VISION

To be the pre-eminent financial institution in Pakistan and achieve market recognition both in the quality and delivery of service as well as the range of product offering.

MISSION

To be recognized in the market place by Institutionalizing a merit & performance culture, Creating a powerful & distinctive brand identity, Achieving top-tier financial performance, and Adopting & living out our core values.

Contents

Editor's Corner

The year 2004 got off to a good start as Pakistan-India air links resumed. The cultural links between the two neighbours stretch back into the long lost centuries as do their trade links. Even in the recent past when conditions were not congenial, these links continued, though unofficially. The exchange of trade delegations, visits of peace activists, renowned film personalities, singers and the revival of cricket ties has brought the two nations closer on the path to peace. The series of ODIs and tests is being viewed as less of a sporting event and more of a cultural bridge which would bring the two neighbours closer than ever.

Given their geographic proximity and socio-cultural similarities, it would be a good opportunity for formalising trade which would open up new vistas. This would work both ways and much would depend on how ready the local businesses are to meet the challenges. Both countries can mutually benefit and influence global markets in textiles, iron & steel and IT.

Reopening of trade between the two countries would open up a large market, besides offering intangible benefits to the people. Currently bilateral trade between the two countries is less than 1% of their respective total trade. Exports from Pakistan to India were at around $71 million, while it imported goods valued at $167 million in FY03. Fruits and vegetables, textile yarn and fabrics are the major export items. Its principal imports are organic chemicals, iron ore, rubber manufactures, tyres & tubes, dyeing, tanning material and tea.

Trade flowing through official channels is small compared to informal or non-documented trade which is estimated to be of the order of $1.0-$1.5 billion. This only goes to show the vast potential which could be unleashed if proactive steps are taken to augment trade.

We would like to share with our readers the views of Mr. M. A. Jabbar, Vice President, Federation of Pakistan Chambers of Commerce & Industry on our query about the changes that will come forth given the improvement of relations between the two nations.

The non-documented channels will get documented partially. Freight charges will be reduced due to elimination of third party agents and transhipment costs through third countries. Import of capital goods and machinery would be at a lower cost compared to the price at which it is imported from other countries. Trade in services could increase due to cheaper cost of services in India. Pakistan stands to gain from an exchange of practical and more experienced R&D and its prospects of trading with SAARC countries could improve further. The health sector in Pakistan would benefit from cheaper drugs and students would get access to quality text books at a lower cost. The textile sector, particularly the fabrics segment in Pakistan would invade the Indian markets owing to a much better average quality. The Indians would make substantive inroads into the engineering goods sector, particularly the automobile sector.

Cooperation in the region at this stage should help Pakistan particularly in better preparing for meeting WTO challenges. The macro-economic implications for Pakistan would be better terms of trade and a narrowing of the trade balance owing to a much more competitive environment.

Resumption of diplomatic ties and opening of trade would not only provide opportunities for both countries to take advantage of each others markets, but also assist improve the general social conditions of large numbers who live in poverty. On the Human Development Index both countries have low social indicators, yet both are amongst the top spenders on defence in the world. Once there is peace in the region, it should result in a cut in the large defence expenditure and the money saved could be spent on the provision of better healthcare, education facilities and subsequent reduction of poverty.

Ayesha Mahmud

Abstract of the Bulletin

Housing Sector in Pakistan

§ Rising urban population in Pakistan has exerted tremendous pressures on available infrastructure. While demand for housing has grown, availability has lagged far behind, forcing large numbers to live in squatter settlements.

§ Additional housing requirement is estimated at around 600 thousand units, while annual construction is around 300 thousand units..

§ Number of persons living per housing unit has not shown any improvement during the intervening Census period 1980 and 1998.

§ A National Housing Policy 2001 was launched by the government to promote housing construction in the country.

§ One-third of the population resides in squatter settlements.

§ The Sindh Katchi Abadis Authority is looking after the squatters in the province of Sindh. Regularization and development work is being carried out.

§ Low cost housing programme, the Orangi Pilot Project, for the low income category speaks of the success of public-private partnership.

Housing Finance

§ Shortage of finance has been a major constraint in the development of the housing sector in the country.

§ In the past, financial institutions accorded low priority to housing loans.

§ State Bank of Pakistan has taken various steps to facilitate housing finance.

§ Commercial banks both local and foreign are now laying emphasis on provision of housing loans.

§ The demand for finance far exceeds than what House Building Finance Corporation, the major financier, can provide.

§ The middle/low income groups are constrained in availing the loaning facility being offered by commercial banks.

§ Housing finance schemes should be made available for the entire country and all segments of society.

Pakistan's Banking – A Shift in its Profile

§ With the recent privatisation of Habib Bank Ltd, the structure of the country's financial sector has changed towards greater ownership of the private sector.

§ Process of privatisation of nationalised commercial banks was initiated more than a decade back, with the disinvestment of 26% shares of Allied Bank Ltd.

Pakistan Economy – Recent Developments

§ The domestic economy in recent times has performed well in terms of key economic indicators and there are strong indications that it will meet most macroeconomic targets.

§ There has been broad based growth in large scale manufacturing, agricultural crops have done well, exports have shown double digit growth with textile exports picking up substantially. Earnings from petroleum products and rice have also gone up.

§ Banking sector has done well, in terms of growth of investment portfolio, credit to the private sector, strengthening consumer loans and improved profitability.

§ Non-performing loans of the banking sector have come down.

§ Central Board of Revenue's tax collections have improved.

Market Analysis

§ Despite an unsteady patch in February, the market is at peak levels and still has steam. Economic fundamentals remain sound and the improving relations with India give hope for the future. Rising inflation could be a concern however and bears watching. A technical correction may also not be too far around the corner, which leads us to advise short term caution.

Housing Sector in Pakistan

Pakistan's population growing at an annual 2.69%, with a higher 3.53% rise in urban population has increased the numbers that reside in urban areas. The share of urban population in the total has grown from 25.4% in the 1972 Census to 32.5% or 42.4 million by 1998. In 2003, total population had risen to 149 million, of which nearly 50 million resided in urban areas.

Growing urbanisation

Urbanisation is growing in Pakistan, because of the natural increase in population, due to migration from towns and villages to cities in the same province and from one province to another in search of jobs or other reasons. In Punjab, 49.3% moved within the same province and only 8.1% came from other administrative units. In Sindh however, the situation was totally different. Of the total migrants, 41.2% came from other administrative units and 22% of the migrants moved within the province.

As the percentage of the population living in urban areas is increasing, it has impacted both poverty and the general quality of life in many urban settlements. The rise of squatter settlements and slums, the poor access to clean drinking water, sanitation, healthcare facilities, schools and job opportunities is a source of concern.

As a much higher proportion of urban population now lives in large cities and metropolitan areas, the pressures on civic amenities have grown tremendously. Karachi is the largest city of Pakistan with a population of over 12 million, followed by Lahore, Faisalabad, Rawalpindi, Multan, Hyderabad, Gujranwala, Peshawar, Quetta, Sargodha and Sialkot. These cities together house more than 20% of the total population of Pakistan or 58% of the total urban population.

Presently 35% of the population is residing in urban areas, and by the year 2025, about 50% of the population would be living in cities and towns. Sindh is the most urbanized province of Pakistan mainly because of the population of metropolis Karachi, which accounts for 32% of the total population of the province.

Problems of urban growth

While urbanisation has large benefits as it contributes to economic growth and creates new social and economic opportunities, it also results in development problems, as the increase in population of urban areas makes greater demand on the basic utilities and on the city's infrastructure. Planned development has not come close to matching the growth of the cities and the demand for housing.

Urban housing is a problem common in almost all cities of Pakistan. Even in Islamabad, a new, planned city, planners did not provide adequate land for the urban poor, and there has occurred a natural growth of katchi abadis. The housing facility provided by the public sector is minimal, while in the private sector the prices are very high for the individual either for purchase or rent. Many are forced to live in minimal conditions, while large numbers live in katchi abadis or squatter settlements. "The formal sector has not been able to fulfil even 10% of the annual need for housing during the Five Year Plan period 1983-88". Even later, the Seventh Plan for the period 1988-93, acknowledged "housing is not growing as fast as urban population with the result that the backlog of houses is building up, which is visible in the form of katchi abadis".

According to the 1998 Census, total housing units in Pakistan were 19.2 million, 68.7% in rural areas and 31.3% in urban areas. Province-wise housing units were located as:-

Punjab	54.7%
Sindh	26.2%
NWFP	11.5%
Balochistan	5.1%
Federally Administered Tribal Areas	1.8%
Islamabad	0.7%

Housing backlog grows

The housing stock comprised of 34.5% kucha houses, 10.9% semi-pucca houses and 54.6% pucca houses. Presently there is a housing backlog of more than 4 million units, which is increasing every year. While the annual additional requirement is estimated at around 570-600 thousand housing units, the annual construction is around 300 thousand units, resulting in a recurring backlog of 270-300 thousand units annually.

Despite the rising backlog, construction of housing units has been slow in the last decade, especially in the cities and towns. This trend is visible for all the four provinces. The absence of affordable institutional financing has been one of the primary factors for the state of underdevelopment in the housing sector.

Period of Construction – 1998 Census

(%)

	All Areas				Urban				Rural			
	Sindh	Punjab	NWFP	Balochistan	Sindh	Punjab	NWFP	Balochistan	Sindh	Punjab	NWFP	Balochistan
Under construction	1.50	0.70	0.50	0.73	1.42	1.00	0.80	1.22	1.54	0.60	0.40	0.63
Less than 5 years	22.93	18.50	10.30	14.84	14.90	15.20	11.40	12.48	27.6	19.70	10.10	15.30
5-10 years	24.50	27.10	18.60	23.01	20.80	21.00	18.20	21.84	26.7	29.40	18.70	23.24
More than 10 years	51.00	53.70	76.60	61.42	62.90	62.80	69.60	64.45	44.2	50.30	70.80	60.82

Source: Provincial Census Reports 1998

The table shows a similar pattern for the provinces and between urban and rural areas except for a variation in their percentage share. Large number of houses were constructed more than 10 years back. In NWFP, 76% were constructed a decade back, and only 10% have been built in the last 5 years.

Construction activity slow

Given the slow pace of construction activity and the rising population, pressures exerted on available infrastructure have enhanced. In the 1998 Census there were 6.8 persons per housing unit, a marginal increase over the 1980 Census. It has slightly increased for rural areas while for urban areas the level is the same. This shows that there hardly has been any improvement in the living standards of the people. What has however, improved during the intervening period between the two Census, 1980 and 1998 is the ratio of rooms per housing units. The percentage of housing units with one room has declined, while the percentage of houses with 2 or more rooms has increased.

National Housing Policy 2001

The National Housing Policy 2001 was drafted with the objective to evolve an effective and enabling strategy to accelerate housing activity in the country. The Policy aimed to facilitate provision of housing units including land, finance, building materials, regularisation and up-gradation of katchi abadis, provision of supporting institutional and legal framework, and development of rural housing.

Finance a major constraint

The cornerstone of the policy is to ensure development of housing for the poor and needy and housing for the majority of the rural population. Shortage of housing finance is a major constraint in housing construction and maintenance. There is an estimated potential market for housing finance of about Rs.60-Rs.70 billion, while lending is around Rs.4 billion. As the government is constrained in meeting the entire requirement, the private

Indices of Congestion

		1980					1998				
		Pakistan	Punjab	Sindh	NWFP	Balochistan	Pakistan	Punjab	Sindh	NWFP	Balochistan
Persons per housing unit		6.7	6.5	7.1	7.0	7.6	6.8	6.9	6.0	8.0	6.7
Persons per room		3.5	3.3	3.94	3.6	4.2	3.1	3.0	3.33	3.3	3.05
Rooms per housing unit		1.9	2.0	1.8	1.9	1.8	2.2	2.3	1.8	2.4	2.2
Housing units with 1 room	%	51.54	47.9	61.02	49.8	60.47	38.11	32.0	56.94	27.7	42.77
Housing units with 2 rooms	%	44.83	48.4	36.12	46.1	35.5	54.97	60.6	39.50	63.6	47.9
Housing units with 5 rooms and more	%	3.63	3.7	2.86	4.1	4.1	6.92	7.4	3.56	8.7	9.4

Source: 1. Census Report of Pakistan - 1998
2. Provincial Census Reports of Punjab, Sindh, NWFP and Balo

sector is being encouraged to promote housing finance. Commercial banks with an excess supply of loanable funds at their disposal, are diversifying their loan portfolios and branching out into retail banking. They have also ventured in the housing sector and have devised new schemes to meet the housing finance needs.

The government proposes that land for housing should be made available by removing many of the obstacles – procedural, legal bottlenecks. Plots for low income groups should be subsidised and given at affordable rates.

Developers investors/ builders confidence to pick up

The National Housing Policy has spelt out policy measures to help revive the confidence of construction builders, developers, investors, thereby giving a push to the construction services sector. Some taxes have been reduced, banks and development finance institutions would extend credit facilities for BMR of machinery used for housing and construction activity. Housing and construction has been declared as priority 'C' industry.

One of the major weaknesses facing the housing sector has been the lack of planning and building regulations. This has resulted in mushrooming growth of squatter settlements, where the land and building mafias are taking advantage of near absence of planning and regulations. Whatever exists is outdated and far from ground realities.

Building regulations to be updated

The Housing Policy has recommended for preparation of master plans, structural plans and updating of building zoning regulations. The resettlement and up-gradation of katchi abadis shall be an integral part of master plans/structural plans. Funding would be available from the government for infrastructure development, amenities and other developments only in planned areas.

Rural housing to receive emphasis

Rural housing is poorly developed. Large majority lives in one room units, primarily made from mud, wood and bamboo with straw and thatch. Nearly 50% uses hand pumps to get drinking water, while 31% have to go out of the house to get water, nearly 70% are denied toilet facilities. Given this state of living conditions, special measures for the rural poor have been identified for implementation, so to promote rural housing.

Infrastructure development

Infrastructure development would receive great emphasis, for in the past well planned and organized housing projects and schemes have failed due to non-availability and adequacy of infrastructure facilities. Federal and provincial funding shall be available for infrastructure, amenities and other developments only in the planned areas. Utility agencies shall be providing trunk infrastructure and its cost shall not be an additional charge to the public or private housing development schemes within the planned area.

Development of towns/ cities

The tremendous pressure exerted on available infrastructure in urban centres is primarily a result of migration from rural areas. The city governments have not been able to cope with the ever increasing demand of utilities and services and alongwith the resource constraints they have not been able to develop and upgrade the existing facilities. It has resulted in deteriorating environment and non-availability of adequate amenities in major urban centres. Programmes shall be undertaken for development of satellite, intermediate, secondary and industrial towns as employment centres of the future to check migration to urban centres.

Institutional strengthening

Institutional and legal framework will be strengthened. Role of Federal and Provincial Government Development Agencies, City and District Governments have been well defined in an institutional framework. Each will play its role and follow responsibilities identified at various strata of the Government. It is only with the joint collaboration of the three strata of government that any meaningful change can be brought about in the urban/rural living conditions.

Sindh Katchi Abadis Authority

In Pakistan, squatter settlements or katchi abadis are found everywhere. In Karachi, 35-50% of the population resides in katchi abadis. In Karachi alone there are 539 Katchi Abadis. The Sindh Katchi Abadis Authority (SKAA) is looking after the squatters in the province of Sindh; dealing with around 1.5-2.0 million families.

A certain criteria has been developed for regularisation of Katchi Abadis and the SKAA is implementing the government's policies on regularisation. The criteria is: -

§ Settlement should be in existence on or before 23.03.1985.

§ Settlement must have at least 40 dwelling units.

§ Land belonging to provincial agencies shall exclude the area reserved for amenities such as road, water supply, sewerage, dispensary etc and also the area under flood protection and danger zones.

§ Land owned by federal government agencies, shall be subject to the NOC from them.

§ Land owned by private person(s) or societies, shall be subject to drawing a mutual agreement between the parties and the Authority.

The process of regularisation work will be carried out in laid down stages. The process of regularisation and up-gradation of the pre-1985 katchi abadis involves identification of those pre-1985 katchi abadis which need to be relocated; identification of appropriate land preferably within the cities and towns, resettlement plans for the residents of katchi abadis and the plan of relocating would commence.

The Ministry of Railways will issue NOCs for all pre-1985 katchi abadis which are regularizable under the 1985 policy and in future all housing policies launched at the federal and provincial levels shall include plots for low income people.

Growing squatter settle-ments

In Sindh, there are 1157 regularisable Katchi Abadis with a total population of 3.537 million. Karachi alone has 483 regularisable katchi abadis (based on the cut off date i.e. March 23, 1985 with a population of 2.5 million), followed by Hyderabad City (137), Thatta (78), Sanghar (57), Sukkur (48), Mirpurkhas (44), Larkana (44), Dadu (39) among other cities of Sindh. The katchi abadis located in the cities of Sindh are spread over an area of 25 thousand acres and have 0.6 million housing units. Such katchi abadis are the only shelter for vast numbers of urban poor who do not have the means to acquire proper accommodation.

Regularisation of katchi abadis work continues in the province of Sindh and elsewhere also. In Sindh, available data upto September 2003 shows that development and up-gradation work has been carried out by the defunct Karachi Municipal Corporation (now replaced by the City District Government) and Town Committees/Municipal Committees (replaced by town/taluka councils).

Cumulative Progress of Regularization Work

(Upto 30th September 2003)

Location	Number of Regularisable katchi abadis	Regularization work undertaken by various agencies				Number of Leases Granted		Amount recovered from katchi abadi dwellers (Rs. Mn)	
		Defunct local councils*	BOR	ETPB	SKAA	Defunct local councils	SKAA	Defunct local councils	SKAA
Karachi	483	274	29	6	65	103978	16072	344.241	194.854
Hyderabad	299	100	-	6	83	3453	3458	25.678	35.046
Mirpurkhas	137	-	-	-	39	-	885	-	2.325
Sukkur	143	15	-	4	37	1653	1188	1.891	16.147
Larkana	95	17	-	6	34	226	1039	0.731	13.153
Total	1157	406	29	22	258	109320	22642	371.541	261.525

** Defunct Karachi Municipal Corporation has been replaced by the City District Government, whereas the defunct Town Committees/ Municipal Committees have been replaced by town/taluka councils besides bringing the UCs in urban fold with effect from August 14, 2001.*

Source: 39th Quarterly Report Jul-Aug-Sept – 2003 Sindh Katchi Abadis Authority

BOR - Board of Revenue, ETPB-Evacuee Trust Property Board, SKAA-Sindh Katchi Abadis Authority

Box Housing for the Poor

Mr. Tasneem Siddiqui, Director General, Sindh Katchi Abadis Authority, initiator of the Incremental Development Scheme, recipient of the Magsaysay Award for public service for his pioneering role in reforming government institutions to serve low income households in the cities, has written a number of articles on housing. We reproduce here excerpts from his paper *'Housing for the Poor'*, which aptly analyse the core issues in housing for the vast majority.

The paper has analysed the common weaknesses of past housing projects and programmes launched by various development authorities, the role of private sector and cooperative societies in solving these problems and what are the core issues on the subject which are generally not considered.

Let us see what are the core issues in housing for the poor. Firstly, there is consensus among all development practitioners that providing built-up units to the needy is neither feasible nor desirable. Specially in a country like Pakistan where the backlog is over six million housing units, no government would ever have the resources to provide a small plot or house to each shelterless family at state's expense or at subsidised rates.

Secondly, experience has shown that the basic need of the shelterless people is a piece of raw land with minimum services where they can build their house with their own resources incrementally.

Thirdly, the majority of the low income people in Pakistan have the willingness and capacity to pay for services, provided the cost is recovered in easy instalments. In some urban areas where land is very expensive, the state can help them by subsidizing the cost of physical infrastructure, providing housing loans at a low rate of interest, repayable in a longer time span and making provision of allied services at government's expenses. Fourthly, important issues in providing land to the urban poor are: targeting, affordability, ease of entry and possession when needed.

The basic flaw in most of the projects which were devised to meet the shelter needs of the low income groups was that the end-product either did not reach the target groups or they could not retain the benefits.

Projects are announced before they are physically commenced and the public is asked to apply for a plot with advance payment. The system is now in vogue in all major cities and the development authorities amass huge sums of money and keep them in fixed deposits or use them in other projects. In most cases, the actual development takes 10-15 years.

Plots in Pakistan are used as a sound investment and as a cushion against galloping inflation. Whenever a scheme is announced, speculators with huge sums of money at their disposal make it almost impossible for the needy to get a plot in the ballot. Once developed, these plots are sold at a premium. Studies show that each plot changes hand 4-5 times, before a house is constructed, thus increasing the price artificially.

Apart from these fundamental problems, a number of practical problems further discriminate against the target group of low income households:

§ the cost is too high;

§ because of the time-lag between allotment and development, the schemes do not cater to the immediate needs of the low income groups;

§ to get a plot, people must apply for it, fill a set of forms and fulfil a whole series of formalities;

§ even if they cross all the hurdles, it is not necessary that they get a plot. The number of applications always far exceeds the number of plots available. In most cases, successful allottees are investors and speculators.

The private developers no doubt cater to the need of the middle income groups, but the poorer section remains out of their purview as the smallest apartment would cost around Rs.300,000. Similarly, a fully serviced plot of 120 square yards would cost around Rs.80,000.

The time-lag between allotment and actual development of plots in private sector schemes is sometimes more than in the case of plots provided by the development authorities.

Because of a high rate of migration and the resultant demand for small plots, land-grabbing for housing has assumed the proportion of a parallel system. Illegal sub-dividers or dallals occupy large tracts of vacant state land (especially in Sindh) and sell it to the urban poor at affordable prices, pocketing all the sale proceeds in the process.

Owing to the ease of entry, lack of standards and low-cost, such illegal sub-dividers provide suitable housing opportunities for the bulk of the urban low-income population. However, they cannot be the solution to the urban low-income housing problem. The government needs to find a formal alternative to illegal sub-divisions but such an alternative must be equally affordable and accessible for the urban poor.

Box Khuda Ki Basti - Shelter for the Poor

- Given the large number of squatter settlements or katchi abadis, an innovative low income housing project *'Khuda Ki Basti'* (KKB) or God's Settlement was developed on the outskirts of Hyderabad as part of the Gulshan-e-Shahbaz Scheme by the Hyderabad Development Authority in the late 1980s. It has since been transferred to Sehwan Development Authority.
- The scheme aims at overcoming the constraints the public sector programmes face in making land, credit, infrastructure available for housing.
- It is an incremental development scheme, where the poor are given the chance to settle on the land and build their houses and receive other utilities incrementally, as and when they have the resources. It is entirely self-financing, there is no subsidy, formal or informal. The entire cost of the developed plots is borne by the beneficiaries, in monthly instalments.
- The allottees are not restricted to the type of houses they have to build, but it depends entirely on what each can afford. The scheme has given them the option of constructing the most cost effective and affordable living habitat.
- Initially the family who comes to settle in KKB is required to spend a specified time in a reception area to prove his need for shelter. Later he is allotted a plot. If the plot is found unoccupied any time it is repossessed.
- Once settled, the family starts to make their house, the type depending entirely on the budget of the family. The first house is usually made of reeds, wood or cardboard. Only later as their resources permit is the family in a position to construct a more permanent house of bricks, cement blocks and use asbestos sheet or corrugated tin.
- So far, allottees have built their low cost houses in about three-fourths of the area of Khuda Ki Basti, and are residing there. The population of the Basti has grown to about 24000 – 25000.
- The Scheme comprises of about 4000 plots.
- The entire area of the Basti has 10 blocks (in every block there are 300-400 houses).
- About 3500 families have been able to construct semi-permanent/permanent houses and about 500 families are living in huts.
- KKB scheme provides 80 square yard plots and the Sehwan Development Project arranges for construction of houses. The cost is around Rs.85,000 for Phase-I, but as construction costs have gone up, the cost of the same house in Phase-II will be higher, probably around Rs.110,000.
- Services are provided at minimal charges. Initially when households move into the area water is supplied through tankers or the families collect water from conveniently located taps.
- Once settled and if the families can afford to pay the monthly instalments, they are provided with individual water connections, electricity and toilet facilities.
- For sewerage every family pays Rs.1000, for electricity Rs.500-Rs.800 and for water supply Rs.1000. These payments are not made lumpsum but in easy monthly instalments of Rs.100.
- Gas is also now available in KKB.
- Some of the residents of KKB are also involved in income generating projects arranged by a non-governmental organisation. Small loans ranging between Rs.5000- Rs.25000 have been arranged through a commercial bank. About 100 families have benefited. They are mostly involved in cottage based industries, dairy farming poultry farming etc.

Box Orangi Pilot Project (OPP) - Low Cost Housing Programme

- OPP started a housing programme in 1986 in Orangi, Karachi's largest katchi abadi, with a population of over a million.
- OPP basically strengthened people's initiative with social and technical guidance.
- It demonstrated through OPP programmes, that while people can finance and manage facilities like sewerage, water supply, schools, clinics, solid waste disposal, it is the Government's role to provide larger facilities like trunk sewers, and treatment plants, water mains and water, main solid waste disposal, colleges/universities.
- OPP has a number of programmes. Low cost sanitation enables low income families to finance, manage and maintain sanitary toilets in their homes, underground sewerage lines in their lanes and secondary sewers. Government provides main sewers and treatment plants. The programme has extended to all of Orangi where more than 90,000 houses have invested nearly Rs.85 million.
- Education programme improves and upgrades the physical condition and academic standards of private schools in Orangi.
- Health, education and family planning supports the local Orangi clinics set up by the people.
- Low cost housing programme enables improvement in building components and construction techniques.
- Poor peoples houses in Orangi suffered from certain defects and it was through research that a programme was devised to help them in improving their living conditions.
- The houses in Orangi were using sub-standard manually made concrete blocks, faulty construction techniques, poor ventilation and because the existing structure was weak it could not take the load of the conventional RCC roof for ground plus one construction.
- OPP programme is on training of masons, para-architects and developing technical support institutions within the community.
- The block making process has been modernised, and a mechanized process together with other improved techniques has been introduced.
- Orangi has now become a centre for the production of mechanized blocks in Karachi. On an average, annually 2500 houses benefit from use of improved building components.
- 93% of Orangi's 250,000 houses have been built with financial and technical assistance from the local building, component manufacturing yards known as '*thallas*', operated by entrepreneurs.
- OPP not only assists to upgrade the thallas by offering skill training to the masons and carpenters, but OPP-OCT (Orangi Charitable Trust) has also provided loans to mechanize the block making process, to introduce mechanized block making machines, prefabricated roof and floor slab elements, which make cheaper, stronger and better quality houses.
- With Rs.1.5 million as loans from OPP-OCT, 70 thallas have now been upgraded. This has also benefited the thallawallas whose income have gone up and of those they employ.
- There are more than 80 thallas in the settlements. Their role has made it possible for people to build pucca houses of concrete blocks and asbestos or tin roofing, instead of shacks.
- This initiative of the OPP has clearly demonstrated that in areas where the government partners with people, sustainable development can be managed at affordable costs.

Regularisation /up-gradation work

Development and up-gradation work has been carried out under Karachi Special Development Programme funded by Asian Development Bank, defunct local councils have also completed schemes in katchi abadis from their own resources. Sindh Katchi Abadis Authority has also prepared development schemes and executed the work itself. It has also carried out water supply and sewerage schemes in katchi abadis.

SKAA sees to the regularisation work of katchi abadis, which was started in 1992; 258 katchi abadis have so far been taken up for regularization. Leases are granted, water supply and sewerage facilities are improved. Besides the funding for up-gradation of katchi abadis through Annual Development Programme and Special Development Programme, SKAA has also established its own revolving fund through lease recoveries being received from the residents of katchi abadis.

Such development works are not restricted to Karachi alone, but in other cities like Lahore, Quetta, Faisalabad, donor assisted shelter projects are going on.

Improved housing and reduction of poverty

Improved housing has gained increased attention because of the government's initiative at poverty reduction. Eliminating poverty needs a multipronged approach, as it is complex and multidimensional in nature. Public expenditure on the social sectors continues to be insufficient. This is representative of a major trend across the region, which means that there are still vast numbers of people without access to proper health, education, sanitation services and housing. Mushrooming of slums and squatter settlements are often breeding grounds for diseases due to poor health and sanitation facilities. There have been limited attempts to deal with urban squatters, but it is hardly desirable or humane solution to the problem of urban congestion.

The government initiatives such as the Sindh Katchi Abadis Authority have been quite successful in organising slum residents and working towards long term housing settlement. The civil society groups have also contributed. The well documented success of Orangi Pilot Project stand out.

The Government of Pakistan's strategy for poverty reduction centres on unleashing growth, improving indicators of human development and reforming the institutions of governance. Efforts have and will continue to be made to reduce the proportion of population living with human deprivation. This means not only trying to ensure cost effective provision of basic needs of the poor, i.e. education, health, nutrition, water supply and sanitation but also adequate provision of shelter.

Lack of secure and adequate urban housing is an important determinant of urban poverty and vulnerability. In the past, programmes have been less successful in addressing this problem, pointing to the need for greater community participation in utilising the limited resources in improving urban living conditions.

One of the neglected yet important link of urban poverty is the lack of adequate housing, combined with the lack of basic facilities like access to electricity, safe drinking water and sanitation. The housing projects initiated for the low income groups have not really helped meet the needs of the poor and have been priced so high to be unaffordable for the vast majority.

Conclusion

The enormity of the housing problem where the backlog is over 6 million units, deserves serious consideration. With the induction of commercial banks in the housing finance field, the growing credit requirement for the upper middle class in urban areas would to some extent be met. But it is the housing needs of the low income group which need to be addressed on war footing. It is they who deserve provision of residential plots on easy terms and conditions, service delivery to targeted groups, affordability, and simple procedures ensured to improve their lives.

Housing Finance

Low priority sector

Housing is a basic human need after food and clothing. Rapid growth in population together with massive rural to urban migration has made provision of houses a major issue in Pakistan. Despite the importance of housing in the economic development, it has remained over the years a neglected sector resulting in significant rise in housing backlog.

According to the official figures, there were over 19.3 million housing units for 132 million inhabitants based on 1998 Population and Housing Census, an increase of 53.2% over 1980.

Census – 1998

(In Million)

Housing Units	Pakistan	Rural	Urban
Owned	15.6 (80.8)	11.4 (87.1)	4.2 (67.6)
Rented	1.7 (9.0)	0.3 (2.3)	1.4 (23.2)
Rent free	2.0 (10.2)	1.4 (10.6)	0.6 (9.2)
Total	19.3 (100)	13.0 (67.7)	6.3 (32.3)

Figures in brackets are percentage shares. *Source: Economic Survey 2002-03*

One house for 6 persons

The table shows that percentage share of housing units owned is higher in rural areas compared to urban areas, while that of rented houses is higher for urban areas as compared to rural areas. On average, Pakistan's population is growing by 2.2% per annum. It is estimated to reach 148.3 million by June 2004 and 152.6 million by June 2005. Given this increase and on the basis of World Bank's recommended occupancy rate of 6 persons per house, the required housing units is to reach over 25 million in the next two years. This means that the country needs an additional supply of 600 thousands units every year.

Housing unit shortfall

In the National Housing Policy – 2001, the government however, estimates additional need for 570 thousand housing units annually, taking into account an average household size of 6.8 persons. Against this yearly requirement, the actual supply does not exceed 300 thousand units, leaving a net shortfall of 270 thousand housing units (300 thousand units on the basis of World Bank's estimates) each year. As a result, the gap between the availability of housing units and their demand is widening steadily every year. Most of the policies announced by the government over the past many years were not implemented. Prior to 2001 Housing Policy, the government had announced Housing Policy 1992, which was not implemented.

Rising squatter settlements

Pakistan thus faces a critical housing shortage. In the 1970s, according to official data, 2 million people lived in 270 thousand shanty homes but by the year 2000, 7 million people were living in 960 thousand shanty houses and the number is swelling. Another report on rural to urban migration reveals that the housing problem is more acute in urban areas. In 1987, about 37% of the population in Karachi alone lived in kachi abadis/slums/squatter settlements. The picture has changed since then for the worse. Squatter settlements/slums currently constitute about 50% of the population. This dismal situation is presented by the sector, which has recently been declared by the government as the fifth driver of economic development.

Shortage of finances

Beside various factors, shortage of finances has been the major constraint in the development of housing sector in the country. The share of housing in public sector development programme has been continuously declining over the years. From 10.9% during the First Five Year Plan (1955-60) the share declined to 5.9% in the Seventh Five Year Plan (1988-93), and this falling trend continues.

Lack of interest

Lack of interest by the successive governments and low priority accorded by the financial institutions in providing housing loans is evident from the fact that whereas the GDP ratio to outstanding stocks of housing finance is over 25% in developed countries and in the vicinity of 5% to 10% in developing countries, it is less than 0.5% in Pakistan.

Housing Finance – Selected Countries

Country	% of GDP
USA	53
European Union	36
Malaysia	21
Thailand	16
Chile	12
Morocco	7
Tunisia	5.5
Brazil	4.5
Sri Lanka	3.0
Iran	3.0
Bangladesh	2.2
Pakistan	0.5

Source: Economic Survey 2003-04

National Housing Policy 2001

The present government, realising the importance of the housing sector, decided to revitalise housing activities. National Housing Policy – 2001, addresses issues pertaining to housing sector with greater emphasis on resource mobilisation. Various incentives have been offered in the new policy for the promotion of housing in Pakistan. The main objective of the policy is to create affordability to owning a housing unit, particularly for the middle class and low income groups. In the Federal Budget 2003-04, various measures have been taken, which aim at providing incentives for home ownership. The emphasis is now on providing housing finance.

Network for house financing

The State Bank of Pakistan has also taken various steps to facilitate housing finance. Prudential regulations for housing finance have been modified to allow commercial banks to undertake housing finance by extending housing loans particularly to fixed salaried individuals in the middle and low income groups at competitive rates.

Favourable environment

Economic progress in the past two to three years has enabled the government to reduce borrowings. There has been a substantial increase in inflows of workers' remittances. The current account payments is in surplus. There has been a sufficient build-up of foreign exchange reserves. This together with de-dollarisation of the economy and falling interest rates have created a favourable environment for the banking industry.

Surplus liquidity

The banks are now looking for new attractive and prudent avenues for lending to ensure continued profitability and positive margins. The interest rates which were as high as 18% plus are at their lowest ebb. The banks currently have surplus liquidity. They have already diversified their credit portfolio and are now targeting small borrowers instead of lending only to large borrowers or investing in government papers.

Clearing backlog

Housing finance provides an attractive opportunity to banks/financial institutions to make significant earnings, as on average, both profit margins and recovery rates are higher for mortgage finance than project and corporate lending. Since there is a huge backlog of housing units in the country, supply of over 600 thousand housing units would be needed annually to clear the backlog. Based on a very conservative estimates, this could lead to a total annual demand of Rs.70 billion for housing finance against the current availability of close to Rs.4 billion. Potential for a quantum leap in the housing finance business exist and needs to be harnessed.

Housing finance by banks

Commercial banks in Pakistan were allowed to undertake housing finance by the State Bank of Pakistan in May 1998. Prior to this, only housing finance companies (HFCs) were allowed to extend funds for housing sector. The banks in general did not focus much on extending housing loans until 2001, due to unclear government policies on housing. In fact housing policies were announced but never implemented by the past governments. Some foreign banks (Citibank and ABN Amro) started housing finance business in early 1990s, but the share in lending was almost negligible due mainly to high interest rates. Citibank was offering loans at mark-up as high as 22% per annum. Similar was the case with ABN Amro.

Major financier

The House Building Finance Corporation (HBFC) in the public sector, has been the major financier in housing sector, providing loans since 1952. HBFC loans constitute almost 97% of total housing finance in the country. It has provided Rs.32 billion for 416,000 houses to-date. The Corporation's annual lending is around Rs.1.5 billion. It is the only institution which has wide coverage throughout the country. Its operations remained suspended for 20 months since June 2000, during which it undertook transformation of its lending activities in conjunction with Islamic Shariah.

HBFC's new scheme

The HBFC operations restarted in March 2003, with the launching of a new "Ghar Aasan Scheme", based on Diminishing Musharaka. Under the scheme, much liberalised credit is being provided on soft terms to compete in the housing market. But given the growing need for housing finance, HBFC inspite of being the single largest source of housing finance, can meet only a marginal portion of the country's demand.

Low market share

Besides HBFC, the International Housing Finance Limited (IHFL), a corporate body in the private sector collectively sponsored by IFC

(USA), CDC (UK) and Cres Bank (Pakistan) is also engaged in extending housing loans in Pakistan since 1990. However, it is providing housing finance in urban areas and in selected cities/towns. It has a negligible market share, as there has been only a marginal increase in its lending during the past one decade.

Potential market for banks

Realising the potential of the housing market in Pakistan, some local and foreign commercial banks have started giving housing loans since the past two years. As many as 15 banks are currently active in the housing finance. Most banks have developed very attractive housing packages and are disbursing housing loans at very competitive rates. Products designed by some of the banks are as under: -

National Bank of Pakistan	NBP Saibaan
Muslim Commercial Bank	Pyara Ghar
Askari Commercial Bank	Home to your Dream
Bank Al-Falah	Home Finance
Union Bank	My Home
Soneri Bank	Soneri Ghar
PICIC Commercial Bank	Sweet Home
Mezan Bank	Easy Home
Prime Bank	Prime Home
Citibank	Own a Home
ABN Amro	Home Finance
Standard Chartered	Aashiana

Quantum jump in FY03

Due to policy initiatives taken by the government, the liberalised credit policy for housing announced by the State Bank of Pakistan and the growing interest of the banks in house financing, net credit to the housing sector by commercial banks during FY03 amounted to Rs.3.8 billion. Though this is a jump of 400%, the amount is small, constituting 8% of the total lending compared with a lion's share of upto 60% enjoyed by many countries.

Credit Policy – Housing Finance

		July 02	June 03
Maximum Limit	(Rs.Mn)	5	7.5
Tax Rebate on Mark-up	(Rs.Mn)	100	500*
Debt-Equity Ratio	(%)	70:30	80:20
Loan Tenor	(Max. years)	15	20
Bank's Exposure Limit	(% of net advances)	5	10

** or 40% of income which ever is less* *Source: SBP Annual Report – 2002-03*

65% loans for house purchase

An analysis reveals that over 60% of the market share is with foreign banks, nearly 30% with the private banks and less than 10% with the nationalised commercial banks. Citibank, ABN Amro, Askari Commercial and the Union Bank are the major players with an estimated 86% share in the total lending for housing sector. Over 65% of housing loans were provided for house purchase. Most of the packages/products now being offered by banks are becoming attractive in terms of mark-up, loan tenor and collaterals.

Housing Finance Package
Selected Banks

Banks	Loan Limit (Rs.Mn)	Debt/Equity (Ratio)	Loan Tenor (Years)	Mark-up (% p.a.)
National Bank of Pakistan	10	85:15	3-20	7.5-9.75
Muslim Commercial Bank	7.5	70:30	3-15	8.5
Askari Commercial	10	70:30	1-20	8-9.75
Bank Al-Falah	7.5	70:30	1-20	7-9
Soneri Bank	2.5	70:30	1-15	11-16
PICIC Commercial	7.5	70:30	2-20	10-14
Prime Bank	7.5	80:20	3-20	7-9
Union Bank	7.5	80:20	3-20	8.5
Mezan Bank	7.5	80:20	3-20	8.5*
Citibank	7.5	70:30	3-20	7-15
Standard Chartered	7.5	80:20	1-20	14
ABN Amro	7.5	70:30	3-20	10-16
HBFC	7.5	80:20	3-25	Interest free**
IHFL	10	60:40	1-10	12-14

** Profit rate (Islamic Mode of Financing)* *** (Islamic Shariah Based)*

The monthly salary limit to qualify for housing loans starts from Rs.10,000 for National Bank of Pakistan to as high as Rs.40,000 - Rs.50,000 for Citibank. There has been a significant reduction in mark-up from 18–22% to 7–9% on average.

Selective approach

An analysis of various packages for housing finance currently available reveals that the local/foreign banks are still selective in their approach and are primarily targeting the upper income group. The middle/low income group, with monthly income below Rs.8,000 are constrained from enjoying the housing finance facility being offered by most banks.

No facility for 65% house-holds

The problem of finding a shelter is mainly being faced by 65% households, whose propensity to save has considerably diminished. The rising prices of property and construction materials on one hand, and shrinking savings on the other, has pushed prices of housing units out of the reach of people belonging to low income group. But unfortunately no such schemes have been launched by the banks for this segment of the society.

Negative areas

At the same time, almost all banks have developed a negative area list. People coming from middle/low income groups who are most in need of housing loans mostly reside in these areas. Majority of loans extended are for residents of upper income localities. The main beneficiaries are employees of banks, multinationals, professionals and some self-employed businessmen.

Low cost schemes

The banks need to develop low cost schemes for those who are currently being denied house loaning facility. The schemes should cover all segments of the society and should be broad based covering the entire country and not only major cities/towns.

Shelter for everyone

In developed countries, an individual shops around and buys a house/apartment of his choice by making a minimum down payment and then paying the cost in easy instalments. In Pakistan, housing finance companies and banks could play an important role in providing long term housing finance to individuals.

Long term finance

In this connection a mortgage of 35 years with a lending rate of 6-7% could be helpful in supporting the construction of new housing units for the middle income group.

Primary / secondary mortgage

The government should also consider the policy option of build, mortgage and transfer through housing companies. In this way those segments of society with limited resources, could be provided shelter. Once the buyer of the house under this scheme is shifted to his own house, through primary or even secondary mortgage, he would be able to pay the cost of the house in easy instalments in the form of monthly rent.

Increasing home ownership

The government's housing policy should aim at increasing home ownership. It should provide more incentives to: -

§ promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population;

§ encourage setting up of housing finance outlets to serve different regions and different income groups;

§ promote savings for housing;

§ encourage flow of credit to persons of small means;

§ make housing more affordable; augment the supply of land for housing schemes.

Pakistan's Banking – A Shift in its Profile

HBL privatised

With the recent privatisation of Habib Bank Ltd (HBL), the second largest commercial bank in the public sector, the structure of the country's financial system has changed towards greater ownership of the private sector. Habib Bank Ltd sold to Aga Khan Foundation for Rs.22 billion, followed the earlier privatisation of United Bank Ltd, when the government divested 51% share to a consortium of investors comprising the Abu Dhabi Group and Bestway Group.

Need to privatise banks

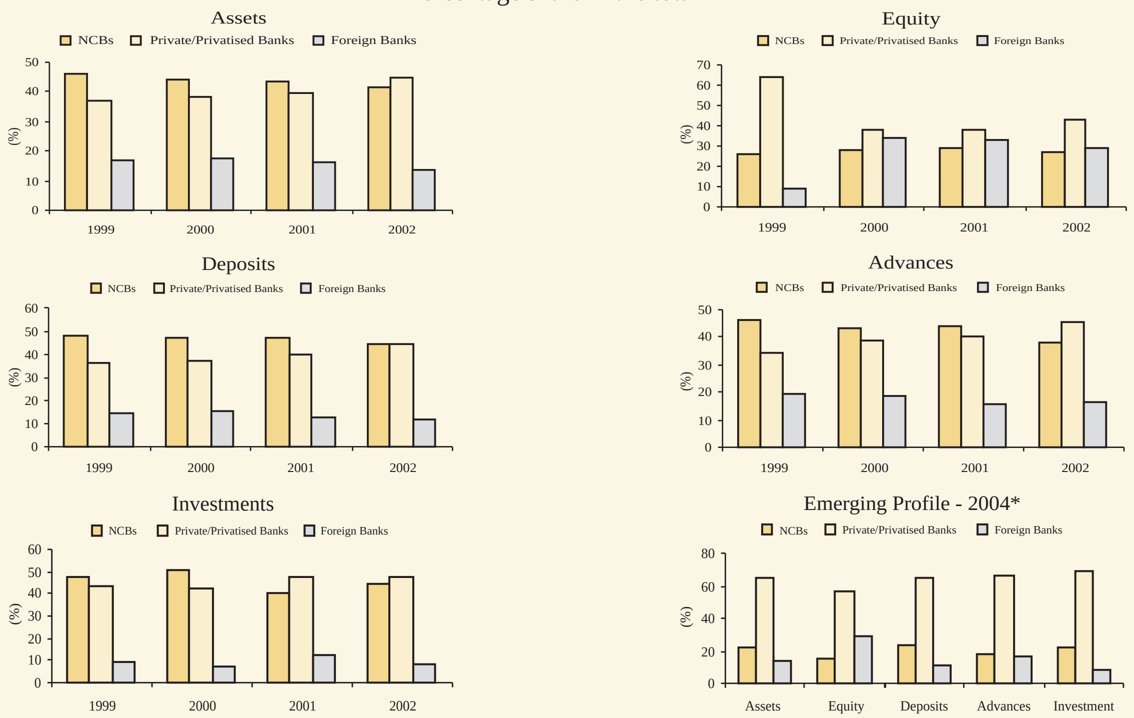
It may be mentioned that privatisation is an important aspect of the Government's economic restructuring and reforms programme. Large scale nationalisation of the 1970s had resulted in structural drawbacks – overstaffing, unprofitable branches, poor customer services, inept credit discipline and large portfolio of non-performing loans. Huge infected loan portfolio of state owned banks had adversely affected the profitability and capital base of public sector banks and led to high administrative expenses and losses for some banks. The State Bank of Pakistan lent support to certain banks through capital injections.

The process of privatisation was initiated more than a decade back when in April 1991, Muslim Copmmercial Bank (MCB) became Pakistan's first privatised bank, when it divested 26% of its shares to the private sector. A year later 25% of MCB shares were offered to the general public, raising the private sector's share in the capital of MCB to 51%. The remaining shares of MCB were disinvested by 2002-03. Allied Bank Ltd was privatised by disinvesting 26% of its shares in 1991-92. The government has offloaded 23.2% shares of National Bank of Pakistan through public offering in the local stock exchanges in the last three years. This also lends support to the economic and investment policies being pursued by the present government, which has given confidence to the investors.

The ownership structure of the banking industry has changed significantly particularly following the privatisation of UBL. The accompanying graphs shows the share of private/ privatised banks has increased considerably and with the privatisation of HBL, this share is expected to go up significantly.

Existing/Emerging Profile of Banks

Percentage share in the total

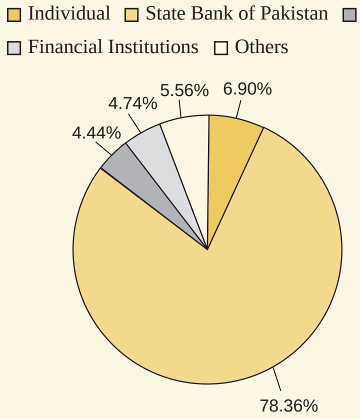


** The graph represents the profile that will emerge in 2004 given the privatisation of HBL. From the actual figures of 2002 we have shifted HBL figures from nationalised banks category and added them to private/privatised banks.*

The ownership structure of the banks has changed after privatisation and in the case of National Bank of Pakistan after offloading 23.2% shares in the Stock Exchange. Categories of shareholders shows the decline in shareholdings of the Federal Government, State Bank of Pakistan, and an increase in the shares of individuals, joint stock companies, insurance companies and others.

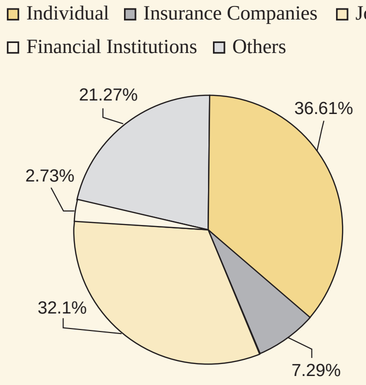
Categories of Shareholders as of December 31, 2002

NBP



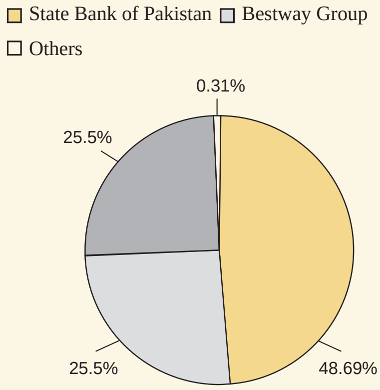
3.2% shares of the Bank were offloaded in the year 2003. SBP shareholding declined to 75.2% by end December 2003

MCB



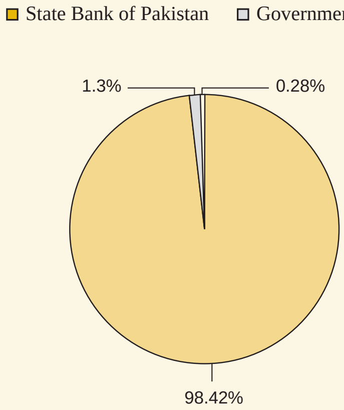
During the year 2002, the remaining shares held by the government, State Bank of Pakistan have been divested, mostly through capital market. Now the government does not hold any shares of MCB.

UBL



In October 2002, the Government of Pakistan sold 51% of their shareholding to the consortium of Abu Dhabi Group and Bestway Group.

HBL



In January 2004, 51% of the Bank's stock was sold to Aga Khan Fund for Economic Development

Pakistan Economy – Recent Developments

In the outgoing year 2003, the Asian Development Bank published its Economic Update on Pakistan for the first quarter of fiscal 2003-04, and the State Bank of Pakistan its first quarterly report of FY04. Based on these two publications and latest data available, let us shed a cursory glance on what has been the state of national economy in the first half of FY04.

The domestic economy performed well in terms of key economic indicators and there are strong indications that it will meet most macro economic targets in FY04. Both the agricultural and large scale manufacturing sectors have done better over last year. Increase in private sector credit, double digit growth in exports, low interest rates prevailing and increased credit availability led to increased demand for consumer durables and contributed to capacity expansion, modernisation drive and growth in most major industrial sectors.

LSM growth improves

Growth in large scale manufacturing has largely been broad based with few exceptions. Consumer durables outperformed the other sectors. BMR continued in the textile industry

Large-scale Manufacturing Items
Good Performers

(Jul-Dec FY04)

Items	Percentage Change FY03	Percentage Change FY04
Textile	3.81	4.67
Cotton cloths	-2.21	17.50
Vegetable ghee	-1.63	4.59
Petroleum products	0.62	1.61
Fertilizers	0.99	7.42
Phosphatic	-37.30	65.35
Pharmaceuticals	-0.54	17.70
Metal industries	-0.83	18.59
Pig iron	-2.28	20.09
Coke	-3.51	20.16
Leather products	-4.46	53.47
Chemicals	3.49	16.51
Electronics	5.57	37.29
Air conditioners	-12.96	656.53
Automobile	39.50	60.21
Cars & jeeps	41.27	70.05
Motorcycles	38.23	62.96
Non-metallic minerals	12.47	16.21
Cement	10.52	16.66
Tyres & tubes	9.84	11.42

Source: State Bank of Pakistan

as it prepares to meet WTO challenges, vegetable ghee saw a turnaround as the government discouraged the production of ghee by the unregistered units and fertilizer showed higher output as phosphatic fertilizer production rose. Significant increase in the production of cement, basic metals have also been recorded.

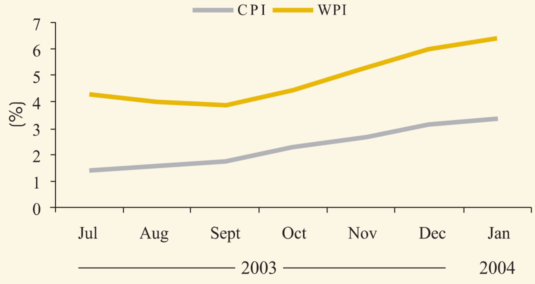
Agricultural growth achievable

Major agricultural crops with the exception of cotton are expected to do well. Availability of water has improved, and the increase in the procurement price of wheat has improved the prospects of the crop. Rice and sugarcane are expected to surpass the target. However, cotton has suffered because of untimely rains as well as pest attacks in some cotton growing areas. A combination of factors like higher yields, good water availability, improved access to agricultural credit are expected to reinforce productivity in FY04 and help the sector achieve its target of 4.2% in FY04.

Prices show an increase

Inflation as measured by CPI has risen in recent months. CPI rose to 3.38% by January 2004, against only 1.41% at the beginning of FY04. Some shortage of wheat in the domestic market, strong domestic demand and the rise in prices associated with Ramazan raised the inflation rate in the last few months. Similar trend was shown by WPI.

Price Indicators



External sector

Exports and imports showed double digit growth in the first half of FY04, compared to the corresponding period a year earlier. Exports rose by13.1% to $5.88 billion against $5.20 billion in the corresponding period a year earlier. Meanwhile, imports grew by 14.4% to $6.61 billion over $5.79 billon in the first half of

FY03. The trade deficit widened to $730 million in the first six months of FY04 over $590 million in the corresponding period of FY03.

Textiles exports rise

Textiles, accounting for 64% of total exports increased by 12.1%, during July-December 2003 over the corresponding period a year earlier. This is attributable to better access to the EU and US markets, improved competitiveness of the domestic textile industry and global economic recovery. Textile exports continued to benefit from both rising volume and higher unit prices. Knitwear and tents, tarpaulin registered quantum increases of 22.7% and 30.6% respectively. All textile export items, except readymade garments showed increase in value.

Other exports grow

Besides textiles, among the other export items, export of petroleum products recorded an increase of 43.6% in the first half of FY04, alongwith a substantial increase (23.1%) from export of engineering goods. Among primary commodities, earnings from export of rice increased by 28.5% as there was a substantial rise in quantum of basmati exported (17.3%). Wheat exports declined sharply (93.8%) in the first half of FY04. Large carryover stocks of wheat from previous years crop was exported last year.

Growth in imports was broad based, with all commodity groups, except food and petroleum showing significant increases, ranging from 12.9% for textile group to 26.9% for metals, iron & steel scrap imports more than doubled. Higher demand for automobiles as consumer credit extended by banks rose, led to enhanced imports of road motor vehicles.

Banking sector develop-ments

The banking sector has done well in the first half of FY04, with continued growth in investment portfolio, in extending credit to the private sector, strengthening consumer loans, improved asset quality and improved profitability of banks. Customer deposits of scheduled banks (stock) stood at Rs.1781.82 billion in the last week of December 2003, a 17.4% rise over corresponding month a year earlier. Deposits have risen not only due to flows of remittances, but also on account of the improved financial health of public sector enterprises. Government deposits also grew on account of fiscal discipline practiced by the government.

Meanwhile, interest rates continued at low levels. The discount rate remained unchanged at 7.5%, and yields on 6 month treasury bills and 10 year Pakistan Investment Bonds, despite showing some increase continued to remain low.

There has been a strong growth in private sector credit, primarily due to increased banks' consumer financing activities, lending to small & medium enterprises, increase investments in the equity market. This indicates banks diversification into new areas of business. Public sector enterprises showed net retirement of credit.

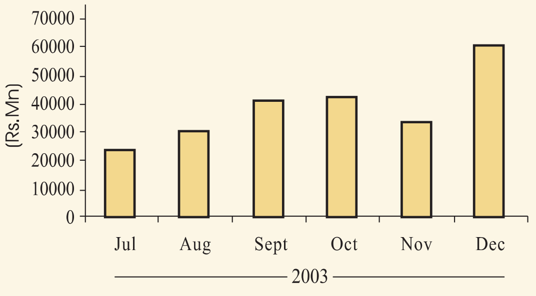
Non-performing loans (NPLs) of all commercial banks stood at Rs.153.67 billion as on September 30, 2003, against Rs.166.38 billion in the corresponding period of 2002. The ratio of net NPLs to net advances declined in the corresponding period to 7.66% from 10.41%. There was a substantial fall in NPLs of Nationalised Commercial Banks which fell by 11.4% to Rs.82.1 billion from Rs.92.6 billion. The privatised banks also showed a decline in the stock of NPLs.

The State Bank of Pakistan has issued new prudential regulations for small & medium enterprises, consumer banking, corporate/ commercial banks, new guidelines for all banks to prevent use of banking sector for money laundering.

Tax collection improve

In the first half of FY04, CBR tax collections were 45.2% of the year's target. The receipts upto December 03 stood at Rs.230.43 billion or 14.4%higher over Rs.201.43 billion collected in the corresponding period of the preceding fiscal year. Looking at the monthly performance there has been a steady improvement in tax collections except in November 03 when these fell.

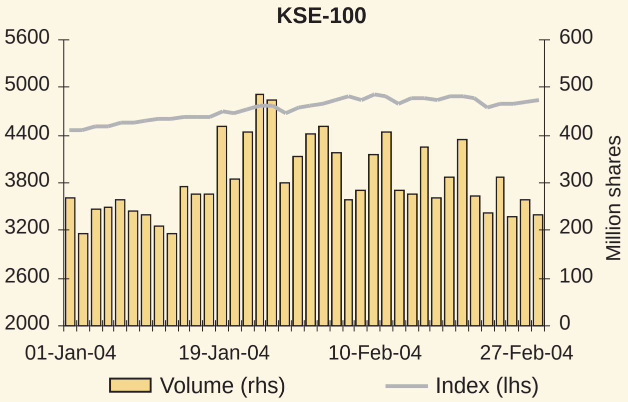
Tax Collections



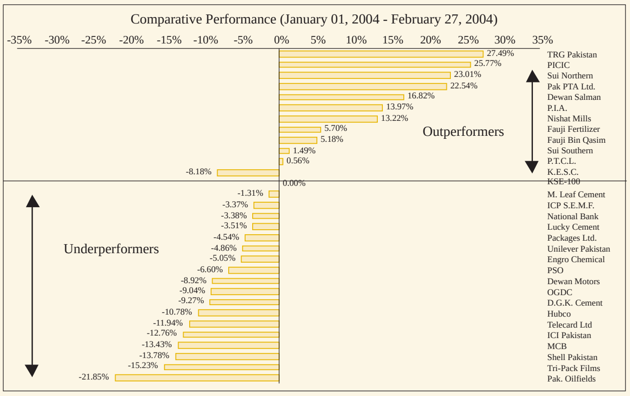
Market Analysis

Market Outlook

The market posted strong gains in January 2004, but became unstable in February. The KSE-100 Index rose 367 points in January to close at 4841. However, in February it met resistance at the 4900 level and traded within a 152 point range. Until the last week of February, the market could not make more than two consecutive days of gains in a row. The KSE-100 Index eventually closed the month unchanged (down 1.7 points) at 4839.6.



Defensive stocks, Unilever, PTCL and Fauji Fertilizer were the main out performers in February, whilst in January the movers were smaller stocks such as TRG, PICIC, Dewan Salman, Dewan Motors and Pak PTA, which tend to attract more speculative interest. PIA also did well on speculation ahead of its second public offering, which was expected by March 2004 but then was reported delayed by one month. Earnings announced in January and February for FY03 and HY04 had few major surprises. However, Pakistan Oilfields failure to pay an interim dividend saw its share price suffer considerably. PTCL's earnings were better than expected for the half year and the outlook for the full year is also very good.



Two sectors that had been leading the market rally over the past year that took a tumble were the auto and cement sectors.

The government announced it would form a task force to consider whether to allow the import of reconditioned cars. It also stated it would consider reducing duties on imports of cars (CBUs) and car parts (CKDs). Competition from reconditioned cars could divert demand from local assemblers, and greater competition would also mean reduced margins for the auto sector. As a result, auto sector share prices suffered.

In the cement sector, one manufacturer agitated for greater quota allocation from the cartel and fuelled fears of another price war. Cement stocks fell steeply as a result. The matter was resolved without a breakdown and the cement cartel is intact but this incident was a reminder of how volatile the cement sector really is given its dependence on a cartel.

Outlook

The government believes its GDP growth target of 5.3% for the 2003-04 will be achieved or surpassed, but there are signs that inflation is on the rise. This needs to be watched as there is the risk the government may raise interest rates to control inflation, and that would adversely affect the equity market.

Until the 2004-05 fiscal budget is announced, there is going to be uncertainty in the months ahead with regard to government policy in the auto and cement sectors. Rising steel prices may affect the manufacturing sector too and need to be kept an eye on.

On the political front, Pakistan and India relations have definitely improved, and while it is premature, there is hope that the peace dividend is closer to being realized.

As far as the equity markets are concerned, we advise gradually reducing exposure for the short-term by selling on strength. We still see value in the market, but a technical correction may not be too far around the corner and better opportunities will present themselves for accumulation in the future.

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

Accelerating Economic Growth and Reducing Poverty: The Road Ahead

Poverty Reduction Strategy Paper

Government of Pakistan

The Government of Pakistan has prepared a full Poverty Reduction Strategy Paper after a long consultative process involving the line ministries, provincial and district governments, civil society, various interest groups, donors and grass root communities across the provinces.

Eradicating poverty has gained significance the world over. In 2000, one hundred and eighty heads of state signed the Millennium Declaration, pledging to reduce poverty in all its dimensions as reflected in the Millennium Development Goals by 2015. Human development is central to this entire strategy, as no improvement can be brought about without investing in people.

Focus on poverty to achieve sustainable development

Governments have come to realize that successful development can only be achieved if there are major reductions in human deprivation. It is essential to make the services that contribute to health and education — water, sanitation, energy, transport, work for the poor people. Poor people, frequently, do not receive the benefits of public investment in education and health. In the mid 1990s many viewed large investments in physical capital and infrastructure as the primary means of development. Later however, other issues moved toward centre stage. Improvement in health and education were important not only in their own right but also to promote growth in the incomes of the poor people. Governance and institutions gained significance in the late 90s.

Reducing poverty has gained world focus. There however, is no universal strategy to reduce poverty. Institutional changes will have to be tailored to the requirement of each country. Mix of policies would have to be prepared to meet the developing countries needs, reflecting national priorities and local realities.

The Government of Pakistan is well cognisant of the problem of poverty and had drafted in 2001 an Interim Poverty Reduction Strategy Paper (IPRSP) to tackle the issue. The guiding principles which would pilot the poverty reduction strategy process were; reducing income poverty and inequality, increasing levels of quality education and improving health outcomes, eliminating social exclusion and gender discrimination, increasing the participation of marginalized groups in the decision making process and improving governance.

The government adopted a multipronged approach, mobilizing the key drivers of the poverty reduction strategy. These encompassed macroeconomic reforms, governance reforms, physical assets creation, social assets creation and creation of social safety nets.

Progress has not reduced poverty

While progress has been achieved in pursuing the strategy, poverty reduction is still a major challenge. The economy has made significant progress towards macroeconomic stabilization and revival of economic growth; policies are more transparent, confidence of the private sector is picking up, inflation and interest rate are at their lowest levels in many years, debt has fallen, fiscal deficit has been reduced and the current account balance is in surplus. But at the same time, poverty is widespread in all its dimensions. People continue to suffer from low income, illiteracy, ill-health and gender inequality.

A full Poverty Reduction Strategy Paper (PRSP) has been prepared in close consultation with different levels of government and civil society to provide an integrated approach to diverse set of factors that influence poverty in Pakistan. PRSP identifies the challenges ahead and carries forward the major policy objectives and initiatives undertaken by the Government.

The core elements of the strategy in the PRSP are: accelerating economic growth while maintaining macroeconomic stability, improving governance, investing in human capital and targeting the poor and the vulnerable. The strategy gives much emphasis on the creation of job opportunities and associated self employment opportunities. Focus is on the growth in agriculture, small and medium enterprises, housing and construction, IT, telecommunication sector and exports.

PRSP Strategy

The strategy also focuses on attainment of Millennium Development Goals for sustainable development and poverty reduction. This could be brought about by the government by working in cooperation with civil society and the private sector. The vital elements of the PRSP includes devolution programme, human development and rural development strategy.

While progress has been made in implementing the IPRSP and positive results have ensued, there remains some gaps in the strategy identified in the IRSP. The full PRSP now articulates a more comprehensive strategy including policies for rural development, gender issues, employment and the environment. It also includes a more focused human development strategy.

Principles of PRSP

The PRSP is a comprehensive document with concrete programmes to translate government's strategy into meaningful results. In the words of the Report, the full PRSP is based on six principles.

- It is home grown, involving broad based participation by key stakeholders;
- it is result oriented, focusing on monitorable outcomes that benefit the poor;
- it is comprehensive, recognizing the multidimensional nature of poverty;
- it is prioritized, so implementation is feasible in both fiscal and institutional terms;
- it is oriented to build public-private partnership; and
- it is aligned with the Millennium Development Goals.

The Report has acknowledged "the vicious cycle of poverty is accentuated when the governance structures exclude the most vulnerable from the decision making process". Further "ample qualitative evidence points to marginalization of the poor from markets and institutions that impede their ability to improve their incomes and influence policies that directly affect them". The Report states, "persistent poverty and inequalities provide a fertile breeding ground for ethnicity, sectarianism and lawlessness". The government has formulated a comprehensive strategy to address this complex problem effectively and bring about a significant and sustained reduction in poverty.

The strategy of PRSP as mentioned earlier, addresses different aspects of the same problem, poverty. While achieving high economic growth addresses income and human poverty directly, bringing the backward regions into the mainstream of development reflects the government's determination to step up efforts in the protection of the most vulnerable, marginalized segments of the population.

A new approach

The PRSP strategy has adopted a new approach in a number of areas. These include the following: (i) the additional fiscal space brought about by debt restructuring, reduced PSE losses, and increased tax revenue will be directed, as a priority, to poverty reducing and growth enhancing expenditures, (ii) the range of pro-poor expenditures will be broadened to include law & order, access to justice and rural electrification, (iii) sustainable high growth is stressed, and policies to accelerate income and employment growth in rural areas is emphasized, (iv) social inclusion and improving governance receives renewed impetus, (v) comprehensive programmes to enhance the transparency and effectiveness of public spending.

Effective implementation of development plans and better delivery of social and economic services are highlighted as the primary means of accelerating human development, particularly among the poor and neglected groups. Government's role has been streamlined and public interventions will be limited and focused on areas where they can yield the maximum social benefits.

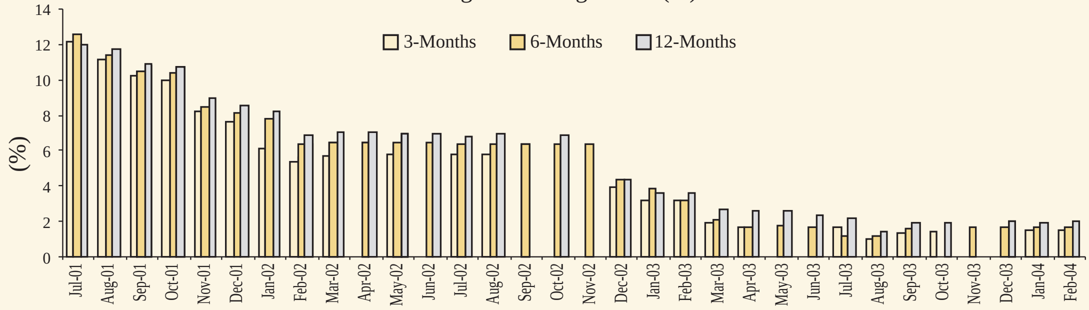
Key Economic Indicators

Economy Size & Growth			1999-00	2000-01	2001-02	2002-03
GNP - Market Prices		Rs bn	3132.3	3372.4	3660.7	4201.7
GDP - Market Prices		Rs bn	3177.2	3423.1	3628.7	4021.1
Per Capita Income	Market Prices Rs		23031	24248	25767	28945
	Market Prices US $		441	415	419	492
Growth*						
GDP		%	3.91	2.09	3.49	5.08
Agriculture		%	6.09	-2.74	-0.07	4.15
Manufacturing		%	1.53	8.21	5.00	7.67
Wholesale & Retail trade		%	1.92	5.37	2.28	7.32
Rate of Inflation		%				
Consumer Price Index**			3.6	4.4	3.5	3.1
GDP Deflator			2.8	6.0	3.2	4.5
Balance of Payments		$ mn				
Exports (f.o.b.)			8190	8933	9140	10889
Imports (f.o.b.)			9602	10202	9434	11425
Trade Balance			-1412	-1269	-294	-536
Services Account (Net)			-2794	-3142	-2617	-2173
Private Transfers (Net)			3063	3898	4249	5737
Current Account Balance			-1143	-513	1338	3028
Fiscal Balance		% of GDP				
Total Revenue (Net)			16.3	16.2	17.2	17.7
Total Expenditure			22.5	21.0	22.8	22.1
Overall Deficit			6.6	5.2	5.2	4.4
Domestic & Foreign Debt						
Domestic Debt		Rs bn	1579	1731	1718	1852
As % GDP			50.2	50.6	47.3	46.1
Total External Debt		$ bn	32.3	32.2	33.4	33.4
As % GDP			53.1	54.9	56.6	48.5
As % Export Earnings			395.1	360.0	365.7	364.7
Investment & Savings		% of GNP				
Gross Investment			16.2	15.8	14.6	14.8
Fixed Investment			14.6	14.1	13.0	12.5
National Savings			14.3	14.9	16.8	18.5
Domestic Savings		% of GDP	15.8	16.5	16.9	16.2
Foreign Investment (net)		$ mn	543	182	475	820
Portfolio (net)			73	-140	-10	22
Direct (net)			470	322	485	798
Monetary Aggregates		%				
M1			14.9	3.0	15.2	26.2
M2			9.4	9.0	15.4	18.0
Interest Rates (Weighted Average)		%				
Deposits			5.47	5.27	3.60	1.61
Advances			13.52	13.61	13.19	9.40
Foreign Exchange Reserves^		$ mn	2163	3244	6398	10747
Exchange Rate++		Rs./$				
Official Rate			52.16	64.40	60.07	57.81
Open Market Rate			54.82	66.70	60.20	57.80

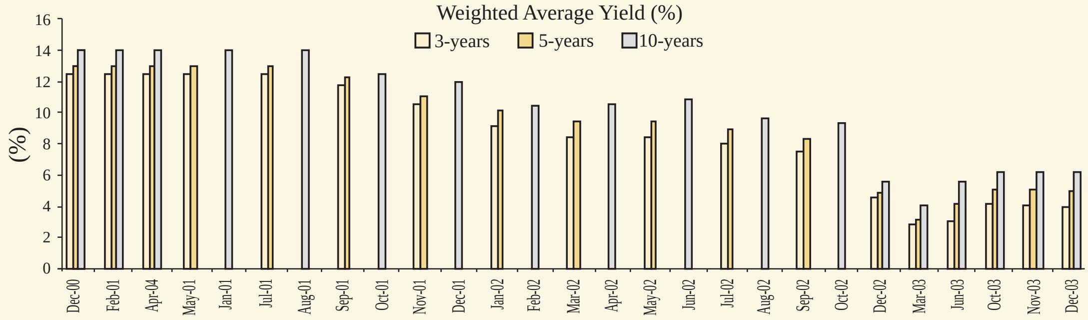
Source: SBP Annual Report 2002-03

* Constant Factor Cost of 1980-81
** Base 2000 - 01
^ Excludes FE 13/CRR and includes Indian pending transfers, new FCA and Trade Nostro.
++ End-June Buying Rate

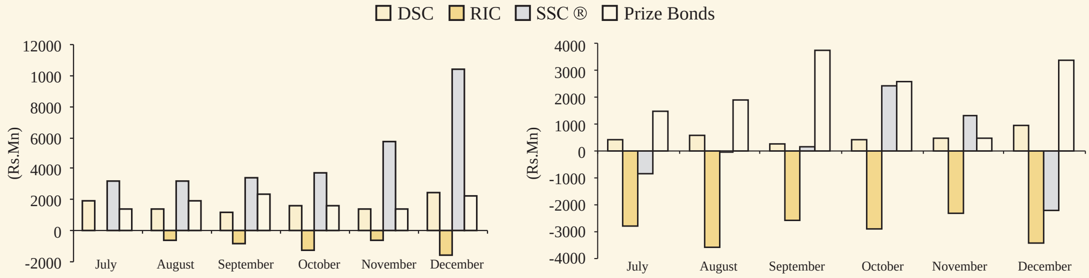
T-Bills Auction
Weighted Average Yield (%)



Pakistan Investment Bonds
Weighted Average Yield (%)



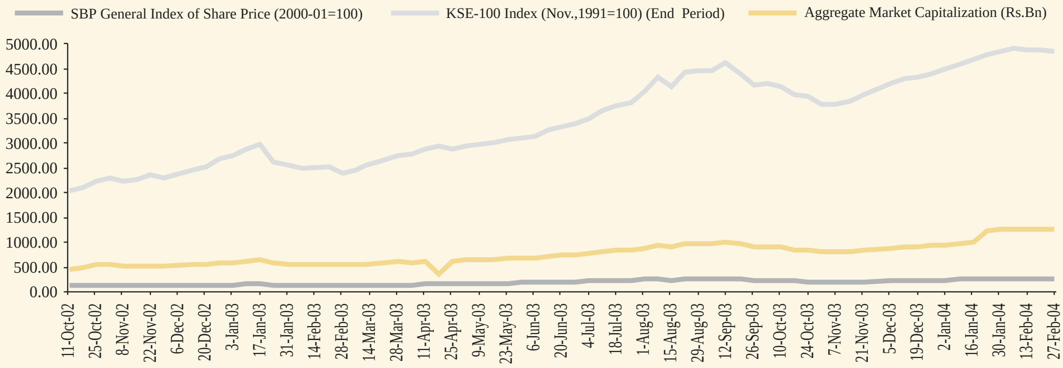
Savings Mobilised by National Savings Schemes



2002-03 2003-04

DSC : Defence Savings Certificates RIC: Regular Income Certificates SSC: Special Savings Certificates (Registered)

Indicators of Karachi Stock Exchange



NBP Performance at a Glance

(Rs. Bn)

Items	1998	1999	2000	2001	2002
Net Fund Based Income	8.9	10.4	8.8	12.4	12.8
Non Fund Based Income	2.7	4.0	4.0	4.5	4.8
Administrative Expenses	6.2	7.9	8.0	8.6	9.1
Pre-Tax Profit	2.14	0.52	1.03	3.02	6.04
After-Tax Profit	0.53	0.03	0.46	1.15	2.25
Total Assets	325.1	350.4	371.6	415.1	432.8
Deposits	273.4	294.8	316.5	349.6	362.9
Advances	109.5	122.6	140.3	170.3	140.5
Investments	103.0	91.5	72.6	71.8	143.5
Shareholders' Equity	10.0	10.4	11.4	12.0	14.3
Number of Branches	1434	1431	1428	1245	1204
Number of Employees	15785	15541	15351	15163	12195

NBP Products

NBP Saiban

- Finance available for home purchase, home construction and home improvement.
- Period of repayment ranges between 3-20 years.
- Loans available upto a maximum of Rs.10 million.
- Mark-up choices available. Rate ranges between 7.5% – 9.75%.
- Minimum approval and disbursement timing.
- Limited to areas where there are no documentation, fee, resale and foreclosure related issues, so to protect the bank's interest.

NBP Advance Salary

- 10 month salaries in advance (certain conditions apply).
- Minimum documentation.
- Repayable in 5 years.
- No processing charges; no collaterals, no guarantees, no insurance.
- Mark-up charged at 11% per annum on reducing balance method.

NBP Cash n Gold

- Facility of Rs.5000 against 10 gms of gold.
- Mark-up 11% per annum.
- No maximum limit of cash.
- Repayable after one year.
- Roll over facility.
- No penalty for early repayment.

NBP Kisan Dost

- Loans available for the farmers for production, development purposes, for purchase of tractors, for installation of tubewells, for purchase of agricultural implements, mirco loans, for godown construction, for construction of fish pond, for livestock farming, for milk processing, for cold storage, bio-gas plants etc.
- Mark-up 11% per annum.
- Loans available at the farmer's doorsteps.
- Agricultural experts to guide farmers.
- Loans available against agricultural passbooks, gold ornaments and paper security.