

4 Broadening Access to Financial Services

4.1 Development finance for priority sectors

During FY14, SBP further accelerated momentum for development finance in the areas of Agriculture, Microfinance, SMEs, Housing and Infrastructure. Regulatory framework for financing to these priority sectors has been strengthened by issuance of new prudential regulations or relevant guidelines in line with international best practices. SBP also provided its full support for market development through credit risk sharing mechanism for promoting development finance in Pakistan. Capacity building programs for the banks and grass root awareness events were held across the country. SBP is collaborating with the World Bank to develop National Financial Inclusion Strategy for the country to address massive financial exclusion issue in a structured and well coordinated manner. Sector-wise details of initiatives taken by SBP are as under:

4.2 Promotion of Agricultural Credit

SBP has taken a number of initiatives to increase farmers' access to formal sources of credit during FY14. These include revisions in Prudential Regulations for Agriculture Financing, enhancement of indicative credit limits, revisions in list of eligible items, capacity building and awareness creation programs for banks and farmers, pilot projects for diversification of agri. credit and one window operations (**Box 4.1**).

Box 4.1: SBP's Initiatives for Promotion of Agricultural Credit during FY 14

SBP has taken the following measures/key steps during the year for the promotion of agri/ rural finance in the country:

- 1) Revision of PRs for Agriculture Financing:** SBP has revised Prudential Regulations (PRs) for Agriculture Financing to strengthen prudent lending practices, enhance credit discipline and promote product diversification.
- 2) Report on Indicative Credit Limits & List of Eligible Items for Agri Financing:** This report has been revised in order to expand the scope of agri. financing and align the cost of production in view of prevailing inflationary pressures. The revisions are expected to facilitate in diversification of farming activities and increasing the loan size.
- 3) Pilot Projects:** SBP has launched a series of pilot projects promoting formal lending in underserved agri. intensive districts of the country. The pilots have been successful in meeting 99 percent of the disbursement target and 88 percent of fresh borrowers target.
- 4) Livestock Insurance Scheme for Borrowers:** SBP has launched Livestock Insurance Scheme which would mitigate the default risk of borrowers in case of loss of animals. This has encouraged banks to increase lending to this sector.
- 5) Farmers' Financial Literacy & Awareness Program (FFLP):** SBP is conducting a series of Farmers Financial Literacy and Awareness programs on agri. financing throughout the country. The objective is to create awareness among the farmers and educate them regarding the availability and usage of financial services and their rights.
- 6) Capacity Building of Banks:** SBP is conducting a series of training programs for capacity building of the agri. field officers of banks benefitting more than 400 officers in 17 iterations.

SBP's continuous follow up and initiatives resulted in increase in financing to Agriculture by 16.4% i.e. from Rs.336 billion in 2012-13 to Rs.391 billion in 2013-14.

4.3 Microfinance

The Microfinance sector has continued its positive long-term growth as a result of greater private investment, supportive policy environment, vibrant market infrastructure, and increased use of innovative technologies. Current performance of microfinance is marked by growth in all key areas including outreach, loan portfolio, deposit base, profitability, and equities. Importantly, the microfinance banking sector has started to benchmark itself with peers in banking system, in all key performance areas.

During FY14, due to fresh equity injections in some of the Microfinance Banks (MFBs), the overall equity base of MFBs has jumped to Rs 13.5 billion as of end June, 2014, experiencing 12.5 percent YoY growth from Rs 12 billion last year. Deposits of MFBs have also shown a healthy growth of 29 percent during the year to reach all time high of Rs 36.9 billion as of June, 2014 compared to Rs 28.6 billion in the preceding year. Microfinance banking assets have also shown a growth of 21 percent during the period under review and reached Rs 62.4 billion. The gross loan portfolio (GLP) of MFBs has increased by Rs 8.1 billion (32 percent) during the year to reach Rs 33.5 billion. The number of MFBs' depositors has reached 4.3 million at end June, 2014 registering a staggering growth of 87 percent from 2.3 million depositors last year. The portfolio growth is largely result of higher loan size pursued by the leading MFBs. Importantly, the portfolio quality during the year also improved as NPLs decreased from 2.1 percent to 1.5 percent during the year.

The branchless banking (BB) network is also expanding with persistent double-digit growth, spread out across more than 90 per cent of the country's districts. The combined network of 168,615 agents of eight BB players as of June 2014 is serving as an easy-to-access distributional channel for offering basic banking services to millions of unbanked population. The number of BB transactions has increased significantly to 245.7 million with value of transactions worth Rs 1.06 trillion as of June 2014, experiencing growth of 61 percent and 67 percent, respectively, from last year.

Important initiatives undertaken by SBP during the year are given in **Box 4.2**:

Box 4.2: Initiatives and Developments for Promotion of Microfinance Initiatives

- SBP has issued revised Prudential Regulations (PRs) for Microfinance Banks on June 10, 2014 in view of the changing dynamics of the microfinance sector in Pakistan.
- After Tameer MFB, five other MFBs including Advans Pakistan MFB, Khushhali Bank Ltd., APNA MFB, FINCA MFB, and First Microfinance Bank Ltd. have also been allowed to undertake microenterprise lending on a pilot basis. The development came after SBP allowed higher loan limits to MFBs for undertaking microenterprise lending in March, 2012 with prior approval of SBP.
- The Consultative Group to Assist the Poor (CGAP) and SBP have jointly completed an I-SIP research in Pakistan to study the linkages between financial inclusion (I) and central banks' traditionally core objectives of Financial Stability (S), Financial Integrity (I), and Consumer Protection (P). Sharing the findings of I-SIP research, the CGAP testified in a workshop held at SBP in December, 2013 that SBP's policy framework for BB and financial inclusion is in sync with the best approaches for optimally managing linkages between financial inclusion and central banks' traditionally core objectives of financial stability, financial integrity, and consumer protection.
- APNA Microfinance Bank, a Karachi-based district MFB, has been converted into a provincial MFB.
- Three new players i.e. U-paisa by U MFB, Mobile-paisa by Alfalah, and MCB-lite by MCB Bank Ltd. have commenced their branchless banking operations.
- A four member delegation of Bank of Zambia (BoZ) visited SBP in September, 2013 to learn about innovative approaches of Pakistan for financial identification system. A four member Turkish delegation also visited SBP on 25-26 February, 2014 for an exposure visit to learn primarily about our approach and experiences in the legal and regulatory framework for microfinance.

4.4 Donor Funded Programs-based SBP's initiatives

SBP has been managing donor and government funded programs to enhance credit risk of the borrowers, capacity of market players, innovations and market information and infrastructure. Progress on funded initiatives during the period is as follows:

Credit Enhancement Facilities

- **Microfinance Credit Guarantee Facility (MCGF)**, is a £15 million facility to cover partial risks against the loans extended to microfinance providers by the commercial banks. So far, 32 guarantees have been issued under MCGF which has mobilized Rs.10.325 billion from commercial banks and capital markets/ retail investors for onward lending to more than 500,000 micro borrowers.
- **Credit Guarantee Scheme (CGS)**, is a £13 million facility to facilitate credit to small and rural businesses for greater outreach. The facility has mobilized loans of Rs 6,328 million to

9,823 borrowers, representing a highly encouraging utilization of 97 percent of the Risk Coverage Limits.

Smart Grants for Institutional Development and Financial Innovations

- **Institutional Strengthening Fund (ISF)**, a £6 million facility has provided grants of Rs. 808 million to 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector. The grant will help develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives.
- **Financial Innovation Challenge Fund (FICF)**, a £10 million facility, was launched by SBP in May 2011 to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. Two specialized challenge rounds focusing on Financially Inclusive Government to Persons (G2P) payments and Innovative Agricultural and Rural Financing have been held under the fund.

Support to Cross Cutting Themes to enhance capacity and bridge market information & infrastructure gaps

- **Nationwide Financial Literacy program (NFLP):** The pilot of NFLP focused on disseminating basic education about financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products and services, debt management and consumer right and responsibilities, etc. Currently the pilot assessment has been completed and it is being reviewed to further scale up the program to reach out to more than 500,000 poor and low income people.
- **Grass-root level Training Program for MFBs and SME finance under the IAFSF:** The program was completed by conducting training programs at different locations across the country in which around 1,000 microfinance loan and field officers and 500 SME credit officers were trained.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP is supporting the MF-CIB with the objective to store all past and present credit transactions of all microfinance borrowers, minimize the instances of over-indebtedness, bring financial discipline in microfinance sector and improve loan portfolio quality of MFBs
- **Surveys, Studies and Assessments:** SBP has also supported a number of surveys and studies under FIP such as Client Protection (CP) Monitoring and Pricing Transparency Initiatives, Islamic finance survey, SME cluster surveys, Hybrid Value Chain financing study, Branchless Banking survey, 2nd Access to Finance survey, Agriculture Finance Study, etc.
- **Capacity building of SBP officers:** SBP has also provided numerous opportunities to its officers to develop capacity in the development finance areas including microfinance, SME and agri/rural finance, etc. to help in implementing financial inclusive policies.

4.5 Small and Medium Enterprise Finance

Financial sector penetration in general remains very low in Pakistan and SMEs are no different. The key reason for this includes banks' hesitance to lend to SMEs. A number of factors contribute to this reluctance, including a high risk perception and high transaction cost of lending. Equally important are the demand side issues which result in low financial usage by SMEs. These issues are related to; low level of financial literacy; high transaction costs associated with accessing finance; inappropriate products that do not match business needs; and limited capacity to undertake appropriate strategic planning & transparency.

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However, the declining trend in SME Financing of banks and DFIs which started five years ago started waning in the wake of improvement in major economic indicators during the last year, and issuance of revised Prudential Regulations on SME Financing in May, 2013. State Bank, therefore, took initiatives during the year to improve SME financing and transform it into a growth trend primarily through improvement in regulatory regime, capacity building of banks, and market interventions. As a result of these initiatives SME financing has witnessed a growth of 8.2 percent i.e from Rs.233.55 billion as of June 30, 2013 to Rs.252.73 billion as of June 2014. The key interventions of State Bank are summarized below:

Prime Minister Youth Business Loans (PMYBL) Programme: On December 7, the Prime Minister Youth Business Loan Programme was launched, to provide loans to unemployed youth for establishing or extending business enterprises. The programme is currently being implemented through National Bank of Pakistan (NBP) and First Women Bank Limited (FWBL). State Bank has also advised other private banks to gear up their systems for participation in PMYBL.

Credit Guarantee Scheme for Small and Rural Enterprises: SBP is operating a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, which allows banks to develop a portfolio of fresh borrowers who do not fit into their usual credit parameters. State Bank allocated credit exposure limits of Rs 6.56 billion with its guarantee coverage limit of Rs 2.62 billion uptill December 2013 to 10 banks selected as Participating Financial Institutions (PFIs). The scheme has been well received by banks. Net utilization of the guarantee limits by the banks as of December 2013 was 64 percent with sanctioned loans of Rs 4.19 billion to 6,268 borrowers. The scheme is also a successful initiative in terms of helping the participating banks to develop viable financing portfolios, reaching out to a vast number of small & rural borrowers, in different sectors in 75 districts across the country. At the same time, these banks have managed to keep their delinquency ratios to only 3.4percent, which is much lower than the SME and Agri-financing NPL ratios of 32 percent and 11percent respectively as of December 2013.

4.6 Housing Finance

Housing is a basic need of life. It is of such an importance that, in some countries, it is equated to human right. Furthermore, construction and housing sectors have forward and backward linkages with almost 40-50 industries and a large percentage of the unskilled labor is linked with these sectors. An increase in spending towards housing sector has a multiplier effect and has the capacity to generate earnings as high as five times of the expenditure incurred⁶. Outstanding housing finance increased from Rs.52.24 billion as on June 30, 2013 to Rs.52.70 as on June 30, 2014. Following initiatives were taken by SBP in FY14 to promote housing finance in Pakistan:

Guidelines for Financing to Housing Builders/Developers: SBP issued guidelines for financing to house builders/developers. Keeping in view the peculiar nature of the financing requirements of builders/ developers, a financing model was developed in light of the mechanisms being adopted by central banks and regulatory authorities in the region.

Mortgage Refinance Company (MRC): The creation of a mortgage liquidity facility is being incorporated which would address the long term funding constraints. MRC would serve as a secured

⁶ Nenova, T. (2010). *Expanding Housing Finance to Underserved in South Asia*. Washington: WorldBank.

source of long-term funding at attractive rates. MRC would be a public-private partnership company with government equity of Rs. 1.2 billion.

4.7 Infrastructure Finance

Infrastructure is critical to improve national productivity and economic growth. However, across a range of measures, development of infrastructure in the country is not keeping pace with either current or projected demand. In FY14, SBP took many steps for the development of infrastructure finance in the country. The major initiatives were as follow:

Infrastructure Finance Consultative Group (IFCG): SBP has established this group with a broad membership from federal/provincial Government, Banks/DFIs, private sector and Multi-lateral Agencies.

Study on Islamic Project Finance: A brief study on the potential of Islamic Project Financing in the country has been prepared on the basis of data/information collected from the banks & DFIs.

Infrastructure financing stood at Rs.276.1 billion as of June 30, 2014 showing a growth of 3.4 percent compared to the last year.

4.8 SBP Refinance Facilities

To encourage and support SME sector, SBP introduced certain changes in existing mechanism of Export Finance Scheme (EFS) to incentivize export financing for SMEs. During the fiscal year under review, SBP introduced Long Term Financing Facility for the Services Sector (LTFF-SS) to promote exports of services sector. Financing is provided for adoption of new technologies and for enhancing sector's capacities to perform better services in line with the international competitive environment. To facilitate long term investment in SMEs and to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce, SBP extended the expiry dates of the Refinance Facility for Modernization of SMEs (RFM-SME) and Financing Facility for Storage of Agricultural Produce (FFSAP).

4.9 Training and Awareness Programs for broadening access to finance

- **Grass Root Training Programs:** During FY14, SBP organized programs for branch level bankers at various cities, with the purpose to educate credit officers about different tools and techniques on dealing with Agriculture and SME customers.
- **Awareness Programs for the Prime Minister's Youth Business Loans Program (PMYBL):** State Bank arranged a series of training workshops on PMYBL during December 2013 - January 2014 to educate field staff of banks on the structure of the programme and to motivate bankers to actively participate in identification and evaluation of viable business proposals from the prospective borrowers. These workshops were held in 12 major locations (Karachi, Lahore, Sialkot, Gujranwala, Quetta, Peshawar, Faisalabad, Sargodha, Jhang, Gujrat, Jhelum and Mirpur) in which more than 450 field officials (regional managers, branch managers and credit officers) participated.
- **A two-day seminar on Infrastructure Project Financing** was held at SBP-BSC, Lahore on May 19-20, 2014. The programme covered topics like Introduction to Project Finance, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation, Risk Allocation, Documentation, Public Private Partnership (PPP) and case studies.

- **A full day workshop on ‘Risk Allocation & Documentation in Infrastructure Project Finance’** was conducted on February 10, 2014 to enhance the knowledge and understanding of the participants in the area of infrastructure project finance.
- **Eight different workshops/training programs** were conducted in FY14 including a comprehensive five days training module on housing finance.