

## 2 Broadening Access to Financial Sector

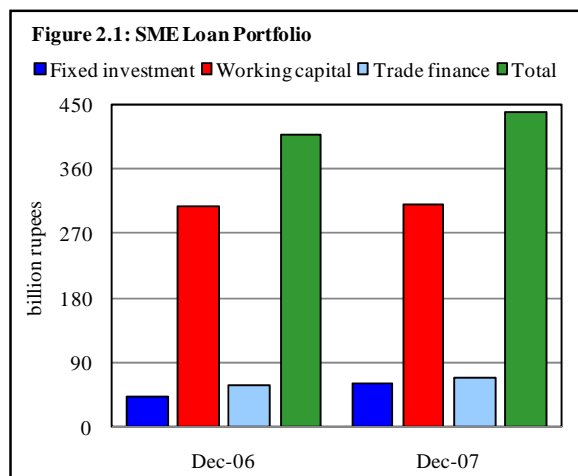
### 2.1 Overview

Financial inclusion is considered a prerequisite for sustainable economic growth as it not only facilitates financial intermediation but also allows poor people to undertake profitable investments and earn interest income on savings<sup>1</sup>. In Pakistan, financial exclusion is still very high and financing is available to a very small percentage of the population. Mainstreaming access to finance is a priority area for SBP. Creation of Financial Inclusion Program Office, bifurcation of Microfinance & SME department into full fledged Microfinance and SME departments, and introduction of crop insurance scheme among other steps were taken to bring renewed focus on financial inclusion. Initiatives have also been taken to explore the options of chalking out an alternative financing mechanism for SMEs. Similarly, SBP is also concentrating on infrastructure and housing finance- one of the main drivers of the economy- with backward and forward linkages. SME and Microfinance being Greenfield sectors, our banks are still shy of these. To help financial sector overcome teething problems in SME & Micro financing, SBP has announced a number of policy measures. It is hoped that SBP's efforts to introduce best international practices in broadening access to finance will unleash our growth potential.

### 2.2 SME

#### 2.2.1 SME Credit Performance

In Pakistan SME sector is confronted with a number of demand and supply side constraints hindering smooth growth of this underprivileged sector of the economy. Lack of access to formal sources of finance by SMEs is one of the major obstacles. SBP has been paying special attention to address this problem and its efforts are leading to improvements in the supply of credit to SMEs. An overview of SME sector finance reveals that it is the second largest sector after corporate which receive the bulk of total loans extended by banking system. Steady increase in SME finance over the years reached Rs. 437.4 billion by the end of December, 2007, as compared to Rs. 408 billion in December, 2006 (see **Figure 2.1**). The share of SME finance stands at 16.2 percent of the total loan portfolio of the banking industry. The number of borrowers remained 185,000 at the end of December 2007, recording an annual growth of 10 Percent.



#### 2.2.2 SBP Initiatives for Growth in SME Finance

Despite the fact that SME financing has increased many folds from the banking industry, there still remains a large financing needs gap which should be filled through the formal sources of finance. SBP has taken following measures to further promote the growth of SME finance.

##### *Formation of SME Credit Advisory Committee*

Expanding the scope of policy framework SBP has formed SME credit advisory committee chaired by the Governor. The committee comprises all the important stakeholders like banks, SMEDA, ministries, SME associations and other relevant stakeholders. The basic objective of this forum is to

<sup>1</sup> Jeanneney G. S. and Kpodar K., 2007, Financial Development and Poverty Reduction: Can there be a benefit without a cost? IMF WP/08/62, Washington D.C.

create and chalk out a favorable policy and regulatory framework for the promotion of SME finance in the country. At the same time this forum shall also deliberate upon the issues faced by SME sector in getting access to finance and decide about the relevant course of action to resolve these issues. The first meeting of the SMECAC was held in February, 2008 under the chairpersonship of the Governor SBP, in which a number of important decisions were made regarding the SME finance promotion in Pakistan. The committee shall meet bi-annually.

#### ***Capacity Development of Banks***

SBP has been paying attention to the capacity development of banks in SME finance area to lift up prevailing SME finance portfolio and extend its outreach. The human resources skills level in banks, currently involved in extension of SME finance is not in conformity with the desired level, which affects the overall integrated efforts for broadening the coverage in this sector. To develop capacity of banks in SME finance, a three day's training program regarding SME Lending Practices & Regulatory Framework was conducted by NIBAF Islamabad in collaboration with SBP.

#### ***Strengthening Secured Transaction Framework***

During the year 2007-08, SMEFD successfully implemented an Asian Development Bank funded technical assistance project aimed at developing a secured transaction framework that will facilitate the use of both moveable and immovable assets as collateral, with the objective of providing access to credit to a larger section of the public; particularly to the SME and Agricultural sectors.

The timely completion of the project was made possible through active involvement of SBP, which provided the necessary platform by organizing project workshops for deliberations and consensus building among the relevant stakeholders and providing scholarly input to the consultants on their various draft project reports.

#### ***SME Portfolio Projected Targets for Banks***

SBP in its SME finance strategy has set the target to increase SME finance portfolio to Rs.1000 billion by the end of year 2012. This target was decided after having close consultation with banks since their active and positive involvement is crucial in achieving this target. Each bank has been voluntarily assigned SME finance projected targets after having close deliberation by the SBP with each bank keeping in view the past performance and future strategies of individual banks with respect to SME finance. This mechanism would not only ensure the expansion in credit to SME sector but will provide a boost to banks to lend more aggressively to SMEs.

#### ***Establishment of SME Help Desk***

The central idea of establishing an SME Help Desk is to formulate a genuine business friendly regulatory and policy framework and environment for SME finance. SME Finance Help Desk shall help SBP in providing an enabling regulatory environment for SME finance and obtain positive feedback on policies and regulations and thereby incorporate necessary amendments in view of the changing environment. This will also help in identifying the core issues through consultation, communication, and coordination with other stakeholders and will disseminate information regarding the special initiatives taken by SBP for promotion of SME finance in the country.

#### ***SME Finance Booklet***

One of the prime issues confronting SMEs is the lack of financial awareness about different loan products offered by banks. SBP made an effort to increase awareness about SMEs through development of SME financing products booklet placed on the SBP website. This booklet broadly covers the products offered by all banks catering to the needs of the SME sector. This booklet provides a wide range of information, starting from the commercial banks' conventional products to Islamic modes of finance, where information needs of SMEs interested in Islamic modes of financing have also been specially taken care of. Other sections provide a) definitions of important terms and

financing products in simple language, b) loan products relating to import/export options, and c) contact details of all branches dealing in these products.

### ***SME Credit Guarantee Fund***

National Committee on Small & Medium Enterprises (NCSME) was established with the objective to review implementation of SME policy recommendations and measures for enterprise development and how the existing measures be adjusted in line with developments for improvement.

For this SBP formulated a concept paper on *Credit Guarantee Scheme* with special reference to Pakistan. This paper narrates the experiences of different countries across the world and provide brief on recommendations regarding the establishment of credit guarantee mechanism in Pakistan. Similarly, a paper on *SME Private Equity Fund* has been developed.

### ***SME Credit Rating Agency***

Globally, the concept of SMEs rating has gained popularity as it reduces the burden on banks by providing risk mapping of entities. SME Credit Rating Agencies provide a comprehensive, transparent, affordable and independent rating to SMEs, places them in an advantageous position for getting competitive interest rates and enhanced credibility. In light of the above, we have adopted a two pronged strategy for promotion of SME ratings in Pakistan. On one hand, we are constantly encouraging the two existing credit rating agencies to venture into SME rating business, while on the other side we have developed a “*Concept Paper on SME Credit Rating Agency*” for Pakistan.

The Export Finance Scheme (EFS) continued to be a major source for meeting the credit requirements of exporters. The procedure of EFS scheme was modified from August 2007 to reduce its consequences for reserve money growth, promote efficient utilization and phased transformation of

**Table 2.1: Export Refinance Disbursements by SBP**  
(million rupees)

<u>2006-07</u>			<u>Refinance provided during</u>			<u>Percentage change</u>		
Part-I	Part-II	Total	Part-I	Part-II	Total	Part-I	Part-II	Total
91,365	237,350	328,715	66,199	178,016	244,215	-28	-25	-26
<u>Outstanding Position of Export Refinance</u>								
<u>June 2007</u>			<u>Outstanding amount at end</u>			<u>Percentage change</u>		
Part-I	Part-II	Total	Part-I	Part-II	Total	Part-I	Part-II	Total
34,654	99,773	134,427	24,007	75,965	99,972	-31	-24	-26

the scheme. Under revised scheme, SBP has provided 70 percent refinance against the limits for the FY 08, based on actual 100 percent drawdown of export finance by the exporters with their respective banks. The remaining 30 percent was funded by the banks from their own sources.

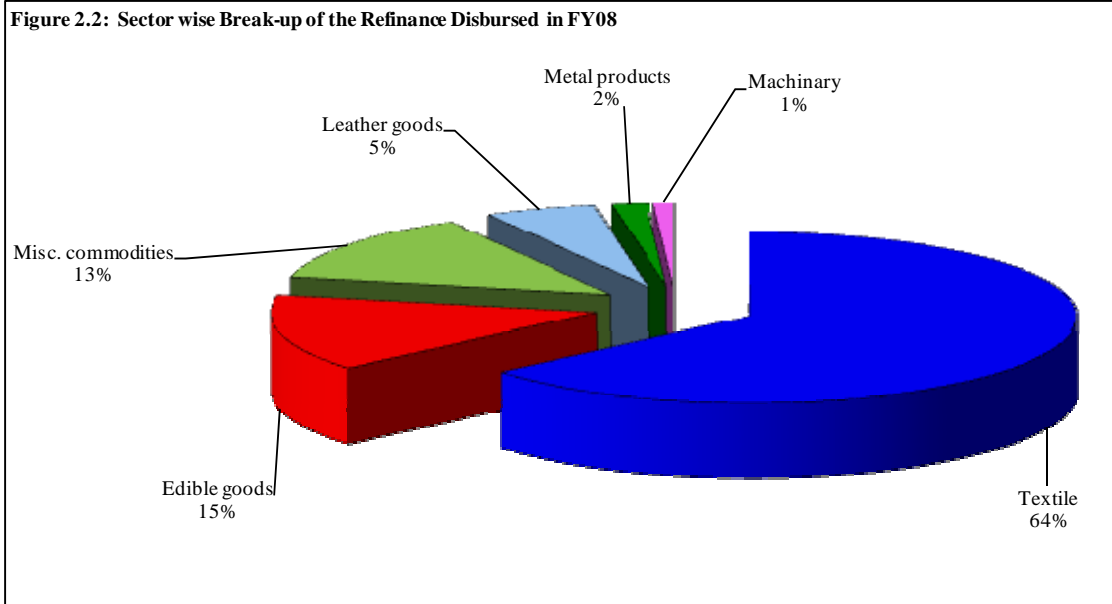
During FY 2008, Rs.244.214 billion were disbursed under EFS modified scheme by various offices of SBP- BSC (Bank). This reflects only 70 percent of the amount of refinance provided by our offices to banks, excluding 30 percent of the amount provided by banks to exporters. A comparative position of export refinance provided by SBP under modified EFS scheme is given in **Table 2.1**.

### **2.2.3 Commodity-wise Position**

Commodity-wise position reveals that the highest amount (about Rs.155.797 billion) was disbursed for textile sector. Within the textile sector, readymade garments received the highest amount (Rs.38.933 billion). Under edible goods, the highest amount was disbursed for export of rice (Rs.27.836 billion). The overall sector-wise break up is given in **Figure 2.2**

### 2.3 Microfinance

The continuum of Pakistan Microfinance banking industry has experienced growth in all areas including enabling policy environment, supporting infrastructure, institutional development,



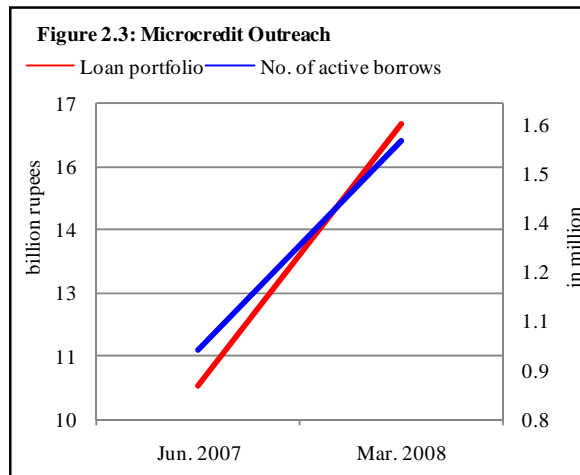
promotion of alternate delivery channels, human resource, use of technology, outreach enhancement in form of number of microfinance banks, service outlets and client base. The commitment of the government and the State Bank of Pakistan has facilitated in laying down the foundation of the sector that holds key to the broadening of access to finance services and expanding associated business opportunities for commercial/social investors in future.

#### 2.3.1 Expanding Microfinance Outreach – EMO Achievements

State Bank in consultation with local and international microfinance stakeholders developed a national strategy for Microfinance namely ‘Expanding Microfinance Outreach’ (EMO) strategy. The strategy presented a diagnostic assessment of the sector, identified critical factor limiting desired level of growth, envisioned outreach goals and recommended steps/initiatives for strengthening the sector’s capacity to achieve scalability and sustainability. The EMO strategy was presented by the governor, SBP to the prime minister of Pakistan on 14<sup>th</sup> February, 2007 and was subsequently approved.

To extend microfinance outreach on a fast track basis, Pakistan Post (PP) and First Micro Finance Bank (FMFB) have entered into a formal agreement that allows PP service centers to be utilized by FMFB as delivery channel for the banking products on pilot basis. In view of encouraging performance the scope of pilot has been extended to include more regions.

SBP facilitated to foster international alliances for development of domestic microfinance market. As a result internationally recognized organizations such



as, BRAC, is incorporated as an International-NGO and has commenced operations, while ASA, another world renowned Bangladeshi MFI has incorporated itself as for-profit MFI and shall commence its operations shortly. The performance of microfinance outreach is presented in **Figure 2.3**.

### **2.3.2 Improving Access to Financial Services Program – IAFSP Developments 2007-2008**

IAFSP is a US\$ 322 million program loan that aims to improve opportunities for rural and urban communities and ultimately reduce poverty through increased access to better (and more tailored) financial services by the self-employed, as well as by micro and small sized companies. The program targets poor and low-income households besides individuals, including women. It involves several essentially distinct facets within its broad scope. Major developments on this front during 2007-08 are as follow:

- State Bank issued guidelines to banks with regards to access to credit and computerized cards/pass books.
- To promote applications of modern technologies for improving outreach and access to finance, SBP in coordination with ministry of IT & FBR successfully managed to get sales tax exemption on technology machinery, equipment and other capital goods identified by the SBPMOIT working group
- To expanded operations State Bank assisted the Ministry on issuing guidance and recommendations to provincial and district authorities to promote consistent tax treatment with respect to mobile banking operations.
- SBP submitted plan/regulations on branchless banking to M/o IT with options for an integrated national platform for mobile money transfer for multiple users (banks, MFBs, NGOs, telecommunication firms, exchange companies and others) for lower-cost and efficient delivery of services nationwide.
- The necessary amendments in Microfinance Institutions Ordinance 2001 were brought about to allow MFBs to receive remittances directly from overseas workers.
- To ensure availability of diverse demand driven products State Bank issued guidelines and/or regulations to support provision of Islamic microfinance services and products by financial institutions under various arrangements.

### **2.3.3 Capacity Building Endowment Fund**

An Endowment Fund (Improving Access to Financial Services Fund – IAFSF) worth US\$ 20 million has been established at SBP under IAFSP to support institutional capacity building initiatives of the stakeholders. And to improve basic and financial literacy of the end users by capacity building and training of financial services providers to promote expansion into rural areas, product and service innovation, including savings, remittances and Islamic financial services; adoption and integration of new technologies and applications for improving access to financial services.

### **2.3.4 Policy and Regulatory Framework**

Microfinance banks' operations are subject to provisions contained in regulatory / supervisory framework of State Bank of Pakistan. The framework has been developed through a consultative process, taking into account both prudential norms of financial industry besides convenience of the emerging MF industry. In the initial phase, prudential regulations were issued emphasizing on the institutional governance, product pricing on cost-covering basis, audit and disclosures, risk management practices, and development of relevant policies and manuals. Subsequently, the framework introduced the sector to more advanced requirements like rating, credit bureaus, mobile banking procedures and MF-specific supervisory framework.

State Bank has always favored provision of level playing field to all market players. Previously microfinance banks operated under two different legal frameworks with Khushhali Bank falling under

Khushhali Bank Ordinance 2000 while operations of the rest of the peer were governed by the Microfinance Institutions Ordinance 2001. SBP developed a scheme to bring Khushhali Bank into the ambit of MFI Ordinance 2001 and finally was granted a license under MFI Ordinance 2001 on March 18, 2008.

In March 2008 State Bank of Pakistan allowed MFBs to raise tier-II capital through local currency denominated subordinated debt to support the minimum capital adequacy ratio at 15 percent. In addition, MFBs were advised to meet specific minimum paid up capital requirements net off losses, latest by Dec 31, 2008. The addition of the tier-II capital is expected to deepen the MFBs' equity structure.

#### 2.4. Housing and Infrastructure Finance

A robust financial sector is the key to have sustained long term growth. Within the financial sector, both infrastructure and housing finance are the pillars that support development of the economy. Housing and construction sectors are labor-intensive having backward and forward linkages. In developed countries, housing finance is one of the main drivers of the economy where percentage of housing loans to GDP is more than 50 percent. In developing countries like Thailand, it is about 15 percent; and in the South Asia region, India has corresponding ratio of 6 percent. Pakistan lags far behind with 1percent.

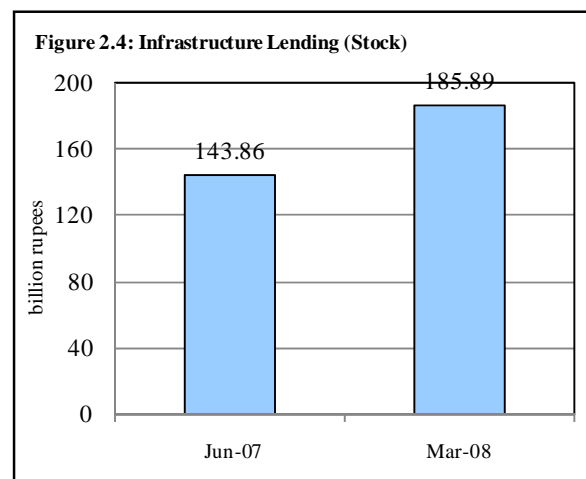
The recent expansion in mortgage lending in Pakistan can be attributed to SBP's efforts to increase the supply of mortgage lending by relaxing restriction on housing finance. SBP has successfully encouraged banks to facilitate middle class, it focused on developing mechanism to address the needs of lower income groups and foster further expansion of the housing finance market. SBP is also playing a role in promoting mortgage lending and designing incentives such as mortgage risk insurance and creating conducive environment for housing finance activities in Pakistan.

##### 2.4.1 Housing Finance Market in Pakistan

The mortgage market in Pakistan, despite institutional bottlenecks, has experienced considerable transformation. During the year 2003, when State Bank of Pakistan introduced regulations to promote housing finance, the mortgage industry was characterized as highly concentrated; of the total 14 commercial banks, only 3 held more than 80 percent share in total outstanding mortgage portfolio. As more banks entered the market, the concentration of housing finance has reduced, with 9 out of 29 banks now collectively enjoying more than 80 percent of the share in total outstanding.

##### 2.4.2 Infrastructure Finance Market

Development of infrastructure is of paramount importance for the growth of developing economies but government alone cannot finance big infrastructure projects and the gap has to be bridged by private sector with viable financing options. Among private sector, it is the banking sector which actually plays a pivotal role along with capital markets in funding the infrastructure projects. SBP has initiated the development of a database related to Infrastructure Project Financing and collects data from commercial banks and DFIs to monitor the growth of infrastructure market and trend of lenders in different sectors. According to data provided by



lenders of infrastructure projects, total disbursements against infrastructure financing were Rs 210.11 billion in June 2007 which rose to Rs. 269.72 billion in March 2008. Stock value of outstanding stood at Rs 143.8 billion in June 2007 which rose to Rs 185.89 billion at the end of March 2008 (see **Figure 2.4**). This relative growth in lending for project financing supports the view that demand for project financing is increasing and banks are expanding project financing portfolios. Keeping in view the low level of project financing i.e. less than 2 percent of GDP, it is important to formulate infrastructure financing related policies to reinforce public-private partnership to enhance the flow of credit towards infrastructure development.

#### **2.4.3 SBP Initiatives to Promote Housing and Infrastructure Financing**

As part of its earlier efforts, SBP had established two groups, namely a Housing Advisory Group (HAG) and SBP Task Force on Infrastructure Finance. While the HAG was established with intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance, the SBP Task Force on Infrastructure Finance was delegated with a mandate to assess country's infrastructure needs, identify institutional bottlenecks and recommend an institutional mechanism for risk management of project financing. Both groups presented their recommendations, identifying factors impeding flow of credit to project financing and housing finance.

Recommendations of infrastructure task force primarily focus on development of long-term funding mechanism through THE establishment of dedicated infrastructure lending organization. HAG has also made number of recommendations to enhance access to financial services for the development of housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products.

SBP and World Bank have agreed to work together for implementing key recommendations of HAG and bring about financing environment conducive to growth of housing sector. The areas in which both organizations want changes are: restructuring of HBFC, establishment of Mortgage Refinance Company, low cost housing finance, establishment of an observatory for real estate market and capacity building of professionals engaged in housing finance through housing experts. In addition to initiatives taken to institutionalize both project and house financing, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of project and house financing. A cooperation agreement was signed with International Finance Corporation (IFC); the private sector arm of the World Bank Group and SBP to launch housing finance training program in Pakistan. The training intends to cover all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Staff of both banks and non-bank financial institutions associated with mortgage lending business benefited from this. First session of training was conducted in December 2007 in SBP Karachi and second session in May 2008 at NIBAF Islamabad. Third session is planned for November 2008 in Karachi. Similar capacity building initiatives are also being planned for infrastructure lending.

#### **2.5 Agricultural Credit Targets for FY08**

Indicative agricultural credit targets for 2007-08 were set at Rs 200 billion; 25 percent higher than previous year's target of Rs 160 billion and 18.3 percent higher than the actual disbursement of Rs 169 billion last year. Out of total Rs 200 billion, Rs 132 billion were allocated to commercial banks i.e. Rs 96.5 billion to 5 large banks and Rs 35.5 billion to domestic private banks. ZTBL had to disburse Rs 60 billion and Rs 8.0 billion were allocated for Punjab Provincial Cooperative Bank Limited (PPCBL). During eleven months Rs 184.9 billion were disbursed by banks in agriculture sector as against Rs 141.8 billion last year, registering increase of Rs 43.1 billion or 30.4 percent. The overall disbursements during July-May, 2007-08 is about 92.5 percent of the full year target of Rs 200 billion. Group-wise and province-wise details of indicative targets and disbursement are given in

**Table 2.2 & 2.3.** Realizing provincial and regional disparities in growth of agricultural credit disbursement, the ACAC started allocating province-wise and sector-wise targets to banks from July, 2005

**Table 2.2: Agricultural Credit Disbursements against Indicative Targets**  
(billion rupees)

Banks	FY06		FY07		FY08	
	Targets	Disburse	Targets	Disburse	Targets	Disburse. (July-May)
5 Big Comm. Banks	63.0	68.0	80.0	80.4	96.5	85.6
ZTBL	43.0	47.6	48.0	56.5	60.0	56.1
DPCBs	15.0	16.0	23.0	23.9	35.5	38.9
PPCBL	9.0	5.9	9.0	8.0	8.0	4.3
<b>Total</b>	<b>130.0</b>	<b>137.5</b>	<b>160.0</b>	<b>168.8</b>	<b>200.0</b>	<b>184.9</b>

**Table 2.3: Province-wise Agricultural Credit Indicative Targets and Disbursements**  
(Rupees in billions)

Province	2007-08			2006-07		
	Targets	Disburse.(July-May)	% Share in Total	Targets	Disburse. (July-May)	% Share in Total
Punjab	156.0	154.2	83.4	124.8	119.6	84.4
Sindh	28.0	21.5	11.6	22.4	14.5	10.2
NWFP	12.0	8.0	4.3	9.6	6.9	4.9
Baluchistan	3.0	0.6	0.3	2.4	0.4	0.2
AJK/NAs	1.0	0.6	0.3	0.8	0.4	0.3
<b>Total</b>	<b>200.0</b>	<b>184.9</b>	<b>100.0</b>	<b>160.0</b>	<b>141.8</b>	<b>100.0</b>

### 2.5.1 SBP's Initiatives for Promotion of Agricultural Credit

The following activities were initiated and completed in FY 2007-08.

#### *Guidelines for Horticulture and Poultry Financing*

Pakistan's horticultural produce including fruit, vegetables, flowers and ornamental plants have great demand both in domestic and export markets. The government is taking several initiatives for the development of horticulture sector and its value chain. Realizing the increasing credit demand for this sector, SBP in consultation with stakeholders has developed "Guidelines on Horticulture Financing" to facilitate banks in launching schemes to increase flow of credit to the horticulture. Similarly, Keeping in view the importance of poultry industry and to exploit its untapped potential, guidelines on poultry financing have been developed in consultation with stakeholders to increase flow of credit to this sector.

#### *Financing Scheme for Small Farmers*

Majority (84 percent) of the country's farming community, comprising small land holders; rely on informal sector's credit at exorbitant rates to meet their agri. credit requirements. One of the main reasons for the financial exclusion of these farmers has been their inability to provide collaterals to banks.

SBP, in consultation with stakeholders has developed a financing scheme for farming community involved in small agri. related activities like livestock, dairy, poultry, fisheries, horticulture, etc. that



requires no tangible security as collateral (see **Box 2.1**). The scheme has been structured on group based lending approach wherein banks can finance individuals through Small Farmer Groups (SFG). Group based lending is one of the most successful approach, equally important for micro, rural and agriculture financing where individuals have no collateral to offer or financial institution intends to share the burden of monitoring and recovery of loans at low cost with minimum risk of non payments. Under group based lending programs, loans are made to individuals through a peer group. Group members guarantee repayment of each other's loans. Collateral is generally not used; peer pressure and collective responsibilities does the trick.

**Box 2.1: Financing Scheme for Small Farmers**

With the success stories of innovative lending techniques like Group based Lending (Grameen Model), Self Help Groups (Indian Model), Solidarity Groups (Latin American Model), Community based Organizations (Village Banking) and other approaches, there is a paradigm shift in the lending methodologies to small farmers/ borrowers.

Banks in Pakistan are still relying on traditional collateral based lending. Hence, the farmers, particularly the small farmers are facing problems in early adoption of new technologies because of financial shortages in addition to challenges like water shortage, natural resource conservation, rising prices of inputs including seeds, fertilizers, pesticides, electricity and gasoline. SBP in consultation with stakeholders has developed a financing scheme based on group based lending methodology.

Under the scheme, Small Farmer Groups (SFGs) will be formed by banks. Banks, however, can also involve/ outsource NGOs, outlets of farm input service providers, etc. for intermediary task. But banks should properly consider their professional expertise and related experience in social mobilization and group formation in such a case. SFGs are small groups comprising 5-15 small farmers or low income people of rural areas involved in agriculture i.e. livestock, poultry, fisheries, sericulture, apiculture, etc. and cannot provide any collateral that is acceptable to banks. Maximum financing for a member of FSG would not exceed Rs. 200,000/- per individual, which is within the clean limits of PRs for agriculture financing. This scheme will surely broaden the access to finance for small farmers in Pakistan and will thus contribute to the development of agriculture sector.

***Awareness and Training Programs***

Outreach training programs, field visits, and publicity through press and electronic media continued during FY 2008 in collaboration with banks, chambers of agriculture and farmers/growers/abadgar associations. Twelve programs were conducted in all the provinces including AJK, to take SBP policies to farmers, train field officers of banks on products and procedures of lending, system of appraisals, documentations, loan monitoring and recovery mechanism, etc. The centers covered during the year include; Badin, Kalat, Chakwal, Tobatek Singh, Jacobabad, Melsi, Tando Allahyar, Mandi Bahauddin, Rawlakot (AJK), Sawabi, Pishin and Thatta.

***Awareness about Agri. Financing Branches of Banks***

To increase outreach of agriculture financing, banks need to create awareness among the farming community. Banks are now required by SBP to display outside the premises of their branches engaged in agri. finance that "Agri. Loans are Available Here" in Urdu and / or regional languages. They are also to provide information in Urdu and / or regional languages in form of brochures. The list of all designated agri. credit branches along with names, contact details, and salient features of schemes/ products being offered shall be placed on banks' websites.

***Crash Training Program***

To facilitate banks in capacity building and training of their agri. credit officers, SBP conducted one-week crash training program after consultation with banks and Development Finance Support Department, SBP-BSC. The program covered major dimensions of agri. Financing. The training was offered at the offices of SBP-BSC and /or regional offices of commercial banks. Professional trainers /agri. heads of banks, revenue officers of the provinces, and officials of SBP/ SBP-BSC shared their knowledge and experiences. In the first phase 20 programs were held at 15 locations for providing extensive training to around 500 officers' till end June, 2008; five stations have been covered i.e. Sukkur, Gujranwala, Peshawar, Quetta and Muzaffarabad (AJK). Around 150 ACOs of banks and officers of SBP-BSC have benefited.

### ***District Wise Data***

To analyze current agri. loaning at grass-root level and to identify the gaps between demand and supply, SBP has rationalized agri. credit data base with effect from July, 2007. Banks are sending agri. credit data on size of loan, land holding-wise loan disbursement, district-wise loan data, etc. State Bank of Pakistan has, for the first time, released district-wise data on agricultural credit disbursement for the period July-December, 2007 and is available at SBP website, [www.sbp.org.pk](http://www.sbp.org.pk).

### ***Crop Loan Insurance Scheme***

Crop insurance is a long standing issue. Many schemes were developed in the past by the government and insurance sector; however, none of them could be materialized. Non-availability of crop insurance is one of the major hurdles in access to credit for the farmers. To enhance flow of agri. credit to the farming community and mitigate the risk of losses inflicted by natural calamities, which also affect the repayment of bank loans, SBP has constituted a Task Force on crop loan insurance framework comprising representatives of SBP, MINFAL, SECP, PARC, banks, private insurance companies and farmers association to develop a commercially viable and sustainable crop loan insurance scheme.

### ***Membership of APRACA***

State Bank of Pakistan is responsible for formulating policies and regulating financial institutions to enhance the outreach of agri/ rural finance in the country. To strengthen the capacity and learn from the experiences of other countries in the Asia Pacific region and play a meaningful role, SBP has joined Asia Pacific Rural & Agricultural Credit association (APRACA). SBP is aiming at using the network of APRACA for capacity building of its officers and agri. finance departments of commercial banks.

### ***ADB Project***

State Bank plays an implementing agency for the Agribusiness Finance Development Component of Agribusiness Development & Diversification Project of MINFAL funded by Asian Development Bank. The objectives of the component are to provide awareness building support to banks on agribusiness finance market, and facilitate capacity building in 3-5 selected banks through international consultancy services. In this regard, as per procurement criteria of ADB, M/s Rabo International Advisory Services (RIAS) of Netherlands has been awarded the contract. Agreement between SBP and RIAS has been signed on July 9, 2008. The project has a time span of 12-24 months wherein the international consultant will facilitate 3-5 selected banks in their capacity building in the areas of market assessment and positioning prices, loan analysis, monitoring, recoveries, MIS, production development, risk management, delinquency management and any other dimension as per banks' strategies and willingness.

### ***Purpose visit to BAAC***

Four officers of Agricultural Credit Department of SBP visited Bank of Agriculture and Agriculture Cooperatives (BAAC) from February 18 to 29, 2008. The objectives were to study working and learn from the experiences of BAAC. During the study tour, the officers visited different departments of BAAC head office and few provincial branches of the bank and also met some clients of BAAC. It provided an opportunity to learn about the collateral free lending techniques, its delivery channels, recovery and loan monitoring mechanism.

## **2.6 Financial Inclusion Program**

In Pakistan the level of financial inclusion is significantly low. The stark situation is reflected by the fact that only 17 percent of the population (30 million) has bank accounts and less than 4 percent (5.5 million) are borrowers. Moreover only 25 percent of the total bank deposits and 17 percent of the total borrowers are from rural areas<sup>2</sup>. Limited access to financial services is also captured by the low

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<sup>2</sup> Akhtar S., 2008, Financial Sector: Next 10-Year Vision & Strategy. 60th Anniversary Conference, SBP, Karachi.

level of branch penetration, especially in rural areas which has held back the growth of savings and impacted credit distribution system.

To tackle financial exclusion, SBP efforts include establishment of a full-fledged Development Finance Group (DFG) to steer implementation of policy, legal and regulatory framework for access to finance for small and micro enterprises, agriculture and rural finance, and housing finance. To guide development finance policy, a focused *Financial Inclusion Program (FIP) Office* has been created to coordinate, design and implement donor-supported initiatives as well as to create synergies within the DFG.

The FIP has been launched with a grant of GBP 50 million from the UK Department for International Development (DFID). FIP interventions are quite broad based and will help promote market driven approaches and act in areas where market failures prevail, which reflect a paradigm shift from credit driven approach of the earlier days. FIP has an overall aim of moving towards a market based inclusive financial sector. The DFID funds will be spent on capacity building of SBP, strengthening financial institutions, financial innovation, financial sector infrastructure, credit enhancement, and financial literacy. The program is expected to directly benefit about 3 million poor through easy access to financial services.

The FIP aims at transforming the financial market through better regulation, availability of information, provision of long-term commercial financing, improving technology infrastructure and skills development. Importance will be given to gender focused inclusion in Pakistan. The program is implemented according to a comprehensive design consists of survey and assessment, strategic policies, capacity building, and funding mechanism.

#### **2.6.1 FIP Design Document**

A comprehensive design has been drafted by a multidisciplinary team led by Oxford Policy Management (OPM) commissioned by the UK Department for International Development (DFID) on behalf of State Bank of Pakistan and other key stakeholders. The FIP office provided intellectual input and provided all the facilitation during the design phase. The design was finalized in January 2008.

#### **2.6.2 Development Finance Conference**

The FIP office organized a one day international development finance conference on “*Expanding Frontiers of Financial Access in Pakistan*” to commemorate the 60<sup>th</sup> Anniversary of SBP on 1<sup>st</sup> July 2008. The conference was inaugurated by prime minister of Pakistan. Renowned national and international experts, bankers and government officials attended the conference. The sector coverage of the conference has included micro, small, agriculture enterprises and housing finance for consumers as well as alternative delivery channels. The conference has brought forth a range of issues that are impeding access to financial services. The conference proved successful and received rave reviews from both national and international participants. Similarly, the office successfully organized a one day workshop to facilitate PMN to seek information needs of key stakeholders for the A2FS report to be published soon.

#### **2.6.3 Regional Forum on Financial Inclusion**

The office made preparations to organize a Regional Forum on Financial Inclusion involving central banks governors from Asian countries; however, the Forum could not be held due to Elections in February 2008. The forum is now planned for early 2009 in the wake of SBP 60<sup>th</sup> Anniversary Conference on 1st July 2008 and a number of other international events organized on the same issue in Pakistan in the latter half of 2008.