Year Book
2008 – 2009

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

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PREFACE

In pursuance of Rule 25 of the Rules of Business 1973 and as per practice, the current Yearbook of Finance Division 2008-09, delineates activities undertaken by the various Wings/Sections of the Finance Division and its constituent organization during the year under preview. The Yearbook explains functions, organizational set up, area responsibility and working set up which is largely imbedded in the activities perused and accomplished during fiscal year 2008-09. The Yearbook serves as a source of convenience and easy access to the working and achievements of Finance Division and its attached departments/organizations in the area of policy for economic development.

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

Pakistan's economy joined the fast growing Asian economies in the region and recorded robust growth during FY 2003-04 to FY 2006-07 after a slow decade of late 1990's. However, economic performance was severely affected by the exorbitant surge in oil, food and commodity prices in the international market, political transition, deteriorating law and order situation and domestic disequilibrium between demand and supply in the commodity market, thus affecting all the macro economic fundamentals of the economy during FY 2008-09. As a result, the real GDP growth in the outgoing year is now estimated at (Revised) 1.2% compared to a revised 3.7% (Revised) in the previous financial year against the background of unfavorable domestic and international economic experience during FY 2008-09.

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

(Salman Siddique)
Finance Secretary

MISSION STATEMENT OF THE FINANCE DIVISION

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

1. General

Functions of the Finance Division

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

1. Finances of the Federal Government and financial matters affecting the country as a whole.

2. The annual Budget Statement and the Supplementary and Excess Budget Statements to be laid before the National Assembly; the schedules of authorized expenditure.

3. Accounts and Audit.

4. Allocation of share of each Provincial government in the proceeds of divisible Federal Taxes; National Finance Commission.

5. Public debt of the Federation both internal and external; borrowing money on the security of the Federal Consolidated Fund.

6. Loans and advances by the Federal Government.

7. Sanctions of internal and external expenditure requiring concurrence of the Finance Division.

8. Advice on economic and financial policies; promotion of economic research.

9. Proper utilization of the country's foreign exchange resources.

10. Currency, coinage and legal tender, Pakistan Security Printing Corporation and Pakistan Mint.

11. Banking, investment, financial and other corporations, that is to say:-

(i) Central Banking; State Bank of Pakistan ;

(ii) Other banking (not including co-operative banking) and investment and financial corporations with objects and business not confined to one Province; and

(iii) Incorporation, regulation and winding up of corporations including banking insurance and financial corporations not confined to or controlled by or carrying on business in one Province.

12. Company Law: Accountancy, Matters relating to the Partnership Act, 1932.

13. Investment policies; Capital issues (Continuance of Control) Act, 1947; Statistics and research work pertaining to investment and capital.

14. Stock exchanges and future markets with objects and business not confined to one Province; Securities Regulations.

15. Financial settlement between Pakistan and India and division of assets and liabilities of the pre-independence Government of India.

16. Framing of rules on pay and allowances, retirement benefits, leave benefits and other financial terms and conditions of service.

17. Cost Accountancy.

18. Engagement with International Monetary Fund.

19. State lotteries.

20. Monopoly Control and anti-Cartel Laws.

21. Deregulation policies.

22. Administration of Economic Reforms Order, 1978.

23. Negotiations with international organizations and other counties and implementation of agreements thereof.

Administration Wing

Performance/Achievements

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

To provide competent trained and professional human resource in officer cadre (BS-17 and above) through Establishment Division and to create posts according to the requirement of work assigned to Finance Division. Recruitment of staff and their promotion as per civil servants (Appointment, Promotion & Transfer) Rules, 1973 and their adjustment through posting and transfer within the Division to ensure timely completion of Annual Performance Reports (PERs) of officers and staff of this Division.

To maintain discipline in the light of:

To provide logistic support, facilitate to visiting foreign delegates and to provide Customers Service to the general public visiting the Ministry of Finance.

To make arrangement for the employees of Finance Division regarding hiring of residential accommodation and provision of medical facility. House Building, Motor Car, Motor Cycle, Cycle, G.P. Fund advances etc. The preparation of pension papers for the retiring officers/officials.

To arrange Annual Audit of the Accounts of Finance Division and coordinate the audit observations by arranging the Departmental Accounts Committee (DAC) meetings. The consolidation work is also carried out for preparing the replies to the Public Accounts Committee (PAC).

To coordinate submission or replies of National Assembly /Senate questions/Motions/Call Attention Notice, Resolutions, Cut Motions, Notices of Meetings of Standing Committees on Finance & Revenue and other Committees by the concerned wings for preparation of replies/brief.

To coordinate implementation of President and Prime Minister's Directives, decisions taken by Cabinet, Economic Coordination Committee on Cabinet, Secretaries Committee, Finance Committee on Defence Planning and Secretaries Coordination Committee. To coordinate, submit and collect various reports, miscellaneous information from attached departments, subordinate offices, autonomous / semi-autonomous bodies, corporations etc. of the Finance Division asked by various Ministries/Divisions.

To prepare and publish the year book of the Ministry.

Take effective measures to ensure internal security of the Ministry.

To dispose off public grievances in consultation with concerned organization under this Division.

To function as Financial Adviser's Organization in respect of Establishment Division.

a) **<u>Achievements/performance of Administration Wing during Financial Year 2008-2009</u>**

Following the re-structuring/improvement in this Division and creation of new Wings, the Administration Wing recruited 68 persons against the vacant positions ranging from BS-1 to 15.

Effective logistic support was extended to the officers/officials of Finance Division by spending Rs. 6.876 million against the budgeted amount of Rs. 7.000 million. The condemned vehicles were auctioned and new vehicles were purchased.

Protocol services were provided to the delegations of Economic Coordination Organization (ECO), World Bank, Asia Pacific Group (APG), Head of Missions, Ministers, foreign and local delegates, Service Chief. Besides such services were also provided to the officers working in Finance Division who went abroad. The Customer Services Department activities were merged in Protocol Section.

In line with Departmental Quality Assurance Procedure, the DQACs meetings were held on monthly basis and all the decisions taken in the meeting were successfully implemented.

Residential accommodation was provided to 150 officers/ officials and Medical facility was also provided to 929 in service and 213 retired officers/officials of the Finance Division.

Timely Budget Estimates were prepared for Finance Division (Main) and its allied organizations. Total 85 contingent paid staff posts and 05 temporary posts were created and filled in Finance Division.

Business of the Parliament was attended efficiently and table indicating the attendance of National Assembly/Senate questions, adjournment/privilege Motions. Resolutions, Cut Motions/Bills and meetings of the Standing Committees etc. is as under:-

S. No	Senate/National Assembly Business	Target	Percentage (%) Achievement	Shortfall in (%)
1	Starred/Un-Starred Questions	73	99 %	1 %
2	Privilege Motions	65	100 %	No.
3	Resolutions	417	99.9 %	No.
4	Adj. Motions	321	99.9 %	No.
5	Cut Motions	1315	100 %	No.
6	Bills	19	100 %	No.
7	Meetings of Standing Committee	41	100 %	No.
8.	Security/OG Passes	730	100 %	No.
9	Facilitation to Officers	210 times	99 %	1 %
10	Visits for Protocol duties	263 %	99 %	1 %
11	C\Visit to Camp Office	37	98 %	2 %
12	Misc. Visits	437 times	100 %	No.

THE FEDERAL BUDGET PROCESS IN PAKISTAN

Budget Wing

Part 1 : (a) The Budget Process

(i) The Budget Year

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

(ii) Budget Call Circular

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

(iii) Preparation of Estimates

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

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

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

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

a) Revenue Budget
b) Capital Budget

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

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

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

(iv) Annual Development Programme (ADP)

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

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

The exercise for the preparation of the Annual Development Programme starts some time in early November when keeping in view the overall requirements of the economy and plan targets, the size of the Annual Development Programme is fixed and communicated sector-wise to the executing agencies and the Provincial Government by the Planning Commission. Within the overall allocations so intimated by the Planning Commission, the detailed sector-wise development programme are formulated by the sponsoring agencies and finalized after detail discussion with the Planning Commission. These allocations are then discussed and finalized in the meetings of the Priorities Committee in March/April/May by the Annual Plan Coordination Committee (APCC) and finally by the National Economic Council. The annual Development Programme, as finally approved and incorporated in the budget, presents the blue print for action by the Federal and Provincial Government and indicates the financial allocations alongwith physical targets in respect of various development schemes.

(v) Resources Estimates:

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

i) Public Savings, i.e. the excess of revenue receipt over current expenditure of the Federal and Provincial Government.
ii) Net capital receipts of the Federation and the Provinces (i.e., Recovery of Loans, saving schemes and prize bond proceeds etc).
iii) The Federal Government's estimates of:
    a) Foreign economic assistance
    b) Deficit financing (Bank Borrowing) to the extent the latter is warranted by the state of economy.

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

(vi) Foreign Exchange Component of ADP

Side by side with the finalization of the Annual Development Programme, endeavour is made to estimates the foreign exchange is show separately from the expenditure in local currency, both in the revenue and capital budget. This also serves as an indication to the administrative authorities that the budgetary allocation for foreign exchange expenditure is not available for expenditure in local currency.

(vii) Effect to New Taxation Proposals

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

(viii) Schedule of Authorized Expenditure

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

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

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

a) The remuneration payable to the President and other expenditure relating to his office, and the remuneration payable to-
   a. The judges of the Supreme Court;
   b. The Chief Election Commission;
   c. The Chairman and Deputy Chairman (of the Senate);

d. The Speaker and the Deputy Speaker of the National Assembly;
e. The Auditor General;

b) The administrative expenses, including the remuneration payable to officers and servants of the Supreme Court, the department of the auditor General and the office of the Election Commission and the Secretariat of the Senate and the National Assembly;

i. All debt charges for which the Federal Government is liable, including interest, sinking fund charges, the repayment or amortization of capital, and other expenditure in connection with the raising of loans, and the services and redemption of debt on the security of the Federal Consolidated Fund;

ii. Any sums required to satisfy any adjustment, degree or award against Pakistan by any court or tribunal and;

iii. Any other sums declared by the Constitution or by Act of (Majlis-e-Shoora) (Parliament) to be so charged.

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

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

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

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

(xi) Submission of Budget to the Senate

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

(xii) Authentication of the Schedule of Authorized Expenditure

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

(b) Budget Documents

Part 1I : The Budget Process

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

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

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

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

(iii) Details of Demands for Grants and Appropriation
(*Pink Book*)

This document consists of the following two volumes:

Volume I: Current Expenditure - this document contains Demands and appropriations relating to current expenditure.
Volume II: Development Expenditure – this document contains development expenditure.

The document containing Details of Demands for Grants and Appropriations reflects in detail the budget estimates of last year, revised estimates of current year and budget estimates of next financial year of the Federal Government.

It was decided by the Federal Government that the Defence services budget from 2008-09 onward will be reflected under various heads of accounts (instead of showing the same as one line budget).

The book is divided into three parts:

Volume I – Current Expenditure

Part I : Details of current expenditure

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

Volume II – **Development Expenditure**

Part III: Details for development expenditure

Since an expenditure is made for a defined Function/Object (Fuller details given in the Chart of Classification), the book also presents Function-cum-Object-wise classification of expenditure of every office/Department separately.

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

(iv) Demands for Grants and Appropriations

Demands for Grants and Appropriations contains of expenditure on both revenue and capital accounts. Besides, distinctly showing the expenditure which is charged to the Federal Consolidated Fund under the legal provisions, each demand also exhibits separately summary of Function-cum-object classification. When budgetary allocations for a particular purpose consist wholly of charged expenditure, these are included in Appropriations which, country to Demands, bear no serial number.

Part I : Details of current expenditure

Part II: Demands for development expenditure

Part III: Appropriations charged upon the Federal Consolidated Fund

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

(i) Expenditure met from revenue; and
(ii) Expenditure met from capital

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

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

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

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

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

(v) Budget in Brief

The Budget-in-Brief attempts a presentation of the budget in a simple language. It deals with all aspects, which are important to the economy. This document contains the brief features of revenue/expenditure. It also contain the main feature of past year achievement/performance.

This document is printed both in Urdu and English.

(vi) Annual Budget Statement

This is a Constitutional document as per Article 80 (1) of the Constitution, and is printed in Urdu and English.

The Annual Budget Statement gives, in broad details and by function classification-wise accounts, the estimates of:

(i) Revenue receipts and expenditure on revenue account.
(ii) Capital receipts and disbursements.
(iii) Transactions anticipated under the debt, deposit and remittance heads.

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

(vii) Explanatory Memorandum of Federal Receipts

This compilation exhibits the receipts of the Federal Revenue as well as Capital Receipts.

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

It is tabled alongwith the annual Budget Statement, as additional information, in order to help the readers understand the details of the receipts included in the Statement. The Memorandum distinguishes revenue from capital receipt. Revenue receipt is further categorized as tax and non-tax receipt. The section on capital provides information on public debt and external resources, which are further explained in a separate publication titled 'Estimates of Foreign Assistance'. A brief overview of self-financing of the public Sector

Development Programme by the Provinces is also included in this Memorandum.

(viii) Schedule of Authorised Expenditure

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

According to Article 83 (2) of the Constitution the Schedule so authenticated has to be laid down before the National Assembly but shall not be open to discussion over vote thereon.

This document is printed both in Urdu and English.

(ix) Supplementary Demands for Grants and Appropriations

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

This book like budget is also divided in three parts.

(i) Demands for current expenditure
(ii) Demands for development expenditure
(iii) Appropriations charged upon the Federal Consolidated Fund.

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

(i) Sums required to meet charged expenditure.
(ii) Sums required to meet other than charged expenditure

The second schedule gives the classification of supplementary expenditure according to various functions, also showing the original provision and a sum total of both i.e. after adding supplementary allocation to the original budget.

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

(x) Estimates of Foreign Assistance

External resources mainly comprises of:

(i) Loans and credits from friendly countries and specialized international agencies.
(ii) Grants assistance under Food Aid Convention, World Food Programme and other specific country programme.

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

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

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

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

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

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

(xi) Budget at a Glance

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

1. Receipts

- i) Tax revenue
- ii) Non Tax revenue
- iii) Total gross revenue receipts (i + ii)
- iv) Revenue Assignments to Provinces
- v) Net federal revenue (iii minus iv)

2. Current Expenditure

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

4. Resources

a. Internal Resources
   i) Net Capital Receipts
   ii) Self-financing (by Provincial Government /autonomous bodies.)
b) External Resources

5. Development Outlay

6. GAP (3 + 4 – 5)

This document is also printed both in Urdu and English.

(xii) Winding – up Budget Speech by the Finance Minister

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

PART 3

MEDIUM TERM BUDGETARY FRAMEWORK (MTBF)

Introduction

Medium Term Budgetary Framework (MTBF) is a budget reform programme of Ministry of Finance aimed at enhancing fiscal discipline, linkages of Government's priorities with the budget and improving efficiency and effectiveness in Government's spending. The programme requires budget preparation to:

- Include a medium-term horizon (3 years - where year 1 becomes the budget and the outer 2 years are used for planning purposes),

- Develop Medium-Term Fiscal Framework keeping in view the macro implications to guide budget preparation process,

- Develop Budget Strategy Paper to specify Government's priorities (including fiscal policy) and its linkages with the budget. This paper also provides recommendations in terms of resources available to the Ministries over the medium-term in shape of Indicative Budget Ceilings,

- Introduce output-based budget. The term output means services delivered. Through this method of budget preparation, the budget is linked with the services delivered by a Ministry and areas such as impact of services on target population, budget allocated for each output and the performance targets for the medium-term are addressed. Output-based budgeting provides results-orientation to the budget which can be used to build enhanced accountability for public service delivery.

Implementation

The MTBF programme received approval by the Cabinet in its meeting of 2Pt January 2009 through the rollout of MTBF Budget Call Circular across the Federal Government (except Defence Services grant). Cabinet also approved the issuance to Ministries of indicative budget ceilings for 2009-12 on the recurrent side. Accordingly, Ministries are currently compiling their budget on lines of service delivery. For the entire Federal Government, 'Medium-Term Budget Estimates for Service Delivery - *2009/12*' which presents Federal budget by outputs (services) was prepared.

Way Forward

The reform programme is planned to be further improved notably through the following activities:

a) Improvement in the budget preparation process through enhancing linkages of recurrent and development budget to focus on the cost of services and by increasing involvement of the political leadership in budget preparation,

b) Introduction of monitoring function in the Federal Government to monitor the performance against the targets identified by the Ministries,

c) Commencement of 'Ministerial Strategic Reviews' to review the policy in selected Ministries, thereby embedding the process of regular review processes each year,

d) Establishment of linkages with PIFRA (Project to Improve Financial Reporting and Auditing) reform programme in to allow monitoring of expenditure on outputs and outcomes, and

e) Presentation of the medium term budget estimates for service delivery in the Cabinet and Parliament.

CORPORATE FINANCE WING

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 or incurring of losses, through the GOP's budget. Moreover, the PSE's are also allowed to get Bank Credit to meet their financial needs. The Government's, policy decisions are implemented, relating to the Government guaranteed outstanding and non-collectable loans, provided by banks; and Financial Institutions, to the PSEs, and other financial losses sustained by them.

Power Sector:

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

Keeping in view the revenue requirements of DISCOs, NEPRA, on 21st November, 2008 announced determination of tariff for DISCOs based upon the cost, whereby they allowed an average tariff increase of 54%. However, cognizant of the hardships of general public particularly the poor people, Government did not pass on the full impact of increase in power tariff to the poorest segment of the society i.e. life line consumers consuming upto 100 units per month. For other sections of consumers, 18% (average) tariff increase was passed on. The financial impact of remaining tariff increase is paid to DISCOs from budgetary sources. In order to meet operational cash shortfall due to non-passing of full impact of tariff determined by NEPRA, the government provided subsidy of Rs.109.174 billion to power sector during 2008-09 and Rs.66.703 billion have been approved for 2009-10 for payment of subsidy to Power Sector.

The detailed brake-up of subsidy released during the last year and budgeted for the current financial year is given as under:-

(Rs in billion)

A) Pakistan Electric Power Company (PEPCO)		
Name of Subsidy	**Subsidy Paid 2008-09**	**Budgeted Subsidy 2009-10**
Inter DISCO Tariff Differential	82.00	-
12.5% Subsidy for agricultural tube-wells (GoP share) for Sindh, Punjab and NWFP	1.437	2.157
GST subsidy for protected consumers	3.018	6.000
Tariff Differential Agricultural Tube-wells in Balochistan	3.999	4.746
Subsidy to pick up PEPCO's interest payment for TFCs	-	30.000
Subsidy to pick up PEPCO's arrears on tariff differential	-	10.000
Subsidy to pick up WAPDA receivables from FATA	-	10.000
Sub. Total-I	**90.454**	**62.903**
B) Karachi Electric Supply Company (KESC)		
Tariff Differential	17.000	2.000
GST subsidy for protected consumers	1.284	1.285
Tariff Differential Agricultural Tube-wells Balochistan	0.198	0.198
Pick-up KESC's payable to PSO/PKGCL	0.238	0.317
Sub. Total-II	**18.720**	**3.800**
G. Total (I+II)	**109.174**	**66.703**

CORPORATE SECTOR ***(Other than Power Sector)***:

The Government also provides the financial support in the form of subsidy to PSEs, like TCP, and USC, in order to meet the objective to provide essential; and primary Food commodities to the consumes at reasonable; and subsidized prices. The financial support is 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 to have a reasonable stock of commodities with the Government.

The CF Wing implemented the Government's decisions, to provide financial assistance to the Corporate Sector, during FY 2008-09, as follows:-

- Subsidy amounting to Rs.9034.110 million was provided to Pakistan Railways to meet its operational shortfall.
- Subsidy amounting to Rs.2700 million was provided to Utility Stores Corporation on sale of various food items at subsidized rates
- In order to stable to the market stabilization a subsidy of Rs. 32,000 million was provided to the producers / importers of phosphatic and potassic fertilizers
- An amount of Rs.29,600 million was provided to Trading Corporation of Pakistan on account of subsidies on Wheat, Sugar, Urea fertilizer and cotton operation.

In addition to above, following subsidies were also provided during 2008-09

o Ghulam Ishaq Khan Institute (GIK)	Rs.39 million
o Dairy Development Company	Rs.81 million
o R&D Support to Textile Sector	Rs.2319 million
o 3% Mark up to Spinning Sector	Rs.810 million
o R&D Support to Motorcycle Industry	Rs.25 million
o Compensatory support to the users of Pure Terepathetic Acid (PTA)	Rs.2000 million

Assistance Provided to PIA

During the past few years Pakistan International Airlines Corporation (PIAC) has been passing through a crisis period. To cope the situation, in 2007, Ministry of Finance agreed to pick up the mark up in respect of re-profiled debt amounting to Rs. 26.5 billion. A budget provision of Rs. 2.358 billion in FY 2008-09 was made for the aforementioned purpose. Out of this allocation, Rs.933.592 million was released. Similarly, Ministry of Finance also released funds amounting to Rs. 2.0 billion in FY 2008-09 as loan to PIAC to meet their urgent cash flow requirements.

Government of Pakistan Loan

- Rs. 50.000 million to Printing Corporation of Pakistan.
- Rs. 147.640 million provided to Lahore Garment City.

GoP Equity Investment

- Rs. 80.069 million paid against the liabilities of People Steel Mills.
- Rs. 736.145 million paid as mark up on loan on behalf of Pakistan Steel Mills.
- Rs. 432.303 million to pick up mark up on revitalization loan to KS&EW.
- Rs. 194.842 million to pick up mark up on development loan to National Industrial Parks & Management Company.
- Rs. 90.442 million picked up on loan borrowed by the Pakistan Dairy Development Company.

ECONOMIC ADVISER'S WING

The global economy after witnessing a benign macroeconomic environment for an extended period has experienced significant financial crises since August 2007 that started with emergence of the sub prime mortgage loan portfolio, and badly shook the confidence in the financial markets around the world. The crisis is not limited to the meltdown of the financial markets, the real economy at the national and international levels, its institutions; its productive structures are also being affected.

The world economy is likely to contract by 1.3 percent in 2009 with almost all developed countries posting negative growth. Growth in world trade volumes fell to 3.3 percent in 2008 as compared to 7.2 percent in 2007, and expected to contract further by 11 percent in 2009. In emerging economies, the slowdown manifested through various channels like volatility in the financial markets led to a flight of capital. Similarly, they have already seen the spreads on sovereign and corporate debt widening, and a retreat in equity prices as a result of global crunch. Although the impact from the global meltdown might be compensated to some extent through boosting local demand, however, vigilance by the policy makers around the developing countries is needed to lessen the severity of downside risks posed by the current crises.

Pakistan's macroeconomic environment is also affected particularly due to intensification of war on terror and deepening of the global financial crisis which penetrated into domestic economy through the route of substantial decline in Pakistan's exports and a visible slowdown in foreign direct inflows. The intensity of the global financial crisis has further added to Pakistan's predicament. Despite support of IMF and other bilateral and multilateral donors, Pakistan's predicament. Despite support of IMF and other bilateral and multilateral donors, Pakistan's external account remains exposed to a host of uncertainties. Pakistan's economy was confronted with four major challenges at the beginning of FY09. These challenges posed threat to Pakistan's recovery and socio-economic growth including regaining macroeconomic stability, poverty reduction, fiscal retrenchment and weakness in the external account. For the first time IMF has accepted Pakistan's homegrown proposal/programs in order to restore the confidence of domestic and external investors by addressing macroeconomic imbalances through a tightening of fiscal and monetary policies.

Pakistan's stabilization program supported by the Stand-By Arrangement (SBA) with the IMF approved on November 24, 2008. The SBA envisaged a significant tightening of fiscal and monetary policies to bring down inflation and strengthen the external position several structural measures in the fiscal and financial sectors including strengthening of the social safety net. The program also aimed at addressing some of Pakistan's long standing economic problems. In particular, it called for a comprehensive tax reform to raise budgetary revenue and phase out the electricity subsidies to create greater fiscal space for public investment and social spending. Since the implementation of the program Pakistan's economy have shown some positive development:

- The exchange rate has broadly stabilized enabling the State Bank of Pakistan (SBP) to buy foreign exchange on a net basis.

- SBP reserves have increased from US$3.5 billion at end October 2008 to US$8.2 billion on end May 2009.

- T-Bill auction have been consistently oversubscribed with wide participation of banks enabling the government to retire some of its debt to the SBP.

- Headline Consumer Price Index (CPI) inflation declined from 25.3 percent in August 2008 to 13.1 percent in June 2009.

- The overall fiscal declined to 5.2 percent in 2008-09.

GDP Growth

Real GDP grew by 1.2% in 2008-09 as against 3.7% last year and growth target of 4.5 %. The modest growth of just 1.2% is shared between Commodity Producing Sector (CPS) (0.08) and service sector (1.92). Within the CPS, agriculture contributed 1.0 percentage points or 5.0 percent to overall GDP growth, while a negative performance of industry dragged 0.92 percent points or 36.1 percent to neutralize positive contribution of the agriculture. In the service sector major contributions to GDP growth came from transport, storage and communication (0.3 percentage points or 14.6 percent), wholesale and retail trade (0.7 percentage points or 27.1 percent) and social services (0.8 percentage points or 38.6 percent).

Agriculture sector has depicted a stellar growth of 4.7 percent as compared to 1.1 percent witnessed last year and target of 3.5 percent for the year. Major crop accounting for 33.4 percent of agricultural value added registered an impressive growth of 7.7 percent as against a negative growth of 6.4 percent last year and a target of 4.5 percent.

The output in manufacturing sector has declined by 3.3 percent in 2008-09 as compared to expansion of 4.8 percent in last year and over-ambitious target of 6.1 percent. Large scale manufacturing depicted contraction of 8.2 percent as against expansion of 4.0 percent in the last year and -5.0 percent target for the year. The service sector grew by 3.6 percent as against the target of 6.1 percent and last year's actual growth of 6.6 percent. Finance and insurance sector witnessed slowed down to 12.9 percent in 2007-08 but registered negative growth of 1.2 percent in 2008-09. The transport, storage and communication sub-sector depicted a sharp deceleration in growth to 2.9 percent in 2008-09 as compared to 5.7 percent of last year.

Per Capita Income

Per capita real income has risen by 2.5 percent in 2008-09 as against 3.4 percent last year. Per capita income in dollar terms rose from $1042 last year to $1046 in 2008-09, thereby showing marginal increase of 0.3 percent.

Consumption

Real private consumption rose by 5.2 percent as against negative growth of 1.3 percent attained last year. However, gross fixed capital formation could not maintain its strong growth momentum and real fixed investment growth contracted by 6.9 percent as against the expansion of 3.9 percent in the last fiscal year.

Investment

Total investment declined from 22.5 percent of GDP in 2006-07 to 19.7 percent of GDP in 2008-09. Fixed investment ha deceased to 18.1 percent of GDP from 20.4 percent last year. Private sector investment was decelerating persistently since 2004-05. and its ratio to GDP has declined from 15.7 percent in 2004-05 to 13.2 percent in 2008-09. Public sector investment to GDP ratio was raising persistently from 4.0 percent in 2002-03 to 5.6 percent in 1006-07, however, declined to 4.9 percent in 2008-09. The national saving rate declined to 14.4 percent of GDP in 2008-09 as against 13.5 percent to GDP last year.

Inflation

The inflation rate, as measured by changes in Consumer Price Index (CPI), averaged 20.8 percent during the current fiscal year, 2008-09, as against 12.0 percent in the comparable period last year. The food inflation is estimated at 23.7 percent and non-food at 18.4 percent, against 17.6 percent and 7.9 percent in the corresponding period of last year. The non-food non-energy inflation which is also known as core inflation has also moved up and is estimated at 17.4 percent as against 8.2 percent in the same period last year. The CPI inflation on year to year basis (YOY) is estimated at 13.1 percent and that of food inflation at 10.5 percent. The core inflation in June 2009 on (YOY) basis remains at 15.9 as against 13.0 percent in the same period last year. There are many factors that explain this inflationary performance. However, spiraling food prices of onion, chicken farm, sugar, meat milk fresh, fresh fruit and tomatoes during the month of June 2009 are the main drivers for this month hike in inflation.

Monetary Policy

The SBP kept its tight monetary policy stance in the period July 01, 2008 – April 20, 2009. The policy rate was adjusted upward in November 2008 to shave-off some aggregate demand from the economy and kept constant in January 2009. However, noticing visible signs of demand compression enabled the SBP to reduce 100 basis points on April 20, 2009. The State Bank of Pakistan has decided to further lower the policy discount rate by 100 bps to 13 percent effective from 17th August, 2009. during July 01, 2008 – June 20, 2009, money supply (M2) expanded by 6.75 percent against the target of expansion of 9.3 percent for the year. The reserve money witnessed a growth of 2.4 percent in this period as against expansion of 13.2 percent in the comparable period of last year.

Net domestic assets (NDA) have increased by Rs.514.5 billion as compared to increase of Rs.820.4 billion in last year, hence showing an increase of 12.8 percent in this period. Net foreign assets (NFA) have recorded a contraction of Rs.198.1 billion against the contraction of Rs.396.4 billion during the same period last year. Government borrowing for budgetary support has recorded an increase of Rs.353.5 billion as compared to Rs.456.7 billion in the comparable period of the lat year. Credit to private sector witnessed a net disbursement of Rs.6.21 billion as compared to Rs.394.2 billion in the comparable period last year.

Fiscal Policy

There has been significant improvement in fiscal performance during 2008-09 due to the policy shift, with the overall fiscal deficit estimated to have dropped to 5.2 percent of annul GDP. The fiscal improvement has largely based on reduction of oil subsidies and a cut in development spending. The overall FBR tax collection remained less than satisfactory and actually witnessed deceleration in real term. The FBR tax collection to GDP ratio is likely to deteriorate around 9 percent of GDP as against the target of binging it into the vicinity of 10 percent of GDP. Tax revenue collected by the FBR amounted to Rs.1157.0 billion during the current fiscal year 2008-09, which is 12.9 percent higher than the net collection was estimated at Rs.440.3 billion against the target of Rs.530.5 billion which implies a growth of 7.9 percent during July-June 2008-09. Indirect taxes grew by 15.4 percent during July-June 2008-09. The sales tax collections grew by 20.6 percent and stood at Rs.452.2 billion as against Rs.375 billion in comparable periods last year. The net collection of federal excise stood at Rs.116.1 billion during July-June 2008-09 as against Rs.91 billion in the corresponding period of last year, thus showing an increase of 27.5 percent. Despite a decline in fiscal deficit in the current fiscal year of 2008-09, the growth in domestic debt accelerated reflecting non-availability of finance through external sources.

Exports

Export started to face heat of global financial crises since November 2008 and the contraction of world over demand has exacerbated export contraction. The export during the current fiscal year 2008-09 amounted to $17781.9 million as against 19058.3 million, thereby showing a decline of 7 percent. The major negative contributor to this year's exports came from the textile sector and petroleum group which witnessed a decrease of 9.5 and 35.5 percent. The exports of food group accounted for 17.0 percent in overall exports. Rice remained the largest contributor to this year food and overall exports performance, contributing additional $1986.8 million amount to this year exports and grew by 8.21 percent. Textile's share in overall exports has gone down substantially but it still account for lion's share at 53.8 percent of total exports. In absolute terms Textile sector exports decreased to $9564.4 million during the July-June 2008-09 to comparable period of last year.

Export of petroleum group decreased by 35.5 percent during July-June 2008-09, however, its share in total exports remained at 4.5 percent owing to across the board deceleration. While the export of other manufacturers stood at 20.1 percent in total exports. Major contributors behind this positive growth of other manufacturers are cement, which grew by 38.3 percent and added $576.6 million to the total exports on the back of increased external demand and enhanced capacity utilization followed by engineering goods which grew by 26.05 percent.

Imports

Imports registered a negative growth and declined by 12.9 percent. It stood at $34822.1 million during July-June 2008-09 as against $39965.5 million of the corresponding period last year. The lower level of overall import bill is outcome of reduced imports spending on telecom ($961.3 million), petroleum group ($9509.7 million) and food group ($4137 million). Food group accounted for 11.9 percent of total imports, shown a negative growth of 2 percent. Import of machinery group share stood at 18.9 percent of total imports. Imports of power generating machinery amidst acute energy shortages, construction and other machinery continued to sustain increasing trend with growth rate of 48.5 percent, 10.7 percent respectively.

The increase of power generating machinery added an additional $1748.7 million to the declining imports on the back of rising demand for generator due to perception of continued power crises. On the other hand import of textile machinery is witnessing a declining trend since 2004-05 with current decline of 51.6 percent during July-June 2008-09 over the comparable period last year revealing the continuous deteriorating outlook for the textile sector for past few years and declining international demand. The monthly average prices of international oil surged from $67.2 per barrel in August 2007 to $134.1 per barrel in July 2008 and further decelerated even below $40 per barrel amidst reduced international demand. The import of iron and steel category has increased by 5.6 percent in value terms during July-June 2008-09.

Trade Balance

During the current fiscal year 2008-09 the trade deficit narrowed to$17040.16 million as compared to $20913.24 million during the same period last year. Thus the merchandise trade deficit improved by 18.5 percent. The substantial decrease of 12.9 percent in imports outstripped otherwise significant decrease of 7 percent in export growth, which caused the trade deficit to improve by 18.5 percent.

Workers Remittances

Workers remittances totaled $7.8 billion in July-June 2008-09 as against $6.4 billion during the same period last year, depicting an increase of 21.1 percent.

Current Account Balance

Pakistan's current account deficit shrank by 36.1 percent during July-June 2008-09. Current account deficit shrank to $8.9 billion as against $13.9 billion last year. In the month of February 2009, the current account witnessed a surplus which is a rare development in Pakistan economy.

Exchange Rate

Exchange rate after remaining stable for more than 4 years, lost significant value against the US dollar and depreciated by 21 percent during March-December 2008. Most of the depreciation of rupee against dollar was recorded in post November 2007 owing to combination of factors like political uncertainty, trade related outflows and speculative activities. With successful signing of Stand by Arrangements with the IMF, the rupee got back some of its lost value. With substantial import compression and revival of external inflows from abroad in the coming months of the fiscal year, the exchange rate will remain stable at around Rs.80-82 per dollar.

Foreign Reserves

The hemorrhage to the foreign exchange reserves have been arrested in the post November period and over 43 billion are added to the SBP reserves in spite of 4500 million Eurobond payments in February 2009. Notwithstanding, improvement in the external sector outlook remain hostage to expected inflows in the last quarter. Foreign exchange reserves declined substantially in the initial months of 2008-09 dropping from $11.4 billion at end June 2008 to a low of $6.4 billion by November 25, 2008. This depletion of reserves in the five months (July-November 2008) was much higher than fall in forex reserves for the entire fiscal year 2007-08. The subsequent partial recovery since November 25, 2008 onward owed essentially to the inflow of $3.1 billion from the IMF following Pakistan's entry into a macroeconomic stabilization program. For the current fiscal year 2008-09 foreign exchange reserves stood at $11.87 billion.

External Debt & Liabilities

The external debt and liabilities recovered in the third quarter and actually fell in absolute as well as relative terms between end-December 2008 and end March 2009, mainly because of lower than anticipated net disbursements and positive translation impact of appreciation of dollar versus Yen, SDR and Euro. External debt and liabilities (EDL) stood at US$52.8 billion for the 2008-09 which is higher than end June 2008 stock of $46.3 billion. It implies that EDL grew both in absolute and relative terms during July-December period but witnessed some correction in the third quarter. Almost all categories of EDL barring Paris Club, Eurobond and military, have witnessed increase, however, highest increase in absolute term was recorded in debt stock owed to the IMF as a result of inflow of $3.1 billion on account of Stand By Arrangement (SBA) signed with the IMF in end November 2008.

Poverty

A review of price trend of essential items during 2007-08 indicates that the major portion of food inflation during this period stemmed from hike in the prices consumed by the poor household such as wheat, flours, rice, edible oil, vegetables and pulses. Moreover, economic growth has slowed down considerably during the last three years. The industry and construction sectors have contracted due to the domestic slowdown and energy shortage and also due to global recession. This job absorbing capacity of the economy shrank. Based on the Federal Bureau of Statistics' PSLM data, the centre for Poverty Reduction and Social Policy Development (CPRSPD), Planning and Development Division estimated a sharp decline in the headcount poverty ration for 2007-08. However, these findings appear to contradict other assessments conducted subsequently, and which better reflect global and domestic price development after June 2008. These subsequent assessments point towards a strong likelihood of a sharp increase in the poverty incidence in Pakistan as a result of unprecedented food inflation and transmission of international energy prices to domestic consumers.

The Planning Commission's constituted panel of Economists in its interim Report based on 2004-05 poverty head count number of 23.9 percent suggested an increase of around 6 percentage points in poverty incidence for the year 2008-09. Similarly the Task Force on Food Security based on the World Bank estimates of head count ratio of 29.2 percent in 2004-05 poverty estimated that poverty head count increased to 33.8 percent in 2007-08 and 36.1 percent in 2008-09 or about 62 million people in 2008-09 were below the poverty line.

Second generation poverty reduction strategy paper (PRSP-II) built up on nine pillars has been finalized with an aim to reduce poverty by regaining macroeconomic stability. Social sector and poverty related expenditures are projected to be Rs.760 billion during 2008-09, constituting 5.86 percent of GDP which is in line with the fiscal responsibility and Debt Limitation Act 2005, stipulating that expenditures on social sectors should not be less than 4.5 percent of GDP in any given year.

EXPENDITURE WING

Expenditure Wing has been assigned to formulate Expenditure policy, in accordance with the overall government policies, for Government Ministries/Divisions/Departments. Accordingly, this wing has taken the following steps/actions for the purpose:-

- Expenditure Wing has been implementing the economy measures in Govt.(Federal) sector spending. Govt. imposed ban on purchase of physical assets during financial year 2008-09. However, the critical requirements of the Govt. Ministries/Division/Departments were taken care of while examining their proposals by the two Committees formed under Addl.Finance Secretary (Exp) and Joint Secretary (Exp).
- Expenditure Wing exercised control over development as well as current expenditure during financial year 2008-09 in view of financial crunch faced by the Government. Finance Division imposed ceilings of 15% both during 1st and 2nd quarters, 20% for 3rd quarter and release of balance funds in the 4th quarter of financial year 2008-09 of development expenditure. Expenditure Wing coordinated action in this regard. Expenditure Wing conducted as exercise with the help of F.A's Organization to review PSDP allocation for financial year 2008-09.
- Release of development funds was centralized in order to match development expenditure with the available resources. Expenditure Wing received demands for release of funds to development projects from F.As (Organization) on weekly or half monthly basis and authorized them to release funds in accordance with the ways and means clearance obtained from Budget Wing.
- As for current expenditure, Govt. Organizations were allowed to incur the expenditure upto 40% of the sanctioned budget

during 1st half of financial year, 25% of budget allocation for 3rd quarter and 30% during 4th quarter of financial year (2008-09). Remaining 5% expenditure was authorized on case to case basis.

EXTERNAL FINANCE WING

External Finance Wing is responsible for arranging financial from internal financial institutions for balance of payments and budgetary support. Besides, allocation and utilization of foreign exchange both by civil departments and armed forces is released and maintained by EF Wing. Following transactions were made during financial year 2008-09:

Stand-By Agreement (SBA) with IMF

Pakistan entered into Stand-By-Agreement (SBA) with IMF for financing of SDR 5.169 billion (US$7.6 billion) in November, 2008. Pakistan got first installment of US$3.053 billion upon signing of the agreement while remaining amount of US$4.579 billion was to be disbursed upon completion of quarterly reviews in 7 installments. First such quarterly review of the economy under the SBA was completed in the last week of February, 2008 at Dubai, and second tranche of US$0.840 billion was released on 2nd April, 2009. The second review was held in Dubai from May 3-11, 2009 and in Istanbul from July 3-10, 2009. In this regard, the Executive Board of the International Monetary Fund (IMF) approve on August 7, 2009 the completion of the second review alongwith an augmentation of SBA by 200 percent (SDR 2.067 billion equivalent to US$3.236 billion), bringing to 700 percent of Pakistan's quota or 6.3 percent of GDP. Pakistan has received another disbursement of US$1.199 billion on August 12, 2009 making the total disbursement to US$5.092 billion since November, 2008.

The above financial assistance has provided a plentiful support to budget and balance of payments deficit.

Rupee Denominated Sovereign Sukuk

A rupee denominated sovereign sukuk was floated in the domestic market for a tenor of three years. A consortium of M/s Dubai Islamic

Bank and Standard Chartered Bank was appointed as Lead Managers for issuance of the Sukuk. The value of the underlying asset, Faisalabad-Pindi Bhatian Motorway (M3), was assessed at PKR 35.54 billion. The government have so far raised Rs.27.8475 billion in three auctions of Rs.6.5225 billion on 26.09.2008, Rs.6.0 billion on 27.12.2008 and Rs.15.325 billion on 11.03.2009. The proceeds of the Sukuk were utilized for budgetary support.

EXTERNAL FINANCE (POLICY WING)

External Finance Policy (EFP) Wing compiles the government of Pakistan's principal policy for macroeconomic governance and poverty reduction i.e. in the shape of the Poverty Reduction Strategy Paper (PRSP). It also deals with multilateral institutions like the World Bank, Department for International Development (DFID), South Asian Association for Regional Cooperation (SAARC), ECO, Joint Ministerial Committees (JMCs) and United Nations Development Programme (UNDP). The Wing assists in the management of their portfolios in the country like Gender Reform Budgeting Initiative (GRBI), Gender Reform Action Plan (GRAP), Strengthening Poverty Reduction Strategy Monitoring Project (SPRSMP) and the Project for Improvement in Financial Reporting and Auditing (PIFRA). The project for enhancing the capacity of Public Sector i.e. Public Sector Capacity Building Project (PSCBP) is also being managed by the EFP Wing.

Poverty Reduction Strategy Paper

The essence of designing External Finance Policy lies in oversight based on the guidelines set out in the PRSPO. The contents of PRSP (currently referring to PRSP-II, which was finalized in 2008), encompass a broad-based medium to long term economic reform & development framework including the goals and projections of sectoral policies of key social sectors, tracking of budgetary & non-budgetary expenditures related to those sectors and policy responses at various forum relating to poverty reduction. PRSP-II is a key national policy document of the Government of Pakistan as future concessional lending by multilateral institutions like the World Bank and IMF are linked with the vision and strategic direction enshrined in it.

The PRSP Secretariat housed in EF Policy Wing monitors/tracks pro-poor expenditure according to targets fixed in the Medium Term Expenditure Framework (MTEF). A results-based M&E framework designed under the PRSP-II monitors output and outcome indicators in 17 pro-poor sectors, which not only strengthens the existing monitoring mechanism to asses the impact of public sector investment in the country but also serves as input for future policy formulation to improve well-being of the people.

Development Partnership Arrangement (DPA) Talks with DFID

GoP is fully committed towards achieving the priority objectives/pillars of poverty reduction and attainment of Millennium Development Goals (MDGs); strengthening public financial management and accountability; and abiding by human rights obligations. The EFP Wing in particular, plays a key role in assisting and monitoring this process (in the first two pillars), acting as a mediator between GoP and Department for International Development (DFID). EF Policy Wing also facilitated DFID in compiling and updating matrices used in the preparations building up to the Development Partnership Arrangement (DPA) talks.

Aligning PRSP targets with the Millennium Development Goals (MDGs) requires continuous assessment exercises to measure progress. The Ministry of Finance is an active member of the One UN Reform Programme which attempts to create synergies on international development priorities as outlined in MDGs/Millennium Declaration between government agencies and UN organizations and also within UN organizations under one strategic programme.

Strengthening Poverty Reduction Strategy Monitoring Project (SPRSMP)

PRSP-II has an inbuilt mechanism for results-based monitoring and evaluation that tracks its progress through formulation of indicators to measure outputs in the medium term and outcomes in the long term. To strengthen monitoring of poverty reduction efforts, GoP in collaboration with UNDP, conceived SPRSMP to effectively track the implementation progress of the PRSPs.

During the year, a number of activities were undertaken under this project which includes Gender Aware Policy and Beneficiary Appraisal (GAPA & GABA) in two districts each of Punjab and Sindh; Time Use Survey (TUS) to measure the amount of time spent by males and females in non-SNA activities; and arranged several workshops to disseminate the results of these studies.

SAARC Development Fund (SDF)

The 14th Summit of the South Asian Association for Regional Cooperation (SAARC) held in New Delhi on 3 – 4 April 2007, laid down specific guidelines for the creation of the SAARC Development Fund (SDF). The Fund is to offer concessional and non-concessional funds as well as grants to contribute to regional cooperation and integration through project collaboration with an aim to reduce poverty in the SAARC Region. The Charter and the Bye-Laws of SDF have been finalized. Initial paid-up capital of SDF is SDR 200 million, to be subscribed by the Member States in accordance with proportion of the assessed contribution to the SAARC Secretariat Budget. Pakistan's share in the initial paid-up capital comes to SDR 45.04 million. The total size of the Fund would be SDR 1000 million. EF Policy Wing is also entrusted with all financial issues and matters pertaining to SAARC and the SDF.

Third Party Evaluation of PIFRA- I

The Project for Improvement of Financial Reporting and Auditing (PIFRA) was original approved by ECNEC on 20.3.1996. It was sponsored by Ministry of Finance and executed by Office of the Auditor General of Pakistan and Controller General of Accounts. The project (PIFRA-I) was in line with the government's 'vision statement' and strategy to address problems in accounting and auditing by introducing policy changes and aimed at improving and integrating government financial management at Federal and Provincial levels. While approving the PIFRA-II as a sequel to PIFRA-I, the ECNEC decided that Ministry of Finance would undertake the Third Party Evaluation (TPE) of PIFRA-I. Resultantly, the work regarding TPE was awarded to a consultancy firm by EF Policy Wing. The first draft of the Evaluation Report has been received.

Implementation of National Gender Reform Action Plan Project (INGRAP)

Approved by the Federal Cabinet, National Gender Reform Action Plan (GRAP) is a set of professionally analyzed statements of intent, aimed at introducing government reforms to engender government institutions and machinery at the Federal, Provincial and District levels through implementation of National and Provincial GRAP simultaneously. The national GRAP focuses on key reforms areas i.e. (i) Institutional Restructuring; (ii) Policy and Fiscal Reforms; (iii) Women Employment in Public Sector.

Gender Development Section under GRAP has sensitized male and female officers of Finance Division and Provincial Finance departments on Gender issues. Gender analysis skills are being imparted to reduce persisting Gender inequalities in the System and Gender Mainstreaming Committee of the Division was constituted to ensure Gender mainstreaming for the cause of Gender Equality. Officers are being trained on Gender Responsive Budgeting through workshops and Pre-Budget Seminars.

Public Sector Capacity Building Project

The Public Sector Capacity Building Project (PSCBP) was approved on July 27, 2004 at a total planned outlay of US$61 million (Rs.3,538 million) and was implemented in 20 Federal Ministries/Divisions i.e. Federal Board of Revenue (FBR), Civil Service Reforms Unit (CSRU), National School of Public Policy (NSPP), Federal Public Service Commission (FPSC), Finance Division, Commerce Division, Ministry of Water & Power, Planning & Development Division (P&D), Ministry of Industries, Production & Special Initiatives, Ministry of Petroleum, Economic Affairs Division, Board of Investment & Investment Division, Women Division, Privatization Division, Competition Commission of Pakistan (CCP), KANA Division for Gilgit – Baltistan government, four Regulatory Authorities i.e. National Electric Power Regulatory Authority (NEPRA), Public Procurement Regulatory Authority (PPRA), Oil & Gas Regulatory Authority (OGRA) & Pakistan Telecommunications Authority (PTA) and two provincial governments i.e. Punjab & Balochistan. The achievements made under the Umbrella PSCBP are as under:

S.No.	Particulars	Achievements
01	Officers trained	4473
02	Consultants Recruited	84
03	Studies undertaken	18

Finance Division's Component

Finance Division is one of the stakeholders of the umbrella Public Sector Capacity Building Project (PSCBP), which was launched to achieve the envisaged objectives. The achievements made under the Project during the year 2008-09 are as under:

S.No.	Category	Number
01	Officers trained through short term foreign training	14
02	Officers trained through localized trainings	25
03	Staff trained through local trainings	48
04	Consultants recruited for various Wings i.e.EF Policy Wing and IF Wing	7
05	Study undertaken on Modernization of Books of Rules & Regulations of Finance Division	1

Poverty Reduction Economic Stabilization Operation (PRESO)

As a result of a favourable Joint Staff Assessment of PRSP-II by the World Bank and the IMF, an amount of US$484.75 million has successfully been disbursed under PRESO. The programme supports the poorest and the most vulnerable segments of the population through initiatives that address poverty and vulnerability directly.

ECONOMIC REFORMS UNIT (ERU)

In order to build upon the Government's ongoing economic reforms agenda and with a view to promote private sector development, to reduce cost of doing business and to improve private sector competitiveness, ERU was established in Finance Division in September 2006. ERU is playing a vital role in implementing the Nine

Point Agenda of the Government and closely working with Finance Minister on the priority areas of Nine Point Agenda.

1. Macroeconomic Stability and Real Sector Growth.
2. Protecting and Poor and the Vulnerable..
3. Increasing Productivity and Value Addition in Agriculture.
4. Integrated Energy Development Programme.
5. Making Industry Internationally Competitive.
6. Human Development for the 21^{st} Century.
7. Removing Infrastructure Bottlenecks through Public Private Partnerships(PPPs).
8. Capital and Finance for Development.
9. Governance for a Just and Fair System.

ERU team comprises of professional Research Associates, and Sectoral Specialists, headed by Director General. ERU team has actively participated and contributed in various activities of Finance Division. Following are the major initiatives and activities dealt by ERU during FY 2008/09:-

- ERU has been approved as secretariat to Economic Advisory Council (EAC) and its Sub-Committees. ERU has coordinated several meetings of EAC and its sub-committees for preparation of budgetary recommendations. These recommendations were passed to the concerned Ministries/Division for the implementation of these recommendations. Every month it is the responsibility of ERU to organize/coordinate EAC meeting and then follow up the recommendations made in the meeting with stakeholder for implementation.

- ERU has coordinated several meetings of Daily Economy Monitoring Committee (DEMC), established by the Prime Minister to monitor prices and demand/supply position of food commodities, oil prices and agriculture inputs during FY 2008/09.

- ERU has provided technical/secretarial support to Benazir Income Support Program (BISP) for its initial launch.

- ERU has been nominated as National Counterpart for the Sub-National Doing Business (SNDB) study by international donors including World Bank, FIAS, USAID and DFID. ERU has extended full technical/coordination support to the team of World Bank in their Kick off Mission (KoM) in February 2009 and Right of Reply (RoR) Mission in August 2009 during their visit to Pakistan. This study will generate a report on business environment of 13^{th} selected cities across four provinces till end of the calendar year 2009. In addition, a follow up reform action plan will be developed in consultation with stakeholders and ERU will support in the implementation process.

- ERU is a counterpart in a study titled, "Insolvency and Creditor Rights-Report on Observance of Standards and Codes (ICR-ROSC)" BY World Bank. ERU has provided technical assistance to World Bank in obtaining feedback on existing ICR regime from all scheduled banks in Pakistan. Corporate Rehabilitation Act (CRA) is a major part of ICR-ROSC and is drafted by ERU team.

International donor agencies have appreciated the role and the function of the ERU in the reforms process and shown their interest in supporting ERU. In this respect a number of initiatives have been undertaken:-

- Initial discussions are in process with USAID for possible partnerships and capacity building of ERU to carry out business reforms. USAID has offered ERU to be a national counterpart in their Empower Pakistan Firms (EPF) project. This is expected to be launched shortly.

- JICA has offered to collaborate with ERU for carrying out diagnostic studies and capacity building relating to mandate of ERU. Recently JICA has offered to appoint an Economic Reform Advisor (ERA) in ERU and it is on the final stage of approval.

ERU is devising a roadmap for economic reforms agenda with an aim to launch business friendly reforms and regulation in the country. To accomplish the same, various initiatives are underway:-

- ERU is acting as an interface between public and private sector to determine the priority areas for investment and regulatory reforms. In this regard, ERU represented public sector on various federal and provincial forums organized by private sector to bridge the gap between public and private sector. ERU is currently in the process of developing a strategy and a common platform for public-private dialogue.

- ERU is consulting with line ministries to develop a Private Sector Development (PSD) Strategy to promote investment and remove impediments.

- ERU is providing a valuable input on policy matters and reports prepared by international donor agencies and Ministries/ Division.

FINANCE DIVISION (MILITARY)

Finance Division (Military) deals with preparation, execution, monitoring of Defence Budget and expenditure relating to the Armed Forces, Inter Services Organizations, DP Establishments procurement of all defence equipment and all other related matter pertaining to them. Finance Division (Military) has performed the assigned job in accordance with the laid down procedures/instructions and set targets including Budget Estimates as well as Revised Estimates and expenditure relating to Development Projects and miscellaneous stores during Financial Year 2008-2009. It is felt that it would not be appropriate to divulge the nature of all its cases/contracts and activities, being classified in nature and financed from classified defence budget. However, it is worth mentioning that while concurring all procurement and development contracts due care has been exercised for optimum utilization of available resources by applying different financial techniques to get best value for the money. In addition, achievements in other main areas are highlighted as under:-

a) **Budget Allocation/Expenditure**

Last financial year i.e. 2008-2009, twenty two cases for Technical Supplementary Grants were processed and approved by competent authority besides, this REs 2008-09 and BEs 2009-10 were scrutinized in detail and substantial reductions were proposed. Service-wise/Head-wise expenditure was monitored carefully to keep the expenditure within sanctioned grant.

b) **Accounting of Defence Expenditure**

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

c) **Purchase of Stores**

i) Endeavour is always made to meet the operational requirements of the Armed Forces within the allocated resources. In this regard, extra efforts were made by persuading the procurement Agencies to generate health competition among the competitors in order to achieve best possible rates for the desired equipment and technologies for Armed Forces of Pakistan.

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

d) **Development Projects**

To bolster our defence various projects are prepared by services HQs/DP establishment and submitted to Finance Division

(Military) for appraisal. It is highly professional job which requires well trained staff having expertise in a project appraisal field. Financial appraisal of the project is carried out to ensure optimum utilization of resources. Proposals about manpower, equipment and support services requirements re scrutinized on the basis of financial analysis techniques and modern HRM practices.

e) **Special Packages**

To meet the requirement of mega defence project, internal security and execute the future plan to modernize our defence forces, funds are allocated with through scrutiny. It is strictly watched that funds are utilized according to the laid down procedure with proper accounting.

f) **Miscellaneous Activities and Achievements**

i) Optimum efforts were made to facilitate Armed Forces and Attached Departments of Defence Division for timely flow of finances, strictly within the parameters of existing rules and regulations.

ii) The trend of expenditure was closely monitored throughout the year to pre-empt over expenditure by the Departments/Services.

iii) In case where public interest was involved, efforts were made to hold to the tenants of natural justice, without compromising the interests of the state.

iv) Funds were released in time.

v) To enhance performance of this Division, most of the Wings/Sections have been provide/equipped with latest equipment.

g) **Programme of Activities/Targets**

i) Timely disposal of all cases.

ii) Strict adherence of relevant financial regulations and procedures in finalization of cases including financial concurrence.

iii) Finalization of REs 2007-2008 and 2008-2009 with due regard to economy in expenditure.

iv) All the targets assigned to this Division were achieved well in time and within the stipulated period with no pendency at the end of last financial year i.e. 30th June, 2009.

PROJECT TO IMPROVE FINANCIAL REPORTING AND AUDITING (PIFRA) DEPARTMENT OF THE AUDITOR GENERAL OF PAKISTAN

Project Rationale

PIFRA-II project directly supports the government's commitment to improve public financial management, accountability and transparency to facilitate public oversight and increase credibility in the international community.

Development Objectives:

Strengthening government financial management policy and capacity, including the role and the reach of the CGA's office, internal controls and accounting skills requirements across the abroad.

- Expanding PIFRA sites to a total of 127 sites completed and building user and IT capacity of modernizing and strengthening Auditor General's office.

- Strengthening communication and change management to promote transparency and increase stakeholder awareness and ownership.

- Establishing basis for a structured R&D.

Project's Component-wise Progress

Flash Back at Audit Component's Noteworthy Achievements:

Development Wing

Certification Audit:
In the year 2008-09, audit component of PIFRA achieved a historic milestone by assisting the DAGP to complete the certification of 98 out of 130 accounts in 09 months time after the closure of the financial year 2007-08. The graphic representation below is evident of success we have achieved by implementing reforms over the year.

It was a long and arduous journey and credit is due to our FAOs for their all out support and commitment to the ongoing reforms. Audit component will always be with FAOs to equip them with technical and logistical support at every stage and level. We also acknowledge the efforts and commitment of CGA, DAG APR7SD, FAOs and PIFRA management who supported us in achieving this 09 month certification audit target as agreed with the World Bank in Aide Memoire 6. For audit component, this success is just a first step towards making DAGP a model SAI. Training is the main vehicle for implementation of modern auditing practices and the focus to provide on job training to minimize the gap between theory and proactive is absolutely imperative. Audit component has now hired the services of 71 highly qualified and experienced consultants to be embedded with all FAOs to impart skills and equip FAOs with necessary tools to sustain the reforms initiatives in implementation of Modern Auditing Practices as part of OAGP strategy. These consultants are now providing technical assistance to Directors Generals for implementation of Modern Auditing Practices at the field audit officers through supervision of audits and on the job training of field.

Infrastructural Improvements

Audit component has disbursed Rs.37,520,809 so far for renovation and improvement of working conditions at field audit offices. More than 1000 laptops, desktops and other hardware have also been distributed to equip FAOs with necessary tools to make maximum use of new auditing techniques introduced. Audit component has also purchased 10 licenses of ACL desktop edition; ACL desktop education expands the dept and breadth of transactional analysis. It provides a powerful combination of data access, analysis and integrated reporting; ACL also reads and compares enterprise data allowing the source data to remain intact for complete data quality and integrity. It is going to help us gain immediate visibility into transactional data critical for effective auditing.

Quality Assurance & Control

The audit component is working hard to assist APR7SD wing for quality assurance function to strengthened and decentralized. The component also plans to establish permanent quality assurance setup with full time members; constituted at the federal and each provincial headquarter. To begin with one full time qualified consultant will be available at the federal and each provincial headquarter. This is aimed at increasing the timeliness and quality of the audit as soon as the field audit work is completed.

Audit Management Information System (AMIS)

DAGP through a deliberate policy intends to increase its effective reliance on strategic planning to ensure that scarce audit resources are applied in the most effective manner. We are now in the process of setting up a robust and reliable Audit Management Information System (AIMS) that would optimize resources and ensure timely and accurate reporting of observations. The nerve centre of AIMS will be audit house, which will be a central point of the entire audit IT network. The centre will process, access, analyze and make all types of data available for top level planning, monitoring and control. At the same time, the centre will provide AIMS access to the local field audit offices.

Workshops & Trainings

Audit component also arranged number of workshops with the aim of training, orientating and consultation on different recently introduced tools for an effective and efficient auditing. These workshops included Annual Audit Plan, IPSAS, Quality Assurance, refreshers on FAM, ACL and NAM. These workshops were used very effectively to discuss, train, orientate, consult and sell important initiatives which re going to be integral.

Follow up Procedures

It follows up an integral part of good financial management of public funds and is a shared responsibility of executive management official and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of government operations. Audit component is now trying to come up with some sort of set of tentative principles. The intention s that through an iterative series of dialogue, attempted use and feed-back steps we will arrive at a set of principles to guide the implementation of follow up activity in departments/divisions/ministries, regardless of situation dependent parameters,

Backbone of PIFRA

The overall progress during the year remained satisfactory and was accordingly rated by successive World Bank Review Missions. The year ended with Punjab, Sindh and Khyber Pakhtunkhwa being fully productive, with the total computerized payroll exceeding 1.7 million employees, making it the largest payroll in SAP in the world (as confirmed by SAP). The status of productive sites for the Central and Provinces is as below:

Province	Total Sites	Actual June 2009	EDOs Actual Vs Productive	Line Deptt. Actual Vs. Connected
Federal	2	2		60/10
N.Areas	6	1		
Punjab	38	38	35/35	43/12
Sindh	27	27	23/23	25/10
Khyber Pakhtunkhwa	28	28	24/24	25/3
FATA	7	3		
Balochistan	33	15	30/0	20/0
Total	**141**	**114**	**112/81**	**173/35**

In the sub-districts level Khyber Pakhtunkhwa became the first province in which TMAs prepared the budget on the national Chart of Account.

Success Story of PIFRA Training Component

Training activities in any organization cannot be overshadowed as it plays a pivotal role in transmitting information to the employees. PIFRA Training Component has been working with great zeal in imparting adequate knowledge and improving the skills of the staff and officers under PIFRA regime. The wing has arranged a feedback session of CFAOs working in different ministries in Islamabad on 10th February 2009. The succession was attended by the Auditor General of Pakistan, Addl.Secretary Finance, Project Director PIFRA and Director General (OPS) PIFRA alongwith other dignitaries. A five days workshop for selected officers in best practices in international auditing for UNIDO/OPCW audit was arranged in Islamabad club from 12 – 16 January, 2009. Utilizing the services of recently trained master trainers who have attended the advanced ACL training session in Dubai; this wing has started the uphill task of training to the employees of all FAOs. In the first phase, ACL 1.5 Foundation level training has been imparted to about 114 officers/officials representing 30 FAOs in all the AATIs. The performance of the participant was evaluated through various tests, exercises and on the basis of performance among the participants were selected for the next level of ACL training so as to produce a pool of trained experts in ACL. This wing also arranged Tehsil level training in Chart of Accounts of TMAs for the officers/officials of TMO and TO (Finance) of Sindh province in AATI, Karachi from 16 – 21 February, 2009. Another activity was also undertaken for the TMA of Punjab at AATI Lahore from 23 – 25 February, 2009 which was attended by 24 participants. Moreover, for SAP HR/FI modules training, an aptitude test for nominees from CGA an OAGP component under the head of local training was also conducted on 23rd February 2009 at AATI Islamabad, Lahore and Karachi simultaneously.

Monitoring & Evaluation (M&E) Paving Way Towards Success

Monitoring and evaluation is one of the key components of a project. It ensures implementation of the project activities according to plan to objectively determine the effectiveness, efficiency, relevance, sustainability and impact of activities in the light of specified objectives. PIFRA monitoring and evaluation wing has been actively evaluating and reporting on the performance of four components of the project. In its project monitoring capacity M&E wing has developed its own tools according to the project management and the donor's requirements. These include data collection matrix, report formats etc focusing on implementation of each and every aspect of the project. Information on progress is collected from component managers and the project field offices as well as from the beneficiaries/users of the project on monthly basis. Early warnings on lapses or problems in implementation are reported to all the stakeholders regularly. Objective reporting on the performance of each component, correspondence and initiation of stockholder's meetings on project areas facing oversight are regular monthly activities of this wing. In terms of evaluation, PIFRA M&E wing keeps a track of the relevance and impact/outcomes of the project. This is done on the basis of a matrix developed comparing the baseline assessment at the start of the project and quarterly progress achieved in achievement of the project overall objectives. The evaluation report is a joint exercise with the donors and forms the part of the donor's quarterly aide memoire. It helps answer management's questions regarding overall value of intervention, supply lessons learned and to improve future decision making.

Procurement – The Supply Line of PIFRA Components

For the success of the project as revolutionary and gigantic as PIFRA, it is imperative that the procurement team work extra hard so that the requirements of the project are met at appropriate time. The procurement team has been able to procure 684 workstations and a number of other allied items thereby fulfilling the hardware needs of Khyber Pakhtunkhwa and Punjab. The additional requirements of the workstations for these provinces were met through additional 350 workstations procured through variation order of ICB-5 and delivered in the month of June 2007. Moreover, the ICB-6 has recently been launched. This is a massive ICB through which a huge quantity of workstations and allied hardware would be procured including workstations, centralized and stand alone UPS, line printers, laser printers, wire LAN connectivity, laptops etc. Hardware procured through ICB-6 would cater to the needs of FABS component for the provinces of Sindh and Balochistan and Audit Component. The delivery of hardware will be made in October and November 2007, to align itself with the pace of the Project. The vigorous efforts and commitment of the Procurement Wing has been successful enough to complete most of the DAO sites all over Pakistan till now. The Wing has been instrumental and productivity of Khyber Pakhtunkhwa and is trying hard to facilitate productivity of Punjab by completing the DAO sides of that Province.

PIFRA Communication & Change Management Activities

The main objectives of communication & change management component are to:

- Ensure coordination among stakeholders and wider ownership of PIFRA's overall 23% of objectives.
- Increase the understanding – effective information/education.
- Provide information on the project progress and achievements.

- Improve the professional skills of core employees i.e. OAGP, PIFRA, CGA and Provincial AGs & other relevant departments.

As a part of capacity building measures for improving the professional skills of core employees i.e. OAGP. PIFRA, CGA and Provincial AGs & other relevant departments, training workshops on Hunan Resource and Change Management are being organized for all internal and external stakeholders for maintaining HR capacity of sustain the new system.

The World Bank, office of the Auditor General of Pakistan and PIFRA are jointly aiming at making CFAOs organization functional and effective in strengthening the internal financial management and controls of Ministries/Divisions on modern financial management principles through constructive reforms and changes.

- Keeping in view the goals of making CFAOs organization a success story, PIFRA has held in-depth discussions with stakeholders.

- C/CM wing alongwith training component of PIFRA conducted a session of CFAOs on February 10, 2009 at Islamabad. The session was chaired by Auditor General of Pakistan and a detailed discussion was held to achieve the above mentioned goals.

- The communication & change management has prepared TORs for a local consultant for CFAOs organization as per requirement of Aide Memoire 6.

- The communication & change management has recently sent a summary to advisor to the Finance Ministry with useful suggestions necessary to strengthen the CFAOs organization.

Audit and Accounts Complex Quetta

The construction of Audit & Accounts Complex Quetta, the complex is being constructed at a cost of Rs.194.44 million at Zarghoon Road, Quetta and is scheduled to be completed by October 2010. It constitutes two separate buildings – Audit Block, comprising of basement, ground plus two storeys with a covered area of 73,165 sqft and an Academy Block, comprising of basement, ground plus one storey with a covered area of 30,128 sqft.

By the end of November 2008 an overall progress of 3% was achieved as planned. After demolition of old building of the Audit & Accounts Academy, foundation work including excavation, termite proofing and lean concrete have been completed.

Accounts to Audit & Accounts Complex Karachi

Regional Directorate Karachi is working day and night to achieve the goal of construction the Audit & Accounts complex with full zeal and zest. It is honourable for this Directorate to carry out the visit of Controller general of Accounts (CGA) Pakistan. During the visit the inspected the under construction project of Audit & Accounts Complex.

ZARAI TARAQIATI BANK LIMITED

Summary Report on Performance of ZTBL for 2008-2009

ZTBL is the largest financial institution in the agriculture sector of the country. The Bank continued to operate as the prime institution catering to the needs of agriculturists for the development and modernization of agriculture to achieve self-sufficiency in food and marketable surplus in agriculture. The Bank has geared up its efforts for delivering high quality, viable and timely financial services to the agriculture sector. During FY 2008-09, ZTBL over 600,000 farmers and had a share of around 32% of the total institutional agricultural credit.

Bank's Operations

The Bank operates through a network of 25 Zonal Offices and 342 Branches and a team of 1206 Mobile Credit Officers (MCQ's) in the field. Since inception upto 30-06-2009, the Bank has disbursed loan amounting to Rs. 599.457 billion. So far the Bank has financed 515455 tractors and 147035 tube-wells besides being the major source of financing for farm inputs including seeds, fertilizers, pesticides and insecticides. Priority was also accorded to the provision of more credit for livestock, dairy farming, poultry farming, aqua-culture and financing of oil seed crops.

Performance during the year 2008-09

During the year 2008-09, the Bank disbursed an overall amount of Rs. 75.139 billion as compared to Rs. 66.939 billion disbursed during last year and substantially enhanced its outreach by increasing the number of borrowers served to 605,605. The Bank was allocated a lending target of Rs. 72 billion by the State Bank of Pakistan, however during the year under reference the Bank disbursed loans of Rs. 75.139 billion thus not only achieving the assigned target but also surpassing the same by Rs. 3.139 billion. Detail of ZTBL operations during 2008-09 is attached.

Loan to Small Farmers

The Bank accorded highest priority to fulfill the demand of small farmers with land holding under 25 acres. During the period under review ZTBL disbursed Rs. 65.388 billion to small farmers constituting 87% of total agriculture credit.

Zarkhaiz Scheme (One Window Operations)

ZTBL continued its expeditious delivery of credit to farmers with special focus on subsistence and small farmers through One Window Operations. This programme has established its importance by witnessing tremendous strength in timely channeling of production loans to small farmers, which contributed significantly towards increasing farm production.

Sada Bahar Scheme/Revolving Finance Scheme

For providing timely input loans for crops and working capital for dairy, poultry and fisheries, the Bank has launched Sada Bahar Scheme. Assessment for input requirements for the whole year is made at the time of first application. The amount so assessed is treated as Revolving Limit provided it is within the security limit. For repeat loans, fresh investigation/appraisal is not necessary. The sanctioned loaning limit under this scheme is renewable on yearly basis.

Under these schemes, an amount of Rs. 61.854 billion was disbursed during the year 2008-09 (including Rs. 15.376 million disbursed under One Window Operations).

Crop Maximization Project

Ministry of Food, Agriculture & Livestock (MINFAL) launched an integrated development programme entitled “Crop Maximization Project (CMP)” in 15 districts of the country in the year 2003. The project aimed at providing inputs for crops through Revolving Fund for the financial assistance of the farmers in the project area. Under an agreement; MINFAL will provide funds to the tune of Rs. 299.893 million to ZTBL for onward lending to the project farmers to meet the input requirements for various crops. ZTBL will revolve these funds to look after the credit needs for inputs of the project farmers up till 30th June, 2014. Since inception upto 30-06-2009 ZTBL has provided an amount of Rs. 743.980 million to the farmers in the project area.

Recovery Operations

During the year 2008-09, the Bank recovered Rs. 69.971 billion as compared to Rs. 64.734 billion during the previous year showing a growth of 8%. In addition to this, an amount of Rs. 4.619 billion have also been recovered from charged off/SAM loans during the period under review.

New Schemes

White Revolution Scheme

The Bank has arranged insurance cover for ZTBL Dairy borrowers from M/s Adamjee Insurance Company Limited (AICL). The insurance will be mandatory for all new borrowers availing Dairy loan from ZTBL (through Nestle Pakistan Ltd. only). Premium shall be charged @1.9% of disbursed loan per year. On renewal the principal outstanding loan amount will become the sum insured.

Green Revolution Scheme

Promotion of Mechanized Farming for agriculture productivity enhancement in AJ & Kashmir Area.

In order to achieve the aim of providing farm machinery and implements to encourage the mechanized farming for the enhancement of agriculture productivity as compared to traditional tillage system a Memorandum of Understanding between Zarai Taraqiati Bank Limited and Department of Agriculture , AJ&K has been signed on 04-11-2008 under the title of Green Tractor Scheme. The project shall be implemented in entire area of Azad Jammu & Kashmir through the network of Zarai Taraqiati Bank Ltd. and Department of Agriculture, AJ&K.

Department of Agriculture, AJ&K will widely advertise the facility among farming community through media as well as its extension staff.

It will provide copies of the printed application forms free of cost to ZTBL branches and field offices of Department of Agriculture for onward supply to intending borrowers. It will also collect applications from farmers, evaluate/scrutinize/ prepare economics of the schemes, register them and recommend to ZTBL concerned branches for financing, with endorsement to the Area Chief, ZTBL, Muzaffarabad (AJ&K) for monitoring.

ZTBL will process loan applications recommended by the Department of Agriculture for purchase of tractors/ implements/ attachments and equipments as per prices/ rates/ limits fixed by the Bank and issue sanction letter in accordance with the prescribed procedure of the Bank.

The loan will be recoverable within 5 years in ten equal installments commencing after six months of issuance of Demand Draft. Recovery schedule showing the amount of principal and mark up separately will be produced by the computer and sent by the branches to the borrowers and Department of Agriculture, Muzaffarabad (AJ&K). The borrowers would make repayment of total amount of installments including principal as well as mark up on due date in the branch and then approach Department of Agri. on the basis of receipt issued by ZTBL to get reimbursement of the amount of mark up included in the installment already repaid by him. The amount of mark up charged by the Bank due to delay in the repayment of installment of principal amount will also be paid by the borrower from his own pocket.

One farmer will be eligible to avail the facility of one tractor (alongwith necessary implements, if needed) at one time and will not be eligible for second loan (for any other machinery items until clearance of the previous loan).

Green Tractors Scheme 2008-09 (For Punjab Province)

In order to promote farm mechanization, Government of Punjab has decided to launch “Green Tractors Scheme 2008-09” for the farmers of Punjab Province only. Government of Punjab has allocated funds of Rs. 2 billion for provision of subsidy @Rs. 200,000/- per unit for 10,000 tractors. Provincial government has devised a fool proof system to select the eligible farmers through balloting for granting the said subsidy to purchase tractors, on cash or against credit by any Bank inclusive of ZTBL. Agriculture/ Revenue Departments of the Province have already collected the applications from eligible farmers, evaluated/ scrutinized the same and arranged balloting to provide amount of subsidy @Rs. 200,000/- directly to the concerned Tractor Manufacturers for each successful farmer on receipt of booking of tractor.

The concerned branches will process the loan applications for purchase of local manufactured tractors, (of course deducting the subsidy amount of Rs. 200.000/- as well as equity contributed by the farmers @ 10% of total price less the amount of subsidy). Loans for tractor's attachments, equipments and implements will be sanctioned as per prices/rates/limits fixed by the Provincial Agriculture Department after deducting the amount of subsidy i.e. 50% of the price of such implements & equity.

PERFORMANCE OF ZTBL DURING 2008-09

(Rs.Million)

CREDIT OPERATIONS		
Agri. Credit Disbursement		75139
Borrowers Served (Numbers)		605605
Category wise Disbursement		
Production Loans		62288
Development Loans		12851
Farm Credit		69525
Non-Farm Credit		5614
Crops wise Loans Disbursed		
Rabi Crops		27171
Kharif Crops		34543
Economic Group wise Disbursement		
Subsistence		44557
Economic		22216
Large		2752
Loans to Small Farmers		
Disbursement to Small Farmers		65388
Small farmers as % of total loans		87%
Scheme wise Disbursement		
One Window Operations		15376
Sadabahar/Revolving Finance Scheme		61854
Tractor/Tube well Financed		
Tractor	Financed	18538
	Amount	7168
RECOVERY OPERATIONS		
Total Amount Recovered		69971
Network of Operation		
Number of Zones		25
Number of Branches		342
Number of MCOs		1206

NATIONAL BANK OF PAKISTAN

Economic Overview:

The year 2008 has been exceptionally a challenging year from a number of perspectives witnessing extreme volatility in commodity prices, and the near collapse of international finance. Virtually every country has faced hitherto unforeseen challenges and the greater the country's integration with the global economy, the larger the impact.

Domestically, Pakistan economy also faced several issues – the law & order situation, power shortages, record high inflation, reduced liquidity in the banking system, steep rise in interest rates, increase in Government borrowing from the Central Bank, rising import bill and resulting growth in fiscal deficit. The significant turmoil in the global financial markets and slowdown in the domestic economy posed many challenges to Pakistan's banking sector including a steep rise in non-performing loans.

Profit & Loss Analysis

In this backdrop it is creditable to note that NBP's top line (operating revenue) increased by 13% from Rs. 47.1 billion in 2007 to Rs. 53.5 billion in 2008. Pre-tax profit, however, has reduced to Rs. 23.0 billion, a decrease of 18% over last year mainly on account of a higher provision charge which increased due to the bank's policy of prudent NPL provisions. Earnings per share reduced by 18.8% to Rs. 17.23 in 2008, Pre-tax return on equity stood at 30.5%, pre tax return on assets at 3.0% while cost to income ratio at 0.35 remained one of the best amongst the Pakistani banks. The bank is well capitalized with capital adequacy ratio at 16.6%.

Net interest income increased by 10.2% to Rs. 37.1 billion from the corresponding period last year owing mainly to volume growth. The increase in lending and assets yield was partially offset by increase in deposit rates mainly on account of a 4% mandatory increase in the rate on saving deposits and an overall increase in bank's funding cost. Non-interest income shows growth of 21.2% mainly in fee, commission, exchange and other income. This growth is impressive since the contribution of capital gains on sale of securities declined from Rs. 2.3

billilon in 2007 to Rs. 0.4 billion in 2008. Fee income increased by 17%. Income from dealings in foreign currencies increased mainly on account of revaluation gains due to volatility of Pak Rupee. During the year the bank succeeded in getting compensation on delayed refunds for various years from the taxation authorities to the tune of Rs.988 million which increased other income by Rs. 1.1 billion.

Administrative expenses increased due to increase in staff cost and other administrative expenses. Staff cost increased on account of inflation linked increase in salaries and promotions announced in 2008. Record inflation also increased our other administrative expenses.

Provision charge against advances & other assets increased by Rs. 6.8 billion from Rs. 4.9 billion in 2007 to Rs. 11.7 billion in 2008 reflecting the greater stress on some sectors in our portfolio. Record inflation, high interest rates, power shortages coupled with political environment were the factors for increase in NPLs which occurred across the banking system as evident from the increase in NPLs in the system by 40%. Net NPL's were at 3.3% and provision coverage stood at 76%, one of the highest in the banking system.

2008 also saw unprecedented fall in equity prices and KSE 100 index declined by 55% in 2008. During the year, the stock exchanges introduced a 'floor mechanism' in respect of prices of equity securities based on the closing price as prevailing on August 27, 2008. Under the "floor mechanism", the individual security price of equity securities could vary within normal circuit breaker limits, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period trading of securities effectively remained suspended on the stock exchanges. The bank's revaluation surplus on securities including Bank Al-Jazira and mutual funds was hit by this abnormal declining in equity prices and showed reduction of Rs. 22.7 billion or 86%. This decline was mainly led by Bank al-Jazira and NIT units, however the market value of these shares still exceeds the bank's cost.

As of the balance sheet date, the impairment loss on listed equity securities and mutual fund investments held under 'Available-for-sale' category amounted to Rs. 2.4 billion. SBP has allowed banks that the impairment loss resulting from the valuation of listed equity securities/mutual funds held under 'Available-for-sale' category of investments as of December 31, 2008 may be held under 'surplus on revaluation of asset' account as shown on the balance sheet. The impairment loss is required to be taken to the profit and loss account in the year 2009 on quarterly basis. The bank on a prudent basis decided to recognize Rs. 0.4 billion in P & L in the current year representing 25% of impairment loss on the shares portfolio.

Balance Sheet Analysis

During the year, the bank, on a prudent basis carried out a desktop revaluation of major properties to ascertain the current market value and to adjust revaluation surplus accordingly. This resulted in reduction of Rs. 2.7 billion from previously assessed values of 2007.

Despite the difficult environment, NBP managed to pose an appreciable growth in deposits and advances. Advances increased by Rs. 72.7 billion or 21% mainly in corporate sector on account of financing related to energy and power, 2008 was a very difficult year in terms of liquidity and deposit mobilization. The bank's challenge for deposit mobilization was tested by the government's decision to withdraw some of its deposits from the banking system. Hence a major effort was required to maintain deposit levels. By year end, the deposits increased by 6% or Rs. 33 billion. Bank's current and saving accounts ratio stands at 58% and remains one of the highest in the banking sector.

Performance of the various business and support units during the year 2008 is given below:

Corporate & Investment Banking Group

The bank's corporate banking strategy revolves around providing comprehensive and customized financial solutions to our corporate customers. The bank offers products from working capital financing to infrastructure/project, structured and syndicated financing. Our corporate banking has strong relationships with the country's top business houses. Corporate loans showed an impressive increase of more than 22% in 2008. The increase was mainly in financing for energy and power. Advisory fee on corporate finance was a major contributor as the bank executed a number of large transactions in the energy and infrastructure projects. The bank also focused on increasing trade finance income by leveraging the bank's relationship with the clients.

Investment Banking

NBP investment banking focuses on origination and execution of project finance, corporate finance, divestitures, financial restructurings, mergers & acquisition assignments and associated financing solutions. In 2008 NBP's corporate team managed a number of large transactions where NBP was the lead manager.

On equity Investment the freezing of KSE index for four months and fall in KSE index by 58% limited opportunities. The 'floor mechanism' in the KSE brought activities to a halt for a period of around four months from August 2008 to December 2008. Despite these difficult times the bank managed to record capital gain of Rs. 0.4 billion.

Retail Banking

NBP has the largest retail client base in the country and its retail portfolio is one of the largest. The period between 2003 – 2007 witnessed the growth in retail loan book across the banking system. However, due to steep rise in interest rates due to inflationary pressure, the growth in retail portfolio has turned into reduction in 2008. The flagship NBP 'Advance Salary' product showed signs of maturity and consolidation in 2008. In 2008 property price volatility, high interest rates, economic conditions of the country and rising defaults discouraged house mortgage loans. NBP was largely insulated from increase in non performing loans in retail sector due to very nature of its major product "NBP Advance salary" where the bank exercises control over the salary cash flows of the borrower. NBP continue to believe that retail credit has strong long-term growth potential. However, in the short-term it may face challenges giving the high interest rates and rising default levels. The bank's retail strategy focuses on its extensive branch network and leveraging the customer base. When the new core banking system comes on stream, the bank expects to launch new fee based retail banking products to increase its product suite. We believe that the bank's large customer base provides it an excellent opportunity to cross sell new products to its existing customers and will allow us to further deepen and strengthen relationships.

The bank is focusing on strengthening its retail deposit franchise to have a stable funding base. Bank’s current and saving deposit is 58% of the total deposits and is one of its key strengths.

Small & Medium Enterprises (SME)

SME financing is an area of good future potential. Due to the negative impact of high inflation & interest rates, power shortages, fluctuation in commodity prices and reduction in export orders SMEs sector suffered considerable pressure that reduced the repayment capacity of the borrowers for existing loans and also their willingness to go for fresh financing. Due to these factors SME loans registered a decline.

Agriculture

Bank believes that Pakistan’s rural economy has high growth potential and offers attractive opportunities. The bank’s product and services are offered to address the needs of both the farm and non-farm sectors. NBP’s large rural coverage of the country is second to none and is one of the major strengths of the bank. The importance of agriculture financing cannot be ignored as agriculture is key to Pakistan’s future. Rural banking in Pakistan is in nascent stages and deployment of technology and modern banking channels continue to be an evolving process. During 2008 due to higher commodity support prices financing under government operations increased by 118%. These loans are fully backed by GoP guarantees.

Deposits

In the back-drop of some of the worst financial and liquidity crunch faced by virtually all economies, Pakistan also faced issues of liquidity albeit at a much lower level. In addition to contraction in liquidity in the banking system, NBP also faced challenges due to major withdrawals by public/government departments during the year. Despite all these negative development, NBP managed to close the year higher in terms of deposits compared to last year.

Treasury Operations

The treasury management function at the bank comprises the liquidity, exchange and interest rate management 2008 saw volatility in interest rates, varying liquidity conditions, global credit tightening, depreciation of Pak Rupee and high inflation resulting in significant movements in yield curve. Treasury Management Group actively managed the government securities portfolio and optimized yields. The group also provides foreign exchange and derivative products to its clients.

Non Performing Loans

Rise in non performing loans has been an industry wide phenomenon and because of the negative factors present in the economy mentioned earlier, NPLs increased by 47% or Rs. 181 billion. We believe that most of the NPLs are the result of normal business cycle / circumstantial defaults and with the economy picking up and reduction in interest rate, the quantum of non-performing loans is expected to decline. With provision coverage at 76% NBP is well positioned to absorb any deterioration in advances quality. NBP is keeping staunch focus on recovery and reduction in non performing loans which is the area of greatest attention. Hopefully a sizeable percentage of the provisions will be written back to earnings in the coming years.

Domestic Branches Network

Bank expanded its operations in 2008 and 11 more branches across Pakistan were opened in 2008 taking the branch network to 1254. NBP has a well defined strategy for branch expansion to enter the untapped markets and to strike a balance between its rural and urban coverage.

International Operations

Bank’s international strategy is focused on capturing trade business and increasing bi-lateral investment flows. Despite the fact that 2008 was the year of recession in almost all major economics across the globe, NBP’s overseas operations managed to register growth in deposits, advances as well as profits. In 2008 NBP increased its number of overseas branches from 18 to 22. The new branches were opened in

Herat (Afghanistan), Mazar-e-Sharif (Afghanistan), Gulshan (Bangladesh) and Sylhet (Bangladesh). Bank is in its final stages of opening up first branch in Riyadh (Saudi Arabia) which is expected to increase our trade related income.

Islamic Banking

NBP's Islamic banking operations have gathered momentum and have registered impressive growth in Deposits (75%) advances (237%) and total assets (84%). In 2008 Bank further opened two more branches in Faisalabad and Rawalpindi. With the increase in the popularity of Islamic banking both in Pakistan and overseas, NBP's Islamic banking operations have good potential for growth in future.

Operations

Improving operational efficiency is getting more focus given the challenges being faced by the industry in last one year. With opening customer facilitation centers for the collection of utility bills and making payments to pensioners, NBP expects to reduce its counter traffic at branches thereby focusing more on its customer's needs. Customer care is a key area of the bank and conducted various training programs for employees to improve customer handling and interaction.

Information Technology

Year 2008 has been a historic year for NBP's I.T. infrastructure point as the bank started its implementation program of 'Core Banking Application (CBA) Software'. This is a state of the art software providing complete banking solution covering all areas. This will be a transformation which will greatly improve operational efficiency and control, customer service and facilitate launching of new banking products. The implementation process has been started and is planned to be completed within next 18-20 months in 250 branches covering about 80% business of the bank.

Besides, the following capacity building projects have also been initiated :

- ATM Expansion Project: by mid of 2010 NBP will have a network of 300 ATMSs.
- Core WAN Link Enhancement is being made from 64 to 512 mbps.
- All Branches Connectivity project is also under way.

By completion of the above capacity building projects the bank's infrastructure between branches, regional centers and Head office with backup connectivity will effectively be utilized for the implementation of the core banking project.

Human Resource

The bank has worked on the philosophy of 'Higher pay for higher performance' and with this view have started a number of incentives including creation of talent pool, hiring of top class MBAs as Management trainees, women empowerment as well as overall welfare of the employees. In 2008 NBP was among the very few organizations that realized the growing pressure of higher inflation on its employees' salaries and, therefore, allowed a 15% increase as dearness allowance. Inflation linked salary adjustment was given to employees which though increased the staff cost slightly but has greatly motivated the Bank's work force. In addition the bank also confirmed 1,600 employees into permanent cadre who were already working in the bank as temporary/ outsourced employees. This action has resolved one of the biggest demands of the Bank's union and has further strengthened the union management good relations.

Credit and Risk Management

Risk management remains a critical area. Our focus includes analysis, evaluation and management of all risks, credit, liquidity, market, operational and reputation risks. The bank's risk management policies and procedures are subject to high degree of supervision and guidance to ensure that all risk categories are systematically identified, measured, analyzed and proactively managed.

Market risk is measured and monitored using value at risk (VaR) framework. Operational Risk Management Unit has been established that supplements Credit and Market risk units for comprehensive risk management respectively. Our risk management in terms of adoption of Base II guidelines is advancing smoothly. The team manages this risk with the help of control oriented environment wherein processes are documented, transactions are reconciled and monitored. We have our internal filtration systems and approval hierarchy to ensure that proper authority and responsibility is established and at the same time to reduce the lead processing time of the credit application. Bank has proper monitoring system aligned as Credit Administration Department (CAD) to further improve our risk management function.

Credit Rating

NBP enjoys the highest rating of 'AAA' in the industry assigned by M/s JCR-VIS Credit Rating Company Limited on a standalone basis i.e. without the benefit of the 75% government ownership.

Market Recognition

In addition to the highest credit rating in the banking sector NBP has received several awards from both local and foreign institutions of repute during 2008 including "Bank of the Year" award given by the "The Banker" magazine and the Best Foreign Exchange Bank in Pakistan" awarded by "Global Finance".

Social Responsibility

NBP has a strong commitment towards the betterment of society and is fully aware of its social obligations and responsibilities. NBP has always shown great generosity in times when a natural calamity strikes like the 2008 devastating earthquake in Balochistan or when it comes to rural development, children education and promotion of Sports. In 2008 NBP inaugurated its own built Sports club at Clifton Karachi offering state of the art sports facilities. This has been much appreciated by the sport fans and general public at large.

SME-Sector Development Program (SDP)
ADB Loan No 2067

Small & Medium Enterprises Sector Development Program (SME-SDP) funded by Asian Development Bank and aimed to improve the competitiveness and profitability of SMEs, was signed as Project Loan Agreement on 10th February 2004 and it successfully closed on 30th June 2009. Ministry of Finance was the designated Executing and Coordinating Agency while implementation of different segments was the responsibility of respective ministries/agencies which included Ministry of Industries & Production/SMEDA, Ministry of Labour and Manpower and Ministry of Finance/BSF.

Highlights of the progress during the year were as follows:

i) **SME Policy** Dissemination and implementation of the Policy progress according to the schedule. SME Baseline Survey was completed and an analytical report drafted.

ii) **SME Business Support Fund (BSF)** effectively utilized and leveraged the knowledge services available in the private sector for the benefit of 940 SME projects across the country. It disbursed Rs. 97.88 million on a Matching Grant Facility basis to SMEs.

iii) **Labour Protection Policy (LPP) and Labour Inspection Policy (LIP)** Implementation of the two policies progressed during the year where three consultancy studies were completed.

House Building Finance Corporation Limited(HBFC)

Background:

- House Building Finance Corporation Limited (HBFC Ltd) was established in the year 1952 as a Statutory Federal Body under HBFC Act 1952, with the objective of providing financial assistance for construction and purchase of houses to the people of Pakistan.
- It has been corporatized since 25th July 2007 and stood incorporated as Public Limited Company.
- It is amongst the oldest Housing Finance Institution in Asia Pacific region.

- For nearly 50 years it enjoyed the monopoly in housing finance, until commercial banks/private sector housing finance companies entered into the housing finance business.
- HBFC always focused its business on housing needs of low & middle income groups.

Vision :

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

Mission:

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

Target market-Law and middle income groups of population.

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

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

A. Network of Offices :
HBFCL is providing housing finance all over the country through 58 branch offices, 12 zonal offices, and 20 representative offices/service agents.

B. Operational Activities:
Since its inception, the corporation has disbursed Rs. 47 billion for the construction, purchase and renovation of over and above 455,259 housing units including bulk loans to 28 Development Authorities, Public & Private sector organizations for development of sites.

C. Performance during the year July 2008 – June 2009 :

i) Disbursement :

During the review period total disbursement of Rs. 2.277 billion was made for construction, purchase and renovation of houses. With the increasing market competition HBFCL has increased the loaning facility upto maximum of Rs. 7.5 million from 2.5 milllion to attract large section of high profile clientele.

Amount Rs In Million

During the Period	**2008-2009**			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
	Q1	Q2	Q3	Q4
Actual Disbursement	1.057	654	319	247
Target Disbursement	2,188	2,188	500	400
% Achievement	48%	30%	64%	62%

ii) Recovery :

During the review period total of Rs. 3.207 billion were recovered.

Amount Rs In Million

During the Period	**2008-2009**			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
	Q1	Q2	Q3	Q4
Actual Recovery	707	783	853	864
Target Recovery	968	968	500	900
% Achievement	73%	81%	107%	96%

iii) Sukuk Issue :

HBFC Ltd issued a secured privately placed Sukuk of PKR 1,500 million and raised the fund from market to cater its business requirements.

iv) Online Verification System :

In order to mitigate risk, Verisys system has been established for the purpose of verification of credentials of customers using CNIC number with NADRA.

v) Pro-Active Website :

State of art website is fully operational and facilitating our customers by not only providing their loaning information but information about online mortgage tracking to sale-purchase of mortgage properties, guide on construction and purchase of real estate and information portal on real estate is also available.

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.

Production of Banknotes and other Security Products

During the year under review, indent of State Bank of Pakistan (SBP) for production of 2016.0 pieces of various denominations of banknotes was successfully completed before the close of financial year and all banknotes to various branches of SBP were delivered as per commitment.

Other Security Products (OSP) Division also successfully met the production and delivery schedule in respect of most of the other security products.

Exceptional Financial Results

Substantial control over cost and reduction in the wastages of paper and inks were achieved during the year which directly contributed towards the improvement of profitability.

The Corporation has surpassed all the past records in terms of Sales, Gross profit, Profit before and after tax and the Net assets during the year.

Projects for replacement of Machinery and Equipment For the Printing of Non-Banknote Security Documents

The Project for replacement of machinery and equipment for the printing of non-banknote security documents for Other Security Products involving a capital cost of Rs. 426 million approved by the CDWP of the Planning Commission of Pakistan in April, 2008 was in process during the year and expected to be completed by first week of September, 2009. As such, the project will be completed well before the committed time of October, 2009.

Co-Generation Power Plant

The Co-Generation Power project was approved by the CDWP in its meeting held on 11th November, 2008. The imported components of project i.e. 2 x gas generators, chillers & cooling towers have arrived. Gas generator room construction is in progress and expected to be completed by end of September, 2009 and subsequently the generators will be installed & commissioned. The Project is expected to be completed by end of December, 2009 as per plan.

Credit Rating

Once again JCR – VIS Credit Rating Agency in its recent annual review of the Corporation's credit worthiness has maintained long and short term ratings as AAA (Triple A) and Al + (A one Plus) respectively. These ratings reflect the Corporation's financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitments. As a matter of policy, 'AAA: rating is not assigned to Privates 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.

Computerization of Operations of PSPC

The customized Enterprise Resource Planning (ERP) applications have been developed and the computerization of the different modules of Pakistan Security Printing Corporation (PSPC) has been completed.

Training

The Corporation's philosophy on training is "Training is an Investment and not an expense". The focus is on training for tangible results. The Change Management initiatives taken by the Corporation in the past five years have produced encouraging outcomes.

During the financial year 2008-2009, PSPC achieved extremely satisfactory production results; continual staff training being a leading influencing factor. PSPC is very conscious of training being a key element in enhancing skills, knowledge and attitude of employees and this would be continued in future, labeled as "Employee Skill Development Program". PSPC aims to bring about change in the level of skills, knowledge and attitude of employees through training programs so as to achieve value addition to business results.

Following training programs were organized during the year in of PSPC addition to various seminars & workshops attended by nominees on topics including General Management, HR Management, Finance, Operations etc.

Sr. No	Name of Training	No. of Participants	Organized at/ Training Provider
1.	BMR Project OSP (5-Colour Machine, 6-Colour Machine, Perforation Machine CToP Plate Making Machines)	26	Abroad (Germany, Switzerland, France)
2.	Lead Auditor Training Course QMS 9001:2008	1	Institutional Bureau Varitas
3.	Lead Auditor Training Course OHSAS 18001:2007	1	..
4.	ISO 9001:2000 Internal Audit	15	In-House Bureau Varitas
5.	Civil Defence – General Instructor's Course	5	Civil Defence
6.	Fire, Safety and First Aid	90	In-House
7.	MS-Office Computer Training	30	..
8.	Effective Managerial Skills	20	In-House (Sidat Hyder Morshed)
9.	Business English Language	15	In-House (Consultant)

First Women Bank Ltd.

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

"Undertaking the conduct of all forms of business of a Banking Company in manner designed to meet the special needs of women,

and to encourage and assist them in promotion and running of trade and industry and practice of profession".

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

"Transform the status of women from passive beneficiaries To dynamic agents of change".

The basic problems faced by women are financing issues, limited business experience, marketing & management issues, inadequate business education and lack of access to international networks. Social, cultural and religious attitudes also impede women in business. FWBL is the pioneer bank to launch micro-credit in Pakistan in 1990. The micro-finance model of FWBL is the way forward:

- The Bank believes that micro-credit alone is not sufficient for empowerment of women, as such, the Bank's micro-finance is complemented by support services.

- The Bank's micro-credit ranges up to Rs. 100,000, the highest amongst all financial institutions/NGOs.

- Micro-loan is disbursed in various slabs, as per the past credit history of a borrower: Rs. 25,001-50,000; Rs. 50,001-75,001-Rs. 100,000.

- To alleviate poverty the mark-up rate on micro-finance is the lowest amongst all financial institutions/NGOs.

FWBL continually aspires to be the lead bank for women, being a dynamic, adaptive and responsive to the special economic needs of women. FWBL caters to women at all economic levels of Micro, SME and Corporate clients. The Bank believes that a micro-borrower' of today is a potential 'SME' and a 'corporate client' of the future.

Credit Products for Women: FWBL's unique credit products are customized to the specific business & economic needs of women- 'Business Loan for Women', 'Loan for Salaried Women', 'Educational Loan', 'First Car', 'First Home'.

Support Services for Women: The Bank recognizes that access to credit alone is not sufficient to economically empower women. FWBL's credit products are complemented by support services offered through **Business Centres** with components of specialized skill training and business management courses and **Computer Literacy Centres:** which played a very important role in developing computer skills amongst urban poor, unemployed and business women. Computer Literacy Centres and Business Centres are currently being upgraded and refurbished.

Collaboration with Canadian International Development Agency (CIDA) was for three-years' financial support for FWBL Financial Services Desks at Karachi, Lahore and Islamabad, and grant for extensive staff training.

Collaboration with International Labour Organisation (ILO-IPEC) was for combating child labour in the carpet weaving industry in the districts of Gujranwala, Sheikhupura and Hafizabad. The programme financed women micro-borrowers in 162 villages, identified 42 micro-businesses, established 830 new micro business units, provided skilled training to 1594 rural women, distributed micro-credit of Rs. 30.78 million to 2,921 women living below the poverty line, 5,842 children weaned from child labour and 16,000 children educated through non-formal educational centres.

Collaborations with Ministry of Women Development – national Fund for Advancement of Rural Women': The Ministry of Women Development had collaborated with FWBL for economic empowerment of rural women, involving total cost of Rs. 35 million for three years pilot project with revolving credit line of Rs. 20 million. The major objective of the project that had concluded during the period, was creation of employment opportunities, improvement in income level of women living below the poverty line, focus on creating linkages for development, packaging and marketing of local & agro-based products, services and revival of the traditional arts and crafts.

Financial Performance During Last Ten Years 2000 – 2009:
The financial turnaround of FWBL was reflected through its highest ever results in all key components, as summarized below for the last ten years from 2000 to 2009:

- Balance sheet size has grown to around Rs. 10 billion from Rs. 3.87 billion in 2000, growth of 152% over 2000.
- Deposits increased from Rs. 3.4 billion to – Rs. 8.1 billion, reflecting growth of – 138% over 2000.
- Advances increased from Rs. 604 million to – Rs. 1.3 billion an increase of – 117% over 2000.
- Net-equity increased from Rs. 110 in 2000 to – Rs.629 million in 2009, reflecting growth of – 472% over 2000.
- Net asset value per share increased from Rs. 5.50 to Rs. 31.46.
- Issued Bonus Shares @ 20% to Shareholders for year-ended at 31 December, 2004.
- The revolving credit line of Rs. 43.650 million given by the Ministry of Women Development in early 1990's was converted into paid-up capital in 2005; Thus, increasing the paid-up capital to Rs. 283.65 million.

Operational Performance During the Last Ten Years 2000-2009:
To strengthen the systems of internal control, the Bank developed manuals/polices & procedure, which were approved by the Board of Directors: Treasury Manual – November 2003', 'Investment Policy – November 2003', Audit Manual – December 2003', Guidelines/Policies and Brochures for consumer Products – December 2003', Guidelines/Policies and Brochures for consumer Products – December 2003', 'Country Risk – March 2005', 'Credit Manual – November 2005', Policies & Guidelines for Acquisition & Disposal of Assets – November 2005' and 'Maturity-wise Distribution of Deposits & Other Accounts – November 2005'.

The management had established new divisions and hired experienced & qualified professionals since 2001: 'Central Audit &

Inspection – August 2001', Treasury – January 2002' Human Resource – March 2002', Finance & Planning – February 2002', Segregation of Credit Division into 'Corporate & Syndicate, 'SME' and 'Micro-Finance' – April 2002', 'Risk Management and Credit Monitoring Cell – March 2003', 'Treasury operations/Settlements Back office – March 2003', Marketing – September 2003', General Administration – February 2004', 'Compliance – July 2004', 'Operations – December 2005'; The Bank re-organized its four Regional Offices into nine Area Offices, in May 2009 for improving efficiency of branches for prompt customer services, aggressive marketing and more effective monitoring of the branches.

The Bank's entire network of 38 branches was automated by March 2004 and all branches are offering on-line banking for live cash-withdrawal, funds transfer, ATM transactions, etc. With the introduction of SWIFT, the Bank is offering inter-bank fund transfer and implemented the "Real Time Gross Settlement" system.

FWBL's Financial Performance During the Year 2009 till date:

Challenges for 2010 & Future Outlook:

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

- Re-organizational restructuring along with re-capitalization in various phases and aggressive marketing for core Deposits and Credit Products.
- Improvement of customer services, marketing skills and close liaison with local business organizations and various women oriented business – universities, schools, hospitals, lawyers NGOs and other similar women organizations.
- FWBL's focus, being in sync with the Government's priorities would be aggressive lending to SMEs and agricultural credit as well Micro-finance.

- In line with the Bank's Vision statement, the Bank will aggressively continue customized staff trainings to develop an aggressive and dynamic team women bankers.
- Several Human Resources Management & Development initiatives have been planned for the next three – five years.
- The introduction of an automated Human Resources Information System will enable the effective tracking of all staff qualifications and experience, providing information for effective Talent Management, Succession Planning and "Work Life balance" is another area of focus of the female workforce of the Bank.
- Competency based learning initiatives will be introduced to develop skills of staff, and will be cascaded throughout the Bank. These initiatives will provide a solid foundation for the long-term sustainability of the Human Resources Assets of the Bank.
- The Bank has plans to further strengthen its IT infrastructure by up-grading core banking applications, offering new products, such as e-banking, Phone Banking, Call-Centers, Internet Banking, Utility Bills payment, Point of Sale terminals Debit Cards and centralized MIS.
- The Bank continues its efforts to comply with the challenges of Basel II accord, the strengthening of internal control systems, and alignment of processes/ procedures, for effective risk management.

INVESTMENT WING

Following are the functional areas of Investment Wing :

i. Company Law – Companies Ordinance, 1984.
ii. Capital Markets, Stock Exchanges, Securities Regulation.
iii. Microfinance and Poverty Alleviation.
iv. Joint Ventures
v. Development Financial Institutions (DFIs)

vi. Monopoly Control and Anti-Cartel Laws.

2. The details of activities, achievements and progress in respect of the Above areas, except Serial No. (i) , (ii) and (vi) as the same are directly Being submitted by the concerned Organization of Coordination Wing are given as under :

Microfinance Sector and Poverty Alleviation

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

Pakistan Poverty Alleviation Fund (PPAF)

4. Pakistan Poverty Alleviation Fund (PPAF) established in 1007, 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 (NOGs/CBOs, Rural Support Programmes (RSPs) and other private sector organizations.

The targets set for the year 2008-2009 and actual achievements are given below :

Indicators	Targets 2008-09	Achievements 2008-09
Credit and Enterpri		
Sub-Loans (Nos)	786,500	700,797
Disbursement	10,010	6,949
Water and		
Projects (Nos)	3,370	3,249
Disbursement	955	979
Human and Institutional Development		
Staff Trainess (Nos)	500	1,261
Community Trainess (Nos)	40,000	39,000
Disbursement	550	370
Health :		
Disbursement	40	31
Education:		
Disbursements	75	42
Rehabilitation and Reconstruction (in earthquake affected areas) :		
Disbursements	3,100	3,983

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 act as 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.

5. The targets set for the year, 2008 – June, 2009 and achievements are given below :

	Targets 2008-2009	**Achievements 2008-09**
Coverage Number of Districts	92	92
Disbursement (Rs)	4,350,537,818	4,407,225,340
Active Clients	398,196	372,171
Beneficiaries :		
Male	317,614	298,586
Female	79,403	77,058
Total	**397,017**	**375,644**

Joint Investment Companies :

6. Pakistan has a rich experience of setting up Joint Investment Ventures with other friendly countries. At present, there are seven such companies set up on 50 : 50 partnership with Libya, Kuwait, Saudi Arabia, Oman, Brunei, Iran and China.

(Rs. in million)

1	Company	PKIC	PLHC	SAPICO	POIC	PBIC	PIJIC	PCIC
2	Joint Venture Partner	Kuwait	Libya	Saudi Arabia	Oman	Brunei	Iran	China
3	Year of Incorporation	1979	1978	1981	2001	2006	2007	2007
4	Paid up Capital As on 30.06.2009	6000	6124	5000	6000	5000	5000	6457*

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

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

<u>The Competition Commission of Pakistan</u>

Improving Pakistan's Competition Framework

Through effective enforcement of Competition Law, the Government of Pakistan seeks to promote and protect competition in the economy with the private sector acting as the engine for sustainable economic growth.

Competition Ordinance, 2007 is progressive in nature and seeks to promote and protect competition. The law seeks to (i) encourage businesses to achieve economies of scale rather than taking measures against the undue concentration of economic power (ii) put in place a framework that ensures free interplay of market forces, and hence promotes competitiveness and consumer welfare.

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

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

The Competition Commission of Pakistan

Competition Commission of Pakistan (CCP or the Commission) has a broader and more progressive mandate i.e., *promoting healthy competition among economic agents.*

The Commission is a quasi-judicial, quasi-regulatory, independent law enforcement agency. Fully in keeping with the spirit of the law, the Commission seeks to be non-discriminatory, to protect competition rather than competitors, to facilitate business growth, to achieve co-ordination with other agencies and the public and to maintain integrity in applying the law. The law requires the Commission to take a reasoned approach, to carry out studies to identify and address competition vulnerabilities, and to engage in advocacy through various means in order to create awareness of competition issues and to promote a healthy competition culture.

The Commission comprises of five members who depict a blend of professionals from the legal, academic, and private sectors which adds technical strength and versatility to the organization.

Activities

Regulations & Guidelines

Competition Ordinance, 2007 is an enabling law and without the regulations it cannot be enforced. CCP review all the regulations it issued in the preceding year, relating to: i) Merger Control, ii) General Enforcement, iii) Leniency, iv) Conduct of Business, and v) Service regulations. After eliciting public opinion, theses regulations were suitably amended and notified.

The Commission issued the following guidelines:

i) Guidelines for imposition of financial penalties; and
ii) Guidelines for conducting the proceedings.

Establishment of new departments/cells

During the year, powers of the Commission were further delegated to the Members and senior officers. This was coupled with the creation of following Departments to improve efficiency of the Commission.

i) Office of Fair Trading (OFT) to handle the cases of consumer protection; and
ii) Acquisition and Merger Facilitation Office (AMFO) to render advice to undertakings intending to enter into merger and acquisition transactions.

Technical Activities

The Commission took significant steps, including several landmark decisions as summarized below:

- Thorough investigations were conducted with respect to cartelization and collusive behavior on the part of cement manufacturers and their Association. They material retrieved from the office of All Pakistan Cement Manufacturers

Association was examined by the Research, Investigation and Legal Departments of the CCP. As a result, show-cause notices were issued to the alleged cartel members.

- The Commission took *suo moto* notice of the circulars/notices issued by the Karachi, Lahore and Islamabad stock exchanges for placing/fixing a price floor for securities. After determining the anti-competitive effects, the parties were imposed penalties for a sum of rupees none million. However, Karachi and Lahore stock exchanges filed applications for interim relief against order of the Commission.
- Local beverage manufacturers were provided with an opportunity to access international fast food restaurants, which were previously foreclosed by the multinational corporation namely, McDonalds as it had exclusive dealing agreement with Coca Cola. Provided the latter meet the global quality standards prescribed by McDonalds to its licensees/franchises.
- The Commission took *suo moto* notice of shortage/problems in the provision of steel billets by the Pakistan Steel Mills Corporation. It was determined that the PSM was abusing its d'dominance' and was refusing to deal with purchasers in relation to low carbon steel billets. The Commission issued Show Cause notice to PSM.
- The Commission proceeded *suo moto* against the Institute of Chartered Accountants of Pakistan (ICAP). The Institute fixed the minimum remuneration for conducting the audit of companies by the members of ICAP which CCP found contravening to the Competition Ordinance.
- The Commission took *suo moto* action against All Pakistan Newspaper Society (APNS) for setting the minimum price level to be charged by newspapers, and against All Pakistan Akhbar Farosh Federation for entering into an agreement with APNS whereby the Akhbar Farosh Federation would not distribute any newspaper with a cover price below the minimum price level. CCP determined it to be price fixing and directed APNS to withdraw its decision.
- CCP passed an order against Bahria University for abuse of its dominant position. The practice of compulsory purchase of

laptops and sold by the University to its students amounted to tying the sale of laptops with the provision of education service. The University was directed to pay back to the students, who purchased laptops on installments, an amount totaling Rupees tem million pro-rated on the bases of the interest amount paid so far, and to be paid in future by each student. The University was further direct to desist from making the purchase of laptops compulsory to the students in future.

- CCP passed a decision against the Karachi Stock Exchange (KSE) for abuse of its dominant position. KSE was directed to take such measures along with the other exchanges of Pakistan to enter into an arrangement similar to that of UTS (Unified Trading System) existing between Lahore and Islamabad Stock Exchanges to ensure availability of and access to the best price of commonly listed securities (on all exchanges) to all investors including those of Lahore and Islamabad (regardless of geographical location). This was considered necessary to restore competition in the relevant market. To facilitate implementation, CCP further directed that if reasonable commercial terms for the arrangement/facility were not agreed between the parties within tow months of the Order, any or all parties could make a reference to the CCP which will then proceed to appoint a firm of chartered accountants to make such determination.
- CCP passed a decision against Mobilink GSM for indulging in restrictive trade practices. The undertaking was charging the price of three products separately from the users and, it integrated/tied-in the three products in such a manner that if a user surrenders one product, for example mobile telecommunication service, he is denied of the internet service. The undertaking would not activate Blackberry internet and telecommunication service on Blackberry handset, if the handset was not purchased from it. In as detailed order, the undertaking was directed to take suitable measures so as to remove restrictive trade practices.

In other activities of the CCP, 56 pre-merger clearances were granted, including one joint venture. In 90 cases, the Commission granted exemptions from prohibited agreements. Commission also provided advice on a large number of specific questions raised by business houses.

Advocacy

Competition advocacy is about the promotion of competition though means other than law enforcement. The Commission has been very active in advocacy as required under Section 29 of the Competition Ordinance, 2007.

During the year, six seminars, twelve roundtables with groups of businessmen, twelve TV interviews were held. Competition Consultative Group that comprise of leading business executives, sector-specific regulators and academics held four meetings in 2008-09. A number of bilateral meetings with sector-specific regulators and researchers were also held.

On the international front, the Commission actively participated in activities of the International Competition Network, OECG, WIPO, IBA and UNCTAD. Apart from being represented at various conferences and workshops (including tele-conferences for training purposes) organized by these bodies, groups of CCP officers participated in the training specifically organized by the OECD and Turkish Competition Agency for CCP.

The Commission has also worked on publications and published its Annual Report 2008 along with State of Competition Report 2008.

Securities and Exchange Commission of Pakistan

Introduction

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

Policy Board established under the Act.

Mr. Salman Ali Shaikh is the Chairman of the Commission. In addition, the Commission comprises of two Commissioners – Mr. S. Tariq Asaf Husain & Mr. Muhammad Sohail Dayala.

Activities During Fiscal Year 2008-2009

During the period July 01, 2008 – June 30, 2009, SECP's work in the sectors under its purview are summarized below:

Securities Market

Primary Securities Market

A well developed primary market is crucial for resource mobilization by companies to raise funds for expansion and growth plans. The prospectus/offer for sale document of any company inviting public subscription of its securities under the Companies Ordinance, 1984 is required to be approved by the Commission prior to its issue, circulation, and publication. In order to facilitate the issuers and offerers of securities the Commission has issued various Guidelines which includes Guidelines for the Preparation of Prospectus, Guidelines for the Issue of Term Finance Certificates and Guidelines for the Issue of Commercial Papers. During the year under review, four (04) companies issued or offered shares to the public as a new capital of Rs. 3.311 billion was listed in FY 2008-09. Similarly, three (03) companies issued debt instruments, i.e. TFCs to the public and TFCs of Rs 10.100 billion were listed during FY 2008-09.

Secondary Securities Market

The KSE 100 index declined by 23.3% by August 26, 2008 compared to the beginning of the fiscal year, which translated into decline of 2,859 points. Till August 26, l, 2008, a total of Rs 833.99 Billion (USD 10.96 Billion) eroded from the Market Capitalization since July 2008. Keeping in view the continuous downslide, all three bourses in Pakistan decided to 'floor' the price level on August 27, 2008.

In discussion with the representative of bourses, SECP directed the stock exchanges to remove the floor from December 15, 2008. On December 31, 2008, the KSE 100 Index closed at a level of 5,865.01

points. The downward movement of the Index continued in year 2009 with KES 100 declining to the lowest level of 4,8154 points on January 26, 2009, eroding Rs. 2,233.31 Billion from the Market Capitalization since the beginning of fiscal year. Thereon, KSE 100 Index started an upward drive to attain a level of 7,902 points on April 20, 2009.

Introduction of CDC Standardized Sub-Account Opening Form

The above stock market situation in 2008 highlighted issues of unauthorized pledge of clients' securities by a number of brokers/CDC participants during the period of the floor and subsequent to restoration of the market operations. A number of instances were noted where the CDC participants misused the book-entry securities entered into the sub-accounts, taking advantage of the terms and conditions contained in their respective CDC sub-account opening forms.

To address this undesirable situation, the Commission formed a Committee comprising of relevant stakeholders to introduce a Standardized Sub-Account Opening from (SAOF) for opening of sub-accounts at CDC. After extensive consultation with all major stakeholders including the State Bank of Pakistan, Pakistan Banking Association, Stock Exchanges, NCCPL and CDC, the SECP directed the implementation of the SAOF for all new accounts effective June 15, 2009 whereas all existing operating accounts were to be brought in line with the SAOF till December 31, 2009. The SAOF not only brings in more clarity and transparency with regards to the rights and obligations of the participant and the sub-account holders but also seeks to cater to the need of strengthening Know Your Customer (KYC) procedures in the capital market in line with best practices.

Introduction of new NCEL Contracts

During the year under review, the National Commodity Exchange Limited (NCEL), which is Pakistan's first electronic commodities futures exchange, renewed its product portfolio to cater for the hedging and speculative need of various target groups. The new products range is largely denominated by Gold Commodity; however the products contain different specifications to attract interests of various investor groups. With a view to provide diversified investment opportunities for the capital market players, the Commission, during the period under review, accorded approval for listing of following products on the

NCEL:

- NCEL 3 Months KIBOR Futures Contract
- NCEL Weekly 100 gm Futures Contract
- NCEL 10 Tola Futures Contract
- NCEL Weekly IRRI-6 Rice Futures Contract
- NCEL 100 Tola Futures Contract
- NCEL One Kilo Tola Futures Contract
- NCEL 50 Tola Futures Contract
- Amendments Pursuant to Discontinuation of CFS Mk-II and Deliverable Futures Market.

Investor Awareness

The Commission observed during IPOs of shares of various companies that individual investors submit fictitious and multiple applications in complete disregard to the provisions of Section 18A of the Securities and Exchange Ordinance, 1969, which prohibits submission of fictitious and more than one application by same person. For awareness of the general public, SECP has continued awareness campaign in this regard. This campaign includes publication of Warning Notices (both in Urdu and English Language) in all the leading newspapers at the time of initial public offering of shares. The said warning notices are also issued to all the bankers to the issue for placement the same on prominent places of the branches of the Banks.

Employees Stock Option Scheme

Employees Stock Options are used not only to reward employees but also as retention tools, building up long term loyalty of employees to their workplace. To reward performance, encourage productivity and increase employees' involvement, companies in Pakistan have increasingly started offering stock options to its employees. The Stock Option Schemes are approved by the Securities & Exchange Commission of Pakistan under the "Public Companies (Employees Stock Option Scheme) Rules, 1999". During the year under review, SECP approved 06 (six) Employee Stock Option Schemes.

Development of Regulatory Laws

Entrusted with the task of developing a robust, dynamic and efficient capital market, the Commission through various initiatives aimed at ensuring greater transparency, augmenting the risk management capabilities at the stock exchanges and improving price discovery and trade settlement mechanisms, introduced several reform measures to overcome the unique challenges posed to the Pakistani capital market during the period under review and restore investor confidence in the aftermath for the global financial crisis.

The SECP in pursuance of its mandate to develop a fair, efficient and transparent regulatory framework, based on international legal standards, has been approving amendments in the regulatory framework of the capital markets in consultation with the relevant stakeholders.

During the period under review, a number of amendments were approved by the Commission which includes the following:

- Amendments in Listing Regulations
- Amendments in Regulations Governing Risk Management
- Amendments in Regulations governing System Audit of Brokers
- Amendments in Unified Trading System Regulations
- Amendments in General Regulations
- Amendments in Regulations governing Short Selling
- Amendments in the Regulatory Framework of LSE and ISE
- Amendments in the CDC Regulations
- Amendments Pursuant to Discontinuation of CFS Mk-II and Deliverable Futures Market

Developmental Activities

During the year under review, the SECP continued with its efforts for development of a fair and efficient capital market, with an emphasis on bringing new products and systems with stakeholder consensus. A number of developmental activities were undertaken, the most prominent of which are as follows.

- Constitution of the CFS Mk-II Review Committee.
- Constitution of Consultative Group on Capital Markets.

- Amendments in the Capital Issue Rules and Regulations for Buy Back of Share.
- Regulatory Framework for issue of securities to Qualified Institutional Buyers (QIBs) and Sophisticated Investors (SIs).
- Reduction in issuance cost through reduction in the rates of stamp duty.
- Revision of Subscription forms for Shares and Term Finance Certificates (TFCs).
- Pre-Ballot Scrutiny for Rule out Multiple Applications for Shares Subscription.

Corporate Sector

New Registrations

Total number of companies at the end of FY 2009 stood at 53,355 as compared to 51,080 at the end of FY 2008. During FY 2009 a total of 3,181 new companies were registered.

Measures to Promote Corporatization:

Abolition of Stamp Duty in I.C.T:

During the FY 2008-09, the Administration of Islamabad Capital Territory upon the recommendation of the Commission and the efforts of CRO Islamabad abolished the stamp duty on the registration of Memorandum of Association. This initiative was taken in order to promote business activities in the Islamabad and adjoining region. All the provincial Governments i.e., Punjab, N.W.F.P., Sindh and Baluchistan have already abolished the stamp duty in previous years.

Provision of E-Service:

The Commission achieved an important milestone on 25th August, 2008 by launching eServices. eServices is designed to benefit a wide range of stakeholders including the regulates, promoters, practitioners, the regulator itself and the general public at large. It facilitates the functions of availability of company name, incorporation of companies and filing of statutory returns through online system.

It enables the promoters and other officers of companies to interact online using the eServices portal, without visiting the offices of the Commission. It not only save time and resources, but also increase efficiency, creates a paperless environment, promotes confidence, facilitates the general public/regulates and strengthens the country's economy.

Creating Awareness of eServices through Seminars:

Pre & Post launch seminars were held in cities throughout the country, i.e., Karachi, Lahore, Islamabad, Faisalabad and Multan in collaboration with professional bodies, i.e., Respective Chambers Tax bar associations, ICAP and ICMAP, for creating awareness on online services and processes. Post launch workshops were also held at Lahore. Response of the seminars and workshops is very encouraging and stakeholders have appreciated the efforts of the Commission for embarking upon highly ambitious and practical e-Services. Besides, they also gave number of ideas which would be helpful in further improving the project in line with the demands and requirements of the end users.

Scanning and Archiving Project:

In order to support the eServices, all the physical record of companies maintained at Company Registration Offices (CROs) has been scanned. Benefits of scanning and archiving are: Data security; Paperless environment; Quick retrieval; Cost effectiveness; Time saving; and Better performance.

Establishment of Facilitation Centres' at Company Registration Office, Multan and Faisalabad:

In order to provide expeditious services to the corporate sector and the general public, Facilitation Centres' have been developed at CROs, Multan and Faisalabad. The said Facilitation Centres' are fully operational.

Promotion of Compliance

Facilitation extended in filing of annual returns and annual accounts:

The Commission provided extended facilitation on the due dates of filing of annual returns and annual accounts. Facility for collection of these documents was also provided at the Chambers of Commerce and Industry, in the cities of Rawalpindi, Sialkot, Gujranwala, Gujrat and Hyderabad, apart from the Commission's eight Company Registration Offices, Advertisement/Public notices and press releases for creating awareness were issued.

This initiative was undertaken by the Commission to facilitate companies in timely filing of returns and to accelerate the rate of corporate compliance in the country.

Public Facilitation

Re-launching of Companies Regularization Scheme (CRS):

An amnesty scheme, 'Companies Regularization Scheme', was re-launched by the Commission, to give relief to those companies, which have, in the past, defaulted in filing of various statutory returns under the Companies Ordinance, 1984. The scheme enables filing of overdue returns on payment of only normal filing fees and provides complete waiver of additional late filing fees and penalties. The scheme was applicable on all types of accompanies other than listed companies.

The scheme was initially launched for forty five days from 15th May, 2009 to 30th June, 2009. During this period, the scheme received an overwhelming response from the corporate sector and a total of 3,283 companies availed this opportunity and filed 13,485 returns. Keeping in view the wide demand received from the corporate sector, the scheme was further extended upto 31st July, 2009.

Placement of Standardized Memorandum of Association on Commission's web-site:

Previously, standardized memorandum of associations for 31 sectors was made available on the Commission's web-site, for the convenience of promoters in registering a company. Now, during this period, standardized memorandum of association for all new sectors have been developed and placed on the web site, for facilitating promoters. These sectors include Plastic Products. T.V. Channels, Furniture, Mining and Quarrying, Sports Goods, Health Care, Trading, Fertilizers, Carpets and Rugs, Food and Beverages, and Printing and Publishing Sector.

Updated Name Availability Guide:

The name availability guide placed on web-site has been updated this guide is intended for those persons who are desirous of forming a company and to help them in understanding the process of choosing an appropriate name of r their company in order to same time and efforts for registering a company. The guide contains list of prohibited words and the complete online and offline step wise procedure.

Policy Regarding Prohibited Word Revised:

Policy relating the prohibited words in the names of companies reviewed and unnecessary restrictions removed. Revised policy placed on website.

Development of Regulatory Laws

Cost Accounting Record Order:

With the view to have cost appraisal of the companies and to identify inefficiencies in the production and increase profitability and performance, the Cost Accounting Records has been prescribed by the Commission, vide Order dated 26.09.2008, for companies engaged in manufacturing, production and processing of fertilizer, thermal energy, petroleum refining, natural gas and polyester fiber.

Group Companies Registration Regulation, 2008:

The Commission promulgated the Group Companies Registration Regulations on December 31, 2008 to provide a regulatory framework for the formation of group companies. The Regulations were also aimed to empower the Commission to designate the group companies contemplating to avail group relief and group taxation benefits from the Federal Board of Revenue (FBR) in terms of the provisions of Income Tax Ordinance, 2001.

Revision in Fee Structure Facilities Online Services:

Sixth Schedule to the Companies Ordinance, 1984 has been amended to revise the fees structure, whereby the fees for online services have been set lower as compared to manual submission, the view to facilitate online submission of documents by companies.

Amendments in First Schedule to the Companies Ordinance, 1984:

First Schedule to the Companies Ordinance, 1984 containing the sets of Memorandum and Articles of Association for different kinds of companies has been amended, so as to bring it in conformity with the amendments in Sections 74, 158, 161, 233 and 248, of the Companies Ordinance, 1984 made through Finance Acts of 2007 and 2008.

Specialized Companies Division

Introduction

The Specialized Companies Division (SCD) strives to provide a regulatory environment which is conducive for development and promotion of a robust Non-Bank Financial (NBF) Sector. The major functions performed by SCD for the NBF Sector include: licensing, registration, regulation, on-site inspection, off-site surveillance and enforcement. The underlying objective is to safeguard the interest of the stakeholders while at the same time facilitate diversification and innovation in products and services of NBF sector.
The following laws are administered by SCD:

- ► Companies Ordinance 1984.
- ► Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.
- ► Modaraba Companies and Modaraba Rules, 1981.
- ► Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 as amended on 2007.
- ► Voluntary Pension System Rules, 2005.
- ► Non-Banking Finance Companies & Notified Entities Regulations, 2008.
- ► Real Estate Investment Trust Regulations, 2008.
- ► Private Equity and Venture Capital Fund Regulations, 2008.

The following table shows the composition of NBF sector in Pakistan.

Sector	30-June-09 Total Assets (PKR billion)	30-June-08 Total Assets (PKR billion)
Mutual Funds	227.00	339.72

Leasing Companies	59.86	65.92
Investment Banks	31.80	58.02
Modarabas	26.63	29.70
Venture Capital	2.23	3.76
Housing Finance	0.17	0.15
Total:-	**347.69**	**497.27**

Activities during the Year

Changes in Rules and Regulations

NBFC Rules and Regulations

A number of amendments were done in the existing Rules and Regulations of NBF sector of safeguard the interest of investors.

Low Entry Barrier i.e. Inadequate Equity Requirement

To solve this issue equity requirement for NBFCs were significantly enhanced to

- encourage merger & consolidation,
- enhance shock absorption capacity and
- ultimately weed out the weak players to minimize systemic risk.

Capacity issue of Sponsors/Board/Management

To enhance the capacity of board to undertake the policy making for the company a comprehensive fit & proper criteria for Sponsors/BOD/ Management was introduced encompassing:

- financial soundness,
- competence & capability,
- experience, integrity & conflict of interest.

Conflict of Interest

Introduced requirement for appointing one third independent directors on the Board to promote good corporate governance & safeguard interest of stakeholders.

Single Entity & Multiple Licensing Regime

Introduced two cluster licensing approach for NBFCs to:

- segregate different risk involved i.e. market risk & credit risk.

- enhance risk management capacity,
- minimize conflict of interest
- promote good corporate governance
- separate license requirement each for Pension funds, RETs and Private Equity.

Transfer of License without SECP Consent/Knowledge

- Blocking of major shareholder/sponsor's shares with CDC
- All sponsor changes require prior SECP approval
- Introduced pre-licensing capacity inspection

Modarabas

Constitution of the Religious Board:

In pursuance to the power conferred by the Federal Government under section 9 of the Modaraba Ordinance, 1980, a Gazette Notification has been issued on 22.04.2009 for the constitution of the Religious Board for the Modarabas.

Private Equity and Venture Capital

The Private Equity and Venture Capital Regulations were notified on 20th August, 2008. Previously Venture Capital Investment Business was regulated by the Commission under the provisions of the NBFC Regulations, 2007.

Mutual funds

During the financial year 2008-2009, the Commission took reformative measures for protection of mutual funds investors. Some of these are listed below:

- During the recent crisis, it was observed that asset composition and investment objective of mutual funds significantly mismatched from the corresponding fund titles. Proper categorization of funds indicating risk profile and objective of the fund category. This measure enabled investors to make informed investment decision and bring uniformity in the mutual fund industry for comparing performance of funds of similar type.

- On December 01, 2008, in an attempt to safeguard the interest of the unit holders, all Asset Management Companies were directed to abstain from netting off and adjustment of assets; forward all redemption and issuance requests to the trustee within twenty four hours of receipt of such request and were directed to carry our transaction only on cash-settled basis with no entry or exit to the Scheme.
- Commission through a circular introduced the following best international practices to address the malpractices in the industry:-
  - introduction of cut-off timings and time-stamping mechanism by collective investment schemes;
  - announcement of daily NAV latest by 1830 hours;
  - limitations on closure of register of unit holders to a maximum of six business days at a time and not exceeding whole forty-five days in a calendar year; and
  - amortization of formation cost of collective investment schemes over a period not less than five years;
- Commission through a circular introduced a transparent and comprehensive procedure for closed end scheme to buy back its own certificates.
- Commission through circular issued a detailed procedure for mutual funds industry on mergers of on open end mutual funds to facilitate the industry and to ensure fair and transparent procedure of mergers.

Know Your Customer Policy

- To safeguard NBFCs against involvement in money laundering activities, terrorist financing and other illegal trades, the Commission vide Circular No. 12 of 2009 introduced Customer Due Diligence (CDD)/Know Your Customer (KYC) Policy.

Insurance Sector

An Overview

As on June 30, 2009, 67 Insurance/Takaful companies were licensed under the Insurance Ordinance 2000 to transaction business in Pakistan. During the last year 12 companies were ceased due to capital and solvency deficits while winding up proceedings against 12 other non-life companies is in process. Out of 43 active companies, 34 companies belong to the non-life sector and 9 to the life sector.

Insurance plays a vital role in the development & growth of the national economy. Unfortunately, the Insurance Industry in Pakistan continues to show sluggish growth year on year. Currently, the insurance penetration in Pakistan is only 0.7% of the GDP, which is one of the lowest in the world. Additionally, the insurance density is also a meager 6.5%.

Policy Reforms

Surveying Rules

Public opinion on the 'Draft Rules' for surveyors has been solicited. The finalized amendments/modifications are in the process of notification. These rules will not only bring transparency in this sector but will also be a key driver towards enhancing the market image & credibility of the surveyors.

Bancassurance Rules

The market has witnessed introduction of new distribution channels such as Bancassurance, Web Sales and Telesales. To monitor sales through these channels and also to promote an orderly growth, a new set of rules needed to be formulated. The guidelines on Bancassurance have been finalized keeping in views the international best practices and are ready for notification. They will help in bringing about the required level of disclosures & standardization in this new channel of distribution.

Takaful Rules

The Takaful Industry in Pakistan is still in its infancy. Like Islamic Banking, it is also going through a period of experimentation. During this process of transition, it needs to be guided by the regulator in the right direction. Since the models of takaful vary depending on different interpretation of Shariah by various countries, there is an urgent need for standardization.

The Takaful Rules 2009 are being drafted by appointed consultants with the objective of removing the anomalies and addressing the areas which are silent in Takaful Rules 2005. The guidelines for life insurance and family takaful illustrations are also ready for issuance.

Solvency Regulations

One of the major reasons why Pakistan's insurance industry lags behind other vibrant sector in the Region, is that the solvency criteria has not evolved in line with the rapidly changing local & global market dynamics. The solvency rules will go a long way in improving the financial health of the insurance companies & enabling them to adequately protect the interest of the policy holders. The rules are in the first phase of notification.

Unit Linked/Products Regulations:

As most of the investment risk in these policies is borne by the policy holders and the products have complex benefit structures, the Insurance Division felt the need for more effective monitoring controls.
A committee comprising of representatives from SECP, ICAP & PSOA was formed to draft new Regulations. These regulations aim to achieve more transparency in disclosures by the insurance companies to the policyholders regarding unit-pricing & fund management. These rules will also lead to the standardization of the pricing models used by different life insurers.

Future Plan for Fiscal Year 2009-10

Securities Market

Demutualization

During the financial year under review, the SECP made considerable progress towards promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2008. The said Act was approved by the National Assembly Standing Committee on Finance, Revenue, Economic Affairs and Statistics in January 2009 and is expected to be placed for promulgation in the upcoming sessions of the National Assembly.

The Act provides for the conversion of the existing non-profit, mutually owned stock exchanges to for-profit entities owned by the shareholders. The Act would not only enable conversion of a stock exchange limited by guarantee into one limited by shares but would also segregate ownership and trading rights. Hence demutualization will undoubtedly bring greater balance among interest of different stakeholders in corporate and governance structure of a stock exchange.

Margin Financing

In view of the need for alternate leverage products to cater for financing appetite of the market after the discontinuation of CFS Mlk-II and Deliverable Future Contracts, Margin Financing is being proposed in light of the recommendations of the Consultative Group on Capital Markets. Based on the principles of counterparty credit risk, whereby the lending terms are defined by the respective parties involved, this product will be available for both proprietary trade and clients of brokerage houses. Brokers would also be able to use their own funds to finance the Ready Market purchases of its clients in the transparent and disclosed manner.

During the period under review, the SECP has been engaged in extensive stakeholder consultation and analyzing the details of the proposed product.

Securities Lending and Borrowing Mechanism

The Commission has communicated its in-principle approval to the NCCPL for the development of a Securities Lending and Borrowing mechanism. The said mechanism is aimed at further enhancing settlement efficiency together with further hedging default risk.

Securities Borrowing and Lending is an effective mechanism by which dormant securities in an investor's portfolio can be utilized by another investor to create profits. It also provides solution to managing delivery failures and facilitates market participants in short sales and dealing in deliverable future contracts.

Automation of Transfer of Securities into CDS against Trade/ Transactions Settled Through NCSS.

In the recent past, there have been concerns over the level of authentication and control deemed to be adequate for the purpose of preventing misuse, either deliberate or due to an error, in procedures governing the movements of book-entry securities in the Central Depository System (CDS). Accordingly, ion order to address these concerns, a Committee was constitute by the Commission comprising representatives of CDC, NCCPL and KSE. The Committee submitted its recommendations in relation to an automated clearing & settlement process whereby securities would move directly from sellers Sub-Account or House Account to buyers Sub-Account or House Account at the CDC. The Commission has circulated the proposal to all the stock exchanges for their feedback to ensure decision-making through stakeholder consensus.

Client-level Margining Regime

In the current scenario, a defaulting broker, for fulfilling his overall commitment to the Exchange or Clearing Company, may pledge all the clients' securities (whether authorized or not) to cover his shortfalls. This practice exposes the system to risks, depriving the clients from their holdings.

The cater for this situation, Client level margin system is being introduced. This system will ensure that all margin requirements against VaRs and Special Margins of each UIN would only be fulfilled from respective UIN-wise Securities/Cash deposit, and any deficit of Margins from any UIN should be treated as failure by the brother even if excess margins are deposited by the broker through other UIN's sub-accounts, thus essentially shifting the focus of the system from broker-level to client-level to client-level.

Development of Primary Market

For the development of the primary market and to facilitate the issuers/offerers, the Commission is taking various initiatives which are as follows:

- Rationalization of documents submitted to the Commission and the Exchanges along with application for approval of prospectus;
- Review of the listing process to make it more simple and efficient.
- Standardization of the contents of the prospectus, abridged

prospectus and advertisement for issuance of securities;

- Revision of the Companies (Asset Backed Securitization) rules.
- Standardization of the documents submitted along with application to a stock exchange for listing and to the Commission for approval of prospectus.
- Formation of the guidelines for the structuring and issuance of Sukuks Certificates;
- Formulation of Regulations for regulating the market makers.
- Formulation of Guidelines for issue of securities outside Pakistan; and
- Formulation of Guidelines for Employee Stock Option Schemes.

Specialized Companies

SCD has the following future plans which pertain to both improving the regulatory structure through amendment in laws as well as enhancing the operational efficiency of the division through usage of better systems;

- Formation of an independent NBFC Law to overcome the regulatory and enforcement issues being faced under the present set up where the requirements applicable to NBFCs are divided between the Companies Ordinance and the NBFC Rules.
- Shifting of Off-site Surveillance of NBFC sector from their periodical returns to computer based MIS reports.
- To bring about a significant change in the business model of investment banks through amendments in NBFC Rules and Regulations.
- In the area of Pension Funds, an ADB sponsored consultant has been hired to advise on the way forward and legal implications of enforcing this amendment. The matter is also being liaised with the Legal Department for appropriate further progress including to resort to the earlier status, if concluded to be expedient, where only the Pension Funds under the Voluntary Pension System fell within the regulatory purview of the SECP.
- A complete and comprehensive review of the Modaraba Ordinance of 1980 and the underlying Modaraba Rules is planned. The review shall take the shape of proposed

amendments and shall be the first exhaustive review since their promulgation.

Corporate Sector

Development of Legal Framework:

The following regulations are underway:

- Draft Associations not for Profit Regulations.
- Draft Public Sector Companies (Corporate Governance) Regulations.
- Amendments in the Second Schedule to the Companies Ordinance, 1984.
- Amendments in Companies (General Provisions and Forms) Rules, 1985.
- Amendments in Single Member Companies Rules, 2003.
- Amendment in CRO Regulations 2003.

Public Facilitation:

Launching of Facilitation Schemes:

Companies Easy Exit Scheme:

After completion of Companies Regularization Scheme, the Companies Easy Exit Scheme will be launched, to provide an opportunity to the dormant companies to get their names struck off from the register of companies.

Fast Track Registration:

Idea of launching a scheme for fast rack registration would be analyzed. The scheme will enable registration of a company on fast track basis on payment of urgent fees.

Publication of Guide Booklets:

In order to facilitate the corporate sector and to create public awareness on various statutory matters, the Commission launched a series of guideline booklets. During FY 2009-10, revision of following existing guides would be made:

- Promoters' Guide in English, Urdu, Chinese and Arabic

- Single Member Company Guide.

The following draft guideline booklets would be finalized:

- Complaint Lodging and Redressal
- Meetings and resolutions of a company
- Change of a company name
- Filing of statutory returns
- Appointment of Auditors
- Board Meetings and Resolutions
- Transfer and Transmission of Shares
- Allotment of Shares

Standardized Memorandum of Association:

Standardized Memorandum of Association for remaining sectors would be developed and placed on the Commission's web site for public facilitation.

Quality Assurance

The ISO 9001; 2008 certification will be obtained for the Company Registration Offices of Karachi, Lahore and Islamabad. The certification would achieve the following objectives:

- enhance the image of Commission in its service delivery;
- improve the quality of existing processes and services to the public; and
- increase public satisfaction through removal of deficiencies/ gaps in service delivery.

Insurance Sector

The Insurance Division has taken up the following initiatives to promote the orderly development of a financially sound & transparent insurance industry, thereby increasing in the insurance penetration in Pakistan.

Early Warning System

Broad financial indicators have been defined in the Insurance

Ordinance 2000, but a specific framework for an 'Early Warning System' is not available. The Insurance Division has scrutinized the tools being used by dynamic regulators in the region & customized them to the local environment.

Risk Appraisal & Forecasting

There are no information standards for the insurance industry for risk appraisal, forecasting & sharing of critical information. The Insurance Division is developing these standards which will enable the industry to share data on catastrophic events like Earthquake & Floods etc.

IFRS-4

IFRS-4 was issued by the International Accounting Standards Board (IASB) in March 2004 to bring standardization and transparency in the accounting practices of Insurance Contracts.

In 2007, an Insurance Committee was constituted by IACP comprising members from Insurance Association of Pakistan, SECP and the Pakistan Society of Actuaries to assess the implications of its adoption on the insurance industry in Pakistan. This committee is finalizing guidelines for the insurance industry for implementation of the requirement of IFRS-4. It will also conduct workshops to train the insurance industry. Insurance companies will make full compliance with these requirements in the annual financial statements for the year ending December 31st. 2009.

Regulation & Compliance Guidelines

The Insurance Division will print a guide in order to ensure that registration and compliance becomes inexpensive, and also simple understand. The objective is to explain the process in clear and unambiguous terms so that it becomes easier & more attractive for insurers and brokers to register & trade in Pakistan.

National Crop Insurance Scheme

A task force under the Chairmanship of President HBL has been set up by SBP to formulate the National Crop Insurance Scheme in Consultation with the stakeholders SECP is a member of this task force. Expertise is available within the Insurance Division SEC, with hands on Experience of leading the Crop loan Scheme which was successfully launched in Pakistan last year.

Total Number of Registered Companies
TABLE 1: NUMBER 7 TYPE OF COMPANIES
(Registered under the Companies Ordinance, 1984)

Type of Companies	Total companies as on 30-06-2008	Newly Incorporated Companies for the year ended on June 30, 2009
Companies limited by shares:		
Public listed (only those which are registered under the Ordinance)	616	
Public unlisted	2168	46
Private	46,125	2,917
SMCs	775	127
Total Companies Limited by Shares =	**49,684**	**3,090**
Companies limited by guarantee u/s 43	64	4
Not-for-profit associations u/s 42	398	31
Trade Organizations	202	3
Foreign companies	725	53
Unlimited companies	3	
Companies under section 503 of the Ordinance	4	
Total Companies =	**51,080**	**3,181**

PROVINCIAL FINANCE WING

Role of PF. Wing

The main functions of the Provincial Finance Wing are as under:-

- To process the composition of National Finance Commission (NFC), in accordance with the provision of Article 160 of Constitution of Islamic Republic of Pakistan. PF. Wing also provides secretariat support to the Commission.
- Distribution of resources amongst the provinces in accordance with the Presidential Order called the "Distribution of Revenue and Grants-in-Aid Order" promulgated under Article 160(4) of the Constitution.
- Finalization of Budget Estimates and Revised Estimates relating to Provincial Share in the Divisible Pool and Straight Transfer and their distribution.
- Recovery for cash development loans (CDL) and SCARP Loans from the province as well as monitoring of cash balance position of provinces, with the State Bank of Pakistan.
- Provision of obligatory grants to the provinces in accordance with the Presidential Order called the "Distribution of Revenue and Grants-in-Aid (Amendment) Order 2006" dated 19-01-2006.
- Transfer of the funds to the provinces for federally sponsored provincial projects and budgetary support to Govt. of AJ & K including development loans and advances.
- Releases of Funds under People's Works Programme-II for implementing Prime Minister's directive regarding development schemes.

2. During the Financial Year 2008-09, the PF, Wing has performed its functions diligently and with devotion to achieve its targets etc.

National Finance Commission

3. The National Finance Commission Secretariat is housed in this Wing. The 7th NFC which was constituted in 2005, has been reconstituted in August 2008 after the change of the political set up both at federal and provincial levels. During the Budget Session, it was also decided by the present Govt. to further revised the composition of this commission. The process by Finance Division has already been started.

Federal Transfers to Provinces

4. The federal transfers to the provinces consists the following:-

   i. Divisible Pool Transfers
   ii. Straight Transfer
   iii. Grant-in-Aid (Subvention)
   iv. Development Funds (Federal PSDP)
   v. People's Work Programme-II under the Prime Minister's directive
   vi. Other Non-development grants/Misc. Grants.

Divisible Pool and Straight Transfer

5. The distribution of provincial share out of the divisible pool and straight transfer are made on the methodology set in the **Distribution of Revenues and Grants in Aid (Amendment)** Order, 2006 dated 19-01-2006 and under the Constitution of Islamic Republic of Pakistan, on reporting of the collection figures by the Reporting Agencies i.e. by FBR and M/O Petroleum and Natural Resources. The share of the provinces were released on every last of the month. So that no delay could occurred which may cause financial difficulties for the provinces.

6. During 2008-09, the federal transfers made to the provinces are as under:-

(Rs in Billion)

	Punjab		*Sindh*		*NWFP*		*Balochistan*		*Total*	
Components	B.E.	Release	B.E.	Release	B.E.	Release	B.E.	Release	**B.E.**	**Release**
Divisible Pool	284.64	257.69	128.13	116.50	67.02	60.60	25.92	23.500	**505.71**	**458.29**
Straight Transfer	8.12	7.52	40.80	45.12	5.20	4.97	8.52	9.77	**62.64**	**67.38**
Special Grant (Subvention)	4.14	4.14	7.91	7.91	13.18	13.18	12.43	12.43	**37.66**	**37.66**
Total	**296.90**	**269.35**	**176.84**	**169.53**	**84.40**	**78.75**	**46.87**	**45.70**	**606.02**	**563.33**

Funding of the Provincial Projects through Federal PSDP

7. The President and the Prime Minister during their visits to various parts of the country announce funds for execution of various projects of the provincial governments. Finance Division provides funding to these projects on co-sharing basis. During Financial Year 2008-09, the funds were transferred to the provinces on the basis of (i)

Expenditure Wings instructions and (ii) utilization of previously released amount to the project. The position is reflected as under:-

Province	No of Projects	PSDP Allocation (Revised)	Releases	% Release
Punjab	37	1024.678	979.678	95%
Sindh	27	2727.189	2345.268	86%
NWFP	5	150.000	135.000	90%
Balochistan	14	2398.000	2398.000	100%

Peoples Works Program-II

8. People Work Program-II is a Special Programme of the Prime Minister to provide the basic necessities of life i.e. Gas, Electricity, Roads, Water Supply Schemes at grass-roots level. The schemes are identified by the Parliamentarian and funds are allocated out of this programme on the directive of the Prime Minister.

9. During 2008-09 an allocation of Rs. 22.00 billion was made under "People's Work Program-II" which was subsequently increased to Rs. 28.00 billion. The disbursement of the funds from this programme is as under:-

(Rs in million)

Ministries/Division/Provincial Govt.	No. of Directives Implemented	Amount Released
Petroleum and Natural Resources (Sui Gas Scheme)	205	5137.897
Water & Power (Electrification Scheme)	359	5285.193
Housing & Works (Roads, Water Supply etc.)	271	5955.746
Other Ministries/Division (Misc. Schemes)	21	1221.468
FATA (Development Schemes)	19	517.332
Provinces	221	9882.342
Total	**1096**	**27999.978**
Total % of releases of the total allocation		100%

Other Misc. Non-development Grants to the Provinces

10. The Federal Govt. has also transferred funds as Misc. non-development grant during 2008-09 which are tabulated as under:-

(Rs in million)

Component	Punjab	Sindh	NWFP	Balochistan	**Total**
Re-imbursement of NAB Recoveries	213.777	288.933	326.905	170.385	**1000.000**
Production Bonus	169.000	1362.129	29.846	0.000	**1560.975**
Legend Trust Endowment Fund to Govt. of Sindh	0.000	100.000	0.000	0.000	**100.000**
Compensation to the Victims of Suicide Bombing and other acts of Terrorism in the Provinces of NWFP	0.000	0.000	340.000	0.000	**340.000**
Total:	**382.777**	**1751.062**	**696.751**	**170.385**	**3000.975**

Recoveries of Cash Development Loans (CDL) from Provinces

11. The following recoveries on account of CDL from the provinces have been made during 2008-09:-

(Rs. in million)

Provinces	**Principal**	**Interest**	**Total**
Punjab	9535.613	10491.687	20027.300
Sindh	5036.253	3814.567	8850.820
NWFP	2678.414	3271.917	5950.331
Balochistan	1494.302	890.068	2384.370
Total	**18744.582**	**18468.239**	**37212.821**

Waiving of Overdraft of Balochistan Govt.

12. According to the Prime Minister's directive regarding waiving of overdraft of Govt. of Balochistan to the State Bank of Pakistan, the Federal Govt. has picked up an amount of Rs. 17.233 billion overdraft against Govt. of Balochistan which will be paid in 6 years including panel interest as on 22-01-2009.

Federal Transfer to AJ & K Govt.

i) Non-Development Expenditure (Rs in billion)

	Components	Allocation 2008-09	Release	%
a)	Federal Govt.(Share Taxes)	5.100	5.100	

b)	Revenue deficit grant	4.600	4.600	
		9.700	**9.700**	**100%**

ii) PSDP Projects

	Components	Allocation 2008-09	Release	%
a)	Cash Development Loan	11.200	9.600	85.7%
	Total	**11.200**	**9.600**	**85.70 %**

13. During the currency of the financial year 2008-09, the following actions were also completed:

(i) Compilation of R.E. 2008-09 and B.E. 2009-10 of the following Demands for Grants:

(Rs in billion)

Sr. No.	*Demand No.*	*R.E. 2008-09*	*B.E 2008-09*
i)	42	40.568	52.900
ii)	143	21.293	73.141
iii)	128	13.949	8.357
iv)	173	34.351	43.060

(ii) Out of the total allocation under Demand No. 143 (Now 149-Other Development Expenditure), the number of development projects of the provinces were increased from 83 to 153 with total allocation of Rs. 40.755 billion to be released during the financial year, 2009-2010. The number of projects and its allocation provinces-wise, for the year 2009-2010 are as under:-

(Rs in billion)

Name of Province	Projects	Amount
Punjab	50	11.943
Sindh	52	11.893
NWFP	23	9.308

Balochistan	28	7.611
Total	**153**	**40.755**

14. The above position indicates that PF. Wing was quite pro-active through out the financial year 2008-09 and meets all its targets given in the functions of this wing.

PMSP WING

Competitiveness Support Fund (CSF)

The CSF is a Company Limited by government guarantee established in the Finance Division under Section 42 of the Companies Ordinance 1984 and incorporated with Securities & Exchange Commission of Pakistan (SECP). The company has a fourteen (14) Member Board of Directors headed by the Minister of State for Finance & Revenue.

2. The CSF is a joint initiative of the Ministry of Finance, Government of Pakistan and the United State Agency for International Development (USAID) to reposition the Pakistan economy on a more competitive global footing.

3. The CSF is providing policy assistance and technical support for a range of industries at the national level. This work encompasses industrial, manufacturing and agricultural sectors across the country and includes federal and provincial agencies. At the highest level of Government CSF is contributing the competitiveness chapter to the Poverty Reduction Strategy paper (II). It has also developed policy interventions for Special Economic Zones, the Motorcycles Industry and International Investment (via a restructuring project with the Investment Division-Board of Investment). Special studies and Actions Plans have been undertaken which resulted in reports on Automotive Vendors, Motorcycles Manufacture and the Food Industry. In particular, CSF has established and served as a secretariat for the Task Force on Horticulture Competitiveness and Finance.

4. CSF has set up a system capable of identifying and processing

matching grants at the community level for Diary, Marble and Granite, Gems and Jewelry, Horticulture and Furniture sectors in order to increase their profits and improve their productivity. CSF has also established Pharmaceutical Laboratory in Nowshera (for servicing pharmaceutical unit/drug testing/quality control), Lapidary Skills Training Centers in Northern Areas (Scientific Lapidary Skill & Mining Technologies/training of potential miners) and Dairy & Livestock Project in Balochistan. CSF continued its programme of sponsoring participation of leading Pakistani journalists in the Innovation Journalism (INJO) Fellowship Program at Stanford University in California by sending and INJO group delegation comprising four journalists in the said programme. CSF has identified four matching grant projects namely Mango Pack House Project in Multan, Meat Slaughter House & Abattoir Project in Pattoki, Greenwood Furniture in Northern Areas and Automotive Project at Lahore.

(Quality Assurance – IT-HRD Wing)

As a pre-requisite of the Quality Management System, ISO 9001:2000 standard is being implemented in the Finance Division. Human Resource Development Wing was established in the year 2006. The Main task of HRD Wing is to impart training to the employees of Ministry of Finance (MOF). The objectives of HRD Wing are:-

i. To continually enhance the core competence of Finance Division.

ii. To enhance the capacity of Human Resource of the Finance Division.

iii. Ensure capacity building through a Bi-annual Training Plan.

iv. Evaluate the Training Outcome.

ACTIVITIES 2. To realize these functions, the following activities are being pursued:

A. Local Training Programme

1. On the basis of Training Needs Assessment (TNA), Annual training plans of all Wings of Finance Division for the period July,

2008-June, 2009 were prepared and implemented. Under these training programmes, 181 officers/officials were trained during the financial year 2008-09 in different institutes e.g. Pakistan Institute of Management (PIM). Lahore, Karachi, Islamabad, Pakistan Planning and Management Institute (PPMI), Islamabad, national Institute of Banking & Finance (NIBAF), Islamabad, Secretariat Training Institute (STI), Islamabad and Pakistan Institute of Development Economics (PIDE), Islamabad.

B. Foreign Training Programme

2. Under Public Sector Capacity Building Programme (PSC13P), 15 officers of the Finance Division have been sent abroad to attend different training courses during the financial year 2008-09. Moreover, 6 officers were also sent on foreign training which were sponsored by IMF, JICA, KOICA etc.

3. In the Table given below, details of metrics are elaborated. These metrics are defined under the objective of HRD Wing. It shows the progress of the HRD Wing's objectives.

Objective 4: To evaluate the training outcome

The information collected from the trainees on this issue regarding-training outcome is quite satisfactory.

Metric No.	Metric Description	Target 2008-09	Achieved in 2008-09
4.1	Measures and rate participants Comments on training provided	80%	72%
4.2	Measure and rate feedback of immediate supervisors of trainees.	72%	59.3%

Quality Assurance Wing

4. Quality Assurance Programme was launched in the Finance Division to increase the customers' satisfaction level, raise service quality, improve internal working efficiency and give this Division a strong local and global credibility. The Programme which was implemented in two phases has been certified by the External

Certification Agency i.e. Lloyd's Register EMEA in April, 2008 against ISO Standard 9001:2000.

5. Following activities have been carried out during the Financial Year 2008-09.

1) Issuing Quarterly Quality Report

Quality Assurance Wing is required to prepare Quarterly Quality Reports on the basis of defined Quarterly Objectives (QOs) and their metrics pertaining to Wings falling under Phase I & II of Quality Management System. The Quality Objectives (QOs) have been framed after taking into account the allocation of business to these Wings. The overall goal of framing QOs is specifically to improve the performance of each Wing of the Finance Division. Accordingly, three Quarterly Quality Reports have been compiled and issued. These reports serve as timely indicator for the 'managers' to assess the level of the performance of the respective Wings.

2) Conducting Survey to Check Average Delay:

Bi-annual surveys are to be carried out to check average delay of cases by Section Officers, average duration of disposal of cases and percentage of cases disposed off at each level. This exercise is carried out to meet the requirements of one of the Objective "Continually Improve work efficiency". The latest survey conducted in Jan-Feb, 2009 has shown improvement in average duration of delay in the disposal of cases. A brief summary of the result of recently held survey is given as under:-

Average No. of days taken by Section Officer(SO)/ equivalent for submission of case.	2.94
Average No. of days taken for final disposal of case.	5.47
Disposal of cases at the level of Section Officer	1104
Disposal of cases at the level of Deputy Secretary	11%

Disposal of case at the level of Joint Secretary	35%
Disposal of case at the level of AFS	24%
Disposal of case at the level of Finance Secretary	19%

3) Surveillance Audit

To ensure continued adherence to the applicable ISO Standard, it is mandatory to carry out Surveillance Audit by the External Audit Team after every six months. Accordingly, the third Surveillance Audit was conducted in April, 2009. The External Audit Team during visit has found Quality Management System (QMS) Programme effective. The Auditor did not find any Non-Conformity (NC) during the Audit.

Information Technology

In collaboration with Ministry of Information Technology & Telecom, a Project titled 'E-Office Replication at Finance Division has been completed in June, 2008. Following activities relating to this project have been carried out during FY 2008-09.

a) Scanning and Digitization of files: For the implementation of the project, volumetric Analysis for scanning & digitalization of the current active files of Finance Division has been carried out. Scanning of Quality Assurance Wing's files has been completed while the scanning of Admin Wing's files are in progress.

b) IT Training: Basic IT Training course for the 800 employees (BPS-5 and above) of Finance Division was commenced from 15th Aug, 2005 and 371 participants have completed the course so far, while 171 employees were trained in "Internal Communication" and "Movement of File Module".

(Regulations Wing)

Preparation and Circulation of Year Books in Pursuance of Rules 25 of the Rules of Business 1973 for the Financial Year 2008-09.

The present Government has been very conscious of the erosion in the salaries of the Government servants and pension of retired Government servants due to price hike of essential commodities. During the financial year 2008-09, Government has made following revision in Pay, Pension and other benefits.

i) Revision of Basic Pay Scales of Government servants (BPS 1-22) @ 20% w.e.f 01-07-2008 vide Finance Division's O.M. No. F.1(1) Imp/2008 dated 30-06-2008.

ii) The Government has set up a Pay & Pension Commission 2009 with the approval of Prime Minister vide Finance Division's Notification No. F. 1(1) Imp/2008 dated 06-04-2009.

iii) Revision of Pay Scales of the employees of Autonomous/ Semi-Autonomous Bodies and Corporations @ 20% w.e.f. 01-07-2008 under the administrative control of Federal Ministries/Division.

iv) Revision of Pay Scales of Management Grades (M-I, M-II & M-III) @ 20% w.e.f. 01-07-2008 vide O.M. No F. 3(9) R-4/2004 dated 25-08-2008.

v) Pension of civil pensioners of the Federal Government including civilians paid from Defence Estimates as well as retired Armed Forces personnel has been increased w.e.f 01-07-2008.

   a) Pensioners who retired prior to 30.06.1999. 20%
   b) Pensioners who retired after 30.06.2007. 15%
   c) The government has increased the minimum Pension Rs. 300/- p.m. to Rs. 2000/- p.m. and family Pension Rs. 150/- to Rs. 1000/- p.m.

vi) Coordination of Deficiency in Qualifying Service for pension/Gratuity.

   a) That the benefit condonation of deficiency in service qualifying for pension has been extended to all retiring civil servants who have completed services of at least 9 years and 6 months at the time of superannuation, except in the cases of voluntary pension in premature retirement in completion of 25 years of service.

vii) Revision of rates of subscription towards GP fund. Uniform Rates of subscription towards GP Fund have been revised w.e.f. 01-8-2008 based on Pay Scales-2008.

viii) The rate of profit applicable to the subscription and the balances in the various Provident Funds during the financial year beginning on 1st July, 2008 shall be 15% per annum. The funds concerned are:-

a) General Provident Fund (G.P.F)
b) Contributory Provident Fund (C.P.F)

Auditor General of Pakistan

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

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

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

i. Producing timely quality reports for the legislatures and the Government.

ii Responding to emerging challenges in the field of audit and accounts.

iii Maximizing the value of Auditor General's office by conforming to international best practices.

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Following is a brief account of the activities of Office of the Auditor General of Pakistan during the year 2008-2009.

FEDERAL EXPENDITURE

1. **SUBMISSION OF FEDERAL AUDIT REPORT OF AUDITOR GENERAL FOR THE AUDIT YEAR 2007-2008 TO THE PRESIDENT**

In the year 2008-09 the AGP office achieved a historic milestone by completing the certification of 138 Account in 09 months after the close of the financial year 2007-08. In the past the time taken in this activity was 18 to 24 months. The quality assurance committee finalized 2004 Audit Reports for the year 2006-2007 and 122 Audit reports for the year 2007-2008.

2. **Backlog of Previous Audit Reports**.

There is a huge backlog of Audit Report of previous year up till the year 2006-07. The current Public Account Committee had completed examination of "Audit. Reports of the Audit year 1989-90, 1991-92 & 2005-06 (approximate 90%) . The Department of the Auditor General of Pakistan is providing all assistance to the National Assembly's standing committee on Public Accounts in the effort to clear the backlog.

3. **Cash Recoveries made at the Instance of Audit.**

Cash recoveries of Rs. 18444.79 million and US $ 0.095 million have been affected so far at the instance of audit during the year 2008-2009. It is a remarkable improvement as compared to that the last year i.e 8597.72 million. For every rupee spent on audit, over 14 were recovered.

4. **Special Audit of Important Departments/Organizations**

The Director General Audit (F.G) has conducted 16 special Audits during 2008-2009, and their reports are under finalization. These include Special Audit of NCHD, Pakistan Cricket Board, Higher Education commission, NAB, Privatization of some important units like KESC, HBL, PTCL , Pakistan Steel Mills, and UBL.

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5. **<u>Disposal of Complaints/ Disposals of Press Clippings</u>**

After the Certification of Appropriation & Finance Accounts for the financial year 2006-07 and 2007-08 the appropriation/ Finance Accounts for 2006-07 pertaining to Field Audit offices of FAO wing were printed in September, 2008. The various wings of the AGP coordinated with the APR & SD Wing in connection with the follow up and timely printing of the certification accounts of Pak Mint, National Savings, Geological Survey, Food Department, AGPR (Federal Govt) and M/o Foreign Affairs for the year 2007-08. All the Certification Audit Reports for 2007-08 have been printed and got signed by the AGP.

6. <u>Modernization, Simplification and updation of Books of Rules & Regulations of the Finance Division</u>

The task of Modernization, Simplification and up-dation of the Rules & Regulation has been given by the Finance Division to M/s Abdullah Associates (Consultants). The DAG (FAO) is the resource person on behalf of AGP office to review and comments upon the work being done by the consultants. This is a gigantic task for which a committee has been constituted by the FAO Wing. The committee has already furnished its comments on 1st and 2nd drat of the books received from the firm.

7. <u>RENENUE RECEIPTS</u>

<u>REVENUE RECEIPTS AUDIT ACHIEVEMENTS FOR THE YER 2008-2009.</u>

<u>AUDIT REPORTS.</u>

i) Audit Report on Direct Taxes and indirect Taxes for the Audit year 2007-2008 containing the irregularities of Rs. 48,100 million were compiled and printed which were signed by the Auditor General of Pakistan on 03-04-2009 for presentation to the President of Pakistan.

ii) 03 draft Audit Reports (02 on FBR and 01 on Ministry of Petroleum & Natural Resources), involving irregularities of Rs 120,709 million for the Audit year 2008-09 were compiled and submitted to the Quality Attestation Committee (QAC) achieving the target date of 25th May, 2009. After clearances by QAC, these audit reports were got printed which were finally singed by the AGP of 31st July, 2009.

A. Compliance Audit during 2008-09

All the 63 planned formations have been audited achieving a target of 100%

Amount involved	Rs. 102,475,03 million
Recovery made at the instance of Audit	Rs. 8,834,677 million
Cost /Expenditure	Rs. 100,595 million.
Cost Benefit Ratio	1 : 88

B Desk Audit.

During desk audit, observations involving following mounts have been included in the Audit Report for the year 2008-09.

*	Direct Taxes	Rs. 1056.740 million
*	Indirect Taxes	Rs. 47639.809 million
	Total:-	**Rs. 48696.549 million**

C. Performance Audit.

Performance audit has been reactivated. Following performance audit report are included in the audit report 2008-09.

i. Pakistan customs Computerized System.

ii. Duty and Tax Remission for Export.

iii Alternate Dispute Resolution Committee.

iv. Performance Audit of withholding Tax.

D Audit of Foreign Aided Projects.

Audit of the following two foreign aided projects of the FBR for the year FY 2007-08 was executed in accordance with World Bank Guidelines and international best audit practices and financial attestation certificates along with management reports were issued to the FBR and the World Bank.

i. Tax Administration Reforms Projects

ii. Public Sector Capacity Project, (FBR Component).

8. CORPORATE/ COMMERCIAL SECTOR

CORPORATE AUDIT & EVALUATION WING (CA&E WING)

Corporate Audit & Evaluation Wing (CA&E Wing) is assigned the task to carry out annual audit of the units & formations under Ministry of Water and Power , Ministry of Railways, Pakistan Post office , Ministry of Information & Technology and all the corporate /State Enterprises falling under 23 Federal Ministries and Provincial Governments.

The Wing achievements during the year 2008-09 were:-

* WAPDA Annul Audit report for 2008-09

* PT&T Annual Audit Reports (02 Reports) for the year 2008-09 approved by the AGP and are being printed.

* Corporate Audit Report of Lahore and Karachi for the year 2008-09.

* Nine Special Audit Report undertaken in 2008-09.

* Three Performance Audit Report finalized during 2008-09.

* Audit of 04 foreign Aided projects was completed.

9. *AUDIT ACTIVITIES PERFORMED DURING 2008-09*

FAO	Formations Planned	Coverage
D.G Audit WAPDA, Lahore	143	143
D.G. Commercial Audit & Evaluation Lahore	36	35
D.G. Commercial Audit & Evaluation, Karachi	40	40
D.G. Audit PT&T, Lahore	114	113

10. SPECIAL PERFORMANCE AUDIT COMPLETED

FAOs	Title of Reports
WAPDA Audit	- Performance Audit of Secondary Transmissions & Grids (STG) Projects, - Subject study on line losses in HESCO - Subject study on Policy for Power Generation Projects.
Commercial Audit (Lahore)	- Special Audit of Pakistan Bait-ul-Mal, Islamabad, - Subject study of SME & ZTBL - Performance Audit of UFG losses in SNGPL.
Commercial Audit (Karachi)	- Special Audit of export processing Zones Authority, Karachi - Special Audit of Pakistan Steel Mills, Karachi. - Special Audit of Abdullah Haroon Road Property (PTV) Ltd. - Performance Audit of HBFC.
PT&T Audit	- Sect oral study of cases of extensive losses & frauds in PPO department (Army Pension) - Special Audit of National Saving Schemes (NSS) being operated by PPO department.

11. RECOVERIES EFFECTED AT THIS INSTANCE OF AUDIT.

FAOs	Recoveries effected (Rs. Million)
WAPDA Audit	241.446
Commercial Audit, Lahore.	25.029
Commercial Audit, Karachi	1.922
PT&T Audit	5,156.970
Total:	**5,425.367**

12. Federal Audit Operations Wing

FEDERAL AUDIT OPERATIONS WING ACHIEVEMENTS FOR THE YEAR 2008-09

- **DG Audit (F.G)**
  During the audit year 2008-2009, DGA (FG) pointed out Rs.1264.069 million as recoverable against which Rs.144.240 million has been recovered by 21st May, 2009. This figure is provisional as recoveries are under process.

- **Director Zakat Audit**

  During the audit year 2008-09, Director Zakat Audit recovered Rs.41.905 million on the instance of audit while for the year 2007-08 & 2006-07 recoveries were Rs.25.992 million and Rs.4.04 million respectively

- **DG. Audit (Foreign & International)**

  During the audit year 2008-09, DG Audit recovered Rs.7.09 million on the instance of audit while for the year 2006-07 & 2007-08 recoveries were Rs.50.85 and Rs.4.96 respectively.

13 FINALIZATION OF AUDIT REPORTS FOR 2008-09 BY FAOs

DGA (F.G) Islamabad	**2008-09**	*** Regularity Report = 01** *** Special Reports = 15**
The Director Zakat Audit, Islamabad.	**2008-09**	*** Audit Reports of Central Zakat Fund = 01** *** Audit Reports of Distt. Zakat Fund = 19**
The DG Audit (Foreign & International), Islamabad	**2007-08**	*** Regularity Report = 01**

PROVINCES

AUDIT OF PROVINCIAL GOVERNMENTS -- ACHIEVEMENTS

The Department has provincial Audit Wing dedicated specifically, to auditing the Provincial Finances.

I. During the financial year 2008-09, 14 Expenditure Audit Reports, and 4 Revenue Receipts Audit Reports pertaining to the Audit Years 2005-06 to 2007-08, have been approved by Auditor General of Pakistan and these are in printing process.

II. Audit Reports for the year 2008-09 were 20 in number including Audit Reports on Revenue Receipts. All the Reports for the Audit Year 2008-09 have been completed.

III. The Audit Plans for the year 2009-10 have been re-designed to cater for high risk areas and effect a paradigm shift towards development in all the Field Audit Offices, particularly ERRA audit which earlier had non-development expenditure as its primary focus.

14. DISTRICTS

The District Audit Wing is assigned the task of undertaking audit of District Governments. Targets achieved in respect of District Government Audit Wing of Department of Auditor-General of Pakistan for 2008-09 are as under:

1. Annual Audit

Annual Audit of Accounts of District Governments of Sindh, NWFP & Balochistan for the financial year 2008-09 was carried out during the period w.e.f. 01-07-2008 to 30-06-2009. Details of work completed are as under.

Province	**No. of Districts**	**Audit Executed**	**Annual Audit Report Prepared**
Sindh	23	23	21
Ky.Pakhtunekhwa	24	21	23
Baluchistan	29	28	28

2. Special Audit

Special Audit of 35 Districts of Punjab for the financial year 2005-06 to 2007-08 was conducted during the period w.e.f. 01-07-2008 to 20-06-2009 and all special Audit reports (i.e. 35) have been submitted to Governor of Punjab.

3. **Certification Audit**

Audit of Appropriation Accounts for the financial year 2007-2008 was conducted in respect of accounts of 111 districts as detailed below:

Province	No. of Districts	Certification Audit Executed	Status of Reports
Punjab	35	35	35 Reports have been submitted to Governor, Punjab
Sindh	23	23	23 Reports are being submitted to Governor Sindh.
Ky.Pakhtune	24	24	24 Reports have been submitted to Governor, NWFP.
Balochistan	29	29	28 Reports have been submitted to Governor, Balochistan (one report of District Quetta is being submitted.

15. <u>HUMAN RESOURCE DEVELOPMENT</u>

In pursuance of special efforts to professionalism, the office of the Auditor General of Pakistan has undertaken various initiatives to build capacity of the Department with a particular rage from developing coherent polices and strategic plans while focusing on aligning the human resource management and development plans with redefined objectives and functions of the Department. The AGP office has developed cooperative arrangements with various international donor agencies to augment capacity building efforts as well as to strengthen legislative oversight by helping PAC Secretariat. The specific efforts and achievements relating to capacity building during 2008-09 are as under:-

a) **US GAO INTERNATIONAL AUDITOR FELLOWSHIP PROGRAM 2008**

The US General Accountability office Washington D.C USA invites nominations for International Auditor Fellowship Program every year. Dr. Ghulam Rasool Shah PA&AS office B-19 has attended the programme during April – August, 2008.

b) **PROFESSONAL DEVELOPMENT PROGRAM (PDP) UNDER CSRU**

A capacity building program launched by the Civil Service Reforms Unit (CSRU) of Establishment Division with the assistance of the World Bank, 03 officers of this Department were selected for training abroad under the aforesaid Program during 2008-2009.

c) **EXECUTIVE DEVELOPMENT PROGRAM (EDP) UNDER PROFESSIONAL DEVELOPMENT PROGRAM OF CSRU**

A 05 week Executive Development program under CSRU has been launched by the Establishment Division for professional development of BS-20 officers. During 2007-08 four PA&AS officers have participated in the EDP for five weeks, and completed the training program at the John F. Kennedy School of Government.

d) **PROFESSIONAL CERTIFICATION-TRAINING ABROAD UNDER PIFRA (AUDIT SIDE).**

The Department of the Auditor General of Pakistan has undertaken a board based reformed agenda under the platform of PIFRA, a World Bank Funded Project for Improvement of Financial Reporting and Auditing. It seeks to bring public sector accounting and auditing at par with international best practices. Our major emphasis is on capacity building of Pakistan Audit & Accounts Service and departmental cadre officers in areas relevant to day to day working. In this regard, 16 officers of OAGP and CGA were sent for acquiring higher degrees. Over 100 officer have been nominated for various professional Certification/Master Program i.e. CISA, CIA, ACCA, SAP, MBA etc. during 2009 to enhance the qualification of the officers of PAD.

e) **INTERNATIONAL TRAINING PROGRAMME FOR GOVERNMENT AUDITORS IN THE BOARD OF AUDIT AND INSPECTION REPUBLIC OF KOREA OCTOBER, 2008.**

02 officers participated in Training course on “Public Audit Management” from October 16 to October 31, 2008.

f) **AUSAID/FULBRIGHT/CHEVENING SCHOLARSHIP.**

The 05 PA&AS officer were selected for AUSAID scholarship during 2008-09.

g) **JICA TRAINING**

Japan International Agency offered course for International Development and Cooperation w.e.f. 20-03-2009 to 30-03-2011 in Japan. A PA & AS officer of BS-18 has proceeded for participating in the course.

h) **PH.D IN ACCOUNTING (PUBLIC SECTOR FINANCIAL MANAGEMENT) AND PH.D IN ACCOUNTING (IFMIS)**

02 officers of B-19 have proceeded abroad to complete for Pg.D Programs.

16. **INTERNATIONAL COLLABORATION.**

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

i. The Department of the Auditor-General of Pakistan (SAI Pakistan) has recently completed its tenure as the External Auditor of the Organization Prohibition of Chemical Weapons (OPCW) from 2003-2008. The Audit Reports were well received at difference fora of the OPCW.

ii. Economic Cooperation of the Supreme Audit Institutions (ECOSIA) Secretariat is located at Islamabad, Pakistan, and headed by the Auditor General of Pakistan..

iii. Office of the Auditor General of Pakistan 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 the code of Ethics and Auditing Standards will the Department of the AGP has launched a project for

Improvement of Financial Reporting and Auditing which is now in Phase-II.

PIFRA-II

PIFRA-II is purported to increase the accuracy, completeness, reliability, and timeliness of intra-year and year end government financial reports in Pakistan at the national, provincial, and district levels.

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

i) CERTIFICATION AUDIT

In the year 2008-09, Audit Component of PIFRA achieved a historic milestone by assisting the DAGP to complete the certification of 98 out of 130 accounts in 09 months time after the closure of the financial year 2007-09.

Training is the main vehicle for implementation of Modern Auditing Practices Audit component has now hired the services of 71 highly qualified and experienced consultants to be embedded with all FAOs to impart skills and equip FAOs with necessary tools to sustain the reforms initiatives in implementation of Modern Auditing Practices as part of OAGP strategy.

ii) Up-gradation & Infrastructural Improvements

Audit Component has disbursed Rs.37,520,809 so far renovation and improvement of working conditions at field audit offices. More than 1000 laptops, desktops and other hardware have also bee distributed to equip FAOs with necessary tools to make maximum use of new auditing techniques help in discouraging parochial, racial, tribal, sectarian and provincial prejudices among employees of Pakistan Auditing Department.

iv. The Auditor General of Pakistan has also been elected as the External Auditor of the United National Industrial Development Organization (UNIDO) for the term (2008-2010).

v. Asian Organization of Supreme Audit Institutions (ASOSAI) comprises of the Supreme Audit Institutions (SIA's) of 45

Asian countries and provides a forum where developments in the field of financial management, auditing and accounting are shared between member states. It members are highly professional being well acquainted in the field of public audit. The Auditor General of Pakistan is a member of the Governing Board of ASOSAI. During the 10^{th} ASOSAI assembly held in Shanghai, China form October 10-15, 2006 Auditor General of Pakistan was elected to host the 11^{th} ASOSAI Assembly in the year 2009 and would become the Chairman of the ASOSAI for the term 2009-2012. AGP will have the honour to host 150 delegates SAIs for this conference.

17. <u>PIFRA PROJECTS</u>

Pakistan is facing serious challenges of good governance in every facet of its economic activity. One of the critical areas in which comprehensive, concrete and coherent effort is needed, to initialize good governance is Fiscal Management. PIFRA aims at development capacity for good governance in fiscal management to achieve the vision of strengthened integrated financial management system (IFMS) of the country. Therefore, in order to accomplish the mission of promoting accountability, transparency and good governance, introduced. Audit component has also purchased 10 licenses of a CL desktop edition; ACL Desktop Edition Expands the depth and breadth of transactional analysis.

iii) <u>AUDIT MANAGEMENT INFORMATION SYSTEM (AMIS)</u>

DAGP through a deliberate policy intends to increase its effective reliance on strategic planning to ensure that scarce audit resources are applied in the most effective manner. We are now in the process of setting up a robust and reliable Audit Management Information System (AIMS) that would optimize resources and ensure timely and accurate reporting of observations. The never centre of AIMS will be Audit House, which will be a central point of the entire audit IT network. The centre will process, access, analyze and make all types of data available for top level planning, monitoring and control. At the same time, the centre will provide AIMS access to the local field audit offices

iv) **Workshop & Trainings**

Audit component also arranged number of workshops with the aim of training, orientating and consultation on difference recently introduced tools for an effective and efficient auditing. These workshops included Annual Audit Plan, IPSAS, Quality Assurance, refreshers on FAM, ACL and NAM.

v) **FABS THE BACKBONE OF PIFRA**

The overall progress during the year remained satisfactory and was accordingly rated by successive World Bank Review Missions. The year ended with Punjab, Sindh and NWFP being fully productive, with the total computerized payroll exceeding 1.7 million employees, **making it the largest payroll in SAP in the world** (as confirmed by SAP). The status of productive sites for the Center and Provinces is as below:

Province	Total Sites	Actual June 09	EDOs Actual vs. Productive	Line Dept. Actual vs. Connected
Federal	2	2		60/10
N. Areas	6	1		
Punjab	28	38	35/35	43/12
Sindh	27	27	23/23	25/10
Ky. Pkhtune	28	28	24/24	25/3
FATA	7	3		
Baluch.	33	15	30/0	20/0
Total:	**141**	**114**	**112/81**	**173/35**

vi) <u>PIFRA Training Component</u>

This wing has arranged a feedback session of the CFAOs working in different Ministries at Margala Hotel, Islamabad on 10 February, 2009. The session was attended by the Auditor General of Pakistan, Additional Secretary Finance, Project Director PIFRA and Director General (OPS) PIFRA along with other dignitaries. A five days workshop for selected officers in Best Practices in International Auditing for UNIDO/OPCW Audit was arranged in Islamabad club from 12th January to 16th January, 2009. Utilizing the services of recently trained Master Trainers who have attended the advanced ACL training session in Dubai; this wing has started the uphill task of training to the employees of all FAOs. In the first phase, ACL 1.5 Foundation level training has been imparted to about 114 offices / officials representing 30 FAOs in all the AATIs.

This wing has also arranged Tehsil level training in Chart of Accounts of TMAs for the officers/officials of TMO and TO (Finance) of Sindh province in AATI, Karachi from 16 February 2009. Another activity was also undertaken for the TMAs of Punjab at AATI Lahore from 23rd February to 25th February, 2009 which was attended by 24 participants. Moreover, for SAP HR/FI modules training, an aptitude test for nominees from CGA and OAGP component under the head of local training was also conducted on 23rd February, 2009 at AATI Islamabad, Lahore and Karachi simultaneously.

vii) <u>Capacity Building & Advocacy Activities.</u>

As a part of Capacity Building measures for improving the professional skills of core employees i.e. OAGP, PIFRA CGA and Provincial AGs, & other relevant departments, training workshops on Human Resources and Change Management are being organized for all internal and external stakeholders for maintaining HR capacity to sustain the new system.

viii) <u>PIFRA aiming at Strengthen CFAOs Organization.</u>

The World Bank, Office of the Auditor General of Pakistan and PIFRA are jointly aiming at making CFAOs Organization functional and effective in strengthening the internal financial management and control of Ministries/Divisions on modern financial management principles through constructive reforms and changes.

ix) **Extension of Audit House.**

Presently PIFRA is working on three mega projects i.e. Extension of Audit House, Islamabad, Pakistan Audit & Accounts Complex Quetta and Karachi. The projects are expected to be completed by June, 2010. Ground breaking and foundation stone laying ceremony for the extension of Audit House was held on August 15, 2008. The Auditor General of Pakistan Mr. Tanwir Ali Agha was the chief guest. The ceremony was also attended by the (Ex) Controller General of Accounts, Project Director, PIFRA and Addl. Auditor General.

x) **Audit and Accounts Complex Quetta.**

The construction of Audit & Accounts Complex Quetta, the Complex is being constructed at the cost of Rs.194.33 million at Zarghoon Road, Quetta and is scheduled to be completed by October 2010. It constitutes two separate buildings – Audit Block, comprising of basement, ground plus two stories with a covered area of 73,165 sqft and an Academy Block, comprising of basement, ground plus one storey with a covered area of 30,128 sqft.

xi) **Audit and Accounts Complex Karachi.**

The Regional Directorate Karachi is working day and night to achieve the goal of construction of the Audit & Accounts Complex with full zeal and zest. It is honorable for this Directorate to carry-out the visit of Controller of Accounts (CGA) Pakistan Mr. Masud Muzaffar who himself visited the Audit and Accounts Complex to inspect the under construction project. He was accompanied by AG Singh, DGPR Karachi and Directors PIFRA Karachi. Deputy Chief Engineer RD PIFRA and Resident Engineer NESPAK briefed the CGA about the on-going works.

xii) **Mid Term Implementation World Bank Review Mission.**

World Bank Mission visited Office of the Auditor General of Pakistan (AGP) to review the progress of implementation of PIFRA II, from May 20 to June 03, 2009. During their tour they visited the project sites in Islamabad and met with various officials from the offices of the AGP, the CGA, the Provincial Accountant Generals, Ministry of Finance, Finance Department of Punjab, and Regional PIFRA Directorates. The mission also met and held discussion with the DFID-financed MTBF Consultants on the progress achieved so far and the specific collaborative role that PIFRA is providing for reporting arrangements under the project.

NATIONAL SAVINGS ORGANIZATION (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 which were established in almost all provinces of the sub-continent with the objective of popularizing the savings schemes among the masses as well as to supervise, guide and control the working of the agents authorized to sell the savings instruments.

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

3. At present, Central Directorate of National Savings is operating with a network of 417 offices comprising 12 Regional Directorate, 16 National Savings Treasures, 369 National Savings Centres, 01 Directorate of Inspection and Accounts, 07 Zonal Inspection and Accounts Offices, 12 Regional Accounts Offices and 02 Training Institute . This CDNS 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.***

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

ii. ***Special Savings Certificate (Regd)/Accounts.***

A three years maturity schemes available both in form of certificates and accounts providing bi-annual return @ 11.60% p.a for the 1st five profits and @ 12.00% p.a. for the last profit.

iii. ***Regular Income Certificate.***

A five years scheme providing monthly profit payment @ 12.00% p.a. subject to 10% withholding tax at source.

iv ***Bahbood Savings Certificates.***

A new savings scheme exclusively launched for widows and senior citizens with maturity period of 10 years, which offers monthly profit payment @ 14.16% p.a. The profit earned on this scheme has been exempted from withholding tax at source w.e.f 01-07-2004.

v ***Savings Account.***

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

vi ***Pensioners' Benefit Account***.

A new savings scheme exclusively launched for pensioners with maturity period of 10 years offering monthly profit payment @ 14.16% p.a. The profit accrued on or after 01-07-2004 on this scheme has been exempted from withholding tax at source.

vii ***Prize Bonds.***

A bearer type of security, available in the denominations of Rs. 200, Rs 750, Rs. 1,500. Rs.7500,Rs.15,000, and Rs.40,000. The scheme offer prizes drawn on quarterly basis. The rate of return on this scheme works to 10.00% p.a.

4. During FY 2008-09, the following changes were made in the existing National Savings Schemes:-

a) In order to ensure better return to investors in line with the market trend, the rates of return on all the NSS were enhanced by twice 2% during FY 2008-09.

b) To ensure efficient services to the NSS investors availing themselves the facility through National Savings Centres a "Customer Support Centre" was established at CDNS as well as at each of the 12 Regional Directorates.

c) To further diversify the range of Savings Products presently being offered, the CDNS is in process of launching new schemes i.e short-term Savings Certificates tradable namely National Saving Bond and Islamic Products during FY 2009-10.

d) In order to facilitate the special segment of society i.e widows, pensioners. & senior citizens, the government fixed the highest rte of return @ 16.80 p.a to entire stock of the specialized schemes i.e PBA & BSC w.e.f 01-02-2009.

Investment Target for FY 2008-09

The gross and net investment target of National Savings Schemes for FY 2008-09 were pitched by the Finance Division at Rs.618,438/- million & Rs.150,000/- million gross and net respectively. Hectic efforts were put in to achieve, the investment target. As per data of FY 2008-09, the National Savings has secured record investment of Rs. 1,229,268/- million and Rs.267,220,713/- million gross and net respectively Despite the stiff competition being faced in the wake of vibrant financial sector, having competitive edge in pricing and services, the organization due to the commendable and untiring efforts, being made by its staff have successfully achieved the given target.

Automation of National Savings Organization.

The automation of National savings is part of the central Directorate of national Savings (CDNS) strategic plan to facilitate the customer with the efficient customer services at its National Savings Centres (NSCs). Main Application relating to business activities at NSCs has been developed. Data entry at 10 NSCs has been completed up to specific date and Main Application is being tested though parallel run at these NSCs. Networking, electric cabling, Hardware and Communication Infrastructure have been installed at 17 NSCs of Islamabad/ Rawalpindi Main Application will be replicated at 44 sites in current financial year.

Renovation and up-lift of NS Offices.

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

a) Most of the National Savings Centres/offices have been shifted to better/ spacious places.

b) The services of professional firms have been hired for renovation up-gradation of facilitates at National Savings Centres & Offices to better clientele facilities besides promoting a corporate image. During FY 2008-09 more than 40 National Savings have been fully renovated and at about 70% of the Centres, proper seating arrangements have been made.

Restructuring of NS

A detailed in-house study for restructuring of the CDNS was carried out and study report along with the draft law was furnished on Feb-2001 to the Finance Division for consideration. Government announced to convert CDNS into a corporation in the budget for FY 2004-05. Draft law along with the summary for the Prime Minister aiming to convert CDNS into a Corporate Body was prepared and submitted in November, 2004. Honorable Prime Minister agreed to the proposal in principle. The draft law stands vetted by the SBP, SECP, and Estt. Division and the Law and Justice Division by May, 2006. The matter is again under active consideration of the present Government and the Finance Minister in a recent meeting has desired to make some amendments in the draft law and have decided to convert CDNS into a Modern Saving Bank. The draft law is under process at the level of CDNS.

CONTROLLER GENERAL OF ACCOUNTS:

Activities and Achievements

1. Introduction:

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

ii. Office of the CGS and its subordinate office are not only preparing accounts of the Federal, Provincial and district Government but also maintaining accounts of certain Self Accounting Entities. Apart from preparation of accounts, offices under CGS are also making payment after applying necessary pre audit checks.

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

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

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

The main achievement of the FY 2008-09 are as follow:

2. **Financial Reporting**:

i) After successful achievement of the last year (2007-08) the accounts of the Government were submitted to audit within three months after close of financial year. Necessary steps have been taken to ensure that accounts for 2008-09 must be submitted within two months after the close of financial year 2008-2009.

ii) The annual Financial Statements of the Governments of Pakistan, the Provinces and the District have been given a new format to conform to International Public Sector Accounting Standard (IPSAS). Pakistan shall be one of the leading countries as far as this initiative for better disclosure is concerned. Federal, Provincial and District Governments financial reporting are following IPSAS-based Govt. Financial reports.

iii) Submission of timely relevant and reliable accounts was an objective hitherto focused on annual accounts only. A major paradigm shift has occurred to ensure timely submission of not only year end financial statements but also monthly accounts and generation of adhoc reports from SAP, R-3 system installed in accounting offices (AGs etc) has been initiated to help in day to day decision making, rather than relying on focus on year and financial statements.

iv) Budget Execution Report (BER) showing comparison of Budget and Actual Expenditure are being generated by all AGs. Improvements in the formats and presentation are being made on regular process.

v) FRM formats have been adopted to improve reporting. Due quality is being improved through reconciliation and Quality Assurance Cells (QAC) created in all AG offices and CGA office.

vi) Detail object wise reports are being sent with Monthly Civil Accounts by the AGs. The date for non-productive sites is entered manually.

vii) Implementation of Commitment of Accounting modules has been initiated through a Pilot Project being run by AGPR. Workshops have been conduced at Karachi, Lahore, Islamabad to develop practical understanding at provincial level. No claim will be entertained from 1.7.2008 onward without presenting claims along with form-4-C.

viii) Assets and Liabilities Accounting has also been introduced at federal level. For this purpose, instructions to all Ministries/Divisions/Departments and attached departments to estimate their assets and liabilities and report the same to AGPR for its inclusion in Federal Accounts have been issued.

ix) Combined Finance and Revenue Accounts will be produced on NAM/PSAS basis since 2008-09. Format has been approved by the Auditor-General of Pakistan.

x) Implementation of Project Accounting has been initiated in the Federal and Provincial Accounts offices.

xi) Reconciliation is a necessary part of financial management and is also an effective measure for detecting and deterring fraud and irregularities. Monthly accounts prepared by AGs are reconciled regularly with PAOs to confirm agreement with Division/Departments Accounts. The expenditure duly reconciled and accepted by the departments in respect of Federal, Punjab, Khyber Pakhtunekhwa & Balochistan, Governments ranges upto 94,92,90,95 & 78 % respectively on average. Physical Monitoring Committees (FMCs) at federal and provinces review progress of reconciliation of respective department accounts with those of AGPR/AG’s. The Federal and Provincial.

d) Services delivery is being improved in accounting and payment offices of the Federal, Provincial and District Governments to eliminate unnecessary processes as well as corrupt practices, Appropriate Business Process Reengineering is being done.

e) Internal Control Principles have been issued in 2008 for the first time in terms of section 5 (d) of the CGA Ordinance, 2001. Emphasis on Internal Control in the Government Framework is expected to lead to better financial Governance.

f) Internal Audit function has been established in Federal Ministries.

Governments have, on an annual basis, achieved their target reconciliation levels.

xii) The Accounting Procedure of Personal Ledger Accounts (PLA)/Special Drawing Accounts (SDA) have been revised w.e.f. 01.10.2008, and a revised procedure for operation of Assignment Account has been issued. According to revised procedure, expenditure in accounts is recognized on issue of cheque rather than on release of funds as recorded earlier. It is a step forward keeping the accounts in line with best international practices and General Accepted Accounting Principles.

3. Pension Reforms:

a) Pension reforms are underway to facilitate pensioners and ensure timely and correct payments and revisions. The existing pension disbursement system has been proposed to facilitate pensioners to receive pension from Commercial Banks (in addition to NBP) near to their homes, under the reformed system:

i) Pensioners will be allowed to open their accounts in any schedule bank. The banks will be instructed by the CGA organization to transfer the amount of pension in their bank accounts on last working day of every month enabling them to draw the same at their convenience.

ii) Pensioners will not be required to prefer a pension payment claim at the bank.

iii) A data-base of all pensioners will be available for management information and help in improving service delivery.

iv) The expenditure on pensioners will be verified before payment and recorded timely in Government accounts.

v) The budget estimates of pension expenditure will be improved.

4. Other Achievements:

a) The dead line for submission of annual accounts for the year 2008-09 has been prescribed so as to finalize and submit account to audit within 02 months of close of financial year i.e. by 31st August, 2009 as compared to the end of 30th September, 2008 in previous years.

b) Budget and Accounts are being prepared under the new Chart of Accounts that provide information support for better project management, cash forecasting, economic and financial management.

c) An IT support integrated Financial Management Information System is being developed to provide a decision support information for decision support for key managers in the Federal Provincial and District Governments.

PAKISTAN MINT
LAHORE

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 delivered 169.646 (million) coins in Nos. value Rs.193.292 million in addition to the revenue earned against the other jobs executed during 2008-09 value Rs.40.136 million as detailed below:-

S.#	NAME OF ARTICLES	QUANTITY IN Nos. (MILLION)
	A-COINS	
1	Re.1/--------	150.000
2	Re.2/--------	19.146
	Re.5/--------	
3.	Re.10/-------	--------
4.	--------	0.500
	Total ---	**169.646**

	B-JOBS OTHERS THAN COINS	**QUANTITY IN Nos.**	
1	**Specimen coins sets**	**8909**	
2	**Stamps / Seals**	**1542**	
3	**Embossing Machines/Sealers**	**28**	
4	**Type (Year Months etc.)**	**48633**	
5	**Medals**	**69714**	
6	**Badges, Token etc.**	**2705**	
7	**Title Shoulder, Cufflinks etc.**	**----**	
8.	**Kay Rings.**	**08**	
9	**Emblem Shields/Crest Plate**	**200**	
10.	**Replica/Minar/Zamzama, Tent Pager**	**----**	
11.	**Paper Cutters**	**48**	
12	**Dies**	**----**	
13	**Repaid/Spare Parts etc.**	**----**	
14	**Weighing Scales**	**82**	
15	**Monogram**	**1151**	
16	**Gold Coin**	**867**	

Value of the Coins delivered to State Bank of Pakistan. = Rs.193.292 Million

Revenue earned against the jobs Executed other than Coins = Rs. 40.136 Million

Total = Rs.233.428 Million

DEBT POLICY COORDINATION OFFICE (DPCO)

The DPCO acts as a secretariat for the Fiscal Responsibility and Debt Limitation Act 2005.

Functions:

As per the FRDL Act 2005, DPCO has been entrusted to perform the following functions:

- Prepare a debt reduction path,
- Monitor and evaluate external and domestic borrowing strategies,
- Analyze the foreign currency exposure of Pakistan's external debt and provide a framework for market risk management,
- Provide consistent and authenticated information on public and external debt and Government guarantees including total guarantees outstanding,
- Provide leadership on debt data questions and ensure compliance with agreed reporting requirements; and
- Maintain a centralized and updated electronic record of the public and external debt.

Publications:

As part of its primary responsibilities, the DPCO successfully formulated and presented to parliament the Debt Policy Statement and Fiscal Policy Statement 2008-09. These statements include a comprehensive review of the dynamics of Pakistan's debt portfolio as well as developments in the fiscal sector. These documents also contain a report on compliance with the provisions of FRDL Act 2005.

DEBT POLICY STATEMENT 2008-09

During the year 2008-09, total public debt increased by Rs.1,600 billion (26.6 percent). As of end June 2009, Pakistan's total public debt stood at Rs.7,605 billion. Rupee denominated public debt increased from Rs.3,266 billion to Rs.3,853 billion during the same period, increasing by Rs.587 billion or 18 percent during the period. The increase in the domestic component of public debt accounted for 37 percent of the total increase in public debt.

The primary source of increase in public debt during 2008-09 has been a rapid increase in the foreign currency component which accounted for 63 percent of the total increase in TPD. This component grew by Rs.1,013 billion or 37 percent due to increased foreign public debt inflows on the one hand, and significant depreciation of the Rupee vs. the US dollar on the other hand. The rupee lost approximately 20 percent of its value against the US dollar during 2008-09. An increase of Rs.633 billion, approximately 39.6 percent of the total increase in TPD, was solely due to the depreciation of the rupee against the US dollar. Furthermore, depreciation of the US dollar against other major currencies caused the foreign currency component of public debt to increase by US$53 million. This capital loss on foreign currency debt, however, is mitigated by the strong concessionality element associated with Pakistan's external loans. Although the increase in the foreign currency component of TPD might appear to be alarming, it must be noted that the increase inflows mainly in the form of the IMF SBA have been used not to fund budgetary operations, but to strengthen Pakistan's foreign exchange reserves.

The composition of TDP underwent a significant shift during 2008-09; as the share of foreign currency denominated debt increased for the first time since 2001-02, rising from 45.6 percent of TPD in 2007-08 to 49.3 percent in 2008-09. The share of Rupee denominated debt at 50.7 percent of TDP is significantly lower than the contribution of 54.4 percent during 2007-08. A coordinated effort to reduce borrowing from the State Bank of Pakistan (SBP) and substantial foreign currency inflows through the IMF SBA program to avert a BoP crisis, are the major causes behind this shift in composition. While limiting the increases in SBP borrowing will help in controlling inflationary pressures, the increase in foreign currency component will leave the economy more vulnerable to external shocks, specifically, the effect of Rupee depreciation on the outstanding stock of TDP. However, the impact of any currency shock should not be looked at in isolation, but rather be analyzed in the context of interest rate differential.

FISCAL POLICY STATEMENT 2008-09

Fiscal year 2008-09 saw some mitigation in the macroeconomic imbalances that were carried from the legacy of previous years, which yet again reinforces the importance of fiscal prudence for sustainable economic growth. The overlooking of power sector over the years has piled up immense pressure on the fiscal account and it could not be abruptly undone. Fiscal year 2008-09 saw elimination of many subsidies but fiscal year 2009-10 has been assigned to undo all power tariffs. Fiscal adjustment to the tune of 2.4 percentage points was done amidst crucial developments. Fiscal consolidation efforts on behalf of the government were constantly challenged by deteriorating security environment; domestic political uncertainties; deepening of the global financial crisis; persistent inflationary pressures in the economy; monetary overhang of previous years; supply-side shocks; massive exchange rate adjustment; and an uncertain macroeconomic environment. Lax fiscal stance of the last eight years has a definite bearing not only on the fiscal adjustment process but macroeconomic stability as well. The period 2000-07 was the best period for expenditure rationalization and resource management efforts which was not capitalized upon and hence, put additional strain on fiscal policy in 2008-09. The ongoing fiscal year was not best suited for fiscal adjustment because all sorts of internal and external pressures were testing resilience of the economy.

The need for fiscal discipline cannot be overstated as many years of fiscal profligacy in the past ultimately led to unsustainable macroeconomic imbalance in 2007-08. Had there been rationalization of superfluous expenditures during the fiscal comfort period of 2000-07, the extent of adjustment seen during 2008-09 could have been less painful. The fiscal response and crisis management measures and the subsequent improvement in macroeconomic stability have been remarkable. However, there is a need to re-orient policy towards resource management. Successful resource management, as opposed to adjustments made in response to crises, will play a fundamental role in addressing structural weaknesses of the economy. Such policy orientation will also limit the need for adjustments in times of distress as these adjustments pose serious implications for investment-hungry infrastructure bottlenecks. Economic growth fell drastically in 2008-09 owing to factors like widening of the fiscal and current account deficits, double-digit inflation, high cost of doing business associated with high interest rates, low levels of foreign exchange reserves, an ever-rising debt burden and widespread poverty and unemployment in the country. Going forward, we need to strike a balance in the development expenditure on account of infrastructure and improvement in social sector indicators to align expenditure with social responsibility.

In fiscal year 2008-09, under the IMF-SBA, the government took several budgetary measures to achieve fiscal consolidation. Such measures included a net-zero borrowing strategy from the State Bank of Pakistan (SBP) for budgetary support at the end of each quarter, the gradual removal of oil and power subsidies by partial pass-on to end-users, and curtailing of development expenditure. These measures brought down the fiscal deficit to 5.2 percent of GDP for 2008-09 as compared to 7.6 percent of the GDP in 2007-08. It is pertinent to note that out of the total fiscal deficit of 5.2 percent of GDP, 0.9 percentage points were contributed by exogenous expenditures that were not budgeted. For instance, 0.7 percentage points were added because the Punjab government over-drafted Rs.99 billion from the State Bank of Pakistan in the last quarter of fiscal year 2008-09, while 0.2 percentage points were added to accommodate expenditure on Internally Displaced Persons (IDPs) due to the on-going operation against terrorism in the country. Otherwise, the government remained committed to underlying fiscal deficit of 4.3 percent of GDP for 2008-09.

Being a developing economy, Pakistan needs to augment its development efforts. Development efforts crucially hinge upon additional resource mobilization that can be generated by extending the tax net to untapped areas of the economy. FBR is responsible for a major portion of revenues and currently it is undergoing a tax reforms program. The restructuring of the FBR has taken place and the establishment of the Inland Revenue Service (IRS) will serve as a single entity within the FBR that will merge the tasks of all domestic taxes, namely the sales tax, income tax and excise taxes. This harmonized tax administration will include an integrated tax management structure and a unified database that will improve efficiency and help increase the tax –to-GDP ratio in the medium term.

The Medium-Term Budgetary Framework Statement 2009/10-2011/12 was also prepared by the DPCO. This statement, which included three year targets for key economic indicators, was included in the Federal Budget of 2009-10.

MEDIUM TERM BUDGETARY STATEMENT 2009/10-2011/12

The performance of Pakistan's economy in fiscal year 2008-09 has been vastly influenced by the macroeconomic imbalances created in fiscal year 2007-08. Persistent inflationary pressures and weak performance of key sectors of the economy have made 2008-09 an exigent year. The domestic environment was not conducive as major disruptions like intensification of war on terror, acute energy shortages and resource constraints were threatening macroeconomic fundamentals. Adding to these miseries, the global economic meltdown started to penetrate into the real economy from November 2008. As a result of these pressures, and social, political and economic shocks on both external and internal fronts, Pakistan's economy has not only been impacted with regards to overall performance but also the medium-term budgetary framework. The developments of the outgoing fiscal year on both the domestic and external front have forced us to review medium-term budgetary strategy from a stabilization mode to recovery mode.

The Budget 2009-10 has been prepared at the backdrop of the developments that have taken place in 2008-09 which accentuated macroeconomic imbalances. In order to revitalize the economy, restore growth impetus, and simultaneously protect the most vulnerable sections of society from price and income shocks, fiscal stimuli are required in the coming years. These will necessarily entail an increase in expenditure to support development, infrastructure projects and improve the safety net for lower income segments of society. To keep fiscal deficit at manageable levels, an accompanying increase in revenues is also a top priority.

Other Activities:

Furthermore, the DPCO also contributed to the Economic Survey 2008-09 by submitting chapters on External Debt & Liabilities, Capital Markets and Inflation. Periodic reports have been regularly issued by the DPCO covering developments of external and domestic debt, money and capital markets, and foreign exchange reviews.

In addition to these achievements, the DPCO continued its routine functions of monitoring and analyzing the government's fiscal performance and the stock of Public Debt throughout 2008-09.

Major Challenges/Problems:

Lack of relevant trainings/workshops to enhance the technical capacity of the DPCO staff in addition to shortage of physical and human infrastructure remained major problems throughout 2008-09. However, the DPCO, in conjunction with the Ministry of Finance is working to address this issue.

Future Policy Priorities:

The primary objective of the DPCO is to establish a well-equipped and efficient unit within the government that is responsible for data dissemination, analysis, and policy advice on debt and debt related issues. These include domestic debt, external debt and liabilities, as well as contingent liabilities. Access to timely data from concerned departments, establishment of exhaustive benchmarks against which debt management operations can be measured, and the formulation of a medium-term debt strategy that ensures the government's medium-term financing requirements are met in a timely and cost efficient manner without placing undue burden on the economy remain key priorities for the DPCO going forward.