DEVELOPMENT FINANCE ANNUAL REVIEW

December 2012

STATE BANK OF PAKISTAN
Development Finance Group

Team Leader

Mr.Muhammad Ashraf Khan ashraf.khan@sbp.org.pk

Members

Reviewed by:

Syed Samar Hasnain samar.husnain@sbp.org.pk

Dr. Saeed Ahmed dr.ahmed@sbp.org.pk

Mr. Imran Ahmad Imran.ahmad@sbp.org.pk

Prepared by:

Mr. Karim Alam karim.alam@sbp.org.pk

Contributors

- Mr. Muhammad Ishfaq (Team Leader- Refinance Schemes), Syed Muhammad Hafeez, Mr. Usman Shaukat
- Mr. Allauddin Achakzai (Team leader-SME Finance), Mr. Saeed Afgan
- Mr. Qazi Shoaib Ahmad (Team Leader-Microfinance), Syed Ali Raza, Mr. Sharoon Rasheed
- Mr. Muhammad Imaduddin (Team Leader-Agri. Finance), Mr. Hassan Murtaza
- Mr. Wasif Hussain

For feedback/queries: ihfd.reporting@sbp.org.pk

Table of Contents

Executive Summary

Pakistan's economy has not been able to perform upto its potential over the past few years due to the challenges like energy crisis, decline in investment, and poor law & order. In such an economic scenario, the priority sectors financing (PSF) was able to post some growth both on YoY basis and half yearly basis. (See Table 1 for half yearly and YoY changes).

Table 1: Sectoral Break up of Outstanding Advances (Billions)					
Sectors	Periods			Change	
	Dec-11	Jun-12	Dec-12	H.Y*	Y.C
SME Finance	294.3	247.9	266.5	7.5%	-9.4%
Agriculture	176.1	189.9	202.5	6.6%	15.0%
Microfinance (MFBs Only)	14.7	17.2	20.0	16.2%	36.7%
Housing Finance (Gross)	59.4	57.7	55.0	-4.7%	-7.4%
Infrastructure Finance**	281.0	286.3	285.4	-0.3%	1.6%
Total	825.4	799.0	829.4	3.8%	0.5%

*(H.Y – Half Yearly Change)--** Infrastructure Finance data may contain certain part of SME and Agricultural financing.

At the end of Dec-12, when compared with Jun-12, there was a rise of 3.8 percent in cumulative Development Finance (DF) portfolio primarily driven by SME and agricultural sectors. However, YoY basis, the DF portfolio witnessed a marginal rise of 0.5 percent was mainly due to agricultural sector. Further, while SME and housing financings continued to decline; agricultural credit, microfinance and infrastructure finance recorded positive growth on YoY basis. These sectors did not witness any significant improvements owing to the factors stated earlier. Additionally, both demand and supply factors have also contributed. On the supply side, banks' risk appetite remained subdued, particularly given the opportunity offered by aggressive government sector borrowings. Similarly, the demand was constrained by the unfavorable economic conditions.

The combined number of DF outstanding borrowers saw a growth of 1.5 percent when compared YoY basis. The rise is attributed primarily to microfinance sector which witnessed a growth of 9.4 percent, while number of outstanding SME and Housing borrowers witnessed a decline by 21.3 percent and 7.2 percent respectively. However, agri sector outstanding borrowers witnessed a growth of 0.5 percent, YoY basis. The rise in microfinance borrowers can be attributed to the use of alternative delivery channels and in particular the branchless banking.

Total DF Portfolio enhanced by Rs. 30 billion on H.Y basis and Rs. 4 billion on YoY basis.

Interestingly, aggregate non-performing loans (NPLs) of the banks & DFIs saw a decline from Rs.168.4 billion to Rs.161.6 billion, recording a decrease of 4 percent on Half Yearly basis. The decline was mainly driven by the agriculture sector. However, on YoY basis, a rise of 08 percent was recorded. At the end of Dec-12, all DF sectors saw decline in their NPLs except the Infrastructure sector. Of the total NPLs, the share of SME's was 59.1 percent, agri. sector 18.3 percent, and the remaining 22.6 percent pertained to the remaining DF sectors.

NPLs of DF sectors saw a decline of Rs. 6.8 billion on Half Yearly basis.

1.0. SME Financing

Table 1A: SME Financing Profile

Category (Amount in Rs. Billion)	Periods			Change	
	Dec-11	**Jun-12**	**Dec-12**	**Half Yearly**	**YoY**
Total SME Exposure	294.3	247.9	266.5	7.5%	-9.4%
SME exposure as % of total advances	8.3%	6.6%	6.8%		
NPLs: absolute amount	95.4	96.4	95.4	-1.03%	0.02%
NPLs as % of total SME exposure	32.4%	38.9%	35.8%		
No. of SME Borrowers	167,936	147,578	132,167	-10.4%	-21.3%

Box 1: SME Cluster Profiling In Pakistan

- Cluster profiling survey reports are available at the following link http://www.sbp.org.pk/departments/ihfd-ifc.htm

The declining trend in SME financing by banks/DFIs, which started in 2008, continued through the current year 2012 too. This shyness of banks to increase their levels of market penetration in SME Financing primarily emanates from a relatively more risk-averse posture adopted by the banks in the wake of increasingly higher delinquency rates in SME Financing portfolios of banks in the recent years. On the demand side, lower inclination of SMEs to avail of financial services offered by the banks/DFIs (formal financial sector) is due to a number of issues including low levels of financial literacy, high transactions costs associated with accessing finance, inappropriate products that do not match business needs, and limited capacity to undertake appropriate strategic planning & transparency which would make them more bankable and creditworthy. The implications of these delimiting factors are further intensified by the presence of extraneous factors like rising inflation, weak macroeconomic scenario, law and order situation and natural disasters like floods in the past few years. On the side of banks, a number of other issues contribute apart from the perception of high risk and transactions costs of lending to the SMEs. The banks have, in the recent past, resorted to divert significant portions of available funds to less risky asset classes such as Market T-bills and commodity operations of the Government which have further squeezed the available funds.

NPLs of SME sector saw a decline of Rs.1 billion on Half Yearly basis.

Banks continued diverting significant portions of their funds to less risky asset classes such as Market T-bills and commodity operations.

Trends in SME Financing

The consistent decline in SME financing during last 4-5 years has also reduced the share of SMEs in overall advances of banks from 16 percent to less than 7 percent in the period under review. The floods in Sindh and Punjab in two consecutive years of 2010 and 2011 practically annihilated small sized units which had little financial resources to rebuild and revitalize their businesses.

SME outstanding finance has been witnessing a declining trend over the past 4-5 years.

The overall declining trend has persisted during the last year and SME Financing decreased from Rs. 294 billion in Dec-11 to Rs. 267 billion in Dec-12. It is worth mentioning here that the overall non-performing loans of the industry have remained stagnant in the range Rs. 95-96 billion over the last year (a small increase in SME NPLs during the first half of the year was offset by a decline of similar size in second half of the year bringing non-performing loans back to the levels of December, 2011). However, due to the declining trend in SME financing, the proportion of non-performing loans in SME advances has increased when compared with the previous year.

Total SME O/S Amount at the end of Dec-12 was Rs.267 billion.

The declining trend in SME Financing has reduced the share of SMEs in total financing of banks from 8.3 percent in Dec-11 to 6.76 percent in Dec-12. Further, the number of SME borrowers which stood at 167,936 in Dec. 2011 reduced to 132,167 as on end-Dec-12; a decline of more than 20 percent. The faster decline in the number of SMEs availing financing facility compared with the declining rate of SME financing may imply that the lower-end SMEs are losing their banking relationships and thus may turn out to be worst hit victims of overall economic scenario in terms of their integration and absorption in the formal financial system.

Total number of SME Borrowers at the end of Dec-12 was 132,167.

Although the SME Financing declined by 9.44 percent on YoY basis, it shows an increase of more than 7.5 percent when compared to the outstanding position at the end of half year. We understand that this increase during the second half of the year is due to the cyclical trend in SME Financing which starts picking up in the last quarter peaking at the end of calendar year while depicting a declining trend in the middle months.

Facility-wise breakup shows that the working capital financing constitutes more than 80 percent of total SME financing followed by trade finance and fixed investment with their respective shares of 9.4 percent and 10.5 percent. The review of distribution of facilities among the borrowers further accentuates this view of tilt of banks towards short term financing showing that working capital facilities are provided to more than 86 of SME borrowers.

More than 80 percent of total SME Financing is for working capital needs.

A **loan-size wise review** shows that only 18.7 percent of total loans of banks fall in the range of less than Rs. 3 million which shows that majority of SME funding is provided to medium sized entities. However due to smaller loan size, a predominantly higher SME borrowers (more than 81 percent) are availing facilities of less than Rs. 3 million.

A breakup of **enterprise-wise position** shows that the biggest share of 46.3 percent was taken by the trading SMEs, followed by manufacturing SMEs with 38.6 percent, and services SMEs with 15.1 percent.

Bank-wise distribution of SME lending shows that the share of Private Sector Banks (17 institutions) in total SME loans outstanding is highest at 77.7 percent. Private sector banks are followed by public sector banks (NBP, FWBL, BOP, BOK, and Sindh Bank) with share of around 16 percent of the total SME outstanding amount.

Box 2: Prudential Regulations for SME Financing

- Prudential Regulations on SME Financing in Pakistan can be accessed via the link:- http://www.sbp.org.pk/departments/ihfd-pru.htm

The share of private sector banks is about 78 percent in total outstanding finance at the end of Dec-12.

Special Note on the developmental impact of Credit Guarantee Scheme

SBP launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in Mar-10, which allows banks to develop a portfolio of fresh borrowers who are creditworthy, but cannot fit into the usual credit parameters of banks, especially when collaterals are required. Under the Scheme, SBP shares 40 percent of credit losses of lending banks on their principal amount of loans to Small and Rural Enterprises. State Bank allocated guarantee limit of Rs. 4.83 billion to the banks for the CY2012 against which banks sanctioned loans of Rs. 2.83 billion to 4,170 borrowers representing utilization of around 60 percent.

CGS was launched in March 2010 to develop a portfolio of fresh borrowers of small and rural enterprises.

A review of guarantee portfolios of banks shows that the Scheme is achieving its desired objectives of reaching out to lower-end and financially excluded target segments as reflected below.

- The Scheme has successfully targeted the low-end borrowers both on the SME and the Agri side.
- The infection ratios of guarantee portfolio of banks is quite low i.e. only 2.91 percent of agri loans and 1.07 percent for SME Loans which is quite impressive given the high NPLs ratios of banks in their general Agri and SME portfolios.
- The guaranteed loans are almost equally distributed amount-wise among small enterprises and agri borrowers. However, since a large number of small agri farmers have been targeted

through small ticket loans with average agri loan of Rs. 0.39 million, the number of agri loans are more than 5 times of loans to Small Enterprises where the average loan size is of Rs. 2.1 million.

- A further analysis of agri borrowers shows that a major chunk of loans were sanctioned to subsistence farmers with land holding up-to 12.5 acres only.
- Among the small enterprises, majority of loans were sanctioned to sole-proprietorships with number of employees' up-to 5 which reflects that the Scheme is reaching out to lower segments of SMEs and helping in the creation of new employments, including self-employments.
- In terms of geographic distribution, it was noted that out of 120 districts, 105 districts have been served under the Scheme showing a pretty greater degree of diversification area-wise. Further, most of the loans are in areas where SME and Agri. borrowers are generally not catered by the banks in their normal operations.
- Although majority of agri loans are of more than one year tenor, loans to small enterprises are short term i.e. up-to one year showing availability of funding for both the short term and medium term needs of the targeted borrowers.
- On collateral side, though the loans are apparently well collateralized, but a deeper insight of the data shows that in most of the cases, the banks have forgiven their margins on the collateral which they normally do not leave. This reflects that the Scheme has helped in reducing the burden of borrowers in terms of their collateral value.

Box 3: SME cluster Profiling- Fan Industry in Pakistan

- SME Cluster Study on "Fan Industry: Gujranwala and Gujrat", which was conducted for SBP by Lahore University of Management Sciences (LUMS) is available at the following link:-
http://www.sbp.org.pk/departments/ihfd/Sub-Segment%20Booklets/Fan%20Industry%20Report.pdf

2.0. Microfinance

Table 2A: Key Performance Indicators of MFBs

Outreach	Dec-11	Jun-12	Dec-12	Growth	
	***(Amount in Rs. '000')**			**Half Yearly**	**YoY**
Borrowers	733,931	767,904	803,096	5%	9%
Advances *	14,650,231	17,293,246	20,022,546	16%	37%
NPLs*	313,983	750,082	188,800	-75%	-40%
PAR >30 Days in %	2.14%	4.34%	1%	-78%	-56%
Deposits*	13,927,066	16,609,330	23,155,003	39%	66%
Assets*	30,263,768	34,622,345	43,623,713	26%	44%
Equity*	6,745,902	8,202,272	9,826,855	20%	46%
Avg Loan Size	19,961	22,520	24,932	11%	25%

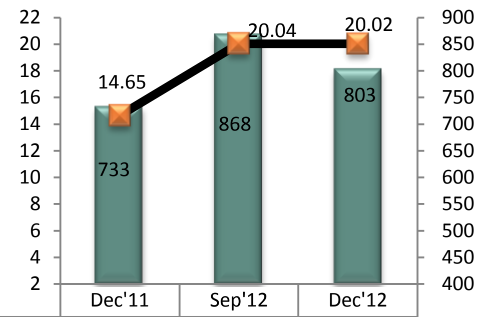
Box 4: Branchless Banking Newsletter

State Bank of Pakistan publishes branchless banking newsletters on quarterly basis. The same can be accessed via the given link:-

http://www.sbp.org.pk/publications/acd/branchless.htm

The year 2012 can be termed as a turning point in the evolution of microfinance banks (MFBs) since their inception in 2001, as impressive growth was witnessed in all key performance indicators (see table 2A). Outstanding advances registered a remarkable 37 percent YoY growth with NPLs at 1% as of Dec-12. This achievement looks significant in the backdrop of continuous declining trend in the overall private sector credit, deteriorating law & order situation, floods in 2010-11, and overall difficult macroeconomic conditions in the country. These results are outcome of multi-dimensional policy approach of focusing on issuing licenses to new MFBs, facilitating restructuring/acquisition of all weak MFBs, launch of MF-CIB, regulatory strengthening, grass- root level training programs, and launching of nation-wide financial literacy program.

Fig 2a: Trends in Advances & Borrowers

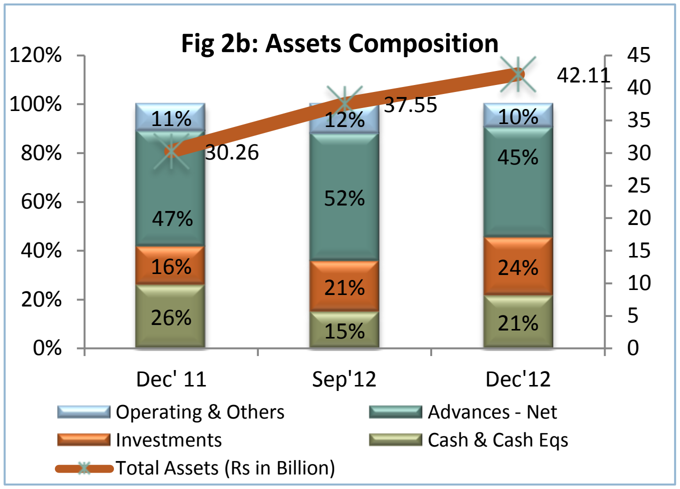


	Dec'11	Sep'12	Dec'12
Borrowers (in '000')	733	868	803
Advances (Rs. in billion)	14.65	20.04	20.02
PAR >30 days	2.14%	2.45%	1.00%

Deposits of MFBs exhibited phenomenal growth in the period under review. Encouragingly, MFBs' deposits surpassed their gross loan portfolio (GLP) in FY 2012, indicating that business model for MFBs is transforming from a debt-dependent to deposit-driven. Owing to favorable market environment, both existing and new investors have injected equity in most of the MFBs. In a recent development, Advans SA & FMO have established Advans SA Microfinance Bank, taking the number of MFBs operating in Pakistan to ten.

MFBs' deposits surpassed their gross loan portfolio (GLP) in FY 2012, indicating that business model for MFBs is transforming from a debt-dependent to deposit-driven.

The number of microfinance borrowers increased by 9 percent to reach at 803,096 as on 31st Dec-12 from 733,931 in the corresponding date last year. Increase in number of borrowers was witnessed in the leading MFBs. Importantly; the top 4 banks (KBL, Tameer, FMFB, and NRSP MFBs) still have the largest share of 96% in number of borrowers due to their long presence in the market and extensive branch network. The remaining six MFBs couldn't tap the true potential during the period as these were either new or experienced mergers/ acquisitions. It is positive to note that most of these MFBs have completed most of their transition, and will now gradually expand their outreach.



Asset analysis of MFBs shows a positive trend in the overall asset base of MFBs on the back of growth in deposits and equity. The asset base rose to Rs. 43 billion compared to Rs. 30 billion in the corresponding date of preceding year. Advances constituted 45 percent compared to 47 percent during the last year, whereas cash and cash equivalent constituted 21 percent of the total asset base due to rise in deposits, loan recoveries and equity injections compared to 26 percent in FY11. The liquidity position of MFBs remained quite comfortable as liquid assets (cash & investments) constituted 45 percent of total assets.

Sector-wise classification reveals that Gross Loan Portfolio (GLP) of MFBs is largely concentrated in agri. inputs & livestock with 48 percent, 34 percent in others' category, 18 percent in microenterprises, and less than 1 percent in housing while the 'others' category is mainly attributed to the gold-backed portfolio of Tameer MFB. Here, the concern is that this gold-backed lending is likely to grow further because few other leading MFBs have also launched this loan product. This risk aversive approach may constrain MFBs to reach out to millions of financially excluded people without collateral. It is, therefore, essential for the MFBs to come up with more diverse products suiting the requirements of prospective borrowers.

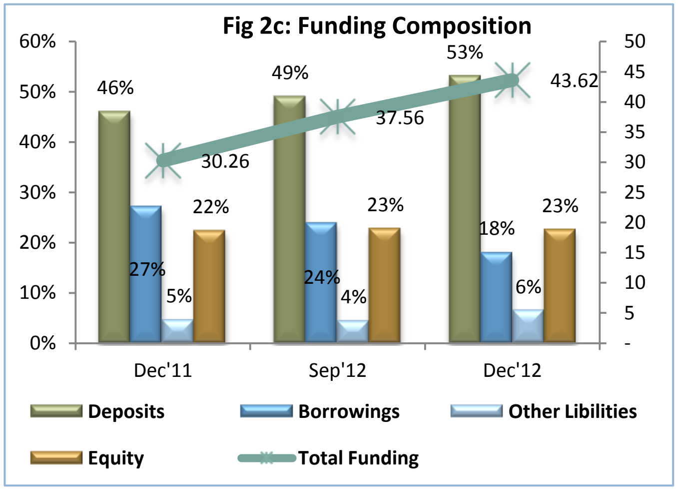
The asset base of MFBs rose to Rs. 43 billion at the end of Dec-12.

Tameer MFB still leads the MF banking industry in terms of value of advances with Rs. 6.7 billion followed by KBL with Rs. 5.8 billion. Moreover, with the entry of new players and also recapitalization/divestment of existing problematic banks, it is expected that the MF banking industry will show marked improvement in micro credit and outreach in coming years. The average loan balance of MFBs is consistently improving; as of Dec-12, standing at Rs. 24,932.

NPLs of MFBs saw a decrease of 1 percent on YoY basis.

Non Performing Loans (NPLs) decreased from 2.14 percent to 1 percent during the year. There was significant decline in NPLs of all categories of MFBs owing to repayments and write-off against rescheduled loans in flood affected areas.

On the funding side, the deposits (Rs. 23 billion) grew by Rs. 9 billion during the period under review. The outlook is even better as many of the newly formed or acquired players (Apna, U-MFB, Kashf, Waseela, Advans SA) have not yet accelerated deposit mobilization. Deposit-debt mix changed positively from 46-27% in Dec-11 to 53-18% in the current year. The main players, constituting 80% of the total increase in deposits during the year were Tameer, KBL, and NRSP with Rs. 3.8 billion, Rs. 2.3 billion, Rs. 1.1 billion respectively.



These growing trends in deposits and equity signify that micro-banking industry is heading towards sustainable sources of funding. Now, there is a strong need for MFBs to develop their institutional capabilities (team, technology, and treasury management) to a level that can lead them to become integrated with national payment system.

3.0. Agricultural Finance

Table 3A: Agricultural Financing Profile of Banks					
(Amount in Billion)	Periods			% Change	
	Dec-11	Jun-12	Dec-12	Half Yearly	YoY
Amount Outstanding	211.8	221.5	235.9	6.51%	11.41%
NPLs Outstanding	32.0	35.1	29.3	16.48%	-8.49%
Disbursements (Cumulative)*	125.2	293.8	140.3	-	12.06%
No. of Outstanding Borrowers	1,973,284	2,267,867	2,209,659	-2.57%	11.98%

*Not comparable as disbursements for period ending Jun-2012 is aggregate for 12 months while position for the Dec-2012 period is only performance during 1st half of FY13.
(Source: Agricultural Credit & Microfinance Department)

Box 5: District wise agri. financing details of Pakistan

- District wise data is published by SBP on periodic basis and the same can be accessed via the given link:-

http://www.sbp.org.pk/acd/district.asp

During FY12, the participating banks successfully disbursed agricultural credit beyond the indicative target of Rs. 285 billion, set for the year, exceeding by Rs. 8.9 billion. For the year FY13, SBP has raised the bar by around 11 percent taking the industry's aggregate target to Rs. 315 billion. Of the total target, Rs. 220 billion (70 percent) have been allocated to commercial banks and Rs. 13.8 billion (4 percent) to MFBs while specialized banks (SBs) i.e.; Zarai Taraqiati Bank Limited (ZTBL) and Punjab Provincial Cooperative Bank Limited (PPCBL) were assigned targets of Rs. 72 billion (23 percent) and Rs. 9 billion (3 percent) respectively.

For FY 13, SBP has set an indicative target of Rs. 315 billion for agri. financing.

Credit Disbursement

During the 1st half of FY 13, banks were able to disburse Rs. 140.3 billion (45 percent) against a target of Rs. 315 billion for the year. The disbursements exceeded by 12 percent (Rs.15.1 billion) of the performance during the corresponding period of FY12. A comparison of annual indicative targets for FY12 & FY13 in terms of actual disbursements by banks during the first half is provided in Table 3B.

During FY 12, Participating banks disbursed agri credit beyond the indicative target of Rs.285 billion.

During the first half of FY 13, Rs. 140.3 billion have been disbursed by the participating financial institutions.

The bank-wise break-up of agri. credit disbursements reveals that during 1st half of FY13, 5 Big banks' cluster disbursed Rs.76 billion (50 percent) while the Domestic Private Banks, specialized and microfinance banks were able to dispense Rs. 33.2 billion (50 percent), Rs. 22.9 billion (28 percent) and Rs. 8.2 billion (59 percent) respectively against the targets assigned. The cluster-wise performance of large, domestic private and microfinance banks improved by Rs. 6 billion (7.7 percent), Rs. 9 billion (37 percent) and Rs. 2.7 billion (49 percent) while disbursements of specialized banks declined by Rs. 2 billion (8 percent) against their performance during the corresponding period last year.

Table 3B: Agricultural Credit Targets and Disbursement

(Billion Rupees)

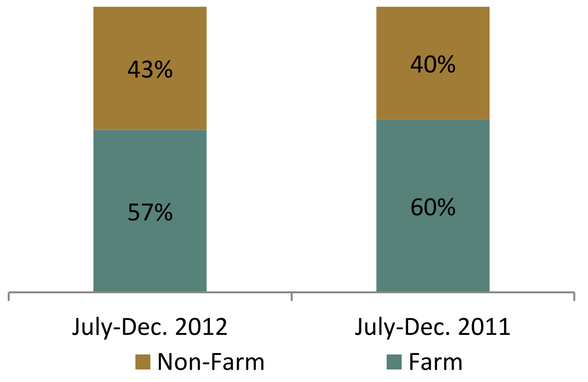
Banks	Target 2012-13	Disbursement Jul-Dec 2012	Target 2011-12	Disbursement Jul-Dec 2011
Big 5	153.5	76.0	141.0	70.6
ZTBL	72.0	19.3	70.1	21.0
DPBs	66.7	33.2	54.1	24.2
PPCBL	9.0	3.6	7.6	3.9

MFBs	13.8	8.2	12.2	5.5
Total	**315.0**	**140.3**	**285.0**	**125.2**

of

the

Fig 3a: Share of Farm & Non-Farm Sectors



Credit Classification by Farm and Non-Farm Sectors

Credit disbursements during 1st half FY13 amounted to Rs. 140.3 billion which included Rs. 79.8 billion (57percent) and Rs. 60.5 billion (43 percent) disbursed respectively to farm and non-farm sectors. Correspondingly, the disbursements to both sectors increased by 5 percent and 22 percent on a YoY basis. Persistent rise in disbursements to the non-farm sector from Rs. 36.6 billion (36 percent) in Dec-10 to Rs. 60.5 billion (43 percent) in Dec-12, depicts the potential of livestock, fisheries and poultry sub-sectors to become profitable niche markets for banks. Sector-wise share of farm and non-farm sectors is show in Fig 3a.

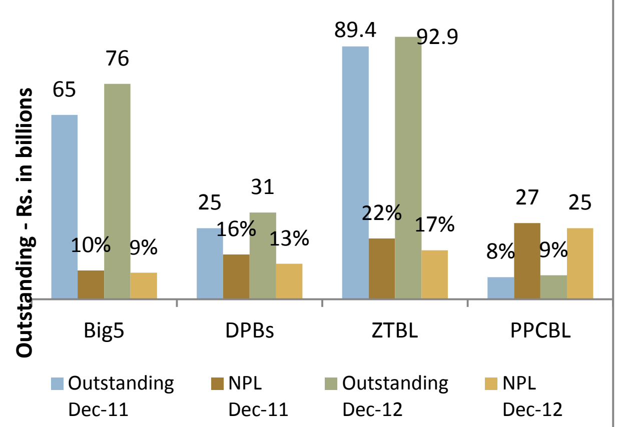
Province-wise Disbursement

Disbursements to the tune of Rs. 140.3 billion were made during the 1st half of FY13, which constituted 44.5 percent of the year's target. In the Punjab Rs. 120.9 billion or 49 percent of the target for the year were disbursed. Likewise in Sindh, around Rs. 16 billion or 35 percent, in KPK, Rs. 3.4 billion or 19 percent, in Baluchistan and Rs. 0.1 billion or 2.2 percent while in AJK and GB Rs. 0.3 billion or 17 percent and Rs.0.1 billion or 11 percent respectively were disbursed. When compared with the previous year corresponding period, a nominal increase in disbursements is observed across provinces except KPK and Gilgit-Baltistan. The Punjab had 86 percent share in total disbursements followed by Sindh with 11 percent while only 3 percent is contributed by others provinces. Details of province-wise disbursements, vis-à-vis targets achieved are given in Table 3C.

Table 3C: Province-Wise Indicative Agri. Credit Targets And Disbursement (Billion Rupees)

Province	Target 2012-13	Disbursement Jul-Dec, 12	Target 2011-12	Disbursement Jul-Dec, 11
Punjab	246.0	120.9	225.7	108.3
Sindh	44.0	15.5	38.3	13.2
KPK	17.7	3.4	15.6	3.2
Baluchistan	4.6	0.1	4.0	0.1
AJK	1.8	0.3	0.7	0.2
GB	0.9	0.1	0.7	0.1
Total	315.0	140.3	285.0	125.2

Fig 3b: % NPLs & Outstanding Loans



Agri. Non-Performing Loans

Non-performing loans in agri. financing stood at Rs. 29.3 billion or 14 percent of the outstanding loans as on 31st Dec-12 compared with Rs. 32 billion or 17 percent of the outstanding loans as on 31st Dec-11. A comparison of NPLs vs outstanding is shown in Fig 3b.

Non-performing loans of agri. sector stood at Rs. 29.3 billion at the end of Dec-12.

Number of Agri. Loan Borrowers

At the close of first half of the FY13, the number of agri. loan borrowers was 2.209 million with an increase of around 236,375 borrowers or 12 percent on YoY basis as against a total of 1.973 million borrowers on 31st Dec-11. The growth may be attributed to microfinance banks that were able to mobilize 228,445 new borrowers or contribute 97 percent towards the incremental borrower base of the sector. Bank-wise position of outstanding number of borrowers is shown in Table 2.5.

Total number of agri. borrowers saw a growth of 12 percent on YoY basis.

Table 3D: Outstanding Number of Agri. Loan Borrowers

Banks	FY 2012-13 Dec-12		FY 2011-12 Dec-11		YoY % Change	**Trend**
	No. of Borrowers	% Share in Total	No. of Borrowers	% Share in Total		
Big 5	334,823	15.2	327,846	16.6	2.1	↑
ZTBL	1,088,429	49.3	1,101,552	55.8	-1.2	↓
DPBs	34,565	1.6	35,835	1.8	-3.5	↓
PPCBL	214,832	9.7	199,486	10.1	7.7	↑
MFBs	537,010	24.3	308,565	15.6	74.0	↑
Total	**2,209,659**	**100.0**	**1,973,284**	**100.0**	**12.0**	**↑**

Box 6: SBP Task Force Report on Crop Loan Insurance Framework

- The Task Force in collaboration with SBP, SECP, MINFAL, PARC, insurance companies, banks and other stakeholders has accomplished the task and came out with a workable, commercially viable and sustainable solution. The subject report can be accessed via the given link:-

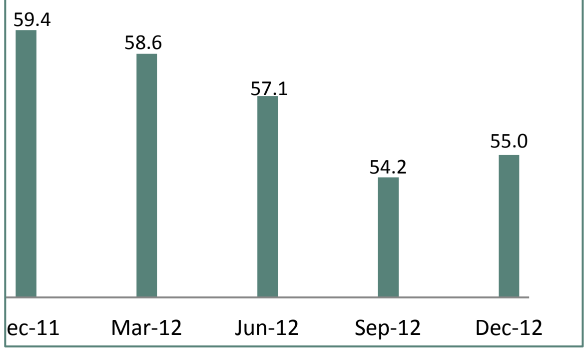
http://www.sbp.org.pk/acd/TaskForce.pdf

4.0. Housing Finance

Table 4A: Housing Finance - Amount (Rs. Billions)					
	December-12		December-11		% Change (Amount)
	Borrowers	Amount	Borrowers	Amount	YoY
Cumulative Disbursement	5,03,412	181.4	500,489	177	2.5%
Outstanding	32,063	36.1	37,193	40.3	-11%
NPLs	52,748	18.9	54,205	19.1	-1%
Gross Outstanding	84,811	55.0	91,398	59.3	-7%

Presently, 27 commercial banks, HBFCL and two microfinance banks are catering to housing finance needs. HBFCL's share in the total housing finance has reduced in absolute terms; it is the only institution that caters to the lower-middle and low-income groups and enjoys the largest customer base.

Figure 4a: Industry Gross Outstanding



Gross Outstanding

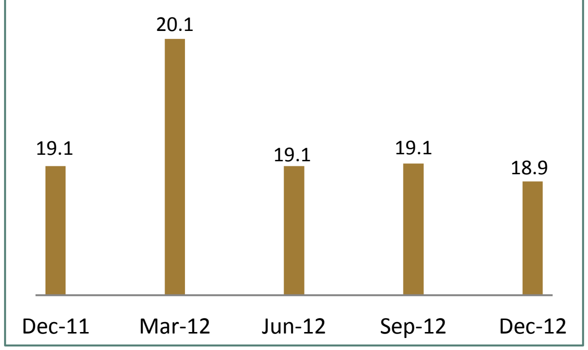
The gross outstanding finance as on Dec-12 of all banks and DFIs stood at Rs. 55 billion (Figure 4a), compared to Rs. 57.1 billion as on Jun-12, showing a decrease of Rs. 2.1 billion (3.7 percent).

Of the gross outstanding as of end-Dec, 12, commercial banks accounted for Rs. 42 billion, a 4.4 percent decline since quarter ending Jun-12. Private banks reported Rs. 24.6 billion followed by Islamic banks at Rs. 10 billion, public sector banks at Rs. 7.1 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.8 billion; down by 3.4 percent over the last year; However, on half yearly basis it showed a decline of Rs. 127 million (1%). Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

Gross Outstanding of Islamic Banking Industry stood at Rs. 13.78 billion at the end of quarter Oct-Dec 2012.

The gross outstanding housing finance as on Dec-12 of Islamic Banking Industry (05 Islamic Banks & 12 Islamic Banking Divisions of Conventional Banks) stood at Rs. 13.78 billion. Of the gross outstanding Islamic housing finance, Islamic banks accounted for Rs. 10 billion (14 percent increase when compared to the quarter Apr-Jun, 2012). However, yoy basis it has increased by Rs. 1.26 billion (14.4%). IBDs of conventional banks posted Rs. 3.78 billion (one percent decline since quarter ending Jun-12) and on yoy basis decreased by Rs. 40 million (1%).

Figure 4b: Industry NPLs

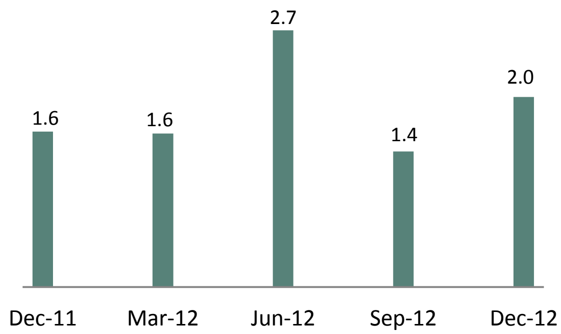


Non-Performing Loans (NPLs)

NPLs decreased from Rs. 19.1 billion (Jun-12) to Rs. 18.9 billion (Dec-12); down by one percent during the quarter. However, on yoy basis down by 1 percent (Rs.200 million).

HBFCL's NPLs increased from Rs. 7.3 billion to Rs. 7.9 billion during the year; a 13.9 percent increase as shown in Figure 4b. Although growth of its NPLs remains relatively low in absolute terms, its percentage share in its total outstanding, however, is the greatest, as 62 percent of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 42 percent.
Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.21 billion on Dec-12, which were Rs. 2.12 billion at the end of quarter Apr-Jun, 2012 showing an increase of four percent (Rs. 90 million).

Figure 4c: Industry Qtr Disbursement



Disbursements

Fresh disbursements of Rs. 2 billion (Figure 4c) were made to 569 borrowers during the quarter ending Dec-12. However during the period Jul-Dec, 2012, total disbursements of Rs. 3.4 billion were made to 1163 new borrowers. Islamic Banks extended new disbursements with Rs. 0.91 billion followed by private banks with Rs. 10.34 billion, public sector banks with Rs. 53 million and foreign banks with Rs. 21 million for the period Jul-Dec, 2012. HBFCL's fresh disbursements for the quarter were reported to be Rs. 501 million. Among commercial banks, the number of new borrowers totaled 675, with private banks serving 272 borrowers and Islamic banks 298 customers. HBFCL extended loans to 487 new borrowers during the period Jul-Dec, 2012.
Fresh disbursement for Islamic Banking Industry was Rs. 1.95 billion to 373 new borrowers during the period Jul-Dec, 2012. This includes new disbursements of Rs. 0.16 billion to 31 customers by IBDs of conventional banks.

Disbursement by Islamic Banking Industry during the quarter ending Dec 31, 2012 was little over than Rs. 1 billion.

Housing Finance Business of Microfinance Banks

The **outstanding housing finance** of Microfinance Banks (MFBs) was Rs. 154.98 millions as on Dec-12 which was Rs. 162.8 millions at the end of Jun-12. It registered a decrease of eight percent, when compared to the quarter ended June 30, 2012. **NPLs** for MFBs decreased from Rs. 3.9 million to Rs. 0.51 million; showing a decrease of 87 percent in comparison to quarter ended Jun-12. NPLs of MFBs

Outstanding amount of MFBs decreased by 11 percent since the quarter ended Dec-11, 2012 & NPLs decreased by 68 percent when compared to the quarter ended Dec-12.

arising out of housing finance business are around 0.3 percent of their outstanding housing finance portfolio. **Number of outstanding borrowers** decreased from 2,783 to 2,552 since Jun-12; a decrease of eight percent.

5.0. Infrastructure Finance

Table 5A: Infrastructure Project Financing Profile of Banks & DFIs

(Amount in Billions)	Periods			% Change	
	Dec-11	Jun-12	Dec-12	Half Yearly	YoY
Amount Outstanding	280.7	286.3	285.4	-0.3%	1.7%
NPLs	13.81	17.49	17.48	-0.1%	26.6%
Disbursements (Cumulative)	325.7	343.5	355.0	3.3%	9.0%
No. of Projects (*Cumulative)	274	348	362	4.0%	32.1%
Total Sanctioned Amount	544.9	480.8	492.4	2.4%	-9.6%

***Cumulative number of projects is the total number of projects less the matured ones.**

Cumulative disbursements to Infrastructure sectors saw a rise of 9.0 percent, YoY basis.

Quality Infrastructure affects economic growth potential of a country.

Infrastructure outstanding finance saw a rise of 1.7 percent YoY basis.

Economic growth potential of a country as well as the ability of an enterprise to engage effectively is actually affected by quality of infrastructure in a country. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development objectives, as infrastructure services encourage new investment and underpin many aspects of economic and social activity.

At the end of Dec-12, the amount outstanding against infrastructure sectors remained almost same with some negligible reduction of 0.3 percent when compared with Jun-12 (Half Yearly basis). However, there was a growth of 1.7 percent when compared YoY basis. While, a sector-wise analysis

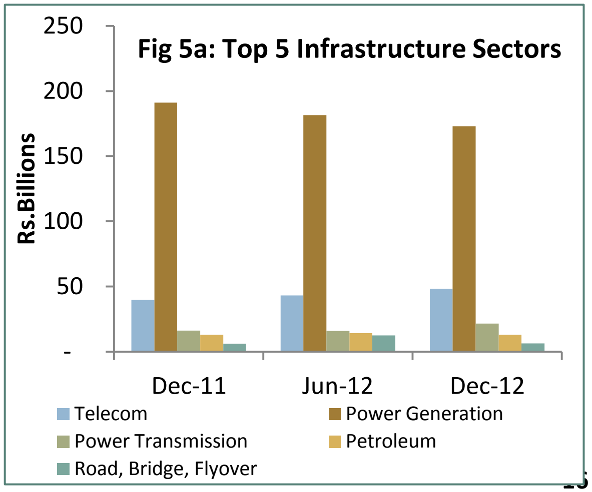


Fig 5a: Top 5 Infrastructure Sectors

reveals that the lion's share (60.6 percent) in total outstanding infrastructure financing remained with Power Generation sector, followed by Telecom sector with 16.9 percent.
Although, NPLs have lesser significance in Infrastructure projects, nevertheless the NPLs increased from Rs. 13.8 billion to Rs. 17.5 billion on YoY basis. However, on half yearly basis a decline of 0.1 percent was recorded.

Outstanding Portfolio

Total amount outstanding, against infrastructure finance, at the end of Dec-12 was Rs. 285.4 billion when compared with Rs. 280.7 billion at the end Dec-11, recording a growth of 1.7 percent. However, on half yearly basis, there was a meagre decine of 0.3 percent.
A segregate review shows that Power Generation sector recorded a decline of 4.6 percent when compared with Jun-12 (Half Yearly basis). In addition to this, Petroleum sector showed a decline of 8.8 percent on half yearly basis, despite the fact that government introduced Petroleum Policies in 2009 and 2012, besides provision of other numerous incentives.
However, Oil & Gas Exploration & Distribution saw a growth of 3.2 percent on half yearly basis. Furthermore,Telecom, Power Transmission, and LPG Import & Distribution sectors saw positive growth when compared with Jun-12.

Non Performing Loans

Total amount of Non Performing Loans (NPLs) at the end of Dec-12 decreased slightly to Rs. 17.48 billion when compared with Rs. 17.49 billion at the end Jun-12 registering a decrease of 0.05 percent; while on YoY basis, NPLs increased from Rs. 13.3 billion to Rx.17.5 billion.
At the end of Dec-12, a sectoral analysis reveals that the major share of 47.2 percent in NPLs pertained to Power Generation Sector, followed by Telecom and Power Transmission with 26.8 and 13.2 percent respectively whereas the remaining 12.8 percent was the share of all other sectors.

Banking-sector wise Share

At the end of the period under review, following the usual trend, private sector banks' share

Box 7: Infrastructure Project Finance Guidelines

- SBP's Infrastructure Project Finance Guidelines can be accessed at http://www.sbp.org.pk/ihfd/2010/Annex-CL1.pdf

Box 8: Solid Waste Management Plan

The Solid Waste Management Plan is a document that establishes goals and programs for the handling of solid waste in a manner that meets local needs and is consistent with a regions solid waste management priority.
It details the County's waste management practices.
In the plan, local governments establish waste reduction goals and identify programs and policies necessary to meet them. The plan also describes the methods used to collect and transport solid waste and recyclables to disposal and processing facilities in an environmentally sound manner.

remained the highest in the total outstanding amount with 74.3 percent followed by public sector banks with 18.7 percent and 5.1 percent by DFIs, whereas the share of foreign and Islamic banks together amounted to Rs. 5.36 billion. Similar trends were observed in total amount disbursed during the quarter, amount sanctioned, and cumulative disbursements as well.

As per the data reported by banks & DFIs, among the Islamic banks, two Islamic banks have undertaken Islamic project financing and their total outstanding was Rs. 3.57 billion against Infrastructure sectors at the end of the period under review.

At the end of Dec-12, out of 362 infrastructure projects, 233 were undertaken by Private Sector banks, 56 by Public Sector Banks, 4 by Foreign Banks, 4 by Islamic Banks and 65 by DFIs.

Cumulative amount disbursed by Banks & DFIs to infrastructure projects at the end of Dec-12 was Rs. 355.0 billion.

Box 9: Task Force on Urban Development

- Planning Commission, Government of Pakistan had established a **Task Force on Urban Development** in June, 2010 to review the prevailing urban conditions and establish principles that provide sound underpinnings for a consensus national urban policy.
- The subject report can be accessed at http://www.pc.gov.pk/

Disbursements

During Oct-Dec 2012 quarter, an amount of Rs. 13.88 billion was disbursed in all infrastructure sectors against Rs. 9.56 billion in the preceding quarter (Jul-Sep,2012), thus totaling an amount of Rs. 25.47 billion during Jul-Dec, 2012. Moreover, there was a rise of about 100 percent in disbursements when compared with corresponding quarters of 2011 and 2012.

Additionally, the cumulative disbursements (at the end of the Dec-12) saw a growth of 3.3 on half yearly basis mainly driven by Petroleum and Power Generation Sector. Furthermore, on YoY basis, a rise of 9.0 percent was recorded mainly attributable to again Power Generation sector.

New Projects Undertaken by Banks & DFIs

During the year, 15 new projects were undertaken by the banks & DFIs, of which 3 by public sector banks, 8 by private sector, 3 by DFIs and one by an Islamic Bank.

6.0. SBP Refinance Schemes

Table 6A: Outstanding Financing Under SBP Refinance Schemes (Rs in Billion)

	Periods			% Change	
	Dec-11	**Jun-12**	**Dec-12**	**YoY**	**Half Yearly**
Export Finance Scheme	192.4	164.8	195.1	1.4%	18.4%
Long Term Financing Facilities	30.5	32.7	33.5	10.0%	2.5%
Defunct LTF-EOP	12.4	9.7	7.3	-41.3%	-24.4%
Scheme for Modernization of SMEs	0.3	0.1	0.1	-63.9%	-21.0%
Scheme for Storage of Agri. Produce (FFSAP)	1.3	2.0	2.2	59.4%	9.9%
Scheme for Flood Affected Areas	0.3	1.9	1.1	252.5%	-41.6%
Total	237.3	211.2	239.3	0.8%	13.3%

SBP has been pursuing its objectives of facilitating the exporters by providing financing under its Export Finance Scheme (EFS) on the one hand and enhancing the scope of various long-term and short-term financing schemes (See Annexure A for details) on the other hand aiming at the industrialization of the country. In a bid to support exports, the markup on EFS was reduced in line with the movement in weighted average yield on 6-Month T-bills resulted from reduction in SBP policy rate. The scope of LTFF was extended and rates under said facility were also reduced by 150 basis points during 2012. In order to promote the export of Engineering Goods, SBP introduced Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) during the year. SBP, with a view to promoting Power Plants using Renewable Energy in the country, had enhanced the capacity limit from 10MW to 20MW under the scheme for Financing Power Plants Using Renewable Energy. The scheme prescribed maximum financing limit at Rs. 3 billion for a single power project and reduced the rates under said scheme by 150 basis points during the year. Moreover, to facilitate long

Box 10: Petroleum Policy Of 2012

http://www.mpnr.gov.pk/

The government of Pakistan announced Petroleum Exploration and Production Policy 2012 in August, 2012. The Policy would help achieve maximum self-sufficiency in energy and promote exploration and production activities by providing competitive incentives to the investors.

This was the second petroleum policy of the current government as the first one was formulated introduced in 2009.

During the year under review SBP took various steps for provision of subsidized financing facilities for the priority sectors of the economy including exporters through its short and long term financing facilities.

term investment in SMEs Sector/Renewable Energy and to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce, SBP extended the expiry dates of financing facilities upto December 31, 2013.

EFS Outstanding and number of EFS Borrowers show resilience after a brief lean patch resulted from linking overdue export limit with EFS eligibility.

The linking of Overdue Export Proceeds with the EFS Facility was introduced in July 2011 to nudge EFS borrowers to keep their overdue export proceeds under 5 percent of their last year's export. This inherently corrective stricture initially barred many borrowers from availing the facility but subsequently the borrowers adjusted their overdue proceeds in line with the prescribed limit as the EFS outstanding posted an uptick from Rs. 165 billion in June 2012 to Rs. 195 billion in December 2012 *(Table 6A)*.

Export Finance Scheme (EFS)

EFS is one of the core SBP's policies to facilitate the exporters and to promote exports by providing financing through banks. During 2012, the revolving limits sanctioned to banks under EFS were Rs. 252.1 billion. The outstanding position of banks' financing under EFS stood at Rs. 195.1 billion at the end of 2012 showing an increase of about 1.4 percent on YoY basis.

During 2012, the revolving limits assigned to banks under EFS were Rs. 252.1 billion.

Banking Group-wise utilization of EFS

The Private Sector banks remained the major participants in the Export Finance Scheme with highest share of Rs. 162.3 billion (83.2 percent) in the outstanding financing followed by Public sector banks with Rs. 16.3 billion (8.3 percent). Compared to financing in June 2012, a major increase in outstanding financing amounting to Rs. 25 billion was exhibited in Private sector banks due to rollover of refinance facility.

Commodity-Wise Break-Up of Financing under EFS

The commodity-wise outstanding financing of Rs. 195.1 billion shows textile sector at the top with Rs. 117.3 billion (60.1 percent) followed by edible goods with Rs 35.9 billion (18.4 percent). Detailed yearly and half yearly comparisons are shown in *Annexure A*.

Box 11: Booklet on Export Finance Scheme of SBP

Updated operational instructions issued under the Export Finance Scheme (EFS) since its inception have been summarized and published as a booklet in a consolidated form for their information and guidance of stakeholders. The same can be accessed via the given link:-

http://www.sbp.org.pk/incentives/BookGuidlines-EFS.pdf

Borrower-wise Distribution of EFS Funds

Following the introduction of 5 percent limit on overdue export proceeds to avail EFS, many borrowers were barred from availing the EFS facility. However, the borrowers adjusted their overdue export proceeds as per the prescribed limit and the number of exporters started to increase during subsequent quarters. The number of EFS borrowers was 1273 in June 2012 from 1482 in December 2011. While the number again increased to 1369 in December 2012.

Region-wise Utilization of EFS Funds & Regional Composition of Borrowers

Out of total EFS financing, about Rs. 184 billion (95 percent) of EFS funds were concentrated in four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad where only Karachi and Lahore accounted for more than 74 percent of EFS outstanding. As was the case with financing the EFS, borrowers were also concentrated in four major cities (Karachi, Sialkot, Lahore, and Faisalabad) which accounted for around 88 percent of total number of borrowers.

Long-Term Refinance

In order to promote the export of Locally Manufactured Plant & Machinery SBP introduced Export Finance Facility for Locally Manufactured Machinery (EFF-LMM). This new financing facility is aimed at enabling the exporters to avail pre-shipment and post-shipment facility up-to five years for export of Plant & Machinery and Engineering Goods. Earlier financing facility to the exporters was available up-to 180 days under Export Finance Scheme. This new initiative of SBP will contribute in boosting exports of engineering goods from Pakistan.

Under the Long Term Financing Facility for Plant and Machinery, limits of Rs. 22.6 billion were allocated to banks/DFIs. The outstanding amount of financing was Rs. 33.5 billion as on December 31, 2012 which was higher by Rs. 3.1 billion as compared to December 31, 2011.

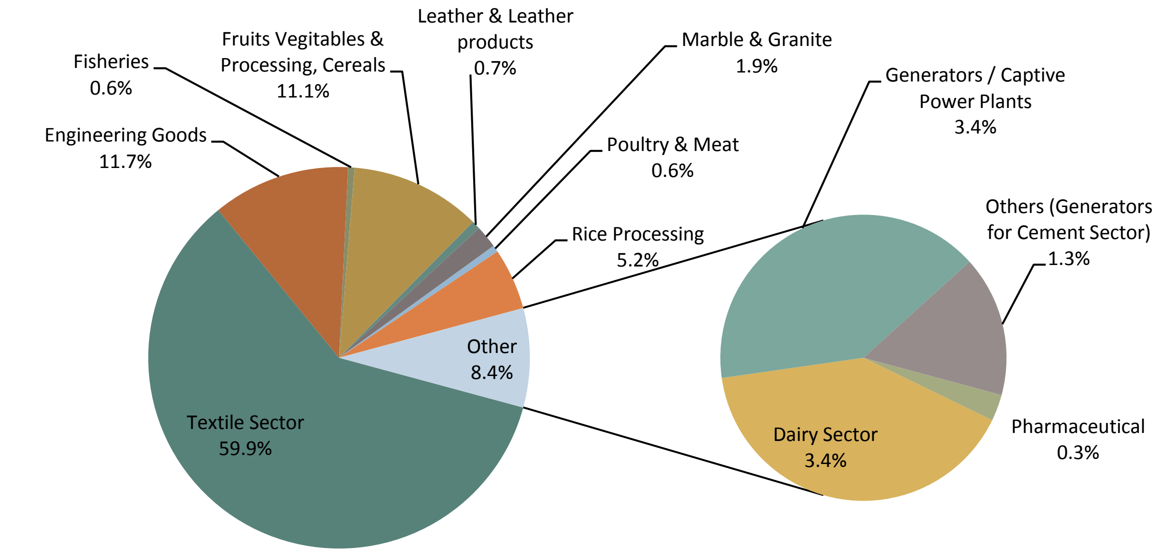
Under LTFF, major portion of financing was availed by Textile Sector (Rs. 18.7 billion) followed by Engineering Goods (Rs. 3.9 billion). Within the Textile sector, major financing was availed by weaving textiles. The graph below provides sector-wise utilization of funds under the scheme.

SBP introduced Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) to promote the export of locally manufactured plant and machinery.

Box 12: Refinance Facility for Modernization of SMEs

SBP issued the scheme for modernization of the units/mills of small and medium enterprises. The same can be accessed via the given link:-

http://www.sbp.org.pk/incentives/ltf-eop/ConsolidatedScheme.pdf



Other Refinance Facilities

- **Financing Facility for Storage of Agricultural Produce** was introduced to encourage Private Sector to establish Silos, Warehouses and Cold Storages to store agricultural produce. At the end of Dec-12, outstanding refinance provided by SBP under this facility was Rs. 2.2 billion.
- **Refinancing Facility for Modernization of SMEs** was introduced to encourage the sponsors of SMEs to modernize their mills/units to produce quality products. At the end of Dec-12, outstanding refinance under this facility was Rs. 113.3 million.
- **Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas** was introduced for agri. production/working capital finance to Farmers and Small & Medium Enterprises (SMEs) in districts affected by floods of 2010 as notified by National Disaster

Box 13: Booklet on Long Term Financing Schemes of SBP

Operational instructions issued under the Long Term Financing Schemes (LTFF) have been summarized and published as a booklet in a consolidated form for their information and guidance of stakeholders. The same can be accessed via the given link:-

http://www.sbp.org.pk/incentives/ltf-eop/ConsolidatedScheme.pdf

Management Authority (NDMA). At the end of the period under review, outstanding refinance under this scheme was Rs. 1.1 billion.

7.0. Key Development Finance Initiatives – Policy and Industry

Appreciating the critical role and significance of Development Finance for the sustainable economic growth in the country, SBP took the following key measures during the Jan-Dec, 2012.

SME Finance Related Measures:

SME Cluster Surveys

Availability of reliable and credible data on SMEs is a pre-requisite for banks to align their lending strategies and design SME specific lending products and services. In view of the importance of reliable sectoral data, SBP developed collaborations with IFC and LUMS to complete primary surveys of 11 SME clusters in 2011. Broad Objectives of SME Cluster Surveys are:

- Determine banking and financial needs of the target clusters
- Design appropriate products to meet banking needs of SMEs.
- Facilitate SBP to bring changes in its regulatory framework, if required

In view of the warm reception of above surveys by banks and other stakeholders including various donor agencies working for the cause of promoting SMEs and demand for coverage of other SME subsectors through similar initiatives, SBP initiated cluster surveys of 10 more SME sub-sectors which will be completed during first half of CY2013.

Capacity Building of banks

State Bank facilitated the capacity building of commercial banks in SME banking through IFC. The services from IFC will enable the banks to effectively target the SME market and meet their banking needs. So far, Bank Alfalah has been selected for the subject consultancy service, while 2 more banks are in the process of hiring such services.

Training programs

SBP/NIBAF periodically organizes SME Finance Grass Root Training Programs for SME bankers to enhance and strengthen their skill set in SME Banking. In addition to the regular grass root training program, SBP also arranged a Three-Day Training Program on “Scaling-up SME Banking” in January,

Box 14: Infrastructure in India

- The Government of India has estimated that investments of $514 billion in the Indian infrastructure sector are needed to achieve growth projection of 9% per annum within the 11th Five-Year Plan (FYP) (2007–2012).
- In order to scale up the development of infrastructure through PPP, the government established the *India Infrastructure Finance Company Limited (IIFCL)* in January 2006.
- In February 2008, *IIFC (UK)* was incorporated as a wholly owned subsidiary of IIFCL, under the laws of England, to supplement IIFCL’s role and functions.
- In FY2011–2012, IIFCL established a subsidiary, *IIFCL Projects Limited*, to provide project advisory services, including project appraisal and syndication services.

Source: ADB Report on *India Infrastructure Project Financing Facility, November 2012.*

Box 15: Seminar on Infrastructure Project Financing

IH& SME Finance Department, SBP held a two days seminar on Infrastructure Project Financing at NIBAF, Islamabad in March, 2013. Presentations can be accessed via the given link:- http://www.sbp.org.pk/departments/ihfdfin.htm

2013 in collaboration with IFC. The target audience for this training program was senior bankers from banking industry. International and domestic experts were arranged as trainers. The Three day training focused on Successful Business Models for targeting SMEs, Strategic Commitment and its important components, Product Development, Sales Culture and Delivery Channels, Credit Risk Management in SME Banking, etc. The program was highly appreciated by the participants.

Besides, State Bank also organized a "Roundtable on SME Banking" in January, 2013 at Learning Resource Centre, SBP, Karachi in coordination with International Finance Corporation (IFC). The objective of the roundtable was to deliberate upon challenges and opportunities of SME banking, sharing best international practices in SME banking and encouraging the banks to adopt innovative approaches to address the banking needs of SMEs. The Roundtable was chaired by the Governor, State Bank, and attended by the presidents/CEOs and commercial heads of banks. The key highlight of the event was a presentation from Mr. Andrew McCartney, global expert at IFC on SME Banking in which he shared his experience of dealing with the SMEs and suggested a number of techniques to increase penetration in this potentially profitable segment. Mr. McCartney emphasized on CEOs/Presidents to:

1. Reevaluate where the Bank is today in terms of SME banking capabilities and take steps to upgrade over time
2. Revisit the way in which their organization is defining SME today in terms of assets and liabilities
3. Adjust the organization to ensure suitable central focus on SME, including the hiring of an SME Head
4. Establish specific new-to-bank SME loan and deposit targets into the branch network
5. Champion and promote new innovations, and be prepared to support piloting and experimentation with new ideas: challenge the resistors internally
6. Establish a board level sponsor for SME Banking

Strengthening Secured Transaction Reform Framework

Box 16: National Energy Policy in Malaysia

http://www.malaysia.gov.my

- The National Energy Policy has three principal objectives that guide future energy sector developments based on supply, utilization and the environment.
- For supply, the main aim is to extend the life of domestic resources and diversify away from oil to promote other energy forms.
- Utilization depends heavily on the industry and consumers to integrate energy efficiency programmes and develop demand-side initiatives to curb consumption.
- Energy and the environment are linked at every level, thus the requirement for mandatory assessment to address negative impacts.

Secured Transaction Framework calls for existence of a modern Secured Transaction Law that provides for establishment of Secured Transaction Registry Office in the country to register charge on assets especially moveable assets of borrowers. As a 1st step in this regard, Asian Development Bank (ADB) provided TA grant to Pakistan in 2007-08 for developing a Secured Transactions Reform Framework in the country. SBP, in collaboration with GOP, conducted a preliminary study through a consultant to see the most feasible and workable option for establishment of a modern registration system in the country. In light of recommendations of the consulting firm, State Bank hired a well-reputed legal firm to prepare draft of the law. The Draft Secured Transaction Law prepared by the consulting firm is currently being considered by the Committee comprising of representatives from Ministry of Finance, SBP and SMEDA. The final draft of proposed law will be put up for approval of the Parliament.

Microfinance (MF) Related Measures:

Partnership and collaboration with practitioners and stakeholders is the hallmark of the SBP's policy formulation process besides its analytical approach. It has institutionalized a consultation mechanism for MF policy formulation as well as assessing the effectiveness of various policies developed and implemented. This approach has been instrumental in developing trust between the policy makers/regulators and practitioners enabling the SBP to develop sector-friendly policies and regulations which continue to strengthen with the sector's development. Key developments on the policy front during the year 2012 were;

- To foster market development, SBP established a Consultative Group on Branchless Banking. The group comprises of all key stakeholders.
- Earlier MFBs were allowed to utilize/install ATMs, open temporary and permanent booths with enhanced scope besides opening of service centres. Recently to further increase outreach of financial services, banks have been advised to improve the coverage ratio of ATMs (the number of ATMs per branch) effective from 2012 onwards, all banks shall add one ATM in their network against each new branch to be opened during a calendar year. The banks having less than 1:1 ATM per branch ratio shall cover their existing gap in 5 years starting from 2012 @ 20 percent each year.
- Rozgar Microfinance Bank, acquired by Ufone, is likely to expand its operations nationwide after completing necessary formalities. They plan to launch branchless banking platform for offering financial services. Also, Kashf Microfinance Bank was acquired by M/s. FINCA Microfinance Holding Company while Khushhali Microfinance Bank was acquired by UBL-led consortium.
- Advans SA has been licensed and allowed to commence business as a province-wide MFB. Advans is a Sindh-based MFB sponsored by Advans Group which is a network of financial institutions providing adapted financial services to micro and small enterprises.

- Tameer Microfinance Bank was allowed to undertake microenterprise lending on a pilot basis. The development came after SBP allowed MFBs to undertake microenterprise lending in March, 2012 for livelihood improvement and income generation. Other MFBs have also demonstrated interest to undertake microenterprise lending.

Program Initiatives: To complement policy measures & promote financial inclusion, SBP also undertakes implementation of government and donor funded programs. The updates on government programs and SBP market interventions are as follows:

Financial Inclusion Program (FIP): To promote financial inclusion in the country, SBP has been implementing the DFID-funded Financial Inclusion Program (FIP) with the aim to promote inclusive growth and to improve income and livelihoods opportunities for poor and marginalized groups in Pakistan. The progress and details on account of different interventions of FIP are given below:

Microfinance Credit Guarantee Facility: The £10 million MCGF is a credit enhancement facility launched by SBP in December 2008 to cover partial risks against the loans extended to microfinance providers by the commercial banks. The facility has helped develop the market and introduce poor borrowers to mainstream financial institutions. So far 25 guarantees have mobilized Rs. 7.075 billion from commercial bank for onward lending to around 350,000 new micro borrowers. The scope of the facility has been extended to mobilize non-bank financing from capital markets, thus further diversifying sources of financing for micro borrowers.

Institutional Strengthening Fund (ISF): In December 2008**,** SBP launched £10 million ISF facility with the objective to provide grants for strengthening the institutional and human resource capacity of the microfinance providers (MFPs). Up till now, Rs. 638 million had been approved for 13 MFPs which cover 20 projects addressing institutional strengthening needs of the grantee institutions for Capacity Building/ HR Training, IT development, Business Plan/ Strategic Reviews, Market Research, Branchless Banking, Corporate Governance, Credit Ratings, Remittances, and Treasury functions etc.

Credit Guarantee Scheme for Small and Rural Borrowers (CGS): CGS worth £10 million was launched in March 2010 to facilitate credit to small and rural businesses for greater outreach. Under CGS, limits worth Rs. 4.830 billion were assigned to 12 banks for 2012 and guarantees of Rs. 1,231 million were issued against sanctioned loans of Rs. 2,923 million for providing new loans of 4,861 to Agri & Small Enterprises.

Financial Innovation Challenge Fund (FICF): £10 million facility that aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The first round of the Fund which was held on Government to Person (G2P) Payments has now been successfully concluded by deciding to award Rs. 505 Million to six applicant institutions. The 2nd FICF Round would be held on Rural Financial services including agricultural finance and broad based Financial Services Projects using telecommunication infrastructure to promote micro payment for people who are not part of financial services

Technical Assistance (TA) worth £10 million was launched for providing support to improve market Information and Infrastructure, such as

I) Support to Systemic Areas

- National Microfinance Credit Information Bureau
- Anti-Money Laundering: Strengthening of FMU's information systems and analytical capabilities
- Pakistan Remittance Initiative (PRI)
- Third party transparency initiative for MF industry
- Strengthening Consumer Protection Monitoring vis-à-vis global benchmarks

II) Surveys and Assessments such as G2P payments, Islamic: KAP(Knowledge Attitude and Practices) Survey, SME Cluster Surveys, Hybrid Value Chain financing study, Branchless Banking Survey and development plan Access to Finance survey-2, Agriculture Finance Study etc

Financial Literacy program (FLP): Lack of financial literacy has been a major constraint to enhance financial inclusion in the country. In order to address this challenge, SBP launched Pakistan's first-ever Nationwide Financial Literacy Program (NFLP) on 20th January 2012 to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country.

The dissemination of the pilot program has now been completed successfully. The pilot program actually targeted 47,800 beneficiaries through Class Room training sessions, street theater and mass media. The program focused on disseminating basic education about financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products & services, debt management and consumer right and responsibilities etc. As a way forward, the program will further be scaled-up based on the evaluation of the pilot project to reach out to more than 500,000 poor and low income beneficiaries.

Farmers Financial Literacy & Awareness Programs on Agricultural Financing, Grass-root level Training Programs for Credit/Loan Officers of Microfinance Banks/Microfinance Institutions (MFIs), and likewise SME Finance Grass Root Cluster Training Programs were arranged by SBP with the aim of broadening financial inclusion.

Agri. Finance Related Measures:

Farmers' Financial Literacy & Awareness Program

To educate farming community about dynamics of agri financing, farmer-banker relationship, role & responsibilities of borrowers, etc., SBP launched 'Farmers Financial Literacy and Awareness Program (FFLP)' on a pilot basis in collaboration with SBP-BSC, commercial and microfinance banks in April, 2012. To ensure its sustainability, TOT/ Technical sessions were held for agri credit officers in order to enable them to conduct these sessions onwards.

The pilot phase concluded after training of 340 agri. field officers, middle management of banks and SBP-BSC officials besides educating around 1543 farmers. Banks have started to replicate FFLP at grass root level and around 130 programs had already been conducted by the trained agri. field staff till November 30, 2012 whereas around 543 programs will be conducted by March 2013.

Conclusion of Pilot Project Phase IV

Phase-IV of the pilot project concluded in Kharif session on September 30, 2012 after covering 54 districts of the country, including 22 districts that were identified for group-based lending methodology. Separate targets were assigned for farm and non-farm sectors' financing besides financing under group-based lending methodology to enhance agri. credit outreach to landless/ small farmers. Key highlights of project achievement are as under:

				(Rs. In Billions)
Classification	Target	Actual Disbursements	Trend in O/S Loans	Fresh Disbursements
Farm	Rs. 115.5	Rs. 116.8	Rs. 9.1 ↑ (or 8.3 percent)	Rs. 54.4 billion were disbursed to 303,159 fresh borrowers against the target of Rs. 26.9 billion.
Non-Farm	Rs. 25.5	Rs. 33.4	Rs. 21.3 ↑ (or 5.1 percent)	Rs. 12.3 billion disbursed to 91,240 fresh borrowers against the target of Rs. 6.2 billion representing 198 percent achievement.

Further, under group-based lending methodology, targets of Rs. 669.86 million for 12,973 borrowers were assigned to 8 banks in 22 districts of the country (including AJK). In response, NBP, BOK & PPCBL successfully launched group-based lending and disbursed Rs. 752 million to 18,968 borrowers in 2,384 groups. The target was surpassed by Rs. 82 million (or 12.2 percent) and 5,995 (or 46 percent) additional borrowers.

Housing Finance Related Measures:

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 of the existing regulatory and policy framework affecting housing finance. The HAG made a number of recommendations which 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 disseminated the recommendations to the concerned stakeholders and is currently coordinating with Provincial Governments, Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations. IH&SMEFD is continuously in consultation with Federal and Provincial governments by making presentation on HAG recommendations and holding meetings with them for the implementation of HAG recommendations.

Capacity building 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. Being the regulator of financial institutions, SBP is thriving hard to educate the financial industry. In continuation to SBP efforts, we actively pursue this goal of SBP to train the financial industry. During the Year 2012, IHSME Finance Department conducted six different training programs, related to mortgages, in different cities of the country which were highly appreciated by the participants.

Mortgage Refinance Company

A meeting of SBP and IFC representatives was held with senior government officials to discuss the incorporation and way forward for the mortgage refinance company (MRC) in current changing economic scenario. It was decided in the meeting that SBP shall undertake the fresh round of consultations with stakeholders to carry forward the initiative.

Seminar on Housing Microfinance

SBP held a seminar on housing microfinance in September, 2012 to discuss the problems of microfinance banks and the way forward to cater the housing finance needs of low income group. Representatives from commercial banks, NGOs, MFBs and MFIs participated in the seminar. A working group was formed, as one of the recommendations of the seminar, to work for suitable product for low income group. Working group consists of members from commercial banks, MFBs and low income housing builders.

Formation of Housing & Housing Finance Consultative Group

To flourish the housing industry and expand the outreach of housing finance, SBP has established housing and housing finance consultative groups. Key stakeholders i.e. ABAD, AMB, HBFCL, MoH&W, MoF & SBP would be the members of consultative group.

Infrastructure Finance Related Measures:

- There is an increasing recognition of the fact that both the public and the private sectors have to work in close coordination to meet the infrastructure financing requirements of the economy. In cognizance of the impact of infrastructure services on growth and the investment climate in the country, SBP has formed a Consultative/Working Group on Infrastructure Financing.
- A two-day's training program on **Infrastructure Project Finance** was conducted on November 13-14, 2012 to enhance the knowledge and understanding of the participants in development of their technical side in the arena of infrastructure project finance. More than 30 officers from different banks and DFIs participated in the training program, which proved to be very useful and knowledgeable for the participants.
- SBP is working on a **5-year review of Infrastructure Project financing** in the country and the document will soon be published. In this regard, pertinent information from banks & DFIs has been obtained.
- SBP is undertaking a project on the potential of Islamic Project Financing in the country. In this regard, data/information has been collected from banks & DFIs.
- SBP is undertaking a project on profiling of selected Infrastructure Sectors. In this regard, available information pertinent to Wind, Solid Waste Management and Sanitation & Sewerage System is being gathered.

Refinance Schemes Related:

- SBP, vide IH&SMEFD Circular Letters No. 15, 16, 17 & 18 of December 2012 extended the expiry date of the Financing Facility for Storage of Agricultural Produce (FFSAP), Refinance Facility for Modernization of Small & Medium Enterprises (SMEs), the Federally Administered Tribal Area (FATA), and Agri. Loans Refinancing & Guarantee Scheme for War Affected Areas of KPK and FATA and the Refinance Scheme for Revitalization of SMEs in Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan (GB) by one year. These facilities/schemes will now remain valid up to December 31, 2013
- Banks/DFIs allowed, vide IH&SMEFD Circular Letter No. 10 of July 19, 2012, to provide financing facilities for new imported and locally manufactured plant, machinery & equipment to be used by the Export-Oriented Projects for producing Soda Ash under the Long Term Financing Facility (LTFF) for Plant & Machinery.
- SBP, vide IH&SMEFD Circular Letter No.11 dated July 30, 2012, enhanced the capacity limit of all renewable power projects from 10MW to 20MW for financing under the Scheme for Financing Power Plants Using Renewable Energy. The maximum financing limit to a single renewable power project under the Scheme has also been fixed at Rs 3 billion to accommodate larger number of borrowers.
- SBP, vide IH&SMEFD Circular Letter No. 12 of August 06, 2012, more relaxations allowed to exporters under EFS Part-II to include the export proceeds realized up to August 31, 2012 for entitlement of limit in the EE-1 statement for the year 2012-13. This relaxation was given to the

exporters having shortfall in required performance under EFS Part-II for the monitoring year 2011-12. Further, limits sanctioned by banks under Part-II of the Scheme for FY 2011-12 to the exporters intending to avail this facility continued up to October 31, 2012.

- SBP, vide IH&SMEFD Circular No. 03 dated August 30, 2012, issued instructions to banks/DFIs under Trade Policy Initiatives 2009-14 of the Government of Pakistan (only for Textile Sector) and introduced Technology Up-gradation Fund (TUF) - (a) Mark-up Support up-to 5 percent; & (b) Investment Support-Government may provide grant up-to 5 percent of equity to the Corporate Clients and 20 percent of the capital cost for SMEs on account of investment in new plant & machinery.
- With a view to bringing more clarity and simplifying the procedure of submission of refund of fine cases, SBP has prescribed a Standard Application Format for Refund of Fine under the Export Finance Scheme vide IH&SMEFD Circular Letter No. 5 of June 06, 2012. This will not only save time required for examining refund cases but also reduce load of documents being submitted by banks to SBP.
- SBP, vide IH&SMEFD Circular Letter No. 6 of June 06, 2012, extended the validity period of Scheme for Financing Power Plants Using Renewable Energy for a further period of two years i.e. up to 30th June, 2014. Its validity was due to expire on 30th June, 2012.
- On budgetary allocation for FY 2011-12 by Ministry of Textile Industry, SBP vide IH&SMEFD Circular Letter No. 9 of June 22, 2012 announced to release Export Finance Mark-up Rate Facility to the extent of 23 percent of total claims against the cases, which were found in order and where 55 percent reimbursement had already been made to the banks under said Scheme.
- SBP, vide IH&SMEFD Circular No. 2 of June 29, 2012, allowed an additional two months for the exporters having shortfall in required performance under Part-II of the Export Finance Scheme for the monitoring year of 2011-12. This decision was taken to address exporters' problems of delay in meeting the export orders due to heavy shortage of power. This relaxation was only for the purpose of allowing extended period (i.e. till August 31, 2012) for matching performance requirement. The exporters who avail this facility would not be entitled to avail benefit of incentives-based rebate of mark up.
- Banks/DFIs allowed, vide IH&SMEFD Circular Letter No. 4 of March 16, 2012, to provide financing to dairy sector under the Long Term Financing Facility for Plant & Machinery. Therefore, banks/DFIs can also provide financing facilities for new imported and locally manufactured plant, machinery & equipment to be used by the Export-Oriented Projects for storage, chilling, processing and packaging of dairy products including machinery used in the conversion/preservation of milk into powdered form, keeping in view the terms and conditions of the subject facility.

8.0. Development Finance News from around the World

Following part briefly mentions important news pertaining to DF sectors during the period Jan-Dec, 2012. However, for further details the relevant hyperlinks may be visited.

Housing Related News:

HBFCL, ABAD meet to explore cooperation in housing sector

http://pakobserver.net/detailnews.asp?id=137661

While highlighting the significance of ABAD's role in the development of the housing sector, Managing Director and CEO, HBFCL, Mr. Azhar Jaffri, said "In order to address the burgeoning housing shortage in the country, it is essential that key players such as ABAD and HBFCL join hands and work together to address the challenges faced by the housing sector in Pakistan. It is indeed a great opportunity for us today that both organizations have come together for a common cause."

China limits mortgage loans for foreigners

http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/9066684/China-limits-mortgage-loans-for-foreigners.html

China's top economic planner, the **National Development and Reform Commission** (NDRC), stated that it will no longer approve medium and long-term loans to banks if they intend to use such borrowings to fund mortgages taken out by foreigners. Chinese authorities introduced a host of measures last year to try and prevent speculative bubbles in the property market. Curbs included bans on buying second homes in some cities and raising the minimum deposit as well as property taxes.

China Central Bank Pledges Housing Market Support as Curbs Bite: Economy

http://www.bloomberg.com/news/2012-02-07/china-central-bank-to-aid-home-buyers-to-balance-crackdown-on-speculators.html

China's central bank pledged support for first-home buyers as a crackdown on real-estate speculation threatens to trigger a property slump in the world's second- biggest economy.

Officials will increase support for construction of affordable housing and ensure that "loan demand from first-home families" is met, the People's Bank of China said on its website yesterday evening.

Decent housing is every citizen's right

http://www.pakistantoday.com.pk/2012/02/10/news/national/decent-housing-is-every-citizen%E2%80%99s-right-gilani/

ISLAMABAD - Addressing the ground-breaking ceremony of Kurri Housing Scheme, prime minster said that the state was responsible to explore all available options to provide people housing. He said government servants deserve respectable living and the PHA affordable housing scheme was a good step in this direction. He said, “The present scheme at Kurri aims at providing residences to serving and retired civil servants on ownership basis at reasonable prices. It has been conceived by leading designers and professionals.”

Expanded financing for affordable housing urged

http://www.chinadaily.com.cn/business/2012-02/21/content_14655168.htm

BEIJING - China is encouraging local governments to make full use of their financing vehicles in 2012 in an effort to boost financial support for low-income housing projects, the country's top economic planner said Monday. China has vowed to build 36 million affordable housing units during the 2011-2015 period in a bid to meet the demand of low income families, as well as take some heat out of the runaway property market. In 2011, it started construction of 10 million units.

Pakistan’s Anwar Plans Lending Boost to Bolster Economic Growth

http://www.bloomberg.com/news/2012-03-04/pakistan-s-anwar-plans-lending-boost-to-bolster-economic-growth.html

Pakistan’s central bank aims to spur lending to small companies, farming and housing in the next three years to boost growth in an economy where government borrowing has curbed credit and kept interest rates elevated.

“These three areas have to be stimulated and will become engines of growth,” Governor Yaseen Anwar, 60, said in an interview at the State Bank of Pakistan in Karachi on March 2. He forecast the economy will expand by 3 percent to 4 percent in the year ending June.

ABAD greets cut in interest rate

http://business.onepakistan.com.pk/news/money-banking/10678-abad-greets-cut-in-interest-rate.html

This act of State Bank of Pakistan will certainly encourage private investment, they said adding this important step would put the economy on its growth-oriented track. They emphasized that Housing Industry is directly affected by the monetary policies of State Bank of Pakistan. While other Industries are also praising the lowering down of interest rates to make them more competitive globally, the housing industry is awaiting a boom from the cheap capital available to entrepreneurs and our would be clients

SBP asked to start mortgage financing to develop housing sector

http://business.onepakistan.com.pk/news/general/12596-sbp-asked-to-start-mortgage-financing-to-develop-housing-sector.html

To overcome the lack of housing finance, the State Bank of Pakistan (SBP) should take immediate steps to introduce investment bonds to generate liquidity for mortgage financing at affordable rate to develop housing sector that has potential to push GDP up to 9 per cent, he said.

Banks reluctant to reenter housing finance business

http://www.thenews.com.pk/Todays-News-3-144236-Banks-reluctant-to-reenter-housing-finance-business

Mortgage lending by commercial banks may continue to take a dip next year mainly because of rising credit risk associated with this segment, said experts

Infrastructure Related News:

Diamer Bhasha Dam: Government to knock on China's doors

http://tribune.com.pk/story/473456/diamer-bhasha-dam-turned-away-from-elsewhere-government-to-now-knock-on-chinas-doors/

ISLAMABAD: After failing to secure funds for the multibillion dollar Diamer Bhasha Dam from multilateral donors – allegedly due to Indian lobbying – the government has now decided to seek a major portion of the project's financing from China.

AfDB, Kenya sign agreement to finance project

http://www.worldstagegroup.com/worldstagenew/index.php?active=news&newscid=6967&catid=26

The African Development Bank (AfDB) has signed two loan agreements with the Government of Kenya amounting to millions of dollars to finance a major regional hydroelectric power project and the enhancement of the country's higher education system.

Iran hopeful IP pipeline will boost joint ventures

http://tribune.com.pk/story/471846/iran-hopeful-ip-pipeline-will-boost-joint-ventures/

KARACHI: The outgoing Consul General of Iran to Pakistan Abbas Ali Abdollahi hopes that the Iran-Pakistan (IP) gas pipeline will go a long way in promoting new investment opportunities and increase in mutual trade volume between both countries.

UK Government Set to boost Clean Energy Future

http://www.infrastructureviews.com/2012/

On Nov. 23 the UK government gave low carbon energy investors an early glimpse of its latest policy decisions with respect to the much-anticipated energy market reforms (EMR) which it hopes will unlock £110 billion ($176 billion) of investment in the nation's energy infrastructure over the coming years.

US reaffirms assistance for Diamer Bhasha Dam

http://tribune.com.pk/story/470301/us-reaffirms-assistance-for-diamer-bhasha-dam/

ISLAMABAD: The United States said the financing issue of the multi-billion dollar Diamer Bhasha Dam project will be taken up in the upcoming meeting of the US-Pakistan Economic Working Group next month in Washington.

U.S. Transportation Infrastructure without a Solid Long-Term Plan

http://www.infrastructureviews.com/2012/

Even with across-the-aisle agreement in Washington that an overhaul of the U.S.' transportation infrastructure is a must to foster growth in the world's biggest economy, one essential question remains: How do we pay for it?

Re-igniting the Infra Debt Capital Markets

http://www.infrastructureviews.com/2012/

In 2006, during infrastructure's heady days of highly leveraged deals and astronomical prices, Standard & Poor's managing director, Mike Wilkins, pointed out that the asset class was heading for trouble. He claimed that there might be a pricing bubble forming in infrastructure.

India finalizes details for tax-free Infrastructure bond issuance in 2012/13

http://www.reuters.com/article/2012/11/07/india-bonds-tax-free-idUSI8E8KQ00L20121107

Reuters: India will allow select companies to issue tax-free bonds in the rest of the financial year. The government said in the notification seen by Reuters that a total of 535 billion rupees ($9.83 billion) would be raised through issue of tax-free infrastructure bonds in the current financial year that ends in March.

World Bank Gives $40 Million to Boost Private-Public Deals

http://allafrica.com/stories/201211180069.html

THE World Bank has approved a Sh3.4 billion ($40 million) loan to Kenya to support public-private sector partnerships. The amount was announced yesterday for the Infrastructure Finance Public-Private Partnership Project aimed to support Kenya to improve its enabling environment and generate bankable public-private partnership projects in transport and energy sectors.

PTC India to raise $40 million from IFC

http://www.business-standard.com/article/companies/ptc-india-to-raise-40-million-from-ifc-112111900090_1.html

PTC India Financial Services Limited (PFS) will raise around $40 million from International Finance Corporation (IFC) to fund various wind power projects, which can generate around 75-125 MW of power in the southern states and Maharashtra.

Australian Project Finance Activity May Be Picking Up

http://www.infrastructureviews.com/2012

A new report by Standard & Poor's Ratings Services highlights a number of major projects or debt refinancing under consideration. PPP projects that have either recently concluded or would reach financial close in the coming months are Sydney Convention Centre, Bendigo Hospital, and Sunshine Coast Hospital.

Islamic Finance may keep Development of Indonesia's Infrastructure on Track

http://www.infrastructureviews.com/2012/

Islamic finance may be a viable option to help Indonesia meet its ambitious infrastructure plans. That's a key finding from a new report by Standard & Poor's Ratings Services titled "Islamic Finance Could Plug the Gap in Indonesia's Infrastructure Funding." The report says that Indonesia can emulate Malaysia's success thus far in utilizing Islamic finance for infrastructure development.

US Infrastructure Project Financing Looks to the Capital Markets as Bank Lending Shrinks

http://www.infrastructureviews.com/2012/

The US is facing a conundrum: Its needs for big infrastructure projects are growing just as the typical funding source for project financing of infrastructure – bank lending – is shrinking. Historically, long-term bank loans were the primary funding mechanism for building infrastructure projects such as power plants, bridges, tunnels, roads, ports, and other large complex infrastructure projects. But thanks to Basel III and Solvency II – accords that call for better-capitalized banks globally and European insurance companies – Standard & Poor's Rating Services expects banks to diminish lending in coming years, leaving capital markets with a bigger financing role for many massive infrastructure undertakings.

How Will China Fund Its Massive Pipeline For Infrastructure-Related Projects?

http://www.infrastructureviews.com/2012/

China's twelfth Five-Year Plan has proposed massive capital investments on infrastructure-related projects over the next few years – everything from power, water, and wastewater to transport infrastructure such as airports, ports, railways, and roads. One big question is how these projects will be funded.

UK Government to Guarantee Infrastructure Projects

http://www.infrastructureviews.com/2012/

The UK government is increasingly viewing infrastructure investment as an important tool for its agenda for growth. As a first step in its attempts to re-launch the UK infrastructure market, the government announced on July 18 that it will use its AAA balance sheet to support infrastructure projects.

Global Energy Demand Grows by Leaps and Bounds

http://www.infrastructureviews.com/2012/

With energy consumption worldwide projected to roughly double in the next 35 years, conventional wisdom says renewable sources of power will play a big role in meeting demand. The conventional wisdom may be wrong. Cost, feasibility, and political wrangling all stand in the way of near-term renewable-energy expansion, globally and in the U.S.

Low-Cost Financing from NYS Approved for City of Oswego Storm water, Sewer Projects

http://oswegocountytoday.com/?p=101890

The Board of Directors of the New York State Environmental Facilities Corp. approved $7.96 million in short-term financing for the city of Oswego, including $4 million in no-interest loans, to improve sewer and storm water collection in the city.

Agreement for Renewable Energy Projects between India and China Development Bank

http://www.marketwatch.com/story/my-signs-financing-framework-agreement-for-renewable-energy-projects-with-reliance-power-and-china-development-bank-2012-11-26

ZHONGSHAN: China Ming Yang Wind Power Group Limited, a leading wind turbine manufacturer in China has entered into a financing framework agreement with Reliance Power Limited India, and China Development Bank Corporation ("CDB"), under which CDB is expected to act as the coordinating bank and lead potential lender for renewable energy projects in India to be jointly developed by Ming Yang and Reliance Power.

World Bank, Bangladesh sign financing agreement for ICT project

http://english.peopledaily.com.cn/90778/8035320.html

The Bangladeshi government signed a financing agreement with the World Bank worth 70 million U.S. dollars for an IT or information technology project aimed to create employment opportunities for thousands.

Additional Financing from ADB for Northern Road Connectivity Project in Sri Lanka

http://www.defence.lk/new.asp?fname=Additional_Financing_from_ADB_for_Northern_Road_20121120_01

Two loan agreements to rehabilitate and improve 200 kilometers of 19 roads under the Northern Road Connectivity Project were signed at the Ministry of Finance & Planning, by Dr.P B Jayasundera, Secretary to the Ministry of Finance and Planning, on behalf of the Government of Sri Lanka and Ms. Rita O'Sullivan, Country Director of ADB on behalf of the ADB.

World Bank to Fund Karnataka Health Project

http://www.daijiworld.com/news/news_disp.asp?n_id=156230

Bangalore: The World Bank will provide $70 million loan to finance the Karnataka health systems development and reform project. "The objective of the loan is to improve the health services delivery, public-private collaboration and financing particularly for the benefit of underserved and vulnerable groups in Karnataka," the bank said in a statement.

Germany has started more than 14 projects in Pakistan

http://tribune.com.pk/story/446578/germany-has-started-14-projects-so-far/

Consul General of Federal Republic of Germany in Pakistan said his country had started more than 14 projects in Pakistan**.** The German consul general said it was his earnest desire to see Karachi regain its rightful place as the city of lights and said that Pakistan can always work with Germany to improve its infrastructure.

Lack of Infrastructure in Pakistan, President ICCI

http://www.pakistantoday.com.pk/2011/07/22/news/profit/lack-of-infrastructure-in-pakistan-says-president-icci/

Cost of doing business in Pakistan has increased tremendously due to lack of infrastructure facilities putting strains on the growth of trade and industrial activities. President ICCI said that private investment in infrastructure projects has declined over the years and no major project has been completed in the country on BOT basis.

ADB's first Shariah-Compliant Project Financing

http://www.iflr.com/Article/3039391/ADBs-first-shariah-compliant-project-financing-explained.html

The Asian Development Bank (ADB) has participated in its first Shariah-compliant project financing for two wind farms in Sindh province, Pakistan. ADB granted two partial credit guarantees worth up to $66 million to the Islamic Development Bank (IDB), which then financed the project under an *Ijarah structure*. A consortium of Pakistani banks provided the remainder via a *Musharakah structure* with a term of 12 years.

Islamic Project Finance will rise to $30b

http://www.alhudacibe.com/newsletter/1-15nov/international_news_5.html

Islamic project finance deals are projected to reach $30 billion by 2012, representing up to 30 per cent of all major structured deals finalized in the Middle East, according to the Islamic Project Finance Report released by the Middle East Economic Digest (MEED). The driving force behind the development of the Islamic project finance market has been the economic boom in the GCC, brought about by strong oil prices, states the report.

Wind Power Provides Big Opportunities for Project Finance

http://www.infrastructureviews.com/2012/

Electricity comes from many sources, but there is one source that only a few countries in Western Europe, along with China, take advantage of, and it is in growing abundance: *offshore wind power*. European utilities and project developers have built more than 3,800 megawatts (MW) of offshore wind power capacity, according to the European Wind Energy Assn.

Credit Risks Mount for U.S. Domestic Shipping Companies

http://www.infrastructureviews.com/2012/

The U.S. domestic shipping industry's fleet is aging. More than a thousand ships and barges will reach the end of their useful lives in the next few years. We believe the U.S. domestic fleet likely will contract over the next three to five years as vessels retire faster than owners can replace them. Companies that cannot find sufficient financing to refresh their fleet may not survive.

Global Project Finance Showing Signs of Growth

http://www.infrastructureviews.com/2012/

Just in time for warm summer weather, we see budding signs that the enormous need for infrastructure financing around the world is translating into gradual increases in publicly rated project finance debt. In all regions, there was modest growth in new ratings since our last report card in October, 2011.

USAID helps Water & Power Ministry enhance capacity

http://tribune.com.pk/story/318855/energy-crisis-usaid-launches-training-program-for-power-sector-employees/

The United States Agency for International Development (USAID) started on Monday a capacity-building training course for engineers and trainees to help them gain a deeper insight and resolve system problems in the power transmission network.

Anti-poverty unit to fund 109 infrastructure projects

http://tribune.com.pk/story/304455/building-capacity-anti-poverty-unit-to-fund-109-infrastructure-projects/

The Pakistan Poverty Alleviation Fund (PPAF) announced to provide Rs. 238 million grant to finance 109 small-scale community development schemes. The development program would benefit over 40,000 marginalized communities in the districts of Rajanpur, Layyah, Dera Ismail Khan and Khyber Agency. This financing would be used for small-scale infrastructure, water, energy, livelihood enhancement and protection and capacity-building schemes in four districts.

Pakistan urges Korean Investment

http://www.brecorder.com/pakistan/business-a-economy/57125-korea-urged-to-enhance-investment-in-pakistan-.html

Secretary Industries urged South Korean Ambassador to enhance Korean investment in Pakistan. "The Korean investment in Pakistan is much lower than its potential which in 2010-2011 stood at $ 7.7 million", Aziz Bilour said here in a meeting with Ambassador of Korea in Pakistan Choongioo Choi on Friday.

Power companies: Management control to be outsourced

http://tribune.com.pk/story/276916/power-companies-management-control-to-be-outsourced/

In order to enhance efficiency of nine public sector power companies, the government has decided to outsource their managements, operations, maintenance and rehabilitation, including conversion to cheaper fuel, to the private sector, said Managing Director of Private Power and Infrastructure Board (PPIB) NA Zuberi.

9.0. **Special Section – Long Term Funding for Housing Finance in Pakistan**

Shelter is among the three basic needs of a living being. In developing countries, a common man strives hard for his whole life to build a shelter for him and his family. Furthermore, housing is the 80 percent of common man's assets. In fact, we all spend major portion of our lives in building home in one way or other for example renovating it, decorating it, maintaining it etc.

The importance of housing and housing finance in an economy can be well-judged by the fact that almost 40 industries are allied with them and 70 percent of the unskilled labor is attached with this industry as well. Construction industry directly contributes to GDP.

With the passage of time, people are moving towards the urban cities for better opportunities and life style which is causing shortages of housing units in urban areas. However, despite the presence of financial institutions; still people are availing loans from informal sector. One of the major reasons for this low penetration of financial institutions may be lacking of flexible products according to the needs of individual.

While nearly half of the population in major metropolis in Pakistan lives in "slums" and "*Katchi Aabadees*", there have not been serious and concerted initiatives to find answers to the issue. Housing finance reaches mostly to the upper income population groups, i.e. the middle and lower income groups are largely excluded; hence extending affordable housing finance facilities to this excluded class creates the real challenge for the regulatory and lending institutions today. The responsible factors of this low inclusion includes, among other reasons, the lower income groups' tilt towards illegal habitats and squatter settlements in major cities compounding the problems already being faced by urban planners, and the lack of financing to large scale developers by financial institutions that further dampens the growth of reasonable housing in Pakistan. Due to lack of planning, gap between the demand and supply of the affordable housing is increasing by almost 0.3 million units every year. As a result, poor people are compelled to dwell in slums situated in the suburbs or middle of the big cities.

In developed countries, the mortgage finance to GDP ratio is 70 to 80 percent. However, in Pakistan the mortgage finance to GDP ratio has been hovering around one percent over the decade; while the same has moved from one percent to nine percent, in India, over the decade.

To know the key impediments in flow of house finance from banks to needy persons and to curb the shortage of housing units, a Housing Advisory Group (HAG) had been formed by State Bank of Pakistan. HAG concluded its following recommendations[1] in year 2007.

i. Reforming Legal Framework Affecting Foreclosure, Transfer, Tenancy, Rent Control and Acquisition of Immovable Property
ii. Rationalization of Transaction Costs
iii. Establishing an Integrated Nationwide Land Registration Information System (LRIS)
iv. Increasing Supply of Land for Affordable Housing
v. Structuring and Streamlining Large Scale Developer Finance (LSDF)
vi. Provision of Housing Finance for Affordable and Low Cost/Income Housing Facilities
vii. Promotion and Development of Real Estate Investment Trusts (REITs)
viii. Provision of Long Term Funding for Housing Loans
ix. Developing Housing Market Information System (HMIS)
x. Development of Mortgage Banking Industry in Pakistan

Establishment of Mortgage Refinance Company (MRC)

Few measures have been taken to implement the HAG recommendations, which have also been rigorously followed up with other stake-holders. One of the key initiatives is the provision of Long Term Funding for Housing Loans to Financial institutions. For the purpose, SBP has been facilitating on establishment of Mortgage Refinance Company (MRC) for over the three years.

[1] HAG recommendations can be accessed on http://www.sbp.org.pk/departments/ihfd/HAGRecommendations.pdf

IFC was engaged to conduct a feasibility study and prepare a preliminary business plan for setting up a mortgage liquidity facility in Pakistan i.e. the Mortgage Refinance Company (MRC) through public-private partnership. As a non-depository DFI, it will be regulated by the SBP. The SECP will oversee the MRC's capital market operations.

Significant progress has been made since the development of feasibility report, as firm equity commitments have been secured from commercial banks/DFIs and Government of Pakistan. Each of IFC and ADB has indicated to invest upto 15% of the total paid-up capital of MRC. Moreover, credit lines from multilateral agencies would also be explored to match the increasing business of MRC.

Objectives of MRC

The establishment of MRC would help in provision of long term funding to primary mortgage market. MRC would serve as a secured source of long-term funding at attractive rates while ensuring sound lending habits amongst Primary Mortgage Lenders (PMLs). This would help in reducing maturity mismatch risk for Primary Mortgage Lenders (PMLs), ensures the availability of fixed rate and hybrid mortgages. This would in turn help to improve the affordability of mortgages and extend the number of potential borrowers and result in the expansion of the primary mortgage market and thus home ownership in the country. In emerging markets like Pakistan, where interest rates and inflation are relatively volatile and can dampen confidence in the markets, the availability of long term fixed rates financing by mortgage liquidity facilities like MRC, can instill a degree of certainty which can help the markets develop with confidence. Additionally, MRC can act as a conduit to efficiently connecting long-term investors with PMLs generating long-term assets in Pakistan, thus helping develop a debt market and a longer term yield curve. In times of a credit crunch, MRC can also help a bank cover an unexpected short-term deposit outflow (or other temporary losses of funds), thereby avoiding potentially costly short-term borrowing or asset liquidation.

Potential benefits of MRC to various segments are tabulated hereunder.

Home Buyers	Lenders	Govt. and Economy

• Obtain easy access to housing loans at reasonable cost • Obtain attractive and affordable housing loan packages characterized by fixed rates for longer periods	• Hedges interest rate risks • Obtain liquidity at a competitive cost for longer terms to originate more housing loans and enhance lending operations • Price loan products competitively • Improve CAR if they sell without recourse basis.	• Helps to achieve its policy of encouraging home ownership • Makes housing loans more affordable to the middle/lower income group without any interest subsidy being incurred by the authorities • Encourages property development and related spin-off effect.

Capital market	Investors
• Provides additional instruments for investing surplus funds • Provides opportunity for bond dealers to undertake transaction in bonds on large scale • Paves the ways for other cooperation to raise funds in the domestic market • Creation of a long term yield curve	• High quality papers to investors • Attractive channel for investment by the pension funds, insurance companies and banks with large surplus long-term funds seeking long-term investment assets.

Proposed Business Model of MRC

a) Refinancing (in short to medium term)

MRC will raise funds initially from equity contributions from its shareholders and potentially through a long-term loan from an International Financial Institution (IFI). As soon as possible, it will start raising funds from the capital market by becoming a well rated and regular issuer of bonds, Sukuk and Mortgage Backed Securities (MBS). MRC will initially provide loans (refinance) to PMLs that are secured by the PMLs portfolio of mortgage financing, meeting pre-determined eligibility criteria, with overcollateralization and by the PMLs commitment/undertaking to replace/substitute any ineligible or delinquent cases i.e. with full recourse to the PMLs. It would in no way be used to park bad loans of banks and DFIs, as they will have to replace/substitute any ineligible or delinquent cases with better performing portfolio. It may also purchase Shariah-compliant housing finance portfolios of Islamic banks, conventional banks with Islamic banking operations.

b) Securitization (in medium to long term)

Subsequently, MRC will also be able to purchase portfolios without recourse to the PMLs. It will fund these subsequent operations through securitization either directly or through a separately capitalized subsidiary or a Special Purpose Vehicle (SPV). Securitization would be started after overcoming the issues like the lack of portfolio history, lack of experience with credit risk management, the difficulties of monitoring originator and servicer behavior and the lack of demand of complex securities in the bond market.

10.0. **Development Finance - Outlook**

Although Pakistan is facing various challenges, there exists a strong reason for a positive course of action to take place since the huge potential of the DF sectors itself is a highly motivating factor to encourage 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 taken various important initiatives for the development of the DF Sectors that will cause positive impact on the availability of funds for the sectors and their overall development in the long run. Some important initiatives include improvements in Credit Guarantee Scheme for Small & Rural Enterprises, Refinance schemes for flood affected districts, Microfinance Credit Guarantee Scheme, Refinance Scheme for Revitalization of SMEs, Scheme for modernization of SMEs, Cluster Profiling Surveys, introduction of Branchless Banking, Capacity Building and Awareness Programs for the stakeholders.

Annexures

Annexure A

		Jun-12		Dec-11		Dec-12	
	SBP Refinance Schemes	**Amount**	**% Share**	**Amount**	**% Share**	**Amount**	**% Share**
		Billion PKR					
A	**Export Finance Scheme (EFS)**	**164.8**		**192.4**		**195.1**	
	Textile/Textile Products	100.3	60.9	111.4	57.9	117.3	60.1
	Edible Goods (including Rice)	25.6	15.5	31.2	16.2	35.9	18.4
	Leather/Leather Goods	9.0	5.5	11.6	6.0	9.1	4.7
	Machinery and Metal Products	4.2	2.5	4.1	2.1	3.9	2.0
	Carpets	1.5	0.9	1.4	0.7	1.2	0.6
	Cement	7.8	4.7	13.4	6.9	9.4	4.8
	Sports Goods	1.8	1.1	2.4	1.3	1.9	1.0
	Others	14.6	8.8	17.0	8.8	16.5	8.4
		164.8	100.0	192.4	100.0	195.1	100.0
B	**Long Term Financing Facilities (LTFF)**	**32.7**		**30.5**		**33.5**	
	Textile Sector	19.5	59.6	18.1	59.5	18.7	55.7
	Engineering Goods	3.8	11.6	4.4	14.5	3.9	11.6

	Rice Processing	1.7	5.2	1.9	6.1	1.7	5.0
	Generators/Captive Power Plants	1.1	3.4	1.6	5.3	0.9	2.8
	Others	6.6	20.2	4.5	14.6	8.4	25.0
		32.7	100.0	30.5	100.0	33.5	100.0
C	Long Term Financing for Export Oriented Projects (LTF-EOP) (Defunct)	9.7		12.4		7.3	
D	Refinance Facility for Modernization of SMEs	0.1		0.3		0.1	
E	Financing Facility for Storage of Agricultural Produce (FFSAP)	2.0		1.3		2.2	
F	Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas	1.9		0.3		1.1	
	Total (A to F)	211.2		237.3		239.3	

Annexure B

Year wise Breakups - SME Financing By Banks & DFIs									
	Dec-04	**Dec-05**	**Dec-06**	**Dec-07**	**Dec-08**	**Dec-09**	**Dec-10**	**Dec-11**	**Dec-12**
Outstanding Advances (Rs. Billions)									
SME Outstanding	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3	266.5
Total Industry Outstanding	1620.4	2043.0	2400.8	2700.9	3191.8	3391.0	3489.7	3546.4	3943.9
% Share in Total	17.5%	17.7%	17.0%	16.2%	11.7%	10.3%	9.6%	8.3%	6.8%
Outstanding Borrowers (Thousands)									
SME Borrowers	106	161	168	185	215	212	211	168	132
Total Industry Borrowers	3,398	4,247	4,487	4,781	4,544	4,407	3,909	3,733	3,521
% Share in Total	3.1%	3.8%	3.7%	3.9%	4.7%	4.8%	5.4%	4.5%	3.8%
Nature of Facilities (Rs. Billions)									
Fixed Investment	23.9	34.1	41.8	60.3	43.9	41.0	36.1	29.5	27.9
Working Capital	204.2	267.7	308.4	309.1	288.8	263.2	261.4	235.4	213.5
Trade Finance/Other	55.9	59.6	58.1	67.9	42.3	44.0	36.5	29.5	25.2
Total	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3	266.5
Non Performing Loans (Rs. Billions)									
NPLs - SME Sector	30.1	42.1	36.0	41.3	61.5	79.2	96.5	95.5	95.4
NPLs -Total	180.4	173.1	159.0	201.3	299.0	425.7	498.2	598.6	596.4
% Share in Total	16.7%	24.3%	22.7%	20.5%	20.6%	18.6%	19.4%	15.9%	16.0%
Note: Dec-08 and onwards is the aggregate of Banks & DFIs									