

List of Appendices

		Page No.
<i>Appendix 1</i>	Money and Credit Policy Measures during FY02	319-322
<i>Appendix 2</i>	Exchange and Payment Reforms during FY02	323-324
<i>Appendix 3</i>	Trade Policy and Related Measures for FY02	325-329
<i>Appendix 4</i>	Policy Measures for Industrial Sector during FY02	330-333
<i>Appendix 5</i>	Fiscal Measures proposed in FY03 Budget	334-335
<i>Appendix 6</i>	Policy Measures for Agriculture Sector during FY02	336-337
<i>Appendix 7</i>	Measures for Islamization of Financial System in Pakistan	338-339

APPENDICES

Appendix 1: Money and Credit Policy Measures During FY02

Money Market Measures

- Habib Bank Limited, National Bank of Pakistan, Union Bank Limited, Citibank, ABN Amro Bank, American Express Bank and Standard Chartered Bank were reappointed as Primary Dealers for FY02. This decision was made on June 18, 2001.
- With effect from July 25, 2001, State Bank of Pakistan decided to conduct OMOs as and when required by market conditions, giving prior intimation to banks. Other terms and conditions on the subject remained unchanged.

Liquidity Control Measures

- On July 19, 2002 it was decided to reduce the discount rate (the minimum rate of return to be paid by recipients of financing facilities from SBP for temporary liquidity shortages and SBP 3-Day Repo facility against GOP Market Treasury Bills and Federal/Pakistan Investment Bonds) from 14.0 percent to 13.0 percent. This rate was further reduced to 12.0 percent on August 16, 2002. On October 20, 2002 the discount rate was again reduced by 2 percentage points to 10 percent per annum, and then by 1 percentage point to 9 percent with effect from January 23, 2002.
- In order to meet liquidity requirements Investment Banks and Development Finance Institutions (DFIs), were also allowed to access SBP 3-Day Repo facility, on the same terms and conditions as for the commercial banks, with effect from January 31, 2002.

Export Finance Scheme

- Effective from July 1, 2001, the maximum rate of finance to be charged by banks from their borrowers under Export Finance Scheme for all eligible commodities and export sales under locally manufactured machinery (LMM) was raised from 10.5 percent to 13.0 percent per annum and SBP refinance rate was correspondingly raised from 9.0 percent to 11.5 percent. However, these rates were later reduced by 1 percentage point with effect from October 1, 2001.
- Effective from October 1, 2001 the State Bank of Pakistan introduced new instructions under Part-I of the Export Finance Scheme. Modifications in the old scheme were aimed at simplification of procedures to eliminate excessive documentations, lowering the markup rate, extending coverage and setting up of a Pre-shipment Export Finance Guarantee (PEFG) agency.
- In order to enable banks registered in Pakistan to have the confirmation of their L/Cs at a reasonable rate, the government negotiated a facility with the Asian Development Bank (ADB). The facility, which was notified on October 17, 2001, was to guarantee payments to international banks confirming eligible L/Cs, if the payment obligation under the L/C is not made by the Issuing Bank and this failure to pay is solely, directly and immediately caused by the occurrence of certain events which have been pre-agreed between ADB and the GOP. The guarantee so provided effectively transferred country risk associated with Pakistan into ADB risk and ensured the continued willingness of international banks to confirm import L/Cs issued by Pakistani banks used for imports required for export production. The facility is administered through a facility agent, Standard Chartered Bank in Dubai, appointed by ADB with concurrence of the government.
- It was decided on October 24, 2001 to relax the provision of EFS up to 270 days (both pre-shipment and post-shipment) for availing finance for export of carpets and rugs. In case of fresh finances, granted by banks to exporters, the facility was made available for 270 days to these exporters. Banks were required to adjust the finance within a maximum period of 180 days, and allow refinance for an additional period of 90 days, (provided shipment was made by the exporters within a period of 180 days after the withdrawal of the finance). In case of

export finance already availed by exporters under Part-I of the EFS, banks were authorized to allow an additional period up to 90 days for repayment of export finance.

- Banks were advised on October 30, 2001 to provide financing facility under EFS to consultancy services. Since the government accorded “deemed export” status to foreign exchange receipt remitted into Pakistan against consultancy services, such earnings qualified for export finance facility under Part-I for a period not exceeding 180 days. However, the facility was made available on a case-by-case basis.
- Effective from December 1, 2001 the rate at which SBP allowed refinance to banks on their disbursement to exporters was reduced to 8.5 percent per annum. (This rate was further reduced to 8 percent effective from January 1, 2002, 7 percent effective from February 1, 2002, and then again cut to 6 percent effective from March 1, 2002). However, commercial banks were required to ensure that where financing facilities were extended by them for availing refinance facilities under the EFS, their maximum margin/spread did not exceed 1.5 percent per annum. The financing facilities under Part-B of the Scheme (for financing LMM) would also attract similar mark up rate structure. The rates under EFS were revised upwards by half a percentage point effective from April 1, 2002.
- Following September 11 incidents the consequent cancellation of export orders of the producers of leather garments and leather products, SBP relaxed instructions on December 21, 2001, for such exporters availing loans under export finance Part-I and II. Accordingly, exporters who had availed loan under Part-I of the scheme, for export prior to September 30, 2001 and had shipped goods with a delay, a maximum period of 90 days were granted during which time the fine for delayed shipment would not be levied. However, exporters were obliged to liquidate the finance/refinance within a period of 180 days. On the other hand, exporters under Part-II were required to show matching performance for FY02 equal to at least 1.5 times (instead of 2.0 times) prescribed for all other eligible commodities under the scheme.
- Exporters of bleached/unbleached clothes were provided financing facilities under Part-I of the EFS, effective from January 30, 2002. The provision of the facility was however, made conditional to maintaining an export price equivalent to, or above, US\$ 3 per square meter.
- With effect from February 16, 2002 Export Finance Facility was extended to export of bones under both parts of the Scheme, and for the export of wheat, under Part-I at post shipment stage to the private sector exporters only.
- In order to boost the export of brown rice to the European countries, effective from April 13, 2002 finance/refinance for export of Brown Rice in bulk/loose was allowed, on a case-by-case basis under Part-I of the Scheme against L/Cs only. The existing facility for export of “Brown Rice” in packing of 1-50 KG continued to be available.
- On April 27, 2002, it was decided that the rate of refinance under Export Refinance Scheme would remain at 6.5 percent for the month of May 2002. The condition of maintaining the maximum margin/spread to 1.5 percent for providing facility to exporters availing refinance, was retained. The financing facility under Part-B (LMM) attracted a parallel mark up rate structure. Further, for the months of May and June 2002, the refinance rates under both export finance and LMM finance were retained at 6.5 percent, while maintaining a maximum margin/spread of 1.5 percent.

Inception of Housing Refinance Window

On July 13, 2001, in order to allow banks to have an active role in lending for mortgage purposes as envisaged in the National Housing Policy approved by the Federal Government, and with a view to bring in healthy competition among the commercial banks in respect of their lending activities for Housing Finance, it was decided to activate a Housing Refinance Window at the State Bank of Pakistan, which would be operative through Housing Finance Companies (HFCs) registered and functional in the private and public sectors. Following guidelines were issued with immediate effect: -

- Banks are free to extend mortgage loans for construction of houses, up to a maximum period of fifteen years. The commercial banks would ensure matching of asset and liability. For the purpose, the commercial banks are encouraged to float long-term housing bonds of not less than 10 years maturity.
- While extending financing facilities to their customers, the banks would ensure that the installment of the loan extended by them is commensurate with the cash flow and payment capacity of the borrower. This measure would be in addition to banks' usual evaluation of each proposal concerning credit worthiness of the borrowers as also the fact that the banks' portfolio under housing finance fulfills the prudential norms and instructions issued by the State Bank and do not impair the soundness and safety of the bank itself.
- Banks are encouraged to develop floating rate products for extending housing loans, thereby managing interest rate risk to avoid its adverse effects. State Bank would also encourage banks to develop in-house system to stress test their housing portfolio against adverse movements in interest rates as also maturity mismatches.
- Commercial banks shall ensure that at no time their total exposure under house financing exceeds 5 percent of their net advances.
- The housing finance facility would attract a minimum debt equity ratio of 70:30.

Wheat Procurement Facilitation by SBP

In order to ensure that the transition to procurement of wheat by private sector is accomplished smoothly, without causing any inconvenience to the general consumers, following guidelines were issued to banks for providing financial facilities to private sector for wheat procurement/storage through BSD Circular letter No.33 dated December 3, 2001:

- The banks would provide credit to private sector for wheat procurement under commodity operations at 12 percent mark up rate to the eligible flourmills for the initial year. The lending rates would subsequently be made market based on their linkage with rates on T-bills.
- In order to assess the credit risk, banks would have a direct interaction with the borrowers. The Flour Mill Association would ensure cooperation in this regard so that banks are able to complete their credit approval/appraisal process and legal documentation required for this purpose.
- For the purpose of enhancement in the wheat storage capacity in the private sector, banks will provide adequate funds for a maximum period up to 7 years for the construction of silos, and other structures that can serve as a storage area for wheat at a debt equity ratio of 60:40 at normal lending rates. The banks would ensure that the transactions are viable and their exposure is secured adequately. The banks may like to approach Ministry of Food, Agriculture and Livestock (MINFAL) that would prepare standardized models for construction of storage facilities (of various sizes/types).

Other Measures

- NBFIs' financing facilities against shares of listed companies, which were subject to minimum margin of 30 percent of their average market value of the preceding 12 months, was reduced to 25 percent from September 15, 2001.
- On October 10, 2001 SBP amended the existing forms of Accounts and Balance Sheet of banks. The revised forms of Balance Sheet, Profit and Loss Account, Statement of Changes in Equity and Cash Flow Statement together with notes forming part thereof substituted the existing forms effective from December 31, 2001.
- It was decided to create a database of NPLs at the State Bank of Pakistan so as to have a consolidated as well as individual borrower wise figures of NPLs on a uniform basis for the purposes of SBP monitoring and for sharing it with other banks. Banks were, therefore, advised to submit to the Credit Information Bureau, data of their non-performing loans of Rs

10 million and above on monthly basis, starting from the month of October 2001, within 15 days of the end of each month.

- On January 1, 2002 the SBP instructed all banks/DFIs not to nominate as director including nominee director on the board of a bank/DFIs, persons related with the business of money changers, members of the stock exchanges, brokerage houses or companies owned or controlled by them or persons directly or indirectly associated with the business of stock market/money changer. Banks having such persons on their board were asked to regularize their positions within 90 days.
- Effective from January 1, 2002 sub-ordinated debt was redefined to include rated and listed subordinated debt instruments (like TFCs/Bonds) raised in the capital market. To be eligible for inclusion in the supplementary capital, the instrument had to be fully paid up, unsecured, sub-ordinated as to payment of principal and profit to all other indebtedness of the bank, including deposits and not be redeemable before maturity without prior approval of the SBP.
- Prudential regulations pertaining to FE-25 deposits were amended on January 1, 2002, stating that foreign currency deposits mobilized under FE-25 schemes should not at any point exceed twenty percent of the local currency deposits of the banks / NBFIs at the close of business on the last working day of the preceding quarter. The banks/NBFIs that were in breach of this new requirement as on January 1, 2002, were required to ensure compliance by July 1, 2002.
- Prudential regulation related to maintenance of assets by banks was amended under which effective from March 2, 2002, all banks in Pakistan were required to maintain 80 percent (as against 85 percent) of the assets created by them against their time and demand liabilities, in Pakistan, and the remaining 20 percent of the time and demand liabilities, as specified in Form-X, could be held abroad.
- Effective from March 22, 2002, the sale of Special US Dollar Bonds against payment of value in US dollars and payment of “Rupee Redemption Bonus of 5 percent”, on maturity of three years Special US Dollar Bonds, for encashment in Pak Rupees was stopped by SBP, by amending Special US Dollar Bonds Rule of 1998.
- In order to prevent use of traveller cheques for money laundering purposes and to re-emphasize its use for traveling purposes, effective from May 23, 2002 SBP disallowed the banks to issue traveller cheques in denomination exceeding Rs 10,000.

Appendix 2: Exchange and Payment Reforms During FY02

The following exchange and payment reforms were introduced in FY02:

- On August 27, 2001, authorized dealers (ADs) were empowered to allow remittances of surplus passage/freight collection of foreign airlines/ GSAs of foreign airlines in respect of those passages/freight that have already been undertaken.
- With a view to liberalize the foreign exchange activities, Nostro limits of the ADs were withdrawn with effect from August 31, 2001.
- Effective from September 1, 2001 resident Pakistanis, including firms and companies, were allowed to make equity based investment (other than portfolio investment) in companies (whether incorporated or not)/ joint ventures abroad on repatriable basis, in accordance with the prescribed guidelines, with prior permission of the SBP.
- The restriction placed on ADs for buying and selling foreign exchange from/to other ADs in Pakistan unless backed by permissible customer transaction was withdrawn with effect from November 21, 2001. Hence, ADs could freely buy and sell foreign currency from/to other ADs within permissible exposure limits.
- With a view to further liberalizing the foreign exchange activities, the amounts of foreign exchange in excess of the prescribed limits on payments for travel, education, medical treatment aboard and other specified invisibles were allowed subject to certain conditions with effect from November 21, 2001.
- It was been decided that after January 31, 2002, fresh deposits under NDRP-III would not be accepted, and that rollover of earlier deposits would also cease. Hence all existing deposits would be paid on maturity.
- With effect from February 13, 2002 ADs were allowed to issue foreign currency travelers' cheques to foreign and Pakistani nationals (residents and non-residents) against surrender of an equal amount of foreign exchange in cash.
- Effective from February 19, 2002 ADs were delegated powers to allow the opening of Special Foreign Currency Accounts in Pakistan by owners, charterers and operators of ships and/or all floating crafters including tugs, dredgers survey vessels and other specialized crafts. The cash deposits and withdrawals were, however, not permitted.
- To further liberalize the foreign exchange market, surrender requirement for ADs on incremental deposits (FE-31) was withdrawn with effect from April 01, 2002. Hence, no forward cover would be provided by the SBP. The rollover of existing forward covers was also prohibited and ADs advised to take-up the respective forward contracts on maturity. With effect from July 1, 2002, the same CRR and SLR were made applicable on FE-31 deposits as were applicable to FE-25. Effective January 01, 2003, FE-31 deposits will form an integral part of FE-25 deposits.

Major Updation/Revision of the Foreign Exchange Manual Announced on January 2, 2002

- Previously, the ADs license to branches of the banks/NBFIs was granted by SBP on case-to-case basis. Now, after obtaining an authorization from SBP to deal in foreign exchange, head offices/ principal offices of the banks/NBFIs were freed to decide full/restricted AD license for their branches.
- ADs are allowed to sell foreign currencies forward to non-residents for their portfolio investment in the Rupee denominated shares and securities on repatriation basis out of funds remitted from abroad. The forward cover can also be provided on the date of conversion of foreign currency into Rupees pending their investment. Such sales were to made only for the amounts brought in or the face value of the security, whichever was higher. No forward cover was to be provided for dividend/interest/coupon income and for foreign direct investment.
- ADs were allowed to provide forward cover to investment banks, modarabas and leasing companies holding restricted AD license in respect of funds mobilized against issuance of

Certificate of Investment and surrendered to the SBP, provided the forward cover facility was not been obtained from SBP.

- ADs were permitted to extend forward contracts on rollover basis even for less than one month.
- Foreign oil/minerals exploration companies and foreign contractors and their foreign sub-contractors were allowed to open foreign currency account with ADs subject to certain conditions.
- Firms and companies raising foreign equity and foreign currency loans were allowed to open special foreign currency accounts for receiving and retaining the foreign funds under specified conditions.
- Monthly ceiling of Rs 5,000 on cheques drawn from non-resident accounts of persons, firms and companies other than banks, for maintenance were withdrawn.
- The facility of retaining export proceeds in special exporters account for 3 days is also available for advance payment received for exports.
- ADs were allowed to extend realization period to six months (where the terms of sale provide for payment earlier than six months) subject to satisfactory explanation for the extension in the realization period.
- The powers to allow remittances against import documents received directly by the importer were delegated to the ADs.
- The powers to allow remittances of claim in respect of reinsurance business were delegated to ADs.
- The requirement of submission of details of credit entries in bank account other than monthly pay and allowances and sale proceeds realized in respect of locally and imported purchased articles each of value of Rs 500 was dispensed with.
- The ceiling of Rs 10,000 for payment of fee for approved correspondence course was been abolished.
- The powers to sanction foreign currency loan for working capital of foreign controlled companies were delegated to ADs.

Appendix 3: Trade Policy for FY 02.

Trade policy for FY02 was designed with a view to attain a quantum jump in country's exports to reduce the adverse impacts of falling unit prices of major commodities on our export earnings. The export target for FY02 was set at US\$ 10.1 billion and with projected imports of US\$ 11 billion; the trade deficit was expected to remain below US\$ 1 billion. For achieving this target, the need of correcting the structural weaknesses in our export sector was emphasized. In this connection following areas were identified:

- Enhancing exporters profitability.
- Simplification of export procedure by removing irritants.
- Enhancing competitiveness of exports by ensuring adequate availability of finance.
- Reducing the anti-export bias and ensuring emergence of new generation of exporters.
- Ensuring greater access of our products to new markets.

Besides, these structural problems, emphasis was laid on continuation of previous years objective of achieving greater value addition and diversification of products and markets.

The salient features of the FY02 trade policy are listed below:

Exporters' Profitability

- In addition to Duty and Tax Remission for Exports (DTRE) rules, the scheme of Common Bonded Warehouses was revived with immediate effect. The Common Bonded Warehouses was designed to work as a virtual Duty Free Shop of inputs for the exporters thus reducing their 'carrying costs'.
- Exporters who posted at least ten percent growth over the last year's exports were allowed to retain 50 percent of their additional export receipts in their local foreign currency accounts effective from December 3, 2001. This amount could be used for purchase of machinery and equipment and raw materials and payment of commission, promotional expenses etc.
- Export Development Surcharge was waived on the additional exports.
- Monetary rewards were also announced for exporters showing better performance, through an 'incentivization scheme' that seeks to reward three categories of exporters (large, medium and small) for increase in overall exports, new markets, value addition etc. An amount of Rs. 2 billion was allocated for this scheme.

Export Finance Scheme

Government withdrew the 'subsidy' on export finance as part of the commitment with the IMF and interest rates were linked to Market Treasury Bills (MTB). The main elements of the export finance package announced included:

- Effective from April 2, 2001 foreign currency export finance facility by the SBP was provided for the benefit of exporters with a view to provide support to domestic manufacturers requiring foreign inputs for exportable goods and increasing access to export financing by small and medium size exporters and contribute towards increased exports.
- In order to boost country's exports and reduce shipment risks, Pakistan Export Finance Guarantee Agency (PEFGA) for Pre-shipment export finance guarantee, was launched on July 16, 2002. PEFGA will also provide bankable guarantees that may be used as collateral. It has started post-shipment insurance cover facility for the exporters on April 4, 2002. The indemnity of the post-shipment scheme is 90 percent, which covers commercial, insolvency, failure to pay and protracted default. The insurance also covers political, war and civil disturbance risks. The provision of insurance is, however, made subject to the condition that goods should be acceptable to buyers, and a system of third-party inspection is created.

New Generation of Exporters

A new "hand-holding" scheme was introduced to induct a large number of new/emerging exporters. Important components of the scheme included:

- Capacity building of identified SMEs for covering product development, quality up-gradation, cost reduction measures and sale promotional efforts through private sector professionals. In this regard, Rs 20 million from the Export Development Fund were earmarked for the estimated expenditures during the first year.
- EPB was to sponsor special delegations abroad of the selected SMEs to explore market prospects as well as provision of special facilities for these SMEs in the overseas trade fairs organized by EPB.
- Exporters with total exports of less than US\$ 1 million were exempted from the Export Development Surcharge.

Market Access

- In order to effectively counter buyer perception that Pakistan is an unreliable supplier, especially in terms of quality and "in-time" delivery, a major scheme was proposed for Warehousing of Pakistani products abroad. This scheme envisaged setting up of companies by groups of exporters in major cities around the world to market their products through 'bonded stores' in these cities.
- For attaining higher social, environmental and labor standards, a scheme was setup through funding from the EDF, to help exporters acquire SA 8000 certification.
- The zero rating of dollar exports to Afghanistan (currently available to cement, rice, pharmaceuticals, glass sheets, and G.I. pipes and hardware items) was expanded to safety matches; furniture (wood, plastic, metal and fibre glass); water storage tanks (fibre glass, plastics, and metal); tobacco leaf (in crates/cartons); gur; agricultural machinery, electric motors, pumps, fans, transformers; leather manufactures & footwear; confectionery items, jams, juices and pickles.

Export of Services

In order to promote the export of services, following facilities were provided for the exports of entire range of 'services':

- Retention from export proceeds for commission etc. @ 35 percent, as is the case with I.T.
- Permission to export equipment from Pakistan, without a bank guarantee, and its free re-import upon conclusion of contract.
- Facilities from banks for bonds, performance guarantees and advance payments. Details will be worked out in consultation with SBP/banks/insurance companies.
- Work actively to provide Technical Assistance to friendly countries for this sector.

Emerging Electronic Products Assembly Scheme (EEPAS)

Emerging Electronic Products Assembly Scheme (EEPAS) for local assembly of televisions was expanded to include mobile phones, cassette players, and electronic calculators, DVD players etc. with the objective to become a recognized world-class assembler of local and foreign branded goods.

The salient features of the scheme included:

- No deletion program for the next 5 years under the EEPAS.
- Customs duty of 5 percent on CKD kits.
- No limit on number of units an assembler may like to assemble.

Trade Related Measures Announced by SBP

- SBP on September 28, 2001 revised its earlier instructions regarding repatriation of export proceeds. The exporters are now required to repatriate the export proceeds on the due date for payment or within six months from the date of shipment, whichever is earlier.

- SBP on September 27, 2001 decided to extend the facility (to retain export proceeds upto 35 percent in a Foreign Currency Account available to the exporters of software and to all Service Sectors such as Financial Services, Wholesale, Distribution and Retail Trade, Transportation, Storage and Communications, Tele-communication Services, Medical Services, Educational Services, Engineering Services, Real Estate Development, Hotel and Tourism/Tourism Related Services, Technical Testing Facilities and Consultancy Services etc.
- The instructions regarding application to lower the exchange rates prevailing on due date or on the date of realization of export proceeds have been withdrawn with effect from September 28, 2001.
- With effect from September 28, 2001, exporters were allowed to retain up to 6 percent of exports value (FOB basis) in FCAs with ADs in Pakistan subject to the condition that the exporter is not required to pay commission or required to pay to the foreign agent an amount less than the maximum permissible limits. Previously such exporters could retain up to 5 percent of export value on FOB basis in their FCAs.
- In order to encourage the exporters, SBP on December 3, 2001 allowed the exporters who post at least 10 percent growth over the last year's export performance to retain 50 percent of their additional export proceeds in their foreign currency account maintained with the Authorized Dealers in Pakistan.

Other Trade Related Measures Announced during the FY02

- The government fully deregulated the export of wheat and allowed the private sector to export wheat and its flour without any restrictions on quantity, value and purchase from any source. The government also allowed the wheat imports by the private sector and increased the import duty to 30 percent from 5 percent on July 4, 2001.
- All Pakistan Textile Mills Association (APTMA) revised downwards the minimum export prices (MEP) for various counts of cotton yarn as well as polyester cotton yarn effective from August 9, 2001. Standing Committee on Export Price Check of APTMA reduced MEP for all counts of cotton yarn by US\$ 10 per bale while MEP for polyester cotton yarn of all counts, have been slashed by US\$ 5 a bale.
- The Central Board of Revenue (CBR) imposed the regulatory duty on the import of edible oils, oil seeds, di-sodium carbonate (Soda Ash), polyester staple fibre, polyester filament yarn, polyvinyl chloride and pure terephthalic acid (PTA) effective from July 1, 2001. Regulatory duty on the export of raw hides and skins, wet blue tanned hides & skins and various types of bones including crushed bones was also levied by the CBR.
- On August 1, 2001 the CBR withdrew the duty drawback facility from the manufacturers-cum-exporters of leather shoes allowed on April 30, 2001 with immediate effect.
- In pursuance of the decision announced in the FY02 trade policy, the CBR on August 29, 2001 exempted from sales tax the export of 20 items to Afghanistan and Central Asian Republics through land route.
- The CBR on October 16, 2001 announced the Zero-rating supplies of taxable goods made by registered persons against international tender to UNICEF, UNDP, WHO, WFP, UNHCR and IRC for Afghan refugees.
- On November 28, 2001 the federal government granted sales tax exemption to the supplies of hand-knotted carpets by registered persons to foreign nationals (against payment through a foreign credit card) for subsequent export as personal baggage.
- With effect from December 27, 2001 ADs were allowed to approve import payments up to US\$ 5,000 per person during a fiscal year in respect of cost of medicines, hearing aids, braille watches and small carts or parts of special gadgets for the disabled persons or life saving instruments imported by the applicants for their personal use. Previously this limit was Rs 5,000 per person during a fiscal year.

- Effective from December 27, 2001, ADs were permitted to issue foreign currency demand draft up to US\$ 15,000/- for import of spare parts/ machinery without opening of letter of credit provided such import is made by air or by courier. Previously this ceiling was US\$ 7,000/- per fiscal year.
- The European Union (EU) withdrew duty on many Pakistani value-added products, besides allowing 15 percent increase in quota with effect from January 2002. In return Pakistan would improve market access to EU clothing and other textile exports through reducing import duty by 5 percent.
- Under the second phase of the WTO agreement, effective from January 1, 2001, several products exported by Pakistan to European Union (EU), Canada and the US, were declared quota-free which included Bar mopeds (Cat-369-R); flat dish towels (Cat-369-FP); knitted gloves for the USA; bathrobes for the EU (Cat-18); and knitted blouse and boxers' shorts for Canada (Cat-8A-1).
- The Ministry of Commerce in consultation with CBR decided on January 16, 2002, to abolish Export Development Surcharge (EDS) on all exports up to June 30, 2002. This decision was taken to reduce extra financial burden on exporters.
- European Union announced the withdrawal of 6.4 percent anti-dumping duty on imports of bed linen from Pakistan with immediate effect on January 28, 2002.
- On February 12, 2002 CBR announced the repayment of custom duty on the import of raw materials used in the manufacturing of various kinds of batteries produced in the country.
- The CBR announced the exemption of central excise duty (CED) on the import of 'hydraulic cement', used specifically in the construction of oil wells on February 13, 2002.
- On February 21, 2002 the Economic Co-ordination Committee of the Cabinet (ECC) approved the negative list for export to Afghanistan and allowed the exports of urea, high speed diesel, furnace oil and all other petroleum products, zero rated export from EPZ/Bonds except vegetable ghee and cooking oil.
- The CBR on March 4, 2002 decided to repay custom duty on the import of raw materials used in the manufacturing of 'core spun yarn' by the textile industry. The duty drawback facility would only be applicable on the import of 'lycra yarn or spandex yarn' used for producing 'core spun yarn with lycra', for export.
- On March 7, 2002, CBR withdrew the concession in the rate of custom duty on the import of hot roll clad (HRC) sheets of all sizes, on the recommendations of the Engineering Development Board (EDB).
- CBR announced the extension of duty draw back facility to 50 new raw materials, which included all man-made yarns used in the manufacturing of textile products to be re-exported by the commercial exporters as well manufacture-cum-exporters on March 17, 2002.
- Pakistan Export Finance Guarantee Agency (PEFGA) started post-shipment insurance cover facility for the exporters in April 2002. The indemnity of the post-shipment scheme is 90 percent, which covers commercial, insolvency, failure to pay and protracted default. The insurance also covers political, war and civil disturbance risks. The provision of insurance is, however, made subject to condition that goods should be acceptable to buyers, and a system of third-party inspection is created.
- In view of the expanding wheat exporting operations of the Trading Corporation of Pakistan, the facility of demurrage-free days was extended to 20 days instead of the normal 2 days under the tariff in April 2002.
- On April 12, 2002 the federal government allowed the export of urea to Afghanistan by the private sector subject to contract registration with Export Promotion Bureau (EPB), as mentioned in an official handout issued.
- From May 1, 2002 Saudi Arabia and the United Arab Emirates (UAE) have lifted the ban (imposed in 2000) on import of meat and other livestock products from Pakistan.

- In order to protect the local industry, the CBR withdrew the concessionary rate of custom duty on the import of 20 items including ceramic goods and steel line pipes on April 24, 2002.
- In a move to enhance the exports of cooking oil, the government has allowed duty drawback facility to the exporters of 10 different types of cooking oil and banaspati/vanaspati vegetable ghee from May 7, 2002.
- In order to facilitate the exporters of textiles, on May 13, 2002 the CBR enhanced the duty drawback rates on 20 different types of polyester blended fabrics and yarn exported from March 1 to June 30, 2002.
- On May 18, 2002 the Export Promotion Bureau (EPB) announced the new rules for Kinno export. The consignments were only allowed in cartons with net weight of 8, 10 and 13 kilograms and the net weight must be printed on the cartons.
- While reducing the customs duty on the import of cars; plant and machinery for development of grain handling/storage facilities; aircraft/spare parts and stainless/alloy steel, the government on June 16, 2002 has slashed the maximum customs tariff rate of 30 percent to 25 percent. The new slabs would be 25, 20, 10 and 5 percent.
- With a view to promote trade and business activities among the region, under the SAARC Preferential Trading Arrangement (SAPTA), the Central Board of Revenue announced new concessional duty rates on the import of 685 items from the seven South Asian Association for Regional Corporation (SAARC) member states, including India, on June 18, 2002. The concessionary rate of duty on these items would range between 10-20 percent of the existing tariff if imported from India and Sri Lanka, whereas in case of imports from Bangladesh, Nepal, Bhutan and Maldives Islands, the extent of duty concession rate would range between 10-30 percent.
- On June 19, 2002 the Federal Cabinet approved zero-rated duty on import of agriculture machinery and equipment for Corporate Agriculture Farming (CAF) and also exempted these from sales tax.

Appendix 4: Policy Measures for Industrial Sector During FY02

The following measures were taken for the promotion of domestic industry in FY02:

Trade Related Measures

- On July 01, 2002 the government enhanced duty drawback rates on the export of all kinds of gray, bleached, and dyed/printed fabrics, garments, wearing apparel and made ups. This decision will provide an impetus to local industry to increase their access to new markets and enhance their production.
- To promote nuclear research and power generation in the country, the rate of custom duty on the import of nuclear reactors, machinery and apparatus for isotopic separation and parts thereof, fuel elements non-irradiated and parts of nuclear reactors was reduced by 5 percent on July 1, 2001.
- To provide relief to pharmaceutical industry from increasing costs of production, the import of over 400 raw and packing materials for the industry were exempted from custom duty in excess of 10 percent ad valorem at the import stage on July 13, 2001.
- To boost the tyre and tube industry, repayment of customs duty on the export of tyres and tubes of trucks, buses, cars, jeeps and motorcycle, was allowed on July 26, 2001.
- On August 2, 2001, repayment of customs duty was allowed on the import of raw materials used in 100 percent cotton gray made-ups filled with polyester stable fiber and polypropylene; woven or knitted made-ups whether dyed or printed; 100 percent cotton bleached made-ups filled with polyester stable fibre and polypropylene; dyed and printed made-ups; partially-dyed or printed; gray blended made-ups (all blends of polyester stable fibre from 15 percent and cotton fibre) filled with polyester stable fibre and other textile products meant for export.
- In order to rationalize the prices of steel products to promote economic activities in engineering and construction industries, custom duty on the import of a number of steel products was reduced by 10 percent on September 7, 2001. The major items on import of which custom duty was reduced included flat rolled products of iron or non-alloy steel of width of 6000 mm, cold rolled, non-clad, plated or coated, cold rolled tubes, pipes of hollow profiles and seamless of iron or steel.
- In view of insufficient domestic production, custom duty on the import of synthetic staple fibre-not carded, combed or otherwise, was reduced from 20 percent to 5 percent on September 7, 2001.
- For the locally manufactured vehicles to be supplied to diplomats, diplomatic mission, privileged person and organization etc., eligible to import duty free vehicle, import of CKD kits was allowed free of duty on September 7, 2001.
- To accelerate the domestic production, the CBR on October 7, 2001, withdrew 20 percent regulatory duty (RD) on the import of raw material and components required for production of chloro-fluro carbons (CFC) used in refrigerators, deep freezers and air conditioners.
- In order to provide relief to the textile industry, the Central Board of Revenues (CBR), with effect from February 1, 2002 announced repayment of custom duty on the import of raw material to be used in the manufacturing.
- In order to promote the domestic production of various kinds of electric batteries in the country, the duty drawback facility was allowed to domestic manufacturers on February 12, 2002.
- The exemption of ships and all the floating crafts from the customs duty from April 1, 2002, till the year 2020, will adequately facilitate the expansion of the national merchant fleet besides helping it function in the international market in a more competitive manner. The duty exemption to be allowed on import of ships and floating crafts included - tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag.

- To familiarize and encourage the use of CNG in the country, on April 8, 2002, the Central Board of Revenue (CBR) decided to allow duty free import of compressed natural gas (CNG) machinery, equipment, conversion kits and cylinders without prior approval of Ministry of Petroleum and Natural Resources.

Tax Incentives

- In order to boost the production of petroleum products, Central Excise Duty (CED) on 'base lube oil' used in the manufacturing of lubricating oil in refineries was withdrawn since July 5, 2001.
- General sales tax on the import and local supplies of over 50-fertilizer and fertilizer raw materials was imposed on September 2, 2001.
- On September 7, 2001, sales tax on the import and supply of raw materials like oleostearin, oleo-oil, tallow oil used in the production of oil and soap, was increased from 15 percent to 20 percent.
- Under the 6th schedule issued by the CBR, raw materials for basic manufacture of pharmaceutical active gradients and raw materials for manufacture of pharmaceutical products were exempted from sales tax in the federal budget FY02.
- CED on cigarettes was increased from Rs 1.77 to Rs1.91 per ten cigarettes with effect from October 1, 2001. Furthermore, in the case of price exceeding Rs 10 per ten cigarettes, an additional 63 percent of the retail price will be charged.
- To promote domestic production of oil seeds, GST levied at a rate of 15 percent on the import of canola seed was withdrawn on October 11, 2001.
- On February 2, 2002 the rate of GST was increased from 15 percent to 20 percent on local and imported steel products and ship-breaking items. A CBR note (No C.4/1-STB/2001-01) stated that the five percent increase in GST rate would be implemented with immediate effect through an amendment in the budget notification wherein 190 items were put under 20 percent GST rate. The normal rate of GST is 15 percent.
- To boost the production of petroleum products, the local supply of bitumen, natural bitumen and asphalt, were exempted from central excise duty (CED) on February 22, 2002.
- To provide relief to the pharmaceutical industry, the CBR, with effect from March 22, 2002 exempted the import of raw materials from customs duty in excess of five percent ad valorem. On March 10, 2002, two more raw materials were exempted from custom duty in excess of 10 percent ad valorem.
- The Central Board of Revenue (CBR) imposed 20 percent GST on the import and local supply of 'castings for automobiles and tractors' with effect from March 18, 2002.
- To provide an incentive to pharmaceutical companies and ultimate ease to consumers, the CBR on May 17, 2002, has withdrawn sales tax on the local supply of all the pharmaceutical raw materials.
- On June 11, 2002, the Central Board of Revenue exempted networking equipment from sales tax to promote Information Technology in the country.

Protection

- To promote the domestic production of air conditioners for the motor vehicles, the rate of custom duty on their import was increased from 25 percent to 30 percent with effect from July 1, 2001.
- To protect the local industry, regulatory duty on the import of soda ash (Di-sodium carbonate) Polyester Staple Fibre (PSF), Pure Terephthalic Acid (PTA), polyester filament yarn and polyvinyl chloride was imposed at the rate of 5 percent ad valorem with effect from July 1, 2001.

- In order to promote production and export of value added leather products, a regulatory duty of 20 percent ad valorem was imposed on the export of raw hides and skins, wet blue tanned hides and skins w.e.f. July 1, 2001.
- The custom duty on the import of flat rolled products of iron or non-alloy steel of a width of less than 600 mm, not clad, plated or coated, was increased from 10 percent to 20 percent on September 7, 2001. The government also levied custom duty of 10 percent on the imports of special round steel bars and rods of non-alloyed steel exceeding diameter 75 mm.
- On September 7, 2001, the duty exemption on the import of compressors and filter dryers for air conditioners, refrigerators and deep freezers, trichlorofluoromethane, dichlorodifluoromethane, trichlorofluoroethane, dichlorotetrafluoroethanes, and chloropentafluoroethane was withdrawn (and the previously leviable rate of 10 percent was enhanced to 20 percent).
- In order to promote indigenous production of steel chord used in the manufacturing of tyres, 5 percent duty was notified on its import on September 7, 2001.
- To provide relief to the domestic sugar industry, custom duty on the import of refined sugar was increased from 10 percent to 20 percent on September 21, 2001. At the same time, 20 percent import duty was also imposed on the import of raw sugar with immediate effect.
- To boost the sale of vehicles, the CBR on October 5, 2001, allowed the foreign diplomats to purchase locally assembled vehicles from recognized local manufacturers free of duty subject to the condition that such vehicles, including four-wheelers should not be sold to another party without prior permission of the customs authorities.
- In order to promote domestic production of synthetic staple fibre, 5 percent ad valorem regulatory duty (RD) was imposed on its import on October 14, 2001. The RD has been levied on a particular type of synthetic staple fiber not exceeding 2.22 decitex.
- In order to boost the foot wear industry, cut in duty drawback rates for the manufacturers of synthetic and leather shoes, was withdrawn on November 20, 2001. The CBR also revised the repayment of customs duty on the import of such raw materials used in the production of canvas or textile shoes.
- In order to avoid the glut of sugar in the wake of good sugarcane crop, customs duty on the import of raw and refined sugar was increased from 20 percent to 30 percent on February 27, 2002.
- For the support of local foot wear industry the Central Board of Revenue, on May 3, 2002, announced exemption of custom duty in excess of 10 percent ad valorem on the import of 'Isocyanate' used in the manufacture of foot wear. Now, the manufacturers could import 'Isocyanate' at the concessionary rate of custom duty with effect from April 30, 2002.

Import of Machinery

- On June 17, 2002 the government notified procedures for zero-rating of sales tax on supplies of locally manufactured plant and machinery for petroleum and gas sectors exploration and productions companies so as to encourage the local machinery manufacturers.
- The CBR, on December 28, 2001 allowed Sui Southern Gas Company Ltd. (SSGCL) and Sui Northern Gas Company Ltd. (SNGCL) duty-free import of items for infrastructure, rehabilitation and expansion of their projects.
- In a move to encourage the textile industry, the federal government, on June 17, 2002 exempted textile machinery from customs duty in the budget of FY03. The exemption will be available on components, sub- assemblies, assemblies and other items of machinery.

Credit Facilities

- To alleviate poverty and meet the credit needs of small business and agricultural tenants, Micro Credit Bank started its operation from March 11, 2002.

- To boost the construction activities in the country, the State Bank of Pakistan advised the commercial banks to float ten-year bonds to mobilize funds for housing loans. This was stated in BSD circular letter issued on July 13, 2001.

Revival of Sick Units

- In order to expand the industrial base and revive the sick units, the CBR exempted special industrial zones from the levy of income tax with effect from February 10, 2002 till December 2002.
- The Central Board of Revenue on April 14, 2002 extended the scope of tax credit/incentive for industrial units executing BMR (Balancing, Modernization & Replacement) so as to speed up the restructuring program. It has been pointed out in the circular that the original provision in the third schedule of the Income Tax Ordinance 1979, allowing tax credit to industrial units for the above purpose, was restricted only to reinvestment of profits in the BMR/expansion project. They have now decided to extend the scope of tax credit/incentives to such investments as would be made through borrowed funds and increase in the paid-up capital of the company through right issue.

Others

- To cater the financial needs of small and medium enterprises, the SME Bank started operations from January 1, 2002. It was established by merging two specialized financial institutions, SBFC and RDFC.
- To provide relief to pharmaceuticals, the federal cabinet on November 28, 2001 approved a 3 percent increase in the prices of essential drugs and a 4 percent jump in those of decontrolled category.

Appendix 5: Fiscal Measures Proposed in FY03 Budget

FY03 budget enumerated numerous measures for broadening the tax base, lowering the number and rate of taxes and for improving the efficiency of tax administration. These policies remained the main concern of the government over the last couple of years. The measures proposed for FY03 are also in agreement with the ongoing taxation reforms. The notable measures announced for major taxes are briefly discussed in the following.

Income Tax

New Income Tax Law

A new Income Tax Ordinance has been promulgated with effect from July 1, 2002, aiming at the simplification of assessment procedure and enabling taxpayers to comply with its provisions. The following are the salient feature of this new law:

- Instead of income tax officer, the taxpayer will determine his taxable income and tax liability.
- Self-assessment procedure will be followed for all classes of taxpayers, irrespective of their status, location or income level.
- Besides, achieving uniformity of tax rates and tax treatment, reducing dependency on withholding taxes, encouraging voluntary compliance, minimizing exemptions and ensuring an effective dispute resolution are some of the objectives of the income tax law.

Table: A5.1 Tax Rate Comparisons
percent

Category	Previous Rate	New Rate
Income Tax Rates		
Banking Companies	50	47
Private Companies	45	43
Withholding Tax Rates		
Out-station checks		Abolished
Commission on Petroleum Products		Abolished
Processed Poultry meat	1.25	0.75
Commission and brokerage	10	5
Interest on Securities	30	20
Issuance of Bonus Share	10	Withdrawn
Customs		
Stainless steel and alloy steel	10	5
Titanium dioxide	20	10
Waste paper	10	5
Compressors	10	5
Glass Fiber mate	20	10
Ethylene and Propylene	10	5
Electronic Calculators	20	10
CT Scan	10	5
Cars up to 1000 cc	100	75
Cars up to 15000 cc	120	100
Cars up to 1800 cc	150	125
Cars over 1800 cc	250	200
Motorcycles	105	75
Oil seeds	5	10

Rationalization of Personal and Corporate Rates

The government has reduced the corporate tax rates for banking and non-banking companies (see **Table A5.1**). Besides this, the following changes have been made for personal income tax:

- Minimum taxable income limit is revised upward from Rs 60,000 to Rs 80,000.
- To ease the burden of withdrawal of tax exemptions from all cash allowances, the limit of monetised salary was increased from Rs 300,000 to Rs 600,000.
- Withholding tax limit on investment in NSS has been reduced from Rs 300,000 to Rs 150,000.
- Payments on account of utilities allowed to ministers were previously exempted up to Rs 15,000. This exemption has been withdrawn.

Central Excise Duty

CED has been withdrawn on: filament yarn, polyester chips, electric batteries, metal containers, optical fiber, kraft paper, ship plates, services provided by travel agents, advertising agents and shipping agents. Furthermore, CED on aerated beverages is being reduced from 15 percent to 12 percent.

Customs

Maximum tariff rate was reduced from 30 percent to 25 percent and slab limits adjusted accordingly, i.e., 25, 20, 10 and 5 percent. This led to changes in tariff rates on hundred of goods, of which changes in important items are reported in **Table A5.1**. Additionally, following measures are also worth mentioning.

- Like previous year, the government plans to lower the number of SROs from 56 to around 30 only.
- To avoid the problem of under invoicing, all dry ports are being linked electronically for sharing of valuation data at customhouse Karachi and to other dry ports.

Sales Tax

Sales tax has emerged as a prime source for the government exchequer over last couple of year. The broadening of tax base and simplification of procedure remained an important part of the government tax policy. The following specific measures were proposed in the federal budget for FY03:

- GST has been extended to ghee and cooking oil.
- Instead of standard 15 percent, GST has been increased to 20 percent on imported edible oils, talc, solvent oil, calcium carbonates, maleic, anhydride and acrylic. This specific measure will not only help the government to generate much needed revenues, but will also promote documentation in the economy.

Appendix 6: Policy Measures for Agriculture Sector During FY02

Following policy measures were taken regarding agriculture sector in FY02:

- To reduce price losses in international market on account of contaminated cotton, the Federal Textile Board (FTB) on July 13, 2001, announced a premium of Rs 200 per maund (37.32 kgs.) for contamination-free cotton and Rs 75 for cotton with low contamination contents. Initially, district of Rahim Yar Khan has been declared as the project area. The buyers will pay the premium to the ginners and they in turn, will share it with the cotton growers.
- On November 1, 2001 the CBR exempted local suppliers of urea fertilizer (other than importers or manufacturers) from general sales tax (GST) with effect from April 1, 2001. GST exemption would also apply on local supplies of 50 different types of fertilizers, other than urea purchased by individuals on or after September 2, 2001.
- On January 19, 2002 the government decided to enhance grain storage capacity for rice and wheat by at least 500,000 tonnes with the help of private sector. Investors from the private sector would be encouraged to develop modern storage facilities near wheat growing areas and ports, particularly in Punjab and at Port Qasim. The Board of Investment invited bids from private sector to build modern storage facility on build-own-operate basis.
- On January 26, 2002 the government decided to impose cess on all crops, including wheat, rice, maize, onion, pulses, potato and tea etc., with a view to generate funds for agriculture-related research projects, besides providing better infrastructure to the farming community. Presently, cess is collected on sugarcane and tobacco crops. The mill-owners and cane growers share equal rate of cess, while in case of tobacco, cess is paid 100 percent by the industry, because there is no mechanism to check production and sale of the crop at growers' end.
- On February 9, 2002 Lahore District Government announced the establishment of an 'Agricultural Machinery Pool' for 11 Union Councils of the district. All kind of agricultural implements and machinery maintained in the Pool would be provided to the interested farmers on rent.
- On February 28, 2002 Pakistan Agricultural Research Council (PARC) demonstrated very encouraging results of the land-tilling machine known as laser land leveler. According to PARC it could increase production by as much as 80 percent through efficient utilization of water, like installation of sprinkling system. The locally manufactured laser land leveler costs US\$ 2,500 as compared to US\$ 10,000 for imported one.
- On March 17, 2002 the government decided to wind up Sindh Seed Corporation. The corporation, under a special permission was allowed to purchase 15,000 maunds cottonseeds from PASCO, which were to be marketed before the end of the current fiscal year. The seeds multiplication farms would be handed over to PARC or Agriculture Extension while the fate of processing plant was not decided till that time. The Punjab Seed Corporation has been allowed to continue its operations till the private sector seed industry is fully developed and starts meeting the seeds requirement of the growers.

Deep-sea Fishing Policy

To protect the interest of local small fishermen and maintain the source of foreign exchange earning, the government announced changes in the deep-sea fishing policy on July 2, 2001. The main features of the policy entail that:

- The deep-sea fishing trawlers will operate between 35-200 nautical miles subject to monitoring of their performance and conduct on a quarterly basis by the Maritime Security Agency, the National Fisheries Development Board and the Fishermen's Co-operative Society.
- To upgrade the existing local fishing fleet with an aim to reduce/prevent the post-harvest losses, ADBP and SBFC will provide credit facility on priority basis.

- The Food and Agriculture Ministry will ensure the installation of secured satellite tracking system through the Maritime Security Agency on all deep-sea fishing vessels and every vessel will have a Global Positioning System (GPS) onboard with its satellite control at strategic points on the fish harbor, which is mandatory for obtaining a license.
- Minimum Export Pricing (MEP) will be introduced to avoid under-invoicing. The MEP will be based on the recommendations of a committee, which will be set up by the National Fisheries Development Board and the provincial fisheries minister will be the chairman of the Board of Directors of the Fishermen's Co-operative Society.
- The deep-sea fishing vessels, whose licenses were cancelled by the government last year, will have to apply again to the Agriculture Ministry to resume their operations. The government last year cancelled the licenses of deep-sea fishing vessels after finding that those were violating mileage limits, engaged in poaching fish stocks from the area reserved for small fishermen and under-invoicing fish catch.
- The majority of small-scale fishermen cannot operate their boats beyond 12 or 15 nautical miles; consequently the zone between 12-35 nautical miles largely remains under exploited due to small ill-equipped boats/vessels coupled with insufficient capabilities of the local fishermen. To address the problem, the government has decided that medium-sized vessels ranging from 100 to 250 GRT (Gross Registered Tonnage) may be allowed to operate in the above-mentioned zone.

Incentives for the Development of Livestock

To give a boost to the production of livestock and poultry, the government has announced the following measure in the agricultural package:

- Imported plant and equipment not manufactured locally shall be subject to custom duty of 10 percent, with complete exemption from sales tax.
- Capital structure of projects in agro-food industry will be entitled to debt-equity ratio of 70:30.
- Projects will be entitled to financing from all banks and development finance institutions.
- Expatriate personnel of the units will be allowed to import food items and other consumables without any duty/taxes, subject to maximum limit of \$2,000 per person per year.
- Import of breeding stock will be allowed subject to the import duty of 10 percent.
- Locally manufactured machinery will be provided credit.
- Parts and components up to 5 percent of initial C&F value of imported plants and equipment shall be imported at 10 percent duty, if imported together with the plant. The export of livestock and livestock products has been allowed.
- Following measures have been taken to meet Sanitary and Phytosanitary (SPS) requirement under WTO for quality assurance and to improve exports of livestock and livestock products:
 - Establishment of laboratories will be encouraged in the private sector.
 - The National Veterinary Laboratory is under construction for drug residue testing in the livestock product. This will ensure quality in exportable surplus.
 - Steps have been taken to improve sanitary and hygiene conditions of animal casing processing units in the country.

Appendix 7: Measures for Islamization of Financial System in Pakistan

Criteria for Setting up a Scheduled Commercial Bank Based on Principles of Shariah in the Private Sector

The State Bank of Pakistan has issued a detailed criterion for setting up a scheduled commercial bank in the private sector for conducting business based on the principles of Shariah.

Those interested in establishing the Scheduled Islamic Commercial Bank have been asked to apply to the Director, Banking Supervision Department, State Bank of Pakistan, Karachi. Applications may be submitted giving details along with supporting documents.

Broad criteria for setting up a scheduled Islamic commercial bank

- The proposed bank will be a public limited company and will be listed on the Stock Exchange. A minimum of 50 percent of shares shall be offered to the general public.
- All financial transactions will be in accordance with the injunctions of “SHARIAH”.
- The applicants shall indicate the modes of finance proposed for raising resources and extending financial assistance.
- The applicants will also indicate expertise and other facilities available with them for ensuring compliance of their banking business with Shariah.
- To be able to commence business the bank shall have a minimum paid up capital of Rs 1 billion and also shall at all times maintain minimum capital adequacy ratio of 8 percent based on risk-weighted assets.
- The Sponsor Directors shall subscribe at least 15 percent of the total paid up capital personally. The number of sponsor Directors shall not be less than seven. The amount proposed to be subscribed by each sponsor Director is required to be indicated.
- Sponsor Directors would have to declare personal net worth, which should not be less than the amount to be subscribed by them personally. The net worth of each sponsor Director is required to be indicated and supported by a duly authenticated copy of the latest wealth statement filed with the taxation Department. In the case of sponsor Directors resident in countries where filing of wealth statement is not a requirement of law, a certificate of personal net worth and general reputation issued by an international bank of repute would be acceptable. This facility would also be available to applicants who have recently returned to Pakistan.
- Sponsor Director(s) subscribing more than 5 percent of the total paid up capital shall clearly indicate their request separately. However, such request should commensurate with his net worth.
- Sponsor Directors shall not dispose of their shares in any manner whatsoever for a minimum period of 3 years and thereafter only with the specific written approval of the State Bank.
- Foreign investment by sponsor Directors shall be permissible only on the basis of capital being non-repatriable, but dividends can be remittable abroad.
- An application shall stand disqualified if any of the sponsors and/or Directors, their spouses or firms:
 - Has been convicted by a court of law in Pakistan or abroad for a criminal offence;
 - Has been associated with any illegal activity especially banking business, deposit taking, financial dealings and other business;
 - Has failed to meet his or her obligations to banks and other financial institutions. They shall furnish names of the banks/DFIs along with the names of the branches with which they have had dealings. Bank reports are also required to be submitted;
 - Has defaulted in payment of taxes. They shall indicate their National Tax Numbers;
 - Is or has been associated as Director/Chief Executive with the corporate bodies whose corporate and tax record including customs duties, central excise and sales tax has been

-
- unsatisfactory. Those not so associated with corporate bodies would be required to indicate their occupation/ profession/ trade and highlight their achievements;
- In the opinion of the sanctioning authority enjoys adverse reputation regarding integrity and performance.
 - Neither one person can be a Director in more than one financial institution nor one group should have more than one bank.
 - Not more than 25 percent of the sponsor Directors shall be from the same family as defined in Section 5(ff) of the Banking Companies Ordinance.
 - The Chief Executive would be a professional with no adverse reputation regarding his integrity and performance and shall require prior clearance of State Bank of Pakistan.

Documents to be Submitted along with the Application

- Feasibility study for setting up of the bank including the organization structure and the name of the proposed Chief Executive.
- Short-term and long-term business plans.
- Risk management guidelines, plans for internal control system and scale of authority.
- Working systems and procedures for business operations.
- List of companies/firms and their bankers in which sponsor Directors and their family members as defined in Section 5(ff) of Banking Companies Ordinance, are interested as Directors, Chief Executive, Partner, Proprietor, or major shareholders holding 5 percent or more shares.
- Constitution and members of Shariah Board along with their brief resume.

Other requirements

- The bank, which may be permitted to be established, shall be subject to the prevalent banking and other laws, rules and directives issued by SBP from time to time.
- The Bank must commence operation within six months of the grant of permission. They must open at least five branches within a period of twelve months from the date of permission.
- The applicant shall deposit Rs 1 million along with the application as processing fee. The fee so deposited shall be non refundable.
- Incomplete application shall be returned and processing fee retained. Re-submission would attract fresh fee.