

Development Finance Support Services



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Development Finance Support Department (DFSD) provides necessary operational support to the Development Finance Group (DFG) of State Bank of Pakistan (SBP) to meet its strategic objective of promoting an inclusive financial system in the country.

3.1 Overview

Development Finance Support Department plays an integral role in the implementation of SBP's policies and initiatives that are geared towards the promotion of an inclusive financial system. DFSD works in collaboration with its field units established at 15 Field Offices of SBP BSC. These units serve as an excellent forum for information dissemination, interaction with industry stakeholders and acquiring grass root level feedback for incorporation in SBP's future policies/interventions.

3.2 Access to Finance

In continuation of SBP's commitment to encourage the flow of credit to the underserved agriculture sector, a credit disbursement target of Rs 600 billion was set for FY16. This credit disbursement target was allocated among 36 Participating Financial Institutions (PFIs) by Development Finance Group.

Box.3.1: Performance Highlights for FY16 – Access to Finance

- Facilitated AC&MFD-SBP through periodic follow up and review meetings with 36 PFIs across 143 districts for monitoring the achievement of Rs 600 billion indicative target set by SBP for the agriculture sector in FY16. Disbursement during the year (July 2015 to June 2016) was Rs. 598.3 billion, which is 16 percent higher than the disbursement made during the same period last year.
- Review meeting with Business Heads of financial institutions for monitoring of agri. credit targets in Karachi region was conducted for the first time.
- Conducted awareness sessions for the promotion of Housing Finance in six different regions of the country as advised by IH&SMEFD-SBP. The sessions were attended by around 1,800 participants.
- Facilitated AC&MFD-SBP in the implementation of One Window Operation (OWO) in all districts through development of detailed monitoring formats and instructions to be followed by AFUs and financial institutions.
- Facilitated IBD-SBP in the conduct of a 5-day awareness session on Islamic Banking at six SBP BSC Field Offices.
- Conducted five meetings with regional stakeholders in underserved areas of the country for the purpose of deliberating on increasing the flow of agri. credit to the farmers in these regions, as required by the sub-committee of Agricultural Credit Advisory Committee (ACAC). Detailed insights, issues, and recommendations were shared with DFG.
- Facilitated AC&MFD-SBP in the conduct of six Farmers' Financial Literacy Programs in order to educate the farming community about basic banking knowledge.
- Facilitated IH&SMEFD-SBP in the conduct of a one-day interactive sessions between financial institutions, SMEDA and SBP at five SBP BSC Field Offices.
- Facilitated IH&SMEFD-SBP in conducting half-day awareness sessions on Green Banking and Finance at three SBP BSC Field Offices; arranged to support the SBP initiative for promotion of green and sustainable banking as a tool for addressing energy shortfall and climate change.
- Half yearly plan of AFU activities was developed for efficiency and improved monitoring.
- Monthly Development Finance Newsletter has been revamped.
- 64 Focus Group meetings were organized, which included 15 for SME finance, 12 for Agri. finance, 13 for Microfinance, 14 for Islamic Banking, 5 for Housing finance, and 5 Joint sessions.

Through its Access to Finance Units (AFUs) established at 13 SBP BSC Field Offices, DFSD actively monitored PFIs' performance with regard to target achievement at regional level through review

meetings and constant follow up. This feedback has been regularly shared with SBP's Agricultural Credit & Microfinance Department (AC&MFD) to facilitate it in formulation of effective policies.

As DFG is about to rollout the Nationwide Financial Literacy Program (NFLP), DFSD facilitated AC&MFD in identification of Master Trainers from workforce of different Field Offices. The DFSD has also: (a) prepared monitoring formats; (b) SOPs for fund management; (c) developed district-wise schedule of delivery of classroom trainings and (d) identified lead banks and Micro Finance Institutions (MFIs) in all districts. This preparedness will help DFSD in rolling out the program once these arrangements are approved/agreed by DFG.

Table 3.1: Summary of Activities Arranged and Participated by AFUs during FY16 (Jul 2015 – June 2016)		
S. No.	Activity	No.
1	Focus Group Meetings	80
2	Awareness Programs	84
3	Capacity Building	41
4	Agri. Target and OWO related Onsite Visits	9
5	Fair, Conference, Exhibition etc.	22
6	Seminars and Workshops	26
7	Linkages with Academia	10
8	Linkages with Govt. and Others	22
9	Research Activities	3
10	Others	5
Total		302

Process for the reconstitution of Development Finance Coordination Committee of SBP and SBP BSC was successfully initiated by Development Finance Support Department with a view to maximizing coordination between DFSD and DFG. The first meeting of the Committee was held in March 2016 under the chairmanship of SBP Deputy Governor (FM, IB & SI).

Four Working Groups comprising DFSD-HOK and AFU officers have been formed as an initiative for capacity building and to capitalize on DFSD's field presence. These Working Groups are expected to bring improvement in communication and coordination between Head Office, Karachi and Field Offices by creating a virtual workforce.

The department also facilitated DFG in implementation of a number of initiatives/ programs through its AFUs for information dissemination, capacity building, creating awareness and developing linkages with stakeholders (**Box 3.1** and **Table 3.1**).

3.2.1 Developmental Initiatives

- (1) A study on the demand side impediments facing the textile processing cluster of Small & Medium enterprises (SMEs) in Faisalabad region was undertaken during the year under review. A questionnaire was developed for the purpose, translated into Urdu, and shared with the Infrastructure, Housing & SME Finance Department (IH&SMEFD) of SBP for review. After calculating the sample size i.e. 93, the questionnaires were distributed to the target respondents. In collaboration with relevant stakeholders, interviews were conducted and the completed questionnaires were collected. The questionnaire has been coded and data entry has been done in SPSS (Statistical Package for the Social Sciences). The insights and analysis of the survey results of the research exercise will be presented in the final report by 30th November 2016.
- (2) SME Finance Mela has been arranged in six different regions to promote the sector and provide a platform where industry players can interact. The events were collectively attended by more than 4,000 participants.
- (3) Twelve programs for the promotion of non-farm sector were conducted in remote areas across the country through which more than 1,500 people have been imparted awareness on the opportunities in this sector.

- (4) DFSD collaborated with AFUs in SBP BSC Quetta and Peshawar to develop a report covering issues, challenges and potential of horticulture sector in these regions.

3.2.2 Future Outlook

- (1) Working Groups will be utilized for execution of DFSD's developmental projects as well as other assignments for ensuring timeliness and capacity building.
- (2) More research oriented exercises will be undertaken with a focus on exploring and exploiting the potential in underserved areas.
- (3) Collaboration with SBP for implementing the National Financial Inclusion Strategy.

3.3 Management of Refinance Schemes

To fulfill the credit requirements of critical sectors of Pakistan's economy including agriculture, trade, manufacturing and energy, the State Bank of Pakistan has introduced various short and long term concessionary financing schemes. The department ensures implementation and monitors the proper utilization of funds disbursed under these schemes with the help of its Refinance Schemes Units (RSUs) at SBP BSC Field Offices across the country. Provision of refinance facility to commercial banks/ DFIs and its timely recovery of principal and mark-up are the responsibilities of RSUs.

3.3.1 Export Finance Scheme

The Export Finance Scheme (EFS) is the most prominent among all Refinance Schemes of SBP. It was introduced with the objective to boost the country's value added exports by providing the exporters' access to low cost funds to meet their short term financing needs. Further, to facilitate exporters who wish to avail financing under Islamic banking principles, the Islamic mode of the scheme, Islamic Export Refinance Scheme (IERS), has also been in operations since 2002-2003.

During FY 2015-16, RSUs disbursed Rs 500.09 billion under the Export Refinance Schemes, Rs 404.81 billion were disbursed to the corporate exporters and Rs 13.72 billion to SME exporters under the EFS, while under the IERS Rs 81.34 billion and Rs 0.22 billion were disbursed to corporate and SME exporters respectively.

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP on the subject and the funds disbursed are only being utilized for value-added export purposes, DFSD supervises the onsite verification process through SBP BSC's Field Offices every year. In FY16, onsite verification teams of twelve Field Offices completed the verification of 13,395 loans whose amount of Refinance stood at Rs 463.62 billion and were disbursed to twenty nine banks in FY14.

SBP BSC Field Offices charged a total penalty of Rs 52.80 million for violations of instructions of the Scheme. Penalty against violations observed in loans pertaining to Part-I category of EFS/IERS accounted for 25.8% (Rs 13.61 million) of the total amount, while the remaining 74.2% (Rs 39.19 million) was against violations in loans of Part-II category. The total amount of penalty charged in FY16 has decreased by 8.3% compared to last year when Rs 57.58 million were charged.

Box 3.2: Performance Highlights for FY16 – Management of Refinance Schemes

- Total Rs 500.09 billion disbursed under Export Refinance Schemes:
 - Rs 418.53 billion under EFS
 - Rs 81.56 billion under IERS
- Rs 52.80 million charged as penalty to 29 participating banks on account of violation of EFS/IERS instructions against loans disbursed in FY14
- Rs 19.50 billion disbursed under LTFF

* All disbursement figures are till May 15, 2016

3.3.2 Long Term Financing Facility

The Long Term Financing Facility (LTFF) provides finance to exporters for adopting new technology and/or upgrading their existing plant and machinery. This scheme is also available to Islamic banks, but is subject to approval of SBP's Shariah Board. Loans are repayable within 3, 5 or maximum 10 years. During FY16, Rs 19.50 billion were disbursed under LTFF.

3.3.3 Developmental Initiatives

- (1) DFSD has prepared a set of standardized documents including annexure, checklist and a model report for the onsite verification teams to ensure consistent reporting to it. This will allow DFSD to analyze data better, draw conclusions and make necessary recommendations to DFG and banks.
- (2) To improve the understanding of the Scheme and operational procedures, DFSD has developed a set of Frequently Asked Questions (FAQs) and a comprehensive training material for RSUs officials.

3.3.4 Future Outlook

- (1) To spread awareness among the concerned sectors regarding various refinance facilities offered by SBP via commercial banks/DFIs, DFSD will organize and conduct awareness sessions across the country, especially in underutilizing areas.
- (2) To increase operational efficiency and reduce the workload of RSU officials, DFSD has identified automation projects pertaining to the verification of EE/EF-1 statements and offsite monitoring of EFS cases, which it intends to take up in the next financial year.

3.4 Financial Inclusion Scheme Management

The National Financial Inclusion Strategy 2015-20 envisions access and use of a range of savings, credit, insurance and payment services to meet the needs of the people of Pakistan with dignity and fairness. Efforts are underway to improve access to financial services for the poor and marginalized groups as well as micro & small enterprises in the country.

One way to encourage financial institutions to lend to priority, marginalized and collateral deficient segments, is to share their credit risk. Credit Guarantee schemes usually familiarize banks with priority sectors thereby enhancing the comfort level of banks for lending to such priority sectors on sustainable basis. For this purpose, various credit guarantee and subsidy schemes with the funding support of UK's Department for International Development (DFID), Federal and Provincial Governments are being implemented as detailed below.

Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 25,967 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 370.8 million
- Guidelines for reporting under PMYBL and PMYBL Globus User manual have been prepared
- During the year, funds of Rs 3,900 million have been disbursed by various banks/DFIs to MFBs/MFIs under MCGF.
- 8,572 loans for financing amount of Rs 6,009.1 million were issued guarantees to 13 Participating Financial Institutions (PFIs) pertaining to CY2014 and CY2015.
- During the year, 20 claims for an amount of Rs 1.4 million have been disbursed to concerned banks.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- Awareness program, in collaboration with IH&SMEFD and Sindh Enterprises Development Fund (SEDF), was also arranged in Sukkur to sensitize utilization of MS&GF.
- Fund on account of CGS, MCGF, CGSMF and RHMS Funds amounting to approximately Rs 9 billion were managed by DFSD.

3.4.1 Prime Minister's Youth Business Loan Program

DFSD is entrusted with the responsibility of processing claims of banks under Prime Minister's Youth Business Loan Program (PMYBL) in the light of instructions from IH&SMEFD. During FY16, eight banks submitted their subsidy claims under PMYBL while six more banks have also started

disbursing loans under PMYBL and will submit their claims in FY17. During the year, 25,967 PMYBL related transactions have been processed for subsidy amounting to Rs 370.8 million for onward submission to Finance Division, Government of Pakistan (GoP).

3.4.2 Microfinance Credit Guarantee Facility

SBP, in collaboration with DFID, launched the Microfinance Credit Guarantee Facility (MCGF) in December, 2008 to address the funding problem of MFIs/MFBs.

During FY16, requests for guarantee against the financing amount of Rs 9,400 million were received. However, due to limited availability of MCGF funds for backing the guarantees, guarantee for financing amount of Rs 3,900 million could be issued. Based on analysis of MCGF backed running finance facilities, a condition of at least 75% average utilization has also been introduced for efficient utilization of available funds.

3.4.3 Credit Guarantee Scheme for Small & Rural Enterprises

With a view to motivating the banks to lend to borrowers, who would not have access to credit under normal circumstances, SBP has launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises with the assistance of GoP and DFID in 2010.

During FY16, 8,572 loans for a financing amount of Rs 6,009.1 million were issued to 13 PFIs pertaining to CY14 and CY15, as per PFI limits approved by the Technical Committee on Credit Guarantee (TCCG) in July 2015. Moreover, 20 claims of Rs 1.4 million have been reimbursed to concerned PFIs during FY16.

Highlights of developmental impact analysis of loans sanctioned during CY14 and CY15 presented to TCCG include:

- 1) Fresh borrowers constituted 91% of the borrowers entertained by PFIs.
- 2) PFIs sanctioned 95% of the loans to Sole Proprietors and Small Enterprises.
- 3) Farmers, Small Enterprises and Microenterprises constitute 55%, 41% and 4% respectively of the total loans sanctioned.
- 4) Rural versus Urban sanctioned loans remained almost at equal level of 52% and 48% respectively.
- 5) Loans were granted to mainly 15 different sectors to borrowers from 89 districts of Pakistan.

3.4.4 Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched “Mark-up Subsidy & Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh” in March 2013 with a view to modernizing and upgrading the rice husking mills of Sindh. So far, 6 rice husking mills have been provided financing under this Scheme for an amount of Rs 54 million. Further, an awareness program, in collaboration with IH&SMEFD and SEDF (Sindh Enterprise Development Fund), was arranged by DFSD in Sukkur to sensitize utilization of the Scheme.

3.4.5 Credit Guarantee for Small and Marginalized Farmers

To enhance access of small and marginalized farmers to formal credit, State Bank of Pakistan has launched the Credit Guarantee for Small and Marginalized Farmers (CGSMF) with the funding support of Government of Pakistan. The scheme offers 50% partial guarantee on the given outstanding amount, at the time of default, to banks for their lending to eligible borrowers. The salient features of the scheme are given in **Box 3.4**.

3.4.6 Fund Management

Funds on account of CGSSRE (Credit Guarantee Scheme for Small & Rural Enterprises), MCGF and CGSMF and MS&GF for Rice Husking Mills in Sindh amounting to Rs 9.0 billion approximately are being managed by DFSD. Fifty investments on account of these five funds have been made in FY16.

3.4.7 Developmental Initiatives

- (1) Guidelines for reporting under PMYBL have been disseminated to executing agencies (EAs) for their awareness and facilitation for error free claims submission.
- (2) PMYBL Globus User Manual was also successfully completed for better succession planning and standardization.
- (3) DFSD also prepared developmental impact analysis of Credit Guarantee Scheme for Small & Rural Enterprises and presented to TCCG.
- (4) DFSD has prepared data reporting formats under CGSMF which include socio economic indicators as well.

3.4.8 Future Outlook

- (1) The reporting/processing under different credit and subsidy schemes is being automated to meet HR and increasing workload challenges in coordination with SBP's Information Technology Department.
- (2) Awareness and capacity building programs on credit guarantee and subsidy schemes for banks'/DFIs' officials will also remain one of the focus areas to enhance reporting quality and better serve the target sectors.
- (3) DFSD is expected to initiate operational implementation of upcoming CGF for low cost housing.
- (4) DFSD will be performing its due role in augmenting SBP efforts in implementing the National Financial Inclusion Strategy.

Box 3.4: Salient Features of Credit Guarantee and Subsidy Schemes

- Target Segment: Small Farmers who do not have any collateral to offer against loans
- Landholding Limit: up to 05 acres in canal-fed & 10 acres in rain-fed
- Risk Sharing: 50% (payment upon classification of loan as Substandard)
- Maximum Loan Size: Rs. 100,000/-
- Maximum Tenor: 1 year (1.5 years for sugarcane)
- Claim Frequency: Half yearly basis
- Allocation of Limits: on yearly basis
- Executing Agency: SBP on behalf of GoP
- Implementing Agency: SBP BSC through PFIs
- Target: Estimated 300,000 loans worth Rs. 30.0 billion
- Applicability: All eligible farmers in (a) all provinces (b) special areas (AJ & K, FATA and Gilgit- Baltistan) and (c) Federal Capital.