

## 4 Broadening Access to Financial Services

### 4.1 National Financial Inclusion Strategy (NFIS)

SBP is pursuing financial inclusion as one of its strategic objectives to promote inclusive economic growth in the country. The stated vision for financial inclusion in Pakistan is to improve the access and usage of quality financial services amongst individuals and firms, with dignity and fairness. In this regard, SBP adopted a comprehensive NFIS, in 2015. Under the NFIS, Pakistan is pursuing a target of ensuring 50 percent adult population to be financially included by 2020 from the level of 23

percent determined under Access to finance Survey 2015. Further, the broader objective is to achieve universal financial inclusion by promoting digital financial services and increasing priority sector lending like agriculture, SME, Islamic banking and low cost housing finance.

NFIS has made significant developments in terms of creating enabling legal and regulatory environment; financial markets and infrastructure developments; innovative products & services, new ADCs and capacity building and awareness initiatives. As a result, the account ownership in Pakistan has increased to 21 percent from 13 percent since 2014 (WBG Global Findex Report 2017). Regarding progress in priority sector lending, all the sectors have showed positive growth in terms of credit disbursement and outreach (**Table 4.2**).

Major initiatives taken by SBP under NFIS are mentioned in **Box 4.1**.

**Table 4.1: Financial Inclusion Indicators**

Indicators	Jun 15	Jun 19	Growth (Percentage)
In terms of outreach			
No. of Deposit Accounts (million)	41.7	54.7	31.2
No. of Branchless Banking Accounts (million)	10.8	35.7	230.6
Bank Deposits (Rs in billions)	9,153	13,961	52.5
In terms of payment Infrastructure			
No. of ATMs	9,597	14,722	53.4
No. of Bank Branches*	11,937	16,864	41.3
No. of POS Machines	41,183	56,911	38.2

\*including Microfinance Bank Branches

Source: Agricultural Credit & Microfinance Department, SBP.

**Table 4.2: Sectoral Progress**

Sector	Item	Baseline FY 15	FY19	Change (Percentage)
Agriculture	Credit disbursement (Rupees in billion)	515.9	1,174	127.5
Finance	No. of outstanding borrowers (million)	2.2	4	81.8
Microfinance (MFBs)	Gross Loan Portfolio (Rupees in billion)	45.5	207.5	356
	No. of outstanding borrowers (million)	1.3	3.49	168.4
SME Finance	Outstanding Portfolio (Rupees in billion)	266	464.8	74.7
	No. of outstanding borrowers	152,534	183,606	20.3

#### Box 4.1: Initiatives under NFIS

- Asaan (Easy) Mobile Account (AMA) Scheme:** Under the NFIS platform, SBP developed the AMA Scheme, which provides 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 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. The scheme is currently in developmental phase and it is expected that it would be launched on pilot basis with selected institutions to validate the solution in live environment.

- **Rationalization of NADRA's verification Cost for Micro Insurers:** In order to facilitate mass enrollment of micro insurers, NADRA has reduced the verification cost to Rs 10/- in line with the facilitation provided to Branchless Banking (BB) providers to meet KYC requirements on opening of BB accounts.
- **Interoperability of BB Agents:** For making BB services accessible for customers in a simple and convenient manner, a solution named IID has been developed by 1-Link. Under the solution, the BB customers through biometric verification can deposit and receive cash at any BB retail outlet or any ATM irrespective of its brand. The solution has formally been launched on September 26, 2018 and around 17 banks have joined the scheme.
- **Digital Financial Services (DFS) – Innovation Challenge Facility (ICF):** In order to develop client centric digital financial services, a DFS challenge facility has been set-up to encourage BB players, Fintechs and other related institutions to develop/ test new or expand existing financial products, services and delivery platforms in the sphere of DFS. The facility was launched in May 2018 to accept and pilot test the unique proposals on innovative DFS solutions. In terms of progress on implementation, currently, three proposal, duly approved by the Evaluation Committee are in implementation process.
- **Study on Identification of Issues/Challenges in Digitization of G2P & P2G Payments:** To understand the issues/ challenges and highlight the opportunities to digitize G2P and P2G payment process flows in key Government Departments, a study is being carried out through a third party consultant. The study will provide a roadmap to automate systems/ processes of Government Departments to facilitate digital payments.
- **Women's Financial Inclusion:** Women's financial inclusion is a key priority and a cross cutting theme in NFIS. To bring more focus towards this area, the NFIS Secretariat developed a draft Gender Mainstreaming Policy Framework in consultation with Banking Policy and Banking Supervision Groups to prioritize gender-specific focus in the financial sector. The framework aims to introduce a gender lens within the financial sector through various pillars to enable a shift towards women friendly business practices.

## 4.2 NFIS 2023 Action Plan

Though substantial progress has been made in terms of account ownership, usage in such accounts remained low. Likewise, the availability of credit to agriculture sector has improved but credit to SMEs and housing remained stagnant. Regional and gender based disparities in financial inclusion have started to show improvements. However, efforts are needed to bridge the gaps on national level.

GoP has prioritized NFIS as part of its 100-days agenda to address these gaps going forward and set following headline targets to be achieved by 2023:

- Enhance usage of Digital Payments (65 million active digital transaction accounts, with gender segregation of 20 million accounts by women)
- Enhance Deposit Base (Deposit to GDP ratio to 55 percent)
- Promote SME Finance (extend finance to 700,000 SMEs and 17 percent of the private sector credit)
- Increase Agricultural Finance (serve 6 million farmers through digitalized solutions and enhance annual disbursement to Rs 1.8 trillion)
- Enhance share of Islamic Banking (25 percent of the banking industry and increase branches of Islamic Banks to 30 percent of the banking industry)

In order to achieve the targets, a comprehensive action plan has been developed after detailed industry wide consultation/ analysis whereby specific timelines and responsibilities have been allocated against each target. The action plan, duly endorsed by Economic Advisory Committee's (EAC) Sub-Committee, was approved by the honorable Prime Minister of Pakistan on November 29, 2019 for implementation.

Further, in order to ensure smooth and timely implementation of the NFIS action plan, a revised governance structure has been devised which is more focused towards implementation and assigns responsibilities to leading agencies. NFIS Council has been transformed into NFIS Policy & Implementation Council as an independent body, reporting directly to the Prime Minister. Further, a NFIS Coordination & Transformation Office will be set up at Prime Minister office to facilitate digitalization of Government departments and act as a trouble shooter for NFIS implementation, while SBP will continue to serve as the Secretariat.

### 4.3 Agriculture Finance

Agriculture financing continued to demonstrate growth momentum as disbursements crossed Rs 1 trillion mark for the first time to reach Rs 1,174 billion in FY19; 21 percent higher than the disbursement of Rs 973 billion of FY18. The financial institutions were

**Table 4.3: Agricultural Credit Targets and Disbursement**

Banks	FY19			FY18			Percentage YoY
	Target	Disbursed	Percentage Achieved	Target	Disbursed	Percentage Achieved	
5 Big CBs	651	653.5	100.4	516	523.9	101.5	25
ZTBL	100	71.5	71.5	125	83.2	66.5	(14)
PPCBL	13	9.7	74.4	15	10.7	71.5	(10)
DPBs (14)	245	211.9	86.5	200	184.9	92.4	15
IBs (5)	50	39.4	78.8	20	16.4	82.0	140
MFBs (11)	156	154.0	98.7	100	124.8	124.8	23
MFI/RSPs	35	34.0	97.1	25	28.8	115.0	18
<b>Total</b>	<b>1,250</b>	<b>1,174.0</b>	<b>93.9</b>	<b>1,001</b>	<b>972.6</b>	<b>97.2</b>	<b>21</b>

Source: Agricultural Credit & Microfinance Department, SBP.

thus able to achieve 94 percent of their annual indicative agriculture disbursement target of Rs 1,250 billion, set by Agricultural Credit Advisory Committee for FY19. In terms of credit demand, financial institutions were able to meet 77 percent of Rs 1,519 billion demand, which is an all-time high. Outstanding financing portfolio also increased during the year to reach Rs 562.4 billion at end June 2019 compared to Rs 469.4 billion of corresponding period. Further, the outreach in terms of number of agricultural borrowers increased to 4.01 million with growth of 8 percent during FY19 compared with 3.72 million borrowers during FY18. The group wise performance is shown in **Table 4.3**.

The above-mentioned growth can be attributed to various initiatives taken by SBP for promotion of agriculture finance in the country. Detail of some of the initiatives is 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. Since its inception in 2016, more than 85,000 borrowers have benefitted from the scheme.
- **Government of Punjab E-Credit Scheme:** SBP facilitated the Government of Punjab (GoPB) in designing and implementation of the GoPB E-Credit scheme wherein E-Passbook and other automated land revenue records,

accessible through an online portal, are being used by participating financial institutions (ZTBL, NBP, Telenor Microfinance Bank, Akhuwat and NRSP) to provide interest free loans to small farmers. Since its inception in Rabi season FY17, total loan amount of around Rs 36 billion has been disbursed to 559,512 farmers.

- **Workshops/ Trainings/ Capacity & 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. These training programs including Farmers Financial Literacy Programs and awareness sessions on areas like Agricultural Value Chain Financing, Warehouse Receipt Financing, Shariah based agricultural financing etc.

#### 4.4 Microfinance

During FY19, Microfinance Banks (MFBs) witnessed a growth of 27.6 percent in microcredit portfolio to reach Rs 207.5 billion as against Rs 162.6 billion at the end of same period last year. Similarly, the number of MFB's microcredit borrowers recorded an increase of 20.5 percent and exceeded to around 3.5 million by the end of FY19.

During the period under review, MFBs collectively injected fresh equity exceeding Rs 10 billion, which resulted in 27 percent increase in overall equity base that reached Rs 47.2 billion at the end of FY19 from Rs 37.1 billion in FY18. Concurrent growth was also witnessed in MFBs' deposits that reached Rs 248.8 billion, after registering a growth of 19.8 percent (or Rs 41 billion). The number of depositors exceeded 34 million over the year from 22.7 million registering an impressive 51.4 percent growth in outreach of deposit services (**Table 4.4**).

As the FY19 concluded, a panoramic view of Pakistan's microfinance industry reveals that microfinance providers included eleven microfinance banks and MCB-Islamic Bank besides Non-Bank Microfinance Companies (NB-MFCs). The industry registered 22.7 percent growth in aggregate microcredit portfolio, which grew by Rs 54.3 billion to reach Rs 293.6 billion at end June 2019 from Rs 239.4 billion of preceding period. Similarly, the number of borrowers also grew by 10.6 percent (7.1 million) at end June 2019.

The NB-MFCs continued to serve a larger number of borrowers (51.2 percent), while MFBs took lead in terms of the aggregate value of loans (70.7 percent). The industry-wide average outstanding loan balance

increased to Rs 41,121, however, average outstanding loan offered by MFBs (Rs 59,528) continued to be on a higher side when compared with their non-banking counterparts (**Table 4.5**).

**Table 4.4: Microfinance Banking Indicators (Rupees in billions)**

Indicators	FY18	FY19	Annual Growth (Percentage)
No. of Borrowers	2,893,994	3,485,757	20.4
Gross Loan Portfolio	162.590	207.500	27.6
Deposits	207.760	248.809	19.7
No. of Depositors	22,669,333	34,327,968	51.4
Equity	37.137	47.176	27
Assets	276.102	350.139	26.8
Borrowings	13.839	27.329	97.4

Source: Agricultural Credit & Microfinance Department, SBP.

**Table 4.5: Microfinance Industry Indicators**

Indicators	FY18	FY19*	Annual Growth (Percentage)
No. of Borrowers	6,460,015	7,142,247	10.6
Gross loan portfolio	239.364	293.695	22.7
Average Loan Balance (in Rs)	37,053	41,121	11

Source: PMN MicroWatch, Issue 48 & 51)

**Box 4.3: Initiatives for Promotion of Microfinance**

- **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regime for MFBs** was further strengthened to comprehensively mitigate various risks arising from money laundering and financing of terrorism. The revised regulations provide guidance in a number of new areas besides further aligning the framework with Financial Action Task Force (FATF) Recommendations in view of the emerging trends and risks. The intervention enhanced MFBs' capacity to deter against threats of ML and TF.
- **Relief in Taxation Regime** was provided by the Federal Government in line with SBP's proposal, vide Second Supplementary Finance Bill FY19. As per the announcement, with effect from July 01 2019, a reduced rate of taxation at 20 percent (instead of 35 percent) will be applied on interest income of Banking Companies from additional advances to micro, small and medium enterprises; low cost housing finance and farm credits for four years (from Tax Year 2020 to 2023) subject to fulfillment of certain conditions. This would further encourage MFBs to extend credit to priority sectors.<sup>1</sup>
- **Enhancement of lending limits under 'Housing Finance' for MFBs** was made by increasing the maximum loan size from Rs 0.5 million to Rs 1 million. Moreover, the restriction to maintain 60 percent of housing portfolio within the loan limit of Rs 0.25 million has also being removed. MFBs have been advised to develop related institutional capacity and appropriate mechanisms for monitoring the housing finance exposure.
- **Relief to adversely affected borrowers in eight calamity affected Districts of Sindh** namely Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin and Kamber Shahdad Kot was provided by encouraging Microfinance Banks to undertake all possible measures in line with Prudential Regulation R – 9 'Rescheduling/ Restructuring of Loans.

**4.5 Branchless Banking**

SBP issued regulatory framework for BB in 2008 in order to promote ADCs for fast-paced financial inclusion. The BB landscape in Pakistan includes 13 players that offer basic banking services such as cash in/out, utility bills payment, fund transfers, inward remittances, mobile top-ups besides facilitating social welfare payments and micro insurance.

**Table 4.6: Branchless Banking Indicators**

Indicators	FY18	FY19
Number of Agents	405,571	421,053
Number of Accounts	39,246,468	35,730,704*
Active Accounts	21,815,840	22,044,942
Deposits as of date (Rs in millions )	15,345	25,664
Number of transactions (No. in '000')	748,640	1,116,266
Value of transactions (Rs in millions)	3,183,571	4,128,868
Average size of transaction (in Rs)	4,252	3,699
Average number of transactions per day	2,051,068	3,058,262

\*decline witnessed in total accounts due to closure of inactive accounts

During FY19, all key BB indicators exhibited promising growth, which shows that the digital channel is gradually making inroads in the previously excluded segments of society to provide an easier access to basic financial services. During the period under review, the number of active accounts increased to 22.04 million from 21.8 million. BB deposits grew to Rs 25.6 billion from Rs 15.3 billion; whereas 1,116 million transactions involving 4.12 trillion were conducted through the BB channel during this period.

**4.5.1 Capacity Building of Branchless Banking Agents**

SBP initiated capacity building of BB agents on nationwide scale. In Phase-1 of the project, 73 bank officials were trained as trainers. SBP has now launched Phase-2 of this project, under which the

<sup>1</sup> TIIIE Gazette of Pakistan, Extra., March 11, 2019 Part-I

trained bank officials will further impart training to 10,000 unique BB agents during FY20. This project is expected to enhance the capacity of BB agents through classroom training.

#### **4.6 Small and Medium Enterprise Finance**

Small and Medium Enterprises (SME) sector is playing an important role in the economic development of Pakistan. More than 90 percent of total enterprises in Pakistan are SMEs, which are employing more than 80 percent of non-agricultural workforce and generating 25 percent of export earnings. SME sector has huge potential for employment generation and poverty alleviation. However, banks are reluctant to lend to SME sector due to perceived riskiness of the sector, high transaction cost, lack of bank products matching business needs of SMEs and low level of financial literacy. SBP has taken following initiatives in order to promote SME financing:

##### **4.6.1 SME Finance Targets**

Banks/ DFIs were assigned outstanding SME finance target of Rs 898 billion for CY 2019. Banks/ DFIs have achieved outstanding SME finance of Rs 464.85 billion at end June 30, 2019, showing YoY growth of 12.8 percent in total SME finance outstanding portfolio.

##### **4.6.2 Strengthening Secured Transactions Framework in Pakistan**

SBP is assisting Finance Division, GoP in establishing a Secured Transactions Electronic Collateral Registry (STCR). The establishment of STCR is aimed at helping SMEs to secure loans from financial institutions by using their movable assets as collateral since this registry will allow banks to create charge on movable assets of non-incorporated entities.

##### **4.6.3 Establishment of Pakistan Credit Guarantee Company**

In order to provide risk sharing facility to banks on their lending to SMEs and thus facilitating SMEs access to finance, a dedicated Pakistan Credit Guarantee Company has been established. The company has been incorporated with SECP and will be operational by December 31, 2019.

#### **4.7 SBP Refinance Schemes for SMEs**

##### **4.7.1 Refinancing Facility for Modernization of SMEs**

Medium to long term financing facility for modernization of existing SME units and setting up of new SME units to produce quality products is in place. Keeping in view the increasing demand of Islamic banking, Shariah compliant alternative of this scheme has also been launched.

##### **4.7.2 Refinance and Credit Guarantee Scheme for Women Entrepreneurs**

In order to enable women entrepreneurs to avail affordable financing of up to Rs 1.5 million at 5 percent, SBP in April, 2019 expanded scope of the scheme by covering all the districts of the country. Moreover, 60 percent risk coverage is also available to the participating institutions.

##### **4.7.3 Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons**

In order to improve the socio-economic life of the special persons in the country, SBP launched a “Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons”. SBP’s refinance rate has been kept at zero percent and financing will be extended at 5 percent by financial

institutions with a 60 percent risk coverage.

#### **4.7.4 Awareness Creation and Capacity Building**

Training and capacity building is one of the key pillars of SBP policy for promotion of SME finance. Since 2018, NIBAF the training arm of SBP, has conducted over 100 training programs for SME bankers. Besides, SBP and SBP-BSC have also conducted around 200 awareness sessions for SMEs across Pakistan from January 2018 to June 2019. Similarly, bank's are also conducting awareness sessions for the SMEs.

### **4.8 SBP Refinance Facilities**

SBP is continuously making efforts for priority sector financing and development of the economy. It provides short and long-term refinance facilities to export oriented industries and SMEs sector through banks/ DFIs to promote exports as well as to facilitate development of priority sectors. SBP provides following financing facilities to the exporters through financial institutions.

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

EFS is a short-term working capital financing facility to incentivize exporters. Financing under EFS is available at concessional rate of 3 percent. The outstanding export finance at end June 30, 2019 was Rs 379 billion, which is 35 percent higher than the previous year.

#### **4.8.2 Long Term Financing Facility (LTFF/ Islamic LTFF)**

LTFF/ Islamic LTFF is a long-term facility to promote export oriented industrial development. The per project limit under LTFF/ Islamic LTFF has been increased from Rs 1.5 billion to Rs 2.5 billion in April 2019. At end June 2019, outstanding finance under LTFF/ ILTFF increased by 38 percent on YoY basis from Rs 114 billion to Rs 157 billion.

#### **4.8.3 Islamic Financing Facility for Storage of Agriculture Produce (IFFSAP)**

To provide Shariah compliant scheme, SBP introduced Islamic Financing Facility for Storage of Agricultural Produce in February 2019. IFFSAP will allow the customers to avail long term facility from the Islamic Banking Institutions (IBIs), for the establishment, expansion and BMR of Steel/ Metal/ Concrete Silos, Warehouses and Cold Storage facilities for storing agricultural produce.

### **4.9 Housing Finance**

The combined volume of outstanding housing finance from banks and House Building Finance Company Limited stands at Rs 101.3 billion at end June 2019 as compared to Rs 88.2 billion of preceding period showing a growth of 17.6 percent. Despite noticeable growth in size of portfolio, the mortgage to total private sector advances ratio, in Pakistan, is still around 1.7 percent.

The major initiatives taken by SBP during the period to increase penetration of banks and FIs in housing finance are mentioned as under:

#### **4.9.1 SBP's Low Cost Housing Finance Policy**

On March 11, 2019, SBP announced low cost housing finance policy that covers regulatory relaxations to banks/DFIs, introduction of housing finance targets to banks and subsidized fixed rate

financial facility for low cost housing for special segments.

#### **4.9.2 Financing Facility for Low Cost Housing for Special Segments**

This scheme facilitates availability of long-term affordable funding for housing to special segments of the society i.e. widows, transgender and special persons. Under this scheme, banks/ DFIs are allowed to finance up to Rs 2.7 million for a housing unit costing up to Rs 3 million. The loan tenor would be 12.5 years and mark-up rate would be 5 percent for end borrowers, while SBP will provide refinance to banks / HBFCL at 1 percent.

#### **4.9.3 Regulatory Incentives for Low Cost Housing for Banks/DFIs**

Relaxations in existing Housing Finance Prudential Regulations and other regulatory requirements have been offered to banks/ DFIs to promote low cost housing finance:

- The existing 0.5 – 1.5 percent general reserve requirement against housing finance portfolio will not be applicable on low cost housing finance.
- The Loan to Value (LTV) ratio of 85:15 has been relaxed to 90:10 for low cost housing finance.
- Bank/DFI's exposure in low cost housing shall not be included for calculating the real estate exposure limit (i.e. 10 percent of the advances and investments portfolio).
- For the purpose of financing low cost housing units, banks/ DFIs shall be allowed to apply the valuation of single unit on all the units of the same society/ colony instead of conducting separate valuation for each unit constructed on the same layout and size.
- Low cost housing finance exposure will attract a risk weight of 25 percent for the purpose of calculation of capital adequacy ratio (Current risk weight 35 percent).
- Banks/ DFIs' borrowings from Pakistan Mortgage Refinance Company will be exempted from maintenance of CRR and SLR.
- Upscaling Housing Finance Limits for Microfinance Banks:
  - Maximum size of a housing loan allowed to MFBs has been increased from Rs 0.5 million to Rs 1 million.
  - Regulatory cap of 40 percent, on exposure above Rs 0.25 million, on housing loans has been removed.

#### **4.9.4 Housing Finance Targets for Banks**

SBP has assigned targets for overall housing finance portfolio to banks and targets for low cost housing for special segments to banks and HBFCL. Refinance limits have also been provided to banks, which could be availed against low cost housing finance extended to special segments.

#### **4.9.5 Pakistan Mortgage Refinance Company (PMRC)**

PMRC was incorporated in May 2015 to provide long term funding to Primary Mortgage Lenders (PMLs). PMRC has commenced its operations and has an outstanding refinance portfolio of over Rs 7 billion at end June 30, 2019.

#### **4.9.6 Infrastructure Project Finance**

The outstanding portfolio against infrastructure financing reached Rs 728 billion at end June 2019 compared to Rs 698.3 billion of corresponding period whereas non-performing loans as a percentage

of gross outstanding portfolios decreased to 1.86 percent during the period under review from 2.1 percent.

The Revised SBP Financing Scheme for Renewable Energy has seen promising uptake. Under this scheme, SBP extended financing for 37 projects with total capacity of 102 Megawatts. At end June 2019, the outstanding amount of refinance extended under the scheme is Rs 9.1 billion. Keeping in view the demand, the validity period of the scheme has been extended by another 3 years along with expansion in scope and alignment of features.