

Vision Statement

*V*ision Statement

To remodel the Company into an efficient and prompt provider of insurance solutions to the industry at large, through an integrated and well organized system of service, governed by motivated and prudently managed human resources.

Mission Statement

M

ission Statement

Our mission is to achieve a prominent position in the insurance industry, initially by concentrating upon our vigilant expansion in the province of Punjab, while channeling out into other provinces, by way of continuing to provide reliable and quality insurance security, with the persistent support of "A" rated International Reinsurers; thus maintaining high ethical and professional standards, vis-à-vis profitable returns to all our shareholders.

Company Information

BOARD OF DIRECTORS

(In Alphabetical Order)

Chaudhry Muhammad Sadiq	Chairman
Mr. Mudassar Imran	
Mr. Muhammad Kashif	
Mr. Munir Ahmed	
Mrs. Shahnaz Sadiq	
Mr. Waheed Ahmed	
Mr. Zahir Muhammad Sadiq	Managing Director & Chief Executive

COMPANY SECRETARY

Mr. Nazir Ahmed Khan

MANAGEMENT

Mr. Muhammad Imran Qureshi	General Manager
Chaudhry Shehnaz Ahmed	Joint General Manager (Development)
Mr. Munir Ahmed	Chief Financial Officer
Mr. Yousaf Kamal	Chief Manager
Mr. Zia-ud-Din Zia	Senior Manager
Mr. Muhammad Tariq Balouch	Manager
Mr. Nazir Ahmed Khan	Manager
Mr. Muhammad Asghar Ch.	Manager

AUDITORS

Avais Hyder Nauman Rizwani
Chartered Accountants &
SARWARS Chartered Accountants

LEGAL ADVISOR

Mr. Maqsood Hassan

TAX ADVISOR

SARWARS
Chartered Accountants

REGISTERED & HEAD OFFICE:

Silver Star House, 5-Bank Square
P.O. Box 2533, Lahore-54000 (Pakistan)
PABX : +(92-42) 7324488, 7355614
7237518, 7231449
Telefax : +(92-42) 7229966
E-mail : info@silverstarinsurance.com
silvrstr@nexinx.net.pk

BANKERS

(In Alphabetical Order)

Allied Bank Limited
Askari Commercial Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Crescent Commercial Bank Limited
Faysal Bank Limited
Federal Bank of Cooperative Islamabad
First Standard Bank Limited
First Women Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial Development Bank of Pakistan
KASB Bank Limited
MCB Bank Limited
Mybank Limited
National Bank of Pakistan
NIB Bank Limited
Prime Commercial Bank Limited
Saudi Pak Commercial Bank Limited
SME Bank
Soneri Bank Limited
Standard Chartered Bank
State Bank of Pakistan
The Bank of Khyber
The Bank of Punjab
The Punjab Provincial Co-operative Bank
Union Bank Limited
United Bank Limited
Zari Taraqati Bank

AUDIT & CORPORATE

GOVERNANCE COMMITTEE

Chaudhry Muhammad Sadiq	Chairman
Mr. Muhammad Kashif	Member
Mr. Zahir Muhammad Sadiq	Member
Mr. Yousaf Kamal	Secretary

WEB PRESENCE

www.silverstarinsurance.com



Notice of Annual General Meeting

Notice is hereby given that the Twenty Third Annual General Meeting of Shareholders of Silver Star Insurance Company Limited will be held at the Registered & Head Office of the Company at Silver Star House, 5-Bank Square, Lahore, on Monday, April 30, 2007 at 12:30 p.m. to transact the following business:

A. ORDINARY BUSINESS

1. To confirm the Minutes of the Extra Ordinary General Meeting held on Thursday, November 02, 2006.
2. To receive, consider and adopt the Audited Accounts for the year ended December 31, 2006 together with the Auditors' and Directors' reports thereon.
3. To appoint Auditors for the year ending December 31, 2007 and to fix their remuneration.

B. SPECIAL BUSINESS

4. To consider and approve the issue of Bonus Shares in the ratio of ONE new share for every FOUR Ordinary Shares held i.e. @ 25%.
5. To consider and approve increase in Authorized Share capital of the Company from Rs. 150 million to Rs. 300 million.
6. To consider and approve the remuneration of the Managing Director / Chief Executive and the Chairman.

C. OTHER BUSINESS

7. To transact any other business of the Company with the permission of the Chair.

(See appended statement as required under section 160 (1)(b) of the Companies Ordinance, 1984, in respect of above mentioned Special Business)

By order of the Board

Lahore March 26, 2007

Nazir Ahmed Khan
Company Secretary

NOTES:

1. The share transfer books of the Company will remain closed from April 21, 2007 to April 30, 2007 (both days inclusive) for the purpose of Annual General Meeting and to determine the above entitlements. Transfers received in order at the Registered Office of the Company: 5- Bank Square, P.O. Box No. 2533, Lahore-54000, up to April 21, 2007, will be considered in time for the entitlements as above.
2. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his proxy to attend, speak and vote instead of him.
3. The instruments appointing a proxy must be received at the Registered Office of the Company not later than 48 hours before the time appointed for the Meeting.
4. Change of address of a member, if any, should be notified immediately at the Registered Office of the Company.
5. For attending the Meeting and appointing the proxies CDC account holders will further have to follow the guideline as laid in Circular 01 dated 26 January, 2000 issued by the Securities and Exchange Commission of Pakistan.

Statement under Section 160(1) (b) of the Companies Ordinance, 1984, regarding the Special Business.

Item No. 4 of the Agenda – Issuance of Bonus Shares

In order to increase the Paid-up Capital of the Company and declare a final dividend by way of issue of fully paid bonus shares, the Directors have recommended the issue of 2,500,000 bonus shares of Rs. 10/- each, by way of capitalization of a sum of Rs. 25,000,000 out of the current year's profit of the Company.

06

The Directors have recommended to consider and if thought fit, to pass with or without modification, the following resolutions as Ordinary Resolutions.

- a) "RESOLVED that a sum of Rs. 25,000,000 out of the current year profit of the company be capitalized and applied to the issue of 2,500,000 ordinary shares of Rs. 10/- each and allotted as fully paid-up bonus shares to the members of the Company who are registered in the books of the Company on April 21, 2007 in the proportion of ONE such new share for every FOUR existing ordinary shares held and that such new shares, when issued, shall rank pari passu with the existing ordinary shares of the Company as regards future dividends and all other respects."
- b) "RESOLVED that all fractional bonus shares shall be combined and the Directors be and are hereby authorized to combine and sell the fractional shares in the Stock Market and pay the proceeds of sales thereof when realized to a charitable institution approved under the Income Tax Ordinance, 2001."
- c) "RESOLVED that for the purpose of giving effect to the foregoing the directors be and are hereby authorized to give such directions as may be necessary and as they deem fit to settle any questions or difficulties that may arise in the distribution of the said new shares."

The Directors have no interest in the above Special Business except as shareholders of the Company.

Item No. 5 of the Agenda – Increase in the Authorized Capital

To make provision for further increase in the paid-up capital of the Company for strengthening the domestic underwriting capacity and financial structure and to achieve better internal retention limits, the Board has recommended an increase in the Authorized Capital of the Company, and, if thought fit, to pass with or without modification the following resolution as Special Resolution:

"RESOLVED that the Authorized Capital of the Company be and is hereby increased from Rs. 150,000,000 to Rs. 300,000,000 and 'clause 5' of the Memorandum of Association of the Company and 'article 5' of the Articles of Association of the Company be and are hereby amended to read as follows:

'Clause 5, of the Memorandum of Association

'The Authorized Share Capital of the Company is Rs. 300,000,000 divided into 30,000,000 ordinary shares of the denomination of Rs. 10/- each with power from time to time to increase the capital of the Company.'

Article 5, of the Articles of Association

'The Authorized Capital of the Company is Rs. 300,000,000 divided into 30,000,000 ordinary shares of the denomination of Rs. 10/-

The Board of Directors be and are hereby authorized and empowered to do or cause to be done all acts, deeds and things that may be necessary to give effect to this resolution."

The Directors have no interest in the above Special Business except as shareholders of the Company.

Item No. 6 of the Agenda – Remuneration of the Managing Director / Chief Executive and Chairman

Shareholders' approval will be sought for the payment of remuneration and provision of certain facilities to the Managing Director / Chief Executive and / or the Chairman, effective from 1st May 2007, as approved by the Board, in their meeting held on 26th March, 2007. It is therefore proposed to pass the following as an Ordinary Resolution:

"RESOLVED that the remuneration of the Managing Director / Chief Executive and the Chairman of the Company be approved, amounting to Monthly Basic Salary of Rs. 98,000/- and Rs. 62,000/- respectively, along with all fringe benefits and other perquisites, as are allowed to Senior Executives of the Company and the Board be authorized to determine annual increases, for the following financial years of the Company."

The Managing Director / Chief Executive and Chairman are interested in the Company's business to the extent of their determined remuneration and to the extent of their shareholding in the Company.

07



Statement to Compliance with the Code of Corporate Governance

For the year ended December 31, 2006

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance whereby a listed Company is managed in compliance with the best practice of corporate governance.

The company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes three independent non-executive directors out of seven.
2. All directors of the Company are registered as taxpayers and none of them have defaulted in payment of any loan to a Banking Company, DFI, or NBFIs or being a member of a Stock Exchange, have been declared as a defaulter by that Stock Exchange.
3. The current Board has been elected by the shareholders of the Company in Extra Ordinary General Meeting held on November 02, 2006, and no casual vacancy occurred during the year ended December 31 2006.
4. The Company has prepared a Statement of Ethics and Business Practices which has been signed by all the directors and concerned employees of the Company.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. There were no new appointments of the other executive directors during the year, however CEO has been reappointed by the board for the further period of three years.
7. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
8. No new appointments of CFO and Company Secretary have been made during the year, since being formalized last year. The new appointment of Head of Internal Auditors was made during the year.
9. The director's report for this year has been prepared in compliance with the requirements for the Code and fully describes the salient matters require to be disclosed.
10. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
11. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an Audit and Corporate Governance Committee. It comprises of three members.
14. The Auditors M/s. Avais Hyder Nauman Rizwani Chartered Accountants and Sarwars Chartered Accountants have retired and offered themselves for re-appointment for the year ended December 31, 2007.

16

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The Board has set-up an effective audit function.
17. The retiring Statutory Auditors of the Company have informed that they have been given a satisfactory rating by the Institute, and they or any of the employees of the firm, their spouses and minor children do not hold shares of the Company and that the firm is in compliance with International Federation of Accountants (IFAC) guidelines of code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors confirmed that they have observed guidelines in this regard.
19. We confirm that all material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Chaudhry Muhammad Sadiq
Chairman

LAHORE: March 26, 2007

17

Auditor's Report to the Members

We have audited the annexed financial statements comprising of:

- i. balance sheet;
- ii. profit & loss account;
- iii. statement of changes in equity;
- iv. cash flow statement;
- v. statement of premium;
- vi. statement of claims;
- vii. statement of expenses; and
- viii. statement of investment income;

of **M/s. SILVER STAR INSURANCE COMPANY LIMITED** as at **December 31, 2006**, with notes forming part thereof, for the year then ended.

It is the responsibility of the Company's Board of Directors/Management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the International Accounting Standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatements. An audit also includes examining, on test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion;

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note No. 5 of the financial statements with which we concur;
- c) the financial statements together with the notes thereon presented fairly, in all material respects, the state of Company's affairs as at December 31, 2006 and of the profit, its cash flow and changes in equity for the year then ended, in accordance with International Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- d) no Zakat was deductible at source under the Zakat and Usher Ordinance, 1980.

The financial statements of the Company for the year ended December 31, 2005 were audited by Sarwars Chartered Accountants. The date of that report was March 14, 2006.

SARWARS
Chartered Accountants

AVAIS HYDER NAUMAN RIZWANI
Chartered Accountants

Lahore: March 26, 2007



Auditor's Report to the Members

We have audited the annexed financial statements comprising of:

- i. balance sheet;
- ii. profit & loss account;
- iii. statement of changes in equity;
- iv. cash flow statement;
- v. statement of premium;
- vi. statement of claims;
- vii. statement of expenses; and
- viii. statement of investment income;

of **M/s. SILVER STAR INSURANCE COMPANY LIMITED** as at **December 31, 2006**, with notes forming part thereof, for the year then ended.

It is the responsibility of the Company's Board of Directors/Management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the International Accounting Standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatements. An audit also includes examining, on test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion;

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note No. 5 of the financial statements with which we concur;
- c) the financial statements together with the notes thereon presented fairly, in all material respects, the state of Company's affairs as at December 31, 2006 and of the profit, its cash flow and changes in equity for the year then ended, in accordance with International Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- d) no Zakat was deductible at source under the Zakat and Usher Ordinance, 1980.

The financial statements of the Company for the year ended December 31, 2005 were audited by Sarwars Chartered Accountants. The date of that report was March 14, 2006.

SARWARS
Chartered Accountants

AVAIS HYDER NAUMAN RIZWANI
Chartered Accountants

Lahore: March 26, 2007



Auditor's Report to the Members

We have audited the annexed financial statements comprising of:

- i. balance sheet;
- ii. profit & loss account;
- iii. statement of changes in equity;
- iv. cash flow statement;
- v. statement of premium;
- vi. statement of claims;
- vii. statement of expenses; and
- viii. statement of investment income;

of **M/s. SILVER STAR INSURANCE COMPANY LIMITED** as at **December 31, 2006**, with notes forming part thereof, for the year then ended.

It is the responsibility of the Company's Board of Directors/Management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the International Accounting Standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatements. An audit also includes examining, on test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion;

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note No. 5 of the financial statements with which we concur;
- c) the financial statements together with the notes thereon presented fairly, in all material respects, the state of Company's affairs as at December 31, 2006 and of the profit, its cash flow and changes in equity for the year then ended, in accordance with International Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- d) no Zakat was deductible at source under the Zakat and Usher Ordinance, 1980.

The financial statements of the Company for the year ended December 31, 2005 were audited by Sarwars Chartered Accountants. The date of that report was March 14, 2006.

SARWARS
Chartered Accountants

AVAIS HYDER NAUMAN RIZWANI
Chartered Accountants

Lahore: March 26, 2007



Profit and Loss Account

Financial year ended 31 December 2006

	Note	Fire & Property Rupees	Marine Aviation & Transport Rupees	Motor Rupees	Others Rupees	2006 Aggregate Rupees	Restated 2005 Aggregate Rupees
Revenue Account							
Net premium revenue		49,662,936	18,629,767	17,564,120	414,622	86,271,444	42,033,566
Net claims		(14,681,387)	(3,820,684)	(2,485,648)	736,848	(20,250,871)	(6,918,702)
Expenses	20	(10,644,303)	(3,992,935)	(3,764,534)	(88,866)	(18,490,639)	(10,296,825)
Net commission		1,683,714	467,667	(1,748,293)	1,409,895	1,812,983	7,653,147
Underwriting results		26,020,959	11,283,815	9,565,645	2,472,498	49,342,917	32,471,186
Investment income						13,191,870	2,730,572
Rental income						494,498	445,909
Other income						321,999	484,152
						14,008,367	3,660,633
General and administration expenses	21					(9,361,536)	(8,456,842)
Profit before tax						53,989,748	27,674,977
Less: Provision for taxation:	22						
Current						(3,841,300)	(2,325,814)
Deferred						(537,677)	(267,600)
						(4,378,977)	(2,593,414)
Profit after tax						49,610,771	25,081,563
Profit and Loss Appropriation Account							
Balance at commencement of year						25,408,982	6,197,182
Amortization of surplus on revaluation						395,639	230,237
Profit after tax for the year						49,610,771	25,081,563
						75,415,392	31,508,982
Appropriations							
Bonus shares issued						(20,000,000)	-
Transfer to general reserve						(5,000,000)	(6,100,000)
						(25,000,000)	(6,100,000)
Balance unappropriated profit at the end of the year						50,415,392	25,408,982
Earning per share - basic	23					4.96	2.51

The annexed notes form an integral part of these financial statements



Statement of Changes in Equity

Financial year ended 31 December 2006

	Share capital		Reserve for issue of bonus shares Rupees	General reserve Rupees	Retained earnings Rupees	Total Rupees
	Issued for cash Rupees	Other than cash Rupees				
Balance as at 01-01-2005-Previously reported	57,229,760	22,770,240	-	20,015,720	97,182	100,112,902
Effect of change in accounting policy						
Proposed transfer to general reserve	-	-	-	(6,100,000)	6,100,000	-
Balance as at 01-01-2005- As restated	57,229,760	22,770,240	-	13,915,720	6,197,182	100,112,902
Transfer to general reserve	-	-	-	6,100,000	(6,100,000)	-
Net profit for the year	-	-	-	-	25,081,563	25,081,563
Transfer from revaluation surplus	-	-	-	-	230,237	230,237
Balance as on 31-12-2005	57,229,760	22,770,240	-	20,015,720	25,408,982	125,424,702
Transfer to general reserve	-	-	-	5,000,000	(5,000,000)	-
Transfer to reserve for issue of bonus shares	-	-	20,000,000	-	(20,000,000)	-
Bonus shares issued	-	20,000,000	(20,000,000)	-	-	-
Profit after taxation	-	-	-	-	49,610,771	49,610,771
Transfer from revaluation surplus	-	-	-	-	395,639	395,639
Balance as at 31-12-2006	57,229,760	42,770,240	-	25,015,720	50,415,392	175,431,112

The annexed notes form an integral part of these financial statements

Chairman

Managing Director &
Chief Executive

Director

Director



Cash Flow Statement

Financial year ended 31 December 2006

	2006 Rupees	2005 Rupees
Operating Cash Flow		
a) Underwriting activities		
Premium received	156,871,354	107,516,874
Reinsurance premium paid	(51,100,239)	(63,569,099)
Claims paid	(51,907,466)	(47,421,625)
Reinsurance and other recoveries received	30,828,055	41,047,766
Commission paid	(14,523,527)	(11,610,861)
Commission received	17,506,070	20,020,811
Net cash flow from underwriting activities	87,674,247	45,983,866
b) Other operating activities		
General management expenses paid	(18,490,639)	(10,296,825)
Other operating payments	(109,213)	(2,293,741)
Other receipts / (payments) on operating assets	6,063,942	(7,182,355)
Taxes Paid	(2,249,305)	(1,247,499)
Net cash flow from other operating activities	(14,785,215)	(21,020,420)
Total cash flow from operating activities	72,889,032	24,963,446
Investment Activities		
Profit/ Return received	13,243,544	2,380,819
Dividend received	158,247	427,554
Rentals received	494,498	445,909
Payments for investments	(13,007,294)	(6,870,475)
Payments for deposits	(73,221,474)	(5,762,846)
Fixed Capital Expenditure	(5,488,695)	(2,687,908)
Proceeds from disposal of fixed assets	1,416,049	-
Total cash flow from investing activities	(76,405,126)	(12,066,947)
Financing Activities		
Lease liability paid	(7,824,230)	(5,073,067)
Total cash flow from financing activities	(7,824,230)	(5,073,067)
Net cash inflow/outflow from all activities	(11,340,324)	7,823,432
Cash at the beginning of the year	46,119,466	38,296,034
Cash at the end of the year	34,779,142	46,119,466
Reconciliation to Profit and Loss Account		
Operating cash flows	72,889,032	24,963,446
Depreciation expenses	(6,129,643)	(5,809,009)
Amortization expenses	(28,841)	-
Financial charges expense	(1,360,334)	(950,911)
Provision or taxation	(4,378,977)	(2,593,414)
Profit / (loss) on disposal of fixed assets	324,888	484,152
Increase / (decrease) in assets other than cash	(21,942,708)	30,289,310
(Increase) / decrease in liabilities other than running finance	(3,449,014)	(24,478,492)
Investment and rental	13,686,368	3,176,481
Profit or Loss after taxation	49,610,771	25,081,563

The annexed notes form an integral part of these financial statements



INTRODUCTION

6.1 This chapter draws heavily on the detailed Human Resource Management (HRM) report submitted to the Chairman of the Task Force. At the outset we would like to state that the current tax administration in Pakistan does not have a professional HRM function to design and implement various policies and practices affecting over 30,000 employees of the organisation. Although this weakness is noticeable in all government institutions, the absence of an HRM function creates more difficulties for tax administration in managing its employees.

6.2 To realise the mission of a restructured tax administration there is an urgent need to enhance the present functional capacity of tax administration. Enhancing tax administration capacity necessitates the overhaul of its present working environment, recruitment, training, career management, performance evaluation, and compensation practices. Without this overhaul, the tax administration can not become an effective tax collection machinery nor can the two key requirements of integrity and staff morale be assured.

6.3 The consultants' fieldwork and analyses in the area of HRM practices has identified a number of factors, leading to dissatisfaction, inefficiency, and corruption in the staff of tax administration. Some of these factors are listed below:

- The system of recruitment through which non-officers are inducted into the organisation is highly politicised.
- Current training and development practices do not expose the staff to best practices in tax administration.
- Career progression is slow for both officers as well as non-officers.
- Hardworking and honest employees are not adequately rewarded.
- The performance appraisal practice suffers from instrument and process flaws.
- Inadequate compensation system fails to attract and retain highly qualified professionals. It also compels a large number of people to engage in unfair practices to supplement their income.
- The working environment is not conducive for sustained high quality work.
- Staff is expected to spend money from their own pockets to furnish their offices, to get stationery for office work and to meet other operational expenses to keep their offices functional.
- Revenue targets fixed without adequate consultation with managers and staff lead to anxiety in the staff, who in turn, indulge in intimidation and harassment of the taxpayers.

ANALYSES OF PRESENT PRACTICES

6.4 Our analysis suggests that an efficient, effective and honest tax administration requires a professional work force, which is highly motivated, is willing to change attitude and behaviour and

above all is compatible with the new mission of the organisation. To achieve this objective it is imperative that the following HRM issues be addressed immediately.

Working Environment

6.5 Our findings indicate that while the officers offices were better organised and properly furnished the offices of the non-officers presented a disappointing scene. For instance, the drinking water areas as well as toilets are hazardous to the health of those who use these services. We include a picture to present visually what was seen in the field.¹ This picture speaks for itself and any further elaboration on the working conditions and the environment is unnecessary. In many offices we found broken furniture, dirty walls and stairs and absence of the day to day needs for work.

Picture depicting the office work environment



Picture 1: Filing Room

Recruitment

Recruitment of Officers

6.6 In Basic Pay Scales (BPS) -17, 75% of the posts are filled through direct recruitment and the remaining 25% posts are filled through promotion from BPS-16 officials based on a policy of 'seniority-cum-fitness'. The direct recruitment of officers in BPS – 17 is through the Central Superior Services (CSS). Candidates who appear for the CSS competition are inducted into 12 occupational

¹ More pictures can be seen in the HRM consultants' report. A cursory look at this picture would substantiate what we have stated.

groups for service in the Government of Pakistan. Those selected for the Income Tax Group and the Customs & Central Excise Group are recruited in BPS - 17 in the direct and indirect taxes of the Revenue Division as Probationary Officers.

6.7 The current selection criteria and the subjects included in the written examination have little relevance to the work of the tax administration. The interview does not assess objectively the candidate's personality and leadership potential. Psychological test results are not taken into consideration while making the recruitment decision. The present upper age limit and actual average age of the entrants into service makes it difficult to mould them according to the specific job requirements of tax administration.

6.8 Selection for Central Superior Services is the responsibility of the Federal Public Services Commission (FPSC). FPSC places an advertisement in the newspaper, and potential candidates can then apply on a FPSC specified application form. The eligibility criteria for acceptance as a candidate are:

- Minimum of a graduate degree from a recognised educational institution.
- Citizenship of Pakistan
- Maximum age of 30 years at the time of application, relaxable for 2 years for candidates already in government service and those from disadvantaged areas.

6.9 All candidates who meet these criteria appear for the Competitive Examination. Each candidate is tested on five compulsory subjects worth a hundred marks each, and may select optional subjects carrying six hundred marks. Every candidate has to obtain a minimum of 45% in each subject to pass the examination. Only those candidates who qualify the written exam go on to the next stage, that is, the psychological test and the interview.

6.10 The psychological test and interview together have 300 marks, with a passing grade of 45%. The psychological test comprises three steps: personality profiling, assessing a candidate's leadership potential, and an interview with the psychologist. The candidate then appears for an interview to assess their communication skills as well as their aptitude. A panel consisting of members of the FPSC and other specialists appointed by the Commission conduct the interview.

6.11 The candidates who obtain the required score in the psychological test and interview undergo a medical examination. If found medically fit, then they become eligible for selection to the CSS. Final selection is according to the number of total points that the candidate secured in the written examination and the psychological test/interview. The top twenty per cent of the candidates are selected on a countrywide merit while the remaining 80% are taken on a basis of provincial quota.

Recruitment of Non-officers

6.12 Staff of BPS 16 and below is selected through direct recruitment as well as departmental promotion. While 'seniority-cum-fitness' is the main criterion for promotion, certain promotions are also made through the departmental promotion exam. Member (Direct Taxes Administration) is the appointing authority for BPS 16, while the Commissioners/Collectors of the relevant tax area are the appointing authority for BPS 1-15. Details of recruitment are given below:

6.13 BPS 1-4: In BPS 1-4, 100% appointment is through direct recruitment based on interviews. Recruitment is on a regional basis and the candidates are posted within that region only.

6.14 BPS 5-10: Appointment of 50 % of BPS 5-10 employees is based on direct recruitment while the remaining 50% are recruited through departmental promotion. Direct recruitment is by the relevant Commissioners/Collectors based on eligibility and an interview. The criterion for departmental promotion is 'seniority-cum-fitness'.

6.15 BPS 11-16: In BPS 11-16, 50% of the employees are selected on the basis of direct recruitment and 50% through departmental promotion. The direct recruitment of BPS 11-15 is made by the relevant Commissioners/Collectors based on eligibility and an interview. Direct recruitment to BPS-16 is done through the Federal Public Services Commission.

6.16 The recruitment of non-officers is the most problematic area of recruitment. Recruitment is influenced by interest groups and is not on merit, which leads to the selection of unqualified employees who are unable to acquire the necessary skills, or to work diligently. Due to the politicisation of the process the number of employees recruited in this category are far in excess of the actual needs. For instance, on the direct taxes side there are about 14,000 employees working in BPS 1-15, whereas on the indirect taxes side there are about 16500 employees in the same scales. On the direct taxes side the number comes to about 90% of the total establishment, whereas on the indirect taxes side it comes to about 92%.

Training

Training of Officers

6.17 Common Training Programme (CTP): An officer before being assigned to a job is required to complete CTP at the Civil Services Academy. The CTP suffers from inappropriate length, irrelevant curriculum, lack of rigor in the subject matter, and poor quality of the resource persons.

6.18 Specialised Training Programme (STP): In STP the main emphasis is on the development of technical skills and little attention is paid to areas like information technology and management skills. Officers in the field informed us that STP lacked practical orientation and was of very limited use in their actual jobs. The curriculum, training design, and faculty skills all contribute to the poor quality of the training programme.

6.19 National Institute of Public Administration (NIPA): The programme at NIPA is well organised and has a good learning environment. The content however, is of little direct relevance to the trainee's job assignments. It has a general administrative orientation and has no technical component suitable for middle management. The programme is deficient in the areas of leadership skills, human resource management and negotiation skills.

6.20 Pakistan Administrative Staff College (PASC): The National Management Course at PASC is an advanced management programme aimed at enhancing management skills. The quality, objective and duration of the course was assessed as satisfactory and meeting the training needs of senior officers of tax administration.

6.21 Other Training: Officers of tax administration receive limited short-term training inside and outside Pakistan. There is no systematic assessment to identify employees' training and development needs, resulting in an absence of a comprehensive training plan.

Training of Non-officers

6.22 Direct Taxes & Indirect Taxes: Training of staff on the direct taxes area is almost non-existent and only BPS 11-16 (Inspectors and Stenographers) receive some training. For employees in the indirect tax area, training courses are few and far apart. Training courses impart only theoretical

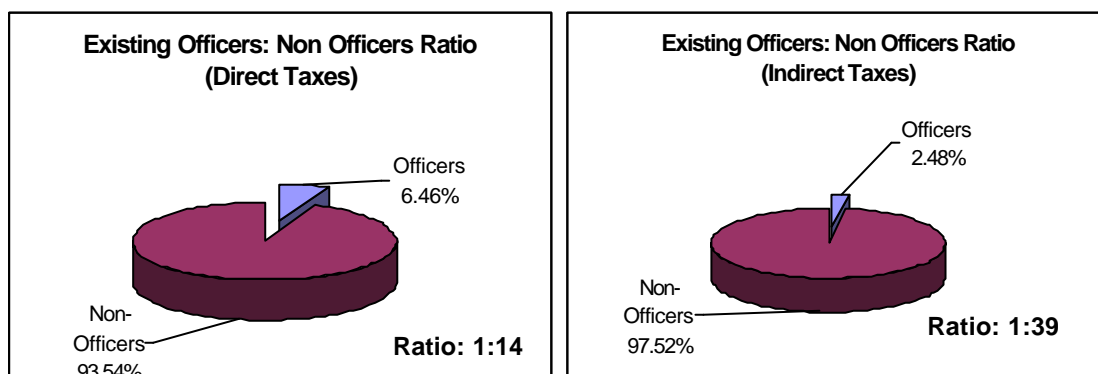
knowledge with little focus on the practical aspects of different jobs. This does not enhance the employees' ability to perform their jobs effectively.

Current Manpower Strength

6.23 The analysis of the officers to non-officers ratios in the tax administration revealed some disturbing facts. While on the direct tax side the officer to non-officers ratio was approximately 1 to 14, on the indirect tax side this ratio was approximately 1 to 39. There are several implications of these ratios:

- These indicate a lop-sided organisation design.
- These indicate an irrational manpower recruitment policy.
- These result in a low productivity of the tax administration and a large number of people who “live off the organisation” without any value-addition to the Core Services of the Tax Departments.
- These indirectly reveal the use of ‘influence’, both social and political, in securing appointments in these grades.
- These indicate that one of the costs of maintaining a large unproductive workforce is inadequate salaries for all employees.
- These create a clerical culture which leads to inefficiency.

Figure 6.1: Existing Officer to Non-Officer Ratios (Direct and Indirect Taxes)



6.24 The present complexion of manpower has led to the development of an institutional culture in which clerks rather than the officers set the operating norms. These norms engender a set of attitudes amongst the staff that are insensitive to the needs of the taxpayers as well as acting as a road-block to modernisation.

6.25 If allowed to persist, the present manpower strategy can create institutional barriers, which would be most difficult to cross in bringing about changes so essential to turn the tax administration into a dynamic institution. To create a dynamic tax administration the existing officer to non-officer ratios have to change radically.

Career Management

6.26 The officers (mostly BPS 19, 20 and 21) and non-officers (all BPS) have to wait beyond the prescribed number of years before being promoted, regardless of their performance. Thus, there is a gap in theory and practice in the implementation of promotion policy. While service rules allow 'fast track' promotion of high performing staff, these are not followed for lack of tradition and adequate procedure and to avoid allegations of influence peddling and subjectivity. The present conditions demotivate good performers.

6.27 Although, the promotion policy has provision for assessing the potential of officers in BPS 20 and BPS 21 for promotion to senior management positions, an objective appraisal system does not exist currently to identify outstanding performers. Therefore, there is a danger that if accelerated promotions were to be given to exceptional performers the system may be manipulated to benefit politically influential officers.

Compensation

6.28 Compensation is a major issue in the tax administration. The present compensation packages for all employees are extremely low. Employees do not get a living wage. With this wage, even the upper rungs of the organisation cannot afford a middle class standard of living. We are cognisant of the fact that the wages in the tax administration can not be fully market driven, as in Singapore, due to financial constraints and a large number of unproductive and super-fluous staff. Yet, if the goal of making the present tax administration an efficient and honest tax machinery is to be realised salaries of the staff will have to bear some relation to the market. A good reference point may be the remunerations available in the local financial sector.

6.29 The problem of low wages is further exacerbated by limited availability of official accommodation and other facilities. Many officers end up paying almost their entire salary for house rent. While on the one hand it leads to low morale and poor performance of the employees on the other it leads inevitably to corruption. Non-competitive salaries also make it difficult to attract the right kind of professionals to the organisation.

Performance Management

6.30 Performance management issues can be divided into three categories. The first category relates to tax administration in general, the second category to performance management instrumentation, and the third to the process of evaluation.

Tax Administration

6.31 The performance of individuals is primarily measured against unrealistic pre-fixed revenue targets, which do not take into account the internal and external parameters that determine the amount of taxes that can be collected in a particular area.² This leads to creative accounting by the tax administration to look good in the eyes of the Finance Ministry. Taxpayers are manipulated and refunds are delayed by the tax administration so that they can meet their respective unrealistic revenue targets.

² See Table 7.4 in the consultants' main report.

Instrumentation

6.32 The issues with the Annual Confidential Report (ACR) and the Monthly Progress Report (MPR) are as follows:

6.33 ACR is highly subjective and contains various personality traits with no mechanism to quantify or assess individual characteristics. Moreover, some of the questions are irrelevant to performance on a job. The concept of 'pen picture' is very vague and not properly understood. The report does not take into account performance parameters such as cases of detection or tax demand created.

6.34 Performance dimensions used are also ambiguous. For example, the section on personal traits comprises parameters such as intelligence, perseverance, and devotion to duty. The assessment of these traits may vary across appraisers thus making their evaluation both difficult and subjective.

6.35 The MPR is very lengthy and cumbersome. Being a self-generated report, it is susceptible to individual manipulation since officers may exaggerate their achievements to get undue credit. The undue emphasis on collection takes the tax collectors away from customer focus problem solving and performance excellence.

Process

6.36 The process of target setting and feedback is not properly documented. The concept of consultative target setting is almost non-existent. Individuals are given targets without their involvement. The system of feedback is also weak. Supervisory officers lack proper training in carrying out objective evaluation of employees. Any individual who believes that his/her evaluation is biased has to go through a long procedure for redress. Adverse remarks in the ACR require a lengthy process for their expunction. The performance data generated through the MPR is not considered while writing the ACR.

RECOMMENDATIONS

The Task Force makes the following recommendations to address the issues highlighted above.

Recruitment

6.37 We should compress the hierarchy and reduce the targets. There should be two categories of tax administration staff: the Executive Group (EG) and the Support Group (SG). The Executive Group will be needed for technical and managerial tasks of the tax administration. The Support Group will be needed to assist the Executive Group in various office activities including data entry and audit work at the senior Support Group level. In addition, SG will be needed in areas such as appraisalment, enforcement, valuation, and vigilance.

6.38 The Executive Group will correspond with BPS 17 to 22. It will be divided into 5 grades, EG-I through EG-V. The Support Group, shall correspond with BPS 1 to 16. The SG grades will be SG-I through SG VI. It is hoped that transition to the proposed cadres in conjunction with new policies for recruitment will eliminate the present distinction between generalists and specialists. For example, auditing, a critical skill, in the proposed tax administration should be reviewed in grade 17 and after requisite training and experience, officers should be eligible for promotion to managerial levels.

Recruitment of Executive Group

6.39 Given the nature of responsibilities and duties of future tax administration, officers in the EG will need the following competencies:

- Quantitative Skills
- Analytical Skills
- Communication Skills

6.40 The present system does not assess prospective candidates for any of the above competencies. While some of the officers may possess some or all of these competencies, there is no systematic method to screen out those who do not. Given this, three options were considered for the recruitment of EG I.

Option 1: Continue with the existing system of recruitment.

Option 2: Institute a completely Independent Recruitment System (IRS).

Option 3: Modify the existing recruitment system through FPSC.

Evaluation of Options

6.41 These options have been evaluated according to the following criteria:

- Objectivity and Impartiality
- Assessment of Candidates Aptitude
- Flexibility and Responsiveness

6.42 Evaluation of Option 1: The present Central Superior Services system selects generalists from extremely diverse backgrounds who may be sent to any of the 12 Occupational Groups without any assessment of their aptitude. It has the advantage that it recruits from a very wide base and allows people, who may have gone into different fields due to lack of choice, a chance to compete. However, it does not meet the criterion of assessing the candidates' aptitude for their suitability for tax administration.

6.43 Evaluation of Option 2: An Independent Recruitment System (IRS) in the tax administration has several advantages. First, this system will be flexible and responsive to the changing recruitment needs of the Tax administration. Second, being a much smaller organisation than the FPSC, the recruitment process timeframe could be condensed. Third, necessary changes in the recruitment process could be brought about in a relatively short period. However, a completely Independent Recruitment System for the tax administration will be vulnerable to accusations of influence and subjectivity.

6.44 Evaluation of Option 3: The integrity and general independence of the FPSC continues to enjoy a relatively high degree of credibility. In an era where interest groups control almost every process, recruitment through FPSC still ensures selection on merit. But Recruitment through FPSC does have shortcomings. First, it takes a very long time to complete the entire process of recruitment and selection, which is frustrating for the candidates. Second, it may not be able to cope with the

increased demands of the new tax administration for accelerated recruitment and selection. Third, inspite of its independence its impartiality in recruitment is questioned.

6.45 On the basis of its analysis the Task Force recommends the adoption of Option 2. This would enable periodical adjustment of recruitment criteria to meet the changing need of the tax administration and a much speedier process than the FPSC. The problem of favouritism and subjectivity can be minimised by constituting independent panels with participation by persons from outside the tax administration to finalise selection. Elsewhere the task force has recommended administrative autonomy for the tax administration, and the proposed feature for recruitment would be consistent with autonomy.

Proposed Recruitment Procedures

6.46 Seventy-five percent of the Executive Group I will be directly recruited and posted on a national basis. Twenty-five percent of the recruitment should be through promotion from Support Group VI. Promotion eligibility will be based on performance while in service, and suitability based on a number of tests to evaluate core competencies.

6.47 **Age Limit:** The age limit for tax administration should be reduced to 26 years with a two-year waiver for candidates already in government service and those belonging to disadvantaged areas. Candidates from Support Group VI coming through promotion will be 32 years of age. The proposed age bracket will ensure that candidates are open to changes in their attitudes and behavior for acculturation into the tax administration.

6.48 **Qualification:** The minimum eligibility criteria should be 16 years of formal schooling from recognised educational institutions leading to the equivalent of a Masters or professional degree. Candidates with demonstrated competency in areas that directly relate to the tax administration competencies may be given extra weight. This is explained further in the section below.

6.49 **Examination:** Recruitment should be based on a competitive examination and the candidates getting at least 60% marks will be given a psychological test and will also appear in an interview. The content of the examination should be:

6.50 **General Aptitude Test:** This test will be based on the GRE and GMAT pattern but will be modified to suit the Pakistani context and environment. It will test the knowledge and aptitude of the candidates in quantitative skills (mathematics and statistics), verbal skills (English comprehension and communication), and analytical skills (understanding and reasoning).

6.51 **Subject Test:** Each candidate will also appear in two Subject Tests from the following list:

1. Principles of Accounting
2. Principles of Finance
3. Micro & Macro Economics
4. Business Law & Administration
5. Public Administration
6. Fundamentals of Statistics

6.52 The subject test will also be patterned on the GRE Subject Test, modified to suit the Pakistan context and environment. The Subject Test will be short (maximum of 2 hours) and both will be administered within 23 days of the General Aptitude Test to save time and shorten the process.

Executive Group II-V

6.53 There will be no direct recruitment in these grades except in the case of specialised posts the need for which will be determined by the tax administration. The recruitment of these specialised posts in EG III-V will be no more than 25 % of the positions in these grades. The remaining 75 % of the seats in this cadre will be filled through promotion from within the Executive Group through the criteria laid down in the Career Management Section of the report.

Recruitment of Support Group (SG)

6.54 Support Group I&II: All the service staff in the Tax administration will belong to Support Group I & II. These will include categories such as Drivers, Notice Servers, and Guards. These categories of staff should be recruited regionally and be posted within the region of recruitment. The minimum education for SG I & II will be Matriculation, although each region can increase (but not decrease) the minimum qualification to suit its needs. A committee appointed by the competent regional authority, such as the Regional Commissioner, should make the selection and appointment.

6.55 Support Group III-V: This category will include Assistant Officers (SG-III), Junior Officers (SG-IV) and Officers (SG-V). The minimum qualification for SG III-V will be 14 years of formal schooling from a recognised educational institution leading to a Bachelors or equivalent degree.

6.56 Recruitment will take place in SG-III through a competitive exam administered by the Independent Recruitment System (IRS) of the tax administration. The recruitment process should be controlled centrally, by the HR function, although the recruitment and the postings will be at the regional level for SG-III and IV. The postings for SG-V will be at the national level. Junior Officers in SG-IV will come entirely through promotion from Assistant Officers (SG-III) based on criteria outlined in the career management section of the report.

6.57 Staff in SG-IV will also come entirely through promotion from SG-III. The selection for promotion to SG-IV will be through assessment of eligibility. Eligibility will be based on minimum years of service and performance evaluation. All candidates for promotions from SG-III to SG-IV, and from SG-IV to SG-V will be required to pass a central promotion examination administered annually by the tax administration to test their competencies and skills.

6.58 Support Group VI: This category of staff will be designated Senior Officers. The minimum qualifications for SG-VI will be 16 years of formal schooling from a recognised educational institution leading to a Masters or equivalent degree, or professional qualifications such as in accounting and business.

6.59 Recruitment and postings of this category will be at the national level. Recruitment will be 50% through promotion from SG-V and 50% direct recruitment through IRS. These candidates will have to meet minimum eligibility criteria for years of service. The selection will be based on merit decided by evaluation of past performance and score in a written examination and interview. The examination will be administered centrally by the tax administration. The 50 percent direct recruitment shall be based on the pattern recommended for EG-I and administered by IRS.

Training

Training Structure for New Tax administration

6.60 All training should be amalgamated under one Directorate of Training. The Directorate should have a headquarters in Lahore with regional offices in Karachi and Islamabad for the Southern, Central and Northern Regions. In addition, the Directorate should have one Academy, which can be named as “The Tax Administration Academy”.³

6.61 The Tax Administration Academy may be housed in Lahore in the present income tax Academy campus. The Customs’ Training Campus needs extensive repair and is currently unsuitable for the purpose. An alternative could be the Walton Campus of the Civil Services Academy. The Civil Services Academy could be relocated to the DMG Academy on the Mall in Lahore.

6.62 Tax Administration Academy: The governance structure and major responsibilities of the Tax Administration Academy are described below:

6.63 *Structure:* A Board of Management will be the overall governing body of the Academy. A Director General / Principal will head the Academy. The Board shall consist of 6 members: 2 academicians from leading private sector educational institutions, 3 representatives of the tax administration representing income tax, sales tax, and customs, and the DG as a member will chair the board. He will be responsible for administration and performance of the Academy. The Board of Management will decide policy matters pertaining to content and design of training programmes. Additionally, the Academy will be given a budget, broad and financial and administrative autonomy.

6.64 *Programmes and Activities:* Probationary officers of the direct and indirect taxes should be trained here for the Foundation Training Programme as well as the Specialised Training Programme. Medium length (2-3 weeks) refresher courses for direct and indirect taxes officers should also take place at the Academy. While short duration courses should be conducted at the Regional Directorate of Training. The initial training after recruitment of staff should be conducted at the Regional Directorates of Training. The major programmes and activities of the Academy will include:

- Foundation Training Programme
- Specialised Training Programmes
- Executive Training Programme
- Short-Courses
- Support Group Training

Training of Executive Group

6.65 Foundation Training Programme: All newly recruited Executive Group Trainee Officers of the Tax Administration Service should be sent to an initial training programme called the Foundation Training Programme (FTP). FTP will consist of the following three phases:

Phase I: On campus course work

³ See figure 3.1 in the HRM consultants' main report

Phase II: Attachment with private sector organisation

Phase III: Synthesis and evaluation

6.66 The duration of the FTP should be six months thus reducing the training time by six months from the present CTP. The EG Trainee Officers will be required to attend four month intensive on-campus course work at the Tax Administration Academy. This will be followed by a one-month attachment with a private sector organisation, which may include organisations from the financial, manufacturing or service sector. The last phase will be one month intensive workshop, which will allow the Trainee Officers to integrate their course and field learning. Additionally, it will enhance their teamwork and presentation skills. To prepare the Trainee Officers for their future role in the tax administration, the objectives of the FTP are:

- Socialisation of Trainee Officers to the work culture of the tax administration.
- Integration of Trainee Officers in the tax administration to develop a sense of identification and networking with each other.
- Development of fundamental skills and competencies to prepare the Trainee Officers for the Specialised Training Programme.

6.67 The following orientation courses will comprise the FTP curriculum.

1. Interpersonal/communication skills
2. Principles of Accounting
3. Public management/Public Finance
4. Fiscal legal framework
5. Principles of management
6. Introduction to IT
7. Audit & basic investigative skills

6.68 Specialised Training Programmes: It is recommended that the Specialised Training Programmes for the Direct and Indirect Taxes be carried out at the proposed Tax Administration Academy. It was noted earlier that the technical content of the present STPs was appropriate and relevant. However, the curriculum needs to be strengthened in the managerial and information technology areas. Additionally, the training quality and resources need to be upgraded.⁴

6.69 Middle-Management Training Programmes: As discussed earlier, presently there is no meaningful training at the middle management level. All the respondents indicated that there is a great need for a technically oriented training programme, which also includes a management

⁴ For the recommendations focusing on objectives, curriculum, and training design see the HRM consultants' report (Table 3.4).

component. It is therefore, recommended that EG-II officers with 5-8 years of service be required to participate in the Executive Training Programme (ETP).⁵

6.70 Advanced Training Programmes: Overall objectives of the advanced management training are to impart general management skills and knowledge to prepare senior managers to strategically manage their responsibilities. Presently, the two public sector advanced general management programmes, NIPA's Advanced Management Programme and PASC's National Management programme, provide this training to revenue service officers. It is possible to evolve specialised/customised programmes at NIPA and PASC for revenue service officers

Training of Support Group

6.71 There is a great need to introduce systematic, effective, and quality training for all the Support Group of tax administration.

6.72 Support Group I-II: This level consists of staff that performs generalised work, such as notice servers and dispatch riders etc. Therefore, no specific training is necessary. The relevant office can provide its own on-the-job orientation.

6.73 Support Group III-IV: This group will consist of individuals who will provide secretarial and administrative support functions such as data entry, office administration, and general secretarial support. To ensure a high quality of support service, this cadre will need to be trained in basic office procedures, administrative, communication and computer skills.⁶

6.74 Support Group V-VI: Employees in the SG V-VI will consist of junior level technical staff such as Inspectors, Auditors, and Appraisers. They will be involved in carrying out some of the functional responsibilities in their respective tax areas. In some cases they will be the front-line staff and would have frequent interaction with the public. Therefore, it is imperative that they undergo systematic and effective training that equips them to adequately perform their duties⁷.

6.75 Other Training: On the basis of continuous needs assessment, we are proposing that some employees be sent to different national and international institutions for training in general management and leadership courses⁸. A three years training plan is given in Table 1 and Table 2 at the end of the chapter.

⁵ The proposed programme objective, curriculum, and design is available in the HRM consultants' main report (Table 3.5).

⁶ The details are available in table 3-C of the main report.

⁷ See table 3.7 and 3.8 in the main report of the HRM Consultants.

⁸ See Annexure I of the HRM consultants' report for samples of training programmes carried out at both foreign and domestic institutions.

Faculty for the Training Academy

6.76 Since the quality of faculty presently engaged in training was brought out as an important issue, it would be important to ensure that right people are posted to the Training Academy. To attract highly qualified and talented individuals from within the tax administration for assignments at the training academy, it is recommended that posting to the Academy be given extra credit at the time of promotion. In addition, the external faculty resources have to be given better monetary incentives to attract them as visiting/part-time instructors.

Training Methodology

6.77 Use of interactive methods, case situations, extensive use of information technology both in the class room and on the job training and audio-visual material should be encouraged for enhancing the effectiveness of all training programmes.

Career Management

6.78 We are proposing the restructuring of the entire staff for both direct and indirect taxes into two groups. The present officers' cadre should be called the Executive Group (EG), and the non-officers' cadre be renamed as the Support Group (SG).

6.79 The rationale behind this recommendation is to do away with the multitude of titles currently in-use and to reorient the present clerical culture of the organisation towards a more responsive and taxpayer friendly tax administration system.

6.80 To change the clerical mindset of the present Tax administration, we propose that all the existing job titles be renamed. All employees in SG-III SG IV, V, and VI should be given the following titles respectively and this should be done by December 2001:

SG III - Assistant Officers

SGIV- Junior Officers

SG V- Officers

SG VI- Senior Officers

6.81 To improve the overall efficiency and effectiveness of the organisation, the proposed Support Group and the Executive Group shall have six and five hierarchical layers. In this way, the present 18-layer management structure will be reduced to 11 layers. If we take the SG I and II out since these represent office boys and drivers, then we are suggesting only a nine layer organisation excluding the position of the Chief Executive to improve efficiency.

6.82 It is imperative to assess the future suitability of all the existing staff in BPS 1 to 16. Of course, this would require the identification of some objective criteria to screen out the incompetent and to retain the good performers. The existing laws and rules have to be kept in view while deciding who should be retained and who should be selected out. The details for selection in and out are provided in the transition plan under performance management. After this rationalisation, the employees in the aforementioned grades should be adjusted into the proposed Support Groups.

6.83 Appointments to EG III, IV, and V should be open to competition from outside. 25% appointments in EG III, IV, and V should be made through an open competition. Nevertheless, the internal candidates should be allowed to compete with the external candidates. This provision should also help in recruiting highly specialised personnel (Audit, IT, Economists, Cost and Chartered

Accountants, Human Resource Managers) to have in-house capacity to enhance the effectiveness of the organisation.

6.84 The 25% appointment to EG III, IV, and V should be made through the Independent Recruitment System based on the eligibility criteria to be determined by the restructured tax administration. A battery of tests and interviews to ascertain the suitability of candidates for 'fast track' promotion should be used to ensure the credibility of the system.

6.85 To encourage good performers, 'fast track' promotion opportunities should be provided to the staff. At least, 25% posts in the SG VI and EG III and above should be open for 'fast track' promotion to internal candidates only. The Independent Recruitment System (IRS) could be assigned the responsibility to assess suitability for promotion against this stream to ensure objectivity and transparency in promotion.

6.86 As far as promotions in SG IV, V, and VI are concerned, 50% posts should be reserved for direct recruitment. The internal candidates should also be allowed to compete against these positions if they satisfy the minimum eligibility criterion determined by the organisation. Since these positions are going to be highly important in the restructured tax administration, we recommend that they be filled through the Independent Recruitment System (IRS) to ensure recruitment on merit and to avoid politicisation of the recruitment process.

Manpower Rationalisation Strategy

6.87 About 90 percent of the staff of direct taxes and about 80 percent indirect taxes are in grades 11–13. Both the absolute numbers and ratios of support staff to professional staff are untenable. We have recommended an overhaul of business processes which implies much greater reliance on professional staff than in the current administration. This implies not only a reduction of the overall staff in the tax administration but a shift away from unskilled employees to skilled employees. The Tax Force is in no position to recommend specific targets for either. The tax administration will have to do that based on a unit by unit evaluation. But an assumption of the ultimate ratio of 3 to 1 between support staff and professional staff would not be unrealistic. We would expect expansion of professional staff such as auditors and information specialist and simultaneous combination of non professional staff. The HRM consultants recommend a ratio of 1 to 9 (indirect taxes) and 1 to 5 (direct taxes) be the ultimate goal of the future manpower strategy for the redesigned tax administration. However, these ratios require validation from Business Process Reengineering (BPR) and Management Information System (MIS) studies.

6.88 For the time being the present strength of executives both on the direct and on indirect taxes side should be maintained. However, the strength of the Support Group should not exceed 9,000 on the indirect tax side and 5,000 on the direct taxes side based on the following assumptions. In our opinion this would be the number of staff needed to run an efficient and effective tax administration.

Manpower Reduction Under Three Assumptions

The following are some transitional assumption:

6.89 **Assumption A:** Reducing manpower by 30% in SG I-VI in the direct and indirect taxes leading to an officer to non-officer ratio of 1 to 10 in the direct taxes and 1 to 28 in the indirect taxes

6.90 **Assumption B:** Reducing manpower by 33% in SG I-VI in direct taxes leading to an officer to non-officer ratio of 1 to 10 and reducing manpower by 50% in the indirect taxes leading to an officer to non-officer ratio of 1 to 20

6.91 **Assumption C:** Reducing manpower by 50% in SG I-VI in direct taxes leading to an officer to non-officer ratio of 1 to 7, and reducing manpower by 33% in the indirect taxes leading to an officer to non-officer ratio of 1 to 26

6.92 The actual ratios may change after automation and reform of business processes, reduction of layers, installation of automated information management system and greater reliance on professional staff in EG performing specialised responsibilities⁹.

Compensation

6.93 Various scenarios have been considered to propose a fully monetised compensation system for the redesigned tax administration of Pakistan to achieve the objectives of attracting new employees, motivating and retaining good performers and reducing corruption. The Task Force is conscious that improved compensation by itself, will not eliminate corruption. However, it has to be an important part of an overall strategy, as presented in this report. The cost implications of each scenario under three manpower reduction assumptions have been worked out.

6.94 The existing costs per employee have been calculated by attaching cash values to all perquisites. The perquisites have been calculated by assuming extreme cases of access to government facilities. Using these figures, the consultants have presented four scenarios for improving the employees' compensation. The Task Force, however, has considered scenarios C and D and recommends the adoption of scenario D¹⁰.

6.95 Scenario C: In scenario C we are using State Bank of Pakistan's compensation data.

6.96 Scenario D: In this scenario we use compensation data of the local banking sector based on a salary survey conducted, but excluding foreign banks. Proposed grades except SG-I and II, have been linked to comparable grades at the fiftieth percentile of the compensation range of local banks. For SG I and II the linkage is to the lowest part of the range. Table 6.1 presents the proposed salary structure. In time the compensation will be eroded by inflation. Therefore, we recommend adjustment of scales based upon the salary survey of domestic banks.

6.97 We are convinced that if the goal of making the future tax administration dynamic, efficient and honest machinery is to be realised, the compensation to the staff has to be **powerful and up-front**. Scenario D offers such a choice.

6.98 Scenario D is also justified by the fact that tax administration is pivotal to generating revenues of over Rs. 400 billion annually. The current cost of tax collection in Pakistan is extremely low and the proposed compensation package will not increase it significantly. This will be still within the norms of cost of collections in the region.

6.99 An efficient tax machinery and motivated tax collectors will certainly help to improve the present Tax to GDP ratio in Pakistan. It is hoped that the additional expenditure on the proposed compensation will be met through an improved Tax to GDP ratio as well as improved collection due to plugging of corruption. However, some costs may have to be incurred by the exchequer in the initial period of transition.

⁹ The cost implications of the three assumptions are given in the HRM consultants' main report.

¹⁰ For description of scenario A and B, see HRM consultants' report.

6.100 As regards the Chief Executive Officer, the presently approved M1 grades by the Ministry of Finance can serve as the reference point in determining the compensation package. This grade offers the following package:

Rs 238,000 (maximum range), 1600cc car, driver, 340 liters per month

6.101 There is considerable opposition to giving better wages to staff in the lower grades. We do not agree with this view. It must be borne in mind that a major portion of corruption in the Tax administration (we were told in our field work), is need based and this directly relates to staff such as Daftris, Naib Qasids, and Notice Servers. Therefore, we recommend that the monetised compensation packages available to the lowest grade employees in the local banks should be considered for the Support Group I and II in the restructured tax administration.

6.102 We recommend that a band of 7% (maximum for outstanding performance) and 4% (for average performance), and 0% (for below average performance) may be used as a guiding principle for annual raises. In this way, the issue of slow promotion and move over would not pose any problem of low motivation and morale.

6.103 We recommend the adoption of pay bands given in Table 6.1 (at the end of the chapter). Additionally, we are recommending smaller step raises in these bands to ensure that the maximum of a grade does not become too high. Every three years the salary bands should be revised based on a market survey of compensation and the cost of living in major cities.

6.104 Table 6.2 at the end of the chapter provides an overview of the different manpower reduction assumptions and different compensation scenarios including the existing situation.

Other Benefits

- One month's basic salary as medical reimbursement (or 40% of the gross monthly salary)
- Health insurance for hospitalisation
- Government vehicle for field duty
- Performance Bonus (individual and unit reward)
- Gratuity or contributory pension scheme
- Contributory provident funds

6.105 We also suggest that the services of an actuary be utilised to work out the details of the gratuity and contributory funds schemes.

6.106 Those officers and staff currently residing in government accommodation (either owned or requisitioned) may continue to live in these premises but will be liable to pay market rent. In case of lease agreement which is up for renewal this will not be renewed and those already renewed will be terminated at the conclusion of the agreement period. The existing staff will be given the option to accept the new compensation as a total package or stay in the existing contractual arrangement.

Performance Management

Proposed Performance Management System

6.107 In order to fully assess an individual's performance, it is important to consider both the quantitative and qualitative dimensions of his/her achievement. Therefore we propose a process-based system of performance management, which will tie individuals' performance with overall departmental and organisational objectives.

6.108 We further elaborate on the process-oriented system by providing guidelines for each of the individual tax areas.

6.109 **Income Tax:** Income tax has a set of major process oriented objectives that drive performance management within this tax area. These include assessment of various cases, tax collection, refund of undue taxes and detection of cases of concealment. These objectives should form the basis for the performance evaluation system in the income tax department.

6.110 **Sales Tax & Central Excise:** In the case of sales tax, collection objectives are different. These objectives for sales tax are audit, firm registration, collection, refund and prevention of evasion. However, the system of consultative target setting proposed in this report for this area is similar to the income tax.

6.111 **Customs:** In Customs certain key process related objectives have been identified as performance parameters. These parameters are inspection, enforcement, appraisal and evaluation.

6.112 An employee will fill the newly developed performance evaluation instrument that measures performance at personal and organisational levels respectively. In essence, the proposed system is aimed at enhancing team building and integration within the tax administration. In this way, individuals would develop a sense of ownership not only for their own work but also for the work of their subordinates and peers. Under the new system, performance assessment and monitoring would be facilitated by paying more attention to the achievements of targets by functional units. To operationalise the proposed changes, we have designed a new Performance Management Instrument to evaluate individual's performance. In addition, we recommend a new system of quarterly reports to enable tax administration to evaluate the performance of various functional units regarding the achievement of their respective targets.

Additional Recommendations

6.113 We offer the following additional recommendations to improve the performance management system:

6.114 Goals of the Performance Management System: Traditionally, appraisal systems have been used as monitoring and evaluation tools. It is now well recognised that an effective performance management system should include the following goals:

- Performance Planning
- Performance Monitoring
- Performance Measurement & Evaluation
- Performance Improvement
- Potential Assessment

- Identification of Training Needs

We are recommending the adoption of the above goals in the modified performance appraisal system.

6.115 Instrumentation: To achieve the goals mentioned above and address issues in the existing instruments we propose that a new instrument be used for performance assessment in the tax administration. For this purpose we have developed a comprehensive appraisal instrument for the performance assessment of tax administration staff.¹¹ Following are the major components of the new Performance Management Instrument.

- Planning performance objectives
- Appraisal against objectives
- Behavioural & trait performance dimensions
- Comparative performance rating
- Potential assessment
- Identification of training & developmental needs

6.116 At the beginning of the performance year, supervisory officer/appraiser will plan the yearly performance objectives for the appraisee. In addition, standards for performance measurement, assessment and deadlines will be established at this stage. The Appraisee will participate in this process of planning objectives and setting performance standards.

6.117 As discussed earlier, objectives will be both target and process based. At the end of the relevant performance period, the appraisee's target related performance would be assessed against these objectives. This section of the appraisal instrument carries 60% weight. The next section of the appraisal instrument includes behavioral instrument and trait related performance dimensions. For the different levels of the Executive Group, these performance dimensions carry different weights. The overall weight of the behavioral and trait based dimensions is 40%. The instrument includes both, objective and behavioral performance indicators; objectives are given more weight due to the nature of the work of tax administration.

6.118 Last two sections of the instrument focus on the potential assessment of the appraisee and his/her developmental needs in order for him/her to perform more effectively in future. The section is aimed at gauging the true potential of an employee to facilitate career planning and management

6.119 One of the major characteristics of the instrument is the comparative performance rating section. This section requires the appraiser to compare the focal appraisee with the individuals in the same grade in the relevant unit. The section is applicable to both the Executive and Support groups. It forces the rater to categorise the individual in different performance bands where grade A is allocated to the top 5% individuals who may have shown outstanding performance and grade D is assigned to the bottom 5% individuals, whose performance is unsatisfactory.

¹¹ There are two separate instruments for Executive and Support groups. Copies of this instrument are attached as Annexure IX in Volume II of HRM consultants' main report.

6.120 Comparative rating system enables the rater to identify both the best and the worst performers in an impartial and efficient manner especially at the time of crucial decisions regarding award of increments, promotions and other rewards. Since the rater is forced to categorise each individual according to his/her performance relative to his/her peers, his bias is substantially reduced. See Figure 6.2 (at the end of the chapter) for the normal curve that defines various categories in which the individuals fall relative to their peers. As shown in the Figure, left end tail of the curve contains top 5% individuals and the right end of the tail indicates the bottom 5% category. The middle category contains 60% of employees who show average performance relative to their colleagues. The remaining 30% is covered by individuals who are close to either the top or the bottom category and, therefore, are most likely to change their position on the curve depending on how they may perform.

6.121 After the adoption of the new system for the first two years, the bottom ten percent employees will be put on probation for six months. If at the end of the probationary period the desired performance improvement is not visible, their services may be terminated. Where there are issues of integrity there would be immediate termination.

Performance Appraisal Process

6.122 Documentation of Process: The process has to be documented for better understanding of both the reporting officer and the person being evaluated. This will enable the reporting officers to follow a uniform evaluation process rather than filling out the appraisal form in a casual fashion

6.123 Increased Frequency of Evaluation: Currently employee evaluation is done on an annual basis through ACRs for employees working in both the Direct and Indirect Taxes. We recommend that the frequency of evaluation be done on a quarterly basis to provide regular feedback through the new performance management instrument.

6.124 Provision of Regular Feedback: Regular feedback, both positive or negative is essential for effective performance management. Under the present performance management system at Tax administration, employees are only communicated adverse remarks whereas there is no concept of positive feedback.

6.125 Proper Job Description: Proper job description at various grade levels is lacking. We recommend that definition of jobs at different grades will lead to objective evaluation of individual employees against their respective roles within the organisation.

6.126 Realistic Target Setting: Targets set for the employees, especially through MPR, are unrealistic and do not take into account factors that may influence tax collection in a particular area. As most of the employees are evaluated against their target attainment, it is imperative that the target setting process be realistic and systematic so that the targets communicated to the employees are achievable. This will enable the raters to measure individual employee performance more realistically.

6.127 Consultative Target Setting: Consultative target setting creates a sense of ownership among the employees, since they agree to the responsibilities of work given to them. It avoids any potential conflicts that may arise out of employee dissatisfaction about their individual workload.

6.128 Training of Raters: The raters have to be trained to use the new appraisal instruments effectively. This training will help the raters to set challenging goals and objectives through a consultative process and assess these objectives according to the laid down performance criteria.

TRANSITION PLAN

Recruitment

6.129 The following transition plan is suggested to implement the new recruitment system:

6.130 The job titles and names for both the officers and staff should be converted into the new nomenclature defined in the career management section of the report. This activity will begin in July 2001 and be completed by the end of December 2001. Necessary changes in the relevant provisions of the tax statutes will be required.

6.131 The proposed recruitment system should be implemented with immediate effect. The process will begin in July 2001 and finish towards the end of December 2001. The first step in the process should be to establish an HR function in the tax administration which would then facilitate the creation of an IRS. This exercise will be completed by December 2001.

6.132 Recruitment of the first batch of Executive Group will start in January 2002 and be completed by the end of March 2002. Functional specialists needed for the business processes would be identified and their recruitment will take place simultaneously with the recruitment of the Executive Group. Recruitment of the first batch of Support Group (SG) will start in July 2002 and end in September 2002.

6.133 For the first batch of both Executive and Support Groups, Independent Recruitment System will have to outsource testing services due to its capacity and resource constraints. The process for outsourcing should be based on the model used by the Punjab Government to test the candidates for admission to Medical Colleges. In the meantime, tax administration can assess its internal capacities in order to gauge whether it will be able to conduct the tests in-house in the future or contract out the testing services permanently.

Training

6.134 In this section, we outline the transition plan for training. The transition plans for the Executive Group and the Support Group are provided in the consultants' report. The plan includes scheduling and planning activities for both the Executive and Support Groups.

6.135 The Tax Administration Academy should be established as soon as possible to effectively meet the training needs of the executives. The planning of the curriculum and infrastructure of the Academy will be initiated in July 2001. The charter for the Academy will be passed by September 2001 to make the academy functional by April 2002. The conversion and upgrading of the campus should start in October 2001 and the delivery of courses will begin in April 2002.

6.136 Training needs assessment of the existing staff will begin in October 2001 after the charter is passed and we suggest that it be a continuous activity in order to improve the efficiency of the employees.

6.137 Tax Administration Academy on its own campus will conduct the following programmes. Core programmes include the Foundation Training Programme, Specialised Training, and Executive Training Programmes for the Executive Group and the Basic Training Programme for the Support Group. Executive Training Programme for the existing officers will start in April 2002. Foundation Training Programme for the newly recruited Executive Group employees will start in April 2002 and be complete by July 2002. The new Specialised Training Programme (STP) for the new recruits in the Executive Group should start right after the FTP from the third week of August 2002 and continue till June 2002. Training programme for new recruits in Support Groups, Basic Training Programme, will start in October 2002 and continue on ongoing basis.

6.138 Tax Administration Academy and its regional centres will offer a number of short courses. A list of suggested short-courses to be offered on regular basis is included in the transition plans of the Executive and Support Groups. Short courses for the Executive Group will begin in April 2002 and finish by the end of December 2002. A complete list of short-courses will be finalised by the newly formed Tax Administration Academy during the first year of its establishment. Similarly short-courses for the Support Group will commence in July 2001 and will continue to be offered.

6.139 In addition to the core and regular short courses, we are also proposing a list of interim training courses. The major purpose of these courses will be to address training needs of existing officers in key areas of their work. This will allow the new tax administration to upgrade the job relevant knowledge and skills of the existing executive and support staff who would not get the opportunity to participate in the new core programmes to be offered to the future employees. The interim short courses will only be offered during the next three years starting July 2001.

Career Management

6.140 Following is the list of activities and corresponding dates for completion of the entire process of implementation of changes in the present career management practices.

- Definition of job descriptions for various job levels will start in July 2001 and finish by the end of December 2001.
- Adjustment of existing staff into new cadres will initiate in August 2001 and continue until April 2002.
- Assessment of the existing staff for 'fast track' promotion will begin in May 2002 and end in June 2003.

Manpower Rationalisation Strategy

6.141 Since the tax administration has a weak manpower data base, the implementation of this recommendation will have to wait for numbers to be generated by (a) tax administration, (b) BPR Teams, and (c) MIS Team. In addition, requisite legal changes will be needed before any steps to reduce staff are taken.

6.142 Yet, the broad strategy presented above can serve as a guiding principle. To ascertain the precise number of redundant staff pilot sites will be crucial to implement reengineered business processes in income tax, sales tax & central excise as well as customs supported by automated MIS. It will be of critical importance to avoid 'court battles' due to employee litigation in the wake of manpower reduction and also to avoid any disruption in the continued smooth functioning of the tax administration during the transition period.

6.143 Main activities in the transition plan and their dates are outlined below:

- Determination of surplus staff should commence from August, 2001 and be completed by December 2001
- Placement of surplus staff into a common pool should begin from January 2002 and be completed by end of March 2002
- Categorisation of surplus staff into in and out groups should start from April, 2002 and be completed by end of June, 2002

- Retirement and termination of out categories should commence from July 2002. Adjustment of remaining staff into new cadres should also begin simultaneously. These two activities will be completed by end of December 2002.

Compensation

6.144 The implementation of the recommended option can be staggered over the next two years to ease the pressure on existing limited resources. Since tax administration is a resource-generating agency, there is no harm in setting aside a certain percentage from the annual revenue generated to meet the enhanced payroll cost. We recommend that the salary increases for the first year should be substantial to create the desired impact on the motivation and morale of the employees.

6.145 The new compensation package should be implemented after (a) Reengineered Business Processes, (b) new MIS, (c) a restructured tax administration have been put in place. To implement it without these measures being in place would not achieve the desired goals of creating a dynamic, efficient, effective and honest tax administration in the country.

6.146 We also recommend that only those staff members be brought under the proposed compensation system who are at present actively involved in the work of the tax administration. officers on deputation and secondment have to revert to tax administration to be eligible for the proposed compensation packages. The various activities in the Transition plan and their dates are given below:

- Approval of new salary packages should not take more than two months and should begin by July, '2001.
- Mobilisation of funds to meet the interim costs should begin by June, 2001.
- Adjustment of existing staff to new salary packages should start from January, 2002.

Performance Management

6.147 Following is the transition plan for the Performance Management section.

New Performance Management System should be approved by the tax administration by the end of July 2001.

6.148 Training Workshops for the New System: Training workshops will have to be organised to familiarise the employees with the new performance management instruments and their respective usage. This training will be essential for the officers to enable them to assess employees more objectively and accurately. Training workshops for the new system will start in July 2001 and continue till end of October 2001.

6.149 Subsequently the training workshops for the annual performance evaluation process will resume in April 2002 and finish towards the end of May 2002.

6.150 Target Setting and Performance Planning: Consultative target setting and performance planning will enable both the appraiser and the appraisee to accept the targets outlined at the beginning of the year and work towards the realisation of the given targets. As the appraisee would also be consulted in the target setting exercise, he/she would develop a sense of ownership and execute his/her respective tasks in an efficient manner. Tax area targets will be set in June 2001 while the functional units, zonal and individual targets will be defined in July 2001. Target setting and performance planning will restart in July 2002 and finish towards the end of August 2002.

6.151 Monitoring and Feedback: Appraisers should constantly monitor the appraisees performance throughout the year in order to evaluate the appraisee in an objective fashion. Due to continuous monitoring, the appraisee will be more alert in execution of duties and therefore, less susceptible to faults. Monitoring and feedback will start in August 2001 and be completed by the end of May 2002. Monitoring and feedback will resume in August 2002 and be completed by May 2003.

6.152 Annual Performance Evaluation and Review: Last month of the performance year should be devoted to relevant annual performance evaluation and review. It will start in June 2002 and continue for the entire month. The annual performance evaluation and review will start in June 2003 and continue for the entire month.

6.153 Selection out of Staff : The proposed Performance Management System will generate performance data one year after its implementation. In the meantime, some important decisions pertaining to retention and exit of redundant and low performing employees are to be made. This would require the development of an objective and transparent process to ensure justice and fairness in such decisions. We are therefore, proposing the following steps, which would lead to selection out of the foregoing categories of staff:

1. Creation of a pool of surplus staff at the regional/collectorate/headquarter levels
2. Staff redundancy resulting from step elimination due to business process re-engineering or de-layering will go to the surplus manpower pool of their respective areas of posting
3. Creation of a performance data-base on all employees
4. Application of normal distribution curve, as proposed in this section, at regional/collectorate/headquarter level using performance data from the last three years
5. The bottom ten percent individuals identified in step number 4, will go to the surplus pool of their present area of posting
6. The tax administration to decide the precise number of staff needed to meet their future organisational requirements
7. Those declared poor performers and redundant will be dealt with according to the strategies proposed in the manpower rationalisation section

Concluding Comments

6.154 Lastly, we are convinced that the task of restructuring the present tax administration into effective, efficient and honest tax machinery will remain unfulfilled without overhauling the present administration wing of the organisation. We propose that the creation of an HRM function at the Headquarters should be undertaken immediately. Next, a senior expert (EG-V) in the area of HRM should be appointed to head the proposed HRM function. Without these steps, in our judgement, the task of restructuring would be rendered rather difficult.

6.155 The HR executive can actually help in managing the process of transition from the current state of Tax administration to the new proposed state. Above all, he will be able to anticipate and identify the bottlenecks, which might crop up during the transition phase and will help in proposing steps to remove the same.

6.156 The HR function will be responsible for the following tasks:

1. Strategic People-Planning

- Identify organisational capabilities and gaps
- Assess external and internal work climate
- Formulate and implement people strategy
- 2. People Acquisition and Development
 - Competency definition and development strategy
 - Strategic staffing
 - Education and training
 - Individual performance management and coaching
- 3. Organisation Design and Development
 - Organisation design and change process
 - Shaping of work environment
 - Design and management of pay, benefits, and policies
- 4. Administration of People Policies, Programmes, and Practices
 - Personnel administration
 - Staffing support
 - Compensation and benefits administration
 - HR information services

Table 6.1: Proposed Pay Bands

Existing	Equivalent	Gross Salary		Basic Pay Scales (Scenario D, Local Banks)										
		Min	Max	1	2	3	4	5	6	7	8	9	10	11
1-2	SG-I	5,500	7,392	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176	7,392
3-4	SG-II	6,500	8,735	6,500	6,695	6,896	7,103	7,316	7,535	7,761	7,994	8,234	8,481	8,735
5-10	SG-III	10,858	14,592	10,858	11,184	11,519	11,865	12,221	12,587	12,965	13,354	13,755	14,167	14,592
11-13	SG-IV	19,783	27,906	19,783	20,475	21,192	21,934	22,701	23,496	24,318	25,170	26,050	26,962	27,906
14-15	SG-V	27,658	39,014	27,658	28,626	29,628	30,665	31,738	32,849	33,999	35,189	36,420	37,695	39,014
16	SG-VI	37,283	52,591	37,283	38,588	39,938	41,336	42,783	44,281	45,830	47,434	49,095	50,813	52,591
17-18	EG-I	49,873	68,255	49,873	51,868	53,943	56,100	58,344	60,678	63,105	65,629	68,255		
19	EG-II	62,852	86,017	62,852	65,366	67,981	70,700	73,528	76,469	79,528	82,709	86,017		
20	EG-III	78,081	106,859	78,081	81,204	84,452	87,831	91,344	94,997	98,797	102,749	106,859		
21	EG-IV	108,804	141,691	108,804	113,700	118,817	124,163	129,751	135,590	141,691				
22	EG-V	172,275	224,347	172,275	180,027	188,129	196,594	205,441	214,686	224,347				

Note: Minimum BPS are based on Scenario D (Local Banks)

3% Increases in SG-I to SG-III up to 11 Steps, 3.5 % Increases in SG-IV to SG-VI up to 11 Steps,

4% Increases in EG-I to EG-III up to 9 Steps, 4.5 % Increases in EG-IV to EG-V up to 7 Steps,

Table 6.2: Matrix of Cost Implications for Compensation Scenarios Under Manpower Strength Assumptions.

		Compensation Scenarios (Rupees in Million)				
		Existing	A	B	C	D
Manpower Strength Assumptions	Existing	1,493.87	2,587.51	2,934.22	5,581.37	5722.22
	A	1,128.31	1,947.77	2,203.09	4,158.51	4293.31
	B	975.74	1,680.78	1,897.95	3,550.52	3669.87
	C	1,000.61	1,724.31	1,947.70	3,675.65	3821.25

Figure 6.2: Comparative Performance Rating Curve

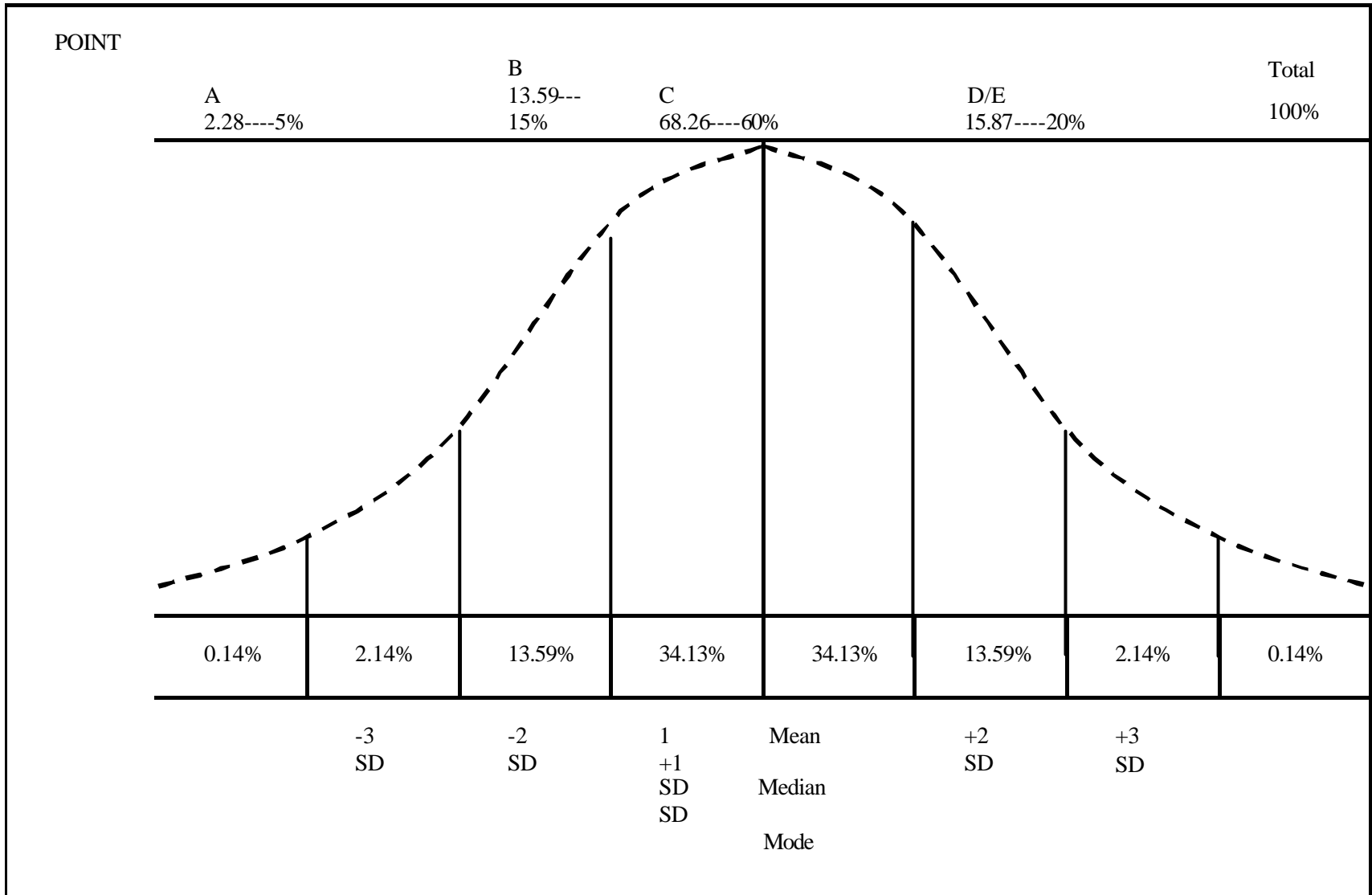


Table 6.3: Three- Year Training Transition Plan for Executive Group

Programmes and Activities	Year 1	Year 2	Year 3
<p>CORE COURSES:</p> <p>Foundation Training Programme</p> <p>Specialised Training Programme</p> <p>Executive Training Programme</p>	<p>Re-design Curriculum; Identify and recruit visiting faculty</p> <p>Re-design Curriculum; Identify and recruit visiting faculty</p> <p>Design Curriculum; Identify and recruit visiting faculty</p>	<p>1st Delivery of FTP</p> <p>1st Delivery of STP</p> <p>1st Delivery of ETP</p>	<p>2nd Delivery of FTP</p> <p>2nd Delivery of STP</p> <p>2nd Delivery of ETP</p>
<p>SHORT COURSES</p>	<p>Identify and design courses and their curriculum; Identify and recruit visiting faculty</p> <p>2 courses (Out-source)</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>2 Courses (Out-source)</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems • Executive Decision Support System 	<p>2 courses</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>2 Courses Information Technology</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems • Executive Decision Support System 	<p>2 courses</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>2 Courses Information Technology</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems • Executive Decision Support System
<p>INTERIM COURSES</p>	<p>Identify and design courses and their curriculum; Identify and recruit visiting faculty</p> <p>4 courses (out-source)</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>4 Courses Information Technology (Out-source)</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems <p>4 courses (Out-source)</p> <ul style="list-style-type: none"> • New Business Process: IT • New Business Process: C • New Business Process: ST 	<p>4 courses</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>4 Courses Information Technology</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems <p>4 courses</p> <ul style="list-style-type: none"> • New Business Process: IT • New Business Process: C • New Business Process: ST 	<p>4 courses</p> <ul style="list-style-type: none"> • Laws and Procedures: IT • Laws and Procedures: C • Laws and Procedures: ST <p>Courses Information Technology</p> <ul style="list-style-type: none"> • Fundamentals of Computing • Information Management Systems <p>4 courses</p> <ul style="list-style-type: none"> • New Business Process: IT • New Business Process: C • New Business Process: ST

Table 6.4: Three-Year Training Transition Plan for Support Group

Programmes and Activities	Year 1	Year 2	Year 3
CORE COURSE Basic Training Programme (BTP)	Identify and design courses and their curriculum; Identify and recruit visiting faculty	1 st Delivery of BTP	2 nd Delivery of BTP
SHORT COURSES	Outsource • Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation • Communication Skills • Office Procedures	• Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation • Communication Skills • Office Procedures	• Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation • Communication Skills • Office Procedures
INTERIM COURSES	Outsource New Skills • Data Processing • Information Technology • Business Processes Existing Skills • Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation • Communication Skills • Office Procedures	New Skills • Data Processing • Information Technology • Business Processes Existing Skills • Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation • Communication Skills • Office Procedures	New Skills • Data Processing • Information Technology • Business Processes Existing Skills • Auditing • Accounting • Investigative Techniques • Appraisalment • Valuation