

6 Development Finance Support Services

The Development Finance Support Department (DFSD) has been set up at SBP-BSC Head Office Karachi along-with its field units (DFSUs) at 13 BSC offices. The aim is to supplement efforts of Development Finance Group (DFG) of SBP concerning financial inclusion. For the purpose the DFSD and DFSUs conduct multiple awareness programs and focus group meetings with a view to a) disseminate the policies of DFG of SBP, b) understand the problems in extending financial outreach at grass root level to provide feedback to DFG and c) performing the role of strengthening the bond with stakeholders.

6.1 Overview

The Development Finance Support Department (DFSD) has been set up at SBP-BSC Head Office Karachi along-with its field units (DFSUs) at 13 BSC offices. The aim is to supplement efforts of Development Finance Group (DFG) of SBP concerning financial inclusion by capitalizing on the field presence of the SBP BSC in 15 cities across Pakistan. For the purpose the DFSD and DFSUs conduct multiple awareness programs and focus group meetings with a view to a) disseminate the policies of DFG of SBP, b) understand the problems in extending financial outreach at grass root level to provide feedback to DFG and c) performing the role of strengthening the bond with stakeholders. The DFSD through the active support of its DFSUs has also conducted some research studies and surveys in respect of various critical areas of development finance which have also helped in exploring potential in regional economies in an effective manner.

The presence of DFSD and its field staff has helped in bridging the communication gap between SBP and its stakeholders. Feedback collected from stake holders by DFSUs has assisted the concerned departments of SBP to formulate or amend policies to make them more vibrant and responsive to the market needs. The interest of various departments of research cluster of SBP in activities of DFSD, with proposal for undertaking research work in the areas of their concern in collaboration with DFSD and its units, has opened a new dimension of research and analysis for the units. In addition, it has also provided the opportunity for DFSUs to exhibit their significant role in improving financial literacy and achieving the financial inclusion objective of SBP. The various activities and achievements of DFSD during FY10 have been described in the following section.

6.2 Activities and Achievements during FY10

6.2.1 Focus Group Meetings

FY10 was another successful year for DFSD in terms of promoting SBP's strategy of augmenting financial deepening. The 13 field units across Pakistan aspired to disseminate SBP's policies and bring regional and sectoral problems to light. In this regard, the Focus Groups meetings for SME, Agriculture and Micro finance sectors remained prominent in highlighting demand and supply side issues. These efforts not only helped to improve

financial awareness but also enhanced the collection of feedback from stakeholders. A total of 65 Focus Group meetings were arranged during FY10, out of which 26 were on Agri-finance, 22 on SME finance, 13 on Micro finance and remaining on miscellaneous issues. During the year under review more focus was given to Agriculture sector as 45.1 percent of total labor force of the country is employed in agriculture related activities and its share in GDP¹ is around 21.5 percent. This year the number of total meetings has shrunk (Table 7.2.1) due to change made in the periodicity of these meetings, from quarterly to biannual, to provide sufficient gap between two meetings to facilitate resolution of issues raised during last meeting.

6.2.2 Awareness and Information Dissemination Programs

One of the key activities of DFSUs is promoting and creating awareness regarding financial inclusion among the general public particularly the rural community. In FY10, DFSUs organized 48 events with the objective to support DFG's vision of increasing financial depth in the economy Table 6.1.

	2008-09	2009-10
Focus group meetings	101	65
Awareness programs	14	48
Exhibitions/Mela/fairs	11	8
Seminars/ workshops	5	20
Training programs	33	20
Visits/ meetings	76	51
Other activities	85	59
Total	325	271

During FY10 the DFSUs have provided field assistance and support to many departments of SBP/ SBP BSC with the purpose to disseminate policies and initiatives thereof. Various programs on 'Security Features of New Designed Currency Notes and National Prize Bonds' were also arranged in collaboration with Currency Management Department in different cities/ regions. A two-day international conference on 'Islamic Microfinance' in Rawalpindi was another example of teamwork with Islamic Banking Department SBP. The Rawalpindi, Multan and Gujranwala offices also arranged 'SME Finance Grass Root Cluster Training Program' in collaboration with SME Finance Department of SBP. Moreover, DFSD has been helping Agricultural Credit Department (ACD) of SBP in implementation of 'Phase-III of Pilot Project of One Window Operation' (OWO) on Agri-financing. In this context special review meetings with focal persons/ regional business chiefs & Agri-managers of the commercial banks have been organized by all field offices in which targets have been assigned regarding agri-financing.

6.2.3 Exhibitions, Melas and Fairs

Exhibitions and Fairs provide an opportunity to stakeholders of different departments as also commercial banks to ascertain information and understanding about their policies and products through direct contacts with their prospective clients, borrowers in case of commercial banks. A total of 8 Agriculture, SME & Microfinance fairs/exhibitions were organized in FY10, with joint efforts from commercial banks, local chambers, traders and farmer associations. These fairs have helped in enhancing the understanding of SBP's policies and commercial banks' financial services among local people. Furthermore, the fairs/ exhibitions also provided a platform to local chamber/ farmer representatives and bankers to build better relationship that may help in resolving issues

¹Economic survey of Pakistan 2009-2010

in an open manner. The 'Hari Mela' at District Mirpurkhas and 'Kissan Fairs' at Jhang and Nankana Sahib, and Agri-Mela at Kamokee and Pasrur organized during the year under review by the SBP BSC Hyderabad, Faisalabad, Lahore, Gujranwala and Sialkot respectively, helped in highlighting the issues faced by the farmers in the areas of farm inputs and agriculture implements. The DFSUs also participated in fairs and traditional melas organized by different district governments with a view to disseminate policies of SBP concerning access to finance. In this regard Quetta, Hyderabad and Multan offices participated in 'Sibi Mela', 'Handicrafts Exhibition' and 'Southern Punjab Craft Festival' respectively.

6.2.4 Seminars and Workshops

The Seminars and workshops are another significant forum to identify key issues prevailing in regional economies and also to create awareness among stakeholders. During FY 10 different DFS units in collaboration with local Chambers of Commerce & Industries, traders and farmers arranged 20 seminars/ workshops, much higher than last year (Table 6.2.). Major events included a seminar on "issues in SME Financing" jointly arranged by Sukkur office and Sukkur Chamber of Commerce & Industry, a seminar on 'Understanding Monetary Policy Framework in Pakistan' organized by the DFSU Faisalabad at Faisalabad Chamber of Commerce & Industry. Whereas Lahore and Sukkur offices' also contributed their efforts in promoting SBP's Scheme for 'Modernization of Rice Husking Mills and Cotton Ginning Factories' in their regions with active participation of stakeholders.

6.2.5 Capacity Building Programs

The extent of trained and competent human resources at commercial banks able to understand the dynamics of financing to the borrowers for SME, Agricultural and Microfinance sector determines the pace of financial inclusion. The less than adequate knowledge of the human resources of commercial banks in these areas also hinders the smooth implementation of the policies of SBP. It is also one of the main reasons of banks' reluctance in participation in Agri/ SME lending initiatives. Even though, the number of agriculture and SME customers using formal financing modes is increasing however, a large segment of our population is still relying on informal credit channels.

The DFSD has commenced the capacity building training programs for commercial bankers' to equip them with better understanding of main issues. In FY10, various capacity building trainings were organized by DF offices all over the country. The Sialkot and Faisalabad offices organized training for Agriculture Credit Officers (ACO) of commercial banks on 'Corp Loan Insurance Scheme'. Likewise, the Bahawalpur unit had arranged training for commercial bankers on SME financing with coordination of 'Bahawalpur Bankers Club'.

The internal capacity building of the officers of BSC looking after the DFSD and DFSUs is equally important. In order to fill in skill gap, the existing policy of posting of suitable officers from SBP on deputation at DFSD/ DFSUs has proved successful. The management is starting to create a pool of BSC's own officers capable of meeting the job requirements of DFSD/ DFSUs. In addition to this the officers being recruited under YPIP and proposed recruitment of Assistant Directors is also likely to help in improving the skill set of DFS team across Pakistan. In June 2010, the DFSD (HOK) arranged six days training workshop on 'Capacity Building of DFSUs Officials' at NIBAF Islamabad which was attended by more than 30 officers from all units. Moreover, at the end of

training the DFSU Rawalpindi office had arranged two field visits to 'Modern Hatchery Farm' and 'Progressive Farmer's Farm' to observe the use of 'Mechanical Movable Irrigator technology' in Kunda village of district Attock..

6.2.6 Linkages with Academia, Research Institutes and District/ Local Governments.

In order to create close association with different educational/ vocational institutes, the Development Finance Units staff and Chief Managers made 51 visits/ meetings with different educational institutes across Pakistan in FY10. These efforts would help to broaden the vision and understanding of students/ faculty members regarding different dimensions of development finance as also enhance their interest in local economies. DFSUs at Lahore, Faisalabad, Multan, Sukkur and Gujranwala have been successfully conducting studies/ surveys with active participation from academia. The Cotton belt study, prepared by DFSU Multan with the assistance of students from Bahauddin Zakariya University, was an effort to explore the rural cotton economy and to encourage banks to increase their exposure in agricultural financing. The study is based on the survey conducted in Pakistan's top ten cotton producing districts with the aim to highlight the problems prevailing in cotton sector as well to enhance the financing facilities for farmers. In addition, the young students have also been given opportunity to participate in internship programs arranged by several DFS units.

As a part of its efforts to better understand each region, the DFSD also coordinates with district/ provincial government departments. The close linkages of DFSUs with provincial agriculture, livestock and revenue departments greatly help to accentuate the stakeholders' problems in front of concerned authorities. In this regard various meetings/ seminars were organized in which government officials were also invited. In FY10, the DF staff also visited different government departments and other functionaries, Microfinance institutions (MFIs) and NGOs. In this regard, the Peshawar office arranged visits to regional office of National Rural Support Program (NRSP), Sarhad Rural Support Program (SRSP), Small Medium Enterprises Development Authority (SMEDA), and Agriculture Extension Department.

The chief economic advisor, Research Cluster SBP and his team's visits to various DFS units and meetings with stakeholders was a prominent event of this year. His keen interest in understanding issues prevailing at local/ regional levels has encouraged the DFSU staff to pace up their efforts of discovering regional economies. The Faisalabad office arranged two day study visit for research team to meet the Agriculture scientists, researchers & members of Agri-focus group of Faisalabad and Jhang regions. Likewise, the Lahore and Rawalpindi offices also supported the objective of research team by providing opportunity of direct interaction with stakeholders and Federal/ Provincial Government functionaries.

6.2.7 Regional Profiles

The basic purpose of preparation of "Regional Profile" of the region assigned to each DFSU is to showcase the economic, industrial, trading and other achievements of each region besides indicating the existing obstacles in development of local/ regional markets due to lack of access to finance viz a viz; potential of each region. To make this document comprehensive and effective, the DFSD (HOK) has prepared guidelines containing essential points that are required to be incorporated in every regional profile. According to these guidelines regional profile include information about a) demographic conditions,

b) available crops and fruits in region, c) education/ training level, d) economic profile, e) share of the region in GDP, f) leading or growing industries, g) infrastructure status and h) export opportunities in various regions. Compilation of a number of regional profiles is in process.

6.2.8 Microfinance Credit Guarantee Facility

The Microfinance Credit Guarantee Facility scheme was launched by SBP in December, 2008 with a grant of GBP 10 million from the UK Department of International Development (DFID). The SBP has introduced this facility to incentivize Banks/Development Finance Institutions to provide funds to Microfinance Banks (MFBs)/ Microfinance Institutions (MFIs) which may enable them to lend to poor and low income borrowers. Through this facility it is expected that the objective of creating a continuous bonding between micro finance sector and formal financial institutions would be achieved. Furthermore, this may also enhance the lending ability of MFBs/MFIs to achieve their outreach and lending targets.

Under this scheme the SBP BSC shall provide 40 percent Partial Guarantee (pari passu) to cover the principal amount in default or 25 percent First Loss Default Guarantee to cover the first loss to Banks/ Development Finance Institutions. A number of MFBs/MFIs are contemplating to utilize this facility and have applied for SBP's No Objection Certificate (NOC) for charge creation on their assets in addition; few of them have been issued NOC Table 6.2. The First guarantee under this scheme has been issued to a

Table 6.2: Current Status of Microfinance Credit Guarantee Scheme

<i>MFB/MFI</i>	<i>Lender</i>	<i>Amount</i>	<i>Pricing</i>	<i>Tenor</i>	<i>Option</i>	<i>Status</i>
Tameer	ABL	100M	6MK+2%	5Year	40% P	*
Tameer	JS	\\	\\	\\	\\	*
Tameer	BAF	50M	\\	\\	\\	*
Tameer	KASB	\\	\\	3.5 Year	\\	*
FMFB	Soneri	250M	6MK+1%	3Year	\\	**
NRSP	Consortium^	1200M	6MK+2%	3Year	25% FLD	#
KMFB	FBL	400M	\\	1Year	\\	*

*Term sheet issued & applied for NOC, **Term sheet & NOC issued. Not yet applied for MCGF, # Guarantee issued, ^HBL, NBP, ABL, MCB, UBL, AKBL, NIB & FBL, P= Partial guarantee, FLD= First loss default guarantee

Syndicate of Banks headed by Habib Bank Limited for their lending to National Rural Support Program (NRSP).

6.2.9 Recent Initiatives

DFSD recently took several initiatives to strengthen DFSUs and to broaden their activities in a coordinated manner. The conceptualization of introducing 'Shariah compliant' financing modes at micro level is completed. In this regard, focus groups on "Islamic

Box 6.1

Achievements & Activities of DFSD and its Units during FY10

- Conceptualization of 'Development Finance News Letter'
- Initiative to formulate 'Islamic Banking Focus Group'
- Designing 'Regional Profiles' of different regions
- Organized more awareness programs/ seminars during FY10 while compared to last year
- Various 'Industrial Cluster Studies' are in process
- Organized orientations and Internship program for IBA students
- Published a socio economic survey report of Gujranwala
- Issued first guarantee under MCGF scheme of Rs 1,200 million

Finance” constituted at 13 field offices have started working to disseminate SBP policies aimed towards promotion of Islamic banking in their respective areas. The campaign of improving financial literacy among common people is also in process. To highlight the departmental achievements and to broadcast the ongoing activities of DFSUs ‘Development Finance News Letter’ has also been launched on monthly basis. This document is expected to provide information about various activities undertaken by different DFSUs across Pakistan and this will support to achieve the aim of DF group of economic growth by fostering the financial sector.

Various industrial cluster studies started by DFSUs in collaboration with academia are expected to complete shortly which include; cluster studies to highlight the issues/potential of auto parts and agricultural machinery. The work on power loom cluster study and study on exploring citrus export potential is also in progress. The Quetta and Gujranwala offices are contributing their efforts by exploring live stock potential in Baluchistan and fisheries sector in Gujranwala respectively. Moreover, Lahore and Gujranwala offices are in process of finalizing the questionnaires for exploratory studies on ‘Fan Industry’ of Gujarat region and ‘Plastic Furniture Industry’ of Gujranwala respectively in collaboration with academia. In future, the Lahore office would also prepare a survey based study on “Urdu bazaar” Lahore. All these studies will be helpful in understanding regional economies and sectoral issues.