

4 Broadening Access to Financial Services

Broadening and deepening of financial system is amongst the key strategic objectives of central banks. The central banks of developing countries like ours where the overall penetration of the financial systems is relatively low, strive even harder to broaden the access and reach of the financial system to all sectors of the economy. SBP has been working extensively with all the key stakeholders to develop a market based inclusive financial system catering to the financial needs of all segments of the economy, especially agriculture, microenterprises, SMEs, and low cost housing, which are commercially less attractive but strategically important. During FY15, SBP took a number of policy, regulatory and promotional initiatives to increase financial inclusion including National Financial Inclusion Strategy (NFIS).

4.1 National Financial Inclusion Strategy (NFIS)

In the overall scenario, the challenges to enhancing financial inclusion and expanding credit to private sector go beyond the scope of financial sector policies and require to be tackled in the broad economic, social, and political context. The factors which warrant due consideration include economic cycle, business climate, rising government debt, gender barriers, and informality in the economy. SBP's proactive role in promoting an inclusive financial sector is impeded by weak coordination among stakeholders, limitations of financial sector infrastructure, issues in legal and judicial framework, and lack of capacity of both financial institutions and their clients.

In the above background, the National Financial Inclusion Strategy (NFIS) was developed during the year in collaboration with the World Bank. While developing the strategy all key stakeholders were extensively consulted, which resulted into a national consensus on the objectives and approach of the strategy. The NFIS envisions a financial system where individuals and firms particularly the unserved and marginalized segments of society can access and use a range of quality payments, savings, credit and insurance services with dignity and fairness. The NFIS will guide efforts to promote financial inclusion over the next five years (2015-2020). The objectives of NFIS are also aligned with GoP's Vision 2025. The key enablers identified for successful implementation of the strategy include commitment to NFIS, enabling legal and regulatory environment, adequate supervisory and judicial capacity, and ICT (information & communication technology) infrastructure. Following are the major goals set in NFIS:

- Diversifying the range of basic payments, remittances, and saving products
- Increasing the financing opportunities
- Increasing penetration of insurance services
- Bringing pensions to more workers
- Developing housing finance products
- Fostering Islamic Finance
- Ensuring consumer protection and increasing financial literacy
- particularly the unserved marginalized segments of society

4.1.1 Nationwide Financial Literacy Program (NFLP)

SBP had launched Pakistan's first-ever Nationwide Financial Literacy Programme (NFLP) in 2012, to support financial inclusion and poverty alleviation efforts. The NFLP was launched with the support and collaboration of ADB, PBA, PPAF and Bearing Point (Consultant). The program 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. The pilot of the program was completed in July 2012. The program was evaluated through a third party and upon its positive evaluation, the program is now being rolled-out nationwide. The national roll-out has been segregated into two components: i) scale up the scope of NFLP to national level ii) initiation of Child and Youth Financial Literacy Program with the objective to provide basic financial education to children and youth and train them for their future roles in social and economic sectors.

4.1.2 Exchange Learning Program

SBP also initiated international exchange learning programs for officers of financial institutions. In this respect four programs will be arranged in different countries. First of these programs was arranged in Turkey which was attended by officials from various financial institutions and SBP.

4.2 Agricultural Credit

Banks surpassed the indicative agricultural credit disbursement target for the year FY15.

Against the target of Rs 500 billion, the banks disbursed Rs 516 billion during the year, which is 32 percent higher than the disbursement of Rs 391 billion made in the preceding year. The main factors contributing to this substantial growth include: SBP's efforts for sensitization of banks about potential of agricultural financing, diversification of their agricultural lending portfolio, inclusion of more lending institutions in the agricultural lending scheme, increase in per acre credit limits, introduction of innovative products like value chain & warehouse receipt financing, rigorous follow-up and monitoring of banks' targets and farmers awareness & financial literacy programs at grass-root level leading to increase in credit demand. Bank-wise credit disbursement details are given in **table 4.1**.

Table 4.1 Agricultural Credit Disbursements (Amount in billions)

Bank	FY14		FY15	
	Target	Actual	Target	Actual
Five Big Commercial Banks	188	195.5	252.5	263
Specialized Banks				
• ZTBL	69.5	77.9	90	95.8
• PPCBL	10	8.8	11.5	10.5
Domestic Private Banks	90.4	84.8	115.5	109
Microfinance Banks	21.6	22.8	28.2	33
Islamic Banks	0.5	1.5	2.3	5
Total	380	391.3	500	516

Source: Agricultural Credit & Microfinance Department, SBP.

Box 4.1: Initiatives for Promotion of Agricultural Credit during FY15

- **Enhancement of Scope of Crop Loan Insurance:** SBP enhanced the scope of crop loan insurance scheme (CLIS) from 12.5 acres to 25 acres. Under the scheme, which is mandatory for small farmers, the government is bearing the cost of premium on account of small farmers' up to 2 percent per crop per season.
- **Framework for Warehouse Receipt Financing:** SBP issued draft Framework for Warehouse Receipt Financing which facilitates banks in development of specialized products for providing financing to farmers, traders, processors, and other players in the value chain. SBP facilitated two pilot projects (Sindh and Punjab) to test the feasibility of warehouse receipt financing in the country. These projects were launched in collaboration with banks, MFBs, warehouse operators, and collateral management company.
- **Credit Guarantee Scheme for Small and Marginalized Farmers:** SBP developed a credit guarantee scheme, funded by the Federal Government, for small & marginalized farmers which would facilitate flow of credit to small and marginalized farmers who do not have any collateral. The objective of the guarantee scheme is to encourage financial institutions to lend to small farmers who do not have adequate collateral (acceptable to bank) in order to meet their working capital requirements.
- **2nd Round of Financial Innovation Challenge Fund (FICF):** This Round of the facility was launched in March 2014 to promote innovative rural and agricultural financial services. Under this round, FICF is currently supporting 12 institutions for testing innovations such as Agriculture Value Chain Financing, Warehouse Receipt Financing, green agricultural financing, Islamic microfinance, use of ICT solutions for agricultural finance and price information, etc.
- **International Conference on Agriculture Value Chain (VC) & Rural Finance:** A two day international conference was held in Islamabad with the objective to promote innovative agriculture VC financing in Pakistan. The conference was attended by more than 350 local and international participants.

4.3 Microfinance

The microfinance banking sector exhibited strong growth despite various external challenges. Due to favorable regulatory environment, both existing and new investors continued to invest in microfinance banks (MFBs). Growth has been witnessed in all the key performance indicators of MFBs. Credit, the core growth engine for MFBs, has encouragingly registered strong growth. Another substantial development was healthy performance of mobile phone banking, which through eight players, has been adding vast, low-cost, and easy-to-access distributional channels in the sector.

Presently, ten MFBs are operating in the country. Nine of them having national level MFBs licenses and one has provincial level (Sindh province) license. All the MFBs are privately owned with both foreign and local investors.

During FY15, due to fresh equity injections in some of the MFBs, the overall equity base of MFBs jumped to Rs 16.7 billion as of end June, 2015, from Rs 13.4 billion last year, registering 24 percent YoY growth. Deposits of MFBs have also shown a strong growth of 41 percent during the year and reached to Rs 52 billion as of June, 2015 from Rs 37 billion in the preceding year. The MFBs' assets also registered a growth of 33 percent during the year and reached to Rs 82.8 billion. The gross loan portfolio (GLP) of MFBs has increased by Rs 12 billion (36 percent) during the year to Rs 46 billion. The number of MFBs' depositors reached 11.5 million as at end June, 2015 registering an incredible growth of 168 percent over the last year's number of 4.3 million. This rise is largely attributed to stellar growth in M-Wallet accounts, which increased to 7 million as at end June 2015. The MFBs have been consistently strengthening their loan size owing to strong market demand and better recoveries. The portfolio quality during the year remained good with NPLs at 1.76 percent, slightly higher than 1.55 percent last year.

Table 4.2 Performance of MFBs-FY 2014-15

(Amount in millions)			
Key Indicators	June, 2014	June, 2015	YoY Growth
Borrowers	1,095.96	1,296.20	18.3
GLP	33,479.27	45,581.50	36.1
Deposits	36,923.13	52,016.29	40.9
Depositors	4,331.08	11,598.52	167.8
Assets	62,419.01	82,837.96	32.7
Equity	13,452.06	16,705.30	24.2
NPLs	1.55%	1.76%	

Source: State Bank of Pakistan

Box 4.2: Initiatives and Developments for Promotion of Microfinance

- **Amendment in Prudential Regulation for Microfinance Banks (MFBs):** Cognizant of the mounting trend in gold backed lending by MFBs and its associated risks, SBP directed MFBs to ensure that their aggregate loan exposure against the security of gold should not exceed 35 percent of their gross loan portfolio.
- **Microfinance Credit Guarantee Facility (MCGF):** It is a £15 million facility launched by SBP in December 2008 under FIP to cover partial risks against the loans extended to microfinance providers by the commercial banks. So far, 46 guarantees have been issued under MCGF enabling MFBs to mobilize Rs16 billion from commercial banks and capital markets/ retail investors for onward lending to more than 800,000 micro borrowers. There have been no calls on the guarantee yet.
- **Institutional Strengthening Fund (ISF):** A £6 million facility was launched by SBP with the objective to provide grants for institutional strengthening of the microfinance sector, develop and implement strategies for mobilization of savings, strengthen governance and internal control functions, and launch branchless banking initiatives. Under ISF, the grants of Rs703 million have been approved for 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector.
- **1st Round of Financial Innovation Challenge Fund (FICF),** This Round of FICF was launched in May 2011 to promote "Financially Inclusive Government to Person (G2P) Payments" through branchless banking models. Under this round, FICF is currently supporting Punjab Pension Fund, Employees Old-age Benefits Institution, UBL, and NADRA for a number of pilots for adoption of innovative approaches and solutions to deliver affordable and convenient financially inclusive G2P payments.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP is supporting the Nationwide Microfinance exclusive Credit Information Bureau (MF-CIB) that helps microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and

loan defaults.

- **Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector:** SBP is supporting these initiatives with the help of Pakistan Microfinance Network (PMN) which are aimed at a holistic client protection intervention at the industry level. The key objectives of the initiatives are monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks and standardization in calculating and communicating product prices to clients.
- **MoU between SBP and NADRA:** A MoU was signed between SBP and NADRA for reducing the biometric verification cost to Rs 10 for each M-Wallet account opening at industry level. This initiative will reduce transaction costs of banks and clients and strengthen customer identification and verification procedure leading to accelerated growth in mobile accounts.
- **MoU between Gates Foundation and DFID:** Another MoU was signed between Bill and Melinda Gates Foundation and DFID to set up a Digital Financial Services Unit within *Karandaaz Pakistan*, a newly incorporated company to support small and growing businesses in Pakistan.
- **Addition in Nation-wide MFBs:** APNA Microfinance Bank, a Sindh-based provincial MFB, has been converted into a nation-wide MFB.
- **Workshop on 'Inclusion-Effective Interoperability:** SBP, in collaboration with Consultative Group to Assist the Poor (CGAP), organized a one day workshop in October, 2014. The conference aimed to share the findings of the global research study conducted by CGAP on topics such as: solution relating to account to account interoperability, how agent interoperability might assist financial inclusion, effective use of national payment infrastructure, and key impediments.
- **International Branchless Banking Conference:** SBP, in collaboration with CGAP and UK Department for International Development (DFID) organized a one day international branchless banking conference. The conference was attended by over 280 participants from the Government, international policy advisory organizations, financial service providers, telecom sector, and payment service providers.

4.4 Small and Medium Enterprise Finance

The SME sector contributes significantly in economic and social development especially through employment generation. During the year, outstanding finance to SMEs by banks/DFIs grew by 3.2 percent to Rs 261 billion as at June 30, 2015. The number of SME borrowers however registered a strong growth of 14 percent during the year. Notably, the non performing loans of SME sector showed positive trends with decline of about 9 percent during the same period.

4.4.1 Major Initiatives to Promote SME Finance

Strengthening Secured Transaction Reform Framework (STRF): STRF calls for existence of a modern secured transaction law that provides for establishment of secured transaction registry office in the country. This will register charge on moveable assets of SME borrowers to facilitate them in obtaining bank credit against these assets. In this respect, SBP in consultation with other stakeholders, has prepared a draft *Secured Transaction Law* and forwarded the same to GoP for onward submission before the Legislature. After its enactment, GoP shall establish a collateral registry.

Growth in the Financing Schemes earlier Introduced by the Bank:

The Bank consolidated upon the financing scheme initiated in the past, highlights of which are given below:

- **The Credit Guarantee Scheme (CGS) for Small and Rural Enterprises:** CGS launched in 2010, involved 16 participating financial institutions (PFIs) with allocated credit exposure limits of Rs 8.4 billion.
- **SBP Refinance Facilities:** To reduce financial cost for exporters and to support overall exports of the country, the markup rates for short term and long term financing schemes were reduced in line with reduction in SBP policy rates.

- **Export Finance Scheme (EFS):** The outstanding financing under EFS showed an increase of 19.1 percent which stood at Rs 191.1 billion mainly due to reduced markup rates on EFS.
- **Long Term Financing Facility (LTFF):** The outstanding financing under LTFF was Rs 39.8 billion (390 borrowers) at the end of the year. Textile sector is the largest recipient of this facility with over 60 percent share against 317 borrowers.

4.5 Housing Finance Market

The Housing finance portfolio of banks/ DFIs grew by 12.50 percent during the year to Rs 59 billion from Rs52.5 billion last year; an impressive increase of over Rs 6.5 billion in the outstanding Housing finance portfolio of banks/DFIs. The cumulative disbursements to the housing sector during the year at Rs 14.25 billion were highest in last 5 years. Another encouraging trend is the decline in NPLs from Rs 15.66 billion in June 2014 to Rs 13.51 billion in June 2015; a 13.75 percent YoY decrease. The current low mark up regime will give further boost to the primary mortgage market enabling it to increase its size, which is currently amongst the lowest in the region.

4.5.1 Major Initiatives to Promote Housing Finance

Incorporation of Pakistan Mortgage Refinance Company (PMRC)

PMRC would serve as a secured source of long-term funding at attractive rates. In May 2015, the PMRC was incorporated with SECP. Further, GoP has already contributed its equity share of Rs 1.2 billion while financial institutions are in process of injecting their share of equity in the PMRC. Moreover, multilaterals are also being pursued to participate in the equity of PMRC.

Diagnostic Survey of Housing Finance

SBP has initiated a diagnostic survey on housing finance in Pakistan. The survey is being conducted in collaboration with Department for International Development (DFID), UK. It is a national-level survey encompassing major urban and rural areas of Pakistan. The objective of this survey is to further drill down on demand and supply side issues that are hindering the growth of housing finance in the country.

Capacity Building of Banking Court Judges

Banking courts are major stakeholders for housing finance in Pakistan. Realizing this and in continuation with capacity building initiatives of the mortgage banking industry, SBP, in coordination with Ministry of law, justice and human rights organized training session for banking court judges in Islamabad. 24 Banking court judges participated in the session facilitated by an industry expert on housing finance laws, regulations and products. Moving forward, a joint platform among Bankers, Banking Court Judges and SBP is envisaged, that would not only work for timely resolution of housing finance foreclosure cases but would also actively propose innovative solutions to existing legal hindrances that affect the growth of housing finance.

International Conference on Affordable Housing and Mortgage Finance

The conference was well attended by over 300 participants from different organizations including financial institutions, government departments, multilaterals and academia. The theme of the conference was designed to address the current issues in provision of affordable housing and mortgage finance in Pakistan.

Amendments in Foreclosure law

In order to further strengthen the housing finance in Pakistan, necessary amendments have been proposed to Financial Institutions Recovery Ordinance (FIRO). The initiative has been taken to fill the

vacuum created by annulment of Section 15, that empowered Financial Institutions to foreclose a mortgaged property without recourse to the court of law.

Capacity Building of Banking Industry on Housing Finance

Housing Finance in Pakistan is currently at a nascent stage and requires rigorous training initiatives to develop housing finance professionals. SBP has kept the capacity building of the housing finance industry on its priority. During the year, training programs/workshops were organized in Karachi, Lahore and Islamabad to provide local bankers with expertise necessary to execute housing finance transactions. More than 90 bankers have been trained in the current year on different aspects of housing finance in the sessions facilitated by local and international housing finance experts.

4.6 Infrastructure Finance Market

Infrastructure plays a pivotal role in the development of a country by improving productivity and supporting economic growth. Improved quality and service coverage in power, water supply, sewerage treatment and transport uplifts the living standards of the masses. Infrastructure financing of banks recorded growth of 19.1 percent during the year owing to overall economic growth, low interest rates and measures taken by SBP. The outstanding credit for infrastructure projects stood at Rs 328.7 billion at the end of year. The growth was witnessed in telecom, power generation, oil & gas and road, bridge & flyover sectors during the year.

Box 4.3: Green Banking in Pakistan

Concept Paper on Green Banking: The green and sustainable banking envisions reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in operations and products/ services of banks. In line with this vision, a concept paper on ‘*Green Banking*’ was prepared by SBP which provided a number of recommendations for future initiatives.

Establishment of Green Banking Unit in SBP: SBP has established a Green Banking Unit with a view to coordinate and gear-up its initiatives on green banking. The Unit has increased coordination with multilateral agencies for working out proposals of joint initiatives. SBP has joined IFC’s Sustainable Banking Network (SBN) which is an association of banking regulators globally for the purpose of knowledge exchange and learning on sustainable banking. SBP is coordinating with the IFC for a baseline survey on Environmental and Social Risk Management (ESRM) practices of banks/ DFIs. SBP is also working with GIZ for development of Green Banking Guidelines and awareness/ training sessions on renewable energy/ energy efficiency financing and green banking for the banks/ DFIs, energy services companies and prospective investors.

The Green Climate Fund: The Green Climate Fund established by the United Nations Framework Convention on Climate Change (UNFCCC) is emerging as a mainstay of international efforts on climate related measures. The Fund may open up an international funding avenue for banks/ DFIs to finance climate related projects. Accordingly, State Bank is exploring possibility of selection of bank/ DFI as Accredited National Implementing Entity (ANIE) under the GCF.