

7 Development Finance Support Services

7.1 Overview

Development of an inclusive financial system in the country that could cater to the financial services needs of all segments of society and all sectors of the economy is an important strategic objective of SBP. It has taken numerous initiatives in the recent past to make the policy and regulatory framework responsive to the market dynamics and to build its own capacity to play an effective role in development of financial markets particularly for un-banked and under-banked areas. The establishment of Development Finance Group (DFG) in SBP last year was aimed at creating the necessary institutional capacity to lead and steer the SBP and financial sector initiatives for broadening and deepening of the financial system. For effective dissemination and implementation of DFG-SBP policies and initiatives at grassroots level, the function has been assigned to BSC, which has presence in 15 key areas/regions across the country. A new Department viz Development Finance Support Department (DFSD) was thus established in BSC during FY08 and simultaneously DFS Units (DFSUs) have also been set up in 13 field offices of BSC.

The key functions assigned to this new department (DFSD) are (a) dissemination and implementation of SBP Development Finance (DF) policies at grassroots level, (b) collecting feedback on the policies for consideration of DFG-SBP, (c) developing linkages with all key stakeholders at local level to adopt a joint strategy for increasing flow of financial services in the region, (d) monitoring regional trends and disparities in flow of funds, and (e) conducting research studies and surveys to better explore the local DF markets.

The establishment of the Department and its units gave a big boost to the DF activities in BSC, which was earlier confined to holding of quarterly meetings of LCACs. The DFSD field units have provided the requisite field presence to DFG and added a new dimension to the role and function of BSC offices as regional focal points.

7.2 Major Achievements and Initiatives

The followings are the major achievements/ initiatives of DFSD and its field units during FY08:

7.2.1 Establishment and Strengthening of DFSD Units at field offices

The key rationale and objective of DFSD is to use the BSC field offices for wider dissemination of SBP policies and initiatives for broadening and deepening of the financial sector. The DFSD field units established in 13 BSC offices serve as local contact points for continuous interaction with stakeholders at grassroots level. Each unit was assigned a specific geographic area comprising various districts to undertake all DF related activities. The units were staffed with suitable officers by making internal adjustments in most of the offices. Some officers of SBP interested in working in Development Finance also joined BSC on deputation and were posted in field offices as Head DFSUs. A detailed job description for the units was also designed and finalized in consultation with DFG and the CMs. DFSD HOK guides and supervises the DFSUs' who are its primary service delivery points.

7.2.2 Capacity Building of DFSUs

The creation of adequate capacity in the field units to effectively undertake the assigned functions is a major challenge for DFSD as Development Finance is a new and non-traditional function for BSC. The skill mix of most of its staff is incompatible with the requirements of the mandate and role assigned to these units. To address this critical issue a multi-pronged strategy was adopted which included (a) deputing the best available staff of the office in the units, (b) strengthening some units with SBP officers who joined BSC on deputation, (c) ensuring active involvement and ownership of Chief Managers (CMs) in the DF functions, (d) development of detailed job description along with explanatory notes to enhance the units' understanding of their objectives, functions and operational strategy, (e) detailed meetings with the CMs and DFSUs during visits of Director DFSD to field offices, and (f) conducting two training programs for capacity building of DFSUs/ CM. The strategy has worked well as not only the capacity of the units improved substantially; the quality of interaction with the stakeholders was also enhanced. However, since there is always room for improvement in every sphere of work, the efforts would continue during FY09 to bring the DF related capacity of the units at par with the requisite levels.

7.2.3 Local Credit Advisory Committee

The Local Credit Advisory Committee (LCAC) forum was also strengthened and assigned to the DF Units. The agenda of the meetings and response on the issues raised by stakeholders is now approved by DFSD HOK to ensure consistency in communications with the stakeholders. During FY08, 32 LCAC meetings were organized by the BSC offices for dissemination of SBP policies and resolution of local/ operational issues faced by business/ agriculture community in accessing financial services provided by banks.

7.2.4 Constitution of Focus Groups

Despite the strengthening of the LCACs, their effectiveness remained limited due to unusually large size of the committees and heterogeneity of the participants. The concept of separate Focus Groups for Agri, SME and Microfinance was thus introduced to discuss and evolve local level operational strategies for increasing outreach of Agri, SME and Microfinance in their respective regions. The groups have been established in all 13 BSC offices, where DFSUs are operative. The groups structure and TORs have also been finalized and notified in consultation with DFG of SBP and CMs. The groups in each office are meeting on quarterly basis to discuss and take-up the issues as defined in the TORs. A total of 13 group meetings were held since the constitution of the groups in the 2nd half of FY08. The structure and TORs of the Focus Groups are detailed hereunder:

Table 7.2.4 Regional Focus Groups – Structures and TORs

1. Structure

(a) Agrifinance Focus Group

- Regional Business Chief/ Agri/ Rural Finance Heads of top 10 commercial banks (based on their Agri/ Rural Finance portfolio size in the region)
- Regional Chief/ Head ZTBL
- EDO Agriculture/ Regional Director/ Head Provincial Agricultural Research & Extension Department
- President/ Secretary Regional Chamber of Agriculture
- President/ Secretary Anjuman Kashtkaran Punjab/ Sindh/ Baluchistan/ NWFP
- President/ Secretary Regional Market committee of local fruits, vegetable, grains etc

(b) SME Finance Focus Group

- Regional Business Chiefs/ SME Heads of top 10 commercial banks (based on their SME portfolio size in the region).
- Regional Chief/ Head of SME Bank and First Women Bank Ltd.
- Regional Head SMEDA.
- Regional Director Punjab Small Industries Corporation (PSIC)/ Sindh SIC/ Sarhad SIC/ Baluchistan SIC.
- President/ Secretary Regional Chamber of Commerce & Industry.
- President/ Secretary Regional Women Chamber of Commerce & Industry.
- President/ Secretary Regional Traders' association/ Chamber.

(c) Microfinance Focus Group

- Regional Heads/ Area Managers of all Microfinance banks.
- Regional Heads/ Area Managers of up to 3 renowned NGO-MFIs/ RSPs in the area (to be nominated by PMN).
- Regional Head/ Area Manager of First Women Bank Ltd.
- President/ Secretary of local Microenterprises' Associations/ Women's Association/ Women Chamber.

2. Terms of Reference (TORs)

- To discuss and evolve operational strategies for increasing outreach of financial services in each of these sectors;
- To organize awareness & information dissemination programs for increasing awareness of the target groups about the financial and business development services;
- To discuss the regional growth trends biannually and give recommendations for increasing outreach levels for consideration of DFSD/ DFG of SBP;
- To collect feedback on various SBP/ banks/ Government policies for growth and development of each of these sectors for submission to DFSD for onward submission to DFG Departments;
- The Groups will meet on quarterly basis with one group meeting each month. (For instance first meeting of SME Group in April, Agriculture Group in May and Microfinance Group in June. The subsequent meetings of each group would then be held 3 months after the first meeting and so on);
- The Groups on need basis may invite professionals, researchers, teachers/ professors etc for input on some projects/ programs/ initiatives and or to enhance the understanding of the group on certain new developments/ research studies in their respective sectors.

7.2.5 Regional Data Collection Mechanism

As monitoring of regional trends in growth of financial services in un-banked/ under-banked sectors is an important function assigned to BSC, collection of regional/ district-wise data was a pre-requisite to undertake this function. Accordingly, an arrangement was made with Pakistan Microfinance Network (PMN) in consultation with Microfinance Department of SBP whereby PMN agreed to share the district-wise MF data with DFSD on quarterly basis. Similarly, the district-wise Agri credit data being collected by ACD on half-yearly basis was used to monitor the regional trends in growth of Agri credit.

7.2.6 Regional Plans for Increasing Outreach of Development Finance

To augment DFSD's capacity to monitor the regional trends in growth of Development Finance (DF) and also to monitor banks' progress towards build up of DF portfolio at regional level, the concept of Regional Plans (RPs) was introduced. The banks were requested to give indicative regional targets for building their DF portfolio in the region and the operational strategy to achieve the targets. The plans not only helped DFSD in having a bank-wise and region-wise positions and plans for increasing outreach of DF in different

regions, it also brought ownership of banks' regional management in the DF plans and targets being agreed with SBP by their senior management.

The Regional Plans for FY09 have also been requested from banks on simplified formats. To strengthen the control and participation of head offices of banks the plans, which were previously collected and compiled by DFSUs, are now being collected centrally at DFSD HOK for onward transmission to the DFSUs. To ensure ownership of the banks' regional management in the plans the banks have been advised to prepare the plans in consultation with their respective regions.

7.2.7 Regional Stakeholders' Database

As part of developing linkages and enhancing coordination with all key stakeholders the DFSUs are preparing comprehensive database of all key stakeholders in their respective regions. The database includes information about their programs, activities, target areas, strategies, HR capacity and contact information etc. The database is a pre-requisite for the awareness and information dissemination programs as well as developing linkages with the stakeholders. Another objective of the database development is to ensure that units have detailed information and understanding of objectives, functions and initiatives of all key stakeholders which is essential for effectively undertaking the tasks assigned to the units.

7.2.8 Banks' Development Finance Profiles

The DFS units at BSC offices are also preparing commercial banks' DF profiles to have detailed information about the banks DF products, services and DF capacity and contact persons for quick access. The objective again is to ensure that units are well informed about the business, economic and financial activities in their region and should be well versed to effectively undertake the assigned functions.

7.2.9 Awareness and Information Dissemination programs

Dissemination of SBP policies, approach and initiatives for broadening and deepening of financial sector and increasing outreach of financial services to the un-banked/ under-banked areas/ sectors is the key strategic objective of DFSD. Thus awareness and information dissemination programs constitute the bulk of DFSUs functions. The farmers' meetings, Agri finance Melas, SMEs workshops, SME finance Expos, the Chief Managers' visits to adjoining districts are the major programs/ initiatives for dissemination of SBP policies. The programs also enable DFSUs and banks to collect grassroots feedback on SBP and financial sector policies and initiatives. All these programs are organized in collaboration with banks and other stakeholders and have been very effective in enhancing awareness of the target groups about the financial services. These initiatives have also been instrumental in bringing the business/ farming community and banks closer to each other and thus minimizing the hesitant attitude and fear of SMEs/ farmers/ low income individuals in accessing financial services of banks.

Starting from January 08, each DFSU on average has organized 1-2 awareness and information dissemination programs. In FY09 each DFSU on average will organize 04 Agri finance Melas and 02 SMEs workshops/ seminars at different locations. Further, the banks have been encouraged to organize their own programs for creating awareness about their products and services for SMEs/ Agricultural markets.

7.2.10 Linkages with Educational and Research Institutions

While linkages with all the stakeholders in the regions assigned to the units are critical for dissemination and implementation of SBP policies, special emphasis was given on establishing linkages with educational and research institutions to introduce and orient the academia about the emerging DF market in the country. Some of the DF Field Units and CMs addressed seminars and workshops organized by educational institutions in their regions and also invited relevant faculty members in their meetings to enlighten the participants about latest findings in their field of study. The internship programs of 6-8 weeks were also arranged for students of local business and economics schools by some of the field offices. This interaction with the academia would give rise to demand for DF related courses in the educational institutions and thus would be instrumental in improving the supply of trained human resources for the growing DF market in the country. This would also help BSC in conducting research studies and surveys for better understanding and exploring the DF markets in various regions/ areas of the country.

7.2.11 Agricultural Surveys

The agricultural survey of two districts viz. Sukkur in Sindh and Gujranwala in Punjab was initiated in consultation with Agricultural Credit Department of SBP to identify the key issues faced by the sector in accessing the financial services as well as key dynamics of the agricultural activities in these two districts. The Sukkur survey project was outsourced to IBA Sukkur whereas the Gujranwala Agri-Survey project was undertaken through DFSU Gujranwala by engaging students of a local business school. The survey collected responses of 300 farming households from each district (75 from each Tehsil of each district) selected randomly. The surveys have been completed and the reports are likely to be published by 2nd quarter of FY09. During FY09 the survey of cotton belt in southern Punjab would be conducted to explore the southern Punjab agricultural and rural markets. The surveys are part of BSC's efforts to better explore the agricultural/ rural markets and thus facilitate the stakeholders particularly banks to have better understanding of the markets/ sectors. Such initiative would enable the banks to comfortably enter the new agricultural markets and design market responsive products and services.

7.2.12 SMEs Surveys

Like Agriculture Survey, the SMEs' survey of districts Sukkur and Gujranwala was also initiated in consultation with SME Finance Department of SBP to identify the key issues faced by the sector in accessing the financial services as well as key dynamics of the SME activities in these two districts. The Sukkur survey project was conducted through IBA Sukkur whereas the Gujranwala survey project was undertaken through DFSU Gujranwala by engaging students of a local business school. The survey collected responses of 300 SMEs' both manufacturing and trading enterprises from each district selected randomly. The SMEs' sample selected for Gujranwala District, which is hub of manufacturing SMEs, was skewed towards manufacturing sector as 70 percent of the respondents selected were engaged in manufacturing whereas 30 percent in trading activities. The Sukkur District sample of SMEs' was however evenly distributed amongst manufacturing and trading concerns. The surveys have been completed and the reports are likely to be published by 2nd quarter of FY09, which would provide some useful insights of the SMEs activities in these two districts.

7.2.13 Inter-provincial Agricultural Workshop

The DFSD also organized an Inter-provincial Agricultural Workshop to share and disseminate the provincial governments' initiatives and projects for facilitating the farmers in increasing the farm productivity. It was the first workshop of its kind, organized in compliance of the last ACAC meeting decision held in February 08. The workshop was attended by senior officials from MINFAL, the Agriculture and Revenue Departments of all the four provinces and AJK and a number of Agrifinance heads of commercial banks. It provided a forum to provincial agricultural departments and banks' Agrifinance heads to share their initiatives and plans for facilitating the farming community. Main decisions taken in the workshop included: (a) BSC offices to continue and strengthen the initiatives like farmers' meetings/ Agrifinance Melas at different villages/ towns, (b) SBP to explore the possibility of establishing banking booths in major towns of Sindh province and (c) the Revenue Departments of Sindh and Punjab Governments to take steps for expeditious issuance of Pass Books and automation of land records. In view of the usefulness of the forum it was also decided to organize such workshops on half yearly basis in all the provincial headquarters.

7.2.14 Crash Training Program on Agri-Credit

The crash training programs for Agri Credit Officers of commercial banks was an ACD initiative which was implemented through DFSUs in various BSC offices. The programs are aimed at capacity building of banks in agrifinance, which is too limited and has been a key impediment in the growth of agriculture finance. A total of eight programs were arranged during FY08 at various SBP-BSC offices. It provided an opportunity to agrifinance officers of banks working in various regions to interact with SBP and financial sector experts on agrifinance and thus enhance their understanding of the sector and exposure to best practices in meeting the financial services need of agriculture/ rural communities.

7.2.15 Development Finance Review 2007

Preparation of a comprehensive Development Finance Review for CY07 was another key initiative taken by DFSD to take stock of SBP and financial sector initiatives for increasing the depth and breadth of financial system and their impact on the outreach levels both country-wide and region-wise. The review discussed in details the existing outreach levels and reasons for inter-provincial and intra-provincial disparities in the flow of financial services. It highlighted the regions/ districts with highest and lowest concentration of banking facilities, particularly banks' branches and loans disbursed and outstanding. The credit absorption capacity of various districts particularly in case of agri credit was also discussed in detail. It was the first regional/ district-wise analysis made in SBP or SBP-BSC, which identified the un-banked/ under-banked areas/ regions and would be instrumental in focusing SBP and financial sector initiatives on these areas. The Review was published with some adjustments as a joint document of DFSD and DFG. It will now be a regular annual publication of DFSD.

7.2.16 Maintaining a close liaison with SBP DFG

The DFSD maintained a close liaison with SBP DFG and consulted it before initiating all the key projects. The DFSD has explicitly spelled out its objectives and mandate to avoid any confusion and duplication of efforts. While policy formulation is a prerogative of DFG, the DFSD has a mandate to disseminate and implement DFG policies at grassroots level, collect feedback on the policies and to explore the local/ regional DF markets through

research studies and surveys. Recommendations for new initiatives as well as review of the existing policies are given to DFG based on stakeholders' feedback. The DFSD of BSC thus compliments the SBP DFG efforts for development of an inclusive financial system by increasing its depth and breadth particularly in un-banked/ under-banked areas like agriculture, SMEs and micro enterprises.