

PROGRAM COMPLETION REPORT

ON THE

CAPITAL MARKET DEVELOPMENT PROGRAM
(Loan 1576-PAK)

AND

CAPACITY BUILDING OF THE SECURITIES MARKET
(TA Loan 1577-PAK)

IN

PAKISTAN

October 2002

CURRENCY EQUIVALENTS

(as of 31 October 2001)

Currency Unit – Pakistan rupee/s (Pre/PRs)

		At Appraisal (September 1997)	At Program Completion (October 2001)
PRe1.00	=	\$0.02460	\$0.0161
\$1.00	=	PRs40.62	PRs62.00

ABBREVIATIONS

ADB	–	Asian Development Bank
CDC	–	Central Depository Company of Pakistan Limited
CLA	–	Corporate Law Authority
EOBI	–	Employees Old-Age Benefits Institution
EOI	–	expression of interest
ICP	–	Investment Corporation of Pakistan
KSE	–	Karachi Stock Exchange
LSE	–	Lahore Stock Exchange
MOC	–	Ministry of Commerce
MOF	–	Ministry of Finance
NBFI	–	nonbank financial institution
NCSS	–	National Clearing and Settlement System
NIC	–	National Insurance Corporation
NIT	–	National Investment Trust Limited
NSS	–	National Savings Scheme
OTC	–	over-the-counter
PC	–	Privatization Commission
PIC	–	Pakistan Insurance Company
PIB	–	Pakistan Investment Bond
SBP	–	State Bank of Pakistan
SEC	–	Securities and Exchange Commission of Pakistan
SRO	–	self-regulatory organization
TA	–	technical assistance
TFC	–	term finance certificate

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Pakistan
2.	Loan Numbers	1576-PAK TA 1577-PAK
3.	Program Titles	Capital Market Development Program Capacity Building of the Securities Market
4.	Borrower	Islamic Republic of Pakistan
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	\$250.0 million SDR 2.738 million (\$3.551 million)
7.	Project Completion Report Number	PCR: PAK 31108

B. Loan Data

1.	Appraisal		
	– Date Started	8 July 1997	
	– Date Completed	28 July 1997	
2.	Loan Negotiations		
	– Date Started	16 September 1997	
	– Date Completed	18 September 1997	
3.	Date of Board Approval	6 November 1997	
4.	Date of Loan Agreement	5 January 1998	
5.	Date of Loan Effectiveness		
	– In Loan Agreement	5 April 1998	
	– Actual	5 January 1998	
	– Number of Extensions	None	
6.	Closing Date	Loan 1576	TA Loan 1577
	– In Loan Agreement	31 December 2000	31 December 2000
	– Actual	31 October 2001	30 July 2002
	– Number of Extensions	2	4
7.	Terms of Loan	Loan 1576	TA Loan 1577
	– Interest Rate	Variable	1% per annum
	– Maturity (number of years)	15	35
	– Grace Period (number of years)	3	10
8.	Terms of Relending (if any)	None	
	– Interest Rate		
	– Maturity (number of years)		
	– Grace Period (number of years)		
	– Second-Step Borrower		

9. Disbursements

a. Dates

i. Loan 1576

Initial Disbursement 6 July 1998	Final Disbursement 22 June 2000	Time Interval 30 months
Effective Date 5 January 1998	Original Closing Date 31 December 2000	Time Interval 36 months

ii. TA Loan 1577

Initial Disbursement 27 April 1999	Final Disbursement 30 July 2002	Time Interval 39 months
Effective Date 5 January 1998	Original Closing Date 31 December 2000	Time Interval 36 months

b. Amount (\$ million)

i. Loan 1576: \$250

ii. TA Loan 1577: \$3.551 (SDR 2.738)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Equipment	2.500	1.574	0	1.574	1.218	0.356
Local Transportation	0.015	0.015	0	0.015	0.000	0.015
Consulting Services	1.820	2.562	0	2.562	2.176	0.386
Training Materials	0.019	0.020	0	0.020	0.000	0.200
Studies/Training	0.000	0.260	0	0.260	0.157	0.103
Unallocated	0.645	0.364	0	0.364	0.000	0.364
Total	5.000	4.795	0	4.795	3.551	1.244

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Loan 1576		
Foreign Exchange Cost	250.000	250.000
Local Currency Cost	0.000	0.000
Total	250.000	250.000
TA Loan 1577		
Foreign Exchange Cost	4.316	2.805
Local Currency Cost	0.686	0.746
Total	5.000	3.551

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Loan 1576		
Implementation Costs		
Borrower-Financed	0.000	0.000
ADB-Financed	250.000	250.000
Other External Financing	0.000	0.000
Total	250.000	250.000
TA Loan 1577		
Implementation Costs		
Borrower-Financed	0.050	0.000
ADB-Financed	5.000	3.551
Other External Financing	1.950	0.000
Total	7.000	3.551

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component (\$ million)

Component	Appraisal Estimate	Actual
Loan 1576 ^a		
TA Loan 1577		
Consulting Requirement	1.820	2.176
Equipment	2.500	1.218
Studies/Training	0.000	0.157
Unallocated	0.680	
Total	5.000	3.551

^a No cost breakdown by program component.

4. Program Schedule

Item	Appraisal Estimate	Actual
Loan 1576 ^a		
TA Loan 1577		
Date of Contract with Consultants		
Date of Award	March 1998	March 1999
Completion of Work	August 1998	
Equipment and Supplies		
Dates		
First Procurement	Not applicable	April 1999
Last Procurement	Not applicable	March 2002

^a No program schedule.

5. Program Performance Report Ratings

Implementation Period	Development Objectives	Ratings Implementation Progress	Classification
Loan 1576			
From November 1997 to December 1997			A
From January 1998 to December 1998			A
From January 1999 to December 1999	Satisfactory	Satisfactory	
From January 2000 to December 2000	Satisfactory	Partly Satisfactory	
From January 2001 to October 2001	Satisfactory	Partly Satisfactory	
TA Loan 1577			
From November 1997 to December 1997			A
From January 1998 to December 1998			A
From January 1999 to December 1999	Satisfactory	Satisfactory	
From January 2000 to December 2000	Satisfactory	Satisfactory	
From January 2001 to October 2001	Satisfactory	Satisfactory	
From January 2002 to May 2002	Satisfactory	Satisfactory	

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Loan 1576				
Fact-Finding	3–16 April 1997	6	21	a, c, i, j, k, p
Appraisal	8–28 July 1997	7	24.5	a, c, g, i, j, k, p
Review 1	13–23 September 1998	7	35	b, e, g, j, l, n, p
Review 2	3–14 December 1998	5	40	b, d, c, e, g, h, l, p
Review 3	29 April–12 May 1999	5	25	b, c, f, k, l
Review 4	12–17 July 1999	2	5	b, c, q
Review 5	4–13 November 1999	3	20	b, c, o
Review 6	20–24 January 2000	1	5	b
TA Loan 1577				
Fact-Finding	3–16 April 1997	6	21	a, c, i, j, k, p
Appraisal	8–28 July 1997	7	24.5	a, c, g, i, j, k, p
	13–23 September 1998	7	10	b, e, g, j, l, n, p
Inception	29 April–12 May 1999	3	15	b, k, o
Review 1	29 June–3 July 2000	3	15	b, m, r
Review 2	20 January–5 February 2001	4	15	b, j, m, r
Review 3	29 May–2 June 2001	3	15	b, m, r
Program Completion Review ^b				

^a a = Senior Project Economist, b = Senior Financial Economist/Senior Financial/Capital Markets Specialist, c = Resident Representative, d = Director, e = Manager (Programs West Division1), f = Manager (Financial Sector and Industry Division West), g = Senior Counsel, h = Senior Programs Officer, i = Programs Officer, j = Programs Officer (PRM), k = Investment Officer, l = Project Economist, m = Financial/Capital Markets Specialist, n = Consulting Services Specialist, o = Trade Economist, p = Young Professional, q = Consultant, r = Associate Project Analyst.

^b The program completion report was prepared by S. Hattori, Financial/Capital Markets Specialist and V. V. Subramanian, Financial Economist.

I. PROGRAM DESCRIPTION

1. In November 1997, the Asian Development Bank (ADB) approved the Capital Market Development Program Loan for \$250 million from ADB's ordinary capital resources and a technical assistance (TA) loan¹ amounting to SDR3,674,000 (\$5 million equivalent) from ADB's Special Funds resources to the Government of Pakistan. The Program aimed to augment the mobilization of long-term resources and improve the efficiency of their allocation through a diversified and competitive capital market, which encourages broad-based participation of issuers and investors.

2. To achieve this objective, the regulatory and institutional frameworks were to be strengthened to improve investor confidence, eliminate market distortions, modernize and upgrade the securities market infrastructure, improve investment alternatives, and enhance the efficiency of market participants. The key components of the Program include (i) creating a policy environment to enhance competition, and a level playing field; (ii) strengthening governance, institutions, regulations, and supervision of the securities market; (iii) improving and modernizing securities market infrastructure and its integration; (iv) developing the corporate debt market; (v) introducing reforms in the mutual fund industry; (vi) developing the leasing industry; and (vii) promoting contractual savings through reforms of the insurance sector and pension and provident funds.

3. The program completion report provides an overview and preliminary evaluation of initial impacts and benefits.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. The Government's top priority at the time of program formulation in early 1997 was to restore political and economic stability in the country. The Government adopted fiscal prudence and initiated fundamental reforms in export, agriculture, and financial sector policies. To support the Government's initiative, the International Monetary Fund approved an Enhanced Structural Adjustment Facility in October 1997, which aimed to contain fiscal and external imbalances to sustainable levels over the 1997–2000 period. The World Bank negotiated a Banking Sector Adjustment Loan in September 1997, cofinanced by the Overseas Economic Cooperation Fund of Japan. The financial sector reform strategy aimed to rebuild the sources of governance, banking regulation and supervision, banking courts, and market discipline. The Government requested ADB assistance in capital market reforms to augment and complement such activities.

5. In program formulation, a substantial amount of background work was undertaken. This included economic and sector work for developing ADB's sector strategy and operational program² and advisory TAs to develop the capital market policy and supportive institutions, examining issues of the secondary market, stock exchanges, mutual funds, leasing industry,

¹ ADB. 1997. *Technical Assistance Loan to Pakistan for Capacity Enhancement*. Manila.

² ADB. 1997. *Pakistan: Financial Sector Perspective*. Manila. ADB. 1997 *Pakistan: Trade and Industry Sector Study*. Manila.

and regulatory bodies.³ ADB's strategy for the industry and financial sectors in Pakistan emphasized concurrent support for reforms of the capital market and of trade and industry. Based on the direction of this strategy, the Program appropriately analyzed and addressed impediments in the capital market. The program design, based on mission studies⁴ and extensive discussions with the Government, is sound and highly relevant. A total of five TAs⁵ were provided to support program implementation.

6. The Program aimed to broaden and deepen the capital market to encourage investment and savings. Reforms of the securities markets, encompassing both primary and secondary markets, were aimed to improve the prospects for issuers to mobilize long-term resources and provide alternative opportunities to suit their preferences. The policy and regulatory reforms of mutual funds and the privatization of two leading asset management companies was to produce a level playing field and higher degree of credibility and competition in the industry. The reforms to improve the financial standards and efficiency of the insurance companies were to enable the insurance industry to mobilize long-term resources. Promotion of the life insurance business was to improve individual welfare by extending social security coverage, while general insurance was to help industries to minimize business risks.

B. Program Outputs

7. The Program covered seven key areas, in support of developing the capital market (para. 2). The details of policy actions under the Program and the status of implementation of each are given in Appendix 1 (Loan 1576-PAK), while Appendix 2 provides the implementation status of the various components and subcomponents under TA Loan 1577-PAK. The main policy actions implemented are discussed below.

1. Creating an Enabling Policy Environment to Enhance Competition and a Level Playing Field

8. This component addressed some critical issues that hindered effective competition of capital market instruments in the marketplace. To level the playing field, taxes on capital market transactions were rationalized, investment policies of institutional investors were liberalized, and government-guaranteed returns on various competing savings vehicles were adjusted. Many regulations, including taxes on market transactions, were inconsistent with development objectives. Specific reform measures were required, the most important of which was the rationalization of policies on interest rates, investments, and tax for National Savings Schemes (NSSs).

9. The NSSs offered attractive interest rates to the public to fund a large portion of the Government's fiscal deficit. As a consequence, NSS-quoted interest rates created an artificial benchmark in the financial market, causing distortions. Since 1999, NSS interest rates have

³ These TAs include: (i) ADB. 1989. *Technical Assistance to Pakistan for Institutional Building of the Corporate Law Authority and Study of the Mutual Fund Industry*. Manila, and (ii) ADB. 1995. *Technical Assistance to Pakistan for Capital Market Development*. Manila.

⁴ Economic and Sector Work Mission from 27 December 1996 to 17 January 1997.

⁵ These were (i) ADB. 1997. *Technical Assistance to Pakistan for Interest Rate Management of National Saving Scheme*. Manila, (ii) ADB. 1997. *Technical Assistance to Pakistan for Capital Market and Insurance Law Reform*. Manila, (iii) ADB. 1997. *Technical Assistance to Pakistan for Restructuring of Public Sector Mutual Funds*. Manila, (iv) ADB. 1997. *Technical Assistance to Pakistan for Reform of the Insurance Industry*. Manila, and (v) ADB. 1997. *Technical Assistance to Pakistan for Reform of Pension and Provident Funds*, Manila. An Operations Evaluation Mission was fielded for these TAs in March–April 2002 with a back-to-office-report of 28 May 2002.

been reduced from 18% on average in May 1999 to 11.6% in June 2002. In addition, the decision not to allow institutions to invest in NSSs, as a result of ADB's ongoing policy dialogue, had a far-reaching impact and triggered inflows of funds into the corporate debt market (Appendix 3, Table A3.2). Reducing the NSS rates in line with the market-based interest on Pakistan Investment Bonds (PIBs) is a progressive development. However, there is scope to further refine the mechanism for determination of the NSS interest rates.

10. With regard to the tax treatment of mutual funds, a uniform tax rate is now applicable to both private and public sector mutual funds. However, certain anomalies in government policy still remain. For instance, *zakaat*⁶ is charged on private sector mutual funds but not public sector mutual funds, and only units of the National Investment Trust Limited (NIT) qualify as investments under the statutory liquidity ratio of banks and nonbank financial institutions (NBFIs). Furthermore, investment funds are taxed on capital gains from investments unless 90% of such gains are liquidated to investors. This remains a major competitive disadvantage for investment funds in Pakistan, constraining their development and capital formation.

2. Strengthening Securities Market Governance, Institutions, Regulation, and Supervision

11. The Corporate Law Authority (CLA), established in 1981 as the apex regulator for the capital market, suffered from inherent structural weaknesses. Operating as a department of the Ministry of Finance (MOF), independence was difficult to achieve. The CLA relied on government budgetary support and was subject to federal rules that bound staff pay scales to those of government employees. The notification by MOF, on 31 December 1998, (i) dissolving the CLA, (ii) establishing the Securities and Exchange Commission of Pakistan (SEC), and (iii) appointing five commissioners with a majority from the private sector, marked the first step toward properly regulating the securities market in Pakistan along modern market-oriented lines. With financial resources generated through company registration fees, the SEC has recruited qualified personnel, paying them market-based salaries. New regulations and systems of market surveillance are in place and the SEC has begun to play effectively its regulatory and supervisory role in the capital markets. The SEC has also automated its operations with support under TA Loan 1577-PAK, and has established an effective presence on the Internet (www.secp.gov.pk) for improved stakeholder communication and information.

12. Equally important are the changes in the governance structure of the three stock exchanges, namely Karachi, Lahore, and Islamabad. Two significant developments have taken place in recent years: (i) induction of outside directors on the board and (ii) appointment of a nonbroker as chief executive. Since the establishment of KSE in 1947, the stock exchanges in Pakistan have been managed solely by members and many observers attributed this as the major cause of market malpractices. The new structure, separating management from ownership, was designed to address the governance issue and win investors' confidence. While a step has been taken in the right direction in terms of improving stock exchange governance, much work remains. Much of this relates to the mutual character of exchanges, where only brokers are their owners. Also, the standard of governance of market transactions remains low, and a comprehensive approach is needed to improve market transparency and reduce the information asymmetry that is prevalent in the capital market. The market is often dominated by short-term speculative investments.

⁶ Zakat is an Islamic tax levied at 2.5% annually on specified assets, such as savings bank accounts and government securities. The tax is deposited in the Zakat Fund, which was established to assist the poor.

13. The Stock exchanges have initiated a process to professionalize their management. In organizations that worked for years within a closely knit group of people, the transition has been difficult. The SEC expended considerable effort in convincing the stock exchange members of the long-term benefits of professionalizing their management and opening up the board to outside directors. Recently, under SEC direction, the stock exchanges have amended their articles of association to require prior approval of the SEC in appointing and removing their chief executive. This measure is expected to strengthen the independence of the chief executive. As the managements of the stock exchanges attain greater degrees of professionalism and independence, the SEC may delegate greater authority to them for the sake of achieving an optimum balance between direct regulation and self-regulation.

3. Improving and Modernizing Securities Market Infrastructure and its Linkages

14. Modernization of the securities market infrastructure had been under consideration by the Government since 1992. However, it was at the time of program formulation that concrete actions were taken. Initially, the Central Depository Company of Pakistan Limited (CDC) was established and plans to introduce computerized screen-based trading systems in the stock exchanges were prepared. With the support of the Program, trading for all scrips in the three stock exchanges was automated and CDC's central depository system was fully operationalized. As of August 2002, 389 securities (54% of total listed securities) were under CDC operations with a market capitalization of PRs114 billion (\$1.8 billion), against a total market capitalization of PRs411 billion (\$6.6 billion) of the Karachi Stock Exchange.

15. The next logical step was to establish the National Clearing and Settlement System (NCSS). SEC held extensive consultation with the management, members of stock exchanges, and other stakeholders for establishing the NCSS. SEC also organized a number of seminars in different cities to build awareness and consensus for transition to the NCSS, which incorporated some features of best international practices. A National Clearing Company was incorporated in July 2001 and after resolution of the software problems, including those in the risk management system, the NCSS became fully operational on 24 December 2001, with 150 companies at present being inducted into the system. It is expected that, in due course, all companies listed on the stock exchanges will be routed through this system. CDC and the NCSS will increase safety and transparency of market transactions as well as reduce operational costs of the stock exchanges. It is also hoped that the three exchanges' sharing of the system will expedite the process of market integration. The SEC constituted a consultative group for the capital market in February 2002 to secure independent and professional feedback from experts in the stock exchanges and the capital market, and from professional bankers, on various policy measures and market monitoring.

4. Developing the Corporate Debt Market

16. There has been a significant expansion in the corporate debt market since 1998 due partly to policy changes in the NSS (rationalizing rates and restricting incremental institutional investment) and the launch of the PIBs. In addition, the bearish trend in equity markets has shifted investors toward more secure investments in term finance certificates (TFCs). As against four TFC issues floated in the market before 1998 for PRs732.37 million (\$11.8 million), there were 25 TFC issues mobilizing PRs13,501 million (\$217.8 million) between 1998 and 2001 (Appendix 3, Table A3.2). A recent issue by one of the private commercial banks was oversubscribed six times. The future outlook is quite bullish as companies that previously relied heavily on development finance institutions for term borrowings are now accessing the bond

market to meet their financial requirements. Some TFCs are listed on the exchanges but trading is limited due to lack of market-makers, professional institutional investors, and an opaque trade-reporting system, hindering price discovery. Additional policy measures, including consideration for creating a risk-free yield curve by issuing longer-term government bonds and establishing an over-the-counter (OTC) market for trading corporate debt papers, would be helpful for the sound development of the debt market and increased trading of fixed-income securities on the secondary market.

5. Reforming the Mutual Fund Industry

17. Mutual Funds were introduced in Pakistan in 1962, with the public offering of NIT, which was an open-ended mutual fund in the public sector. The establishment of the Investment Corporation of Pakistan (ICP) in 1966, which subsequently offered a series of closed-end mutual funds, followed this. ICP has so far floated 26 closed-end mutual funds. Later, the government also allowed the private sector to establish mutual funds. Currently there are three open-end and twelve closed-end mutual funds under private sector management. The mutual fund industry, with a total size of PRs26 billion, represents about 6% of the total market capitalization of the stock market. Mutual funds in Pakistan stand at about 2.5% of bank deposits, which is quite low compared to other countries in the region. Significant amendments have been made to both the Investment Advisors Rules applicable to closed-end mutual funds and the Asset Management Companies Rules applicable to open-end mutual funds. Beside raising disclosure and reporting requirements, these rules now provide for the establishment of sector-specific funds, giving investment managers a considerable amount of flexibility in their fund management approach. SEC gave approval to the country's first fixed-income securities fund in 2002. An important development in the sector was the extension of the SEC's regulatory jurisdiction over the two public sector mutual funds, ICP and NIT. The overall performance of mutual funds, however, has been less than satisfactory, mostly due to the under performance of the stock market until late 2001.

18. Significant progress has also been made in restructuring ICP and NIT. The Cabinet approved the transfer of management of 26 funds established by ICP to the private sector. The Privatization Commission (PC) has also received expressions of interest (EOIs) from local fund managers to take over the management of NIT. ICP and NIT were established in the 1960s and have since held dominant positions in the industry. Their privatization is deemed essential for the development of the mutual fund industry, but it involves several complex issues, including the guarantee of minimum redemption prices issued by the Government for certain NIT investors. There is also the prospect of substantial pressure for redemption by a few large institutional investors once the funds are transferred to the private sector and no longer have the implicit guarantee of the Government.

19. The PC has decided to sell the ICP mutual funds business in three lots rather than a single lot to increase competition. The PC invited EOIs in March 2002 for sale and transfer of the management rights of lot A of ICP mutual funds (comprising 12 of the 26 ICP Funds). The PC approved in July 2002 the prequalification of nine parties (out of 16) that had submitted an EOI. The Cabinet Committee on Privatization in August 2002 gave the final clearance for the PC to conduct the bidding process and the sale of lot A has been finally closed on 11 October 2002 for a price of PRs175 million. Furthermore, in September 2002 the PC issued invitations for submissions of EOIs and statements of qualification for the bidding of lot B, with a deadline of 28 September 2002. Thereafter, the bidding was conducted, similar to lot A, on 24 October 2002 and the sale of lot B has been approved by the Cabinet Committee on Privatization for a price of PRs302.5 million. As regards NIT, the two important issues relating to its privatization

include the significant number of redemption requests of banks and financial institutions from the open-end funds and the significant shareholding that NIT has in several listed companies. The PC invited a submission of EOs for NIT along with statements of qualification, and prequalified five bidders for carrying out due diligence from 1 September 2002. The bidding process is expected to be completed by end 2002.

6. Developing the Leasing Industry

20. The leasing industry, represented by 29 leasing companies, is an important segment of Pakistan's financial sector. The leasing sector in general has experienced commendable growth over the years and has adequately proved to be an alternative source of finance to banking. Some of the leasing companies, however, are inadequately capitalized. Under the Program, the SEC has stipulated a minimum paid-up capital of PRs200 million (about \$3.2 million) applicable to all leasing companies operating in Pakistan. The deadline given to the existing companies for meeting the minimum capital requirement lapsed on 30 June 2001, and the SEC is currently advising noncompliant companies on measures to meet the requirement. At present, 18 companies are in compliance while the rest are at different stages of complying. The leasing sector has witnessed a number of cross-sector mergers during the past 2 years as well as within the sector. This has been made possible through the efforts of the Specialized Companies Division of the SEC, which has been emphasizing the need for mergers and consolidation among NBFIs for enhancing their capital base, achieving economies of scale, and improving competitiveness and effectiveness. As a result, an increasing trend of mergers and amalgamations has been seen.

21. As financial intermediaries providing medium and long term financing, leasing companies have made a significant contribution towards development of the financial sector in the country. Leasing companies have also played an important role in the development of small and medium scale enterprises in Pakistan and remain a significant player in the vehicle financing business. Previously, establishment of various small leasing companies and entry of other financial institutions into leasing business had resulted in a fragmented sector with limited opportunities for growth. The measures taken by the SEC within its jurisdiction to promote consolidation of financial institutions, therefore, become extremely important for the sector's revival. However, to improve the future prospects of their industry, the leasing companies need to broaden their scope and develop innovative products together with initiating vendor financing arrangements with suppliers of capital equipment, operating leases, and cross-border leases. The presence of commercial banks and development finance institutions in the leasing market has impacted the leasing companies' margins, but their ability to offer "big-ticket" leasing has enhanced the acceptability of leasing options. To allow leasing companies to access alternative long-term funding sources, the SEC issued the Companies (Asset Backed Securitization) Rules, 1999, which provided the legal and regulatory framework.

22. The leasing companies' need for long-term resources to match the tenure of their assets has prompted several of them to issue long-term TFCs. In fact, out of 24 companies that have issued TFCs, nine were leasing companies. Securitization would also be an alternative means of financing for leasing companies. In Pakistan, securitization is still at a nascent stage. Though the Asset Backed Securitization Rules, 1999 were notified by SEC in December 1999, the banks/NBFIs, who are keen to undertake such securitization transactions through Special Purpose Vehicles, were awaiting final guidelines from the State Bank of Pakistan, being their regulator. With the transfer of NBFIs regulation to SEC, it is expected that the necessary guidelines will soon be issued. SEC has recently approved the securitization deal for PRs1 billion for Paktel Ltd. against its present and future receivables. With tax anomalies on

securitized transactions now resolved, it is hoped that leasing companies will spearhead the move to securitize assets, adding a new dimension to financial products offered by the capital market in Pakistan.

7. Promoting Contractual Savings through Reforms of the Insurance Sector and the Pension and Provident Fund Industry

23. One of the most significant achievements under this component of the Program was the promulgation of a new Insurance Ordinance in 2000, which replaced the Insurance Act of 1938. The Ministry of Commerce (MOC) drafted the insurance ordinance through extensive dialogue with the insurance industry and market participants. At the initial phase, some resisted the change while others supported it. The new ordinance sets higher capitalization and solvency standards, introduces sound and prudent management, lays down market conduct rules for safeguarding the interests of policyholders, and provides for a comprehensive adjudicatory system, supported by small disputes settlement committees, tribunals, and an insurance ombudsperson. New Insurance Rules, formulated by the MOC, were notified in August 2002, while Insurance Rules as required under section 167(2) of the Insurance Ordinance were approved by the SEC Policy Board on 1 October 2002, are undergoing final review by the Ministry of Law and Justice, and are expected to be notified shortly. The transfer of regulatory responsibilities from MOC to the SEC has been relatively smooth and has proven to be cost effective. The SEC's Insurance Division has been established. However, there is an urgent need to strengthen the institutional capacity of the SEC for it to properly regulate the industry.

24. The two major government-owned insurance companies—Pakistan Insurance Corporation (now Pakistan Reinsurance Company) and National Insurance Corporation (now National Insurance Company)—have been corporatized as an essential step toward their future privatization. The Government has inducted outside directors, which has improved governance of the two companies. As a next step, the roles of these two companies must be fully assessed from the perspective of developing the insurance industry, and plans on their privatization executed. The compulsory reinsurance cession to Pakistan Reinsurance Company has been reduced to 15% and is expected to be phased out gradually by 2004. As has been the case worldwide, Pakistan's insurers have been faced with rising reinsurance costs and increased difficulties of accessing reinsurance, in particular after the events of 11 September 2001 in the United States. In the case of terrorism insurance, insurers have been unable to obtain reinsurance cover at all and thereby have largely withdrawn terrorism cover from their own policies. This is likely to impact projects where such insurance cover is a condition for project financing.

25. Life insurance remains relatively underdeveloped in Pakistan. Total life insurance premiums represent about 0.27% of gross domestic product, compared to 2.1% in Malaysia, 1.8% in India, 0.54% in Indonesia, and 0.53% in Sri Lanka. The depressed nature of the economy for the majority of the history of the four private sector insurance companies has not assisted either their development or that of the life industry in general. The private sector insurers have not, in general, sought to compete directly with the State Life Insurance Corporation (SLIC) for individual life business but have tended to concentrate on innovative products to be sold to a niche rather than mass market. Whilst this strategy may make sense for the new entrants themselves, it does not address the issue of SLIC's domination of the traditional life insurance market. SLIC continues to be closely controlled by MOC. It is difficult to justify government ownership of a life insurance near-monopoly, and innovative solutions will be needed for increasing the role of the private sector in Pakistan's life insurance market.

26. The pension sector in Pakistan is fragmented. The Government has yet to develop a framework for developing a pension and provident fund industry. Government employees with twenty years service (twenty five for military) are entitled to a pension, which is on a defined benefit basis, adjusted to partly for inflation and tax-free. This scheme is unfunded. The largest scheme is the Employees Old-Age Benefits Institution (EOBI), a pay-as-you-go scheme. EOBI assets are expected to rapidly deplete as the scheme approaches maturity and is not fiscally sustainable in the long term. An ADB TA⁷ recommended the establishment of a pension regulatory authority and a restructured and reformed EOBI with expanded coverage and extended reach. Further ADB assistance is being considered to assess the operations and financial position of EOBI and formulate recommendations for improvement and strategic options. The Ministry of Labor administers the EOBI. The regulation of the private pension fund industry is now vested with the SEC. Pursuant to the pronouncement made in the 2001 budget, the SEC has submitted a proposal for pension reforms and corresponding legislation to MOF, but substantial effort would be required for developing a proper legal, regulatory, and tax framework for the sector. Moreover, given the technical nature of issues involved in the insurance and pension industry, absence of organized education and training facilities must be addressed as a matter of priority. Insurance and pension funds are important providers of financial resources to the capital market. Studies have established a strong correlation between the development of the insurance and pension funds and the development of the capital market. Further ADB assistance is being considered to assess key issues Pakistan is facing in managing pension and savings liabilities and strengthen the public sector institutions involved in pension and savings mobilization.

C. Program Costs

27. ADB supported the Program with a \$250 million loan from its ordinary capital resources. The loan was disbursed in two equal installments. The loan was to finance the cost of structural reforms initiated under the Program, including (i) revenue losses stemming from tax reforms of selected financial instruments, (ii) reduction in investment restrictions and increase in the marginal cost of government debt mobilized annually from the institutional investors as a result of the reforms of interest rate policies, (iii) modernization and automation of stock exchanges, (iv) severance payments for employees laid off from the CLA and Controller of Insurance, (v) establishment of the NCSS, and (vi) expenditures related to transformation of the Company Law Authority into an independent and autonomous body within SEC.

D. Disbursements

28. Loan proceeds were withdrawn in accordance with ADB's standard disbursement procedures and used exclusively to finance the full foreign exchange cost of items produced in and procured from ADB's member countries, other than those specified in the negative list. Goods imported from the United States made up the largest share of imports (17.7%), followed by Malaysia (10.4%), People's Republic of China (10.1%), and Australia (9.3%). Appendix 4 provides the list of contracts awarded to member countries.

E. Program Schedule

29. The Program was approved on 6 November 1997 and became effective on 5 April 1998. The second tranche was released on 22 June 2000. A longer time than originally expected was

⁷ ADB. 1997. *Technical Assistance to Pakistan for Reform of the Pension and Provident Funds*. Manila.

required to overcome some technical issues involving software development of the NCSS and due diligence of NIT and ICP (the two government-owned mutual funds). To complete program implementation, the program closing date was extended twice to 31 October 2001.

F. Implementation Arrangements

30. Overall, implementation arrangements were satisfactory. MOF acted as the Executing Agency for the Program. It coordinated and monitored the Program and administered the utilization of loan proceeds. Support to MOF was provided from the SEC on matters pertaining to reforms of the stock exchanges, leasing industry, and mutual funds and from MOC on matters related to insurance industry reforms. The SEC gave full cooperation to program implementation, though delays were experienced, mainly in resolving complex technical issues. MOC, in some cases, was slow to take the necessary action for implementing policy changes related to the insurance industry, often due to lack of up-to-date skills and knowledge of recent best practices in the international insurance market.

G. Conditions and Covenants

31. The Program comprised a total of 58 policy actions, of which 30 were complied with at the time of the ADB Board's loan approval. Eleven policy actions were specified as conditions for second tranche release and a further 17 policy actions were to be undertaken coinciding with or prior to the second tranche release. There were seven policy actions requiring full compliance at the time of loan closing, of which three were tied to the second tranche release, namely, (i) the restructuring of the mutual fund industry, (ii) development and establishment of the NCSS, and (iii) the enactment of takeover legislation to complement other measures already taken to upgrade corporate legislation. The NCSS has since become fully operational. The privatization process for the mutual funds is likely to be finalized by end-2002. The enactment of the takeover legislation is in the final stage, following intense stakeholder consultation. Of the remaining four policy actions, but not tied to tranche release, one has been substantially complied with, one has been partially complied with, while the remaining two were considered inappropriate and not implementable at this time. Detailed status of compliance is given in Appendix 1.

32. Preparation of regular progress reports as well as the final completion report by MOF was not in line with the stipulated program covenants. However, much of the reporting was done directly by the SEC on aspects under its purview, including very frequent day-to-day interaction with ADB staff. MOF did, though, collaborate with ADB review missions and together with the SEC provided all necessary data, including an updated assessment of compliance with the second tranche release conditions and a final assessment of the Program. Reports by the SEC were generally provided on time, and program implementation benefited from very tight supervision by ADB staff who made frequent visits and maintained policy dialogue throughout implementation.

H. Related Technical Assistance

33. A TA loan (footnote1) was provided to support the development of a new regulatory body; automation of the stock exchanges; and establishment of the centralized clearing and settlement system; and of the depository system. The total cost of TA was estimated at \$7 million equivalent, of which ADB was required to finance \$5 million equivalent. An amount of \$2.5 million equivalent under the TA loan was budgeted for procuring computer hardware and software systems for the NCSS and the OTC market. Capacity building of a newly established

regulatory body was an integral part of the Program. The TA loan originally had four components: (i) institutional strengthening of SEC through assisting in formulation of new rules and regulations, developing prudential norms and monitoring compliance, and designing formats of inspection reports; (ii) development of a self-regulatory framework for the stock exchanges, Mutual Fund Association, and Pakistan Leasing Association; (iii) development of the NCSS through examining the feasibility of integration with CDC, and through designing its platform as well as preparing the regulations, procedures, and operational manuals of the NCSS; and (iv) development of the secondary debt market on the OTC market. A fifth component for privatization of mutual funds was added in January 2000, to provide technical inputs to resolve the intricate legal and financial issues required for privatization of NIT and ICP.

34. Of the four original components, the institutional capacity building of the SEC and support for developing the NCSS provided support critical to program implementation. The regulatory framework, assisted by the regulations expert, gave the SEC a solid basis for formulating comprehensive rules and regulations. The information technology support given for establishing the NCSS was indispensable for its operationalization. On the other hand, actual implementation of the self-regulatory framework, and establishment of OTC market for secondary bond market were assessed to be premature in the respective studies conducted, given the current stage of capital market development in Pakistan. The fifth component supported due diligence for the privatization of NIT and ICP and was valuable in assuring progress (para. 18).

35. Appendix 2 provides the implementation status of the various components and subcomponents under the TA loan.

36. In addition, separate TAs were provided in 1997 and implemented over the program period. These were regarded as generally successful.

I. Consultant Recruitment and Procurement

37. An international firm was contracted to provide consulting services for 131 person-months. Of the \$5 million equivalent, \$1.7 million equivalent was allocated for procurement of hardware and software for the NCSS. The recruitment of the consultants was delayed by approximately 10 months to January 1999 due mainly to the lengthy consultant selection process and protracted contract negotiations because the SEC, acting as the implementing agency, was unfamiliar with ADB procedures. The time-consuming nature of consensus building for designing the NCSS's format and the political instability in the region after 11 September 2001 further delayed TA implementation. Consequently, the TA closing date was extended four times to 30 July 2002.

38. Moreover, the reprioritization of the agenda by the new SEC chairperson since March 2000 affected TA implementation, as adjustments were needed, particularly for inputs from the regulations expert. The mid-course adjustments in the TA Loan was mainly through reallocation of the amount originally allocated for equipment to accommodate consulting services required for conducting studies on mutual funds, securities market regulation, as well as training of SEC staff. This variation was useful in the context of the proposal for privatizing NIT and ICP. It also facilitated the development of the NCSS. The above request by SEC was in line with the original

objective and scope of the Loan. ADB review missions⁸ assisted in prioritization of tasks and closely monitored progress to ascertain the relevance of TA inputs. In the final phase of TA implementation, international consultants provided assistance on developing mutual funds and the insurance sector, taking into full consideration the new SEC chairperson's request to better train SEC staff involved in enforcing regulations.

J. Performance of Consultants, Contractors, and Suppliers

39. The performance of the consultants was satisfactory. Solid efforts were made by the regulations expert to consult both the Executing Agency and the market stakeholders in the formulation of market regulations, while promoting understanding of modern market practices. The platform for the NCSS was created in full consultation with market participants, investors and brokers, and adjustments were made to the system as called for. Effective information systems were installed within the SEC. Overall, the consultants possessed the capacity to provide solid technical advice as well as flexibility to meet the client's needs. The training provided by the experts in the regulations of mutual funds and insurance proved particularly useful for building regulatory capacities of SEC staff.

K. Performance of the Borrower and the Executing Agency

40. MOF was proactive in the process of implementing reforms. It was instrumental in having the SEC Act, 1997 enacted and the SEC's becoming operational from 1 January 1999. It also coordinated with the provincial governments to enact the reduction in stamp duty rates. Meetings were regularly held at MOF for reviewing and monitoring progress of implementation and resolving contentious issues. MOF, despite change of key staff following a change of government, continued to show strong commitment to policy reforms and senior officials were readily available for policy discussions with ADB staff. MOF has generally met loan administration requirements and its performance was satisfactory. However, in more politically sensitive areas of reform involving different government authorities, MOF's role was inevitably limited to that of a mediator.

41. Of the two agencies supporting MOF, the SEC provided quality support. It effectively liaised with the three stock exchanges in executing structural reforms and coordinated effectively with other stakeholders in the capital market for implementing several difficult policy actions. Though there remains sufficient scope for institutional strengthening of the SEC, as its mandate has been enlarged to include regulation of the insurance, pension, and NBFIs sectors, the SEC's commitment to the Program was instrumental in maintaining the momentum of reforms during the 4 years of program implementation. Support given by MOC was in many cases limited, due mainly to staff constraints and MOC's lesser association with the overall Program.

L. Performance of the Asian Development Bank

42. ADB provided regular monitoring of the Program. During the period from September 1998 to June 2001, six review missions were fielded totaling 130 person-days with a focus on Loan 1576-PAK, and three review missions totaling 45 person-days for the TA Loan 1577-PAK. Each visit closely monitored the status of Program implementation, identifying impediments and

⁸ Adjustments to TA loan implementation were discussed during the review missions of 29 April–12 May 1999, 29 June–3 July 2000, 30 January–5 February 2001, and 29 May–2 June 2001.

engaging government counterparts in intensive discussions on measures to resolve them within the given time frame. Through program implementation, ADB established a close working relationship with key program counterparts. ADB's responses to the Government's requests were quick and approvals and disbursements were promptly undertaken. Significant efforts were made to support capacity building of the SEC, an integral component of the Program, by administering the TA loan flexibly. ADB staff played a crucial role in advancing policy dialogue and supported implementation of several reform components. Given the broad and complex agenda of reforms under the Program and ADB resource constraints, additional technical inputs could have further facilitated resolution of sensitive and multifaceted policy issues.

III. EVALUATION OF PERFORMANCE

A. Relevance

43. The Program design, which focused on (i) reducing policy and regulatory constraints facing market participants, (ii) creating an independent and autonomous regulatory body to oversee the capital market, (iii) strengthening market infrastructure, and (iv) strengthening investor protection to raise confidence in the market for providing alternative sources of funding to industries that traditionally relied on financing from banks or development finance institutions, was highly relevant to Pakistan and maintained its relevance throughout the program implementation period. Gaps in the legal, regulatory, tax, and institutional frameworks were correctly identified and policy actions designed to properly address them.

44. The scope of the Program was ambitious. Consequently, it became broad based and in some instances failed to incorporate essential details. The Program required substantial staff resources to make adjustments and fine-tune the policy action during the process of implementation. In some cases, insufficient staff resources impeded timely assistance for program implementation. Moreover, many of the risks identified at the time of program formulation materialized, and overcoming them proved more complex than assumed.

B. Efficacy in Achievement of Purpose

45. The long-term impact of reforms on the overall performance of the capital market still remains to be seen. During the 4 years of program implementation, political and macroeconomic developments were the overriding factors affecting Pakistan's stock market (Appendix 3, Table A3.1). The Program did, however, achieve definite results in important components of the capital market. For example, the modernized infrastructure of the stock exchanges, together with the establishment of the SEC as an autonomous regulatory body replacing the CLA, improved the degree of market efficiency and transparency. Full operationalization of automated trading and the central depository system, as well as implementation of the first phase of the NCSS, are important achievements that are bound to have positive long-term effects. Introduction of a T+3 trading system on a rolling settlement basis has discouraged speculative trading and reduced systemic risk in the market. The NCSS will help in improving efficiency of the market and in integrating the three stock exchanges. With these developments, a number of recommendations of the Group of Thirty countries (a private sector group composed of representatives of leading banking and securities firms concerned with the working of the international financial system) have been successfully implemented.

46. Conversely, the process to improve corporate governance of stock exchanges has only begun. The Program was successful in introducing the concept of an external board of directors

and appointing a nonbroker chief executive. However, the general perception that members of stock exchanges continue to influence management decisions, at times at the cost of investors' interests, still remains. The SEC and the boards of stock exchanges must take concrete actions to enhance the professional standards of market participants, the transparency of stock market transactions, and the legal framework for investor protection.

47. Perhaps the most important policy change put into effect was the lowering of guaranteed rates on the NSSs, bringing them more in line with market interest rates, as NSSs used to channel public savings to finance approximately one third of outstanding government debt. For years, high interest paid on the NSSs, serving as the benchmark for investors' risk-free rate, impeded the growth of the capital market. The decision to realign the NSSs' interest rates with prevailing market rates has leveled the playing field for corporate bond issuers, resulting in a sudden spurt of new TFC issues. Steps to increase transparency in the procedure for setting the NSSs' interest rates and additional disclosure on the actual performance of NSSs will do much to level the playing field for the multitude of competing saving vehicles now on the market. As NSS instruments are retail securities as well as a major source of government funding, their returns need to be aligned with market rates. An efficient wholesale and retail market for government securities would not only minimize the government borrowing costs but also help the development of an effective yield curve for pricing private debt securities.

48. The NBFIs' legal and regulatory frameworks are work in process and dynamic in nature in that they must respond to changing developments. For the leasing sector, while the mandatory increase in the paid-up capital of leasing companies is in effect, many companies still do not meet the requirements. For the insurance sector, the basic legal and regulatory frameworks are in place and the rules that stipulate higher paid-up capital, solvency margins, and market conduct have been notified. The revised regulations on closed-end and open-end mutual funds that require strict disclosure and reporting standards has so far failed to yield positive results on the performance of private sector funds. Moreover, the two public sector mutual funds—ICP and NIT—are still in the process of being transferred to the private sector or being liquidated. The current status of the privatization process has been mentioned under paras. 18 and 19.

C. Preliminary Assessment of Sustainability

49. A preliminary assessment rates the sustainability of institutions and of capital market infrastructures created under the Program as good. The SEC has been empowered as an independent regulatory body for the capital markets with funding sources independent of government budgetary support. Further capacity building is required for the SEC to become a truly effective regulatory body as its mandate has been enlarged to include regulation of the insurance, pension, and NBFIs sectors. Furthermore, on the basis of ongoing operations, the automated stock exchanges, central depository system, and clearing and settlement systems are all assessed to be sustainable. Much of the legal framework developed under the Program, while still to be tested, is properly in place. Continuous dialogue between the Government, SEC, and other stakeholders, and capacity-building support for SEC will be essential for ensuring proper implementation of the legal reforms. The Program initiated the process of building a foundation for a sound and efficient capital market and will require continued support to achieve the long-term objectives of mobilizing long-term resources and improving their allocative efficiency.

D. Environmental, Sociocultural, and Other Impacts

50. The Program was categorized as Environmental Category B. The Program had no direct environmental impact. Indirect environmental and sociocultural impacts through economic growth and poverty reduction are positive.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

51. The Program brought an important package of reforms to Pakistan, and initiated the process of developing a sound and efficient capital market. It was broad based and touched on all integral components of the capital market. The Program was successfully implemented and produced some concrete results. At the time of the program closing date of 31 October 2001, of the 58 policy actions under the Program, the Government achieved full compliance with 51, substantial compliance with two, partial compliance with three, while two of the policy actions were considered inappropriate and not implementable. MOF's commitment to reform overcame numerous political disruptions, and a process for building a market system to provide risk and term financing to the economy has been set in motion. The Program also raised awareness in the Government and among capital market stakeholders, including market participants, of critical issues of governance, transparency, efficiency, and best market practices. The overall rating of the Program is successful.

52. Although many of the basic concepts and frameworks have been put in place, meticulous work will be needed for the capital market to develop and function effectively as a medium for channeling risk and term funds efficiently to the economy. Implementation of the concepts and frameworks is difficult given the current capacity of the regulator and market participants. For example, enforcement of market discipline, vital for winning investors' confidence, is still limited. Insider trading and front-running remain common practices in the stock exchanges. Enforcing market regulations will require substantial capacity building for staff of the regulatory bodies, as will upgrading the surveillance systems. Continued support is essential for implementing the concepts and frameworks developed under the Program at the practical level.

B. Lessons Learned

53. Although political disruptions delayed the progress of program implementation in difficult macroeconomic circumstances, strong commitment of MOF as the Executing Agency and solid support from the SEC as the implementing agency prevented the Program from derailing and enabled its successful completion. The need for strong ownership of the Program by the executing and implementing agencies was confirmed, as many problems not foreseen at the time of program formulation were resolved through a concerted effort of the officials concerned. Such ownership was a result of ADB's extensive and in-depth discussions with government officials on the program design at the time of its formulation, and similar efforts should be made mandatory in processing future assistance, particularly in view of the economic and political instability in the subregion.

54. Despite considerable interaction and cooperation with the Government, executing the Program proved to be more complex than originally envisaged. For example, the intricate design of publicly owned mutual funds, involving unusual legal obligations and many politically

influential stakeholders, was not fully understood at the time of program formulation. Restructuring and privatizing the funds required political consensus lacking at the time of program inception as well as substantial resources to undertake due diligence. While events unforeseen at the time of program appraisal are inevitable, more efforts may be needed in ascertaining potential areas of technical difficulties and incorporating measures to resolve them. Such efforts at the initial phase of a program's formulation will increase the likelihood of timely program execution.

55. The implementation of the Program revealed the deeply entrenched problem of poor corporate governance and lack of transparency in business practices and market transactions. Many of the frameworks put in place by the Program will be meaningless at the operational level unless the participants adopt higher corporate governance standards. There is an immediate need to strategically address the governance issue that seriously restricts development of the capital market and the economy at large. Basic rules and regulations on market transactions, transparency on trade reporting, and timely and accurate disclosure of financial information by the issuers are some of the fundamental factors still missing in the capital market.

C. Recommendations

1. Program-Related

56. **Further Actions on Program Areas.** The number and types of participants active in the capital market remain limited. There is a need to attract more high-quality participants to the market, both as issuers and investors. Upgrading capital market infrastructure, which includes enforcement of market rules and regulations, adoption of higher disclosure standards of financial information based on international accounting standards, and improved transparency in market transactions, are some of the requisite conditions for the capital market to assume a greater role in financial intermediation. While the Program has initiated the process toward a more modernized system, particularly through the operationalization of the central depository system and clearing and settlement systems, much work remains at the operational level.

57. Progress, led by the SEC and other stakeholders, is ongoing and should be monitored closely. The SEC has taken the initiative to consult market participants to strive for higher market efficiency and transparency. For example, minimum capital level for brokers has been established, qualifications of accounting and auditing firms are being assessed. Continued dialogue with the Government, the regulatory bodies, and market participants will ensure that frameworks adopted under the Program are translated to operational use in line with best international practices. A substantial amount of capacity building for the regulatory bodies and frequent private sector consultation are critical.

58. **Additional Assistance.** The Government has indicated its strong desire to have ADB's continued support in capital market development. To address some of the key impediments at the governance level, including corporate governance, an advisory TA⁹ is being implemented. There remains, however, a large agenda of structural reforms in the capital market, which essentially requires broadening the market to a larger number of participants while deepening market operations and simultaneously enforcing higher standards of market conduct.

⁹ ADB. 2001. *Technical Assistance to Pakistan for Capacity Building for Capital Market Development and Corporate Governance*. Manila.

59. The Government, in recognition of the achievements and the need to continue with reforms in the capital market, has requested a follow-up program from ADB to further support the capital market, and a nonbank financial sector development program loan. Based on (i) the Government's commitment to reforms in the sector, (ii) ADB's comparative advantage in the sector with its accumulated knowledge and expertise, and (iii) the importance of the capital market in providing long-term sources of funds to industries now substantially lacking for economic growth in Pakistan, there is a strong rationale for ADB to provide continued support in the sector using the program loan modality.

60. **Timing of Program Performance Audit Report Preparation.** To assess the actual impact of the Program on the overall performance of the capital market and independently on its components, it is proposed that a program performance audit report be prepared in 3 years. However, the Program should be viewed in the context of a long-term process and its impact should be assessed within the framework of such a process, rather than against targeted performance standards.

2. General

61. **Assessment of Implementation Process.** In the implementation stage, the capability of market operators and regulators will be critical in keeping reforms moving. Market operators should have market discipline and a good understanding of market operations and the virtues of regulation. Market supervisors should have the capability to evaluate the operation of market players, to set up appropriate rules, and ensure that market participants operate in a prudential manner. Therefore, it is of particular importance to ensure that capacity building and human resources development keep pace with policy reforms.

62. Since the development of the financial/capital markets relies on judgment and actions of various government agencies, the Program can yield better results if there is clear and close coordination among the government agencies involved. The interagency working group should collaborate on a long-term basis to ensure the sustainability and continuity of the development of the Program.

63. **Need to Include the Private Sector.** It is also desirable to involve the private sector in any reform programs for the capital markets and have upfront consultation with them, as they are normally the major beneficiaries under such reforms. This would have the potential benefit of creating leverage for the proposed policy actions under the Program as well as promoting ADB's presence in the sector.

IMPLEMENTATION STATUS OF VARIOUS COMPONENTS UNDER LOAN 1576

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
A. Create an Enabling Policy Environment to Enhance Competition and a Level Playing Field				
Liberalize investment restrictions on institutional investors.	Lower the mandatory investment requirements for life insurance companies in Government and government-approved securities from 60% to 50% of their investible funds. June 1997.	Reduce this investment restriction further by 10%. June 1998.	Implemented.	According to the new Insurance Ordinance promulgated on 19 August 2000, the minimum requirement of investment of investible funds of life insurance companies in government securities is 40%. Subsection 7 of section 35 of the new Insurance Ordinance empowers the Federal Government to prescribe a percentage of the shareholders funds, or of a statutory fund of a life insurer, which shall be invested in government securities or in a combination of government securities and other approved securities ; subsection 8 provides that such mandatory limits would not exceed 40%. Immediately prior to the promulgation of the Ordinance, the minimum requirement was 50% while in 1997, the requirement was 60%.
	Raise the investment cap for provident funds in stocks and listed corporate fixed-income securities from 10% to 20% of their investible funds; and within this cap, raise the limit on investment in listed corporate fixed-income securities from 1% to 5%. June 1997.	Raise this investment cap further to 30%. June 1999.	Implemented.	Employees' Provident Fund (Investment in Listed Securities) Rules, 1996, which provided for 10% investment of provident funds in listed securities were amended in 1997 raising the maximum limit to 20%. In November 1998, the limit was raised to 30%. In 1997, the cap on maximum investment of 1% in the listed securities (both equity and fixed income) of a company was also removed.
	Allow listed corporate fixed-income securities to be treated as eligible investments for the purpose of meeting the statutory liquidity requirement for nonbank financial institutions (NBFIs) and for investment requirements of provident funds. June 1997.			State Bank of Pakistan's (SBP) Rules of Business for NBFIs allow treatment of listed debt securities (corporate fixed-income securities) as eligible for purposes of meeting statutory liquidity requirements of NBFIs. Provident funds can also be invested in listed corporate fixed-income securities.

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Rationalize tax anomalies for the equity market.	Implement the following key tax reforms: (i) extend tax exemption on capital gains on listed securities on the stock exchange at least until 2001; (ii) abolish the tax levied on bonus shares and earnings from the sale of rights shares, as well as the 0.5% turnover tax on shares; and (iii) for the provinces, reduce the stamp duty on the transfer of securities for the Central Depository Company of Pakistan Ltd. (CDC) transactions from 1.5% to 0.1%. June 1997.	The Government will study the stamp duty structure of the federal area and the provinces, and recommend rationalization of the tax rates on financial transactions and asset-backed securities. June 1999.	Implemented.	<p>(i) After extending exemption on capital gains on listed securities until 2001, in 1997, the Government has announced further extension in exemption till 2004.</p> <p>(ii) Tax on bonus shares and turnover tax on shares was abolished through the Finance Act, 1997.</p> <p>(iii) Stamp duty being a provincial subject, all provincial governments were advised to reduce the stamp duty on the transfer of securities for the CDC transactions from 1.5% to 0.1%. The governments of Sindh, Punjab, and North-West Frontier provinces as well as the Federal Area Administration notified a reduction in stamp duty. The exception is the province of Balochistan where only a few companies are incorporated.</p> <p>Policy action regarding stamp duty structure partially implemented. No formal study of stamp duty structure was undertaken. However, the Federal Government has been advising the provincial governments to make necessary changes in the stamp duty rates in response to the market requirements, particularly for promoting new financial instruments as in the case of issuance and trading of term finance certificates. As regards rationalization of tax rates on asset-backed securities, significant tax concessions have been announced through the Finance Ordinance, 2001, which includes allowing payment to special-purpose vehicles on behalf of the originator to be tax deductible. Payment on account of securitization of receivables by special-purpose vehicle has been exempted from withholding tax.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
<p>Rationalize tax and interest rate structure anomalies for the debt market.</p>	<p>Abolish the (i) 10% withholding tax on rated and listed corporate fixed-income securities to bring them to par with the national savings scheme (NSS), which is currently exempt from this tax; and (ii) tax on interest income derived from Government and corporate fixed-income securities for foreign investors. September 1997.</p>	<p>The Government will adopt a suitable mechanism for adjustment of interest rates for NSS, to realign returns to an appropriate benchmark, while maintaining uniform tax treatment for NSS and rated and listed private corporate debt securities. June 1998.</p>	<p>Implemented.</p>	<p>Major policy changes have been introduced in the NSS involving rationalization of the tax structure. Interest on different national savings schemes has been significantly reduced. Since 1999, interest has been reduced three times : on 10-year Defence Saving Certificates from 18% in May 1999 to 16% in December 1999, to 15% in January 2000, to 14% in July 2000, and to 11.6% in June 2002. The Government has decided to review the rate of return every 6 months and keep these in line with the interest on the Pakistan Investment Bond (PIB), which is closely market related. Various national savings schemes have been linked to PIB of equivalent maturities. While Defence Savings Certificates have been linked to 10-year PIB maturity, the Regular Income Scheme has been linked to PIB of 5-year maturity and Special Savings Certificates/Accounts have been linked to PIB of 3-year maturity. Rationalization of the rates of the NSS has greatly contributed to developing the corporate debt market.</p> <p>Withholding tax of 10% on all the NSS was imposed in 1999 but it had to be withdrawn because of certain legal complications that were brought to the notice of the High Court. The main issue was that the Government had levied withholding tax on profit paid instead of profit accrued, which implied that the tax became leviable with retrospective effect. The Government has reimposed withholding tax of 10% on all investments made since 1 July 2001. However, to address the concerns of small investors, investments of up to PRs150,000 have been exempted from withholding tax. The Government has also prescribed varying rates of penalty on premature withdrawals of investments in the Regular Income Scheme.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Rationalize the tax regime for mutual funds.	To adopt uniform tax treatment for public and private sector mutual funds, abolish the income tax for mutual funds provided they distribute at least 90% of their profits. June 1997.		Implemented.	In March 2000, the Government debarred institutional investors from investment in the NSS, which has substantially benefited the corporate debt market. The Government announced exemption on income of private sector mutual funds from tax through the Finance Act of 1997. However, certain anomalies in government policy between public sector mutual funds and private sector mutual funds still remain. For instance, <i>zakat</i> (religious levy) is leviable on private sector mutual funds while public sector mutual funds are exempt. Private sector mutual funds are also at a disadvantage compared to the National Investment Trust Limited (NIT) in certain aspects. Provident funds and surplus funds of charitable institutions can be invested in NIT but not in private sector mutual funds due to limitations imposed by income tax rules. Also, unlike the units of NIT, certificates and units of private sector mutual funds are not eligible for statutory reserve requirements of commercial banks.
B. Strengthen Securities Market Governance, Institutions, Regulation, and Supervision				
Develop strong regulatory bodies for the securities market to support the orderly growth of companies and improve investor confidence.	The Corporate Law Authority (CLA) will announce a strategy and an action plan for reforms of the securities market with a focus on strengthening corporate governance and regulations, and reforming market infrastructure, including modernization of stock exchanges through the adoption of automated trading, clearing, settlement, and depository systems. October 1997.		Implemented.	The Chairperson of the CLA propagated the major components of the Capital Market Reform Program at different forums, particularly seminars organized by various professional bodies and the stock exchanges. These events were also adequately covered by the press. Some of the forums at which the reform program of the capital market was presented by Chairperson, CLA/Securities and Exchange Commission of Pakistan (SEC) are: <ul style="list-style-type: none"> • Members of the Karachi Stock Exchange (KSE) and representatives of business and industry at Karachi. The finance minister was also present (18 August 1997). • Seminar organized by the Management Association of Pakistan in Karachi (26 August 1997).

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
<p>Modernize the supportive legislation to improve enforcement by the SEC.</p>	<p>Prepare and seek cabinet approval for the creation of an autonomous and independent SEC to regulate company affairs and the securities market, and submit to ADB an organization plan for the new SEC. October 1997.</p>	<p>Establish and operationalize the SEC on the basis of a corporate plan agreed to by ADB and grant it adequate management, administrative, and financial autonomy, including discretion over its budget and staff recruitment. Also, strengthen the SEC to enforce regulations; develop exchanges, brokers, and mutual funds; and provide an annual report on its regulatory functions. December 1998.</p>	<p>Implemented.</p>	<ul style="list-style-type: none"> • KSE on the occasion of the inauguration of the Karachi Automated Trading System (27 October 1997). • General Assembly of Federation of Euro-Asian Stock Exchanges held at Lahore (29 October 1999). • Members of KSE (13 December 1997). • Pakistan Development Forum attended by senior officials of multilateral institutions, including the Asian Development Bank (ADB). The reform program was also covered on television. <p>The SEC Act 1997 was promulgated on 26 December 1997. The draft Act was prepared after intensive discussions between the CLA and ADB. The main provisions of the Act relate to the legal status of the SEC, its structure, its powers, its functions, and financial arrangements. It also requires the SEC to prepare annual reports to be submitted to Parliament within a specified period. An important feature of the Act is provision for establishment of a policy board consisting of five ex-officio members and four members from the private sector. The board which is required to meet at least four times a year advises the Commission on various policy matters. The SEC has been empowered to administer the Securities and Exchange Ordinance, 1969, Modaraba Companies (Floatation and Control) Ordinance, 1980 and Companies Ordinance, 1984. In August 1999, regulation of the insurance sector was also transferred to the SEC and the SEC Act was amended on 11 October 2000.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
	<p>The Cabinet will approve key recommendations of the Corporate Laws Review Commission pertaining to the securities and corporate laws which, among others, empower the SEC to suspend brokers, impose penalties for certain defaulters, and register registrars, balloters, and underwriters/subunderwriters. October 1997.</p>	<p>In line with the recommendations of the Corporate Laws Review Commission and ADB-financed TA, the SEC will review and introduce regulations for disclosure by listed companies, insider trading, carry forward system, corporate registrar services,</p>	<p>Substantially implemented. (only enactment of take over law is pending though approved by the Federal Cabinet).</p>	<p>The SEC has been vested with full administrative and financial powers and has control over revenues generated through levying of different fees. Staffing is based on the corporate plan and job description prepared with the assistance of the consultants engaged under technical assistance (TA) 1577-PAK. The Act empowers the SEC to undertake regulatory functions in respect of all issues relating to the capital market. The Act was amended in 2000 to provide for the SEC's regulatory jurisdiction over the insurance sector. The SEC has full regulatory powers to ensure the smooth functioning of stock exchanges and market intermediaries.</p> <p>The SEC has four commissioners and a chairperson. After obtaining financial autonomy, the SEC has engaged 67 professionals out of whom 58 have a background in business administration and accounting and eight have a legal background. The SEC prepared the first annual report for the year 2000 and the second is being printed.</p> <p>The SEC has issued a number of capital market-related rules/regulations/guidelines. Some of these are: (i) Members' Agents and Traders (Eligibility Standards) Rules 2001; (ii) Stock Exchange Members (Inspection of Books and Record) Rules, 2001; (iii) Public Companies (Employees Stock Option Scheme) Rules, 2001; (iv) Insider Trading Guidelines, 2001; (v) Amendments in Securities and Exchange Rules (Net Capital Balance Requirement); (vi) Share Transfer Agents, Underwriters, Balloters and Consultants to the Issue Rules, 2001; (vii) The Companies Share Capital (Variation in Rights and Privileges) Rules, 2000; and (viii) Brokers Agents Registration Rules, 2000.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
		<p>protection of minority shareholders', rights, intercorporate financing, investment companies, portfolio managers, public issues and offerings, underwriters, and corporate takeovers and mergers. June 1999.</p>		<p>The SEC has recently proposed 92 amendments to the Companies Ordinance, 1984, which have been circulated for eliciting public opinion. Proposals for amendments to the Companies Ordinance seek to improve corporate governance and safeguard the interests of investors , and to develop the corporate sector. The proposals are based on the recommendations of a committee that formulated its views in consultation with professional and trade bodies, chamber of commerce, stock exchanges, associations of investors , and individual experts. The proposals seek to amend the Companies Ordinance with the following objectives :</p> <ul style="list-style-type: none"> • To reduce the mandatory period for holding annual general meetings to 4 months from the close of accounts. At present, the law allows 6 months. • To remove the existing restrictions on investment in associated companies. • To introduce the concept of a single member company. • To increase the required quorum of a general meeting of a listed company from three members to 10 members representing not less than 25% of total voting power either of their own account or proxies. • To make it mandatory for listed companies to prepare accounts of subsidiaries and consolidation of accounts in accordance with International Accounting Standard 27. <p>The SEC has sought public opinion and discussed these proposals with professionals from the legal, accounting, and business disciplines.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
<p>Improve the corporate governance of the stock exchanges and reorganize them to improve their management and operational efficiency.</p>	<p>Each stock exchange will (i) restructure and expand their governing boards by appointing a significant proportion of outside directors who are professional and nonbrokers (on the basis of qualification and criteria agreed with the SEC) and nominees appointed by the Policy Board of the SEC; and (ii) appoint a full-time professional and nonbroker chief executive officer on the basis of qualification and criteria agreed with the SEC. October 1997.</p>	<p>Stock exchanges will upgrade their administration and staff appropriately to, among others, improve regulation, monitoring, and research and development. In addition, the stock exchanges will adopt new (i) trade reporting rules, including penalties for insider trading, noncompliance, and off-market deals; (ii) inspection rules; (iii) licensing standards for traders and agents; (iv) listing requirements and guidelines; and (v) model contractual agreements for various</p>	<p>Implemented.</p>	<p>In addition to the above proposals, the SEC has made disclosure of quarterly accounts mandatory for listed companies. At present, listed companies are required to file annual audited accounts and unaudited 6 monthly accounts.</p> <p>Governance of stock exchanges has been improved by the induction of 40% outside directors on the board and appointment of full-time professional and nonbroker chief executives at KSE and Lahore Stock Exchange (LSE). The recent changes in the articles of association of KSE seek to achieve independence of the chief executive by requiring the stock exchange to obtain prior approval of the SEC for his or her appointment and removal. Directors are also required to delegate their powers to the exchange company's managing director to ensure separation of the management of stock exchanges from the members, and strengthening of the office of the nonmember chief executive.</p> <p>KSE and LSE have taken steps to review management structures.</p> <p>The KSE board of directors approved a corporate plan in February 1999 that seeks to strengthen the secretariat of the exchange under the managing director. The plan envisages establishment of separate departments for market control and surveillance, clearing and settlement, information technology, internal audit, and company affairs, which is also responsible for listing and research. The corporate plan has been substantially implemented. A full-time nonmember managing director has been engaged.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
	<p>The SEC is to take steps to encourage widening of corporate membership by the corporatization of sole proprietors or partnerships holding membership of stock exchanges. September 1997.</p> <p>Each stock exchange will establish a member protection fund, and strengthen the default and disciplinary procedures and their enforcement. September 1997.</p>	<p>transactions. June 1999</p> <p>The Government will grant a one-time tax exemption on capital gains leviable on a sole proprietor or a partnership holding a stock exchange membership on the transfer of such membership to a corporate entity. June 1998.</p> <p>The SEC and stock exchanges will establish an investor protection fund. June 1999.</p>	<p>Implemented.</p> <p>Implemented.</p>	<p>Since July 2001, LSE has initiated steps to restructure its management based on a new organizational plan. The plan provides for delegating more powers to strengthen the independence of the managing director in the administration of the stock exchange. The new organizational plan is under implementation. A chief operating officer has been appointed and directly reports to the managing director.</p> <p>Islamabad Stock Exchange is yet to review its administrative structure. The post of chief executive has been advertised but has not been filled so far.</p> <p>The SEC and the Government have taken policy measures to promote corporatization of individual members of stock exchanges. The Government has granted tax exemption on capital gains leviable on individual members on transfer of such membership to a corporate entity. Tax exemption was allowed for the period from 1 July 1998 to 30 July 1999 and from 1 July 2000 to 30 July 2001. As a result, 92 of 200 members (133 are actually active) of KSE have become corporate entities and 134 members have registered with the SEC, while in LSE, 37 of 151 members have become corporate entities and 73 members have registered with the SEC. Islamabad Stock Exchange has 33 corporate members from a total 102 members while 33 members are registered with the SEC.</p> <p>Each stock exchange has established investor protection and clearing house protection (member protection) schemes, although not funded. SEC has directed that both funds become fully funded by 30 June 2007.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Improved self-regulation of stock exchanges.	The SEC legislation will include provisions for the promotion of self-regulation of the securities industry while entrusting SEC with powers to penalize self-regulatory organizations (SROs), including revocation of licenses for noncompliance with defined criteria and standards. October 1997.	The SEC will define minimum criteria and standards for conferring the status of an SRO on a stock exchange and support stock exchanges to develop their self-regulatory capabilities. June 1999.	Implemented.	<p>The requirements have been phased whereby the exchanges will be, at the minimum, be 50% funded immediately, would increase to 75% by 2003, and move towards 100% from 2004 onwards. So that both funds are fully funded by 2007.</p> <p>Though the SEC Act, 1997 does not specifically provide for promotion of self-regulation of the securities industry, stock exchanges are working toward self-regulatory organizations. The provisions of the Securities and Exchange Ordinance empower the stock exchanges to prescribe rules for regulation of the market. The stock exchanges have established a system of surveillance and are authorized to inspect brokers. The SEC treats the stock exchanges as front-line regulators while the SEC itself remains an off-site regulator.</p>
Encourage other selected capital market participants toward self-regulation.	The Mutual Fund Association and the Pakistan Leasing Association will take steps to develop their capabilities for overseeing industry compliance with prescribed prudential standards and perform on-site supervision. September.	Develop these associations as SROs in accordance with norms set by the SEC to qualify for an SRO license. June 1999.	Not implemented.	The Mutual Fund Association and Leasing Association of Pakistan have been unable to develop as SROs. These associations remain loosely organized and are mainly working as representative bodies of the respective industries. These need to be properly organized with their secretariat and qualified staff to be able to perform functions of an SRO. The Mutual Fund Association has recently obtained a license as a trade organization from the Ministry of Commerce, which makes it a quasi-legal entity. Standard and norms for SRO status have not been announced by the SEC. Consultants engaged under TA 1577-PAK have not recommended granting SRO status to the Leasing Association of Pakistan, though made a positive recommendation for the Mutual Fund Association.

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
C. Improve and Modernize the Securities Market Infrastructure and Its Integration				
Upgrade automated trading systems to pave the way for the eventual integration of the national market.	The stock exchanges will adopt new and compatible computerized screen-based trading systems for selected scrips. September 1997.	Stock exchanges, with the support of the SEC, will fully operationalize harmonized and automated trading for all scrips and completely phase out the open outcry method of securities trading. June 1999.	Implemented.	Automated trading started in Karachi for certain scrips in September 1997 and the system was extended to all scrips by May 1998, phasing out the open outcry system completely. Automated trading was introduced in LSE in August 1997 while Islamabad Stock Exchange has had automated trading since it began operations in August 1992.
Promote development of CDC.	The Government will adopt legislation and regulations for CDC, including the features of delivery versus payment system with provisions for cash deposit account/exposure cap to ensure fulfillment of obligations arising out of transactions and initiate operationalization of CDC. September 1997.	Fully operationalize CDC to introduce efficient delivery, settlement, and transfer of securities through a computerized book entry system. June 1999.	Implemented.	The Central Depository Act, 1997 was promulgated on 7 June 1997 and regulations under the Act were issued on 25 June 1997. CDC became operational on 3 December 1997 starting with only one scrip. However, all listed securities were declared to be eligible securities for induction into CDC by 23 June 1998. At present, CDC's main elements are: 373 account holders, 372 issuers, and 55 eligible pledgees. CDC started operations with custody services. It is now offering Delivery vs. Payment services, which are covered by the CDC Act and Rules. It also provides trustee services to an open and mutual fund.
Promote development of a National Clearing and Settlement Systems (NCSS).	Stock exchanges and CDC will develop a proposal and agree on setting up of the NCSS, and cost sharing of the development cost of its network. September 1997.	Develop and establish an appropriate NCSS and its supportive legislation and regulations to move toward	Partially implemented.	The NCSS has been developed with the assistance of the consultants engaged under TA 1577-PAK. The National Clearing Company of Pakistan has been incorporated (July 2001) with paid-up capital of PRs35 million contributed by the three stock exchanges. International Finance Corporation, Washington, is also considering an equity

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
		compliance with the Group of Thirty recommendations relating to securities and settlement. June 1999.	(Fully implemented in December 2001 as the NCSS became fully operational from December 2001.)	<p>participation for the company. The project is being implemented in phases and the balance order settlement system started functioning on 24 December 2001.</p> <p>With these developments, six out of nine recommendations of the Group of Thirty were implemented. Recommendations implemented relate to trade comparison on T+1, full operationalization of central depository, netting system, delivery versus payment system, T+3 rolling settlement system, and use of International Organization of Securities Commission standards 7775 and 6166. Recommendations that have not been implemented relate to trade comparison for indirect participants, same-day funds convention, and securities lending through the NCSS.</p>
D. Develop the Corporate Debt Market				
Promote development of an OTC debt market.	Market participants, including stock exchanges, corporate brokerage houses and investment companies will set up a working group for setting up an OTC market to develop an orderly, central, and electronic screen-based secondary trading in fixed-income securities. September 1997.	Market participants will develop and establish an OTC market. June 1999.	Not implemented.	<p>Market participants, with whom the Corporate Law Authority and consultants discussed, did not respond positively to the proposal. Consultants under TA Loan 1577-PAK in their study on the subject concluded that current trading volumes in term finance certificates (TFCs) do not justify establishment of a mechanism to trade only corporate debt instruments.</p> <p>Establishment of an OTC market both for government securities and corporate debt securities involve regulatory issues as government securities are regulated by the SBP while corporate debt securities are regulated by the SEC.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
		The SEC will introduce prudential guidelines for the use of repurchase agreements in private debt securities. June 1999.	Implemented.	The prudential guidelines for the use of repurchase agreements in private debt securities have been issued by SBP.
E Reform the Mutual Fund Industry				
Strengthen the regulatory framework for the mutual funds industry.	SEC legislation will provide for the regulation of all mutual funds , including the public sector mutual funds. September 1997.	The SEC will strengthen the regulatory framework and develop capabilities for monitoring and inspection of all mutual funds. June 1999.	Implemented.	<p>The Securities and Exchange Commission of Pakistan Act, 1997 provides that the SEC is responsible for regulating the working of collective investment schemes , including unit trust (mutual fund) schemes (section 20(2)). As such, all mutual funds , whether in the private or public sector, are to be regulated by the SEC. NIT, which has operated as the management company of NIT, an open-end fund in the public sector since 1962, was registered with the SEC on 30 June 2000 under the Asset Management Companies Rules although NIT is yet to submit its scheme to the SEC for authorization. The Investment Corporation of Pakistan (ICP), the public sector management company for 26 closed-end mutual funds since 1966, is yet to be registered with the SEC.</p> <p>The SEC has established a Specialized Companies Division that regulates mutual funds. Steps taken to develop regulatory capability include induction of qualified staff and their training and devising a monitoring system. Three officers of the division are engaged exclusively for regulation of mutual funds. These officers are supervised by a director and an executive director.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Strengthen the policy framework for the mutual funds industry.	The SEC will amend the Investment Advisors Rules, 1971, pertaining to the close-end funds with emphasis on (i) enhancing the minimum paid-up capital requirement from PRs20 million to PRs100 million, and introducing higher professional standards for appointment of fund managers; (ii) liberalizing investment requirements for mutual funds so that they can invest in unlisted and fixed-income securities to facilitate diversification of their portfolio; and (iii) disclosure requirements to provide adequate information to unit holders. September 1997.	<p>The SEC will further review and introduce improvements in the Investment Advisors Rules, 1971 and in the Asset Management Companies Rules, 1995, with the objective of updating the industry standards. June 1999.</p> <p>The SEC will introduce a policy and regulatory framework for the money market and fixed-income securities mutual funds. June 1999.</p>	<p>Implemented.</p> <p>Implemented.</p>	<p>A consultant with information technology specialization engaged under TA 1577-PAK has devised software for monitoring specialized companies. Another consultant under this TA has, in addition to carrying out a study of Mutual Funds in Pakistan, trained SEC staff who deal with mutual funds.</p> <p>The Investment Companies and Investment Advisor's Rules were amended in January 1999, some of which:</p> <ul style="list-style-type: none"> • Raised the minimum paid-up capital requirement of investment companies (closed-end mutual funds) from PRs20 million to PRs100 million; • Prescribed minimum paid-up capital of investment advisors as PRs20 million; • Permitted mutual funds to invest in unlisted securities (10%) and fixed-income securities (20%); • Enabled investment advisors to manage more than one mutual fund. <p>In 2001, a further set of amendments was notified to allow flotation of sector specific funds and make it mandatory for mutual funds to report net asset value to the stock exchanges and the SEC.</p> <p>The Asset Management Companies Rules, 1995 have been amended to provide for establishment of sector-specific funds. As such, money market and fixed-income securities funds can now be established. The SEC has already given approval, in principle, a fixed-income securities fund and has registered its asset management company. The scheme, including the Trust Deed, is being processed by the SEC.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Restructure the mutual fund industry.	The Government will (i) issue directives to the NIT to withdraw the minimum guarantee price for NIT units as soon as the net asset value of NIT units is above this level; (ii) initiate setting the NIT liabilities associated with the minimum guarantee price; (iii) allow NIT to trade stocks of strategic state-owned enterprises; (iv) issue directives to the Investment Corporation of Pakistan (ICP) to segregate the loan portfolio from its fund operations; (v) assess the level of staff rationalization required for the two asset management companies; and (vi) agree on the launching of the ADB-financed TA for Restructuring of Public Sector Mutual Funds. October 1997.	The Government will subcontract the management or transfer the majority of the Government's shareholding and management of the asset management companies of NIT and ICP to experienced fund managers. Prior to this, the Government will fully settle the NIT liabilities related to the minimum guarantee price, transfer the loan portfolio of ICP to a suitable entity, and provide voluntary retirement payment to excess work force. December 1998.	Partially implemented.	<p>Although the Government has taken certain measures to prepare for the privatization of NIT, it is difficult to determine a definite time frame for its privatization.</p> <p>The funds when transferred to the private sector will no longer have the implicit guarantee of the Government. However, the Government had to issue a fresh letter of comfort to major investor institutions as these found it difficult to make heavy provisions in the absence of such a letter. A positive development has been the decision of the Government to allow some flexibility to NIT to trade stocks of state-owned enterprises. NIT has been allowed to sell shares of state-owned enterprises in cases where the Government's holding, directly or indirectly, exceeds 51%.</p> <p>Some preliminary steps have also been taken toward privatization of the management of NIT. Expressions of interest were invited through the press in July 2001 for disinvestment of 58% of shares held directly or indirectly by the Government.</p> <p>Eleven parties expressed an interest. A committee was constituted for preparing a statement of qualifications and recommending criteria for prequalification. A statement of qualifications was sent to the 11 parties but only four responded. The four parties are being appraised for prequalification. Besides issues on the Government's letter of comfort, a number of other problems complicate the process of privatization. While 50% of the portfolio is invested in state-owned enterprises, the remaining portfolio is mostly illiquid. There are concerns about volatile redemption pressure from those institutional investors holding substantial amount of units. Some legal issues such as the position of NIT's trust deed vis-à-vis Asset</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
				<p>Management Companies Rules also need to be resolved.</p> <p>The PC has invited a fresh submission of expressions of interest for NIT along with statements of qualification, and prequalified five bidders for carrying out due diligence from 1 September 2002.</p> <p>As regards ICP, the Federal Cabinet decided in a meeting held on 13 June 2001 to privatize funds of ICP and subsequently wind up the institution. Consequently, the PC has engaged consultants for valuation of assets and identification of legal and financial issues involved in implementation of the cabinet decision. As for ICP, it has been decided to sell its mutual funds business in three lots rather than a single lot to increase competition. The Privatization Commission (PC) invited expression of interest in March 2002 for sale and transfer of management rights of lot A of ICP mutual funds (comprising 12 of the 26 ICP funds). The Commission approved in July 2002 the prequalification of nine parties (out of 16) that had submitted an expression of interest. The Cabinet Committee on Privatization in August 2002 gave the final clearance for the PC to conduct the bidding process and the sale of lot A was finally closed on 11 October 2002 for a price of PRs175 million. Further, in September 2002, the PC issued an invitation for submission of expressions of interests and statements of qualification for the bidding of ICP lot B and the bidding was conducted, similar to lot A, on 24 October 2002 and the sale of lot B has been approved by the Cabinet Committee on Privatization for a price of PRs302.5 million.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
				Earlier, ICP had offered voluntary retirement to its staff and 365 people have taken up the offer. Segregation of loan portfolio from fund operations has been complicated by the fact that ICP has borrowed more than PRs300 million from the fund.
F. Develop the Leasing Industry				
Streamline the regulatory framework.	Transfer the regulatory and supervisory authority over the leasing industry from the SBP to the CLA. February 1997.	Strengthen the capability of the SEC to regulate and monitor industry compliance with new capital requirements and prudential norms. June 1999.	Implemented.	Regulatory and supervisory authority over leasing companies was transferred from the SBP to the CLA through amendment to the Banking Companies Ordinance in 1997. The SEC has established a Specialized Companies Division that regulates NBFIs, including leasing companies. Steps taken to upgrade the regulatory capability of the division include recruitment of qualified staff and development of a monitoring system. The regulatory framework for leasing companies was reviewed in consultation with the leasing industry and a new set of Rules was notified on 25 September 2000. These Rules also provide prudential norms to be followed by leasing companies such as limits on exposure, margin against facilities, and provisioning for nonperforming assets. To ensure compliance, reporting requirements on a periodical basis were prescribed. Out of nine statements required, one is on a monthly basis, three are on a quarterly basis, four are semiannual, and three are annual.

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Strengthen the capital base to encourage orderly growth of the industry.	The CLA will raise capital base requirements of the leasing industry from PRs100 million (\$2.5 million) to PRs200 million (\$5.0 million). September 1997.	Pakistan Leasing Authority, in collaboration with the SEC, will strengthen the (i) industry standards for credit administration (origination and servicing), pricing, portfolio management, asset-liability management; and (ii) lessor's rights of repossession, including the right of automatic repossession. It will improve the adjudication of disputes through legal procedures and amendment of the substantive laws, where necessary. June 1999.	Substantially implemented.	<p>In 1997, leasing companies were required to raise their minimum capital to PRs200 million by 30 October 1999. The last date for compliance was later extended to 30 June 2001. Currently, 18 out of a total of 29 leasing companies have fully complied with this requirement. The difficulty of leasing companies to raise their level of paid-up capital can partly be attributed to the depressed stock market during the last few years, which limited the potential of raising additional capital through rights issues. While pursuing this objective, the SEC has asked the noncompliant companies to submit plans to meet the regulatory requirements, to be considered on a case-by-case basis. This initiative has triggered mergers, and a number of leasing companies are in the process of merging.</p> <p>Although the Leasing Association of Pakistan has not taken any initiatives to strengthen industry standards for credit administration or portfolio management, the SEC has endeavored to address these issues through new leasing rules issued in 2000. These rules have been framed in consultation with the industry.</p> <p>On the basis of its experience, the SEC is proposing further amendments in the rules, which would be processed in consultation with the industry. There has been a significant development in the procedure for adjudication in the case of default by a lessee. According to the recently promulgated Financial Institutions (Recovery of Finances) Ordinance, 2001, a financial institution is empowered to sell the secured property after serving three notices to the defaulting customer.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Tap alternate long-term financing sources for the industry.	The Pakistan Leasing Authority will prepare a concept paper on promoting asset securitization of the industry. September 1997.	The SEC will develop and introduce a legal and regulatory framework for issuance of asset backed securities by the leasing industry. June 1999.	Implemented.	After consultation with market participants, the SEC notified rules to facilitate and regulate securitization of asset-backed securities. The Companies (Asset Backed Securitization) Rules were notified in 1999. Besides defining securitization, special-purpose vehicle, and originator, the Rules lay down the conditions of registration and obligations of special-purpose vehicles. In Pakistan, securitization is still at a nascent stage. Though the Asset Backed Securitization Rules, 1999 were notified by SEC in December 1999, the banks/NBFIs, who are keen to undertake such securitization transactions through special purpose vehicles, were awaiting final guidelines from SBP, being their regulator. With the transfer of NBFi regulation to SEC, it is expected that the necessary guidelines will soon be issued. SEC has recently approved the securitization deal for PRs 1 billion for Paktel Ltd. against its present and future receivables.
G. Promote Contractual Savings Through Reforms of the Insurance Sector and Pension and Provident Fund Industry				
Strengthen policy legislative and regulatory framework to promote and ensure the orderly growth of the insurance industry.	Submit to ADB an action plan for the reform of the insurance sector, drawing upon the recommendations of the Report of the National Insurance Reforms Commission, 1993, and the Report of the Task Force on reforms of the Insurance Act of 1938. October 1997.	Implemented.		

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
	<p>The Cabinet will approve the proposal for the replacement of the Controller of Insurance with an independent and autonomous Pakistan Insurance Regulatory Authority to promote the sound development of the insurance industry, while protecting the interests of policyholders. Pakistan Insurance Regulatory Authority, among others, will (i) regulate all public and private insurance companies; (ii) be empowered to enforce the regulations pertaining to licensing and delicensing, investment funds, capital adequacy, and solvency margins; (iii) undertake inspection and investigations of insurance companies, brokers, agents, and intermediaries; and (iv) adjudicate disputes between the insured and the insurance companies. October 1997.</p>	<p>The Government will prepare and adopt the legislation for an independent Pakistan Insurance Regulatory Authority and operationalize it, and adopt the new Insurance Act, including amendments for the compulsory reinsurance and preferential allotment requirements for the general insurance business companies, solvency margins, premium rates, and supportive regulations for the insurance industry. December 1998.</p>	<p>Implemented.</p>	<p>Although some preliminary work was done for the establishment of an independent regulatory body exclusively for the regulation of the insurance industry, it was considered desirable to vest the SEC with powers to regulate the insurance sector. ADB and the Government took this decision after careful deliberation, taking into consideration views of some international experts. The main considerations were:</p> <ul style="list-style-type: none"> • the relatively small size of the insurance sector in Pakistan; • the limited availability of qualified personnel for regulatory bodies; • the comparative legal convenience of adding the functions to an existing institution; and • cost-effectiveness. <p>Consequent to the policy decision, the SEC Act, 1997 was amended on 11 October 2000 to transfer the function of administration of the law of insurance from the Ministry of Commerce to the SEC. Under its own Act as well as the new Insurance Ordinance, 2000, the SEC has sufficient power to effectively regulate the insurance sector. Under the amended SEC Act, the SEC is responsible for monitoring and ensuring compliance by insurers, insurance agents, and insurance surveyors of all laws, rules, and regulations pertaining to insurance as well as for promoting the organized development of the insurance market in Pakistan. MOC has notified the new insurance rules in August 2002. The SEC has powers of investigation under the SEC Act. For adjudication, the Insurance Ordinance provides for the constitution of a Small Disputes Resolution Committee, insurance tribunals, and an insurance ombudsman. The SEC has established an insurance division under an executive director. At present, seven officers along with 15 supporting staff are working in the division.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Adopt more stringent financial standards for the insurance industry.	Seek cabinet approval to raise the (i) minimum paid-up capital requirement for domestic life insurance companies from PRs30 million to PRs100 million (\$2.5 million) and for domestic general insurance companies from PRs25 million to PRs40 million (\$1 million); and (ii) raise the solvency margin (defined as assets minus liabilities) from PRs0.5 million (or 10% of net premium) to PRs2.5 million. October 1997.	The Pakistan Insurance Regulatory Authority will (i) assess compliance of insurance companies with these new financial standards; (ii) identify further improvements in the regulatory framework, including standards for risk-based capitalization, as well as redefinition of the solvency margin; (iii) delicense market operators who fail to comply or indulge in malpractice; and (iv) issue regulations for brokerage houses for general insurance. June 1999.	Implemented.	The new Insurance Ordinance, 2000 prescribes minimum paid-up capital requirements as well as solvency margins for both life and general insurance companies. Life insurance companies are required to raise their paid-up capital to PRs100 million by the end of 2002 and to PRs150 million by the end of 2004. General insurance companies are required to increase their paid-up capital to PRs50 million by the end of 2002 and to PRs80 million by the end of 2004. As regards the solvency margin, the Insurance Ordinance defines it and empowers the SEC to prescribe the margin. The rules that have been drafted under the Insurance Ordinance, 2000 propose specific solvency margins.

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
Take steps to improve professional and ethical standards of the industry.	The Controller of Insurance will define standards for various market participants in the insurance industry, including the qualifications, obligations, and duties of agents and brokers, and the Insurance Association of Pakistan will prepare a proposal to upgrade the Pakistan Insurance Institute. October 1997.	Pakistan Insurance Regulatory Authority will reconstitute and operationalize the Insurance Claim Settlement Board with powers to execute its own decree and hold regular hearings; and seek collaboration from the insurance industry and Insurance Association of Pakistan to upgrade Pakistan Insurance Institute to provide special training courses for brokers and agents, surveyors, loss adjustors and underwriters; and to play a key role in increasing public awareness regarding insurance. June 1999.	Partially implemented.	<p>The new Insurance Ordinance, and rules that have been framed comprehensively, prescribe professional and ethical standards for the insurers as well as other intermediaries in the insurance industry. The Insurance Ordinance also provides for a constitution and procedure for working of tribunals for settlement of claims.</p> <p>No steps have been taken to upgrade the Pakistan Insurance Institute and there are no satisfactory arrangements in the country for education and training of insurance professionals in the insurance sector. Absence of a well-established education and training institution for insurance is being increasingly felt by the insurance industry, which is facing difficulties in recruiting qualified personnel and in upgrading skills and knowledge of its employees through training.</p>

Objectives	First Tranche/Actions Complied With November 1996 to October 1997	Second Tranche 1998 to December 1999	Status of Implementation as of 30 October 2001	Explanation/Remarks
<p>Restructuring and divestment of public sector insurance companies.</p> <p>Develop reforms for pension and provident funds.</p>	<p>The Government, with the support of ADB-financed TA for Reforms of the Insurance Industry, will initiate studies of the Pakistan Insurance Corporation (PIC) and the National Insurance Corporation (NIC) to review their role in the changing environment and explore options for improving corporate governance, and restructuring/divestment of these companies. October 1997.</p> <p>Set up a working group to implement a study financed by the ADB TA for Reform of Pension and Provident Funds with the objective of developing a reform proposal for improving the coverage of the social security system and financial management of pension and provident funds. September 1997.</p>	<p>The Government will restructure or divest PIC and NIC in accordance with the recommendations of the studies. June 1999.</p> <p>The Government, in collaboration with ADB, will develop plans for public and private pension and provident funds drawing on the recommendations of the TA study. June 1999.</p>	<p>Implemented.</p> <p>Implemented.</p>	<p>Significant steps have been taken to restructure PIC and NIC, which are prerequisites for privatization. PIC was incorporated as a public limited company on 30 March 2000 as the Pakistan Reinsurance Company with a paid-up capital of PRs50 million. NIC of Pakistan was incorporated as a public limited company on 31 March 2000 with a paid-up capital of PRs100 million. The Government, which has substantial shareholdings in both companies, has nominated private sector professionals on the boards of directors of the two companies. These companies, working under the discipline of the Companies Ordinance, are also being registered under the Insurance Ordinance.</p> <p>The Government constituted a working group to assist the consultants under ADB TA for the reform of pension and provident funds.</p> <p>The finance minister, in his budget speech on 18 June 2001, announced that the Government would develop a framework for promoting growth of pension funds. He also announced a tax rebate on investment in an approved pension fund. The SEC prepared a comprehensive proposal in July 2001 and submitted it to the Ministry of Finance for approval.</p> <p>The SEC has designed a personal pension system aimed at promoting the establishment of individually capitalized pension savings accounts managed by private sector professional managers.</p>

IMPLEMENTATION STATUS OF VARIOUS COMPONENTS UNDER TA LOAN 1577

A. Institutional Strengthening of the Securities and Exchange Commission of Pakistan

Subcomponents	Implementation Status
1. Development of Organizational Structure	Implemented
2. Development of Corporate Plan	Implemented
3. Development of Financial Plan	Implemented
4. Development of MIS	An MIS has been prepared and software is being developed
5. Formation of Rules and Regulations on:	
i. Disclosure of listed companies	Consultants' report received
ii. Insider trading	Guidelines prepared by SEC
iii. Carry-forward system	Consultants' report received
iv. Corporate registrar services	Rules prepared in June 2001
v. Protection of minority shareholders' rights	Consultant's report received
vi. Intercorporate financing	SEC is reviewing policies
vii. Investment companies	SEC is reviewing policies
viii. Portfolio managers	SEC is reviewing policies
ix. Public issues and offerings	Rules framed by SEC
x. Underwriters	Rules notified
xi. Corporate Takeovers	Draft law approved by the Government but not yet notified
6. Development of systems and procedures for inspection of Stock Exchanges, Brokers, Dealers, Mutual Funds, and Leasing Companies	Rules for Stock Brokers (Inspection of Books and Records) Rules, 2001 notified

MIS = management information system, SEC = Securities and Exchange Commission of Pakistan.

B. Development of a Self-Regulatory Framework

Subcomponents	Implementation Status
1. Development of Framework for Self Regulation of Stock Exchanges, Mutual Fund Association, and Leasing Association	Report of consultants received
2. Development of Minimum Standards for SRO Status	Not implemented as consultants felt that stock exchanges were already enjoying status of SRO
3. Assisting Stock Exchanges to Develop Capacity for:	
i. Listing of securities	Policy being reviewed
ii. Market surveillance, monitoring and compliance with statutory obligations	Karachi Stock Exchange has taken steps to upgrade capacity for monitoring
iii. Enforcement of regulations governing capital adequacy, trading, manipulative practice, short sales, minimum margins, and securities credit	SEC/stock exchanges have introduced changes in policies
iv. Introduction of basic education and professional standards for market participants and licensing of members and broker-dealers.	Stock Brokers and Agents Registration Rules, 2001 notified
v. Arbitration and dispute resolution among members and clients	Karachi Stock Exchange has reviewed mechanism
vi. Investor protection and safeguards	Investor guide prepared by SEC

SEC = Securities and Exchange Commission of Pakistan, SRO = self-regulatory organization.

C. Development of National Clearing and Settlement System

Subcomponents	Implementation Status
1. Development of Master Implementation Plan for NCSS	Implemented
2. Identification of Requirements for Computer Hardware and Software	Implemented
3. Identification and Development of Backup and Disaster Recovery System for NCSS	Implemented
4. Preparation of Regulations and Procedures	Implemented by CDC with the help of local legal consultants

CDC = Central Depository Company of Pakistan Ltd., NCSS = National Clearing and Settlement System.

D. Development of Secondary Market

Subcomponents	Implementation Status
1. Development of a Master Plan for OTC Debt Market	Study carried out but OTC not found feasible at the present stage
2. Development of Regulations, Procedures, and Operational Manual for OTC Market	Not implemented
3. Development of Legal and Regulatory Framework for Asset Securitization	Not implemented

OTC = over-the-counter.

CURRENT STATUS OF CAPITAL MARKETS

Table A3.1: Capital Market Indicators

Item	Dec 1996	Dec 1997	Dec 1998	Dec 1999	Dec 2000	Dec 2001
No. of companies listed	782	781	773	765	762	747
Companies listed during the year	30	4	1	—	3	4
Paid-up capital of companies listed during the year (PRs billion)	12.041	2.270	0.221	—	2.035	3.005
No. of TFCs listed during the year	2		1	3	7	14
Capital raised by new TFC (PRs billion)	1.251	—	0.274	1.439	1.651	8.886
Total paid-up capital of listed companies (PRs billion)	471.665	208.807	212.617	223.027	236.458	235.683
Market capitalization (PRs billion)	471.665	524.148	268.470	366.670	382.730	296.114
Share turnover (billion)	6.733	13.357	18.498	31.344	46.158	23.070
Average daily turnover (billion)	0.029	0.056	0.077	0.128	0.188	0.097
KSE-100 Index	1,339.03	1,753.82	945.24	1,408.910	1,507.60	1,273.07

— = not available.

KSE = Karachi Stock Exchange, TFC = term finance certificate.

Table A3.2: Statement Showing Term Finance Certificates Listed During the Period 1995–2002
(PRs million)

Year	Name of Company	Subscription Date	Formal Listing Date	Amount of Capital Allowed	Total Offer			Subscription Received			Green Shoe Option	Amount Retained
					Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
1995												
1	Package Limited	7–9 Feb	11 Apr	210	110	100	210	110	122	232.37	25% of total issue	232.37
2	Sui Southern Gas	17–19 Oct	31 Dec	500	400	100	500	400	117	517.38	—	500.00
	Total			710	510	200	710	510	239	749.75		732.37
1996												
1	Nishat Tek	15–16 Jan	2 May	250	175	75	250	175	75.51	250.51	25% of IPO	250.51
2	I.C.I. (Pakistan)	26, 29, 30 Sep	10 Nov	1,000	750	250	1,000	750	374.81	1,124.81	—	1,000.00
	Total			1,250	925	325	1,250	925	450.32	1,375.32		1,250.51
1998												
1	Gatron Industries Ltd.	16–17 Jun	27 Jul	250	200	50	250	200	74.31	274.31	50% of IPO	274.31
	Total			250	200	50	250	200	74.31	274.31		274.31
1999												
1	1st International Inv Bank (1 st tranche of total authorized PRs1 billion)	1–30 Dec 98	3 Feb	1,000		300	300		325.57	325.57	10% of total issue	325.57
2	Saudi Pak Leasing	28 Jan	8 Mar	250	200	50	250	200	84.02	284.02	—	250.00
3	Dewan Salman Fibre Ltd.	24–26 May	12 Jul	700	500	200	700	500	363.76	863.76	37.5% of IPO	863.76
	Total			1,950	700	550	1,250	700	773.35	1,473.35		1,439.33
2000												
1	National Dev. Leasing Corp. (1st tranche of total authorized PRs500 million)	25 Nov– 1 Dec 99	17 Jan	500	230	100	330	230	270.22	500.22	10% of total issue	500.22
2	Pilcorp.	21 Dec 99	14 Feb	250	175	75	250	175	176.49	351.49	50% of IPO	287.50
3	Sigma Leasing	17–18 Jan	28 Feb	100	80	20	100	80	66.00	146.00	10% of total issue	110.00
4	Paramount Leasing	27–28 Jan	15 Aug	250	200	50	250	200	165.38	365.38	—	250.00
5	Atlas Lease Ltd. (1st tranche of total authorized PRs300 million)	26–27 Sep	6 Nov	300	150	50	200	150	158.87	308.87	—	200.00
6	Network Leasing Co. Ltd.	3–4 Oct	24 Nov	100	60	40	100	60	68.45	128.45	—	100.00
7	Al-Noor Sugar Mills Ltd.	31 Oct–1 Nov	13 Dec	200	125	75	200	125	78.66	203.66	40% of IPO	203.66
	Total			1,700	1,020	410	1,430	1,020	984.07	2,004.07		1,651.38

Table A3.2 (cont'd)

Year	Name of Company	Subscription Date	Formal Listing Date	Amount of Capital Allowed	Total Offer			Subscription Received			Green Shoe Option	Amount Retained
					Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
2001												
1	Nishat Mills	19–20 Dec 00	6 Feb	350	255	95	350	255	87.87	342.87	30% of total issue	342.870
2	Pilcorp. (2 nd issue, 1 st tranche of PRs1 billion)	1–2 Mar	23 May	1,000	175	150	325	175	159.13	334.130	50% of total issue	334.13
3	Orix Leasing Pakistan Ltd. (1 st tranche of authorized PRs1.5 billion)	20 Mar–7 Apr	21 May	1,500	550	150	700	550	191.97	741.97	50% of IPO	741.96
4	Shakarganj Mills Ltd.	9–10 Apr	28 May	250	180	70	250	180	70.37	250.97	—	250.00
5	Sui Southern Gas Co. Ltd. (1 st tranche of authorized PRs3 billion)	31 May–1 Jun	16 Jul	3,000	800	200	1,000	800	229.60	1,029.60	—	1,000.00
6	Engro Asahi Chem. (Nonlisted Pub. Co.)	14–15 Jun	13 Aug	500	400	100	500	400	106.80	506.82	—	500.00
7	Dewan Salman Fibres	21–22 Jun	6 Aug	1,800	1,600	200	1,800	1,600	216.35	1,816.35	—	1,800.00
8	Pakistan PTA Ltd. (I.C.I.)	1–2 Aug	1 Oct	1,600	1,100	500	1,600	1,100	230.30	1,330.30	80% of IPO	1,600.00
9	Atlas Lease Ltd. (2 nd tranche of total authorized PRs300 million)	15–16 Aug	Awaited	—	75	25	100	75	25.96	100.96	—	100.00
10	Packages Limited	20 Aug	5 Oct	700	550	150	700	550	410.74	960.74	100% of IPO	850.00
11	Gulistan Textile Mills Ltd.	4–5 Sep	5 Nov	300	200	100	300	200	120.67	320.67	100% of IPO	320.67
12	Dawood Leasing Ltd. (1 st tranche of total authorized PRs500 million)	11–12 Sep	5 Nov	500	175	75	250	175	78.05	253.05	20% of IPO	253.05
13	Nishat Mills (Second Issue)	18–19 Sep	19 Nov	600	450	150	600	450	10.05	460.04	—	600.00
14	1st International Inv Bank (1 st tranche of total authorized PRs500 billion)	15–29 Sept	5 Nov	500	0	100	100	—	192.90	192.90	100% of IPO	192.90
	Total			12,600	6,510	2,065	8,575	6,510	2,130.73	8,640.75		8,885.58
2002												
1	Engro Chemical (1 st tranche of total authorized PRs1.5 billion)	26–27 Nov 01	11 Jan	1,500	400	100	500	400	290.16	690.16	—	500.00
2	Pak-Arab Refinery Ltd. (Nonlisted Pub. Co.)	12 Dec 01	12 Dec 01	2,500	2,000	500	2,500	2,000	540.13	2,540.13	—	2,500.00
3	Crescent Leasing (1 st tranche of total authorized PRs900 million)	26–27 Dec 01	Awaited	900	175	75	250	175	86.79	261.79	40% of IPO	261.79
4	Security Leasing (1 st tranche of total authorized PRs500 million)	28–29 Dec 01	Awaited	500	160	40	200	160	40.50	200.50	125% of IPO	200.50
5	Reliance Weaving Mills	6–7 Feb 03	Awaited	300	120	30	150	Awaited	Awaited	Awaited	50% of IPO	Awaited
	Total			5,700	2,855	745	3,600	2,735	957.58	3,692.58		3,462.29

— = not applicable, IPO = initial public offering.

Table A3.3: Leasing Companies
(PRs billion)

Item	Amount
Total Companies (number)	33
Total Assets ^a	43.8
Capital	4.9
Reserves	3.7
Equity	8.7
Profit After Tax	0.4

^a Data represent only 32 leasing companies as one is under liquidation. Data are based on half-yearly accounts ended 31 December 2001. Number of leasing companies currently is 29.

Table A3.4: Local General Insurance Companies
(PRs billion)

Item	Amount
Total Registered Local Insurance Companies (number)	48
Paid-up Capital (31 December 2000) ^a	2.7
Shareholders' Equity ^b	4.8
Total Gross Premium ^b	9.2

^a Data are for 42 companies as two are mutual, not having paid-up capital, while data of four companies were not available. Data are based on annual accounts ended 31 December 2001.

^b Data are for 44 companies.

LIST OF CONTRACTS AWARDED TO ASIAN DEVELOPMENT BANK MEMBER COUNTRIES^a

Country	First Tranche	Second Tranche	Total Amount	%
Australia	8,000,000.00	15,180,383.68	23,180,383.68	9.3
Austria	125,000.00	591,443.52	716,443.52	0.3
Bangladesh	625,000.00	394,295.68	1,019,295.68	0.4
Belgium	2,000,000.00	749,161.79	2,749,161.79	1.1
Canada	1,625,000.00	2,917,788.03	4,542,788.03	1.8
Denmark	375,000.00	236,577.41	611,577.41	0.2
Finland	1,000,000.00	0.00	1,000,000.00	0.4
France	3,375,000.00	1,774,330.56	5,149,330.56	2.1
Germany	11,125,000.00	1,182,887.04	12,307,887.04	4.9
Hong Kong, China	625,000.00	118,288.70	743,288.70	0.3
India	2,125,000.00	3,156,490.35	5,281,490.35	2.1
Indonesia	3,000,000.00	6,193,113.97	9,193,113.97	3.7
Italy	5,875,000.00	2,077,689.85	7,952,689.85	3.2
Japan	13,500,000.00	6,392,891.84	19,892,891.84	8.0
Korea	4,750,000.00	2,237,512.14	6,987,512.14	2.8
Malaysia	10,000,000.00	15,942,274.03	25,942,274.03	10.4
Myanmar	250,000.00	0.00	250,000.00	0.1
Netherlands	2,375,000.00	1,758,045.26	4,133,045.26	1.7
New Zealand	125,000.00	1,158,711.65	1,283,711.65	0.5
Norway	125,000.00	0.00	125,000.00	0.1
People's Republic of China	9,000,000.00	16,284,411.58	25,284,411.58	10.1
Philippines	250,000.00	0.00	250,000.00	0.1
Singapore	2,875,000.00	759,155.91	3,634,155.91	1.5
Spain	1,500,000.00	279,689.02	1,779,689.02	0.7
Sri Lanka	625,000.00	0.00	625,000.00	0.3
Sweden	1,500,000.00	1,368,445.71	2,868,445.71	1.1
Switzerland	4,000,000.00	547,378.28	4,547,378.28	1.8
Taipei, China	2,000,000.00	410,533.71	2,410,533.71	1.0
Thailand	2,500,000.00	6,887,843.41	9,387,843.41	3.8
Turkey	1,000,000.00	0.00	1,000,000.00	0.4
United Kingdom	7,625,000.00	13,182,693.67	20,807,693.67	8.3
United States	21,125,000.00	23,081,117.64	44,206,117.64	17.7
Viet Nam	0.00	136,844.57	136,844.57	0.1
Total	125,000,000.00	125,000,000.00	250,000,000.00	100.0

^a Under Loan 1576-PAK: *Capital Market Development Program*.