

PROFILE

STATE BANK OF PAKISTAN — AN OVERVIEW

RESPONSIBILITIES

State Bank of Pakistan (SBP) is a statutory body created under the State Bank of Pakistan Act 1956. As central bank of the country, the State Bank of Pakistan has a number of policy, regulatory and fiduciary responsibilities aimed at strengthening the financial system of the country and providing an enabling framework for the financial industry that fosters economic growth. These responsibilities include regulation of the domestic monetary and credit system through an efficient monetary policy, securing monetary and exchange rate stability and ensuring financial stability through effective regulation and supervision of the banking sector in particular and the financial industry in general. Over the years, SBP has evolved through the stages of being an organization owned partially by the private banks, nationalized in 1974 and then to have seen progressively greater autonomy since 1994. However, with the recent approval of an Ordinance by the Federal Cabinet, which provides for amendments in the State Bank Act of 1956 relating to grant of enhanced autonomy for the institution, State Bank of Pakistan has now attained far greater administrative and functional independence than at any stage since it was established.

FUNCTIONS AND SERVICES

The State Bank performs primary, secondary as well as developmental functions. *Primary functions* are generally performed by almost all central banks and include issuance of notes, conduct of monetary policy, regulation and supervision of the financial system, acting as a bankers' bank, lender of the last resort, and banker to the Government. *Secondary functions* include agency functions such as management of public debt and foreign exchange reserves, advising the Government on policy matters and maintaining close relationships with international financial institutions. In addition to these, the State Bank also assumes important developmental roles that range from the provision of frameworks for the institutionalization of savings and investment in the economy, creating an enabling environment offering capacity building opportunities to the banking sector in collaboration with the Institute of Bankers Pakistan and the National Institute for Banking and Finance to assisting the Government in promoting the growth of sectors such as SMEs, Housing and IT. State Bank has also been actively contributing to the promotion of the agriculture sector and encouraging utilization of locally manufactured machinery in industrial undertakings through enabling policy framework. Moreover, it is focusing on the development of an Islamic banking system and financial instruments toward compliance of the Supreme Court's ruling for gradual introduction of an alternative financial system in Pakistan that caters to the needs of this market.

DEVELOPMENTAL ROLE

In addition to performing various functions mandated under relevant legislation, State Bank performs a number of developmental roles as a responsible member of the economic management team of the country. These vary from undertaking path-breaking research to introducing innovative products such as Islamic Export Refinance Schemes, Housing Finance Windows, promotion of micro finance and provision of enabling environment by facilitating opening of Internet Merchant Accounts and developing a Real Time Gross Settlement System (RTGS) for the industry.

ORGANISATION

The Board of Directors appointed by the Federal Government and consisting of seven members drawn from the private sector and Secretary Ministry of Finance is the overall policy making and supervisory

body for the affairs of the SBP. The State Bank of Pakistan has been organized into three distinct legal entities: the central bank—with focus on the core functions such as formulation and conduct of monetary policy and financial stability; the SBP-Banking Services Corporation—the retail arm of the central bank—and the National Institute of Banking and Finance (NIBAF), which is the delivery arm of all training needs of the State Bank.

The central bank is currently divided into fifteen departments, with three departments — Legal, Engineering and Medical—acting as common support departments for both the State Bank and the newly formed Banking Services Corporation (BSC). IT support is also available to subsidiaries from the Information Systems Department of State Bank. The organograms of the central bank, BSC and NIBAF are given at Annexure D.

CORPORATE GOVERNANCE

There has been a conscious, concerted effort to make the decision-making processes at the State Bank more structured, inclusive and result-oriented. While the Central Board of Directors, which is assisted by various sub-committees, performs the policy formulation and oversight functions, the management within the State Bank of Pakistan is carried out at three tiers:

- a. Corporate Management Team and Policy Groups
- b. Group Management Team
- c. Departmental Management Teams

CENTRAL BOARD OF DIRECTORS

The following were the members of the Central Board of Directors during 2002-2003:

1.	Dr. Ishrat Husain	Governor & Chairman
2.	Mr. Nawid Ahsan	Member /Secretary Finance
3.	Dr. Salman Shah	Member
4.	Mr. M. Hussain Dawood	Member
5.	Mr. R. A. Akhund	Member
6.	Mr. Azam Faruque	Member
7.	Mr. Fazalur Rehman Dittu	Member
8.	Mr. Qaiser Zulfaqr Khan	Member
9.	Mr. Zia Khaleeli	Member

As in other organizations, the Central Board of Directors provides the overall policy framework, guidelines and direction to conduct of bank's business. To assist the Central Board in its policy related work, subcommittees of the Board have been formed in seven areas (Audit, Human Resources, Budget, Buildings, Information Technology, Monetary & Exchange Policy and Investment). The formation of these Sub-Committees also reflects decentralization of decision-making within the Board, as the Sub-Committees are appropriately empowered to take decisions on behalf of the Board.

The SBP Act lays down the functions and responsibilities of the Board as follows:

- Formulation and monitoring of 'Monetary and Credit Policy' and in determining the expansion of liquidity, take into account the Federal Government's targets for growth and inflation and ensure that the Bank conducts 'Monetary and Credit Policy' in a manner consistent with these targets and the recommendations of the Monetary and Fiscal Co-ordination Board (MFPCD) with respect to macro-economic policy objectives

- Determine and enforce, in addition to the overall expansion of liquidity, the limit of credit to be extended by the Bank to the Federal Government, Provincial Governments and other agencies of the Federal and Provincial governments for all purposes, it being understood that the government will meet their additional credit requirement directly from commercial banks through market based auctioning system to be conducted by the Bank
- Approve and intimate to the MFPCD, credit requirements of the private sector
- Tender advice to the Federal Government on the interaction of Monetary Policy with Fiscal and Exchange Rate Policy
- Analyze and advise the Federal Government on the impact of various policies on the state of the economy
- Submit a quarterly report to the Parliament on the state of the economy with special reference to economic growth, credit, balance of payments and price developments
- Discharge such other functions as may be necessary for formulating monetary policy and regulating the monetary system or as may be assigned by the Federal government

MANAGEMENT TEAMS

Decision-making at the management level has been similarly decentralized to: the Corporate Management Team (CMT)—which acts as the principal forum for debate and decision on critical operational issues affecting the quality of work at the institutional level. The Corporate Management team is headed by the Governor and consists of Deputy Governors, Executive Directors, Economic Advisor, M.D. Banking Services Corporation, Chief Spokesman and Director, CMAD who acts as the Secretary of the team. The terms of reference of the CMT provide for it to be a forum to:

- Hold formal, regular interactions and discussions amongst senior management
- Serve as policy incubator
- Enable and facilitate collective and informed, strategic decision making
- Monitor change management processes and activities
- Convene as the Steering committee on Change Management every quarter.

The CMT is assisted by six Policy Groups. Three Policy groups on HR, IT and Payment System are headed by Deputy Governor (Management) and three groups on Banking, Monetary & Exchange Rate Policy and Exchange and Debt Management are headed by Deputy Governor (Banking). The Group Management Team (GMT) deals with problems relating to functional clusters of departments working under Executive Directors and the Departmental Management Team (DMT), where department-specific issues are addressed are headed by the respective Directors. It is pertinent to point out that by design, there is a two-way flow of information and a clear focus on a bottom-up approach, with policy proposals flowing from the departmental levels to the GMT and CMT. Likewise, the directions and guidelines framed by the CMT trickle down to the other decision-making forums described above and eventually reach the relevant Division and the individual workers entrusted with the job of ensuring compliance. The same channel is used for monitoring progress achievement and identification of bottlenecks in implementation, if any.

STATE BANK OF PAKISTAN BANKING SERVICES CORPORATION

Consequent upon promulgation of SBP-Banking Services Corporation (Bank) Ordinance – 2001 an independent subsidiary of the Bank viz. SBP Banking Services Corporation (Bank) has been set up

with effect from 2-1-2002 to handle the retail banking functions previously performed at 16 field offices of the State Bank. An officer of the rank of Executive Director was appointed as the first Managing Director of the subsidiary. The Corporation works under the supervision of a Board of Directors identical to the Central Board of Directors of the State Bank of Pakistan, except that the Managing Director of the Corporation is also a member.

In addition to the staff working at field offices, the subsidiary has established its Head Office at Karachi, which comprises of the following departments:

1. Administration Department
2. Accounts Department
3. Internal Audit Department
4. Exchange Policy Department
5. Engineering Department
6. Foreign Exchange Adjudication Department
7. Internal Bank Security Department
8. Medical Services Department

It has been decided that the three common services Departments (viz. Medical Services Department, Engineering Department and Internal Bank Security Department) shall continue to provide services to the State Bank and its employees without any disruption. The Heads of these Departments will report to Managing Director, SBP BSC for all administrative purposes but they will continue to be responsible to Executive Director (SSD) for rendering services in their respective areas of work and execution of all on-going and future projects of the State Bank. The services of all Joint directors (OG-5) working in and on the strength of field offices have been permanently transferred to the SBP-BSC while some vacancies in this grade have been filled by deputation of officers from SBP. However, a number of OG-6 Chief Managers and HODs, whose services had not been transferred to the BSC shall continue to retain their option in SBP.

The main functions and responsibilities of the corporation include:

- Providing customer oriented banking services to government departments, financial institutions and the public
- Management of currency under issue and NSS schemes / instruments
- Efficient operations of the Payment System

NATIONAL INSTITUTE OF BANKING AND FINANCE (NIBAF)

State Bank of Pakistan took over the entire ownership and management of the National Institute of Banking and Finance (NIBAF) in 1997 from the Pakistan Banking Council upon its dissolution. NIBAF was set up as an independent legal entity under the Companies Ordinance, 1984. Retaining its legal status, NIBAF has now been transformed into a subsidiary of the SBP. The State Bank owns 90 percent of NIBAF shares while the National Bank of Pakistan owns the remaining 10 percent. NIBAF is the delivery arm for training of State Bank officers, arranging various forms of institutional training, including post-induction training, foundation courses, management training and international courses as well as selected specialized trainings. Close liaison is maintained with State Bank's Training Department, which has since been merged with the Human Resources Department as a division, which while assisting in the training needs assessment, also acts as an interface between NIBAF and the departments at the State Bank. The headquarter of the Institute is located at Islamabad where the Institute has its own purpose built campus comprising an academic block and residential facilities. NIBAF has another campus at Karachi located in the State Bank branch office at North Nazimabad.

NIBAF has started to operate as an independent subsidiary of SBP since February 6, 2002. The policy- making and strategic management of NIBAF rests with a Board comprising the following members:

Governor State Bank	Chairman
Dr. Salman Shah	Member
Mr. Azam Faruque	Member
Mr. Zia Khaleeli	Member
Deputy Governor (M)	Member
Managing Director (NIBAF)	Member
Nominee of NBP	Member

The Institute is headed by a Managing Director who is assisted by three functional Area Coordinators. The three functional areas are: Support Services, Knowledge Management, Publications and Research. The training delivery center at Karachi is also looked after by a Resident Director, who reports to the Managing Director.

The Institute is reposed with the following core functions:

- To design, develop and deliver training programs
- To develop training handbooks and training manuals for training programs
- To support research in the areas of economics, banking, finance and change management
- To acquire, collate and disseminate knowledge in the areas of change management and restructuring of the Financial System
- To engage trainers and to develop partnerships with institutions engaged in executive education as well as in research in the fields of economics, banking, finance and general management

