

4 Broadening Access to Financial Services

Pakistan has been a pioneer in championing financial inclusion for over a decade. The SBP together with all stakeholders is working to develop a market based inclusive financial system, serving effectively to financial services needs of all segments of the economy, with greater focus on agriculture, microfinance, SMEs and low cost housing. These sectors though commercially less attractive but are strategically important areas as the agriculture sector alone contributes 19.5 percent to the country's GDP and employees 42.3 percent of the labour force, whereas the SMEs accounts for 90 percent of the business establishments in the country and employees 80 percent of non-agriculture labour force. During FY17, the Bank took a number of policy and regulatory initiatives for enhancing the outreach of financial system to less privileged and so far unbanked / under banked segments of the society. The initiatives included implementation of National Financial Inclusion Strategy, promotion of financial literacy, streamlining and promoting access to simple, low-cost and innovative alternative delivery channels for financial services in agriculture, SMEs and microfinance.

4.1 National Financial Inclusion Strategy (NFIS)

The strategy approved and adopted in May 2015 aims to enhance access to formal financial system to 50 percent of the adult population by 2020. The NFIS covers priority areas such as i) Digital Financial Services and Payment Systems, ii) Microfinance, Agricultural and Housing finance, iii) SME finance, iv) Islamic finance, v) Financial Literacy and Consumer Protection, vi) Insurance and vii) Pensions. The progress made on the NFIS implementation and initiatives taken under the NFIS have been covered in **Box 4.1** and **Box 4.2**.

Box 4.1: NFIS Implementation Status

In order to implement the strategy, a coordination mechanism was established with participation from both the public and private sector stakeholders. It consists of the following governance bodies:

- **NFIS Council:** NFIS Council chaired by the Federal Finance Minister is the primary platform for achieving Pakistan's financial inclusion objectives and vision. The NFIS Council has held 5 meetings and the last meeting was held on April 07, 2017.
- **NFIS steering committee:** The steering committee is chaired by SBP Governor, with the overall responsibility of implementing the strategy. The Steering Committee has held 4 meetings and the last meeting took place in March 2017 wherein the recommendations particularly on pension and insurance were reviewed.
- **Technical Committees (TCs):** Technical Committees (TCs) have been functioning in seven focus areas with members from the private sector, ministries, government departments, regulatory bodies, associations and networks to identify plans, address technical issues and propose solutions to the Steering Committee to achieve the NFIS targets. The Technical Committees have so far held 30 meetings and conducted deliberations to firm-up the NFIS action plan.

Box 4.2: Initiatives under NFIS Strategy

- **Asaan (Easy) Mobile Account (AMA) Scheme:** The NFIS Council in its meeting held in January 2017 approved an *Asaan* (Easy) Mobile Account (AMA) scheme under which the digital finance service providers will join an integrated platform, allowing any person with a basic mobile phone to open a digital transaction account swiftly through a unified Unstructured Supplementary Service Data (USSD) code or String from anywhere, at any time. The objective of the scheme is to improve accessibility of new customers for account opening, drive usage of digital financial services through increased number of account-to-account transactions across various networks and provide digital access to a range of quality financial services.

- **Opening of Asaan Accounts:** To enhance the outreach of basic financial services to unbanked or underserved segments of the population and achieve the targets set out in NFIS, SBP introduced the Low Risk “Asaan Account” with simplified due diligence requirements, minimum initial deposits Rs100 and monthly withdrawal limit of Rs 500,000 and overall deposit limit of Rs 500,000. The initiative resulted into addition of 2.60 million accounts in the banking system as of June 2017.
- **Rationalization of NADRA’s verification Cost:** After concerted efforts by all the stakeholders, NADRA has reduced the verification cost to PKR 10/- to meet low cost KYC requirements for opening of Branchless Banking (BB) accounts.
- **Adjustment of Withholding Tax (WHT) on cash withdrawals:** The proposal for adjustment of WHT on cash withdrawals by BB agents was approved and incorporated in Finance Bill 2017-18.
- **Pakistan Financial Inclusion and Infrastructure Project (FIIP):** To support the implementation of Pakistan’s NFIS, the World Bank has approved a Financial Inclusion and Infrastructure Project (FIIP) worth US\$ 137 Million. The Project will focus on improving market infrastructure and institutional capacity; supporting the uptake and usage of digital payments and financial services; and improving access to financial services for microenterprises and SMEs (MSMEs). The project will also be instrumental in increasing access and usage of financial services by women and women-owned MSMEs.

4.1.1 Impart financial literacy to at least 1.1 million people

As per Access to Finance Survey – 2015, 40 percent of the population reported lack of understanding of financial products as the main reason for financial exclusion. In order to enhance the financial education and awareness among the low income segment population, SBP has taken following initiatives (see **Box 4.3**).

Box 4.3: Financial Literacy Initiatives

- **National Financial Literacy Program:** SBP is implementing National Financial Literacy Program (NFLP). NFLP is a 5 year program with the intended objective of imparting financial literacy to 1 million people. The program is implemented in phased manner. The first phase of the project included project conceptualization; development of proposal; deliberation /coordination with key stakeholders regarding their roles and responsibilities; formalization of project governance structure and implementation plan and management and funding approval of the project. The 2nd phase of the project is currently under progress which includes revision/ up-gradation of NFLP curriculum, building partnerships/alliances with banks /MFBs, training of master trainers and field trainers, geographical mapping of the target beneficiaries, financial and management approval of first year implementation plan. It is expected that with the completion of remaining activities such as development of mass media campaign, development of information portal and enhancement of capabilities of concerned staff, the project will formally be launched in October 2017.
- **Child and Youth Financial Literacy Program (CYFLP):** The key objective of the program is to provide basic financial education to children and youth and train them for their future roles as social and economic actors. Currently, Enclude Ltd is in a process of finalizing curriculum, trainer manuals, online learning portal, dedicated website of the program, training teachers of participating institutions for onward delivery of CYFLP curriculum to target audience. It is expected that after the current summer vacations, the program will be rolled out at the class room level.
- **Farmers’ Financial Literacy Programs:** In FY17, SBP conducted 08 farmers financial literacy programs in various agri-intensive districts of the country including AJK and GB. The purpose of these programs was to familiarize farmers with the banking services and financing facilities available to them along with the procedure/documentation required to obtain and service a loan availed from bank. Agri-credit officers from participating banks were also trained as master trainers in these iterations to conduct farmers’ financial education programs at grass root level.

4.1.2 Branchless Banking

SBP has been encouraging banks to fully exploit the advancements in Information & Communications Technologies (ICT) for increasing their outreach to hitherto unbanked and under banked areas. The Branchless Banking (BB) has been the SBP's flagship initiative for increasing financial inclusion. The availability of new mobile banking applications and platforms, biometric verification mechanism and emergence of 3G / 4G spectrum has created ease and opportunity for the branchless banking operators. Keeping the latest developments in view and to provide ongoing regulatory support to financial institutions for enhancing BB services to low income/unbanked masses; SBP issued revised version of Branchless Banking Regulations for the banking industry during the year (see **Box 4.4**).

Table 4.1: Branchless Banking Indicators

Indicators	FY16	FY17	Annual Growth
Number of Agents	346,716	402,710	16.15%
Number of Active BB Agents	236,874	185,297	-21.77%
Number of Accounts	14,576,387	27,312,964	87.38%
Deposits (Rs In millions)	13,734	15,423	12.30%
No. of transactions ('000')	437,197	551,543	26.15%
Value of transactions (Rs in millions)	2,065,172	2,427,823	17.56%
Average size of transaction (in Rs)	4,724	4,402	-6.81%
Average daily transactions (in Rs)	1,197,799	1,511,077	26.15%
Average deposit in accounts (in Rs)	942	565	-40.07%

The number of BB accounts exhibited a phenomenal growth, increasing by 87.38 percent to reach 27.3 million as at the close of FY17. This was attributed to SBP's permission to banks for account opening through biometric devices at agent locations as well as remote account opening through the customer's cell phone. The overall deposits witnessed 12.30 percent growth, rising from Rs 13.73 to Rs 15.42 billion; however the average deposits declined as the rise in deposits was not commensurate with the profound increase in accounts.

The outreach of BB services expanded significantly during FY17, as the retail network of BB agents witnessed a 16.15 percent growth. As a result, by the end of FY17, a total of 402,710 BB agents had established their footprints across the country to provide basic banking facilities. However, due to technology upgrade process at the agent level; the active agents of the largest BB provider declined, which brought a reduction of 21.77 percent in over all active agents.

In terms of volume, BB transactions increased by 26.15 percent to reach 551 million transactions during FY 17. A total of 93,000 biometric devices have been installed at agents locations to facilitate paperless and hassle-free account opening of customers, contributing positively towards establishment of an inclusive financial system (see **Table 4.1**). The initiatives taken in the area of branchless banking have been covered in **Box 4.4**.

Box 4.4: Initiatives for Promotion of Branchless Banking during FY17.

- **Amended BB regulations to allow remote account opening and other enablers:** In Jul-2016, the BB regulations were revised to ensure their responsiveness to changing market dynamics and technological advancements witnessed during recent years. The revised regulations allow account opening through biometric devices placed at BB agents as well as through the customer's biometrically verified SIM (without need for visiting the agent). This enabling revision in the regulations is expected to contribute significantly in SBP efforts for extending the outreach of financial system to the un-banked segments of our economy.
- **Pilot Project on digital credit for microfinance borrowers - Ongoing since 2016:** To focus on the previously neglected dimension of financial inclusion, Telenor MFB was allowed to evaluate the feasibility for digital credit in the country. The MFB is offering digital credit via pilot project, wherein small ticket sized

loans (PKR 1500-3500) are being offered to the customers for short tenures of 7, 15 and 30 days. The findings of this project will pave a way in setting the course of action for digital credit in future.

- **Capacity Building of Branchless Banking Agents on nationwide scale:** The agents training curriculum offered by banks only covered limited areas of BB operations, and thus substantial knowledge gap exists among the BB agents. To address the issue SBP has developed a universal curriculum for capacity building of the BB agents in consultation with the industry. Phase-1 of the project has been completed, in which two Train-the-Trainers sessions have been conducted and 73 officers of banks have been trained on this curriculum. These officers will further impart training to their respective agents on nationwide basis in phase-2 under this program.

4.2 Agricultural Finance

During FY 17, banks have surpassed the agricultural credit disbursement target of Rs 700 billion set by Agricultural Credit Advisory Committee (ACAC) for the year. Agri. lending banks have disbursed Rs704.5 billion which is 17.8 percent higher than the last year's disbursements of Rs 598.3 billion. Further, the agri. outstanding portfolio increased to Rs 405.8 billion on end June, 2017 registering a significant growth of 17.4 percent over the last year's position of Rs 345.6 billion. Similarly, the agricultural credit outreach has increased to 3.27 million farmers at end June 2017 from 2.40 million farmers last year (see **Table 4.2**).

This increase in borrowers can be mainly attributed to inclusion of 15 Micro Finance Institutions/Rural Support Programs in the SBP's Agri. Indicative Credit Target Scheme, as they collectively provided credit to more than 0.55 million farmers during FY17.

SBP adopted a multifaceted strategy and made all-out efforts for ensuring the achievement of the agri. credit targets by banks which included; sensitizing banks to adopt agri. financing as a viable business line, exploring new financing products; value chain financing, warehouse receipts financing, digitization of credit, execution of credit guarantee scheme for small and marginalized farmers and inclusion of Microfinance Institutions/ Rural Support Programs for catering the credit needs of marginalized farmers etc. The **Box 4.5** below captures the major initiatives taken during the year to promote agricultural financing:

Box 4.5: Initiatives for Promotion of Agricultural Credit during FY17

- **Support in designing and implementation of Government of Punjab E-Credit Scheme:** SBP supported Government of Punjab in designing and implementation of GoPB E-Credit scheme. The E-Credit scheme has been designed to use the advancements in Information & Communication Technology (ICT) for lowering delivery cost, increasing financial outreach and bringing operational efficiencies for banks and borrowers.
- **Implementation of Credit Guarantee Scheme for Small and Marginalized Farmers:** The Credit Guarantee Scheme for Small and Marginalized Farmers was implemented in line with the Government's budgetary announcement. Under the scheme, agri credit target of Rs 2 billion was assigned to Participating financial institutions for disbursement to small farmers across the country (four provinces, FATA, AJK and GB). The scheme aims to encourage financial institutions to lend to small farmers who do not have adequate collateral (acceptable to banks) in order to meet their working capital requirements. Since its launch, the total number of borrowers under the scheme had reached 44,694 by March 2017.

Table 4.2: Growth in Agriculture Finance (Rupees in billions)

Bank	FY16		FY17	
	Target	Actual	Target	Actual
Five Big Commercial Banks	305.7	311.4	340.0	342.0
Specialized Banks				
ZTBL	102.0	91.0	102.5	92.5
PPCBL	12.5	10.3	12.5	10.9
Domestic Private Banks	131.8	123.1	139.6	139.1
Islamic Banks	7.9	8.5	11.0	12.3
Microfinance Banks	40.1	53.9	60.1	87.8
Microfinance Institutions	-	-	34.3	19.9
Total	600.0	598.3	700.0	704.5

Source: Agricultural Credit & Microfinance Department, SBP

- **Adoption of Automation of Land Revenue Records for Verification of Agri-credit documents:** SBP has been promoting the use of ICT and alternative delivery channels for delivery of financial services. SBP during the year facilitated signing of an MOU between Pakistan Agriculture Research (PAR), UBL and Sindh Board of Revenue (BoR) to initiate a pilot project to collect farmers' information through mobile phone applications to be used by the bank for selection of borrowers. Simultaneously, the review and verification of clients' land and cultivation record will also be made available to the bank by BoR through an online portal.
- **Pilot project for improving farmers' productivity through use of Unmanned Aerial Vehicles (UAV) technology:** SBP, in collaboration with University of Agriculture Faisalabad (UAF), is supporting a pilot project wherein borrowers of participating banks (ZTBL, NBP and Faysal Bank) will be provided with technical advisory for crop management and yield enhancement through the use of modern technology and quality inputs, precision agriculture, timely availability of financing and guidance through service providers. The information gathered through UAV technology will also be beneficial for the banks in assessing their portfolio quality and taking timely corrective measures where necessary.
- **Training program on Islamic Agriculture Financing:** In order to promote *Shari'ah* based agricultural financing, 02 five-day training programs were organized in Karachi and Lahore. Over 40 participants comprising banks' agriculture credit heads, product specialists, agri. sales team, credit team and risk managers attended the programs. The training programs were conducted by industry and subject experts and *Shari'ah* scholars with the intent of enhancing banks' capacity in developing financing products for the agri-sector.

4.3 Microfinance

The microfinance banking industry grew by 52.5 percent during the year with its assets base reaching to Rs 203.3 billion and microcredit portfolio to Rs 111.9 billion as at end FY17. Similarly, the number of borrowers of MFBs grew by 29.9 percent to 2.209 million during FY17.

Microfinance banks (MFBs) collectively injected fresh equity of Rs 5.25 billion during FY17, which resulted in 23.2 percent increase in overall equity base that reached Rs 27.9 billion at the end of FY17 from Rs 22.7 billion last year. The growth in MFBs' deposits base also remained impressive at 68.3 percent during the period with the aggregate deposit base reaching Rs 146.5 billion compared to Rs 87 billion as at the close of preceding year.

Concurrently, the number of depositors increased to 21.951 million from 12.782 million last year thus registering a 71.7 percent growth in retail outreach over June, 2016 (see **Table 4.3**). The impressive growth in the amount and the number of depositors can be ascribed to large number of M-wallet accounts mobilized by Mobilink Microfinance Bank (MMFB). During FY17, MMFB alone contributed 84.1 percent (or 7.7 million) of 9.1 million additional deposits mobilized by the MFBs.

As of June 2017, the microfinance sector comprises of 51 microfinance providers including 11 deposit taking MFBs licensed by SBP and 40 Non Bank – Microfinance Providers licensed by the Securities & Exchange Commission of Pakistan. The sector was able to extend micro-credit services to over 5.202 million low income borrowers by June 30, 2017, registering an increase of 25 percent from

Table 4.3: Microfinance Banking Indicators (Rupees in billions)

Indicators	FY16	FY17	Annual Growth
No. of Borrowers	1,700,302	2,209,237	29.9%
Gross Loan Portfolio	72.861	111.859	53.5%
Deposits	87.023	146.455	68.3%
No. of Depositors	12,781,691	21,951,479	71.7%
Equity	22.677	27.930	23.2%
Assets	133.324	203.302	52.5%
Borrowings	14.576	13.873	4.8%

Source: Agricultural Credit & Microfinance Department, SBP.

Table 4.4: Microfinance Industry Indicators

Indicators	FY16	FY17	Annual Growth
Total No. of Borrowers	4,161,247	5,202,872	25.0%
Gross loan portfolio	108.881	171.008	57.1%
Average Loan Balance (in Rs.)	26,165	32,868	25.6%

4.161 million last year. Concurrently, a growth of 57 percent (or Rs 62.127 billion) was also registered in the gross loan (micro-credit) portfolio that increased to Rs 171 billion from Rs 108.8 billion during the preceding year. The average loan balances also increased by Rs 6,703 (or 25.6 percent) to reach Rs 32,868 (see **Table 4.4**).

Box 4.6: Initiatives for Promotion of Microfinance Banking during FY17

- **Strengthening of AML/CFT Regime for MFBS:** SBP has further strengthened regulations regarding AML/CFT Regime in MFBS. MFBS are required to install Biometric Verification System (BVS) on all branches by end 2017. They shall develop a Transaction Monitoring System (TMS) by June 30, 2018 capable of producing meaningful alerts based on pre-defined parameters/thresholds for analysis and possible reporting of suspicious transactions.
- **Amendments in MFI Ordinance 2001:** The major amendments being proposed in the MFI Ordinance are:
 - Surrender of Unclaimed Deposits/electronic money with Branchless Banking to SBP as required under Section 31 of BCO 1962 and BPD Circular Letter No.21 of 2004.
 - Applicability of the Financial Institutions (Recovery of Finances) Ordinance, 2001, to MFBS.
 - Inclusion of MFBS in Banking Mohtasib's jurisdiction.
- **Prudential Regulations for MFBS** are also being amended, the major proposed amendments are:
 - Inclusion of new definitions in the Regulations
 - Inclusion of Islamic microfinance terms in the Regulations
 - Upward revision of micro credit limits for borrowers
- Facilitated the creation of *Pakistan Microfinance Investment Company (PMIC)* for providing funding to liquidity constrained MFBS and MFIs.
- A Line of Credit (LoC) is being established with the funding support of the Government of Pakistan under World Bank's Financial Inclusion Infrastructure Project. The LoC will allow MFBS to improve women and microenterprises' access to credit.

4.4 Small and Medium Enterprise Finance

The SME sector contributes significantly in economic and social development especially through employment generation and poverty alleviation. In Pakistan, the SME sector contributes 30 percent towards the country's GDP, employs more than 80 percent of the non-agricultural workforce, accounts for 35 percent of the value added in the manufacturing industry and generates 25 percent in the export earnings.

Financial sector penetration generally remains low for SMEs. 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, high transaction cost of lending and products suite that is incompatible with the SMEs' business needs. Equally important are the demand side issues which limit SMEs ability to access financial services from formal banking channels. The demand side issues include low level of financial literacy; high transaction cost and lack of proper accounts management by SMEs.

The FY17 however witnessed some positive trends in financing to SMEs, which grew by 28 percent to Rs 380 billion as at end June 2017. The number of SME borrowers also increased from 164,733 in June, 2016 to 176,847 in June, 2017 registering a growth of 7 percent. The Non Performing Loans (NPLs) ratio for SMEs also declined from 27.37 percent in June 2016 to 20.69 percent in June 2017. Further, details of initiatives taken by SBP for promotion of SME financing are given in **Box 4.7**.

Box 4.7: Major Initiatives to Promote SME Finance during FY17

- **SME Financing Targets:** SBP introduced SME financing targets for banks and DFIs for the first time in 2016. The targets assigned to banks/DFIs for CY 2016 were fully achieved and SME financing crossed Rs 400 billion as of December 2016. Share of SME financing in total private sector credit also increased from 8 percent in December 2015 to 9 percent in Dec-16 (an increase of around Rs 96 billion from December 2015 to December 2016). It is expected that SME financing portfolio will reach over Rs 500 billion by end of December 2017 as per SBP assigned targets.
- **Strengthening Secured Transactions Reform Framework:** *Financial Institutions (Secured Transactions) Act, 2016* has been approved that provides for establishment of Secured Transaction Registry Office in the country to register charge on assets especially moveable assets of borrowers, particularly, un-incorporated companies. SBP has started working with MoF and World Bank to establish the secured transactions registry in a timely manner.
- **Credit Guarantee Scheme for Small and Rural Enterprises:** Credit Guarantee Scheme (CGS) for Small and Rural Enterprises was launched in March 2010 in collaboration with UK's Department for International Development (DFID). The Scheme provides risk coverage of upto 60 percent to lending banks on their short to medium term loans to small, micro and rural enterprises. To improve the scheme's structure and usability, some important changes were introduced in January, 2017. The risk coverage increased from 40 percent to 60 percent for women borrowers, start-up businesses and small, rural and micro enterprises operating in the under-served areas of the country. Moreover, the extent of risk coverage has been linked with the level of loan collateralization. The lower the loan collateralization, the higher is the risk coverage extended under the Scheme. This will encourage banks to lend to fresh and collateral deficient borrowers. In addition, the participating financial institutions have been provided the facility of financial assistance under the Scheme, whereby they can claim 2 percent of the allocated guarantee limit against the expenditure incurred by them to target specific sectors under the Scheme.
- **Refinancing Facility for Modernization of SMEs:** It is a medium to long term financing facility provided to SME borrowers as defined in SBP prudential regulations for modernization of their existing units and setting up of new SME units to produce quality products. Under this facility, financing is available against local purchase/import of new machinery for BMR at subsidized rate for a maximum period of 10 years. To encourage banks and DFIs to increase financing under this Scheme, the spread of banks/DFIs has been increased to 4 percent against loans of all tenors under the Scheme.
- **Prime Minister Youth Business Loan Scheme (PMYBL):** Government has provided an opportunity to banks to increase their outreach and capture new SME clients/startups especially small enterprises through the PMYBL Scheme. SBP supervises this scheme and closely monitors performance of banks under this Scheme. Eighteen banks are working as PMYBL executing agencies. As of June 30, 2017, cumulative number of applications received under PMYBL was 80,991. Cumulatively, 18,443 beneficiaries had been disbursed an amount of Rs 18,483 million.
- **SME Melas:** SBP in coordination with SBP-BSC offices organized four *Melas* (Expos) during the year. The events witnessed active participation from the banking industry, SMEDA, chambers of commerce and industry and SMEs. The *Melas* provided an effective platform for interaction between the SMEs and the banking sector enabling them to better appreciate each others' stance on issues related to SME finance and resolution thereof. These Expos provided the banks an opportunity to market their SME specific financing products and better understand the needs and requirements of SMEs for bringing about further improvement.
- **Capacity Building/Training Sessions:** SBP as part of efforts to promote SMEs access to finance conducted and arranged training pertaining to SME supply chain financing, SME banking and finance, business potential of marble and granite sector, and NFAS (Non Financial Advisory Services). Moreover, to further the cause, SBP launched various SME certification courses in association with IBP. These training programs targeted credit risk managers, credit administration personnel, branch managers and relationship managers.
- **SME Web Portal:** SME web portal was established in FY 2017 with the aim of facilitating all the relevant stakeholders to access information related to SMEs from a single platform. A well diversified set of information is accessible through this web portal including policies and regulations with respect to SME finance, various SBP refinance facilities, SME related events and seminars and international publications. Efforts are being made to increase the richness of information available at the web portal.

4.5 SBP Refinance Facilities

SBP is constantly pursuing its objectives of facilitating the exporters and industrialization of the country by providing financing under its short term and long term financing schemes. Following are the initiatives taken by SBP to boost country's exports and industrialization.

4.5.1 Export Finance Scheme

The markup rate on loans under Export Finance Scheme (EFS) was brought down to 3.0 percent with effect from July 1, 2016 to facilitate exporters in enhancing exports. Three months additional period was allowed to exporters of rice and leather sectors facing problems in achieving required export performance to enable them to meet the performance under EFS Part-II for FY16. The outstanding export finance as of June 30, 2017 was Rs 237.4 billion which is 16.7 percent higher than the preceding year.

4.5.2 Long Term Financing Facility

SBP maintained mark up rate under Long Term Financing Facility (LTFF) for export oriented projects at 6 percent during FY17. The mark up rate under LTFF was further reduced to 5 percent for textile sector including spinning and ginning sub-sectors. During FY17, Rs 47.3 billion were disbursed under the LTFF as compared to 24.7 billion in the preceding year, whereas, the total outstanding financing under the LTFF as on June 30, 2017 stood at Rs 82.8 billion.

4.5.3 Other SBP Refinance Facilities

To reduce financial cost for investment in agriculture, SME and renewable energy sectors, the markup rates for following long term schemes were maintained at 6 percent p.a. during FY17:

- Financing Facility for Storage of Agricultural Produce
- Refinancing Facility for Modernization of SMEs
- Scheme for Financing Power Plants Using Renewable Energy

4.6 Housing Finance

The housing finance sector also kept its growth momentum during the year with outstanding amount of housing finance increasing by 15.5 percent to Rs 75.9 billion as at end June, 2017 from Rs 65.7 billion last year. The mortgage to GDP ratio, in Pakistan, is around 0.5 percent, which is very low when compared with other regional countries like India. Considering the low penetration of banks and FIs in the country housing finance market, the SBP has been making concerted efforts to help develop the sector through policy, regulatory and promotional initiatives.

Following major initiatives were taken during the year to promote housing finance in Pakistan.

Pakistan Mortgage Refinance Company (PMRC)

The establishment of the mortgage refinance company will provide long term funding to banks and financial institutions against their housing finance portfolio. This would address a major issue hindering the growth of primary mortgage market in the country. The PMRC would serve as a secured source of long-term funding at attractive rates for banks. It was incorporated with SECP in 2015 and its Board was also constituted. Further, the Federal Government and banks are in the process of injecting the committed equity.

Amendments in Housing Finance Prudential Regulations

To strengthen the existing regulatory framework for housing finance, market consultation was carried out and based on the stakeholder's feedback; the Prudential Regulations have been revised to facilitate the growth of the sector.

Consumer Awareness Sessions on Housing Finance for General Public

Through continued efforts of SBP, most of the financial institutions are now offering housing finance products. Furthermore, declining interest rate in Pakistan has also enhanced the affordability of mortgages. To create awareness among general public about available housing finance products, SBP during the FY 16-17 organized awareness sessions in Multan, Lahore and Rawalpindi respectively.

4.7 Infrastructure Finance and Green Banking

Infrastructure projects have recently seen increase in financing from banks and DFIs. As of June 2017, the outstanding amount against infrastructure sectors reached Rs 557.8 billion as compared to Rs 417.8 billion during the previous year, witnessing growth of 33.5 percent. Non-performing loans (NPLs) as a percentage of gross outstanding loan portfolios decreased from 3.39 percent in June 2016 to 2.46 percent in June 2017.

The Green Banking initiative, which was initiated around two years back, started maturing into a recognized activity off-shooting into a number of developmental measures during the year. The Green Banking may be seen as a model of banking that envisions reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in their policies, products, services and operations. The Green Banking has the potential to address two major concerns of Pakistan i.e. energy shortfall and climate change. Further, major initiatives taken by SBP to promote infrastructure finance and green banking during the year are given in **Box 4.8**.

Box 4.8: Major Initiatives to Promote Infrastructure Finance and Green Banking

- **Prudential Regulations for Infrastructure Project Financing:** Banks/DFIs had proposed, at different forums, to introduce a separate set of prudential regulations for infrastructure financing in line with similar regulations for SMEs, Housing and Agriculture financing. The Prudential Regulations for Infrastructure Project Financing were issued vide IH&SMEFD Circular No. 06 dated December 30, 2016. Apart from providing prudent measures to banks/DFIs in financing infrastructure, these regulations also provide incentives/ regulatory relaxations for encouraging lending to this important sector.
- **Revised SBP Financing Scheme for Renewable Energy:** The revised refinancing scheme for renewable energy was issued in June 2016. Under this Scheme, end borrowers can avail financing up-to Rs. 6 billion at a subsidized rate of 6 percent for 12 years. Financing can be availed for installation of up-to 50 MW hydro, solar, wind, biomass based renewable energy projects. Further, the scheme also incentivizes establishment of small scale renewable energy solutions of less than 1 MW. Since the issuance of this revised facility in 2016, SBP has approved financing of Rs 21.9 billion against requests for 12 renewable energy projects out of which Rs 3.65 billion has already been disbursed. The outstanding refinance under the Scheme, as of June, 2017 is Rs 3.59 billion.
- **Accreditation under the Green Climate Fund (GCF):** SBP has increased collaboration with the Ministry of Climate Change, Government of Pakistan, to explore possibility of participation of banks/ DFIs under the UN's Green Climate Fund (GCF) to attract international funding. A number of banks/ DFIs have shown interest for accreditation under the GCF. Two banks have submitted their applications for accreditation to the GCF during the year.
- **Awareness/ Training Sessions on Green Banking, Renewable Energy and Energy Efficiency Financing:** SBP organized awareness sessions on green banking, renewable energy and energy efficiency financing in major cities during the year. These sessions were attended by SBP, banks, business chambers and officials from relevant government departments.