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NBP Performance at a Glance

Editor's Corner

Dear Readers,

In a recently published book titled, *The Future of Pakistan*, Stephen P. Cohen and others have in some of the essays focused on factors that are important in shaping Pakistan. Demographics has been identified as a factor that will shape Pakistan in several ways. The country is undergoing a population boom, and it will soon have one of the world's youngest populations. Today there are some 180 million people and the median age of the population is 18 years. Here the question arises, whether this population increase can be used to Pakistan's advantage in the future. It is a basic challenge on how Pakistan responds to its growing youth population who have to be provided with education, jobs, shelter, food as to prevent them from going stray. Will Pakistan be able to use the growing population bulge to its advantage or will it lead to disaster. Stephen P. Cohen writes, "population growth is a challenge, not a threat. The critical mediating factors are state capacity and state response".

Pakistan's Planning Commission has developed a New Growth Framework – a strategy that seeks accelerated and sustained growth and development based on economic reform and an emphasis on productivity. They have in their Report focused on the young and growing population. The Report states, 'the population of Pakistan is projected to reach over 350 million by 2050. It is not just the size but its age structure that is important. The number of those aged 0-14 years will start to stagnate after 2035 (due to fertility decline), but the number of working age group (15-64 years) and the elderly (65 and above) will continue to increase. It is the increasing numbers in the working age group that might provide an economic opportunity for the country. By 2050, more than 236 million people will be in the working age group.

Developing countries are in varying stages of a demographic transition. As a result of declining population growth and consequent change in the age structure of the population, the proportion of working age population is increasing in many of the developing countries, alongwith a decline in the proportion of young dependent population. Countries in the South Asia region are also experiencing this transition. Demographic transition is taking place in Pakistan also. The share of working age population is increasing and a window of new opportunity has opened for Pakistan in the form of these young adults who can be an asset for the development of the country.

Economic gains can accrue from this demographic dividend if the government pursues appropriate policies with regard to education, vocational/technical training, public health, generation of enough employment opportunities to productively employ the additional labour force. Without the appropriate set of policies to benefit from the rising youth labour force, the demographic dividend could infact be a demographic challenge – a cost to the economy. Young people without jobs could be a serious threat to peace and security, spread of crime and conflict. Good policies can work wonders and the growth in the young labour force can be an asset rather than a burden.

The Report entitled, *Pakistan: The Next Generation British Council, November 2009* seeks in one of the chapters to find answers to whether our next generation delivers a demographic dividend or is a demographic disaster more likely? To capture the dividend, the report identifies three factors: expand and improve education, develop and implement policies for women and families, and labour market reforms to promote fairness and stability. Education reform, must be as much about delivering quality education as about improving the quantity of school. Standards of provision need to be improved throughout the educational

system, from primary to tertiary levels. Policies for women must increase their access to health, education and other services. Investment in human capital can only pay dividends if the employment opportunities for young people is simultaneously increased. Young people need vocational training to develop their skills that are suited to today's challenges.

Providing vocational training is one strategy to build human assets and capabilities, especially for those who may not have had the opportunity for higher education. Technical and vocational education and training is a major instrument for employment generation and poverty alleviation. The Government is taking initiatives to provide relevant skills to the youth, so that they could contribute to the industrial development of the country. The National Skills Strategy 2009-13, proposes a paradigm shift from curricula based education to competency based training, to create a demand driven training system responsive to industry needs. It envisions provision of relevant skills in different areas. There are institutions in Pakistan, like the National Vocational and Technical Training Commission that impart technical and vocational training in different trades to jobless youth in the country, the National Institute of Medical and Social Sciences that imparts training in para medics etc.

Investment in education at all levels is essential as it produces a better educated workforce. This will yield benefits only if these workers can find suitable jobs. Government policies that lead to stable macroeconomic conditions would generate economic activity and growth of jobs. The increasing proportion of young labour force is a major challenge for the government and only if the needful is done can this youth prove beneficial, otherwise it can have catastrophic consequences.

Ayesha Mahmood

Poverty in Pakistan

Poverty remains a serious concern in Pakistan. The last six decades have been interspersed with periods of declining and rising poverty. Inadequate access to basic services, low spending on social sectors, natural calamities in recent years, rising food prices, have all contributed towards the persistence of poverty in the country. The poor not only have low income but they also lack access to basic needs such as education, health, clean drinking water and proper sanitation. This consequently limits their opportunities to secure employment. Pakistan has slipped into the low human development group of countries. According to the *United Nations Human Development Report 2011*, Pakistan ranks at 145 among 187 nations, as compared to 125 among 169 countries a year earlier. In 2010, Pakistan was categorised as a medium human development country. The current Report says that as many as 49.4 percent of the country's population is living in multidimensional poverty, while 11 percent is at risk of being pushed into the category, 27.4 percent of the population lives in severe poverty.

The 1960s witnessed high levels of poverty, particularly in the rural areas. This occurred despite high growth rates in the agricultural sector. The percentage of people below the poverty line rose from 40 percent in 1964 to 44 percent in 1968. The development process which began in the 1950s had led to increased inequalities, widening the gulf between different income groups and regions. Poverty declined during the 1970s and this declining trend continued until 1987-88. This was a period when investment in agriculture rose and the large scale migration to the Middle East in the 1970s and 1980s had resulted in large remittances inflows. Pakistan was one of the high performers in the 1980s among the developing countries, with growth rates averaging 6.5 percent in the decade.

During the 1990s, Pakistan witnessed increase in poverty from 26.1 percent in 1990-91 to 32.1 percent in 2000-01, reversing the earlier declining trend. This was a period of political

uncertainty and economic instability. The decade witnessed slowdown in economic growth, decline in investment, increase in fiscal and current account deficits and debt accumulation. As macroeconomic fundamentals deteriorated, poverty increased and the country was left behind as other South Asian countries progressed on most economic and social indicators.

Rise in poverty was accompanied by worsening income distribution. A highly unequal income distribution makes it harder to reduce poverty. Higher inequality requires more growth to yield the same reduction in poverty.

Trends in Income Inequality

Year	Percentage Share of Income			GDP Growth Rate
	Lowest 20%	Middle 60%	Highest 20%	
1979	7.4	47.6	45.0	5.5
1984-85	7.3	47.7	45.0	8.7
1985-86	7.6	48.4	44.0	6.4
1986-87	7.9	48.5	43.6	5.8
1987-88	8.0	45.3	43.7	6.4
1990-91	5.7	45.0	49.3	5.6
1992-93	6.2	45.6	48.2	2.3
1993-94	6.5	46.3	47.2	4.5
1996-97	7.0	43.6	49.4	1.9
1998-99	6.2	44.1	49.7	4.2

Source: Pakistan Economic Survey 2002-03

During the 1980s, the period of relatively higher growth rate, the percentage share of income of lowest 20 percent increased from 7.3 percent to 8.0 percent, while the percentage share of highest 20 percent decreased from 45.0 percent to 43.7 percent. During the later half of the 1990s, a period of sluggish economic growth, the percentage share of lowest 20 percent declined from 7.0 percent to 6.2 percent, while for the highest 20 percent it increased from 47.2 percent to 49.7 percent by 1998-99. The income gap that had declined during the 1980s showed an increasing trend during the 1990s.

Between 2000-01 and 2005-06, Government estimates suggest a significant decline in the

incidence of poverty in the country, falling to 22.3 percent (FY06). During this period macroeconomic stability was restored to a large degree, as seen by significant declines in the fiscal deficit, stability in exchange rate, substantive increase in foreign exchange reserves, improved balance of payments position and containment of inflation. Many of the gains were subsequently eroded in 2007 and 2008.

The slowdown in economic growth since 2004-05 has an impact on poverty situation. *The Economic Survey 2010-11* says, the latest official estimates on poverty are not available but evidence suggests substantial increase in poverty over the last three years.

The above trends in poverty have been discussed in an article titled, *Poverty and Social Safety Nets: A Case Study of Pakistan*, Muhammad Irfan, where the author has cited a number of studies which explain this situation. For instance, the high growth of 1960s failed to reflect any improvement in the poverty situation in rural areas because of the eviction of tenants and rise in landlessness. In the wake of subdued economic performance of the early 1970s, a decline in the poverty level was made possible through escalation in the public sector employment and massive rise in public sector expenditure. Similarly, Middle East emigration and return flow of remittances had a very favourable impact on poverty situation in the country beginning late 1970s to middle of 1980s. Pakistan's experience suggests a close link between employment generation, remittances and poverty.

The decade of the 1990s saw host of challenges and problems for the economy. The paper mentions a number of these problems, such as budget deficit, rising balance of payments, large stock of debt, worsening unemployment situation, decline in GDP growth, low investment, decline in poverty related expenditure and stagnant or declining real wages further compounded the situation. This provides explanation for rise in poverty during 1990s.

The decade of the 1990s

Alleviating poverty

One of the important aims of development in any of the developing countries has been the removal of poverty amongst the masses. The issue is amongst the foremost objectives of their development programmes for the last several decades. Governments have adopted *Poverty Reduction Strategy Programmes*, an approach initiated by the *IMF* and the *World Bank* in 1999, basically a comprehensive country based strategy for poverty reduction. Income generating programmes have also come to play a major role in alleviating poverty in these countries.

East Asian countries have generally been very successful in eradicating large scale poverty. These countries include China, Indonesia, Thailand and Vietnam where both the absolute number of poor and the percentage of population under the poverty line have declined. South Asia (India, Pakistan, Bangladesh and Nepal) has achieved modest success by reducing the percentage of population under the poverty line from 60 percent in 1960s to 30 percent by 2003. At the other extreme, Africa saw an increase in both absolute number of poor and poverty incidence.

MDGs

Pakistan is committed to the achievement of the Millennium Development Goals (MDGs) as reflected in its development strategy and also included in the Medium Term Development Framework, MTFD (2005-10). The government aligned the PRSP strategy with achieving the MDGs. The MDG with regard to eradicating poverty seeks to reduce by half the proportion of population below the poverty line (to 13 percent by 2015) and halve between 1990 and 2015, the proportion of people who suffer from hunger and reduce the proportion of children under 5 years who are underweight for their age.

A Report published in 2010 shows that the deterioration that had set in the economic and political situation in 2007 and 2008 is likely to have adversely affected the poverty situation and employment in the country. Economic growth had declined, inflation was rising and the IMF programme had removed a large

number of subsidies. The Report says that it is likely for poverty to have risen since 2008, for the factors mentioned above are all known to aggravate poverty.

Government's increasing commitment to reduce poverty

Realizing the significance of poverty alleviation as not only an end in itself but also as a critical factor for sustaining future economic growth, the government has been showing an increasing commitment to reduce poverty. It has been a major concern of successive governments, but it was explicitly stated as an objective only in the Interim Poverty Reduction Strategy Paper (November 2001). The IPRSP was the first attempt to formulate a strategy with a long term poverty alleviation perspective. Its focus was to revive growth, improve human development and governance and reduce the vulnerability of the poor to shocks. Structural reforms were undertaken to improve the overall working of the economy. These pertained to tax system, tax administration, trade, financial sector, fiscal, agricultural, governance etc. This brought some positive results, as it helped improve the country's macroeconomic fundamentals and social sector outcomes.

After further refinement, the IPRSP evolved into the Poverty Reduction Strategy Paper in December 2003 for the period upto 2006. There was strong focus on income generating opportunities, pursuing stable macroeconomic policies, attaining the MDGs for sustainable development and poverty reduction. Vital elements of the PRSP included the devolution programme, human development and rural development strategy. It also covered gaps in the poverty reduction strategy identified in the IPRSP. It has been a key strategy document of the government for social development of the country.

PRSP II was finalized in FY2008-09 covering the period 2008-09 to 2010-11. It took into account the prevailing socio economic developments, both domestic and international and built upon the government's nine point economic reform poverty reduction agenda.

The nine pillars were: macroeconomic stability and real sector growth; protecting the poor

and the vulnerable; increasing productivity and value addition in agriculture; integrated energy development programme; making industry internationally competitive; human development for the 21st century; removing infrastructure bottlenecks through public-private partnership; capital and finance for development; and governance for a just and fair system.

As against this, PRSP I was built around four pillars; including, accelerating economic growth while maintaining macroeconomic stability; improving governance; investing in human capital; and targeting the poor and vulnerable.

This Report has discussed at length the outcomes of PRSP I. Highlights of the progress made in achieving the social sector outcomes is given below: -

- Macroeconomic indicators improved during the period 2003-07.
- Rising rate of inflation was a cause of concern.
- Some progress achieved in indicators for sectors like education, health, access to drinking water and housing.
- Poverty headcount in Pakistan fell from 34.5 percent of the population in FY2011 to 22.3 percent in FY2006. This decline was in marked contrast to the rapid increase during the 1990s.

PRSP-I Outcomes

- Decline in poverty occurred in both urban and rural areas.
- While literacy increased during the period FY2001-02 and FY2006-07 from 45 to 55 percent, it missed the target of 59.5 percent set in PRSP-I for the same year.
- Female literacy rate is only improving steadily in Punjab, while witnessing fluctuations in the rest of the country.
- Progress has been made in gross enrolment rate and net enrolment rate at the primary level.
- Gender disparities in education remains a major challenge.

- The role of private sector in primary education has increased over time.
- During the PRSP-I, the target set for access to safe drinking water, an indicator of the PRSP and MDGs, was not achieved.
- The number of employed persons had increased, surpassing the PRSP-I target of 42.03 million in FY2005-06.
- Informal sector employment has increased.
- Cumulative pro-poor budgetary and non-budgetary expenditures as a share of GDP has increased from 3.77 percent in FY2001-02 to 5.46 percent in FY2007-08.

During this period a Federal Fiscal Responsibility Act was passed (2005) that made it obligatory for the Government to spend at least 4.5 percent of GDP on pro-poor sectors and double the expenditures as percentage of GDP on health and education in the next ten years.

The Poverty Reduction Strategy Paper II seeks to steer Pakistan's economic growth back to the range of 5-7 percent a year by stimulating growth in the production sector, creating adequate employment opportunities, improving income distribution etc. PRSP II period saw sluggish economic growth, political instability, war against terror, global financial crisis, food and fuel inflation. Recent trends suggest that poverty in Pakistan is on the rise again.

Partly as a result of the wide ranging reform programme articulated in Pakistan's Poverty Reduction Strategy Paper, the economy grew at an average rate of 7.3 percent annually from the beginning of 2000 to the first half of 2007, with moderate inflation. According to the Economic Survey, the national poverty rate fell by more than 11 percent points between 2001-2002 and 2005-06, lifting more than 17 million people out of poverty. Social indicators showed some improvement.

However, in recent years Pakistan has faced new challenges to growth and stability. Economic instability was accompanied by

political turmoil. In addition, Pakistan's security situation deteriorated as spillover from the war in Afghanistan. These have brought major costs and new challenges for development, including the displacement of more than two million people.

The Government of Pakistan recognizes that social protection and provision of social safety nets have a major role to play in providing pro-poor growth and tackling inequality. Safety nets are transfer programmes which seek to prevent the poor or those vulnerable to shocks and poverty from falling below a certain poverty level. In this regard, the Government has undertaken some new initiatives as well as strengthened earlier ones. Safety net in the form of direct cash transfers both budgetary and non-budgetary include Zakat, Pakistan Baitul Maal (PBM), Employees Old Age Benefit Institution (EOBI), Workers Welfare Fund (WWF), Benazir Income Support Programme (BISP) and Microfinance is the central instrument for alleviating the suffering of the poor. Expenditures on PBM, BISP and Social Security and Social Welfare have been included in the budgetary part of pro-poor expenditures. Expenditures on Zakat, EOBI and WWF have been included in the non-budgetary part of pro-poor expenditures.

Social safety nets

Zakat levied at 2.5 percent on the wealth of all muslims is transferred to the needy as subsistence allowances, educational stipends, healthcare, social welfare and marriage assistance. Pakistan Bait-ul-Maal provides assistance to poor households who do not benefit from zakat. The two main programmes include the Food Support Programme merged with Benazir Income Support Programme in 2009-10 and Individual Financial Assistance. The EOBI, the WWF and the Employees Social Security Institutions (ESSI) are the three major labour welfare programmes in the country.

Zakat

BISP is the new cash transfer based programme initiated by the present government, which provides a cash grant of Rs1000 to each deserving household based on the established criteria. Upto 5 million

poor households are expected to receive assistance under the Programme. An amount of Rs15.3 billion was disbursed during 2008-09 while Rs32 billion was disbursed in 2009-10. An allocation of Rs50 billion has been kept during the current financial year for this purpose. There are a number of microfinance

providers in the country, which are trying to ensure wider outreach, thus positively impacting the livelihoods of large numbers.

Given below is the data in relation to disbursement and beneficiaries of the various programmes in practice.

Direct Transfers and Beneficiaries

Programmes	Disbursement/ Beneficiaries	(Rs. Mn)									
		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 upto Q3
Zakat	Amount disbursed	5254	8009	5330	3692	4520	4612	2482	2877	2874	-
	Total beneficiaries*	1710	1754	1639	1370	2373	2494	1457	1085	1289	-
Pakistan Bait- Ul-Mal (all Programmes	Amount disbursed	-	-	3159	3270	3838	3911	5521	3432	2261	1678
	Total beneficiaries*	-	-	1614	1671	3130	1460	2129	1159	2110	596
Micro-credit	Amount disbursed	1049	2337	2979	5158	6655	9947	13138	28669	33775	26949
	Total beneficiaries*	76	249	286	470	606	906	1154	1939	1966	2101
EOBI	Amount disbursed	1366	1592	1742	1929	2899	3446	4237	5787	6442	5059
	Total beneficiaries*	NA	108	115	121	281	260	273	290	310	-
All Programmes	Amount disbursed	7669	12119	13265	14322	17912	21916	26974	-	-	-
	Total beneficiaries*	1810	2078	3654	3632	6390	5120	5563	-	-	-

* Thousand Numbers

Source: Poverty Reduction Strategy Paper, Annual Progress Report FY2007-08

Evaluating
the Social
safety net
programs

Evaluating the social protection programmes practiced in Pakistan, the Asian Development Bank in its report entitled, *Pakistan Poverty Assessment Update, December 2008*, states, despite the general overall increase in social safety expenditures in recent years, major concerns remain regarding the limited coverage of existing social safety instruments and hemorrhaging of funds on account of leakages. The programmes are also not well targeted and often do not reach the neediest. In order to reduce leakages, the payments under social protection programmes are now being routed through banks and post offices. A new management information system is being piloted in three districts to cross-check data against the disbursements made under these programmes. Leakages, however, remain profound under the current social protection programmes and badly affect the efficiency of targeted programmes.

For zakat, it states, while zakat enjoys a broad-based source of funding, its redistributive

function is marred by substantial targeting errors and leakages that can be as high as 30 percent of total payments. Pakistan Bait-ul-Maal is heavily reliant on budgetary support and therefore vulnerable in times of fiscal stress. Labour Welfare Schemes, the Report states, across the board however, these programmes face issues of poor accountability and weak governance mechanisms and low coverage. The findings of a recent impact study of Khushali Bank's microfinance programme established the programme's positive impact on livelihoods and empowerment of women.

Lack of food security is an important indicator of vulnerability says the Asian Development Bank (ADB) in its Report, *Poverty Assessment Updated Pakistan, December 2008*. The rising food prices between February 2005 – February 2008 has generated new concerns with regard to food security for the most affected poor and the vulnerable. It has been estimated that a 20 percent rise in food prices in Pakistan

Box

***Targeting Efficiency of Poverty
Reduction Programs in Pakistan***

*G. M. Arif
Asian Development Bank*

The challenge of poverty in Pakistan is huge. In its poverty reduction strategy, the government seeks to besides other areas focus on augmenting targeted interventions and expanding social safety nets so to transfer benefits directly to the poor. The below mentioned paper examines the efficiency of three large poverty reduction programs: zakat, microfinance and Lady Health Workers.

We give below excerpts from the paper.

- Pakistan's approach to poverty reduction, as outlined in the Government of Pakistan's Poverty Reduction Strategy Paper (PRSP), focuses on sustained high economic growth with an emphasis on (i) developing human resources, (ii) promoting good governance, and (iii) targeting the poor and vulnerable.
- This paper focuses on the targeting performance of three of the main poverty reduction interventions that are implemented across Pakistan:
 - (i) pure income transfers – zakat,
 - (ii) self-employment – microfinance, and
 - (iii) “doorstep” provision of preventive health facilities – the Lady Health Workers Programme (LHWP).
- The coverage of public zakat is, however, far smaller than the eligible population merits.
- Overall, more than a third of zakat recipients (35%) reported that they did not receive the full amount of zakat due to them (2000/01 PSES). Forty percent of the urban zakat recipient sample did not receive the full amount due, while the corresponding figure for rural areas was 34%.
- The analyses also show that there is large number of poor households who deserve to be classified as mustahiqeen. The limited resources available to local zakat committees (LZCs), however, do not allow them to reach all the poorest of the poor. For the LZCs, it is not easy to select only a few beneficiaries from among a large pool of poor households. The Government should therefore consider seriously enhancing the resources that are disbursed as public zakat, but concomitantly improve the selection procedure for mustahiqeen as well as the transparency of the system – this would help

ensure that poor beneficiaries receive the full benefits of zakat.

- The Lady Health Workers Programme is a broad-target scheme that was designed in the early 1990s, with the objective of providing basic community services to all poor rural and urban areas in Pakistan. Under the program, a large number of lady health workers were stationed in each district of the country, the majority placed in rural areas.
- Current coverage of public zakat is far less than the eligible population. In 2000/01, one third of Pakistan's total households were below the poverty line, making approximately 7 million households eligible for zakat. Even assuming that all public zakat funds were disbursed only among these poor households and there was no leakage to nonpoor households, coverage was abysmally low, hardly a tenth of the needy population.
- About 80% of households who applied for zakat from a public source were also located in rural areas, whereas one third of households who neither applied for nor received zakat were from urban areas. These simple statistics reinforce the argument that needy beneficiaries are concentrated in rural areas. The distribution of zakat primarily in such areas is thus a step in the right direction.
- Politicization, i.e., favors for political gain, seems to be a major problem affecting the distribution of zakat.
- The results of this study show that public zakat currently covers far fewer households than the number actually eligible. The problem is practical rather than theoretical: there are insufficient zakat funds to provide all poor households with their basic needs. The findings of this study suggest some success in zakat targeting, particularly in rural areas, but this is marred by the leakage of zakat funds to relatively better-off households, particularly in urban areas. One solution to this is to constitute urban zakat committees only in poor slum areas to ensure that the benefits are transferred to those households most in need, while private zakat givers living in affluent urban communities look after needy beneficiaries living in their localities.
- There is a significant amount of leakage in terms of beneficiaries who fail to receive the full amount of zakat they are entitled to. This is manifested in an

Continued on Page 14

Box

***Poverty Alleviation Policies, Programmes and Outcomes in Pakistan
Poverty in South Asia: Challenges and Responses
Human Development in South Asia - 2006***

Despite achieving a reasonable economic growth rate, Pakistan's progress in terms of human development and poverty reduction has been much slower. The country has over the years, initiated various poverty alleviation programmes. A section of the above mentioned chapter of the Human Development Report 2006 seeks to review these programmes. We give below some excerpts from that section of the said chapter, in particular, which reviews the poverty alleviation programmes.

- There are two major factors that are limiting the pace of poverty reduction in Pakistan. First, inequality both in income and physical assets as well as in human development indicators has been growing in Pakistan over the years.
- With rising inequality, the benefits of economic growth do not trickle down to the poor. Second, human deprivation in terms of low education, poor health and sanitation facilities, non-availability of clean drinking water etc. are all restricting the poor to be a part of the growing economy of Pakistan.
- There are two major factors that are restricting the poor in Pakistan to benefit from rising economic growth. First, lack of human capital in terms of education, training and health is preventing the poor to benefit from economic growth. Second, the poor are not provided with enough income earning opportunities in terms of jobs.
- No doubt, the long term solution to poverty in Pakistan lies only in accelerated human development along with the generation of adequate employment opportunities.
- Realizing the significance of poverty alleviation as not only an end in itself but also as a critical factor for sustaining future economic growth, the government of Pakistan has been showing an increasing commitment to reduce poverty.
- The success of poverty reduction efforts is, therefore, contingent upon the integration of the poor and communities through participatory institutions along with a carefully crafted system for provision of requisite financial resources to the communities.
- The zakat system is one of the major poverty alleviation programmes in Pakistan.

- There are certain positive features of the system of cash transfers under zakat. These include:

- (a) its fiscal sustainability,
- (b) its strong redistributive function, and
- (c) low administrative cost due to the voluntary nature of most of its administrative tiers.

- Despite these positive features, there are certain concerns that are undermining the potential of zakat as an effective poverty alleviation programme. First, the programme lacks financial transparency.

Second, the programme has a modest coverage and the level of assistance per beneficiary is inadequate.

Third, the targeting of the programme is weak in the sense that a disproportionate share of zakat is captured by the non-poor.

Fourth, the identification of the poor – that is the most vital element to ensure efficient targeting – is weak. The identification of the eligible candidates is primarily done by the Local Zakat Committees that are highly susceptible to political influence.

- One of the major weaknesses of Pakistan Bait-ul-Mal (PBM) is its heavy reliance on budgetary support, rendering it vulnerable in times of fiscal stress. The coverage of the programme is inadequate since it reaches a mere 25 percent of the poorest 20 percent households. The size of the assistance is small since it meets less than 20 percent of the income gap of those living in abject poverty. There are too many programmes spreading PBM over areas it does not have comparative advantage. There is also a lack of internal controls and a high level of political interference.

- In Pakistan, improved access to small credit is seen as a potent means for increasing the income of the poor. Microcredit has a track record of meeting the demands and needs of the poor at the grassroots level.

- The coverage of micro-credit from all the above windows is limited and not fully catering to the substantial demand for credit.

- The implementation of poverty alleviation programmes suffer from several problems such as inadequate coverage, weak identification of the poor, political interference, deficient targeting, and lack of financial transparency.

could increase the incidence of poverty by as much as 8 percentage points. A previous ADB paper, *Food Security in Pakistan*, studies the status of food security in Pakistan confirms the issue of inequity in the distribution of food supply. The study noted that food supplies in Pakistan, notably protein and energy supplies rose over the last decade – daily per capita protein supplies increased from 58 grams in 1990 to 63 grams in 2001 (an 8% increase), while daily per capita calorie supplies increased from 2315 in 1990 to 2457 in 2001 (an increase of 6.1%). It concluded that the persistence of hunger despite this increase in per capita food indicated that food insecurity in Pakistan was really a problem of sub-optimal distribution and not so much a problem of insufficient availability of food.

The ADB in a paper, *South Asia Working Paper Series No.10* has estimated the price elasticity of poverty, which measures the percentage increase in poverty when food prices increase by 1 percent. It measures the effect of food prices rising by 10 percent, 20 percent and 30 percent in the change in percentage of poor and the total headcounts of poor in South Asia.

Impact of Food Price Increases on Poverty for South Asia vs. Developing Asia (25 Countries), \$1.25-a-day Poverty Line

	Change in percentage of poor (in percentage points) with an increase in food prices by:			Change in number of poor (in millions) with an increase in food prices by:		
	10%	20%	30%	10%	20%	30%
Afghanistan	n/a	n/a	n/a	n/a	n/a	n/a
Bangladesh	2.5	5.0	7.5	3.8	7.7	11.5
Bhutan	1.8	3.5	5.3	0.01	0.02	0.03
India-Rural	2.9	5.8	8.8	22.8	45.6	68.5
India-Urban	2.1	4.3	6.4	6.7	13.4	20.0
India average*/sum	2.7	5.4	8.1	29.5	59.0	88.5
Nepal	2.0	4.1	6.1	0.6	1.1	1.7
Pakistan	2.2	4.5	6.7	3.47	6.9	10.4
Sri Lanka	1.2	2.4	3.6	0.24	0.47	0.71
South Asia average/sum	2.1	4.1	6.2	37.6	75.2	112.8
Percentage of increase in total poor in developing Asia by South Asia				58.4%	58.4%	58.4%
Developing Asia	1.9	3.9	5.8	64.4	128.8	193.2

Source: ADB South Asia Working Paper Series 10.

The war on terror, the security concerns, natural disasters have changed the budgetary priorities of the government. Natural disasters create large scale destruction leaving large

Budgetary priorities change

proportion of the population vulnerable to disease, loss of livelihood, etc. The earthquake of 2005, reportedly resulted in a loss in employment and livelihood of more than 324,000 jobs or around 29 percent of the total employed population (above age 10) in the eight affected districts of AJK and Khyber-Pakhtunkhwa. The largest job losses were in agriculture, small business/shops and construction. The floods 2010 affected over 20 million people and the reconstruction costs associated with the floods were estimated at approximately \$8.74–\$10.85 billion. Given the spread of the damage that they have caused to standing crops, livestock, public infrastructure, the economic costs were substantial.

Besides the above, infrastructural shortages are causing immense damage to the economy, as they not only constrain growth, but have implications on employment, exports and development in general. Frequent and prolonged period of power outages has particularly hit the industrial sector. The Institute of Public Policy in their Annual Report 2010, show that the cost to the economy of outages to the industrial sector in 2009 were Rs230 billion, equivalent to 11 percent of industrial employment, partly in the case of daily wage and part time workers. Loss of employment has significant consequences on the level of poverty in the country, where already poverty is on the rise due to rising prices and lower growth.

The war on terror and the resulting security crisis in the country have impacted the budgetary priorities of federal and provincial governments. Security related expenditures in Pakistan have grown in recent years. Social Policy and Development Centre in their Annual Report 2009-10, state, “the combined federal and provincial expenditures on security reached Rs800 billion or 4.7 percent of GDP in 2010-11 compared to Rs177 billion or 4.2 percent of GDP in 2000-01, indicating an average cumulative growth of 17 percent per annum. While the growth in security related expenditure remained in double digits during the entire period, it grew at a much faster rate of 22 percent per annum in the later part of the 2000s.”

Costs of terrorism are both direct and indirect. These have been identified by the Institute of Public Policy in their Annual Report 2009. Direct costs include:

Costs of terrorism

- value of human lives lost or of injuries
- value of property or infrastructure destroyed or damaged
- costs of enhanced spending on security.

Indirect costs identified include:

- delay in implementation of development projects in affected areas
- slowing down of domestic economic activity
- increased unemployment in affected regions
- costs of displacement of local population.

Expenditure for maintenance of law and order, defence has increased over the recent years. Then there are costs of internally displaced persons in terms of potential relief and rehabilitation costs. Higher security expenditure says the report run the risk of 'crowding out' other expenditures related to the provision of basic social and economic services and thereby having an adverse impact especially on the lower income groups.

Trends in Security Related Expenditure

(Rs.bn)					
Year	Defence Affairs & Services	Federal	Provincial	Total Security	As a %age of GDP
2000-01	145.9	10.1	21.4	177.3	4.2
2001-02	190.9	10.3	23.8	225.0	5.1
2002-03	230.5	11.7	28.5	270.6	5.6
2003-04	239.0	14.0	35.7	289.7	5.1
2004-05	294.7	17.5	39.7	351.9	5.4
2005-06	332.9	20.4	51.7	405.0	5.3
2006-07	351.1	22.9	62.0	436.0	5.0
2007-08	344.5	26.1	70.5	441.1	4.3
2008-09	422.2	27.3	89.4	539.0	4.2
2009-10	533.7	37.4	119.1	690.2	4.7
2010-11	611.9	51.3	136.5	799.7	4.7
<i>Average Growth Rate (%)</i>					
FY01 to FY11	15.9	18.2	20.6	16.6	1.6
FY01 to FY08	13.6	14.8	18.8	14.2	0.9
FY08 to FY11	21.2	26.2	24.9	22.0	3.2

Source: SPDC Annual Review 2009-10

The poor also suffer from the loss of property and livelihoods in the affected areas which are among the most backward regions of the country. In effect, the war on terror has shifted expenditure priorities away from the social sector. There was a slow down in the pace of social development during the later part of 2000. The Table given below shows the trend in poverty related expenditures as percentage of GDP from 2001-02 to 2009-10 after excluding subsidies.

Category-wise PRSP Expenditures as percentage of GDP

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
I. Market Access and Community Services	0.2	0.3	0.5	0.6	0.8	0.9	1.0	1.0	0.8
Roads, Higways & Bridges	0.1	0.3	0.4	0.5	0.7	0.7	0.8	0.8	0.6
Water Supply & Sanitation	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
II. Human Development	1.9	2.1	2.3	2.4	2.5	2.6	2.5	2.6	2.3
Education	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.9	1.5
Health	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.7
Population	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
III. Rural Development	0.5	0.7	0.8	0.9	1.0	1.2	1.5	1.1	1.3
Agriculture	0.2	0.3	0.4	0.6	0.8	0.9	1.2	0.7	0.7
Land Reclamation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rural Development	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.1	0.4
Peoples Works Programme-II	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.2
IV. Safety Nets	0.2	0.1	0.1	0.1	0.4	0.2	0.4	0.4	0.5
Social Security & Welfare	0.1	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.4
Food Support Programme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Peoples Works Programme-I	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Natural Calamities	0.0	0.0	0.0	0.0	0.3	0.1	0.1	0.1	0.1
Low Cost Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
V. Governance	0.7	0.8	0.7	0.8	0.1	0.1	0.9	0.9	1.1
Law & Order	0.7	0.8	0.7	0.7	0.0	0.0	0.9	0.8	1.0
Justice Administration	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Adjusted PRSP Expenditures	3.6	4.1	4.5	4.8	4.9	4.9	6.3	5.9	5.9

Source: SPDC Annual Review 2009-10

The serious economic and political challenges, along with the severe earthquake (2005), floods (2010), infrastructural bottlenecks, the rise in the incidents of militancy and terrorism and their spread from the tribal areas to all parts of the country have had a severe adverse effect on social and economic progress. Funds have had to be redirected to other heads, undermining development priorities. All this has adversely affected progress in the achievement of the Millennium Development Goal (MDG) targets.

The Social Policy and Development Centre (SPDC) in their Annual Review 2009-10, has in one of the chapters focused upon the progress Pakistan has made in key goals including poverty reduction, education, health and water supply.

Reduction of extreme poverty to half by 2015 is the first MDG. The MDG Report 2010, shows that the three indicators related to this goal have worsened since 2006 and this goal lags behind the target. There are no recent poverty numbers available, but partial evidence suggests a worsening in income inequality. Since 2008, with the multiple crisis faced by Pakistan, with the economy slowing down and the quality of life deteriorating, it is equally likely that poverty would have risen again. SPDC estimates show the incidence of poverty to be 38 percent in 2007-08, and may have crossed 40 percent by end 2010.

A section of the Report highlights the progress in some of the indicators of the MDGs during the ongoing security crisis. These relate to poverty, education and literacy and health. Both education and health form part of human conditions and affect the poverty level in the country. Improvements in the education sector, raises the literacy level, improves living standards, enhances quality of life and contributes to economic growth and stability. Education also affects other outcomes, like health, employment, income generation, maternal and infant mortality, family health, fertility levels and population growth.

Poverty is both a cause and consequence of poor health. Poor people are vulnerable to diseases for they live in environments without clean water, sanitation and decent shelter. They do not have the resources to use the health services available if they fall sick, which has serious consequences for their health. Health perspective is reflected in poverty reduction strategy. The Poverty Reduction Strategy Paper II reflects government's commitment towards achieving the MDGs.

The progress regarding reduction of extreme poverty to half by 2015 (the first MDG) has been mentioned in the preceding paragraphs. The MDG 2 (achieve universal primary education) and MDG 3 (promote gender equality and women's empowerment) relate to the need for greater access to primary education.

The Millennium Development Goals Report 2010, shows that progress is slow with regard to achievement of Goal 2 is concerned and all three indicators lag behind targets. The MDG target of achieving 100 percent literacy by 2015 requires a substantial increase in the next few years. A considerable shortfall is expected in achieving the set targets. The Report points at the decline in completion rate, which implies that more than a quarter of the students enrolled in primary schools do not complete their education. The ongoing security crisis has also affected the achievement of universal primary education. Primary net enrollment rate, which had made significant progress in the first half of 2000s, slowed down in later years. Similarly, the increase in literacy rate has also slowed down, says the SPDC Report.

Goal 4 of MDGs states that under five mortality rate should be reduced by two-thirds, between 1990 and 2015. Pakistan has hardly made any progress in this indicator. With regard to other indicators of child health, improvement has been limited in the later half of 2000. There has been a setback to most of the indicators of social development after 2004-05. Higher

spending on security because of the continuing war on terror, the deteriorating law & order condition has reduced public spending on

social services and caused a slowdown in the pace of social development, consequently impacting poverty.

Box

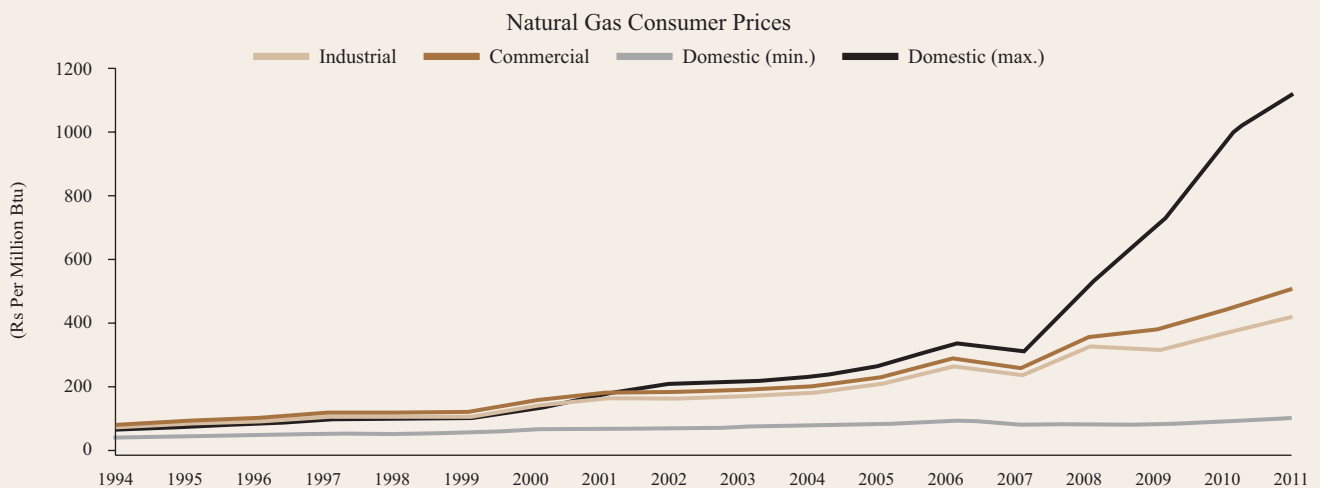
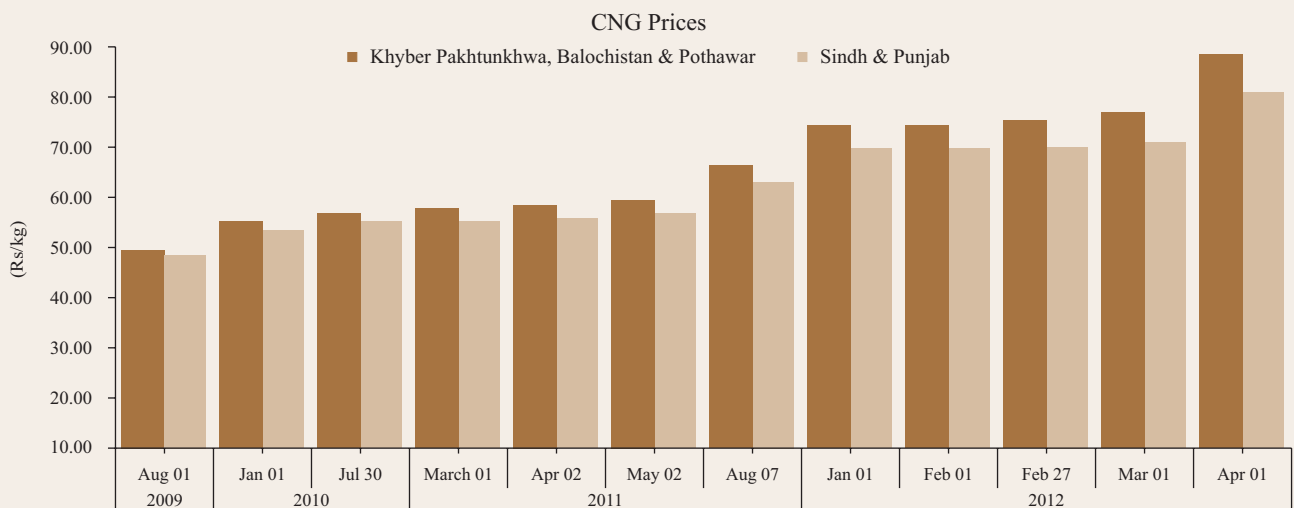
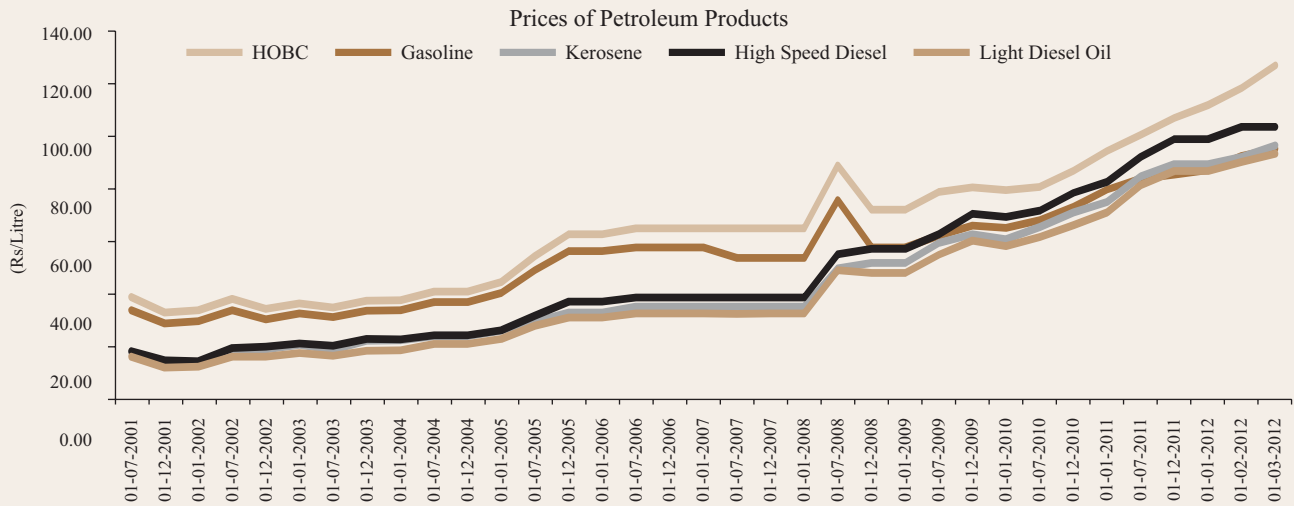
organized system of bribery and corruption, which reduces the value of the transfers made to the poor.

- Another important component of the Government’s poverty reduction strategy is the expansion of the microfinance facility to channel benefits to the poor.
- The Rural Support Programmes approach involves a number of key players in the process of poverty targeting. These include social organizers and activists within communities, who bear the greatest responsibility for ensuring participation of the poor and channeling program benefits to them.
- Most microfinance organizations use a loose criterion to identify poor and non-poor households.
- Other important variables that need to be considered when targeting the poor through microcredit programmes include household income, expenditure, and poverty status.
- Moreover, the result of the analysis show that one fifth of the zakat recipients in the sample study were from the third and fourth income quintiles, i.e., beneficiaries

who do not necessarily classify as the poorest of the poor.

- It is commonly argued that poverty targeting is intrinsic to microcredit program design because the affluent are not likely to want small loans, perhaps for reasons of social status.
- Small loans are also better suited to the repayment capacities of the poor. In spite of this, most microfinance programs fail to target the poorest households, a key reason being that there is no verifiable mechanism for identifying the poor.
- The third poverty reduction program assessed here is the LHWP. The broad conclusion that can be drawn is that the LHWP has not yet reached the most disadvantaged areas or the poorest households.
- The paper’s analyses thus provide broad guidelines for improving the targeting efficiency of narrow-target programs in general and zakat in particular. Its key recommendation is the development of a transparent mechanism based on household physical and social assets that could help identify the poor and ensure that cash/in kind benefits are transferred to such households.

Trend in Petroleum & Gas Prices



Key Indicators of Islamic Banking Sector - Pakistan

(Rs bn)

	2003	2004	2005	2006	2007	2008	2009	2010
Assets	13	44	71	119	206	276	366	477
% of banking industry	0.5	1.4	2.1	2.8	4.2	4.9	5.6	6.7
Deposits	8	30	50	84	147	202	283	390
% of banking industry	0.4	1.3	1.8	2.6	3.8	4.8	5.9	7.2
Financing & Investment	10	30	48	73	138	186	226	338
% of banking industry	0.5	1.3	1.7	2.3	3.5	4.3	4.5	6.2
Liabilities	11	39	64	103	176	240	324	431
Capital / Equity	2	5	8	16	29	36	42	44
Markup Income	0.4	1	3	6	13	22	32	36
Markup Expenses	0.2	0.5	2	3	7	11	17	20
Net Markup Income	0.2	0.6	2	3	6	11	14	16
Provision Expenses	-0.002	0.006	0.2	0.2	0.8	1	3	3
Non Markup Income	0.3	0.6	1	1	2	2	4	4
Operating Expense	0.3	0.8	1	3	6	10	13	15
Profit (B.T)	0.2	0.4	1	0.8	2	2	2	3
Profit (A.T)	0.2	0.3	1	0.9	2	2	2	2
Full Fledged Islamic Banks (Nos)	1	2	2	4	6	6	6	5
Conventional Banks with Islamic Banking Branches (Nos)	3	7	9	12	12	12	13	13
Total No. of Branches	17	48	70	150	289	515	651	751

Source: State Bank of Pakistan

Islamic Banks Operating in Pakistan as on December 31, 2010

	No. of Branches	Commenced Operations
1. Al Baraka Islamic Bank	89	1991
2. Bank Islami Pakistan Limited	102	March 31, 2005
3. Dawood Islamic Bank Limited	50	April 27, 2007
4. Dubai Islamic Bank Pak Limited	51	March 20, 2006
5. Meezan Bank Limited	220	March 20, 2002

Performance of Islamic Banks Operating in Pakistan

(Rs Bn)

Banks	Assets			Equity			Deposits			Advances			Investment		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	85.3	124.2	154.8	6.3	9.1	10.7	70.2	100.3	131.1	39.5	41.7	54.2	14.5	23.3	55.0
Dubai Islamic Bank Pakistan Ltd	32.0	35.4	39.9	5.1	6.0	6.0	25.5	28.0	31.4	18.1	20.6	22.8	3.0	2.8	5.9
Al Baraka Islamic Bank	16.5	19.8	60.8	4.1	3.5	6.1	10.9	15.1	49.3	7.8	9.4	26.9	2.8	3.4	15.6
Bank Islami Pakistan Limited	19.1	34.3	45.0	5.2	4.7	4.7	12.5	28.0	38.2	6.3	10.5	16.7	5.0	6.8	13.7
Dawood Islamic Bank Limited	9.6	13.1	17.7	4.1	4.8	4.3	5.1	6.8	12.6	5.6	4.8	5.6	2.0	2.9	5.1
Total	162.5	226.8	318.2	24.8	28.1	31.8	124.2	178.2	262.6	77.3	87.0	126.2	27.3	39.2	95.3

	Interest Income			Interest Expense			Net Interest Income			Non Interest Income			Revenue		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	6803	10102	12290	3088	4970	6606	3715	5132	5684	708	1598	2475	4423	6730	8159
Dubai Islamic Bank Pakistan Ltd	2724	3647	4072	1377	1806	2130	1346	1841	1942	336	365	366	1682	2206	2308
Al Baraka Islamic Bank	1060	1914	2199	598	1235	1659	462	679	540	95	302	247	557	981	787
Bank Islami Pakistan Limited	1469	2177	3806	729	1222	2057	739	955	1749	196	343	207	935	1298	1963
Dawood Islamic Bank Limited	855	1132	1263	403	651	726	452	481	537	46	57	64	498	538	601
Total	12911	18972	23630	6195	9884	13178	6714	9088	10452	1381	2665	3359	8095	11753	13818

	Admn Expense			Operating Profit			Provision/Other Expense			Profit/Loss (B.T)			Profit/Loss (A.T)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	2627	3530	4461	1796	3200	3698	804	1460	1571	992	1740	2127	621	1025	1650
Dubai Islamic Bank Pakistan Ltd	1791	1724	2096	-109	482	212	162	130	194	-271	352	18	-182	227	8
Al Baraka Islamic Bank	950	1411	1509	-393	-430	-722	-2	369	851	-391	-799	-1572	-260	-564	-1040
Bank Islami Pakistan Limited	1028	1755	1896	-93	-457	68	136	122	23	-229	-579	45	-53	-489	47
Dawood Islamic Bank Limited	434	686	987	64	-148	-386	4	257	439	60	-405	-825	33	-293	-535
Total	6830	9106	10949	1265	2647	2870	1104	2338	3078	161	309	-207	159	-94	130

	Cost of Fund			Intermediate Cost			Pre-Tax Margin			Net Profit Margin			Net Interest Margin		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	4.7	5.4	5.4	4.0	3.9	3.6	13.2	14.9	14.4	14.0	15.2	20.2	5.7	5.8	4.9
Dubai Islamic Bank Pakistan Ltd	6.6	6.7	7.0	8.6	6.4	6.9	-8.9	8.8	0.4	-10.8	10.3	0.3	6.5	6.8	6.3
Al Baraka Islamic Bank	7.4	9.2	4.9	11.7	10.6	4.5	-33.9	-36.1	-64.3	-46.7	-57.5	-132.1	4.6	4.7	1.7
Bank Islami Pakistan Limited	6.4	6.0	6.2	9.0	8.6	5.7	-13.8	-23.0	1.1	-5.7	-37.8	2.4	6.0	5.2	6.0
Dawood Islamic Bank Limited	10.1	10.0	7.0	10.8	10.6	9.5	6.6	-34.1	-62.2	6.6	-54.5	-89.0	6.4	5.0	4.3

	ROE			ROA			ROD			Non Interest Income			Interest Spread		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	10.3	13.3	16.6	0.8	1.0	1.2	1.0	1.2	1.4	16.0	23.7	30.3	5.7	5.9	5.1
Dubai Islamic Bank Pakistan Ltd	-3.9	4.1	0.1	-0.7	0.7	0.02	-0.9	0.8	0.03	20.0	16.5	15.9	6.5	6.7	6.2
Al Baraka Islamic Bank	-6.6	-15.0	-21.7	-0.2	-3.1	-2.6	-3.4	-4.3	-3.2	17.1	30.8	31.4	3.3	4.1	1.8
Bank Islami Pakistan Limited	-1.3	-9.9	1.0	-0.3	-1.8	0.1	-0.5	-2.4	0.1	21.0	26.4	10.6	5.4	5.8	6.8
Dawood Islamic Bank Limited	0.9	-6.6	-11.8	0.4	-2.6	-3.5	0.8	-4.9	-5.5	9.2	10.6	10.6	2.0	1.7	3.2

	Cost of Fund Earning Assets			Admn Expenses/Employee			Staff / Branch			Profit(A.T) / Branch			NPL/Gross Advances		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Meezan Bank Limited	4.7	5.6	5.6	0.9	1.1	1.2	17	16	17	3.7	5.1	7.5	3.7	8.6	8.4
Dubai Islamic Bank Pakistan Ltd	6.6	6.7	6.9	3.0	3.1	3.6	26	16	11	-7.9	6.5	0.2	1.9	3.7	8.4
Al Baraka Islamic Bank	6.0	8.6	5.1	1.9	2.4	1.4	12	10	12	-6.5	-9.4	-11.7	0.2	13.8	19.4
Bank Islami Pakistan Limited	5.9	6.6	7.0	0.9	1.2	1.4	12	14	13	-0.5	-4.8	0.5	3.5	9.1	5.4
Dawood Islamic Bank Limited	5.7	6.8	5.9	1.9	1.5	2.1	11	9	9	1.6	-5.9	-10.7	1.1	1.8	6.7

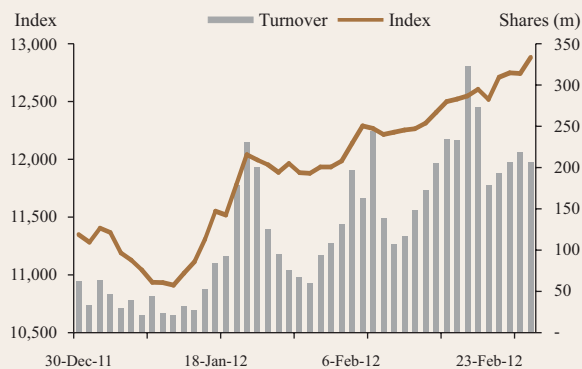
Source: Annual Reports of the Banks

Market Analysis

The market during the period January-February 2012 was bullish with strong volumes. Overall, the KSE-100 Index during January to February, 2012 gained 1,593 points or 14.0 percent to close at 12,877 on average daily turnover of 128.42 million shares.

The market was mostly positive during January 2012 due to the apparent resolution of the CGT issue in regards to its modalities and collection.

The Market (January-December 2011)



The market began 2012 on a negative note as the KSE-100 Index shed 438 points or 3.9 percent from the January 2 to 12 to close at 10,909. The first week of January saw profit taking in OGDC and NESTLE. The selling activity in OGDC might be attributed to the discouraging discovery numbers from Zin block. In addition, U.S. President signed into law the bill that would suspend US\$700m in military aid to Pakistan.

The bearish spell continued into most of the second week of the month mainly on the back of continuous depreciation of the Pak Rupee against the US Dollar and heightened tension between the government and the military. Further adding to investors' jitters was the Supreme Court's reprimand of the Prime Minister regarding the non-implementation of its NRO decision and articulated 6 options that the court may use to implement its decision.

The net outflow of foreign funds from the bourse during the first two weeks of the month was US\$6.50m. The Index staged a minor rally on January 13 based on news reports that the SECP has forwarded tax relief proposals to the FBR including reform of the collection mechanism for CGT. The KSE-100 gained 105 points to close at 11,014 on January 13. The fertilizer stocks bucked the negative trend during the second week due to hike in urea price by Rs210 per 50kg bag by ENGRO to compensate for the impact of GIDC.

During the third week of January, the market witnessed brisk turnover ahead of earnings announcements of major companies and positive expectations of investors that the Government of Pakistan will accept the proposals of the SECP regarding the CGT. The Index surged by 760 points (+6.9 percent WoW) to 11,774 on January 20. Average daily volumes ballooned by 208.8 percent during the week (86.88m shares) compared to the previous week when they averaged 28.13m shares. During the first 3 days of the week, the KSE-100 Index surged by 533 points to end January 18 at 11,547.

The bullishness in the market was driven by institutional buying interest in oil, energy and fertilizer stocks on the back of positive expectations of earnings and payout announcements. In addition, the appointment of Aitzaz Ahsan as Prime Minister Gilani's lawyer in the contempt of court case sent positive signals in the markets that a more reconciliatory tone may be used by the government in dealing with the judiciary. The market was slightly negative on January 19 because of profit taking in selective Index stocks such as OGDC. The market surged by 259 points on January 20; ahead of the finance minister's meeting with the stock brokers regarding CGT on January 21.

Market witnesses brisk turnover

Market was mixed The market was mixed during the fourth week of the month with a strong start and finish and

profit taking during the middle sessions. Average daily volumes rose by 67.2 percent WoW to 145.24m shares, while the Index was up by 185 points (+1.58 percent WoW) to 11,960 on January 27. On January 23, the market continued its bullish trend from February 13 on the euphoria of the Federal Finance Minister's announcement in the week to accept all the proposals of the SECP regarding the modalities of the CGT collection and freezing the tax rates for CGT for the next 2 years, as well.

The KSE-100 Index surged by 262 points to close Monday's session at 12,037. The next 3 sessions saw the market enter into a slight corrective phase. Technically, the market was gradually moving into the overbought zone which was one factor driving profit taking in selective Index stocks from the oil, banking and fertilizer sectors. Another driver for profit taking was the re-emergence of sectarian killings in Karachi. From January 24 to 26, the KSE-100 Index shed 153 points to 11,883. The market staged a minor recovery on January 27 (Friday) leading to a gain of 76 points. The KSE-100 Index remained lackluster for the last 2 sessions of the month. The Index shed 85 points to end the month on January 31 at 11,874.

The market displayed a gradual rise coupled with brisk volumes during the month of February under review on the back of buying activity by both local and foreign investors.

The market started February on a bullish note coupled with a spark in daily turnover. The KSE-100 Index gained 356 points or 3.0 percent from the beginning of the month to close on February 10 at 12,231. The buying activity in selective energy, banking, oil and fertilizer stocks on the back of renewed foreign interest was the main driver behind the positive movement in the Index. This sanguine activity was present despite the somber 1QFY12 review of the economy by the SBP, negative assessment by the IMF and Moody's Investor Service and resurgence of inflationary threat portrayed in the January 2012 figures.

February starts on a bullish note

The market made steady gains during the third week of the month on the back of buying interest in selective Index stocks by both local and foreign investors despite the status quo stance on the policy rate kept by the SBP on February 11. Average daily volumes were up slightly by 3.2 percent WoW to 175.04 million shares. The Index surged by 264 points (2.16 percent WoW) to 12,495 on Friday, February 17. The market started the week on a flat note as the Supreme Court charge sheeted the Prime Minister for contempt of court on February 13 causing some uncertainty among investors over the immediate political outlook.

Most of the activity on February 13 and 14 was concentrated on lower tier scrips. The KSE-100 Index gained 30 points over 2 sessions to close Tuesday (February 14) at 12,261. Turnover picked up over the next 2 days as there was buying activity in major Index stocks from oil, fertilizer and banking sectors. There was speculation regarding the early implementation of the pro-investment changes in CGT that were announced last month. In addition, ENGRO announced on February 16 annual results and payouts that exceeded market expectations. The KSE-100 Index jumped by 233 points from February 15 to 17.

The bulls remained in the driving seat for most of the fourth week of the month on the back of results announcement and foreign buying interest. Average daily volumes surged by 36.9 percent WoW to 239.62m shares. The Index rose by 210 points (1.69 percent WoW) to 12,706 on February 24, a 10-month high. The net foreign inflow of funds in the bourse during the week was recorded at US\$1.55m. The market registered steady gains during the first 3 days of the week due to buying interest in selective energy, cement and banking stocks in anticipation of earnings and payout announcements and finalization of debt swap deal of Rs136bn in the form of TFCs to relieve the short term borrowing on the balance sheets of the energy sector.

Average daily volumes rise

There was special focus in scrips such as DGKC, OGDC, UBL, HBL and MCB. The KSE-100 Index gained 107 points over 3 days to 12,603 on February 22, closing at a 14-month high. The KSE-100 Index shed 87 points on February 23 on the back of profit taking especially in OGDC as its 1HFY12 result was slightly disappointing. The market staged a fight back on February 24 as gains were recorded across the board led by buying interest in oil, power and banking sectors.

The KSE-100 Index made moderate gains over the last 3 sessions of the month. The Index increased by 171 points to end the month on February at 12,877.

The Pakistan market PE at 6.11x is trading at a 51.1 percent discount to the regional average of 12.50x. Based on dividend yield, Pakistan is the most attractive at 8.37 percent as compared to the regional average of 2.80 percent, followed by Taiwan (4.35 percent) and Thailand (4.06 percent).

Regional
Valuation

Regional Valuation Comparison

Country	12m F PEx	12m F Dividend Yield (%)
China	10.18	2.00
Hong Kong	12.41	2.88
India	12.05	1.54
Indonesia	13.00	2.41
Malaysia	13.91	3.31
Pakistan	6.11	8.37
Philippines	13.57	2.47
Singapore	13.03	3.54
South Korea	9.46	1.48
Taiwan	15.97	4.35
Thailand	11.40	4.06

Source: Thomson One Analytics, Date: February 16, 2012

With another earnings season ending, the focus will return to the political scenario and the upcoming budget expected in May. Many events are happening on the political front such as the contempt of court case against the Prime Minister, Senate elections and Memogate inquiry. Developments on the political scene might adversely impact investor sentiments in the immediate term. In addition, the changes in the CGT regime have not been officially notified by the GoP through legislation/ordinance and/or SRO, leading to more anxiety for investors heading into March.

Looking
Ahead

*(Contributed by Taurus Securities Ltd,
a subsidiary of National Bank of Pakistan)*

Book/Report Reviews

*Education in Pakistan
Learning from Research Partnerships
Ayesha Bashiruddin, Zubeda Bana
and Arbab Khan Afridi
Oxford University Press 2012*

In 2005, two Pakistani based universities, namely, the Aga Khan University – Institute for Educational Development (AKU–IED), in the private sector and Institute of Education and Research – Peshawar University (IER–PU) in the public sector and one Norway based university, viz Centre for International Education, University College Oslo, developed research partnership to work together to promote joint research studies, professional development of faculty and students and whole school improvement in teacher education in Pakistan. This book is based on research studies that were conducted and some papers which were presented in a conference collaboratively held by the project.

Three themes have been discussed in the book, namely, learning from research in schools, learning from research in teacher education institutions and learning from research in higher education. The first theme has four research studies; teaching grammar; beliefs and practices of teachers of English; effects of teaching and learning in large primary classes in Peshawar primary schools; the importance of the context in school improvement (the author reflects on and presents an analysis of the Whole School Improvement Programme which was designed and implemented in four government secondary schools established and run by the University of Peshawar and the fourth study is exploring indigenous leadership practices: case study of school principals in the Khyber Pukhtunkhwa province.

There are two studies with regard to the second theme. In the first chapter of this theme, the authors study both male and female perspectives about the role of teaching practicum on their learning to teach. The

second chapter on this theme, discusses the use of innovative teaching approaches through action research for B.Ed programmes. This research was aimed at studying how teaching and learning could be made more interactive and interesting for students of a B.Ed programme by using innovative teaching approaches through action research.

A third theme in the book is learning from research in higher education. There are three chapters in this section. The purpose of the first study entitled, ‘Graduate Students in Education in a Public Sector University in Pakistan: Quest for Quality’, was to understand students experience of their graduate studies and what they know about their programme, policies and procedures. What is the experience of graduate students from induction and course work to supervision and completion of their graduate studies in education.

The next chapter on this theme, entitled: ‘Improving Quality of Education through Enhancement of Teachers’ Capacity: Policy Implications for Higher Education in Pakistan’, discusses on what quality of education is and how it could be achieved in contemporary schools. The last chapter focuses on sharing some reflections and insights from the tripartite institutional cooperation between the two Pakistan universities and one Norway based university.

*Pakistan – A Dream Gone Sour
Roedad Khan
Oxford University Press
Ninth Impression 2011*

The book is a collection of the author’s personal reminiscences and observations based on nearly forty years in the service of Pakistan. It seeks to answer some questions like: how did the Pakistan dream turn sour? where did we go wrong? what has the role of our national institutions been and what is their contribution to the present unpleasant situation? is it our

destiny to be ruled by practitioners of the art of larceny, loot and plunder? is the nation already passing through its terminal stage? is it too late?

It is the story of six Presidents who ruled Pakistan from 1958 onwards. Each one of them, in his own way, has, directly or indirectly, contributed to our generation's anguish and sense of betrayal, to our loss of confidence in our rulers, in our country, in our future, in ourselves, and to the souring of the dream of Pakistan, writes the author.

In one of the chapters the author talks about Mr. Jinnah's concept of the role of civil servants in independent Pakistan. This is one of the least known speeches of the Founder of the Nation, says the author. The Quaid's advice to civil servants was to serve whichever government is formed according to the Constitution and whoever happens to be the prime minister, coming into power in the ordinary constitutional course. Little attention was paid to this advice. The author further writes, the most arduous search will not turn up many civil servants anywhere in the country today who do their duty as servants to the people and the state, fearlessly and honestly; who are not influenced by political pressure from any political party or individual politician, and who do not have a stake in supporting one political party or another, or one political leader or another.

In the chapter, 'fifty years of independence', the author writes, Pakistan today faces its moment of truth. There seems to be a crisis of public confidence in the country's future and in the institutions that constitute its political apparatus. He further states, Pakistan today presents an image of a country plagued by political, ethnic, and sectarian divisions. Never before has public faith in the country's future sunk so low. There is widespread and growing cynicism among the people. The country as a whole appears to be adrift, lacking confidence about its future. There is no leader able to prepare the country for the twenty-first century. Nobody knows where the country is headed without effective leadership to guide or direct it — and few seem to care.

*Company Law in Pakistan
2012*

Prof. Dr. Khawaja Amjad Saeed

This book is an updated and expanded edition of the author's earlier written book *Company Law in Pakistan* published in 1997. It incorporates changes in the Companies Ordinance and related legislation. Wherever relevant the amendments introduced have also been included in the concerned chapters. The new additions that have been made in updating the 2012 edition, includes among others; an executive summary of every chapter; inclusion of a separate chapter which summarizes amendments made in today's Companies Ordinance 1984, through various Finance Acts, 2007 and 2008. Self-test questions alongwith solutions have also been included at the end of each chapter.

The book consists of 19 chapters, where the last chapter, titled '*Latest Amendments*' discusses the extensive changes that have been made in the Finance Act 2007 and 2008. The summary at the beginning of each chapter, provides the readers an overview of the chapter.

The introductory chapter of the book provides the readers with the history of company law in Pakistan, related aspects, types of companies, powers and functions of the Commission etc. The following chapter describes in detail the promotion and incorporation of a company, followed by a chapter which gives in detail the preparation of *Prospectus*, followed by chapters on *Allotment, Shareholders of a Company, Management of Companies, Meetings and Resolution to Preparation of Annual Accounts*. Another chapter describes the salient features of legal provision governing the auditors of a company. One of the chapters highlights the importance of proper ascertainment of profits with its concept and difficulties in the determination of profits. There is a chapter on legal provisions governing foreign companies, on legal provisions governing winding up and on legal matters relating to non-banking finance companies.

Pakistan Economy – Key Economic Indicators

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Output and Prices								
GNP Size (MP)	Rs.bn	6634	7773	8831	10452	13070	15403	18847
GDP Size (FC)	Rs.bn	6123	7158	8235	9921	12110	14066	17107
Income Per Capita	\$	724	823	905	1022	1017	1068	1122
Real Growth								
	(%)							
GNP		8.7	5.6	6.7	3.7	4.0	5.1	2.8
GDP		9.0	5.8	6.8	3.7	1.7	3.8	2.4
Agriculture		6.5	6.3	4.1	1.0	4.0	0.6	1.2
Manufacturing		15.5	8.7	8.3	4.8	-3.6	5.5	3.0
Services Sector		8.5	6.5	7.0	6.0	1.7	2.9	4.1
Prices								
	(%)							
Consumer Price Inflation		9.3	7.9	7.8	12.0	20.8	11.7	13.9
Wholesale Price Inflation		6.8	10.1	6.9	16.4	18.2	12.6	23.3
Food Inflation CPI		12.5	6.9	10.3	17.6	23.7	12.5	18.0
Non Food Inflation CPI		7.1	8.6	6.0	7.9	18.4	11.1	10.6
Core Inflation [†]		7.2	7.5	5.9	8.4	17.6	11.0	9.7
GDP Deflator		7.0	10.5	7.7	16.2	20.0	11.9	18.8
Gold Tezabi (Karachi)	Rs./10 grams	8216	10317	12619	16695	22195	29587	37658
Petrol Super	Rs/Ltr	40.74	55.12	56.00	57.83	67.68	67.56	75.70
Kerosene Oil	Rs/Ltr	29.11	36.19	39.09	43.44	66.79	72.65	84.89
Wheat Flour (Avg. Quality)	Rs/Kg	13.28	13.06	13.64	18.07	25.64	28.77	29.56
Savings and Investment								
	% GDP							
National Savings		17.5	18.2	17.4	13.6	12.5	13.1	13.6
Domestic Savings		15.4	16.3	15.6	11.5	9.8	9.3	9.3
Gross Fixed Investment		17.5	20.5	20.9	20.5	16.6	13.8	11.8
Public Sector		4.3	4.8	5.5	5.4	4.3	3.6	3.3
Private Sector		13.1	15.7	15.4	15.0	12.3	10.2	8.5
Public Finance								
Revenue Receipts (Fed Govt)	% GDP	13.8	14.2	14.9	13.7	13.2	13.8	11.7
Tax Revenue	% GDP	8.9	9.4	9.7	9.9	9.8	10.0	8.9
Total Expenditure	% GDP	17.2	18.5	19.1	18.7	16.5	17.4	14.8
Fiscal Deficit	% GDP	3.3	4.3	4.3	7.6	5.3	6.3	4.0
FBR Tax Collection (Fed Govt)	Rs.bn	590.4	713.5	847.2	1007.2	1161.2	1328.6	1558.0
Direct Taxes	% share	31.0	31.5	39.4	38.4	38.2	39.8	38.7
Indirect Taxes	% share	69.0	68.5	60.6	61.6	61.8	60.2	61.3
Internal Debt Outstanding	Rs.bn	2158	2337	2610	3275	3861	4654	6017
Funded Debt	% Internal Debt	59.8	62.3	64.0	68.8	67.1	68.7	72.5
Unfunded Debt	% Internal Debt	40.1	37.7	36.0	31.2	32.9	31.3	27.5
Monetary Sector								
Growth of Monetary Assets M2	%	19.3	15.2	19.3	15.3	9.6	12.5	16.0
Currency in Circulation	Rs.bn	665.9	740.4	840.2	982.3	1152.2	1295.4	1501.4

[†]non-food non-energy

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Credit to Private Sector	Rs.bn	1712	2114	2480	2890	2907	3020	3141
Credit to Public Sector	Rs.bn	752	834	927	1510	2034	2441	3020
Borrowings for Budgetary Support	Rs.bn	647	708	810	1365	1681	2011	2602
Resident Foreign Currency Deposits	Rs.bn	180	196	207	263	280	345	368
Demand Deposits / Money Ratio	%	32.1	31.9	65.0	65.5	62.4	62.2	60.5
Capital Market (KSE)								
Listed Capital	Rs.bn	439	496	631	706	782	910	920 [†]
Market Capitalisation	Rs.bn	2068	2801	4019	3778	2121	2732	3217
Listed Companies at KSE	Nos	659	658	658	652	651	652	638 [†]
Banking Sector								
Scheduled Banks Deposits ^a	Rs.bn	2428	2817	3373	3812	4138	4693	5489
Scheduled Banks Advances ^b	Rs.bn	1694	2071	2376	2816	3080	3174	3311
Non-Performing Loans All Banks	Rs.bn	177	173	214	314	432	548	579
Lending and Deposit Rates	weighted average							
Deposits	% per annum	1.37	1.96	2.60	4.13	4.44	4.29	4.53
Advances	% per annum	8.81	10.61	11.55	12.49	14.25	13.63	13.46
Open Market Operation								
SBP 3-Day Repo ¹	% per annum	9.00	9.00	9.50	12.00	14.00	12.50	14.0
Treasury Bills Yield - 6 Months	% per annum	7.96	8.49	8.90	11.47	14.01	12.59	11.92
KIBOR - 6 Months (Offer)	% per annum	8.46	9.36	10.4	10.5	14.2	12.4	13.4
Pakistan Investment Bonds - 5 yrs	weighted average	7.50	9.65	10.0	10.80	14.33	12.56	14.03
Interbank Call Rates (Overnight)	%	6.10	8.80	8.90	9.90	11.35	11.0	12.41
SBP Export Finance Rate	%	6.50	7.50	6.50	6.50	6.50	8.00	10.0
External Sector								
Exports	\$ bn	14.39	16.45	17.00	19.05	17.69	19.29	24.81
Imports	\$ bn	20.59	28.58	30.54	39.97	34.82	34.71	40.41
Balance of Trade	\$ bn	6.18	12.01	13.40	20.20	16.92	15.18	15.27
Current Account Balance	\$ mn	1534	4990	6878	13874	9261	3946	268
Workers' Remittances	\$ mn	4168	4600	5494	6451	7811	8906	11201
Foreign Investment in Pakistan	\$ mn	1677	3872	6960	5454	3209	2739	1999
Direct	\$ mn	1525	3521	5140	5410	3720	2151	1635
Portfolio	\$ mn	153	351	1820	44.3	-510	588	365
Debts								
External Debt and Liabilities	\$ bn	35.8	37.6	40.5	46.2	52.3	57.4	61.8
Domestic Debt Outstanding	Rs.bn	2158	2337	2610	3275	3861	4654	6017
Internal Debt as % of GDP	%	33.5	30.7	30.1	32.0	30.3	31.4	33.3
National Saving Schemes	Rs.bn	940	936	1004	1094	1361	1585	1820
Total Reserves	\$ mn	13338	14354	18890	13436	13971	17921	20941
Gold	\$ mn	917	1268	1344	1926	1935	2575	3117
Liquid Fx Reserves	\$ mn	12421	13086	17546	11510	12036	15346	17824
Exchange Rate (Average for year)	Rs/US\$	59.3576	59.8566	60.6342	62.5465	78.4983	83.8017	85.5017

[†] July-March ^a excludes deposits of scheduled banks ^b excludes advances to scheduled banks Source: Pakistan Economic Survey 2010-11

¹ SBP 3 day repo rate was renamed as SBP reverse repo rate wef August 17, 2009

Annual Report 2010-11, State Bank of Pakistan