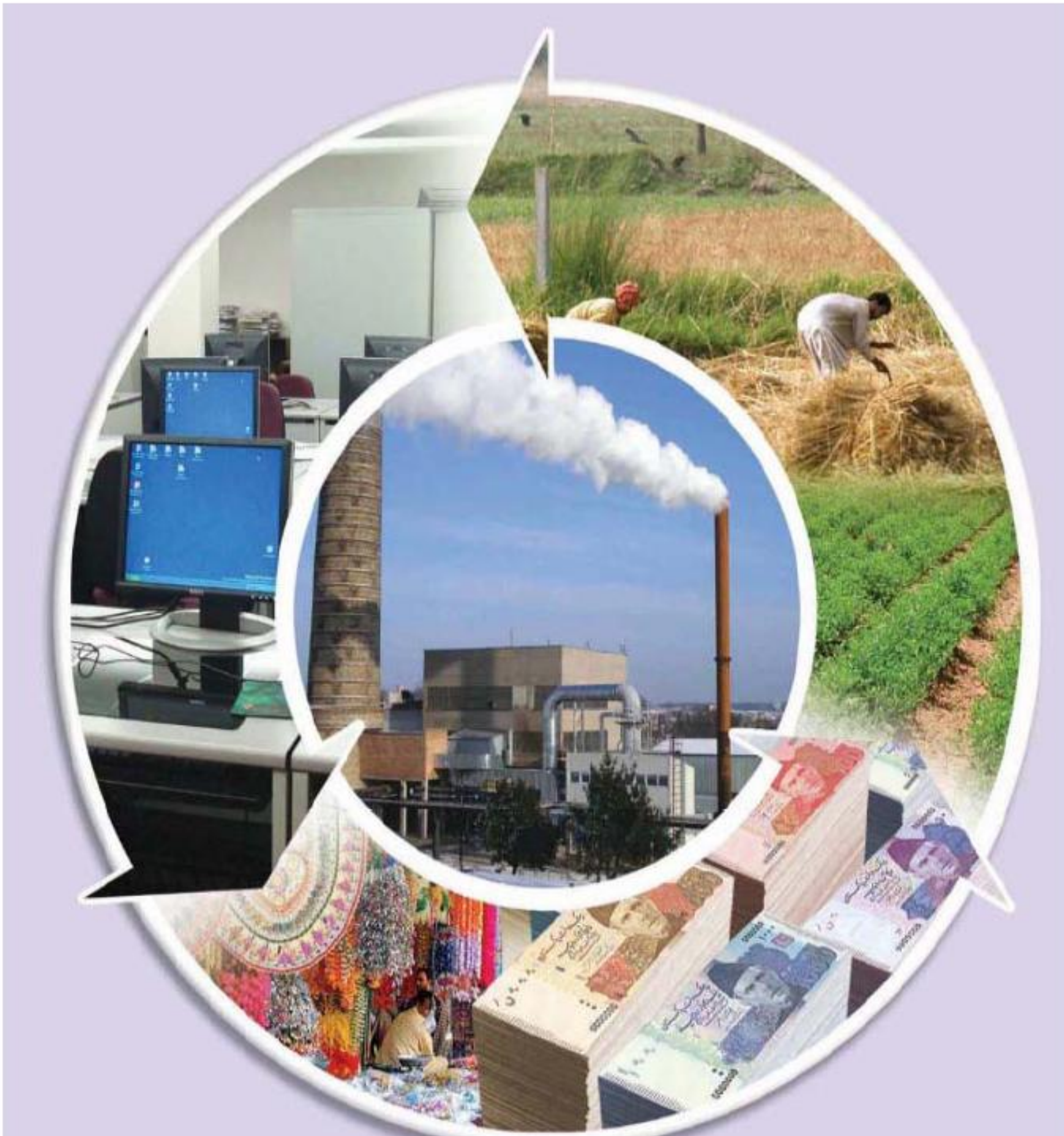
Development Finance Quarterly Review

September 2010



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EXECUTIVE SUMMARY

In the wake of the unprecedented floods and the slow economic recovery, the disbursements in loans and advance of the Development Finance (DF) Portfolio of the banking sector remained sluggish. The total outstanding amount financed to the Sector as of end September 2010 was Rs. 822 Billion which shows a marginal decline of 0.2% QoQ basis; whereas, the decline recorded YoY basis was 3.3 percent. Of the total DF outstanding amount, SME segment gets the largest share of 37.4% followed by Infrastructure, Agriculture and Micro Finance sectors with 32.5%, 20.4% and 1.3% respectively.

The stagnancy in DF Portfolio is more likely the outcome of the overall recessionary trend in various sectors of economy and deterioration in other important factors such as energy shortages, domestic law & order situation, and continuing high interest rates which has resulted in over-cautious approach of the banking industry to meet financing needs of the DF Sectors. Another major contributory factor towards declining DF portfolio is the diversion of banking funds towards investments in T-Bills as well as providing credit to the Government of Pakistan to meet the financing needs for Commodity Operations and Public Sector Enterprises.

NPLs of the Banking Industry to all sectors of economy rose by 6.6%, while NPLs of the DF Sector rose by 5.2% QoQ basis. Similarly, on YoY basis, NPLs of DF Sector increased from Rs. 140.7 Billion to Rs. 148.1 Billion, recording a rise of 7.1%. The quarterly increase in NPLs of the Agriculture Sector was 9%, Housing Finance was 4%, SME Sector was 3.1% and Micro Finance Sector at 3%. The prevailing economic conditions in the country and their resulting effects on productivity of the priority sectors of economy have also contributed to the increase in NPLs of the Development Finance Sector.

Despite the difficult economic conditions resulting in declining trend of formal financing to the DF Sectors, State Bank has taken many important steps in the past, and many in the pipeline, to influence and encourage banks to enhance their exposure and outreach in the DF Sectors. Some major initiatives are efforts for broadening the scope of Credit Guarantee Scheme to accommodate a larger number of small borrowers, Capacity Development Programs for bankers, Cluster Development Surveys, Financial Awareness Programs across the country, effective implementation of Refinancing Scheme for modernization of SMEs, special relief package for the flood-affected people/businesses and Streamlining of Agricultural Lending Procedures and Documentation.

Going forward, the current challenging economic and business environment characterized by rising interest rates, law & order situation and the ensuing declining credit demand resulting in banks' reluctance to extend credit, will continue and will adversely affect the growth in Development Finance sectors in the near future as well. However, the SBP initiatives mentioned above embody the potential to offset the adversity and severity of the situation; specially, when the Government succeeds to lessen the intensity of on-going energy crisis and improving the overall socio-economic conditions in the country.

1.0. STATE OF SME FINANCE

SME sector in Pakistan, like other priority sectors of the economy, has been experiencing difficulties due to prevailing economic extremity in the country. The end of September, 2010 witnessed that SME sector's outstanding credit stood at Rs. 307.6 Billion constituting about 9.3% of total outstanding banking portfolio, recording a quarterly decline of 3.5%. This decline is, however, in line with the 2.2% decline of the total outstanding amount of the banking industry. The decline may be attributed to many factors such as energy shortages, domestic law & order situation, high interest rates and overall shyness of the industry towards the sectors in the face of rising NPLs. Further, a major reason of this decline was also the diversion of banking funds towards investments in T-Bills as well as providing credit to the Government of Pakistan to meet the financing needs for Commodity Operations and Public Sector Enterprises.

An analysis of the enterprise wise SME share revealed that *Manufacturing SMEs* share formed 39.1%, *Trading SMEs* 43%, and Services SMEs a share of 17.8% at the end of the quarter under review. Moreover, their share in total SME outstanding borrowers was 19.1%, 51.2% and 29.7% respectively.

There has been a consistent increase in the NPLs of the whole Banking Industry by 6.6% QoQ, while NPLs of the SME Sector rose by 3.1% on QoQ that is not over and above the overall industry trends.

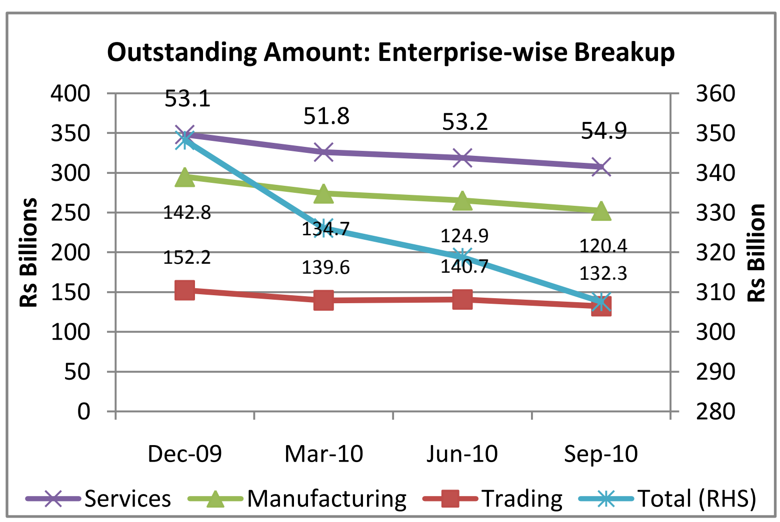
Nevertheless, the number of SME borrowers, however, witnessed an increase of about 7.2%, mainly on account of the lower end SMEs availing advances of up to 0.5 Million for working capital purpose. Whereas the total industry borrowers saw a decline of 3.1%

1.1. MAJOR TRENDS

1.1.1. OUTSTANDING AMOUNT- BREAK-UPS

Enterprise wise Break-up

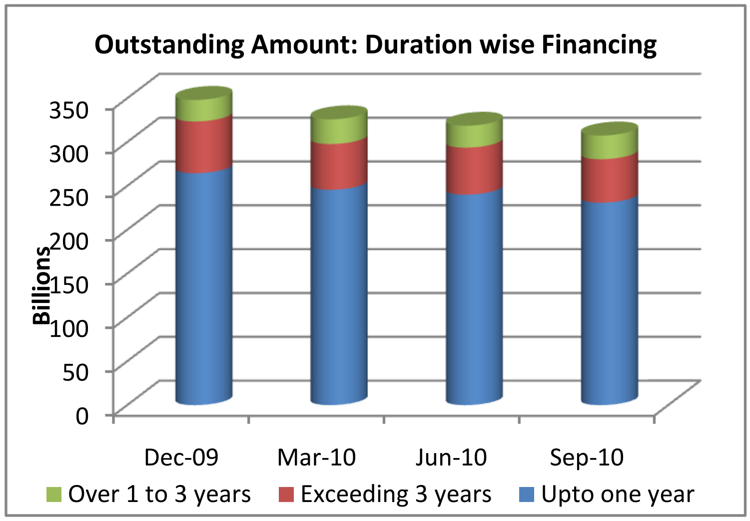
An enterprise wise break-up revealed that the absolute outstanding amount against Trading, Manufacturing and Services concerns was Rs. 132.3 Billion, Rs.120.4 billion and Rs.54.9 billion respectively at the end of September 2010. Trading and Manufacturing recorded a quarterly decline of 6.0% and 3.6% whereas the Services sector's share saw a rise of 3.1%. The trend of finances outstanding during the past four quarters is shown in Figure.



Duration wise

A duration-wise breakup of the total outstanding financing to SME sector at the end of September 2010 showed that the lion's share of about 75.1% was provided as **Short Term** financing of up to one year, while the share of **Long** and **Medium** term financing was 16.1% and 8.8% respectively.

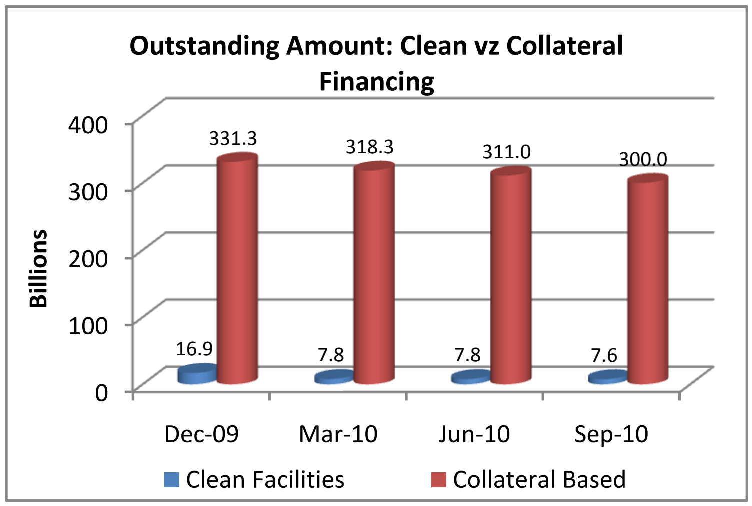
It is encouraging that the **long** and **medium** term financing witnessed a rise of about 26.5% and 2.1%, YoY basis, respectively.



Clean vz Collateral based

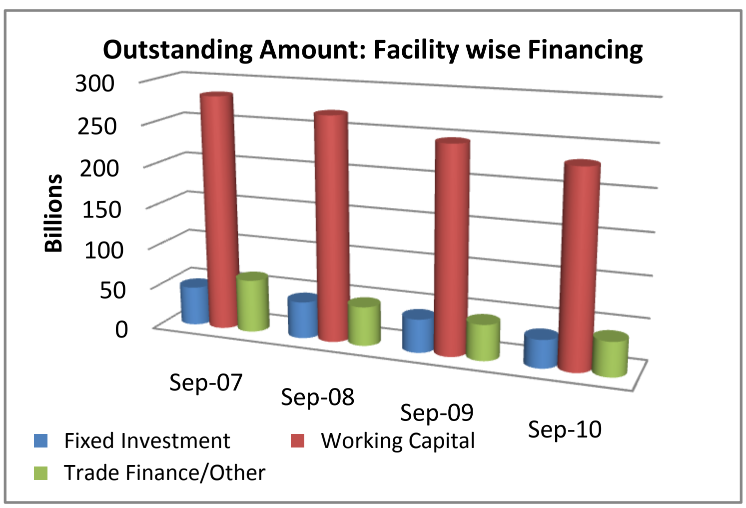
A breakup of the outstanding SME financing viz-a-viz clean and collateral based lending revealed that the major chunk of financing (97.5%) was collateral based lending only 2.5% was clean lending.

Morover, it shows that banks have yet to come up with products that should base primarily on cashflows of the borrowers instead of collaterals in order to fully utilise the SBP Clean lending limit of Rs 3 Million.



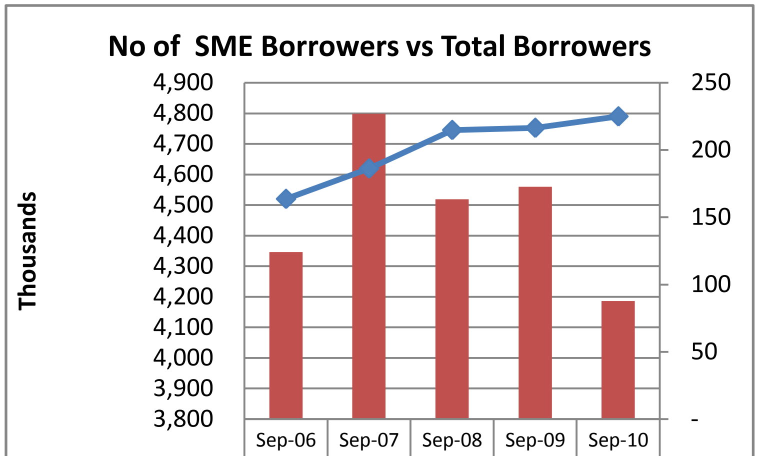
Facility wise

A facility wise breakup exhibit that the share in outstanding SME Financing viz-a-viz Fixed Investment, Working capital and Trade finance was 11.0%, 75.6%, and 13.4% respectiveley. However, each witnessed a quarterly decline of 10.1%, 1.6%, and 8.2% respectively. Here it is worth mentioning that the major portion goes against working capital. This may reflect the day to day needs of the businesses and may also portray the fact that long term investment and development by the SMEs is not considered an important business development initiative. In this regard, realizing the significance of the Fixed Investment needs of SMEs, SBP has also introduced a Refinancing facility for modernization of SMEs. Moreover, YoY trends under this category are shown in the figure.



1.1.2. NUMBER OF OUTSTANDING BORROWERS

SME outstanding borrowers stood at 225,057 constituting about 5.4% of the total number of borrowers in the banking industry and recording a quarterly rise of about 7.2% at the end of the period under review. The rise can be attributed to the fact that banks outreach towards small borrowers of ticket size of upto 0.5 Million enhanced considerably as a measure of diversifying their portfolios.



	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10
TotalBorrowers	4,346	4,798	4,519	4,559	4,186
SME Borrowers (RHS)	164	186.29	214.948	217	225

About 70.9% of the SME borrowers availed working capital finance, 26.4% Fixed Investment and the rest Trade Finance. There has been a notable growth of 37.5% during the period Sep-06 to Sep-10 in the SME number of borrowers.

Likewise, the the share of the borrowers categorized as ***Trading SMEs*** had the highest with 51.2%, followed by ***Services SMEs*** with 29.7% and ***Manufacturing SMEs*** with 19.1% at the end of the quarter under review. Besides, Trading SMEs saw a rise of 21.6% while the other two saw a decline of 3.6 and 18.0% respectively.

Similarly, a duration wise analysis of the SME borrowers revealed that the share of borrowers availing ***long term loans*** (exceeding 3 years) was 44.3% , ***Short Term loans*** (up to one year) was 34.9%, and ***Medium Term loans***(1 to 3 years) constituted about 20.8% of the total outstanding SME borrowers.

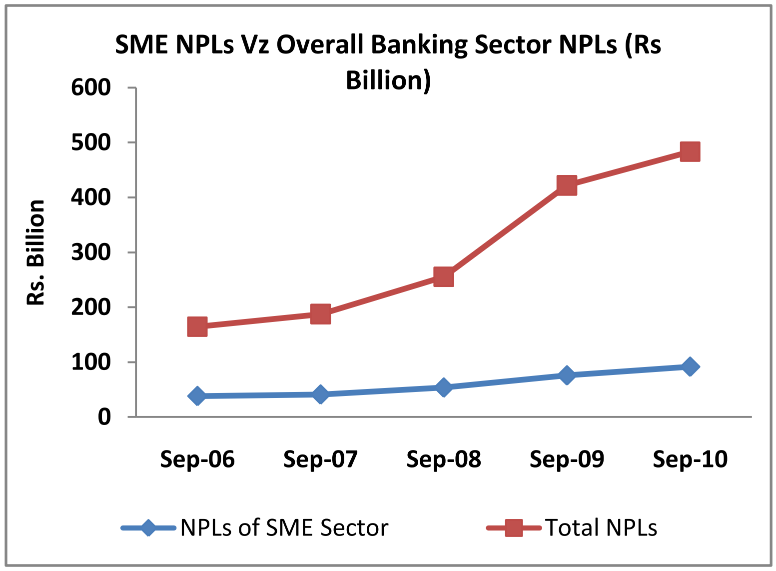
In the same way, an analysis of ***Loan Size*** wise borrowers manifest that 73.8% of total SME Borrowers fell in the bracket size of ***up to Rs. 0.5 Million (M) ,*** recording a sharp quarterly growth of 11.4%***.*** While the borrowers against the bracket size of over ***Rs. 0.5 to 1 M, Rs. 1 to 2 M, Rs. 2 to 3M, and over Rs. 3 to 5M were*** had a share of 7.6*%, 5.8%, 2.8%, and 3.3%* respectively and the rest of about 6.7% to ***over 5 Million,*** at the end of the period under consideration.

1.1.3. NON PERFORMING LOANS

The Non Performing Loans (NPLs) of SME Sector increased to Rs. 91.6 billion, constituting about 19.0% of total NPLs of the Banking industry at the end of September, 2010. The quarterly increase recorded was 3.1% as compared to a decline of 2.0% during the corresponding quarter of 2009.

Of this amount about 75.9% attributed to Working Capital finance, 15.9% to Fixed Investment Finance, and the remaining 8.2% to Trade Finance.

A closer look at the behavior of SME sector's NPLs reveals that there has been a sharp rise in NPLs since September, 2007 mainly attributed to the wave of economic slump. Further, the increase in SME NPLs is also consistent with the rise of the total NPLs of banking industry which recorded a quarterly rise of 6.6% at the end of the period under review.



1.1.4. BANKING GROUP WISE DISTRIBUTION

The share of **Public Sector Banks** i.e. NBP, FWBL, BOP and BOK constituted about 11.4% of the total SME outstanding amount at the end of the reporting period. A quarterly decline of 8.8% in their share has been recorded. Whereas their share in total NPLs of SME Sector was 18.2% and total SME Borrowers was 28.9% respectively.

Banking Sector wise Distribution (Amount in Billions) (As of September 2010)

Category of Banks	SME Outstanding			AMOUNT		NPLs		Borrowers	
	Amount	NPLs	Borrowers	Q.C	% Share	Q.C	% Share	Q.C	% Share
Public Sector	35.19	16.71	64,999	-8.8%	11.4%	0.2%	18.2%	-0.9%	28.9%
Specialized	9.62	7.96	38,571	-0.5%	3.1%	0.5%	8.7%	-0.1%	17.1%
Private	256.49	65.81	120,427	-2.8%	83.4%	4.2%	71.8%	15.2%	53.5%
Islamic	4.26	0.76	794	-7.2%	1.4%	8.1%	0.8%	-2.7%	0.4%
Foreign	1.68	0.29	239	-1.5%	0.5%	-12.2%	0.3%	-22.4%	0.1%
DFIs	0.34	0.08	27	7.2%	0.1%	0.0%	0.1%	-3.6%	0.0%
Total	307.59	91.61	225,057	-3.5%	100.0%	3.1%	100.0%	7.2%	100.0%

Q.C: Quarterly Change

Private Banks share in total SME outstanding was 83.4%, the highest among the categories of banks. This category of banks consists of 19 banks. The outstanding amount in absolute terms was Rs. 256.5 billion; however, it recorded a quarterly decline of 2.8%. Among ***Private Banks*** HBL has the highest share of 14.7% followed by NIB bank with 9.8%, Bank Alfalah with 8.4%, and ABL with 6.3% respectively in total SME financing.

Islamic Bank's share has enhanced considerably from an outstanding amount of Rs. 2.3 Billion to Rs. 4.3 Billion during the period September, 2006 to September, 2010 constituting about 1.4% of the total SME outstanding amount. However this category of banks too witnessed a quarterly decline of 7.2% at the end of the period under review. The low share of Islamic Bank's towards SME Sector is primarily due to the fact that the major chunk of their portfolio (87%) is occupied by corporate and consumer sectors.

Specialized Banks category consists of SME Bank, ZTBL, PPCBL and IDBP. The absolute outstanding amount of this category of *Banks* towards SME sector was Rs. 9.62 billion constituting about 3.1% of total SME financing at the end of the reporting period. Having a closer look at specialized banks reveals that their portfolio has been hovering around Rs. 10 billion under SME Financing for the last few years and did not witness any significant improvement, mainly on account of the diversion of their major chunk (84.8%), contributed mostly by ZTBL, towards Agricultural sector.

The absolute amount outstanding against **Foreign Banks'** was about Rs.1.68 billion forming 0.5% of the total SME financing in the country. The share of foreign banks too did not see any significant improvement as the major chunk of their portfolio targets the corporate and consumer sectors.

Finally, the total outstanding amount against **DFIs** was Rs. 0.34 Billion contributed only by the three DFIs namely ***Pak Oman Investment Company, Saudi Pak Industrial & Agricultural Investment Company*** and ***Pak Brunei investment Company Limited*****.** Development Finance Institutions have the mandate to contribute to the sectors that promote development. However, the total number of borrowers served by them was 27 at the end of the period under review. The reason for lesser share towards SME sector is due to the fact that about 96.4% of the total outstanding portfolio targeted corporate and consumer sectors of the economy.

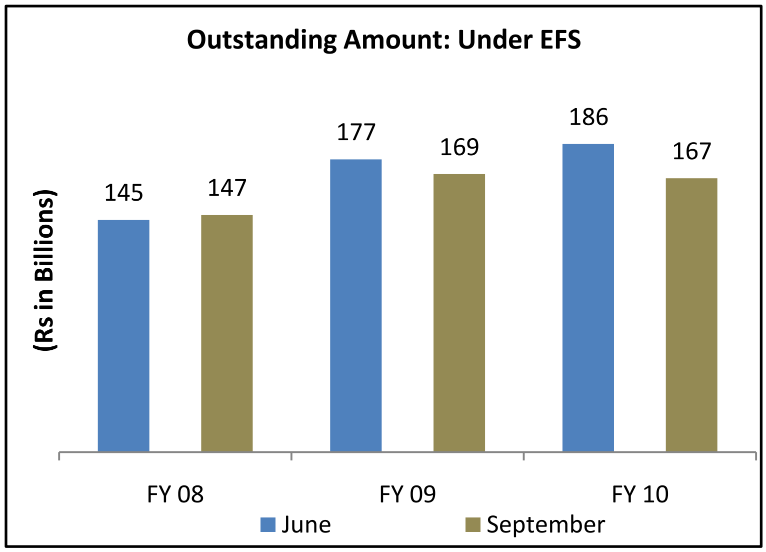
Banks/DFIs need to diversify/segment their loan portfolio as well as take cognizance regarding the significance of priority sectors for the economy. By diversifying/segmenting the portfolio into pools of loans management can evaluate them in light of the bank's portfolio objectives and risk tolerances and, when necessary, develop appropriate strategies or otherwise.

1.2. SBP REFINANCE SCHEMES

State Bank of Pakistan continued with its policy to rationalize the mark up rates on the Export Finance Scheme (EFS) and Long Term Financing Facilities (LTFF) scheme with the objective to reduce distortions in the credit markets. To facilitate the exporters, an extension of one month for export proceeds realization was allowed to meet shortfall in required performance under Part-II for the monitoring year 2009-2010.

SBP continued to provide financing under Export Finance Scheme (EFS) for export promotion and LTFF for meeting long term requirements of export industries. Financing limits under EFS were increased to Rs 237 billion for the FY 10-11 from Rs. 232 billion in FY 09-10. Under LTFF, the fresh financing limits of Rs. 19.5 billion were allocated for the year FY 10-11.

Outstanding financing under EFS was Rs. 167 billion at the end of Sep'10, which showed a slight decline from Rs. 169 billion of previous year due to adjustments in Part-II of the scheme as a result of rollover and allocation of new limits to exporters. However, the amount of disbursements made under EFS has been substantial compared to previous quarter mainly due to rollovers after 31st August, 2010. Under the Long Term Financing Facility the outstanding financing increased to Rs 20 billion from Rs 17 billion in previous quarters.



1.2.1. EXPORT FINANCE SCHEME (EFS)

The current quarter under review usually experiences a decline in outstanding financing under EFS due to adjustments made under Part-II of the scheme. This is a temporary phase in which the exporters adjust the outstanding financing till allocation of new limits. During the quarter under review the EFS outstanding amount stood at Rs 167 billion as on September 30th, 2010. The EFS limits were increased to Rs 237 billion from Rs 232 billion as compared to previous quarter (Jun-2010). At the end of quarter financing under EFS witnessed a decline of Rs 18 billion as compared to previous quarter, and a reduction of Rs 2 billion when compared to the same quarter of preceding year. The disbursements during the quarter increased by Rs 154 billion (Part-I Rs 31 billion & Part-II Rs 123 billion) against Rs 85 billion in June-2010.

1.2.2. BANKING GROUP-WISE UTILIZATION OF EFS

The Private Sector Banks stand as a major banking group participating in the Export Finance Scheme with highest share in the outstanding EFS at Rs 146 billion (87%), followed by Public-sector Banks with Rs 9 billion (5%). Compared to June 2010 quarter, a major decline in outstanding of Rs 17 billion is exhibited in private sector banks. Compared to previous year, the outstanding figures of Islamic Banks (under the Islamic Export Refinance Scheme) exhibits the highest increase of 31%, whereas a decline of 21 % has been observed in Public Sector banks.

Outstanding Amount: Banking Group Wise Position of EFS				
Banking Group	Sep-10	Jun-10	Sep-09	Δ YoY
	(Rs in Billions)			%
Public Sector Banks	9	11	11	-18.2
Private Sector Banks	146	163	148	-1.4
Islamic Sector Banks	5	5	4	25
Foreign Sector Banks	7	8	7	0
Total	**167**	**186**	**169**	**-1.2**

1.2.3. COMMODITY WISE DISTRIBUTION OF EFS

The commodity-wise trend exhibits textile sector at the top with Rs 113 billion (68%) of the total amount of Rs 167 billion followed by edible goods with Rs 17 billion (10%). Both the sectors showed a decline of 2% and 37% respectively, compared to June-2010 quarter. On YoY basis edible goods increased by 14%, due to the increase in share of rice exports which occupy 84% of the edible goods financing pie. The maximum increase of 32% was attributed to the Carpet sector compared to Jun-10 position, whereas YoY basis it showed highest decline of

Outstanding Amount: Commodity Wise Financing under EFS					
Sector	Sep-09	Jun-10	Sep-10	% Change	
		Billion PKR		YoY	QoQ
Textile/Textile Products	110.3	115.0	112.8	2.3%	-1.9%
Edible Goods	19.6	26.7	16.9	-13.8%	-36.7%
Leather/Leather Goods	8.8	10.8	10.4	18.2%	-3.7%
Machinery	0.8	1.4	1.2	50.0%	-14.3%
Metal Products	2.6	3.0	2.5	-3.8%	-16.7%
Carpets	2.0	2.8	3.7	85.0%	32.1%
Sports Goods	2.8	2.8	2.5	-10.7%	-10.7%
Other Commodities	22.5	23.0	17.1	-24.0%	-25.7%
Total	**169.3**	**185.5**	**167.1**	-1.3%	-9.9%

85% due to decline in exports of carpets during FY 09-10. In order to support the sector in June 2009 and then in 2010, relaxations were given to the exporters of Hand knotted Carpets as the required performance for financing under EFS Part-II was reduced to 1.50 times as against existing performance requirement of 2.0 times.

1.2.4. BORROWER WISE DISTRIBUTION OF EFS FUNDS

During the quarter, the total number of borrowers under EFS stood at 1,655 with an average loan size of Rs. 104 million. A decrease of almost 10 % was recorded in total number of borrowers during the quarter under review as compared to previous quarter. This decrease may be due to discontinuation of loans by some exporters under EFS Part-II, as exporters are required to adjust their outstanding loans by end of each fiscal year so as to avoid excess availment of loans under the Scheme during next fiscal year.

1.2.5. REGIONAL ALLOCATION OF BORROWERS

No change was observed in region wise allocation of EFS Borrowers. According to banks' data for the quarter ended September 30, 2010, up to 90% borrowers are still from the four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad, where only Karachi & Sialkot has more than 65% of total beneficiaries under the Scheme. Similarly, almost 95% EFS funds are accumulated in these four cities and almost 50% funds have been availed by only Karachi based exporters. The average loan size availed by borrowers under EFS varies from region to region. For instance, the average loan size is Rs. 144M at Rawalpindi, while at Sialkot the same is Rs. 17M. As such inconsistent patterns have been witnessed with regard to average loan size and number of borrowers across the regions. There were just 8 borrowers at Rawalpindi at the end of September 2010 as compared to 540 borrowers at Sialkot at the same period. Likewise, the number of borrowers and the borrowing capacity of borrower/exporter are different at different regions.

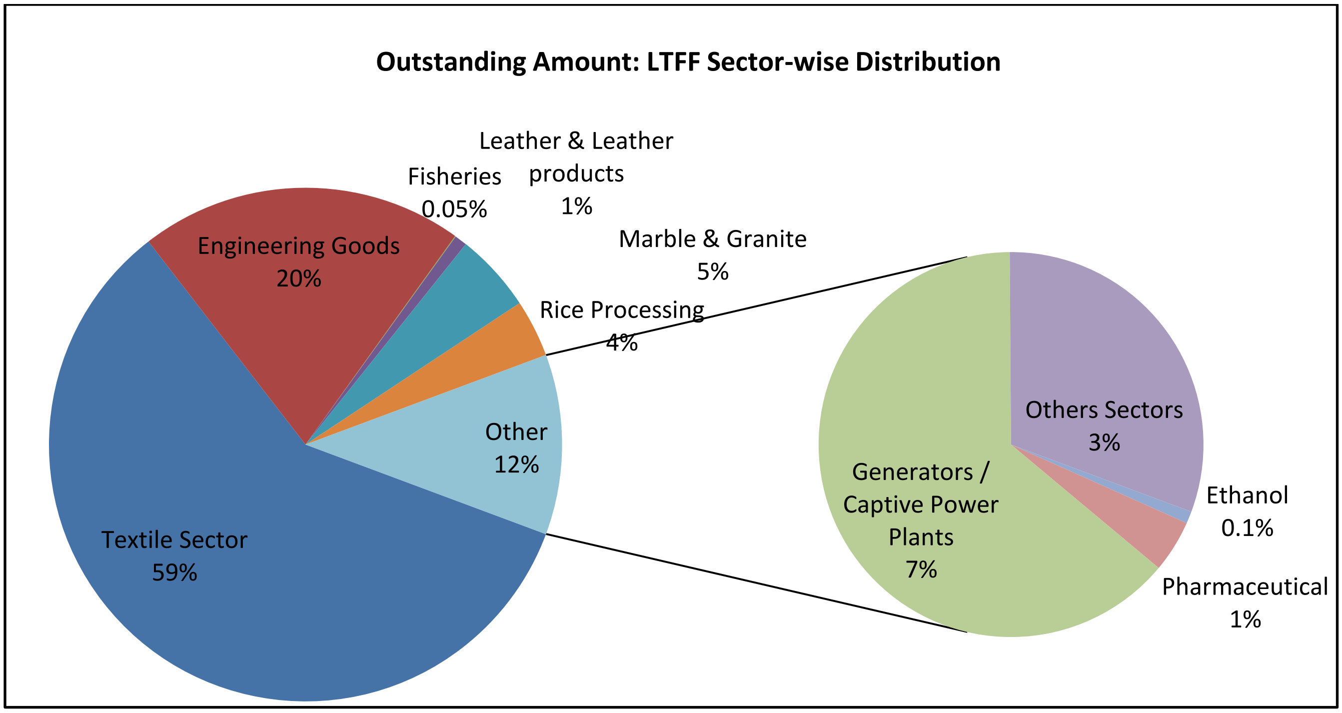
1.2.6. ISLAMIC EXPORT REFINANCE SCHEME (IERS)

During the quarter under review the total number of participating banks was 11 (4 Islamic Banks, 6 Conventional Banks' Islamic Banking Operations and 1 Foreign Islamic Bank). The limits assigned under the scheme were increased by 3% (to Rs. 19.7 billion from Rs 19.2 billion in Jun'10). The total IERS financing outstanding at the end of the quarter stood at Rs 10 billion, which fell by 9% from previous quarter's Rs 11 billion.

1.2.7. LONG-TERM FINANCING FACILITIES (LTFF)

Under the Long Term Financing Facility for Plant and Machinery, limits were renewed upto 19.5 billion. During the quarter Rs 4.5 billion were disbursed; the outstanding amount increased by 19% from Rs 16.85 billion in Jun'10 to Rs 20.11 billion as on 30th Sep'10.

Under LTFF major portion of financing was contributed towards Textile Sector with Rs. 11.8 Billion (59%), followed by engineering goods, with Rs 4 billion (20%). Within the Textile sector major financing was availed by weaving textiles. The ***graph*** provides a sector wise utilization of funds under the scheme.



During the quarter, adjustments of Rs 2 billion were made under LTF-EOP (defunct scheme), and the outstanding position of LTF EOP as on June-10 stood at Rs 23 billion. Thus, the total long term financing outstanding under LTFF and LTF-EOP stood at Rs 43 billion.

2.0. STATE OF MICROFINANCE

The main highlight of the current quarter is the devastating floods that gripped most parts of the country. Despite the expected negative fall-outs, microfinance sector has seen positive trends in many indicators as evident from the table below. However, PAR> 30 to loan ratio has witnessed a slight increase from 2.58% to 3% over the quarter.

The recent increase in NPLs is contributed more by factors other than the floods. A few MFBs are not only slowing their growth but also seeing deterioration in their portfolio quality. However, the market share of such MFBs is small; hence the overall impact is not as such worse. The large MFBs have either maintained their NPL levels or there is only fractional increase. The upcoming quarters will expose the true picture of the impact of flood damages on the microfinance sector.

Deposits of the sectors have witnessed an upward move, and this increase is attributable largely to increase in fixed deposits. Positively, outreach of the sector has increased both in terms of borrowers and depositors. The number of borrowers has increased to 694,249; however, the current percentage increase is less compared to the last quarter.

The number of depositors over the year has tremendously increased by 43%. Total number of branches remained unchanged, however, composition of branches has seen minor change. Both Khushahli bank and Tameer bank have opened two and one new branches respectively while First Microfinance bank has closed its three branches.

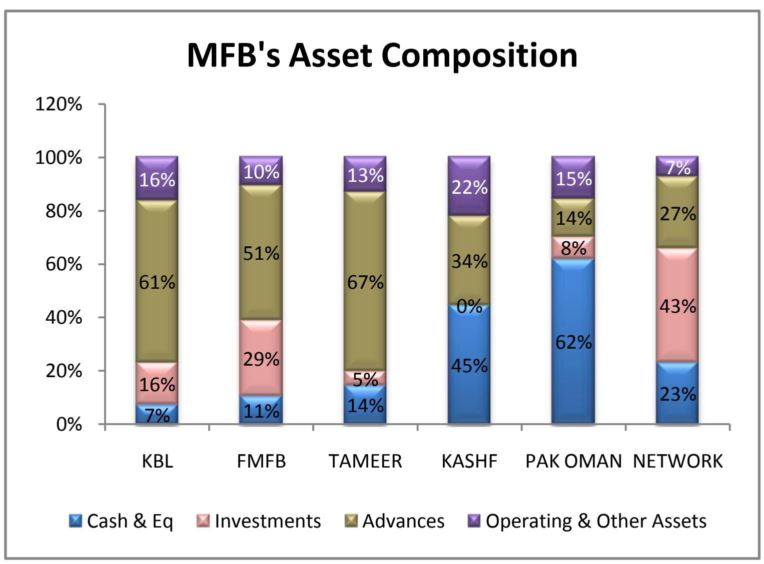
*Amount in Rs. '000'

Outreach	Sep-09	Jun-10	Sep-10	Growth	
				(YOY) %	(QoQ)%
Borrowers	656,107	667,268	694,249	6	4.0
Advances *	8,918,507	10,121,889	10,465,688	17	3.4
NPLs*	228,131	260,787	323,855	42	24.2
Deposits*	5,812,493	8,122,596	8,328,789	43	2.5
Assets*	16,492,680	18,754,256	19,077,226	16	1.7
Equity*	5,096,803	5,279,341	5,154,012	1	-2.4

In wake of floods, State Bank of Pakistan formed a microfinance committee for developing recommendations for the revival of economic activities in flood affected areas of country. The sector is taking steps that will minimize the losses that may accrue as a result of floods. In addition, the sector is keen to fresh lending to borrowers in flood hit areas. In this regard, SBP is already taking measures to support the efforts of the sector.

2.1. ASSETS

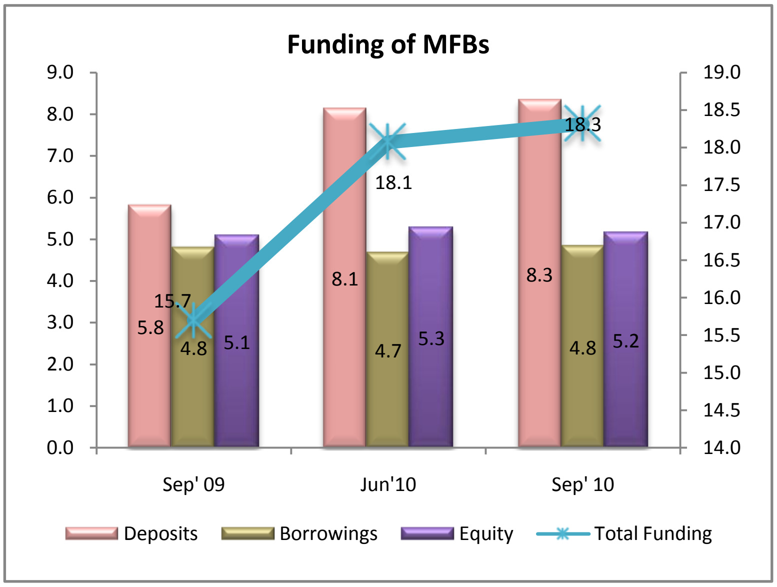
The asset base of MFBs has shown slight improvement during the quarter as its value increased by 1.7% to Rs. 19.07 billion as of September 2010. However, improvement over the year indicates a sustainable growth of 16%. The 'Advances' are still a big part of total assets while holdings in liquid assets have decreased over the quarter. Compared to last quarter and even last year's corresponding month, advance to total assets ratio has witnessed a remarkable increase, and is at 55% in September 2010 indicating MFBs are more efficiently utilizing their assets. Operating assets have increased by 1 percent while percentage share of investments in total assets is almost the same.



As far as share of advances in composition of balance sheet is concerned, Tameer bank is leading other MFBs followed by Khushhali Bank and First Microfinance Bank. The share of advances to total assets is expected to increase in next quarters due to increased focus on up-scaling and lending to enterprises.

2.2. FUNDING

Total funding of the sector has seen marginal increase from Rs. 18.1 billion to Rs. 18.3 billion over the quarter. The composition of funding is unchanged except with a slight decrease in equity and increase in deposits. Equity of almost all MFBs except KBL has witnessed a slight decrease over the quarter. However over the year it has increased by 1%. Deposit comprised of 43% of the funding structure. Share of deposits to total funding is increasing over the quarter. The drive to build deposit base is mainly led by FMFB followed by TMBL and KMBL. Deposits of KBL and Network Microfinance Bank Limited have reduced over the quarter. Bank borrowings have also increased by 1%.



2.3. ADVANCES

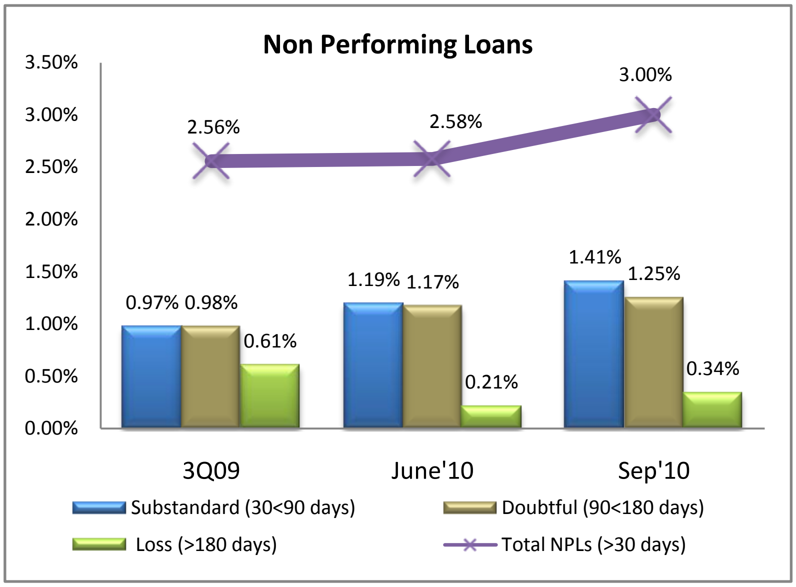
Advances are increasing gradually but the current increase rate is less than that of the last quarter. Lending to agriculture sector has slightly increased by 1% while lending to microenterprises has decreased by 3%. KB has mainly contributed in the current growth of agriculture & livestock sector. Lending to microenterprise has been shifted to the category 'other' because of the recent emergence of consumer lending offered by few MFBs. Lending in 'others' has increased by 14 percent on quarter basis. From the above, it appears that outreach of microfinance is seeing both growth and diversification.

Sectoral Advances	QoQ Growth
Agri - Input	8.2%
Livestock	1.1%
Microenterprises	-11.9%
Others	13.6%
Advances (Total)	3.5%

As far as the composition of advances is concerned, agriculture financing still dominates with 36% of share in total advances. 'Other' category has now become the second largest segment financed by MFBs, standing at 26% of total advances at the quarter end. The share of microenterprises to total advances has slightly reduced by 3% and stood at 20%.

2.4. NON PERFORMING LOANS

The NPLs have fractionally increased from 2.58% to 3% QoQ basis, and 2.56% to 3% YoY basis. The recent increase in NPLs is contributed more by the factors other than the floods. However, the market share of such MFBs is small; hence the overall impact is not as such worse. The large MFBs have either maintained their NPL levels or there is only fractional increase. The upcoming quarters will expose the true picture of the impact of flood damages on the microfinance sector.

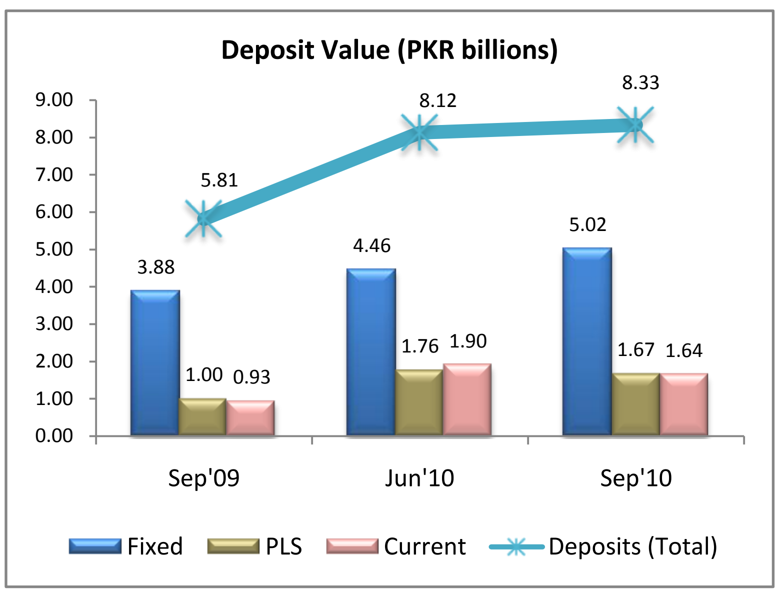


2.5. GENDER

During the quarter, lending by MFBs remained tilted largely towards male borrower. Number of female borrowers has reduced by 1% during the quarter. However, average loan size of female has been marginally increased from Rs. 11,369 to Rs. 11,504 and from Rs. 16,787 to Rs. 17,148 of male borrowers.

2.6. DEPOSITS

Deposits have witnessed a slight growth of 2.5 percent in current quarter. The growth is because of increase in fixed deposits only and the main contributors to fixed deposit increase are Tameer Microfinance Bank and Kashf Microfinance Bank. Saving and current deposits have witnessed a negative growth rate across the board in the sector. The trend may partly be attributable to withdrawal in flood affected areas where depositors rushed to withdraw their funds to survive in disaster. However, on year-on-year basis, saving and current deposits have shown remarkable growth of 66 % and 76% respectively. Moreover the average deposit has also declined from Rs. 12,000 in June 2010 to Rs. 11,400 in September 2010.



3.0. STATE OF AGRICULTURE FINANCE

An indicative agriculture credit disbursement target of Rs 270 billion was proposed by SBP for banks for FY 2010-11. The proposed target is 8.8 percent higher than the actual credit disbursement of Rs. 248 billion during FY 2009-10. Out of the total target, Rs 181.3 billion were allocated to commercial banks, Rs 81.8 billion to ZTBL and Rs 6.9 billion to Punjab Provincial Cooperative Bank Limited.

3.1. AGRICULTURAL CREDIT DISBURSEMENTS (JULY-SEPTEMBER 2010-11)

During the quarter under review banks have disbursed Rs 41.6 billion or 15.4% of the proposed target of Rs 270 billion compared with disbursement of Rs 44.1 billion during corresponding period last year.
Annual credit targets and actual disbursements by banks during first quarter of FY 2010-11 and FY 2009-10 are given in Table.

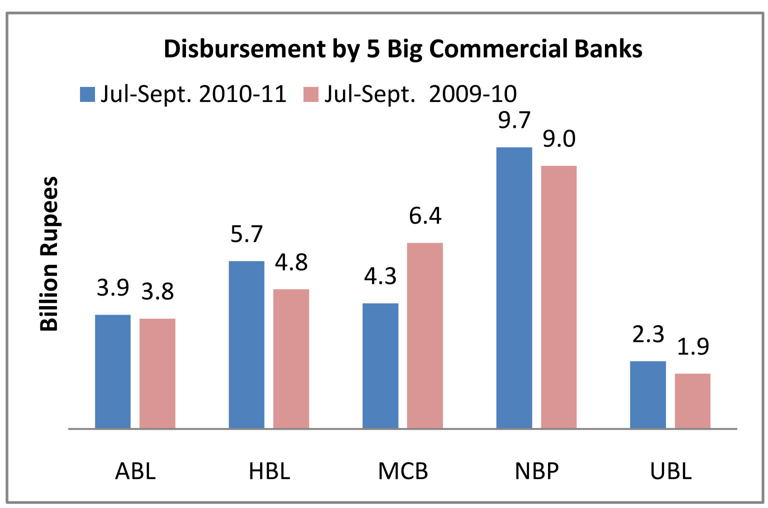
Agricultural Credit Targets and Disbursement (Rs. Billion)

Banks	Proposed Targets 2010-11	Disbursements FY 2010-11			Target 2009-10	Disbursements FY 2009-10		
		Flow (Jul-Sep) 2010-11	%age Achievement	%age Share		Flow (Jul-Sep) 2009-10	%age Achievement	%age Share
5 Big Comm. Banks	132.4	25.9	19.6	62.3	124.0	25.8	20.8	58.6
ZTBL	81.8	5.3	6.5	12.7	80.0	9.9	12.3	22.3
DPBs	48.9	9.4	19.2	22.6	50.0	7.8	15.6	17.7
PPCBL	6.9	1.0	14.5	2.4	6.0	0.6	10.0	1.4
Total	**270.0**	**41.6**	**15.4**	**100.0**	**260.0**	**44.1**	**17.0**	**100.0**

Source: Agricultural Credit Department, State Bank of Pakistan

Bank-wise break up of agriculture credit disbursements revealed that during July-September 2010-11 five major banks as a group disbursed Rs 25.9 billion or 19.6 percent of their whole year's targets, ZTBL disbursed Rs 5.3 billion or 6.5 percent of its targets, Domestic Private Banks (DPBs) disbursed Rs 9.4 billion or 19.2 percent of their targets and PPCBL disbursed Rs 1.0 billion or 14.5 percent of its allocated target.

The comparative position in corresponding period reflects that performance of DPBs &



PPCBL in terms of disbursements have shown some improvement, whereas, five major commercial bank's disbursement as a group remained in line with its last year disbursement trends. However, the performance of ZTBL showed a declining trend as its disbursement decreased to Rs 5.3 billion from Rs 9.9 billion. The main reason for the low disbursement is the devastating effect of recent flood which badly affected commercial banks' performance in general and ZTBL's in particular due to its massive outreach in the country.

3.2. PROVINCE-WISE DISBURSEMENTS

A province wise distribution of credit shows that Rs 36 billion was disbursed in Punjab during first quarter of 2010-11 and its share in total agriculture credit disbursement has increased to 86.6 percent from last year's 83 percent.

Banks disbursed Rs 4.3 billion in Sindh and Rs. 1.1 billion in KPK and their shares have declined from 13.2 percent to 10.2 percent & from 3.0 percent to 2.7 percent respectively. The share of other provinces and regions remained negligible in agriculture credit due to low absorption capacity, law and order situation and inadequate supply of credit. Details of province-wise disbursements, vis-à-vis targets achieved during first quarter of FY 2010-11 and FY 2009-10 are given in Table.

Province-wise Indicative Agriculture Credit Targets and Disbursement

(Billion Rupees)

Province	Proposed Target 2010-11	Disbursement			Target 2009-10	Disbursement		
		Flow (Jul-Sept.) 2010-11	%age Achievement	%age Share		Flow (Jul-Sept.) 2010-11	%age Achievement	%age Share
Punjab	210.6	36.0	17.1	86.7	202.8	36.6	18.1	83.0
Sindh	37.8	4.3	11.1	10.1	36.4	5.8	16.0	13.2
Khyber Pakhtunkhwa	16.2	1.1	7.0	2.7	15.6	1.3	8.6	3.0
Baluchistan	4.1	0.1	1.2	0.1	3.9	0.1	3.6	0.3
AJK & Gilgit-Baltistan	1.4	0.1	9.8	0.3	1.3	0.2	15.2	0.4
Total	**270.0**	**41.6**	**15.4**	**100.0**	**260.0**	**44.1**	**17.0**	**100.0**

Sector-wise classification reveals that the decline in Agriculture Credit was due to slow credit off-take in farm credit due to recent floods whereas the flow of credit to non farm sector showed partially improvement. Out of total disbursements of Rs 41.6 billion, an amount of Rs 26.1 billion or 62.7 percent was disbursed to farm- sector and Rs 15.5 billion or 37.3 percent to non-farm sector. Last year, an amount of Rs 29.7 billion or 67.3 percent was extended to farm sector and Rs 14.4 billion or 32.7 percent was disbursed to non-farm sector.

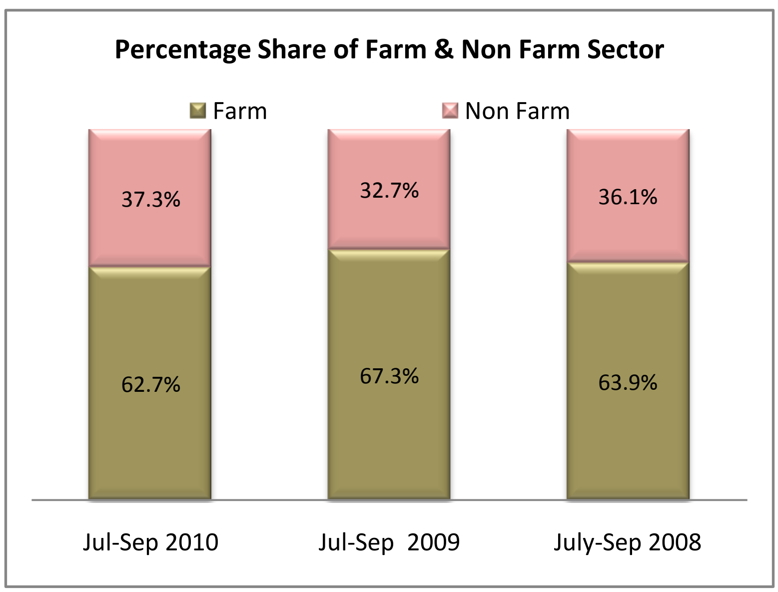
The share of non-farm sector shows continuous increasing trend and its share in total credit disbursements increased from 17.4 percent in 2006-07 to 37.1 percent in 2010-11. Major sources of sustained rise in disbursement in this sector are livestock, poultry and fisheries sub-sectors, respectively. High prices of meat, fish and export of livestock attracted investment in non-farm sector.

Credit Disbursement to Farm & Non-Farm Sectors

			(Billion Rupees)
Sector		2010-11	2009-10
		Jul-Sep 2010	Jul-Sep 2009
A	**Farm Credit**	**26.1**	**29.7**
1	**Subsistence Holding**	**15.0**	**18.5**
i	*Production*	14.2	16.0
ii	*Development*	0.8	2.5
2	**Economic Holding**	**7.1**	**6.9**
i	*Production*	6.8	6.8
ii	*Development*	0.2	0.1
3	**Above Economic Holding**	**4.0**	**4.3**
i	*Production*	3.8	4.1
ii	*Development*	0.2	0.2
B	**Non-Farm Credit**	**15.5**	**14.4**
1	Small Farms	3.4	2.5
2	Large Farms	12.1	11.9
	Total (A+B)	**41.6**	**44.1**

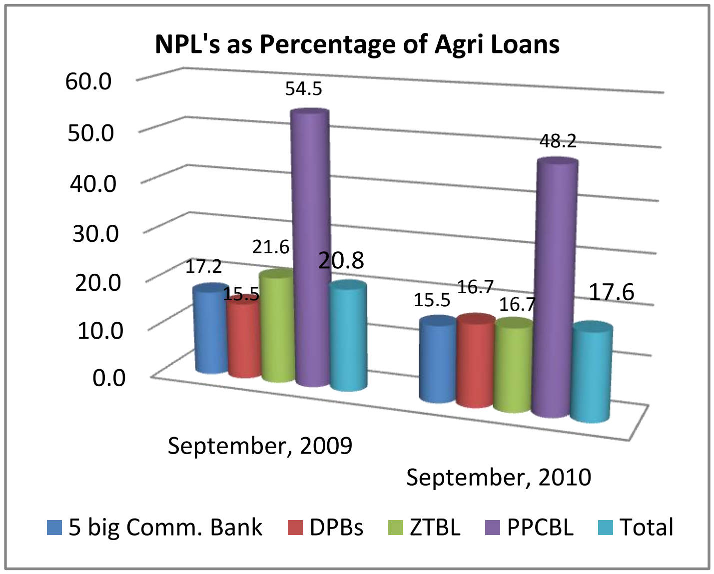
3.3. AGRICULTURAL CREDIT RECOVERY

During the quarter banks recovered Rs 49.8 billion or 61.5 percent of recoverable amount of agriculture Loans, compared with Rs 40.6 billion or 56.9 percent recovered of recoverable amount during the same quarter last year. The five major banks recovered Rs 34.0 billion or 80.2 percent of the recoverable amount compared with Rs 25.4 billion or 71.6 percent of amount recoverable in the corresponding period last year. ZTBL recovery position remained on lower side and it recovered Rs 4.7 billion or 27.4 percent



of the recoverable amount compared with Rs 6.4 billion or 38 percent of amount recoverable last year. DPBs continue to concentrate on recovery derive and recovered Rs. 10.1 billion or 78 percent of the recoverable amount compared with Rs 8.1 billion of Rs 12.8 billion recoverable amount. However, PPCBL recovered only Rs 1.0 billion or 12.0 percent of recoverable amount.

3.4. AGRICULTURE NON-PERFORMING LOANS



Non-performing loans in agriculture financing stood at Rs 30.2 billion or 17.6 percent of the outstanding loans as on 30th September, 2010 compared with Rs 34.5 billion or 20.8 percent of the outstanding loans as on 30th September, 2009. Group wise NPL as Percentage of Agriculture Loans is given in Figure.

3.5. NUMBER OF BORROWERS

Agriculture Loan borrowers were 1.847 million as on 30th September, 2010 as against 1.898 million as on 30th September, 2009. Bank-wise position of outstanding number of borrowers reveals that decrease in number of borrowers was witnessed in almost all categories of banks except HBL, NBP, Askari Bank, KASB & BOK which have improved their stock of agriculture borrowers. Recent floods, high mark up rate, untimely availability of credit and high risk profile of the sector contributed in decline in outstanding number of borrowers over the period.

4.0. STATE OF HOUSING FINANCE

In Pakistan, rapid urbanization has become a challenge for increasing number of people. Studies indicate that lack of finance from a formal source is primarily a supply-side problem. Most of the housing finance is arranged through personal resources. The formal financial sector caters to only 1 to 2 percent of all housing transactions in the country, whereas the informal lending caters up to 10-12% of such transactions. Presently, the formal financial sector provides housing support through two major sources namely the Government owned House Building Finance Corporation (HBFC) and private commercial banks.

The property development industry suffers from low public confidence. Financial weaknesses and the absence of clear, uniform and fair business practices have affected its credibility contributing to the reluctance of financial institutions in providing development and construction finance. There is a strong need to strengthen the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue record. These steps will enhance the financing by the formal sector. Weakness in the existing legal framework also impedes the financing opportunities of the formal financial sector. Though the Financial Institution Recovery Ordinance, 2001 empowers the financial institutions to foreclose a mortgage property without recourse to the court of law, lack of full implementation of the recovery law in its letter and spirit dilutes its effectiveness in protection of rights of the respective parties, i.e., the financial institutions, mortgagors, landlords and tenants, thus needing a major improvement.

Although the regulatory framework for land registration and transfer regime exists in Pakistan, the process by which land is acquired and registered is cumbersome at times, because of number of institutions and registration procedures required to execute property transactions. Land records are manually maintained leading to errors and omissions and resultantly they have modest commercial value for the mortgagee financial institutions especially in rural and some urban areas. The lack of efficient and reliable system of ascertaining the bona-fide of property titles has forced banks to limit the access of housing finance to a certain number of urban localities within the urban centers.

National and local master plans for town planning and housing facilities are either inadequate or poorly enforced, which lead to inefficient allocation of land and uncontrolled urban development. Lack of transparency and accountability in the planning process also give opportunities to land grabbers/mafias to have valuable inside information as to future infrastructure developments or to be able to influence such plans so that value of its land increases. Over-restrictive building codes and laws on subdivision limit the efficient use of urban land and increase the price to consumers, especially in zones having relatively higher prices of lands in high land price zones. Moreover, the large scale projects often get delayed due to failure of utility companies in connecting new housing developments in time.

The “property valuers” have professional conduct requirements that were established by SBP and the Pakistan Banks’ Association (PBA), whereas majority of real estate builders and developers are working as sole proprietorships or partnerships with limited capital and informal corporate governance structures. Absence of sound governance structure within the housing developer industry creates lack of good practices, illegal construction, unreliable building permits, and legally unprotected advance purchase of units that are required to be built in future. The unstructured and unsupervised nature of business of real estate brokers/ agencies, which could serve as natural arrangers for the provision of financial services, is also a significant constraint to the provision of housing and housing finance. Consequently, it is difficult for financial institutions to verify the character, capital, and capacity of potential clients. Risk assessment and portfolio valuation is also fragile, which is another factor for the lenders' extreme caution for transaction initiated by these venture. As a result, financial institutions are reluctant to enter this market, which in turn causes scarcity of finance and constraints in the supply of housing. In the absence of the formal arrangements between the housing developers/real estate agents etc and financial institutions, the protection of individual purchasers remains limited as the market is dominated by cash transactions with limited availability of systematic information in a transparent manner. Without using a strong regulatory authority to enforce corporate governance and allied standards for this stratum of business entrepreneurship, the quality of availability of housing facilities across population spectrum will not improve.

At present, 29 commercial banks, House Building Finance Company (HBFC) and one DFI is catering to housing finance needs. HBFC is the only specialized housing bank in the country, which has been providing housing finance to public since 1952. Commercial banks entered the mortgage business during 2003 contributing very small share in the housing finance system. Although HBFC's share in the total housing finance has reduced in absolute terms, it is still the only institution that continues to cater to the lower-middle and low-income groups and enjoys the largest customer base.

After demonstrating a promising growth trend till 2008, the housing finance sector is showing a declining trend. The total outstanding reported by banks and DFIs as on Sep 30, 2010 was Rs. 68.60 billion as compared to Rs. 76.66 billion as on Sep 30, 2009; a decline of 10.51**%**. The total number of outstanding borrowers has also decreased from 115,959 to 100,214 since Sep 2009; showing a fall of 13.59%.

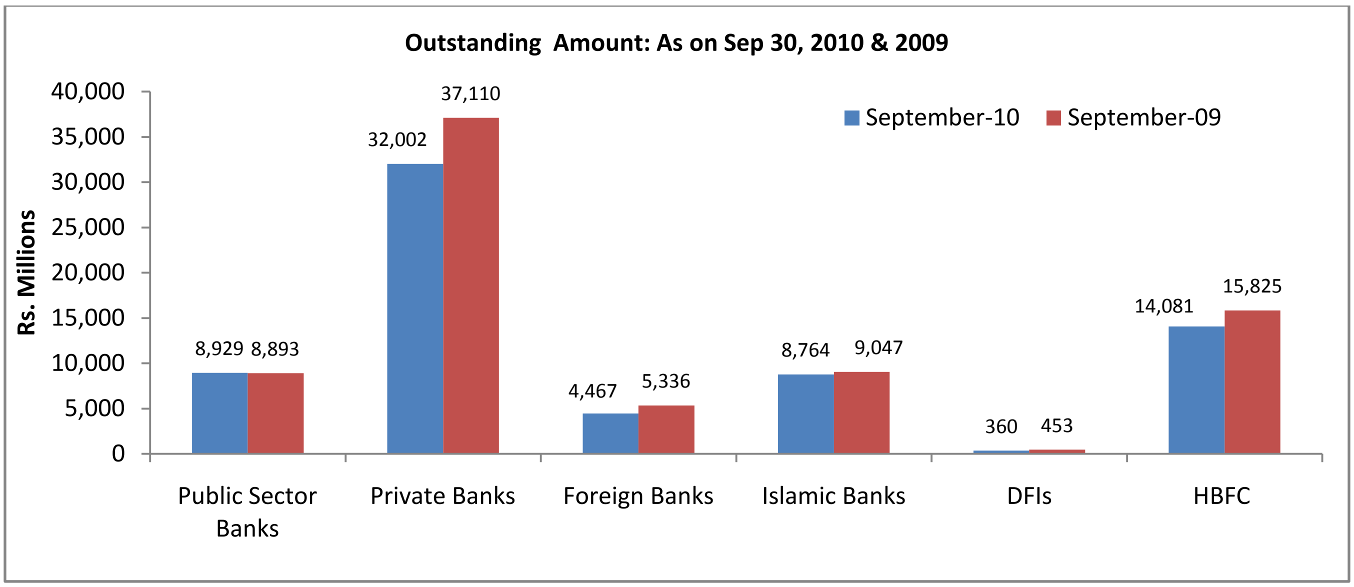
Non-performing loans have increased from Rs. 15.26 billion (Sep 2009) to Rs. 18.10 billion (Sep 2010); a 18.67% increase over the year. However, this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

Approximately 773 new borrowers were extended house loans during the quarter, accounting for Rs. 1.65 billion of new disbursements. HBFC accounted for 32.72% of these new borrowers and contributed 11.51% of the new disbursements equivalent to Rs. 190 million.

Financing for outright purchase continued to dominate other sectors (construction and renovation) by comprising almost 57% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 32% and 11**%** respectively.

4.1. GROSS OUTSTANDING

The total outstanding finance as on Sep 30, 2010 of all banks and DFIs stood at Rs. 68.60 billion. Compared to quarter ending Sep 30, 2009, outstanding of all commercial banks and DFIs collectively decreased by 10.51%. Banking sector-wise total outstanding on quarters ending Sep 30, 2009 & 2010 are shown in Figure. Of the total outstanding finance commercial banks accounted for Rs. 54.16 billion; a 10.31% decline since quarter ending Sep 30, 2009. Private Banks reported Rs. 32 billion followed by public sector banks of Rs. 8.93 billion, Islamic banks of Rs. 8.76 billion and foreign banks with Rs. 4.46 billion. The outstanding loans of HBFC were Rs. 14.08 billion; down by 11.02% over the last year. Other DFIs have a meager share of Rs. 0.360 billion in outstanding loans.

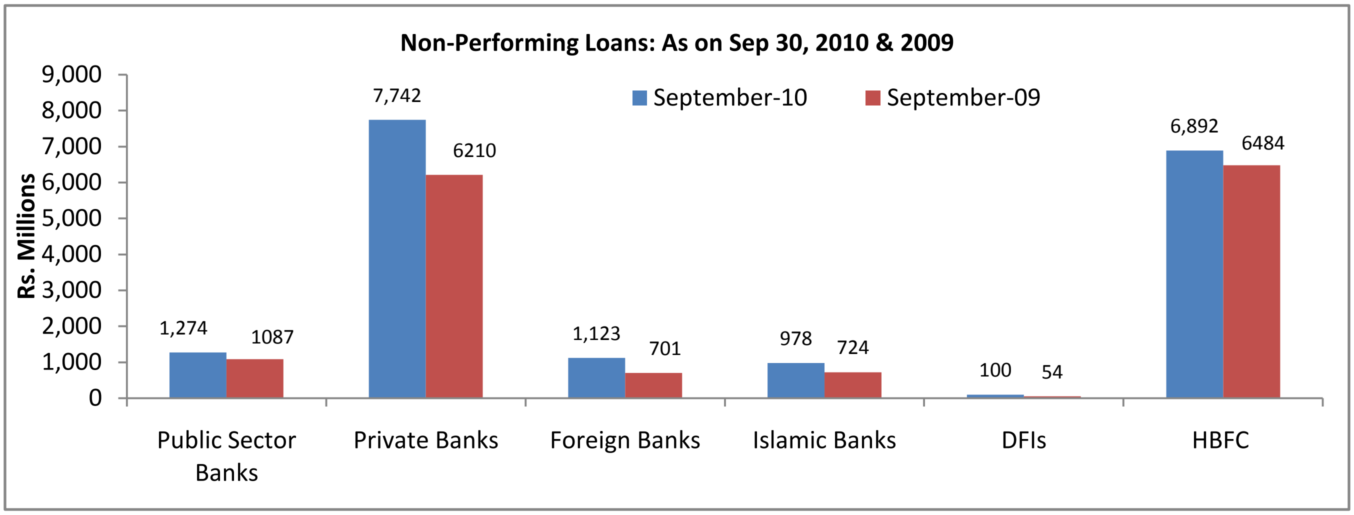


The total outstanding finance as on Sep 30, 2010 of Islamic Banking Industry (06 Islamic Banks & 13 Islamic Banking Divisions of Conventional Banks) stood at Rs. 13.34 billion. Compared to quarter ending June 30, 2010 (Rs. 13.54 billion), outstanding of Islamic banking Industries decreased by 1.47**%.**

Of the total Islamic outstanding housing finance, Islamic banks accounted for Rs. 8.76 billion (a 0.2% decline over the last quarter) and IBDs of conventional banks posted Rs. 4.57 billion (a 3.9% decline since quarter ending June 30, 2010).

4.2. NON-PERFORMING LOANS

NPLs have increased from Rs. 15.26 billion (Sep 2009) to Rs. 18.10 billion (Sep 2010); an 18.67% increase during the year. The Figure shows a comparison of existing NPLs status of different banking sectors with last year. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and high interest rates.



HBFC's NPLs have increased from Rs. 6.48 billion to Rs. 6.89 billion during the year; a 6.30% increase. Although growth of its NPLs remains relatively low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 48.95% of its total outstanding constitutes NPLs.

Excluding HBFC, NPLs for all banks and other DFIs have increased by 27.81% over the year from Rs. 8.77 billion to Rs. 11.21 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 20.57% of their total outstanding portfolio, compared to a 14.43% as on Sep 30, 2009.

Among banks, NPLs of foreign banks witnessed the sharpest increase of almost 60.20% during the year, from Rs. 701 million to Rs. 1.12 billion. Their NPLs constitute 25.14% of total outstanding, which was only 13.14% on Sep 30, 2009. NPLs of the Islamic banks have increased from Rs. 724 million to Rs. 978 million (an increase of 35.04%) which are 11.15% of total outstanding. Private banks' NPLs have increased by 24.67%, from Rs. 6.21 billion to Rs. 7.74 billion which is 24.19% of their total outstanding as against 16.73% on Sep 30, 2009. NPLs of the public sector banks have increased from Rs. 1.08 billion to Rs.1.27 billion (an increase of 17.59%) which are 14.27% of total outstanding. NPLs of DFIs (excluding HBFC) have increased from Rs. 54 million to Rs. 100 million, an 84.30% increase with 27.77% of its total outstanding classified as NPLs, which was 11.96% on Sep 30, 2009.
Non-Performing Finances (NPFs) for Islamic Banking Industry's (IBs & IBDs) were reported 1.67 billion on Sep 30, 2010, which were Rs. 1.57 billion at the end of last quarter (Apr-Jun, 2010) showing an increase of 6.36%.

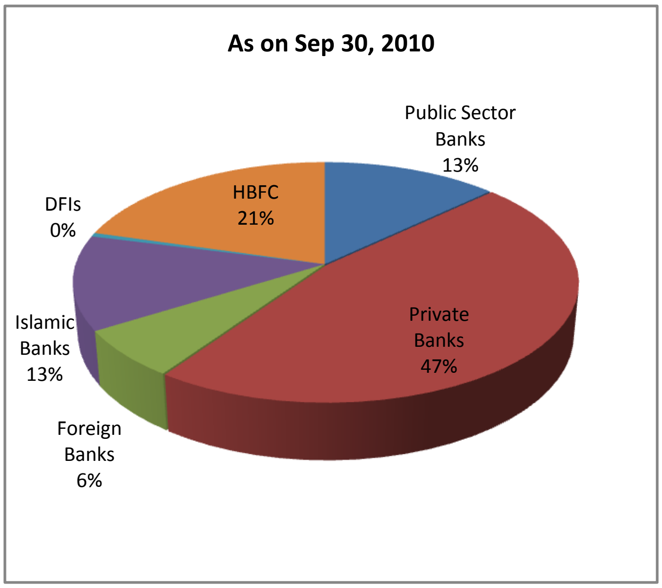
4.3. NUMBER OF BORROWERS

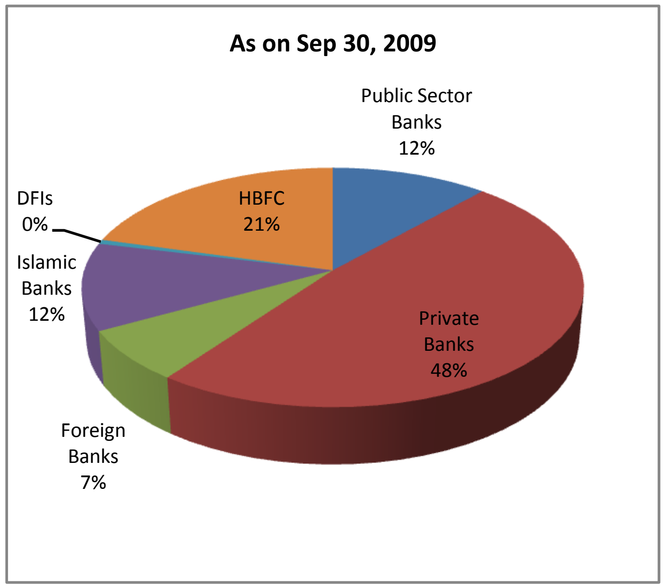
Total number of outstanding borrowers has decreased from 115,959 to 100,214 since Sep 2009; a decline of 13.58%. There was a decrease in no. of borrowers in each category except Islamic banks, where numbers increased from 2,128 to 2,284.

Approximately 55.59% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (52,489) of non-active borrowers, classified as non-performing, which comes to 69.27% of its total borrowers. Thus, excluding HBFC in such an analysis will be important as it caters to 79% of the total borrowers in housing finance sector which accounts for only 21% of total outstanding portfolio. Thus, by excluding HBFC, 13% of total borrowers of housing loans have been classified as non-performing. Total number of customers served by Islamic Banking Industry increased marginally from 3,651 to 3,658 since June 2010.

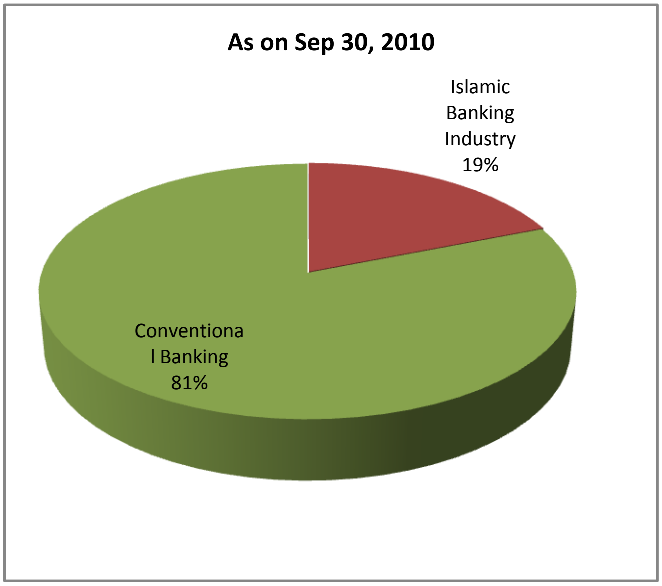
4.4. SHARE OF BANKS

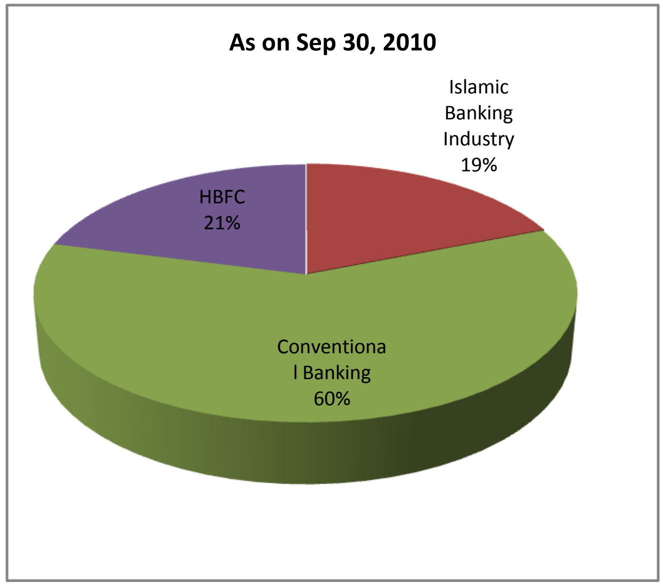
The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) remained the same since the end of last year, as 79%. Within commercial banks, the share of private banks in the total outstanding decreased marginally from 48% to 47%. The share of public sector banks in the total outstanding increased marginally from 12% to 13%. Share of foreign banks and HBFC remained stagnant at 7% and 21% respectively. Share of Islamic banks also increased marginally from 11% to 12%.





The share of Islamic Banking Industry, Conventional Banking and HBFC in the total outstanding was 19%, 60% and 21% respectively on Sep 30, 2010. IBDs have 34% share in housing finance portfolio of Islamic Banking Industry, which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy.





The Share of Islamic Banking Industry & Conventional Banking in Total Outstanding is shown in the chart.

4.5. DISBURSEMENTS

Fresh disbursements to the tune of Rs. 1.65 billion were made to 773 borrowers during the quarter ending Sep 30, 2010. Private Banks extended new disbursements of Rs. 919 million followed by Islamic banks with Rs. 465 million, public sector banks with Rs. 70 million and foreign banks with Rs. 6 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 190 million. Among commercial banks, the number of new borrowers totaled 520, with private banks serving 361 borrowers and Islamic banks 119 borrowers. HBFC extended loans to 190 new borrowers during the reporting quarter.

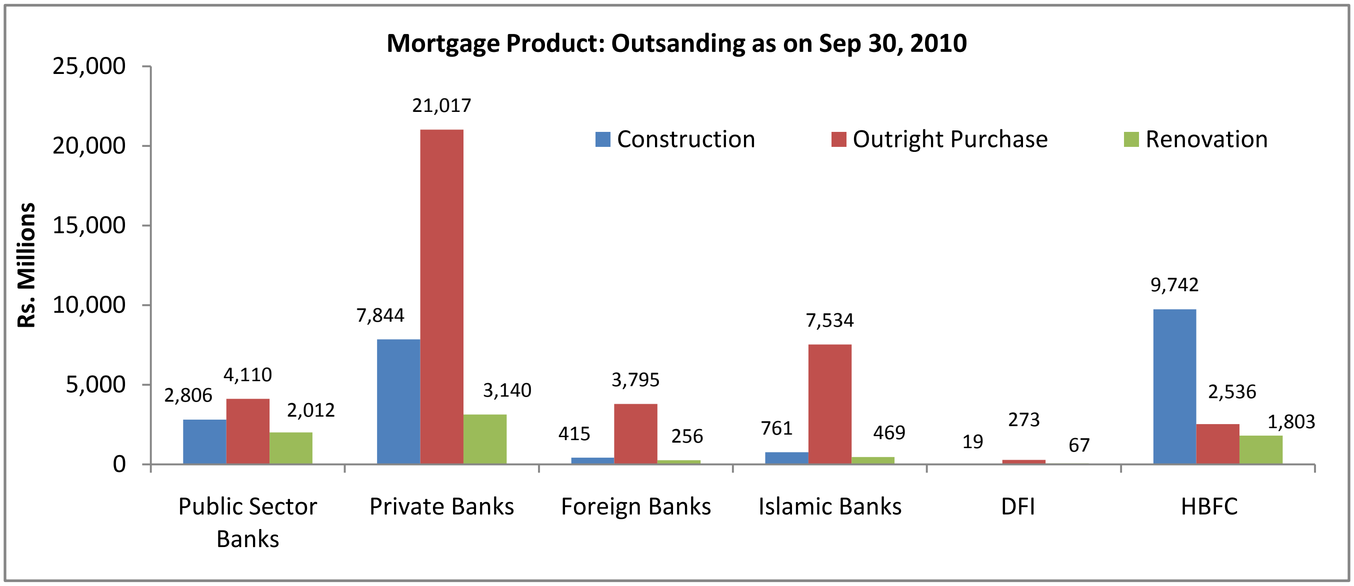
Disbursements (and No. of borrowers) During the Quarter

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	70	40
Private Banks	919	361
Foreign Banks	6	-
Islamic Banks	465	119
All Banks	**1,460**	**520**
DFIs	-	-
HBFC	190	253
Total	**1,650**	**773**
Islamic Industry	**620**	**148**

Fresh disbursement for Islamic Banking Industry was 620 million to 148 new borrowers during the quarter ending Sep 30, 2010. Islamic banks extended new disbursements of Rs. 466 million to customers while IBDs of conventional banks financed Rs. 154 million to customers.

4.6. SECTORAL SHARE

The biggest share of housing finance continued to be attracted towards outright purchase. The outstanding for outright purchase stood at Rs. 39.26 billion as on Sep 30, 2010; a 57% share in total outstanding of Rs. 68.60 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 21.58 billion and that of renovation stood at Rs. 7.44 billion. Active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 36%, outright purchase 54% and renovation 41%.



4.7. HOUSING FINANCE BUSINESS OF MICRO FINANCE BANKS:

Gross Outstanding

The total outstanding finance as on Sep 30, 2010 of Micro Finance Banks (MFBs) stood at Rs. 140.25 millions, which was Rs. 127.13 millions at the end of June 30, 2010, showing an increase of 10.32%, during the last quarter.

Number of Borrowers

Total number of outstanding borrowers has increased from 1797 to 1960 since June 30, 2010; an increase of 9%.

Non-Performing Loans

NPLs for Micro Finance **Banks** have increased from Rs. 0.94 millions (June 2010) to Rs. 1.16 millions (Sep 2010); a 30 % increase over the last quarter.

4.8. ANALYSIS OF LOAN VARIABLES ADOPTED BY BANKS/DFIS & HBFC

An analysis of loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity period, average loan size and average time for loan processing is given as under.

Weighted average interest rate

The overall weighted average interest rate was 15.8% at the end of the current quarter. Highest weighted average profit rate was reported by foreign banks 16.9%, followed by Islamic banks 16.3%, HBFC 16.2%, private banks' 15% while public sector banks average came to 13.8%

Average maturity periods

Average maturity period for the quarter ending Sep 30, 2010 came to 11.7 years, which is low as compared to quarter ending Sep 30, 2009 when it was 12.6 years. HBFC's average maturity period is reported to be 12.9 years, while that of Islamic banks is 11.4 years. Among commercial banks, private sector banks have extended housing loans for an average tenure 10 years followed by public sector banks with 9.8 years and foreign banks with 9.5 years.

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks decreased during last year from 57.4% to 48.3%. Average LTVs of commercial banks have increased from 58.1% to 48.1%. The LTVs for HBFC have decreased from 55.8% to 48.5% during the last year.

Average time for loan processing

The reported average time for loan processing is approx. 23 days for all banks and DFIs (except HBFC), which was 26 days in Sep 30, 2009. Average time taken by HBFC presently is 48.3 days which is significantly high than 30 days reported last year. This has increased overall industry average to 35.8 days. Currently, the application processing of most of the banks is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals.

Average loan size

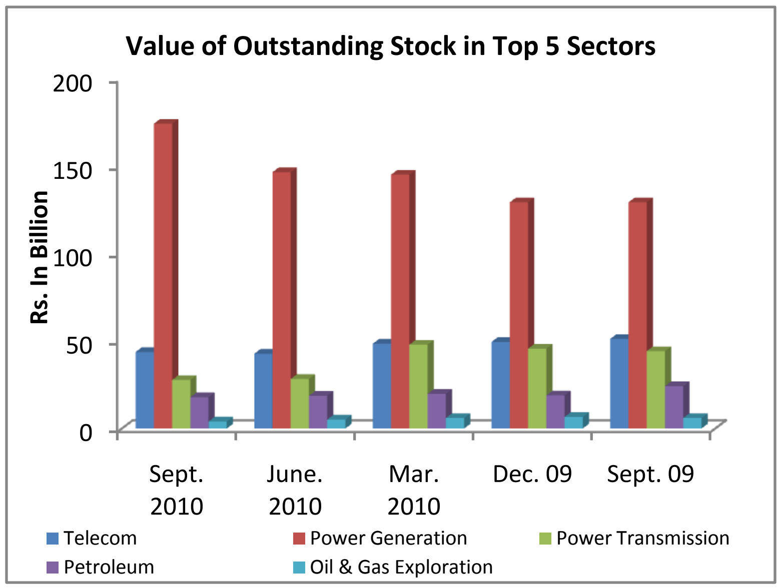
Average loan size for disbursements made during the quarter ending Sep 30, 2010 is Rs. 2.6 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 1.6 million for the reporting quarter. Private Banks reported an average loan size of Rs. 3.2 million, Islamic banks have financed with an average financing size of Rs. 2.6 million. Foreign banks Rs. 2.2 million and public sector banks reported Rs. 1.4 million. The housing finance market is still inclined towards lending to high income groups.

Conclusion

The quarter ending Sep 30, 2010 depicted a decrease in overall portfolio. NPLs of the housing finance portfolio displayed a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers. Average loan size, LTVs and maturity periods have decreased over the last year. However, the lack of a conducive institutional framework and secondary mortgage market are still the major constraints towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

5.0. STATE OF INFRASTRUCTURE FINANCE

Pakistan's infrastructural situation is relatively poor by international standards and this has a significant impact on the lives of every Pakistani in the country. Acute shortage of electricity has turned this necessity into a luxury. Large portion of population do not have access to proper drinking water and sanitation facilities. The Government of Pakistan and its people face an uphill battle against poor infrastructure and it seems like the latter is winning as the country is going through the worst power crisis in its history, with electricity shortage of around 4000 MW. With an estimated 5% annual growth in demand, the country would need additional capacity of approximately 10,000 MW by 2016. The improvement and expansion of infrastructure is a pre-requisite for sustaining and accelerating economic growth and social development in a country. Improving quality and service coverage in crucial sectors like power, water supply and sewerage treatment, transport and logistics is critical for Pakistan's economy and to improve the quality of life of its citizens.

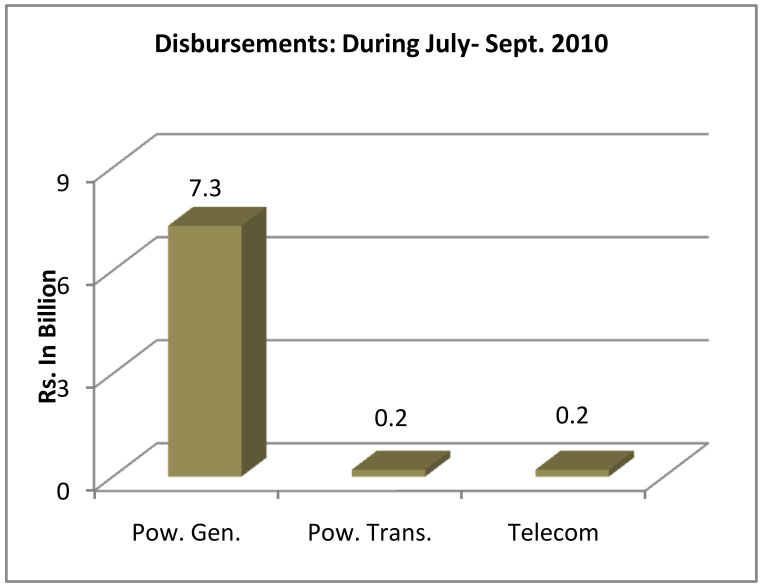


It is estimated that due to insufficient infrastructure, Pakistan looses about 4 to 6 percent of its GDP (approximately $6 billion). Logistical bottlenecks increase the cost of production by about 30%. This has a significant impact, as Pakistan is facing stiff competition from regional countries in the export markets. To improve and expand infrastructure, Pakistan's needs are massive and its resources are limited. Not only is there limited fiscal space, there are also huge gaps in public sector capacity to build and operate infrastructure. Tight fiscal indicators such as fiscal deficit, trade deficit and current account deficit do not permit to spare sufficient public sector resources for infrastructure development. A study suggests that to sustain a 7% GDP growth would require an investment of about 7 % of GDP.

In the last three decades, Pakistan has been facing a high rate of urbanization and population growth. The consequences of such unprecedented changes are seen in the form of unplanned, unregulated and uncontrolled urbanization which pose a major problem to the city dwellers. Provision of adequate infrastructure facilities is a perpetual problem, which is needed to be tackled on urgent basis.

5.1. AN OVERVIEW OF INFRASTRUCTURE FINANCE

The stock of infrastructure finance was hovering around Rs. 260 billon since last couple of quarters. This trend, however, changed in this quarter and the outstanding portfolio of infrastructure rose to Rs. 286 billion – a 10% increase from the previous quarter. The increase in outstanding portfolio does not present a rosy picture if we look beneath the surface a little further. The rise of Power Generation sector, which was in evidence persistently for quite some time, has further reinforced in this quarter as its portfolio has increased from Rs. 146.5 billion to Rs. 174.2 billion in this quarter. This increase of outstanding portfolio in Power Generation sector is contrasted with decrease in all other major infrastructure sectors. The scenario is persisting insomuch that only one sector is having any meaningful activity while other sectors are losing vigor. This is also true for the disbursement as 91% disbursement went to Power Generation sector. The volume of disbursement was Rs. 18.9 billion in the same quarter a year ago and it reduced to Rs. 7.9 billion in this quarter. The recurrent theme of successful international experiences is that the countries that excelled at infrastructure development first attained the capacity of developing viable projects and attracting private sector. The financing is not as much big issue as the capacity of developing viable projects. There is a dire need of institutional capacity to develop marketable projects in the diversified areas like road, mass transit, port and agriculture infrastructure etc. Total NPLs stood at Rs. 6.8 billion for this quarter while same were Rs. 4 billion during July-September 2009.



5.2. OUTSTANDING PORTFOLIO

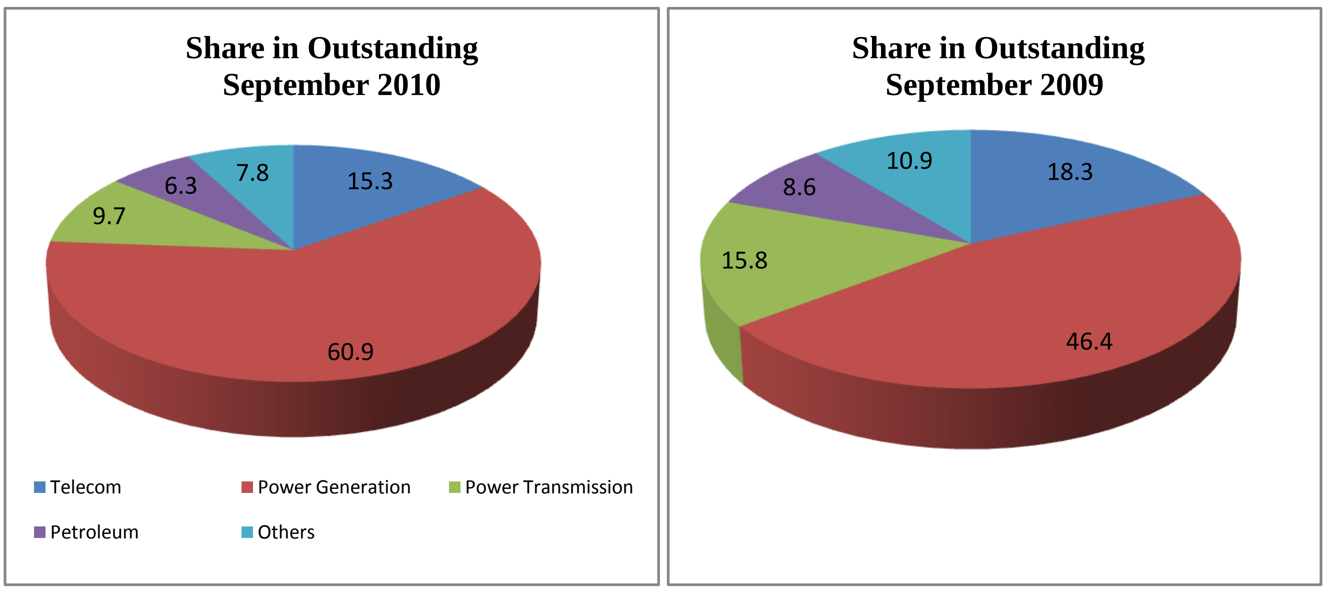
Total financing outstanding at close of September, 2010 was Rs. 286 billion against Rs. 260 billion at the end of previous quarter of June 2010. The volume of outstanding portfolio was Rs. 279.4 billion at the end of September 2009. The analysis shows, as in figure 1, that power generation sector stood out among all the sectors of infrastructure. A number of factors like power policy, availability of sovereign guarantees in case of IPPS, expertise of financial sector in this sector and demand of energy are the main reasons of its solid growth
Figure 1 shows the quarterly position of top five sectors from September 2009 to September 2010. All the top five sectors, except Power Generation, are showing a decline in their respective volume of outstanding over the year. However, the steep decline was witnessed in Power Transmission and Distribution sector. The outstanding volume in this sector was Rs 44.2 billion at the end of September 2009 which reduced to Rs 27.7 billion at the end of the quarter under review.

5.3. DISBURSEMENTS

Total Rs. 7.9 billion were disbursed during July-September 2010 quarter in all infrastructure sectors against Rs. 10.3 billion in the previous quarter. The disbursement during July-September 2009 quarter was Rs. 18.9 billion. Power generation sector received Rs. 7.2 billion, which is an overwhelming share of 91%. Share of power generation sector in disbursement was also significantly higher in previous quarter at 61.2% (Rs. 6.3 billion) whereas it was 69.8% (Rs. 13.2 billion) during July-September 2009 which shows that there was a relatively better diversified scenario in infrastructure sectors in previous quarters. Petroleum sector was conspicuous by its absence in this quarter while both Power Transmission and Telecom received only Rs. 200 million each in this quarter. The absence of oil & gas sector has been a real concern considering its important role in the economic activity of the country.

5.4. ANALYSIS OF SECTORAL SHARE IN INFRASTRUCTURE PORTFOLIO

The figure shows comparison of top four sectors in outstanding infrastructure financing at the end of September



2009 with the status existing on September 30, 2010. At the end of September 2009, power generation sector had 46.4% of the total stock followed by telecommunication sector with 18.3%. After a year, the top slot continues to be held by power generation sector with a substantial 60.9% share in the pie. All other sectors in graph showed a declining trend. The Telecommunication sector remained at second place with 15.3% share followed by power transmission sector at 9.7%. Petroleum sector, despite having huge potential, had been on the downside from 8.6% to 6.3% in a year.

5.5. BANKING SECTOR-WISE DISBURSEMENTS AND OUTSTANDING

Private Sector commercial banks have disbursed Rs. 7.2 billion (91%) out of total Rs. 7.9 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 348 million (4.4%) while DFIs have

Rs. 320 million (4%) despite having a mandate of development finance. In July-September 2009 quarter, private sector banks disbursed Rs. 15.9 billion (84.12%) while public sector banks disbursed Rs. 2.9 billion. DFIs' share in disbursements during the quarter July –September 2009 was a meager 1.8%.

An analysis of category-wise share of banking sector in outstanding stock of infrastructure financing showed that the trend remains the same throughout the year. Share of private sector banks' rose from 84.5% to 85.2%, while share of public sector bank declined from 13.1% to 12.3% after a year. The share of DFIs remained more or less same through-out the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.

6.0. KEY DEVELOPMENT FINANCE INITIATIVES – POLICY AND INDUSTRY

Appreciating the critical role and significance of Development Finance for the sustainable economic growth in the country the following key measures were taken during the quarter under review;

Enhancing the Scope of Credit Guarantee Scheme

State Bank launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises with support from UK's Department for International Development (DFID). The objective of the scheme is to ensure repayment of loans of Small and Rural Enterprises which normally do not fall under the coveted customer list of banks and thus the Scheme attempts to resolve the issue of severe credit rationing to them. The Scheme has been launched with the seed money contributed by DFID; however, SBP is coordinating with various donors and GOP for contribution in the Guarantee Fund that will enhance the scope of the scheme and will consequently enable a larger number of Small Enterprises to benefit and fulfill their financing needs.

SME Training Programs

SBP held capacity building programs for officers of commercial banks during 2009-2010 to equip them with latest tools and technology being used in SME finance across the globe. Major areas covered in these trainings included Risk Mitigation tools like Credit Scoring, Program Based Lending Schemes & Effective Marketing Strategies. In light of the success of previously conducted programs, another series of grass-root training program will be initiated shortly for training of credit officers of banks in 7 major cities across Pakistan.

Besides, State Bank, in collaboration with IFC, has finalized three Capacity Development Programs for Senior Officials of banks. Of the three programs, first program was conducted at SBP LRC, Karachi and was attended by more than 30 officials of banks. Remaining two programs will be held at Islamabad and Lahore respectively. These programs are expected to greatly help banks in improving their understanding of SME Banking needs and coming up with improved strategies.

Cluster Development Surveys

Considering the significance of SME clusters in our economy and to get first-hand knowledge about important SME clusters, SBP has hired services of Lahore University of Management Sciences (LUMS) to conduct primary research survey of “Fans Cluster”. LUMS has finalized initial Work Plan & Questionnaire in consultation with SBP & other stakeholders while the final report is expected by Dec. 2010.

Moreover, IFC is conducting survey of 10 SME sectors. In this regard, Phase-1 of the project has been completed (Finalization of Survey Methodology and selection of sectors). IFC will soon start Phase-2 and thus finalize the report by Dec, 2010.

Relaxations to Exporters under Part-II of Export Finance Scheme

State Bank of Pakistan had received representations from chambers / exporters’ associations that heavy load shedding and shortage of raw material has adversely affected their production. As a result some of the exporters could not ship export consignments in time leading to delay in export proceeds realization during FY 2009-10. In order to address the problems faced by the exporters it was decided through SMEFD Circular No. 12 of 2010, dated July 9th, 2010 to allow an additional period of one month for export proceeds realization under Part-II for the monitoring year 2009-2010.

Revision of Financing Rates under the Export Finance Scheme (EFS)

The refinance rates under the Export Finance Scheme were increased through SMEFD Circular No. 13 dated September 30, 2010. It was decided that rate of refinance under the Export Finance Scheme applicable from October 1, 2010 and onward till further instructions will be 9% p.a. The commercial banks will ensure that where financing facilities are extended by them to the exporters for availing refinance facilities under the Export Finance Scheme, their maximum margin / spread does not exceed 1% p.a.

Long Term Financing Facility (LTFF) for Plant & Machinery

It was decided through SMEFD Circular No. 14 of 2010, dated September 30th, 2010 that effective October 1, 2010 the rates of service charges for Participating Financial Institutions (PFIs) and rates for end users under the captioned Scheme shall be as under:

Tenor	Rate of Refinance	Banks’/DFIs’ Spread	End User’s Rate
Up-to 3 years	9.50%	1.50%	11.00%
Over 3 years and upto 5 years	8.60%	2.50%	11.10%
Over 5 years and upto 10 years	8.20%	3.00%	11.20%

Grass Roots Level Training Program on Microfinance at Hyderabad

Under the joint initiative taken by Microfinance Department and NIBAF, 2nd five-day’s crash training program was held at SBP-BSC Hyderabad during Sep. 27 to Oct. 1, 2010. The microfinance training program is aimed for the capacity building of loan/field officers of microfinance banks/institutions.

Roundtable Conference on 'Damage Assessment of Floods and Implications for the Financial Sector

Microfinance department organized a roundtable conference to discuss the damage assessment of floods and its implications for the financial sector. Mr. Shahid H. Kardar, Governor, State Bank of Pakistan chaired the meeting and urged financial institutions to see the recent floods as an opportunity to increase financial inclusion, diversify its products on sustainable basis and play its due role in rebuilding the national economy.

Reliefs Measures for Borrowers of Floods Affected Areas

In order to provide relief to the borrowers of flood affected areas identified by the National Disaster Management Authority (NDMA), microfinance banks (MFBs), vide MFD Circular No. 04 of 2010 have been allowed to reschedule/restructure loans to such borrowers, as per existing Prudential Regulations (PRs) for MFBs, where the possibility of recovery exists. Moreover, MFBs may defer loan provisioning up to 31st December 2011 for all such rescheduled/restructured loans and advances. This relaxation has been provided only for loans and advances which had become non-performing since July 1, 2010 in the affected areas identified by NDMA.

Amendment in Prudential Regulation No.12 for MFBs

The PR No. 12 regarding classification of assets and provisioning requirements has been amended vide MFD Circular No. 3 of 2010. The revised instructions state that in addition to cash as collateral, gold (including both bullion and ornaments) shall also be considered in specific provision against non-performing loans.

Pilot Project Phase III

After successful implementation of Sindh Pilot Project and Pilot Project Phase II, Pilot Project Phase III was launched in 51 agriculture intensive districts of the country from Kharif Season 2010 i.e. from May 2010 to September 2010 for deepening of agriculture credit outreach and creating linkages among stakeholders. It included 27 districts of Punjab, 13 of Sindh, 6 of Khyber Pakhtunkhwa and 5 of Baluchistan.

Under the Pilot Project Phase III, banks have disbursed Rs 46.8 billion or 87% against a target of Rs 53.5 billion. Total borrowers served were 348,907 or 85% of the target of 409,172 borrowers. In terms of fresh borrowers, banks achieved 93% of the target by serving 121,628 fresh borrowers against the target of 130,175 borrowers. HBL, NBP, Bank Al-Falah and Faysal Bank achieved their targets of disbursed borrowers, whereas, the performance of ABL, MCB, UBL, Al-Habib, KASB, RBS, Soneri Bank and Bank of Khyber remained unsatisfactory due to a number of reasons, including severe floods which caused devastation of the farming land in the country.

Agribusiness Finance Workshop from 23-27 August, 2010 at Netherlands

A one week training workshop on Agribusiness Finance was arranged from 23-27 August, 2010 at Utrecht, Netherlands in collaboration with Rabobank International Advisory Services (RIAS).

The workshop was aimed at creating awareness and building capacity of banks in enhancing the outreach of agriculture credit. The training workshop covered best agriculture financing practices, agriculture lending processes & practices, warehouse receipt systems, cooperatives in the agriculture sector, out grower scheme &

linkage programs, agricultural value chain financing, material risk analysis model, business analysis, development financing, etc. followed by a one day field visit.

The workshop was attended by the senior officials of SBP & SBP-BSC, lead by Muhammad Ashraf Khan, ED (DFG) and officials of agri lending banks viz. HBL, MCB, ABL, UBL, ZTBL, Faysal Bank, BOP, Askari Bank, Silk Bank, Standard Chartered Bank (Pakistan) and United Insurance Company.

The workshop will help in replicating agriculture financing and lending policies of Rabobank in terms of strategy development & segmentation in agriculture credit, improving lending assessment mechanism and developing innovative products, etc.

Internship Program for Agriculture Graduates

Agricultural Credit Department (ACD) in collaboration with Training & Development Department (T&DD) has launched 6-weeks specialized Internship Program for 25 students of Agricultural Universities/Departments from 5th July, 2010 at SBP. In the first batch, 24 participants from 11 Agriculture Universities/ Departments were selected for the training program.

During first 2-weeks at SBP, the participants were briefed about SBP, its departments, functions, policy & regulatory framework for Development Finance and agriculture financing etc. In last 3 days specialized training program on Agriculture financing conducted by experts and senior officials of SBP, SBP-BSC and agriculture lending banks in the areas of agriculture financing tools & techniques, agriculture credit documentation, risk management, recovery mechanism, sales & marketing etc. Thereafter, the internees were attached to agriculture designated branches of commercial banks nearest to their place of residents through SBP-BSC Offices for four weeks to implement the learning at SBP and to have hands on experience on agriculture lending processes/systems of banks in terms of identification of borrower, cash flow analysis, credit requirements, etc. at grass root level. After completing their training, the internees submitted their reports on specific topics finalized in collaboration with the banks and respective SBP-BSC offices. After successful completion of the Internship, certificates were awarded to the internees.

The program will facilitate in provision of quality human resource for banks in agriculture financing to achieve the overall objective of access to finance to the farming community.

Revision of PIU Value of Land in the Passbook

ACD vide its Circular No. 01 of 9th August, 2010 communicated to banks the enhanced Produce Index Unit (PIU) value of land in the passbook from Rs 1200 to Rs 2000 by Finance Division (Internal Finance Wing), Government of Pakistan vide Notification S.R.O No. F. 12(1) IF-I/2009-879 dated 12th July, 2010. The banks were advised to carry out necessary amendment in the Loans for Agricultural Purpose Rules, 1973 and also issue instructions to their branches for necessary action in this regard. However, SBP instructions on accepting agricultural land as security on the basis of realizable/forced sale value in addition to PIU or market value shall remain unchanged.

Streamlining of Agricultural Lending Procedures and Documentation

In order to ensure timely disbursement of agriculture credit to the farming community, ACD vide its Circular No. 02 of 11th August, 2010, revised the list of documents to be obtained by banks against various kinds of agriculture loans and streamlined the turnaround time for agriculture loan processing.

Further, to strengthen the existing agriculture lending structure and remove lapses in agriculture loan management, banks were advised to take measures like; a comprehensive Agriculture Finance policy in line with PRs, set up and maintain a fully dedicated Agriculture Finance Department/Division/Unit equipped with qualified agriculture financing staff, develop an overall annual regional agricultural portfolio plan, increase number of agriculture designated branches and ACOs, delegate adequate powers to agriculture designated branches for sanctioning small agriculture Loans, launch financial literacy programs for awareness of the farming community, etc. by the end of the current calendar year.

Implementation of Housing Advisory Group's Recommendations

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG) with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. The HAG made number of recommendations stressing on the need to enhance access of financial services for the development of housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products. SBP had already disseminated the recommendations to the concerned stakeholders and is currently coordinating with the Ministry of Housing & Works, Pakistan Banks' Association (PBA), Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations.

Mortgage Refinance Company

SBP and World Bank Group have agreed to work together for implementing key recommendation of HAG for creating financing environment conducive to growth of housing sector by focusing on: establishment of Mortgage Refinance Company, availability of low cost housing finance and establishment of an observatory for real estate market. Work on the establishment of Mortgage Refinance Company is now being pursued aggressively. IFC developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and equity commitments from the GoP, commercial banks and HBFC have been received. The company is expected to be established during the current financial year.

Capacity Development Program

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. In accordance with the Cooperation Agreement signed between International Finance Corporation (private sector arm of the World Bank Group) and SBP, a comprehensive housing finance training program was launched. The training covered all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Till date, approximately 300 bankers from over 20 banks have been trained in the mortgage business. More capacity building programs would be conducted in future.

Revised Guidelines for Infrastructure Project Finance:

The department issued guidelines for infrastructure project finance. The new guidelines cover a broad array of concepts like project insurance, requirement of technical feasibility, risk assessment and allocation matrix, financing during development phase, emphasis on Operation & Maintenance Agreement for initial years, financial covenants, technical monitoring of projects during loan tenure and requirement of Supply and Off-take agreements.

Capacity Building Program:

A comprehensive Training Program on Infrastructure Project Finance was conducted with the assistance of the World Bank Group from 12 to 16 July 2010 at SBP's Learning Resource Centre in Karachi. This was for the first time that such a high level massive training program on Infrastructure Project Finance was held in Pakistan. This SBP-World Bank joint initiative was taken to address the issue of lack of expertise in the financial sector on project development and financing. Cambridge Economic Policy Associates (CEPA), a very renowned organization for working in infrastructure development and training sector, prepared the course manual and delivered the training. IHFD has planned to continue this capacity building initiative in this business year with the help of local trainers. The next training program is scheduled in February 2011 and the venue will be Islamabad.

7.0. DEVELOPMENT FINANCE NEWS FROM AROUND THE WORLD

The following are some of the important news concerning Development Finance across the Globe

Understanding Finance for Business' Programme[1]

This program was launched in summer 2010 by private sector experts and specialists and was funded by the London Development Agency and European Regional Development Fund. It is aimed at maximizing the success of London businesses (SMEs) in raising finance to support their growth ambitions by providing them support in making informed choices about the type of finance they need, and gives tailored advice through seminars, workshops and one-on-one support to prepare themselves to present an attractive proposition for banks, business angels or venture capital investors. This is a highly subsidized program and bifurcated in to two parts:

- Gateway2Finance – aimed at supporting SMEs to raise debt finance from banks and other institutions.
- Gateway2Investment – aimed at supporting SMEs to raise equity finance from business angels, venture capitalists and other investors.

[1] http://www.ufblondon.org/

Backing Small Businesses[2]

UK Government announced at a small business summit (Nov 1, 2010) three major policies regarding:
Improving access to finance, Making it easier to do business with the public sector and allowing social tenants to start up their own business from home
Accordingly, the following major measures were announced.

I. Opening up government procurement and ensuring prompt payment for those, starting a business
II. Making sure competition framework which may help new accessing existing markets
III. Providing targeted support to high-growth potential businesses ensuring that government is deliberately reoriented towards their needs

ABM Rolls Out Standardized SME Loan Applications[3]

The Association of Banks in Malaysia (ABM) has announced its "PARTNER" initiative with the support of 14 Banks (initially) i.e. Rolling-out Standardized Loan Application Form for SME Loans with the following main objectives:

- Enhancing banks efficiency in loan processing
- Since standard/most of the requirements generally asked by different banks are mentioned in the form therefore, it will help reduce hassle and time of borrowers.

SEAF Launches New SME Finance Company for Bangladesh[4]

During October 2010, SEAF[5] in partnership with IFC[6] launched a new finance company, SEAF BV to invest in SMEs/Entrepreneurs of Bangladesh by providing them structured capital/mezzanine financing of less than USD 500,000 to meet their growing and working capital needs exclusively.
IFC works as anchor investor with initial commitment of USD 12 million and a local venture capital and technical service provider firm, Ventures Investment Partners Bangladesh (VIPB) will be functional partner.
It will especially target M of SMEs accompanied by pre and post-investment business assistance to bolster portfolio companies' business and management operations and assist them in achieving financial stability and global viability.

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[2] http://www.bis.gov.uk/backing-small-business

[3] Bernama, Kaulalupur, Dated Nov 1, 2010

[4] http://seaf.com/

[5] SEAF (Small Enterprise Assistance Funds) is a not-for-profit global fund management group specializing in providing growth capital and business support to SMEs in developing countries that are underserved by traditional sources of capital. Headquartered in Washington, D.C., SEAF manages private equity funds in emerging markets through a network of offices around the world.

[6] IFC, a member of the World Bank Group, helping channel capital into developing countries during the financial crisis

G-20 Establishes SME Finance Innovation Fund[7]

In a Summit of G-20 at Seoul Korea establishment of a fund namely ***SME Innovation Finance Fund*** was announced. IFC takes leading role in structuring and facilitating the Fund. The Fund is a core component of the framework to finance G-20 *SME Finance Challenge Winners* and other models focused on improving finance for SMEs.

Japan Promotes its SME Finance Model[8]

In Japan, the government set up an extensive loan guarantee system, with about 50 credit guarantee firms established by the central and local governments to whom lenders or commercial banks pay a certain amount of fees for the protection of their lending.

This model is based on the concern of Commercial Banks to set higher loan-loss provisions, while lending to SMEs given the higher business risks compared with loans extended to big companies. Therefore, it is necessary for the government to help absorb some risks for the private sector to enable banks to lend to SMEs freely..

Procedures to charge Capital Value Tax notified

(The News - Wednesday, July 21, 2010)

Chief Inspector of Stamps, Board of Revenue Sindh on Tuesday notified that the Capital Value Tax (CVT) on immovable property is now a provincial subject and as such the provincial government has rationalized the rates of CVT through the Sindh Finance Act 2010 since July 1, 2010.

The CVT will be levied and collected at the rates for A-Residential immovable (other than flats), situated in Sindh province, B-Residential flats situated in Sindh; and C-Commercial and Industrial immovable property, situated in Sindh.

According to procedure of payment, all sub-registrars will be issued challans for the payment of CVT and it will be paid to the Head of Account 'B017-Capital Value Tax' in the concerned branches of National Bank of Pakistan. For Karachi, the CVT would be deposited in any National Bank of Pakistan branches.

PHA to construct around 15,000 housing units by 2013

(The News - Friday, August 06, 2010)

Pakistan Housing Authority (PHA) will construct around 15,000 housing units by the middle of 2013 in various parts of the country, including Islamabad, Lahore and Karachi, a senior official said on Thursday. Besides, the governments of Azad Jammu & Kashmir and Gilgit-Baltistan have also been assigned the task to meet the target of the Prime Minister Housing Scheme.

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7 http://www.ifc.org/

8 http://business-video.tmcnet.com/news/2010/06/30/4877313.htm

Government to build 5,000 houses for homeless

(The Nation – July 30, 2010)

Punjab Chief Minister said that the Punjab government has decided to start low-cost housing scheme for the low-income groups and the project will formally be launched on the first of Ramazan.

Presiding over a meeting held in connection with the low-cost housing schemes in the province, he said that the low-cost housing schemes launched with the title "Aashiana" will be a state of the art project of the Punjab government and provision of all the basic amenities will be ensured in these schemes and homes will be within the reach of low-income groups and the middle class for the first time in country's history.

New Rules Stifling Construction Loans

New home construction is one of the engines that fuel our nation's economy. The problem is that consumers are finding it harder than ever to get construction loans today. Tighter lending regulations are the culprit.

Mortgage lenders, including those who passed out loans for construction, have seen many of the loans they made during the housing boom fall into default. This is largely the fault of the lenders themselves. They passed out mortgage and construction loans to borrowers with low credit scores, high amounts of debt, and low monthly incomes. Not surprisingly, a good portion of these loans have eventually ended up in housing foreclosures. RealtyTrac.com, an online provider of foreclosure data, reported that the United States saw 2.8 million foreclosure filings in 2009, an all-time record.

http://www.creditloan.com/blog/2010/10/29/new-rules-stifling-construction-loans/

Bernanke Says Regulators `Intensively' Reviewing Foreclosures

Federal Reserve Chairman Ben S. Bernanke said the central bank and other regulators are "intensively" examining financial firms' home-foreclosure practices and expect preliminary findings next month.

"We have been concerned about reported irregularities in foreclosure practices at a number of large financial institutions," Bernanke said today at a housing conference in Arlington, Virginia. "We are looking intensively at the firms' policies, procedures, and internal controls related to foreclosures and seeking to determine whether systematic weaknesses are leading to improper foreclosures."

http://www.bloomberg.com/news/2010-10-25/bernanke-says-regulators-are-intensively-reviewing-foreclosure-practices.html

HSBC named UKs biggest direct mortgage lender

HSBC is the UK's largest lender of mortgages sold directly to homeowners, analysis of mortgage lending data from 2009 has revealed. Indeed, the bank managed to issue almost ten per cent of all new mortgages, meaning that HSBC lent one in four of all directly sold mortgages.

Martijn van der Heijden, head of mortgages at HSBC, commented: "Shopping around is essential when looking for a new mortgage and that means doing more than simply seeing a mortgage broker .

http://www.mortgages.co.uk/news/2010/Sep/hsbc-named-uks-biggest-direct-mortgage-lender-800076306.html

Obama mortgage mods slow, hitting nearly 500,000

The government's main foreclosure-rescue program continues to show signs of slowing progress, according to a federal report released Monday. There were 28,000 permanent mortgage modifications reported in September under the Home Affordable Modification Program, known as HAMP. That's down from more than 33,000 in August HAMP is designed to help eligible borrowers modify their home loans to make their monthly payments more affordable.

A total of 495,898 borrowers have received permanent loan modifications since HAMP was launched in 2009. Of that half-million homeowners, 11% redefaulted on their new lower-cost loans after nine months. After six months, less than 10% of modified loans were delinquent.
http://money.cnn.com/2010/10/25/real_estate/HAMP/index.htm

FSA 'Stress Tests' wonders

Michael Coogan, the director of the Council of Mortgage (CML) Lenders said the effect of the proposed FSA crackdown on lending had been underestimated. About half of the eight million mortgages approved in the past five years would have been banned under the tougher affordability rules proposed by the Financial Services Authority (FSA), a study suggests.

Research published by CML also says that 3.8 million of those loans have "performed" throughout the financial crisis and recession, with just 200,000 having defaulted. It comes at a time of mounting concern about the state of the housing market, with mortgage approvals running at close to historic lows and widespread predictions of a fresh collapse.

Lenders would also have to look at a borrower's ability to repay over 25 years, even if the proposed loan was advanced over a longer term. They would have to apply an "interest rate stress test" to check that a loan would still be manageable if interest rates rose sharply. Lenders would also have to apply a "buffer" to people with poor credit histories, reducing their incomes by 20 per cent for the purposes of the affordability tests.

FSA defended its plans, saying they were designed to address "major failures that have occurred in the mortgage market". A spokeswoman added: "We are actively consulting all stakeholders to ensure we get the right solution. Our evidence shows that 16 per cent of borrowers are already financially overstretched and facing problems now as a result of their lenders' practices in the past.
http://www.independent.co.uk/news/business/news/fsa-stress-tests-would-ban-half-of-all-mortgages-warn-lenders-2097772.html

Mortgage Law Could Boost Construction

The proposed mortgage law could boost activity in the Kingdom's construction industry by up to a third, according to Mu'taz Sawwaf, the CEO of Construction Products Holding Company (CPC).

He stressed that the industry was already moving, buoyed by a combination of factors such as easing their lending policies and a list of construction projects valued at an estimated $200 billion issued by the government. "Even now, without a mortgage law in the country, construction is moving, since banks and other financial institutions are already giving mortgages," he said. "But I estimate that once the law is passed, it will push construction work forward and increase activity by around 20-30 percent. Contractors will be happy to do more work and factories will become more productive."

"Many international firms have entered the market so it will be possible to meet the upcoming demand," he said. "However, we are talking about massive building projects and questions remain about whether the government will be able to issue building permits for these projects on time."
http://arabnews.com/economy/article152451.ece

8.0. SPECIAL SECTION – MEGA FOOD PARKS

The process of adding value to the agricultural or horticultural produce by using various techniques like grading, sorting, polishing, packaging, etc. which enhances the shelf life of food products is known as **Food Processing**. It provides vital linkages and synergies between industry and agriculture. It has been identified as a sector having immediate potential for growth and employment. It leads to diversification of agricultural activities, improves value addition opportunities and creates surplus for export of agro-food products.

The food and its allied products industry is considered Pakistan's largest industry, and is believed to account for 27 percent of its value-added production, and 16 percent of the total employment by the manufacturing sector. About 75 percent of the rural-based food manufacturers are in the informal sector. This informal economy is unregulated and finds difficulty in accessing essential raw materials and other resources especially finance skills, knowledge and management. Pakistan has numerous natural resources and suitable climatic conditions that can provide it a competitive advantage in the food processing industry.

The growth of the Food Processing Industry can bring immense benefits to the economy, raising agricultural yields, meeting productivity, creating employment and raising the standard of very large number of people throughout the country, specially, in the rural areas. Economic liberalization and rising consumer prosperity is opening new opportunities for diversification in Food Processing Sector. Liberalization of world trade will open up new vistas for growth. The Food Processing Industry has now been identified as a thrust area for development.

Taking into consideration factors like demand, growth, purchasing power, urbanization and higher income levels, the Government should give the much required boost and support to the food chain right from producer to the retail outlet. This can be done by the development of mega food parks.

The principal objective of the Mega Food Parks is to provide infrastructure facilities for food processing along the value chain from farm to market. Such infrastructure will include creation of farm neighboring infrastructure, transportation, logistics and a state-of-the-art Central Processing Center under a cluster driven approach. The basic aim is reducing wastages and ensuring value addition, especially in perishables like fruits and vegetables. This is further aimed at reviving the agriculture sector by increasing the returns for farmers, besides making processing more economically viable and help creating large employment opportunities particularly in the rural areas.

Salient Features of the Mega Food Parks

The Mega Food Parks will comprise of farm level infrastructure like Field Collection Centers (FCC) and Primary Processing Centers (PPCs) for aggregation, sorting, grading and packing, cold chain/logistics and a Central Processing Centre (CPC). The CPC will have facilities like Aseptic packaging including tetra packaging, Irradiation facility, Quality control labs. It shall also have the requisite enabling infrastructure like road, power and water supply, effluent treatment plants, etc.

As the Mega Food Parks are supposed to be demand driven and are based on cluster approach, the size structure and facilities within the Parks may vary depending on region and the product mix. The Mega Food Parks will be owned and managed by a Special Purpose Vehicle (SPV) which would comprise of stakeholders from food processing industry, infrastructure development companies, farmers' bodies, retailers, state government agencies, financial institutions etc.

The PPCs may also have facilities for transfer of technology, information kiosks, supply of inputs, etc. They would be linked to CPC as well as organized retailers for procuring raw material for processing and catering to fresh segment as well.

The SPV, developing the Mega Food Park, will own and manage common infrastructure established within the Food Park and may also provide requisite technical and extension services to various stakeholders of the Park. Thus, the common facilities set up under the MFP, the various farm proximate centers for collection and processing, backward linkage mechanisms, logistics, front end linkages will be owned and managed by the SPV.

Facilities

The facilities under the Mega Food Park can be categorized in two segments viz. Common Technical Infrastructure and Basic Infrastructure Facilities. It is expected that at least 50 percent of the project cost (excluding land) would be towards creation of common technical infrastructure. The key facilities are outlined as below:

A. Common Technical Infrastructure

Aggregation facility, washing, sorting & grading, pre-cooling and packaging, Storage facility, Dry Warehouse, Cold Store, Pre-cooling units, IQF (individually quick Frozen), Aseptic packaging, Integrated logistics, R&D and Quality control lab, Incubation chambers etc.

B. Basic Infrastructure Facilities

Administrative building with conference hall, guest house, Bank, shopping complex, internet facilities, Electric sub-station, Water treatment plant, Effluent treatment plant, Price display, Extension services, etc

Implementation Strategy

To initiate processing activities in a systematic manner, a three tier approach is recommended to be implemented in two phases. While the first phase will concentrate on creation of farm proximate infrastructure for ensuring minimal processing and scientific packaging, besides sorting and grading – high end processing is to be taken in the second phase. The farm proximate infrastructure would include field collection centers, primary processing centers and logistics network.

I. Field Collection Centers

Field collection centers are envisaged to be the first aggregation points where farmers can deliver the produce or can be collected though a mobile collection system to be taken care of by the implementing agency. The FCC will have minimal infrastructure for collection of produce such as semi-permanent sheds, hired premises with some customization.

II. Primary Processing Centre

PPCs will be the second aggregation points, aggregating produce from mix of FCCs and directly by farmers in its vicinity. PPCs will have facilities for washing, sorting, grading, packing, besides warehousing including climate controlled storage and transportation. Considering the gap in the existing agri-input services, delivery mechanism and extension systems, the centre is envisaged to have infrastructure facilitating trading of input and have a knowledge center with connectivity.

PPCs would enable the elimination/reduction in levels of conventional intermediation both in procurement as well as provision of services and inputs resulting in win-win situation for all players. PPCs are envisaged also as the vehicle to transform the current marketing and input sourcing practices by plugging the gaps and integration of supply chain. There is need to ensure supply of quality agriculture inputs, facilitated rural credit, set of infrastructure to store and handle the agricultural produce and push modern technology across. The PPCs are envisaged to provide all or a combination of the following products and services

Products and Services

1. **Procurement of Produce**: The PPCs apart from the linkage with the CPC will have tie up with some of the leading companies dealing in agricultural commodities, to provide better prices to the farmers by eliminating/reducing intermediaries and multiple handling, ensuring better price realization by the farmers.
2. **Infrastructure & Storage**: The center will provide both ambient and climate controlled warehousing facilities for farmers in the catchment as also for captive use by the PPCs/MFP operator. It, additionally, will provide training in post harvest management and scientific storage & handling of produce.

3. **Sale of Agri-inputs**: PPCs may offer the farmers with all basic farming inputs like seed, fertilizers and agrochemicals. Appropriate linkages can be developed with industry bodies dealing in the above to ensure regular and timely availability of these, based on requirement of the catchment area.
4. **Sale of Farm Tools and Equipments**: Whole range of agricultural machineries and tools may be provided by the center.
5. **Custom Hiring of Farm Equipments**: Facility may be provided for hiring different farm equipments like tractors, combines, transplanters' etc.
6. **Sale of Irrigation Equipments**: The center can support the growers with technical systems, enabling them to meet modern market requirement e.g. irrigation systems, from simple to highly advanced ones, including well pumps, pipes, sprinklers, etc.
7. **Sale of Spare parts**: The center will ensure speedy availability and take care to provide different spare parts required for farming and other needs of its catchments area.
8. **Crop & Market Specific Information**: The centre will strive to provide crop specific advisory services.
9. **Repair and Maintenance**: Apart from the existing repair and maintenance, farmers should also be provided with the facility of getting their other implements, electric motors, tube well pumps, etc. repaired at the same place.
10. **Credit Facility**: The centre may facilitate crop loans to farmers from some leading financial institutions with reasonable rate of interest and with minimum possible paper works. The facilitation center of the store will help the farmers to complete paper work for getting crop loans.

III. Central Processing Centre

The Central Processing will be the hub of the Mega Food Park. The CPC will have state of the art infrastructure which includes basic physical infrastructure like road, water, power supply system, etc. besides facilities for scientific storage and testing of food products. The CPC will provide plug and play facilities to small scale industries and also will have space for medium and large industries to establish their own units based on the availability of raw materials in the state. The processing facilities within the CPC will cover the entire gamut of processed food products based on raw material such as fruits, vegetables, cereals including maize, oilseeds, dairy, meat and fish products. The Central Processing Center (CPC) is the hub in the "hub and spoke model" of the Mega Food Park. The CPC will constitute common infrastructure for sorting, grading, washing, IQF, cold storage, dry warehouses, common testing facilities, dehydration, bottling, canning and standard design factory buildings for MSME enterprises, etc.

The advantages of establishment of Mega Food Parks will be two fold, one in terms of bringing in investment in this sector which has been lacking for a long time and the other being a proactive help to the farmers thus catalyzing higher production, reduced wastage and fetching better prices from the market. Some of the other advantages are:

- Reduction in wastage of the crops due to improper handling and quality deterioration
- Improvement in quality and shelf life due to scientific handling and processing
- Improvement in quality and quantity of production of crops in the catchment area by providing better inputs and knowledge to the farmers.
- Availability of quality agriculture inputs and services to the farmers

- Efficient and transparent market linkages
- Consolidated procurement centers for retail and processing industry
- Better and fair price realization of produce to the farmers.
- Creation of an efficient supply chain for agriculture commodities
- Helping better value addition to the produce

9.0. DF SECTOR - FUTURE OUTLOOK

Access to financial services is more critical in today's challenging economic and political circumstances of Pakistan. In 2008, the Access to Finance Survey conducted by the World Bank estimated that 56% of the adult population of Pakistan has virtually no access to formal financial services. While no current estimates exist, the recent devastation caused by the floods has increased the proportion of the population that requires access to financial services to rebuild their lives.

Pakistan's economy has witnessed a moderate recovery in FY-10 with real GDP growth rising to 4.1 percent in FY10 after falling to a multi-decade low of 1.2 percent in FY- 09. This recovery was principally a reflection of: (a) a relative improvement in consumer confidence amid support from both fiscal and monetary policies, (b) significant rise in remittances, and (c) a low base. Despite this, however, the growth seems fragile. Going forward, it would be unrealistic to expect a change that could bring drastic improvement in the overall economic situation in general and DF Sectors in particular; as rising inflation, law and order situation, aftereffects of floods and many other economic imbalances will continue to restrain positive growth in the DF sectors.

There has been a slowdown in Development Finance (DF) sectors in the last few quarters, i.e. the total DF outstanding portfolio saw a decrease of 3.3 percent, YoY basis, at the end of September, 2010. Similarly, Non Performing Loans (NPLs) of DF sector recorded an increase of 7.1 percent YoY basis, while the quarterly rise recorded was 5.2 percent.

However, despite the prevailing adverse conditions, there still exists a strong reason for a positive course of action to take place, as a result of greater realization on the part of SBP, GOP, the banking industry and other stakeholders, to play a more effective role for the development of the subject sectors. Further, the huge potential of the DF Sectors itself is a highly motivating factor to incite the stakeholders to tap on, and consequently develop it for the benefit of economy and their own business interests.

The State Bank, on its part, has also taken various important initiatives for the development of the DF Sector, that will cause positive impact on the availability of funds for the sector and its overall development in the long run. Some major initiatives are efforts for broadening the scope of Credit Guarantee Scheme to accommodate a larger number of small borrowers, Capacity Development Programs for bankers, Cluster Development Surveys, Financial Awareness Programs across the country, effective implementation of Refinancing Scheme for modernization of SMEs, special relief package for the flood-affected people/businesses and Streamlining of Agricultural Lending Procedures and Documentation.

Going forward, the current challenging economic and business environment and the ensuing declining credit demand resulting in banks' reluctance to extend credit, will continue and will adversely affect the growth in Development Finance sectors in the near future as well. However, the SBP initiatives mentioned above embody the potential to offset the adversity and severity of the situation; specially, when GOP succeeds to lessen the intensity of on-going energy crisis and improving the overall socio-economic conditions in the country.