway to facilitate pensioners and ensure timely and correct payments and revisions. The existing pension disbursement system has been proposed to be reformed to facilitate pensioners to receive pension from commercial banks (in addition to NBP) near to their homes. Under the reformed system:-

- Pensioners will be allowed to open their accounts in any scheduled bank. The banks will be instructed by the CGA organization to transfer the amount of pension in their bank accounts on last working day of every month enabling them to draw the same at their convenience.
- Pensioner will not be required to prefer a pension payment claim at the bank.
- A data-base of all pensioners will be available for management information and help in improving service delivery.
- The expenditure on pensions will be verified before payment and recorded timely in government accounts.
- The budget estimation of pension expenditure will be improved.

iv) National / International Conferences

a) Annual Accountants General Conference-2008

To develop an insight regarding international standards, various conferences, workshops and seminars including the Annual Accountants General Conference have been held. Major decisions and achievements of the Annual Accountants General Conference are the following:-

- The dead line for submission of annual accounts for the year 2007-08 has been prescribed so as to finalize and submit accounts to audit within three months of close of financial year i.e. by 30th September, 2008 as compared to the end of December in previous years.
- Budgets and Accounts are being prepared under the new Chart of Accounts that provide information support for better project management, cash forecasting, economic and financial management.
- An IT supported Integrated Financial Management Information System is being developed to provide a decision support information to key managers in the Federal, Provincial and District Governments.

- Service delivery is being improved in accounting and payment offices of the Federal, Provincial and District Government to eliminate unnecessary processes as well as corrupt practices. Appropriate Business Process Reengineering is being done.
- Internal Control Principles have been issued in 2008 for the first time in terms of section 5(d) of the CGA Ordinance, 2001. Emphasis on Internal Controls in the Government framework is expected to lead to better financial Governance.
- Internal Audit function has been established in Federal Ministries.
- To enhance the pace of reforms, the Controller General of Accounts has created ten (10) Task Forces. These Task Forces are headed by result oriented managers striving to achieve the vision of CGA office. The system, works like private corporate sector management. The task forces addressing the areas of quality and timeliness of accounts, reconciliation, internal control, decision support system (DSS), etc. The said task forces consist of senior officers of Audit & Accounts department and are working actively to finalize their recommendations in line of their TORs as under:-
 1. Decision Support System Activation.
 2. Improving timeliness and quality of accounts.
 3. Improving Service delivery and preventing corruption.
 4. Business Process Reengineering and IT Systems.
 5. Local Government Accounting Manual implementation.
 6. Improving Disclosures in the Finance Accounts.
 7. Preparation of Internal Control Standards.
 8. Audit Facilitation and Letter of Representation.
 9. International Financial Standards-Disclosures & Accounting Treatment.
 10. Human Resources Development.

v) International Conference

CGA office organized an International Workshop of Association of Government Accounting Organizations of Asia (AGAOA) held on 28-30th August, 2008 at Islamabad on “Improving Financial Reporting for Better Governance”. Controllers General Accounts of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan & Sri Lanka were invited to this experience-sharing workshop. The workshop was attended by the delegates from Bangladesh, Bhutan, India, Nepal, Pakistan & Sri Lanka.

4. Pakistan Mint, Lahore

Pakistan Mint is a service department under Ministry of Finance and is charged with Minting of coins against the demand from the State Bank of Pakistan.

Besides minting coins, the Mint also manufactures all kinds of Medals including Defence Medals, Military and Civil Awards, Embossing Machines, Postal Seals & Stamps, etc.

Pakistan Mint has manufactured 132.775 (million) coins in Nos. value Rs.167.597 million in addition to other Jobs executed during FY 2007-08 value Rs.59.986 million as detailed below:-

S.#	NAME OF ARTICLES	QUANTITY IN Nos. (MILLION)
	<u>A-COINS</u>	
1.	Re.—1 -----	97.953
2.	Rs. —2 -----	34.822
3.	Rs.—5 -----	-----
4.	Rs.—10 -----	-----
	Total. -----	132.775
	<u>B-JOBS OTHERS THAN COINS</u>	QUANTITY IN Nos.
1.	Specimen coins sets.	6148
2.	Stamps/Seals.	1958
3.	Embossing Machines / Seals	111
4.	Type(Year Month etc.)	52548
5.	Medals.	178025
6.	Badges, Token etc.	2912
7.	Title Shoulder,Cufflinks etc.	1212
8.	Key Rings.	44
9.	Emblem Shields/Crest Plate.	141
10.	Replica/Minar/Zamzama,Tent Peger.	01
11.	Paper Cutters.	59
12.	Dies.	0
13.	Repair/Spare Parts etc.	480
14.	Weighing Scales	64
15.	Monogram	1002
16.	Gold Coin	56

Value of the Coins manufactured Rs.167.597 million
Value of the Jobs executed other than Coins Rs. 59.986 million
Total Rs.227.583 million

APPENDIX-I

**RATES APPLICABLE TO ISSUANCE AND
TRANSFER OF COMMERCIAL PAPERS AND
TERMS FINANCE CERTIFICATES (TFCs)**

Instrument	Islamabad Capital Territory ³	Punjab ⁴	Sindh ⁵	NWFP ⁶
Commercial Paper	<p><u>Issuance</u> Maximum of ten rupees (<i>when payable on demand</i>) OR 0.01% per annum of the face value (<i>when payable otherwise than on demand</i>)</p> <p><u>Transfer:</u> Nil</p>	<p><u>Issuance:</u> Maximum of one hundred rupees (<i>when payable on demand</i>) OR 0.02% per annum of the amount payable subject to a maximum of Rs. 100,000/- (<i>when payable otherwise than on demand</i>).</p> <p><u>Transfer</u> Nil.</p>	<p><u>Issuance:</u> On first issue 0.15% of the amount</p> <p><u>Transfer:</u> 0.1% on subsequent transfer</p>	<p><u>Issuance:</u> Maximum of one hundred rupees (<i>when payable on demand</i>) OR 0.02% per annum of the amount payable (<i>when payable otherwise than on demand</i>).</p> <p><u>Transfer:</u> Nil.</p>
Debentures (TFCs, PTCs, etc.)	<p><u>Issuance:</u> 0.05% per annum of the face value</p> <p><u>Transfer:</u> Nil</p>	<p><u>Issuance:</u> 0.05% of the face value subject to a maximum of rupees one million.</p> <p><u>Transfer</u> 0.1% of the face value of the instrument</p>	<p><u>Issuance:</u> On first issue 0.15% of the amount</p> <p><u>Transfer:</u> 0.1% on subsequent transfer</p>	<p><u>Issuance:</u> 0.05% of the face value per annum subject to the maximum of one million rupees.</p> <p><u>Transfer:</u> 0.1% of the face value of the instrument.</p>

Source: Compiled by Securities and Exchange Commission of Pakistan (SECP)

³ Notification dated April 4, 2008

⁴ Punjab Finance Act 2007

⁵ Sindh Finance Act 2006

⁶ NWFP Finance Act 2007

NEW REGISTRATIONS

Type of Companies	FY 2006-07	FY 2007-08
Companies limited by shares:		
Public unlisted companies	99	84
Private	4,318	4,438
SMCs	178	168
Total companies limited by shares	4,595	4,690
Associations not-for-profit u/s 42	41	42
Companies limited by guarantee u/s 43	0	1
Trade Organizations	3	0
Foreign companies	64	48
Total Newly Registered Companies	4,703	4,781

Source: Securities and Exchange Commission of Pakistan (SECP)

APPENDIX-III

**NAMES OF NBFCS WHO WERE ISSUED FRESH
LICENCES**

Name of NBFC	Nature of License Issued
Invest Cap Investment Bank Limited	Investment Banking
Magnus Investment Advisers Limited	Investment Advisory Services
Allied Asset Management Company Limited	Asset Management Services

Source: Securities and Exchange Commission of Pakistan (SECP)

APPENDIX-IV**INVESTMENT FINANCE, LEASING
AND HOUSING FINANCE SERVICES**

S.No.	Name of NBFC	Nature of Business
01	Al-Meezan Investment Management Ltd.	Investment Finance Services
02	Al-Zamin Leasing Limited	Leasing
03	Asian Housing Finance	Housing Finance
04	Askari Leasing Limited	Leasing & Housing Finance
05	Escorts Investment Bank	IFS & Leasing
06	First Credit & Invest. Bank	Investment Finance Services
07	First Dawood Investment Bank	IFS & Leasing
08	Grays Leasing Limited	Leasing
09	IGI Investment Bank Limited	IFS & Leasing
10	Innovative Investment Bank Ltd.	IFS, Leasing & Housing Fin.
11	Invest Capital Investment Bank	Investment Finance Services
12	J.S. Investments Limited	Investment Finance Services
13	KASB Capital Limited	Investment Finance Services
14	NBP Capital Limited	Leasing
15	Orix Investment Bank Ltd.	Investment Finance Services
16	Orix Leasing Pakistan Ltd.	Leasing
17	Pak Gulf Leasing Co. Ltd.	Leasing
18	Saudi Pak Leasing Co. Ltd.	Leasing & Housing Finance
19	Security Investment Bank Ltd.	Investment Finance Services
20	Security Leasing Corp. Ltd.	Leasing
21	Sigma Leasing Co. Ltd.	Leasing
22	SME Leasing Limited	Leasing
23	Standard Chartered Leasing	Leasing
24	Trust Investment Bank Limited	IFS & Leasing

Source: Securities and Exchange Commission of Pakistan (SECP)

APPENDIX-V

**INSURANCE INDUSTRY'S
POTENTIAL GROWTH IN PREMIUMS**

(Rs. in billion)

	2005		2006		2007	
		%Inc		%Inc		%Inc
Life	18,552	27.2	22,574	21.7	27,694	22.7
Non-Life	27,733	25.6	33,615	21.2	37,830	12.5
Combined	46,285	26.2	56,189	21.4	65,524	16.6

Source: Securities and Exchange Commission of Pakistan (SECP)