

3 Development Finance Support Services

The Development Finance Support Department at SBP Banking Services Corporation has been set up to augment the efforts of State Bank of Pakistan in pursuing an important strategic objective i.e. development of an inclusive financial system in the country that could cater to the financial services needs of all segments of the economy.

3.1 Overview

The Development Finance Support Department (DFSD) in SBP Banking Services Corporation (BSC) plays an important role in complementing the role of the Development Finance Group (DFG) of the State Bank of Pakistan in promoting, disseminating, monitoring and implementing various SBP's policies, initiatives and schemes through different activities discussed in the following paragraphs.

3.2 Performance Review

Under the Agricultural Lending Diversification Project 2013 (ALDP), efforts for channelizing credit to the underserved agri intensive areas of the country on a fast-track basis continued during the year under review. DFSD collaborated in this pilot project through various monitoring initiatives, focus group meetings and around 40 in-house meetings and on-site visits. As many as 1,582 Farmers Financial Literacy and Awareness Programs (FFLP) on Agricultural Financing were arranged in collaboration with the commercial banks during the period from July, 2013 to March, 2014.

During FY14, a total of 65 Focus Group meetings were held to disseminate SBP initiatives and policies in the realm of development finance, out of which 18 pertained to Agri-finance, 13 to Micro-finance, 16 to SME finance, 14 to Islamic Banking and 4 joint sessions.

The creation of awareness of SBP policies aiming at financial and business development services among the target groups is always a major challenge for the SBP and DFSD. 112 programs were arranged by the Field Offices in collaboration with DFG-SBP, commercial banks and other stakeholders of the respective regions. These programs included 43 awareness sessions, two conferences/exhibitions, 23 seminars and workshops, and 44 capacity-building programs, of which 35 were training sessions for the credit/lending officers of commercial banks & financial institutions, while nine were for other stakeholders including seven joint sessions (two for SBP-BSC Officers and one for the chamber & traders of Sahiwal region). Moreover, special focus was given on establishing linkages with academia and research institutes to introduce and orient them to the emerging financial market in the country. Towards this end, internship programs were arranged at 10 BSC offices, besides 11 on-site visits and meetings with faculty members of educational institutions. Further, eight in-house meetings at Field Offices

were held and 18 on-site visits to the offices of the representatives of Government functionaries and other stakeholders at different regions were also made.

3.3 Developmental Initiatives

A project for compiling regional profiles of selected districts, in collaboration with Field Offices, to facilitate DFG-SBP and DFSD was initiated. This was aimed at improving the mechanism of regional development finance, taking appropriate initiatives for uplifting the socio-economic profile of a particular area, and devising adequate strategies for addressing specific development finance-related issues. Accordingly, regional profiles of Larkana, Bahawalpur and D.I. Khan Districts were completed. Moreover, a Development Finance Compendium has also been developed as a tool for quick reference for Chief Managers and other SBP-BSC officials. Going forward, DFSD has planned to conduct a series of seminars/workshops on 'Promoting Financial Literacy among Women' & 'Innovative Financial Inclusion through Branchless and Agents Banking' in collaboration with its field units, regional banks and other stakeholders.

3.4 Operational Management of Export Finance & other Refinancing Schemes

SBP has introduced various credit schemes for priority sectors aimed at boosting foreign exchange earnings and promoting investment in export-oriented industries which include; Export Finance Scheme (Part I&II), Islamic Export Refinance Scheme, Long Term Financing Facility for Service Sector, Export Finance Mark-up Rate Facility, etc. DFSD at SBP-BSC has been entrusted the responsibility to monitor and implement all such schemes in coordination with field units.

The prime responsibility of the field units is to provide refinance facility to commercial banks/DFIs and ensure timely recovery of principal and mark-up amounts. Besides, BSC verification teams are responsible to examine the EFS/IERS cases with all requisite documents at the dealing branches of commercial banks, to discipline banks in preventing mis-utilization of funds and ensuring adherence to provisions of schemes in letter and spirit. Based on the reports of verification teams of Field Offices, a consolidated position is forwarded by DFSD to the concerned department(s) of SBP for further action at their end.

During FY14, a total of 97,234 cases relating to grant, repayment and remuneration (share of profit) were processed under EFS (Part I &II), IERS & LTFF, while 838 cases amounting to Rs.1,360.8 million, under Export Finance Mark-Up Rate Facility of 2.5 percent to the exporters of Textile Industry, were handled. The verification teams of BSC Offices visited 272 bank branches across the country during FY14 and examined 8,328 cases under EFS Part-I. Penalties against various lapses worth Rs.19.6 million were imposed. Similarly, the teams examined 4,895 cases and recovered penalties amounting to Rs.49.0 million on account of various irregularities detected under EFS Part-II during the period under review. Moreover, 1,182 cases of IERS were also verified by the team

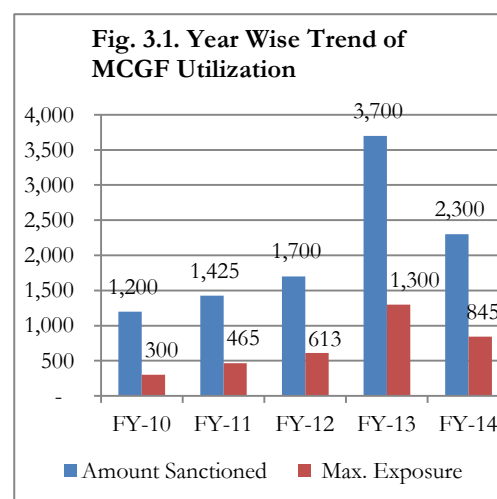
members and fine amounting to Rs.0.280 million was recovered during the reporting period.

3.5 Implementation of SBP's Credit Guarantee Schemes

3.5.1. Microfinance Credit Guarantee Facility

SBP in collaboration with UK's Department for International Development (DFID) launched Microfinance Credit Guarantee Facility in December, 2008 to address the funding problem of Microfinance Banks (MFBs)/Microfinance Institutions (MFIs).

The year-wise utilization of Microfinance Credit Guarantee Facility (MCGF) has shown an increasing trend till 2013. However, the guarantees issued declined in FY14, mainly because previous funding was for the longer term tenor and a transitional plan was being chalked out for MCGF (**Figure 3.1**).



3.5.2. Credit Guarantee Scheme for Small & Rural Enterprises

During the year, PFIs' guarantee requests amounting to Rs. 597.7 for lending to 2,563 Small Enterprises (SEs) and Agri borrowers were processed by DFSD against the sanctioned amount of Rs. 1,494.4 million. Further, around 10,000 borrowers have been served so far.

3.5.3. Mark up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched "Mark up Subsidy & Guarantee (MS&G) Facility for Rice Husking Mills in Sindh" vide its Circular No. 06 of 2013 dated March 12, 2013 with a view to modernize and upgrade rice husking mills of Sindh. DFSD has been entrusted with the responsibility to supervise operational implementation of the subject scheme. The facility comprises of two components, i.e. Mark-up Subsidy, and Partial Guarantee incentive. Under the provisions of the scheme, out of a total mark-up of 9.00 percent, interest subsidy to the extent of 6.25 percent will be provided and the borrower will be charged markup at the rate of 2.75 percent only. The facility is also meant to provide partial guarantee facility up to 30 percent against outstanding loans under the scheme, if classified as Loss. During the year, only one guarantee cover of Rs. 3.0 million has been provided by DFSD against a sanctioned loan of Rs. 10.0 million.