Portfolio of Selected Write-Ups & Presentations

OUT OF THE BOX

Volume II

Zafar Masud

July 2022

Brief Profile

Zafar Masud

Mr. Zafar Masud is a seasoned banker, entrepreneur and public sector expert having around **30 years of proven track record** of exceptional success stories in Banking, Development Finance, Energy and Corporate Governance.

He has earned rich banking experience while being at top positions in multinational banks **within and outside Pakistan**, including **American Express Bank, Citigroup, Dubai Islamic Bank, and Barclays Bank PLC, where he had served as Regional Managing Director & CEO for Southern Africa**, managing total balance sheet of US$ 3 Billion and 10,000 people.

Mr. Masud has been the **Member of the Board of Directors of the State Bank of Pakistan (SBP)**, appointed in March 2013 for three years. He had served as the **Member** on the most prestigious and coveted **Constitutionally Independent Monetary Policy Committee** of the Government of Pakistan until his departure from the Board in August 2016. After successfully completing one three year term on the Board of Directors of SBP, was re-appointed on the Board of SBP for another term of three years in April 2016 - a testament of recognition of his **exceptional performance as the Board Member of this most prestigious institution.** He had served as the Chairman of Publications Review Sub-Committee and Members of Human Resources and Investment Sub-Committees of the Board. His contribution on the Board, particularly in the areas of Publications, Monetary Policy, Foreign Remittances/ Investments, Banking and Human Resources, has been recognized and praised, across the board.

He has c**ontributed in the revitalization & transformation of National Savings, Ministry of Finance (MoF), Government of Pakistan (GoP)**, where he remained as **Chief Executive/ Director General for two years (2016-18).** He was instrumental in initiating a digital transformation of the organization with the support of Gates Foundation, Foreign Commonwealth & Development Office (formerly, DFID) Government of UK, USAID and the World Bank. During his tenure at National Savings, he had successfully launched welfare products for Differently-abled Persons and Shuhadah's Families and set in motion the launch of Overseas Pakistanis Savings Certificates and Shariah Compliant Savings Schemes.

Between 2018 and 2020, he has worked as **CEO (Interim) for InfraZamin Pakistan** - a Private Infrastructure Development Group, UK driven initiative - for setting-up from scratch this first of i**t's kind credit enhancement company in Pakistan for social infrastructure financing** in local currency.

He also rendered his services as Director on the Boards of major public and private sector entities including **Port Qasim Authority (PQA), Quaid-e-Azam Thermal Power (Private) Limited, Gadoon Textile Mills Limited,** etc.

He has remained a member of the **IMF motivated Task Force on Framing State Owned Entities (SOE) Law** set-up by the Ministry of Finance, Government of Pakistan.

Mr. Masud was earlier appointed as **Convener of one of the largest interest free loan programs in Pakistan** — an innovative poverty-alleviation and social-safety project of the Ministry of Finance, Government of Pakistan. In addition to designing the entire program, he was credited for managing it end-to-end, quickest and smoothest execution, with exceptional success, including **getting the program consented from IMF and the World Bank**.

Since April 2020, Mr. Zafar Masud has been serving as **President & CEO of The Bank of Punjab (BOP) -** the second largest public sector bank in the Country with US$ 7 Billion in balance sheet size and over 14,000 staff. He is **spearheading a strategic transformational drive to steer BOP towards cutting-edge digitally motivated financial institution**, to be positioned in industry's top-tier banks with focus on empathy, compassion and the best in class corporate governance practices.

He is leading the **Board of Directors of Oil & Gas Development Company Limited -** the largest entity in Pakistan in terms of market capitalization with foreign listing, as it's **non-executive Chairman**.

Earlier in May 2020, he had **miraculously survived the PK8303 airplane crash in Karachi.** His colleagues dedicated a book to him called "The Miraculous Survivor".

He has been decorated with the **highest civil award of Hungary in August 2021** for spearheading the initiative to furthering Hungarian-Pakistani cross cultural ties, by restoring ~175-years old subcontinental artwork of Hungarian Artist August Schoefft.

Mr. Masud is an **MBA ('93)** with **specialization in Banking** from the most prestigious Institute of Business Administration, University of Karachi (**IBA Karachi**).

He's a regular **contributor to local and international media**, including **Tedtalk, Franklin Covey International**, etc., on the topics of banking, economics and energy and is also an **author of a publication "Out of the Box"** which is a collection of his various newspaper articles on these topics, and **two publications on economics & management are in works. Co-authored a publication on pension reforms** with the DfID/ FCDO consultants for KPK.

Mr. Masud has a **dedicated website: zafarmasud.com**

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Investment Opportunities in Pakistan

Keynote address: APPNA Banquet Dinner,
Atlantic City - New Jersey, USA

16th July 2022

I would like to begin by thanking the management of APPNA for hosting this most venerable annual convention, and affording the Bank of Punjab with the opportunity to reach out to this esteemed gathering of overseas Pakistanis.

At this year's convention (which is APPNA's 45th), the Bank of Punjab has set up an exhibition booth, to showcase our presence, our expertise, and our achievements in the Pakistani commercial banking space, as well as in the Roshan Digital Account domain.

Despite the fact that this effort marks the first time that BOP has expanded its outreach across the Atlantic to the Pakistani diaspora residing and working in the United States, it is just the beginning.

This initiative marks the starting point of our initiatives intended to stimulate foreign investment into Pakistan, by illuminating all the attractive and lucrative investment opportunities on offer for savvy investors, and for those NRP's who yearn to give back, to contribute to the betterment of their motherland.

In the days to follow, BOP will host Roshan Digital Account Roadshows in New York, Washington D.C., Houston, Chicago, and L.A. Thanks to the logistical support from the Pakistani Embassy in USA and our Advisor for Diaspora Pakistanis, Mr. Jalil Abbas Jilani.

It is extremely heartening to note that the Roshan Digital Account is already a resounding success story. Due, in no small part, to the consistent support shown by the Non-Resident Pakistani community. RDA is currently standing at over 430,000 active accounts, opened by NRPs from over 120 countries, with funds received totaling over USD 4.8 Billion.

The State Bank of Pakistan, and the Pakistan Government, had designed this initiative to cater to the banking needs of overseas Pakistanis, in as complete and thorough a manner as possible. Principally, the Roshan Digital Account is a means to bolster the flow of foreign investment in Pakistan. As is known by all who are present here, Remittances are a key lifeline of the Pakistani economy. 2022 found the Pakistani economy in dire straits.

Not unlike numerous other comparable economies in today's climate, our country is also going through hard times, due in part to exogenous factors, and in part to internal constraints. Let us take a look at some of these factors. As you're aware that the Russia Ukraine conflict has led to supply disruptions and has caused a sharp spike in commodity prices.

Global growth is expected to slump from 5.7% in 2021 to 2.9% in 2022, a sharp decrease from the 4.1% that was projected in January. As a cumulative effect of the pandemic, supply chain disruptions, and the war, the level of per capita income in developing economies this year will be around 5% below pre-pandemic trends.

In Pakistan, GDP growth outperformed expectations in 2022, posting 6% growth as compared to earlier forecast of 4.4%. This is primarily due to higher agriculture output, record exports and higher government spending. Outlook for 2023 and 2024 has been revised lower due to monetary and fiscal tightening measures to reduce the unsustainable trade deficits.

Inflation averaged higher at 12.2% compared to forecast of 9.5% due to the commodity super cycle. The Russia-Ukraine conflict has led to significant supply disruptions of energy and food commodities resulting in highest prices since 2011. This has led to higher inflation in Pakistan in 2022 and is expected to lead to higher inflation in 2023. However, with the projected recession in large economies, the situation may change. Fiscal deficit was recorded at PKR 3.7 trillion (7% of GDP) in 2022 on the new rebased GDP numbers.

Current Account Deficit is now projected at around USD 17 billion (4.8% of GDP) in 2022, compared to earlier forecast of USD 12 billion (3.5% of GDP). Higher than projected international commodity prices of oil, food and metals has led to a sharper increase in the import bill than earlier projected.

USD/PKR has depreciated much more sharply due to the higher than projected rise in import bill on the back of commodity super cycle and Russia-Ukraine conflict. The delays in securing IMF funding and funding from other multilateral and bilateral sources has led to sharp weakness in PKRs. However, with the recent staff level agreement, the PKR is likely to strengthen as the FX flows associated with the IMF agreement begin to get in motion.

Hitherto, weaker PKR and higher commodity prices have led to higher than forecasted inflation numbers. The CPI number will fall once currency and import bill will settle at a reasonable level going-forth. Pakistan is strategically located to become Asia's premier trade, energy, and transportation corridor. It is also the gateway to the energy rich Central Asian countries, the financially liquid Gulf States, and the economically advanced Far East.

Based on geo-strategic significance alone, Pakistan is a market that is full of possibilities. Pakistan has a burgeoning youthful population; more than 55% of our population is below the age of 20, which is highly conducive for long term sustainable economic growth.

Pakistan has a booming middle class, and a large portion of the workforce is proficient in English, and is hardworking and intelligent. Pakistan is also home to a large population of trained engineers, lawyers, bankers, and other professionals with considerable international experience. Our consumer market is growing at a fast pace, evidenced by the sharply increasing tele-density and smartphone penetration.

Pakistan's investment policies prioritize the creation of a conducive business environment to attract FDI. As for BOP's positioning in the Pakistani banking industry, and the club of RDA banks, BOP is amongst the top 10 commercial banks in Pakistan in terms of balance sheet size, and other key metrics. In terms of Year-on-Year growth, BOP has been significantly outperforming its peer banks in all benchmarks of note, including profit growth, the recovery of non-performing loans, asset and deposit growth rates, Return on Equity, among others.

The Bank of Punjab is also a market leader in government initiatives, such as, low cost housing, agriculture financing, youth entrepreneurship, as well as initiatives aimed at public welfare. BOP is proud to be offering the first and the only completely free RDA in the market, entailing zero client-side fees and third party charges. The Bank of Punjab offers a premium banking solution for RDA, under the umbrella of our Priority Banking solution, called BOP Khaas. This offering entails the full premium banking experience, applied across the entire RDA product suite.

And as a gesture of our appreciation, and of our recognition of the immense significance of overseas Pakistanis, we would also like to announce that all APPNA members who register for the RDA will be eligible for the BOP Khaas Priority Banking membership, by default. The Bank of Punjab is also the only commercial RDA participating bank that has an initiative aimed exclusively towards public welfare and corporate social responsibility, in the form of BOP's Sadqah-e-Jariyah initiative, wherein we have collaborations with leading philanthropic concerns in Pakistan, to enhance their capacity and the reach of their philanthropic endeavors.

The fact that the Roshan Digital Account also enjoys bipartisan political support, from both sides of the house, adds further credence to the viability, and centrality of RDA to our economic wellbeing. BOP ForeignSe is an in-house home remittance solution developed by the Bank of Punjab to provide its clients with fast, fully secure, and free home remittance transfers.

BOP's wide network of over 640 branches covering 359 major cities across Pakistan ensures excellent coverage and customer support. This product has been effectively serving the needs of BOP's customers since 2007. We are here today, predominantly, in support of a national cause: to stimulate/increase foreign investment into Pakistan. We aim to match willing NRP investors with the right investment avenues at the right time, such that the highest possible returns on investment may be realized. Given the audience we would like to highlight the following key sectors for investment:

Health Care

Opportunities in the healthcare sector include: medical universities, nursing schools, hospitals, primary and basic healthcare facilities, tertiary care facilities, clinical research facilities, and diagnostic centers.

Pharmaceuticals

Pakistan has a dynamic pharmaceutical industry with ~625 pharmaceutical companies, split into approximately 600 local and 25 multinational companies. The total sales of Pakistan's pharmaceutical industry in 2021 was PKR 615 billion. The pharmaceutical industry is fulfilling approximately 80% of the country's demand, whereas the rest is being imported in finished form. Only a few companies are manufacturing Active Pharmaceutical Ingredients ("API") in Pakistan, resulting in import of approximately 75-80% raw materials – representing a huge potential for investment in this sector.

Some of the key sector features of the Pharmaceutical industry in Pakistan include: multiple acquisitions witnessed in recent years, huge export potential, high gross & net margins, over 9000 marketed drugs with 395 drugs added in 2021, and improving diagnosis infrastructure.

Laboratories and Diagnostic Centers

Number of diagnostic laboratories have increased considerably after COVID-19 due to increasing requirement for laboratory tests; however, the market is still under-served as population and number of diseases rise. Increasing trend of medical diagnosis through scientific medical tests has enhanced the requirement for capital investment in this sector.

Further investment is required for development of state of the art labs with facilities including MRI, X-ray, CT Scan, PET Scan, Ultrasound, Radiology, Pathology and Bio-Chemistry testing.

Related investments in the sector of Real Estate and their benefits are well known to you all

BOP is uniquely well equipped to facilitate the banking and investment needs of resident and overseas Pakistanis alike, through its Corporate and Investment Banking Group, offering:

- **Project finance and infrastructure advisory**
- **Equity and debt arrangement**

At the end, I would like to say that we consider our NRPs as one of our chief national assets.
We hope to continue to serve Pakistan and its people, both at home and abroad, to the best of our abilities.
Please keep up your strong support.

Pakistan Zindabad.

Visionary Banking in Pakistan

Presentation at World Economic Forum Annual Meeting Davos 2022 - Pakistan Pavilion

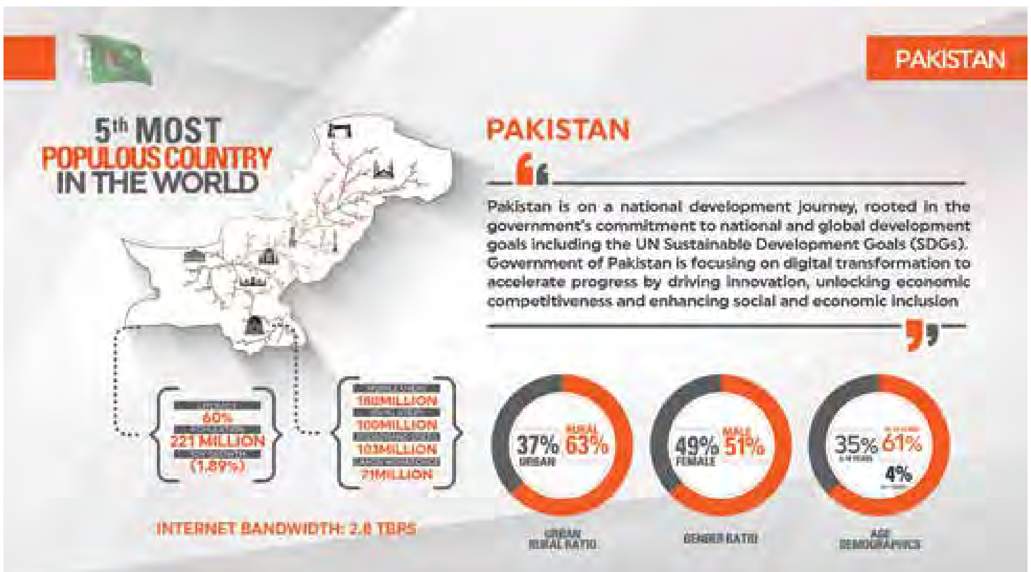
25th May 2022

The pace of progress in all human pursuits is fast and inexorable. For something as ubiquitous – as ingrained in our day to day individual lives, and in the day to day functioning of our nation-states – as the financial system, the above adage holds even more true.

The challenge for banks in this highly dynamic, tech driven market context, is not just to continue to innovate but to focus on identifying their purpose, their intent – a means to connect their organizational values with the values of their customers, by driving sustainable finance, spreading financial literacy, engaging with microfinance institutions or FinTech players, and leveraging digital innovations and data to drive their business in alignment with their identified purpose and intent.

We believe that a truly visionary approach to technology and its role in the banking industry is the need of the hour. New technologies can serve as the catalyst for new products, or entirely new use-cases and customer segments too, since customer requirements and operational needs are complex and never static. So how exactly can a bank be visionary? How can banks make sure they can leverage bleeding edge technologies without making them counterintuitive, ungovernable, needlessly complex and costly?

In short, by ensuring strong fundamentals, a keen awareness of the market, solid architecture and team dynamics, robust governance and compliance, and an overarching purpose and intent to serve that encapsulates the entire organization.

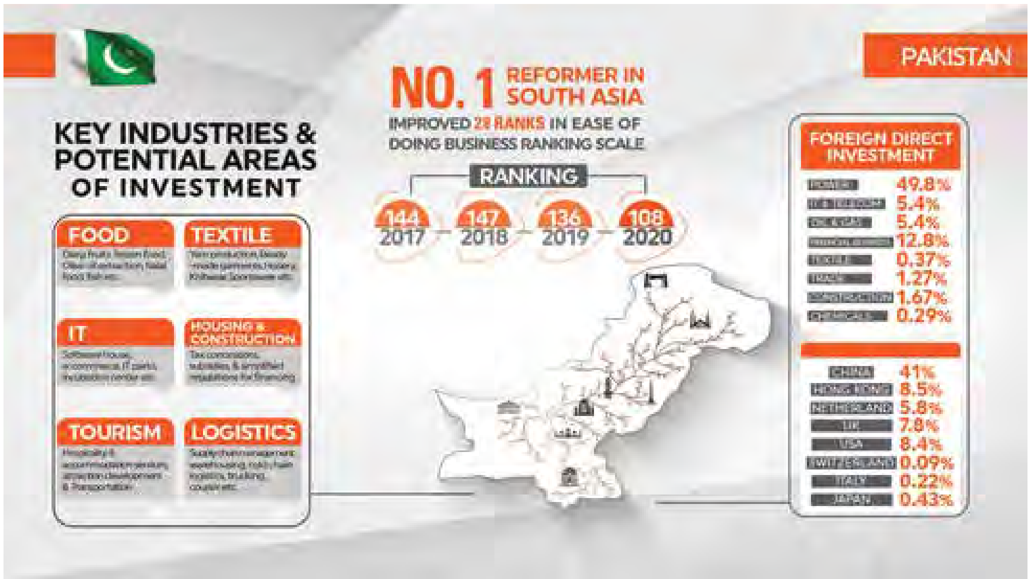


The Government of Pakistan is focusing on digital transformation to accelerate progress by driving innovation, unlocking economic competitiveness, and enhancing social and economic inclusion. Being the 5th most populous country in the world, Pakistan has a high rural population. This high proportion of rural-dwelling public is somewhat offset by the high rates of smartphone and mobile internet penetration observed among these groups.

The majority of Pakistan's population, 61%, is between the ages of 15-54 years old – the prime bankable age bracket. While the second largest group (35%) is comprised of individuals who're less than 14 years old – that is, the bankable population of tomorrow. Pakistan has a high proportion of available labor force, and a reasonably high level of literacy across the population.

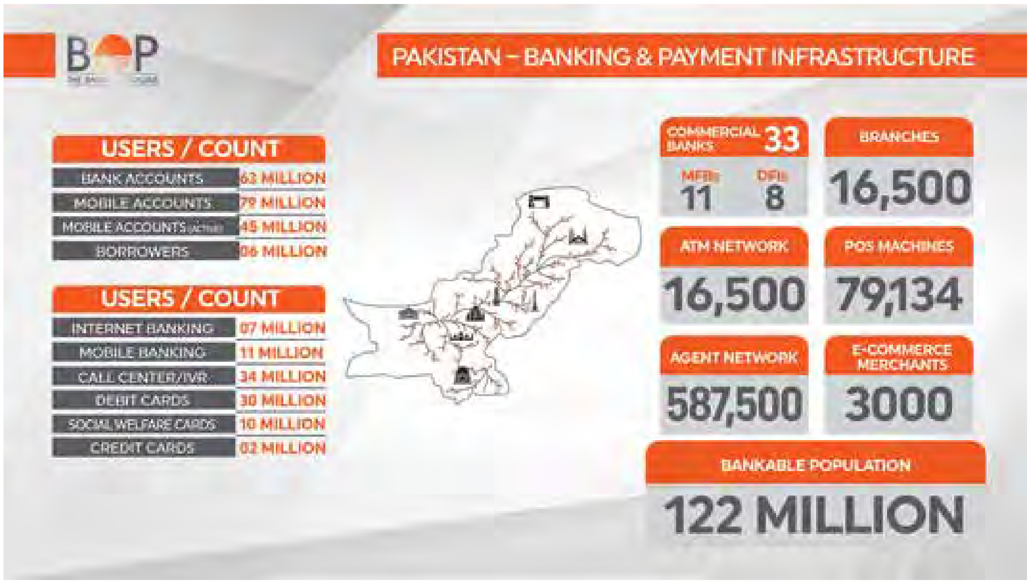
The benefits of including these swathes of peoples into the formal economy, by leveraging emerging and visionary digital financial technology solutions, would be sizeable and numerous, to say the least.

Pakistan's climate is as varied as its topography, and as diverse as the populations that abide within. Along the coast and the lowland plains of the Indus River, Pakistan has generally hot and dry weather. Pakistan has 4 seasons, a hot and dry spring from March to May, rainy summer season from June to September, retreating monsoons between October and November, and a dry, cool winter between December and February. Pakistan's top imports include refined petroleum, petroleum gas, palm oil, crude oil, and raw cotton.



Despite the fact that Pakistan still has long leagues to travel in its national development journey towards becoming a stable and prosperous nation, the rate and efficacy of policy-making and reform/improvement witnessed over the last few years has been incredibly heartening to us at home, and highly confidence-inspiring to observers abroad.

Through timely and prudent policy measures, Pakistan has improved by an impressive 28 ranks in the Global Ease of Doing Business Scale between 2019 and 2020. This has enabled us to become the number 1 reformer in South Asia; no small feat, especially amongst fierce regional competition. Pakistan's key industries and potential areas of investment include: foodstuffs, finished and unfinished textile goods, housing and construction, tourism and logistics, and, as of recently, Information Technology as well. Principally, the bulk of Pakistan's Foreign Direct Investment ("FDI") is oriented towards power, oil and gas and the financial sectors. Key nations that comprise the source of most of the FDI entering Pakistan include China, the USA, the UK, the Netherlands, and Hong Kong.



Pakistan has in place a robust banking and payments infrastructure that is well on its way to becoming a regional exemplar in terms of coverage, and rate of growth and improvement. The rise of mobile wallet penetration in Pakistan has been a success story in its own right, while mobile banking, internet banking, and e-commerce, the most effective means of democratizing financial inclusion, have undergone year on year growth rates of 119%, 58%, and 225%, respectively. In terms of digital financial services, Pakistan still has a huge opportunity owing to its larger bankable population; more so in terms of active state of banking users, and the opportunity size is even bigger since adoption of digital financial products has been low.

In March 2020, the Government of Pakistan approved a fiscal stimulus package of PKR 1.2 trillion, along with a supplementary grant of PKR 100 billion for the Emergency Relief Fund in relation to provision of funds for mitigating the effect of COVID-19 among the affected population.

In April 2020, the Economic Coordination Committee of the Cabinet approved the deferment of monthly and quarterly fuel adjustments in electricity bills for the next 3 months under the government's relief package. The federal cabinet approved the launch of Domestic Sukuk Bonds for generating PKR 700 billion for financing the escalating budget deficit and meeting the increasing financial requirements for combatting COVID-19. Lockdowns were strategically implemented such that the transmission of virus may be curtailed, while allowing economic and commercial activities to continue, largely unabated.

Significant investments were made to repurpose and build-up public health infrastructure to mitigate the spread of COVID. The Bank of Punjab ("BOP") is proud to have been among the foremost organizations in this endeavor; sponsoring first-of-their-kind Drive-Through COVID Vaccination Centers in all major cities of the country to expedite the vaccination process.

The National Command & Operation Center ("NCOC") - an entity with both civil and military representatives set-up exclusively to manage policy and infrastructure related decisions making - played a vital role in combatting the spread of COVID by raising awareness and keeping the public updated with the rapidly developing situation.

At September end 2020, the regulator issued instructions that all applications approved by Banks/ Development Financial Institutions up till September 30th 2020 would be eligible for refinancing under the central bank's refinance facility for combatting COVID-19. Letters of Credits ("LCs") established under these approved applications would be eligible for refinance even if these LCs were established after September 30 2020. In July, the State Bank of Pakistan ("SBP") extended the validity of the Deferment of Principle amount facility until October 2020. This facility was especially beneficial for Small & Medium Enterprises ("SME") financing, Consumer financing, and Housing & Agriculture financing.

In addition, SBP prudently announced Temporary Economic Refinance Facility, and its shariah compliant version, to stimulate new investment in manufacturing. The total size of the scheme was PKR 100 billion, with a maximum loan size per project of PKR 5 billion and maximum end-user rate of 7% for 10 years.

In response to the pandemic, the Government initiated its largest-ever social protection and poverty eradication program. This program was unique in terms of its coverage, policy formulation, its multi-sectoral nature, as well as its monitoring framework. Leveraging modern digital payment systems – a breakthrough in its own right – the program was recognized by the World Bank as ranking among the top 4 social protection interventions, globally.

There are a number of differences between the banking industry's conception (what you may call the conventional understanding) of the implications of Visionary Banking, and what we at BOP are aiming for when we use that term. To be sure they are both new and emerging ways of measuring success within this field. The values on the left are the typical conception, while the ones on the right are unique to the Bank of Punjab.

It is our intent, at BOP, is to combine both sets of values; to create our own niche in the market in terms of positioning while also covering all the fundamentals. BOP's positioning is such that we combine the conventional elements of profitability, customer growth, business valuation, and fund raising, with our own organizational values and aims (our statement of purpose) which include empathy, disruption, efficiency, and customer experience ("CX"). In accordance with our positioning we have devised an innovative way of conceptualizing what visionary banking entails for us at the Bank of Punjab.

We aim to temper profitability with empathy, with care for all individuals, and with tolerance & inclusion. We aim to grow our customer base, our product offerings and service excellence in disruptive ways. We aim to explore efficiency as a core value, a core component of Business Growth. And as a manifestation of our will to always put our customers first, we view customer experience as one of the core pillars of our intent towards visionary banking.

Among our 5 core pillars, the first and the foremost is ‘Customer and Community’; Arrayed in this manner, our strategic positioning and intent is clear. We aim to be one of (if not the most) inclusive, innovative, empathetic and progressive financial institutions of the country. Starting with ‘Design for Customer’, you will find that the way our product offerings are conceived, designed and served is a process that is fully in tune with the dynamic requirements and needs of our clientele.

The Bank of Punjab’s portfolio of customer offerings is vast and caters to all segments of the demographic pyramid, from inclusion of marginalized and unserved segments through revolutionary digital financial inclusion solutions, to Islamic financing, to financing for corporates and priority clients, to agriculture, micro/ small/ medium enterprises, and emerging entrepreneurs.

In terms of channels and outreach, BOP stands head and shoulders above the crowd - with a wide network of physical, over 640, branches, even more wide ranging branchless banking agent network, and remote-accessible DigiBOP (internet and mobile banking solution).

In terms of Product design for Person to Government (P2G) and vice versa, BOP has also made significant strides. We are now the only bank, after the National Bank of Pakistan, to be the designated Agent Bank for e-Stamping project in Punjab and Baluchistan.

In addition to our efforts with regards to visionary digital financial inclusion, we offer products “Khidmat Card” and the “Punjab Mazdoor Card” which no one in the market are currently offering. In diversity and inclusion related initiatives, the Bank of Punjab is ahead of the curve yet again, with tailored products designed through tactical collaborations with key stakeholders.
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We have delineated our ‘Strategy and Branding’ pillar into 3 main phases: Fix, Grow, and Transform - underpinned by a reimagined cohesive brand identity. Under the ambit of the first phase, Fix, which entails expanding customer base and profit through prudent yet aggressive products and services, we are aiming to overachieve our targets for Agric, Micro, SME, and Consumer portfolios.

In the second phase, Grow, which entails capacity building and capturing of low hanging fruit, we aim to leverage government initiatives of micro-financing including in agriculture & housing, youth entrepreneurship, financial inclusion, and transaction banking to their fullest, by being the extended arm of the Government of the Punjab and the Government of Pakistan, in it’s initiatives, and leading the transactions from the front from conception to eventual funding.

The final phase, transform, entails industry disruptions, whereby we have introduced several industry firsts, that have changed the way service users and providers conceive product design and service delivery. Among these disruptions are, the Area Yield Index Insurance, Electronic Warehousing Receipt Financing, Asaan Clean Financing, and Big Data Analytics. To tie it all together, we have our Reimagined Brand identity.

Uncharacteristic of conventional government sector institutions, our branding and positioning has been adjusted to reflect our new resolve and intent, achieved through revitalized branding and perception management, increased presence in advertisements and through sponsorships, participation in international events for exposure, and by supporting literary activities and similar events (like the literary festivals held in all across Pakistan). We have also moved in to the Pakistan Super League as a sponsor for cricket team called Lahore Qalandars, which happened to won the league for 2022 post our sponsorship, for which we had launched a unique and first of its kind exclusive sports affinity debit card in the country.

Then comes the 'People and Culture' pillar. We are a people and community centric organization, that strives to put the interests of all stakeholder's in this domain front and center.

A few visionary industry firsts devised in this domain include, the introduction of a unique and massive learning and development initiative that encompasses collaborations with leading universities for scholarships, trainings, and collaborative innovation. Our Learning & Development ("L&D") initiative is the largest in the industry in its breadth and scope, and in the kind of development opportunities that it provides for our staff both locally and internationally through both online and physical means.

Secondly, we have devised various diversity and inclusion related policies and have already conducted batch hiring of women, and persons with disabilities, into our ranks. To ease their transition into our workforce, we have conducted sensitization trainings for all staff, and have conducted reviews of our workspaces to ensure handicap accessibility. We have mandated special fast track promotions for members belonging to underrepresented and marginalized groups, and have also accounted for Diversity and Inclusion weightages in our Annual Performance Reviews.

Thirdly, our COVID response strategy was industry leading as well in its scope and coverage. We ensured complete reimbursement of all staff for testing, vaccination, as well as hospitalization including offering coverage for the families of staff members.

On the policy front, we have had several initiatives that are visionary in the context of the Banking Industry in Pakistan. We have a formal affirmative Action Policy, a Deterrent from Retaliation Policy, and pre-onboarding psychological evaluations and screenings. In fact, the psychological assessment has been embedded in our regular personality assessments of all individuals in key roles, particularly supervisory in nature. The promotion criteria also has the weightage of these assessments at senior/ supervisory levels.

Our 'Governance and Compliance' structure, which serves as the backbone of the visionary endeavors being undertaken at the Bank, remains a key component of our visionary strategy. We have realigned and restructured our corporate governance designs for robustness, dynamism, and prudence. Governance committees have been restructured for efficiency & transparency, and these changes have resulted in marked improvements in key financial metrics and performance. As a testament to our enhanced efficiency and performance, Pakistan Credit Rating Agency has upgraded our Credit Risk Rating to AA+ from AA last year only. In the realm of Risk, we have caught up to global standards in record timelines, implementing Customer Risk Rating Methodologies, Financial Crimes and Compliance Management System, Risk Adjusted Return on Capital Methodologies, Web Based Operational Risk Systems, and more. And last but certainly not least, 'Operations and Technology'.

This pillar serves as the foundation for the innovations (those already introduced, as well as those in the pipeline) that I have outlined previously. The key areas of strategic focus with reference to operations and technology include: Building a Future-Ready Bank, Consolidations and Integrations (chief among them being the centralization of trade operations, digitization of foreign exchange facilitation desks, the development of the Pakistan Single Window Module and BOP Nucleus - a small loan booking system), Being the Lead Architect of key government initiatives (securing of the e-Stamping Mandate, development of the Kamyab Pakistan Information System, setting up a digital experience and innovation center at the Lahore University of Management Sciences, and having the fastest regional implementation of TEMENOS infinity platform in South Asia and Middle East & North Africa), and building up our digital infrastructure.

The Bank of Punjab, in the area of Digital Financial Inclusion, is a case study in itself. Our efforts and initiatives have resulted in some of the most visionary products and services in the realm of service to the underserved or unbanked segments. Through our collaboration with the Punjab Social Protection Authority ("PSPA"), we have developed Khidmat Card, the first of its kind digital financial inclusion solution for disbursements of cash grants to members of the vulnerable population groups. This has had enormous impact on its own, in terms of bringing wide swathes of the undocumented population into the formal economy, and in helping impoverished families and individuals (predominantly women) to make ends meet. Thus far through these altruistic initiatives in collaboration with PSPA, we have achieved the financial inclusion of over 1 million individuals. In the domain of digitizing disbursements and service delivery to the blue collar worker segment, BOP again stands without parallel.

In collaboration with Punjab Employees Social Security Institute ("PESSI"), our revolutionary Punjab Mazdoor Card is another visionary initiative. The first of its kind digital financial inclusion solution for this underserved and unbanked segment of the labor class. This card has helped members of this segment to achieve an economic identity of their own through participating in formal economy, and by availing the various conveniences and benefits offered by the card including discount alliances, access to credit, advances, and more. The Punjab Mazdoor Card aims to digital financial inclusion of 1.2 million members of the labor workforce – a formerly excluded and marginalized group to a very large extent.

At the Bank of Punjab, we pride ourselves on taking to heart our tagline and our hashtag of 'Har Fard Ka Khayal' (ie., 'Care for All'). We aim to live up to this ideal in letter and spirit, and through our redoubled efforts and reinvigorated strategic positioning, I firmly believe that we are well on our way to fully actualizing this aim of being inclusive towards all individuals and caring for all.

Our portfolios across all our product categories are specifically designed to cater to our unique and highly diverse clientele, in a manner that prioritizes equity, empathy, and tolerance. As well, in terms of outreach and channels, we have painstakingly optimized our service delivery to make it as readily accessible, available, seamless and intuitive as possible for the entire spectrum of our valued clientele.

The efficacy of a measure is known by the impact it creates. We are proud to showcase before this esteemed audience today, the immense impact that the Bank of Punjab's far-sighted and prudent initiatives have had in recent years.

Here is a breakdown of our achievements in the three main business areas that are central to the Bank of Punjab's endeavors in advancing the financial inclusion agenda, in stimulating the economy, and in inculcating an entrepreneurial spirit in the nation's youth.

In clean lending for members of marginalized and underprivileged population groups, our initiatives have resulted in:

- More than 9000 employment opportunities created
- PKR 8+ billion in financing disbursed to over 8000 borrowers
- Of which over PKR 1 billion was disbursed exclusively to 1,100 women borrowers
- Huge strides in the domain of transgender inclusion through access to finance
- More than PKR 3.5 billion in disbursement to SMEs in the agricultural sector (3,300+ entities)
- All of this while having one of the widest outreaches in the industry, with financing across 64 districts of the country

Economy Housing is another key area of the market wherein the Bank of Punjab is taking the lead by a wide margin. Loan approvals for economy housing have surged past the PKR 10 billion mark. Of this financing, 17% was extended exclusively towards women borrowers, 27% financing was extended towards the informal sector, 75% to the salaried class, 16% of the Bank of Punjab's affordable housing portfolio is through Islamic financing. While the entire portfolio is spread across 28 districts of the country.

Furthermore, other key achievements in this domain include, financing for 400 houses in District Gujranwala under Garden Square project, LDA City Project, wherein BOP is the lead bank for construction of 4000 apartments in high rises, and, Peri Urban, in which BOP is coordinating a consortium to construct 122,640 houses across 146 tehsils of Punjab.

It's a progressive and revolutionary roadmap, starting with the basics, and then building up to advanced product offerings a lifestyle based banking, and subsequently setting up to innovate in the market. And finally leading to where global banks have set their eyes, which is the virtual reality world. So our vision has extended up to those ambitions which are now on the radar of the global banking institutions.

Since BOP is among one of the first banks exploring the presence in the meta-verse space, I would like to give you a look and feel of our ultimate vision towards setting up a BOP Sky branch. The Bank of Punjab is one of the leading banks in Pakistan that is exploring the metaverse space. We envision this foray into the world of virtual reality in the form of a "Sky Branch". Our investments and innovation in this domain are designed to position BOP as a 'Future-Ready Digital Challenger Bank'.

DigiBOP Sky Branch at Metaverse will enable us to reach new sets of customers, and stakeholders, in revolutionary and exciting ways. Virtual Reality, and Web3.0 are the upcoming third generation of the internet, unveiling a whole new experience of eliciting true emotions and influencing customer behaviors in a very natural and real-life like way.

It is not just marketing hype, or a jumble of buzzwords, it is fast becoming the reality – in fact, Web3.0 and the metaverse space comprises the new technological frontier in the world of financial services and banking.

We will soon welcome you to the Future-Ready state of the Bank of Punjab: ‘Our DigiBOP Sky Branch at Metaverse’… Stay tuned!

Revolution in Digital Affairs – Financial Inclusion in Pakistan

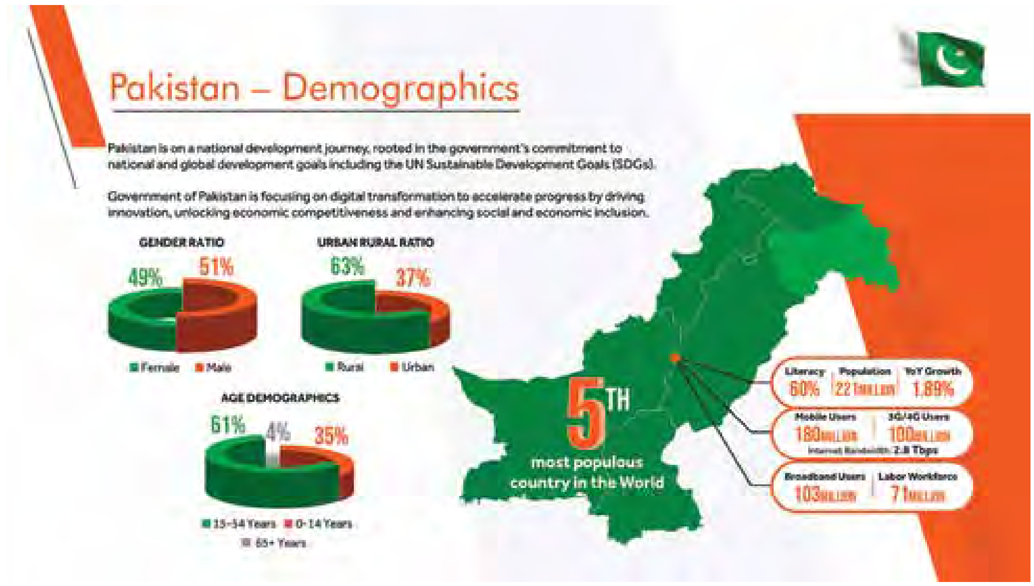
Keynote Address: World Economic Forum Annual Meeting Davos 2022 - Pakistan Pavilion

23rd May 2022

True financial inclusion, the leveraging of specifically designed financial products and services to reach currently unserved and excluded members of the public in cost-effective and sustainable ways, cannot be realized without the functional deployment of digital solutions; owing to their ubiquity and inherent cost-saving nature.

Digital financial inclusion has numerous benefits for service users, for providers, for states, as well as for their respective economies. Increased formalization of the economy, and easy access to affordable credit, savings, and insurance products have been known to elicit disproportionate and far-reaching effects on the economic growth, stability, and prosperity of emerging nations and global superpowers alike.

In addition to raising entrepreneurial spirits, and elevating financial literacy and prudence, financial inclusion is important also because it remains one of the cornerstones of any country-level commitment aimed at achieving economic expansion. Notwithstanding, certain issues still persist. Effectively identifying and addressing these issues can enable digital finance to work better for the public, for corporations and business entities, and for governments as well.



Pakistan has immense economic potential, a burgeoning youthful population, a wealth of natural resources, geostrategic and trade-based potential. Great strides have been made in the domain of financial inclusion in Pakistan – in my keynote address today I will showcase some of these advancements of the digital financial inclusion agenda in Pakistan, I will provide some perspective as to the headwinds that inhibit the effective universalization of financial inclusion in Pakistan, as well as the contributions made by commercial banks, chief among them The Bank of Punjab, in achieving this lofty ideal, and finally, a glimpse of what is in store for us in the future.

Pakistan is on a national development journey, rooted in the government's commitment to national and global development goals including the UN Sustainable Development Goals (SDGs). The Government of Pakistan is focusing on digital transformation to accelerate progress by driving innovation, unlocking economic competitiveness and enhancing social and economic inclusion.

Being the 5th most populous country in the world, Pakistan has a high rural population. This high proportion of rural-dwelling public is somewhat offset by the high rates of smartphone and mobile internet penetration observed among these groups. The majority of Pakistan's population, 61%, is between the ages of 15-54 years old – the prime bankable age bracket – while the second largest group (35%) is comprised of individuals between the ages between 0 and 14 years old – that is, the bankable population of tomorrow.

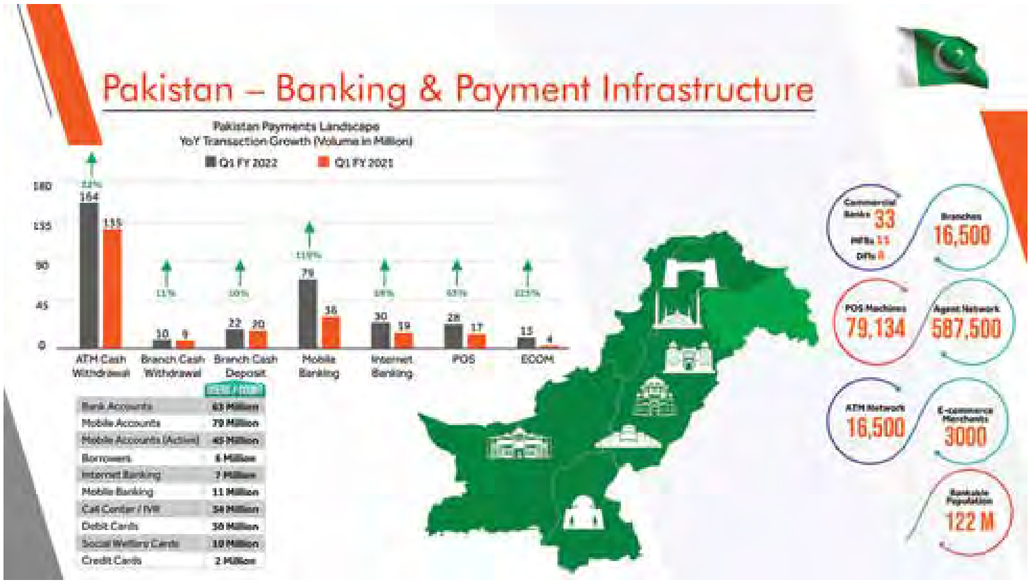
Pakistan has a high proportion of available labor force, and a reasonably high level of literacy across the population. The benefits of including these swathes of the public into the formal economy would be significant and numerous.

Despite the fact that Pakistan still has long leagues to travel in its national development journey towards becoming a stable and prosperous nation, the rate and efficacy of policy-making and reform/improvement witnessed over the last few years has been incredibly heartening to us at home, and highly confidence-inspiring to observers abroad.

Through timely and prudent policy measures, Pakistan has improved by an impressive 28 ranks in the Global Ease of Doing Business Scale between 2019 and 2020 – enabling us to become the number 1 reformer in South Asia; no small feat, especially amongst the fierce regional competition. Pakistan's key industries and potential areas of investment include Foodstuffs, Finished and unfinished textile goods, housing and construction is another key Pakistani industry witnessing rapid growth, as are tourism and logistics, and as of recently, Information Technology as well.

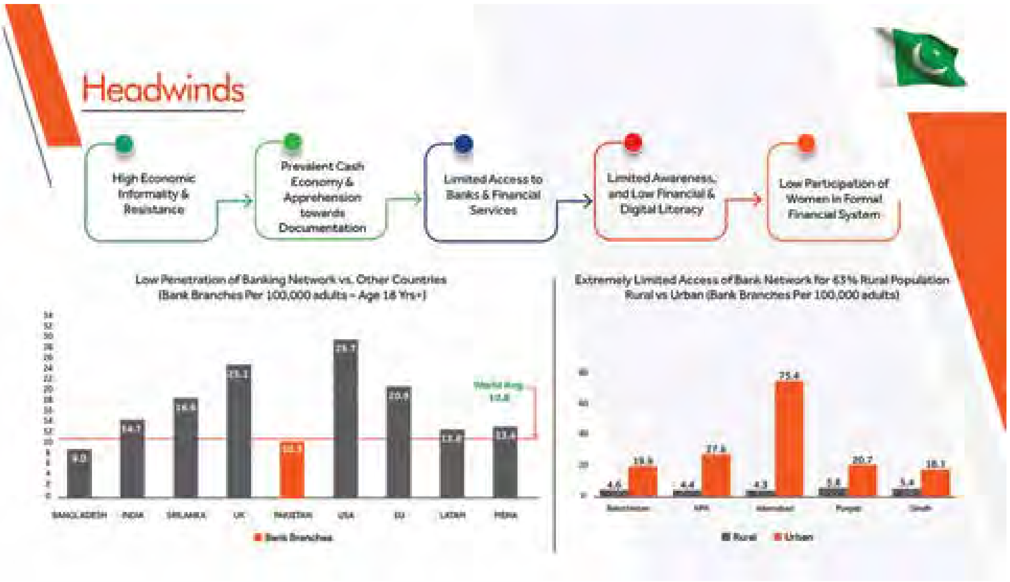
Principally, the bulk of Pakistan's foreign direct investment is oriented towards the power sector, the oil and gas sector, and the financial business sector. Key nations that comprise the source of the bulk of the FDI entering Pakistan include China, the USA, the UK, the Netherlands, and Hong Kong. Pakistan has in place a robust banking and payments infrastructure that is well on its way to becoming a regional exemplar in terms of coverage, and rate of growth and improvement.

The rise of mobile wallet penetration in Pakistan has been a success story in its own right, while mobile banking, internet banking, and e-commerce, the most effective means of democratizing financial inclusion, have undergone year on year growth rates of 119%, 58%, and 225% respectively.



In terms of digital financial services, Pakistan still has a huge opportunity owing to its larger bankable population; more so in terms of the active state of banking users, the opportunity size is even bigger since adoption of digital financial products has been low.

Due to it being a nascent market, the opportunities are great –the credit related product offering market is even more starved in Pakistan in terms of inclusion.



The following part of my address will afford this esteemed audience an understanding of the unique context of Pakistan with respect to financial inclusion, the state of the financial inclusion agenda in Pakistan, an exposé of some of the barriers to the actualization of widespread financial inclusion, and the significant headway that has been made in this domain – due in no small part to far-sighted policy-making by the regulators, and capable and timely execution of those policies by banks and other financial institutions.

Some of the main factors that act as barriers to financial inclusion in Pakistan include high rates of economic informality in the country. For the longest time in Pakistan, unregistered enterprises and undocumented economic activities have abounded.

Another reason is the high prevalence of cash-based transactions, and the general apprehension observed among the public with regards to documentation and formalization. Historically, the public has been fraught with mistrust towards institutions, partly because of systemic shortcomings and lack of transparency, and partly because of unawareness of the importance of regulation and economic formality.

Low penetration of banking networks is another major reason why financial inclusivity in Pakistan trails behind regional competitors, as well as the global average of 10.8 bank branches per 100,000 adult individuals. Pakistan scores higher than Bangladesh (10.3 vs 9.0), but we still have a long way to go before we can reach the levels of branch penetration found in India, Sri Lanka, and the Middle East. The high disparity in bank branch network in rural vs. urban centers is another valid cause for concern.

And finally, one of the foremost reasons of low rates of financial inclusion in the country is the low rates of women's participation in the economy. It is common knowledge today that one of the surest ways towards prosperity for any nation is through empowering and liberating its women, in enabling them to step-up and take charge as responsible and valuable members of society. Women have a contribution potential that is equal to, if not more than, the contribution of their male counterparts. Directives aimed at increasing the representation of women in the formal financial sector are a means to capture this low hanging fruit and reap its immense benefits.

By way of remedy, the regulator, the State Bank of Pakistan, in collaboration with key stakeholders, developed and adopted the National Financial Inclusion Strategy (NFIS) in 2015.

The strategy was intended as a way to address the challenges of low rates of financial inclusion in Pakistan, and to bring the country and wide swathes of its population into the 21st century vis-à-vis access to financial products and services. The objective of the strategy was to set a national vision for achieving universal financial inclusion in Pakistan, by laying out the framework, and target outcomes designed to enhance access to formal financial services among the population.

The implementation of the NFIS was centered around expanding access and driving scale by leveraging mobile wallets and easy accounts, increasing access points like bank branches, agent networks, ATMs, Point of Sale machines, and the implementation of National Payment Gateways and the upgradation of Real Time Interbank Settlement Systems (PRISM/ RTGS).

Additionally, the NFIS also included provisions for the development of a system that enables businesses to receive and manage remittances in real time, to promote e-commerce and increase documentation, the capacity building of banks to provide easy, need-based financial products to small and micro businesses, and finally, and perhaps most crucially, raising financial awareness, chiefly among women and the underprivileged.

All regulatory interventions now speak on fair treatment of customer and financial literacy. While formulating the banks financial inclusion strategy there is a clear emphasis while designing new products and services by keeping the underserved segments in mind in terms of their literacy, understanding, trust, and outreach.

There have been several prudent and timely regulatory interventions made in the Pakistani financial inclusion landscape; the cumulative effects of which are still being manifested today. In 2014, the regulator developed and adopted the framework for Consumer Protection and Financial Literacy, to set the stage for the policy measures to follow.

Branchless Banking Regulations of 2016 were devised as a response to the low levels of branch network penetration per 100,000 adults, particularly in rural areas. Green Banking (directives aimed at financial institutions to limit their carbon footprint while promoting environmentally friendly practices) and E-Money Regulations (designed to create digital payment service offerings that are interoperable and secure) followed in 2017 and 2019 respectively.

In 2020, the State Bank launched its landmark Banking on Equality Policy; to aid in reducing the gender pay gap and representation gap in financial inclusion by bringing a shift towards women-friendly businesses and practices in the financial sector. The subsequent year, Raast, Pakistan's first ever end-to-end digital payments system enabling transactions among individuals, businesses and government entities alike, was operationalized.

As we can see the Pakistani regulator is highly active and forward looking, particularly in the last few years there have been a series of regulatory interventions enabling financial institutions to expand their scope, mindset, capabilities, towards new ways of banking.

This slide emphasizes some key enablers in Pakistan with reference to citizen identity management, which is covered by our National Database Registration Authority (NADRA), and the telecommunication infrastructure – governed by PTA, and last but not least, the tax governing authorities (chief among them the FBR) offering ease of documentation and trust.

Clearly Pakistan is on track at all ends, as we have an advanced service offered by our NADRA through which we can conduct remote authorization and verification of biometrics. In terms of telecommunication, the revolutionary step of interoperable USSD via VRG has also provided an enabling environment to cover the maximum outreach.

The tax authorities have also begun providing positive movements towards building trust in the digitization of the economy by providing tax incentives, etc.

BOP's vision is based on the above core pillars, specific to designing a viable product and services suite, for all our varied customer demographics, with special emphasis on access to credit to the mid to lower strata of the population, and in terms of coverage in becoming the widest ranging public sector bank available to the masses.

Additionally, our focus also extends to our robust digital banking infrastructure and services, designed to offer end-to-end banking services through a digitally enabled set-up, which ranges from customer on boarding all the way through fulfillment and support, which we call digital Challenger Bank.

How do banks formulate and approach their digital banking strategy based upon the most critical building blocks enabling them to design infrastructure for a future ready state?

Let's look at our particular example for some insight on this.

Omni channel Banking
Unified Omni-channel digital banking platform to orchestrate customer interactions across all touchpoints.

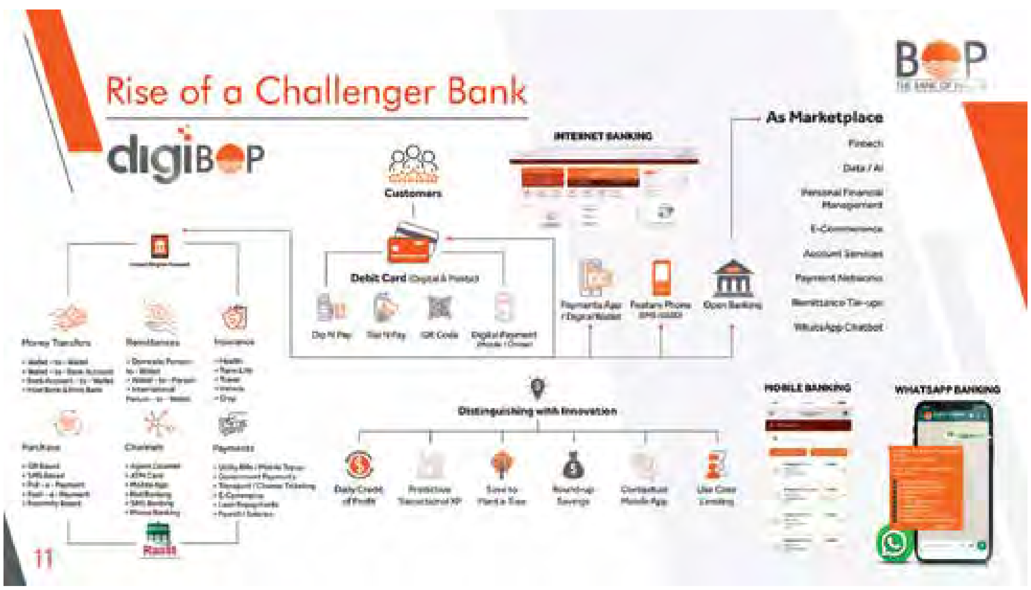
2 Speed Architecture Banking
Agile to exceed customer expectations and minimize time-to-market by empowering the bank to innovate at pace.

Ecosystem based open banking
Open up to connect with the ecosystem and benefit from the value of Fintech revolution.

Data Driven Contextual Banking

Products & Services tailored to customer needs. Leveraging big data to increase value and eventually create happier customers.

Based on these aforementioned core building blocks, last year BOP has also formed a coherent digital strategy aligning with the dynamics of our domestic market, acceptance, and opportunity.

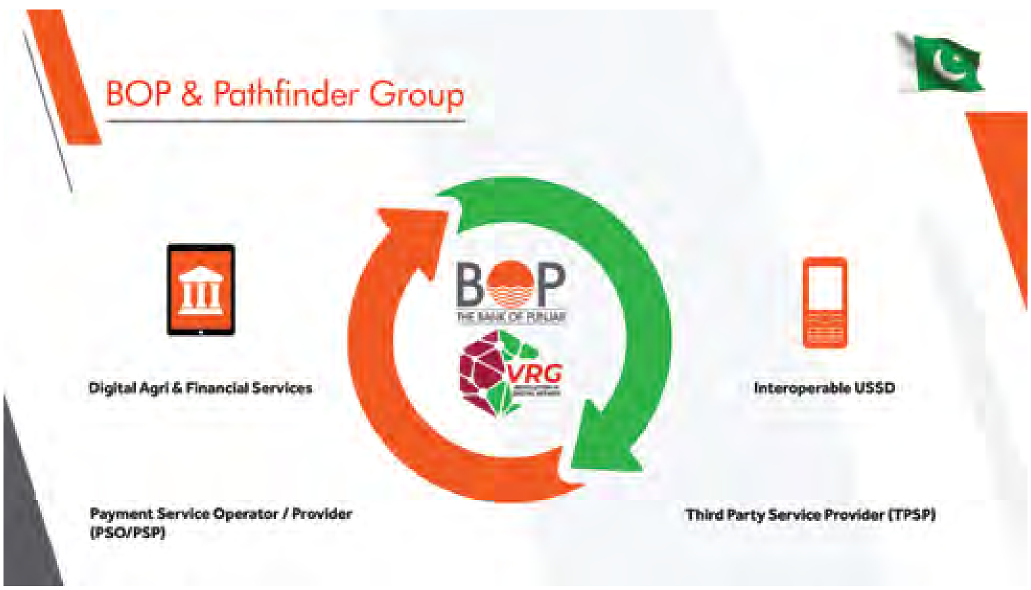


Based on these building blocks, we have specifically curated over these aforementioned building blocks we have intended to devise an advanced and unique value proposition. We have made decent amount of progress in an expeditious way. We have caught up by achieving fastest implementation of world leading digital banking software TEMENOS infinity, in Pakistan as well as Middle East and North Africa. TEMENOS has recognized BOPs deployment as the fastest in the region.

At BOP, values like empathy, tolerance, diversity and inclusion are pivotal aspects of the very fabric of our organization.

When arrayed as such, with product offerings on the left of the population strata pyramid, and channels and outreach on the right, it becomes apparent that we truly take to heart our motto of "Har Fard Ka Khayal" (Care for all individuals).

Each of the respective stratums of the population distribution pyramid have been specifically catered to, both in terms of product and service design, as well as channel and outreach optimization to make service delivery as seamless and intuitive as possible for our valued clientele, which ranges from the vulnerable, underprivileged segments, all the way through to the top of the pyramid, the priority or KHAAS customers. A core component of our repositioning is focused on our capability to cater to all demographics, and as demonstrated here, to a great extent, we have realized that ambition.



BOP and Pathfinder group, on account of our convergent evolution as service providers, and owing to our unified vision for the future of the digital banking and payments landscape in Pakistan, have great potential for collaboration in the future. One of the ways is in the domain of digital agricultural and financial services, whereby pathfinder can facilitate an ecosystem to enable farmers and suppliers to digitally access & utilize formal financial services, agricultural practices and market access. Another means is through their unique interoperable USSD offering, which is a platform for switching, routing and settlement of financial & nonfinancial transactions.

VRG is the authorized PSO/PSP operator in Pakistan. The role of the PSO/PSP operators is to create Payment Processing Systems for all banks/Financial institutions. VRG is the only Third Party Service Provider (TPSP) in Pakistan. The role of a TPSP is to provide Mobile Interoperability among Telecom Operators. Under the TPSP license; VRG performs routing, switching & processing of transactions originated using USSD & SMS services. We want to give you a glimpse of the clear roadmap that elucidates what observers, this audience, and our customers, can look forward to, in the future, from the Bank of Punjab.

It's a progressive and revolutionary roadmap, starting with the basics, and then building up to advanced product offerings a lifestyle based banking, and subsequently setting up to innovate in the market. And finally leading to where global banks have set their eyes, which is the virtual reality world.

So our vision has extended up to those ambitions which are now on the radar of the global banking institutions.

Pakistani Banks Need to Focus on Financial Inclusion

Khaleej Times - 19th April 2022

Dubai News - 20th April 2022

Banks are making profits with low default rates and surplus liquidity but on the other hand, political instability and adverse global conditions pose risks to the domestic financial system

The Banking industry has played a vital role in the transformation of the economic landscape of Pakistan in the last decade. In this article I will share insights on three key areas where banks have played a lead role in driving the reforms and transformation agenda that will sustain growth over the medium term. These include the digital transformation of the economy, enhanced financial inclusion and upgrading the risk & governance framework to meet the enhanced standards set by the FATF.

In the past, Pakistan's financial ecosystem has lagged behind the developments in the regional markets, most notably the vibrant GCC markets led by Dubai. Political and security challenges coupled with weak integration with the world trade and investment markets has hampered the development of the Pakistan economy and its banking industry. However, in the last couple of years we see a major shift in the focus of the policy makers, with reforms aimed at enhancing trade and investment inflows. As a result, we see the economy rebound sharply with 5.6% GDP growth in 2021, following the COVID pandemic induced contraction of 0.5% in 2020.

Move towards Digital Financial Services

The pandemic and the adoption of economic recovery package have provided the impetus for digital financial services, catering to the banking needs of the underserved. Introduction of framework by State Bank of Pakistan (SBP) for granting licenses to Digital banks has created excitement locally and internationally with up to 40 applicants vying for the initial five licenses announced.

2021 was the breakout year for Pakistan based startups raising USD 375 million – double the total investment received in previous six years. The total valuation of the startups was placed at USD 1.5 billion in 2021.

To make online banking transactions cheaper and convenient, SBP launched RAAST, Pakistan's first instant payment system that enables end-to-end digital payments among individuals, businesses and government entities instantaneously. As of June 2021, mobile and internet banking witnessed 134% and 65% growth in transactions volume, whereas paper-based transactions volume declined by 7%.

BOP is catering to the various sectors of the economy by providing key digitization services in association with provincial and federal governments. BOP Digital Kissan Program aims to provide end-to-end solution to deliver farmer subsidy through Kissan card. This program will evolve to a digital credit experience for the farmer. BOP has been mandated by Punjab Employees Social Security institution to issue Punjab Mazdoor Card to its more than 1million workers who can avail various financial and healthcare benefits with it.

Roshan Digital Account (RDA), yet another initiative of SBP, provides overseas Pakistanis (NRP's) an exclusive opportunity to remotely open an account in Pakistan through an entirely digital and online process without visiting any branch in Pakistan. Further, RDA also provides innovative banking, payments and investment activities to NRP's in Pakistan. Banks have so far opened more than 350,000 accounts while adding more than US$3.5billion of foreign exchange.

Focus on Financial Inclusion

Financial inclusion has always been a primary objective of the central banks, particularly in the developing world. The regional economies of India, Bangladesh and other middle income countries have financial inclusion rates of 80%, 50% and 42% respectively compared to ours of 21%.

Women, transgender, and minorities have always been underserved by the domestic banking sector with women alone making up more than 80 percent of the unbanked population. To inculcate a culture of gender equality, BOE is the central banks' landmark policy to reduce the gender gap and bring a shift towards women-friendly business practices in the financial sector. Under the policy, various instructions have been issued to banks to enhance the women's ratio in the financial sector and increase the outreach of women-centric products.

BOP has launched low cost housing finance under SBP's Mera Pakistan Mera Ghar housing scheme for special segments of the society including widows, transgender, special persons etc. More than PKR 3billion has been disbursed by BOP under this scheme. BOP in collaboration with Punjab Social Protection Authority have launched Masawaat Program for financial inclusivity of transgender persons.

Risk & Governance Framework

Integration with global financial system requires meticulous compliance of both local and international regulatory bodies. Pakistan has been on the FATF's grey list since 2018. Significant measures have been undertaken by various regulatory bodies such as SBP, SECP and CDNS to revise the AML/CFT legislative and regulatory framework. From adopting a Risk based supervision to enhanced customer due diligence techniques and appropriate screening of all employees, banks commitment to be compliant on FATF requirements is no less than commendable. Consequently, under the Mutual Evaluation Report, Pakistan has been rated compliant on 38 out of 40 recommendations of Asia Pacific Group on Money Laundering.

The evolving banking landscape of Pakistan is not without its challenges. On one side, banks are making profits with low default rates and surplus liquidity but on the other hand, political instability and adverse global conditions pose risks to the domestic financial system. Developing stronger interlinkages with the global financial system will remain challenging for Pakistani Banks who are moving in tandem with the regional competitors; the success to which will depend on the will and support of government and central bank.

A Bottom-up Approach for Sustainable Economic Growth & Poverty Alleviation

The Express Tribune & Daily Express

04th October 2021

There is a silent revolution taking place across Pakistan. The Kamyab Pakistan Program (KPP) of interest free loans promises to uplift incomes and livelihoods of millions of low and middle income households. These are households that are mostly unbanked, have no access to credit and lack resources to undertake productive economic activity.

In line with the Prime Minister Imran Khan's vision to financially empower masses and uplift the lives of the millions of the poorest households, KPP is a flagship initiative of the Government. A brainchild of Finance Minister Shaukat Tarin, the Kamyab Pakistan Program (KPP) is designed to transform the lives of the marginalized segments of the society and ensure their financial empowerment.

Poverty is widespread in Pakistan, predominantly in rural areas. Nearly two thirds of the population, and 80 percent of the country's poor people, live in rural parts of the country. Kamyab Pakistan Program targets providing the much-needed financial support to existing small businesses and farmers as well as startups enabling the poorest population to improve their livelihood. Financing under KPP is only extended to families with a cumulative average monthly income of PKR 50,000, with priority given to the 5.5 million existing beneficiaries of Ehsaas, registered with the National Socio-Economic Registry, and particularly are from the most backward districts of the Country.

Building on the work done hitherto and to address the challenges faced by the country's banking sector in increasing outreach, KPP engages Microfinance provides (MFPs) as Executing Agents (EAs) via Banks as Wholesale Lenders (WLs) through provision of interest-free / cheaper liquidity for large-scale distribution of subsidized micro-loans as part of "Bottom-up Approach".

This indeed is the most innovative financing structure in the recent times, and surely the first program of its kind in Pakistan, wherein Banks are being connected to other lowest income segment through Microfinance Institutions. Banks who had access to funding having been shying away in supporting this lowest strata, which has been the forte and the target market of MFPs. Thus, there has been either lack of, or most expensive, funding available for the lowest segments which made the access to capital unavailable for these most deserving group. In KPP, these two funding agencies – Banks and MFPs – are being connected to reach out to the neediest in the society.

The program has been devised based on various tiers of robust governance structure, comprising of high-powered public sector representatives "Steering Committee", supported by "Advisory Board" of well-established and world-renowned experts; while there was a "Working Group" which worked on operational modalities by engaging all stakeholders. The Ministry of Finance is very ably spearheading the entire effort and remains the ultimate decision-maker in the equation, including representation to various interested local and international agencies. The Ministry has setup an exclusive Project Monitoring Unit (PMU) to manage day-to-day affairs of the Program.

The country's microfinance industry has grown exponentially over the years with a total 46 MFPs presently. With a growing branch network of more than 3,800 branches spread across the country, MFPs have reach an active borrower base of more than 7 million customers with considerably low infection ratios.

Despite the microfinance industry's success story, MFPs were unable to raise funding at cheaper rates, due to inadequate understanding of microfinance business by the Banks and Financial Institutions. They remain dependent primarily on commercially-priced loans provided by Banks and Grants / Soft-Loans from donors and multilaterals. Thus, only be able to extend small loans to borrowers in the north of 25% p.a., which makes it unaffordable for the common man and also becomes predominant cause of defaults.

Key Pillars of the Kamyab Pakistan Program are:

1. **Kamyab Karobar –** Interest-free loans for small Entrepreneurs
2. **Kamyab Kissan –** Interest-free loans for small farmers.
3. **Kamyab Hunarmand –** technical and vocational training under the National Skills Development Program

4. **Naya Pakistan Low Cost Housing –** Subsidized loans for Housing needs under Government's Mark-up Subsidy Scheme.
5. **Sehatmand Pakistan –** Health Insurance through issuance of Sehat Insaaf Cards.

Moreover, the program intends to integrate the Governments' ongoing National Skill Development Program for Program for Technical & Vocational Training. In addition to promoting entrepreneurship, the program is now going to benefit aspirant overseas workers. The Ministry of Overseas Pakistanis is designing a program to facilitate people having work visas can receive financing to ticket and travel abroad. This will open the doors to economic uplift of skilled and semi-skilled workers seeking to move abroad for greener pastures.

The importance of Small & Medium Enterprises and Agriculture sectors in employment creation and contribution to GDP cannot be underscored. Small Enterprises and Agriculturists are the essential building blocks of a country's economy. However, despite their huge impotence, these entities lack access to formal financing channels limiting their potential to grow.

Similarly, the construction industry is considered as the backbone of the economy and provides stimulus to over 42 ancillary sectors. Growth of the construction industry has a far-reaching impact on the overall economy as it directly employs 8% of the total labor force in Pakistan. Realizing the importance of this industry, the Government announced relief package of PKR 100 billion for the construction industry in 2020 with the objective to bridge the affordable housing gap through the Naya Pakistan Low-Cost Housing Program and jumpstart the economy.

The KPP program will ensure that the benefits of these schemes reach out to the most marginalized segments. Accordingly, new micro loans are being extended through MFPs, branded as Kamyab Karobar and Kamyab Kissan, are being introduced under KPP. Likewise, existing scheme of Government's' Mark-up Subsidy for Naya Pakistan Low-Cost Housing is being extended to include micro housing loans by MFPs under the Program.

Ministry of Finance, Debt Office does selection of participating Banks through a transparent bidding process on quarterly basis. Successful Banks acting as Wholesale Lenders (Banks) exclusively engage with MFPs for provision of subsidized Wholesale Loans. This ensures transparency and due diligence in evaluating performance of banks with regard to disbursement of funds.

The Government is providing 50% Risk-sharing/Pari-Passu Guarantee to Banks along with a 10% Portfolio Level First Loss Guarantee to MFPs via Banks. The Government also provides a Markup Subsidy to Banks to meet their cost of funds along with the Operational Cost payable to MFPs by the Banks.

Banks extend financing to MFPs at 0% p.a. for onward extension of interest-free Entrepreneurship and Agri Micro Financing facility. Likewise, banks extend Wholesale Liquidity to MFPs at 0% p.a. for onward extension of Low-Cost Housing Loans at subsidized rates under Government's Markup Subsidy Scheme.

Another landmark feature of the program is the portal called "Kamyab Pakistan Information System" (KPIS). The system has a toll-free number "5771" integrating KPIs through telcos via NTC. The portal is integrated with Ehsaas Data and NADRA for verification of beneficiaries' eligibility to facilitate the MFPs for finalizing the financing modalities in a most efficient and seamless manner.

This is probably the first of its kind Program whereby financing agencies are reaching out to beneficiaries / borrowers instead of other way around this is a true dispensation of a responsible state towards it poor and vulnerable to alleviate poverty, fight against inflation, and achieve secular sustainable economic growth, with far-reaching social impact, for our beloved country.

Exploring the Link between Literature & the Economy

The Express Tribune, Daily Times, Business Recorder, and HTDS Content Services

28th March 2022

Intuitively, the link between literature and the economy is not expressly apparent. Following an analysis of the two disciplines, my assertion is that these two fields are inextricably connected. I will put forth, for your consideration, that literature serves as a reflection of the economic situation of a nation, and that it drives economic progression.

Historically, and presently, the two disciplines of Economic Thought and Literary Discourse have been directly intertwined, and proportionate. Evidence for this can be found in the writings of the Vedic peoples of Indo-Europe (circa 1500 BC), the ancient texts of the Judaic Civilization, and the documents from Greek history – all of which serve as the foundation for what is now referred to as “Humanistic Economies” (a perspective that imbues elements of humanistic psychology, moral philosophy, political science, sociology and common sense into traditional economic thought).

It would not be an overstatement of the significance of literature to say that the basis of civilization, as we know it, is rooted in literature.

Speaking to the centrality of literature to the culture of a nation, one is reminded of the words of the American Author, Ray Bradbury, who famously said, “You don’t have to burn books to destroy a culture. Just get people to stop reading them.”

Literature has played (and continues to play) a pivotal role in the evolution of society. Literary thought has served as the foundation for religions, philosophies, arts and culture itself. Throughout contemporary history, literature has also served as a tool of revolution – think: Mao’s “Little Red Book”, that helped transport China from its “Century of Humiliation”, all the way up to becoming the regional superpower that it is today.

The history of the Industrial Revolution of Britain is also rife with its fair share of highly influential pieces of literature – writings such as “Hard Times” by Charles Dickens, “Robinson Crusoe” by Daniel Defoe, and Maria Edgeworth’s “Ennui”, that helped to shape the public discourse during that time of great upheaval.

The same applies to the French Revolution – wherein the French intelligentsia of the time (including Montesquieu, Alexis de Tocqueville, and Jean Jacques Rousseau) took it upon itself to elevate the public consciousness such that the yoke of the old, oppressive regime was thrown off, replaced by an early form of liberal democracy, and the mantra: Liberté, égalité, fraternité.

The Russian Revolution stands as another clear example: The Tsarist/Industrialist authors of the time, such as Leo Tolstoy, Fyodor Dostoevsky, and Anton Chekhov challenged industrialization, dramatized theories of supply and demand, and shed light on phenomenon such as the alienation of labor. Effectively, they were instrumental in helping the public to internalize, to make sense of the socio-economic upheaval in which they found themselves.

The revolutionary literature of the subcontinent during the British occupation – which needs no introduction – also followed the same pattern, where the consciousness of the public was roused through literature, through knowledge, through narratives, through inspiration; and following decades of determined struggle, lasting change was brought-about. The rest, as they say, is history.

The literature indigenous to Pakistan, which has roots in the literary traditions of the subcontinent and South Asia, came into its own when Pakistan achieved nationhood. The new nation-state inherited a rich literary and cultural heritage, and within a few short years a considerable oeuvre of literary works began to take shape in all major Pakistani languages: Punjabi, Urdu, English, Pashto, Sindhi, Siraiki, Farsi, and Balochi. In the years immediately following the partition of the subcontinent, the literary output of Pakistan was centered heavily around the internalization of the prevailing socio-economic turmoil of the time. Gradually, narratives became more progressive, and Pakistani literature evolved to merge the various linguistic forms and literary styles indigenous to the region, shedding light on the complex class system, on social issues and concerns, and on the economic forces that continue to shape the lives of all Pakistanis.

The rise of the economic powerhouses of today, America, Japan, Germany, over the last 3 centuries, occurred in no small part due to technological, social, and cultural innovation – which has roots in academia, and literature. The institutions that lead academic thought today, the Yale's and Harvard's of the world, have been instrumental in enabling this rise, by leveraging literature, academia, arts and sciences.

The dilemma, however, is that economists and authors have often explored the same topics and concerns, but in disparate ways, almost as if they each have their own language. A study of economic history through a literary lens shows how large, complex forces shape the lives of ordinary people, and thereby the economy at large.

Literature serves as a window into the economic lives of humans, it provides illustrations of "economic theories at work". Literature enables audiences to connect emotionally to the experiences of the people, as they relate to commodities, markets, class divisions, and also their roles as consumers, workers, and producers.

The novel itself evolved as a means to democratize information, by challenging inequality in a way, enabling the formally unlettered masses access to knowledge and insight in a serialized, bite-size format, not entirely dissimilar to the role of the internet in our lives today

My assertion today is that economic discourse is (and has always been) rooted in the thoughts of great literary authors; their far-reaching contributions still continue to shape current economic decision making.

Consider, for instance, the Base & Superstructure Theory of Marxism. "the Base" refers to the production forces (the materials and resources that generate the goods needed by a society), while the "Superstructure" describes all other aspects of society, such as ideology, culture, philosophy, art, and of course, literature. Marx astutely observed that the base shapes the superstructure, and that the superstructure maintains the base – thereby establishing a strong link between the economy of a nation-state, and its literary output.

The influence of literature extends not just to the financial economy, but to the political economy as well. Thought-leaders such as John Stuart Mill, Adam Smith, Max Weber gave rise to entire systems of political thought and discourse through their literary output.

Further elaboration on the link between literature and the economy would be remiss without mentioning the concept of "Narrative Economies", by Yale Economist Robert Shiller. Narrative Economies is concerned with "the study of the spread and dynamics of popular narratives; the stories, particularly those of human interest and emotion, and how these change through time, to understand economic fluctuations."

Literature provides a fresh perspective to economist's questions by highlighting the socio-cultural context within which the public, and the economy, operates. Well-rounded professionals with backgrounds in the disciplines of humanities (particularly literature and art) grant new perspectives to businesses and their modus operandi.

Rather than adopting a purely theoretical stance, policies should instead be aligned with the experiences of the people they intend to serve. This way, policy frameworks will be tempered by a nuanced understanding of human behavior. And to this end, nothing is more valuable than literature.

To understand (and thereby, change) existing economic realities, it is becoming increasingly apparent that technical expertise is not enough...

Storytelling, and narrative, give the insight and power to change the world.

We, at the Bank of Punjab, remain committed in doing our part for anything and everything that is important in uplifting our future generations, and in ensuring the sustainability of the welfare of our society; in supporting all those activities that are important for the development of a community, and its socio-economic landscape – even those activities which are not conventionally perceived as having a bearing on the economy (and are, thus, not on the radar of commercial organizations).

Endeavors such as the esteemed Literary Festivals in Karachi and Lahore are critical for the development of a society as a whole, and by extension, the development of its economy; the Bank of Punjab is proud to have been the title sponsor for these auspicious festivals, once again.

My thesis above is all about proving the fact that the promotion of literature, art and culture has a direct bearing on the economic well-being and sustainable growth of any nation, which ultimately benefits its commercial organizations; they just have to be patient and forward-looking about it. With this realization and recognition sinking-in, it is absolutely imperative that commercial organizations, like the Bank of Punjab, must step-up and support these literary activities wholeheartedly, for the character building and betterment of our future generations.

Redefining Corporate Social Responsibility

Speech at Hungarian - Pakistan Solidarity Event

13th March 2022

The Bank of Punjab is immensely proud to have been afforded the opportunity to collaborate with the Embassy of Hungary in Pakistan in the restoration of a large and historically significant series of paintings, by the Hungarian artist August Schoefft. In recognition of the efforts that were dedicated in this initiative, the Hungarian government conferred on me, the Highest Civil of Hungary Award. I must pay my gratitude to the Republic of Hungary, in particular to the President of Hungary, His Excellency Mr. Yanosh Adegh (Janos Ader), for bestowing this honor on me for our role in promoting Hungarian Art and Culture in Pakistan.

Schoefft's paintings depicted an important period of Pakistan's history. The 175 years old Princess Bamba collection is a part of historically notable period of the province of Punjab captured in a series of paintings by August Schoefft who visited this area around two years after the demise of the then ruler Maharajah Ranjeet Singh (1809-1888). These paintings portray an important period of then sub-continent, and now Pakistan's history, and are a precious surviving testament of the common heritage of Hungry, Pakistan and the Sikh Community.

The impact of art is intertwined in myriad ways. The permanence which we seek in life and which, in essence, is absent for mortals, as the ultimate reality is embedded in the perception of art and its continuity over a span of multiple lifetimes of human-beings. From this perspective, art becomes a symbol of permanence in an otherwise transient and transitory world of ours. This may be the reason why we connect at various levels with art as a form and focus on preservation of its legacy over centuries. Art creates in its identity a linkage to a bygone-past, yet materiality and its physical presence, gives us that connection to the transformative nature of time.

Cultural heritage is the inheritance we have been handed down: our legacy, our memories, physical places, objects and intangible beliefs and practices, and so much more. Art, moreover, affects the fundamental sense of self. Painting, sculpture, music, literature and the other arts, are often considered to be the repository of a society's collective memory, and a true representation of diversity and inclusion.

At the Bank of Punjab, we have embedded the DNA of diversity & inclusion in our veins. We celebrate diversity of thought, inclusivity of our people, which is the baseline upon which we grow as an organization, and make our contribution, in our little way, to our beloved country. Our Tag line 'Har Fard Ka Khyal' - 'care for all' - encompasses an inclusive society, caring for what is valuable to us all, and we pursue it as part of its responsiveness to create a sustainable and solid foundation for our future generations.

Restoration of 19th century Hungarian Artist August Schoefft paintings at Lahore Fort through experts from Hungary to their original grandeur was fully sponsored by The Bank of Punjab as being one of its most significant Corporate Social Responsibility initiative.

This is to my mind is a true depiction of our tolerance and acceptance for all cultures and societies, as a nation. I must share with you that it is this passion for our common heritage which is very close to my heart on a personal level, and to my team's, which drives us to support such initiatives wholeheartedly.

It signifies the importance attached by BOP towards preserving our national and our common International heritage, tying very closely to our value proposition. BOP attaches due importance to safeguard Heritage and this cooperation concerning the joint cultural project will go a long way in improving cultural ties between the two friendly Nations.

To be a Good Marketeer, one has to be a Good Human Being

Keynote Address : Marketing Association of Pakistan

31st December 2021

The thesis that I aim to construct for your consideration today is that, "To be a Marketeer, one has to be a good human being." Goodness of character, a strong moral foundation, is essential for effective marketing. A myopic understanding of marketing may lead the budding marketeer to forego considerations of virtue, scruples, and righteousness, in exchange for lead generation and sales. Unsurprisingly, this all-too-common approach is short-sighted, however, and often works to undermine a brand's story and perception. The art of truly responsible marketing entails sincerity & virtue on the part of the marketeer; it is the only way to ensure long-term business success, which is the ultimate goal. The losses that result from neglecting moral considerations while devising and executing marketing plans are often severe, and far-reaching.

Ethics are fast becoming an indispensable component of the marketing of the future; a strong and tangible commitment to ethical principles in a brand's messaging is essential for marketing to millennials. Marketing success stories of today have a focus on "Doing good, while also doing well". Additionally, a People-centric focus, in place of merely a Profit-centric one, should be apparent in a brand's marketing; People-centrism entails a brand's adherence to its social, as well as its environmental responsibilities.

Although it may be more profitable in some cases to resort to practices that are not, strictly speaking, ethical – it is becoming increasingly apparent that communications from a brand that are missing ethical considerations are doomed to fail in the long-run, especially in today's climate.

The case I will build today, ladies and gentlemen, is that the effective marketeers of today and tomorrow must, first & foremost, be good human beings. Before we begin laying out the groundwork for precisely why a strong moral foundation is a pivotal requirement for effectual marketing, it would serve to first define our terms. Let us start with goodness, and being a good person. From the domain of teleology and ethical theories, consequentialists opine that goodness is simply what is right – that something is good only if we ought to do it. On the other end of the spectrum, members of the deontological school of thought put forward the assertion that goodness is defined by our reason to do something. In the purely semantic sense, "good" implies ability, capacity; but evidently, being a "good" human is limited not only to capability; instead, it involves many other virtuous traits like upholding the "Golden Rule" (Do unto others as you would have them do unto you), caring for all, giving back to the community, et cetera.

In the words of the German Enlightenment thinker, Emmanuel Kant, "Nothing is good without qualification, except a good will." Here, Kant warns of the dangers of ascribing inherent goodness to certain qualities or attributes (let us consider courage, deliberation, and steadfastness as examples); if a wicked person were to possess these traits (and use them for wicked ends) these traits will serve only to increase this person in his or her wickedness. Therefore, nothing is good without qualification, except a good will.

The stoic philosopher Marcus Aurelius famously said, "So what is left worth living for that is good? This alone: Justice in thought, goodness of deed, speech that cannot deceive, and a disposition glad of whatever comes, welcoming it as necessary, as familiar, as flowing from the same source and fountain as yourself." For Seneca, goodness stems from reason – a good act is one that is the most rational in the given circumstance. Goodness is generosity of deed, action tempered by consideration. The presence of an ethical framework in business is crucial.

For the purposes of this address, the term "effective marketing", refers to the deployment of a marketing strategy that is aligned with the company's business goals, its crucial KPI's, and its vision & mission statements; an effective marketing plan outlines certain measurable Performance Indicators, and, once a budget has been allocated, tracks the process via benchmarking.

Effective marketing also involves consistency across all message types (and across the content therein) being broadcasted by a company or brand. Technical expertise – in the form of knowing your customers, how to get through to them, segmenting the market accordingly to capture the right people, and tailoring the message so as to elicit the desired response – is another vital element of an effective marketing strategy.

Aside from the structural components that comprise an overarching marketing plan, there are several other facets that separate good, responsible marketing efforts from the rest; considerations such as the provision of a real value proposition, ethical communication and disclosure, transparency, attentiveness to the customer's wants, and the availability of post-purchase support, all work in tandem to elevate a conventional marketing strategy from mediocre to exceptional.

As of late, it is becoming ever more important that, in their communications, brands actually stand for something. Customers are beginning to demand that their favorite brands should be seen as trying to make a difference in the world, taking a stand on relevant issues, and sincerely projecting a socially responsible, conscientious image.

This is certainly not to say that brands should take a stand on contentious issues, simply for the sake of appearing socially-conscious to their customers. The public is generally quick to espy fake-commitment to an ideal, especially when it is coming from a corporate entity. Unless the objective is to patronize the customer, this route is best avoided. Instead, sentiments of justice, the upholding of a social or ethical stand, should be underscored by clear and unpretentious sincerity.

Marketing communications that are technically/structurally sound, and that also have a view towards the qualitative aspects outlined above, have been known to provide a far more discernible impact on a company's ROI, as well as its brand perception. Consequentially, campaigns like these also age better.

Essentially, the distinction between the two is that the marketeer informs, leads the communication, and generates prospects; the salesperson reinforces the value proposition (provided by the marketeer) to convert prospects into customers. Marketing is concerned with the people, with establishing and maintaining a brand's reputation. Sales is about materializing transactions, about ensuring that the brand subsists financially by securing revenue. Marketeers set the stage, and salespersons take to it, in the hopes of winning a standing ovation. Marketeers prime/warm-up the audience to whom salespersons will give their "performance". Marketing throws the ball and sales bats it out of the park. Neither function can operate in a vacuum. But the purpose of marketing can potentially become something that is socially responsible and conscientious. This is one of the sure-fire ways to business success in today's world.

Let us now consider a few brief instances of good vs. bad marketing. It has been observed that the public's favor is shifting increasingly towards the responsibly sourced, environmentally conscious option, and away from the cheaper or more convenient option – as often the latter entails environmental and social costs that are not represented in the MSRP of the product. Take for an example, the case of "fast fashion"; everything about this genre of apparel is supposed to be accelerated – from fast changing fashions, to fast production, the customer's purchasing decision is often quasi-impulsive (in other words, fast), and fast is the way in which the garments are worn (usually only a few times before being discarded; either because they became threadbare, or they outlived their short fashion shelf-life).

Brands operating in the fast fashion space usually market highly competitively priced goods, by leveraging outsourced production means where labor laws, ethical laws, and workplace safety laws are flagrantly disregarded. The cost savings from turning a blind eye to the abject working conditions, the potential health issues stemming from overwork or exposure to harmful chemicals, and the environmental impact of untreated waste disposal, are all passed on to the customer in the form of a low-priced article of clothing.

In its heyday, fast-fashion was a booming subcategory of the mammoth that is the fashion industry. The speed at which new styles made it from concept stage, to store shelves, and subsequently customers' closets, was exceptional, and the prices were unbelievable to boot. Alas, something always has to give – the low prices were coming at a significant cost. A cost that was being left unpaid, contributing to the suffering of humans, animals, and the destruction of the environment.

The public's awareness has risen to the point where conscious consumers are wary of extremely low prices, as goods priced so low often necessitate cost-cutting in other crucial areas of the production process. Instead the public is now beginning to favor the responsibly-sourced, responsibly-produced, exploitation-free, cruelty-free option; and almost always at a higher price. The demand for such goods, it seems, is increasingly price inelastic – I, along with many others, see this as good news.

Another facet of responsible marketing, over and above the green-marketing or sustainability marketing discussed briefly above, is the socially-conscious type of marketing. Herein, brands endeavor to generate a social impact through their communications; whether it be an attempt to alleviate the harmful effects of body-shaming that come from the promotion of an idealized, unattainable beauty standard for women, or investments in socially uplifting the marginalized, and everything in between. A standout example of the former is the famous marketing campaign carried out by the brand "Dove", called the "Real Beauty" campaign, wherein they attempted to drive home the fact that beauty comes in all shapes, skin tones, and sizes, that there is no standard to beauty, and that women should not subject themselves to the patriarchal ideals of beauty espoused by traditional advertising and media. Needless to say, the campaign was well-received as a breath of fresh air amidst an industry rank with superficiality, and obsessed with an exceedingly narrow view of what is desirable and what is not.

For the latter, a campaign that comes to mind is "One for One" by TOMS Shoes, where, for the purchase of every pair of shoes, they give away another pair of shoes to someone in need, using the proceeds from the purchase. The campaign has been front and center on all of TOMS's promotional material, both online and off, and has come to be synonymous with the brand itself. It has resulted in TOMS accruing significant social capital and becoming a hit amongst the newer generations of consumers who are, on average, more socially-conscious.

Another example of good marketing comes in the form of leveraging user generated content on a brand's platforms. Owing to the increasing levels of distrust the average customer harbors for traditional advertising, it comes as a welcome change to most prospective customers to find content on a brand's website that is user-generated: submitted by people just like him or her, who have used the listed products and are testifying to their quality or effectiveness. User-generated content lends an air of transparency, character, and approachability to a corporate entity that is usually perceived as cold, austere, soul-less.

On the other end of the spectrum we have examples of marketing campaigns that employ less than scrupulous means to achieve their desired ends. A loss of scruple in marketing often takes the form of misrepresentation of data, disinformation, disparagement of other brands, patronizing the customer, and messaging that is designed to pander to customers.

Misrepresentation of data is a garden-variety offense often committed by brands resting on research findings to aggrandize their products. The culprit, sometimes, is the way the research results are represented, and other times, it is the research itself that is faulty by-design. The end result is the same regardless: actively misguiding the customer with claims known to be less-than-factual.

The fairly high-profile 2017 case of Proctor & Gamble comes to mind at the mention of this particular example of marketing malpractice; P&G was accused in an investigation by the Competition Commission of Pakistan for misrepresenting research findings to make the claim that their soap "Safeguard" is the number 1 antibacterial soap. P&G was found guilty, and was subsequently fined PKR 10 million, in addition to the reputational losses stemming from this unscrupulous, unethical practice of skewing data or conducting faulty research for short-term gain.

In the case of disparaging other brands without basis, as well as spreading disinformation by insinuation, was found in the investigation of another case with the Competition Commission of Pakistan, wherein Nestle had filed a complaint against Engro Foods for its advertisement campaign that strongly implied that the Engro Powdered Milk product was a perfect alternative to real milk, while competing products (including Nestle's Nido, which was glimpsed in the background of the advert) were not. In fact, both the products are more or less identical in their formulation, as well as in the fact that they are nowhere near perfect alternatives to real milk, as claimed. The CCP ruled in Nestle's favor, finding Engro guilty of disinformation, and the disparagement, without basis, of competing products.

Marketing practices such as these, and countless other examples far more egregious, routinely cause the failure of the marketplace itself, since you're not getting what you're paying for/what has been promised to you in the communications by the brand. Attempting to slide such practices under the radar, hoping the customer won't notice, is no good as well; sooner or later the facts do surface. Brands that engage in this type of disregard for ethics in marketing often find themselves on the wrong side of history, and the wrong side of a customer's recommendations list.

Not only this, such practices, as well as other similar ones not mentioned here, have cumulatively worked to erode the public's trust in traditional advertising as a whole. Customers have become increasingly adept at uncovering false claims and fake commitment to an ideal on the part of a brand; the public has, through the efforts of marketing itself (ironically), come to realize that claims made by a brand regarding the efficacy of its product should best be taken well-salted.

This trust deficit can either be seen as a threat to the old way of doing things, or as an opportunity to lay the traditional means to rest, replacing them with new approaches that are more in-line with the value-systems of the current generation. Communications by brands that are spearheading this shift tend to stand out brilliantly from the crowd, and as with most things, the early-movers collect the greatest benefits.

In light of this, I would reiterate my chosen position for the consideration of this audience of marketing practitioners and specialists, that marketing of the meaningful variety (marketing that has real ROI, that truly moves the needle, if you will) entails adherence to a strong moral foundation, and the integration of a solid ethical framework into marketing and brand building. In other words, to be a good marketeer, one has to be a good human being.

The caveat here is that a brand's efforts to champion a social cause, or to take a stand on a contentious issue, or to signal its environmental friendliness, should all be underscored with an unmistakable sincerity. For many companies, the ice is very thin when it comes to the trust factor between consumers and brands. It would take only a whiff of insincerity to make the communication fall apart entirely – as insincerity is obvious to the customer. In the same vein, it would serve immensely if marketeers would, as an extension of my thesis of being good human beings, extend to their customers enough intellectual respect to be honest, forthcoming, and upfront with them in their communications. I firmly hold that many of the perceived drawbacks of (what is often called) "too much honesty" are actually immaterial, and are likely to be outweighed by the reputational boost that will come to a brand that chooses to adopt this strategy in earnest.

To have a focus on the bottom-line is essential, of course, but I am putting forth the assertion that the focus should be expanded to include all that a company can do to give back, to be attentive to the needs and outlook of its customers, and to listen and provide solutions that ensure the building of a long-term relationship. Neglecting scruples in marketing may net you the odd short-term gain in leads generated, but true marketeers do not trade the long-term for the short. It is only through the implementation of an ethical system in marketing, that a brand can hope to build meaningful, lasting relationships with its customers, that are likely to last a long time, hopefully, to the shared benefit of both parties.

Marketing (and sales) is not and shall not be a "one-night stand". Instead it is to be a long term relationship of trust, respect, & mutual benefit. It must not be short-lived and one-sided.

Otherwise, one gets exposed sooner rather than later, resulting in comprise on long-term, sustainable sales and the growth of the individual and the organization. With ethical marketing, there's only and only upside in the form of introspection - better and improved product offering, and in turn ensured long-term success of the brand. We need to think beyond our nose and about our future generations. The life of brands and nations are much longer and long-lived than any individual. We all have to drive this concept home to become a "good marketeer" which, thus, is synonymous, to me, with being "good and just human".

Pension Reforms – The Way Forward: Lessons from Successful examples

Sustainable Development Policy Institute - Webinar & Report Launch

22nd December 2021

Rising pension bill

Federal pension bill has increased to PKR 480 billion in 2021, from PKR 150 billion in 2011. According to donor reports, the federal government's unfunded liability currently stands at around PKR 3 trillion. Post the 7th NFC award, the provincial government's pension bill has also increased exponentially to PKR 500 billion in 2020, from PKR 75 billion in 2011. This is clearly an unsustainable path, especially given the weak fiscal position with tax collection at less than 11% of GDP. Studies suggest that with no changes to the existing pension arrangements, the federal pension bill will rise alarming to PKR 750 billion by 2023. Provinces are likely to face the same challenges.

International best practices

Pakistan government's direct benefit (DB) and unfunded pension arrangements are not in line with international best practices. Experience from last 30 years shows significant changes in the pensions schemes in most developed and emerging markets. Non-contributory schemes are reducing: many countries have switched to direct contribution schemes due to financial stress. PAYGO financing is also reducing: Most countries have moved to full or partial funding of future pension liability. The advantage here is that financing burden can be spread across different periods in a more stable and predictable manner. New accounting standards have helped governments to better understand the underlying accrued liabilities and the long-term costs of their pension arrangements.

Direct Contribution (DC) pension schemes are replacing Defined Benefits (DB) pension schemes. DC schemes being fully funded, automatically ensure that the accrual of benefits is fully funded. Thus, employers are guaranteed that no unfunded liabilities would emerge. However, this does have an adverse impact on employees since the value of their accumulated pension assets is not defined, and because it depends on the investment performance of the underlying pension fund. DC schemes allow employees to play a role in the investment decisions. This allows individual risk/reward preferences as well as other religious (such as investment in Islamic securities) or ethical views to be incorporated into the management of pension assets.

Country experiences

Thailand: For new hires starting 1997 parametric changes were made in the DB pension scheme, supplementing it with a DC pension arrangement to which employee and employer contribute 3% each.

India: All new entrants with effect 2004 were hired on the National Pension System (NPS), a DC pension arrangement into which 10% of pay is contributed by both the employee and employer. Those hired prior to 2004 continue to receive pension benefits based on the earlier DB pension scheme.

Philippines: In 1997, the Government Service Insurance System (GSIS) institution was set up which provides DB retirement benefits. Employees pay 9% of their salary to GSIS and the employer adding another 12%. Retirement benefits are determined based on age and years of contribution and are a combination of lump-sum amount and lifetime annuity.
Malaysia: Still maintains a DB system similar to Pakistan. A formal pension was created by the government in 1991 and in 2007 it was converted to a statutory body; hence its accrued liabilities are partially funded. In 2019, a government report warned that the current pension scheme may not be fiscally sustainable and recommended that a DC pension arrangement should be considered for new recruits.

Sri Lanka: Still maintains an unfunded DB system similar to Pakistan. A draft legislation has been prepared on lines similar to the reforms in India.

Financial Industry innovations

OECD countries pension assets stood at over US$ 33 trillion (38% of Global GDP) in 2020. US has the largest pension assets (88% of GDP), followed by UK (123% of GDP), Australia (132% of GDP) and Switzerland (143% of GDP). Pension funds are the biggest investors in the global equity and bond markets, contributing 70% of the market capitalization in some of the OECD markets. In Pakistan, the overall saving rates are one of the lowest in the world. In 2020, the national savings fell below 10% of GDP. A key reason is the absence of pension fund and their low assets under management (AUM). Commercial banks all operate DC pension arrangements for their staff. However, it combined with other large corporate players account for a small share in the market. Unfunded government pension arrangements are a key factor for the low depth in our bond and equity markets. The Asset Management Companies (AMCs) provide Voluntary pension schemes for citizens but the size of their AUM remains dismally low at less than 1% of GDP. Even the Bond markets in Pakistan are small at less than 5% of GDP. Corporate bond markets are virtually nonexistent.

This is despite significant tax incentives offered by the Government, in the shape of 20% annual tax savings for investments in VPS. Key developments will help grow the market for pension funds. Most important will be the growth in long term debt markets through pick up in housing market mortgages. Bank of Punjab is leading this initiative through the Mera Pakistan Mera Ghar facility, aligned with the Prime Minister's Naya Pakistan Housing Program. Secondly, the universal insurance schemes being launched by the provinces are going to boost the AUMs of the insurance companies, a key component of the pension arrangements in most countries.

However, key reforms are still needed to support the growth of pension funds and wider financial markets. NSS with over PKR 4 trillion of savings is by far the largest provider of retail saving products, although bulk of it is unfunded. This impedes the development of long term debt markets. SBP FE Manual restricts cross border movement of capital. Pension funds and AMCs are unable to invest in global assets which would help to diversify their risks and enhance the asset quality held in their portfolios.

This restricts the interest of foreign investors in the domestic capital markets. A key factor behind growth in emerging market financial markets is the removal of capital controls allowing cross country movement of capital.

Case Study of Oil & Gas Development Company Limited

Taking cognizance of the grave situation of growing pension liability which was posing a threat to the sustainability of this scheme and the cash flows of the company, in June 2016, Oil & Gas Development Company Limited (OGDCL) Board decided to rationalize the pay package and introduced the following far reaching changes:
Maximum salary caps were introduced for each pay scale;

With effect from 1st January 2016, the pension scheme was discontinued from the Company for new inductees. Existing employees continue to enjoy protection of their terms & condition of service including pension entitlement. New inductees are governed under gratuity scheme which does not put the Company under any long term obligation.

As a result of the foregoing steps, the actuaries worked out the following benefits to the Company in the form of savings in salaries and pension contribution by the Company over the next 10 years.

Conclusions

“Political Will” is required to implement pay & pension reforms. Tried & tested solutions could be borrowed from across the globe. All new hiring in government shall be under Defined Contribution (DC) scheme with restructured pay-scales having ranges backed by pension fund management structure

Defined Benefit (DB) scheme to be replaced by DC scheme for all new hires, other than salary capping and culling the number of pension beneficiaries, extended retirement age or less benefits in early retirements are two option which could be implemented in the existing DB Schemes as a package. There is no argument that pensions funds are needed to be developed in Pakistan. Pension liability of government is need to be funded as well. There has to be plan which should be managed through pension fund regime

Existing DB pension liability shall be funded through a combination of in-kind assets of the government (offices given on rent to pension fund, lands for development, etc.) and in-cash, albeit in tranches, as funding it one one-he may not be the best of idea as Government is in borrowing mode that would put an unnecessary debt burden on the Country. These funds/ assets will then be managed by efficient fund managers. This tick lots of boxes with the biggest box being conversion of dead assets into an earning ones

Pension Funds have multifaceted benefits:

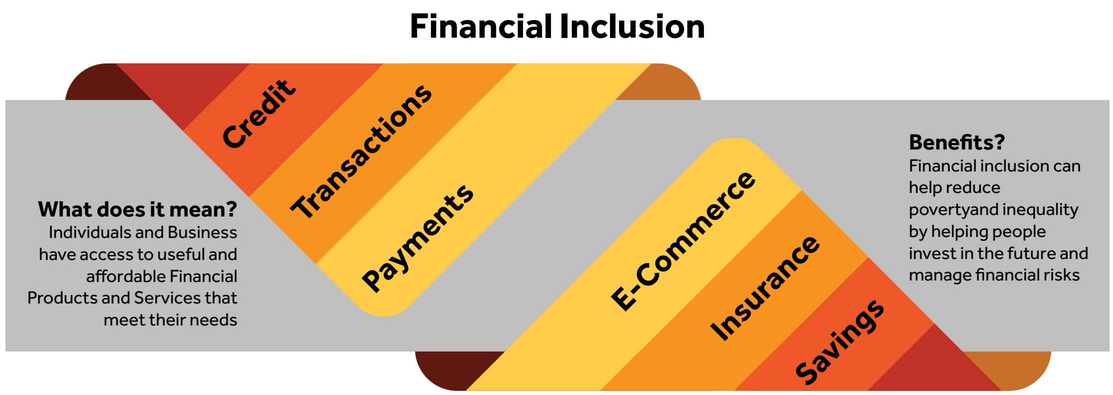
- Capital Market Development;
- Yield curve availability;
- Real Estate/Mortgage financing funding;
- Enhanced savings options;
- Alternate for PSDP in long gestation projects;
- Investment in commerce & industry, etc.

DC schemes are fully funded while return depends on underlying pension fund performance; therefore, it must to allow employees to be party of investment decisions.

The Financial Inclusion Agenda in Pakistan – the Role of Banks and Development Institutions

Pakistan Institute of Development Economics (PIDE) Online Seminar

25th November 2021

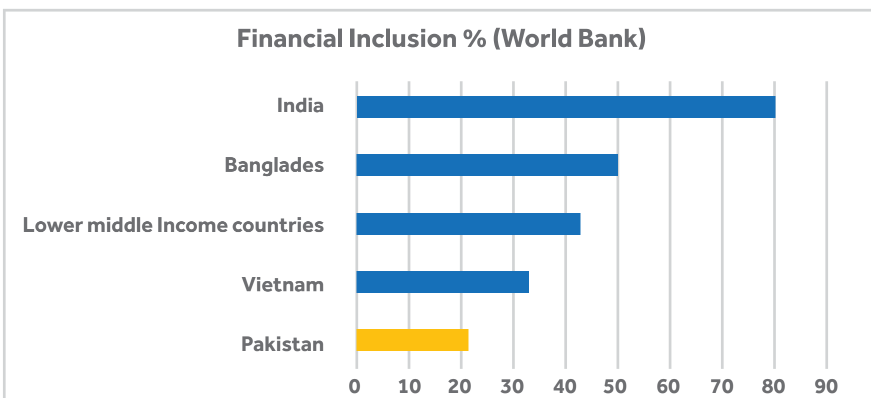


Financial inclusion is referred to as the equal availability of access to financial products and services; the process by which persons and business entities can access affordable, needs-specific, timely financial products, including, but not limited to, banking, insurance, equity, and loans. Financial inclusion is also used to refer to the provision of formal financial services to vulnerable or disenfranchised segments of society, in a manner that prioritizes transparency, affordability, accessibility and sustainability.

According to the World Bank, only 21% of the adult population (15y+) have an account with a bank or financial institution. This figure stands well below India (80%), Bangladesh (50%) and lower-middle-income countries 42%. For Pakistan to reach

Where does Pakistan Stand?

According to the World Bank's Global Findex Survey 2017(1), **21% of the population** in Pakistan is financially included



- Only 7% of adult females (15y+) in Pakistan have a account with a bank or financial institution
- Less than 54% of SMEs ahve a bank account
- 53% of the population remains excluded from formal and informal financial services

the global average alone entails adding nearly 50 million people to our financial ecosystem. Only 7% of adult females (15y+) In Pakistan have an account with a bank or financial institution. Less than 54% of the SMEs have a bank account53% of the population remains excluded from formal and informal financial services. Low financial inclusion is one of the main reasons why Pakistan has one of the lowest savings rate in the world. At 17% of GDP, Pakistan ranks low compared to other emerging markets India 30%, Bangladesh 37%, Thailand 28% and Vietnam 23%. This has a negative impact on investments and GDP growth.

Some of the Key reasons for low rates of financial inclusion in Pakistan include, but are not limited to:

- High rate of informality in the economy: Recent research estimates that the size of the informal economy is as big as the formal. Since financial institutions are reluctant to do business with informal firms, higher informality has contributed to financial exclusion.

- Economic boom and bust cycles: not only affect the demand of credit but also shake the confidence of lending institutions. The challenging economic and business climate – including, local currency depreciation and persistent energy crises – has been highly disruptive for businesses; negatively impacting their creditworthiness.

- Weaknesses in the legal and judicial framework: discourage lending, particularly to those perceived as riskier borrowers. The supply of credit to underserved markets is further depressed by: poor contract enforcement, serious deficiencies in land titling and registration, the absence of a secured transactions framework and electronic collateral registry for moveable collateral.

- Women are largely excluded from the formal financial system; As women comprise half of the adult population, concerted and creative effort from both the government and the private sector is required to address the ingrained cultural and social barriers that prevent women from participating in the financial sector.

- Rudimentary Payment Systems and Limited Use Cases: Many of the digital financial services on offer to Pakistani consumers are still in the nascent stages of development and often lack the robustness and comprehensiveness of their international counterparts. Another limiting factor is the fact that there are not many use cases for digital payment systems as yet, owing to low market penetration.
- Standardization: The design and adoption of standardized and codified procedures is critical. No financial system can hope to grow in the absence of standardizations in security, interconnectivity, and migratory protocols.

Advancing the financial inclusion agenda in Pakistan will bear numerous and significant effects on the economy at large, and by extension, on each one of us as well. Increasing financial inclusivity, and ensuring the robustness of systems and processes that is entailed by this, invariably helps in leading more and more of the informal segments of society towards formalization. This, in turn, has numerous benefits of its own. A higher degree of financial inclusion also entails the creation and execution of a more coherent monetary policy, and thereby, a more stable economic outlook.

In a financial environment that is inclusive and stable, banks and big businesses are well-positioned to flourish; creating jobs, stimulating the economy, and raising wellbeing.

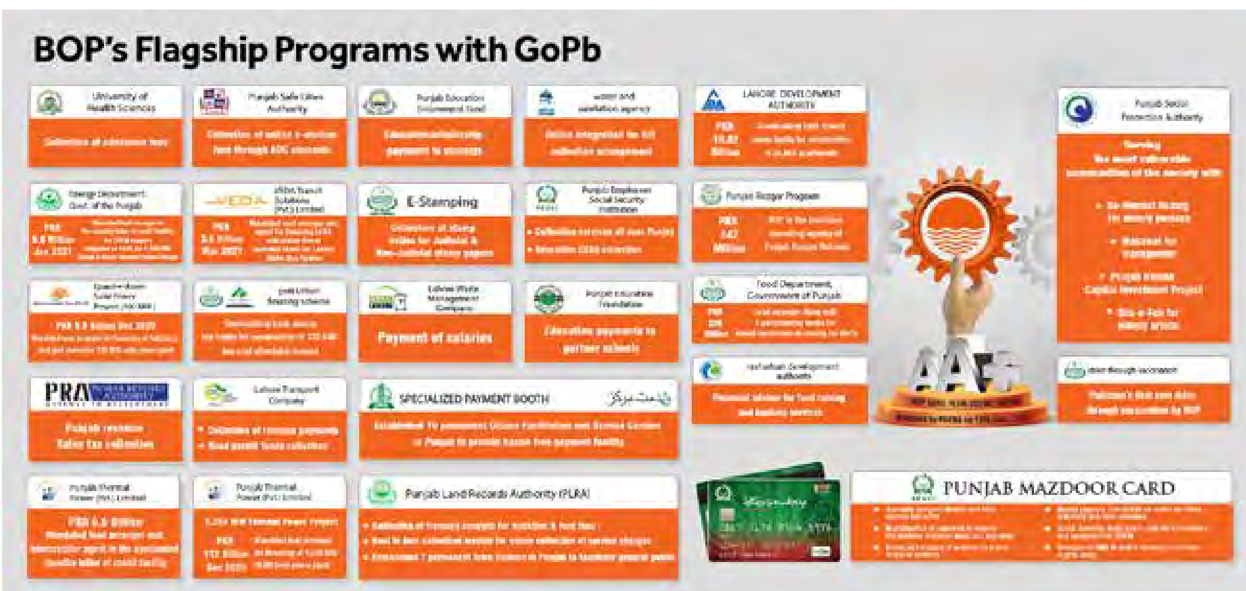
The importance of Financial Inclusion in Pakistan

Helps to Formalize the Black & Grey Economy	More Coheren Monetary Policy	Banks & Big Business Flourish
Sustainable Bottom-Up Growth	Aids in Social Balancing	Reduces Class Disparity & Biases

Organically expanding financial inclusivity is one of the surefire ways to achieve bottom-up economic growth, in a sustainable manner. Besides this, widening the financial inclusion network has also been known to have effects such as reduced class disparity and associated biases, as well as aiding in social balancing.

BOP Flagship programs

Since BOP is aggressively aligned with the Government's agenda of National Financial Inclusion Strategy, the plan is to broaden the scope of clientele and add more institutions in the near future. BOP also foresees becoming a pivotal catalyst that paves the way for financial inclusion in agriculture, housing finance, and women empowerment, by establishing bilateral and syndicated relationships with multiple entities in the sector. BOP has been working with the Government to support the underprivileged segments through subsidized financial products. These include Kamyab Jawan Program, Naya Pakistan Housing Scheme and Punjab Rozgar programs. BOP is one of the three banks selected to lead the new Kamyab Pakistan Program (KPP) focused on providing zero interest products to farmers, young entrepreneurs and for low cost Housing.



PSPA Projects (Digital Financial Inclusion for Social Uplifting of the Disenfranchised)

Another key aspect of our efforts concerning Financial Inclusivity is the work we have been doing in collaboration with the Punjab Social Protection Authority (PSPA). This partnership is intended for the social uplifting of the underprivileged. BOP & PSPA joined hands in 2015 and as a result of the collaboration we have successfully disbursed over PKR 24 Billion so far to the marginalized segments of society. BOP is providing tailor-made Digital Financial Solutions to PSPA for the disbursement of their Social Grants across 6 different ongoing programs.

Khidmat Card PWD

It's an Unconditional Cash Transfer Program for Persons with Disabilities (PWD) – the most vulnerable individuals who are subject to the dual risk of being financially disenfranchised as well as being disabled. Around 95,000 registered beneficiaries are currently being served in this program through quarterly disbursement of funds directly to their digital wallets.

Zewar-e-Taleem Program

Zewar-e-Taleem is a conditional cash transfer initiative to girls enrolled in public sector schools. Under this program, over 600,000 girls are currently receiving quarterly disbursement in their registered digital wallets on the condition of having 80% (or higher) school attendance. Total Disbursed Amount: PKR 15 billion (to date)

Ba-Himmat Bazurg Program

Ba-Himmat Buzurg is an Unconditional Cash Transfer program providing dignified social pensions to elderly women over the age of 65 in Punjab. Over 74,000 registered female beneficiaries are getting their quarterly disbursements through their digital wallets & via BOP branches.

Punjab Human Capital Investment Project (Health & Nutrition CCT)

This is a World Bank funded project with the objective of encouraging the underprivileged women to utilize health and nutrition services during the first 1000 days' lifecycle of the child, which include pre/post-natal care, access to skilled birth attendants, growth monitoring, and vaccination and immunization. Till now 2000+ pregnant women have been registered in this program.

Masawat Program

This Program is providing unconditional cash transfer for elderly & disabled transgender persons. To date, 70 Transgender persons have been registered in this program and are receiving their monthly grants through BOP branches.

Sila-e-Fun (Artist Support Program)

Sila-e-Fun is an unconditional cash transfer program for elderly artists who have served in fields related to the arts for more than 25 years. Around 1500 female beneficiaries are registered in it and are receiving their monthly stipend through BOP branches. Broadly, the ambit of BOP's financial inclusion related initiatives is centered around the following ambitions: To move more people to formal, traceable, transparent, secure, and quick financial transactions (leading to cost savings and reduced corruption), Increasing access to bank deposits that enables individuals to accumulate savings in a safe and secure environment, Reducing vulnerability of poorer households via minimizing negative impacts of income shocks by dipping on savings or availing insurance products, Improving access to credit, thereby improving asset base and enhancing economic opportunities, Decreasing proportion of low-risk, low-return assets held by households for precautionary purposes.

Banking on Equality

Under the State Bank's Banking on Equality Policy, BOP is considering the development of a unique offering, specific to women's financial inclusion. Among the segments that we intend to serve in this program are: Home-makers, salaried persons, entrepreneurs, and senior citizens. The proposed offering can include the following:

- Pre-approved loans/limits for female customers with payroll accounts in BOP;
- Discounted rates (Autos/Mortgage/PIL) for female customers;
- Unique saving solutions, such as committee wallets, to displace cash;
- Women specific merchant discount alliances;
- Cash-back rewards on shopping;
- Setting up a Women-only branch;
- Launching personalized debit/credit cards (personalization in terms of card design/color etc.);
- Wealth and succession planning for women senior citizens;
- Better rates on fixed deposits for women senior citizens;
- Seminars/webinars/workshops in collaboration with social influencers specific to this initiative;
- Women specific literacy programs such as TCF – Aagahi, under the Sadiqah Jariyah program;
- Focus on Women's SME capacity building through easy loan facilitation;
- Financial advisory and business management services for women entrepreneurs;
- Health Screening and Medical Health Insurance for women.

Employee Wellness

We have numerous initiatives on-board that are geared towards raising employee wellbeing; some among them include:

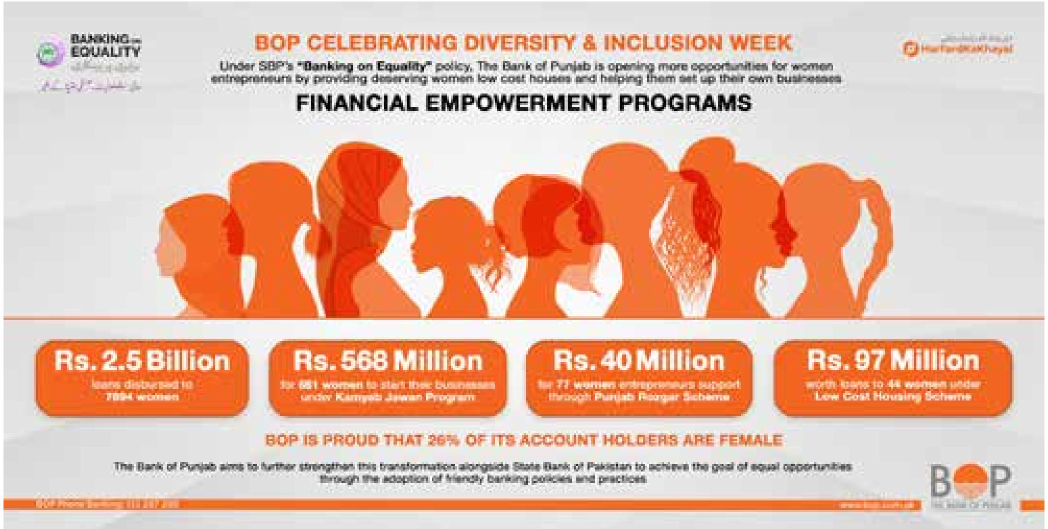
- A formal diversity and inclusion policy, duly approved and in effect.
- Affirmative action policy to support under-represented groups.
- A dedicated focal person within the bank for matters of diversity and inclusion.
- Revisions to our promotions policy, and the introduction of a special promotions exercise designed for members of under-represented groups.
- Offering 0% markup scooters for women.
- Gender focused recruitment, and female batch hiring.

Financial Empowerment Programs

Under the State Bank's Banking on Equality Policy, BOP is considering the development of a unique offering, specific to women's financial inclusion. Among the segments that we intend to serve in this program are: Home-makers, salaried persons, entrepreneurs, and senior citizens.

The proposed offering can include the following:

Pre-approved loans/limits for female customers with payroll accounts in BOP; Discounted rates (Autos/Mortgage/PIL) for female customers; Unique saving solutions, such as committee wallets, to displace cash; Women specific merchant discount alliances; Cash-back rewards on shopping; Setting up a Women-only branch; Launching personalized debit/credit cards (personalization in terms of card design/color etc.); Wealth and succession planning for women senior citizens; Better rates on fixed deposits for women senior citizens; Seminars/webinars/workshops in collaboration with social influencers specific to this initiative; Women specific literacy programs such as TCF – Aagahi, under the Sadiqah Jariyah program; Focus on Women's SME capacity building through easy loan facilitation; Financial advisory and business management services for women entrepreneurs; Health Screening and Medical Health Insurance for women.



Welfare Products

The bank of Punjab continues to work on the State Bank's "Banking on Equality" policy, making significant progress in facilitating registration and disbursements and digital payment options to the historically marginalized.

Punjab Mazdoor Card

The Punjab Mazdoor Card, a debit card specifically tailored for individuals belonging to the "mehnatkash" segment, is a first of its kind. It has been designed with the requirements of its intended end-user in mind; among others, its features include:

1. Digital payment of social benefits by PESSI – Death Grant, disablement gratuity, pension, etc.
2. Digital payment of health benefits by PESSI – sickness, maternity, injury, benefits, and more.
3. A product that is designed to bring a historically excluded segment of society into the formal economy, thereby enabling these individuals the opportunity of availing financing facilities.
4. Digitization of labor wage payment to ensure minimum salary levels and enhanced purchasing power.
5. Mobile and SMS banking enabled, to promote digital banking experience.

We aim to launch a partnership with the GoPb for the Kissan Card, as well as collaborations with FinTech companies to develop cutting-edge Client On-boarding and Processing solutions. We will continue to work on expanding our suite of digital banking services, aiming to constantly enhance customer experience with best-in-class financial advisory services and comprehensive digital banking products, while endeavoring to bring more and more of the population into the fold of financial representation and inclusivity.

We will continue to lend our unrelenting support to initiatives designed around uplifting the disenfranchised and extending support to the marginalized, in every way we can. I sincerely believe that the Bank of Punjab is setting an example for how banks can play their part in making our country more inclusive, both financially and socially. We are hopeful that at our current pace, with our continued efforts to advance the financial inclusion agenda, it will not take long for Pakistan to become one of the most financially inclusive countries in the region.

Developing an Inclusive Financial Ecosystem

5th Annual Microfinance Conference

7th October 2021

Financial Inclusion and the Financial Ecosystem

Financial inclusion is one of the key means of alleviating poverty, bolstering "bottom-up" economic growth, empowering women, uplifting the systemically disenfranchised, raising financial literacy, and fostering entrepreneurship. To me, financial inclusion means creating a "great equalizer" – the supernova of economic opportunities – by leveraging access mediums, systems, services, and platforms to extend financing opportunities for everyone.

However, Financial inclusion – the great ideal of any financial system – will not be possible until we have developed an inclusive financial ecosystem; a system where users, service providers, markets and intermediaries are free to connect and seamlessly integrate with others, in real-time, with little or no cost.

The ideal state of an inclusive financial ecosystem will be 1) any transaction 2) to any one and 3) anywhere. This is the digital financial service nirvana state to which we should aspire.

Fostering and developing a financial ecosystem is predicated on 4 main requirements:

- Connectivity: Ensuring that affordable and ubiquitous internet access is available for all segments of society.
- Access Mediums: Smartphone penetration, increased affordability of gadgets that enable internet communication.
- Regulatory Momentum: Impetus from regulatory authorities to incentivize and foster financial inclusion initiatives, policies to expedite the development of an effective financial ecosystem, and regulations to ensure secure and reliable, low cost financial service provision.
- Interoperability: Cross platform compatibility necessitates standardization of systems and security parameters. Universal interconnectivity in digital financial services remains a global challenge.

The State of Pakistan's Financial Ecosystem

We have crossed the first bridge, Connectivity, and the second (Access mediums) is also substantially covered. Pakistan has high rates of smartphone and internet-enabled device penetration, and the availability of high speed internet has become fairly democratized in recent years.

The groundwork for the third foundation: The Regulatory side of things, has also been laid, and considering the dynamic nature of the sector, it is likely to be an ongoing process.

The last one – Interoperability – is the "Holy Grail" and the toughest nut to crack. To implement it with any degree of effectiveness will require comprehensive multilateral collaborations between technology firms, financial service providers, as well as regulatory bodies.

Some of the key challenges that inhibit interoperability within any financial system include:

- Developing payments systems which talk to each other;
- Designing common standards and best practice codes;
- Devising and implementing regulations and consumer protection mechanisms;
- Identity systems that provide baseline security;
- Fees and levies which induce frictions in transactions.

Only 23% of Pakistani adults have accounts with formal financial institutions, this figure stands well below the average of both South Asia at 33% and other lower-middle-income countries that stand at 41.4%. For Pakistan to reach the global average alone entails adding nearly 50 million people to our financial ecosystem.

Notwithstanding, we now have a healthy mix of Financial Institutions, Non-Bank Financial Institutions, Digital Financial Services players and an emerging Fintech industry. In keeping with global trends, the evolution of this sector in Pakistan has been quick as well, all things considered. We have seen how the microfinance industry, mobile wallets, and niche players have emerged to rapidly fill the service vacuum created by technological advancement – the future appears bright.

User readiness and adoption rates for emerging digital financial services are also encouraging. Consumers, merchants, businesses and government bodies have been embracing these changes – albeit at different speeds. The increasing volume of digital transactions is a testament to this trend.

Challenges to the Development of an Inclusive Financial System

Undeniably, the room for growth in this sector is considerable. However, constraints and limitations that stymie the development of an inclusive financial ecosystem still abound.

- One of the key factors contributing towards financial exclusion is the high rate of informality in the economy: Recent research estimates that the size of the informal economy is as big as the formal. Since financial institutions are reluctant to do business with informal firms, higher informality has contributed to financial exclusion. To remedy this, regulatory momentum may be utilized to encourage regularization. This can be done by providing lower transaction (and associated) costs, easy transition and simplified on-boarding, a wider range of tailored financial services not offered by informal counterparts, and other incentives to enter the fold of the formal economy.

- The economic boom and bust cycles of Pakistan not only affect the demand of credit but also shake the confidence of lending institutions. The challenging economic and business climate – including, but not limited to, massive rounds of local currency depreciation and persistent energy crises – has been highly disruptive for businesses; negatively impacting their creditworthiness. The vulnerable segments of society are the most affected by these challenges, due to lack of access to mediums and finances to be able to weather the storms. Higher financial inclusion and financial literacy, stimulating entrepreneurship and human development, a more conducive and stable environment that is attractive for domestic and international investors alike, are some of the factors that will be required to combat this challenge.

- Weaknesses in the legal and judicial framework discourage lending, particularly to those perceived as riskier borrowers. The supply of credit to underserved markets is further depressed by: poor contract enforcement, serious deficiencies in land titling and registration, the absence of a secured transactions framework and electronic collateral registry for moveable collateral. All significant challenges; however, the formation of standardized controls and procedures, as well as digitalization should streamline the registration and titling concerns, while simultaneously providing a secured transactions framework. Many of these concerns are systemic in nature, and will realistically take a considerable amount of time to address completely.

- Women are largely excluded from the formal financial system; Only 2.9% of adult females have an account with a formal institution, compared to 17% of males. As women comprise half of the adult population, concerted and creative effort from both the government and the private sector is required to address the ingrained cultural and social barriers that prevent women from participating in the financial sector.

- Rudimentary Payment Systems and Limited Use Cases. Many of the digital financial services on offer to Pakistani consumers are still in the nascent stages of development and often lack the robustness and comprehensiveness of their international counterparts. Another limiting factor is the fact that there are not many use cases for digital payment systems as yet, owing to low market penetration.

- Standardization. The design and adoption of standardized and codified procedures is critical. No financial system can hope to grow in the absence of standardizations in security, interconnectivity, and migratory protocols.

- Identification systems. Robust and exhaustive security mechanisms are essential to the creation of a safe and reliable financial ecosystem. Many key aspects of digital financial services directly depend on the comprehensiveness of identity verification and data security parameters.

Opportunities and the Role of BOP

With an aim to accomplish higher standards of financial inclusion, regulators (the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan) have achieved significant milestones over the period, including:

1. Creation of a regulatory framework for MFBs/MFIs;
2. Creation of an online Credit Information Bureau (eCIB)
3. Promoting Digital Finance Services – particularly the Instant Payment System "Raast";
4. Development of interoperable inter-bank card payment platforms.

Additionally, targeted focus on the development of the "Microfinance Industry" can enable us to achieve increased financial inclusion by bringing more of the under-privileged members of society into the formal economy. Currently, the lending portfolio of the Microfinance industry stands at PKR 355 billion (up 19% YoY) surpassing 8 million borrowers (up 17% YoY) where around 74% of the portfolio is contributed by Microfinance Banks. These Banks have a healthy CAR of 19.1 in June 2021; compared to 17.9 in June 2020 – implying that the growth in lending can be sustained.

Despite this, we still need to strengthen the two pillars of financial inclusion, namely:

1. Consumer protection, and;
2. Financial awareness and literacy.

We at BOP believe there is still a long way to go. BOP has been at the forefront of promoting financial inclusion. I am proud of the fact that we are among the foremost proponents of microfinance in Pakistan. As a testament to our commitment to public service, the Bank of Punjab continues to lend its support to the Government in its initiatives aimed at ameliorating the conditions of the underprivileged.

To this end, a number of subsidized financial products have been offered recently, most notable of which are the Kamyab Jawan Program, the Naya Pakistan Housing Scheme, and the Punjab Rozgar program.

BOP has also taken a more focused initiative of investing in the Microfinance Sector with the aim to support the Government's and the Central Bank's agenda to boost this sector. Our lending portfolio has quadrupled in the past three years alone. We are the lending partner of 14 microfinance providers, including 4 Microfinance Banks and 10 Microfinance Institutions.

The Way Forward

BOP remains acutely aligned with the state's National Financial Inclusion Agenda – going forward, the objective is to cater to a much wider gamut of clientele, and to do so in a seamless, intuitive, low-friction manner.

Our strategic collaborations and syndicated relationships with multiple microfinance entities have also geared us towards becoming a pioneer of financial inclusion in the areas of Agriculture, Housing Finance, Women Empowerment, and Support for the Marginalized and the Differently-Abled.

The potential for growth in this sector is considerable. The challenges to the advancement of an inclusive financial system, however, are perhaps tenfold as considerable as the opportunities.

Infrastructure and knowledge gaps, low rates of financial literacy and high rates of economic informality remain critical challenges. Stakeholders must work towards bringing more of the unbanked population into the fold of financial inclusivity by easing the transition with simplified on-boarding mechanisms, and user-friendly platforms. Regularizing the consumers of informal financial services may also be achieved by reducing transaction (and associated) costs, and offering a wider range of tailored services.

Controls against identity theft, data breaches, and frauds are an essential component of an effective financial ecosystem. To this end, our National Database NADRA has proven to be a valuable tool. Universal access to the citizen's directory by any organization greatly simplifies due diligence and verification procedures – saving time and reducing costs.

Numerous microfinance institutions are not self-sufficient and rely heavily on donations and subsidized financing. Therefore, in order to become self-sufficient, it is vital for operators in this sector to build lean, low cost structures, expand the range of their offerings, and consider re-pricing existing products & services.

Although ongoing Covid-19 related challenges are unprecedented in terms of magnitude and impact, the microfinance sector has shown enough resilience to cope with them.

The conducive environment necessary for ensuring growth in this sector entails the creation of secure identification, monitoring & control systems, assistive & enabling regulatory mechanisms, and platform interoperability & universality,
We, at the Bank, remain resolute in addressing the constraints and limitations that stymie the development of an inclusive financial ecosystem in Pakistan. We look forward to continue working towards this goal; building upon the successes of the past, collaborating more readily with other institutions, and productively leveraging the recent advancements in this sector.

Agriculture - the Catalyst for Growth (Estimating contribution to GDP and linkages to employment and poverty)

PIDE x BOP Joint Webinar

17th September 2021

The biggest problems faced by the economy today are high food inflation, a growing import bill and high public debt. In many ways these problems are linked to low agriculture output, as our farm output has failed to keep pace with a growing population – leading to growing reliance on imported food items.

In the last decade, agriculture has been largely neglected. Policy makers have instead focused on growth driven by services and to some extent the manufacturing sector. This is also true of banks that do not see the agriculture sector as a growth sector and hence limit lending to the sector. In the last three years' loans to agriculture sector are stagnant at 5% of total loans (industry wide).

We at the Bank of Punjab see significant growth potential in the agriculture sector and hence we have increased lending to the agriculture sector and its allied industries by 35% in the last 3 years. The share of the agriculture sector and its allied industries has increased to 9% of the total lending (June 2021).

The true potential of the sector has been under reported, leading to neglect of the sector from successive governments. There was no study available that provides an estimate of the direct and indirect contribution of the agriculture sector to GDP growth. Hence, I tasked our research team to conduct this study and estimate the 'real' contribution of the sector to the national GDP. The key findings of the report, in brief, are the following:

1. Direct contribution of the Agriculture sector

In constant prices, the share of agriculture has declined sharply in the last decade to 19.2% of GDP in 2021, from 22% of GDP in 2010. This is reflective of stagnant farm output due to low productivity and high post-harvest losses.
However, in current prices, the share of agriculture has increased marginally to 25.7% of GDP in 2021, from 24.3% in 2010. Unfortunately, this rise in share is not due to higher output but rather higher prices of crops, either due to rising international prices or higher minimum support prices fixed by the government.
Government interventions (subsidies, support prices, etc.) have been successful to the extent that higher budgetary transfer have led to decline in poverty rates. However, they have been largely unsuccessful in enhancing efficiency and productivity of farm output. Hence, agriculture sector is unable to absorb the growing unemployed workers in the rural communities.

2. Indirect Contribution

Our research shows that the agriculture output is a key input for the manufacturing and services sectors, with estimated contribution of 6.7% of GDP. Using the input – output tables published by the ADB, our team finds strong forward and backward linkages of the agriculture sector with other value added sectors.
Industries such as Food & beverages, textiles, leather and wood products are the biggest consumers of agriculture output. Whereas, agriculture is a key consumer of fertilizer and chemicals. Hotels, restaurants, and transport services are heavy consumers of agriculture inputs. Whereas bulk of agriculture products are sold through the wholesale and retail markets.

3. Rural household consumption spending

Consumption spending by the private sector is the single biggest contributor to the national GDP, accounting for 81% of the GDP in 2021. Out of a total estimated population of 207 million people, around 132 million (64%) live in the rural areas. The livelihoods of the majority of the population living in rural areas is linked with the agriculture sector and its allied industry services.

Based on the Households Income Expenditure Survey 2018-2019, our team estimates that the total spending by the rural households on purchase of goods & services is around 14% of GDP. We can use this as a proxy for contribution of farm incomes contribution to the national GDP.

In conclusion, based on our research analysis we estimate that the total direct and indirect contribution of the agriculture sector is 46.4% of GDP. The agriculture sector has a multiplier of 1.8, meaning that for every PKR 100 output produced in agriculture sector, the contribution to national GDP is around PKR 180. The economy cannot sustain GDP growth rates of 6% without significantly enhancing productivity and output of the agriculture sector.

Policy Recommendations

The focus for policy makers needs to be on enhancing productivity of farm sector which in turn will lead to higher incomes for rural community and support higher growth in the economy. The productivity gap between average farm output and output of farms that have adopted technology and have access to credit, is estimated to be 40%. We prioritize the following six key Government interventions:

1. Availability of modern farm equipment/machinery,
2. Modern storage facilities including cold storage facilities,
3. Higher yielding seeds, hybrids or imported seeds for higher productivity,
4. Better credit availability especially for the small farmers,
5. Crop insurance schemes with higher coverage and payouts, and,
6. Lastly, a shift to higher yielding crops (fruits, vegetables) will boost incomes of small farmers.

Realizing the Blue Economy Potential of Pakistan - the Role of Banking Sector

World Bank Webinar "The Blue Economy in Pakistan - Pathways to a Sustainable Blue Future"

16th September 2021

The Blue Economy

The topic of Blue Economy in Pakistan is one of paramount and grave significance, especially considering the encroachment of climate change. BE agenda advises states to expand their focus to include economic gains, as well as considerations regarding the long-term health and sustainability of the oceans (and all the myriad resources and ecosystems therein). The Global Banking Sector continues to play a pivotal role in enabling sea-based commerce, and the exploitation of ocean resources.

The three key elements of the Ocean Economy that are driven primarily by bank financing are sea-based trade (which constitutes more than 80% of total global trade), sea-based infrastructure development (which includes investments in ports and related infrastructure), and marine fisheries development.

Banks are instrumental in mobilizing capital for global trade, for sea-fairing vehicle financing, working capital financing, shipment financing, etc. This implies that banks are not exempt from the onus of responsibility for environmental degradation and they need to play their due role. Unfortunately, the ocean degradation is at an all-time high. Paradigms of the past that had singular focus on GDP and caused the over-exploitation of natural resources have led us to where we are today (in terms of the climate emergency, the loss of biodiversity, and even the outbreaks like COVID-19).

The Blue Economy approach encourages a progressive, ecologically regenerative modus operandi of using the ocean as a means of economic recovery. Pakistan's Ocean Economy potential far outstrips its current meagre contribution to GDP. Some of the key statistics for Pakistan's ocean economy are:

Maritime revenue: US$ 183 million (0.1% of GDP). For India, for example, Annual Maritime Revenue stands at US$ 6 billion (0.2% of GDP), and US$ 5.6 billion for Bangladesh (1.6% of GDP), as of 2019.

Annual Sea Food Export Revenue: 0.2% of GDP (US$ 451 million); verses China Seafood Export Revenue nets approximately US$ 19.2 billion annually (0.1% of GDP), and for India the income from Seafood Export Annually stands at US$ 6.6 billion (0.2% of GDP).

Coastal & Marine Tourism Revenue: 0.1 % of GDP (US$ 300 million). On the other hand, Bangladesh Maritime Tourism Revenue are double that of Pakistan as of 2019, while India and China have US$ 28 billion (0.9% of GDP), and US$ 227 billion (1.5% of GDP), respectively.

Port Revenue: 0.74% of GDP (US$70M); having more developed port infrastructure, countries like Bangladesh are outperforming Pakistan despite having a lower Liner Shipping Connectivity Index, and a smaller coastline. Bangladesh's Port Revenue for the year 2020 stood at US$ 0.34 billion; that of India is US$ 0.86 billion, and from China, Shanghai port alone nets US$ 2.7 billion dollars to China's GDP annually. These numbers don't present a very happy picture as it reflects an element of underutilized and perhaps mismanagement of resources, imbalanced growth, and unrealized potential.

Pakistan's Ocean Economy also has much room for improvement in capacity enhancement of sea-fairing sectors, sustainable management of natural resources, and social/economic inclusivity of the marginalized segments of society. Pakistan's Ocean Economy, if managed effectively, can contribute handsomely to our GDP, estimated to be US$ 8 billion in much needed hard-currency revenues.

Banks have the largest asset pool, and the means to empower and facilitate growth through capital mobilization. Banks need to synergize with Private and Public Sector stakeholders to realize the full potential of the Blue Economy in an environmentally conscious, sustainable way.

Specific Blue Economy initiatives that can be enabled by financing from banks include, Financing offshore renewable energy production, de-carbonization of maritime transport and fisheries, sustainable fisheries, aquaculture, algae farming, investments in robust solid waste management systems, incentives for fishers to collect sea litter for waste processing, rebuilding marine ecosystems for carbon sequestration, funding of marine research/spatial planning, funding of maritime workforce trainings, subsidized financing for entities that meet MoMA's Blue Economy Policy requirements, price floor for entities not meeting BE requirements, and among others, promoting awareness.

All of this could not come to pass without the regulatory momentum from policy making bodies. Stakeholders of BE should work towards formulating BE financing requirements and targets. Stakeholders may like to work to convert State Bank of Pakistan's Green Banking Guidelines (GBG) into binding regulations, with accommodations for Blue Financing. Regulators may also incentivize investments into renewable energy production to alleviate our energy shortfall and to reduce dependence on non-renewable, polluting fuels. And above all, the Blue Economy Framework needs to be mainstreamed into the National Agenda.

As one of the 3 key elements of the ocean economy that are propelled by bank financing, resulting in increased contribution to GDP, and job creation. A schedule of port and related infrastructure financing is presented on this slide, listing investments made as of 1997 by international financial companies, multilaterals like the World Bank, the Asian Development Bank, and Chinese banks and financiers. The sizeable investments over the last 20 years have helped bring up Pakistan's maritime revenue, but the contribution to GDP, as we have seen, has been meager; and there are still challenges for banks in port infrastructure financing.

Challenges faced by banks

Large-scale infrastructure projects are capital intensive hence financing requirement is substantial and considerable commitment from sponsors for equity, cost overruns, etc. Similarly, tenor of financing such projects is north of 10-12 years (preferably even longer 18-20 years) which can only be financed by large banks, as midsize/ smaller banks are unable to take exposure on longer tenor projects, thereby restricting the availability of local funding. In view of SBP's requirement for financing certain amount of capital cost in foreign currency, arrangement of FCY funding is a pre-requisite resulting in increased project timelines and contractual requirements.

Banks are often not receptive to infrastructure projects with no off-take/ guarantees or financial support from the government. Perhaps a specialized area needs to be established as had been done by all the significant globe banks given the specialized nature of this sector.

Enhancing the role of banks and Multilateral Financial Institutions

Suggested Measures for Active Participation from Banks and Multilateral Financial Institutions

In order for Blue Economy to realize its true potential, local banks should begin to take a commercial lending perspective with a progressive approach, i.e., without direct or indirect government support and based on market dynamics. In order to achieve this, capacity building of financing institutions is required in collaboration with multilaterals, specialized shipping and transport financing institutions, parent ministry and key stakeholders such as SBP & IBP.

Moreover, government through appropriate quarters may also closely coordinate and partner with global funding agencies, such as, World Bank & Asian Development Bank and other large-scale credit guarantee providers to offer partial or complete first-loss guarantee and other customized products for credit enhancement, at least in the formidable years of bank financing in this sector.

The government should also ease out the regulatory requirements for promotion of blue economy related projects and incentivize the same in the form of subsidized financing, investment packages (fiscal incentives, one-window licensing regime, SEZs etc.) and progressive regulatory targets for banks.

The aforementioned measures will enable the banks to take a more progressive and active view for commercial financing of projects where government's participation as a direct stakeholder is limited. The Potential Financing Avenues for Banks in this sector are enormous to say the least.

Fisheries

Fisheries contribute 0.4% of GDP. The sector employs 390,000 people directly, the number rises to 1 million when secondary jobs are also considered. Improving the value added in post-harvest value chains is the most feasible way to improve the sector's contribution.

Creating an enabling environment in the fisheries sector:

Government structure is fragmented:

(Federal/provincial/local governments)
Increased coordination and stakeholder collaborations for sector-specific policies are required. The institutions like World Bank can play a role of bridge and coordinator in this respect.

There're low government budgets:

Not enough provincial or federal resources being invested. Infrastructure and regulatory gaps, as well as financial inclusion issues compound this problem) solution would be increased government investment and transparency. Strategic financial support in the form of grants, loans, and guarantees, required along with systems for efficient and transparent delivery. The banking sector should increase its presence in this region, offering tailored financial solutions. Deal with problems of over-fishing. Need to move to a licensing regime, and a stricter enforcement of measures.

Underdeveloped post-harvest processing: Lack of investments in value-chains, especially cold storage facilities, has hampered Pakistan's exports to international markets. Most importantly, capacity building and investments in equipment are required to improve output quality and efficiency of this sector. Storage facilities for fisheries, including cold storage and transit storage, need to be heavily revamped. We need to invest in improving the sanitary standards within the fisheries sector.

Special Economic Zones

Special Economic Zone is one of the elements for development of blue economy. They are being considered by many countries in developing the blue economy policies and are generally referred to as: Marine Economy development zone, Blue Economy demonstration zone, Ocean Economy Development Zone, etc.

In addition to offering significant investment incentives, Special "Blue" Economic Zones in Pakistan could also greatly expand the output, efficiency, and scale of the fisheries sector, along with having positive spillover effects on all connected maritime economic avenues (like marine tourism, port revenue, etc.)

SEZ development could perhaps be focused on Cluster Development around key coastal centers in Pakistan, providing necessary infrastructure like cold storage, packaging, testing facilities, electronic warehouse receipts, among others.
Notable International Developments in this area are in China and Indonesia who are actively working on this along with India, Bangladesh, Sri Lanka and other countries which could be drawn upon for replication in Pakistan.

Youth Entrepreneurship Scheme and Government Markup Subsidy Scheme – Low Cost Housing

In order to ensure real and quick impact in this sector, both conventional trickle-down and bottom-up approaches must be pursued simultaneously. Small-scale fishermen are one of the most marginalized & underbanked groups, and lack access to basic financial products. Data specific to this community is not available. Unlike agriculturists, this community does not receive subsidies, and there are no products tailored to their requirements. However, Government sponsored programs available to Fishing Community are:

- PM's Kamyab Jawan – Youth Entrepreneurship Scheme (KJ YES)
- Government Markup Subsidy Scheme (GMSS) for Economy Housing

Keeping in view the importance of this underserved sector, a correct mix of banks' support (in terms of expansion in outreach and awareness creation) coupled with Credit Guarantee schemes, can be an effective tool to capture this un-tapped market. Working on the same lines, we at the Bank of Punjab have been organizing road-shows along the country's coastal line to create awareness regarding banking services available to local fishermen.

Summary of Challenges to Blue Economy Advancement in Pakistan, and the role of Banks

Lack of infrastructure and low capacity/output of maritime sector, can be remedied by targeted investments in infrastructure and capacity building. Reliance on polluting fossil fuels has significant costs, both financial and environmental, investments in renewable offshore energy production is the solution. Ignorance regarding the importance of environmental conservation will need to be combatted with awareness and education campaigns. Entities that actively neglect environmental considerations can be discouraged through the deployment of price floors for financing, i.e. minimum financing rates that are dissuasively high, will be reduced only upon compliance with Blue Economy Policy requirements. The problem of over-exploitation of natural capital can be remedied with investments in marine research and spatial planning. Over-fishing needs to be countered with investments in sustainable fisheries, aquaculture, algae, farming. Investments in solid waste treatment and disposal systems need to occur to bolster this weak area. Job creation through enhanced capacity and investments, will elevate the workforce of this sector (which has historically been marginalized and impoverished). Bringing these people into the fold of prosperity and sustainable economic growth (social inclusivity) is also a central component of the Blue Economy.

The concepts of sustainability, eco-friendliness, responsible stewardship of nature and its preservation must be intertwined with decisions of national economic policy, as well as all investment decisions. The power to bring about real and lasting change is within our reach. To actualize it, key stakeholders must synergize and collaborate to achieve this crucial and noble goal.

FATF & Pakistan - An Assessment – "Why are we still on the Grey List?"

Address at Pakistan Institute of Legislative Development & Transparency (PILDAT) Online Training Course

26th August 2021

Introduction to FATF

Established in 1989, the FATF is an inter-governmental policy making body, comprised of over 30 countries, that has a ministerial mandate to establish international standards for combating money laundering and terrorist financing. Over 180 jurisdictions have joined the FATF or an FATF-style regional body and committed at the ministerial level to implementing the FATF standards and having their anti-money laundering (AML)/counterterrorist financing (CFT) systems assessed.

FATF is seen as a "transnational public policy network" — consisting of 39 members. It has also established nine regional bodies which have fully endorsed their recommendations. So, between FATF members, its regional bodies, observer states and international organizations, around 205 countries and jurisdictions around the world have committed themselves to implement FATF recommendations. It must be noted that the FATF's role in global financial governance has become more prominent over the last few decades as it expanded its mandate in October 2001 after 9/11, by adding "terrorist financing" to its list. FATF is the main decision-making body, and its regional bodies provide support and assistance in those decisions. Every year in February, June, and October; a plenary meeting is held in Paris at the FATF secretariat. The president of the FATF, who is elected by and of the 39 members, chairs the meeting and sets the agenda. During the plenary meeting, key issues related to AML/CFT are discussed, along with a discussion on the countries that have deficiencies in the AML/CFT regime. FATF categorizes countries with a fragile AML/CFT regime as 'jurisdictions under increased monitoring' (grey-listed), while countries with significant strategic deficiencies are labelled as 'high-risk jurisdictions' (blacklisted).

Pakistan is a member of the FATF-style regional body called the Asia/Pacific Group on Money Laundering (APG), which it joined in 2000. In 2012, due to non-compliance with the United Nations Security Council Resolution (UNSCR) 1267, which called on countries to freeze assets, impose travel bans and arms embargos on any terrorist/militant groups linked with al-Qaeda, Pakistan was placed on the grey list. It was removed from the list following amendments to the Anti-Money Laundering and Anti-Terrorism Act of 2015, in which measures were enacted to "confiscate the properties of the affiliated groups, as well as act against the financers of terrorist activities within the state". When it was decided that Pakistan will be grey-listed again in 2018, it cooperated and formulated an action plan to avoid blacklisting and negotiated an approval on a 27-point action plan from the FATF.

The FATF:

- Sets international standards to combat money laundering and terrorist financing.
- Assesses and monitors compliance with the FATF standards.
- Conducts typologies studies of money laundering and terrorist financing methods, trends, and techniques.
- Responds to new and emerging threats, such as proliferation financing.

Recommendations:

The internationally endorsed global standards for implementing effective AML/CFT measures. They increase the transparency of the financial system (making it easier to detect criminal activity) and give countries the capacity to successfully act against money launderers and terrorist financiers.

What must a country do to implement the FATF Recommendations effectively?

- Successfully investigate and prosecute money laundering and terrorist financing.
  Criminalize money laundering and terrorist financing. Properly train law enforcement and prosecutorial authorities and equip them with sufficient powers and resources.

- Deprive criminals of their criminal proceeds and the resources needed to finance their illicit activities.
  Implement effective mechanisms to freeze, seize and confiscate criminal assets

- Require financial institutions and other businesses and professions to implement effective measures to detect and prevent money laundering and terrorist financing.
  Ensure that the required range of persons and entities in both the financial and non-financial sectors implement the AML/CFT preventative measures listed below:

  - Customer due diligence (CDD): Prevent criminals from operating anonymously or under false identities by accurately identifying customers and knowing enough about their business to be able to differentiate between legitimate business and criminal activity.
  - Record keeping: Keep accurate customer identification and transaction records that can be accessed by the authorities and enable customer transactions to be traced.
  - Suspicious transaction reporting: Monitor customer relationships and promptly report any suspicious transactions to the financial intelligence unit for analysis and possible dissemination to law enforcement authorities.

- Ensure that financial institutions and other businesses and professions comply with AML/CFT requirements.
  Implement monitoring and supervision mechanisms, including powers to sanction financial institutions and other businesses and professions that do not comply with AML/CFT requirements.

- Enhance the transparency of legal persons and arrangements.
  Prevent legal persons and arrangements from being abused by criminals by ensuring that the appropriate authorities have timely access to accurate and current information concerning the ownership and control of the legal persons and arrangements.

- Implement mechanisms to facilitate cooperation and co□ordination of AML/CFT efforts at the international and domestic level.

- Ensure that there are no safe havens for criminals by implementing mechanisms for effective cooperation countries in a timely manner when investigating and prosecuting money laundering and terrorist financing.

- Effective cooperation and coordination should also take place amongst domestic authorities (including law enforcement, prosecutorial and supervisory bodies, the financial intelligence unit and policy makers).

How is a state's (and its financial institutions) creditability affected by grey listing?
Reputational damage from grey listing could eventually adversely affect the country and its financial system by reducing its attractiveness for investors and corporates, ultimately leading to capital outflows and weaker-than-projected economic performance.

A country coming into grey list traces sever problems like lack of trade opportunities, downgrade of ratings and a shrinking economy. It also effects the potential borrowings from the IMF and other global bodies.
The bond market of the country falls as international bodies downgrade the rating of such countries.
Eventually, a grey listed country may suffer boycott from other countries.

What effects does grey listing and whitelisting have on a state's economy?
Placement on the grey list on its own may have limited effects, but together with a deteriorating balance-of-payments situation, it may compound economic challenges for the government.

The adverse economic effects of grey-listing are increasingly evident and have an impact on foreign direct investment (FDI), degrading currency value, trade deficit and rise in inflation and ease of business whereas hostile states can have also use country's status to damage its reputation as a responsible member of the international community.

The main impact of being on the grey list is that it raises the risk that the country could be placed on the blacklist which is a serious threat and factor that discourages investors. Being on whitelist allows countries to gain international cooperation, improved investor relationships, foreign direct investments, capital inflows & stronger economic performance & good reputation amongst international community.

Impact of grey listing on Pakistan

There is significant motivation to believe that the FATF's grey listing has strong negative effects on the economic well-being of a country. However, empirical evidence documenting these harmful effects is scarce.

The four macroeconomic variables that are most likely to be affected by FATF interventions include:

- gross domestic product
- final consumption expenditures
- exports
- inward foreign direct investment.

Grey listing events spanning from 2008 to 2019, may have resulted in cumulative GDP losses worth USD 38 billion, with this response driven by a reduction in consumption expenditures, exports, and FDI. Importantly, Pakistan's removal from the grey list has at times led to the revival of the economy, as evident from an increase in the level of GDP for the years 2017 and 2018.

Illicit financial outflows of over 10 billion USD annually, through tax evasion and money laundering. Over 15 billion USD invested in Dubai real estate in last ten years. Nearly, 46,058 real estate investments made by 32,083 investors in the past 10 years. Pakistan ranked in top 5 countries for illicit outflows into UK. "Corrupt foreign elites continue to be attracted to the UK property market, to disguise their corruption proceeds".

Pakistan ranks poorly with a score of 6.3 in the Basel AML Index, ranking 28th from the bottom (out of 141 countries). The index measures ranking based on the FATF Mutual Evaluation Reports (MERs). Only countries like Afghanistan, Cayman Islands, Myanmar, Nigeria, and Cambodia ranked worse than Pakistan. Pakistan scores poorly in the WB World Governance Indicator – Control of Corruption. Score of 21 out of 100 is a poor reflection of ability to control corruption. Pakistan ranks 124 out of 179 countries in the Transparency International Corruption Perceptions Index

To what extent was the banking sector responsible in Pakistan's grey listing?
Primarily it was the responsibility of the state to address Financial Crime, therefore all the sectors of country were collectively responsible for not addressing this risk. Banks holding more than 75% assets of financial sector act as largest channel for processing financial transactions and need to have effective systems in place to fight financial crime and limit illicit flow of funds to our financial system.

Initially our state as well as our banking sector was not taking financial crime seriously, thus giving opportunity to criminals and terrorist organization to exploit banking channel for processing of multiple transactions. Banks demonstrated low level of compliance with international standards and low investments in financial systems to curb the emerging threats posed by financial crimes. Banks are required to make efficient use of technology (Regtechs) for assessment of risk, controls, and ongoing monitoring of financial transactions and to enhance capacity by continuous training of its employees.

Our government also needs to focus on developing innovative solutions (Suptechs) that may improve regulators' abilities to conduct due diligence on customers and to detect suspicious financial activities more effectively. In this era, we cannot ignore the power and utility of technology. It helps identify the potential risk exposed to various sectors more efficiently and provides sophisticated tools to monitor the movement of funds, from its origination to its final beneficiary by ensuring transparency for regulators and financial transitions. The use of technology will enable the law enforcement agencies and financial institutions to work confidently and efficiently in detecting higher risk and even lower revenue targets which ultimately benefits Pakistan in the fight against AML-CFT. It will certainly benefit Pakistan and the same time satisfy the global community about seriousness of our commitment to uproot the menaces of money laundering and financing of terrorism.

The Regulatory fall-out of grey listing on banks. The State Bank of Pakistan has amended some provisions of the Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing (AML/CFT/CPF) regulations to align with the Financial Action Task Force (FATF) recommendations, and the ML TF risk profile of Pakistan.

The SBP asked the banks to obtain additional information on the customer (e.g., occupation, volume of assets, information available through public databases, internet, etc.), and to update the identification data of customer and beneficial ownership more regularly. It further asked to obtain additional information on the intended nature of the business relationship and transactions, information on the source of funds or source of wealth of the customer, the reasons for intended or performed transactions and purpose of transaction.

Name screening of prospective customer or relationship has now become mandatory for banks. All business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the SBP's regulated entities (REs) knowledge of the customer, its business and risk profile and where appropriate, the sources of funds," said the amended regulations

Recommendations pertaining to National Risk Assessment, Monitoring, Feedback	**R1: Assessing risks and applying a risk-based approach**
	R2: National cooperation and coordination
	R3: Money laundering offense
	R4: Confiscation and provisional measures
	R33: Statistics
	R34: Guidance and feedback
Money Transfer	**R14: Money or value transfer services**
	R16: Wire transfers
	R32: Cash couriers
Designated Non-Financial Businesses	**R8: Non-profit organizations**
	R22: DNFBs: Customer due diligence
	R23: DNFBs: Other measures
	R28: Regulation and supervision of DNFBs
Terrorism, Terror Financing	**R5: Terrorist financing offense**
	R6: Targeted financial sanctions related to terrorism and terrorist financing
	R7: Targeted financial sanctions related to proliferation

Domestic Financial Institutions	R9: Financial institution secrecy laws
	R10: Customer due diligence
	R11: Record-keeping
	R12: Politically exposed persons
	R15: New technologies
	R17: Reliance on third parties
	R20: Reporting of suspicious transactions
	R21: Tipping-off and confidentiality
	R26: Regulation and supervision of financial institutions
	R29: Financial intelligence units
International Financial Institutions, International Cooperation	R13: Correspondent banking
	R18: Internal controls and foreign branches and subsidiaries
	R19: Higher-risk countries
	R36: international instruments
	R37: Mutual legal assistance
	R38: Mutual legal assistance: Freezing and confiscation
	R39: Extradition
	R40: Other forms of international cooperation
Law Enforcement Agencies, Investigative Authorities, Legal Persons and Arrangements	R24: Transparency and beneficial ownership of legal persons
	R25: Transparency and beneficial ownership of legal arrangements
	R27: Powers of supervisors
	R30: Responsibilities of law enforcement and investigative authorities
	R31: Powers of law enforcement and investigative authorities
	R35: Sanctions

C	Compliant
LC	Largely Compliant
PC	Partially Compliant
NC	Non-Compliant

Regulation 37 & 38 deficiency

- Pakistan was rated PC with R.37 in its MER, with the report finding that Pakistan was unable to provide MLA to foreign countries in the absence of a treaty for ML offences. There was also a lack of a legal basis to provide MLA in terrorism, TF and in most predicate offence cases. LEAs lacked powers to execute MLA requests.

- While Pakistan has taken positive steps in enacting the new MLAA and establishing MLA processes and timeframes, the restrictive condition imposed on the provision of MLA through the new requirement to inform the subject of the request, is a significant deficiency noting the risk and context of Pakistan, including the risks of cross-border ML/TF, and associated predicate offences. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given major weight in determining the final rating. Recommendation 37 is re-rated non-Compliant.

- Pakistan was rated NC with R.38 in its MER. There were no legal arrangements to provide MLA in terrorism related matters, TF, and most predicate offences. A bilateral treaty or other arrangement was required to meet foreign MLA requests concerning ML, and there was a lack of a general legal framework for assistance in relation to predicate offences with no link to ML.

- Pakistan has made progress to address deficiencies highlighted in its MER by broadening the scope of offences to which it can provide MLA. Procedures have not been developed to support timely handling of requests. There are limitations with respect to non-conviction-based orders. Pakistan's compliance with R.38 is significantly compromised by the restrictive conditions introduced in the MLAA, including the requirement that the subject of any request to restrain or confiscate assets be notified of that request before the action can be taken, which prevents Pakistan from maintaining the confidentiality of requests and undermines its ability to act expeditiously. This deficiency is given significant weight, noting the risk and context of Pakistan, including the risks of cross border ML, TF, and predicate offences. Recommendation 38 remains non-compliant.

Partially Addressed Action Plan & Parallel new plan

The plan focused on terrorist financing issues. The Pakistani government has made substantial progress in making its counter-terrorist financing systems stronger and more effective. It has largely addressed 26 out of 27 items on the action plan it first committed to in June 2018. The one key action item still needs to be completed "which concerns the investigation and prosecution of senior leaders and commanders of UN designated terror groups".

The FATF president highlighted that Pakistan has "made improvements" after the Asia Pacific Group highlighted issues in 2019 during its assessment of Pakistan's entire anti-money laundering and counter terrorist financing system. These include clear efforts to raise awareness in the private sector to Pakistan's money laundering risks and to develop and use financial intelligence to build case.

However, Pakistan is still failing to effectively implement the global FATF standards across several areas. This means the risks of money laundering remain high which in turn can fuel corruption and organized crime. That is why the FATF has worked with the Pakistan government on new areas that still need to be improved as part of a new action plan that largely focuses on money laundering risks.

This includes increasing the number of investigations and prosecutions and making sure law enforcement agencies cooperate internationally to trace, freeze and confiscate assets. This is about helping authorities stop corruption and prevent organized criminals from profiting from their crimes and undermining the financial system and legitimate economy in Pakistan.

Details of Recommendations rated Partially Compliant

R15: New Technologies

Not all FIs are required to comply with the requirements of c.15.1 and c.15.2.

Criterion 15.1: Pakistan included an assessment of certain ML and TF risk associated with financial inclusion products in the NRA including branchless banking, micro-finance and 'Asaan' accounts which Pakistan has rated 'low risk'. FMU did a strategic analysis on virtual currency risks and SBP issued a caution letter regarding those risks for public awareness.

Criterion 15.2: Under SBP AML/CFT Regulations 2018 at Regulation 1(22), banks and DFIs are required to establish criteria to identify and assess ML/FT risks that may arise in relation to new products, services, business practices and delivery mechanisms including the review of existing products and services on on-going basis.

Other financial institutions outside the regulatory scope of the SBP and SECP are not required to undertake assessments as required by c. 15.2

R28: Regulation and supervision of DNFBs

Pakistan has taken steps to address shortcomings in relation to DNFBP supervision, including the establishment of an AML/CFT supervisory framework. Deficiencies remain with fit and proper requirements and the implementation of risk-based AML/CFT supervision for DNFBPs. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. R28 is re-rated Partially Compliant.

Definition and examples of DNFBPs

Designated non-financial businesses and professions have a similar potential to financial institutions to be used for money laundering. Examples of DNFBPs:

- Auditors, external accountants, tax advisors
- Company service providers
- ` Dealers in precious metals and stones
- Lawyers and notaries
- Independent legal professionals
- Real estate agents
- Trusts

As gatekeepers, they are exposed to tremendous amounts of information, and act on behalf of their customers in many transactions. Some of these transactions are highly vulnerable to ML/TF risks due to the nature of the product or service offered by DNFBPs. Some examples could be the following:

- o A lawyer or legal services provider structuring different legal arrangements for its customers
- o An accountant or auditor who provides professional services to prepare and arrange financials for group of companies while dealing with different accounting activities
- o A dealer in precious metals selling high-value items and accepting payments in cash

R33: Statistics

The 2019 MER found that not all statistics provided during the ME were comprehensive and could not be broken down into meaningful and relevant information when requested. The MER also noted that inconsistent statistics on the same issue were provided throughout the assessment process. Since the MER, FMU has started sharing a statistics report with LEAs on a quarterly basis containing STRs received and disseminated, broken down by region, predicate offence, and agency. NACTA has developed a database of TF investigations, prosecutions, and convictions, in consultation with provincial CTDs. Pakistan is also preparing to introduce a central data management system.

Summary of SBP Regulations concerning FATF

ANTI-MONEY LAUNDERING, COMBATING THE FINANCING OF TERRORISM & COUNTERING PROLIFERATION FINANCING (AML/CFT/CPF) REGULATIONS FOR STATE BANK OF PAKISTAN'S REGULATED ENTITIES (SBP-REs) (September 30th, 2020)

Risk based approach to AML/CFT: SBP RE's to ensure an entity level Internal Risk Assessment Report (IRAR), to identify, assess, understand ML/TF/PF risks at entity level. IRAR shall consider the results of NRA, as well as feedback from SBP, FMU, LEAs and other related stakeholders. SBP RE's will formulate policy for application of SDD, CDD, EDD considering levels of ML/TF risks identified as low, medium, high in their IRAR. SBP will ensure that the IRAR is a dynamic and up-to-date document.

Customer Due Diligence : SBP RE's are to conduct CDD of customers/occasional customers in matters set out in Section 7A (1) of the Act. RE's shall obtain additional information on the customer including occupation, volume of assets, information available through public databases, internet, among others. Additionally, RE's are required to obtain information regarding the intended nature of the business relationship and transactions, information on the source of funds or source of wealth of the customer, additional information on the reasons for intended or performed transactions and purpose of transaction. SBP RE's shall identify the beneficial owner(s) and take reasonable measures to verify the same by using reliable independent documentation. CDD also includes enhanced due diligence, simplified due diligence, ongoing monitoring of business relationships, dormant accounts, prohibition of personal accounts for business purposes.

Reliance on third party financial institutions for CDD measures: although RE's are allowed to employ third party institutions for CDD, ultimately the responsibility lies on the RE.

Targeted financial sanctions: SBP RE's to undertake TFS obligations under UNSC act and ATA regarding DPs or PPs, Entities owned or controlled by them, individuals and entities acting on their behalf, or at their direction. No funds or other financial assets, resources, services, are made available to them unless authorized or otherwise notified in accordance with relevant provisions of the law. RE's shall identify individuals and entities acting on behalf of DPs, PPs, using risk screening databases, watch lists, publicly known information, reliable media information, etc. If any relationship is found with a customer, RE's shall freeze without delay and prior notice, the funds, or other assets of the identified, report any assets frozen or actions taken, report freezing of assets to SBP within 48 hours, and as per Form B of the UNSC (Freezing and Seizure) Order, 2019.

Politically exposed persons: Implement procedures and controls to determine if a customer is a PEP or a close associate or family member of a PEP prior to establishing a business relationship.

NGO/NPO/Charity/Trust accounts: RE's shall conduct EDD while establishing relationship. Individuals authorized to operate these accounts shall be subject to CDD separately. Personal accounts shall not be allowed for use under charity purposes. All existing NGOs, NPOs, shall be reviewed and monitored by RE's to ensure that these organizations are not linked with any DPs or PPs. Reporting of transactions STRs/CTRs: RE's shall file STRs with FMU as required under Section 7 of the Act.

Record Keeping: RE's shall ensure compliance with record keeping instructions for maintaining records of documents and information, for CDD and other purposes. These records should be sufficient to permit reconstruction of individual transactions.

Money Value Transfer Services: RE's shall run awareness campaigns against illegal MVTS businesses on an ongoing basis. RE's providing money transfer services shall ensure effective systems for monitoring and ensuring compliance with AML CFT obligations. RE's shall ensure that none of their employees or branches are involved with conducting any illegal money transfers.

New Technologies: SBP RE's shall identify and assess the ML TF risks that may arise in relation to the development of new products and services. ML TF risk assessments shall be undertaken prior to the launch of such products and services. RE's shall update their operational models in accordance with the changing profile of various ML TF risks.

Internal Controls: Periodical IRAR shall recommend measures to BoD through time bound action plan to ensure adequate introduction and implementation of AML CFT controls. Internal controls also entail employee due diligence and trainings.

Counter measures for high-risk jurisdictions: RE's shall comply with the obligations imposed in the counter measures for high-risk jurisdictions rules, 2020.

Regulation and Supervision: RE's shall ensure that any person linked to any criminal activities or affiliated with any terrorist organizations shall not become part of SBP RE's. RE's shall ensure that any person subject to FPT has been verified through NADRA, as per applicable laws and regulations.

Prepaid Card Regulations:

These regulations have been developed in line with the international recommendations such as those issued by Financial Action Task Force (FATF) to minimize the AML/CFT risks associated with the prepaid cards by covering relevant aspects such as issuance of Prepaid Cards, permissible load limits, restriction on use, dispute resolution and consumer protection besides covering other operational areas. Further to promote card usage in the domestic market, financial institutions are allowed to offer prepaid cards through Authorized Agents. These regulations will enable banks in Pakistan to develop the prepaid cards market in the country to provide more payment options to the unbanked population, while at the same time take steps to ensure safety, security, and customer protection as per international standards.

Pakistan's response to grey listing:

- Issuance of Technical Guidance by MOFA & NACTA:
  Pakistan's initial response to its grey listing consisted of a range of law enforcement measures, including a nationwide crackdown on banned terrorist outfits. This was followed by a series of administrative regulations and guidelines from key ministries, authorities and regulators aimed at streamlining the implementation of UNSC Resolutions 1267 and 1373 and broadly updating the AML/CFT frameworks. This enabled Pakistan to become compliant with only 5 action points on its 27 Points-Action Plan.

- Pakistan enacted key legislation, including important amendments to foundational laws such as the Anti-Terrorism Act, 1997 and the Anti-Money Laundering Act, 2010, and update its risk assessment frameworks in time for the next FATF plenary. This enabled Pakistan to become compliant on 14 of the 27 Points on the Action Plan by February 2020.

- Enacted Fifteen New Laws:
  In the eight months between February 2020, when the last formal decision to retain Pakistan on the 'grey-list' was taken, and October 2020, the government enacted fifteen new laws to ensure compliance with FATF's Action Plan. The latest plenary declared Pakistan largely compliant on 21 out of 27 Points, with varying degrees of progress on the remaining 6 points.

Major revisions under laws and regulations

- Anti-Money Laundering (1st & 2nd Amendments) Act,2020
- Anti-Terrorism (1st ,2nd & 3rd Amendments) Act, 2020
- Mutual Legal Assistance Act, 2020
- United Nations Security Council (Amendment) Act, 1948
- State Bank of Pakistan (SBP) regulations and subsequent revision on AML/CFT/CPF, 2020
- Securities and Exchange Commission of Pakistan (SECP) AML/CFT Guidelines 2018 & 2019.
- FBR AML/CFT Regulations for DNFBP's,2020
- Guidelines on implementation of UNSC resolution 1267 & 1373 by Ministry of Foreign Affairs & NACTA respectively
- Countermeasures for High-Risk Jurisdictions Rules, 2020

Avoiding recurrence of regulatory failures that led to grey listing

With legislative, regulatory, and administrative mechanisms for combating TF/ML in Pakistan largely in place, the next challenge is effective implementation. The outstanding areas highlighted by FATF in its latest statement focus on the key term 'demonstrating'. Thus, Pakistan will now have to effectively demonstrate that mechanisms it has put in place for identifying TF/ML activity are bearing results, and that targeted financial sanctions are quickly and directly applied to designated entities and individuals, and that the criminal justice system is capable of enforcement of these regimes, from investigation to prosecution.

At the same time, Pakistan must be mindful of the economic impact of the legislative and regulatory regimes it develops in response to its grey listing. FATF does not require countries to choke its economies by overly strict regulations but rather encourages states to pursue a risk-based approach so that measures to mitigate TF/ML are commensurate with the actual risks identified. This means that with the legislative, regulatory, and administrative frameworks to combating TF/ML now largely in place in Pakistan, the relevant authorities must be open to constantly reviewing and updating these frameworks so that a balance is struck between effective enforcement and vibrant economic activity and ease of business.

Pakistan's experiences as a frontline state in the war on terror have been of immense value to countries all over the world. Its successes in counterterrorism and counter-insurgency operations, from the former FATA region to Karachi, are perhaps without precedent and have been lauded globally. However, it did not effectively leverage its AML/CFT framework to augment its successes even further. In this context, the FATF grey-listing may have provided Pakistan with a historic opportunity for sustained, focused institutional reform and capacity-building which will have positive spillover effects for its economy and justice systems in the long run. It will also pave the way for Pakistan to eventually become a full member of FATF and contribute to the evolution of the global framework on AML/CFT as a responsible State.

Trainings for bankers to become more adept at conforming with FATF requirements

- International compliance related certifications under areas of AML/CFT, to stay current about change in international laws and regulations.
- Trainings on changing sanctions regimes.
- Training on different typology reports issued by FATF and its member bodies

Year	Event
2008	Pakistan is classified as high risk and non-cooperative in adopting AML/CFT legislation. Placed on the grey list.
2009	Pakistan taken off grey list.
2012	Pakistan is classified as high-risk and non-cooperative in adopting AML/CFT legislation. Placed on the grey list.
2013	Pakistan remains on the grey list until next evaluation
2014	Pakistan remains on the grey list until next evaluation.
2015	Pakistan taken off grey list after FATF identified progress in improving its AML/CFT regime.
2018	Pakistan was grey listed for failure to address significant deficiencies in its AML/CFT regime.
2019	Pakistan remains on the grey list until next evaluation.

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Moving Towards Reality

South Asia Magazine Cover Story

8th July 2021

As the global economy recovers from the COVID-stricken economic crisis, the focus of policy-makers has shifted towards growth and job creation. Pakistan has done better than regional peers both in terms of managing the pandemic and stimulating the economy towards growth.

The COVID-19 crisis has been termed by the IMF as the worst global economic crisis since the Great Depression of the 1930s. The IMF estimated that the global economy contracted by 3.5% in 2020, with nearly all developed and emerging markets going into recession. The U.S. economy contracted by 4%, EU 8%, India 7.3% and the Gulf states 5%.

Effective data-driven response has helped Pakistan to control the pandemic and outperform other countries. The GDP growth has accelerated to 3.9% in FY2020-21, after a contraction of 0.5% in FY2019-20. Per capita incomes increased 13.4% to $ 1,543, reflecting strong growth and a stable currency. The economy posted broad-based recovery, with all sectors showing a rebound in economic activities, driven primarily by Government-induced measures.

A record fiscal and monetary stimulus package of PKR 2.5 trillion (6% of GDP or US $16 billion) was unveiled by the Government in March 2020. The package focused on emergency cash assistance to 15 million families through the Prime Minister's Ehsaas program, the largest ever social welfare transfers in Pakistan's history, covering nearly 45% of the total population. The Government provided subsidy on essential food commodities and deferred utility payments for households and businesses. Record amounts of pending refunds were issued to exporters and the manufacturing sector through an industrial support package and a blanket discount on additional power consumption for the next 3 years was given to the industry.

The central bank moved decisively and cut policy rates to 7% (from 13.25%) in line with actions undertaken by the global central banks. Over 1.6 million businesses, including SMEs, were allowed to roll over PKR 657 billion of debt to avoid defaults. A subsidized credit scheme was launched to protect jobs, over 1.7 million workers were protected through the SBP Rozgar scheme. More importantly, the central bank encouraged new investments through the Temporary Economic Relief Facility (TERF), resulting in PKR 435 billion of new investment from private businesses.

Perhaps, the most effective of impetus measure was the Construction Package, which has spurred growth in the labor-intensive housing and construction market. The estimated impact of the package is PKR 300 billion with over a 1,000 projects registered with the FBR and due to be completed by 2023.This has led to growth of 8.3% in FY2020-21 in the construction industry.

The policy-making has now been shifted towards the quality of growth with focus on improving livelihoods of lower income households. The measures announced by the Government in FY2021-22 Budget are truly revolutionary and aimed at providing opportunities for low income and middle class households.

The Government has announced to pursue a bottom-up approach to ensure more even and just benefits of economic growth. The Finance Minister has announced the Kamyab Pakistan Program (KPP) which would be an extended and based on the more aggressive Kamyab Jawan Program and the affordable Housing and Sehat Card schemes. The Kamyab Pakistan Program proposes to engage Micro Finance Providers (MFPs) through provision of cheaper liquidity for large-scale distribution of subsidized small loans to small enterprises, start-ups, farmers, and individuals for housing needs, under the Wholesale Financing model. The available Ehsaas data shall be shared with MFPs as an initial referral list for booking these new finances.

The Kamyab Jawan program is being extended to provide interest-free loans or qarz-e-hasana (up to PKR 5 lakhs) to all unemployed persons with feasible ideas and to grass-root level entrepreneurs, including home-based businesses. The Government will fund mark-up payments through a budget subsidy. During the first year alone, over 100,000 entrepreneurs could potentially benefit from this scheme, leading to higher economic activity at the grassroots levels and more job creation opportunities. This segment of financing will be called Kamyab Karobaar.

Similarly, financing of PKR 150,000 on crop inputs and, up to PKR 200,000 will be made available for leasing Farm Machinery and Equipment, etc., to small farmers at zero interest/ mark-up rates and this will be labeled as Kamyab Kissan. Small farmers are defined as those having land holdings of up to 12.5 acres; they are almost 90% of the total farming segment in the country. This will incentivize small farmers to enhance productivity and scale-up production.

Another key incentive given under KPP is further subsidized loans/ financing to all citizens for low-cost housing finance. These long-term (to the extent of 20-years) financing facility of up to PKR 2 million will supplement the Government's construction package and the efforts of Naya Pakistan Housing & Development Authority (NAPHDA). For the first time, the Government is providing low income households with the opportunity to become home-owners or to build their own homes through subsidized bank financing; this is basically owning a house by paying the same amount in financing repayment as rent per month.

These interventions will not cost much to the Government, particularly in comparison to the benefits of these programs to the thousands of low income and middle class households. Lifting the quality of life of these households will bring a multiplier effect to the local economy and thus, outperform the costs manifolds.

To ensure sustainability of these efforts and their impact, the Government's existing Skill Development Program has been dovetailed in KPP, under the banner of Kamyab Hunarmad.
This bottoms-up approach to growth marks a significant shift from earlier government policies of the trickle-down growth paradigm.

To foster economic growth, right policies and incentives packages are being provided by the Government. However, it is imperative that growth is sustainable and resilient to any future shocks. The COVID pandemic has provided the global community with an opportunity to build back better and in a secure fashion. In this context, the Kamyab Pakistan Sehat Card initiative aims at providing health insurance to the lowest income strata. It will be ensured that each new borrower gets a Kamyab Pakistan Sehat Card (co-branded with the respective agency), if not already a beneficiary of the Ehsaas Sehat program.

These are exciting times for Pakistan. All necessary ingredients are available for the country to foster a decade of high growth, built on sustainable policies, with uniform benefits across all segments of society.

Economy Housing – BOP Cardinal Vise

Daily Times

24th May 2021

Buying or owning a home is an emotional decision, and is a dream come true particularly for middle and lower income families, as home ownership can greatly improve living standards for them and provide necessary safety and security.

Housing is an integral and vibrant part of any economy and it acts as a stimulus for growth by creating jobs and attracting investment through extensive and inclusive value chain. Not only in Pakistan but governments across the globe are aggressively working on promoting Housing and Construction sector due to its far-reaching social and economic influence.

Various housing sector surveys reveal that currently Pakistan is facing a housing backlog of almost 10 million units; 4 million of which is in urban areas alone. This backlog is increasing at a rate of 0.7 million units every year and thus shortage is expected to grow over 13 million by 2025. According to State Bank of Pakistan ("SBP"), the demand for urban housing is going up by 350,000 units every year, against which merely 150,000 units are being supplied. More than 60% of the housing demand is coming from low-income segments, while the supply is predominantly catered to middle and upper middle-income groups. Therefore, there is an even greater mismatch in the provision of low-income housing. The situation becomes more complex due to feeble access of borrowers to mortgage financing.

The Government of Pakistan ("GoP") has launched Naya Pakistan Housing Program to solve the housing needs specifically for the lower income groups. The Government has constituted NAYA Pakistan Housing and Development Authority ("NAPHDA") as a governing body to put in place required policy interventions and much-needed enablers. This will reap multiple benefits as envisaged by the Prime Minister. It will, interalia, help fulfill Government's promise of creating millions of jobs; of these, an estimated 20 jobs per house will go to unskilled, semi-skilled and skilled category. Another 1 to 1.5 million jobs will be created within related industries. This initiative alone, due to its enormous potential, will kick-start the economy. It is anticipated that the contribution to the country's economy from the housing sector, allied industry and services would be significant.

Low Cost Housing, in particular, is a vast area where no or little work has been done in Pakistan in the past. However, housing has now a priority initiative of the Government and SBP is playing a pivotal role through policy intervention and monitoring to facilitate and ensure enabling mortgage financing environment. For banks, lending to the sector remains a challenge owing to various reasons, including income evaluation for informal/ undocumented sector, demand and supply gap of housing units, unplanned and unapproved constructions at various sites, tedious documentation and mortgage charge creation process, etc.

The banking sector has a major role to play in order to make this initiative a big success. The projects shall be completed by builders with their own funds or by obtaining loans from the banks. The end consumers will inject a small amount towards equity, rest would be financed by the Banks in the shape of mortgages, both in conventional or in shariah-compliant modes. The mortgage financing will be repaid by homeowners over the tenor of loan/ financing which could be as long as 20/25 years. The objective is to bring the installment as close as possible to the rent currently being paid by the prospective homeowners. Moreover, banks may consider clubbing of income up to four bread-earners of a household to provide funding to an applicant under the program.

With the support of NAPHDA, SBP has also announced Governments Markup Subsidy Scheme ("G-MSS") for Low Cost Housing or Economy Housing. This scheme aims to provide opportunity to lower and middle class segment of our economy to benefit by having a better portion of disposable income to be spent on their necessities of life, i.e., Food, Health, Education, and overall well-being. Under this scheme, three tiers of borrowers, and financing, have been introduced with markup ranging from 3% to 9% for first 10 years depending upon the tier and type of the loan. Government has also recently introduced to whereby loans/ financing of housing units is available through microfinance banks under non-NAPHDA projects.

Housing Finance through formal sectors currently stands at ~3% of total private sector credit, while SBP aims to take it to ~5% by December 2021 and may increase it further going into the future, given the importance of this sector for the economy in general and for the growth of banking industry in particular. SBP has introduced a very effective carrot & stick approach to achieve this objective. In this respect, quarterly targets have been assigned to the banks and performance of the banks for financing in this sector, including under G-MSS, is being monitored by SBP on a fortnightly basis through a steering committee of selected banks, headed-up by the Governor himself.

The Bank of Punjab ("BOP") is playing its due role in this regard and has taken following key pioneering earnest steps:

- Under the auspices of SBP worked on development of an Income Proxy Model for Informal sector for the unbanked segment in order to help them avail mortgage loans/ financing. This initiative will have far-reaching impact on improving financial inclusion in Pakistan and creating quintessential social balance in the society.
- Collaborated with Akhuwat Microfinance, who has a niche in affordable housing in the lowest ebb of the pyramid, to enhance their outreach in order to pass on the benefit of G-MSS to the grass root level.
- Became the first public sector bank to enter into a refinance agreement with Pakistan Mortgage Refinancing Company ("PMRC"), which is yet another tool to not only help improve affordability of mortgages but also increase the number of qualifying borrowers.
- Signed as arrangement with REALL of UK to finance low-cost housing projects for speeding-up and scaling the supply of affordable homes in the country. This alliance will go a long way in promoting the efforts of SBP and NAPHDA/ GoP in extending mortgage financing for economy housing to the borrowers in informal sector. This collaboration will not only help in achieving the affordable housing inventory requirement but also gaining expertise in this sector from the best in the world.
- Established arrangements/ agreements with multinational and large corporates to bridge the Demand and Supply Gap of Housing units, and signed MOUs with renowned entities for provision of financing to their workers/ staff under G-MSS and off-the-self mortgage product.
- Acted as main coordinating bank for banking consortia on affordable housing to fund Peri Urban Project of Government of the Punjab for construction of 10,000 houses, and LDA City for 4,000 apartments. Both these are outstanding projects in terms of potential for scalability and catering to the supply-side deficit of affordable housing in Punjab.

Devised a unique, first of its kind, end-user financing structure, for funding economy housing projects, replacing the conventional developer/ contractor financing model, which will go a very long way in extending finance to the developers who could undertake construction of large and multiple projects simultaneously. Thus, filling in the much-required housing gap in the most efficient manner across the the country.

Going into future, BOP is focused on promoting mortgage financing, along with SME and Agriculture, in a very big way, as that would be our ticket to growth and reach into the league of top five banks in the next five years. Being a public sector bank, these're one of our top most priority initiatives, any ways. Our board is fully committed towards the development of these sectors, particular affordable or economy housing, and the management has constituted a Group in the name and style of "Retail & Priority Sectors Lending" for a more concerted approach and delivery in this space.

The Post Pandemic Economy of Pakistan

Speech at Karachi Literary Festival

25th March 2021

The COVID pandemic has transformed all aspects of the world's Socio-Economic fabric and while the pandemic might be relatively short lived, the consequences to the way consumers bank digitally will be impacted for the long run.

Cash-based transactions in Pakistan have been the primary behavior for transacting value which is taking a steep change towards digital. Digital banking in Pakistan was quick to adapt with the rapidly evolving pandemic situation. Our financial sector had for a while been working on addressing the challenges of the unbanked populace and lack of financial inclusion. Pakistan has a deep dependence on over 9 million Non-Resident Pakistanis (NRPs) remittances that eventually fund and feed a multitude of households in the country.

The Pakistani Government, NRPs and local population all have come together in this time of crisis and rapidly developed the Digital Banking sector for a more efficient economic system for times to come.
Some noteworthy initiatives that have shaped Digital Banking in Pakistan in the post-COVID world:

Government Initiatives

- Through the Ehsaas program, more than PKR 200Billion was disbursed to 15 Million households (100 Million Pakistanis) in 2020 and all this was done in record time, through digital means and data-based need identification.
- This program will pave the way for a future where data based decision making, electronic cash disbursement and branchless banking will continue to flourish in coming times.
- State Bank policies were designed to allow onboarding of customers without biometric verification. Also IBFTs were regulated to be conducted without fees, that resulted in freedom of movement of capital across the economic fabric of Pakistan
- Remittance Approval process was digitized and simplified by SBP and banks are now offering a completely digital FX remittance process
- Health Insurance is a key priority for the current government and with the expansion of this program from province of KPK to now Punjab, it can be expected that these services will also require further digitization.
- E-Government initiatives are underway on the Federal and Provincial levels, that enabled payment of government taxes electronically. This will continue and more services are expected to be digitized in coming days.

Roshan Digital Account (RDA)

With USD 500 Million+ in deposits within less than a year's time, RDA is a success story of Public Private Partnership, where SBP designed a product for NRPs that was fulfilled through commercial and national banks.

This digital initiative has resulted in a stronger link between NRP diaspora and the domestic economy. It is also supporting and improving the current account of the country and inflows are expected to accelerate even more in coming days.

Local Digital Accounts

Due to the success of RDA, it is expected that going forward, locally resident citizens will also be permitted to be on boarded digitally. This is already being done in global markets, and Allied Bank has recently launched such an initiative.

Digital Banking

Commercial banks have witnessed an exponential growth in digital transaction volumes of up to 250% in the last year alone. Digital rail-roads, at infrastructure as well as adoption level in Pakistan have improved substantially during Pandemic and Banks are primarily directing investments in improving digital experience of the customers and creating an efficient and reliable digital banking system. E-commerce, P2P, School Fees, Taxes and Excise payments have been drastically simplified by a variety of payment aggregators.

With a young demography, increasingly tech-savvy population and biometrically verified citizen database with NADRA and Telcos, mobile phone has become the epicenter of digital payment infrastructure.

Raast – Faster Payment

State Bank of Pakistan unveiled Pakistan's first micro-payments gateway named Raast which will serve as a key ingredient in enabling financial inclusion and further sustaining the wave of digital payments in Pakistan. The revolution will be that in order to make an interbank funds transfer, Raast will have a directory function linked with one's phone number to give a fast and convenient experience to the users. Impact on different industries differently - some are winners (like Tech) and others are losers (like airlines, tourism related, etc.) - jury is out on Banking Sector in Pakistan.

This needs to be seen how would SBP's earlier policies would help in continuing to support the banks and in turn their customers to remain afloat. There have been two main changes - adaptation to technology. The whole process has been expedited and accelerated by at least by a few years, if not by a few decades. The second most important thing is on the HR front. There's a real need to understand the meaning of empathy and compassion and put that in practice. This is a key and now a business need; not merely a slogan of being a responsible citizen.

There are human elements which go beyond measure at times with pandemic. There is an impact on global workforce and their direction. Some industries have taken a hard hit while others have seen phenomenal growth. From Pakistan's perspective and looking at the banking and financial industry there is a greater inflow of talent from the surrounding regions, specially the MENA region. The fluidity this provides to us can also be an opportunity to gain further depth in the directions Pakistan can take in harnessing the inflow of talent. Pakistan has remained comparatively better off when compared to some neighboring countries. However, the threat to the economy and especially on supply chain can remain in place despite some financial gains seen in the banking industry.

The government did take good measures at the beginning of the Pandemic. The timely economic relief measures taken by the government, such as TERF, Salary/wages scheme, deferment of scheduled debt payments, have gone a long way in helping reduce business closures and unemployment. The government also significantly reduced the discount rate to reduce the debt-servicing cost, particularly for SMEs. However, the sectors hit most have been the much smaller undocumented and below the poverty line. The impact on lives and livelihoods cannot be measured yet this will remain other than the loss of lives one of the greatest tragedies coming out of this pandemic.

This is the only way of survival for FIs in long term since 63% of Pakistan's population consists of youth. This youth is Tech-Savvy and want to serve all their financial dealing under their palms. This youth had a great potential for the nation as well as financial sectors in years to come and only those FIs would survive that would provide financial services to such pollution through convenience of their mobiles.

Online transactions increased over 2x in the last one year and number of users has surged by 70% to over 9 million, including mobile wallets. SBP's initiatives like abolishing online transaction fees and relaxing transaction limits has played an important role in this behavioral change. Banks need to build on this success and encourage use of these platforms instead of thinking to monetize them in the short run.

SME and Agri needs to a specific focus as they expected to be worst hit, and the programs like Kamyab Jawan and Punjab Rozgar needs to be made more robust and structured like the payment of subsidy to come from SBP directly and not via MoF The Government and SBP swiftly acted to ensure economic activity remains least affected by the pandemic. The Government provided salary support to ensure employment, low cost financing, reduction in benchmark interest rates, direct payments to vulnerable segments of the society, and relaxations on overdue financing. In addition to this GOP expanded various programs including women empowerment, women entrepreneurship, promotion of SMEs, and host of measures to boost construction and housing sectors.

We have used the pandemic to leap-frog in technology adoption. Our interbank funds transfers are free and speedy, trade and other documentations, correspondence with SBP and other regulators is paperless, and BCP protocols, work from home, remote work and technology adoption protocols are now well defined. The government had already tightened regulations on unregulated imports, particularly of consumer goods. Moreover, the Roshan Digital Accounts and Naya Pakistan Certificates initiatives could not have come timely to encourage expatriate community to start investing in Pakistan.

Our exporters, particularly textiles benefitted from the bold decision to continue operations under strict SOPs as we have managed to bag significantly high orders. IT exports, a less focused segment, remains another unsung hero for the country. These decisions helped Government in improving external account where current account during 8MFY21 has stayed controlled at US$880 million, much lower than US$2.7 billion during the same period last year.

Details of measures taken by Government

Measures taken by SBP.

- 625bps policy rate reduction
- PKR 657 billion loans deferred and another PKR 246 billion loans restructured
- Salary finance Scheme: low cost financing of PKR 238 billion loans disbursed
- TERM financing scheme: PKR 537 billion loans approved already for investments while an equal amount is in pipeline
- Kick-started Waived all charges for customers using online fund transfer services
- Took a number of initiatives to ensure systematic stability by facilitating deferment of exports and local repayments, and reduced additional capital requirement for banks to ease risk of capital calls, had delinquencies hit the industry
- Reduced additional Capital Requirement by 1% to ensure banks do not face the challenge of capital adequacy

Measures taken by GOP

The government announced a special incentive package for construction industry where an amnesty was awarded. Key features are mentioned below:

The construction sector declared as an 'industrial undertaking'. Consequently, the sector is now entitled to seek exemption from advance tax otherwise collectible on import of machinery; Introduction of a fixed rate tax regime effective from Tax Year 2020 for builders and developers. The scheme is optional and covers 'new projects' (that start after 17 April 2020 but before 31 December 2020) to be completed by 30 September 2022; and 'existing projects' also to be completed by the said date; Immunity from probe regarding source of investment with respect to amount invested as capital in a building or land subject to certain conditions, including first purchaser of such building or land with certain conditions; Exemption from withholding tax obligations on purchase of building material except steel and cement; and on services of plumbing, electrification, shuttering and allied works obtained from non-corporate service providers; Exemption on dividend income received from a company being a builder or a developer out of the profits and gains derived from a project covered under certain conditions; Low-cost projects developed/approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas program, the tax rates levied will be reduced by 90%; and Introduction of general reduction in capital gains tax applicable on sale of immoveable property.

The government has approved the fiscal stimulus package of PKR 1.2 trillion and Supplementary Grant of PKR 100 billion for the "Residual/Emergency Relief Fund". The overall economic package includes:

- PKR 200 billion for relief to daily wage workers;
- PKR 150 billion for cash transfers to low-income families;
- PKR 100 billion for accelerated tax refunds to export industry;
- PKR 100 billion for financial support to support the Agriculture sector and SMEs;
- PKR 280 billion for accelerated procurement of Wheat;
- PKR 50 billion for financial support to Utility Stores;
- PKR 70 billion for relief in Fuel prices;
- PKR 15 billion to support health and food supplies;
- PKR 110 billion relief to people in electricity bill payments;
- PKR 100 billion for Emergency Energy provision; and
- PKR 25 billion for transfer to National Disaster Management Authority (NDMA) to purchase necessary equipment to deal with pandemic.

The way forward

The measures to sustain the economy through the pandemic can be termed as "steroids". We need to ensure the economy does not get hooked to these. We need to have policies in place and a clear understanding that we want (1) continuation of momentum, (2) ensure the benefits are trickled-down for a more egalitarian economy, (3) ensure the relief measures are gradually unwound to ensure systemic stability.

We need to carefully tread through the unwinding of relief measures to ensure balance between prudence and continuation of businesses. We may need to extend relief measures, and then start gradual unwinding of measures to provide the breathing space to businesses and banking system to be able to absorb the impact of measures like deferment of payments, lower markup rates, extension in repayment periods etc.

The central bank shall continue with technology adoption. Adoption of technology is the singular tool to ensure financial inclusion. We have more than 90% mobile phone coverage, and yet less than 5% of population has access to financial services. This tool shall be used to ensure financial inclusion, particularly for vulnerable groups of the society, including females. Our monetary policy, including interest rates, exchange rates and other monetary tools, shall focus on sustainability of growth momentum in near-term. We need to look into our fiscal operations, and broader government machinery in general. We need to plug slippages, cut loose of our bleeding PSEs through a thoroughly planned privatization program, and work towards revenue enhancement.

Sustainability of our exports, and by extension external account, lies in diversifying away from conventional sectors. It took us a pandemic to realize the potential of IT sectors. We need to focus on (1) make in Pakistan for import substitutions, (2) encourage backward and forward integration in existing sectors to become an integrated part of global value chain, (3) and design fiscal policies to encourage IT and technology sectors.

Closing

For bringing a digital financial revolution in the country where pandemic has given us a leapfrog in the adoption, banks must view the digital evolution of financial services through the customer lens as opposed to the products being pushed outward. There hasn't been any successful use case which has provided cash substitution at the kiryana stores for mass market retail payment. The fintech landscape collaborating with commercial banks under open banking opportunity will be a win-win scenario in the expansion of use cases. Lastly, government must take further lead in creating a compelling environment towards G2P/P2G initiatives and use cases to ensure making digital financial services as a preferred mode of payments and receipts.

Here’s how we fix Pakistan’s SOE Problem

Keynote Address at Administative Staff College, National School of Public Policy (NSPP)

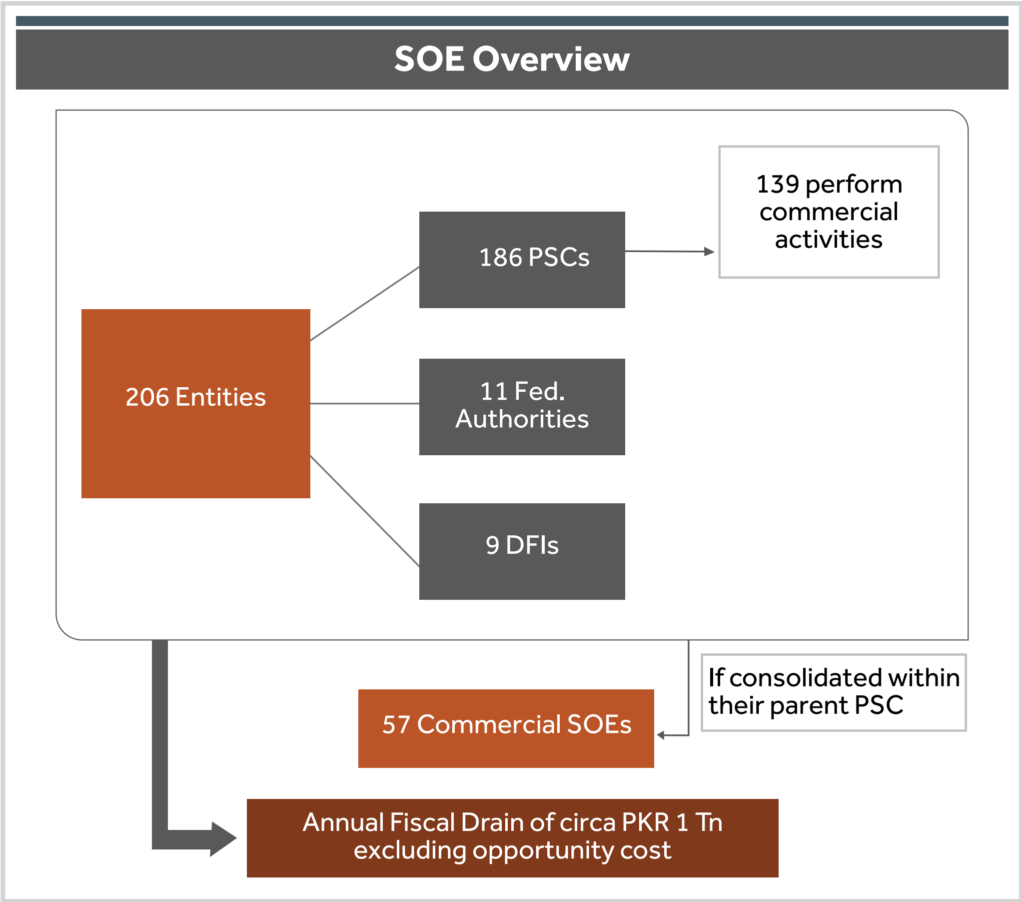
13th January 2021

The government's primary role is to make sure that consumers are protected from unnecessary exploitation by businesses, that they know what their rights are, and that they are getting those rights. Sometimes, however, governments are the ones setting up companies and businesses, called State Owned Enterprises (SOEs), to achieve these objectives, and tread into the arena where private sector generally shies away but the provision of products and services in these constituencies are essential for the masses like utilities

The requirement, however, is that these SOEs will have the highest standards of corporate governance, which is supposed to result in financial stability and sustainable growth. Essentially, the government creates a body to take care of bureaucratic red tape that would inevitably seeps into projects that the government undertakes directly.

That sounds like a pretty picture, right? If the government faces a task it feels will get bogged down by bureaucracy, it can set up a SOE and have the issue managed easily and efficiently.

But here is a problem: the ecosystem of state owned enterprises in Pakistan is not in the best of shapes. It is plagued with systemic problems. The good news is that despite this there have been some moments that prove SOEs in Pakistan still have potential, which means a serious attempt at rectifying the situation which may do the trick of making them efficient.



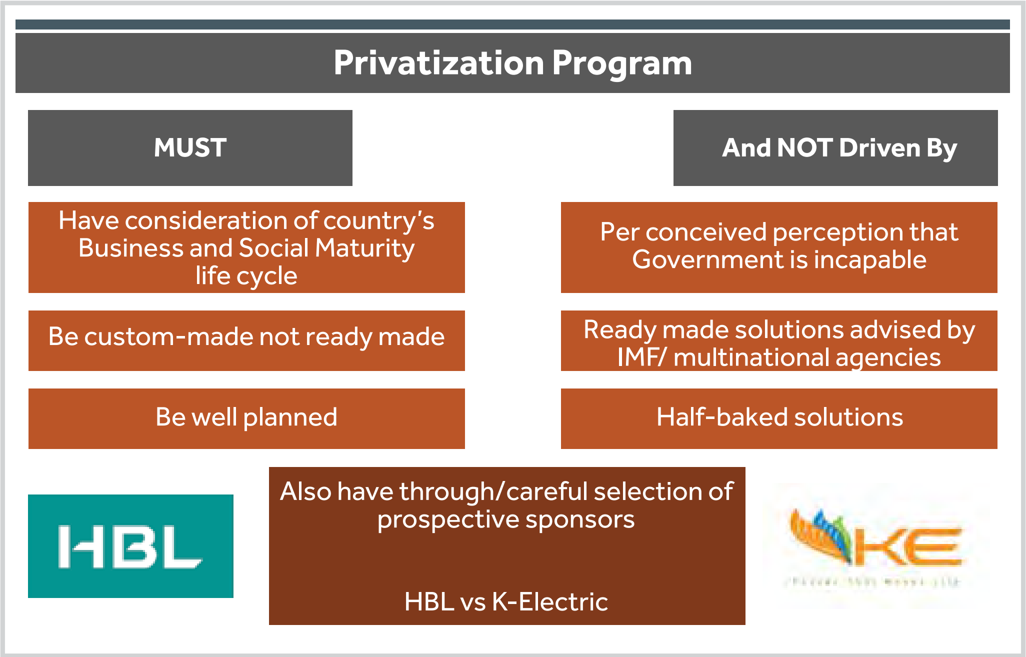
There are currently 206 entities that are labeled SOEs in Pakistan. The number seems a little more daunting than it actually is. You see, of these 206, only 186 are Public Sector Companies (PSCs), and of them only 139 are considered commercial entities, including subsidiaries.

According to the Asian Development Bank, if we were to consider these subsidiary SOEs as part of their parent SOEs, the actual number of these commercial entities would reduce to a much more manageable 57. The real problem, however, is the price tag at which these companies operate. A very conservative estimate of the drain, direct and indirect, actual and potential, that these companies have on the fiscal deficit is PKR 1 trillion. SOEs are not, of course, inherently bad. In fact, if they are well managed, they are actually supposed to become profitable, may not be at the same level as private sector's, and positively contribute to the public exchequer, nevertheless, along with social dividends for the public.

What we need to get to this point is a serious conversation about the "lack of political will" over the years to reform structural problems, considering the privatization option, and figuring out what the future outlook of SOEs should look like.

The privatization option

After decades, and decades of mismanagement, Pakistanis rightly do not trust the capabilities of government to run businesses. They are not wrong to be this cautious given their experiences, which is why any time there is a conversation about government entities, a snap reaction is to go the privatization route. That is why it is worth getting this argument evaluated/ assessed dispassionately and objectively first, before we proceed into the future of how SOEs should be managed.



Even though many people believe in this approach, I quite frankly consider it as an approach of "passing the buck" which with all due respect I find as an irresponsible strategy, especially when there are solutions available to effectively run existing SOEs. Let us admit over here, that privatization is not without its merits. Many countries have successfully used this method. In fact, given the nature of SOEs, one could argue that privatization is a natural part of the evolution of any SOE. But here's the rub: in Pakistan, while those arguing for privatization may be well intended, the implementation may be done for the wrong reasons. People have a preconceived notion that the government is incapable and want the private sector to come in and save them. The government is all too happy to give up rather than taking the painful route of reforms. Organizations like the International Monetary Fund (IMF) and the World Bank are also excited by the prospect, and not only encourage privatization, but provide readymade solutions that are not necessarily tailored to what Pakistan needs. This would mean that we are given half-baked solutions and end up accepting them when they are not even the best way to privatize, let alone the best way to deal with SOEs. What is the possible result? Privatization, which is supposed to be the cure, causes more adverse symptoms in the system, particularly in the long run, that outweigh all of the problems that existed before.

If privatization is the way to go, then we must do it in a different way. It should not be for the gaze of the IMF and other bodies. It should be for Pakistan and by Pakistan, and for the people of Pakistan and their welfare, and after taking into consideration the country's business and social maturity life cycle. There is no room for one-size-fits all over here, and the process has to be thoughtful and well planned. A strong regulator is a prerequisite for privatization; otherwise, the side-effects could negate the benefits.

The state of the SOEs

The problems that SOEs in Pakistan face are a reflection of larger problems that this state faces every day. Those are the root causes, some in particular with regards to SOEs, and fixing them has the potential to fix SOEs. Now, we have a whole list of reasons why SOEs in particular are not doing too well in Pakistan. Inconsistent macroeconomic policies, excessive auditing culture, a lack of independence, the selection process for the executives in these entities, the country's weak regulatory environment, and the constant political interference. But all of these problems have had one root cause: lack of political commitment.

Challenges for SOEs

Lack of "Political Will" is the mother of all challenges

Inconsistency of macroeconomic policies and strategies	Over-regimented environment with excessive auditing & inspection exercise	Lack of independence and fight for control
Lack of commercial and business understanding of line ministries and other agencies in the system	Inherent resistance to extend hand, reach-out for outside assistance	Political interference
Inadequate rewards and lack of accountability solutions	Weak regulatory environment- "owners stronger than regulators"	Selection process of executives & BoD

The problems that SOEs face are structural in nature, so even if we were to go the privatization route, it cannot be a success, and let us have the maximum benefits, unless we restructure them first. Even this option must only be explored phase wise, and that too after gaps are identified and treated beforehand.

Try to take stock of exactly how bad the situation is. Businesses and organizations survive and thrive on consistency and certainty; uncertainty kills them. SOEs are the biggest victim of this uncertainty. For example, at the macro-economic level, we're still debating if capitalism or socialism or a hybrid of the two are suitable for us. Add to this the fact that a weak regulatory environment means that the owners of SOEs are actually stronger than regulators. This results in undermining the regulators, who are no longer empowered to supervise these entities in an effective way, and unable to extend them the much needed regulatory cover to take right and bold decisions which are needed for efficient operations of the business.

There have been far too many agencies chaperoning SOEs with limited understanding of the business, unstructured protocols and unlimited powers, creating an over-regimented environment with excessive auditing and inspection exercises. One of the most common problems are conflicting interests of different stakeholders. There is often a lack of appreciation for changing environment and business needs at the Government's level, particularly in the space of technology, meaning SOEs remain outdated and sluggish as compared to their private sector competitors.

And then there is the issue that SOEs face, appointments of board members and executives are made on political considerations. Wonders can be done with a competent and sincere board of directors and most importantly the CEO in charge.

Have SOEs been successful in Pakistan?

From everything that has been discussed up until now, the reader will not be shocked that the answer to this question is very much no. The experience in Pakistan of SOEs has been less than ideal to put it mildly. However, it has also not been completely disastrous, even if it has been messy for the most part. Keeping in view economic and social factors, the experience has been a mixed bag at the end of the day.

Pakistan's Experience & Political Economy

Mixed experience; not very encouraging neither a disaster

Commercial Entities under public sector, by design due to highlighted inherent issues, **are likely to be in deficit**

Privatization has **not been too fruitful** either

Business and political life cycle of the country warrants to keep **strategic organization/ business under Government control for the time**

The core problem seems to be structural in nature.Experience could/can be much better if identified gaps are addressed; to the least, option to exercise Privatization must be explored phase wise, **restructuring** first and then **privatization**

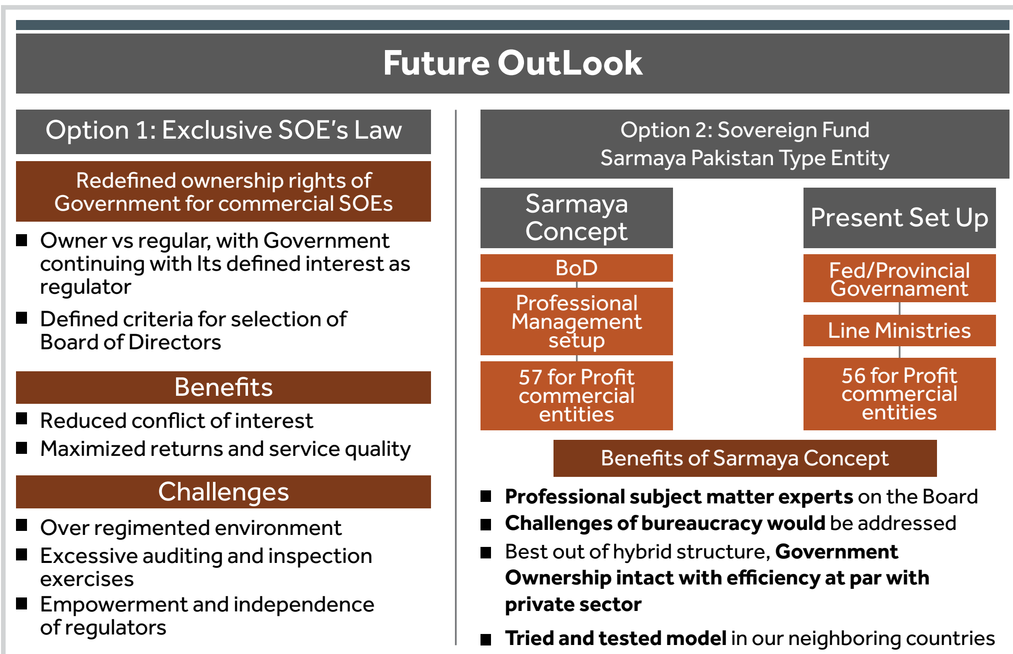
You see, even though they should ideally be making profits, since these entities are set up for the public good and end up eating money instead of making it. However, this does not change the work that they are doing. This is not merely the case in emerging markets either, but has also been witnessed in developed markets like the UK. The commercial entities under the public sector always are at a deficit as compared to the private sector entities due to inherit structural limitations, which are endemic in the public sector. On the other hand, the public sector entities would do those businesses, which are a must for the larger public good, albeit at a loss, and that the private sector would not necessarily deal with.

Now, this again points towards the argument that perhaps privatization, maybe in parts, might be the solution to these problems. Although it could have been if the process had been handled better and perhaps rolled out in phases. We must remember that the core problems of SOEs are structural in nature, and without first filling those gaps, we should not be looking for a solution because there is no viable solution. Case in point: banking reforms, and then privatization, in the late 1990s and early 2000s.

So what do we do?

The first possible solution is to set up a state-owned entity along the lines of a Sovereign Wealth Fund. It would essentially be a professional entity that would overlook the commercial SOEs.

Currently, we have the federal government that looks after these 57 companies. Different ministries of the federal government look after different SOEs. Under this new model, a Board of Directors appointed professionally would overlook a professional management setup that would be responsible for appointments, performance, and everything else essentially, in these SOEs and their success.



This model would bring many benefits with it. For starters, there would be a relevant expert for every sector at the holding company level. The model would also take on the challenges of bureaucracy. Most importantly, however, it is a hybrid system that takes the good from both privatization and government ownership, or in other words it would be the privatization of the management of SOEs and not the assets. By handing all SOEs over to another entity for management, the government ownership remains intact with efficiency closest, if not at par, with the private sector. This has also been a tried and tested method in countries of this region, including Singapore, Korea, Malaysia, UAE, etc.

This has been what is happening in Pakistan recently as well, with the government launching the Sarmaya Pakistan Limited (SPL) in February 2019. The most critical aspect and objective of Sarmaya Pakistan was to get those "for-profit" or "commercial" entities out of the administrative control of various line ministries and expose them to the professional management with the requisite sectoral expertise.

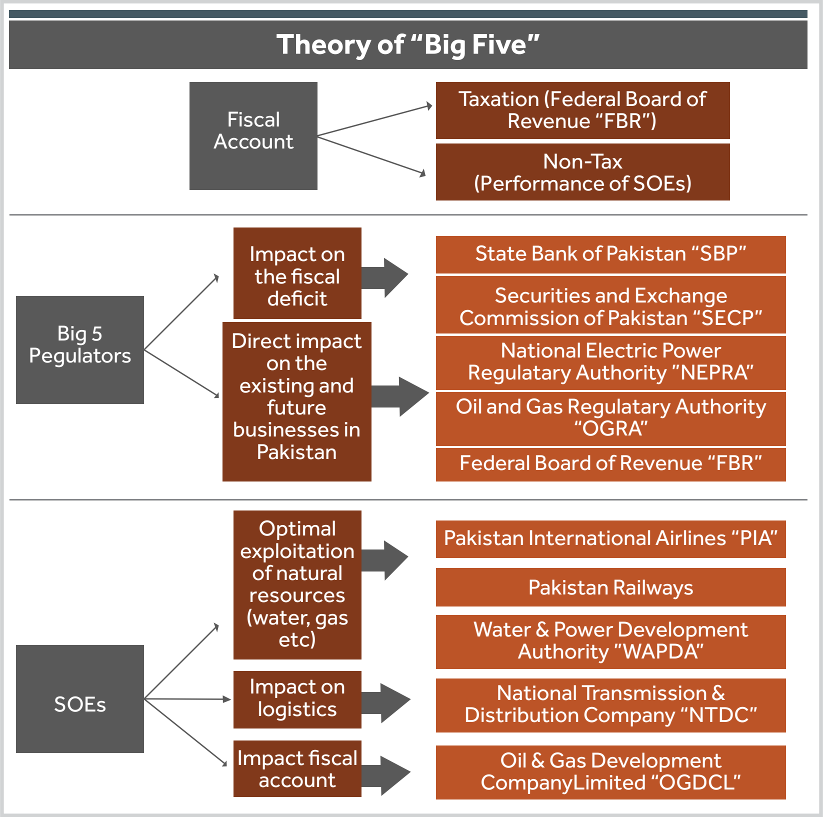
The other option, of course, is that instead of forming another company like SPL or a Sovereign Wealth Fund, Pakistan chooses to implement exclusive laws relevant to SOEs. Essentially, this would entail redefining the ownership rights of the government with regards to commercial SOEs. The government would continue its role as a regulator, and there would be a defined criterion for the selection of a board of directors for any SOE. Such a law has already been framed, and the apparent cabinet approval for enactment of this law has already been secured.

Under this law, like any other private enterprise, every SOE will have owners and regulators. The purpose of the law should be to help the Federal Government maximize returns and service quality through its ownership of "commercial" SOEs. As mentioned before, the Government will continue to have an interest in "regulation" through line ministries, and other specialist regulators of the sectors within which the SOEs operate.

The core issue that this law must improve on, however, is that over regulation and multiple auditing and inspection requirements have not been dealt with. The law or the incorporation of sovereign funds shall be a mere starting point, there would be more that is desired and steps to be taken.

The Big Five Theory

The Big Five Theory rests on how the fiscal account is structured. Its two main components are taxation (where the Federal



Board of Revenue is involved), and the other one is the non-tax component, which involves the performance of SOEs. With the right policy actions and a strong willed government, both these components do not require any external support.

Now within these two main components, there are a number of regulators and a number of SOEs. This theory proposes that the top five entities within each component, chosen in relative terms of importance and influence, to be made independent, and eventually reformed. The 'Big Five' regulators would be the SBP, the Securities and Exchange Commission (SECP), the National Electric Power Regulatory Authority (NEPRA), the Oil and Gas Regulatory Authority (OGRA), and the FBR. Similarly, the top five SOEs would be the Pakistan International Airlines (PIA), the Pakistan Railways, the Water and Power Development

Authority (WAPDA), the National Transmission and Distribution Company (NTDC), and the Oil and Gas Development Company Limited (OGDCL).

On the one hand, by empowering regulators, the over-regimentation and excessive auditing and inspection could be, in fact, shall be rationalized, and SOEs will be able to operate independently and professionally, which will ensure attracting talented individuals on the board and in the management. On the other, giving the Big Five SOEs independence will mean the optimal exploitation of natural resources (water, gas, etc.), and will have a positive effect on the fiscal deficit.

FBR

FBR needs to be divided and restructed between "policy" and "collection"

Presently	After Restructing
Current FBR policy-makers policies allow for **easy ways of revenue collection** However, they put **excessive burden** on existing tax payers and **encourage tax evasion**	Will help in **better engagement of policy-makers** with the various stakeholders in the industry to come-up with **business-friendly taxation policies** With above separation, the **tax base will increase** and the **taxation policies will be rationalized** for even tax burden across the economy The core of our **public sector reforms hinges around taxation or restructuring of FBR**; therefore, it's deserved more discussion than the others SOEs

The prime example of how this change would work is the FBR. Under this theory, the FBR would be divided and restructured along the lines of policy and collection. Currently, the FBR is playing fast and loose within the line between regulator and commercial SOE because it has an agenda of incentive based revenue collection. Making a distinction between policy and collection will address any existing, and potential, conflict of interest. This will also help in better engagement of policy-makers with the various stakeholders in the industry to come-up with business-friendly taxation policies.

On the other hand, the collection team will focus on the enhancement in collection alone without tinkering with the taxation policies to achieve the collection targets. Furthermore, the appellate forums starting from first appeal may be outsourced and made independent by appointing chartered accountants, cost accountants and lawyers from the private sector. This will help in getting expeditious justice and mitigate the element of unprofessional practices considerably.

In summation, significant challenges still abound, regarding the future of State Owned Enterprises in Pakistan. The problem, however, is not unsolvable – all it would take is a disciplined approach, a clear and overarching political will and strategic vision, and tactical and operational improvements to see this endeavor through to its fruition.