

## 2 Banking Services to the Government

### 2.1 Overview

Under Section 21 of the State Bank of Pakistan Act 1956, the SBP has been entrusted to perform banking business on behalf of the federal and provincial governments and also to carry out their exchange, remittance and other banking operations including the management of public debt. The operational work relating to governments' banking business is carried out by SBP-BSC through its 16 field offices and a wide network of 226 currency chests/ sub-chests established at NBP branches through out the country. At places where BSC has no offices or agencies, money transactions are carried on by the government treasuries and sub-treasuries. BSC is responsible for the provision and maintenance of sufficient stocks of notes and coins for all requirements of the government as also for reasonable remittance facilities to the public at government treasuries/ sub-treasuries at places where there are no branches of NBP or its own offices.

The banking services provided by SBP-BSC to the federal, provincial and local governments include collection of revenue and making payments on behalf of government departments and carrying out operational work relating to various saving schemes of the government. Besides, tax/ revenue collected by BSC offices is credited to appropriate head of account and updated position is communicated to Federal Board of Revenue (FBR) through on-line network on daily basis under Collection Automation Project (CAP).

The field offices of SBP-BSC are playing an important role in mobilizing savings from the general public through sale of government's saving schemes instruments. BSC offices are shouldering the responsibility of sale, encashment and profit payments on various saving schemes of the Central Directorate of National Savings (CDNS). The effective and efficient role played by BSC has been instrumental in the success of various saving schemes of the CDNS particularly National Prize Bonds. The transactions relating to sale and encashment of Special Savings Certificates (SSCs), Defence Savings Certificates (DSCs) and National Prize Bonds, disbursement of profit on SSCs, DSCs and payment of prize money against prize winning bonds are carried out by the field offices of BSC. The information relating to national saving schemes handled by field offices and commercial banks is consolidated and provided to CDNS on regular basis. BSC also arranges draws of National Prize Bands twice a month at different offices by rotation as per schedule. The information relating to deduction of income tax on profit paid on national savings schemes is transmitted to FBR on a daily basis.

### 2.2 Management of Government Accounts

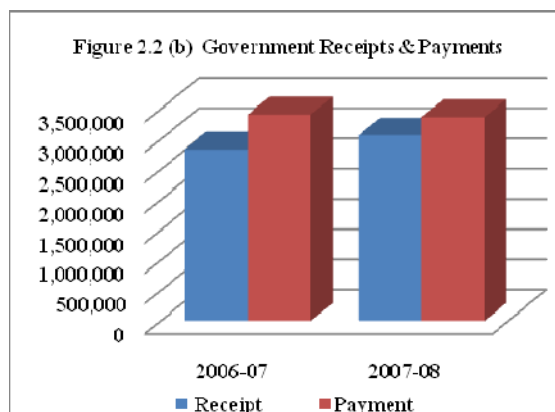
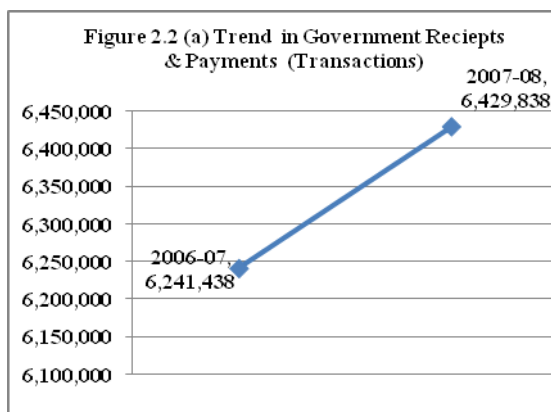
The Accounts Department of SBP-BSC is responsible for maintenance of the accounts of the federal, provincial and local governments as well as Zakat accounts. The data pertaining to government transactions carried in various accounts is reported to Accountant General of the provinces, Accountant General Pakistan Revenue, Pakistan Railways and other concerned departments on daily/ periodic basis. The daily position of government balances is also provided to Finance Department of the SBP for onward transmission to concerned

ministry. BSC provides following banking services to the government through its field offices:

- Facility of transfer of funds of government departments from one place to another.
- Payment of pensions to the pensioners of various government departments.
- Facility of safe deposit of articles to government departments, banks etc on nominal charges.
- Other banking services as and when required by the government departments.

During FY08, the total numbers of government receipt and payment transactions carried out by BSC field offices were 6.43 million as compared to 6.24 million transactions carried out in the preceding year. The total number of government receipt and payment transactions showed an increase of 3.0 percent during the year under review. A breakup of number of government transactions revealed that 3.06 million transactions pertained to government receipts during FY08 as compared to 2.83 million transactions carried out in the preceding year, depicting an increase of 8.1 percent. The total number of governments' payment transactions stood at 3.37 million during FY08 as compared to 3.41 million transactions handled during the previous year showing a slight decrease of 1.2 percent. Office wise data pertaining to government receipts/ payments transactions during FY08 and FY07 is given below:

Table 2.2 Government Receipts & Payments						
Office	2006-07			(Number of transactions) 2007-08		
	Receipt	Payment	Total	Receipt	Payment	Total
Bahawalpur	86,076	94,518	180,594	54,367	93,894	148,261
D. I. Khan	18,110	44,158	62,268	27,766	22,103	49,869
Faisalabad	287,445	186,687	474,132	233,347	198,391	431,738
Gujranwala	59,216	74,983	134,199	66,400	73,239	139,639
Hyderabad	69,212	123,589	192,801	66,375	142,058	208,433
Islamabad	142,675	454,490	597,165	234,601	430,343	664,944
Karachi	971,331	819,717	1,791,048	1,171,602	686,085	1,857,687
Lahore	199,788	421,302	621,090	408,343	414,588	822,931
Multan	180,450	185,141	365,591	145,248	172,441	317,689
Muzaffarabad	42,577	45,019	87,596	39,874	48,603	88,477
N.N. Karachi	58,575	19,540	78,115	55,796	12,750	68,546
Peshawar	155,859	159,460	315,319	153,961	179,359	333,320
Quetta	42,420	162,557	204,977	46,231	190,409	236,640
Rawalpindi	350,710	369,644	720,354	223,254	491,973	715,227
Sialkot	139,511	203,379	342,890	110,571	168,836	279,407
Sukkur	27,730	45,569	73,299	24,679	42,351	67,030
<b>Total</b>	<b>2,831,685</b>	<b>3,409,753</b>	<b>6,241,438</b>	<b>3,062,415</b>	<b>3,367,423</b>	<b>6,429,838</b>



## 2.3 Reporting of Zakat Balances

SBP-BSC is responsible for maintenance of Zakat accounts. Accounts Department maintains consolidated data of Zakat collection, disbursements and its balances. The department is providing Zakat statements/ consolidated data to concerned Ministry on regular basis. During FY08, Zakat collection stood at Rs.4.9 billion as compared to Rs.5.5 billion in the preceding year. Total Zakat disbursements amounted to Rs.5.5 billion during FY08 as compared to Rs.5.4 billion in FY07.

## 2.4 Reporting of FBR Transactions

The tax/ revenue collected by SBP-BSC offices and the network of NBP branches on behalf of the government is credited to relevant accounts and reported to FBR on a daily basis through on-line network under Collection Automation Project (CAP). Gross revenue receipts collected by SBP-BSC offices amounted to Rs.1,022.8 billion during FY08 as compared to Rs.874.5 billion in preceding year. Payments under different tax heads stood at Rs.45.3 billion during FY08 as against Rs.65.9 billion in corresponding period last year. Due to technological up-gradation, BSC is now in a position to respond quickly to FBR and District Accounts Officers' queries through on-line reporting system. During the year under review, following improvements have been made in carrying out FBR related transactions.

### 2.4.1 Implementation of FBR Revenue Collection Automation Project

During the year under review, FBR revenue Collection Automation Project (CAP) has been successfully implemented and is operative in all BSC offices with effect from 1<sup>st</sup> December 2007. This has facilitated in providing Computerized Payment Receipt (CPR) to tax depositor. CPR is issued to tax depositor on the basis of their CNIC/ NTN number. The automation project has also helped in creating a database of tax collection for better Management Information System. Further, a system has been developed to monitor delayed reporting on government receipts on the part of NBP on which fines are also recovered and credited to government account. SBP-BSC is also part of the technical committee providing technical support on e-banking system commenced under CAP.

### 2.4.2 Improvements in processing tax refund orders

During FY08, following steps were taken to mitigate chances of fraud in case of tax refund order:

- The practice of crediting multiple income tax refund orders to a single account has been done away with and necessary instructions to this effect have also been issued to all banks.
- Instructions have been issued to all BSC offices to solicit genuineness of refund vouchers from respective Income Tax authorities before clearance of the refund voucher for payment.
- FBR has been approached to implement issuance of cheques instead of refund vouchers to strengthen internal controls.

## **2.5 Operational work relating to National Savings Schemes**

SBP-BSC plays an imperative role in mobilizing savings for the government and shouldering the responsibility of sale, encashment and profit payments on various saving schemes of the Central Directorate of National Savings (CDNS). The effective and efficient role played by BSC in sale, encashment and other related services has also been instrumental in the success of various saving schemes of the CDNS particularly National Prize Bonds. Some of the achievements during the year under review are highlighted below:

- i. SBP-BSC was able to reap fruits of vigorously followed strategy of focusing and investing on automation of business processes during the last several years. Accordingly, during FY08 the better and efficient utilization of the online information available in the Globus system enabled BSC in reducing prize money settlement time considerably. As a result of online data, the manual confirmation required from PDOs for settling the prize money claims has been abolished from the 30<sup>th</sup> draw in respect of the claims upto Rs.15,000/- which are now paid on the same day.
- ii. Help desks at all field offices have been established for guidance of general public which are also equipped with all necessary claim forms, office stationery etc.
- iii. As a result of close coordination and follow up with the CDNS, long outstanding claims amounting to Rs.75 million on account of commission/ remuneration of BSC on floating/ managing of national savings certificates have been realized.
- iv. The increase in operational efficiency has enabled BSC to obtain budgetary financing data from the field offices in respect of National Prize Bonds and National Savings Certificates on 10<sup>th</sup> of each month instead of 15<sup>th</sup>.
- v. Rates of National Savings Schemes along with necessary information are being updated on SBP website ([http://sbp.org.pk/sbp\\_bsc/index.asp](http://sbp.org.pk/sbp_bsc/index.asp)) and ENB regularly.

### **2.5.1 National Prize Bonds**

Prize bonds in six different denominations viz Rs. 200, Rs. 750, Rs. 1,500, Rs.7,500, Rs. 15,000 and Rs. 40,000 issued by the Central Directorate of National Savings, Government of Pakistan are attracting investment from all segments of the society. The sale, encashment, draws for the prize bonds of each denomination (held once in a quarter) and payment of prize money is managed by all the field offices of BSC. Any prize bond which has been purchased at least 2 months prior to the draw schedule is eligible to be included in the draw and may win prize money as per the terms offered by the government.

Efforts have been made to make the draw process transparent and widely representative. This involves the announcement of yearly schedule by CDNS for holding the draw ceremony in

different cities across Pakistan where BSC offices are located. The CDNS select the draw committee comprising notables of the city in which draw is to be held. The process of draw is conducted by the “Special Children” of the nearby school as selected by CDNS who operate the machine especially designed by the Heavy Mechanical Complex for the purpose. The draw process is open and transparent where any person from the general public, who wishes to attend the ceremony, can participate and witness the draw proceedings.

During FY08, all the 16 field offices of SBP-BSC continued to manage the sale, encashment and prize money payment of various denominations of National Prize Bonds. During the year under review, the aggregate value of sale of National Prize Bonds of all denominations stood at Rs.106,699 million as compared to Rs.94,821 million in FY07 indicating an increase of 12.5 percent. The cumulative total encashment of Prize Bonds was Rs.98,422 million during FY08 as compared to Rs.85,813 million in FY07. The draws for each denomination of National Prize Bonds for picking the prize winning bonds were held on quarterly basis as usual, at field offices of SBP-BSC strictly as per draw schedule provided by CDNS. The prize money paid against the winning prize bonds of all denominations stood at Rs.10,820 million in FY08 as compared to Rs.9,134 million in FY07 registering an increase of 18.5 percent. The denomination-wise details of sale, encashment and prize money paid against winning prize bonds during FY07 and FY08 are given in the following table.

<b>Table 2.5.1(a) Sale &amp; Encashment of National Prize Bonds at Field Offices of SBP-BSC</b>							
<i>(Rupees in million)</i>							
<b>Denomination</b>	<b>2006-07</b>			<b>2007-08</b>			
	<b>Sale</b>	<b>Encashment</b>	<b>Prize Money Payment</b>	<b>Sale</b>	<b>Encashment</b>	<b>Prize Money Payment</b>	<b>Value of Prize Bonds issued by BSC held by public</b>
<b>200</b>	6,789.6	6,398.5	709.8	6,083.3	5,480.2	738.3	13,686.5
<b>750</b>	10,450.8	9,569.2	1,290.9	11,581.7	10,198.8	1,599.6	27,881.6
<b>1,500</b>	13,199.8	12,060.4	1,603.3	13,397.0	12,474.6	1,868.4	30,873.8
<b>7,500</b>	19,806.7	17,180.3	1,485.2	22,453.3	21,124.3	1,731.4	29,498.4
<b>15,000</b>	18,834.0	18,188.0	1,762.5	25,893.2	23,353.3	2,030.6	35,615.3
<b>40,000</b>	25,739.8	22,417.0	2,282.5	27,290.6	25,790.8	2,851.7	44,380.3
<b>Total</b>	<b>94,820.7</b>	<b>85,813.4</b>	<b>9,134.2</b>	<b>106,699.1</b>	<b>98,422.0</b>	<b>10,820.0</b>	<b>181,935.9</b>

During FY 08, the field offices of SBP-BSC settled 830,146 cases of prize money payment as compared to 739,989 cases during FY07 showing an increase of 12.2 percent as detailed below.

<b>Table 2.5.1(b) Total Number of Prizes paid during FY08</b>			
<b>S #</b>	<b>Description of Prizes</b>	<b>Number of Prizes</b>	
		<b>2006-07</b>	<b>2007-08</b>
1	First Prize	475	515
2	Second Prize	1,443	1,481
3	Third Prize	738,071	828,150
<b>Total</b>		<b>739,989</b>	<b>830,146</b>

**Table 2.5.1 (c) Number of Prizes paid against winning Prize Bonds**

Field office	Number of Prizes					
	First Prize		Second Prize		Third Prize	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Bahawalpur	3	5	11	5	3,024	4,163
D. I. Khan	2	3	8	9	4,338	8,217
Faisalabad	23	30	60	77	76,019	112,623
Gujranwala	8	4	23	18	10,197	14,069
Hyderabad	23	51	98	72	36,968	46,437
Islamabad	19	11	47	38	18,251	28,454
Karachi	79	57	155	231	215,507	203,877
Lahore	143	157	312	264	138,564	144,726
Multan	13	10	58	30	20,397	17,427
Muzaffarabad	2	2	3	5	3,210	2,891
N. N. Karachi	86	76	370	505	38,310	45,793
Peshawar	34	33	94	78	83,609	89,804
Quetta	3	30	49	19	16,353	18,489
Rawalpindi	28	32	110	85	50,068	62,401
Sialkot	4	7	17	30	12,089	15,633
Sukkur	5	7	28	15	11,167	13,146
<b>Total</b>	<b>475</b>	<b>515</b>	<b>1,443</b>	<b>1,481</b>	<b>738,071</b>	<b>828,150</b>

SBP-BSC has made concerted efforts to improve the control mechanism to prevent tampering of the date and place of issue of National Prize Bonds by unscrupulous persons for tendering wrongful claims of prize money. Provision of Tricolor Date Stamping Machines to all field offices for stamping the prize bonds was one of such steps to reduce fraud and forgeries in the Prize Bonds.

### 2.5.2 Special Savings Certificates

The CDNS has introduced Special Savings Certificates (SSCs) with a view to provide an avenue to the middle and lower income group, household and small investors to invest their savings in an investment guaranteed by the government with a periodic return. However, investors with relatively higher surplus income also tend to invest heavy amounts in this scheme to earn a handsome periodic return on their investments. These certificates are available in multiple denomination of Rs.500, Rs.1,000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000 for 3 years maturity period, while profit is paid on completion of every six-month period from the date of issue. In case the profit earned on these certificates is not drawn on due date, the un-drawn profit is automatically reinvested from the date of its accrual. The return on SSCs issued on or after 24<sup>th</sup> June 2008 has been re-fixed @ 11.00% per annum for 1<sup>st</sup> five profit coupons and @ 12.50% per annum for the last profit coupon<sup>1</sup>. However, the SSCs purchased prior to the said date shall continue to earn profit at the rate prevailing on the date of their purchase. Zakat is deducted at the time of actual encashment at the rate of 2.5 percent on the principal amount where applicable. As per instructions of the Federal Government the withholding tax is deducted at source at the

<sup>1</sup> Effective from 1<sup>st</sup> October 2008, above rates were increased to 12.8% per annum for first five profit coupons and 14.0% per annum for the last profit coupon. Effective from 1<sup>st</sup> December 2008, above rates were again increased to 14.4% per annum for first five profit coupons and 15.2% per annum for the last profit coupon (See Annexure-XII)

rate of 10 percent of profit earned on SSCs when the amount of investment exceeds Rs.150,000.

During FY08, total number of 21,060 cases of sale of SSCs amounting to Rs.6,940 million were handled at SBP-BSC field offices as compared to 25,838 cases worth Rs.13,506 in FY07. The reduction in the fresh sale of these certificates during FY08 was apparently due to the relatively lower rate of profit on these schemes as compared to other investment avenues during the period under review. It may be added that with the increase in rate of profit on these certificates as from 24<sup>th</sup> June 2008, their sale is likely to increase in FY09, provided the new rates continue to remain attractive for the investors as compared to other options. The office wise details of sale, encashment and profit payments and the total of these cases are given in the following tables:

**Table 2.5.2 Number of Cases of Special Savings Certificates handled by the SBP-BSC Offices**

S #	Field office	Sale		Encashment		Profit Payment	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	Bahawalpur	-	-	3	1	5	1
2	D. I. Khan	-	-	2	-	2	-
3	Faisalabad	161	591	196	467	294	983
4	Hyderabad	520	492	547	540	1,742	1,942
5	Islamabad	74	62	251	177	205	173
6	Karachi	3,662	5,777	14,149	18,858	110,012	40,464
7	Lahore	11,234	9,945	22,425	25,057	41,798	52,826
8	Multan	8	1	10	6	8	12
9	Muzaffarabad	13	20	19	6	21	44
10	N. N. Karachi	8,282	1,804	8,704	4,865	12,039	9,208
11	Peshawar	237	105	292	147	632	481
12	Quetta	5	5	18	8	37	21
13	Rawalpindi	1,516	1,927	1,637	4,335	6,013	12,445
14	Sialkot	72	295	141	202	194	208
15	Sukkur	54	36	75	62	101	93
<b>Total</b>		<b>25,838</b>	<b>21,060</b>	<b>48,469</b>	<b>54,731</b>	<b>173,103</b>	<b>118,901</b>

### 2.5.3 Defence Savings Certificate

The Defence Saving Certificates (DSC) scheme was introduced in 1966 to provide an investment opportunity for 10 years maturity with attractive rate of return on deposits to all income groups of the country. These certificates are available in multiple denominations of Rs.500, Rs.1000, Rs.5000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000. In case DSC is not encashed on maturity, the balance at credit (principal plus profit) is deemed to have been reinvested without any deduction for another period of 10 years. The return on DSCs issued on or after 24<sup>th</sup> June 2008 has been re-fixed at 12.15% per annum. The DSCs purchased prior to the said date shall continue to earn profit at the rate prevailing on the date of their purchase.

During the year under review, the number of cases in respect of sale of DSCs handled by SBP-BSC field offices was 11,667 cases as compared to 13,687 cases during FY07. However, the amount of DSCs sold during FY08 was Rs.5,675 million as compared to Rs.2,508.6 million during the preceding year registering an increase of 126.2 percent in the value of investment.

Table 2.5.3 Number of Cases of Defence Savings Certificates handled by the SBP-BSC Offices							
S #	Field Office	Sale		Encashment		Profit Payment	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	Bahawalpur	-	-	10	12	10	12
2	D. I. Khan	-	-	-	-	-	-
3	Faisalabad	56	322	246	653	246	650
4	Hyderabad	146	235	664	368	664	243
5	Islamabad	142	121	346	296	307	382
6	Karachi	7,489	2,812	8,172	9,572	8,132	9,572
7	Lahore	3,023	5,789	21,600	25,516	21,600	25,516
8	Multan	5	10	14	4	14	3
9	Muzaffarabad	-	3	1	10	1	9
10	N. N. Karachi	1,050	398	1,420	1,768	1,420	1,763
11	Peshawar	35	21	259	163	259	163
12	Quetta	73	102	63	58	63	58
13	Rawalpindi	1,606	1,718	4,546	5,682	4,502	5,659
14	Sialkot	14	78	77	266	78	151
15	Sukkur	48	58	66	78	66	78
<b>Total</b>		<b>13,687</b>	<b>11,667</b>	<b>37,484</b>	<b>44,446</b>	<b>37,362</b>	<b>44,259</b>

The total number of cases relating to sale, encashment and profit payment of Special Savings Certificates and Defence Savings Certificates handled by BSC field offices during FY08 were 32,727; 99,177 and 163,160 as compared to 39,525; 85,953 and 210,465 respectively in FY07. The total value of sale and encashment of Special Savings Certificates and Defence Savings Certificates during FY08 stood at Rs.12,614.7 million and Rs.24,527.1 million as against Rs.16,014.8 million and Rs.20,146.6 million respectively in the preceding year.

Table 2.5 (a) Total Number of Cases of SSC and DSC handled at field offices							
S #	Instrument	Sale		Encashment		Profit Payment	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	<b>SSC</b>	25,838	21,060	48,469	54,731	173,103	118,901
2	<b>DSC</b>	13,687	11,667	37,484	44,446	37,362	44,259
<b>Total</b>		<b>39,525</b>	<b>32,727</b>	<b>85,953</b>	<b>99,177</b>	<b>210,465</b>	<b>163,160</b>

Table 2.5 (b) Total Value of Sale & Encashment of SSC and DSC at field Offices (Rupees in million)					
S #	Instrument	Sale		Encashment	
		2006-07	2007-08	2006-07	2007-08
1	<b>SSC</b>	13,506.166	6,939.707	10,033.409	4,870.167
2	<b>DSC</b>	2,508.625	5,675.024	10,113.174	19,656.956
<b>Total</b>		<b>16,014.791</b>	<b>12,614.731</b>	<b>20,146.583</b>	<b>24,527.123</b>