

# APRACA FinPower Program On Rural Finance

## Report on Knowledge Sharing Between State Bank of Pakistan and Central Bank of Sri Lanka

22-23 December 2008  
State Bank of Pakistan  
Karachi – Pakistan



**22<sup>nd</sup> December 2008: Day-1****1. Venue and Participation:**

The program was arranged in the Auditorium of Learning Resource Centre, SBP, Karachi, Pakistan under IFAD funded APRACA's FinPower Program of twinning sharing of policy & regulatory environment in rural finance between State Bank of Pakistan (SBP) and Central Bank of Sri Lanka (CBSL). Around 200 policy makers and practitioners from commercial banks, Microfinance institutions, NGOs, Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF) and SBP were invited in the program.

**2. Opening Remarks by Agricultural Credit Department (ACD), SBP:**

In opening remarks the participants were briefed that APRACA is a regional forum with around 55 members from central banks including Pakistan, agri. and rural development banks, federations, commercial and other banks of all major countries of the Asia Pacific.

The main objectives of APRACA are to: (i) foster cooperation for rural and agricultural development, (ii) establish a mechanism of systematic interchange of information, (iii) encourage and assist in undertaking inter-country studies in the field of rural finance, (iv) organize and coordinate training programs, (v) provide consultancy, research and publication services and (vi) facilitate cooperation on rural finance projects between the members and donors.

It was further informed that APRACA FinPower is a five-year technical and financial assistance grant by the International Fund for Agricultural Development (IFAD) to support APRACA Regional Program for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and Pacific through policy dialogue, innovative pilot programs, and knowledge-sharing among actors in the rural finance sector. The activities undertaken by the program will consolidate rural finance knowledge and replicate successful approaches among beneficiaries in the Asia-Pacific region.

APRACA FinPower Program for 2008 and 2009 has scheduled sharing sessions among its member central banks on creating conducive rural finance policy environment and regulatory framework. The programme component is intended to have twinning arrangements for experience sharing



between two countries. Accordingly, Stat Bank of Pakistan and Central Bank of Sri Lanka have agreed to hold this knowledge sharing program. A similar program will be held at Colombo in January-February, 2009.

After this brief introduction about APRACA and the Program, Mr. Yaseen Anwar, Deputy Governor, SBP was invited to deliver his inaugural speech.

### 3. Inauguration by Mr. Yaseen Anwar, Deputy Governor, State Bank of Pakistan:

After welcoming Mrs Rose Cooray, Assistant Governor, Central Bank of Sri Lanka and the participants, Mr. Yaseen Anwar, Deputy Governor after highlighting the objective of the program gave an exhaustive view of SBP's policy & regulatory framework for rural finance including SME, micro and agriculture finance. He stressed upon all commercial banks, microfinance banks and microfinance institutions to utilize State Bank's initiatives regarding agricultural, microfinance and SME financing to create an enabling environment for financial inclusion of the rural population. He emphasized upon banks to undertake their best efforts to meet the maximum credit needs of the rural community. He further added that innovations in product development and adoption of best practices are the need of the hour that would assist in developing the rural economy, eradicating poverty and increasing food security. In the end, he urged upon to strengthening the relationship between SBP and Central Bank of Sri Lanka in knowledge sharing among financial policy makers and practitioners in rural finance. (Speech is attached)



### 4. Presentation by Ms. Rose Cooray, Assistant Governor, Central Bank of Sri Lanka:

Mrs Rose Cooray, Assistant Governor, CBSL delivered a comprehensive presentation on historical background and role of CBSL in creating a balanced regional development, enhancing financial inclusion of rural community and helping to boost economic activities in the Sri Lanka. She also elaborated development of institutional framework and supportive role to FIs in increasing access to finance of rural poor. The policy directions like New Comprehensive Rural Credit





Scheme (NCRCS), Special Credit Schemes for Poverty Alleviation and other measures were also explained. The presentation was followed by a video documentary on success stories of agriculture, SME and rural finance in Sri Lanka. (The detailed presentation and documentary are attached).

The presentation was followed by Q/A session. The participants appreciated the forum of APRACA that has provided them the opportunity to learn the role, policy & regulatory initiatives of CBSL. Various questions were asked by the practitioners' relating to rural finance outreach, collateral issues, doctrine of group based lending techniques, legal framework in recovery mechanism of non-performing loans, sustainability, transformation from micro into SME, etc. Mrs. Cooray replied to the questions and further elaborated CBSL's schemes and policies in respective areas. The program was concluded with vote of thanks to the chair and Mrs. Rose Cooray.



The program was followed by lunch and after lunch one-to-one meeting was held with the representatives of leading NGOs-MFIs, Micro Finance Banks (MFBs), PMN and PPAF.

## 5. Meeting with NGOs-MFIs

The representatives of leading NGOs-MFIs including Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF) and Sindh Agricultural & Forestry Workers Coordinating Organization (SAFWCO) were invited in the one-to-one meeting held on 22<sup>nd</sup> December 2008 at LRC, SBP, Karachi. The participants briefed Mrs. Rose Cooray about the historical back ground and evolutionary process of NGO-MFI sector in financing to the rural community in Pakistan.

Syed Mohsin Ahmed, CEO, the Pakistan Microfinance Network briefed that based on the exchange of thoughts and experiences between microfinance providers operating in the country, Microfinance Group of Pakistan was formed in 1995 as an informal association. The group evolved into a formal body in 1999 and received financial support from the Aga Khan Foundation and the Asia Foundation. The expansion in its operations and formalized systems built confidence and trust amongst donors, government and microfinance institutions. As a result, it became a separate legal entity in 2001 as Pakistan Microfinance Network (PMN). PMN is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance in Pakistan. PMN acts as a disseminator of microfinance

information with the aim of enhancing the scale, quality, diversity and sustainability of microfinance providers in Pakistan.

Mr. Suleman G. Abro CEO/Founder of Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) briefed that SAFWCO started its developmental journey from a small initiative, launched in 1986 by a group of five social activists, with an objective to facilitate people's participation in development on self-help basis; and facilitating to build institutional infrastructure in their villages to achieve the goal of sustainable development. He said that their methodology and activities made a positive impact on the rural community in the province.



The representative of The Pakistan Poverty Alleviation Fund (PPAF) briefed that PPAF represents an innovative model of public private partnership. Incorporated under section 42 of the companies' act 1984, it follows the regulatory requirements of the Securities and Exchange Commission of Pakistan. Sponsored by the Government of Pakistan and funded by the World Bank and other leading donors, the PPAF has, on June 26, 2008 a resource base of US\$ 1,030.17 million (Rs. 61.8 billion).



He further explained that as the leading apex institution of the country, wholesaling funds to civil society organizations, the PPAF forms partnerships on the basis of rigorous criteria. Before finalizing partnerships, the PPAF ensures that the partners have well targeted community outreach programs that are committed to enhancing the economic welfare and income of the disadvantaged peoples.

The representatives of NGOs-MFIs mentioned that the NGO-MFI sector is well organized and gradually expanding in the country, however, lack of coordination among the institutions and funds inadequacy are the main reasons hampering delivery of the benefits at the grass root levels.

Mrs. Cooray briefed the participants that NGOs sector in Sri Lanka is very large with hundreds of organizations. As such it is not possible for the central bank to regulate and supervise these institutions. She appreciated the role of Pakistan Microfinance Network and further said that CBSL would also like to introduce this concept in Sri Lanka.

The participants thanked Ms Cooray, SBP and APRACA for providing them the opportunity of learning from the member countries and suggested that such type of program should continue in future.

## 6. Dinner Hosted by Habib Bank Limited

In the evening, Habib Bank Limited, a Pakistani bank having branch network at Sri Lanka, hosted a dinner in the honor of Mrs. Cooray. The dinner was attended by a number of eminent bankers and senior officials of SBP, besides High Commissioner of Sri Lanka.

## 23<sup>rd</sup> December 2008: Day-2

## 7. One-to-one Meetings with Policy Makers and Practitioners

On the second day of the program, the 23<sup>rd</sup> December 2008, one-to-one meetings were arranged with various departments of SBP, Agri/SME Heads of selected commercial banks and Microfinance banks to discuss various developments in rural finance with a focus on policy and regulatory environment and their implementation at grass root level. The details thereon are as under: -

### a. Islamic Banking Department, SBP:

A team of senior officials of Islamic Banking Department (IBD) led by Mr. Pervez Said, Director, briefed Ms Cooray about the regulatory framework of Islamic banking institutions in Pakistan. It was briefed that there are three types of institutions (1. Full-fledged Islamic banks 2. Stand alone Islamic branches of commercial banks 3. The banks are also authorized to establish their subsidiaries). In each case, the institutions need to develop Sharaih Compliant products and services. To facilitate the institutions' Islamic mode of financing, the essential requirements of each mode of Islamic financing, duly approved by SBP Sharaih Board have been provided to banks. Islamic Banking Institutions (IBIs) are expanding rapidly and currently there are more than 500 branches of IBIs in the country. He further highlighted various initiatives of Islamic Banking Department for the development of Islamic





financial sector. Some of the initiatives are as under:

- Formulated a comprehensive strategic plan for expansion of Islamic banking industry in Pakistan through increasing outreach in current urban consumer and corporate markets and extending the market to cover new segments of Islamic Micro Finance, Agriculture Finance, SME finance, Infrastructure finance, etc.
- Strengthening the Shari'ah Compliance Mechanism and roll out standards on Shari'ah accounting and regulations made by international standard setting bodies like AAOIFI and IFSB.
- To facilitate Islamic banking institutions in developing specialized Islamic financing products to meet the financial needs of the farming community, Guidelines on Islamic Financing for Agriculture have been issued.
- The Government of Pakistan (GoP) issued its Ijarah Sukuk worth of Rs. 6.5 billion in 2008. Its issuance has given Islamic banking industry a major boost by providing a risk free SLR eligible investment avenue. Another bond of GoP Ijara Sukuk has been issued in December 2008. The step will go a long way in developing a well functioning Islamic capital market and Islamic money market.

Mrs Cooray apprised that they also have Islamic Banks in Sri Lanka in addition to Takaful Companies. She said that Islamic mode of financing provides banks an opportunity to avail the benefits of Shari'ah Compliant mode of financing. The Director, IBD thanked Ms Cooray for sharing her knowledge with them.

#### **b. Microfinance Department, SBP:**

Mr. Saeed Ahmed, Head Microfinance Department and his team briefed about the history of Microfinance in Pakistan and recent developments in the sector. He said that the Microfinance sector players can be classified into three broad categories based on the criteria of their regulatory status: Microfinance Banks and Commercial Banks involved in Microfinance, falling under the regulatory ambit of the Central Bank (State Bank of Pakistan); leasing companies involved in micro-leasing business, regulated by the Securities & Exchange Commission of Pakistan (SECP); and Rural Support Programs, NGOs-MFIs, Cooperatives, etc. that are generally self-regulated under PMN framework of disclosure on financial and operational performance. The



larger NGOs-MFIs (NRSP & Kashf Foundation) have registered themselves with SECP under Section 42 (Not for profit companies).

He further briefed that SBP has undertaken several steps, that include but not limited to, launching the Financial Inclusion Program (FIP), aimed at eliminating market failure and improving access to financial services. FIP is a £50 million program funded by the UK Department for International Development (DFID). It includes a Microfinance Credit Guarantee Facility aimed at providing incentive to banks / DFIs to channelize funds to MFBS/MFIs for on-lending to low income segment of the population. The facility will provide a credit guarantee for up to 40 percent of funding provided by banks/DFIs and aims to develop the market and graduate poor borrowers to mainstream financial service providers. The Institutional Strengthening Fund is designed to build capacity of the microfinance sector and is expected to enhance the potential for growth and create depth in outreach by improving human resource quality, service delivery and increase service availability to prudential microfinance clients. The improving Access to Finance Service Fund is designed to enhance capacity of the microfinance sector and to promote financial literacy in the country.

Mr. Saeed also provided the copies of SBP's publications, microfinance regulations and initiatives of SBP in micro finance to Mrs. Cooray. Ms Cooray showed keen interest in regulatory framework of SBP in Microfinance. She said that CBSL is struggling to formulate the regulations for this sector, whereas Pakistan is amongst the leading countries in the region which have well regulated Microfinance sector.

### c. SME Department, SBP:

Mr. Mansoor H Siddiqui, Director, SME Department along with his team briefed about the regulatory framework of SBP for SME finance, various initiatives for creating enabling environment, persuading banks to develop specialized products, and increase flow of credit to this growing sector. He elaborated the various initiatives of SBP to motivate banks for lending to SMEs and Rural Enterprises.

He explained that SBP has completed an ADB funded project for Strengthening Secured Transaction Framework. The project is aimed at enhancing SMEs, agri-farmers' and Rural Entrepreneurs' access to formal source of finance by establishing a system of charge creation on moveable & immovable assets of small borrowers in urban





and rural areas. Based on the study, the necessary amendment in the Legal Framework has been suggested to the government. He further said that SBP has also developed SME definition, SME Prudential Regulations, introduction of SME Independent Credit Ratings through existing credit rating agencies, launching of a SME Finance Cluster Training Program at different SME hubs throughout the country, introduction of Financial Awareness Campaign at main SME clusters, establishment of "SMEs Help Desk", initiation of awareness building measures like "Booklet on SME Financing Products by Banks", formation of a SME Core Group to provide a forum for the resolution of SME finance issues; a concept paper on introduction of SME Credit Scoring Mechanism in Pakistan and launching of SME Finance Quarterly Review.

Mr. Mansoor further added; to encourage banks for lending to SMEs and Rural Enterprises by sharing their credit risk, SBP is working on establishing a Credit Guarantee Scheme for Small & Rural Enterprises (RE) under the DFID funded Financial Inclusion Program (FIP).

Mrs. Cooray said that the initiatives of SBP are commendable, especially the persuasion to banks and giving indicative targets which can be replicated in Sri Lanka.

#### d. Development Finance Support Department (DFSD), SBP-BSC:

Mr. Saleem Ullah, Director DFSD along with his team explained that for effective implementation of SBP's policies in the area of SME, Microfinance and Agriculture, a full-fledged development finance support department with its units in field offices throughout the country has been established. DFSD and its field units are developing networks with local stakeholders. Separate focus groups have been formed for SME, Microfinance and Agriculture finance comprising of associations, eminent individuals, bankers and government representatives. This facilitating linkage will be beneficial for addressing the issues at grass root level. The units are also facilitating the awareness of farming community and banks for conducting workshops, seminar, exhibitions etc.



Mrs. Cooray asked questions about the set up of DFSD and its methodology to reach the farming community and other stakeholders at grass root level. She said that though CBSL has been performing such functions; they do not have credit advisory / consultative groups of stakeholders which would be more beneficial for creating enabling environment in consultation with stakeholders.

#### e. Agricultural Credit Department, SBP and Agricultural Credit Heads of Banks:

Initially, Mr. Muhammad Ashraf Khan, Director, Agricultural Credit Department and his team briefed about the agri. credit sector in Pakistan. He mentioned that the commercial banks are lending to farmers on market rates, except one specialized bank Zarai Taraqiati Bank Ltd. (ZTBL) which is lending at subsidized rate. Annual indicative agri. credit targets are given to banks by the Agricultural Credit Advisory Committee (ACAC), a high level body chaired by the Governor, SBP and has representation of all stakeholders. Agricultural lending has received a significant boost as banks have met their indicative credit targets given by the ACAC over the past 5-6 years and the agri. disbursement has increased to Rs. 212 billion in FY 2007-08 from Rs. 39 billion in FY 1999-2000. Despite this robust growth, outstanding agriculture advances account for about 5-6% of total advances of banks and the current flow of credit meets only 40% of the agricultural credit requirements of the farming community. Out of 6.6 million farmers, only 2 million have access to formal credit and the rest have to rely on informal sources at exorbitant rates that at times ranges from 40% to 50% per annum.



It was mentioned that various initiatives were taken for facilitating banks in innovative diversification of agri. credit, capacity building and developing linkages with stakeholders. To facilitate banks in product development, guidelines for livestock, fisheries, poultry and horticulture financing have been issued besides development of Financing Scheme for Small Farmers on group based lending methodology. SBP has developed and implemented Revolving Credit Scheme for production purposes



which allow farmers annual renewal of credit limit for three years with one time documentation. The initiatives for creating enabling environment include induction of 14 domestic private banks in agri. credit scheme, separate Prudential Regulations for Agri. Financing, introduction of Crop Loan Insurance Scheme (CLIS) and mandatory opening of 20% rural branches by banks. Regarding capacity building of banks, One-week Crash Training Program is being arranged and so far around 450 agri. field officers of banks have been trained in 14 programs. M/s Rabo International Advisory Services (RIAS) of Netherlands has been hired under the ADB funded Agribusiness Development & Diversification Project for the capacity building of 5-6 selected banks in agri. finance. SBP joined the Asia Pacific Rural & Agricultural Credit Association (APRACA) for sharing of knowledge and learning from international best practices of the region in agri. /rural finance and has arranged training visits of SBP officers and Agri. Heads of banks with the Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand to study the working of BAAC and learn from its experiences in the field of agri/ rural finance.

The Agri. business heads/ representatives of commercial banks (ABL, HBL, MCB Bank, NBP, UBL, Faysal Bank, Askari Bank, The Bank of Punjab, Soneri Bank, and Zarai Taraqati Bank Ltd.) individually briefed about their agri. departments' framework, agri. credit products, etc. and also shared their experience in the area of agri. financing.

Mrs. Cooray appreciated the efforts of ACD for providing a congenial environment to banks for the enhancement of flow of credit to agriculture sector and also showed her interest in agri/ rural financing methodologies of banks in Pakistan that would help CBSL for developing enabling environment for agri. financing in Sri Lanka.

#### **f. SMEs Heads/Representatives of Commercial Banks:**

The SMEs heads/ representatives of commercial banks (ABL, HBL, MCB Bank, NBP, UBL, Faysal Bank, NIB Bank, SME Bank, Bank Al Habib, Arif Habib, Samba Bank, Soneri Bank, Standard Chartered Bank Pakistan Ltd.) briefed that in Pakistan the corporate sector takes away the major chunk of credit extended by the banking system, while SME finance follows with the second largest share of total credits. They also discussed banks' SMEs portfolios, issues & constraints, strategies for development of SME credit





according to needs and requirements of the customers, and SBP's regulatory framework. They also shared their knowledge in respect of successes and weaknesses of both countries.

### g. Microfinance Banks:

The representatives of Microfinance banks (Rozgar Microfinance Bank, Network Microfinance Bank, Tameer Micro Finance Bank, Pak Oman Microfinance Bank, The First Micro Finance Bank, Khushhali Bank Ltd.) briefed about the history of microfinance in Pakistan, group based lending methodology, savings mobilization, community awareness about financial products, details of collateral free products, , micro credit, micro leasing, student loans, and insurance packages for the poor community with the objectives of uplifting their living standards. Microfinance institutions in Pakistan aim to provide organizational, financial and infrastructural support to poor persons, particularly poor women, for mitigating poverty, and social welfare and economic justice through community building and social mobilization. The experience of both countries in micro financing was also discussed at length.

Mrs. Coory showed her keen interest in micro financing methodologies and models in Pakistan and especially the life insurance schemes for the borrowers.



## 8. Luncheon in the honor of Mrs. Cooray:

The Deputy Governors, SBP hosted a luncheon on 23<sup>rd</sup> December, 2008 in the honor of Mrs Cooray which was also attended by the Senior Management of SBP and had informal chat with the eminent guest on overall banking scenario of Sri Lanka and Pakistan.



## 9. Conclusion:

At the end, Mrs. Cooray had a concluding session with Director, Agricultural Credit Department and his team and acknowledged their efforts for making excellent arrangements for the program and sharing sessions with SBP, commercial and microfinance banks, NGOs-MFIs and other stakeholders. The visit has remarkably contributed towards the enhancement of her knowledge in agri/ rural finance. The Pakistani concept & regulatory framework of Microfinance, SME and Agriculture/ Rural finance and consultative bodies of stakeholders can be replicated and play a meaningful role in augmenting the outreach of rural finance in Sri Lanka.

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