

# 7 Development Finance Support Services

## 7.1 Overview

The Development Finance Support Department (DFSD) and its units in 13 field offices of BSC established as an operational and extended arm of DFG of SBP continued its drive to complement and supplement the DFG's efforts for broadening and deepening of the financial system. The key focus during the year remained on: a) awareness and information dissemination programs including Agri/SME/Micro Finance Melas, b) strengthening consultative mechanism through regular meetings of Focus Groups for Agri, SME and Micro finance, which have proved very effective in collecting grassroots level feedback on SBP policies and initiatives, c) developing linkages with all key stakeholders at local level to adopt joint strategies for increasing flow of financial services in the region, d) monitoring regional trends and disparities in flow of funds, e) preparing regional profiles to document the potential and dynamics of local/regional economies, f) conducting research studies and surveys to better explore the local Development Finance (DF) markets/sectors.

The establishment of DFSD and its units in BSC offices has not only provided the much needed field presence to the DFG but also added a new dimension in the role and mandate of BSC offices. This enhanced mandate is in line with the new vision for BSC offices to make them focal points for dissemination and implementation of all SBP policies and initiatives generally and those relating to DF particularly. This job and role enrichment has also started boosting BSC offices' image in their respective regions and would help BSC in attracting and retaining quality human resources which is a prerequisite for transforming the BSC into an effective operational arm of SBP.

## 7.2 Awareness and Information Dissemination programs

The dissemination of SBP policies and initiatives for broadening and deepening of financial services is one of the key objectives of DFSD and its units and as such it constitutes bulk of the DFSUs' activities. The awareness and information dissemination programs include Agri finance/Kissan Melas, SME and Micro Finance Melas and workshops/seminars, and Chief Managers' visits to adjoining districts to meet the business and farming communities. During the year 14 Agri, SME & MF Fairs (Melas) were organized in different regions across the country in collaboration with banks. Besides creating mass awareness, the Melas, have also been instrumental in promoting partnerships between stakeholders for taping synergies in their initiatives for the sector. They have also enabled the business/farming community, government functionaries and banks to come closer to each other and thus better appreciate their respective position and stance on different issues faced by the sector. The increased interaction between the farming/business community and banks and government departments is likely to minimize the business community's fears and apprehension with the banks etc and would improve their access to financial services. To further strengthen the awareness campaign the banks have been encouraged to organize their own awareness programs for SMEs and rural communities. The banks have also been asked to review their existing model of waiting for the clients to visit their branches for collecting product information and to make their credit managers more mobile for marketing of their products and services.

### **7.3 Focus Group Meetings**

The concept of separate Focus Groups (FGs) for Agri, SME and Microfinance at BSC field offices was introduced last year in place of the Local Credit Advisory Committees (LCAC) which was constrained due to unusually large size and heterogeneity of the stakeholders. The primary objective of these Focus Groups is to discuss and evolve local level operational strategies for increasing the outreach of Agri, SME and Microfinance in their respective regions. The groups with the relevant stakeholders in 13 BSC offices regularly meet on quarterly basis to discuss and take-up the issues as defined in their TORs. During current year a total of 114 Focus Group meetings including 38 on Agri-finance, 39 on SME finance and 37 on Microfinance were held. The FGs have provided a platform for dissemination of SBP and financial sector policies and collection of feedback from concerned stakeholders. They have also been instrumental in harnessing greater ownership of the policy initiatives being taken by SBP for broadening and deepening of the financial system.

### **7.4 Regional Plans for Increasing DF Outreach**

To monitor banks' progress on buildup and expansion of DF portfolio in different regions<sup>1</sup> across the country, the concept of Regional Plans (RPs) was introduced last year. During FY08 a simplified format of the RPs was developed and banks were advised to prepare the plans in consultation with their regional managers on the simplified format. The RPs require banks, including micro finance and specialized banks to give region wise indicative targets for growth in disbursements, number of borrowers and outstanding DF portfolio. The plans have not only enabled us to monitor the regional dispersion of financial services' outreach but also improved ownership of banks' regional management in the DF plans and targets being agreed with SBP by their senior management. The plans also enabled the BSC offices to have better information and understanding of the banks' existing exposure levels in SMEs, Agriculture and Microfinance as well as their plans to expand the exposures.

### **7.5 Banks' Development Finance Profiles**

The DFS Units at BSC offices also prepared and updated the commercial banks' DF profiles that contained detailed information about banks' DF products, services, number of DF borrowers, outstanding DF portfolio, the growth trends, the banks' DF related capacity and contact persons etc for quick access. The banks' DF Profiles helped the DFSUs in having better understanding of banks' DF portfolios, the growth potential and the banks' plans to tap the potential in their respective region.

### **7.6 Regional Stakeholders' Database**

Comprehensive database of all key stakeholders in the regions are also being maintained and updated by DFSUs. The regional stakeholders' database is helpful not only in developing linkages with them but also leads to better coordination with all key stakeholders. The database includes key information about their programs, activities, target areas, strategies, HR capacity and contact information etc. The database is a pre-requisite for organizing the awareness and information dissemination programs, including various Melas, seminars and workshops.

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<sup>1</sup> 14 regions comprising different districts; each region is under SBP-BSC office jurisdiction available in the region.

### **7.7 Regional Profiles**

As highlighted in the last year's APR, the BSC offices are being positioned as focal points for dissemination and implementation of all SBP policies and initiatives in their respective region. For the purpose, the office should have a detailed understanding of the region's economy and its dynamics. In order to achieve this objective the concept of regional profiles covering the socio-economic conditions, educational & training facilities, the resource endowments, the contribution of agriculture, the industrial activities, access to finance, etc has been introduced. While some of the offices have already prepared the regional profiles, the others are in the process of completing the same. The profiles will be updated on regular basis and will serve as an authentic document on the respective region's economy, which could be used as reference.

### **7.8 Linkages with Educational and Research Institutions**

Developing linkages with all the stakeholders in the regions is critical for dissemination and implementation of SBP policies. Currently more focus is on establishing linkages with educational and research institutions to introduce and orient the academia about the emerging DF market. Most of the DF Units along with CMs attended seminars and workshops organized by educational institutions in their respective regions and also invited relevant faculty members in their meetings to share with and enlighten the participants about latest findings in their field of study/research. About 53 such awareness programs about DF were organized by the field offices which were attended by over 2600 participants. Of these awareness programs, 27 were on agri/rural finance, 16 on SME finance and 10 on microfinance.

As part of strengthening these relationships, the Training & Development Department initiated internship programs of 6-8 weeks duration for the students of local business and economics schools at all the field offices. Most of the internship tasks were coordinated by DFSUs. This interaction with the academia would help the BSC and educational institutions to create synergies by way of exchanging knowledge and experience.

### **7.9 Workshops and Seminars**

The workshops and seminars have also been an important forum for discussing the issues faced by the stakeholders and evolving strategies for addressing the issues. During the year five workshops/seminars were organized in collaboration with local Chambers of Commerce & Industries and other traders' associations. Most of the stakeholders including exporters, industry representatives, bankers and officials from SMEDA and Industries Departments attended the seminars and shared their views on various issues faced by the SMEs and solutions thereof. The major problems highlighted in these seminars included: high lending rates, ambiguity in loan pricing, complicated loan procedures, complex loan documents in English language, lack of basic infrastructure, non-existence of R &D, banks' capacity constraints, lack of credit culture and high NPLs etc. The recommendations were forwarded to the respective SBP Departments as feedback for policy review. The banks were advised to translate their SME loan documents in Urdu as a sequel to one of the workshops held in Hyderabad.

### **7.10 Agricultural and SME Surveys**

Lack of understanding of SME/Agri sectors dynamics amongst banks has also been a major reason for their reluctance to enter the SME/agri market. To address this issue, DFSD initiated research studies and surveys to improve stakeholders' particularly the banks' understanding of these sectors. The agricultural and SME surveys of two districts

viz. Sukkur and Gujranwala initiated last year were completed during the year (FY09). The surveys were aimed at exploring agricultural/rural and SMEs' markets in the two districts with particular focus on estimating the farmers' and business community/SMEs' access to financial services, the role and importance of informal financiers including Arties and identifying the key impediments in accessing formal financial services. The Sukkur survey project was outsourced to IBA Sukkur whereas the Gujranwala project was undertaken through DFSU Gujranwala by engaging students of local business school.

The agriculture surveys collected responses of 300 farming households selected randomly from each district (with proportionate representation to each Tehsil of the districts). The surveys reports were uploaded on SBP web for wider dissemination of their findings and published copies were also distributed among the key stakeholders. The SME surveys also collected responses of 300 SMEs' both manufacturing and trading enterprises which were selected randomly from each district. The Gujranwala district being the hub of manufacturing SMEs, its SMEs' survey sample was skewed towards manufacturing sector as 70 percent of the respondents were manufacturing concerns and 30 percent were trading concerns. The Sukkur District sample of SMEs was however evenly distributed amongst manufacturing and trading concerns. The surveys have been completed and the Gujranwala report has been uploaded on the web; the Sukkur survey report however could not be completed due to errors in data collection by IBA Sukkur. The Gujranwala SMEs' survey provides some useful insights of the SMEs' dynamics in the district and has been widely appreciated by the stakeholders.

The surveys are part of the BSC's efforts to better explore the SME and agricultural markets and thus facilitate the stakeholders particularly banks to have better understanding of the risk profiles, the cash flows, the genuine financing needs etc of these sectors and remove their apprehensions about these markets. These research initiatives are likely to facilitate banks to serve these two important segments of our economy and design market responsive products and services.

### **7.11 Initiation of Cotton Belt Survey**

The survey of cotton belt in Southern Punjab was also initiated during FY09 to explore rural markets and economy of the key agri region. A comprehensive questionnaire for the survey was developed through extensive consultations with all key stakeholders including banks, agricultural departments, Pakistan Central Cotton Committee, the educational and research institutions etc. A representative sample size of over 1500 farmers from the ten top cotton producing districts located in Southern Punjab was selected by using stratified random sampling process. On average about 150 farmers from each district (with 6 villages from each Tehsil and 6 farmers from each village) were selected through a well defined random process with the help of District Census Reports of Bureau of Statistics. The department of Economics Bahauddin Zakaria University (BZU) Multan was also involved in the survey team selection for field interviews and data analysis. For each district teams of two persons comprising a student and one Field Assistant from Punjab Agriculture Department were formed and imparted comprehensive training about the interviewing techniques, questionnaire format, interpreting the questions and data recording methods. In order to ensure authenticity and accuracy of data a multi-layer monitoring system was also introduced which involved cooperation of National Bank of Pakistan and Anjuman Kashtkaran Punjab. The NBP Branch Managers at Tehsil level were briefed about the survey objectives and the questionnaire and were made responsible to monitor and facilitate the survey teams in their respective Tehsil. The active involvement of NBP staff was instrumental not only in supervising the movement of survey teams but also ensured proper filling up of data

forms. The Anjuman Kashtkaran Punjab also facilitated the teams to reach the selected villages/ farmers. The DFSU staff at Multan and Bahawalpur offices also paid surprise visits and made telephone calls to a numbers of respondents for cross checking the data collection process. Apart from ten interviewing teams in the field a 'Data Analysis Team' comprising four Ph.D. students from BZU continuously worked at Multan office under the guidance of DFSU and the DFSD. The data entry task was also completed with multilayer checking. The data analysis phase is under process which would also be supplemented by qualitative information to be collected through Focus Group meetings with the farming community, banks and officials of government departments/research institutions at grassroots levels. The survey findings are likely to be presented to the management during second quarter of FY10.

### **7.12 Industrial Cluster Studies**

The preparation of industrial Cluster Studies is another initiative of the DFS Units and so far 9 industrial clusters have been identified and some of DFSUs have already started working on these studies. Some of the clusters selected by the units are: Auto parts Cluster Study in Lahore, Citrus Fruits Cluster Study in Sargodha, Fisheries Cluster in Gujranwala, Textiles Sports Wear in Sialkot, etc. The primary objective of these studies is to explore the Clusters to have a detailed understanding of the cluster size, historical growth trends, future growth potential, key policy and regulatory hurdles, issues and challenges faced, existing and potential demand for financial services and key impediments in improving the access to finance. The studies are expected to facilitate SBP, banks and other stakeholders in having better understanding of the Cluster dynamics thus enabling them to make their initiatives, interventions, and products/ services more responsive to the cluster dynamics. The units are also holding meetings with local universities for conducting the cluster studies as joint projects. The Auto parts cluster Lahore study has been outsourced to the Economics Department Government College University, Lahore; the study report is likely to be finalized by the second quarter of FY10. Such joint endeavors are likely to boost research activities at educational institutions and open ways for sustained cooperation between the industry and academia for better understanding the markets.

### **7.13 Inter-provincial Agricultural Workshop**

The DFSD also continued its efforts to improve coordination with provincial agricultural, livestock and revenue departments with the objective of sharing and disseminating provincial governments' initiatives for the farming communities. The first Inter-provincial Agricultural Workshop was organized during June 2008 in Karachi whereas the 2nd Interprovincial Agricultural Workshop was held in May 2009 in Lahore. The workshop was attended by senior officials from MINFA, the Agriculture and Revenue Departments of all the four provinces & AJK and a number of Agrifinance heads of commercial banks. It provided a forum to the banks and the relevant government departments to better appreciate each others' stance and initiatives for the agriculture sector. The workshop concluded with the resolve to promote partnerships between banks and the agricultural/livestock departments for achieving sustained rise in flow of financial services to the agriculture and livestock sectors. The Punjab Livestock Department offered banks to use its network of about 3600 outlets across the province for extending financial services to livestock growers. The DFSUs across the province are coordinating follow up meetings between the banks and the Punjab Livestock Department so that the banks can tap opportunities in the livestock sector.

### **7.14 Crash Training Program on Agri-Credit**

The ACD's Crash Training program series for commercial banks has been implemented with the active support of DFSUs in BSC offices. During FY09 a total of 14 programs were arranged at SBP-BSC offices in which 440 Agrifinance Officers (AFOs) of different banks were imparted comprehensive training in agriculture/rural finance. The DFSUs participated in these programs as trainees cum organizers. It provided an opportunity to the AFOs to interact with SBP and banks' agrifinance experts and thus enhance their understanding of the sector dynamics and get exposure to the best practices in agri lending.

The DFSUs also provided support to the SME finance Department in organizing crash training programs for the capacity building of commercial banks' SME Credit officers. A total of six SME finance programs were arranged at Quetta, Lahore, Gujranwala, Sialkot, Rawalpindi and Peshawar during FY09 which were attended by 163 SME Credit officers from different banks.

To further supplement the ACD and SMEFD Crash Training programs some of the DFSUs arranged short training courses of 1-2 days to meet the specific training needs of bankers in their respective region. During FY09 eleven such programs were arranged in agriculture and SME finance. The course outline and the trainers/facilitators were finalized in consultation with DFSD HOK.

### **7.15 Strengthening of DFSU Capacity**

The DFSUs in 13 BSC offices serve as local contact points for continuous interaction with stakeholders. In order to effectively assume this challenging role, the units need to be staffed by highly motivated, energetic and properly trained officer with orientation and willingness to learn new concepts and skills. A multi-pronged strategy has been adopted to fill the skill gaps which include: a) deputing suitably qualified staff through internal postings at the offices, b) attracting SBP officers with relevant skills set and passion for DF to serve in BSC field offices, c) ensuring active involvement and ownership of Chief Managers (CMs) in the DF functions and d) training programs/workshops for capacity building of DFSUs. During the year a Two Day workshop was organized at NIBAF Islamabad for improving DFSUs' understanding of demand and supply side issues in agriculture, SME and micro finance. The workshop was addressed by reputed professionals from both financial and real sector and enabled the participants to deepen and sharpen their knowledge and understanding of the DF markets. In addition, a number of training programs were arranged by DFSUs in their respective regions for banks, which also enabled the DFSUs to improve their DF related skills set. The strategy has started yielding results as the quality of output and the DFSUs' interaction with stakeholders has significantly improved since creation of the DFSUs last year. The Business Plan for FY10 envisages organizing three training workshops during the year, one each on SME, agri and microfinance at NIBAF Islamabad.

### **7.16 Development Finance Review 2008**

Like last year a comprehensive Development Finance Review, DFR 08, was compiled during the current year, which took a stock of SBP and financial sector initiatives for increasing the depth and breadth of financial system. The DFR also discussed in detail the trends in outreach levels, their regional dispersion and reasons for inter-provincial and intra-provincial disparities in the flow of financial services. The regions/ districts with highest and lowest concentration of banking facilities, particularly banks' branches, loans disbursed and outstanding have been specially highlighted. The district-wise analysis would help SBP and financial sector in better focusing their efforts for achieving

the financial inclusion objectives. The Review has now become a regular annual publication of DFSD.

#### **7.17 Maintaining Close Liaison with SBP DFG**

The DFSD being an extended arm of DFG maintained a close liaison with the DFG and consulted them before initiating key projects. The DFSD has always tried to avoid duplication of efforts and has focused on its mandate of disseminating and implementing the DFG policies at grassroots level, collecting feedback on the policies and to exploring the local/ regional DF markets through research studies and surveys. The stakeholders' feedback, suggestions, and recommendations for new initiatives as well as policy reviews received through Focus Group meetings, seminars, workshops etc were communicated to relevant DFG and Banking Departments. In fact the strength of DFSUs on account of their field presence is contributing and complimenting the SBP efforts to develop an inclusive financial system by increasing its depth and breadth particularly for agriculture, SMEs and micro enterprises.