1 Banking Services to Government and Banks

As per the statutory obligation under SBP BSC Ordinance 2001 and Transferred Undertaking delegated by SBP, SBP BSC provides banking services to Federal and Provincial governments and Financial Institutions. It also provides payment systems support to SBP and maintains accounting and financial records of SBP BSC while aiming at ensuring robust control environment and quality services

1.1 Overview

SBP BSC provides banking services to Federal and Provincial Governments through its 16 field offices and agency network comprising of National Bank of Pakistan (NBP) and Bank of Punjab (BoP) branches. Further, SBP BSC also provides services of Banker to the Banks and supports functioning of payment systems by monitoring the local clearing houses and settlement of interbank and 1-link transactions.

1.1.1 Banker to the Government

As Banker to the Government, SBP BSC is responsible for opening and maintenance of Government accounts, collection of tax / non-tax revenues and to make payments on behalf of the Governments. It also provides remittances, and safe deposit services to the Governments. Additionally, acting in the advisory capacity to Federal and Provincial Governments, SBP BSC also proposes various improvements in the existing framework of rules, procedures, and systems with the aim to enhance the efficiency and effectiveness of the entire Government Banking function in line with the vision of its parent institution i.e. SBP.

1.1.2 Banker to the Banks

Being banker to the banks, SBP BSC maintains Current and Subsidiary General Ledger Accounts (SGLAs) of all scheduled banks and Non-Banking Financial Institutions (NBFIs). Through these accounts, SBP BSC facilitates banks in maintaining their cash and liquidity reserves (CRR and SLR) as prescribed by SBP in light of monetary policy and risk management objectives and as required under Banking Companies Ordinance, 1962. Additionally, banks are provided low cost remittance services to facilitate adequate availability of cash for their operations across Pakistan.

1.1.3 Payment System Support

In order to facilitate payments through the banking system, SBP BSC provides clearing and settlement services to banks and Governments. SBP BSC also assists SBP in implementation of National Payment Systems Strategy (NPSS) besides providing inputs to Payment Systems Department, SBP on policy formulation.

1.1.4 Financial Services

In line with the provisions of SBP BSC Ordinance 2001 as well as the accounting policies approved by the Board of Directors, SBP BSC ensures proper maintenance of its accounting and financial records. This comprises of maintaining comprehensive records of financial data and preparation of Financial Statements. Additionally, SBP BSC focuses on maintaining a sound internal control environment in order to ensure reliable reporting of its financial position and performance. SBP BSC also assigns due importance to its budgeting processes to ensure judicious consumption of its resources with the implementation of financial controls in achieving its objectives. Moreover, SBP BSC is also implementing an organization-wide framework of Enterprise Risk Management.

1.2 Key Stakeholders

- Federal and Provincial Government Departments
- Banks and NBFIs
- Accountant General Pakistan Revenues (AGPR) & Accountant Generals of provinces (AGP)
- Finance Division (GOP) and Provincial Finance Departments
- Federal and Provincial Revenue Authorities including excise and taxation departments
- Pakistan Railways
- Pakistan Post
- Central Directorate of National Savings
- National Institutional Financial Technologies (NIFT)
- 1-Link

1.3 Key Performance Highlights during the Year

Box 1.1 : Key Performance Highlights during FY20

Promoting Usage of Alternate Delivery Channels (ADCs) for Tax Payments using 1-Link Infrastructure

- SBPBSC, in pursuance of its objective of digitization, supported the SBP and FBR initiative of promoting collection of taxes and duties through ADC/OTC platform by conducting extensive awareness campaign for tax payers. These efforts resulted in an increase of 157% in tax collection through ADCs/ OTC amounting to Rs. 439 billion in FY20 as compared to Rs. 171 billion in FY19 which indicates the successful shift in tax payments from manual to digital mode.
- Manual Payments for tax deductions by commercial banks at SBP BSC counters were completely shifted to ADCs.

Supporting Development of Financial Digital Eco System, for Financial Inclusion
Digitization of internal payments of SBP BSC

- All Payments to vendors, employees were digitalized and are now being directly credited to beneficiary's account with effect from June 11, 2020.

Centralization of Income Tax Refunds

- SBP BSC shared a proposal with FBR to process Income Tax refunds through Central Treasury. The proposal was endorsed by FBR and announced by Federal Government with its budget proposal for FY21 in National Assembly.

Improving Organization's Productivity and Efficiency

- Achieved significant reduction in workload of Banking Divisions at field offices through cheque consolidation.

1.4 Operational Performance

1.4.1 Collection of Government Revenue

SBP BSC provides revenue collection services to Federal and Provincial Governments which includes tax and non-tax revenues. During FY20, the total number of transactions pertaining to the Government collection (except collections through ADCs) carried out by the SBP BSC field offices was 2.838 million as compared to 4.052 million in the preceding year showing a decrease of 30%. This decrease is primarily attributed to SBP BSC s extensive efforts to increase tax collection through ADCs.

1.4.1.1 Government Revenue Collection through ADC and OTCs

In line with the NPSS, SBP BSC placed an enhanced focus on digitalization of payment systems. For this purpose, one of the key initiatives was enhancing the usage of ADCs and OTCs in Government revenue collections.

Table 1.1: Number of Receipt Transactions for FY19 and FY20 (Office-wise)
(Number of Transactions in '000)

Field Office	FY19	FY20	% change
Islamabad	486	242	-50%
Karachi	814	535	-34%
Lahore	588	285	-52%
Peshawar	385	352	-14%
Faisalabad	271	190	-30%
Hyderabad	223	184	-18%
Rawalpindi	216	168	-22%
N. Nazimabad	180	137	-24%
Multan	173	137	-21%
Sialkot	145	126	-13%
Quetta	137	121	-11%
Gujranwala	116	90	-23%
Muzaffarabad	113	119	5%
Bahawalpur	84	75	-10%
Sukkur	75	61	-13%
D.I. Khan	46	38	-17%
Total	**4,052**	**2,838**	**-30%**

SBP BSC broadened the scope of tax collection services by capitalizing on banking industry's IT infrastructure i.e. internet banking, mobile banking and ATMs, as well as commercial banks' branch network, and enabled collection of taxes, through above means, across the entire banking sector. Moreover, it also arranged seminars, awareness sessions, and stakeholder meetings across the country at major cities to create awareness among various segments of taxpayers and to encourage them to use ADCs and OTC services for tax payments submission. For this purpose, primary focus was given to Chambers of Commerce and Industry, traders and trade bodies, tax firms/consultants, and banks. The sessions, which were well received by the participants, eventually resulted in significant increase in usage of ADCs and OTC for tax submission. During the year, ADC collections recorded an annual growth of 157% valuing at Rs. 439 billion in FY20 as compared to Rs. 171 billion collections in FY19.

Moreover a 1,043% rise was witnessed in ADC transactions volume as current year transactions increased to 5.26 million from 0.46 million in previous year.

1.4.1.2 Collection for Federal Board of Revenue

The taxes and duties collected by SBP BSC on behalf of Federal Board of Revenue (FBR) during the year was Rs. 4,100.5 billion. The summary of FBR receipts and payments (refunds) for the last two years is given as under: **(See Table 1.2)**

Table 1.2 : Yearly amount of FBR receipts and payments (refunds) (Rupees in billion)

Tax Type	**Receipts**		**Payments**	
	FY 19	**FY 20**	**FY 19**	**FY 20**
Sales Tax	1,461.2	1,656.0	21.30	93.3
Federal Excise	226.1	249.7	0.06	0.4
Customs	730.7	669.2	17.10	12.4
Income Tax	1,450.4	1,525.6	33.20	28.4
Total	**3,868.4**	**4,100.5**	**71.66**	**134.5**

1.4.2 Making Payments on behalf of Government

SBP BSC also makes payments on behalf of Federal and Provincial Governments, which primarily include salaries, pension, vendor/supplier payments, debt repayments etc. During FY20, the total number of transactions pertaining to the Government payments carried out by SBP BSC was 4.905 million as compared to 4.946 million in FY19 showing a decrease of 0.8%. **(See Table 1.3)**

Table 1.3: Number of Payment Transactions FY19 and FY20 (Office-wise)
(Number of Transactions in '000)

Field Office	FY19	FY20	% Change
Karachi	1,006	858	-14.7%
Lahore	803	697	-13.2%
Islamabad	496	913	84.2%
Rawalpindi	468	424	-9.3%
Faisalabad	318	282	-11.1%
Hyderabad	304	248	-18.6%
Peshawar	299	259	-13.4%
Multan	252	334	32.4%
N. Nazimabad	251	240	-4.3%
Quetta	159	142	-10.4%
Gujranwala	143	113	-21%
Sialkot	116	99	-14.5%
Sukkur	114	100	-11.7%
Bahawalpur	99	90	-9.1%
Muzaffarabad	68	61	-10.6%
D.I. Khan	51	43	-15.1%
Total	**4,946**	**4,905**	**-0.8%**

1.4.3 Collection and Reporting of Zakat

SBP BSC plays an important role in Zakat collection, disbursement, and reporting of its balances to concerned stakeholders. During FY20, the total collection of Zakat was Rs. 7,929 million as compared to Rs. 9,256 million collected during FY19 showing a decrease of 14.3%.

1.4.4 Transactions and Balances

Management & reporting of accounts of Federal & Provincial Governments is a core responsibility of SBP BSC. Data pertaining to Government transactions carried out under various accounts is reported to respective stakeholders. The daily position of Federal Government balances is also provided to State Bank.

Table 1.4: Number of Government Transactions including ADC (yearly trend)
(Number of Transactions in '000)

Financial Year	Number of Government Transactions
FY20	13,009
FY19	9,426

The year-on-year (YoY) summary of total number of Government transactions reflected an increase of 38% i.e. 13 million in FY20 as compared to 9.43 million in FY19. The two-year trend of Government transactions processed by SBP BSC is given in **Table 1.4**. Total value of Government's collections and payment disbursement is also shown at **Table 1.5** below.

1.4.5 Elimination of Tax Payment by Commercial Banks at SBP BSC

Commercial banks were depositing tax deducted by them, as a withholding agent, on OTC basis at SBP BSC offices through manual instruments i.e. payment orders. With a view to bring improvement in the process with regards to timely credit in Government accounts as well as facilitation of the withholding agents, SBP BSC shifted these transactions to ADC mechanism through active guidance and follow-up with commercial banks.

Table 1.5: Total value of Government Receipt Collection and payment disbursement by SBP BSC (Rupees in billions)

Year	Receipts	Payments
2018-2019	30,031	32,598
2019-2020	28,894	28,707

1.4.6 Consolidation of Cheques

In order to bring efficiency in Government's payment process, SBP BSC approached the Military Accountant General for consolidation of salary / pension cheques of Controller of Military Accounts (CMA), Controller of Naval Accounts (CNA) and Controller Accounts Air Force (CAAF). In this regard, after deliberations, salary cheques of CNA were consolidated and reduced by 82 percent, i.e. from 11,000 to 2,000 cheques. Similarly, number of pension payment instruments of CAAF was reduced by 84 percent i.e. from 500 to 80 cheques. Similar initiatives with other stakeholders are in the works.

1.5 Development Initiatives

1.5.1 Digitization of Internal Payments

Besides digitizing payments for its external stakeholders, SBP BSC also revamped its internal payment infrastructure as well to augment digital financial eco-system and financial inclusion. As a result, paper based payment instruments (cheques / payment orders) used for making payments to vendors, suppliers, and employees of SBP BSC were discontinued and replaced with digital payment instruments for direct credit into bank accounts of the recipients.

Similarly, digitalization of pension payments to ex-employees of SBP and SBP BSC is also underway. By 1st September 2020, all pensioners will be paid their pension directly into their bank accounts.

1.5.2 Centralization of Income Tax Refunds

In pursuance of Bank's overarching objective of ensuring data integrity, transparency and efficiency in public payments, a proposal was floated to FBR in January, 2020 to digitalize Income Tax Refund payments in line with Sales Tax Refunds. The proposal envisaged transfer of said payments through a centralized treasury directly in the bank accounts of taxpayers. This proposal was endorsed by FBR and was approved by the Federal Government as part of its Budget Proposals for FY 2020-21. Earlier, all Regional Tax Offices (RTOs) of FBR were issuing income tax refunds through physical instruments i.e. vouchers/ cheques drawn on SBP BSC and NBP.

1.6 Future Outlook

SBP BSC will continue to improve its customer service and operational delivery standards for its stakeholders especially in discharging its duties as banker to Government and banks. To further minimize its manual processes, SBP BSC will adopt modern IT systems and conduct Business Process Reengineering (BPR) in consultation with relevant stakeholders. Moreover, SBP will be fully supported in its goal for developing and operating an efficient, effective and secure national payment system in the country.

In addition, SBP BSC is in the process of completing various development projects including centralization of Government accounts (CNA, CAAF, and Provincial Food), digitization of remittance facility for Government Departments and implementation of Knowledge Management (KM) System. Further, SBP BSC plans to closely work with all stakeholders for enhancing scope of ADCs for collection of Provincial Government revenues by using the Micro Payment Gateway platform.