YEAR BOOK
2011-2012

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ISLAMABAD
www.finance.gov.pk

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Preface

Pursuant to Rule 25 of the Rules of Business 1973, the Year Book of Finance Division 2011-12, delineates activities undertaken by various Wings and Sections of the Finance Division and its constituent organizations during the year under review with reference to the mission statement and the various functions assigned to the Finance Division. The Year Book elaborates functions, organization structure, area of responsibilities, working set up and chain of command which is largely embedded in the activities and accomplishments during fiscal year 2011-12. The Year Book is prepared to serve as a source of convenience and easy access about the achievements of Finance Division as a whole and also individually of its attached departments and organizations in the area of policy and economic development.

Finance Division is committed to develop and implement pragmatic economic policies, sustainable and equitable economic growth, transparent and efficient financial management. Year Book also presents an overview of the economy as a whole and provides essential data which can be used by academician, researchers and students of economics. By reviewing the year book reader can appraise that despite all internal and external challenges during the year, Pakistan's economy has stabilized, economic indicators are showing positive signs federal government is demonstrating fiscal austerity and domestic resource mobilization is growing by 21 percent.

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

Abdul Wajid Rana
Finance Secretary

MISSION STATEMENT OF THE FINANCE DIVISION

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

1. General
Functions of the Finance Division

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

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

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

3. Accounts and Audit.

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

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

6. Loans and advances by the Federal Government.

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

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

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

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

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

    (i) Central Banking; State Bank of Pakistan;

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

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

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

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

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

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

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

17. Cost Accountancy.

18. International Monetary Fund.

19. State lotteries.

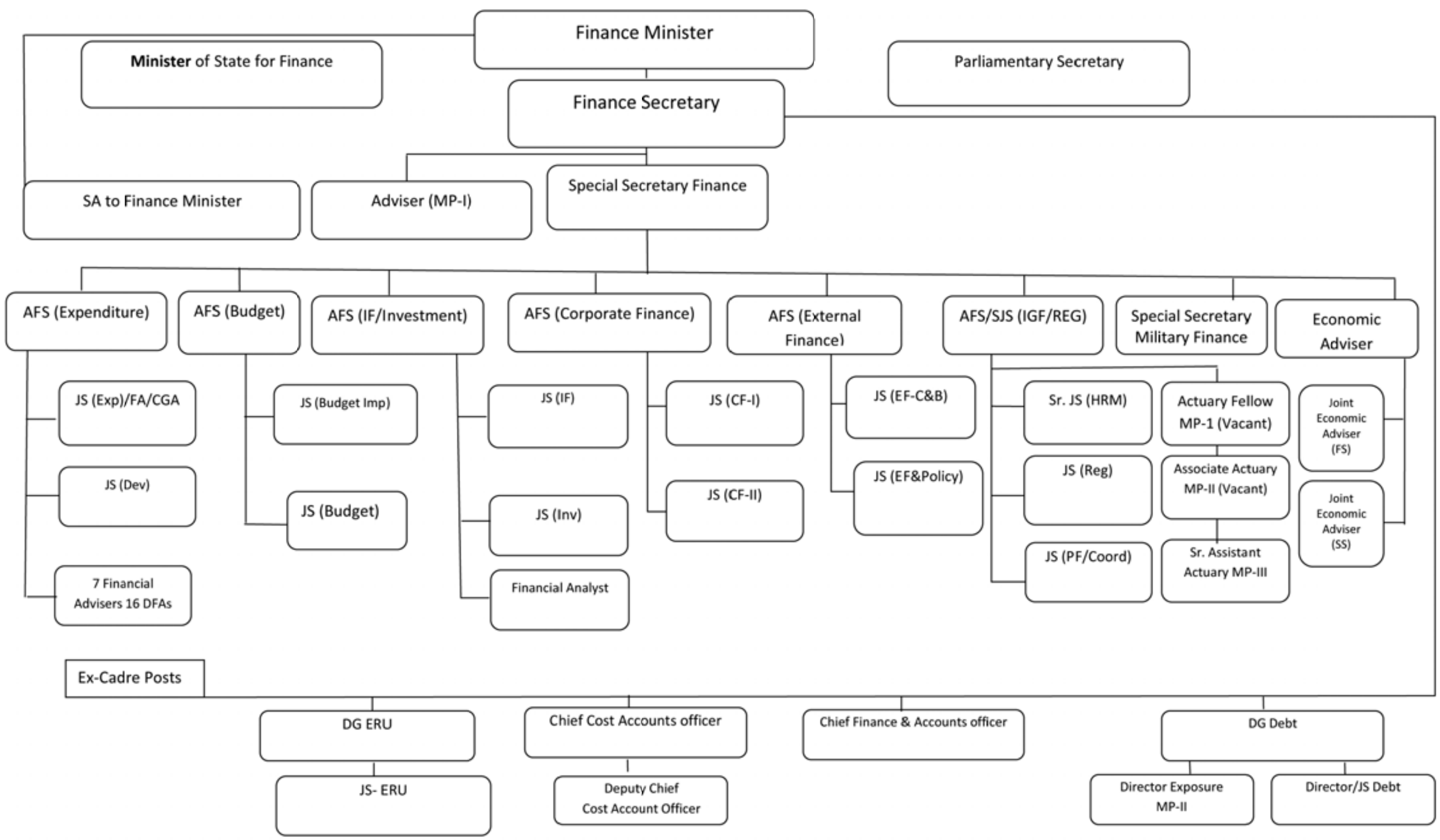
20. Monopoly Control and Anti-Cartel Laws.

21. Deregulation policies.

22. Administration of Economic Reforms Order, 1978.

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

ORGANIZATION CHART OF FINANCE DIVISION



HRM WING

Performance/Achievements

Human Resource side of HRM Wing of Finance Division is working under Deputy Secretary (HR) consisting of five Sections i.e. HR-I, HR-II, HR-III, HR-IV and Confidential Section. The HR side of HRM Wing has taken special care for an effective control on matters relating to Human Resource Development. Major function of HR Wing is to manage official business smoothly and efficiently by providing effective human resource and logistic support to other Wings of the Finance Division. HR Wing of Finance Division performs the following functions to achieve this goal:

- 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 this Division to ensure timely completion of annual Performance Evaluation Reports (PERs) of officers and staff of this Division.

- To maintain discipline in the light of Government Servants (Efficiency and Discipline) Rules, 1973:

- To provide logistic support, facilitate visiting foreign delegates and to provide customer services to the general public visiting the Ministry of Finance.

- To make arrangements for the employees of Finance Division regarding hiring of residential accommodation as per Accommodation Allocations Rules 2002 and provision of medical facility. House Building, Motor Car, Motor Cycle, Cycle, advances and other advances like G.P. Fund advances etc. Preparation of pension papers for the retiring officers/officials.

- To maintaining the Service Books of all the officials and to arrange annual verification of pay of all the employees by the pay fixation party of AGPR.

- Disposal of the grievances of employees in consultation with concerned organizations working under this Division.

Achievements of HR side during the year 2011-12 in various areas are enumerated below:

Promotion

In order to enhance the quality of work of the officials, 48 employees in (BS 01 to 09) were promoted to the higher grades during reference period 09 officials in (BS-10 to 14) and one official from BS 10 to BS-12, were upgraded.

In pursuance of Finance Division (Regulation Wing) decision dated 23rd December 2011, the HR-I Section promoted 11 Private Secretaries of (BS-17) to (BS-18) and 08 Private Secretaries were also granted BS-19 with nomenclature of Senior Private Secretaries w.e.f. 23-12-2011. One Stenographer is promoted to the post of Private Secretary on 11-6-2012.

Regularization of Contingent Paid Employees

In pursuance of decision of Sub-committee of Cabinet regarding regularization of contract basis/daily wages employees in Ministries / Divisions / Attached Departments/ Autonomous Bodies/Organizations, meeting held on 2nd August, 2011, in the Committee Room of Establishment Division, Islamabad and the recommendations of Departmental Selection Committee, HR Wing regularized the services of 92 contingent paid employees (BPS-01 upto BS-09) of this Division and 04 contractual Assistants were regularized.

Hiring

During the period HR-IV Section has provided the hiring facilities of private residential accommodation to the 300 officers and officials of Finance Division and all payments upto 30th June 2012, have been made to the owners of houses hired by the officers/officials of Finance Division according to rules and regulations.

Medical Facilities

Medical re-reimbursement facilities were provided to the serving and retired officers/officials of Finance Division after thorough scrutiny of medical re-imbursement bills so that public money may be utilized according to rules and regulation.

In the wake of prevailing law and order situation and on the special government instructions, fool proof security arrangements were made by deploying Naib Qasids as Security Guards on all the floors of Block "Q" round the clock basis during the Budget Session 2012-13.

HR-II Section appointed and promoted following persons during the year 2012:

Appointments

S.No.	Name	Designation
1	Mr. Asim Ali Khan	Stenotypist (BS-14) (Against Balochistan quota)
2	Mr. Gulzar Akbar	Data Entry Operator (BS-12)
3	Mr. Kashif Ali Malik	Data Entry Operator (BS-12)

Promotions

S.No.	Name	Designation
1	Mr. Raiz-ul-Haq	Stenographer (BS-16)
2	Mr. Sheraz Ahmed	Stenographer (BS-16)
3	Mr. Muhammad Azam	Stenographer (BS-16)
4	Mr. Sajjad Ahmed Qureshi	Stenographer (BS-16)
5	Mr. M. Abdul Islam	Stenographer (BS-16)
6	Mr. Saqib Rashid	Stenographer (BS-16)
7	Mr. Asif Ali	Assistant (BS-14)
8	Mr. Muhammad Sadiq	Assistant (BS-14)
9	Mr. Abdul Rehman Sajid	Assistant (BS-14)

Additional Work

On up-gradation of posts of Stenotypist and Stenographer w.e.f. 23.12.2012, pay of all officials was fixed with in 10 days and the same has been got verified from office of the AGPR, Islamabad.

HR-IV Section

All administrative matters of Ex-cadre officers/professionals of this Division are dealt in this Section. To meet the demand of different wings, recruitment of professionals for MTBF Secretariat and ERU wing were made according to the prescribed procedure. Further the services of officers of Economist group, who are administered by Planning & Development Division were placed at the disposal of EA wing to meet their shortage. All 10 sanction posts of Accounts Officer (BS-18) are filled. Even 12 Assistant accounts Officers have also been attached with different wings to provide the financial input. During the preparation of budget 2012 – 2013 additional Assistant Accounts Officers were temporarily posted in MTBF Secretariat to reinforce the Secretariat. It is worth mentioning that HR-IV Section makes its utmost efforts to take care of all the officers of different wings so that they may excel in their respective wings.

Quality Assurance Section

Quality Assurance (QA) program was launched in this Division in the year 2006 to increase the customers satisfaction level, raise service quality and improve internal working efficiency. This Division has got renewal of ISO 9001–2008 Certification w.e.f. 9.8.2010 for the period of three years (2010-2013). The performance of this section is given as follows:-

- Quality objectives (targets and goals) of the wings of this Division has been revised for three years 2011-2014 and progress report for six months July-December, 2011 has been published.
- Quality Policy and Strategic Quality Framework has been defined. Quality Assurance Structure of Finance Division has been established.
- Meetings of Departmental Quality Review Committee (DQRC) of each Wing are held regularly to monitor the implementation of QA Program.
- Customer Service Department has been established.
- Toraining to build capacity of the officers of this Division on Quality related topics are planned and implemented regularly. More than 295 Officers have been trained on Quality till to date.
- To build capacity of the officers 280 officers got foreign training of this Division and 43 officers got foreign training in the year 2011-12 during 2006-July, 2012.
- 479 Officers/Officials from 2006 till to date got trainings from various local Institutes such as STI Islamabad, PIM, Lahore/Karachi/Islamabad, Public Procurement & Regulatory Authority (PPRA) Islamabad, PIFRA Islamabad and NIBAF Islamabad.
- On the basis of external and internal Quality related audits, entire Division has been certified ISO 9001:2000 Standard in 2007 and got certification renewed for further three years 2010-1013.
- During the year 2010–2011 internal and external audit were carried out in this Division to measure the performance. Overall 07 external audit have been carried out from 2008 to June 2011. Next external audit is due in September 2012.
- To measure the satisfaction of customer of this Division surveys have been conducted bi-annually. Customer satisfaction survey conducted during 2011-12 shows 72% customer satisfaction index (CSI).
- To promote quality related activities Newsletter has been published. Newsletter for the period of March-July 2012 is in process for publication.

- The 8th External Audit will be carried out in the month of September 2012.
- A Quarterly Quality Report (QQR) is issued incorporating the achievements of this Division as per their Quality Objectives.
- The QAPs of this Division are being revised incorporating the new goals and targets of 2012–2014.
- The job descriptions of all the officers of various wings are dated by incorporating all the changes occurred from time to time.

Budget and &Accounts Section

B&A Section of HRM Wing deals with the following work detailed as given below:

- Preparation and processing of Budget of this Division (Main) and its attached Department under Demand No. 28 and 32.
- The re-appropriation of funds, SG / TSG and other financial matter are also being dealt in this section.
- Creation of post.
- Cases related to pension.
- Cases related to TA/DA.

Protocol Section

- Protocol services provided to the foreign as well as local delegates/guests at airport and at "Q" Block, Pak. Secretariat. Such services were also provided to the officers (BS 20-22) working in this Division who visited abroad for official visit.
- Visa formalities of BS-20 and above officers proceeded on official visits abroad were completed in time.
- Acknowledged receipt of passports from the Directorate General of Immigration and passports in respect of officers of this Division.
- Note Verbal from M/o Foreign Affairs were arranged on request of the concerned officer.
- Hotel reservations lunches/dinners for the delegates were made.
- Timely permissions were obtained from SSP (Security) for entrance in Diplomatic Area, Islamabad for visa purposes.

Documentation Section

- All the petitions received through President/Prime Minister's Secretariat were forwarded to the concerned wings/departments for appropriate action.
- Material for Finance Division's Year Book of 2010–11 was processed and got printed.
- NOCs were issued for clearance of classified/security booklets and work related to the reports of Defence Planning Committee.

Customer Services Department

- Arranged permanent security passes of officers/officials of this Division from Ministry of Interior.
- Security Passes (temporary) for officers/officials of this Division were prepared and quality was improved to ensure better security measures.
- To improve the service quality of the Ministry, Customer Services Department (CSD) has been established to handle public complaints/comments/queries/

suggestions received in the Ministry of Finance, which were forwarded to the concerned sections for appropriate action and nothing is pending.

- The recommendations of Quality Improvement Teams were reviewed and corrective/preventive actions were taken with target dates for implementation.
- Daily visitors report of this Division is maintained and forwarded to JS/DS(Services) and DSP (Security) on daily basis.

BUDGET WING

Profile of Budget Wing

The basic functions of the Budget Wing are to coordinate, prepare, print and publish the budget of the federal government. Budget is an instrument by which the government expresses its priorities and allocates resources to implement its policies. Moreover, Budget Wing is also responsible to implement the budgetary targets and prepare a monthly report thereon.

The budget making process goes through the stages of ;

- Preparation
- Coding/ formulation
- Compilation
- Authentication
- Execution
- Monitoring and coordinate implementation of budgetary targets
- Liaison with all relevant Ministries/Divisions/Organizations to get report on implementation status of the targets given in the budget, indicating various budgetary measures.

Functions of various Sections of Budget Wing

AEA (BR-I) Section
- Coordination with FBR in relation to tax receipts
- Preparation and compilation of the Budget documents “Budget-In-Brief”.
- To deal with reviews of the proposals and suggestions for increase in tax receipts and for the improvement of the federal resources.

Budget Resources-II
- Preparation of statements of Estimates and actuals of foreign aid and Foreign Debt servicing
- Review and compilation of foreign assistance inflows/ outflows.
- Regulation of flow of budgetary funds through various channels i.e. Assignment Account.
- Examination/processing of cases pertaining to permission for opening of Assignment Accounts in the light of procedure devised/issued by Finance Division.
- Preparation of the Budget document “Estimates of Foreign Assistance” and “Explanatory Memorandum on Federal Receipts’.
- General Coordination within Budget Wing.

Budget Resources-III

- Examination of recommendations of Planning Division for formulation of Development Budget.
- Conducting Priorities Committee meetings for formulation of Annual Development Programme in respect of Federal Ministries/Divisions.
- Implementation/Incorporation of decisions of the Annual Plan Coordination Committee/ NEC and implementation/ Incorporation of decisions of the NEC.
- Scrutiny of Budget Orders/New Item Statements and their reconciliation with the allocations agreed by the NEC.
- Compilation of details of Demands for Grants and appropriations relating to Development expenditure.
- Examination and Issuance of Federal Government Guarantees in respect of loans provided by Commercial Banks/State Bank of Pakistan and Development Financial Institutions to the Public Sector Enterprises.
- Coordination with Planning & Development Division and EAD in respect of foreign aid provision for the Annual PSDP.

Government Securities-I

- Preparation of Budget Estimates, Reappropriations and Supplementary Grants in respect of "Servicing of Domestic Debt", and "Repayment of Domestic Debt".
- Maintenance of Security wise Domestic Debt Stock
- Framing of rules of various government securities
- Determination of rate of mark up of GPF and Cash Development Loans.
- Processing of complaints on investments with CDNS

Government Securities-II

- Processing of cases regarding appointment/promotion/disciplinary cases of officers for CDNS in BS-17 and above.
- Processing of appeal cases of National Savings Organization.
- Nomination of Government counsel in court cases through Law & Justice Division.
- Miscellaneous cases relating to administrative and financial matters of CDNS.
- Restructuring of National Savings Organization.
- Budgetary matters of CDNS.

Section Officer (Government Adjuster)

- Adjustment of Inter Government agencies claims with each other through deduction at source.
- In case of disputed claims, convening meetings for settlement of outstanding dues.
- Processing of the claims in accordance with standing procedure.
- Analysis and submission of claims to Government Adjuster with views of the defaulting Government agencies for an appropriate order.
- Implementation of the decision taken by the government Adjuster regarding deduction at source by pursuing the offices/agencies concerned.

Budget Publication Officer

- Printing and publication of Budget documents and Post Budget documents.
- Coordination of manuscript/material of Budget documents, summaries/reports of the Budget Wing.

- Supply of Budget documents to the Cabinet/ Senate/National Assembly during the Budget Session, Press Information Department/ all Federal and Provincial Government's Offices.
- Record and maintenance of Budget Wing Library.
- Supervision of Photocopying and composing section of the Budget Wing and ;
- Urdu translation of the Budget documents, Schedules of Authorization, Finance Minister's Press Brief/Press Release.

Budget & Accounts Section

- Compilation of Annual Budget Statement to be laid in the National Assembly at the time of presentation of the Budget.
- Preparation of data of "Deficit Financing".
- Monitoring of Cash Balance of the Federal and Provincial Governments.
- Calculations of daily fresh estimates of deficit financing and its monitoring with estimates of State Bank of Pakistan and its analysis and other ancillary work thereto.
- Clearance of release of individual payments in accordance with the limits prescribed by the competent authority from time to time.
- Preparation and compilation of quarterly fiscal data.
- Submission of monthly/ quarterly/ annual actuals in respect of Tax, Non-Tax Revenues, Capital Receipts, External Assistance and Development Expenditure of the Federal Government.

Budget Implementation Unit-I

- Pursuing collection of non-tax revenue from Public Sector Enterprises (PSEs)
- Liaison with other wings of Finance Division like; Internal, External, Investment, Provincial, Expenditure & Corporate Finance Wings for collection of data regarding revenue receipts, expenditure, etc.
- Monitoring and coordinating implementation of overall budgetary targets and to prepare analytical reports on monthly basis.
- Preparation of reports based on data received on financing of fiscal deficit and identifying the reasons of variations, on monthly basis for taking corrective measures.
- Monitoring, evaluation, reconciliation and reporting on Revenue Receipts of the Federal Government being collected other than by FBR.
- To deal with the miscellaneous/policy matters related to Budget Implimentation side.

Budget Implementation Unit-II

- Monitoring and follow up the implementation of announcement made in Budget speech by the Minister for Finance.
- Liaise with Internal, External, Investment, Provincial, Expenditure & Corporate Finance Wings of the Finance Division and all other relevant Ministries/ Organizations for collection of data regarding revenue receipts, expenditure etc. and get report on implementation status of the targets given in the Budget.
- Monitoring and follow up the implementation status of the decision made by Cabinet regarding Revised Estimates and Budget Estimates of the year concerned.
- Collection of Non-tax revenue from Public Sector Enterprises (PSEs).
- Correspond with the organizations from where above said reports originate for identifying the areas of concern and to initiate action for taking corrective measures.

- Preparation of monthly statements of Revenue receipts and Expenditure and comparison with historical data to suggest corrective measures.

Budget Computerization
- Receipt of Budget Orders/New Item Statements (BI/NISs) in the office of Director (BC)/ from all Ministries and Departments within Pakistan and Foreign Missions abroad.
- Data Entry of received BIs/NISs into computer system.
- Supervising the work relating to reconciliation of Demands for Grants.
- To prepare summaries and schedule for submission to Prime Minister for approval and authentication of Federal Government's Budget.
- Work relating to processing the Budget in Cabinet, National Assembly and the Senate.
- Improve operation using techniques and equipments.
- To monitor and supervise the activities being performed for smooth functioning of installed SAP R/3 system in the Computer Centre, Budget Wing.
- Liaison and coordination with PIFRA Directorate/ Auditor General Office/CGA etc. for successful implementation of PIFRA Project regarding Annual Federal Government Budget Computerization.

Chief Accounts Officer
- General Coordination of Public Account Committee work with Ministries/ Divisions/Departments and with National Assembly Secretariat, PAC Wing, including the work relating to PAC Coordination for Finance Division Accounts and Report – compliance etc.
- Preparation and finalization of Schedule of Authorized expenditure for Budget and Supplementary Grants and Notice of intention (Urdu/English) for Budget and Supplementary Grants.
- Issue of Corrigendum to the book of Details of Demands for Grants and Appropriations (Vol-I and II).

Types of Budget

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 or deficit for the year, as the case may be. 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 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.

The Budget Process

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 the Budget Wing, of Finance Division The original estimates are framed within 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 on to the concerned Financial Advisers with their recommendations. The Financial Adviser 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.

Budget Call Circular

Budget Call Circular for the year 2011-12 was issued on 29th December, 2010. The B.C.C. envisaged that like last year, the budget be prepared as per the method of ‘output-based budgeting. The budget prepared contains revised estimates for 2010-11, budget estimates for 2011-12 and medium-term budget estimates for 2011-14. The Budget Call Circular has two sections;

Section I includes budget preparation forms, instructions and procedure for preparation and submission of detailed budget Revised Estimates (2010-11) and Budget Estimates (2011-12) in respect of Federal Government receipts, current and development expenditure.

Section II includes forms and instructions for Ministry Strategic Overview and Strategic allocation of Ceilings to ‘outputs’ (services). This section contains forms that is prepared by the Ministries/Divisions, the format of ‘Green Book’ and form required to be filled by Fund Centers to prepare medium-term budget.

The specific detailed instructions to complete the requirements of Section I and Section II forms are also issued, to all the Ministries/Divisions.

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 close of the 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.

Similarly, the development expenditure estimates are submitted to the Budget Wing by the various Ministries/Divisions and Departments on a specific proforma devised by the Planning and Development Division. These preliminary estimates are discussed in a Priority Committee meeting Co-chaired by the Secretary Finance Division, Secretary Planning and Development Division and Secretary, Economic Affairs Division. Recommendations of the Priority Committee meetings are again discussed in the Annual Plan Coordination Committee (APCC). The final draft of development expenditure is approved in the National Economic Council.

The revenue estimates are submitted to the Budget Wing by the FBR. The non tax receipts are submitted to the Budget Wing by the various Ministries/Divisions and Departments whereas the external receipts estimates are submitted to the Budget Wing by Economic Affairs Division.

After the finalization of the budget estimates in respect of receipt and expenditure, an Annual Budget Statement of the federal government in respect of every financial year along with other budget publications is laid in the National Assembly. After the approval of the budget by the Parliament, the budget publications are released to the various Ministries/Divisions and Departments with the authorization to utilize the budgeted funds from the 1st July of each financial year.

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

Public Sector Development Program (PSDP)

Provision for development expenditure is included in the budget on the basis of the Annual Development Program 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 Public Sector Development Program is one the most important aspects of the budget making. Emphasis is laid on drawing-up the annual Development Program 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 (ECNEC), or have otherwise received the approval of the competent authority, are included in the Annual Development Program. The Program, as finally approved by the National Economic Council (NEC), is reflected in the Budget.
Exercise for preparation of the Public Sector Development Program starts sometime in early November keeping in view the overall requirements of the economy and plan targets, the size of the Annual Development Program 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 Program 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, by the Annual Plan Coordination Committee (APCC) and finally by the National Economic Council. The Public Sector Development Program, as finally approved and incorporated in the budget, presents the blueprint for action by the Federal and Provincial Governments and indicates the financial allocations along with physical targets in respect of various development schemes.

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

- Public Savings, i.e. the excess of revenue receipt over current expenditure of the Federal and Provincial Governments.
- Net capital receipts of the Federation and the Provinces (i.e., Recovery of Loans, Saving Schemes and Prize Bond proceeds, etc).

- The Federal government 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 program.

Foreign Exchange Component of ADP
Side by side with the finalization of the Annual Development Program, endeavour is made to estimate the foreign exchange which is shown separately from the expenditure in

local currency, both in the revenue and capital budget. This also serves as an indication to the administrative authorities that the budgetary allocation for foreign exchange expenditure is not available for expenditure in local currency.

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.

Financial Procedure

Submission of Budget Proposals (Books) to the Federal Cabinet

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

Submission of Budget/Finance Bill to the National Assembly

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

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 fourteen days, makes 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.

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.

Schedule of Authorized Expenditure

After the budget has been approved by the National Assembly, 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 as 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 extent of expenditure to be made under a specific grant/appropriation. It also specifies the expenditure Charged upon Federal Consolidated Fund and otherwise. The Charged portion is always reflected in italics.

Article 82 of the Constitution provides that the expenditure ‘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:

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

- The Judges of the Supreme Court
- The Chief Election Commission
- The Chairman and Deputy Chairman (of the Senate)
- The Speaker and the Deputy Speaker of the National Assembly
- The Auditor General
- Federal Ombudsman

a) 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
b) 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
c) Any sums required to satisfy any adjustment, degree or award against Pakistan by any court or tribunal and
d) Any other sums declared by the Constitution or by Act of (Majlis-e-Shoora) (Parliament) to be so charged.

The Budget Documents

Budget Speech of the Finance Minister
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 state of the economy.

It also 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.

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.

Budget in Brief
Budget in Brief presents a summary of the Federal Budget. It is designed to encapsulate essential information on revenues and expenditures for the outgoing and forthcoming financial years. Budget in Brief also contains features of the economic policy of the government. Medium-term macroeconomic indicators are included in the documents to provide the strategic economic perspective which contextualizes of budget. This document is printed both in Urdu and English.

Budget at a Glance
This is a one-page picture of the budget, which provides information on board aggregates like tax revenue, non-tax revenue, net revenue receipts, net capital receipts (non bank), external receipts (net), bank borrowing and current and development expenditures. The Budget at a glance is a part of the Budget in Brief.

Explanatory Memorandum on 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 document serve to indicate, among other things, the basis on which proceeds of Federal Taxation are shared with the provincial governments and also specifies the provincial shares in the proceeds of various taxes and duties.

It is tabled along with the Annual Budget Statement, as additional information, in order to help the readers to understand the details of the receipts included in the Statement. The Memorandum distinguishes revenue from capital receipts. Revenue receipt is further categorized as tax and non-tax receipt. The Section on Capital Receipts 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 Program by the Provinces is also included in this Memorandum.

Estimates of Foreign Assistance
External resources mainly comprises of:

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

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 in case of default. These are called to Guaranteed Loans.

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

Commodity aid, as a rule, is utilized for commercial imports to lend general support to the economy. The goods imported under this aid, generally, are industrial raw materials, equipments and spares, consumer goods, chemical and fertilizer and such other commodities as may be specified or may have been generally agreed to or, if the aid is united, as the country may actually need. Beside 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 program 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 Program 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.

Details of Demands for Grants and Appropriation
(Pink Book)

This document consists of the following three volumes:

Volume I and II: Current Expenditure - this document contains Demands and Appropriations relating to current expenditure.

Volume III: 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.

Volume I – Current Expenditure

Part I: Details of current expenditure. The details of demands in respect of Current Expenditure are provided in the Vol-I and Vol-II.

Part II: Appropriation charged upon the Federal Consolidated Fund, and current expenditure on Capital Account are also included in Vol-II.

Volume III – Development Expenditure

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

Function-wise 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.

Demands for Grants and Appropriations

Demands for Grants and Appropriations contains 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, contrary 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 or appropriations. Three very useful Schedules have also been appended at the end of the book.

Schedule I, the demands and appropriations are listed in their serial order indicating the nomenclature of each and further classifying the estimates of gross expenditure into:

- Sums required to meet expenditure charged upon the Federal Consolidated Fund.
- Other than charged expenditure.
- Total expenditure (Charged + Other than Charged)

(This schedule indicates the total amount allowed to a Ministry/Division under a specific demand/appropriation for expenditure in ensuing year).

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

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

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 to three parts.

- Demands for Current Expenditure
- Demands for development Expenditure
- Appropriations charged upon the Federal Consolidated Fund.

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

- Sums required to meet charged expenditure

- Sums required to meet other than charged expenditure

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

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

Excess Demands for Grants and Appropriation

This book contains details of Excess Expenditure incurred by Ministries/ Divisions from the Federal Consolidated Fund under various Grants/ Appropriations during the specific year as recommended by the Public Accounts Committee for regularization through Excess Budget Statement under Article 84(b) of the Constitution of Islamic Republic of Pakistan.

Under Article of 84 (b) of the Constitution, the Excess Budget Statement is required to be laid down before the National Assembly and the provisions of Articles 80 to 83 applies to Excess Budget Statement as they apply to the Annual Budget Statement.

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.

MEDIUM TERM BUDGETARY FRAMEWORK (MTBF)

Introduction

Medium Term Budgetary Framework (MTBF) is a budget reform program 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 program 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 Medium-Term Budgetary Framework (MTBF), budget management and key governance reform programme of the government, was rolled-out to entire Federal Government last year. As per the MTBF two important changes have been made in the process of budget making; the 'Budget Strategy Paper' and 'Output Based Budgeting".

This year the Budget Strategy Paper 2011-14 was presented in the Cabinet on 11 May 2011. The Budget Strategy Paper 2011-14 included; macroeconomic situation, key revenue and expenditure policies, medium-term fiscal and macroeconomic framework and indicative budget ceilings for all Federal Ministries. This indicative budget ceilings 2011-14 were communicated to all the Principal Accounting Officers of the Federal Government. Consultations on the Budget Strategy Paper 2011-14 were also made with the Parliamentary Standing Committees of Finance & Revenue, political parties, Provinces and the Economic Advisory Council.

Last year, the budget was presented by outputs (services) in the Parliament in a book called 'Federal Medium-Term Budget Estimates for Services Delivery 2010-13' (also called 'Green Book 2010-13'). The Green Book 2010-13 presented goals, outcomes outputs and inputs and linked these with three-years budgets within ceilings for each Principal Accounting Officer. In addition, key performance indicators and targets were presented for each output over the three-year period.

Way Forward
The reform program is planned to be further improved notably through the following activities:

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, Introduction of monitoring function in the Federal Government to monitor the performance against the targets identified by the Ministries, Commencement of 'Ministerial Strategic Reviews' to review the policy in selected Ministries, thereby embedding the process of regular review processes each year, Establishment of linkages with PIFRA (Project to Improve Financial Reporting and Auditing) reform program to allow monitoring of expenditure on outputs and outcomes, and presentation of the medium term budget estimates for service delivery in the Cabinet and Parliament.

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

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

At present, the Central Directorate of National Savings is operating with a network of 424 offices, comprising 12 Regional Directorates, 16 National Savings Treasuries, 373 National Savings Centres, one Directorate of Inspection and Accounts, 7 Zonal Inspection and Accounts Offices, 12 Regional Accounts Offices and 2 Training Institutes. The CDNS is responsible for mobilization of domestic savings through the sale of various government securities called National Savings Schemes (NSSs). Presently, the following NSS are in operation:

Defence Savings Certificates
A ten years maturity instrument offering an average compound rate of 11.50% p.a. on maturity. The profit in this scheme is paid for completed years on maturity or encashment, whichever is earlier.

Special Savings Certificates (Regd)/Accounts
A three years maturity scheme available both in the form of certificates and accounts providing bi-annual return @ 10.70% p.a. for the first five profits and @ 11.30% p.a. for the last profit.

Regular Income Certificates
A five years scheme providing monthly profit payment @ 11.04% p.a. subject to 10% withholding tax at source.

Bahbood Savings Certificates
A savings scheme exclusively launched for widows and senior citizens with maturity period of 10 years, which offers monthly profit payment @ 13.50% p.a. The profit earned on this scheme has been exempted from withholding tax at source w.e.f. 01-07-2004.

Pensioners' Benefit Account
A savings scheme exclusively launched for pensioners with maturity period of 10 years offering monthly profit payment @ 13.50% p.a. The profit accrued on or after 01-07-2004 on this scheme has been exempted from withholding tax at source.

Savings Account
Savings Account is an ordinary account offering profit @ 7.40% p.a.

Prize Bonds
A bearer type of security, available in denominations of Rs.200/-, Rs.750/-, Rs.1,500/, Rs.7,500/-, Rs.15,000/-, Rs.25,000/- and Rs.40,000/-. The scheme offers prizes drawn on quarterly basis. The cost on this scheme is 10.0% p.a.

National Savings Bonds
A tradable type of security was launched in January, 2010 under the Second Generation of Capital Market Reforms Programme. The National Savings Bonds are available in the

3, 5 & 10 years maturity. The subscription of first issue was closed on 26.01.2010. The rates of return is paid bi-annually which for first issue were 12.50%, 12.55% & 12.60%.

Short Term-Savings Certificates.
In view of the liquidity position and demand for short-term paper in the financial market, a short-term scheme with the title of Short-Term Savings Certificates was launched on 01.07.2012. The rates of return are 9.90%, 10.00% and 10.10% for 3, 6 and 12 months. The profit is paid on maturity but not less than three months, if encashed before maturity.

Investment Targets for FY 2011-12
The gross and net investment targets (revised) of National Savings Schemes for 2011-12 were pitched by the Finance Division at Rs.895,199 million and Rs.146,825 million, respectively. The CDNS has surpassed the target by mobilizing gross receipts of Rs.946,614 million and net receipts of Rs.187,696 million during 2011-12. 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, made by its staff have successfully surpassed the given target.

Computerization at CDNS:
The CDNS has computerized 111 sites comprising 83 National Savings Centers (NSCs), 9 National Savings Treasuries (NSTs) and 19 other controlling offices situated at different Regional Directorate of National Savings (RDNSs) across Pakistan. The detail is given below:

S.No.	Region	NSC	NST	Controlling Offices	Total
1	Isb/Rwp	25	2	5	32
2	Faisalabad	9	1	2	12
3	Karachi	15	1	2	18
4	Abbottabad	9	1	2	12
5	Peshawar	7	1	2	10
6	Multan	1	-	-	01
7	Lahore	7	1	2	10
8	Quetta	5	1	2	08
9	Hyderabad	5	1	2	08
Total		**83**	**9**	**19**	**111**

<u>Every newly opened NSC would also be automated from day one</u>

The rationale of computerization is:

- To improve financial control to compete technology driven financial market.
- To ensure effective policy decisions.
- To improve quality of service to obtain customer satisfaction.
- To decrease workload on National Savings staff.
- To obtain uniformity.

Currently, the CDNS is working for on line connectivity of computerized sites for Data Exchange/ Replication and profit posting of monthly schemes in the respective Savings Accounts of customers through correlation and other Technical support & Training. The CDNS intends to expand computerization network to remaining sites.

Pakistan — Consolidated Fiscal Operations 2011-12

Budget Wing is also responsible to disseminate quarterly data in respect of Fiscal operations, Federal, Provincial as well as Consolidated, on the web-site of the Finance Division. The Summary of Fiscal Operations for the year 2011-12 is given below:

(Rs. in billion)

Description	**Prov. Actual July-June**
Total Revenue	**2566.5**
Tax Revenue	**2052.9**
Federal	1945.7
Provincial	107.2
Non-Tax Revenue	**513.6**
Federal	465.6
Provincial	48.0
Total Expenditure	**3936.2**
Current	**3122.5**
Out of which	
Interest payments	889.0
Defence	507.2
Development and Net Lending	**743.9**
Statistical discrepancy	**69.8**
Budget Deficit	**1369.7**
Financing	**1369.7**
External	**128.7**
Domestic	**1241.1**
Non-Bank	529.4
Bank	711.7
Total Revenue	**12.4%**
Tax Revenue	9.9%
Non-Tax Revenue	2.5%
Total Expenditure	**19.1%**
Current	**15.1%**
Out of which	
Interest payments	4.3%
Defence	2.5%
Development and Net Lending	**3.6%**
Budget Deficit (As % of GDP)	6.6%
GDP (Rs. in billion)	20654

CORPORATE FINANCE WING

Corporate Finance Wing deals with all financial and corporate matters of Public Sector Corporations work under the administrative control of various Ministries/Divisions. The Federal government provides financial support to Public Sector Enterprises (PSEs) in shape of equity injections, advance loans for their working capital requirements and provision of subsidy to meet their operational cash shortfalls or in case of incurring losses. The Federal government also carry out financial and administrative re-structuring of those organizations whose financial health deteriorates due to some peculiar conditions. Moreover, PSEs are also provided bank credit ceiling to meet their financial needs. The government policy decisions are implemented, relating to the issues for picking up of the Government guaranteed outstanding and non-performing loans extended by banks and financial institutions to the PSEs and other financial losses sustained by them.

Due to unprecedented upsurge in the prices of Petroleum products in the international market and non-passing of full NEPRA determined power tariff to the consumers, Power Sector has been facing severe liquidity problem and has lost the capacity to liquidate its huge outstanding dues owed to IPPs and oil and gas companies. PEPCO has, therefore, resorted either to huge borrowing from the banks or to rely upon government support to meet its operational cash shortfall. Due to PEPCO/KESC inability to pay off their outstanding dues, all the public sector entities are trapped in the Circular Debt, which is severely affecting their cash flows. Net Power Sector Circular debt as on 13th August, 2012 were amounting to Rs.349.577 billion.

Following are some of the major reasons which causes accumulation of Circular Debt.

- Partial transfer of tariffs as determined by NEPRA.
- Heavy line losses. (Present level of line losses is 20%).
- Incomplete corporatization.
- Weak governance.
- Costly fuel mix putting extra financial burden to meet the cost of fuel oil due to constant increase in the oil prices.
- Accumulation of huge receivables of PEPCO from government sector as well as private consumers ending June, 2012 as per break up given below:

Rs (in billion)

Federal Govt Deptts	5.266
Provincial Govt Deptts	84.530
Private Consumers	197.191

- Dependence on expensive Thermal Generation due to decreased Hydel power. (Hydel: 31%, Thermal-RFO/Gas:65%).

- GoP is providing subsidies to Power Sector to bridge the gap of tariff determined by NEPRA and that notified by GoP/MoW&P. During 2011-12. GoP has provided the following subsidies to PEPCO/KESC:

(Rs in million)

S.	Nature of subsidies/payments	2011-12

No		Budget	Released
1.	Subsidy for GST – PEPCO	10,000	-
2.	Subsidy to pick up Inter-DISCO Tariff Differential-PEPCO	50,000	412,018.474 *
3.	Subsidy for Interest on TFCs- PEPCO/ PHPL.	55,700	-
4.	Subsidy on PEPCO receivables from FATA	7,000	7,000
5.	Tariff differential – KESC	24,000	45,000
6.	GST-KESC (lifeline only)	350	-
7.	KESC's payables to PSO & PKGCL	238	-
	Total	**147,288**	**464,018.474**

Debt Swap of Rs.312.768 billion relating to Power Sector was carried out during 2011-12 for creating fiscal space in Power Sector.

With the approval of Cabinet, funds of Rs.142 billion have been raised from banks in February, 2012 and paid to IPPs by PEPCO while Sukuk issue of Rs.14 billion is also in process for elimination of Circular Debt.

As per ECC Decision, GoP Guarantee for Financing Facility of Rs.82 billion is in process. This loan will be utilized for reducing Power Sector Circular Debt.

Energy Sector:

To meet the widening demand supply gap, a number of gas import projects are being pursued by the government, inter-alia, including Iran Pakistan (IP) Pipelines Project, Turkmenistan Afghanistan Pakistan India (TAPI) Pipeline Project, LNG import projects and LPG supply enhancement projects. In order to generate necessary resources for financing these projects, Gas Infrastructure Development Cess Act, 2011 has been passed by the Parliament. The Gas Infrastructure Development Cess would generate approximate revenues of Rs.40 billion per annum, which would be used for financing of the said projects.

Pakistan International Airlines:-

Pakistan International Airlines (PIA) is a national flag carrier of Pakistan. The airline has been recurring liquidity crises for the last several years. The losses of PIA which were Rs. 4.4 billion in 2005 reached a level of Rs. 13.4 billion in 2007 and further increased to Rs. 26.8 billion as of December, 2011. Finance Division has provided financial support to PIA to overcome the financial crises. This support mainly includes provision of GoP guarantees for local and foreign currency loans from financial institutions. The guarantees are provided after getting the approval of ECC of the Cabinet. Finance Division has also been providing loans amounting to Rs.8.0 billion in addition to equity contribution.

- Finance Division paid Rs.2,839,981,713 as Gop equity in PIA in 2011-12, against mark up on PKR 12.8 billion TFCs and of PKR.6.8 billion Sukuk.
- A bailout package of PIA is being finalized in consultation with PIA and MOD. The package contains the following:
- Cash injection of Rs. 20.0 Billion
- Rollover Rs.19.6 billion of TFC & Sukuk with 5 years grace period and markup support to be reimbursed by GoP.
- Conversion of Rs.8 billion GoP loan into equity.

ECONOMIC ADVISER'S WING

Publication - Pakistan Economic Survey

Economic Adviser's Wing prepares and publishes the annual document 'Pakistan Economic Survey'. The first document was published in year 1955-56. Having a comprehensive account of the country's economy, with the growing demand, it started presenting to the National Assembly in the budget session every year from June 1962.

Pakistan Economic Survey is formally launched every year by the Finance Minister in a ceremony for the Print and Electronic media. Pakistan Economic Survey is widely distributed complementary during the year on demand amongst the students, academia, research organization, institutions, departments in public and private sectors, ministries and embassies etc. Soft copies on CD format are also prepared for the users. Soft version of Pakistan Economic Surveys published during the last five years can also be accessed on *www: finance.gov.pk*

Pakistan Economic Survey 2011-12, its Overview and Highlights both in Urdu and English were published on 2nd June 2011 that is, one day before the announcement of Federal Budget and also placed in the Parliament for perusal of the members during the Budget Session. Around 4500 copies of Pakistan Economic Survey distributed during the year and about 18000 visitors downloaded the document during the financial year.

Publication - Supplement of Pakistan Economic Survey

Economic Adviser's wing also publishes the Supplement of the currently published Pakistan Economic Survey. Supplement comprises upon the more extensive data for the entire fiscal year July to June. Data series of the several preceding years are also included in the Statistical Supplement. This is a complete document on the Economic Data of the country that presents historical prospects of the economic growth. Data on each economic sector is received from the concern organizations like State Bank of Pakistan, Pakistan Bureau of Statistics, Federal Board of Revenue and various Ministries/Divisions/ Agencies & Departments. It is compiled to present accurate time series data on fiscal, economic and social sectors for the convenience of Policy makers, researchers, academia and other users. Statistical Supplement of the Pakistan Economic Survey 2010-11 was published in December 2011.

Economic Adviser's Wing, represents Ministry of Finance in meetings with International Monitory Fund, World Bank and other national high level committees like; Committee of National Accounts, Standing Committee on Balance of Payments, National Economic Council and Federal Committee on Agriculture. Economic Adviser's Wing during the financial year 2011-12 also performed the following functions:

State of the Economy - Presentation to the ECC and Cabinet meetings

Economic Adviser's Wing presented the consolidated briefings and presentations on state of the Economy and on price situation to the ECC and Cabinet meetings. This covers review of Price Situation, Commodities Stock position, analysis of regional prices of consumer items and other economic indicators.

National Price Monitoring Committee meetings

National Price Monitoring Committee (NPMC) is constituted under the Chairmanship of Secretary Finance. EA wing is the secretariat of this committee, representatives from provincial governments and federal ministries are the members. NPMC reviews the price movement of some essential food items on monthly basis. The committee is assigned to improve mechanism to mitigate the price pressures. The committee held its eight meetings during the financial year 2011-12, passed on its decisions and observations to the Provincial governments, Ministries and Departments for implementation and in every next meeting it reviewed the implementation status.

Fiscal Monetary Coordination Board meetings

Economic Adviser's Wing is also the secretariat of Monetary and Fiscal Policies Coordination Board which is chaired by the Finance Minister and represented by Federal Minister for Commerce, Deputy Chairman Planning Commission, Secretary Finance Division, Governor State Bank of Pakistan. Two meetings of the Fiscal Monetary Coordination Board, chaired by the Finance Minister held during the financial year 2011-12.

Monthly Economic Situation

Monthly Economic Situation is prepared and disseminated to the press for the information of general public.

Daily Price Watch

A position of daily prices of the essential consumer items and other economic indicators is also prepared on daily basis. Daily Price Watch provides the price trend of essential food and non food commodities in regional and international markets and other economic indicators.

Parliament Business

A number of answers to the National Assembly and Senate questions, resolution and replies to the motions were prepared for the Finance Minister/ MoS. Similarly, briefs and speeches for Finance Minister/MoS for different economic fora meetings were also prepared.

Training of the Officers

Economic Adviser's Wing emphasizes on capacity building and human resource development by nominating officers and support staff in different training programmes and seminars within and outside the country in the fields of economics, finance and public administration etc. During 2011-12, three Officers attended the six weeks training program on "System of National Accounts" organized by Pakistan Bureau of Statistics and GIZ. One Officers proceeded for Master degree course in "International Trade and Economic Cooperation" held in South Korea. One officer attended the Senior Management Course at NIPA, Lahore.

Project - Digitalization of Pakistan Economic Survey

Pakistan Economic Survey being regularly published since 1962 presents the economic situation and performance of the government during the outgoing financial year. It provides a consolidated brief and historical background of the Pakistan Economy. Researchers, Scholars and Academia are in need of the earlier versions of the Pakistan Economic Survey. Economic Adviser's Wing has initiated a project titled "Digitalization of Pakistan Economic Survey". The project will create a data base in Economic Adviser's Wing by computerizing all published Economic Surveys, Statistical Supplements and other various economic reports through micro filming and creating the subject wise link of the time series data.

EXPENDITURE WING

Compulsory Monetization of Transport Policy to civil servants BS-20 to BS-22 was implemented by the government w.e.f. 1^{st} January, 2012. Expenditure Wing collected data from all Ministries/Divisions, Departments, Organizations regarding expenditure on vehicles before and after Monetization (from January, 2011 to June 2012) and evaluated the impact of the Transport Policy with reference to the efficacy or otherwise. This Wing prepares reports on implementation of Transport Policy for the Public Accounts Committee to ascertain expenditure savings through implementation of this policy.

EXTERNAL FINANCE

Finance Division, External Finance Wing (B&C) is mainly responsible to provide input for preparation of policies to strengthen the external sector by maintaining foreign exchange reserve level at appropriate and sustainable level. During 2011-2012, External Finance Wing (B&C) continued performing the following tasks:

- Periodic review of balance of payment position as well as their projections.
- Rational allocation and release of Foreign Exchange to the Ministries, Divisions and Public Sector Organizations.
- Analysis and approval of financial terms and conditions of the foreign currency loans from bilateral and multilateral sources.
- Periodic consultation with IMF.

Besides performing the regular work, External Finance Wing (B&C) has provided input on the following major issues:

- Pakistan and China signed a Currency Swap Arrangement (CSA) in October, 2011 for tenure of 3 years for an amount of $1.00 billion. Pakistan also signed similar arrangement with Turkey in December 2011 for an amount of Rs.1500 million. The main objective of the arrangements is to promote trade among the countries in local currencies.
- Principle amount of $1.120 billion was due for payment to the foreign lenders during 2011-12. By putting extra efforts by the External Finance Wing, the government has been able to get rollover of the above amount for another one year. Further, government got fresh funds of $500 million from the friendly countries. This had provided a considerable support in strengthening our Foreign Exchange Reserve position.
- Murabaha Finance Arrangement for $256 million have been finalized with International Islamic Trade Corporation (ITFC). The amount is expected to be utilized during 2012-13 to finance the import of crude oil and petroleum projects of PARCO. This will provide a substantial support to balance of payment position of the country.
- Finance Division, External Finance Wing (B&C) allogate/release foreign exchange to meet the foreign exchange needs of the Government entities. Due to the rational release of foreign exchange funds, the actual utilization of foreign exchange during 2011-12 remained at $1574.065 million against the budgeted amount of $2421.90 million. This shows 35% saving in foreign exchange releases.
- Home remittances contribute to the country's balance of payment. Due to the policy measures taken under the Remittance Initiative, the workers remittances were recorded at $13.186 billion during 2011-12 against the level of $11.201 billion during 2010-11. This shows an increase of 17.7% over the last year.
- Pakistan Domestic Sukuk Company Limited incorporated in 2007 raised about Rs.182 billion during 2011-12 from the domestic capital market via Sukuk against the underlying asset of Jinnah International Airport, Karachi. The cumulative amount raised by the end of financial year 2011-12 was Rs.411.17 billion. The amount was utilized to finance the budget deficit. Major portion of the above amount was raised at par with T bill rate for three years duration.

EXTERNAL FINANCE (POLICY WING)

External Finance Policy (EFP) Wing compiles the government principal policy for macroeconomic governance and poverty reduction i.e. the Poverty Reduction Strategy Papers (PRSPs). It also deals with multilateral and bilateral institutions like the World Bank, and the United States Agency for International Development (USAID). In addition it handles subjects such as Citizens Damage Compensation Programme (CDCP); SAARC Development Fund (SDF); ECO Trade and Development Bank; Strengthening Poverty Reduction Strategy Monitoring Project (SPRSMP); Project for Improvement in Financial Reporting and Auditing (PIFRA-II-Finance Division's Component); Pakistan Poverty Alleviation Fund (PPAF); the project 'Institutional Strengthening of Finance Division' (ISFD) and Joint Ministerial/Economic Committees (JMCs/JECs).

Portfolio Facilitation of USAID and World Bank

USAID and GENCOs were pursued to open Revolving Fund Accounts (Foreign Aid Assignment Account) in order to bring the USAID disbursements within the government accounting procedures.

This Wing in collaboration with the Budget and External Finance (Credit & Budget) Wings also provided policy guidelines to EAD for setting up terms and conditions by EAD for USAID disbursements to GoP projects, whether already in existence or to be executed.

In close coordination with the Economic Affairs Division, World Bank and provincial stakeholders rigorously followed up implementing Agencies of all active as well as approved projects to facilitate substantial disbursements for an amount of US$ 666 million during FY 2011-12.

Poverty Reduction Strategy Papers (PRSPs)

PRSP-II, was finalized in 2008 encompasses a broad-based medium to long term economic reform and development framework including the goals and projections of policies in key social sectors and tracking of budgetary and non-budgetary expenditures related to these sectors.

The PRSP Secretariat housed in EF (Policy) Wing accordingly tracks pro-poor expenditures as per targets fixed in the Medium Term Expenditure Framework (MTEF). The Fiscal Responsibility and Debt Limitation Act, 2005, necessitates that Poverty and Social sector expenditures cannot be less than 4.5% of the GDP in any given year, the statement for which is laid before the Parliament annually.

In addition, a results-based Monitoring & Evaluation framework designed under the PRSP-II monitors output and outcome indicators in the pro-poor sectors, which not only strengthens the existing monitoring mechanism to assess the impact of public sector investments in the country but also serves as input into future policy formulation to improve well-being of the people. Quarterly and annual progress reports are compiled and uploaded on Finance Division website on regular basis.

Strengthening Poverty Reduction Strategy
Monitoring Project (SPRSMP)

To strengthen monitoring of poverty reduction efforts, GoP in collaboration with UNDP, conceived SPRSMP to effectively track implementation progress of the PRSPs. SPRSMP has successfully completed its fourth operational year in 2011 and accomplished the following during the year:

i) GRBI (Gender Responsive Budgeting Initiative) documentary was disseminated among the stakeholders. It highlighted importance and challenges encountered in institutionalization of Gender Responsive Budgeting.
ii) A concept note for GAPA (Gender Aware Policy Appraisal) and GABA (Gender Aware Beneficiary Assessment) was prepared on agriculture sector and shared with the stakeholders.
iii) Following studies are under implementation under the project:

- PSIA (Poverty and Social Impact Analysis) in Education and Health Sectors.
- **Education:** Provision of missing facilities at Primary and Middle level Schools and Non-formal Basic Education
- **Health:** Expanded Program on Immunization and Lady Health Workers Program.
- Poverty and Social Impact Analysis of Workers Welfare Fund was conducted on 15th December, 2011.
- MDG Costing based on the revised macroeconomic framework to support GoP in its budget making process with a pro-poor lens.

iv) For establishing greater cooperation in Gender Responsive Budgeting activities, a long term partnership for 5 years was signed between Finance Division and UN Women, Pakistan in September 2011.
v) Dissemination Workshop of the Time Use Survey (TUS) based on 6 research studies was held on October 03, 2011 to share findings with stakeholders and solicit feedback.
vi) A study ‘Results Based M&E Framework of PRSPs’ was finalized.

Citizens Damage Compensation Programme (CDCP)

The goal of the CDCP is the economic recovery of flood-affected households. This is being accomplished through CDCP, which GoP launched to assist victims of the major flooding that affected Pakistan in summer 2010. Specifically, assistance has been provided via cash grants to targeted households.

During the first phase of CDCP, an amount of Rs.20,000/- was disbursed to each affected family. As directed by the CCI, Finance Division organized a series of meetings with all stakeholders including Cabinet Division, provincial governments, NADRA and development partners. Accordingly, an MOU was signed between the GoP and the World Bank/development partners and a total envelope of US$ 580 million was agreed targeting 1.1 million households, out of which GoP/provincial governments are to provide US$ 100 million. In the second phase of CDCP, an amount of Rs. 40,000/- (in two tranches) is being disbursed to the flood affectees 2010. Cabinet Division is the lead implementing agency of CDCP while Finance Division is extending all possible assistance.

ECO Trade and Development Bank

ECO Trade and Development Bank (ECOBANK) was established in 2005 to mobilize resources for the purpose of initiating, promoting and providing financial facilities to expand inter-region trade and accelerate economic development of ECO countries. Pakistan, Iran and Turkey hold equal shareholding in the Bank. Other ECO member states can also join the Bank.

The Bank is currently offering SME development credit facility to Pakistan through different financial institutions. In order to promote trade in the region, the Bank has also structured a special product called Short-term Trade Finance Facility (STFF), which is being offered through various financial institutions in Pakistan.

SAARC Development Fund (SDF)

The SDF, established with the contribution of SAARC member states, serves as an umbrella financial institution for sponsoring development projects to be implemented in SAARC member states including Pakistan. Finance Division is the counterpart agency for the SAARC development projects. At present, there are 6 development projects approved by the SDF Board at a total cost of US$ 7,646,609 (Pakistan's component) which are being implemented/to be implemented in Pakistan.

PIFRA-II - Finance Division Component

A US$ 0.4 million component under PIFRA-II is being implemented in Finance Division since 2008. During 2011-12, five comprehensive trainings on PIFRA System, SAP, New Accounting Model (NAM), IT and Finance & Accounting have been conducted in collaboration with Financial Accounting and Budgeting System (FABS), and PIFRA Directorate under this component. The officers and officials of Budget, PF, EF-(Policy), Development and Expenditure Wings including Financial Adviser's Organization benefited from the opportunity. SAP connectivity has been provided to the External Finance, Budget, Provincial Finance Wings and Accounts Branch.

Pakistan Poverty Alleviation Fund

Pakistan Poverty Alleviation Fund (PPAF) was set up under section 42 of the Companies Ordinance 1984 as a 'not for profit' apex institution dedicated to reducing poverty at the grass root level. The aim of PPAF is to help the poor in order to enable them to gain access to resources for their productive self-employment; to encourage them undertake activities of income generation and poverty alleviation; and for enhancing their quality of life.

Performance Overview as of June 30, 2012:

(Rs in million)

	Activity	**PPAF Disbursements**
A	Lending for microcredit/enterprise	65,254
B	Grant Funding	
	Water & Infrastructure Projects	10,724
	Health & Education Projects	3,106
	Capacity Building	5,280
	Social mobilization	2,482
	Livelihood Enhancement and Protection	818
	Disability support	1,313

	Activity	PPAF Disbursements
	Relief/Rehabilitation & Reconstruction Projects for earthquake affected areas	19,396
	Flood relief activities	642
	Sub Total	**43,761**
	Total (A+B)	**109,015**

Outreach

- 106 Partner Organizations (POs), 128 districts and 257,062 groups/community organizations.

Output

- No. of micro credit loans 5,879,567
- No. of infrastructure projects 27,512
- No. of health facilities 463
- No. of education facilities 1,307
- No. of individuals trained 470,273

PPAF has received funding from various multilateral and bilateral agencies including World Bank; International Fund for Agricultural Development; U.S. Department of Agriculture; KfW Development Bank (Germany); Committee Encouraging Corporate Philanthropy (USA); and U.S. Agency for International Development.

Institutional Strengthening of Finance Division (ISFD)

The ISFD Project envisages overall professional development, knowledge and information sharing and institutional capacity building to facilitate and strengthen fiscal and economic policy formulation and management across various delivery units of Finance Division. The three main objectives of the project are:

a. Bridge the skill gap by provision of consultants' services
b. Conduct research studies
c. Provide on job/function-based local trainings

A total of 19 positions of Experts/Research Associates have been engaged after adopting a competitive and transparent process. Research is being conducted by Research Associates/Experts in the following areas:

i) Targeted subsidy on wheat;
ii) Forecasting Foreign Exchange requirements;
iii) Circular Debt issue in the Public Sector and its resolution; and
iv) Moving towards Single Treasury Account etc.

Moreover, the Training Committee constituted under ISFD has approved the modules of the following training courses which are:

i. Debt Management Financial Analysis System (DMFAS)
ii. Financial Statements Analysis
iii. Microsoft Excel, use of formulas; and forecasting financial data under NFC
iv. Balance of Payments

v. Procurement of goods & services in Public Sector
vi. Courses for Officials (PSs / PAs / Stenographers/ Stenotypists/ Assistants, etc.

Joint Ministerial/Economic Commissions (JMCs/JECs)

Government of Pakistan has established Joint Ministerial/Economic Commissions with different countries to enhance bilateral cooperation in areas such as Banking, Finance, Trade, Investment, Culture, etc. EF-P Wing coordinates, liaises and provides information to Economic Affairs Division in respect of 59 active Joint Ministerial/ Economic Commissions on a regular basis.

ECONOMIC REFORMS UNIT (ERU)

ERU Mandate
Formulate a Private Sector Development Strategy

Review existing laws, rules and regulations pertaining to the business environment that are obsolete, overlapping, and inconsistent or unduly add to the cost of doing business.

Act as Quality Filter for new regulations and propose changes that stimulate private sector development, improve transparency, reduce costs and are consistent with international best practices.

Establish a Better Business Advisory Council (BBAC), comprising of representatives from both the private and public sectors to advise the Government on priorities of private sector friendly reforms at the national, provincial and local levels.

Develop a prioritized sector wise reform plan and a roadmap with benchmarks for its effective monitoring and implementation, supported by funding interventions, wherever necessary.

Restructuring of Public Sector Enterprises (PSEs)
Restructuring of PSEs has been initiated as a roadmap for improved economic governance. An overall framework for restructuring of following eight PSEs has been devised:-

- Pakistan International Airlines (PIA)
- Pakistan Steel Mills
- Pakistan Electric Power Company (PEPCO)
- Pakistan Railways (PR)
- National Highway Authority (NHA)
- Pakistan Agricultural Storage and Services Corporation (PASSCO)
- Trading Corporation of Pakistan (TCP) and
- Utility Stores Corporation (USC).

Key objectives: are (i) improve overall corporate governance of PSEs; (ii) curtail hemorrhaging; (iii) improve service delivery; (iv) reduce fiscal burden on the exchequer and (v) move to a structural surplus and increased public sector savings.

Key aspects of restructuring model include: (i) restructure Boards of Directors (BODs) of PSEs by inducting a mix of skills including academia, management experts, professional managers and technocrats; (ii) induct professional management including CEOs, CFOs and key mangers; (iii) develop viable turn around plans; (iv) ensure implementation of plans in an independent manner with the support of government under the mandate of Cabinet Committee on Restructuring (CCoR) and; (v) ensure monitoring by CCoR.

Substantial progress has been achieved including restructuring BoDs of 9 Power Sector Distribution Companies (DISCOs), National Transmission and Dispatch Company (NTDC), Power Generation Companies (GENCOs), Central Power Purchae Authority

(CPPA), Pakistan Seel Mills (PSM) and Pakistan Railways. Professional ECOs have been hired based on the framework approved by the Cabinet Committee on Restructuring (CCoR) of PSEs. BODs are being empowered to carry a transparent process and induct professionals from the market.

Extensive work is being done on turn-around plans of PSEs. Resructuring plans for PIA, Pakistan Railways and Pakistan Steel Mill are under implementation and consequently hemorrhaging has been curtailed in these PSEs.

CCoR has operationalized a restructuring framework for Pakistan Railways. Repair of locomotives has been prioritized for improving revenue generation and restoration of rail services. Freight operations are being prioritized. An asset management company has been established for optimum utilization of PR's assets. Private Sector involvement is the focus moving forward.

Under the restructuring plans of PIA, cost minimization and revenue enhancement measures have been put in place to reduce revenue expenditure gap in the medium term. Route rationalization, code sharing and alliances are being pursued for moving to a new business model. Financial restructuring plan has been finalized which includes equity injection, rollover of loans and government guaranteed loans among others.

Initial restructuring plan for TCP, PIA, PASSCO and USC has been framed BoDs of these PSEs are being finalized in consultation with concerned Ministries/Division.

ERU finalized business plan of Pakistan Machine Tool Factory (PMTF) and it was approved by CCoR. Consequently, ECO has approved sovereign guarantee of Rs.1 billion for PMTF.

Future strategy is to develop a framework for ensuring well functioning Boards and to engage them in turn around of the PSEs. The corporate governance framework envisages: i) a transparent process of Board nominations ii) capacity building of BoDs iii) clearifying the role of BoDs and iv) monitoring performance of BoDs by setting key performance indicators and v) preparation of privatization of Faisalabad Electric Supply Company (FESCO) and Islamabad Electric Supply Company (IESCO). Task Force on Corporate governance of PSEs has finalized corporate governance regulations for PSEs. SECP has notified draft corporate governance regulations of PSEs for public opinion.

Power Sector Reforms Plan

Implementation of Power Sector Reforms Plan 2010 has been expedited and upgraded under the Power Sector Recovery Plan 2011. The plan is based on the following key pillars:

a) Improve governance structure
b) Supportive legal framework
c) Financial sustainability
d) Supply side management
e) Demand side management
f) Promote private sector participation in the sector

Dissolution of PEPCO has been initiated to ensure autonomy to power sector companies. Boards of Directors (BoDs) of 9 DISCOs, CPPA and NTDC have been reconstituted as professional and autonomous BoDs with a mix of government and private sector professionals. The process of hiring professional ECOs for DISCOs was initiated. CPPA became operational with new BoDs and CEO. GENCO Holding Company (GHC) has been constituted and incorporated. BoDs of GHC became operational and CEO appointed. GHC expediting conversion of plants to cheaper fuels.

Monthly fuel adjustments being passed on the consumers after NEPRA Act amendment. The timely payment of tariff differential subsidy (TDS) is being ensured along with subsidies for KESC and FATA on a monthly basis. Subsidy claims till current have been disbursed. Monthly financial planning being implemented for smooth financial flow although various court stay impacting liquidity in the sector.

Federal Government is facilitating recovery of Provincial and Federal government departments through the budget adjuster. Private sector receivables recovery plan has been finalized by DISCOs. Disconnection of defaulters after 45 days without any exemption/discrimination is being implemented. A total of 330,210 disconnections carried out during July-March 2012.

Capacity addition (2008-June 2012) of 3,400 MW from IPPs (fuel based), nuclear, GENCOs rehabilitation and small percentage of hydel has been made. Mangla Dam raising has been completed and project inaugurated. Diamer Bhasha Dam of 4,500 MW generation capacity has been inaugurated. 1400MW Tarbela 4th extension has been initiated. Local management and conservation measures including 5 day work to save about 1000MW put in place.

Energy Committee is supervising the current situation of supply and demand and appropriate and immediate response is being done, including continued fuel, gas supply and liquidity in the sector.

Austerity Plan

ERU continues to coordinate implementation of Austerity Plan with concerned Ministries/Division, Cabinet Division and Auditor General of Pakistan.

Consultation on Economic Policies

ERU has provided technical support for consultative meetings with the technocrats and private sector regarding economic policies and issues including budget making process. Economic Advisory Council (EAC) and Businessperson Council (BPC) play a significant role in this regard.

Improving Investment Climate

ERU has started consultation process with the provincial governments for developing a ‘Doing Business Reform Agenda based’ on a Sub-National Doing Business (SNDB) study completed by ERU in collaboration with World Bank, FIAS, USAID and DFID. The SNDB report has focused on business environment of 13 selected cities across four provinces and a follow up reform plan is being developed in consultation with stake holders.

FINANCE DIVISION (MILITARY)

Finance Division (Military) deals with preparation, execution, monitoring of Budget and expenditure relating to MoD, MoDP, the Armed Forces, Inter Services Organizations, DP Establishments procurement of all Defence equipment and all other related financial matters pertaining to them. Finance Division (Military) have 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 2011-12. 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 and adherence to rules by applying different financial techniques to get best value for the money. In addition, achievements in other main areas are highlighted as under:

Budget Allocation/Expenditure

During financial year 2011-12, 18 cases for Technical Supplementary/ Supplementary Grants were processed and out of these 05 cases approved by the competent authority. Besides this, REs 2011-12 and BEs 2012-13 were scrutinized in detail and substantial reductions were proposed. Service-wise/Head-wise expenditure was monitored carefully and necessary instructions were also issued where necessary to keep the expenditure within sanctioned grant.

Accounting of Defence Expenditure

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

Purchase of Stores

Endeavor 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 healthy competition among the competitors in order to achieve best possible rates for the desired equipment and technologies for Armed Forces of Pakistan. Indigenization efforts are being supported to provide opportunity to our private sector industry to compete in the Defence market.

Development Projects

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

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 thorough scrutiny.

It is strictly watched that funds are utilized according to the laid down procedure with proper accounting.

Miscellaneous Activities and Achievements

- 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.

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

- In case where public interest was involved, efforts were made to uphold the tenets of natural justice, without compromising the interests of the state.
- To enhance the performance of this Division, most of the Wings/Sections have been provided/equipped with latest equipment.

Program of Activities/Targets

- Timely disposal of all cases.
- Strict adherence of relevant financial regulations and procedures in finalization of cases including financial concurrence.
- Finalization of REs 2011-12 and BEs 2012-13 with due regard to economy in expenditure.
- All the targets assigned to this Division were achieved well in time and within the stipulated period with no pendency.

DEVELOPMENT WING

Higher Education Commission

The establishment of the HEC in 2002 has heralded a revolution in higher education in Pakistan.

ACHIEVEMENTS PSDP 2011-12

- In the year 2011-12, an amount of Rs 16.5 billion was allocated for Higher Education, which was reduced to Rs 14.0 billion due to financial crunch. Government of Pakistan has released Rs. 9.763 billion to Higher Education Commission in current financial year.
- Initiatives were taken to improve and establish new institutions and campuses of already established universities. New universities and sub-campuses of the existing universities were established in remote and far-flung areas of the country. These include: the University at Turbat, University at Loralai, Shaheed Benazir Bhutto University, Sheringal, Women University Multan and Shaheed Benazir Bhutto University, Benazirabad; and sub campus of Lahore College for Women University, Lahore at Jhang.
- A total of about 1879 scholars have returned successfully while nearly 2959 scholars are pursuing their higher education abroad.
- 1015 scholars completed while 4041 scholars are studying under the indigenous scholarship programs in different universities in Pakistan.
- 912 scholars are studying in Cuba under the MBBS programme.
- 52 scholars processed abroad for Post-Doctorate studies while 47 completed the Post-Doctorate studies.
- 1959 scholars are studying under the Fata/Balochistan project in Pakistan at Graduate/Under graduate level.
- 2919 scholars have passed out so far, and 526 are still studying in different institutions, universities under the need based scholarship programs.
- Increase in number of campuses from 168 to 258.
- A total of 255 ELT faculty members have been trained in Continuous Professional Development program, in which 96 have been trained in One month courses, 99 have been trained in one week courses and 60 have been Internationally Certified through International Resource Persons' trainings. 25 ELT faculty members were awarded ELTR Long Term fellowships.
- In the year 2011-12, in total 497 faculty members were imparted one month intensive in-service Professional Competency Enhancement Program for Teachers (PCEPT) trainings at the door step of 17 public sector universities across Pakistan under the project National Academy of Higher Education (NAHE), Phase-II. The trainings were based on the seven core modules required for teachings skills enhancement of the university faculty. Moreover 20 faculty members were given orientation on the use of modern ICT tools and techniques through a two week Incorporating Technology in Education (ITE) Program of NAHE project.
- 60 Quality Enhancement Cells were established in universities uptill 2011-12.
- World Class academic facilities have been expanded in 2nd and 3rd tier cities in the heartland of Punjab, Sindh and Khyber Pakhtunkhwa.
- In Balochistan, four new universities have been developed and made operational, as compared to two Universities were existing in 2002. Projects for establishment additional two universities in Lorali and Turbat have been approved .
- In Sindh, three new universities and four campuses to establish in underdeveloped areas are in various stages of development.

INTERNAL FINANCE WING

State Bank of Pakistan (SBP)

In the midst of the challenging domestic macroeconomic environment and the ongoing Eurozone financial crisis, State Bank of Pakistan (SBP) continued to strive to maintain price stability without prejudice to growth, while ensuring the stability of the financial sector.

Soundness of the Financial System

SBP continued to focus on maintaining soundness and resilience of the Banking System, which can be gauged by the capital adequacy ratio of 14.7 percent at end-March 2012, against the minimum requirement of 10.0 percent. Fully cognizant of the concerns for credit risk in the banking system, banks' loan portfolio is also being closely monitored by SBP.

Launch of New Banks:

During the year, commercial banking licenses were issued to the Industrial and Commercial Bank of China (ICBC), Turkiye Is Bankasi (largest private Turkish Bank) and Sindh Bank Limited. Turkiye Is Bankasi is in advance stage to open branches in Pakistan. In addition NRSP Microfinance Bank was allowed to commence business on nation-wide basis. The entry of ICBC and Turkiye Is Bankasi is likely to have positive implications for Foreign Direct Investment in the financial sector, as well as for the overall outlook of the country.

Pakistan Remittances Initiative (PRI)

SBP and MoF jointly launched PRI initiative sometime back to facilitate inward remittances; this initiative has started to pay dividends resulting in 17.7 percent increase in remittances during 2012. In fact, the remittances have crossed US$ 13.0 billion this year.

Currency Swap Arrangements:

During the year, SBP developed a framework of executing Bilateral Currency Swap Arrangements (CSA) with regional central banks in the respective local currencies with the objective of boosting bilateral trade and investment in local currencies. So far, CSAs have been concluded with Turkey and China.

Amendments in Banking Companies' Ordinance

To strengthen SBP regulatory role, certain amendments in the Banking Companies Ordinance, 1962 were promulgated, the significant features of which entailed powers to ensure fitness and propriety of sponsors/major shareholders of banks, to increase banks' capital as per their risk profiles, and specific triggers for invoking corrective actions.

National Bank of Pakistan (NBP)

NBP is the largest commercial bank in Pakistan providing universal banking capabilities with large variety of products serving various customers through different business units. NBP is now the market leader across all sectors - debt and equity market, corporate and investment banking, retail and consumer banking, agriculture financing and treasury services. In 2010 NBP became the first and only Pakistani bank to surpass Rs. 1.0 trillion mark of total assets. At year end December 2011 total assets of the bank have increased to Rs.1,150 billion.

Achievements/Key initiatives of National Bank of Pakistan

- NBP has maintained its market leadership position in terms of deposits, advances and total assets in the banking industry. At year end December 2011 NBP market share was around 13.7% in deposits.
- There is growth of 11% and 10% in deposits and advances respectively YoY basis.
- Shareholders' equity increased to Rs. 132.7 billion in 2011 from Rs.128.5 billion in December 2010.
- Highest dividend paid in the Banking sector @ 75% cash and 10% bonus shares for year 2011.
- NBP posted a growth of 67% in free of charge remittances thereby reflecting customers' confidence in NBP network.

Key Initiatives – Business

The bank has embarked upon the project of bringing all the branches at on-line network. Till to date over 1250 branches are on the on-line network. During this period various I.T. related projects initiated to modernize the bank. Some of the projects are ATM installations (total ATMs 316) and Core Banking Software implementation.

Financial Performance

Since NBP follows financial year from January to December, therefore, last completed calendar year was 2011.

Rs. billion	Actual Jan-Dec 2010	Actual Jan-Dec 2011
Total Assets	1,037.8	1,149.6
Deposit	832.2	927.4
Total Investments	301.3	319.5
Capital & Reserves	128.5	132.7
Advances	477.5	525.0
Pre-Tax Profit	24.4	26.0
After-Tax Profit	17.6	17.6

First Women Bank Ltd. (FWBL)

Charter of the Bank First Women Bank Limited (FWBL) was incorporated in November 1989 with commencement of its operations in December 1989. FWBL possesses a unique feature of being a commercial bank and a developmental financial institution catering to the special banking needs of women, run and managed by women. FWBL credit policies are designed to promote asset ownership and are customized to the specific economic needs of women.

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

Activities of the Bank

Credit Products of Women FWBL's unique credit products are customized to the specific business & economic needs of women. The products offered by the Bank includes ‘Business Loan for Women’, ‘Loan for Salaried Women’, ‘Educational Loan’, ‘Consumer 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 **Women Enterprise Development (‘WED’)** with components of specialized skill training and business management courses and computer literacy courses. In financial year 2011 – 2012, various courses were arranged through US AID funding.

Financial Performance During the financial year 2011 - 2012
The Management has taken various steps to strengthen its financial position and to align itself with the latest industry trends.

Balance Sheet
Balance sheet size has grown by Rs. 506 million in 2012, growth of 3% over 2011.
Deposits
Deposits increased from Rs. 13.947 billion to Rs. 15.983 billion, reflecting growth of 15% over 2011. Deposits as on 30th June 2012 included Rs. 6,054 million or 37.87 % of Deposits from the Public sector (2011: Rs. 5,121 or 36.71% of Deposits) and Rs. 9,930 million or 62.13% of Deposits in respect of Private sectors entities (2011: Rs. 8,827 or 63.29% of Deposits).

Non-performing loans and advances
Increased efforts towards recovery of stuck-up loans have resulted in decrease in non-performing loans by Rs. 76.312 million i.e. by 15% as compared to previous financial year. This has also resulted in decrease in provision against advances by Rs. 49.059 million or by 20% during the current financial year.

Pakistan Security Printing Corporation (PSPC)
Pakistan Security Printing Corporation (PSPC) was registered under the Companies Ordinance, 1984 and is engaged in printing of Security documents on behalf of government and Private Institutions particularly Banknotes which are required by State Bank of Pakistan (SBP) on an annual basis.

During the year under review, the dispatch of consignments of the SBP for various denominations of banknotes reduced from 1,775 million pieces to 1,710 million pieces. Sale of Other Security Products (OSP) increased from Rs. 1.06 billion to highest ever figures of over Rs. 1.50 billion.
The Corporation has surpassed all the past records in terms of sales, other income and net assets during the year due to effective and efficient management of financial and human resources. Last year performance is as follow:

- Highest ever sales revenue of Rs. 6,750 million
- Other income stood at Rs. 456 million
- Net Assets/Shareholders’ Equity touched at Rs. 8,212 million
- Breakup value per share of Rs.1,000 each stands at Rs.8,212 million

Despite a decline in dispatch quantities of SBP, Corporation has also maintained the highest ever cash dividend of Rs.360 million to Government of Pakistan paid during the financial year 2010-11.

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, Mint also manufactures all kinds of Medals including Defense Medals, Military and Civil Awards, Embossing Machines, Postal Seals and Stamps etc.

Pakistan Mint has delivered 179.5 million coins in Nos. worth Rs.229.5 million. In addition the revenue worth Rs.47.206 million has also been earned against the other jobs executed during 2011-12.

House Building Finance Corporation (HBFC)

House Building Finance Corporation (HBFC) was established under the House Building Finance Corporation Act 1952 with the objective to provide financing for the construction, reconstruction, repair and purchase of houses. Government of Pakistan (GoP) and State Bank of Pakistan (SBP) are main shareholders of the Corporation. As a part of reorganization and re-structuring, HBFC "Corporatization" was carried out in the first phase by issuance of Vesting Order on July 25, 2007 incorporating a new company HBFC Ltd. with a new charter registered under the Companies Ordinance, 1984. The new Company has been declared as Development Financial Institution (DFI) under Section 3(A) of the Banking Companies Ordinance, 1962 by the GoP.

Performance during the financial year July 2011-12

(i) Disbursement

During the review period total disbursement of Rs.1,235 million were made for construction and renovation of houses. With the increasing market competition HBFC has increased the loaning facility up to maximum of Rs.10 million from 7.5 million to attract large section of high profile clientele.

(Rs. In million)

During the period	2011-2012			
	Jul-Sep Q 1	Oct-Dec Q 2	Jan-Mar Q 3	Apr-Jun Q 4
Actual Disbursement	221	318	292	404
Target Disbursement	375	375	425	425
% Achievement	59%	85%	69%	95%

(ii) Recovery:

During the period total of Rs.3,182 million were recovered

(Rs. In million)

During the period	2011-2012			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
	Q 1	Q 2	Q 3	Q 4
Actual Recovery	719	871	756	837
Target Recovery	900	900	499	499
% Achievement	80%	97%	151%	168%

SME Bank Ltd.

SME Bank was incorporated in October 2001 by merging Regional Development Finance Corporation and Small Business Finance Corporation under the Companies Ordinance 1984. Accordingly, entire assets and liabilities of defunct RDFC and SBFC were transferred to SME Bank and these two institutions stood dissolved.

During the year 2011-12 the Bank earned total income of Rs. 738 million and incurred expenses of Rs. 1027 million thereby generated before tax loss of Rs.242 million. Total deposits of the bank stood at Rs. 3,311 million and an amount of Rs. 1,936 million was disbursed as loans and advances to SME sector. Total number of SMEs served during the period stood at 612. The Bank is operating with 13 branches with a net equity of Rs. 1,572 million.

Zarai Taraqiati Bank Limited (ZTBL)

Introduction

ZTBL, being the major financial service provider to agriculture sector persistently augments Government efforts to achieve self-sufficiency in food and marketable surplus. Despite unfavorable scenario, the bank has remained the lead banker in institutional agriculture credit lending as ZTBL alone disbursed Rs.66.068 billion out of total country's agricultural disbursement of Rs.293.850 billion during 2011-12. ZTBL has a share of around 22.5% of the total institutional agricultural credit.

Bank Operations

Since inception up to 30.06.2012, the Bank has disbursed loan amounting to Rs.810 billion. So far the Bank has financed 548199 tractors and 152439 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. At present, Bank operates through a network of 31 Zonal Offices and 359 Branches and a team of 1319 Mobile Credit Officers (MCOs) in the field.

Performance

The Bank disbursed an amount of Rs.66.068 billion during 2011-12 as compared to Rs.65.361 billion during the last year. The Bank served 523010 borrowers through various schemes including Sada Bahar Scheme, Kissan Dost Scheme, Awami Zarai Scheme and Zarkhaiz Scheme (One Window Operation). The Bank channelized bulk of its credit to small farmers who constitute backbone of the agriculture sector of the country. Accordingly, the Bank has maintained its position as the main source of institutional financing in the agriculture sector.

Development loans were provided to the farmers for medium and long term investment categories. During the period under review, an amount of Rs.9,241 million constituting 14% of the total agricultural credit was disbursed under development loan. The development loans were mainly utilized for tractors, farm mechanization, tube-wells, dairy and poultry farming etc.

Loan

The Bank accorded highest priority to fulfill the demand of small farmers with land holding under 25 acres. During the period under review an amount of Rs.59.1 billion was disbursed to the small farmers constituting 89.5% of the total agriculture credit.

Recovery

During the year 2011-12, ZTBL has recovered Rs.70009.910 million. Three Recovery Relief Packages of Government of Pakistan for the farmers were implemented during the period as per following detail with aggregate relief of Rs.1008.285 million.

(**Rs. in million)**

S. No.	Relief Package	Amount of Relief
1.	President Relief Package for Mansehra, Batagram, Kohistan and Shangla Districts.	301.123
2.	Recovery Relief Package for small farmers for Gilgit and Baltistan	637.437
3.	Recovery Relief Package for two Girdawar circles of Mathra and Khalisa District Peshawar	.69.725

Financial Performance

Despite all constraints, there has been a growing trend in the total assets and equity of the Bank due to consistent profitability of the bank in the last 3 years. As a result the Bank's Capital Adequacy Ratio (CAR) as of December 31, 2011 was 25.72% as against required ratio of 10% and industry average of 14%. The Bank earned pre tax profit of Rs.3,277 million and classified loan were provided for as per SBP's Prudential Regulations during the period under review. The Bank was able to mobilize Rs.8,962 million as on 31.12.2011 in terms of deposits.

Financial Monitoring Unit (Fmu), Karachi

The Financial Monitoring Unit (FMU) is a financial intelligence unit (FIU) of Pakistan established on 4th October 2007, immediately after the promulgation of Anti-Money Laundering Ordinance (AMLO) 2007 (now AML Act, 2010) and is housed in State Bank of Pakistan. The main objective of FMU is to receive Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) from reporting entities, analyze and disseminate them to the designated investigating agencies for further proceedings. In accordance with the AML-Law, FMU is the focal point for all AML/CFT related issues including processing of STRs and CTRs, maintenance of STR/CTR data base, domestic & international cooperation, training related to all stakeholders, representing Pakistan at all international and regional organizations.

Details of Activities, Achievements and Progress During Financial Year 2011-12

Following are the major activities, achievements and progress of FMU during the year 2011-12.

- Received, analyzed and disseminated STRs to Law Enforcement Agencies (LEAs) & Regulators
- Prepared and finalized National AML/CFT strategy.
- Prepared FMU's annual report.
- Prepared and submitted responses to Financial Action Task Force (FATF)/Regional Review Group (RRG) on Pakistan's Action Plan and Implementation thereof.
- Prepared and submitted Third Year detailed progress report on the Pakistan's Mutual Evaluation report to Asian Pacific Group (APG) & follow up actions thereon.
- Prepared and submitted Pakistan's Status Report to APG.
- Prepared and submitted Pakistan's Typologies Report to APG
- Arranged Capacity Building Programs for FMU and other national AML/CFT stakeholders.
- Coordinated with national AML/CFT stakeholders and regional / International organizations e.g. APG, FATF, Egmont, IMF, WB etc.
- Arranged AML Review Committee Meetings.
- Follow-up actions for Egmont Group membership issues.
- Arranged and coordinated meetings of APG delegation with relevant Pakistan stakeholders for the implementation of RRG action plan.
- Arranged and coordinated meetings of World Bank mission with relevant Pakistan stakeholders for the assessment of capacity building issues.
- Arranged and coordinated meetings of Financial Crimes Enforcement Network (FinCEN) delegation with relevant stakeholders of Pakistan for the preliminary assessment of Pakistan's capacity to become Egmont Group member.

Future priorities

- To arrange AML/CFT awareness raising campaign and advocacy for the benefit of general public in coordination with regulators and law enforcement agencies;
- To review the AMLA and ATA and make recommendations for reform; and seek technical assistance, if required;
- To establish a cooperative framework between FMU and other LEAs to get periodic feedback in respect of inquiries / investigations / prosecutions and other statistics.
- To determine Technical Assistance and Training needs of national AML/CFT stakeholders.
- To establish framework for effective domestic co-operation between FMU and regulatory / supervisory bodies.
- To seek membership of Egmont Group for FMU.
- To provide additional guidance in coordination with regulators to improve compliance of reporting entities in their obligations to report to FMU
- To improve red flags for reporting of STRs by the different reporting entities in line with the International Standards.

INVESTMENT WING

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)

Key Achievements during the year 2011-12
Securities Market
Review
The KSE – 100 Index manifested significant growth with accelerating trends during the FY 2012. The activity during first half of the FY 2012 has remained sluggish with declining Index movement along with depressed volumes owing to pressures on external front like Rupee depreciation against USD, fewer foreign interest and economic activity in the country and turbulent Pak-US Relations, etc. However, the KSE – 100 Index rebounded in the 2nd half of the FY2012 depicting momentous growth and liquidity, where factors like ease-off on Capital Gains Tax and MTS regime coupled with corporate profitability made significant contribution to revitalize the stock market activity.

The benchmark Index started with a downward trend in the start of the financial year. Starting from a level of 12,484.17 points, the index dipped to low of 10,909.12 points in January 2012. Regaining its strength in the 2nd half of the fiscal year, the KSE – Index touched a high of 14,617.97 points during the month of May, 2012.

During the 2nd half of the FY2012, the Index and volumes picked momentum and KSE – 100 Index closed at 13,801.41 points by the end of FY 2012. Regardless of certain economic, political and external challenges, the KSE – 100 index has been able to sustain its levels. The daily average volumes remained around 139 millions on daily average basis which is approximately 40% higher as compared to the previous year where daily volumes once exceeded the five year high of 576 million shares. The market capitalization stood at Rs. 3,518.13 billions at the end of FY2012.

The foreign investment in the stock market exhibited net outflow of USD189 Million by the end of the FY2012, which was predominantly built up in the first half of the FY2012.

Regulatory Actions
Monitoring and Surveillance
As a part of its mandate to develop an efficient, effective and transparent stock market and to inculcate integrality and fairness in the trading activity, the Monitoring and Surveillance Wing has worked upon a comprehensive strategy to identify any abusive, manipulative and irregular trading practice and took subsequent measures.

In 23 violations of securities law, orders imposing penalties on the members of the stock exchanges and other stakeholders were issued. Warning letters were issued to 30 KSE members, 02 LSE members and 01 ISE Member for violations of the securities market law. Moreover, two warning letters were issued to non-broker market participants for non-compliance of the securities laws. The summary of the enforcement actions taken is presented below:

Regulatory Actions (FY 2011 - 12)

Violations	No of Cases	
	Orders	**Warning Letters**
Insider Trading/Front-Running	14	
Circular Trading/ Artificial Turnover	1	
Wash Trades	3	19
Blank Sales	1	15
Price Manipulation	1	
Provision of False Information	1	
Non – Compliance to Commission's Orders	1	
Non Compliance to Laws	1	
Violation of Listing Regulations		1
TOTAL	**23**	**35**

Compliance & Inquiries

Based on enquiry conducted by the Commission under section 21 of the Securities and Exchange Ordinance, 1969, during the FY 2011 – 2012, the Commission has filed criminal complaint in a court against Prudential Securities Limited ex-member of the Karachi Stock Exchange (KSE) and all those, including its directors, involved in non-transfer of shares/funds and unauthorized pledges of clients' shares and other prohibited activities under Section 24(2) of the Central Depositories Act 1997 as well as offences under relevant provisions of the Pakistan Penal Code (PPC). The warrants for all the accused have been issued.

Beneficial Ownership

During the financial year 2011-2012, the Commission took the following regulatory actions to regulate the trading activity by beneficial owners of the listed companies:

- **Actions under Section 224(2) of the Companies Ordinance, 1984 (Recovery of Tenderable Gain):** 12 cases of tenderable gain were brought forwarded, while twenty-one fresh cases were detected during the period under review. These cases will be disposed off in the light of legal opinion being sought in the matter of judgment of Supreme Court of Pakistan.

- **Actions under Section 224(4) of the Companies Ordinance, 1984 (late filing of returns of beneficial ownership):** During the period under review, the Commission detected 270 cases, where the returns were filed with considerable delay. The Commission disposed of 269 cases, while one case was under process on closing of the period.

Brokers Registration and Investor Complaints

Compliance with the requirements of the Brokers and Agents Registration Rules, 2001 was ensured and appropriate punitive measures were taken in cases of violations.During the year under review following enforcement actions have been taken against the brokers:

- While processing the applications for renewal of registration as broker under the Brokers and Agents Registration Rules, 2001, 3 brokers were advised / warned to take appropriated measures to improve their Financial Conditions.

- 3 applications for Registration and Renewal of Registration as a broker have refused vide Order under Rule 5(4) of the Brokers and Agents Registration Rules 2001.

- The Enquires under Section 21 of the Securities and Exchange Ordinance 1969 and Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997 initiated in the preceding year (i.e. July 2010 to June 2011) against the 3 brokerage companies who had filed the Winding-up Petition in Lahore High Court could not been concluded due to non-provision of information. Therefore, proceedings under Section 22 of the SE Ordinance 1969 were initiated against these brokerage companies and in total a penalty of Rs.12 million were imposed on these companies. Moreover, the said matter was referred to NAB for appropriate action at their end.

- 2 Brokers filed a Winding-up Petition in Lahore High Court and Islamabad High Court, respectively and the enquiry under Section 21 of the Securities and Exchange Ordinance, 1969 and Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997 against these brokerage companies has been initiated and the proceedings of enquires are in process.

- During the year under review 2 brokers have defaulted and investigation/enquiry in this regard is in process.

- On receiving inspection report, proceedings under Section 22 of the Securities and Exchange Ordinance, 1969 has been initiated against one broker and a penalty of Rs.500,000/- was imposed.

- 4 Orders were issued to the Brokers for redress of Investor Complaints and on finding regulatory violations a total penalty of Rs.1,450,000/- was imposed on a Broker.

Actions under Section 18A of the Securities and Exchange Ordinance, 1969:
Submission of fictitious and multiple applications (more than one application by same person) are prohibited under Section 18A of the Securities and Exchange Ordinance 1969 and such applications' money is liable to confiscation. During FY2012, due to increased awareness among market participants, no case of violation of the provision of the said section was found and reported.

Complaints Resolved:
Capital Issues Wing entertains various complaints pertaining to IPOs. During the period under review, the Commission disposed off 28 complaints.

Performance during FY 2011-2012

- The Commission granted approval for 4 Public Offering of Shares and 3 Term Finance Certificates.

- During the period under review, NOC/ approval was granted to 01 company i.e. MCB Bank Ltd. for issue of American Depository Receipts (ADRs).

- During FY 2012, one Commercial Papers (CP) issue of Rs. 1 billion and 01 Privately Placed Term Finance Certificates (PPTFCs) of Rs. 2 billion were listed on OTC market.

Developmental Activities

- Review criteria of KSE-100 index in line with international best practices
- Review Off-Market trading in light of international best practices
- Formulation of Debt Securities Trustees Regulations
- Amendments in the Share Transfer deed for Dividend Mandate
- Revamping of the Guidelines for Issue of Commercial Papers
- Formulation of the Rules for regulating affairs of the Underwriters and the Balloters & Transfer Agents
- Consultant to a Public Issue of Securities Rules, 2012
- Review of the Companies (Issue of Capital) Rules, 1996
- Introduction of e-IPO
- Tax incentives for listed companies
- Listing Guide Book
- Regulatory framework for the Credit Rating Agencies

Policy, Regulation and Development

During the period under review, the Securities and Exchange Commission of Pakistan (SECP), as the apex regulator of the Pakistani capital market, continued with its reform agenda for strengthening the Pakistani capital market with the objectives of improved risk management, increased transparency, investor protection and new product/market development. The highlights of reform measures introduced during the period under review are as follows:

Developmental Measures

Development of Equity and Derivative Markets

To add depth to the market and provide diverse investment alternatives, various new product/system development initiatives were undertaken. In line with international best practices, Exchange Traded Funds (ETFs) and Index Options were introduced at the Karachi Stock Exchange (KSE). ETFs are globally popular investment product which allow investment in diversified portfolio of securities tracking a benchmark index and provide investors with benefits such as trading flexibility, overall portfolio diversification and transparency. Options are popular derivative products that help create orderly, efficient, and liquid markets, and give flexibility, leverage and risk minimization to investors. Because of their unique risk/reward structure, options can be used in many combinations with other option contracts and financial instruments to create a hedged or speculative position.

Development of the Debt Capital Market

For development of the debt capital market, the Bonds Automated Trading System (BATS) at the stock exchanges was revamped along the lines of the Bloomberg-based E-Bond with various system enhancements for facilitating price discovery process of debt instruments and price negotiation between the market participants. Further, to facilitate investors trading in Term Finance Certificates (TFCs) listed at different exchanges, regulatory framework was introduced for facilitating inter-exchange trades in listed TFCs. A broker-to-broker functionality was introduced in BATS which enables brokers to settle their inter-exchange trades directly with the National Clearing Company of Pakistan Limited (NCCPL), resulting in greater efficiency and transparency in the trading and settlement process. Also, a centralized platform was developed at the NCCPL for mandatory reporting of trades executed in the unlisted TFCs, which provides access to real-time trading information in un-listed TFCs thereby providing better price discovery and transparency.

Development of the Commodities Market

To fulfill the hedging requirements of various groups of investors in the commodities market, new futures contracts were introduced at the Pakistan Mercantile Exchange Limited (PMEX) in sugar, wheat, crude oil (10 barrel), silver (100 ounces), silver (10 tola), gold (10 ounces) and Silver (10 Ounces). Further, the concept of market makers was introduced which will promote liquidity and investors' confidence through enhanced profitability, reduced volatility in prices and efficient execution of orders.

Measures to encourage Liquidity

To ensure easy access to financing and liquidity to the market, amendments were approved to the Securities (Leveraged Markets and Pledging) Rules, 2011 thereby removing practical hindrances and creating flexibility for Margin Financing and Margin Trading Products. Through the amended Rules, cash margin requirements were rationalized and individual investors were allowed to participate as financiers in the Margin Trading market, alongwith waiver of the mandatory condition of prescribing minimum liquidity requirement for selecting securities eligible for Margin Financing.

Also, to promote liquidity in the securities market and to enhance capacity of doing business of the stockbrokers, the units of Central Depository Company (CDC) eligible money market open-end collective investment schemes and T-Bills were approved as eligible collateral against margin requirements of brokers in line with the international practices.

Rationalization of Capital Gain Tax

In line with the Government's objective of documenting all incomes and sectors of the economy, to address practical issues and to encourage activity in the securities market the SECP proposed revamping of Capital Gains Tax (CGT). Accordingly, Finance (Amendment) Ordinance, 2012 has been promulgated on April 24, 2012 and the Income Tax Rules are also in promulgation stage. Under the revised CGT regime, the NCCPL shall act as a withholding agent to deduct and deposit CGT from investors' transactions while providing an automated and efficient mechanism for the calculation, deduction and deposit of tax.

Governance, Transparency, Risk Management and Regulatory Measures

To implement robust Anti-Money Laundering/Combating the Financing of Terrorism regime in the Pakistani capital market in light of the FATF recommendations and international best practices, effective regulatory regime/policies for Know-Your-Customer (KYC) and Customer-Due-Diligence (CDD) were introduced.

- With the objective of fostering good governance principles and practices in the corporate sector, a new Code of Corporate Governance applicable on the listed companies was introduced incorporating international best practices and following an process of extensive consultation with the stakeholders. The new Code has been introduced with the objective of further improving and raising standards of corporate governance taking into account its dynamic nature and to keep pace with the constantly evolving corporate sector and financial market.
- To ensure improved monitoring of internet trading activities offered by the brokers, Internet Trading Regulations were approved for the stock exchange which effectively addressing issues unique to this segment including risk management and privacy of investors' accounts.
- To strengthen monitoring and compliance by market intermediaries with the applicable regulatory provisions and to improve enforcement power of the regulators, Regulations governing System Audit (Regulatory Compliance) of the Brokers of KSE were introduced.

Structural Reforms/ Demutualization of Stock Exchanges

- The Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 was promulgated on May 7, 2012. The Act provides a framework for the corporatization, demutualization and integration of the stock exchanges in a time bound manner.

  Demutualization would lessen the conflicts visible in the existing mutualised set-up where the brokers enjoy rights of ownership, decision-making and trading. It will support enhanced governance and transparency at the stock exchanges and bring greater balance between interests of various stakeholders by clear segregation of commercial and regulatory functions and separation of trading rights and ownership rights. Post-demutualization, the Pakistani stock exchanges will be in a better position to attract international strategic partners and good quality issuers.

The exercise will be completed and our stock exchanges will stand corporatized and demutualised by the first week of September 2012 bringing our market on par with various other international jurisdictions.

Corporate Sector

Fast Track Registration Services

Fast Track Registration Services (FTRS) has been recently introduced by SECP in order to facilitate prospective promoters, corporate consultants and management of the companies, especially in urgent cases and peculiar situations. FTRS has received a healthy response from the corporate sector and is currently available for core processes such as Availability of name, Incorporation of Companies, Change of name & Charge registration, modification and satisfaction processes.

FTRS ensures swift disposal i.e., within minimum four working hours and is available for both online and offline cases. SECP has set up an example, at par with the international jurisdictions by providing same day fast track company incorporation facility. This initiative is expected to promote corporatization and encourage compliance and in the longer run, shall promote investment, healthy growth of corporate sector and development of economy. Details of the scheme can be referred to from Circular No. 12 of 2012 placed at the official website of SECP.

E-Services Project
One of the major initiatives taken by SECP over the period of time , in order to promote corporatization, transparency, paperless environment and an effective facilitation mechanism is eServices project that was launched in 2008. To facilitate companies in the eServices regime, following activities were undertaken during the FY 2011-12

Once Online Forever Online Approach
With continuous effort SECP has managed to take this project to a level that the concept of "once on-line forever on-line" has been introduced whereby online filing of subsequent statutory returns has been made mandatory for online incorporated companies registered with effect from May 16, 2012, to fully harness the real benefits of online filing facility and to invoke the true spirit of eServices regime. This is another step towards paperless environment in SECP.

Automatic verification of e-Challans
Automatic verification of e- Challans has been enabled for payment of fee to SECP with effect from 3rd January, 2012. All e-challans are being verified on the same day resulting in more efficient services to our clients. This new procedure is expected to enhance facilitation to SECP's eServices users and substantially improve the turnaround time in disposal of online applications. SECP is also working on different online payment modes.

Automatic assigning of documents
Automatic assigning of documents under eServices system has been implemented, which will increase efficiency and result in quick delivery of services to the corporate sector.

Electronic inspection of documents
Electronic inspection of records kept by registrar made available to general public, whereby they can inspect documents filed by companies, at computers provided at CROs.

Inter-Company Registration Office (CRO) Electronic Inspection Service
Inter CRO electronic inspection service launched in spirit of extending facilitation to stakeholders. Through this service, stakeholders can electronically inspect inter-CRO record of companies, which includes scanned/archived version of all recorded/ registered documents of companies, i.e. a stakeholder in Islamabad, intending to inspect record of any company registered at CRO Karachi, can inspect such record electronically at CRO Islamabad. This service is available at all CROs of SECP, across Pakistan. The service is available for all "recorded/registered" documents, received through both online and offline mode of submission. Detailed procedure is available in Circular No 14 of 2012, placed on SECPs website.

Help Lines
Help lines for eServices have been established and focal persons have been designated.
Development of Legal Framework

Issuance of Cost Accounting Records Order
SECP has notified Special Cost Accounting Records Order for fertilizer industry and draft Synthetic Rayon, Power Generation and automobile Cost Accounting Records Orders for the companies engaged in these sectors.

In order to bring uniformity to the cost records and cost audit reports, the SECP has developed the draft Order in consultation with the ICMAP. Cost audit can only be an effective regulatory tool when the cost records are properly prepared and cost audit reports are made on a uniform format for a particular sector. The SECP strives to make right regulations in the interest of the industry, as a whole and also in the interest of the other stakeholders. Cost audit can provide relevant and credible cost and revenue data to the stakeholders to support their decisions. Cost audit mechanism acts as a measure of efficiency and performance. It can serve as an important tool for effective enterprise governance, competitiveness and strengthening the regulatory mechanism. It is emphasized that regulatory apparatus at the SECP intends to foster efficiency and transparency thereby promoting sustainable growth.

Draft Public Sector Companies (Corporate Governance) Regulations

Draft Public Sector Companies (Corporate Governance) Regulations have been issued to extend the provisions of the Code of Corporate Governance to the public sector (state-owned) companies. SECP is actively working as a member of Task Force of Ministry of Finance on Corporate Governance of Public Sector enterprises.

Promotion of Compliance

Activation Drive:

To increase compliance rate, SECP launched an extensive activation campaign to activate defaulter companies and strike off defunct companies. The defunct companies, which are being strike off, have no assets or liabilities and have not remained compliant in filing of annual returns in previous years. Uptil now, almost 5,000 companies are in the process of striking off, while further scrutiny to take more companies under strike off action is underway.

Launching of Schemes

Companies Regularization Scheme (CRS) and Company Easy Exit Scheme (CEES) have been launched with effect from July 2, 2012 to October 31st, 2012, to provide an opportunity either to regularize or take a benefit of easy exit by the companies. The purpose behind this initiative is to provide both facilities to the companies at the same time, either to get their defaults regularized under CRS by making compliance, or on the other hand, avail the exit facility under CEES if the company is defunct, not carrying any business or not in operation and intends to cease its existence.

The CRS provides defaulter companies an opportunity to file their overdue statutory returns and annual accounts with reduced additional filing fees and also absolves the defaulter companies from penalties imposed on filing of overdue documents. Through CRS, the SECP intends to enhance compliance rate.

The CEES, on the other hand, allows the companies having no assets or liabilities and not carrying on any business, to avail easy exit facility without undergoing the cumbersome winding up procedure.

Facilitation Measures:

Facilitation Counters at Bahawalpur and Rahim Yar Khan Chambers

SECP has established facilitation counters at the Bahawalpur and Rahim Yar Khan Chambers of Commerce and Industry, to facilitate business community and enterprise in the region, on the directive of Prime Minister Secretariat.

Facilitation extended in filing of annual returns and annual accounts

Companies were facilitated on the due dates of filing of annual returns and annual accounts. Advertisements, public notices and press releases for creating awareness were issued. Chambers of Commerce and Industry (CC&Is) were engaged to extend facilitation to corporate sector, create awareness and disseminate information to members. CROs remained opened till late hours on the closing dates and last dates for filing of Form 29 was also extended to extend maximum facilitation for collection of these documents. Special counters were established at bank branches, CROs and CC&Is.

Media campaigns

Extensive advertising campaigns were run to create awareness on annual returns filing, Fast Track Registration Services, Companies Regularization Scheme and Company Easy Exit Scheme and to curb illegal business activities.

Promoters' Guide in Arabic

The promoters' guide was translated in Arabic to facilitate foreign companies and investors having German as native language.

Meetings with Corporate Consultants

Regular Meetings with corporate consultants/intermediaries were held at CROs to obtain their feedback for improvement in various areas mainly operational working of CROs.

Creating awareness

More than 30 awareness seminars and workshops on benefits of corporatization, eServices, and corporate compliance were conducted in a number of cities. These seminars and workshops were widely attended and an overwhelming response was received.

Processing of application for grant of license to not-for-profit associations under section 42

During the financial year 2011-12, 42 licenses were issued to associations not-for-profit under section 42. The SECP ensures quick disposal of applications seeking licences to association not for profit

Quality Assurance

ISO 9001: 2008 certification for the CROs in Karachi, Lahore and Islamabad is successfully maintained after Surveillance Audit by external auditor. The certification is a useful tool in improving the service quality.

Liaison with Board of Investment

SECP in consultation with the BOI has streamlined the procedure for security clearance for registration of foreign companies and local companies having foreign nationals and investments.

Facilitation to Hajj and Umrah Operators

SECP extensively facilitated Hajj and Umrah Operator companies during their enrolment season.

Enforcement Department

During the year under review, the Department maintained its focus on improving the compliance level of the companies with the statutory provisions of the law and improving reporting standards of financial and non-financial information to the stakeholders. The regulatory and enforcement actions were primarily directed at preventing unauthorised inter-corporate financing, irregularities relating to employees' provident fund accounts, misstatements in the audited accounts and negligence on the part of the statutory auditors of the companies. Moreover, legal actions were initiated to investigate the affairs of the companies wherein certain companies were underperforming constantly, the operations of the companies were not managed in accordance with sound business principles, lack of good corporate governance were depriving members of a reasonable return and companies were recurring losses with endangered solvency.

The department takes measures to promote transparency in the presentation of the financial statements and the active vigilance and stringent corporate discipline enforced by the department resulted in improved corporate compliance by the companies. In addition, the department, under its regulatory powers, also entertained applications of companies and accorded them certain approvals and relaxation from certain provisions of laws and rules.

Facilitation and Regulatory approvals

Amalgamations and Mergers

The SECP has been facilitative to companies' in corporate mergers and amalgamations with a view to strengthen the capital base of companies and achieving economies of scale. During the period, the department received the 12 schemes of arrangements and, after due consideration, processed them in due course of time.

Capital Issue (Listed Companies)

During the year, the Department received twenty three applications in the matter of issuance of capital. These applications were disposed of as follows:

Issue of Shares otherwise than Right

6 applications were received from companies requesting permission to issue shares otherwise than rights to the existing shareholders. 4 companies were allowed to issue shares as per their application which worth Rs.2.434 billion. However, after due consideration, consent for partial increase in capital was given to one application and the matter related to issuance of its remaining proposed capital is in process.

Issue of Preference Shares

A company limited by shares can issue more than one kind of shares having different rights and privileges under the Ordinance. During the year, the SECP allowed two listed companies to issue in aggregate 272.101 million preference shares at Rs 10 each.

Relaxation of Rules

During the year under review, 11 listed companies applied for relaxation from the requirements of Companies (Issue of Capital) Rules, 1996 ("the Rules"). The Commission after comprehensive examination and keeping in view the circumstances of cases, relaxed the requirements of law for nine companies enabling them to raise capital whereas remaining two applications are under process.

Other Regulatory Actions/ Approvals

- Appointment of 52 cost auditors in the matter of listed companies was approved during the year under Companies (Audit of Cost Accounts) Rules, 1998 in respect of industries including vegetable ghee and cooking oil, sugar and cement.

- Extension in time to hold annual general meetings was granted to 25 listed companies. 4 companies were allowed to hold their AGMs at place other than their registered offices as allowed in the Ordinance.
- Exemption from filing the consolidated accounts along with the stand alone accounts was provided to 9 companies. 2 applications for change of financial year, postponement of annual audited accounts and annual general meeting to coincide the financial years of parent and subsidiary company were also processed and approved.
- Approval was accorded to 2 companies to rectify their register of mortgage while extension in time has been granted to a company to file its modification of charge.
- 4 listed companies were allowed to extend loan facility and advance house rent to their directors.
- The SECP issued certificate of registration as a group to 2 companies under Group Companies Registration Regulations, 2008.
- Currently, 261 listed companies have obtained approval from the SECP to place their quarterly accounts on their websites instead of transmitting these by post in order to ensure that material information is available to shareholders enabling them to make informed decisions. During the year under review, 6 more companies were permitted to place their quarterly accounts on their websites. A company was also allowed to change the address of its respective website.
- The SECP granted exemption to a company from Rule 3 of Employee's Provident Fund Rule, 1996 which requires certain conditions to be met before making investment in listed securities.
- Relaxation from Regulation 19(2)(d) of the Listed Companies (Substantial Acquisition of Voting Shares and Takeover) Regulations, 2008 was granted to an acquirer/applicant in the matter of listed companies.

Monitoring and Enforcement Actions

During the period, the Department has taken following actions with regards to its responsibility of monitoring and enforcement of corporate sector:

Administrative measures 2011-12	
Examination of annual audited financial statements	837
Cases initiated	502
Cases concluded	431
Warnings after examination of accounts	106
On-site inspections and investigations initiated	15
Companies directed to hold overdue AGM	9

Inspection into the affairs of companies

During the year, the SECP initiated 10 against companies, 5 of these inspections have been concluded. The summary of inspections concluded during the year is given here under:

i. Inspection of a company conducted owing to violations observed pertaining to provisions of the Ordinance. Based on the findings of inspection, appropriate proceedings were initiated against the company and the auditor of the company.

ii. Inspection of a company conducted which failed to treat the surplus on revaluation of fixed assets in accordance with the provisions of the Ordinance and the auditor of the

Company provided disclaimer of opinion on accounts of non-confirmation of the balances of assets and liabilities of the company. Appropriate proceedings under various provisions of the Ordinance have been initiated against the company based on findings of inspection.

iii. Inspection of a company conducted on account of misstatements in the accounts and non-compliance with the provisions of the Ordinance with regards to appointment of statutory auditor. Proceedings initiated in this regard have been concluded with punitive Order.

iv. Inspection of a company was concluded during the year as the matter was linked with the proceedings initiated under the provisions of the Takeover Ordinance as per the orders of the honourable Court.

v. An inspection of the books of account and books and papers of a private limited company was conducted during the year. On the basis of the findings, investigation in the matter of the company has been initiated and a chartered accountant firm has been appointed as an Inspector to investigate the affairs of the Company.

Investigations

During the year under review, 5 investigation proceedings were initiated. Summary of these investigation proceedings are given hereunder:

Inter-corporate financing

32 cases relating to unauthorized inter-corporate financing between the associated companies were dealt with during the year. The chief executives and directors of companies were penalized in 20 proceedings.

Making false/incorrect statements in documents required under the Ordinance

During the year under review, 29 cases with regards to misstatements in the statutory documents filed by companies were concluded. Penalty was imposed in 23 proceedings while warnings for future compliance of the law were issued in 6 cases.

Actions against auditors

SECP has initiated penal actions against the statutory auditors of 65 listed and non-listed companies who failed to act in conformity with the statutory framework. Penalty was imposed on auditors of 41 companies. During the year, detail of actions were also shared and referred with/ to ICAP for action on their part. The Department has also finalized proceedings against auditors of two listed companies who were not qualified for appointment in terms of requirements of the Code of Corporate Governance (CCG). A complaint against certain individuals who are using fake names of chartered accountants as Partner and conducting audit and issuing the audit reports on their behalf was received and forwarded to ICAP for necessary action. The Department has also initiated action in this regard.

Non-preparation and submission of consolidated financial statements

Actions were initiated against directors and officers of 14 companies, who failed to prepare and attach consolidated financial statements with their standalone annual audited financial statements as required under the Ordinance.

Irregularities in provident fund

During the year under review, the Department initiated 35 actions against directors of companies and trustees of provident fund trusts for committing irregularities in employees' provident funds. Penalty was imposed in 25 cases.

Surplus arising out of revaluation of fixed assets
During the year under review, 10 cases of improper treatment of surplus on revaluation of fixed assets were dealt with. Penalty was imposed in 6 cases whereas 3 proceedings were concluded with strict warnings.

Irregularities in utilisation of amount of security deposits received from dealers
The proceedings against 15 companies were concluded for violation of the aforesaid provision of the law regarding handling of security deposits. Penalty was imposed in 10 cases while warning was issued to chief executive and directors of 5 companies.

Authentication of balance sheet
14 proceedings were concluded wherein the balance sheet and profit and loss account were not authenticated in accordance with the requirements of the Ordinance. 9 proceedings were finalized by imposition of penalty while warnings were issued in 5 instances.

Improper issue, circulation or publication of balance sheet or profit-and-loss account
The SECP closely reviewed annual audited accounts filed by the companies and initiated 52 proceedings against companies which failed to issue or circulate their financial statements in accordance with the requirements of the law. Penalties were imposed in 30 cases while warning was issued in 22 cases.

Appointment of independent share registrar
4 proceedings were finalized against the companies who failed to appoint independent share registrars to facilitate their shareholders. One of the cases was concluded with penalty while warning was issued in three cases. In another case, the company was penalized for not adhering to the directions of SECP with regards to appointment of independent share registrar.

Circulation of quarterly accounts
During the year under review, 24 proceedings were concluded against the companies which failed to file their quarterly accounts within the prescribed time period. Penalties were imposed in the matter of 15 proceedings whereas, 9 proceedings were concluded with stern warnings.

Non/Late-holding of annual general meetings (AGMs)
Proceedings were concluded with penalty against 4 companies which failed to hold AGMs within the prescribed time period.

Direction of the SECP for holding of annual general meeting (AGMs)
The SECP issued directions to 9 companies to hold their overdue AGMs. Further, a proceeding was concluded with penalty where a company failed to comply with the directions of SECP to hold overdue AGM.

Non-submission of notices of annual general meeting (AGMs) and non-disclosure of material facts alongwith the notice of AGMs

During the year under review, 6 cases relating to non-submission of notices of AGMs to the SECP and non-disclosure of material facts alongwith the notices of AGM were dealt with. Penalty was imposed in 3 cases while 3 proceedings were concluded with warnings.

Failure to communicate the announcement of decision of right share

Proceedings against 3 companies were concluded wherein companies failed to communicate the decision to issue right share to the SECP and to the stock exchanges. Penalty was imposed in 2 cases.

Misuse of powers by directors

During the year, proceedings against the directors of 14 companies were concluded wherein penalty was imposed in 9 instances while warnings were issued against the directors of 5 companies.

Meetings of board of directors

Directors of 5 companies have been penalized for their failure to comply with the mandatory provisions of the Ordinance regarding disclosure of interest, quorum of meeting, participation in board meeting where a business in which directors have interest is being considered.

Non- holding of election of directors within prescribed time period

3 cases of non-holding of election of directors within the statutory time period were dealt with during the year under review. The directors of a company were penalized in 1 case while in the other 2 cases penalty was imposed on the chief executives of the companies.

Disclosure of interest by director and participation/voting in proceedings of directors

8 proceedings were concluded against the directors of companies breaching the relevant provisions of the Ordinance. Penalty has been imposed in 6 cases while warning was issued in 2 instances.

Non-circulation of abstract on increase in Chief Executive's remuneration in the Directors' Report

Proceedings were concluded in the matter of 10 companies failing to abide by the provisions of the law regarding the disclosure of terms of appointment and remuneration of the chief executive in the directors’ report. 3 proceeding initiated in this regard were concluded with penalty whereas, 7 other cases were concluded with warning.

Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors

8 proceedings were concluded against the companies for late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors filing. Penalty was imposed in 3 cases while 5 cases were concluded with warnings.

Actions under Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002

During the year under review, 6 instances of non-compliances with the provisions of the takeover Ordinance were identified. Proceeding in 1 case was concluded with penalty while warnings were issued in 3 cases. However, considering the merits of cases, 2 companies were directed to take appropriate measures to proceed with their plan of acquisition.

Winding up of companies

The SECP, in exercise of its power under the Ordinance, initiated winding up proceedings against 2 companies which failed to hold the annual general meetings for two consecutive years. Proceedings have been concluded and winding up orders have been issued in this regard.

Investors' grievances

During the period under review, 385 complaints from various shareholders were resolved. The table hereunder summarizes the status of the complaints at the beginning of the year, received and resolved during the year and remained in progress during the year under review:

Complaints Status July 1, 2011 to June 12, 2012

In progress at start of the period	30
Received during the period	372
In progress at the end of the period	17
Total complaints resolved during the period	**385**

Non-filing of annual audited accounts by companies other than listed companies

During the year under review, proceedings against 65 other than listed companies for non-filing of their annual audited accounts with the Registrar of companies were initiated and concluded.

Development Activities

Regulations for investment in associated companies/undertakings

The SECP in consultation with all the corporate stakeholders, formulated and notified regulations relating to investments in associated companies/undertakings under the provision of Section 208 of the Ordinance.

Cost Audit Development

The SECP has notified Chemical Fertilizer Industry (Cost Accounting Records) Order, 2012, applicable on companies engaged in production, processing and manufacturing of chemical fertilizers. Furthermore, cost accounting record orders for power generation sector, synthetic and rayon sector, automobile and pharmaceutical sector are under process.

Appointment of QCR rated auditors for Economically Significant Companies (ESCs)

The SECP has directed all non-listed companies categorized as ESCs to appoint their statutory external auditors a chartered accountants (CA) firms holding satisfactory rating under the Quality Control Review (QCR) Program of the Institute of Chartered Accountants of Pakistan (ICAP) with effect from the financial year beginning on or after July 1, 2012.

Removal of practical difficulties of Section 208 of the Companies Ordinance, 1984
The SECP identified the cumbersome process of compliance of compliance with Section 208 of the Ordinance for certain type of companies and has exempted from the requirement of shareholders' approval for these companies.

Encourage MSCs and SSCs to adopt International Financial Reporting Standards (IFRS)/ AFRS respectively
The Commission during the year encourages Medium-Sized companies (MSCs) and Small-Sized companies (SSCs), which are following the approved IFRS as applicable in Pakistan, in regard to the preparation of financial statements which are otherwise required to follow the AFRS for MSCs and SSCs issued by ICAP. Similarly, the SSCs were also encouraged to follow AFRS for MSCs that are otherwise required to follow the AFRS for SSCs issued by ICAP.

Notification of maintaining website by listed companies
The SECP has made it mandatory for all listed companies to maintain their websites functional to provide investors with updated cost-effective and easy information.

Amendments in Takeover Regulations
The SECP, in principal, has decided to amend the Takeover Regulations to make them more pragmatic and investor friendly. Stakeholders' feedback has also been obtained through roundtable meetings on proposed amendments. The Commission issued a notification on draft amendments for public comments on February 16, 2012.

Amendments in Fourth & Fifth Schedule
In co-ordination with ICAP, certain amendments in Fourth and Fifth Schedule of the Ordinance have been proposed and in the process of finalization.

Provident Fund Regulations
Keeping in view the analysis of data of various companies regarding the losses they suffered due to investment made by provident fund trust, the department has proposed certain amendments in provident fund regulations which are in process of finalization.

Requirements for holding meeting of board of directors abroad
During the year under review, the SECP issued a circular through which the conditions were set forth for holding meetings of board of directors abroad.

Submission of notice of AGM and EOGM through electronic medium

The SECP with a view to facilitate the companies, issued a circular encouraging listed companies to email notices of AGM and EOGM to the SECP along with the statement of facts.

Proposal for website maintenance for non-listed companies
The Department has proposed maintenance of functional website for non-listed companies having paid-up capital of equal or more than Rs. 200 million. In this regard notification is being finalized.

Member meetings and resolution guide
The department prepared a guide to educate and facilitate the stakeholders of the companies regarding members' meetings and resolutions.

Guidelines Corporate Social Responsibility, 2012
Keeping in view global learning and local market practices, a set of guidelines have been developed by the SECP to encourage adoption of voluntary measures ensuring transparency and corporate accountability in implementing the CSR activities. The guidelines shall be applicable to all public companies and are expected to be take effect from July 1, 2012. The draft guidelines have been public and stakeholders for their valuable input.

Whistle blowing mechanism and its implementation
The SECP has identified need for whistle blowing mechanism for listed companies and a concept paper has been prepared which primarily focuses on external whistle blowing mechanism.

Quality Control Review of Cost Auditors
After thorough deliberations with ICMAP and ICAP, it has been principally decided to develop a framework for quality control review for cost auditors before the implementation of quality control review for cost auditors.

Revival of SECP-ICAP coordination to improve the quality of audit
After three years, SECP-ICAP Coordination Committee has been revived and thorough discussions and deliberations have held on various matters i.e. independent audit oversight, review of IFRS implementation, extension of mandatory QCR rating for auditors of ESEs and MSEs, QCR for cost auditors, accounting standards for NGOs and accounting framework for independent power projects.

Establishment of Audit Oversight Board of Pakistan (AOBP)
A committee has also been constituted by the ICAP counsel to formulate modalities for establishment and functioning of AOBP. Two of the officers of the department have been nominated as a committee member.

Representation on Quality Assurance Board (QAB) of ICAP
The SECP has also secured representation on Quality Assurance Board (QAB) of ICAP, responsible for carrying out QCR to develop and maintain compliance of professional standards by audit firms.

Facilitation to corporate sector

The SECP, on ICAP's recommendation, issued a notification and granted exemption to all power companies from applicability of IFRIC 4, IFRIC 12, IAS-21 and IAS-39.

Stakeholders' Conferences
During the year under review, various stakeholders' conferences were conducted in order to take them on board for legislative and developmental processes.

Specialized Companies/Supervision /Offsite Surveillance
Each entity (AMC/Mutual Fund, Leasing Company, Investment Bank, Modaraba and Venture Capital Firm) was examined every quarter on the basis of the published quarterly/half yearly/annual accounts and information submitted by the NBFC to the Commission through the SCRS.

There are two ways through which SCD-Supervision Department carries out its surveillance function, i.e. one through offsite review of the information submitted to the Commission in the form of published accounts on quarterly, half yearly and on annual basis and second through reviewing the information submitted through SCRS (specialized companies returns submission system) on monthly basis. SCRS was developed in late 2009 and became functional from January 2010.

During the year 2011-12 Offsite Surveillance Wing achieved 100% review coverage of entities pertaining to the NBFC & Modaraba sector.

Onsite Inspections
During the year 2011- 2012, inspections of 20 AMCs/IAs, 2 Leasing Companies, 3 Investments Banks, 1 Housing Finance Company and 11 Modarabas covering 78% of the overall NBFC &Modaraba Sector were conducted.

Major findings of the onsite inspections and offsite reviews are briefly given here under:

- Capital adequacy of the NBFCs especially with reference to the requirement of minimum equity as laid down in the regulations
- Issues of systems and controls, including issues relating to the performance and independence of internal audit functions of the NBFCs
- Inappropriate composition of board and management level committees, including audit committee
- Inappropriate composition & issues pertaining to functioning of investment committees
- Weaknesses particularly in areas of research and credit risk management
- Inconsistent methodology of reporting fund returns
- Investment in group companies/related parties
- Front running & Insider trading activities
- Identify deposits maintaining by the mutual fund on low mark-up rates with certain banks
- Non compliances with applicable Rules and Regulations
- KYC related observations
- Deviations from the Code of Corporate Governance
- Inadequate provisioning of non-performing assets

- Cases of excessive exposure with single entity and group entities
  Liquidity problems faced by the NBFCs and factors leading to further aggravation

Enforcement
Enforcement Wing carries out independent review of the observations / violations reported in the Onsite inspection reports and Offsite review reports. Once an independent view is developed, appropriate enforcement action is taken on the respective observation / violation.

During the year 2011-12 following major actions were taken;

- Issued Order on the violation of section 38(a) of the NBFC Regulations 2008. The AMC managing a fund failed to manage assets of the fund to the best of its ability and thus unit holders of the fund had to suffer loss
- Issued Order on the violations of certain sections of Companies Ordinance
- Issued show cause notice on violations of regulatory framework applicable on NBFCs
- Took up issues highlighted in the offsite review reports with regard to the low mark up rates offered on deposits kept by certain funds with some banks. AMCs managing such funds re-negotiated higher mark up rates with the banks which were offering low rates, thus improving funds' return further
- Issues of under-performance of funds were taken up with the AMCs
- Senior management and Board members of problematic depository institutions were pursued to enhance / expedite efforts being undertaken by them to improve financial condition of the respective NBFC, settle the NBFC's financial obligations towards individuals and institutions and to increase equity of the NBFC to meet minimum equity requirement as laid down in regulations
- NBFCs facing liquidity problems were advised to redeem deposits raised from individuals as and when they become due
- Handled complaints of depositors
- Issued Warning / Compliance letters to NBFCs on observations / violations pertaining to system and control (particularly weaknesses in their internal audit function and role of the audit committee of their boards) highlighted in the onsite inspection reports
- Enforcement actions were taken on the observations highlighted in the onsite inspection reports pertaining to in-appropriate composition of board / management level committees in certain NBFCs. These actions were taken through Compliance letters and respective NBFCs confirmed having made appropriate changes in their committee(s) accordingly
- Issued Compliance / Warning letters on certain other violations / observations assessed from the onsite inspection and offsite review reports

Policy Regulations and Development

A. Investment Banks, Leasing Companies, Housing Finance Companies
Investment Banks, Leasing Companies & Housing Finance Companies are part of the country's regulated financial sector since 1980s. However, these entities have neither

exhibited any reasonable growth in terms of assets/ number of players nor have they made the requisite contribution to the financial system. This is evident from the fact that the number of entities and total asset base of these entities has reduced by 65% and 50% respectively since June 30, 2003.

A detailed analysis of the industry reveals the following reasons for the lackluster performance of investment banks, leasing companies and housing finance companies:

(i) Limited resource mobilization ability
(ii) Non-existence of level playing field for leasing, investment banking and housing finance activities
(iii) No regulatory support in financial distress as SECP is not the lender of the last resort
(iv) Dearth of skilled human resource.
(v) Liquidity problem owing to significant mismatch between assets and liabilities.

Being the regulator of investment banks, leasing companies and housing finance companies, SECP has always endeavoured to revitalize and facilitate these entities in Pakistan. SECP on October 27, 2011 constituted a NBF Sector Reform Committee (Committee) to furnish recommendations for promotion and growth of a sustainable NBF sector to compliment the overall financial system and mobilize and channelize the savings to the capital and debt markets. The Committee has prepared draft report and it is hoped that final report will be available in last quarter of 2012. Furthermore, SECP made necessary amendments in the Schedule XI of the NBFC Regulations 2008 (Non-Performing Assets Classification and Provisioning Regime) to provide some breathing space to the industry.

B. Mutual Funds and Investment Advisory

During the year 2011-12, the industry showed a hefty growth of almost 41% as the total size of mutual funds industry stood at Rs. 410 billion as on June 30, 2012. The total number of funds stood at 150 on June 30, 2012 compared to 136 on June 30, 2011. Greater appetite for safer investment option led to the investment in money market funds and Government securities funds, where major portfolio of money market and income funds is invested in government securities and financial institutions.

Key achievements

During the period, the SECP took certain measures to facilitate the industry as well as the unit holders of mutual funds. The SECP amended the Non-Banking Finance Companies & Notified Entities Regulations, 2008 (NBFC & NE Regulations). The salient amendments encompass:

- Replacement of seed capital requirements with minimum fund size of Rs. 100 million to offer flexibility in launching new mutual funds;
- Enhancement of unit-holders’ rights in case of any material change impacting fund's category, investment objective or other key feature such as management fee or back-end load etc;
- Suspension of redemption of units restricted to a maximum of 15 working days, coupled with empowerment of unit holders to decide future of the fund including change of fund manager;
- Introduction of a detailed procedure for winding up of an open-end fund;

- Registration of trustees of open-end mutual funds with the SECP and enhancement of their role to better safeguard unit holders' interests;
  Registration of distributors of mutual funds with the MUFAP and existing distributors were offered flexible time period to comply;
- Exemption granted to index fund, fund of funds and capital protected fund from group company investment limits. Furthermore, exemption provided to fund of funds from per party investment limit and passive funds have also been excluded from the per fund manager limit of 3 funds;
- Reduction in limit of annual equity brokerage commission (payable by a mutual fund to a single broker) from 30 percent to 15 percent to promote competition in brokerage services; and
- Restriction on mutual funds to subscribe to an issue underwritten, co-underwritten/sub-underwritten by group companies of its Asset Management Company.

Developmental activities

Among other initiatives for the growth of mutual funds industry and better protection of investors are:

- As part of its mandate to develop and bring the Pakistani capital market at par with other regional and international jurisdictions, SECP approved regulations governing the listing, trading, clearing and settlements for exchange traded funds (ETFs).
- The SECP issued detailed requirements and procedures for convening meeting of the unit holders of open end and closed end schemes.
- The SECP issued a direction to all Asset Management Companies advising them not to directly or indirectly share any fee earned by Asset Management Companies and distributors appointed by them, on the CIS with the unit holders of the scheme to curb the practice of management fee sharing that hampers the broadening of investor base in mutual funds,.
- The SECP has directed all the AMCs to provide additional disclosures regarding contingent WWF liability and its impact on NAV and return of the scheme in the monthly FMRs, Advertisements and Offering Documents.
- As part of anti-money laundering measures, the SECP issued instructions to all the Non Banking Finance Companies (NBFCs) to report the Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU).

On the product innovation front, SECP allowed asset allocation funds with exposure in emerging and developed markets, defined life fund of funds with capital protection based on the Constant Proportion Portfolio Insurance methodology, and capital protected fund with capital protection based on Government IjarahSukuks.

C. Modarabas

Modarabas are the pioneering Islamic Financial Institutions in Pakistan and are operating with the objectives to implement and materialize the economic and financial ideology of Islamic Shariah, in addition to the conventional good governance and risk management rules. Currently, most of the modarabas are providing financial services while a few are engaged in the industrial and trading business activities.

In accordance with the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the business of a modaraba should not be opposed to the injunctions of Islam. However, after floatation of a modaraba there was no mechanism in place to ensure and verify that the business affairs of a Modaraba are being managed in accordance with the principles of Shariah. Therefore, a formal mechanism namely "Shariah Compliance and Shariah Audit Mechanism" (SCSAM) was devised and implemented to eliminate the risk or possibility of any violation of Shariah principles by modarabas.

The SCSAM is aimed to strengthen the Shariah compliance by modarabas in letter and spirit. It ensures that the systems, procedures and policies adopted by modarabas are in line with the Shariah principles. It is expected that SCSAM will harmonize the Shariah interpretations, strengthen the regulatory and supervisory oversight of the modaraba sector and nurture a pool of competent Shariah auditors and will help the management of modaraba companies to achieve the objectives of Halal business as enshrined in the Shariah and emerge as a responsible member of the Islamic financial regime.

Performance Review

As per the unaudited financial statements of modarabas as on June 30, 2012, the aggregate paid-up fund of modarabas was Rs 8.896 billion. The total assets of the modaraba sector stood at Rs 29.582 billion against Rs 26.393 billion in the corresponding year. Similarly total equity of the modaraba sector stood at Rs 12.171 billion which shows an increase of Rs 610 million as compared with Rs11.561 billion during the previous year. For the FY ending June 30, 2011, out of 26 modarabas in operation, 18 modarabas declared cash dividend to their certificate holders ranging from 1.20% to 73.5%.

Key Achievements

Shariah Compliance and Shariah Audit Mechanism

A Shariah Compliance and Shariah Audit Mechanism (SCSAM) was issued and implemented to eliminate the risk or possibility of any violation of Shariah principles by Modarabas.

Constitution of a new Modaraba Tribunal

The Federal Government, upon request of the Commission, has constituted another Modaraba Tribunal at Karachi to try all class of cases under the Modaraba Ordinance within the province of Sindh.

Charging of Management Fee by Modaraba Company

A clarification was issued that the management company may charge management fee from the net annual profit of the Modaraba rather charged the said fee after the accumulated losses of the modaraba, if any, are wiped off.

Letter of Agreement to Ijarah (Lease)

A 'Letter of Agreement to Ijarah' was issued to legally bind the customers of modarabas to obtain Ijarah assets as and when delivered by the manufacturer. This agreement would work as a risk mitigating tool for Ijarah transactions to be undertaken by modarabas with their clients.

Short Form of Ijarah (Lease) Agreement

A new agreement namely “Short Form Ijarah (lease) Agreement” was introduced in place of the model Ijarah (lease) agreement where more than one Ijarah transactions are involved with the same client. This would facilitate modarabas in minimizing unnecessary, lengthy documentation and act as a cost and time saving tool for Modarabas while carrying out multiple Ijarah transactions with the same client.

Regulatory Actions

On-site Enquiries
Orders for on-site enquiries of six modarabas were issued under section 21 of the Modaraba Ordinance. The sole purpose of these enquiries was to gauge the true financial health, review performance of the management and the Board, and assess level of compliance of the modarabas with the prevailing regulatory framework. On the basis of enquiry reports, after completing the due process of law, necessary regulatory and enforcement actions were initiated after against delinquent the Modaraba Companies and the Board of Directors.

Developmental activities

Approval of new resource mobilization Products
In order to provide more avenues for resource mobilization and to cater the liquidity needs of the Modaraba Sector, the religious board approved two new funds raising Shariah compliant products namely; Certificate of Investment (Modaraba) (COIM) and Commodity Finance Certificate (CFC).

Amendment in the Modaraba Ordinance, 1980
The amendments proposed in the Modaraba Companies and Modaraba (Floatation & Control) Ordinance, 1980 were approved in the joint sitting of the Parliament which empower the Commission/Registrar Modaraba to make regulations and to issue directives, circulars, codes and guidelines for modaraba sector. With this approval, the Registrar would affectively safeguard the interests of modaraba investors, bring efficiency in the modaraba management and strengthen the non-banking finance companies sector as a whole.

Amendment in the Modaraba Rules, 1981
In order to strengthen the regulatory framework to safeguard the interests of certificate holders, the Modaraba Companies and Modaraba Rules, 1981 were reviewed and necessary amendments proposed. The draft amendments would be submitted to the Ministry of Finance for issuance of notification after necessary legal vetting.

Amendment in Workers Welfare Ordinance, 1971
Amendments were proposed in the Workers Welfare Ordinance, 1971, to grant exemption to Modarabas from levy of Workers Welfare Fund (WWF) in light of exemption already granted to mutual fund industry.

Real Estate Investment Trusts (REITs)
A NBFC Reform Committee has been constituted by SECP to review NBFC sector regulatory regime including REITs. The Committee shall identify factors inhibiting growth of the sector and recommend measures to be taken by SECP, market players and the Government to facilitate growth. The Committee has prepared draft report and it is hoped that final report will be available in second quarter of 2012.

Private Pensions

Private pensions are governed under the Voluntary Pension System Rules (VPS Rules). So far eleven pension funds have been launched which have accumulated balance of more than two and a half billion rupees. Certain anomalies were spotted in the tax law with regard to private and employer sponsored retirement schemes. In this regards, proposals were drafted in consultation with the industry and followed up with FBR to secure equitable treatment for all retirement schemes. Proposals submitted for the purpose included:

a) Exemption from payment of tax from income received on periodic withdrawal of balance accumulated in a pension fund on attaining the age of retirement.
b) Tax neutral transferability of accumulated balance between VPS and other occupational retirement schemes.

The proposal at a) above was approved by the government and that at b) have been accepted partially.

VPS Rules which were notified in 2005 were reviewed for improvements. A number of changes have taken place in the market and the fund management practices. The amendments are aimed at providing operational flexibility to fund managers, enhancing role of trustees, providing freedom of choice to participants of VPS and ensuring protection of investors' interests. Draft prepared in this regard was shared with the stakeholders and after considering feedback, the final amendments were submitted to Finance Division for vetting and approval.

Insurance Sector

Market Overview

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. As of December 2011, the industry's total premium revenue stands at about Rs 123 billion. The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid up capital requirements as US$4 million, with the condition of bringing in a minimum of US$2 million in foreign exchange and raising an equivalent amount from the local market.

The minimum capital requirements are being increased in a phased manner, though they still remain modest by international standards, at Rs.300 million for non-life and Rs.500 million for life in 2011. Currently there are 39 non-life insurers operating in the market including three Takaful Operators (*Islamic insurance*) and one state owned company, National Insurance Company Limited (NICL), which has a monopoly over government business including semi-autonomous entities. In addition, a government owned reinsurer, the Pakistan Reinsurance Company Limited, continues to benefit from a mandatory minimum 35% share in the reinsurance treaties of non-life companies. Approximately 65% of the market share in gross written premium rests with the top 4 players. In the year 2011, the non-life sector grew by more than 13%.

The life insurance companies, having total premium of Rs.70 billion, have surpassed the non-life insurance companies, having total premium standing at Rs.53 million. The life insurance premium accounts for 57% of the total industry premium. There are 9 life insurance companies, including two Takaful operators and one state-owned corporation in the life insurance sector. Currently, the State Life Insurance Corporation enjoys a monopoly position with a 66.5% market share in terms of gross written premium. However, the total premium for the calendar year 2011 stands at only Rs.70 billion. In the year 2011, the non-life sector grew by almost 29%.

There are two dedicated foreign health insurance companies in the market along with two foreign life insurance companies and two non-life foreign companies. The total revenue generated by the industry in the calendar year 2011 was Rs.123 billion. The market has witnessed introduction of new products in the lines of health, crop and livestock insurance. New distribution channels such as Banc assurance, Web sales and Telesales are also growing rapidly.

Key Achievements

- **Sound and Prudent Management Regulations, 2012**
  The 'fit and proper' criteria is prescribed and implemented by regulators globally in the financial sector. It is considered necessary to promote good corporate governance, which helps to protect the interest of all stakeholders and is vital to prepare the insurance industry to meet the challenges of globalisation and avoid mal-administration, for which the insurance companies must be run by competent persons with adequate know-how. An official at Securities and Exchange Commission of Pakistan (SECP) informed that the SECP has prescribed fit and proper criteria for the insurance companies in Pakistan through the Insurance Companies (Sound and Prudent Management) Regulations, 2012 which were notified in January 2012 and are applicable to the chief executive officers/principal officer, directors and the relevant key officers of insurance companies. The regulations were prepared after thorough consultation with stakeholders and insurance industry experts; and are in line with the best international practices prescribed by the International Association of Insurance Supervisors (IAIS). The regulations are meant to safeguard the interests of present and future policyholders, shareholders and insurance claimants. The 2000 Insurance Ordinance requires every insurer, inter alia reinsurer, to ensure meeting the criteria for sound and prudent management, as laid down under Section 12(1) of the ordinance read with the regulations.

- **Amendments in the SEC [Insurance] Rules 2002**
  In January 2012, post approval of the Policy Board, the SECP notified the new solvency regime thereby modifying the SEC [Insurance] Rules 2002. The applicability of the SRO is immediately however provision has been made for a few phase-wise increases of various limits.

  The salient features of the amendments are:

  - Rationalization of admissibility limits for certain assets;
  - Enhancement of Minimum Solvency Requirement for non-Life insurers and for life insurers; and
  - Enhancement of Statutory Fund requirement by introducing Risk Based Margin above the current policyholders' liabilities

- **Approved List of Auditors pursuant to S.48(1) of the Insurance Ordinance 2000**
  In line with global practices followed by insurance regulators and to promote the sound development and strengthen the policyholders/shareholders confidence in the insurance industry, Securities and Exchange Commission of Pakistan (SECP) is constantly exploring ways and means to bring the insurance industry on a par with best international practices. Recognizing the critical role played by firms of Chartered Accountants in the statutory auditing process of financial statements, in exercise of powers conferred upon it under Section 48(1) of the Insurance Ordinance, 2000, whereby every auditor shall appoint an auditor who shall be approved by the Commission as qualified to perform audits of insurance companies, the SECP is has announced the list pertaining to "Enlistment/ Categorisation of Auditors" eligible to conduct audit of insurance, reinsurance and takaful entities for 2012.

- **Guide on Incorporation and Registration**
  On popular demand, the SECP has introduced a comprehensive guidebook encompassing corporatization and registration of insurance entities. The guide also extends to cover information pertaining to licensure for surveyors/loss adjusters and intermediaries [insurance brokers].

- **On-line Insurance Companies Return Submission System**
  In order to facilitate the insurance industry in submitting the regulatory information required by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000 and other relevant laws, the Commission has introduced an online regulatory returns submission system, namely the Insurance Companies Return Submission (ICRS) system, which is being implemented from July 1, 2012 for life and non-life insurance companies. Orientation workshops were conducted by the Commission at Karachi and Islamabad for the insurance industry.

Regulatory Actions

Order	14
Show Cause Notice	13
Hearing Notice	18
Warning letter	16
Call for Explanation	77
Approval	69
Examination Letter -2011	55
FIF Collection	7
Follow Up on Onsite Inspection	12
Minimum Paid Up Capital Early Warning 8	8

Developmental Activities

- **Takaful Rules 2012**
  In line with the provisions under the Takaful Rules 2005, the SECP is reviewing the previous rules and intends to notify new set of rules for Takaful business. These rules have almost been finalized after thorough consultation with all the

stakeholders. There is a provision in the proposed rules for window operation for conventional insurance companies enabling them to offer shariah compliant products and conventional insurance products simultaneously provided that the accounts are segregated and reported separately. Further it is also provided with a comprehensive Shariah Compliance Framework in different tiers.

- **Accounting Regulations and formats for published Financial Statements & Regulatory Returns for life and non-life insurers**
  Having the mandate of the SECP, the Insurance Sub-Committee of the Institute of Chartered Accountants of Pakistan (ICAP) comprising of senior partners, actuaries, representatives from the SECP, Insurance Association of Pakistan and professionals from the industry have devised accounting formats for life and non-life insurers in consonance with international best practices. The new formats are in the advanced stages and it is envisaged that the new accounting regulations shall remove the current gaps and discrepancies and shall pave the way to bring in more transparency and enhanced disclosures; thus, making it consistent with the IAS and IFRS.

- **Accounting regulations and formats for published Financial Statements & Regulatory Returns for Takaful entities**
  The SECP and ICAP are presently scrutinizing the Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), which shall be tailored according to locals requirements and eventually converge with the International Financial Reporting Standards.

- **Shariah Advisory Board**
  Under the provisions of the SECP Act 1997, the SECP is considering to form the Shariah Advisory Board. The members of SAB shall comprise of renowned Islamic Scholars, expertise in accounts, law and the insurance industry and representatives from the SECP, as well. The main goal of the Shariah Advisory Board is to ensure compliance with Islamic principles i.e. portfolio purification, selection of investment and product design, monitoring and management of strategies and ensuring compliance to Islamic guidelines.

- **Unit – Linked Regulations**
  Though the existing legal framework contains adequate regulations on product and pricing, in pursuance of it objectives, by considering additional norms which shall pertain enhanced disclosures on the management of funds. Considering that a significant segment of society rely on unit linked policies to keep them secure in their retirement. The regulations shall guide the investors on the risks of market trends/movement and ensure that their money is being invested prudently.

- **War Risk Insurance Scheme**
  The Insurance Committee on Defence Planning is one of the several committees constituted by the Defence Committeee of the Cabinet for preparing plans in the civil sector to meet the requirements of war emergency**.** The Committee is working to review and update the current legislation enforced during 1971.

Future Plans/Securities Market

Regulations for Research Analysts

Research reports are a regular feature of the capital market. Regulating the activities of research analysts and persons disseminating investment recommendations is inevitable for efficient functioning of the securities markets. The research, analysis and insight offered by such professionals to their clients in particular and the overall investing public in general should necessarily follow a set of procedures and policies to bring homogeneity and enhance integrity in the process to instill overall investor confidence. In this regard, development of a set of regulations is underway to govern the activities of research analysts and persons disseminating investment recommendations.

Code of Conduct for Trading/ Investment Practices

The Code of Business Conduct for Trading/Investment Practices is being formulated. The said Code is intended to enhance the control structure and policies of market intermediaries and financial institutions and is based on the essence that market participants and financial institutions should engage in fair trading/investment practices.

Review of the Existing Rules /Regulations/Guidelines

In order to develop a vibrant and dynamic stock market, the Commission is in continual process of development/ review and updation of the regulatory framework. Therefore, various new rules/ regulations/ guidelines are being developed in addition to the review of existing regulatory framework.

Policy, Regulation and Development

In consultation with relevant stakeholders, a comprehensive three-year Capital Market Development Plan (2012-14) has been drafted. The said Plan envisages introduction of key structural and regulatory reforms, development of equity, derivative, debt, commodities and currencies markets, development of Shariah-compliant investment alternatives, and measures for improving governance, risk management, efficiency and transparency in capital market operations. Some of the main areas being focused include the following:

- In line with international best practices, efforts will be undertaken for NCCPL to function as Central Counter Party with the establishment of a settlement guarantee fund; and consolidation of risk management at NCCPL.
- For developing the commodities market, the SECP may explore the possibility of allowing new commodity exchanges to function in the country, as presently the potential offered by this market segment is not being utilized to the maximum. The said measure will also facilitate healthy competition and business generation in this segment while contributing towards greater market outreach to the investors.

- For developing an Islamic capital market in line with global best practices, the SECP is contemplating the establishment of a Shariah Board comprising of eminent Islamic scholars and market professionals to ensure that all products/services offered under this umbrella are in conformity with the Shariah principles. Also, efforts will be made for consolidation of existing Islamic institutions and development of innovative Shariah compliant institutions, products and services in order to deepen the capital market.

- Regarding new product/system development, the future SECP agenda cross-listings of derivatives based on foreign indices at Pakistani stock exchanges to boost activity in index futures market. For investors in the commodities segment, efforts will be made for introduction of new futures contracts in commodities like cottonseed oilcake, crude palm oil and maize, and rolling currency contracts on foreign currency exchange rate pairs.

- To accelerate growth in the debt market in coordination with relevant stakeholders, the possibility of listing of government debt instruments at the stock exchanges will be explored and integration of National Savings Scheme instruments into the mainstream capital market, Further, to promote transparency and price discovery of debt securities and to minimize pricing issues of debt securities, establishment of an independent Bond Pricing Agency (BPA) conforming to international standards, is in the pipeline. The BPA is expected to contribute towards stimulating activity in the primary and secondary debt markets, increasing market depth, reducing information asymmetry, increasing credibility of financial statements through accurate asset-liability valuation, product development etc.

- From the standpoint of risk management and transparency, a Centralized KYC Registration Organization will be established for registration and maintenance of investors' KYC records in line with the international best practices pertaining to KYC and CDD policies. The said KYC records will be available for access by all market intermediaries in the stock market and mutual fund sector. This measure will assist in removing the duplication presently faced in the KYC process by bringing uniformity to the same.

Corporate Sector

E-Services Project

Mandatory online filing in a phased manner

The SECP is considering making online submission of documents mandatory, in a phased manner, to boost the online services.

Online Payment System

In order to further enhance the services' delivery to the corporate sector, the option of direct transfer from the depositors' MCB accounts to the SECP account in case of fee for online applications, is being considered for implementation. Further, the prospects for online payment system are being explored.

Modules under Services

eServices modules for voluntary winding up, licensing under section 42 for associations not for profit, adjudication and filing of accounts are being developed.

Development of Legal Framework

Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations

Draft regulations for associations' not-for-profit will be finalized which contains the regulatory framework, requirements and specifically the provisions of the code of corporate governance.

Public Facilitation

One Stop Shop
Idea is being explored to establish one stop shop, providing all facilities under one roof, facilities from registering a company to formally setting up its business. A concept paper has been shared with the Ministry of Finance and World Bank.

Launching Low Fee Company Concept
In order to encourage corporatization and give incentives to non- corporate entities to enter into corporate sector, a simplified/ low fee company may be introduced.

Total Number of Registered Companies

NUMBER & TYPE OF COMPANIES
(Registered under the Companies Ordinance, 1984)

Type of Companies	Newly Incorporated Companies for the financial year 2011-12	Total companies as on 31 July, 2012
Public listed	0	606
Public unlisted	38	2240
Private	3572	56614
SMCs	238	1458
Companies limited by guarantee	1	74
Not-for-profit associations u/s 42	41	540
Trade Organizations	4	222
Foreign companies	31	813
Unlimited companies	0	3
Total Companies	3925	62571

Of these 3,925 companies incorporated during the FY 2011-12, almost 60 % of the new incorporation took place through online system, showing an increasing adaptability by the general public towards eServices.

Specialized Companies
Supervision
For the year 2012-13 SCD Supervision Department aims to further enhance its overall effectiveness through;

- Increasing staff strength

- Expanding scope of offsite surveillance by adopting more detailed approaches to examine financial data / information pertaining to specialized companies, thereby improving risk assessment of entities being regulated.
- Bringing further improvement in the Specialized Companies Returns System (SCRS)
- Further enhancing efficiency of onsite inspections
- Ensuring that functions of all the three wings, onsite inspection wing, offsite surveillance wing and enforcement wing of SCD-Supervision Department are in consistence with the guidelines laid down in the Supervision Manual, which is under development
- Further improving timeliness of enforcement actions on the observations / violations reported in the onsite inspection reports and offsite review reports. The overall objective is to further improve governance in the specialized companies sector
- Continue making active interactions, through holding meetings and exchanging correspondence, with the senior management and or board of problematic institutions and pushing them to find resolution of issues being faced by the entities they manage

Policy Regulations and Development

Investment Banks, Leasing Companies, Housing Finance companies

- SECP will make appropriate amendments in the prevalent NBFC regulatory frame work to introduce a conducive and relaxed regime with reduced equity requirements to implement the concept of non-deposit taking NBFCs.
- SECP will be introducing the concept of Capital Adequacy Ratio for deposit taking and lending NBFCs.
- SECP will try to ensure that only market participants with the requisite licenses undertake licensed activities.

Modarabas

Revision of the Modaraba Ordinance, 1980

In order to remove the practical difficulties and to bring operational flexibilities, a complete review of the Modaraba Ordinance, 1980 will be undertaken and necessary provisions will be introduced to bring the Ordinance in line with the existing legal framework for non-banking financial regime.

Prudential Regulations for Modarabas

In order to remove the anomalies in the Prudential Regulations for Modarabas, to bring efficiency and a level playing field, a comprehensive review of the Prudential Regulations for Modarabas will be undertaken.

Explore the possibility to issue a new Islamic Financial Accounting Standard (IFAS)

In collaboration with the Institute of Chartered Accountants Pakistan and in consultation with the NBFIs &Modaraba Association of Pakistan, it is planned to introduce a new IFAS for the modaraba sector in addition to two IFAS already issued.

Risk Management Guidelines for Modarabas

To explore the possibilities in introduce Risk management guidelines for Modarabas that to bring in uniformity in their operations and to strengthen their asset portfolio.

Microfinance - Modarabas

To explore the possibilities to introduce the concept of Islamic microfinance in Modarabas that to cater small and medium enterprises of the country. For the purpose of this, research is being carried out on the model of modarabas that to introduce it as microfinance institution in the financial system of the country.

1. Insurance Sector

i. Amendments in Insurance Ordinance, 2000

It has been observed that the Insurance Ordinance, 2000 has introduced a number of laudable reforms with a significant shift from the previous Insurance Act, 1938; however it is felt that more areas such as modern risk-based supervisory regime, issues related to new distributions channels, solvency, etc. needs to be addressed at length. It is also required that the SECP is delegated with necessary punitive and civil prosecution powers, in line with the IAIS Principles and international best practices. It has been planned that the Ordinance be reviewed at length and in details to address the concerns of stakeholders and make it more adaptable.

ii. Assessment and Implementation of IAIS Principles, Standards and Guidance

SECP has been a member of the International Association of Insurance Supervisors (IAIS) since year 2004. The IAIS is committed to developing standards that can be used by insurance supervision throughout the world. The IAIS principles, standards and guidance papers represent best practices, or targets, for supervisors to work towards and can be implemented in a flexible manner depending on the circumstances within each jurisdiction. It has been observed that there is a clear gap between the current insurance laws in Pakistan and IAIS Principles and Standards, and hence it has been planned to assess and implement the IAIS Principles and Standards across the industry.

iii. ICRS to cater Takaful Companies' Submission of Regulatory Returns

SECP has introduced ICRS system in June, 2012. This year SECP plans to extend this system of takaful companies enabling them to submit their returns in a timely fashion. This will bring efficiency in the process of compiling information and take appropriate regulatory function on timely basis.

iv. Terrorism Insurance Pool

In the light of these facts, it must be concluded that loss events beyond a certain scale-notably, not only affect society and the economy but also surpass the risk capacity of the insurance industry. Effective solutions involve a risk partnership among insureds, insurers, reinsurers, capital markets and governments. In such risk partnerships, governments should primarily act as facilitators in order to protect the financial resilience of the insurance industry and as regulators, they ensure that adequate and coherent legislative frameworks are in place. Most countries in the world have developed Terrorism Insurance Pools as a result of public-private partnership. The SECP with the support from Asian Development Bank has concluded a feasibility report for the creation of a Terrorism Insurance Pool in Pakistan, in concert with the insurance industry whereby the industry has shown an overwhelming need for the creation of Pool. The Pool is expected to be established by the end of current year.

v. Microinsurance

Microinsurance is the specialized form of insurance for low premium and low coverage limits designed to service low-income people and businesses not served by typical social or commercial insurance schemes. While the microinsurance is already being done in Pakistan, there is a strong need to draw a comprehensive regulatory framework for microinsurance as well as encourage the insurance companies to manage this product line actively. Also there is a clear need of modeling of microinsurance exposure and pricing of risk, policy distribution channels and underwriting guidelines to manage this class of business; and in order to increase the microinsurance penetration, a strong public awareness campaign and training programmes for the stakeholders. The SECP has composed a Task Force which deliberated on the needs and proposed regulatory framework for microinsurance. The draft regulations prepared were shared with the stakeholders during consultative group meeting and the business policy roundtable held earlier this year; and the final regulatory framework is expected to be notified before the end of current financial year.

vi. Crop Insurance

While the crop insurance has recently taken off in Pakistan, the SECP is working to provide comprehensive guidelines to the insurance industry to enable them to develop this product and cater to the huge demand in the market. A few pilot projects have been designed with relevant stakeholders and will be executed during the current year, which are expected to provide effective learning outcomes in developing guidelines for the market to pursue this product aggressively.

vii. Health Insurance

Out of total population of 180 million people reportedly only 1 million lives are covered by commercial health insurers. Due to poorly developed retail health insurance products and distribution mechanisms the larger retail market remained ignored with no access to health insurance. Some of the reasons for low health insurance penetration include meager investment of the health insurance industry towards developing people, processes and technology that would otherwise lead to industry growth and profitability.

For this purpose, the Insurance Division has been encouraging the insurers to do a pilot project on health insurance in partnership with the distributors like banks and other financial institutions, with emphasis on the need of creating innovative business models and leveraging the use of technology. This will not only help all stakeholders to share experiences with each other but will also set the milestone/direction for the future development of health insurance services for the masses.

Infrastructure Project Development Facility

Infrastructure Project Development Facility (IPDF) is a government owned entity operating under the aegis of Ministry of Finance with an exclusive mandate to promote, facilitate and attract private investment in provision of infrastructure services. IPDF is a key vehicle of the Government mandated to create enabling environment for the private investor to participate and invest in commercially viable transactions through long term contractual arrangements under the Public Private Partnership modality. IPDF is governed by its Board of Directors comprising of Government directors and private sector. IPDF undertook the following project during 2011-12 which are at different stages of finalization:

- Flyover /Railway Overhead Bridge at Habibabad (Wanradha Ram at Km 1168-1169 of the National Highway N-5)
- Operating Cargo and Oil Trains
- Fuel Hydrant System

- Karachi-Hyderabad-M-9 Project
- Islamabad Solid Waste Management Project
- Bus Rapid Transit System for Islamabad
- Rehabilitation and Expansion of Kural-Rawat Road Project
- Widening of IJP Road Project
- NUST Science & Technology Park
- Development of Slaughterhouse in Faisalabad
- Lahore Ring Road (LRR) Project – Northern Loop
- Prime Movers Project of Heavy Industries Taxila
- Shydo Projects

    a) Sogo Sin Hydropower ProjectDistrict Chitral 132 MW
    b) Shushgai Zhendholi Hydropower Project District Chitral 144 MW
    c) Sharmai Darora Hydropower Project District Dir 150 MW

Activities Carried Out By IPDF, So Far:

- Reviewed the Technical Feasibility Studies of Shogo-Sin and Shushgai-Zhendholi Hydropower Projects,
- Presented the Financial Model to SHYDO,
- Finalized the Financial/ Input Parameters after detailed discussion with SHYDO.
- Karachi Northern Bypass & Karachi Hub Chowki Project
- Multan-Muzaffergarh-DG Khan Project

Competition Commission of Pakistan

The Competition Commission of Pakistan (CCP) was established on 2^{nd} October 2007 under the Competition Ordinance, 2007 which has been replaced by Competition Act, 2010. CCP is a quasi-judicial, quasi-regulatory, independent law enforcement agency. It has broader and more progressive mandate i.e; promoting healthy competition among economic agents. Under the spirit of law, the Commission seeks to be non discriminatory, to protect competition rather than competitors, to facilitate business growth, to achieve coordination 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 engage in advocacy through various means in order to create awareness of competition issues and to promote a healthy competition culture. The achievements of CCP during 2011-12 are as under:-

Amendments to Regulations

Amendments/changes in the four (4) Regulations of the Competition Act, 2010 have been made after eliciting public comments for effective enforcement.

Orders of the Commission

CCP has issued show cause notices to various undertakings, conducted 23 hearings and resultantly issued 10 decisions of major significance during the year.

Exemptions (Prohibited Agreements) under Section 5 of the Act

A total number of 122 exemption certificates were issued out of which 25 were in respect of new exemption applications filed with the Commission and 97 related to renewal of exemption certificates.

Merger and Acquisitions

During the year 2011-12 total 51 merger/acquisition/ joint venture cases (41 Acquisitions, 9 Mergers and 01 Joint Venture) were reviewed by the Commission.

Acquisition & Merger Facilitation Office (AMFO)

More than 30 undertakings/ law firms and Consultants were facilitated by the Commission on different issues relating to merger application filings and related issues.

Competition Assessments

The Competition Policy and research department conducted comprehensive competition assessments during the year and also finalized these.

Policy Notes

The Commission has also issued some policy notes consisting of reasoned non binding advice, aiming to mould policies in a pro-competition form addressed mainly to Govt. and other institutions.

Competition Advocacy

The Commission carried out advocacy activities for creating awareness and a culture of competition in the country. In order to achieve the said objective, the Commission holds several conferences/ seminars like (i) 2^{nd} International Conference on Competition Enforcement challenges and consumer welfare in developing countries on 1^{st} -2^{nd}

December, 2011 (ii) Seminar on World Consumer Rights day on 15th March, 2012 (iii) Hold several meetings of Competition Consultative Group at Karachi and Lahore respectively.

Advocacy through Media

To keep the general public informed about its enforcement and advocacy actions, the Commission has initiated media campaign both in print and electronic Media.

During the year 2011-12, 35 press releases were issued by the Commission highlighting its enforcement actions and other important developments.

Law Enforcement

The Commission examined 10 complaints filed by different business groups and disposed the same by issuing orders.

National Investment Trust Limited

NITL was established in 1962 and is one of the oldest and the largest Asset Management Company of Pakistan. Currently, the Company manages five Collective Investment Schemes including one Flagship Fund NI (U)T, two Equity Funds and 2 Fixed Income Fund. Apart from these, NITL made several important achievements during 50 years of its establishment.

NI(U)T Fund

The Company's flagship Fund, NI(U)T, declared a dividend of Rs. 3.50 per unit for FY12 for its unit holders which involved a total payout of Rs.4,798 million amongst its unit holders. During FY12, the Fund had registered a healthy growth of 69.6% in realized capital gains which increased to Rs 1,439 million during the year, from Rs 848 million for the year ended June 30, 2011. Furthermore, the dividend income earned also increased by 25% to Rs 2,421 million in FY12 against Rs 1,931 million earned in FY11.

During FY12, NI(U)T Fund has earned a net income (excluding unrealized figures) of Rs 5,664 million translating into an earnings per unit of Rs 4.13. The NAV per unit of NI(U)T increased from Rs 28.14 as on June 30, 2011 (Ex Dividend) to Rs 30.27 as on June 30, thus generating a total return of around 7.6% against the benchmark (KSE-100) return of 10.45%.

The equity portfolio of NI(U)T is invested in about 435 companies in almost all the sectors of the economy that provides it with maximum diversification and minimizes the risk to its investors.

Nit State Enterprise Fund (NIT-SEF)

- The Fund realized capital gains of Rs. 1,658 million as compared to Rs 1,252 million last year showing a healthy growth of 32%, whereas, the dividend income earned by the Fund in FY12 stood at Rs 1,259 million as against Rs 1,342 million earned during the previous year registering a growth of 6.59%. The Fund had earned a Net Income (without impairment) of Rs 1,552 million for the year ended 30th June 2012 which translates into per unit earning of Rs 5.51.
- The Net Asset Value of units of NIT-SEF increased by 6.1% on year-on-year basis from Rs 84.21 as on June 30, 2011 (Ex-Dividend) to Rs 89.32 as on June 30,

compared to the benchmark KSE-100 index which increased by 10.45% during the period under review. However, since inception till June 30, NIT-SEF has significantly outperformed the benchmark index by 24.5%.

- During the year, NITL had repaid Rs 5.0 billion to one of the lenders of NIT-SEF from its internally generated cash, thereby reducing the financing facility from Rs 17.2 billion to Rs.12.2 billion and hence reduction in Government Guarantee from Rs 20 billion to Rs 12.2 billion. The Government of Pakistan (GoP) had approved to extend its guarantee for another two years.

NIT EQUITY MARKET OPPORTUNITY FUND (NIT-EMOF)

- The Board of NITL declared a bonus of Rs 6.75 per unit for its unit holders for the year ended June 30, 2012.
- During the period under review, the Fund's net profit (without impairment) grew by 42.2% on year-on-year basis to Rs 831 million against Rs 584 million in the corresponding period of last year, translating into an earnings per unit of Rs 17.5 and Rs 12.44 respectively.
- The Fund has realized a capital gains of Rs 433 million in FY12 as compared to the capital gains of Rs 226 million realized in FY11, thus registering year-on-year growth of 91.6%. Similarly, the dividend income earned by the Fund has increased by 14.8% to Rs 357 million in FY12 against Rs 311 million in FY11. NIT-EMOF has outperformed its benchmark by a sizeable margin of 7.59% during FY12 and the NAV of the Fund also increased by 18.04% against the benchmark KSE-100 increase of 10.45%.
- During the period under review, another10% redemption of unit holdings were offered and a redemption amount of Rs 551 million was paid to unit holders. Thus, so far unit holders have been offered 50% redemptions of their respective unit holding since inception of the Fund.

Income Funds

NIT Government Bond Fund (NIT GBF)

NIT declared a per unit distribution of Rs 1.1094 for unit holders of NIT-GBF for the year ending 30th June 2012 as compared to the per unit distribution of Rs 1.0201 for the year which ended on 30^{th} June 2011. The NAV of NIT-GBF increased from Rs 10.0968 (Ex dividend) as on June 30, 2011 to Rs 11.0823 as on June 30, 2012, thus yielding an annualized return of 9.76% compared to the benchmark return of 10.64%. Further, since its inception, NIT-GBF earned an annualized return of 11.45% against the benchmark return of 10.85 %.

NIT Income Fund (NIT IF)

NIT declared a per unit distribution of Rs 1.1065 for unit holders of NIT-IF for the year ending 30th June 2012 as compared to the per unit distribution of Rs 1.0581 for the year which ended on 30^{th} June 2011. During FY12, the Fund earned a net income of Rs 283 million as compared to Rs 207 million earned during the previous year. This net income translates into per unit earning of Rs 1.46 as compared to Rs 1.1 per unit in FY11. The NAV of NIT-IF has increased from Rs 10.1448 (Ex-Dividend) as on 30th June 2011 to Rs 11.3966 as on June 30, 2012, thus, yielding an annualized return of 12.34% compared to the benchmark return of 12.38%. Since its inception, NIT-IF has earned an annualized return of 12.81% against the benchmark return of 12.80%.

Golden Jubilee of NIT (1962-2012)

- NIT is managing five funds, three equity and two fixed income category funds, with total funds under management at Rs74.152 billion as on June 30, 2012 which is 18% of the entire mutual funds industry and 86% in the universe of open end equity funds. NIT has the largest number of investors which stands at 57,258 as on June 30, 2012.
- Maintained Dividend continuously during the last 50 years.
- In Mutual Fund Industry, NI(U)T holds and maintains the largest equity portfolio not only in terms of size but also in terms of number of companies.
- Develop modern services and facilitate its unit holders like value added innovative facility of NIT/Summit Bank Co-Branded ATM Card with collaboration of Summit Bank.
- Establishment of State of the Art Investors Facilitation Centre.
- Establishment of three new branches, two in Lahore and one in Karachi.
- Exploring new products to cater the needs of investors.
- Working to help/facilitate the poor and needy people through mutual fund industry.
- Introduction of Hajj Scheme for its employees.
- Setting up Kiosks throughout the year in leading shopping malls and in mega events nationwide for creating awareness among the general public about mutual funds.

Microfinance Sector

Microfinance in Pakistan is emerging as a growing and innovative segment within the overall financial system. Presently, ten MFBs are operating in Pakistan. All these MFBs are privately owned and reflect diversity of ownership and approaches to microfinance banking. At present, three out of five Pakistani telecoms have established their MFBs in Pakistan. In addition, two globally largest MFIs i.e. ASA and BRAC also started their operations in Pakistan.

The success of microfinance in Pakistan is widely acknowledged by the international community. Our microfinance regulatory framework has been ranked the top globally in 2010 and 2011 by the independent “the Economic Intelligence Unit” of UK’s ‘The Economist’ Magazine.

SBP’s various initiatives have catalyzed few important branchless banking deployments in the country and resultantly the retail network of microfinance has arisen overwhelmingly through agents and mobile phone channels. Specifically, two fully-functional models of branchless banking have emerged; i) ‘EasyPaisa’ by Tameer Microfinance Bank launched in 2009, ii) ‘Omni’ by United Bank Limited (UBL) launched in 2010. These channels are offering various financial services including account opening, money transfer, bills payments, and G2P payments. In almost two years, the branchless banking deployments have developed a network of 29,525 agents which are offering low-cost, efficient financial services at convenient locations/time.

In recognition of the important role of promoting financial inclusion through implementation of donor funded programs, the following key initiatives were taken/ implemented during the FY 2011-12.

Financial Inclusion Program (FIP) To promote financial inclusion in the country, SBP has put in place a comprehensive Financial Inclusion Program (FIP). This program is being implemented with the help of a GBP 50 million grant from the UK Department for International Development (DFID), and aims to promote inclusive financial services by targeting poor and marginalized groups in Pakistan. The progress and details on account of different interventions of FIP are given below:

- Under Institutional Strengthening Fund (ISF), so far Rs. 631.89 million has been approved for 13 microfinance providers including top and middle tier MFBs and MFIs as well as Pakistan Microfinance Network. The grants cover 20 projects addressing institutional strengthening needs of the grantee institutions for Capacity Building/ HR Training, IT development, Business Plan/ Strategic reviews, Market Research, Branchless Banking, Corporate Governance, Credit Ratings, Remittances, and Treasury functions etc.

- Under Microfinance Credit Guarantee Facility (MCGF), fifteen guarantees with total exposure of Rs. 1,273 million have so far been issued for mobilizing Rs.4,075 million funds from commercial banks. Going forward, the facility is expected to raise commercial debt from non-bank sources/ stock markets, diversifying sources of commercial capital for microfinance providers.

- Under Credit Guarantee Scheme (CGS) for Small & Rural Enterprises, Credit Exposure Limits of Rs. 4.830 billion (with 40% SBP risk coverage of Rs. 1.932 billion) were allocated to 12 banks for the year 2012. Subsequent to the allocation of the limits, the banks sanctioned loans of Rs 3,022 million (SBP risk coverage of Rs.1,231,45 million) to 4,371borrowers under the scheme representing a cumulative utilization of 64% of SBP Risk Coverage Limit for the CY 2012.

- **Financial Innovation Challenge Fund** (FICF), A £10 million facility was launched by SBP in May 2011 with the aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The first round of the Fund which was held on Government to Person (G2P) Payments has now successfully been completed by deciding to award Rs. 505 Million to six applicant institutions.

- The second Round of FICF would be held on Rural Financial services including agricultural finance and broad based Financial Services Projects using telecommunication infrastructure to promote micro payment for people who are not part of financial services.

Financial Literacy program (FLP) On 20th January 2012, SBP launched Pakistan's first-ever Nationwide Financial Literacy Program (NFLP) in order to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country.

The dissemination of the pilot program has now been completed successfully. The pilot program has actually targeted 47,800 beneficiaries through Class Room training sessions, street theater and mass media. The program focused on disseminating basic education about financial concepts, products and services to masses focusing on Budgeting, Savings, Investments, Banking Products and Services, Debt Management, Consumer Right and Responsibilities etc. As a way forward, the program will further be scaled up based on the evaluation of the pilot project to reach out to more than 500,000 poor and low income beneficiaries.

In addition, SBP also recently undertook Farmers Financial Literacy & Awareness Programs on Agricultural Financing, Grass-root level Training Program for Credit/Loan Officers of Microfinance Banks/Microfinance Institutions (MFIs), and SME Finance Grass Root Cluster Training Program.

Performance indicators of Microfinance Banks in Pakistan, as of end March 2012

(Rupees in 000)

MFBs	Branches	Borrowers	Advances	Deposits	Depositors #	Assets	Equity	Borrowing	NPL (%)
KBL	109	350,086	4,500,181	1,129,497	294,730	7,964,606	2,356,540	4,058,164	4%
FMFB	80	154,059	3,083,337	5,718,159	244,914	6,647,215	653,039	-	11%
Tameer	42	137,008	5,554,461	4,887,777	681,320	8,635,161	1,562,426	1,655,131	1%
NRSP	19	159,072	3,084,496	656,435	44,760	4,752,203	1,039,371	2,851,000	0%
Kashf	31	20,636	715,633	1,185,783	135,603	1,474,523	171,430	-	2%
Pak Oman	17	6,623	106,896	26,756	19,238	742,480	694250	-	21%
Apna	5	122	2,130	24,070	15,462	226,146	199,363	-	-
Rozgar	1	37	1,903	7,374	1,504	112,136	102,525	-	-
Total	**304**	**827,643**	**17,049,037**	**13,635,851**	**1,437,531**	**30,554,470**	**6,778,944**	**8,564,295**	**2%**

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.

- 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 provinces 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 No.5 of 2010 called the Distribution of Revenues and Grants-in-Aid Order, 2010 to be effective from 1st July, 2010

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

National Finance Commission Award 2009

Under Article 160(1) of the 1973 Constitution, the NFC is to be set up at the intervals not exceeding five years. Its members are Federal Finance Minister (Chairman), provincial Finance Ministers and other concerned experts which the President may appoint after consultation with Provincial Governors [Constitution of Pakistan (1973)]. As per law, NFC is intended to have an amicable mechanism for resource sharing formula between the federation and federating units as well as amongst the provinces. The National Finance Commission (NFC) has undergone many changes and has dynamically grown to its present shape. The NFC is established by law for smooth and judicious re-distribution of resources collected by Center according to the need goals for development of federation and the federating units.

The 7th NFC Award was finalized in Lahore on December, 12 2009 and the signing ceremony of this Award was held in the sea port city of Gawadar on Wednesday, the 30th December, 2009. The 7th NFC Award is effective from 1st July 2010.

The main features of 7th NFC Award are as under:

- 01% of the Divisible Pool Taxes assigned to Khyber Pakhtunkhwa for war on terror.
- The federating units received 57% share of the balance Divisible Pool Taxes during 2011-12 while 42.5% share would go to the Centre. From Financial year 2012-13 onward, the share of the provinces would be 57.5%.
- As per horizontal distribution, the provinces would have the following shares:

a	Punjab	51.74%
b	Sindh	24.55%
c	Khyber Pakhtunkhwa	14.62%
d	Balochistan	9.09%

Balochistan province will get Rs.83 billion (9.09% of the Provincial share in the Divisible Pool) in the 2nd year of the award. Any short fall in this amount shall be made up by the Federal Government from its own resources. This arrangement would be protected through out the remaining three years of the award based on annual budgetary projection.

- The province of Sindh would receive an additional transfer of an amount equivalent to 0.66% of the Provincial pool from the Federal Government.
- The development surcharge on Natural Gas for Balochistan w.e.f 1.7.2002 would be worked out and this amount subject to maximum of Rs. 10.00 billion would be paid by the Federal Government in five years in five equivalent installments.

Federal Transfer to Provinces during Financial Year 2011-12

Divisible Pool Transfers

During 2011-12, the distribution of provincial share out of the divisible pool and straight transfer were made on the methodology set under 7th NFC Award promulgated vide Presidential Order No.5 of 2010. 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 fortnightly basis. So that no delay could occur which may cause financial difficulties for the provinces.

During 2011-12, the federal transfers made to the provinces are as under:

(Rs. in million)

	Punjab		**Sindh**		**Khyber Pakhtunkhwa**		**Balochistan**	
Components	B.E	Release	B.E	Release	B.E	Release	B.E	Release
Divisible Pool	530806.0	483374.0	251861.0	229365.0	168010.0	152990.0	93255.0	93255.0
Straight Transfers	46055.0	34961.00	72548.0	55882.0	23837.0	25912.0	16947.0	14148.0
Total	**576861.0**	**518335.0**	**324409.0**	**285247.0**	**191847.0**	**178902.0**	**110203.0**	**107403.0**

Funding of The Provincial Projects Through Federal PSDP:

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 2011-12, the funds were transferred to the provinces on the authorization of Planning & Development Division. The position is reflected as under:

(Rs. in million)

Province	**No of Projects**	**PSDP Allocation**	**Releases**
Punjab	15	2364.669	2797.806
Sindh	22	2318.000	1190.719
Khyber Pakhtunkhwa	13	1645.000	291.200

Province	No of Projects	PSDP Allocation	Releases
Balochistan	30	2615.649	4901.457
Total	**80**	**8943.318**	**9181.182**

Development Budget in respect of Devolved Ministries/Divisions
Development Projects of the defunct Ministries/Divisions were devolved (From Development Budget)

Various development projects of the defunct Ministries/Divisions were devolved to the Provinces as a result of 18th Amendment. Province-wise allocation of development grants and funds provided under Demand No.145-Other Development Expenditure for the year-2011-12 is as under:

Rs. in million)

S#	Name of Province	Projects	Allocation (through TSG) (R.E.2011-12)	Funds Provided
1	Punjab	10	7927.256	7927.256
2	Sindh	10	3577.050	3577.050
3	Khyber Paktunkhwa	10	2138.427	2138.427
4	Balochistan	10	1161.533	1161.533
	Total:	40	14804.266	14804.266

Releases of funds to Provinces under devolved Ministries/Divisions have successfully been completed by Provincial Finance (PF) Wing upto 30-6-2012.

Other Misc. Non-development Grants to the Provinces:
The federal government has also transferred funds as misc. non-development grant 2011-12 which are tabulated as under:

(**Rs. in Million**)

Component	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Grants to offset Losses of abolition of OZT	0.0	6183.0	0.0	0.0	6183.0
Net Hydel Profit	5,166.0	0.0	25,000.0		30,166.0
Grant to Balochistan in Lieu of Arrear of GDS 2002-03 to 2009-10	- -	- -	- -	2,000.0	2,000.0
Grant to Balochistan in Lieu of Arrear of GDS 1991-92	- -	- -	- -	10,000.0	10,000.0
Grant for posts under **"AHBP"**	- -	- -	- -	808.77	808.77
Grant-in-aid Over Draft Payment to SBP)	- -	- -	- -	3,929.606	3,929.606
Others non development	2.5000	--	--	2.50	500.0
Total	**5168.5**	**6183**	**25000**	**16740.876**	**53092.38**

Out of the total allocation under demand titled "Other Development Expenditure" the number of development projects of the provinces were decreased from 80 to 71 with total allocation of Rs.11905.809 million to be released during the FY 2012-13. The number of projects and its allocation provinces-wise, for the year 2012-13 are as under:

(Rs. in Million)

Name of Province	Projects	Amount
Punjab	15	2246.825
Sindh	23	4505.050
Khyber Pakhtunkhwa	08	477.0
Balochistan	25	4676.934
Total:	**71**	11905.809

During the financial year 2011-12, an amount of Rs.1500.0 million has also been released to Govt. of Sindh for flood affected people.

Recoveries of Cash Development Loan (CDL) from Province:
The following recoveries on account of CDL from the provinces have been made during 2011-12:

(Rs. in million)

Province	Principal	Interest	Total
Punjab	4489.838	5265.552	9755.39
Sindh	889.019	2517.577	3406.596
Khyber Pakhtunkhwa	480.888	1149.328	1630.216
Balochistan	-	-	-
*Pre-mature retirement of CDL	2500.000	-	2500
Total	**8359.745**	**8932.457**	**17292.2**

* Rs.1,682.842 million all outstanding CDL (principal) was retired by Government of Balochistan in FY 2010-11. Rs.4,037.227 million of 4 years (1991-92 to 1995-96) outstanding CDL (Principal) was retired by the Government of KPK in 2010-11.

During 2011-12, the R.E. 2011-12 in respect of the Demands for grants controlled by Provincial Finance (PF)Wing, were completed as under:

(Rs. in million)

Sr.No.	Demand No.	BE 2011-12	RE 2011-12
1)	33	55430.012	77213.559
2)	112	8846.581	23985.448
3)	99	11679.982	12179.982
4)	131	65288.808	47893.780

Federal Transfer To AJ&K Government
(A).Non-Development Expenditure - by KA&GB Division under
Demand No.33

(Rs. in million)

	Components	Allocation 2011-12	Release
(1)	Federal Grant	7289.3	7289.3
(2)	Revenue Deficit Grant	5710.7	5710.7
	Total	**13000.0**	**13000.0**

B AJ&K's ADP and Federal Projects under Demand No.131.CDL

(Rs. in million)

Components	No of projects	Allocation 2011-12	Release
ADP		8200.0	8200.0
Federal Projects	11	2114.382	1718.493
Vertical programme(devolved Ministries) i. Health ii. Population	09 01		477.869 78.195
Total		**10969.744**	**10474.557**

REGULATIONS WING

MAIN FUNCTIONS
As per its job description, Regulations Wing of the Finance Division has the following main functions:

- To determine pay package and other financial terms and conditions of service, perquisites and fringe benefits of the government servants.

- Proposals for regulatory matters pertaining to pay, allowances, perquisites, fringe benefits and pensions of civil employees, armed forces personnel, employees of autonomous/semi autonomous and regulatory bodies of the Federal government.

- Approval of the pay packages of the employees of autonomous bodies, corporations, companies, etc., where public investments have been made in order to safeguard the interests of the Govt. of Pakistan.

- Approval of proposals regarding pay protection and up-gradation of posts.

- Matters related to pay and pension of (a) President of Pakistan(b) Prime Minister of Pakistan (c) Ministers (d) Governors of the provinces (e) Service Chiefs (f) Chief Justice and Judges of Supreme Court of Pakistan (g) Members of Parliament (h) Speaker/Deputy Speaker National Assembly (i) Chairman/Deputy Chairman Senate.

- Matters related to deputation allowance, senior post allowance, and additional charge allowance.

- Honorarium policy for civil servants, policy on Management Pay Scales, Management Position Scales, and Leave Rules.

- Determination of foreign allowance and entertainment allowance of the Govt. employees posted in Pakistan Missions abroad.

- Determination of rates of house rent allowance, conveyance allowance, overtime allowance, etc.

- Determination of policy in regard to pension for government servants.

- Counting/regularization of service of civil employees.

- Matters relating to G.P. Fund, pension contribution during deputation of civil employees to autonomous bodies and vice versa.

- Issues relating to house building advance and conveyance advance.

- Determination of rates of TA/DA.
- Terms and conditions of deputation on training within Pakistan and abroad.

- TA/DA on transfer from foreign Missions to Headquarter and vice versa.

- Vetting of financial provisions in the Ordinances, Acts, Resolutions, and Service/Financial rules of autonomous/semi autonomous bodies.

- Fixing of rental ceiling for hiring of residential houses for civil employees.

- Hiring rental policy regarding office accommodation.

- All legal cases where Finance Division is a party in the Supreme Court of Pakistan, High Courts, Federal Service Tribunal, and other courts and tribunals

Performance of Regulations Wing During Financial Year 2011-12
Revised Basic Pay Scales – 2011 were issued on 4-7-2011 by merging the following Adhoc Relief Allowances:-

No.	Name of Ad hoc Allowance	Office Memorandum and Date	Admissible Rates
i.	Special Additional Allowance – 1999 (01.07.1999)	F.1(7)Imp/99 dated 23.07.1999	25% (BPS (1-16) and 20% (BPS 17-22) on BPS-1994)
ii.	Special Relief Allowance – 2003 (01.07.2003)	F.1(4)Imp/2003 dated 30.6.2003	15% of the basic pay on BPS-2001
iii.	Ad hoc Relief – 2004 (01.07.2004)	F.1(8)Imp/2004 dated 01.07.2004	15% of the basic pay on BPS-2001
iv.	Dearness Allowance – 2006 (01.07.2006)	F.1(4)Imp/2006 dated 24.6.2006	15% of the basic pay on BPS-2005
v.	Ad hoc Relief Allowance – 2009 (01.7.2009)	F.1(7)Imp/2009-I dated 21.7.2009	20% (BPS 1-16) and 15% BPS 17-22) on BPS-2008

Revised Pay Scales – 2011 of Civil Armed Forces (CAF) were issued on 4-7-2011 by merging the above five Ad hoc Relief Allowances.
Armed Forces Revised Pay Scales – 2011 were issued on 4-7-2011 by merging the four Ad hoc Relief Allowances.
The Ad hoc Allowance – 2010 @ 50% of the running basic pay of Basic Pay Scales-2008 admissible to the Civil Servants including FBR employees (if admissible in that organization), has been frozen at the level of its admissibility as on 30.6.2011.
An Ad hoc Relief Allowance – 2011 @ 15% of the basic pay of Basic Pay Scales – 2008 has been allowed w.e.f. 1.7.2011 to all the civil employees, Armed Forces personnel and Civil Armed Forces personnel and has been frozen at level of its admissibility as on 30-6-2011.
Medical Allowance admissible to Civil Servants in BPS-16 to BPS-22 @ 15% of the existing basic pay in Basic Pay Scales – 2008 has been frozen at the level of its admissibility as on 30.6.2011.

All the new entrants in BPS-16 to BPS-22 shall be allowed Medical Allowance @ 15% of the minimum of relevant Basic Pay Scales-2008 on notional basis w.e.f. 1.7.2011, till further orders, and shall stand frozen at the same level.

All the Special Pays, Special Allowances or the Allowances admissible as percentage of pay (excluding those which are capped by fixing maximum limit) including House Rent allowance and the Allowance/Special Allowance equal to one month Basic Pay granted to any Federal Government/FBR/Police employees irrespective of his/her posting in Ministry/ Division/ Department/FBR including civil employees in BPS 1-22 of Judiciary shall stand frozen at the level of its admissibility as on 30.6.2011.

Conveyance Allowance for all the Armed Forces personnel, civil servants and Civil Armed Forces personnel has been revised w.e.f 01-07-2011 of all the civil servants in BPS-1 to 15 as under:-

BPS	EXISTING	REVISED (RS. P.M)
BPS 1-4	Rs.680/-	Rs.850/-
BPS 5-10	Rs.920/-	Rs.1150/-
BPS 11-15	Rs.1360/-	Rs.1700/-

All the Civil Servants of the Federal Government (excluding those who are allowed monetized value of Transport or availing Transport Facility) shall be allowed Conveyance Allowance at the prescribed rates irrespective of their place/station of duty.

Conveyance Allowance of Civil servants in BPS 1-4 has been further revised from Rs. 850/- pm to Rs. 1150/- pm w.e.f 15-12-2011.

Rates of following Miscellaneous Allowances have been revised w.e.f 01-07-2011 as under:-

S. No.	Name of Allowance	Existing Rates (P.M.)	Revised Rates (P.M.)
i.	Integrated Allowance for N/Qasid, Qasid and Daftaries	Rs.150/-	Rs.300/-
ii.	Washing Allowance	Rs.30/-	Rs.100/-
iii.	Dress Allowance	Rs.35/-	Rs.100/-
iv.	Special Pay for Confidential Assistant	Rs.65/-	Rs.150/-
v.	Uniform Allowance for Nurses	Rs.300/-	Rs.600/-
vi.	Special Area Compensatory Allowance	Rs.150/-	Rs.300/-
vii.	Hill Allowance	@ 25% of pay upto a maximum of Rs.100/- p.m.	At a fixed rate of Rs.200/- p.m.

viii.	Firewood Allowance	Rs.4.50 per head per day	Rs.10/- per head per day.

Rates of Ph. D Allowance and Special Science & Technology Allowance have been revised w.e.f. 9-8-2011 as under:

Name of Allowance	Existing Rate	Revised Rate @ 50% Increase
Special Science & Technology Allowance	Rs. 5,000/- p.m.	Rs. 7,500/- p.m.
Ph.D Allowance	Rs. 1,500/- p.m.	Rs. 2,250/- p.m.

Pay and allowances of Superior Judiciary were increased w.e.f. 1.7.2011 as under:

Increase in pay and allowances of Superior Judiciary w.e.f. 1.7.2011	**Increase in Pay**		**Increase in Superior Judicial Allowance**	
	Existing	**Revised**	**Existing**	**Revised**
Chief Justice of Supreme Court	Rs.389,757/-	Rs.448,221/-	Rs.170,625/-	Rs.196,219/-
Judges Supreme Court	Rs.368,185/-	Rs.423,414/-	Rs.170,625/-	Rs.196,219/-
Chief Justice High Court	Rs.361,238/-	Rs.415,424/-	Rs.136,500/-	Rs.156,975/-
Judges High Court	Rs.347,345/-	Rs.399,447/-	Rs.136,500/-	Rs.156,975/-

Government allowed increase in pension with effect from 1st July, 2011 to all civil pensioners of the Federal Government including civilian paid from Defence Estimates as well as retired Armed Forces Personnel at the following rates:-

Pensioners who retired on or after 01.07.2002 @ 15% of the pension drawn

Pensioners who retired on or before 30.06.2002 @ 20% of the pension.

15% increase in pension allowed in 2010 and 2011 shall continue to be admissible to the new pensioners who would retire on or after 1.7.2011 and opts to draw pension under the Scheme of Basic Pay Scales–2011.

Increase in pension allowed by the government to the pensioners during their re-employment/contract period will be admissible to them w.e.f.01-12-2011.The rates of rental ceiling for hiring of residential accommodation for government employees admissible at six specified stations i.e. Islamabad, Rawalpindi Lahore, Karachi, Peshawar, Quetta were revised @ 25% w.e.f. 1-7-2011.
Grant of Health Allowance equal to one basic pay of BPS 1-20 to the Health Personnel in BPS Scheme.

The rates of Foreign & Entertainment Allowances for Pak based officials posted in Missions abroad were revised on the basis of United Nation Consumer price Index (Non Housing) w.e.f. 1st October, 2011.

Compensation package for employees of Intelligence Bureau in BPS 1-15 who die during service was increased from Rs. Five Lac to Rs. Ten Lac.

Those who incapacitated and released from service were allowed Rs. Five Lac where as incapacitated but serving were allowed Rs. Three Lac

Project employees were allowed increase in the existing fixed salary @ 15%. Revised the pay scales and approved grant of Adhoc Relief Allowance – 2011 @15% for the executive/supervisory staff of Autonomous/Semi-Autonomous Bodies and Corporation w.e.f 01-087-2011

Revised the Management Grades i.e. M-I, M-II and M-III and has allowed Ad hoc Relief Allowance 2011 @ 15% of existing basic pay to the officers holding Management Grades.

Revised the rental ceiling for hiring of residential accommodation for officers holding Management grades.

Revised the Tenure Track Pay Package admissible to Assistant Professors, Associate Professors and Professors.

Up gradation of posts of Private Secretaries, Stenographers and Stenotypists.
Approved the salary package of Vice Chancellors/Rectors of Public Sector Universities and Degree Awarding Institutions.

AUDITOR GENERAL OF PAKISTAN

Department of the Auditor General of Pakistan is the Supreme Audit Institution (SAI) of the country for promoting public accountability, fiscal transparency and good governance. The work of the department augments legislative oversight by members of Majlis-e-Shoora (Parliament). The Auditor General of Pakistan is enabled by the mandate given to him in the constitution and subsidiary legislation to carry out an independent and objective assessment of financial discipline, internal controls and governmental operations to minimize the possibility of waste and fraud and to submit report thereon and on governance.

The Constitution of Pakistan lays down in its Article 168 that there shall be an Auditor General of Pakistan whose functions, powers & reports are given in Articles 169 to 171. With the promulgation of Constitution (Eighteenth Amendment) Act 2010, sub clause 2 was inserted under Article 170 vide which the audit justification of the AGP stands further enhanced. It stipulates that "The audit of the accounts of the Federal and of the Provincial Governments and accounts of any authority or body established by or under the control of the Federal or a Provincial Government shall be conducted by the Auditor General, who shall determine the extent and nature of such audit".

The reports of the Auditor General of Pakistan are laid before the National, Provincial, and District Assemblies whose Public Accounts Committees review the findings reported therein. Since the independence of the country, the SAI enjoys a constitutional status that ensures independence and continuity in its operations. The budget of the AGP is classified as "charged" expenditure, not voted upon by the Parliament. This arrangement lends the institution a degree of independence.

The department provides financial assurance according to INTOSAI auditing standards and international best practices in respect of the Federal, Provincial and District Governments and three types of organizations;

a) those on the central accounting network
b) self-accounting entities budgeted by the government
c) public sector entities, the exception being entities audited by private sector auditors by law.

The following is a classification of audits by types:

- Financial attestation of accounts.
- Regularity and compliance audits of expenditure and revenue receipts.
- Performance audits focusing on the outcomes of various projects and programmes.
- Special studies of matters of pressing importance or of emerging sectors of significant public interest.

The table below is an overview of the activities and achievements of the department during 2011-12:

S.No.	Classification of Audit	2011-12 (No of formations)
1	Total Number of Formations Audited	7944
2	Financial Attest of Accounts	194
3	Compliance/regularity Audit	7438
4	Performance Audit	43
5	Special Audit/ Studies	25
6	Expenditure Audit	36
7	Meetings of PAC held	25
8	Meetings of Sub Committees of PAC held	32
9	Total amount recovered (Rs. in billions)	25.370

Certification of Accounts:
During 2011-12, the Auditor General of Pakistan (AGP) certified the accounts of 194 federal, provincial and district governments involving an amount of Rs.1,590 billion. Break-up of government entities, number of accounts certified and amount involved in certification for the Financial Year 2011-12 are summarized in the following table:

S.No.	Government	No. of Accounts Certified	Account (Rs. in million)
1	Federal	2	8,293,528.275
2	Self Accounting Entities	9	484,497.167
Total Federal Government		**-**	**8,778,025.442**
3	Provincial – Punjab	4	629,413.000
4	Provincial – Sindh	3	305,474.000
5	Provincial – KPK	3	145,420.000
6	Provincial – Balochistan	2	133,779.000
7	Districts	166	310,513.000
8	ERRA	1	12,688.568
9	AJ & K Council	2	8,597.153
10	AJ & K Government	2	44,657.730
Total		**194**	**1,590,542.451**

2. CAPACITY BUILDING:

Auditing is a knowledge driven activity and DAGP continuously invests in the knowledge and training of its workforce. The DAGP's main training establishment is the Audit and Accounts Training Institute (AATI) that plans, organises and imparts training to officials. In addition, specialized courses on performance audit that is on economy, efficiency and effectiveness in organizations, are conducted by the Directorate General of Performance Audit at Lahore.

***a).* Local/Domestic training**

During the year 2011-12, the AATI organized 156 training courses as summarized below:

AATI Station	No. of Courses	No. of Participants	No. of Days
Lahore	34	520	275
Islamabad	38	546	301
Karachi	26	284	217
Peshawar	28	300	251
Quetta	30	678	201
Total	**156**	**2328**	**1245**

Topics covered included Audit of Fraud & Corruption, IPSAS, New Accounting Model, Audit Command Language (ACL), Audit of Procurement & PPRA, Internal Audit, IS Auditing, Environment Audit, SAP R3 (HR), SAP R3 (FI) and FAM etc. In addition, seven courses of Intensive Training Programmes (ITP) on Performance Auditing for 116 officials were organized by the Directorate General Performance Audit, Lahore. The ITP is designed to build the capacity of trainees in "value for money" auditing, that is, to gauge organizational performance in terms of economy, efficiency and effectiveness. The Directorate General Performance Audit also conducted a refresher course for ITP qualified officials during the year.

b) International Training

The following international trainings have been imparted to officers during financial year 2011-2012:

No	Nature of training / programme	No of Participants
1	5 days course in Environmental Auditing at Brighton University UK (16-20 July, 2012).	5
2	US GAO International Auditor Fellowship Program 28.03.2012 to 30.07.2012.	2
3	Performance Auditing Challenges Opportunities (Seminar) at Thimbu, Bhutan 05.06.2012	3
4	Fiscal Management and Reform (Pakistan) under Korean International Cooperation Agency (KOICA), July 4, 2011 (19 days)	1

No	Nature of training / programme	No of Participants
5	Fiscal Management and Reform (Pakistan) under Korean International Cooperation Agency (KOICA), July 4, 2011 (18days)	1
6	One year Degree programme in Public Policy at National Graduate Institute of Policy Studies (GRIPS) Japan 9.2011 to 09.2012	1
7	Two years MS International Economic Program University of Boston USA Fulbright Funded 20.08.2011.	1
8	One year non-Degree Program in field of HRM under funding H. Humphrey 2011-12 Michigan State University USA (USEFP) Fending 01.08. 11 to 01.07.12	2
9	One year MPA degree Program at London School of Economics, UK	1
10	Two year Master program in Public Policy & Mgt. in Univ. of Melbourne, Australia January 2012	1
11	1.Performance Audit (Elementary Course) 03.12.2011 to 14.12.2011 2.Performance Audit (Intermediate Course) 17.12.2011 to 02.01.2012 3.Performance Audit (Advance Course) 07.01.2012 to 17.01.2012 4.Risk Management Audit 28.01.2012 to 08.02.2012 5.Advance IT Audit, 18.02.2012 to 29.02.2012 6.Comprehensive Audit, 10.03.2012 to 19.03.2012	15
12	4 months scholarship Programme under funding of Australian Govt. Endeavour Executive Award 2011. International Training Course in Development Evaluation at Carleton University Ottawa, Canada	1
13	Pak. Professional partnership program for Public Administration)	3
	Total	**37**

International Collaboration

The Auditor General of Pakistan meets a range of international and professional obligations and frequently interacts with the international audit fraternity. The SAI, Pakistan keeps itself abreast of and disseminates the latest developments in its areas of interest for the capacity building of its officers.

International Cooperation

The SAI Pakistan is an active member of many associations of international and regional public sector audit organizations including the International Organization of Supreme Audit Institutions (INTOSAI), the Asian Organization of Supreme Audit Institutions (ASOSAI) and Economic Cooperation Organization Supreme Audit Institutions (ECOSAI). In his capacity as the head of the SAI Pakistan, the Auditor General of Pakistan is a member of the Governing Board of the INTOSAI, after handing over the Chairmanship to the next SAI in February, 2012. He continues to remain a member of the Governing Board of ASOSAI and is the permanent Secretary General of ECOSAI.

International Organization of Supreme Audit Institutions (INTOSAI)

The SAI Pakistan plays an active role in various Committees and Working Groups of the INTOSAI. It is represented on five of the INTOSAI Working Groups (WG) that include the WG on IT Audit, WG on Environmental Audit, WG on Accountability and Audit of Disaster related Aid (AADA), WG on Key National Indicators and WG on Programme Evaluation. It is also a member of the INTOSAI's Sub-Committee-2 "Committee on Capacity Building". The SAI Pakistan has actively contributed towards the INTOSAI

Development Initiative (IDI) and development of guidelines and best practices for the SAIs such as Trans-regional Programme for Public Debt Management.
As a member of the Governing Board of the INTOSAI, the SAI Pakistan attended the INTOSAI 62nd Governing Board meeting in Vienna, Austria held on 27-28 October, 2011, The SAI Pakistan also participated in the following meetings of INTOSAI Working Groups/Sub-Committees:

- 3rd Annual Meeting to 'Develop Advisory and Consultant Services' of Capacity Building Sub Committee-II held in Lima, Peru on August 31 and September 1, 2011.
- 14th Meeting of INTOSAI Working Group on Environmental Auditing held at Buenos Aires, Argentina on 7-11 November, 2011.
- 2nd Meeting of Parallel Audit of preparedness for Disaster by INTOSAI Working Group on (AADA) held at Ankara, Turkey on 25-26 April, 2012.
- 6th Meeting of INTOSAI Working Group on Audit of Disaster Related Aid, Yogyakarta, Indonesia held on 4-6, June, 2012.

Asian Organization of Supreme Audit Institutions (ASOSAI)
The SAI Pakistan completed its three year tenure as Chairman of the ASOSAI in February, 2012. Currently, the SAI Pakistan is a member of the Governing Board of the ASOSAI which comprises the Supreme Audit Institutions (SAIs) of 45 Asian countries and provides a forum for sharing developments in the fields of financial management, auditing and accounting amongst members. The SAI Pakistan actively participated in and contributed to different ASOSAI research projects on subjects such as "Audit Quality Management System;" the 8th Research Project on developing "Guidelines for Environmental Auditing" and the 9th Research Project on "Evaluation and improvement of Internal Audit System and the Internal Audit System and the Relationship between the Internal Audit Unit and the SAI's". Currently, the SAI Pakistan has also been invited to participate in the meeting of the 10th Research Project on the "Audit to detect Fraud and Corruption: Evaluation of the Fight against Corruption and Money Laundering." The SAI Pakistan attended the following events related to ASOSAI:

- Instructors Design meeting for the ASOSAI-sponsored workshop held at Beijing, China 04-15 July, 2011.
- 4th meeting of the 9th ASOSAI Research Project held at Kuwait in September, 2011.
- 43rd ASOSAI Governing Board meeting held at Istanbul, Turkey 19-21 Sep, 2011.
- 1st ASOSAI – EUROSAI Joint Conference held at Istanbul, Turkey 22-24 Sep, 2011.
- 12th ASOSAI Assembly, 44th & 45th Governing Board meetings and 5th ASOSAI Symposium held at Jaipur, India from 27th February to 3rd March, 2012.

Economic Cooperation Organization of Supreme Audit Institutions (ECOSAI)
The SAI Pakistan is the permanent Secretariat of Economic Cooperation Organization's Supreme Audit Institutions (ECOSAI) and the Auditor General of Pakistan is the permanent Secretary General, ECOSAI. It is a regional forum of Supreme Audit Institutions of South and Central Asian Countries that are members of the Economic Coordination Organization (ECO). The IR&C Wing coordinates the activities undertaken by the member states and also publishes the annual ECOSAI Circular containing professional articles and news updates of the ECOSAI.

The SAI Pakistan's delegation attended the 16th Governing Board Meeting and Extraordinary Assembly at Ankara, Turkey in October, 2011 and assisted the President ECOSAI, the SAI of the Islamic Republic of Iran in conducting the proceedings at the two meetings. The ECOSAI Circular for 2011 was also distributed amongst the member states.

External Audit of the UNIDO Audit Teams

The SAI Pakistan is currently the External Auditor of United Nations Industrial Development Organization (UNIDO) which is a subsidiary of United Nations Organization. During 2011-2012 audit teams of the SAI Pakistan visited UNIDO Headquarters in Vienna and different field offices in Asia, Africa and South America to conduct external audit. The external audit report was issued and presented before the Industrial Development Board of UNIDO on 25-26 June, 2012, which appreciated the report.

Training Courses delivered to staff of GAB, Saudi Arabia

At the request of General Auditing Bureau (GAB), Saudi Arabia, the DAGP sent its officers to Saudi Arabia to deliver advanced training to officers of GAB on Performance Audit from 03-12-2011 to 17-01-2012, on Risk Management from 28-01-2012 to 08-02-2012, on IT Audit from 18-02-2012 to 29-02-2012 and on Comprehensive Audit from 10-03-2012 to 19-03-2012.

26th Annual Conference of the ICGFM

The SAI Pakistan attended the 26th annual conference of the International Consortium of Financial Monitoring (ICGFM) that provides a forum for sharing finance related knowledge, at Miami, USA from 30th April to 4th May, 2012 at which papers were read on issues in financial discipline.

2nd Meeting of the Leaders of the SAIs of Shanghai Cooperation Organization (SCO)

Pakistan holds an observer status at the Shanghai Cooperation Organization (SCO) and has been actively participating in its annual meetings. The SAI Pakistan attended the 2nd meeting of the leaders of the SAIs of SCO participants states held at Shanghai, China on April 23-24, 2012 and read a paper on "Prevention of Corruption and Fraud" there.

World Congress on Justice Governance and Law for Environmental Sustainability

The SAI Pakistan participated in the World Congress on Justice, Governance and Law for Environmental Sustainability held at Rio de Janeiro, Brazil on 17-20 June, 2012. The outcome of the World Congress was later presented at the Rio+20 Conference held immediately afterwards.

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 179.5(million) coins in number worth Rs. 229.5 million.

Rs. in million

S. No.	NAME OF ARTICLES	QUANTITY IN Nos	VALUE
	COINS		
1.	Re- 1 Aluminum	129.500	129.500
2.	Rs- 2 Aluminum	50.000	100.000
3.	Rs- 5	------	--------
	Total	**179.500**	**229.500**

In addition the revenue worth Rs. 47.206 has also been earned against the other Jobs executed during 2011-12 as detailed below:

S.No.	Name of Articles	Quantity in Nos.
1.	Medal/Badges	21949
2.	Coins Pieces	10074
3.	Stamps and Seals	945
4.	Year Type & Date	38734
5.	Coat Flag	1689
6.	P.P. Seal/Sealers/P.M. Seal	376
7.	Scales/Weight/Chancellor Scale	60
8.	Shields & Crest	254
9.	Embossing Machine	32
10	Key of city	02
11.	Paper Cutter	31
12.	Tent Pager/Uryal/Gilding Bar/Monogram	766
13.	Strips	15
14.	Velvet Box & Ribbons	1216
15.	Key Rings & Buttons	322
16.	Brass Seal/Bits	405
17.	Year Punches	616

Summary

Value of the Coins delivered to State Bank of Pakistan = Rs. 229.500 million

Revenue earned against the Jobs executed other than Coins = Rs 47.206 million

Total = Rs. 276.706 million

DEBT POLICY COORDINATION OFFICE

Debt Policy Coordination Office (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 by undertaking 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 debts.

Publications

As part of its primary responsibilities, the DPCO prepare and present to the Parliament following documents every year:-

- Debt Policy Statement
- Fiscal Policy Statement.
- Medium-Term Budgetary Statement

During 2011-12, this office presented these statements to the Parliament. Debt and Fiscal Policy Statements included a comprehensive review of the dynamics of Pakistan's debt portfolio as well as developments in the fiscal sector covering entire period of fiscal year 2010-11 and first quarter of fiscal year 2011-12. These documents also contain a report on compliance with the provisions of FRDL Act 2005. Medium-Term Budgetary Statement include three-year targets for key economic indicators and is presented with the annual Budget

Position of Public Debt During 2011-12

In Pakistan, public debt is being managed under Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005, which requires that total Public Debt does not exceed 60% of estimated GDP by June 30, 2013. Government has reduced Public Debt to below 60% of the GDP in 2006 and since then it is hovering around that.

As at end of June 2012, Public Debt stood at Rs. 12,661 billion registering an increase of Rs.1,952 billion as compared to fiscal year 2010-11. Domestic debt is positioned at Rs.7,636 billion as on June 30, 2012; representing an increase of Rs.1,621 billion or 27 percent as compared to previous fiscal year. This increase mainly stems from net issuance of Treasury bills (Rs.566 billion), Market Related Treasury Bills (Rs.442 billion), PIBs (Rs.356 billion) and Government IjaraSukkuk (Rs.159 billion). The focus on deficit financing through internal sources owing to lower external receipts has been the major cause.

Pakistan External Debt and Liabilities (EDL) stock was recorded at $60.3 billion as of June 2012. During fiscal year 2011-12, $136 million was added to the EDL stock. EDL has been dominated by Public and Publicly Guaranteed Debt having share of 77 percent owing to current account deficit which is financed through loans from multilateral and bilateral donors. Debt obligations of the private sector are fairly limited and have been a minor proportion of EDL (5 percent). Borrowing from IMF contributed 12 percent in EDL Stock which was intended for Balance of Payment (BoP) support and is reflected in foreign currency reserves of the country.

Pakistan's public debt position declined slightly in the current fiscal year. A host of internal and external factors contributed to the decline. Higher interest payments, large subsidies specially food and energy, growing security spending needs, narrow tax base and rising international commodity prices have resulted in large twin account (i.e. fiscal and current account) deficits. Prudent government policy will be necessary to address the issue of public debt.

Fiscal Situation 2010-11

The fiscal year 2011-12 began with testing time for the Pakistan economy to face further pressure on both internal and external front from various sources. The government put efforts to tackle the economic slowdown created by macroeconomic imbalances of the past and the soaring international commodities prices. Tough fiscal challenges had to be dealt with and maintain a critical balance between providing "inevitable" subsidies and their tradeoff impacts. The unresolved structural problems carried forward with the severe energy shortage, the situation was further aggravated by scarcity of resources as a result of non-materialization of privatization proceeds, Coalition Support Fund (CSF) and delay in 3G license auction.

Owing to increased challenges faced by the economy and lost growth momentum in the past few years, real GDP during 2011-12 grew at 3.7 percent compared to 3.0 percent in the previous year. Fiscal performance is dampened by revenue shortfall and expenditure overrun on account of subsidies amidst high international commodity prices.

Medium Term Budgetary Statement 2012/13 – 2014/15

Medium-Term Budgetary Statement 2012/13-2014/15 was presented to the Parliament with the Federal Budget of 2012-13. This statement provided overall medium term macroeconomic framework and three-year rolling targets for key economic indicators. According to the statement, the government plans to reduce its fiscal deficit to 3.7 percent by fiscal year 2014-15 on the back of successful reforms in revenue generation, restructuring of public sector enterprises and a shift from general to targeted subsidies.

Government will continue its efforts of fiscal tightening and net zero quarterly borrowing from State Bank of Pakistan that will assist reducing inflationary pressure leaving some space for government's service delivery and investment. Government also intends to pay off the outstanding stock of SBP credit in next 7 years. With the start of repayments to the IMF in the current year, the total debt to GDP ratio is projected to fall to 50.6 percent of GDP by fiscal year 2014-15. The future of debt sustainability presents an optimistic outlook in the wake of tight fiscal policy as envisaged by the government over the medium-term. Real growth of revenues has been projected higher than the real growth of debt which will ensure reduction in total public debt both as times of revenue and percentage of GDP. Provision of fiscal space by bridging the revenue-expenditure gap, sustaining growth momentum and achieving robust real growth in revenue collection will allow for a significant reduction in the debt burden in medium-term. These targets indicate the adherence of government to comply with the Debt to GDP threshold of 60 percent as stipulated under the Fiscal Responsibility and Debt Limitation Act, 2005.

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.

GLOSSARY OF TERMS USED

ADP	**Annual Development Programme**
AGPR	**Accountant General of Pakistan Revenues**
CC&I	**Chamber of Commerce & Industry**
CDNS	**Central Directorate of National Savings**
CGA	**Controller General of Accounts**
CSA	**Currency Swap Arrangement**
CSD	**Customer Services Department**
CSI	**Consumer Satisfaction Index**
DQRC	**Department Quality Review Committee**
EAD	**Economic Affairs Division**
ECC	**Economic Coordination Committee**
GDP	**Gross Domestic Product**
HRM Wing	**Human Resource Management Wing**
IC&AP	**Institute of Cost and Management Accountants of Pakistan**
ICAP	**Institute of Chartered Accountants of Pakistan**
IMF	**International Monetary Fund**
ISFD	**Institutional Strengthening of Finance Division**
KESC	**Karachi Electric Supply Corporation**
KSE	**Karachi Stock Exchange**
M&E	**Monitoring and Evaluation**
MoU	**Memorandum of Understanding**
MTBF	**Medium Term Budgetary Framework**
MTEF	**Medium Term Expenditure Framework**
NEC	**National Economic Council**
NEPRA	**National Electric Power Regulatory Authority**
NFC	**National Finance Commission**
NIBAF	**National Institute of Banking and Finance**
NIPA	**National Institute of Public Administration**
NPMC	**National Price Monitoring Committee**
PAC	**Public Accounts Committee**
PEPCO	**Pakistan Electric Power Company**
PER	**Performance Evaluation Report**
PIFRA	**Project to Improve Financial Reporting and Auditing**
PIM	**Pakistan Institute of Management**
PPRA	**Public Procurement and Regulatory Authority**
PSDP	**Public Sector Development Programme**
PSEs	**Public Sector Enterprises**
QA	**Quality Assurance**
SECP	**Security and Exchange Commission of Pakistan**
SME	**Small and Medium Enterprises**
STI	**Secretariat Training Institute**
TCP	**Trading Corporation of Pakistan**
TCP	**Trading Corporation of Pakistan**
UNIDO	**United Nations Industrial Development Organization**
USC	**Utility Stores Corporation**
WWF	**Workers Welfare Fund**

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