

## 2 Broadening Access to Financial Sector

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### 2.1 Overview

State Bank of Pakistan continues to nurture sectors that have significant contributions to economic and social improvements but remain underserved by the financial markets. This work at SBP is led by the Development Finance Group (DFG), comprising of the Infrastructure, Housing & SME Finance, and the Agriculture Credit & Microfinance departments. DFG took number of important initiatives during FY11 to enhance financial inclusion in the country. These initiatives included awareness programs for financial markets and their customers, implementing risk mitigation schemes, carrying out research & training activities, and fostering growth of branchless banking.

### 2.2 Infrastructure, Housing & SME Finance Department

#### 2.2.1 SME

In Pakistan there are an estimated 3.2 million economic establishments, of which 99 percent are SMEs, but as of end-June 2011, the outstanding credit to SMEs stood at only Rs 292.5 billion. This was 2.3 percent lower than in the corresponding period of the previous year, and represented only 8.2 percent of the portfolio of local banks. The lending was extended to approximately 200,000 SMEs (about 5 percent of the estimated total), highlighting the need for measures to increase the flow of financing to this sector.

The decline in lending to SMEs since 2008 reflects their intrinsic vulnerability to economic shocks. On the one hand, high (and rising) interest rates, upsurge in inflation, energy shortages, etc; diminished the demand for bank credit by SMEs, and on the other hand as NPLs in the sector rose to a peak of 33 percent, banks curtailed lending to this sector. The latter decision was also influenced by the burgeoning demand for credit from the government sector. As a result, even though the NPLs of SME sector saw a modest rise of 8.3 percent during the financial year, against a 26.2 percent increase in overall bank NPLs, lending to SMEs remained subdued.

In order to alleviate the challenges faced by SME sector, SBP has taken a number of initiatives, of which the major ones are as under:

- SBP's Credit Guarantee Scheme for Small and Rural Enterprises launched in 2010 was modified in February 2011 in consultation with banks.
- SBP held capacity building programs for commercial banks, as well as arranged awareness programs for banks and SMEs to encourage greater utilization of the formal banking system.
- SBP, in collaboration with International Financial Corporation (IFC), prepared profiles of 10 important SME Clusters of the economy. The profiles include market assessment, risk assessment, proposed banking products, etc. SBP has also commissioned a survey of the fan cluster by LUMS that is expected to be released soon.

#### 2.2.1.1 SBP Refinance Facilities

State Bank of Pakistan continued to improve its Refinance schemes to facilitate the export-oriented sectors and boost long term investment in the industrial sector. SBP also continued its strategy to gradually rationalize mark-up rate of refinance facilities and mitigate market distortions caused by subsidized rates of financing.

### **2.2.1.2 Export Finance Scheme (EFS)**

The outstanding position under EFS was Rs 190.5 billion as of June 30, 2011 showing an overall increase of Rs 4.9 billion during FY11. During FY11, Rs 496.0 billion were disbursed under EFS compared to Rs 472.0 billion in the previous year. The highest amount (Rs 119.4 billion) was utilized by the textile sector, within which the larger share (Rs 30.9 billion) went to readymade garment exporters.

### **2.2.1.3 Long Term Financing Facility**

The outstanding position of financing under LTFF was Rs 26.6 billion against 251 borrowers at the end of June 30, 2011. Of which, the textile sector's share was Rs 16.9 billion (64 percent) against 211 borrowers. The outstanding position under LTF-EOP (defunct) shows repayments of Rs 9.6 billion during the year with net outstanding finance of Rs 16.2 billion as on June 30, 2011.

### **2.2.2 House Finance Market**

Most housing in Pakistan is financed through personal resources. Financial institutions cater to only 1 to 2 percent of housing construction and it is thought that informal lenders cater to approximately 10-12 percent of such transactions. After demonstrating a promising growth trend till 2008, the housing finance sector has recently been showing a declining trend. The total outstanding loans reported by banks and DFIs as on June 30, 2011 was Rs 61.9 billion as compared to Rs 70.3 billion as on June 30, 2010 (a decline of 12 percent). The total number of outstanding borrowers has also decreased from 101,632 to 95,553 since June 30, 2010; showing a fall of 6.0 percent. As far as non-performing loans are concerned they increased to Rs 18.7 billion (June 30, 2011); a 7.6 percent increase over the year.

Recognizing the importance of housing sector, in boosting the domestic economy, the following key initiatives have been taken by SBP:

- Initiation of a Mortgage Refinance Company (MRC), which is expected to be incorporated soon.
- Housing Finance Guidelines have been drafted and being reviewed by the stakeholders. These are expected to be released soon.
- Housing/Mortgage Finance Prudential Regulations are also being reviewed in consultation with stakeholders.
- Measures are being explored to improve financing for real estate developers.
- Capacity building programs on Mortgage Financing have been held in different cities for local banks.

### **2.2.3 Infrastructure Finance Market**

The stock of Infrastructure Finance rose from Rs 260 billion at the end of June 2010 to Rs 290 billion at the end of June 2011. This 11.5 percent increase was characterized by rising stock of the energy sector. The portfolio of power generation sector was Rs 146 billion at the end of June 2010 that grew to Rs 186 billion at the end of June 2011. Commercial banks largely provided infrastructure project finance while the role of DFIs remained dismal as their share was just around 2 percent in total outstanding portfolio of infrastructure project finance.

## **2.3 Agriculture Credit & Microfinance Department**

### **2.3.1 Agricultural Finance Market**

SBP had set an indicative agricultural credit target of Rs 270 billion for banks for FY11. The target was 8.8 percent higher than the disbursement of Rs 248 billion in FY10. Out of the total target, Rs 181.3 billion were allocated to commercial banks, Rs 81.8 billion to ZTBL and Rs 6.9 billion to Punjab Provincial Cooperative Bank Limited. During FY11 banks disbursed an amount of Rs 263

billion or 97.4 percent of the annual target compared with disbursement of Rs 248 billion or 95.4 percent of the target during last year. Agri credit disbursement witnessed a rise of Rs 14.9 billion or 6.1 percent over the last year. The achievement has been made despite the fact that there is a shortfall of around Rs14 billion in the disbursements by largest specialized bank, i.e., ZTBL. This clearly indicates that the growth is coming from the commercial banks that are providing agri credit at the market rate.

#### **2.3.1.1 SBP's Initiatives for Promotion of Agricultural Credit**

SBP took various initiatives during 2010-11 for the promotion of Agri/ rural finance in the country. These inter alia included: a six weeks specialized Internship Program in July, 2010 at SBP for students of Agricultural Universities/Departments; training workshop for Credit Administration Department (CAD) and Risk Management Department (RMD) of Banks at Karachi, Lahore, Multan and Islamabad; one week training workshop on Agribusiness Finance in August, 2010 at Utrecht, Netherlands in collaboration with Rabobank International Advisory Services (RIAS) for creating awareness/ capacity building of banks, SBP and SBP-BSC in enhancing the outreach of agri credit; streamlining of agricultural lending procedures and documentation in collaboration with banks and arranging seminars on agri financing at University of Agriculture, Faisalabad and Agriculture University Tandojam, Sindh in May, 2011.

#### **2.3.2 Microfinance Market**

Microfinance sector continues to exhibit signs of growth and its portfolio grew to 2.1 million active borrowers with an average loan size of Rs 20,000. Deposits of Microfinance Banks (MFB) stood at Rs 11 billion at end June 2011. The GoP and SBP have taken various policy measures to enable the private sector to develop a vibrant microfinance market. The initiatives have started paying dividends and MFBs have recently entered into various partnerships for home remittances, Government-to-Persons payments, micro insurance, etc. The performance indicators and institutional developments have also seen considerable improvement. In a global ranking of 2011, microfinance regulatory framework of Pakistan has attained top ranking for the second consecutive year.

The initiatives taken by SBP and industry players during 2010-11 include successful launching of a pilot MF-specific Credit Information Bureau (CIB); roll-out of industry-wide grass root level training program; hiring of M/s Bearing Point to launch country level financial literacy campaign; licensing to Orascom to operate as a nation-wide MFB; commencement of micro-banking operations of NRSP; accelerated growth trajectories by two Bangladeshi-origin Microfinance institutions i.e. ASA & BRAC and development of network of 15,829 agents by Tameer MFB. Despite the early successes, microfinance industry faces challenges particularly due to recent floods & rains that caused devastation in rural areas, thus creating credit losses for large MFBs.

##### **2.3.2.1 Improving Access to Finance**

SBP is playing a pivotal role in promoting inclusive finance through implementation of government and donor funded programs. These programs are managed with the objective to enhance provision of financial services to the unbanked segment especially to the poor and marginalized population through sustainable models.

SBP has successfully launched a number of market interventions under Financial Inclusion Program (FIP) including launching of (a) UK £10 million Microfinance Credit Guarantee Facility (MCGF). The facility has mobilized Rs 2.825 billion enabling additional 180,000 microfinance loans to new borrowers; (b) UK £10 million of Institutional Strengthening Fund (ISF). So far, Rs 492.8 million has been approved under this fund for 10 microfinance providers. In total 14 ISF projects have been

approved for institutional strengthening through development of Human Resource capacity, Information Systems, Product Development, Risk Analysis, Systems and Procedures, Business Plans etc; (c) UK £10 million Credit Guarantee Scheme (CGS) for small and rural borrowers. Based on the available seed money and requests of the banks, the total allocated credit guarantee limits for the year 2011 are Rs 3.932 billion. The banks are now utilizing their allocated limits and have availed the guarantee facilities of Rs 474.576 million against sanctioned loans of Rs 1.13 billion for 1630 loans and (d) UK £10 million Financial Innovation Challenge Fund (FICF) at the occasion of an International Government to People (G2P) Conference organized by SBP in May 2011.

SBP is also implementing a pilot project on Nationwide Financial Literacy program (FLP) under ADB Improving Access to Financial Services Fund (IAFSF). The pilot phase will target about 50,000 beneficiaries with emphasis on low income strata and will be scaled up to 500,000 beneficiaries all over the country.