

4 Broadening Access to Financial Services

4.1 National Financial Inclusion Strategy

In order to address challenges relating to low level of financial inclusion, SBP developed a broad National Financial Inclusion Strategy (NFIS). The same was adopted by Government of Pakistan and launched in May 2015 with a comprehensive oversight mechanism. The strategy aims to enhance formal financial access to 50 percent of the adult population by 2020. It is a well known fact that financial inclusion plays a pivotal role in promoting inclusive economic

growth by enhancing enterprise activities. SBP being the apex policy and regulatory body, has been striving to promote access to formal financial services for achieving inclusiveness, which is a prerequisite for wider distribution of the economic growth across all regions and segments of the population. In this regard, the initiatives taken under NFIS have resulted in considerable growth in different financial inclusion indicators (**Table 4.1**). It is worth mentioning that the recently published World Bank Group - Global Findex Report 2017 showed that account holders in Pakistan have grown from 13 percent to 21 percent of the adult population over a period of two years. In order to implement the strategy, a coordination mechanism was established with participation from both the public and private sector stakeholders. Major initiatives taken by SBP under NFIS are mentioned in **Box 4.1**.

Indicators	Jun 15	Jun 18	Annual Growth (Percentage)
No. of Deposit Accounts* (million)	41.7	53.1	27.3
No. of Branchless Banking Accounts* (million)	10.8	39.2	262.9
No. of ATMs**	9,597	14,019	46.1
No. of POS Machines**	41,183	53,511	29.9
No. of Bank Branches***	11,937	16,066	34.6

Source:
 *Agricultural Credit & Microfinance Department, SBP
 **Payment System Department, SBP
 ***Banking Policy & Regulations Department, SBP

Box 4.1: Initiatives under NFIS

- Asaan (Easy) Mobile Account (AMA) Scheme:** The AMA scheme was approved by NFIS Council in its meeting dated January 11, 2017. The scheme aims to facilitate account opening process in two minutes and allow transactions with a basic featured mobile phone from anywhere, at any time. Under the approved scheme, customers would remotely open Branchless Banking (BB) accounts and use all financial products and services available at AMA platform accessible through a unified USSD platform. The scheme is currently in developmental phase and it is expected that it would be launched as a pilot project with selected institutions in near future after the completion of developmental activities.
- Opening of Asaan Accounts:** To enhance the outreach of basic financial services to unbanked and underserved segments and achieve the targets set out in NFIS, SBP introduced the low risk "Asaan Accounts". The same could be opened with simplified due diligence requirements, minimum initial deposit (Rs 100) with monthly withdrawal limit of Rs 500,000 and overall deposit limit of Rs 500,000. The initiative resulted into addition of 4.4 million accounts in the banking system at end June 2018.
- Pakistan Financial Inclusion and Infrastructure Project:** The World Bank Group has approved a Financial Inclusion and Infrastructure Project valuing USD 137 million to support NFIS implementation. The Project would focus on improving market infrastructure and institutional capacity, supporting uptake and usage of digital payments and financial services, and improving access to financial services for microenterprises and SMEs (MSMEs). The project would also extend support to substantially increase access and usage of financial services by women and women-owned MSMEs.
- Pilot Project on Digital Credit for Microfinance Borrowers (Ongoing since 2016):** The Telenor Micro Finance Bank (TMFB) was allowed to evaluate feasibility for launching digital credit under close supervision of SBP.

TMFB was allowed to test and analyze digital credit particularly, its market potential and consumers' dynamics in Pakistan's context. TMFB is offering digital credit, wherein small ticket size loans (Rs 1500-3500) are offered for short tenors of 7, 15 and 30 days. The findings of this pilot project would pave the way for setting the course of action for formal launch of digital credit.

- **Digital Financial Services (DFS) – Innovation Challenge Facility (ICF):** One of the actions approved by NFIS Steering Committee is to foster innovations to develop client centric products and services. In this context, SBP has launched the ICF Guidelines for invitation of applications from key stakeholders including BB providers, FinTechs and various technological interest groups.
- **Development of credit scoring model for Micro & Small Enterprises:** SBP has initiated the process of engaging consultants and an EOI has been published in local as well as international newspapers.
- **Proof of Life in Pension Payments through Biometric Verification System (BVS):** Controller General Accounts in collaboration with NADRA is working to develop a solution for proof of life in pension payments through biometric verification system to facilitate pension payments through ADCs.
- **Financial Literacy Initiatives:** 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 financial education and awareness amongst low-income segment population, SBP took the following initiatives:
 - **National Financial Literacy Program:** SBP is implementing National Financial Literacy Program (NFLP) as its flagship program to impart basic financial education amongst low-income segment, specially, the youth and women. NFLP is a five-year program, which commenced in August 2017. During its first year of implementation, the program was successfully rolled out in 77 districts of the country through 16 SBP-BSC offices and 31 partner banks. Around 4,270 classrooms sessions were conducted during FY18 wherein around 111,020 adults have been financially educated on basic themes including savings, budgeting, investments, branchless banking, Islamic banking etc.
 - **Child and Youth Financial Literacy Program (CYFLP):** SBP launched pilot Child and Youth Financial Literacy Program in 2016 (first ever initiative) to provide basic financial education to children and youth and train them for future roles as social and economic actors. The program aims to provide a holistic learning experience that embraces knowledge and skills harnessed from both inside and outside the classroom environment. The program has engaged 200 educational institutions, while over 44,000 students enrolled in these institutions have been imparted CYLFP message, by engaging services of 450 teachers trained under this arrangement.

4.1.1 Branchless Banking

Realizing the limitations of brick & mortar retail network of banks, SBP issued BB regulatory framework in 2008, which indeed was a cornerstone to promote ADCs for fast-paced financial inclusion. SBP came forward with various interventions since the issuance of BB Regulations for developing market infrastructure, initiated policy dialogue amongst regulators and other stakeholders. In addition, SBP pushed to achieve interoperability amongst various platforms in a bid to establish a digital

financial eco-system in the country. These included issuance of (i) Rules for PSOs/ PSPs, (ii) Regulations for Mobile Banking Interoperability, (iii) Framework for BB Agent Acquisition and Management, (iv) Revision in BB Regulations (v) Asaan Account Regulations, (vi) Guidelines on

Table 4.2: Branchless Banking Indicators

Indicators	FY17	FY18*	Annual Growth (Percentage)
Number of Agents	402,710	405,531	0.70
Number of Accounts	27,312,964	39,235,924	43.65
Deposits (Rupees in million)	15,423	15,335	-0.57
Number of transactions (No. in '000')	551,543	748,605	35.73
Value of transactions (Rupees in million)	2,427,823	3,181,043	31.02
Average size of transaction (in Rupees)	4,402	4,249	-3.48
Average number of transactions per day	1,511,077	2,050,971	35.73

*Provisional Data

White Label ATM Operators and (vi) Electronic Fund Transfer Regulations. The BB channel, consisting of 12 players, is offering basic banking services besides facilitating social welfare payments and micro-insurance, exhibited encouraging growth during FY18. The number of accounts witnessed an impressive growth of 43.6 percent to reach 39.2 million from 27.3 million during FY18. The agent network grew to 405,531 shared agents, to act as financial points of presence in the vicinity of customers (**Table 4.2**).

4.2 Agricultural Finance

Agriculture financing continued to demonstrate growth momentum as disbursements grew by 38 percent during FY18 to reach Rs 972.6 billion, compared to Rs 704.5 billion in the preceding period. The financial institutions were thus able to achieve 97.2 percent of their annual indicative agriculture disbursement target of Rs 1,001 billion, set by Agricultural Credit Advisory Committee for FY18. In terms of credit demand, financial institutions were able to meet 72 percent of Rs 1,343 billion demand, which is an all-time high. Similarly, outstanding financing portfolio reached Rs 469.4 billion at end June 2018 compared to Rs 405.8 billion of corresponding period. In terms of outreach, 450,000 new borrowers were added during FY18 to increase the total number of borrowers to 3.7 million from 3.3 million of last year. The above-mentioned growth can be attributed to various initiatives taken by SBP for promotion of agriculture finance in the country. Details of some of the recent initiatives are mentioned in **Box 4.2**.

Box 4.2: Initiatives for promotion of Agriculture Financing

- **Implementation of Credit Guarantee Scheme for Small and Marginalized Farmers (CGSSMF):** CGSMF was implemented in line with the Government's budgetary announcement. The scheme aims to encourage financial institutions to lend to small farmers across Pakistan, who do not have adequate collateral (acceptable to banks) in order to meet their working capital requirements. Under the scheme, participating financial institutions have been assigned credit disbursement targets of Rs 2 billion. More than 50,000 borrowers have been financed under the scheme since its inception.
- **Support towards innovations in agricultural financing:** SBP aiming at modern and innovative agriculture finance in the country, is implementing and supporting a number of projects that ride on modern farming and financing practices. Some of these projects include:
 - **Government of Punjab e-Credit Scheme:** SBP has facilitated the Government of Punjab in designing and implementing its e-Credit scheme wherein e-Passbook and other automated land revenue records, accessible through an online portal, are used by participating financial institutions and NGOs (ZTBL, NBP, Telenor Microfinance Bank, Akhuwat and NRSP) to provide interest free loans to small farmers.
 - **Pilot project for improving farmers' productivity through use of UAV technology:** SBP in collaboration with University of Agriculture, Faisalabad (UAF) completed a pilot project wherein borrowers of participating banks (ZTBL, NBP and Faysal Bank) were provided technical advisory for crop management and yield enhancement. This was ensured by employing modern technology and quality inputs, precision agriculture processes, timely availability of funds and guidance through service providers. The information gathered through UAV technology remained beneficial for banks in assessing their portfolio quality and taking timely corrective measures where necessary. Under this project, 3,000 acres of 600 farmers of 22 villages were surveyed and proposal for scaling it up to other districts is under consideration.
- **Workshops/ Trainings/ Capacity and Awareness Building:** SBP regularly organizes various training programs and awareness sessions in order to meet demand and supply side capacity building requirements of agriculture finance stakeholders including banks and farmers. Detail of such programs is provided below:
 - **Farmers Financial Literacy Programs:** SBP has been striving to introduce credit culture amongst farmers through its flagship Farmers Financial Literacy Programs (FFLP). These programs have been beneficial in spreading financial awareness amongst the target groups. The one-day training module is specially designed for farmers to increase their understanding of banking services, credits, savings, insurance and documentary

requirements for obtaining a loan etc. By end June 2018, 38 FFLP programs have been conducted in different agriculture intensive districts across the country.

- **Training Program on Agriculture Value Chain Financing (AVCF):** In order to provide Agriculture Credit Officers (ACOs) of banks, general understanding of value chain financing and its application in banking sector, a training program was conducted in 2015. During the current year, two refresher courses in Karachi and Islamabad for the previous trainers and some new participants were conducted for enhancing their skills to train ACOs and related personnel to promote AVCF in the country.

4.2.1 Awareness Workshops on Collateral Management and Warehouse Receipt Financing

In order to apprise team leaders from banking industry regarding recent progress on the subject and to initiate a dialogue on the way forward for engagement of financial sector in advancing the agenda of Warehouse Receipt Financing in Pakistan, two workshops were arranged. The workshops provided an overview of the Collateral Management Companies (establishment and operations) Regulations, developed by SECP in consultation with SBP and other stakeholders.

4.3 Microfinance

During FY18, Microfinance Banks (MFBs) experienced impressive all-round growth. The aggregate asset base registered a rise of 35.8 percent and increased to Rs 276.1 billion. In terms of the microcredit outreach, a notable increase was witnessed as gross loan portfolio grew by 45.4 percent followed by a parallel increase of 31 percent in number of borrowers, who exceeded 2.9 million at end of FY18. Over the years, MFBs have gradually developed capacity to attract competitively priced funding representing deposits and institutional borrowings to meet their need for business and outreach expansion. During FY18, growth in MFBs' deposits remained impressive, witnessing a rise of 41.9 percent whereas aggregate deposit base surpassed Rs 207.8 billion. MFBs collectively injected fresh equity of Rs 9.2 billion, which resulted in 33 percent increase in overall equity base to reach Rs 37.1 billion at the end of FY18 (**Table 4.3**).

Indicators	FY17	FY18	Annual Growth (Percentage)
No. of Borrowers	2,209,237	2,893,994	31
Gross Loan Portfolio	111.859	162.6	45.4
Deposits	146.5	207.8	41.9
No. of Depositors	21,951,479	22,669,333	3.3
Equity	27.9	37.1	33
Assets	203.3	276.1	35.8
Borrowings	13.9	13.8	-0.7

At the close of FY18, the microfinance industry (including MFBs and Non-Bank Microfinance Companies, NB-MFCs) witnessed growth of 24.1 percent thereby enhancing outreach to around 6.5 million borrowers. Concurrently, an increase of 39.9 percent was registered in terms of aggregate microcredit portfolio.

The NB-MFCs continued to serve a larger number of borrowers (55.2 percent), while MFBs took lead in terms of the aggregate value of loans (67.9 percent). The industry wide average outstanding loan balance increased to Rs 37,043, however, the balance of loans offered by MFBs (Rs 56,182) continued to be higher to those offered by their non-banking contestant (Rs 21,529) (**Table 4.4**).

Indicators	FY17	FY18	Annual Growth (Percentage)
Total No. of Borrowers	5,202,872	6,460,015	24.1
Gross Loan Portfolio	171	239.3	39.9
Average Loan Balance (in Rupees)	32,867	37,043	12.7

Box 4.3: Initiatives for Promotion of Microfinance during FY18

- **Prudential Regulations (PRs) for MFBs:** The PRs were amended to enhance outreach of micro finance services for the benefit of under served and marginalized segments. So far, in response to the market demand to upscale micro-credit ceilings, the maximum loan size for micro enterprises has been enhanced up to Rs 1 million through revision in PR-5 for MFBs vide AC&MFD Circular No. 03 dated December 22, 2017. Further, borrower's (micro-entrepreneur's) aggregate exposure has also been enhanced under PR-6 for MFBs. Moreover, six MFBs have been allowed to extend micro enterprise loans up to Rs 1 million. The enhanced loan limits have enabled MFBs to adequately cater to micro enterprises and the cottage industry's needs for credit that are traditionally referred to as the missing middle.
- **Line of Credit (LoC):** This facility has been designed by SBP with the support of GOP under World Bank Group's Financial Inclusion and Infrastructure Project. The intervention aims to address funding constraints of MFBs and NB-MFCs for onward lending to micro finance borrowers. LoC would also be made available to Non- Bank Finance Companies for extending wholesale lending to MFBs and NB-MFCs.¹¹

4.4 Small and Medium Enterprise Finance

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

4.4.1 Policy for Promotion of SME Finance

Being cognizant of the important role played by small and medium enterprises (SMEs) in economic development and employment generation, SBP has been making continuous efforts to create an enabling and facilitating financial environment for SME sector of Pakistan. Improving financial inclusion of this sector is one of the priority areas of SBP and various initiatives have been taken to attain the same. In this context, Prime Minister of Pakistan launched a comprehensive initiative i.e., 'Policy for Promotion of SME Financing' on December 22, 2017.

The policy covers a wide range of areas with focus on initiating necessary measures for enhancing SMEs' access to credit. The policy has been prepared by SBP in consultation with relevant stakeholders including Federal and Provincial Governments, banks and DFIs, chambers and trade associations, SMEDA, multilateral institutions and SMEs. It is envisioned that effective implementation of this policy would help to enhance the share of SME financing in total private sector credit from 8.8 percent in September 2017 to 17 percent by December 2020. Similarly, it aims to increase the number of borrowers to 500,000 by December 2020.

Box 4.4: Nine Pillars of the Policy for Promotion of SME Finance

Pillar-1	Improving Regulatory Framework
Pillar-2	Upscaling of MFBs
Pillar-3	Risk Mitigation Strategy
Pillar-4	Simplified Procedures for Small Enterprise (SE) Banking
Pillar-5	Program based Lending and Value Chain Financing
Pillar-6	Capacity Building and Awareness Creation
Pillar-7	Handholding of SMEs-Non Financial Advisory Services
Pillar-8	Leveraging Technology to Promote SME Financing
Pillar-9	Simplification of Taxation Regime

SBP took the following regulatory measures for promotion of SMEs under this policy as mentioned in **Box 4.5**.

¹¹ AC&MFD Circular No. 01 of 2018

Box 4.5: Regulatory Measures for Promotion of SME Finance during FY18

- General reserve requirement against unsecured small enterprise financing has been reduced to 1 percent from 2 percent, while general reserve requirement against secured portfolio has been withdrawn. Further, the requirement to obtain insurance for up to Rs 2 million has been made optional for SME financing.
- Banks have been provided relaxation with reference to capital allocation against SME financing. By increasing the existing upper limit for retail exposure to Rs 125 million from Rs 75 million, banks can now apply preferential risk weight of 75 percent to retail loans up to Rs 125 million.
- For simplifying loan application process, uniform loan application forms for SMEs have been prepared and circulated amongst all banks through Pakistan Banks Association. Accordingly, requirement of BBFS has been withdrawn by SBP. Moreover, turn-around time for small enterprise loans is reduced to 15 working days and to 25 working days for the medium enterprise loans after receipt of complete information.
- Through its refinance facility, SBP is now offering concessional working capital financing to small and low-end medium enterprises in certain priority sectors.
- Inability to provide sound collateral acts as a major impediment for SMEs to access formal channels of financing. SBP has undertaken the project of establishing a Credit Guarantee Company to address the same to provide risk coverage to financial institutions against their lending to SMEs. This would augment the current risk sharing facility offered by SBP through its Credit Guarantee Scheme.
- To enable un-incorporated SMEs to use moveable assets as collateral, SBP is facilitating establishment of an electronic registry under Financial Institutions (Secured Transaction) Act, 2016.
- As SMEs provide linkages amongst corporate entities, SBP has emphasized on value chain financing in its policy. In this regard, SBP would assign targets for value chain financing to banks.
- Capacity building of both SMEs and banks is one of the priority areas of SBP's policy on promoting SME finance. In this context, NIBAF would conduct around 100 programs per year on SME related areas and SBP-BSC would conduct 150 awareness creation programs per annum for trade associations, chambers of commerce, small businesses etc. NIBAF conducted 60 training programs and SBP-BSC conducted 60 awareness sessions till end June 2018. In addition, Deputy Governor and Executive Director (DFG) also conducted 15 awareness programs on SME financing.
- To provide a complete solution to SMEs, SBP has instructed banks to provide Non-Financial Advisory Services to SMEs. These services would enable SMEs to effectively/ professionally manage different aspects of their businesses.
- Being aware of the important role played by technology in every sphere of life, SBP has encouraged banks to effectively use technology and branchless banking for promotion of SME financing through digital credit, client profiling and payment solutions etc.
- Reluctance of small businesses to be included in tax net is a major issue faced by tax authorities. In this regard, SBP has shared recommendations with FBR to resolve taxation issues of SMEs.

4.4.2 SME Finance Targets

SBP assigned SME finance targets to banks and DFIs for the first time in 2016 and the same were fully achieved. SBP has now set SME finance target of more than Rs 1 trillion for the banks/ DFIs to be achieved by end 2020. For CY18, banks have been assigned SME financing target of Rs 685 billion. Outstanding SME credit portfolio of banks and DFIs stood at Rs 416.2 billion at end June 2018. On a YoY basis (FY17 to FY18), incremental financing of Rs 30 billion was offered to SME sector thereby showing growth of 8 percent in total SME portfolio.

Islamic SME finance targets were also introduced in 2016 to bring Islamic Banking Institutions (IBIs) to SME finance arena and support the sector through Shariah-compliant modes of financing. IBIs

were assigned SME financing targets of Rs 65 billion to be achieved by the end December 2017, however, IBIs reported a portfolio of Rs 42 billion. For CY18, IBIs have been assigned SME finance target of Rs 88 billion whereas IBIs have reported Rs 31 billion as outstanding Islamic SME finance at end June 2018. It is expected that the banks would increase their Islamic SME finance portfolio up to Rs 199 billion (17 percent of total SME finance portfolio) by end December 2020.

SBP advised banks/ DFIs in 2017 to bifurcate the assigned overall target to the regions across the country. Subsequently, SBP assigned provincial targets to overcome prevailing regional disparities and diversify prevalent risks to strengthen SME finance portfolio.

4.4.3 SBP Refinance Schemes for SMEs

SBP is continuously striving to support SME sector to enable them to play a meaningful role in overall development of the country. Certain steps taken by SBP in this context are mentioned as under:

- **Credit Guarantee Scheme for Small and Rural Enterprises:** This scheme was launched in 2010 in collaboration with United Kingdoms' Department for International Development. The scheme provides risk coverage up to 60 percent to lending banks on their short to medium term loans to small, micro and rural enterprises and women borrowers. In April 2018, scope of the scheme was broadened through inclusion of low-end medium enterprises as eligible entities under the scheme.
- **Refinancing Facility for Modernization of SMEs:** It is a medium to long-term financing facility, provided to SME borrowers for modernization of their existing units and for setting up new SME units. Financing is provided against local purchase/ import of new machinery for BMR at subsidized rates for a maximum period of 10 years. To encourage banks and DFIs to increase their efforts to increase financing, their spread has been increased to 4 percent against loans of all tenors under the scheme while the end user rate has been maintained at 6 percent.
- **Prime Minister Youth Business Loan Scheme (PMYBL):** GOP provided an opportunity to the banks to increase their outreach and capture new SME clients/ startups specially SEs through PMYBL Scheme. SBP supervises this scheme and closely monitors performance of the banks. Eighteen banks are working as executing agencies and outstanding portfolio stood at Rs 25,132 million at end June 2018, extended to 25,128 beneficiaries.
- **Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Under served Areas and Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises:** Given the price sensitive nature of SMEs, low cost sources of funds can be instrumental in establishment and growth of such firms, enabling them to ascend to larger entities. Resultantly, one of the major initiative taken by SBP to enhance financial inclusion of SMEs is by offering low cost financing through its refinance schemes. During FY18, SBP launched 'Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Under served Areas' and 'Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises'. Financing is available to women entrepreneurs at the rate of 5 percent with SBP's refinance rate kept at zero percent under the facility whereas risk coverage of 60 percent is also available to facilitate the lending banks. Refinance scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises aims to finance working capital requirements of small and low-end medium enterprises operating in few selected priority economic sectors. The end user rate under the scheme has been kept at 6 percent with banks'

spread at 4 percent. Short-term loans of up to one year are available to eligible sectors under the scheme.

4.5 SBP Refinance Facilities

SBP is consistently supporting exporters/ industrial growth by providing financing under its short term and long term facilities. Following initiatives have been taken by SBP to enhance exports:

4.5.1 Export Finance Scheme

The markup rate on financing under Export Finance Scheme (EFS) was maintained at 3 percent to facilitate exporters. Moreover, to support rice and leather exporters who were facing issues in making exports, three months' additional export performance period was provided under EFS Part-II for FY17. The outstanding export finance was Rs 281.4 billion at end June 2018, i.e., 18.5 percent higher over the corresponding period.

4.5.2 Long Term Financing Facility

SBP maintained markup rate under Long Term Financing Facility (LTFF) for export oriented projects at 6 percent during FY18 whereas 5 percent was kept for Textile Sector including Spinning and Ginning Sectors. During FY18, Rs 41.7 billion was disbursed under LTFF whereas total outstanding financing under LTFF stood at Rs 114 billion at end June 2018.

4.5.3 Islamic Long Term Financing Facility (ILTFF)

In order to provide Shariah compliant alternative of conventional Long Term Financing Facility, SBP issued ILTFF vide IH&SMEFD Circular No. 01 of 2018. ILTFF would provide faith sensitive exporters an opportunity to avail long-term refinance facility of SBP on concessional basis for the purchase of imported and locally manufactured new plant and machinery from eligible Islamic banking institutions. This initiative would facilitate exporters to establish new export oriented projects or undertake BMR for existing units, thereby playing a key role in increasing exports from Pakistan.

4.5.4 Master Circular on Long Term Financing Facility for Plant and Machinery

The Long Term Financing Facility for plant and machinery was introduced in 2007 to encourage capital investment in export-oriented sectors. The facility provides long-term concessionary financing to exporters for installation of new plant and machinery in eligible sectors. Various amendments were made in the scheme since inception, including expansions in scope and allowing financing to new export oriented projects based on projected export sales. In order to standardize these amendments for convenience of stakeholders, a master circular was issued on June 28, 2018, containing updated and consolidated instructions. Key features of the master circular are mentioned as under:

- Financing under the scheme is available to exporters at a concessionary rate of 6 percent for up to 10 years including a grace period of 02 years. The mark-up rate is further reduced to 5 percent for textile sector
- New projects are required to meet minimum export target prescribed under LTFF within a maximum period of four years from the date of grant of refinance from SBP-BSC
- In order to monitor exporter's performance under the scheme, banks/ DFIs are required to furnish data on sales/ exports on prescribed format to the concerned office of SBP-BSC
- An elaborate scale of penalties has been prescribed for borrowers/ exporters, failing to show required export performance

4.6 Housing Finance

The housing finance sector of Pakistan continued its growth momentum. The outstanding reported portfolio of banks and DFIs (including HBFCL) stood at Rs 88.2 billion at end June 2018 with an increase of Rs 12.3 billion (16.2 percent) over the preceding year.

Despite noticeable growth in size of portfolio, the mortgage (including banks' staff loans) to GDP ratio, in Pakistan, is still around 0.5 percent, which is low compared to not only developed economies but also to regional developing economies of India and Bangladesh. Considering the low penetration of banks and DFIs in housing finance market, SBP has been making efforts to help develop the sector through regulatory and promotional initiatives. The major initiatives taken by SBP in this context are given in **Box 4.6** below:

Box 4.6: Major Initiatives to Promote Housing Finance

- **Policy for Promotion of Low Cost Housing Finance:** In order to facilitate and encourage smooth supply of long-term affordable housing finance to low income segments, SBP developed a policy for promotion of low cost housing finance in Pakistan. The policy consists of various pillars, focuses on regulatory incentives, risk mitigation mechanism for financial institutions and mechanism to address the issue of affordability for low-income borrowers. Comments on policy are being solicited from the public and it is expected to be issued soon.
- **Support to PMRC:** Pakistan Mortgage Refinance Company (PMRC) has been established with the equity support from GOP and a number of banks. SBP issued commencement of business certificate to PMRC and allowed certain regulatory exemptions. The entity has been notified as a Development Finance Institution by the Federal Government and the World Bank Group has approved USD 140 million credit line for PMRC. It is expected to commence its operations shortly.

4.7 Infrastructure Finance

Infrastructure projects have recently seen increase in financing from banks and DFIs. The outstanding credit balance against infrastructure projects reached Rs 698.3 billion at end June 2018 as compared to Rs 557.8 billion during preceding period, thus witnessing a growth of 25.2 percent. Non-performing loans as a percentage of gross outstanding portfolio decreased to 2.1 percent in June 2018 from 2.4 percent in June 2017.

4.8 Green Banking

The Green Banking is seen as a paradigm shift from usual banking. It envisions reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in credit policies, products, services and operations. The Green Banking acknowledges significance of the role of financial sector in transformation of economy towards a low carbon and climate resilient one. The SBP's Green Banking initiative is based on the premise that banks and DFIs can play a role for sustainable development of economy by initiating measures to reduce impact on environment and influence their clients to comply with environmental regulations.

Major initiatives taken by SBP to promote green banking during FY18 are given in **Box 4.7** below:

Box 4.7: Major Initiatives to Promote Green Banking

Green Banking Guidelines: In order to underscore the responsibilities of banks towards a sustainable economic development, SBP issued Green Banking Guidelines as paradigm shift from normal business behavior. The Guidelines provide holistic guidance and a level playing field for all banks/ DFIs. The Guidelines are designed to induce modifications and improvements in the following three areas:

- **Risk Management** for increasing financial stability through management and mitigation of environmental exposures of financing portfolio
- **Business Facilitation** for fostering development of 'green' market through actively tapping the emerging viable business opportunities of financing to clean energy and resource efficiency projects
- **Own Impact Reduction** for potential re-engineering of internal operations and procedures with a view to reduce own impact on environment and society

Scheme for Financing Power Plants Using Renewable Energy: SBP introduced a special scheme for Financing of Renewable Energy in June 2016. Borrowers can avail financing up to Rs 6 billion under the scheme at a subsidized rate of 6 percent for a maximum period of 12 years to install hydro (maximum 50MW), solar, wind, bagasse and other renewable energy projects. Further, the scheme also incentivizes establishment of small-scale renewable energy solutions of less than 1 MW to promote renewable energy usage amongst consumers. The outstanding loans to 13 renewable energy projects stood at Rs 8.5 billion at end June 2018.