# GOVERNMENT OF PAKISTAN
# FINANCE DIVISION
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## YEAR BOOK FOR FINANCIAL YEAR 2005-2006

## 1. INTRODUCTION

Under Rule 25 of the Rules of Business 1973, each Division of the Federal Government is required to prepare a Year Book detailing its activities, achievements and progress during the preceding financial year. Accordingly, the Year Book of the Finance Division for 2005-2006 covers the details of activities, progress and achievements of various wings of the Finance Division and its attached departments and corporations.

The Year Book explains the significant activities and achievements, during 2005-2006 with reference to the Division's Mission Statement and the various functions assigned to it. It presents an overview of the economy as a whole and provides essential data which can be used by academicians, researchers and students of economics. The book explains the organizational structure of the Division, its functioning and chain of command.

The year under report was an extraordinary year for the economy of Pakistan due to the devastating earthquake of $8^{th}$ October, 2005. Additionally, oil prices hovering around $ 70-75 per barrel put severe strains on the country's trade and budget balances. Despite these constraints Pakistan's economy grew at 6.6% during the year. Growth in agriculture sector was 2.5%, manufacturing sector 8.6% and in construction sector 9.2%. There was a steep rise in investment which reached a level of 20% of GDP, recording highest ever FDI, of over 3.0 billion dollars. Revenue collection increased by 21% while public debt to GDP ratio declined to 56% in 2005-2006. Pakistan's external debt and liabilities declined by $ 1.6 billion by end June, 2006 whereas Foreign Exchange Reserves touched an all time high of $ 13.1 billion. This strong economic growth created employment opportunities which, in turn, increased the income level of the people. Per capita income during 2005-2006 rose from $ 742 to $ 847 thus showing an increase of 14.1 percent.

It is hoped that the year book would sufficiently address the needs and interests of a wide range of stakeholders.

## 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.

## 2. FUNCTIONS OF THE FINANCE DIVISION

The following functions/business is allocated to the Finance Division under the 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 authorised 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 utilisation 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 & conditions of service.**

**17. Cost Accountancy.**

**18. International Monetary Fund.**

**19. State lotteries.**

**20. Monopoly Control Authority and anti-Cartel Laws.**

# 3. ECONOMIC PERFORMANCE

Pakistan's economy has delivered yet another year of solid economic growth in 2005-06 in the midst of an extra-ordinary surge in oil prices and the devastating earthquake of October 8, 2005. With economic growth at 6.6 percent in 2005-2006, Pakistan's economy has grown at an average rate of almost 7.0 percent per annum during the last four years (2002-2003 – 2005-2006) thus positioning itself as one of the fastest growing economies of the Asian region. The growth momentum that Pakistan has sustained for the last four years is underpinned by dynamism in industry, agriculture and services, and the emergence of a new investment cycle with investment rate reaching new height at 20.0 percent of GDP. Therefore, the pre-requisites for sustained economic growth appear to have gained a firm footing during the last four years.

The outgoing fiscal year (2005-2006) has been an extra-ordinary year for the economy of Pakistan. At the very onset of the year, the economy faced headwinds from rising oil prices, hovering around $ 70 – 75 per barrel and putting severe strains on the country's trade balance and the budget. The massive earthquake of October 8, 2005 also caused extensive damage to property, infrastructure, school, hospital etc. and a loss of over 70,000 human lives. The rescue and relief operations and reconstruction of earthquake affected areas also put Pakistan's budget under severe stress. Despite these constraints, Pakistan's economy has proved itself as remarkably resilient in the face of shocks of extra-ordinary proportions.

## a) Major Achievement of Economic Performance (2005-06)

The most important achievements of this year include:

**(i) a solid pace of economic expansion in an extra-ordinary environment, underpinned by weaker-than-targeted performance of large-scale manufacturing and robust performance of services;**

**(ii) three or four years of strong economic growth has positioned Pakistan as one of the fastest growing economies in Asian region;**

**(iii) real per capita GDP grew by 4.7 percent and per capita income in current dollar term was up by 14.2 percent, reaching $ 847;**

**(iv) a sharp pick up in overall investment, reaching at a new height of 20 percent of GDP, and most notably, private sector investment remained buoyant owing to a rare confluence of various positive developments in the economy;**

**(v) a robust consumer spending ably supporting the on-going growth momentum;**

**(vi) the credit to private sector continued to rise because of improving investment climate, the private sector has borrowed over Rs.1100 billion in three years (2003-2004 —2005-2006) while their cumulative borrowing in the previous eighteen years (1984 – 2003) has been Rs.921 billion;**

**(vii) a significant abatement of price pressure indicating a steady deceleration in overall inflation, especially food inflation, the overall inflation decelerating from 9.0 percent in July 2005 to 6.2 percent in July 2006 and food inflation decelerating from 9.7 percent to 3.6 percent in the same period;**

**(viii) energy consumption, particularly electricity and gas continued to rise at double-digit level, reflecting strong buoyancy in the economy;**

**(ix) despite pressure emanating from the earthquake-related expenditures the underlying fiscal deficit performed better than the target;**

**(x) the Central Board of Revenue (CBR) collected taxes more than the target;**

**(xi) a sharp reduction in public and external debt burden;**

**(xii) the record Public Sector Development Program (PSDP) remained on track despite massive spending on earthquake-related activities;**

**(xiii) exports and imports continued to grow at high double-digit level;**

**(xiv) workers' remittances at around $ 4.6 billion became one of the largest sources of external finance for Pakistan;**

**(xv) a continued accumulation of foreign exchange reserves;**

**(xvi) exchange rate remained stable despite extra-ordinary increase in imports and deterioration in trade balance;**

**(xvii) privatization program achieved unprecedented success with the strategic sale of some difficult and complicated public sector units;**

**(xviii) the highest-ever Foreign Direct Investment flow, exceeding $ 3.0 billion; and**

**(xix) the successful launch of new 10 year and 30 year sovereign bonds in international capital markets, totaling $ 800 million and reflecting a vote of confidence by the international investor**

**community on Pakistan's economic policies, reform agenda and future outlook.**

## b) <u>Sectoral Review of Performance (2005-06)</u>

### 3-b(i) GROWTH AND INVESTMENT

- **Real GDP** grew by 6.6 percent in 2005-2006 as against 8.6 percent last year and fell short of the target (7.0%). With economic growth at 6.6 percent in 2005-06, Pakistan's economy has grown at an average rate of almost 7.0 percent per annum during the last four years, thus enabling it to join the exclusive club of the fastest growing economies of the Asian region.

### 3-b(ii) POVERTY AND UNEMPLOYMENT

- The strong economic growth has created employment opportunities and therefore has reduced unemployment. According to Labour Force Survey 2005 (First two quarters), since 2003-2004 and until the first half of 2005-2006, 5.82 million new jobs have been created as against an average job creation of 1.0–1.2 million per annum. Consequently, unemployment rate which stood at 8.3 percent in 2001-02 declined to 7.7 percent in 2003-2004 and stood at 6.5 percent during July– December 2005. The rising pace of job creation is bound to increase the income levels of the people. The IT sector alone has created 114,737 new jobs in 2005-2006.
- Over the last five years the government has spent Rs.1332 billion on poverty-related and social sector program to cater to the needs of poor and vulnerable sections of the society.
- Headcount ratio, i.e., percentage of population living below the poverty line has fallen from 34.46 percent in 2000-2001 to 23.9 percent in 2004-2005, a decline of 10.6 percentage points. The percentage of population living below the poverty line in rural areas has declined from 39.26 percent to 28.10 percent while those in urban areas, has declined from 22.69 percent to 14.9 percent in this period.

### 3-b(iii) AGRICULTURE

- **Agriculture,** and particularly its crop sector, could not perform up to the expectation. Major crops registered a negative growth of 3.6 percent. However, Livestock with 8.0 percent growth, a major component of agriculture, exhibited a strong showing and pulled the overall growth in agriculture to 2.5 percent as against the target of 4.2 percent.

### 3-b(iv) MANUFACTURING

- Overall manufacturing, accounting for 18.2 percent of GDP, registered a robust growth of 8.6 percent against the target of 11.0 percent.
- **Large-scale manufacturing** grew less-than-expected at 9.0 percent as against 15.6 percent of last year and 14.5 percent target for 2005-2006, exhibiting signs of moderation on account of higher capacity utilization on the one hand and strong base effect along with several other factors on the other hand.

### 3-b(v) CONSTRUCTION

- Construction continued its strong showing, partly helped by activity in private housing market, spending on physical infrastructure, and reconstruction activities in earthquake affected areas. The construction sector is estimated to grow by 9.2 percent in 2005-06 as against extraordinary growth of 18.6 percent last year.

### 3-b(vi) PER CAPITA INCOME

- Pakistan's per capita real GDP has risen at a faster pace during the last three years (5.6% per annum on average in rupee terms) leading to a rise in average income of the people. Such increases in real per capita income have led to a sharp increase in consumer spending during the last three years. Per capita income defined as Gross National Product at market price in dollar term divided by the country's population, grew by an average rate of 13.9 percent per annum during the last four years – rising from $579 in 2002-03 to $847 in 2005-06. Per capita income in dollar term registered an increase of 14.1 percent in 2005-06 over last year – rising from $ 742 to $ 847.

### 3-b(vii) PRIVATE CONSUMPTION EXPENDITURE

- As opposed to an average annual increase of 1.4 percent during 2000-2003, real private consumption expenditure grew by 13.1 percent in 2004-05 and further by 8.1 percent in 2005-06.

### 3-b(viii) INVESTMENT

- During the fiscal year 2005-06, gross fixed capital formation or domestic fixed investment grew by 30.7 percent as against a sharp rise of 28.6 percent last year.
- Private sector investment grew by 31.6 percent this year as against a growth of 29.1 percent last year. Public sector investment on the other

hand registered massive growth of 46.7 percent as against a hefty 32.9 percent increase last year.

- Total investment increased from 18.1 percent of GDP last year to 20.0 percent of GDP in 2005-2006 — highest in the last 12 years. Fixed investment as percentage of GDP is estimated at 18.4 percent as against 16.5 percent last year. Both public sector investment and private sector investment as percentage of GDP have increased to 4.8 percent and 13.6 percent respectively, up from 4.4 percent and 12.1 percent last year.
- Almost 2.0 percentage points jump in investment is consistent with the rise in credit to private sector this year. This also reflects the confidence of the private sector on the improving macroeconomic conditions in the country.

**3-b(ix)** **MONETARY POLICY**

- Private sector credit expanded to Rs.352 billion by June, 2006. Credit to private sector as percentage of GDP surged from almost 20 percent in 1999-2000 to over 26 percent in 2005-06 – almost 6 percentage points increase in the last six years.

**3-b(x)** **INFLATION**

- Among the most appreciated developments, during fiscal year 2005-06, was the significant abatement of price pressure. For the outgoing fiscal year (2005-2006), all important barometers of price pressure in the economy indicated a steady deceleration in inflation.
- Inflation during 2005-2006 is estimated at 7.9 percent as against 9.3 percent in the same period last year.
- Food inflation is estimated at 6.9 percent as against 12.5 percent in the same period last year.
- Non-food inflation at 8.6 percent is on higher side compared with 7.1 percent last year.
- The core inflation which excludes food and energy costs from the headline CPI, moved up and estimated at 7.1 percent as against 7.0 percent last year.
- House rent index also played an important role in building inflationary pressure in 2005-2006. With second largest weight in the CPI (23.4%) after food (40.3%), the house rent component of the CPI registered a marginal decline to 9.9 percent as against 11.4 percent last year.
- In order to keep the prices of essential commodities under control, the government has been taking various measures throughout the year such as

a liberal import regime for food items including zero rating of the imports of these commodities.

- In order to provide relief to the low and fixed income groups, the government has been selling wheat flour and sugar through the outlets of the Utility Stores Corporation (USC) at much lower prices than the market. In order to augment supplies of essential commodities in the shortest-possible time and at lower freight charges, the government has also allowed the import of various items through land routes from neighbouring countries. The role of the Trading Corporation of Pakistan (TCP) has been enhanced. The TCP is active in importing sugar from around the world to build up reserves with a view to continue selling sugar at less-than-the market price through the USC. The TCP has also been asked to import various kinds of pulses to meet the domestic consumption requirements and to stabilize their prices in the country.

**3-b(xi) FISCAL POLICY**

- The overall fiscal deficit that averaged nearly 7.0 percent of the GDP in the 1990s has been reduced to 2.3 percent in 2003-2004 but increased to 3.4 percent in 2005-2006 as against the target of 3.8 percent of GDP, mainly on account of better-than-expected revenue performance. The fiscal deficit including earthquake spending is estimated at 4.2 percent of GDP in 2005-2006.
- The Central Board of Revenue (CBR) targeted to collect Rs.690 billion but actually collected Rs.711 billion – Rs.21 billion more than the target and 21 percent more than the last year.

**3-b(xii) PUBLIC DEBT BURDEN**

- Public debt burden declined sharply over the last six years with significant improvement in fiscal situation.
- The public debt to GDP ratio, which stood at 85 percent in 1999-2000, has declined sharply to 56 percent in 2005-06 – almost 29 percentage points reduction in debt burden in just six years is one of the significant achievements of the government.
- During the year, public debt as percentage of GDP declined from 61.5 percent to 56 percent – a 5.5 percentage points decline in one year is an other stellar occurrence of 2005-2006.
- Since public debt is a charge on the budget, its burden must be viewed in relation to government revenue. Public debt was 449.4 percent of total revenue last year but declined to 394.3 percent in 2005-2006 – a decline of 55 percentage points is not a minor achievement.

### 3-b(xiii) EXTERNAL SECTOR

- **Exports** were targeted to grow by 18.1 percent in 2005-06 — rising from $14.4 billion last year to $ 17.0 billion during 2005-2006.
- During 2005-2006 exports were up by 14.4 percent, rising to $ 16.5 billion from $ 14.4 billion in 2004-2005.
- **Imports** were targeted to grow by 4.2 percent during 2005-2006 — rising from $ 20.7 billion to $ 21.6 billion.
- Pakistan's imports are up by 38.8 percent in 2005-2006 — rising from $ 20.7 billion to $ 28.6 billion, showing an increase of almost $ 8 billion.
- Major contributions to additional import bill during 2005-2006 have come from machinery, chemical and petroleum groups. Over one-half of the increases have come from machinery and petroleum group and over 23.3 percent has come from petroleum group.
- In particular, import of machinery, raw material and consumer durables groups are up by 30.1 percent, 20.9 percent and 47.8 percent, respectively as domestic investment has come back to life owing to stronger domestic and external demand.
- **Trade Balance.** During 2005-2006 trade deficit amounted to $ 12112.5 million and was up sharply from $ 6207.1 million last year.
- **Workers Remittances.** Against the full year target of $ 4.0 billion, workers remittances totaled $ 4.6 billion during 2005-2006 as against $ 4.2 billion last year, showing an increase of 9.5 percent.
- **Current Account Balance.** The current account deficit, excluding official transfers, stood at $ 5683 million (4.3% of GDP) during 2005-06 as against $ 1784 million last year.
- **Foreign Direct Investment..** Pakistan has succeeded in attracting $ 3521.0 million in FDI during 2005-06 —the highest-ever in the country's history, as against $ 1524.0 million last year, showing an increase of 131.0 percent.
- Over 90 percent of FDI has come into power sector, telecom sector, chemicals, pharmaceutical and fertilizer, oil and gas and banking and finance.
- Almost 75 percent of FDI has come from USA, UK, Switzerland, Japan, UAE and Netherlands.

- **Foreign Exchange Reserves.** By end June 2006, reserves touched all-time-high at $ 13.1 billion which are higher than $ 12.6 billion last year.
- **External Debt.** Until a few years ago, Pakistan was facing serious difficulties in meeting its external debt obligations. Following a credible strategy of debt reduction, Pakistan has succeeded in reducing the rising trend in external debt and foreign exchange liabilities.
- Pakistan's external debt and liabilities have declined by $ 1.6 billion — down from $38.9 billion by end June 1999 to $ 37.3 billion by end June, 2006.
- The country's debt-burden defined as a ratio of external debt and liabilities to GDP stood at around 52 percent on 2000 which declined to 32.3 percent in June 2005 and further to 28.9 percent by end-June 2006.
- The country's debt-burden is also defined as external debt and liabilities as percentage of foreign exchange earnings which was 297 percent in 1999-2000 has declined to 134.3 percent in 2004-05 and further to 120.6 percent by end-June 2006.
- It may also be pointed out that Pakistan's external debt and liabilities were 22 times of its foreign exchange reserves in 1998-99 but declined sharply to 2.9 times in just six years. These statistics suggest that Pakistan's external debt burden has declined at a much faster pace than anticipated and that it is now on a solid downward footing.

## 4. POVERTY ALLEVIATION

### (i) Poverty Reduction Strategy Paper (PRSP).

To arrest the high and rising trend of poverty in Pakistan the Government of Pakistan instituted an Interim Poverty Reduction Strategy in November 2001, which after further refinement was articulated in the shape of the Poverty Reduction Strategy Paper (PRSP) in December 2003. With the PRSP having completed its three years of implementation in June 2006, final touches are being given to the PRSP-2, which will take into account the recent socio-economic developments while addressing the main shortcomings of the original PRSP. The preparation of PRSP-2 comes in the wake of the rebasing of National Accounts, the availability of more credible baseline data for PRSP intermediate indicators with the results of PSLM/ HIES 2004-05 and the introduction of the Fiscal Responsibility and Debt Limitation Act. The Act binds the Government to keep poverty-related expenitures at a minimum of 4.5 percent of the GDP in any given years as well as to double the present budgetary allocations to education and health sectors in terms of GDP over the next 10 years.

The poverty headcount which stood at 34.46 percent in 2000-01 has come down to 23.9 percent by 2004-2005- a substantial decline of 10.6 percentage points. Rural areas of the country have witnessed a higher fall in poverty, where the headcount ratio declined from 39.3 percent in 2000-01 to 28.1 percent by 2004-05, while urban poverty fell from 22.7 percent to 14.9 percent during this period. This substantial decline in poverty has been made possible by robust economic growth during the last five years, combined with the rising expenditures on 17 pro-poor sectors identified in the PRSP. Cumulative PRSP expenditures (budgetary as well as non-budgetary) during 2001-05 amounted to Rs. 1,124 billion, with the budgetary expenditures averaging 4.1 percent of the GDP during this 5 year period. Out of which, on pro-poor sectors in the FY 2004-05 the Government has spent Rs. 316.2 billion. This has exceeded the target of Rs. 278 billion by Rs. 38 billion. In the current FY 2005-06 at the end of third quarter, Rs. 250 billion have been spent in pro-poor sectors.

The education and health sectors have absorbed half of the pro-poor budgetary expenditures, which are reflected in the improved outcomes in these sectors. Results of the recently conducted CWIQ based PSLM survey show that during 2002-2005 the literacy rate has gone up by 8 percentage points to reach 53 percent in 2004-2005, while the gross enrolment rate at the primary level has risen from 72 percent in 2001-2002 to 86 percent in 2004-2005. Results for the health sector show that immunization coverage of children aged 12-23 months increased by 24 percent points during 2001-2005, reaching 77 percent in 2004-2005. This situation of pre and post-natal care has considerably improved. The proportion of married women who had given birth to a child and had attended at least one pre-natal consultation, increased from 35 percent in 2001-2002 to 50 percent in 2004-2005.

In addition to the on going efforts for poverty alleviation, the Government of Pakistan during FY 2005 initiated the Khushal Pakistan Programme 2 (KPP-2) and the Khushal Pakistan Fund (KPF). The KPP-2 is a special programme for initiating small development schemes all over the country, for which an amount of Rs. 20 billion has been allocated in the current fiscal year under the Public Sector Development Programme (PSDP). The development activities under this programme will be executed through Federal and Provincial Executing Agencies and the District Governments. The development schemes to be carried out through this programme include, small roads including farm to market roads, small water supply schemes, construction, repair and resurfacing of small rural roads, pavement of streets, drains and storm channels in villages, sewerage and garbage collection schemes, essential repair of primary and higher schools, basic health units/ rural health centers, rural electrification and provision of gas to villages. The Khushal Pakistan Fund (KPF), for which an amount of Rs.10 billion has been allocated for the Current fiscal year, will be used for financing various small development schemes in the whole country which are outside the scope of the PSDP. The Fund will be replenished on yearly basis. The development projects to be covered will include schemes for provision of clean drinking water, sanitation, district link roads, infrastructure and capacity building for improvement in service delivery of health and education sectors. The schemes would be identified at local levels and would be implemented by tehsil and district governments under a transparent system. The fund would adopt an integrated approach and fill in the gaps without duplicating or taking up parallel activities.

The KPP-2 and KPF will continue under the PRSP-2, which will aim at increasing pro-poor budgetary expenditures to over 5 percent of the GDP during its first year of implementation. In addition, the government is committed to widening the scope of social safety nets, for which a Social Protection Strategy has been prepared in collaboration with its various international development partners. Social protection in the country is currently being provided through various programmes and institutions in the public sector, which includes the following:

1. Zakat
2. Pakistan Bait ul Mal
3. Employees' Old-Age Benefits Institution
4. Workers Welfare Fund (WWF)

### ii) <u>Pakistan Poverty Alleviation Fund (PPAF)</u>

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.

As of March 31, 2006, the cumulative outreach of the PPAF, with respect to its various operational activities, had extended to 108 districts of the country through 65 partner organizations. 836,011 individuals had availed of PPAF financing with 43% (i.e. 362,233) of the loans going to women. PPAF's integrated approach focusing on provision of micro-credit, community infrastructure and skill development addresses the poverty in many ways and works towards reducing vulnerability, especially of women.

PPAF has made an immediate and timely response to the disastrous earthquake that rocked the country on October 8, 2005. PPAF established Disaster Relief Centers with reallocation of US $ 5 million from its existing resources with the permission of the World Bank. PPAF has sent 240 truckloads of supplies to the earthquake stricken areas, including 100,000 corrugated iron (CGI) sheets. In this regard, PPAF has worked in close collaboration with Pakistan Army, Pakistan Air Force, US Army and the UN for effective delivery of relief items.

In recognition of PPAF's commitment and superb management of relief efforts, the World Bank approved additional financing of US $ 100 million for the PPAF on the request of GOP. As per agreement, 34 earthquake effected union councils of NWFP and AJK were assigned to PPAF for the purpose of reconstruction and rehabilitation. PPAF's reconstruction & rehabilitation programme is divided into following three categories:-

i) Grant for reconstruction of 24,000 destroyed and damaged housing units;
ii) Rehabilitation of 1,200 Community Physical Infrastructure schemes in earthquake area;
iii) Training & skill development of 16,000 individuals.

# 5. Performance/achievements of different Sectors

## A) ADMINISTRATION WING

Administration Wing has to provide logistic support as well as competent and trained professionals to accomplish assigned objectives and goals within the given resources and timeframe. To improve the working environment of the Finance Division, the Administration Wing have improved its logistics by condemning 5 vehicles and by purchasing 7 new vehicles. The officers of the Finance Division were also provided 15 new computers, 15 new printers, 4 new fax machines, 2 Digital photocopiers, 1 refrigerator, 10 Air Conditioners and other accessories. To enhance professionalism of officers of the Finance Division, 72 officers in Grade-17 and above were sent abroad for training during the year under report. To provide personal staff to officers about 24 officials were promoted and 53 recruited during the year 2005-06 in BPS-1 to 15.

In order to improve working environment in the Finance Division, replication of "Internal Communication and Movement of File Module" of M/o IT & Telecom is under process. In this regard, comprehensive requirements of replicating the module in the Finance Division have been identified by Electronic Government

Directorate (EGD) and incorporated in the revised "Federal Government Data Centre Project" and "Replication of E-Office Project". For the successful implementation of the Module, Administration Wing has already started Basic IT Training course for the employees of the Finance Division from 15th August 2005. The course has been designed by Pakistan Computer Bureau for all the Federal Government Employees which includes "introduction to computers, Windows Basics, Open Office (Writer, Calc, Impress & Base), Internet and E-mail. Up to July, 2006, 158 participants have completed the course. At the same time, awareness sessions of "Internal Communication and Movement of File Module" are going on in the IT Lab of Finance Division for the employees.

## B) QUALITY ASSURANCE WING

### Introduction

A Quality Assurance Program has been launched by the Ministry of Finance w.e.f 28-12-2005 to effectively control and improve its operational quality, performance, and customer satisfaction. The prime focus of this program is to increase its customers' satisfaction level, raise its service quality, improve internal working efficiency and give the Ministry a strong local and global credibility.

The Ministry of Finance'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 will be responsible for coordinating with all the Wings. The QA Wing is being headed by a Joint Secretary (Quality Assurance). The basic framework/model chosen for this function is ISO 9001:2000.

### Objective

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

## Scope

The program is divided in two phases. The first phase includes four Wings: Expenditure, Administration, Provincial Finance, and Regulations. The second phase will include rest of the Wings.

## Quality Policy

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

## Central Quality Objectives

In order to implement the Quality Policy, the efficiency and effectiveness of the entire MOF, 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 would be measured. Targets are set for each of these quality objectives.

## Organizational Structure

| | |
|---|---|
| Program Sponsors | Minister of State for Finance<br>Finance Secretary |
| Program Leader | Joint Secretary Quality Assurance |
| Wing’s Quality Leadership | AFSs/ Sr JSs of respective Wings |
| Departmental QA Coordinators | Designated QA Coordinators from each Wing |
| Problem Solving Teams | All those involved in Corrective, Preventive and Improvement Actions |
| Responsibility of Quality | Everyone is responsible for the Quality of his/ her work |

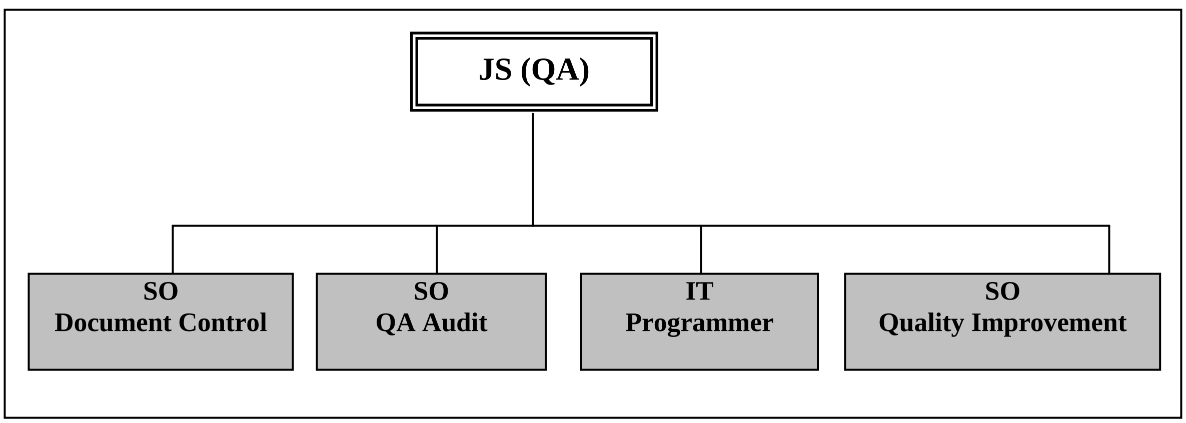
a. **Quality Assurance (QA) Wing**: The JS (QA) will head this Wing. He will report directly to the Minister of State for Finance and the Finance Secretary. He will look after the entire QA program established in the Ministry and will monitor and facilitate the achievement of the Quality Policy and quality objectives in the Ministry.

b. **<u>Departmental QA Coordinators (DQACs)</u>**: There are 2-3 designated officers of the level of DS or SO in each Wing. They will work within their own Wing under their respective Additional Secretaries/ Sr. Joint Secretaries. They will 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 will vary, based upon the quantum of tasks in hand. The initial composition and any subsequent changes thereto, will be jointly approved by the respective Additional Secretary/ Sr. Joint Secretary and JS (QA).

c. **<u>Quality Improvement Teams (QIT)</u>**: These are small problem solving teams temporarily formulated and tasked to carry out research on root cause analysis and proposing solutions.

## <u>Organogram of Quality Assurance (QA) Wing</u>

The approved Organogram of the QA Wing is given below:




## <u>Roles of Quality Assurance (QA) Wing</u>

The QA Wing is involved in the following activities:

a. Central Quality Planning: Making short and long-term Strategic Quality Plans.

b. Coordination and Liaison with Departmental QA Coordinators, evaluation and monitoring of the effectiveness and performance of Departmental QA functions.

c. Planning and arranging Quality related training programs, evaluating, recommending, and coordinating training programs that affect and improve the service quality of MOF or professional capabilities of QA staff.

d. Internal Quality Audit Program in MOF.

e. 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.

f. 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 coordinators.

g. 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.

h. Rewards, Awards and Events Planning for quality performance within employees: Evaluating the work done by the Quality Improvement Teams in MOF, designing their performance evaluation criteria, arranging prize distribution events and ceremonial presentations, recommending appropriate compensation/incentives for their achievements and extra-ordinary efforts.

i. Newsletter on Quality: Writing, designing, formatting, printing, and distribution of (Quarterly) newsletter focused on Quality Improvement in MOF.

j. Suggestion System: Designing and running a suggestion scheme for employees and providing them feedback on actions taken by the Management.

k. Monitoring and Reporting the Performance of Quality in MOF: Taking appropriate inputs to measure the performance of quality in all departments and sections.

l. Coordinating Problem Solving Process within MOF: Assisting in the formulation of procedure of problem solving corrective actions.

m. Coordination in Revising Operational Processes: Identifying the need for changing old work processes in order to enhance efficiency, profitability, and accuracy of operations.

n. Benchmarking and Competitive Analysis: Monitoring and developing

Ministry's processes along with other helpful organizations in order to learn better ways, methodologies and competitive strategies.

o. Facilitation on Quality matters: Providing expert advice and guidance to all Wings/departments and at all levels pertaining to the Quality Assurance of MOF.

p. Interpretation of Quality for every Department/ Section: Helping the Management, staff and employees to correctly and effectively interpret the requirements of long term quality improvements in their departments.

q. Maintaining Quality Database: Creating and maintaining effective review, analysis and evaluation of databases for Quality Assurance System of MOF.

r. 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. etc.

## Achievements

i) Approved **Departmental Quality Assurance Manuals and Procedures** (QAPs) prepared for Admn, Exp, Regulation and PF Wings are being implemented in MOF w.e.f 24-06-2006

ii) **Quality Reports** on Quality Objectives for Admn, Exp, Regulations and PF Wings and **Feed Back on Customers' Survey** have been prepared. The Customers' Satisfaction Index has been calculated as 70%. Efforts are afoot to increase the Index.

iii) **Internal Trainings on Quality to MOF Officers** have been initiated according to the approved bi-annual training plan (Management) and is being evaluated. So far, all Financial Advisers and 18 other officers have been imparted trainings on Quality. Besides, 9 officers have obtained training on ISO 9000 Lead Auditors.

iv) **Internal Quality Audit** of Quality Management System of MOF has been carried out on $17^{th}$ ~ $20^{th}$ July, 2006.

v) **Establishment of Customer Services Department.**

vi) **Construction of Web Page on Quality on the Website of MOF.** The Web Page is being used to receive web based customer complaints and suggestions in order to streamline the processes of MOF.

vii) **Establishment of a Record Room.** The exercise of weeding out of old record has been completed and the record of MOF will be shifted and maintained in the newly constructed Record room.

**$2^{nd}$ Phase of the Project**

The $2^{nd}$ phase of ISO Certification will cover remaining Wings of Finance Division and will start from $30^{th}$ Sept 2006 and will be completed by April, 2007.

## C) BUDGET MANAGEMENT

Prudent fiscal management is the foundation of a stable macroeconomic environment. Weak fiscal balances had been the major source of microeconomic difficulties in Pakistan. The Overall Fiscal Deficit averaged above 7% of GDP in 1990s. After five years of extensive efforts, through reforms in the tax system and tax administration, the present Government has succeeded in gaining fiscal stability.

The Government has made considerable gains in fiscal sector, the Overall Fiscal Deficit (OFD) (excluding earthquake related expenditure) has been contained to 3.4% of GDP in 2005-06 as against the target of 3.8% of the GDP. The OFD including earthquake spendings has been worked out at 4.2% of the GDP in 2005-2006.

**Receipts**

Total revenue receipts collected during 2005-2006 amounted to Rs.1077 billion as against the target of Rs.990 billion indicating an increase of Rs.87 billion. The tax revenue collected by CBR during 2005-2006 amounted to Rs.712 billion as against the target of Rs.690 billion indicating an increase of Rs.22 billion and 21% higher as compared with the last year's collection. Non-tax revenue receipts for the year 2005-2006 amounted to Rs.273 billion as against the target of Rs.215 billion i.e. an increase of Rs.58 billion. The major increases were on account of dividends receipts and other receipts.

**Expenditure**

Total expenditure during 2005-2006 was Rs.1402 billion as against the Revised Estimates of Rs.1415 billion. Current expenditure for the year 2005-2006 amounted to Rs.1035 billion out of which debt servicing and defence expenditures were Rs.237 billion and Rs.242 billion respectively.

According to provisional accounts, development expenditure for the year 20052006 has been booked at Rs.365 billion i.e. 4.7% of GDP which is higher by 0.5% than Overall Fiscal Deficit at 4.2% of GDP.

### Overall Fiscal Deficit

Overall Fiscal Deficit (excluding earthquake related expenditure) during 2005-2006 was Rs.260 billion i.e. 3.4% of the GDP as against the target of Rs.285 billion or 3.8% of the GDP. The OFD including earthquake spendings has been worked out at Rs.325 billion which is 4.2% of the GDP.

### Financing

The OFD amounting to Rs.325 billion has been financed through net external borrowing of Rs.149 billion, non-banking borrowing of Rs.8 billion, bank borrowing of Rs.71 billion and from privatization receipts of Rs.97 billion.

For the year 2005-2006 the government has met all the fiscal performance targets with reasonable margins. The achievements viz-a-viz targets are as under:-

| | Ceilings/Targets | Provisional Actuals |
|---|---|---|
| **Overall Fiscal Deficit** | Rs.285 billion | Rs.260 billion* |
| **CBR Revenue** | Rs.690 billion | Rs.712 billion |
| **Bank Borrowing** | Rs.98 billion | Rs.71 billion |

*Excluding earthquake spendings

## D) CORPORATE OVERSIGHT

Corporate Finance Wing looks after the economic, financial and corporate affairs of all Public Sector Entities (PSEs) which are working under the administrative control of the Federal Ministries/Divisions. The financial support is provided to the PSEs for their Re-structuring Programme, in the shape of Equity injection, and advancing Government's loans for the working capital requirements and provision of subsidy to meet any shortfall through the GOP's budget. Moreover, the PSEs are also allowed to avail Bank Credit to meet their financial needs. The Government's policy decisions are implemented, relating to the issues for picking up of the Government guaranteed liabilities and non-collectable loans, provided by Financial Institutions.

The financial and operational re-structuring of various Public Sector loss-sustaining-Entities, was done to make them profit-earning. In this connection, the Financial Improvement Plans (FIP) were drawn up by setting up the operational targets which are being monitored regularly by the Finance Division. With respect to this, the necessary financial support is being provided regularly by the Finance Division. In this regard, the Reports on the performance of five major PSEs, like WAPDA, KESC, Pakistan Railways, Pak-Steel Mills and PIA, monitored by Finance Division were put on the Finance Division's website, on Quarterly basis, during FY 2005-2006.

The Government also provides the financial support in the form of subsidy to PSEs, like TCP and USC in order to meet the objective of providing essential and primary Food commodities to the consumers at reasonable and subsidized rates. The financial support is also provided through Bank Credit to the Provincial Food Departments, PASSCO and TCP for the procurement of food and crop items and the guarantees issued to the Banks, in order to ensure availability of reasonable stock of commodities with the Government Departments.

The CF Wing implemented the Government's decisions to provide financial assistance to the Corporate Sector, during FY 2005-2006 as follows:-

- WAPDA's debt servicing liability(DSL) towards the GOP, amounting to Rs.6.397 billion, was converted into the GOP's Equity in WAPDA. Moreover, the GOP also injected new Equity of Rs.384 million in KESC as per the Sale Purchase Agreement signed at the time of privatization of KESC.

- Subsidy amounting to Rs.6.548 billion was provided to KESC for making up it's cash shortfalls during the period from 1-7-2005 to 29-11-2005.

- The Finance Division cleared Inter-Corporate Circular Debt of Rs.238.049 million payable by KESC to PSO/PKGCL.

- Subsidy amounting to Rs.8515 million was provided to Pakistan Railways to meet its operational shortfall during FY 2005-2006.

- Bank Credit was arranged for the procurement of wheat by PASSCO, the Provincial Food Departments and other Entities. Moreover, subsidy of Rs.8.900 billion was provided to TCP on the import of wheat, fertilizer and sugar. An amount of Rs.0.957 billion was provided to PASSCO for wheat operations (Local procurements).

- The Finance Division continued to pay the instalments of Mark up and principal amount of GOP's guaranteed loans/GOP Bonds, issued to Banks, against the liabilities of various PSEs during FY 2005-2006. In this connection an aggregate of principal amount of Rs.4926.297 million and Mark up amount of Rs.2443.600 million was paid.

- The Finance Division provided an amount of Rs.1721.919 million as subsidy/grant and compensation to various PSEs, including Pak. Dairy Development Company, Atta Relief Package and Ramzan Package to USC, compensation to Fauji Fertilizers Bin Qasim Ltd. (FFBQL) and Ghulam Ishaque Khan Institute (GIK) etc. An amount of Rs.250.000 million was injected as GOP's Equity in the capital of Pak. Textile City Ltd and Rs.145.045 million were paid to Banks, against servicing and re-payment of loans against the liability of USC and Peoples Steel Mills Ltd. which was treated as GOP's Equity in these Entities. Moreover, an amount of Rs.190.278 million was paid to Banks for servicing of loans against the liability of Pakistan Oilseed Development Board (PODB) and Heavy Electrical Complex (HEC), which was treated as GOP's loan to these Entities.

- The Finance Division arranged local and foreign currency Bank loans, amounting to approximately Rs.6.000 billion to PIAC, against the GOP's guarantee. Moreover, Rs.1529.550 million were paid for servicing and re-payment of debt against the liability of the Entity which was treated as GOP's Equity in the capital of the Company.

- The Finance Division also undertook the financial and operational re-structuring of Karachi Shipyard & Engineering Works (KS&EW). With regard to this, the GOP's loan liability of Rs.816.00 million was agreed to be converted into GOP's Equity. Furthermore, GOP will also provide the Guarantee against foreign currency credit and local loans to be borrowed by the Entity.

## E) EXPENDITURE MANAGEMENT

Soon after issuance of Budget Call Circular by the Budget Wing of the Finance Division, a comprehensive parameter/guideline was issued to Financial Advisers' Organization for processing/scrutiny of Revised Estimates 2005-2006 and Budget Estimates 2006-2007 for current expenditure in respect of the concerned Ministries/Divisions/Departments. To speed up the process of scrutiny/finalization of BE/RE, weekly meetings of FAs/DFAs were arranged enabling them to resolve the issues in connection with formulating Revised/Budget Estimates. Resultantly, the process of scrutiny of budgetary estimates was successfully completed well in time and budget was finalized as per given schedule.

Current expenditure of the Federal Government is to be restricted to certain prescribed limit in first half of the financial year. The strategy for operation of the budget in the second half of the financial year was formulated after undertaking detailed exercise which involved periodic review of the entire civil expenditure during the year.

The procedure for release of development funds was simplified and funds for development projects were released during financial year 2005-2006 on the basis of approved cash plans. This procedure has resulted in maximum utilization of PSDP funds by the executing agencies.

Revised Estimates 2005-2006, Budget Estimates for the financial year 2006-2007 and other related issues pertaining to Office of the Auditor General, Wafaqi Mohtasib, Federal Tax Ombudsman Secretariat, Privatization Division/Commission and Board of Investment were finalized in the Wing. A number of cases pertaining to various Ministries/Divisions/Departments, seeking approval of the Finance Division were decided on merit/need-basis to facilitate the smooth business in Public Sector Organizations.

Expenditure Wing is one of the important Wings of Finance Division, which has been considered for I.S.O. Certification. This certification involves laborious job of development of Quality Assurance Procedure Document and requires a number of information from F.As Organization on priority basis. In this regard consultant from Pakistan Institute of Quality Control, Lahore is visiting various Wings of this Division in order to apprise them about ISO Certification. The progress made in this respect by expenditure has been graded excellent during the Internal Inspection carried out on 19th July, 2006 by the Quality Assurance Wing. Quality Assurance Procedure (QAP) of Expenditure Wing is likely to be operative very soon after approval by the Minister of State for Finance.

## F) MANAGEMENT OF PROVINCIAL FINANCE

Provincial Finance Wing deals with the financial matters relating to provinces and Inter-Government Transfer of Resources from Federal to Provincial Governments and other regions. The major responsibilities of this Wing are:-

- Inter-governmental transfer of divisible pool resources from federal to provincial governments which provides upto 70% of provincial revenues.

- With the creation of local government system additional responsibilities such as service delivery and administering of federal support through provincial grants for local government revenue were also assigned to this Wing.

- Finalization of Budget Estimates and Revised Estimates relating to Provincial Share in the Divisible Pool and Straight Transfers and recovery of cash development loans (CDL) and SCARP Loans.

- Preparation of budget for providing obligatory grants to the Provinces in accordance with the Presidential Order called “the Distribution of Revenues and Grants-in-Aid (Amendment) Order, 2006” dated 19-1-2006.

- Transfer of funds to the provinces for federally sponsored provincial projects and budgetary support to Government of AJ&K including development loans and advances.

- Monitoring of cash balance position of provinces, with the State Bank of Pakistan.

- 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 Misc. Adjustments and Other Development Expenditures.

- Appropriation Accounts, Opening of Reserve Funds and matter relating to Public Accounts committee regarding above demand for grants.

## Fiscal Relationship

The National Finance Commission Secretariat is housed in this Wing. The Wing, therefore is a focal point at the centre of fiscal relationship with provinces. As per Constitutional provisions there are two fiscal arrangements for revenue sharing between the federal and provincial governments i.e. through Presidential Order promulgated on the recommendations of National Finance Commission and direct provision in the Constitution. The 6th NFC constituted on 22nd July, 2000 could not finalize its recommendations during its tenure due to divergent views of Provinces. As such, under Article 160(1) of the Constitution, a new NFC was constituted on 21st July, 2005.

The President of Pakistan was, however, pleased to consider that it would be in the fitness of things to place larger resources at the disposal of the Provincial Governments to enable them to meet their current as well as development expenditure. Therefore, in view of the provision of Article 160(6) of the Constitution, the President of Pakistan made amendments/modifications in the existing Distribution of Revenues and Grants-in-Aid Order through the "Distribution of Revenues and Grants-in-Aid (Amendment) Order, 2006" which was issued on 19th January, 2006 and made effective from 1st July, 2006. By virtue of new arrangements the Provincial share in the divisible pool has been substantially increased from 37.5% to 41.5% for FY 2006-2007 and 46.25% in FY 2010-11. The special grants have also been enhanced from Rs.8.7 billion to 27.75 billion and all the provinces have been made eligible for special grants. The special grant would increase annually in line with the growth of divisible taxes.

The releases made to provinces upto 30th June, 2006 are tabulated as under:-

**(Rs. In million)**

| | **Punjab** | **Sindh** | **NWFP** | **Balochistan** |
|---|---|---|---|---|
| Divisible Taxes | 140,236.800 | 57,967.500 | 33,787.900 | 12,493.200 |
| Straight/Other Transfers | 8310.700 | 38,351.500 | 1,719.700 | 7,826.400 |
| Special Grants (Subventions) | 0.0 | 0.0 | 3898.00 | 6300.00 |
| Grants-in-Aid (Distt. Support Grants | 11,875.400 | 12,814.1 | 1,682.600 | 1,484.800 |
| Development Grants | 774.800 | 3,745.400 | 359.500 | 1,586.100 |
| Other Non-Development Grants | 1,412.500 | 595.0 | 11.734.900 | 0.00 |
| Grand Total:- | 162,610.200 | 113,473.500 | 53,182.500 | 29,690.500 |

## Achievements

During 2005-2006, major initiatives were taken and implemented successfully as per details below: -

PF Wing played a pivotal role in the execution of PSDP Projects of Finance Division by timely releasing the funds to concerned entities. It was constantly in touch with the authorities in order to follow-up the progress of the projects. Release position of the major projects upto 30th June 2006 is given below: -

**(Rs. in million)**

| | **Project's Name** | **Release** |
|---|---|---|
| a) | Greater Bulk Water Supply for Karachi Feasibility Study for potential. | 2000.000 |
| b) | Thar Package | 500.000 |
| | Attock Package | 500.000 |
| | Karachi Package | 280.000 |
| c) | Layari Express Way Resettlement Projects | 461.425 |
| d) | Greater Quetta Water Supply Main | 300.000 |

ii) At Federal Level, the following projects are also monitored by the PF Wing. The release of funds to these projects upto 30th June 2006 are as follow: -

**(Rs. in million)**

| | | |
|---|---|---|
| i) | TA-1 for Local Govt. Decentralization Support Programme | 51.700 |
| ii) | TA-2 for gender and Governance Decentralization of support Programme | 39.250 |

Besides, PSDP allocation to Higher Education Commission released upto 30-6-2006 were Rs. 10479.700 million.

Apart from this, the federal government, in order to provide potable water and to improve drainage system in the provinces, 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 2005-06 are given in the following table: -

**(Rs.In Million)**

| | | |
|---|---|---|
| **A** | Sargodha Water Supply and Drainage Scheme | 39.072 |
| **B** | Atttock Water Supply and Drainage Scheme | 37.500 |
| **C** | Mir Pur Khas Water Supply and Drainage Scheme | 57.500 |
| **D** | Jacobbabad Water Supply Scheme | 50.00 |

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 by the Parliamentarians under Khushal Pakistan Programme-II (KPP-II). In order to make country-wide projection and for awareness of people, a Media Campaign of KPP was started with a provision of Rs. 55.00 million out of KPP-II Fund. Details of releases made under KPP-II upto 30th June 2006 are as under: -

**(Rs. in million)**

| PSDP Head | Number of Directives | Funds Released |
|---|---|---|
| KPP-II | 472 | 9900.000 |

In short, PF Wing has been quite proactive in initiating actions in multifarious areas of public sector and been helping provinces in their development & financial management through a consultative process.

## G) POLICY WING

**Public Sector Capacity Building Project (PSCBP)**

Public Sector Capacity Building Project (PSCBP) was approved on 24th July 2004 at a cost of US $ 61 million (Rs.3, 538 million) and is being implemented in 16 Federal Ministries/Divisions, Regulating Authorities and Provincial Governments.

**Background**

Government of Pakistan has strong commitment for Capacity Building of its Civil Servants including the employees of provincial and district services. The project is being implemented under the supervision of Finance Division since 2003.

Following allocation of funds have been made for the Public Sector Capacity Building Project (PSCBP) to various Ministries/Divisions, Regulatory Authorities and Provinces.

**Rs.In million**

| | |
|---|---|
| Finance Division | 232.00 |
| Ministry of Commerce | 116.00 |
| Ministry of Water & Power | 174.00 |
| Ministry of Petroleum & Natural Resources | 58.00 |
| Ministry or Railways | 58.00 |
| Economic Affairs Division | 58.00 |
| Statistic Division | 58.00 |
| Ministry of Industries | 58.00 |
| Central Board of Revenue | 348.00 |
| Planning & Dev. Division | 312.20 |
| Establishment Division (CSRU) | 1450.00 |
| OGRA | 116.00 |
| NEPRA | 116.00 |
| PTA | 92.80 |
| PPRA | 58.00 |
| Provinces | 232.00 |
| Total | 3538.00 |

**Achievements**

Total number of officers to be trained/ skilled during the project period i.e. 2005-09 is 1625. Against the target, 467 officers have been trained in Pakistan and in foreign countries within two years of project implementation which is 35% of the targeted figure.

Central Board of Revenue was earmarked/allocated a bridge financing of US$ 6 million under Public Sector Capacity Building Project which has been fully utilized. Towards this end, the Large Taxpayer Unit (LTU) was setup in Lahore which is now fully functional. Further, five Medium Custom Taxpayer Units (MTUs) have also been completed. The Model Custom Collectorate (MCC) Care Pilot has also been inaugurated. In addition, the Taxpayer Education and Facilitation Centre is functional and media campaigns is under-way.

**Debt Policy Coordination Office (DPCO)**

DPCO was established under Fiscal Responsibility and Debt Limitation Ordinance, 2003. Main objective of the Office was to oversee the country's debt situation and bring it to sustainable level. The project is a part of Accountable Fiscal Management Framework (AFMF) that specified accountability and transparency of fiscal management as enshrined under Fiscal Responsibility and Debt Limitation Ordinance, 2003. Time required for completion of the project is four Years.

**National Steering and Coordination Committee (NSSC) of the Project**

A National Steering and Coordination Committee (NSCC) has been constituted to overview implementation of the project. The NSCC is headed by the Advisor to the Prime Minister on Finance and Revenue with the following membership:

| | |
|---|---|
| Advisor to the P.M on Finance & Revenue | Chairman |
| Secretary Finance | Member |
| Secretary Establishment | Member |
| Secretary Economic Affairs | Member |
| Secretary Planning & Development Division | Member |
| Additional Finance Secretary (EF&P) | Member |
| Joint Secretary (Policy), Finance Division | Secretary |

## Civil Service Reforms

Civil Service Reforms Unit, with a budget allocation of $ 25 million (Rs.1450 million) has been created under Establishment Division to work on finalizing and implementing the Civil Service Reforms Program of the government, with the aim of having skilled, professional and performance oriented civil service. This Unit is specifically involved in the Professional Development Program and Executive Development Program under this project and other aspects of pay & pension reforms in collaboration with the Finance Division.

## National School of Public Policy (NSPP)

Key area of focus includes curriculum reforms, infrastructure support and evaluation and improvement of pre-service training programs. These initiatives are being taken to improve the service delivery of the Government Servants.

## Federal Public Service Commission

The Key area of support will include strengthening of entry-level examination process, management of promotional examinations, handling of promotions, curriculum development and undertaking need-analysis in coordination with Establishment Division and National School of Public Policy and strengthening education and research.

## Regulatory Authorities Capacity Strengthening

A number of capacity building activities are going on in NEPRA, PPRA, OGRA and PTA such as review of rules/regulations and standards, exchange of international regulatory experts, consultants/advisors to provide specific knowledge for development of Regulatory Institutions and Procurement in Public Sector to ensure transparency.

## Project for Improvement of Financial Reporting and Auditing (PIFRA)

PIFRA (Project for Improvement of Financial Reporting and Auditing) aims at developing capacity for good governance in fiscal management sphere. The objective of the PIFRA project is to increase the accuracy, completeness, reliability, and timeliness of intra-year and yearly government financial reports in Pakistan at the national, provincial, and district levels.

For this purpose, New Accounting Model(NAM), which is in compliance with International Public Sector Accounting Standards (PSAS), is being implemented through SAP software in three tiers of government i.e. Federal, Provincial and District. The phased implementation involves 30 sites in PIFRA-I and over 450 sites in PIFRA-II.

In this regard, 30 sites were implemented successfully in PIFRA-1 and additional 24 sites have been made productive on the new SAP system in PIFRA-II. Budget for 2005-2006 of the Federal and all provincial governments was prepared on the new system. Next year's budget for all the district governments shall be prepared on new Chart of Accounts. Around 29000 DDOs have been trained on the new Chart of Accounts. 2000 end-users have also been trained on SAP R/3.

**Devolution** was not originally within the scope of project implementation as its design was conceived in 1996 when devolved functions were being carried out at provincial level. However, with the introduction of the Devolution Ordinance, 2001, the developed functionality up to the district level will be implemented at DAO (District Accounts Office) level. Tehsil Municipal Administrations (TMAs) will be implemented on pilot basis at 15 Tehsils in PIFRA-II. There are huge capacity gaps at the districts. Capacity will have to be built to carry out accounting functions before advanced systems could be provided to the users.

**Audit function** at the district level is also being strengthened. Audit headquarters at erstwhile divisions are being established. There will be 7 Directorates of Audit in Punjab that will supervise the audit of district governments.

Best Audit practices (risk-based auditing, top-down planning, use of audit automation tools) are being defined and partially implemented in PIFRA-1. Capacity building for more comprehensively implementing these best practices is being done in PIFRA-II. In this regard, 100 master trainers have already been trained on the new audit methodology. 70 Officials have been trained on internal audit manual. Training in areas of ACL, ADM-Plus, Data Extraction and SAP orientation in HR and FI modules have been imparted at Karachi, Islamabad and Lahore.

The functional design of the Web Portal of the DAGP is being finalized for the approval of Steering Committee. Financial Audit Manual and Audit Working Papers Kit are printed and distributed to Field Audit Officers and other concerned offices in order to incorporate INTOSAI auditing standards and the international best practices.

Most outstanding achievement of PIFRA-II Audit Component has been the audit of the National Highway Authority, which has been carried out in accordance with the New Audit Methodology. It is first time that an IT-based audit has been carried out based on risks, reducing discretion of the field auditors and electronic tracking of audit paras.

A new Monitoring and Evaluation Unit is functioning which covers the progress of the stakeholders and their output in reference to PIFRA. Yearly and half yearly proformas will be sent to them questioning their progress on much wider scale extending the scope of PIFRA to the stakeholders.

This project directly supports the government's commitment to improve public financial management, accountability, transparency and increases credibility in the international community.

## H) PAY & PENSION REFORMS

The Regulations Wing deals with the determination of pay packages and other financial terms and conditions, service perquisites and fringe benefits of the government servants. It also interprets the financial rules, remove anomalies of pay and allowances etc. and attends miscellaneous references made to it by other Ministries/Divisions and attached departments. The performance of the Regulations Wing during 2005-2006 is as under:-

The present Government has been very keen to make reforms in the salary structure of Government servants. Thus a need to conduct a detailed study of the compensation system under the public sector was felt. For this purpose the Government announced the constitution of a Pay & Pension Committee during 2004-2005 with a broad terms of reference. Pending formal composition of the Committee, the Government allowed an Adhoc Relief @ 15% of basic pay to all the Government employees w.e.f. 1.7.2004. On receipt of a draft report of recommendations of Pay & Pension Committee in the first week of June, 2005, the Government took a special initiative and revised the salary level of Government Servants w.e.f. 1-07-2005 as detailed below:

i) Increased Basic Pay Scales @ 15%.
ii) Revised House Rent Allowance by giving an increase @ 134% and linked it with the revised pay scales of 2005.
iii) Increased Medical Allowance by 100%
iv) Increased Conveyance Allowance by 100%
v) Increased pension by 10%.

The increase, as aforesaid, gave a progressive increase in the salary package @30% at lowest level i.e. in Basic Pay Scales No.1 and @22.5% at top level i.e. in Basic Pay Scale No.22.

Despite general revision of pay and allowances as aforesaid, the Government has further allowed (i) Dearness Allowance @ 15% of the Basic Pay to all the Government servants and (ii) Teaching Allowance as package to the Teachers of the Federal Government Educational Institutions w.e.f. 1.7.2006.

At present, pension is allowed to the Government Servants under Pension-cum-Gratuity Scheme 1954 as amended from time to time. On the recommendation of the Pay & Pension Committee and with the approval of the Cabinet, the Federal Government issued following instructions with regard to increase in pension/commutation vide paras 12 to 14 of Finance Division's O.M.No.1(1)-Imp/2005 dated 01-07-2005 w.e.f. 01-07-2005:-

i) Commutation shall be admissible upto a maximum of 35% of Gross pension, at the option of the pensioner. Admissibility of monthly pension shall be increased from the existing 60% to 65% of Gross pension.
ii) An increase @ 10% shall be allowed on the amount of pension being drawn by the existing pensioners as well as to those

Government servants who would draw pension under the Revised Basic Pay Scales, 2005.

iii) The increases allowed on pension @ 15% and 8% w.e.f. 01-07-2003 and 01-07-2004 respectively shall not be admissible to the Government servants who would draw pension under the revised Basic Pay Scales, 2005.

The existing system of government pensions is being refined. The Government commits for defined benefits without properly funding them. Resultantly, these defined benefits fail to keep pace with inflation and thus result in declining real pension. Thus, while we keep accumulating liabilities without proper assessment, the pensioners are not happy to see their pensions loosing value over the time. In addition, pension contributions, which are one of the leading sources of savings, remain suspended from being injected in the economy. Accordingly, with a view to further reform the pension system of the country and to design a new pension scheme on the basis of defined contributions, a Contributory Fund Scheme for the new entrants in service is being considered by the Government.

## I) <u>INTERNAL FINANCE SECTOR</u>

Internal Finance Wing of the Finance Division deals with financial / banking sector including, SBP, NBP, and DFIs like HBFC, ZTBL, FWBL, SME Bank and currency management through Pakistan Mint and Pakistan Security Printing Corporation. The Financial Sector Reform Programme (FSRP) which was initiated in 1990s continued during the year 2005-06. Under the FSRP, 90% of the country's banking sector has been privatized. The details of activities and achievements of the organizations under IF Wing are as follows:-

### a). <u>ROLE OF STATE BANK OF PAKISTAN (SBP)</u>

SBP had unveiled its strategic plan for 2005-2010 last year and 2005-2006 marked the first year of implementing this medium-term reform agenda. In order to ensure the soundness of the financial sector, SBP focused its efforts on financial sector deepening, proactive supervision and regulation of the financial institutions and promotion of Islamic banking as a parallel system.

The Financial Sector Assessment Program (FSAP), initiated by the World Bank and IMF, assessed the overall condition of financial sector of Pakistan as sound and satisfactory in 2004. It was also assessed that Pakistan is fully/largely compliant with 26 of the 30 BASEL core principles. The end of FY2005 achieved further compliance with 2 principles whereas efforts to comply with the remaining two principles concerning consolidated supervision were undertaken during FY 2006. SBP has also initiated a consultative process with stakeholders in order to prepare a roadmap for implementation of BASEL II.

**i)** **<u>Regulatory Measures for the Banks</u>**

SBP is constantly updating and improving the regulatory framework for the financial sector in order to keep pace with the evolving needs of the economic agents. In order to minimize the risks and legal impediments, SBP has undertaken various regulatory initiatives which include the formulation of Prudential Regulations for agriculture finance, introduction of fit and proper criteria for Board members and Presidents of microfinance banks, restructuring of SME bank along with issuance of commercial bank license, amendments in Microfinance Institutions' Ordinance and relaxation of limits on commercial banks for extending housing finance etc.

As part of the liberalization process of the inter-bank market, derivative products have been introduced to allow financial institutions to hedge their balance sheet risks. Consequently, the '*Netting of Financial Contracts Act, 2006*' has been drafted by SBP in order to provide a legal basis to parties of financial contracts of terminate such contracts and determine values with respect to their rights and obligations and thus arrive at a net payable amount. The draft of the bill has been revised after seeking comments from the Banking Laws

Review Commission and a summary for the Cabinet is under preparation.

The past year saw further strengthening of on-line and e-banking infrastructure in the country. Growing number of ATMs and online bank branches has yielded benefits to customers. By the end of June 2005, the number of ATMs had risen to 1,028 and the number of online branches reached 2,897. The implementation of the Real Time Gross Settlement (RTGS) system is also at an advanced stage and the draft of '*Payment System and Electronic Funds Transfer Act 2005*' has been finalized. Summary for seeking the approval of the Cabinet is being submitted.

**ii) Islamic Banking**

In a bid to comply with the verdict of Shariah Appellate Bench of the Supreme Court in 1999, SBP had issued detailed guidelines for the establishment of Islamic Commercial Banks with effect from December 1, 2001. A license under these guidelines was issued to Meezan Bank Ltd. (As a model Islamic Bank in Pakistan) for the commencement of Islamic Banking Business in January 2002. Additionally, in November 2002, the Banking Companies Ordinance (BCO) 1962 was amended to implement the process of Islamization of the financial system in parallel with conventional banking. After these amendments, detailed criteria for the establishment of Islamic Commercial Banks, and Islamic Banking Subsidiaries and/or Stand-alone branches for Islamic banking by the existing commercial banks was issued vide BPD Circular No.1 dated January 1, 2003.

By March 2006, the number of full-fledged Islamic Banks rose to four whereas license has been issued to three other Islamic banks to start operations. Ten conventional banks have been allowed to conduct

Islamic banking. Presently, 98 Islamic Banking Branches are functioning in the country.

## b) NATIONAL BANK OF PAKISTAN (NBP)

National Bank of Pakistan (NBP) is a Public sector Bank with 1242 domestic and over 18 overseas branches. The vision of NBP is to achieve market recognition both in quality and delivery of services as well as the range of product offering. At the end of the year 2005 the total assets of the Bank stood at Rs.578 billion and deposits at Rs. 463 billion. The profit before tax was Rs. 19.056 billion, pre-tax return on equity was 60.9% and earning per share of the Bank was Rs. 21.51.

The bank follows Calendar Year as its Financial Year, therefore information given below covers the period from January 1, 2005 to December 31, 2005.

The year 2005 has been a very profitable year for the banking industry in the backdrop of rising interest rates and healthy growth in lending to the private sector across all sectors: industry, agriculture and services. NBP's after tax profit doubled in 2005 over 2004 and was yet again the highest in the history of financial sector of Pakistan.

### i) Financial Performance

For 2005, the bank's pre-tax profit was Rs. 19 billion, and increase of 58% over the last year. Earning per share jumped by over 100% from Rs. 10.48 to 21.51 in 2005. All key performance indicators registered impressive growth. Pre-tax return on equity stood at 61%, pretax return on assets further improved to 3.4% from 2.4% of the last year, cost to income ratio of 0.345 remained in the top tier.

Increase in profit by Rs. 7 billion was achieved through strong growth in core banking income. Net interest income increased by Rs. 9 billion (63%) through a combination of growth in the loan portfolio across all sectors as well as increase in spreads on account of high interest rate scenario. Dividend income and capital gains also made a healthy contribution as these increased by Rs. 445 million and Rs. 700 million respectively. Non-performing loans reduced by Rs. 2.3 billion due to cash recoveries and restructuring. Net non-performing loans were down to Rs. 5.3 billion form Rs. 7.7 billion a year ago. The banks loan loss provision to non-performing loans improved to 84% from the last year's 79%. Advances increased by Rs. 48 billion due to impressive contribution by all business units.

**ii) <u>Financial Highlights</u>**

*(Rs in Million)*

| Head of Account | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| **Deposits** | 362866 | 395492 | 465572 | 463427 |
| **Net Advances** | 140547 | 161266 | 220794 | 268839 |
| **Total Assets** | 423803 | 468972 | 553231 | 577719 |
| **Shareholders equity** | 14279 | 18134 | 24900 | 36158 |
| **Total equity and reserve** | 23936 | 27854 | 46246 | 74341 |
| **Pre tax profit** | 6045 | 9009 | 11978 | 19056 |
| **After tax profit** | 2253 | 4198 | 6195 | 12709 |

**c) <u>First Women Bank Limited has a unique Charter:</u>**

"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".

The mission is to promote economic prosperity and self-reliance in women of urban and rural areas by transforming the status of women from ‘passive beneficiaries’ to “dynamic agents of change”. FWBL received Asian Banking Award on June 17, 2005 and Global Micro Entrepreneur Award on 31st December, 2005. FWBL’s financial performance since 2001 to June 2006 reflects positive signs. The Bank achieved consolidated net profits of Rs.1,071 million during the last 5 ½ years from 2001 to June 2006, in spite of tough challenges faced by the Bank. As compared to the consolidated net profits for the 11 years from 1989 to 2000 which was Rs. 20 million, resulting from cumulative profit of Rs. 291 million netted of by losses of Rs. 271 million, during 1996. During the last five years, 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. 146 million, due to shortfall in provisions relating to years prior to 2001 and also strengthened its internal operations. Earning per share has increased from Rs.2.07 to Rs.4.38 and net asset value per share increased from Rs.5.50 to Rs.25.62. The challenges for FWBL for 2006 include financial restructuring / aggressive marketing for Consumer Products, SME and Micro loans, improvement of customer services, aggressive marketing campaign for the credit products, training of 200 female bankers in next two years, strengthening of its IT infrastructure, installation of more ATMs, e-banking, on-line connectivity of branches and automation of Head Office.

**d)** **<u>Legislation to Combat Money Laundering</u>**

The Government of Pakistan constituted a working group including the representatives from Ministry of Law, Ministry of Foreign Affairs, NAB, FIA, SECP and SBP to draft the Anti-Money Laundering Law. The draft law was considered by the Cabinet thrice and was approved on 29-06-2005. The draft law was then presented in the National

Assembly on 22-09-2005 and is currently being deliberated by the Standing Committee of the House.

e) **<u>Banking Mohtasib</u>**.

To provide relief to bank customers, the federal government appointed "Banking Mohtasib" in 2004 with Head Office in Karachi. It's regional offices were also opened in provincial capitals in 2005.

f) **<u>Corporate and Industrial Restructuring Corporation (CIRC)</u>**

The Corporate and Industrial Restructuring Corporation (CIRC) was established on 22nd September 2000 vide Ordinance No.L of 2000. The purpose was, Acquisition, Restructuring, Rehabilitation, Management, Disposition and Realization of non-performing loans of various state owned-banks and financial institutions, to deal more effectively with the overall reforms and privatization of financial institutions through cleaning of their balance sheets. Non-Performing Assets (NPAs) from NBP, UBL, ZTBL, NDFC and IDBP were acquired. The life of the corporation is 6 years from the date of commencement. As such September 22nd 2006 is the sunset date of CIRC. The purpose of the corporation has successfully been achieved by restructuring the banks / Financial institutions. Four banks namely HBL, UBL, MCB and ABL have been privatized and 23.2% shares of NBP were off-loaded through stock market.

g) **<u>SME Bank Limited</u>**

The importance of the SME sector in achieving higher levels of sustainable growth in the economy through potential contribution in creation of employment opportunities, income generation and GDP is now well recognized. A sizeable number of SMEs are currently operating in Pakistan, most of which are in the informal sector. The lack of resources is recognized as a major impediment in the development of the SME sector.

Realizing the importance of SMEs and their financial constraints, SME Bank Ltd. Was established consequent to the amalgamation of defunct SBFC & RDFC in 2002 with the objective to extend financial & technical assistance for the support & development of SMEs.

The importance that the government is giving to the SME sector is also supported by the Asian Development Bank and the World Bank.

SME bank and its subsidiary, SME Leasing Ltd. (SMEL), during the financial year 2005-06 have provided financial assistance amounting to Rs.1,600 million to 1,324 small and medium enterprises.

SME Bank also introduced new variety of financial products with enhanced financial limits to cater to the needs of flourishing SMEs. The efforts of SME Bank are in addition to the other commercial banks offering finances to SMEs.

The SME Sector Development Programme of the government is aiming at economic empowerment and providing opportunities towards gainful employment, increasing exports and reducing dependency on imports.

### h) <u>House Building Finance Corporation</u>

House Building Finance Corporation (HBFC) was established in the year 1952 as a Statutory Federal Body under HBFC Act 1952 with the object of providing financial assistance for construction and purchase of houses to the people of Pakistan. It is amongst the oldest housing finance institutions in Asia Pacific region. For nearly 50 years it enjoyed the monopoly in housing finance. HBFC has always maintained its business focus for low & middle income housing needs. Now it is in the process of Corporatization which is likely to be completed shortly.

HBFC is providing housing finance all over the country through 58 District Offices, 12 Zonal Offices and 25 Representative Offices/Service Agents spread all over the country including Azad Kashmir and Northern Areas. The staff strength of HBFC consists of 862 officers and 544 supporting staff members.

### i) Operational Activities

Since its inception in 1952 to-date, the Corporation has disbursed Rs.38.187 billion for the construction and purchase of over 4,50,000 housing units and 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. The Corporation also provided about 311,806 Flood Relief Loans amounting to Rs.600 million for the repair and re-construction of houses damaged by floods and heavy rains.

### ii) Present Products

- **Ghar Aasan Scheme**

In December 1999, Supreme Court of Pakistan in famous Riba case declared some of the provisions of HBFC Act, repugnant to Shariah and directed Federal Government to make amendments/modifications in HBFC Act. Accordingly, HBFC (Amendment) Ordinance was promulgated on 23rd November, 2001. After the promulgation of the said Ordinance, HBFC prepared Ghar Aasan Scheme in compliance of Supreme Court's decision which is based on "Diminishing Mushraka". The scheme was implemented in March 2002.

- **Shandar Ghar Scheme**

To broaden the scope of construction activities, HBFC has also introduced another scheme under the name and style of "Shandar Ghar". In April 2003, HBFC implemented "Shandar Ghar Scheme"for repairs, renovation and home improvement which is based on "Murabaha". The period allowed for making payment of Murabaha sale price is upto 10 years. Under this scheme, HBFC allows investment for purchase of construction materials under Murabaha Agreement.

## iii) Relief Package

### a) SETTLEMENT SCHEME FOR PARTNERS' ACCOUNTS UNDER PLS TIME EXPIRED SCHEMES

This settlement scheme is for partners/attorney-holders who have availed investment from HBFC under PLS and Simplified (time expired) Schemes. The settlement scheme aims to mitigate the financial problems of HBFC's old partners who were offered to avail the following Relief Package upto 30th September 2005.

The category-wise settlement scheme is given as under:-

| Category | Investment Slabs | Settlement Package. |
|---|---|---|
| "A" | Where loan amount is upto Rs.100,000/- | Principal+20% of principal |
| "B" | Where loan amount is from Rs.100,001 to Rs.200,000/- | Principal+50% of principal |
| "C" | Where loan amount is more than Rs.200,000/- | Principal + 100% of principal |

b) **HBFC RELIEF PACKAGE ANNOUNCED BY THE FEDERAL MINISTER OF STATE FOR FINANCE FOR WIDOWS, DISABLED, INCAPACITATED**

The relief will be granted only to those clients who have availed HBFC loan/Investment upto Rs.100,000/-under PLS, Simplified & New Simplified Schemes and have become disabled, destitute, incapacitated and widow. The financial support which shall not exceed Rs.50,000/- in any one case will be given only in genuine and deserving cases of hardship covered under the package.

### iv) Achievement of HBFC during the year 2005-2006

**Efforts to Improve Recovery**

Vigorous recovery campaign was launched through all available media including personnel contacts with the defaulters. The HBFC during the fiscal year 2005-2006 has recovered Rs.3611.052 millions.

**Disbursement**

After launching new products (Ghar Aasan & Shandar Ghar) in March, 2002 and April 2003 respectively, HBFC during the year 2005-2006 disbursed Rs.2050.350 millions under Ghar Aasan Scheme (for construction as well as purchases of houses/flat) & under Shandar Ghar Scheme (for renovation of house/flats).

## i) Zarai Taraqiati Bank Limited (ZTBL)

Zarai Taraqiati Bank Limited (ZTBL) functions as a prime financial institution supporting and supplementing government's efforts towards strengthening agriculture sector. 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 to alleviating poverty while focusing on small farmers and rural women. The following table summarises the bank's performance during the period July 2005 to June 2006.

**ZTBL Performance during financial year 2005-06.**

Rs. million

| Category | Status |
|---|---|
| **Total Disbursement** | **47594** |
| **Total Recovery** | **46490** |
| **Borrowers served (nos)** | **439927** |
| **Disbursement per category** | **47594** |
| i. Production Loans | 42843 |
| • Farm | 42320 |
| • Non-farm | 523 |
| ii. Development Loans | 4751 |
| • Farm | 3080 |
| • Non-Farm | 1671 |
| **Farm production loans for seasonal crops** | 42320 |
| Rabi Crops | 16967 |
| Kharif Crops | 25353 |
| **Disbursement to groups of farmers** | 47594 |
| Subsistence **(upto 16-32 acres in Sindh & Baluchistan & 12.5 acres elsewhere)** | 29897 |
| Economic **(upto 64 acres in Sindh & Baluchistan, 32 acres elsewhere)** | 15532 |
| Large **(above 64 acres)** | 2165 |
| **Production Loans per scheme** | **42843** |
| One Window Operations | 15891 |
| Micro Credit | 46 |
| Credit to Woman Programme | 108 |
| Revolving Finance Scheme | 8092 |
| Sadda Bahar Scheme | 16120 |
| Others | 2586 |
| Tractors financed (nos) | 8785 |
| Tube-wells financed (nos) | 2904 |
| **Loan to female borrowers** | **1468** |
| **Small farmers share(%) in total credit** (upto 25 acres) | **84** |
| **Network of operations** | |
| Number of Zones | 25 |
| Number of Branches | 343 |

## i) Important changes/improvements made in Credit Policy of ZTBL

During the period, the Bank introduced the following important changes/improvements in the credit operations:

1) For providing timely input loans for crops and working capital for dairy, poultry and fishery, the Bank launched Sada Bahar Scheme (SBC) in May, 2005. Under this scheme input requirements for the whole year are assessed and made available to the borrower. The Managers are authorized to sanction loans up to Rs. 0.5 million. Its main features are as under: -

   - Revolving Credit Limit is fixed to cater production credit and ancillary requirements of the farmers during one-year period.
   - The documentation once completed remain valid for three years with yearly clean up/renewal of loan.
   - The borrower can draw the credit sanctioned in lump sum or in instalments according to his requirement.
   - Like-wise he can repay in lump sum or in instalments within the year when his cash position allows him.
   - Pass Book, containing transactions in his SBS Account is supplied to every borrower free of cost.

2) Tractor loans have also been allowed under One Widow Operation Scheme. The field staff will process the loan applications within 3 days and submit the complete loan case files to the Managers accordingly. Thereafter the loans would be sanctioned, by the competent authority within the same week to enable the Mobile Credit Officers (MCOs) to deliver sanction letters to the borrowers during next week.

3) In order to further facilitate the farming community now loan applications cab be received by the Sub-Manager/ Accounts Officer/Desk Officer (Desk) by issuing further processing. In case loan applications are not considered, the applicants would be informed giving reasons for non-consideration of loan applications in writing. No application would be refused to receive merely on account of the fact that the concerned MCO is not available in the branch.

4) All the documents and application forms have been translated into Urdu for easy understanding of the borrowers.

5) To cover up the increased cost of inputs the per acre and per livestock credit ceiling was increased by 20 to 200%.

6) The sanctioning powers at various tiers of the management have been increased specially those at the field level to facilitate quick disposal of loan cases.

7) Land acquired as gift and offered as security for the loan, require the approval of the donor but in case of the death of the donor it is now being allowed to process the loan request without recording the statement of the donor provided that the land is free from squatters i.e. there is no standing litigation in the court or the prescribed period of pre-emption, if applicable, has expired and the land stands legally transferred in the name of the loanee.

8) To enhance the loan amount to borrowers the rates prescribed per sq. foot covered areas of the existing building have been increased.

9) To meet the financial requirement at the harvest and sowing time the Bank will follow the following sanctioning procedure.

   a. 90% of the previous loans on the same day i.e. on the closure of old loan.

   b. 100% of the previous loans on the next day of the closure of old loan.

   c. More than 100% of the previous loans with a gap of 10 days of the closure of old loan.

10) Tractors financed by the bank will be registered in the joint name of the bank and the borrower and will be organised by the bank at the cost of the borrower.

11) The repayment period of the diary loan earlier fixed on annual/half-yearly basis within 5 years has been changed to monthly basis.

12) The Bank fixed a lending target of Rs.48 Billion with the approval of the State bank of Pakistan for the calendar Year 2006.

13) Vigorous campaign will be launched through One Window Operations to meet credit needs of large number of farmers for inputs for Kharif and Rabbi Crops.

14) Allocation in total disbursement for woman has been increased so that more women could benefit from the bank's services.

15) Allocation of funds for micro credit has been increased to Rs.350 million in 2006 to create employment opportunities for the rural poor.

16) The Bank will continue to serve small farmers on priority basis by disbursing in accordance with the following ratio in overall disbursement as specified by Government of Pakistan vide SRO 859 (1) 73 dated June 16, 1973:

| | |
|---|---|
| **Subsistence Land Holders** | 70% |
| **Economic Land Holders** | 20% |
| **Large/Big Farmers** | 10% |

17) The rebate in interest rate was allowed to borrowers who repaid their dues timely, with the aim to inculcate the culture of prompt repayment.

**ii) <u>The Scope of Loan Policies</u>**

**Production Loans:** These are short-term loans for a maximum period of 18 months. These loans are for financing of seed, fertilizers, pesticides, POL, electricity charges, labour charges, etc.

**Development Loans:** These are long term loans for a maximum period of 8 years. These loans are for financing of mechanization, irrigation, dairy farming, livestock, poultry and fisheries, etc.

**Micro Credit Scheme:** Under this scheme credit facility is provided to rural people. The bank provides credit facilities ranging from Rs.5000/- to Rs.25000/- per loan. Mark-up under the scheme is 18%. Rebate is given on timely payment. Loans are extended against personal surety/land.

**Credit Programme for Women:** The programme aims at providing access of credit to women to undertake income generating and agricultural activities especially in rural areas of the country. The loans are advanced to the rural women through Female Mobile Credit Officers. Under this programme loans are allowed up to the limit of Rs.25, 000/- against one personal surety.

**One Window Operation:** The basic object of the OWO is to make available all concerned officials at one place (Qanoongo circles) on each Monday and Tuesday by ensuring the availability of ZTBL MCO, representatives of Board of Revenue/Patwari (with land record) and representative of the Post Office (alongwith pass books). In this way loan up to Rs. 50,000/- can be got sanctioned on the same day and payment can be obtained next day from concerned branch. Under this Scheme small farmers operating 25 acres irrigated/50 acres Barani land can avail the loan facility.

**Sada Bahar Scheme:** It is an improved shape of the Revolving Finance scheme whereby completing the requisite documentation once, the borrower can avail a total loan amount of Rs.500,000 during a three year period to utilise mainly for crop production. Additional loan at the rate of 10% is possible for electricity charges and machine repairs etc. Multiple withdrawals (within the annual limits) and repayments are possible during the period. No fee is charged for renewal of the loan during the period. Interest is charged for the amount withdrawn and not for the amount sanctioned.

## j) Pakistan Security Printing Corporation (PSPC)

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 financial year 2005-2006:-

### i) <u>Production of Banknotes and Other Security Products</u>

During the year 2005-2006, the production commitments of Banknotes and other Security products were fulfilled for State Bank of Pakistan and other customers. The Corporation provided the best value to its customers with the installation of the latest state-of-the-art machinery to print new design Banknotes with more security features.

Newly designed Banknotes of Rs.10, Rs.20 & Rs.5,000 have been launched during the year and the Corporation has started printing Bank notes of other denominations with additional Security features.

**ii) Project for Balancing, Modernization & Replacement of <u>Bank Note Machinery</u>**

Balancing & Modernization and Replacement (BMR) Project of Banknote Printing & Finishing machinery approved on February 25, 2005, is nearing completion as per schedule and 80% payments have been made. Against these payments, Rs.2.2 billion have been borrowed against the Term Finance Facility of Rs.4 billion and remaining funds have been provided from own resources/running finance.

Nine machines have arrived and the tenth is presently under customs clearance. Acceptance Certificates of three machines have been signed and the remaining machines are under testing and installation.

Training to various personnels from Production & Engineering Division has been imparted abroad in Switzerland, Austria and Germany.

**iii) <u>Credit Rating</u>**

Pakistan Security Printing Corporation (PSPC) has been assigned the medium to long-term entity rating of AAA (Triple A) and short-term rating of A1+ (A One Plus) by M/s. JCR-VIS Credit Rating Company Limited. The outlook on the medium to long-term rating was ‘Stable’. These ratings are based on the strategic nature of PSPC’s primary product i.e. banknotes, taking into account PSPC’s position as the sole supplier of currency notes to the State Bank of Pakistan (SBP).

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 of 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. The credit rating review by M/s. JCR VIS is under process and it has been indicated that the ratings will be maintained.

**iv) <u>ISO Certification</u>**

Certification of ISO 9001 : 2000 achieved in 2003, has been revalidated during the year for three years ending 2009.

**V) <u>Computerization of Operations of PSPC</u>**

Fiber optic cable has been laid and Inter company email facility has been activated, thereby enhancing the efficiency and curtailing paper work involved otherwise. The customized Enterprise Resource Planning (ERP) applications have been developed by M/s. Auriga Associate (Pvt.) Limited and the computerization of the different modules of Pakistan Security Printing Corporation (PSPC) has been completed in the area of Capital Budget System, Medical System, Fixed Assets and Human Resource Information System. Modules for Payroll, Purchase, Sales, Inventory, Production, Costing and MIS are under development and are expected to be completed by the end of the current year.

## J) INVESTMENT WING

The functional areas of Investment Wing are: 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. Besides, administrative and other matters of PPAF, Khushhali Bank, NIT, ICP, IDBP and EPF are being dealt by the Investment Wing. However, IDBP, NIT, ICP and EPF are at the advanced stage of Privatization.

The details of activities, achievements and progress in respect of these organizations are give below:-

### a) Corporate and Financial Sector:

Under the Financial ( Non-Bank) Markets Reforms Programme, following steps were taken : -

i) With ADB's Technical Assistance, Consultancy study has been started for Strengthening of Insurance, Pension and Savings System to assess key issues Pakistan is facing in managing pension and savings liabilities. The purpose of this study is to recommend solutions to improve sustainability and strengthen key sector institutions involved in pensions, insurance and savings system mobilization.

ii) The Real estate business is prospering in Pakistan. It involves large amount of money. However, there was no regulatory frame-work. Real Estate Investment Trusts (REITs), were actually functioning *de facto* without any regulatory framework. Action has been initiated to develop a regulatory structure to enable this process to be more transparent, equitable and to create a system for the regulation of market abuse. In this regard draft rules have been prepared after studying similar regulations of other countries such as Australia, Malaysia, Hong Kong and Singapore which are being finalized in consultation with all the stakeholders.

## b) 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 Program (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 to 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 Bank provides short-term micro loans ranging from Rs 3,000 to Rs.30,000. The first loan, however, should not exceed Rs.10,000. Methodology to extend credit is country based non-collateral lending. Credit facilities are extended in the fields of Agriculture, Livestock, Enterprises, M&T, Asset Purchase, Working Capital, and New Venture. The GOP has obtained a loan of US $ 150 million from the Asian Development Bank to support the operations of KB and to promote Microfinance sector in Pakistan. The targets set for the year 2005-2006 and actual achievements are given below: -

| Targets 2005-2006: | | Achievements 2005-2006 |
|---|---|---|
| Coverage Number of Districts | 85 | 82 |
| Disbursement (Rs) | 4,140,358,446 | 2,213,712,700 |
| Active Clients | 291,297 | 250,919 |
| **Beneficiaries**: | | |
| Male | 212,954 | 173,268 |
| Female | 91,266 | 34,799 |
| **Total** | **304,220** | **208.067** |

## c) Joint Investment Companies:

Pakistan has a rich experience of setting up Joint Investment Ventures with other friendly countries. This started with Pak-Kuwait Investment Company (PKIC) in 1979 followed by Pak-Libya Holding Company (PLHC) 1980, Saudi-Pak Industrial & Agricultural Investment Company (SAPICO) 1981 and Pak-Oman Investment Company (POIC) 2001. These Investment Companies were set up on the basis of equal shareholding by the two governments towards paid up capital contribution. GOP thus holds 50% shareholding in each of these Investment Companies. Paid up capital of each company is given below: -

(Rs in million)

| | | | | | |
|---|---|---|---|---|---|
| 1 | Company | PKIC | PLHC | SAPICO | POIC |
| 2 | Paid up Capital | 6000 | 2362 | 2000 | 2250 |

As per State Bank's direction minimum paid up capital of the companies would need to be increased from Rs 3000 million in December, 2006, to Rs 6000 million by December, 2009.

The major areas of operation of these companies include project financing, lease financing, equity participation, money market operations, foreign currency deposits, stock market operations, Terms Finance Certificates (TFCs) investments, financial advisory services, financial consultancy and syndication etc.

In view of success of the aforementioned Joint Ventures, agreements for the establishment of JVC with Iran have been signed in February 2005 and with Brunei on 17th March 2006.

## K) DEVELOPMENT WING

Development Wing is required to scrutinize and examine all development projects and ensure that: -

i) the schemes fit into overall development plan.

ii) the scheme does not clash with any other scheme of any other Ministry/Division/Department either in principle or in detail and that there is no contradictory policy being followed in schemes of two different Ministries/Division/Departments.

iii) there is no duplication of schemes of various Ministries/Divisions/Departments.

The Processing, Monitoring and Evaluation of development projects of Finance Division and its departments and preparation of briefs for CDWP/ECNE/NEC meeting are also assigned to Development Wing.

2. Development schemes costing Rs. 40 million or above are approved by Central Development Working Party. The schemes costing more than Rs. 200 million are also considered by CDWP which recommends for their final approval by ECNEC. A total number of 357 projects costing to Rs. 606,235.591 million were considered in CDWP meetings during 2005-2006. During the same period 634 Cash Plans were processed by Financial Advisers' Organization. Development Wing in coordination/collaboration with Financial Adviser's Organization examined all the schemes considered by CDWP and prepared the required briefs. During CDWP meeting all possible efforts were made to rationalize the projects costs by reducing the number of posts, vehicles, equipment and recurring annual expenditure which is ultimately shifted to current expenditure. Development Wing also submitted briefs on each project considered by ECNEC as well as on items of agenda of NEC. During the financial year 2005-2006, three meetings of ECNEC and two meetings of NEC were held.

3. Quarterly Review of all the development projects was carried out by Planning Commission wherein the position regarding release of funds, their utilization, savings and bottlenecks/impediments in the implementation were reviewed. These review meetings were coordinated by Development Wing with the Project Directors of federally-funded projects included in the PSDP of Finance Division. The decisions of the review meetings were followed up for implementation.

4. Prime Minister's Secretariat constituted a Prime Minister's Project Monitoring Committee (PMC) under the chairmanship of Adviser to the Prime Minister on Finance and Revenue for monitoring mega projects costing Rs. 500 million and more. During the financial year 2005-2006, six meetings of PMC, including two meetings with the Government of Punjab and Sindh, were held under the chairmanship of Adviser to the Prime Minister on Finance and Revenue to discuss slow-moving mega project being financed by the Federal Government and executed by various Ministries/Division and the Government of Punjab and Sindh in various sectors. Development Wing processed working papers for inspection of following two projects (Reflected in PSDP of Finance Division) by the PMC: -

i) Greater 100 MGD Bulk Water Supply (K.III) Karachi.

ii) Greater Quetta Water Supply- (Main).

## L) PRIME MINISTER'S SPECIAL PROGRAM WING

Prime Minister's Special Program (PMSP) Wing was established in March, 2005 to augment the ongoing efforts of the Government of Pakistan to develop infrastructure in the country and establish competitiveness in the overall economic performance of the nation. It was envisaged that four (4) independent Companies i.e. Khushhal Pakistan Fund (KPF), Competitiveness Support Fund (CSF), Infrastructure Project Development Facility (IPDF) and Infrastructure Project

Finance Facility (IPFF) would be established. The PMSP Wing was to establish these entities on a fast track basis. The progress on achievements is given below:-

**(a) <u>KHUSHHAL PAKISTAN FUND (KPF) :</u>**

Khushhal Pakistan Fund (KPF) was registered as a company with the Securities and Exchange Commission of Pakistan (SECP) in September 2005. The primary objectives of the KPF are to achieve rapid economic growth, poverty alleviation, price stabilization, creation of employment opportunities and social sector development in the country. The initial outlay of KPF is US $ 1.00 billion and financing of the Fund had been foreseen as follows:

| | | |
|---|---|---|
| 1. | Government of Pakistan | 25% |
| 2. | Loan from World Bank | 25% |
| 3. | Loan from Asian Development Bank | 25% |
| 4. | Grant from Multilaterals / bilaterals | 25% |

The Board of Directors of the KPF has been constituted, and its first meeting was held on 17-3-2006 under the chairmanship of the Prime Minister. The Government of Pakistan / Finance Division provided Rs. 5 (five) billion to the KPF during FY 2005-06 for its development activities. The KPF, with the approval of its Board, disbursed Rs.2.9 billion to the Local Governments of Balochistan Province to carry on development activities in the areas of Education, Health, Water & Sanitation and Income Generation Activities with the objective to fill in gaps in the remote and under-developed areas.

**(b) <u>COMPETITIVENESS SUPPORT FUND (CSF)</u>**

The PMSP Wing, in collaboration with USAID, has set up the Competitiveness Support Fund (CSF) and incorporated the same with Securities and Exchange Commission of Pakistan (SECP). The main objective of the CSF is to support / supplement the ongoing efforts of the Government of Pakistan to establish a more competitive economy by improving regulatory and administrative frameworks and enhancing the public-private partnerships within the country.

The Board of Directors of the CSF has been constituted and its first meeting was held on 31st March 2006. The Fund had started its functions and it would help in strengthening Pakistan's overall global competitiveness in order to achieve knowledge based innovative economy and higher productivity.

**(c) INFRASTRUCTURE PROJECT DEVELOPMENT FACILITY (IPDF):**

The PMSP Wing has set up the Infrastructure Project Development Facility (IPDF) under Section 42 of the Companies Ordinance, 1984. The Board of Directors of the IPDF has been constituted and its first meeting was held on 20-05-2006. The Government of Pakistan / Finance Division provided Rs. 1.00 (One) billion during FY 2005-06 to the IPDF for its operational activities.

The Facility has been established to augment and facilitate private sector participation in the development of Infrastructure through Public Private Partnerships. Chief Executive Officer of the Facility has been appointed and the Company has started functioning.

The Government of Pakistan / Finance Division is negotiating with the Asian Development Bank (ADB) for ADB financing for Public-Private Partnership investments in the Infrastructure. The Task Force, under the chairmanship of the Advisor to the Prime Minister on Finance and Revenue, was also established in December, 2005 on Public-Private Partnerships.

### (d) INFRASTRUCTURE PROJECT FINANCE FACILITY (IPFF):

The PMSP Wing has proposed the establishment of the Infrastructure Project Finance Facility (IPFF), a non-banking finance Company. On establishment, it would provide long-term financing to the Private Sector, Participating in infrastructure development projects in areas where Commercial Banks / Financial Institutions are not willing to provide fund. The basic homework had been completed. It is expected that this Company would start functioning in FY 2006-07.

## M) FINANCE DIVISION (MILITARY)

Finance Division (Military) performs various functions in respect of preparation, execution and monitoring of Defence Budget. During financial year 2005-2006 a total number of 87945 cases were received and all were disposed off in Military Finance. The following are main activities, achievements and progress realized by Military Finance during financial year 2005-2006.

### A. Budget Allocation/Expenditure

During FY 2005-2006 about 35 cases for Supplementary Grants were processed. Seven (07) proposals were not approved & saving of about Rs.1550.711 million was earned. Besides, REs 2005-06 and BEs 2006-07 were scrutinized in detail with a view to reduce burden on public exchequer.

### B. Accounting of Defence Expenditure

Defence expenditure/receipts are classified under 21 main heads and a huge number of sub-heads and minor heads. To cope with the day to day requirements changes are carried out in the classification hand book. All proposals on this account have been examined carefully to ensure transparency in reporting/booking of expenditure.

**C) <u>Development and Purchases</u>**

i) All procurement/development cases were thoroughly examined under relevant rules/regulations and instructions and due care was exercised for optimum utilization of funds by applying different financial Techniques to get best value for the money.

ii) Efforts are made to meet the operational requirements of the Armed Forces from 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.

iii) Indigenization efforts are supported to provide opportunity to our private sector industry to enter in the defence market.

**D) <u>Activities and Achievements</u>**.

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.

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# Attached Departments

## 6. OFFICE OF THE AUDITOR GENERAL OF PAKISTAN

Office of the Auditor General 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, and the Auditor's General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. Office of the Auditor General of Pakistan is the Prime Institution in the country ensuring public accountability and fiscal transparency in the operations at every governmental level to bring about improvements in the financial discipline and internal control environment in the executive departments for minimizing the possibility of waste and fraud. Following is a brief account of the activities of Office of the Auditor General during the year 2005-2006.

Article-171 of the Constitution of Islamic Republic of Pakistan, lays down that reports of the Auditor-General of Pakistan relating to the accounts of the Federation, Provincial and Departmentalized Accounts will be submitted to the President of Pakistan and respective Provincial Governors, who shall cause them to be laid before the National Assembly and Provincial Assemblies. Eighty three (83) Audit Reports for 2003-2004 on the accounts of District Governments have been printed and will be submitted shortly to the respective Governors. Ninety four (94) Audit Reports for the year 2004-2005 on the accounts of Federal, Provincial and District Governments have been processed and are under finalization. These Audit Reports will be submitted shortly to the President of Pakistan and respective Provincial Governors. Certification Audit Report on Appropriation and Finance Accounts of 2003-2004 of Provincial and District Governments and Forest Accounts of Government of the Punjab, Sindh and NWFP have also been processed and are under finalization. Simultaneously the Audit for the year 2004-2005 on the accounts of Civil Works of Federal and Provincial Governments and Ninety-Six District Governments have been completed.

In addition to above, twenty eight (28) reports of the Auditor-General relating to the accounts of the Federation for the year 2002-2003, duly approved by the President, were laid before the National Assembly. Six hundred and fifty (650) Audit reports for the accounts of the year 2003-2004 are being submitted to the President of Pakistan.

Under Rule 184 of the Rules of Procedure & Conduct of Business in the National Assembly 1982, the Public Accounts Committee examines the reports of the Auditor-General of Pakistan. The office of the Auditor-General provided the National Assembly Secretariat adequate support for holding of Public Accounts Committee meetings. During the period July 2004 to May 2005, 24 meetings of Public Accounts Committee were held.

There was a huge backlog of Audit Reports of previous years and consequently during the year 2005-06, the Department of the Auditor-General also provided full assistance to the National Assembly Secretariat to clear the backlog. The Sub-Committees of the Public Accounts Committee have been constituted in order to clear the backlog of Audit Reports. Sub-Committees received substantial support through production of record and verification for the purpose.

The Audit Certificates of Appropriation/Finance Accounts of the following departments for 2003-04 were processed, approved, printed and sent to the President along with Audit Reports for 2003-2004.

**Appropriation Accounts**

i) Pakistan Mint, Lahore;
ii) Geological Survey of Pakistan;
iii) Ministry of Food, Agriculture and Livestock;
iv) National Saving;
v) Ministry of Foreign Affairs;
vi) Ministry of Defense;
vii) AGPR/Government of Pakistan.

**Finance Accounts**

i) AGPR/Government of Pakistan.

The appropriation and Finance Accounts for 2004-05 have been processed and are expected to be finalized during the year 2006-07.

Under Section 7 of the Auditor General's (Functions, Powers and Terms & conditions of Service) Ordinance, 2001 the Office of the Auditor-General has carried out the certification Audit of Appropriation/Finance Accounts of the Federal, Provincial Governments and Appropriation Accounts of 100 District Governments all over the country under the auditing standards/guidelines of International Organizations of Supreme Audit Institutions. Office of the Auditor General has also certified 128 Appropriation and Finance Accounts of the Federal, Provincial and District Governments.

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 responsibility to equip its officers and officials in auditing, accounting and information technology at par of international level. 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 salient international activities of the office of the Auditor-General of Pakistan are as under: -

i) The Auditor-General of Pakistan is serving a three-year term (2003-05) as the External Auditor of the Organization for the Prohibition of the Chemical Weapons (OPCW). The Auditor-General of Pakistan has audited the OPCW accounts for the years 2003, 2004 and 2005 and issued audit reports of 2003 & 2004, which have been well received at different forums of the

OPCW. In addition, the Department of the Auditor-General of Pakistan conducted the audit of SAARC secretariat and its offices, as their External Auditor. The Auditor-General of Pakistan has been re-elected as the External Auditor of OPCW for another term i.e. 2006-2008.

ii) Office of Auditor-General of Pakistan organized a two weeks training workshop on **"Audit of Privatization"** from March 13-24, 2006 at Lahore, Pakistan, for ECOSI member countries with the collaboration of Islamic Development bank Jeddah, Saudi Arabia. The officers of the Supreme Audit Institution of Afghanistan, Azerbaijan, Iran, Turkey, and Pakistan participated in the workshop. The workshop covered various interesting topics.

iii) The Office of the Auditor General of Pakistan hosted an INTOSAI Development Initiative (IDI) Sponsored Workshop on **"Dealing with Fraud and Corruption in Auditing"** from December 12-17, 2005 at Lahore, Pakistan.

iv) The 7th ASOSAI Research Project on **"Audit Quality Management System"** was finalized and its draft guidelines on Audit Quality Management System were implemented. On April 03-04, 2006 a meeting of the said project was held at Dakha, Bangladesh, to share the experiences in implementing the draft guidelines.

v) The Comptroller and Auditor-General of United Kingdom organized an inaugural meeting of the INTOSAI Capacity Building Committee from March 12-14, 2006 at London, United Kingdom. The Auditor-General of Pakistan participated in the meeting.

Office of the Auditor General of Pakistan has adopted 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 Audit Department.

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## 7. Office of the Controller General of Accounts

On the separation of accounting functions from auditing, the Office of the Controller General of Accounts (CGA) was established as an independent organization w.e.f. 1-07-2001, under the CGA Ordinance, No.XXIV of 2001. Accounting, internal control, Pre-audit & payment functions were transferred from Auditor-General of Pakistan and entrusted to the CGA under the above Ordinance. As per para-6(2) of the CGA Ordinance 2001, following accounting organizations were brought under the Controller General of Accounts.:-

a) The Accountant General of Pakistan Revenues and its sub-offices;

b) The Military Accountant General and its sub-offices;

c) The office of the Provincial Accountant General of each province and offices subordinate to them;

d) The Chief Accounts Officers of the departmentalized accounting offices; and

e) Any other departmentalized accounting organization as well as their sub-offices.

Controller General of Accounts under para 6(3) of the CGA Ordinance 2001, shall be the administrative head of all the offices sub-ordinate to him with full authority for transfer and posting within his organization. The main achievements of the year are highlighted as below:-

### (i) Targets and Achievements of Controller General of Accounts

This office made continuous efforts to achieve timeliness in the submission of monthly accounts during the preceding financial year 2004-2005. Monthly Accounts of the Federal, Provincial & District Governments were submitted to the concerned Governments by the due date viz $15^{th}$ of the following month (Federal and Provincial) and $10^{th}$ of the following month (District Governments).

Efforts are also being made to achieve timeliness in case of the compilation, printing and submission of Annual Finance & Appropriation Accounts of the Federal, Provincial & District Governments for the year 2004-05. As the reporting system is undergoing a change due to implementation of NAM/COA in compilation of accounts but still the information was better as compared with the previous year. The accounts for the year 2004-05 are undergoing the process of certification and will be printed after certification from the Auditor General of Pakistan for submission to the concerned Governments alongwith Audit-Report.

**ii) <u>Timeliness, Accuracy and Reliability of Accounts</u>**

The Accuracy of Accounts has improved when compared to the Accounts of previous years. The Monthly Accounts were compared with the budget and cases of Payments in excess of budget grants were regularly checked and discouraged. The reconciliation of actuals with departments also improved. The reconciliation of expenditures and receipts with departments also showed marked improvement as compared with the previous year.

**iii) <u>Finance & Appropriation Accounts</u>**

The Finance Accounts contains the entire Receipt and Payment from consolidated Fund and Public Accounts and the Appropriation Accounts contained expenditure (only) incurred during the year under Consolidated Fund compared with the budget provisions. The Printed Books of Finance & Appropriation Accounts of Federal, all the Provincial Governments and Departmentalized Organizations for the year 2003-04 have been signed by the Auditor General of Pakistan.

### iv) Combined Finance & Revenue Accounts

The Combined Finance & Revenue Accounts contain summary statements of the Federal, Provincial & District Governments, entire Receipts and Payments and Balances under Assets & Liabilities. The combined Finance & Revenues Accounts for the year 2003-04 is being compiled.

Besides, the following updated status of activities have also been performed through our MIS Wing during the financial year 2005-06:

- Total 45 Sites have gone productive under PIFRA Project.
- Completion of data migration and switchover from legacy system to SAP R/3 system at 9 main offices and 19 sites at district level under PIFRA project.
- Completion of Data Collection Activity at 17 Manual Rollout Sites falling under the jurisdiction of AG Punjab, Lahore, AG Sindh, Karachi and AG NWFP, Peshawar and 17 Manual Rollout Sites have also gone productive.
- Collection of information of Federal DDOs of AGPR, Islamabad and Sub-Offices for budgetary purpose has been completed.
- Collection of Information of spending level DDOs in 34 Districts of Punjab have been completed and delivered to PIFRA for incorporation in the system.
- Updation of 7,920 cases of GP Fund & Pensioners data of officials retiring upto 31-12-2007, at AG Punjab, Lahore, AG Sindh, Karachi, AG Balochistan, Quetta, AG NWFP, Peshawar, and AGPR, Islamabad.
- Training of 28,840 officers/officials of Federal, Provincial, District and other offices under NAM & SAP Training Programs has been completed.

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## 8. Central Directorate of National Savings (CDNS)

The history of National Savings Organization dates back to the 2nd World War when the British Govt. 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 the Savings Organization 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 authorized agents under their jurisdiction.

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. This resulted in considerable expansion of the Organization.

At present, Central Directorate of National Savings is operating with a network of 416 offices, comprising 366 National Savings Centres, 12 Regional Directorates, 12 Regional Accounts Offices, 07 Zonal Inspection and Accounts Offices, 16 National Savings Treasuries, 02 Training Institutes and one Directorate of Inspection and Accounts. This Organization is responsible for mobilization of domestic savings through the sale of various Govt. securities called National Savings Schemes (NSS). Presently, the following NSS are in operation:

i) **Defence Savings Certificates.**

A ten years maturity scheme with an average compound rate of 10% p.a. on maturity. The profit in this scheme is paid for completed years on maturity or encashment, whichever is earlier.

ii) **<u>Special Savings Certificates (Regd.)/Accounts.</u>**

A three years maturity scheme available both in the form of certificates and accounts providing bi-annual return @ 9.00% p.a. for the first five profits and @ 10.00% p.a. for the last profit.

iii) **<u>Regular Income Certificates</u>**

A five years scheme providing monthly profit payment @ 9.24% p.a. subject to 10% withholding tax at source.

iv) **<u>Bahbood Savings Certificates</u>**

A new savings Scheme exclusively launched for widows and senior citizens with maturity period of 10 years which offers monthly profit payment @ 11.52% p.a. The profit earned on this scheme has been exempted from withholding tax w.e.f. 01-07-2004.

**<u>Savings Account</u>**

Savings Account is an ordinary account offering profit @ 6.00% p.a.

**<u>Pensioners' Benefit Account</u>**

A new savings scheme exclusively launched for pensioners with maturity period of 10 years offering monthly profit payment @ 11.52% p.a. The profit accrued on or after 01-07-2004 on this scheme has been exempted from withholding tax.

**<u>Prize Bonds</u>**

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 6.50% p.a.

**Changes in National Savings Schemes:**

During the FY 2005-2006, the following changes have been made in the existing NSS to provide relief to the general public as well as to pensioners, widows and senior citizens: -

- The service charges on RIC, PBA & BSC have been reduced.
- The number of prizes in respect of prize bonds of all denomination have been increased.

**Investment Targets for FY 2005-2006**

The gross and net investment targets on National Savings Schemes for FY 2005-2006 were pitched by the Finance Division at Rs.359.26 billion & Rs.20.00 billion respectively. As per provisional data upto May, 2006 the proportionate gross investment target has been surpassed. However, there is a shortfall in the proportionate net investment target due to heavy institutional encashments and lower rates of return. The government has revised the rates upward w.e.f. 5$^{th}$ June 2006 and it is likely that the net investment position will improve.

**Computerization of National Savings Organization**

CDNS is endeavouring to automate its accounts to increase efficiency in its working and cope with the ever increasing workload at the Centres. For the purpose, services of a renowned firm have been acquired and work on the pilot sites is likely to start shortly. The project includes the system analysis, assessment of additional hardware, software requirements, development, testing & implementation of the software system at 21 National Savings Centres located at Rawalpindi Region, National Savings Treasuries (NSTs), Rawalpindi/ Islamabad, Regional Directorate of National Savings (RDNS), Rawalpindi, Regional Accounts Office(RAO), Islamabad, Zonal Inspection and Accounts Office (ZIAO) Islamabad, Directorate of Inspection and Accounts (DIA), Islamabad, Training Institute of National Savings (TINS), Islamabad and CDNS, Islamabad, all being the pilot sites. The software developer will also be responsible to arrange comprehensive software maintenance and application, training to end users as well as master trainers of the Organization.

The application system described above will be developed and implemented in a phased manner. The first phase of System Analysis & Design (SAD) includes the study of the existing system, requirements specifications (RS), and Business Process Reengineering (BPR) which has been completed.

The application software has been developed, its CRT has been completed and it is presently in the phase of User Acceptance Testing. The phase of implementation of the software at the pilot sites as well as the Training of the end users would be completed during the current calendar year. The last phase would be of replication of the system at the remaining National Savings Offices through out the country which would be carried out by the CDNS. The incorporation of a fully automated accounting & reporting system will surely lend efficiency in the cliental services as well as day to day working of its offices.

**Improvement in the Client Services**

In order to have a corporate touch and to provide facilities to the investors, it was decided to shift National Savings Centres to comparatively better and specious places. More than 200 National Savings Centres have been shifted to better and specious places in the last couple of years. The services of Interior Decorators with regard to renovation plan to promote corporate image and upgrade the facilities at National Savings Centres were hired. As much as 30 model centres were selected for development, out of which 05 were developed in the last fiscal year (i.e. FY 2004-2005) and 12 Centres have been developed in FY 2005-2006. The work on the remaining 13 sites is in progress.

**Restructuring of Central Directorate of National savings**

In line with the decision, draft legislation for the restructuring and converting of CDNS into a body corporate was prepared. After principle approval of the honourable Prime Minister the draft law has been vetted by the Establishment Division and Law & Justice Division. Presently the case is under consideration of Finance Division for submission to the Cabinet for its approval before the bill is placed before the Parliament.

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# 9. Monopoly Control Authority

Monopoly Control Authority (MCA) is a statutory, quasi-judicial organization that was established in 1971 to administer Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970 (MRTPO). Its jurisdiction covers business activities relating to production, supply and distribution of goods and services. MCA takes action, suo-moto, on receipt of reference from Government or on complaint from 25 persons. MRTPO, 1970 mainly covers unlawful situations of undue concentration of economic power, unreasonable monopoly power and unreasonably restrictive trade practices through agreements.

**The Details of Activities and Achievements During 2005-2006**

During 2005-2006, MCA examined economic activities and financial transactions of more than 2000 enterprises under the provisions of the Law and passed 377 Order to correct the situations and to call for necessary information from companies. Major cases relate to cement, sugar, steel and pharmaceutical sector. These are summarized below.

(1) MCA after due process of law issued Orders in October/November 2005 directing 18 cement factories to break cartel and restore pre- cartel cement prices. The cement factories did not report compliance of the Order, whereafter, penalties were imposed as per law. The cement factories filed appeals in the High Courts of Sindh, Punjab and NWFP. The matter is subjudice.

(2) In sugar sector, on the basis of MCA's Special Enquiry, show cause notices were issued to 70 undertaking in June 2005 to clarify, firstly, their failure to make timely payments to growers forcing them to reduce sugarcane cultivation thus causing less sugar production and secondly, inadequate release

of sugar stocks to meet demand, which created artificial shortage of sugar in the market to cause a sharp price increase. After due process of Law, MCA directed 27 undertaking to discontinue and not to repeat the practice of withholding stocks to create artificial shortage of the commodity in the market and to release the withheld stock of sugar.

Considering consistent price increase after September, 2005, MCA monitored sugar production, lifting and ex-factory price along with cane price and cane crushed, and thereafter ordered 42 sugar mills to release at least 8.33% of stock on monthly basis. The same worked out to about 58% of production, which should have been released by 30$^{th}$ April 2006. The sugar mills were directed to report compliance by May 27$^{th}$ 2006. Out of 42, only 9 sugar mills complied with the Orders of MCA whereas, the remaining 33 sugar mills did not release the required percentage of sugar. Therefore, MCA served hearing notices dated June 17, 2006 on 33 sugar mills to Show Cause as to why penalty should not be imposed on them for their failure to comply with its orders. MCA after providing an opportunity of being heard, during the last week of June, 2006 exonerated 6 sugar mills and imposed a penalty of Rs.100,000/- on the remaining 27 sugar mills. Per day penalty of Rs.10,000/-, starting from the date of issue of Orders and up to the date the sugar mills release sugar, commensurate with the monthly percentages, was also imposed on 23-sugar mills. Out of these 23 sugar mills 19 have filed appeals against the Orders of MCA in the Lahore High Court (Rawalpindi Bench). The Court, on 28-07-2006 suspended the recovery of penalty and directed the sugar mills to release their sugar stock as directed by MCA..

(3) On examination of a complaint from Pak PWD Contractors' Association, Peshawar, regarding price hike of steel, MCA concluded that during November, 2005, the price increase was dictated by the Pakistan Steel Mills. Ministry of Industries and Production was requested to look into abnormal price increase by Steel Mills for suitable remedial measures in the larger public interest because being a state-enterprise it was exempted from the application of MRTPO, 1970.

(4) Multinational pharmaceutical companies increased price of life saving and other drugs by 40-80% in 2005/January, 2006. Ministry of Health, which is regulating pharmaceutical sector, informed that price increase of 14 drugs was allowed to ensure availability because manufacturers were of the view that due to low price of such drugs it was not feasible to market them.

### Review of the Monopolies and Restrictive Trade Practices Ordinance (MRTPO), 1970

The experience of working with the Law showed various limitations of the Law as well as the desirability of modifications to bring it in line with current economic realities and international norms. Therefore, in the preceding financial year, draft Competition Act was prepared and submitted to the Finance division. The draft Law deletes anti-investment provisions of MRTPO and compulsory registration of undertakings. Penalties have been increased substantially.

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## 10. Pakistan Mint

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 324.789 million coins valuing Rs.1068.109 million in addition to other jobs/executed during 2005-06 valuing Rs.9.187 million as detailed below:-

| S.# | Name of Articles | Quantity in Nos. (Million) | Rs. In (Million) |
|---|---|---|---|
| | **A-COINS** | | |
| 1. | Re.---1/- -------- | 113.135 | 113.135 |
| 2. | Rs.---2/- -------- | 34.432 | 68.864 |
| 3. | Rs.---5/- -------- | 177.222 | 886.110 |
| 4. | Rs.---10/- ------ | 0 | 0 |
| | **Total.-------** | **324.789** | **1068.109** |
| | **B-JOBS OTHERS THAN COINS** | **Quantity in Nos.** | |
| 1. | Specimen coins sets. | 21190 | Nos |
| 2. | Stamps/Seals. | 1669 | Nos |
| 3. | Embossing Machines/Sealers | 219 | Nos |
| 4. | Type (Year Month etc.) | 50203 | Nos |
| 5. | Medals | 368147 | Nos |
| 6. | Badges, Token etc. | 1443 | Nos |
| 7. | Title Shoulder, Cufflinks etc. | 296 | Nos |
| 8. | Key Rings. | 3214 | Nos |
| 9. | Emblem Shields/Crest Plate | 334 | Nos |
| 10. | Replica/Minar/ Zamzama, Tent Peger | 06 | Nos |
| 11. | Paper Cutters | 61 | Nos |
| 12. | Dies. | 05 | Pair |
| 13. | Repair/Spare Parts etc. | 18 | Jobs |

| | | |
|---|---|---|
| Value of the Coins manufactured | = | Rs.1068.109 million |
| Value of the jobs other than Coins executed | = | Rs. 9.187 million |
| **Total** | = | **Rs.1077.296 million** |

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# 11. SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

## I. Introduction

The Securities and Exchange Commission of Pakistan (SECP) was established in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) and became operational on 1st January, 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 SECP has succeeded the Corporate Law Authority (CLA), which was an Attached Department of Finance Division. The SECP enjoys full autonomy, operationally as well as financially, under the guidance of a Securities and Exchange Policy Board established under the Act.

The SECP operationally comprises of the following six Divisions:-

i. Securities Market Division (SMD);
ii. Specialized Companies Division (SCD);
iii. Company Law Division (CLD);
iv. Professional Services and Policy Division (PSPD); and
v. Support Services Division (SSD).
vi. Insurance division

During the year 2005-2006, the SECP carried out the following major activities in the sectors under its purview:

## II. Capital Market

### A) CAPITAL MARKET REGULATORY DEVELOPMENT

During the year the SECP proposed a new risk management structure in order to improve the existing risk management system at the stock exchanges and to bring it in line with international best practices. After a detailed review, a new structure was designed on 18th June, 2006 which includes netting, Market-to-market loss collection and profit distribution, Value at Risk (VaR) based margining system, valuation of securities eligible to be held as security and Capital adequacy.

**(i) CONTINUOUS FUNDING SYSTEM MARK-II (CFS MK II)**

The SECP has also started work on the introduction of a new product i.e. CFS Mk II, to replace the existing Continuous Funding System (CFS). CFS Mk II will adequately address the biases inherent in the existing model of CFS which propagates systemic risks and precludes the formation of a level playing field for all market participants. The detailed proposal on CFS Mk II has already been presented to financial institutions. The said proposal has also been circulated to the management and members of the three stock exchanges, Central Depository Company (CDC) and National Clearing Company Pakistan Limited (NCCPL). On 23 June 2006, the SECP constituted a high powered Committee comprising of representatives of the SECP, three stock exchanges, Mutual Funds Association of Pakistan, various brokers and bankers to address the different matters relating to CFS Mk II and to work out the details for implementation.

**(ii) PROPRIETY TRADING REGULATIONS**

For the protection of investors and curbing market abuse, the Propriety Trading Regulations, 2004 were amended on 7th October, 2005 to disallow aggregation of orders by brokers. In order to bring the Listing Regulations of the stock exchanges in line with the Code of Corporate Governance, the SECP in November 2005 approved amendments in the Listing Regulations of both Karachi and Lahore Stock Exchanges. The SECP, on 29th September, 2005 approved amendments in CDC Regulations wherein the reporting requirement on the part of the issuer was reduced from quarterly to six monthly/biannual basis instead of annually as proposed by CDC. On September 8, 2005, the SECP approved amendments in the Regulations of NCCPL relating to margin financing. Further, minimum long term credit rating of BBB was prescribed for financial institutions to become and/or continue as clearing member.

**(iii) PRE-TRADE MARGIN SYSTEM**

In order to further strengthen market integrity and minimize systemic risk, the Karachi Stock Exchange, as directed by the SECP, has implemented a pre-trade margin system, both in the ready and Futures Market, which allows for checking at the time of placing an order, that the concerned member is within his capital adequacy limit and has sufficient margin deposits for the execution of trades in the market.

The SECP on 17th October, 2005 approved standardized future contracts specifications for 30, 60 and 90 days on cash settlement basis. The Regulations governing future contracts for 30, 60 and 90 days are currently being amended by KSE in the light of SECP's observations.

**(iv) UNIVERSAL (CLIENT) IDENTIFICATION NUMBER**

In pursuance of SECP's objective to increase transparency within the market and to improve its market surveillance capacity, the implementation of a Universal (Client) Identification Number (UIN) at the stock exchanges is near completion. The requisite software and hardware changes have been made by the stock exchanges and NCCPL, as per implementation plan agreed by the stakeholders. UIN at pre trade level has been launched from August 1, 2006.

**(v) FREE FLOAT INDEX**

In order to ensure that the KSE Index represents a fair picture of the market, the SECP advised the KSE to review/examine international best practices with respect to the construction of market indices based on parameters such as free float rather than the number of outstanding shares.

In this regard the SECP has approved a revised concept paper for the KSE-30 Sensitive Index. The requisite amendments are being carried out in the KSE software to ensure introduction of KSE 30 index based on a free float, in September, 2006.

**(vi) DRAFT REPORT FOR WORKING GROUP-3 (WG 3)**

Over the last financial year the SECP continued its participation as an active member of International Organization of Securities Commission (IOSCO) to promote high standards of regulation in order to maintain just, efficient and sound markets. In its capacity as the Chair of the Working Group 3 (WG3) and in-line with WG3's mandate on "Guidance to Emerging Market Regulators regarding Capital Adequacy requirements for Financial Intermediaries", SECP has prepared a Draft Report and shared it for comments with all Emerging Market Committee (EMC) members. Subsequently SECP also held a WG3 meeting with other member countries in August 2006, in Islamabad, to discuss and finalize the Draft Report

## B) <u>Good Governance and Transparency Measures</u>

**(i) REGULATIONS FOR GOOD GOVERNANCE**

In order to strengthen governance, enhance transparency, and reduce conflict of interest on the BOD of the stock exchanges, the SECP on 29th November, 2005 made regulations for the stock exchanges which provide for the election of the Chairman of the Board of Directors from amongst the non-member directors. The Managing Director is not permitted to participate in the election of the Chairman of the Board. In compliance with the said Regulations, the Board of Directors of KSE, LSE and ISE elected non-member Chairmen.

**(ii) DISCLOSURE IN FUTURES MARKET**

SECP has been taking steps to make the futures market more transparent and enable adequate disclosure of information for the benefit of investors. After looking at various practices from numerous international jurisdictions, the Exchanges were directed to disseminate through the Exchange website, names of the top Members in terms of open interest in futures without indicating whether the open interest is that of sale or purchase. This was implemented with effect from 25$^{th}$ June, 2005.

**(iii) STANDARDIZATION OF CDC SUB-ACCOUNT OPENING FORM**

In order to ensure adequate protection of the rights and obligations of both the sub-account holders as well as the brokers, it was felt that a standardized account opening form for this purpose should be developed and made mandatory. In this regard, CDC was requested to develop an account opening forms for individuals and institutions/ corporates, in the light of SECP's observations and send the same for final approval of the SECP.

## C) Issue of Capital

During the year under review, seven companies issued/offered shares to the public as compared to twelve in the preceding year. Rs.9.60 billion capital was listed as compared to Rs.24.33 billion last year. However, it may be noted that last year's data contains listing of Pakistan Petroleum Ltd. (PPL) with Rs.6.8 billion share capital, Kot Addu Power Co. Ltd. with Rs.8.8 billion share capital, and United Bank Ltd. with Rs.5.1 billion share capital. Similarly, eight companies issued debt instruments, i.e. Term Finance Certificates (TFCs) to the public, as compared to fourteen in the preceding year. TFCs of Rs.10.505 billion were listed during the year under review as compared to Rs.16.250 billion last year.

The table below provides a comparison of share capital and TFC offerings during the FY-2005-2006 with the previous year.

(**Rs. in million**)

| Year | Equity Issues | | Debt Issues | | | |
|---|---|---|---|---|---|---|
| | **No. of Issued** | **New Capital Listed** | **No. of Issues** | **Amount Allowed** | **Amount Offered** | **Amount Retained** |
| **2005-2006** | 07 | 9,600.853 | 08 | 9,600.000 | 9,975.000 | 10,504.925 |
| **2004-2005** | 12 | 24,335.195 | 14 | 16,450.000 | 16,100.000 | 16,250.000 |

## D) Monitoring and Enforcement

During the period under review, the SECP continued its efforts to ensure market fairness and actively pursued and implemented measures pertinent to strengthening of the risk management framework. As a result of its surveillance, the

SECP conducted investigations and undertook enforcement actions against the responsible participants as under:-

| No. | Order Date | Company | Description |
|---|---|---|---|
| 1. | 25th August, 2005 | Worldwide Securities (Pvt.) Ltd. | A fine of Rs.50,000 was imposed on Worldwide Securities (Pvt.) Limited for violation of Clause 8(iv) of Brokers and Agents Registration Rules, 2001, on June 08, 2005. |
| 2. | 12th September, 2005 | Sherman Securities (Pvt.) Ltd. | A fine of Rs.25,000 was imposed on Sherman Securities (Pvt.) Limited for violation of Clause 8(iv) of brokers and Agents Registration Rules, 2001 on June 08, 2005. |
| 3. | 12th September, 2005 | First Equity Modaraba | The management of First Equity Modaraba was warned to be careful in future with regard to the compliance of law and directed them to keep itself away from such transactions which interfere with the fairness of the market. |
| 4. | 12th September, 2005 | Taurus Securities Limited | The Management of Taurus Securities Limited was warned to be careful in future with regard to the compliance of law and directed them to keep itself away from such transactions which interfere with the fairness of the market. |
| 5. | 19th October, 2005 | D.J.M. Securities (Pvt.) Limited | M.s D.J.M. Securities (Pvt) Ltd., Corporate Member, Karachi Stock Exchange was warned to be more cautious and vigilant in future with regard to compliance of position limits in future market. |
| 6. | 24th October, 2005 | Motiwala Securities (Pvt.) Ltd. | A fine of Rs.50,000 was imposed on Motiwala Securities (Pvt.) Limited for violation of Clause 8(iv) of Brokers and Agents Registration Rules, 2001, on June 08, 2005. |
| 7. | 2nd November, 2005 | Capital One Equities (Pvt.) Ltd. | A fine of Rs.50,000 was imposed on Capital One Equities (Pvt.) Limited for violation of Clause 8(iv) of Brokers and Agents Registration Rules, 2001, on June 08, 2005. |
| 8. | 16th December, 2005 | Aqeel Karim Dhedhi Securities (Pvt.) Ltd. | A fine of Rs.50,000 was imposed on Aqeel Karim Dhedhi Securities (pvt.) Limited for violation of Clause 8(iv) of Brokers and Agents Registration Rules, 2001, on June 08, 2005. |
| 9. | 16th March, 2006 | Ismail Abdul Shakoor | A fine of Rs.50,000 was imposed on Ismail Abdul Shakoor, Member KSE, for violation of different clauses of the Regulations for Short Selling Under Ready Market, 2002 & Brokers and Agents Registration Rules, 2001 on October 18, 2005. |
| 10. | 16th March 2006 | Bawa Securities (Pvt.) Limited | A fine of Rs.25,000 was imposed on Bawa Securities (Pvt.) Limited, Corporate Member KSE, for violation of different clauses of the Regulations for Short Selling Under Ready Market, 2002 & Brokers and Agents Registration Rules, 2001 on October 18, 2005. |

## III. Corporate Sector

The SECP is entrusted with a wide array of responsibilities that encompass regulation, monitoring and enforcement of laws pertinent to the corporate sector. In recent years, it has brought about necessary amendments in existing laws as well as enacted new laws to cater to changing business needs and scenario. The SECP undertakes strict monitoring and vigilance of the corporate sector with a view to promoting transparency, accountability and good corporate governance practices, thereby protecting the interest of investors.

### A) Corporate Growth

The number of companies registered with the SECP reached the figure of 50,401 by 30th June 2006. New incorporation during the financial year 2005-06, reached 6,186, as compared to 3,078 during the previous financial year, showing a record corporate growth of 101 percent. This very fact has been reflected in chart and table given below:-

***Chart***

**YEAR-WISE CORPORATE GROWTH**

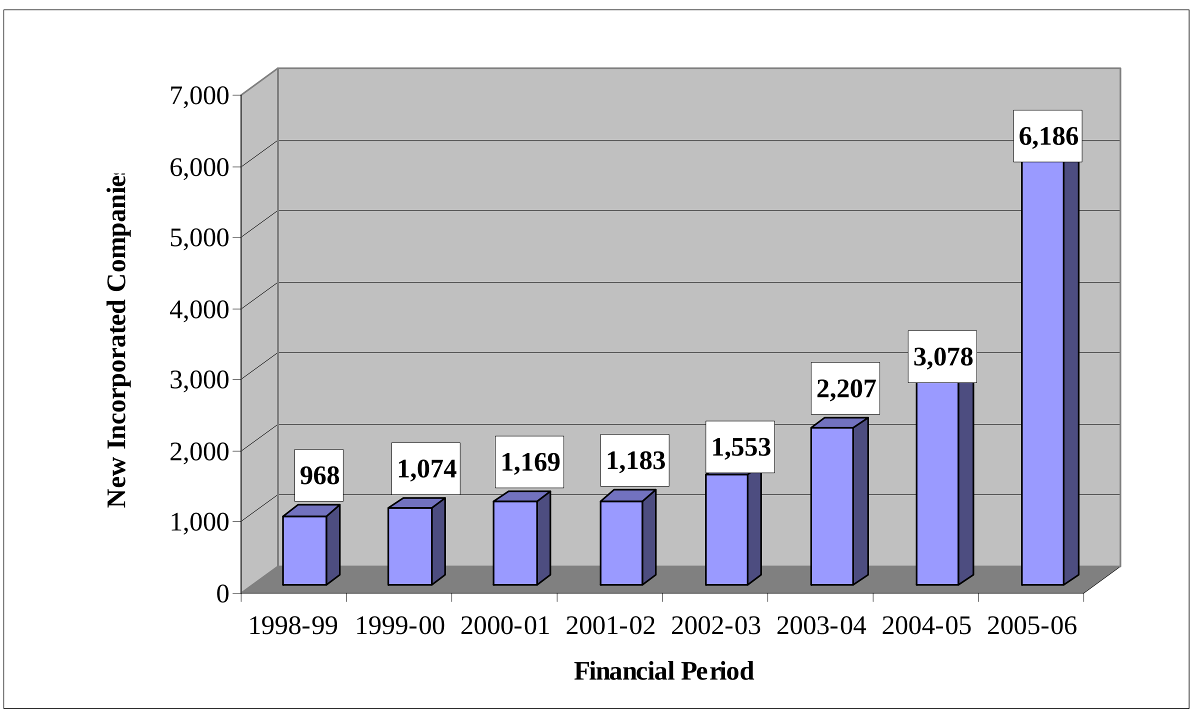

***Table***
**NUMBER & TYPE OF COMPANIES**

| Type of Companies | Total |
|---|---|
| Companies limited by shares: | |
| Public listed | 613 |
| Public unlisted | 2,178 |
| Private | 45,928 |
| SMCs | 436 |
| **Total companies limited by shares** | **49,155** |
| Companies limited by guarantee u/s 43 | 62 |
| Not-for-profit associations u/s 42 | 341 |
| Trade Organizations | 181 |
| Foreign companies | 653 |
| Private companies with unlimited liability | 2 |
| Public companies with unlimited liability | 3 |
| Companies under section 503 of the Companies Ordinance, 1984 | 4 |
| **Total Companies** | **50,401** |

## B) Legal Framework Development

### (i) AMENDMENT IN THE COMPANIES (GENERAL PROVISIONS AND FORMS) RULES 1985

In order to further rationalize the prescribed qualifications of company secretary to be appointed by listed companies, an amendment has been notified in Rule 14B of the Companies (General Provisions and Forms) Rules, 1985, wherein a new clause has been inserted prescribing that retired government servant in BS-19 or equivalent or above with at least fifteen years service is also eligible/qualified for the position of a Company Secretary of listed companies.

### (ii) CONSTITUTION OF COMPANY LAWS REVIEW COMMISSION (CLRC) AND PROGRESS

The SECP has constituted a Company Laws Review Commission(CLRC) with the main objective to assess the adequacy of the Companies Ordinance vis-à-vis its stated objectives i.e. promotion of healthy growth of corporate enterprises, protection of investors and creditors, promotion of investment and development of economy, and for the development and maintenance of a liberal, deregulated, efficient and cost effective corporate sector. A concept paper for the development and regulation of corporate sector has been issued and a series of meetings of the CLRC have been held to deliberate on the proposed amendments as well as the suggestions received from stakeholders.

**(iii) EXTENSION OF CODE OF CORPORATE GOVERNANCE TO ASSOCIATIONS NOT FOR PROFIT**

With a view to extend the Code of Corporate Governance to associations- not-for-profit, the SECP has drafted rules namely Associations not-for-profit (Licensing and Corporate Governance) Rules under Section 42 of the Companies 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.

**(iv) DRAFT PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2006**

In order to extend the corporate governance initiative to public sector companies, draft Public Sector Companies (Corporate Governance) Rules, 2006 were formulated. At the conclusion of the period under review, views/comments from well-known legal consultants have been taken into consideration. The Draft Rules are being finalized for submission to the Finance Ministry for approval.

## C) Regulatory Actions

### (i) AMALGAMATIONS AND MERGERS OF COMPANIES

During the year 2005-2006, the SECP filed oral and written representations in respect of eleven cases in the Court. Of these, the decisions on four cases are pending.

### (ii) APPROVAL AND PERMISSIONS

The Companies Ordinance contains a number of provisions that mandate approvals either from the SECP or from the Registrar for effecting the requirements of such provisions. A large number of applications were received during 2005-2006 and, after due process, necessary approvals were accorded.

### (iii) PROCESSING OF APPLICATION FOR GRANT OF LICENCE TO ASSOCIATIONS-NOT-FOR-PROFIT

The SECP has undertaken radical measures to facilitate public for preparation of application for grant of licence under section 42 of the Companies Ordinance and for ensuring quick disposal of these applications. As a result of SECP's efforts, the number of licences issued to Associations not-for-profit under section 42 reached 63 during FY 2006.

## D) Monitoring and Enforcement

### (i) ACTION AGAINST FOREX, MULTI-LEVEL MARKETING (MLM) AND PYRAMID SCHEMES

The SECP took strict action against illegal and unauthorized forex companies/international brokerage houses which were operating their businesses in violation of law. Only two cases of such illegal firms were identified and preliminary inquiries in these cases are under process.

During FY 2005-2006, SECP detected four companies which were operating MLM/Pyramid schemes, deceiving general public by inducing them to make easy money and earn sky-high returns in a short span of time. Action was taken against them and winding up petitions against these companies have been filed in the Lahore High Court.

**(ii) INVESTIGATIONS**

The SECP received and processed seven applications, under section 263 of the Companies Ordinance for investigation of affairs of companies from their shareholders, stating that their affairs were not being managed in accordance with prudent commercial practices.

**(iii) ADJUDICATION OF CASES UNDER THE COMPANIES ORDINANCE**

During the period under review, the CROs and Registrar of Companies at the SECP Head Office adjudicated 4,548 cases for violations under various provisions of the Companies Ordinance. Out of these, 1,698 cases were disposed off and appropriate actions were taken against errant companies.

The Registrars at the CROs detected defaults in respect of 4,525 companies under different provisions of the Companies Ordinance, particularly Section 476. Of these, adjudication process was completed in case of 1,679 companies and appropriate actions were taken against them. The Registrar of Companies, head office adjudicated defaults in case of 23 companies under section 476. Out of these, 19 cases have been disposed off and appropriate decisions were taken accordingly.

**(iv) LIQUIDATION OF COMPANIES**

The SECP disposed of eleven hundred and sixty nine cases pertaining to liquidation of companies. Of these, eight cases of winding up under Court orders, while thirty-five involved voluntary winding up and eleven hundred and twenty six companies were struck off from the register. These liquidated companies had a paid up capital of Rs.728.115 million.

## E) Public Facilitation Initiatives

**(i) ITCN ASIA 2005 EXHIBITION**

Company Registration Office (CRO) Karachi participated in the ITCN Asia August 9-10, 2005,in line with the precedent set in previous years of having meaningful presence in such exhibitions since 2000. During the course of the exhibition, instant assistance on company incorporation was provided and regulatory issues were explained. A fast track Company Incorporation Desk for 'on-the-spot' incorporation of companies was established. The SECP's guidance booklets were widely distributed among the participants and the visitors in order to create public awareness. This effort of the SECP was highly appreciated by local and foreign delegates.

**(ii) SEMINAR FOR PROMOTERS OF COMPANIES**

As a part of our facilitation measures to promote a corporate culture in the country, the SECP held a seminar for the promoters of newly incorporated companies on March 30, 2006, at Lahore Chamber of Commerce & Industry (LCCI). The basic objective of this seminar was to disseminate the benefits of corporatization, and to facilitate the promoters and management of the company, in compliance of post incorporation statutory requirements. The seminar was the first one in the series and similar programs are planned for other parts in the country on a regular basis. It is envisaged that such endeavours will go a long way in the awareness and development of corporate compliance among the management of corporate entities.

**(iii) ESTABLISHMENT OF A FACILITATION CENTRE AT CRO LAHORE**

With the view to facilitate the general public and the corporate sector, the SECP established a Facilitation Centre at CRO Lahore. The various counters of the Centre i.e. Help Counter, Special Services Counter, Receipt Counter and Dispatch Counter, extend specialized and state-of-the-art facilities.

**(iv) PUBLICATION OF GUIDELINE BOOKLETS**

In line with our past endeavour to release a series of guideline booklets with the objective to develop public awareness on various statutory matters and to build best practices and corporate governance virtues in the management of the corporate entities, the following guide booklets have been published and placed on SECP's web site:-

- **a) Conversion of Status of company Guide**
- **b) Investigations into the affairs of a company Guide**
- **c) Shareholders' Rights Guide**
- **d) Foreign Companies Guide**
- **e) Winding up and Dissolution of a Company Guide**
- **f) Translated version of Promoters' Guide in Urdu**
- **g) Revised and updated version of the Directors and Secretaries Guide**

**(v) LIAISON WITH SMEDA FOR CORPORATIZATION OF SMEs**

In order to promote corporate growth and extend the benefits of corporate status to small and medium enterprises, a collaborative strategy has been prepared to develop a mutual collaboration and co-ordinate with SMEDA in the reform process.

**(vi) ABOLITION OF STAMP DUTY IN THE PROVINCE OF SINDH**

On the recommendation of SECP, the governments of Punjab and NWFP had waived off the entire stamp duty on the memorandum and articles of association in previous years. During the year under review, SECP succeeded in its efforts to abolish the stamp duty on registration of memorandum and articles of association levied by the province of Sindh.

The SECP is in continuous contact with the Government of Baluchistan and the Islamabad Capital Territory to abolish stamp duties.

**(vii) PROVISION OF ADHESIVE STAMPS AT CROs**

Realizing the difficulties of promoters of companies to get the special adhesive stamps affixed on the memorandum and articles of association, the treasury office of the ICT and provincial government of Baluchistan acceded to the proposal initiated by SECP, and made provision of Adhesive Stamps at the CROs, so as to facilitate the promoters of companies by eliminating the time consumed during the process.

**(viii) NAME AVAILABILITY THROUGH E-MAIL**

In order to facilitate the company incorporation process and to effectively utilize modern day technologies, an electronic interface for name availability has been introduced at our Islamabad Company Registration Office. The electronic name availability facility enables promoters to get a company name reserved for registration. Name availability application is processed at the CRO and a reply is forwarded to the applicant via e-mail within 24 hours. This facility is presently operational in Islamabad.

**(viii) PLACING OF MEMORANDUM AND ARTICLES OF ASSOCIATION ON SECP'S WEB-SITE**

The Commission has developed and placed on its web site, revamped, simplified and standardized model memorandum and articles of association for various sectors for the convenience of public and promoters of companies.

**(ix) ONLINE REGISTRATION OF COMPANIES AND FILING OF RETURNS**

The Commission is in the process of providing an online registration and filing facility for companies registered with the SECP. Furthermore, in order to create a paper-less environment, scanning and archiving of all available documents at the Registration Department and CROs would take place.

## IV. Non-Banking Finance Sector

**(a) ISSUANCE OF FRESH LICENSES & PUBLIC OFFERING**

During the period under review, 27 fresh licenses were issued to companies to carry out investment finance services, leasing, housing finance, investment advisory services and asset management services. Moreover public offer of 12 new mutual funds was approved by the Commission.

**(b) MERGERS AND AMALGAMATIONS**

During the year 2005-2006, NOC in principle was granted to two investment banks to merge. Moreover, merger of three closed-end funds was also approved by the Commission.

**(c) AMENDMENTS PROPOSED IN THE NBFC RULES**

During the period under review, amendments were proposed in the NBFC Rules. The said amendment are aimed at removing ambiguities, addressing requirements of market participants, facilitating operators and safeguarding interests of investors. The draft amendments have been notified for public opinion whereafter it will be finalized for approval of the competent authority.

**(d) DRAFT RULES FOR REAL ESTATE INVESTMENT TRUSTS IN PAKISTAN**

The draft Rules for 'Real Estate Investment Trusts' (REITs) have been prepared by the SECP in recognition of international and regional financial market developments and in order to modernize Pakistan's financial sector. REITs, in Pakistan, are envisaged to be a new investment and savings vehicle. The draft REITs Rules have been developed by the SECP using international best practices and feedback from a task force constituted for REITs.

The draft Rules have been prepared by SECP in terms of section 282 B of the Companies Ordinance, 1984 in December 2005. The draft Rules were submitted to the Ministry of Finance in December 2005 for review and vetting by the Ministry of Law, Justice and Human Rights. The draft rules are still with the Ministry of Finance for finalisation.

**(e) DRAFT RULES FOR PRIVATE EQUITY FUNDS**

The SECP, in line with the Government's objective to induce investments and accelerate economic growth, has started work on an enabling regulatory framework for Private Equity Funds in Pakistan to exploit full potential of the private equity industry.

The success of private equity Funds, in the international perspective, is backed by taxation incentives. Therefore, in addition to the regulatory framework, SECP is also formulating a tax regime for such Funds, which shall be proposed to CBR for acceptance and incorporation in the Income Tax Ordinance, 2002.

## (f) MODARABAS

### (i) AMENDMENTS IN ORDINANCE AND RULES

The final draft of the amendments proposed in the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980 would be submitted to Ministry of Finance shortly. Similarly the applicability of the International Accounting Standards (IAS 17) on Modarabas was reviewed and the Modarabas were allowed to prepare their accounts for the year 2006 without applying the requirements of the said standard.

### (ii) Meeting of the Religious Board for Modarabas

During the period under review, four meetings of the Religious Board constituted for Modarabas under Section 9 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 were convened during which various matter pertaining to floatation of new Modarabas and draft agreements for conducting new businesses by the existing Modarabas were approved. The Religious Board also examined the overall performance of the Modaraba Sector and recommended various steps for improving the same.

**(iii) REGISTRATION OF NEW COMPANY**

During the period under review, 3 Modaraba Management Companies were registered under the Modaraba Ordinance, 1980.

**(iv) MERGER OF MODARABAS**

The High Court of Sindh approved merger schemes of Second Tri-Star Modaraba into First Tri-Star Modaraba and Modaraba Al-Tijarah into Modaraba Al-Mali.

**(v) PERMISSION TO RAISE DEPOSITS FROM GENERAL PUBLIC ON MUSHARAKA BASIS**

Two Modarabas were granted permission to raise funds from the general public through issuance of Certificates of Musharaka.

## V. <u>Insurance Sector</u>

### A) <u>Performance Overview</u>

Insurance Sector in Pakistan is divided into Life and Non-Life Insurance. Composite Insurance is not allowed under the Insurance Ordinance. An upcoming area is Takaful (Islamic Insurance) for which regulatory regime has been enforced during the year 2005-2006 on the initiative of the SECP.

As at June 30, 2006 there are five Life Insurance Companies, 51 Non-Life Insurance Companies, one Takaful Operator and one Reinsurance Company. Out of 51 Non-Life Insurance Companies, six companies have been directed by the SECP not to initiate new business as they do not meet the minimum paid up capital requirement.

Total Premium of Insurance Sector has increased from Rs.36,662 million in 2004 to Rs.46,167 million in 2005 showing a growth rate of 25.93%. Total

Assets of the sector have also increased from Rs.167,368 million in 2004 to Rs.196,453 million in 2005, showing a growth rate of 17.38%.

Total claims (including provision for outstanding) have increased from Rs.19,269 million in 2004 to Rs.21,118 million in 2005 showing an increase of 9.6%. Total liabilities have also increased from Rs.147,681 million in 2004 to Rs.170,625 million in 2005, showing an increase of 15.54%.

**(i) LIFE INSURANCE SECTOR**

Total Premium of Life Insurance Sector has increased from 14,681.98 million in 2004 to Rs.18,552.43 million in 2005 showing a growth rate of 26.36%. Total Assets of the sector have also increased from Rs.123,900.10 million in 2004 to Rs.142,328.53 million in 2005, showing a growth rate of 14.87%.

Total Claims (including provision for outstanding) have increased from Rs.8,179.58 million in 2004 to Rs.9,114.07 million in 2005 showing an increase of 11.42%. Total liabilities have also increased from Rs.122,011.06 million in 2004 to Rs.140,203.99 million in 2005, an increase of 14.91%.

State Life Insurance Corporation of Pakistan is still the market leader with around 75% market share followed by EFU Life Insurance with 13.48% market share and New Jubilee Insurance (Life) with 7.43% Market Share.

**(ii) NON-LIFE SECTOR**

Total Premium of Non-Life Insurance Sector has increased from 22,079.25 million in 2004 to Rs.27,615.16 million in 2005 showing a growth rate of 25.07%. Total Assets of the sector have also increased from Rs.44,006.84 million in 2004 to Rs.54,132.96 million in 2005, showing a growth rate of 24.54%.

Total Claims (including provision for outstanding) have increased from Rs.11,089.47 million in 2004 to Rs.12,004.48 million in 2005 showing an increase of 8.25%. Total liabilities have also increased from Rs.25,699.64 million in 2004 to Rs.30,421.32 million in 2005, an increase of 18.51%.

Adamjee Insurance Company still has the largest market share of 24.20% followed by EFU General with 24.06% market share, National Insurance Corporation Limited (NICL) with 15.39% market share, NJI with 6.92% market share and New Hampshire with 3.83% market share. NICL is exclusively doing the government sector non-life insurance only.

The performance and achievements of life as well as non-life Insurance sector during 2005-2006 as compared to 2004-2005 has been excellent as is evident from the following table:-

| | Premium | | | Claims | | | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | % Inc | 2004 | 2005 | % Inc | 2004 | 2005 | % Inc | 2004 | 2005 | % Inc |
| Life | 14,583 | 18,552 | 87.22 | 8,180 | 9,114 | 11.42 | 123,900 | 142,320 | 14.87 | 122,011 | 140,204 | 14.91 |
| Non-Life | 22,079 | 27,615 | 25.07 | 11,089 | 12,004 | 8.25 | 43,468 | 54,133 | 24.54 | 25,670 | 30,421 | 18.51 |
| Total | 36,662 | 46,167 | 25.93 | 19,269 | 21,118 | 9.6 | 167,368 | 196,453 | 17.38 | 147,681 | 170,625 | 15.54 |

**(iii) PROPOSED AMENDMENTS IN THE INSURANCE ORDINANCE**

The SECP has reviewed the Insurance Ordinance in the light of recommendations of International Securities Consultants and the industry. As a result of this exercise, the SECP has drafted 15 amendments in the Insurance Ordinance which have been put up to the senior management for submission to the Government.

**(iv) ACTUARIAL VALUATION BASIS**

The SECP in consultation with the Pakistan Society of Actuaries and the industry has finalized actuarial valuation basis for life insurance policyholders' liabilities. The draft is ready for notification.

**(v) REGISTRATION OF NEW INSURANCE SURVEYORS**

A total of 213 Companies were issued license of Surveyors and 148 persons were issued license of authorized surveying officers during the year.

## B) Takaful Regulatory Framework

The SECP had constituted a task force for enforcement of takaful regulatory framework in Pakistan. Based on the report of the task force, the government has enforced the takaful rules in September 2005. Takaful regulatory framework has been enforced recently. Presently there is one company (Pak-Kuwait Takaful Ltd) which is a general takaful operator. The company has just started its operations.

## C) Reinsurance Sector

Presently there is one Reinsurance company in Pakistan, namely Pakistan Reinsurance Company Ltd. Total Premium of the company has decreased from Rs.5,241.44 million in 2004 to Rs.4,159.57 million in 2005 showing a decline of 20.64%. Total assets have decreased from Rs.6,613.61 million in 2004 to Rs.5,633.59 million in 2005, showing a decline of 14.82%. Total claims have decreased from 2,215.32 million in 2004 to 1,218.91 million in 2005, a decrease of 44.98%. Total liabilities have decreased from 4,857.01 million in 2004 to 3,395.05 million in 2005, a decrease of 20.64%.

**(i) EXERCISE TO RAISE MINIMUM PAID-UP-CAPITAL REQUIREMENT**

The SECP has also carried out an exercise to raise the minimum paid up capital requirement for life and non-life Insurance companies in a phased manner. This proposal is presently being discussed with the industry.

**(ii) SELF-ASSESSMENT OF INSURANCE CORE PRINCIPLES OF IAIS**

The SECP carried out a self-assessment of Insurance Core Principles of International Association of Insurance Supervisors (IAIS) under the guidance of International Securities Consultants. The assessment has been submitted to the IAIS.

**(iii) CONTRIBUTION TO INSURANCE LAW DATA-BASE OF IAIS**

The SECP has also contributed to an extensive Law Data Base Exercise of IAIS. The data base contains 20 Chapters on various regulatory aspects. As a result of this exercise, Insurance Division of SECP now has full access to the Law Data Base of IAIS.

**(iv) REGISTRATION OF NEW INSURANCE COMPANIES**

During the year the SECP has issued seven NOCs for incorporation of companies under the Companies Ordinance, 1984 after which the formal registration process would begin. One registration application has been finalized.

**(v) REGISTRATION OF NEW INSURANCE BROKERS**

One New Insurance Broker has been issued a license to do the insurance brokerage in Pakistan. Before that there was only one insurance broker in Pakistan whose license expired in April 2006 and application for renewal is in process.

## 6. OTHER DEVELOPMENTS

### A) New Draft Legislation

The SECP provided assistance to the federal Government with regard to the following legislatives initiatives commenced in the last financial year:

- **Stock Exchanges (Corporatisation, Demutualization and Integration) Act;**
- **Netting of Financial Contracts Act;**
- **Employees Provident Fund (Investment in Listed Securities) Rules;**
- **Registrar to an Issue and Security Transfer Agent Rules;**
- **Listed Companies (Substantial Acquisition of Voting Shares & Take-Over) Rules;**
- **Commodity Exchange and Future Contracts Rules;**
- **Debenture Trustee Rules;**
- **Housing and Real Estate Development Companies (Establishment and Regulation) Rules;**
- **Real Estate Investment Trust Rules;**
- **Private Equity Fund Rules;**
- **Associations Not-for-Profit (Licensing and Corporate Governance) rules; and**
- **Public Sector Companies (Corporate Governance) Rules.**

Besides, the SECP also worked on finalizing the Financial Services Commission Act, Securities Act, and Futures Trading Act. The SECP also reviewed the Umrah/Hajj/Ziaraat Organisers Services Regulation Act, 2006 upon referral from the Ministry of Finance.

### B) Voluntary Pension System

During the year under review, the SECP designed a new voluntary pension system (VPS) under the Voluntary Pension System Rules, 2005. This new pension system is based on tax incentives for which necessary amendments in the Income Tax Ordinance, 2001, have been made. VPS is flexible in terms of contribution, asset allocation choice and above all portability. During the year, the SECP started a consultative process by organizing a series of seminars in Karachi, Lahore and Islamabad to get feedback from the market. Based on the market feedback from the seminars, tax treatment of VPS has been modified through Finance Act 2006.

**(i) REGULATORY FRAMEWORK FOR PRIVATE OCCUPATIONAL SCHEMES**

Presently, private occupational savings schemes, including pension funds, gratuities and provident funds are not being regulated by any agency. At the moment there is no register of occupational pension and saving schemes, nor are there statistics, published or otherwise, on the number, assets or membership or of any pension demographics, whether by age, gender or region. Under private occupational pension and saving schemes recognized by CBR, the employer, participant, and the invested assets enjoy certain tax advantages. On account of this CBR may be seen as a quasi regulator for these schemes. The SECP is initiating work on developing regulatory framework for private occupational pension and saving schemes so that a uniform system of pensions may be developed in the country where each part complements the other.

**x--x--x**