Development Finance Review

December 2013

State Bank of Pakistan

Development Finance Group

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Executive Summary

The signs of recovery of Pakistan's economy are emerging as GDP grew by 5% during Q1-FY14, compared to only 2.9% growth in Q1-FY13. The main contributors towards this growth were the industry and service sectors.[1] In conformity with the growth in GDP, the financing to priority sectors also demonstrate good signs with the exception of infrastructure and housing sectors.

At the end of Dec-13, the cumulative financing portfolio towards priority sectors increased by 5.8% on half yearly basis and 2.0% (YoY basis). This increase in outstanding advances was mainly driven by SME, agriculture and the microfinance sectors; which grew by 16.7%, 7.6% and 11.4% respectively, compared with Jan-Jun 2013 half yearly period. While the increase recorded on yearly basis in SME, agri. and microfinance was 2.3% 17.3% and 41.4% respectively. On the other hand, financing by banks/DFIs to housing and infrastructure sectors continued to decline.

The aggregate number of DF outstanding borrowers saw a growth of 2.7% on half yearly basis and 9.4% on YoY basis primarily led by agri. and microfinance sectors (Annex A). Furthermore, all other DF sectors witnessed growth on YoY basis except housing sector, which saw decline of 9.2% in number of borrowers.

Data regarding aggregate non-performing loans (NPLs) of the banks & DFIs depicts a decline of 6.2% on half yearly basis and 5.7% on yearly basis. Out of the total NPLs of DF Sectors, SME's share was 57%, agri. sector 19.7%, infrastructure 13%, housing 10% and microfinance with only 0.2%.

Table 1: Sectoral Break up of Outstanding Advances
(Billion Rs)

Sectors	As on			Change	
	Dec-13	**Jun-13**	**Dec-12**	**H.Y***	**YoY**
SME Finance	272.5	233.6	266.5	16.7%	2.3%
Agriculture Finance	276.7	257.1	235.9	7.6%	17.3%
Microfinance (MFBs Only)	28.3	25.4	20.02	11.4%	41.4%
Housing Finance (Gross)	51.3	52.2	55.0	-1.7%	-6.7%
Infrastructure Finance**	255.2	267.0	289.3	-4.4%	-11.6%
Total	**884.0**	**835.3**	**866.7**	**5.8%**	**2.0%**

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

[1] The State of Pakistan's Economy – SBP Quarterly Report for Q1-FY14

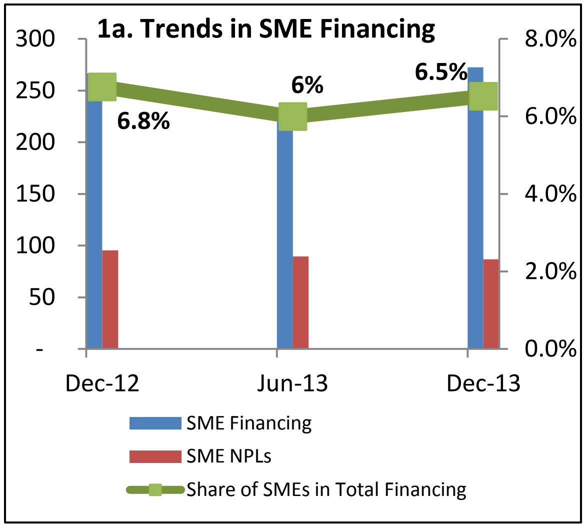
1.0. SME Finance

Table 1A: SME Financing Profile of Banks					
Category	**Periods ending**			**Change**	
(Amount in Billion Rs.)	**Dec-13**	**Jun-13**	**Dec-12**	**H.Y**	**YoY**
Total SME Exposure	272.53	233.55	266.51	16.69%	2.26%
Total Financing	4,181.94	3,896.28	3,943.88	7.33%	6.04%
SME exposure as % of total advances	6.52%	5.99%	6.76%		
SME NPLs	86.62	89.47	95.44	-3.19%	-9.25%
NPLs as % of total SME exposure	31.78%	38.31%	35.81%	-17.03%	-11.25%
No. of SME Borrowers	136,940	144,141	132,167	-5.00%	3.61%
H.Y: Half Yearly,	YoY: Year on Year				

SME Financing witnessed an increase of 16.7% from Rs 234 billion in June 2013 to Rs 273 billion in Dec 2013

Note: *The position in the table and the adjunct analysis is based on aggregate trends in funded financing facilities of the banks and DFIs to SMEs. In addition, Banks and DFIs also provide non-funded facilities to SMEs, like guarantees and letters of credit etc, which forms a significant portion of their exposures on the sector.*

The declining trend in SME Financing of banks and DFIs which ensued 5 years ago seems to have started waning in the wake of improvements in major economic indicators during the last few months and issuance of revised Prudential Regulations on SME Financing in May, 2013. During the half year period of July-December, 2013, SME Financing witnessed an increase of 16.7% from Rs. 234 billion in June 2013 to Rs. 273 billion in Dec 2013. On an annual basis, SME Financing of banks and DFIs increased by more than 2% when compared with the Dec. 2012 position. A part of the improvement in SME Financing may be attributed to cyclical effects in SME Financing. Generally, SME financing depicts a cyclical



trend, decreasing during the first half of the year but picking up in the 3rd quarter reaching the peak at the end of calendar year. However, a small increase in SME Financing of only 2% (YoY basis) indicates that although some banks have tagged their SME Financing portfolios in compliance with the revised SME Prudential Regulations, other banks are in process of reconfirming their actual SME financing positions. The bulging effect due to revisions in the definitions of SMEs in the revised Prudential Regulations may gradually emerge in near future.

The number of SME borrowers increased by 3.5% to 136,946 during Jul-Dec 2013 period on yoy basis

Trends in SME Financing

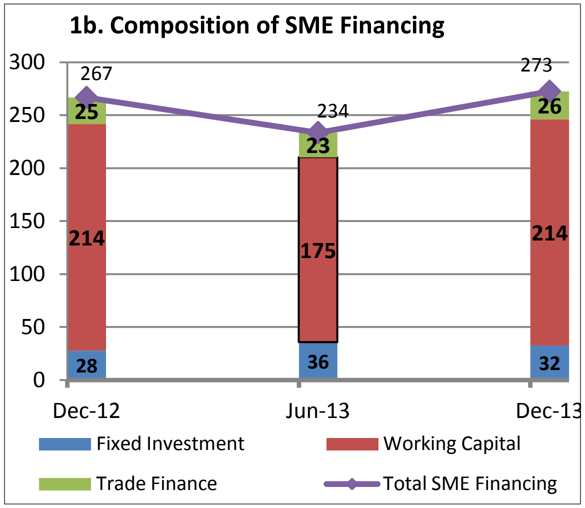
The significant half yearly increase may also indicate towards a possible beginning of period of growth trend in SME Financing due to better economic conditions. Although SME Financing could see a decline in the first half of the CY-2014 in line with the cyclical trends, the improvements in SME Financing due to changes in the overall economic scenario particularly decrease in inflation and better profitability of businesses and bulging effects of revised Prudential Regulations, the continuous declining trend in SME Financing may come to a halt in the coming months.

The **number of SME Borrowers** which stood at 144,141 in June 2013 decreased to 136,946 in Dec. 2013, registering a decrease of around 5% during the period. However, the annual trend with a growth of more than 3.5% on YoY basis is in line with the growth trends of SME Financing. The half yearly decline is also in line with the cyclical trends as banks and DFIs facilitate a larger pick up of the sanctioned loans to their existing clients in the second half of the year, particularly towards the end of the year. This higher financing to the existing clients glosses over the declines in SME Financing due to normal repayments and/or write-offs of financing of some clients by the banks.

The infection ratio in SME financing has decreased to 32% in Dec 2013 from 38% in June 2013

Non-performing loans declined by more than 3% over the six month period and by 9.3% on YoY basis. The decline in absolute SME Finance NPLs may indicate enhanced recovery efforts by banks. Coupled with the improvements in overall SME Financing of the industry, the ratio of SMEs NPLs to the total SME Financing decreased to 32% in Dec 2013 from 38% in June 2013. If these trends of recovery and cleaning of non-performing SME portfolios and growth in SME Financing persist, it may lead to normalization of excessively high NPL ratios of banks and DFIs in SME sector. NPL ratio may even start to conform to private sector financings of banks and DFIs to the corporate and commercial borrowers in coming months.

A review of category-wise position of non-performing loans of banks and DFIs as on September 30, 2013 shows that a predominant portion (around 92%) fall in the category of loans classified as loss. This may be an indication that the banks and DFIs are not proactively cleaning up their NPL positions by writing-off old NPLs. Further, the continuous declining trend in SME financing reflects that most of the banks have reduced renewals of loans to existing SME clients and booking of fresh loans to new clients during the last 4-5 years due to macroeconomic conditions. The combined implication of these two trends is reflected in an excessively bloated NPLs ratio which may not be reflective of NPLs ratio on fresh loans of banks and DFIs to SMEs. Thus, probability of delinquency reflected in the NPLs ratio calculated based on the SME Financing data reported to State Bank may not be in line with the delinquency probability calculated at the margins i.e. for new sanctioned loans of banks.



Facility wise breakup shows that the working capital financing constitutes around 78% of total SME financing followed by fixed investment and trade finance with their respective shares of 12% and 10%. The facility-type wise distribution of borrowers also depicts a similar scenario and further accentuates this view of tilt of banks towards short term financing to SME borrowers.

The share of manufacturing, services and trading sector SMEs in total SME financing stands at 40%, 43% and 17% respectively

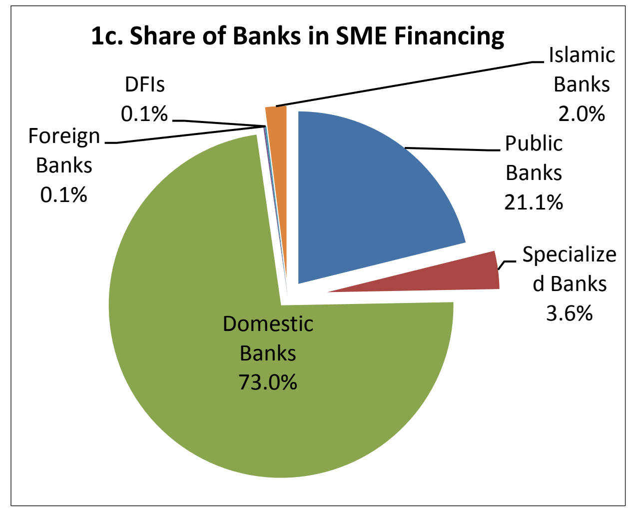
Although the service sector SMEs picked up a larger share of financing than their share at end December 2012, their share in total financing declined during current half year from 20% to only 17%. As a normal trend, the manufacturing and trading SMEs pick up around

80% of the SME Financing with a fluctuation margin of ±5% while the remaining is picked up by the service sector SMEs. At the end of December-2013, the share of manufacturing and trading SMEs stood at 40% and 43% respectively.

The SMEs with up-to 20 employees availed 61% of the total financing to the SMEs primarily because of a large number of lower end trading and services SMEs availing financing facilities from banks & DFIs. On the contrary, manufacturing SMEs with up-to 20 employees availed 43% of financing to the SME manufacturers.

Around 86% of SME borrowers are using loans of up to Rs 3 million.

A loan size wise review shows that around 86% SME Borrowers are using loans of up to Rs 3 million and their share in total SME Financing is only 20%. In fact, a major number of SME borrowers, around 63%, are availing loans of up to 0.5 million. In order to adequately capture SME financing, the banks have to develop capacities in terms of human resources, branch infrastructure and IT and deploy reasonable controls and procedures.



Bank-wise distribution of SME lending shows that the share of private sector banks (17 institutions) in total SME loans outstanding is highest at 73% (decreased from 75% at the end of previous half year). Private sector banks are followed by public sector banks (NBP, FWBL, BOP, BOK, and Sindh Bank), which share around 21% (increased from 18% at the end of previous half year) of total SME outstanding amount.

A healthy emerging trend is a continuously rising trend in SME Financing by the Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks (collectively termed as Islamic Banking Institutions – IBIs). SME Financing of IBs and IBDs increased by around 36% and 80% respectively during the six months period under review. This high growth has helped the IBs and IBDs to increase their share in SME Financing to 1.99% (1.7% at the end of previous half year) and 4.2% (2.7% at the end of previous half year) respectively. Overall the share of Islamic SME Financing in total SME Financing has increased to 6.2% (4.4% at the end of June 2013 and 4% as of Dec. 2012).

Further, the quality of SME portfolio of Islamic banking industry is also better as compared to their conventional counterparts as the infection ratio of IBIs' SME portfolio was 15% (21.4% as of end june-2013) as compared to infection ratio of 32% of conventional banks as of Decmber-2013. The improvement in the NPL ratio of Islamic SME Financing is primarily due to fast paced growth in the denominator i.e. Islamic SME Financing as the amount of non performing Islamic SME financing increased at a much slower rate.

The SME financing of Islamic Banks and Islamic Banking Divisions have increased by around 36% and 80% respectively during Jul-Dec'13 period

2.0. Microfinance

Indicators	Dec'13	Jun'13	Dec'12	Growth			
	*(Amount in Rs. ‘000’)			H.Y(%)		YoY(%)	
Borrowers	974,352	902,175	803,096	8%	↑	21%	↑
Advances*	28,332,030	25,366,520	20,022,546	12%	↑	42%	↑
NPLs*	242,862	526,791	188,800	-54%	↓	29%	↑
PAR >30 Days (%)	0.85%	2.07%	1.45%		↓		↓
Deposits*	33,580,417	28,605,007	23,155,003	17%	↑	45%	↑
Assets*	58,197,296	51,660,564	43,623,713	13%	↑	33%	↑
Equity*	12,769,699	12,013,786	9,826,855	6%	↑	30%	↑
Avg. Loan Balance	29,251	28,117	24,932	4%	↑	17%	↑

Box 1: Branchless Banking Newsletter

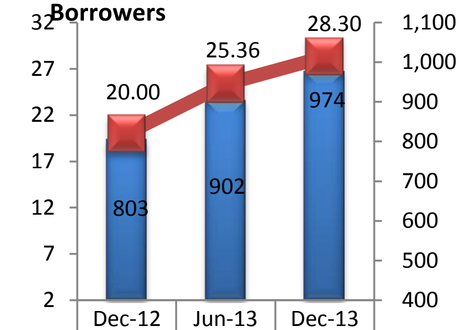
State Bank of Pakistan publishes branchless banking newsletters on quarterly basis. The same can be accessed via the given link:-

http://www.sbp.org.pk/publications/acd/bran

The year 2013 saw significant growth trends for microfinance banking sector. During 2013, the number of borrowers crossed 0.9 million mark, deposits exceeded Rs. 30 billion and remained above gross loan portfolio (GLP) throughout the year, asset base and equity attained level of Rs. 58 billion and Rs. 12 billion respectively, and NPLs remained below 1%. The year could well be termed as the year where MFBs experienced significant progress in terms of both growth and sustainability. While MFBs showed impressive growth in all key indicators, few challenges still persist. Achieving depth in outreach, diversifying loan portfolio, attracting low-cost deposits, and leveraging usage of alternate delivery channels to reduce cost are some areas where MFBs need to drive their energies, research, and innovation.

The **outreach** of MFBs increased during 2013, evident by increasing number of borrowers and expanding branch network. The **number of borrowers** continued to increase in the second

Fig 2a. Trends in Advances & No. of Borrowers



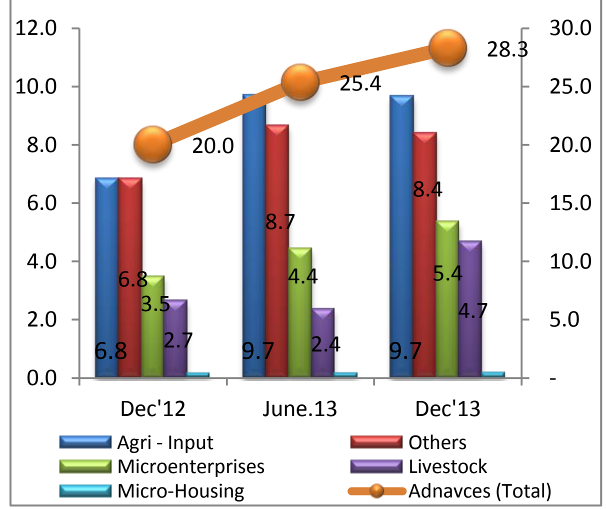
	Dec-12	Jun-13	Dec-13
Borrowers (in '000')	803	902	974
Advances (Rs. in billion)	20.00	25.36	28.30

half of 2013 as well and it reached an all time high of 974,000 borrowers served by network of 405 branches. The growth in number of borrowers was seen across almost all MFBs. Further analysis of MFB-wise distribution showed no major change as majority (97%) of borrowers lay in top five MFBs namely KBL, Tameer, NRSP, FMFB and FINCA. KBL still leads the sector in terms of number of borrowers with 409,230 borrowers. Gender classification showed that women make up only 23% of the total borrowers reflecting high concentration of male borrowers in the overall microcredit. Though having lesser share in overall borrowers, it was encouraging to note that new entrants/recapitalized banks showed stable growth in number of borrowers during last year. If this pattern continues, it may be expected that microcredit outreach will grow exponentially in coming years.

974,000 microfinance borrowers are being served by 405 MFB branches

Gross Loan Portfolio (GLP) reveals growth of 12% (Rs. 3 billion in value) during the second half of 2013 reaching at Rs 28.3 billion. While women have 23% share in number of borrowers, they only make up 19% (Rs. 5.4 billion) of total GLP. Among the top five MFBs, FINCA showed the most aggressive half yearly growth rate of 34% whereas in terms of value, KBL led the sector with increase of Rs. 1.2 billion.

Fig 2b. Sectoral Distribution of GLP



While analyzing the sectoral breakup of GLP, it was encouraging to note that MFBs have somewhat diversified their lending portfolio. A significant growth of 97% and 21% was witnessed in livestock and microenterprise sectors respectively, brining the value of advances in these sectors to Rs. 4.6 billion (livestock) and Rs. 5.3 billion (microenterprise). NRSP and KBL were main contributors of growth in livestock with combined value of Rs. 2 billion whereas FINCA and Tameer led the growth in microenterprise sector. Further, there was a slight decline (3%) in the 'others' category due to marked decrease in portfolio of KBL (97%), NRSP (67%) and FINCA (74%) in this sector. Overall, top five MFBs still owned 97% of the overall portfolio with value of Rs. 27.6 billion whereas the new/recapitalized banks contributed Rs. 723 million in value.

Non Performing Loans (NPLs) of MFBs declined to 1% as of December, 2013. One major factor contributing in the decline of the NPLs was write-offs of flood-affected loan portfolio by few

MFBs. The total write-offs of the sector as of December, 2013 stand at Rs. 333 million with significant share of KBL (Rs. 155 million) and FMFB (Rs. 93 million) mostly relating to flood-affected portfolio.

Asset base of MFBs increased by 13% or Rs. 6 billion during second half of 2013. Overall, the asset base of MFBs reached at Rs. 58 billion with no significant change in its distribution across different indicators. Cash and investments declined slightly whereas advances' share remained same due to sustainability in the lending activities of MFBs. Overall, the liquidity position of MFBs remained quite comfortable as liquid assets (cash & investments) constituted 39% of total assets.

The significant development during the year was marked as increase in **deposits** of MFBs which showed 17% half yearly and 45% YoY growth. The growth in deposits was witnessed across all MFBs but it was most significant in KBL, NRSP and FINCA. In terms of value of deposits, Tameer continues to lead the sector with Rs. 10.6 billion in deposits without showing any significant change during the second half of 2013. The institutional deposits constituted 24% whereas individual deposits made up 69% of the overall deposit value of MFBs. This trend is significant as number of institutional depositors constituted less than 1% of the overall number of depositors which reached 2.7 million. This may be due to a higher saving and fixed deposit rates being offered by MFBs on institutional deposits for raising their funding capacity for onward lending.

On the **funding side**, the significant boost for the sector was the increase of deposits which now constituted 58% of the liability side of MFBs whereas, the equity of the sector reached to Rs. 12.7 billion. Equity and deposits made upto 80% of the liability side which further strengthened the view that microfinance banking industry is heading towards sustainable sources of funding. Almost all MFBs were found well capitalized with the exception of Pak-Oman which was in the process of meeting the prescribed minimum capital requirement.

Fig 2c. Assets Composition

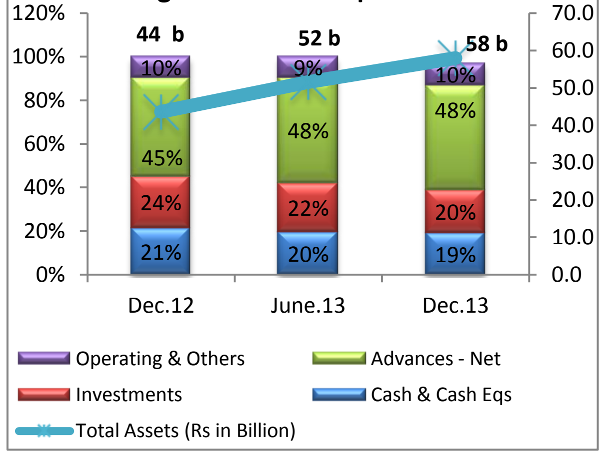
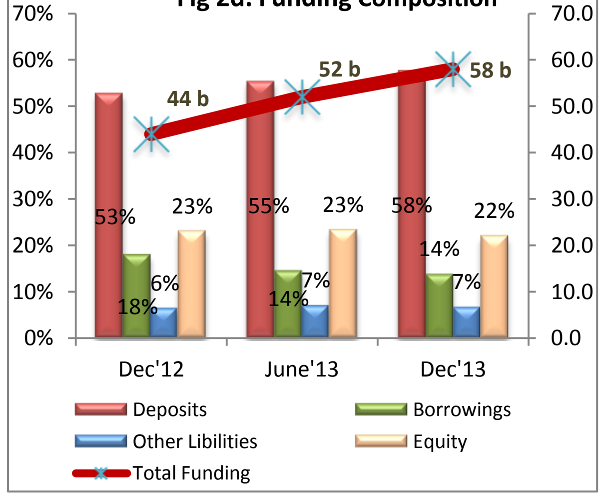


Fig 2d. Funding Composition



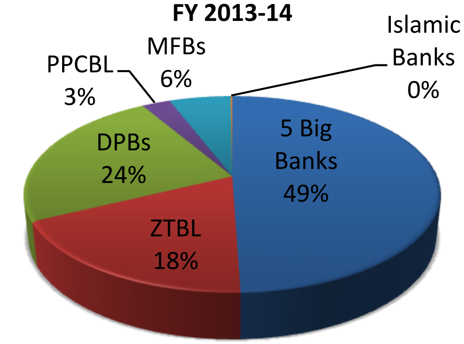
3.0. Agricultural Finance

Table 3A: Agricultural Financing Profile of Banks					
(Amount in Billion Rs.)	Period ending			% Change	
	Dec-13	Jun-13	Dec-12	Half Yearly	YoY
Amount Outstanding	276.7	257.1	235.9	7.6%	17.3%
NPLs Outstanding	30.0	36.1	29.3	-17.0%	2.3%
Disbursements (Cumulative)*	159.4	336.2	140.3	-52.6%	13.6%
No. of Outstanding Borrowers	2,347,802	2,318,695	2,211,003	1.3%	6.2%
*Disbursement for period ending Jun-2012/13 depict 12 months aggregate for FY12/13 while disbursements for period ending Dec-2012 depict only first 6 month disb. in FY 12 & FY 13					

An indicative disbursement target of Rs. 380 billion has been set for the participating banks during FY 2013-14.

An indicative disbursement target of Rs. 380 billion has been set for the participating banks during FY 2013-14 keeping in view their last year's disbursement performance, existing branch network, credit absorption capacity besides individual bank's plan for agri. credit disbursements. The target is 13% higher than the actual disbursement of Rs. 336.2 billion during FY 2012-13. It may be noted that overall performance of participating banks in surpassing disbursement targets has encouraged SBP to increase the indicative disbursement targets by Rs. 95 billion or 33% in just two years, i.e. from Rs. 285 billion in FY 2011-12 to Rs. 380 billion in FY 2013-14. However, there still exists a huge unmet demand for agri. credit as at the close of FY 2012-13, banks were able to meet only 45% of the overall demand estimated to be around Rs 750 billion.

Fig 3a. Agricultural Credit Targets for FY 2013-14



During FY 2013-14, Rs. 188.0 billion (or 49.5%) have been allocated to five large commercial banks out of the total indicative disbursements target of Rs. 380 billion. Likewise, Rs. 90.4 billion (or 23.8%) have been allocated to 14 Domestic Private Banks, Rs. 69.5 billion (or 18.3%) to ZTBL, Rs. 10.0 billion (or 2.6%) to Punjab Provincial Cooperative Bank, Rs. 21.6 billion (or 5.7%) to 7 Microfinance Banks and Rs. 0.5 billion (or 0.1%) to 3 Islamic Banks which have been inducted from the current fiscal year.

During the 1st half of FY 2013-14, participating banks were able to achieve 41.9% of the annual indicative target of Rs. 380 billion

Credit Disbursement: During the 1st half of 2013-14, participating banks were able to achieve 41.9% of the annual indicative target of Rs. 380 billion despite challenges like high NPLs, banks' inadequate infrastructure, overall security and macro economic conditions etc.

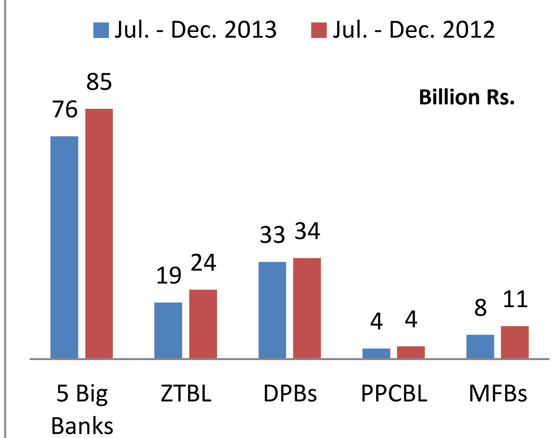
Table 3B: Agricultural Credit Targets and Disbursement

(Billion Rs.)

Banks	Target 2013-14	Disbursement Jul - Dec 2013	Target 2012-13	Disbursement Jul - Dec 2012
Big 5	188.0	85.4	153.5	76.0
ZTBL	69.5	23.7	72.0	19.3
DPBs	90.4	34.5	66.7	33.2
PPCBL	10.0	4.3	9.0	3.6
MFBs	21.6	11.2	13.8	8.2
Islamic Banks*	0.5	0.3	-	0.0
Total	**380.0**	**159.4**	**315.0**	**140.3**

Source: Agricultural Credit & Microfinance Department, State Bank of Pakistan
* Inducted from 2013 – 14

Fig 3b. Agri. Credit Disbursements



As a group, five big commercial banks collectively disbursed agri. credit of Rs. 85.4 billion or 45.4% of their annual target which is 12.3% higher than Rs. 76.0 billion disbursed during the corresponding period last year. The specialized banks were able to disburse a sum of Rs. 28.1 billion during the period under review and achieved 35.2% of their annual target of Rs. 76.5 billion.

Fourteen Domestic Private Banks achieved 38.1% (or Rs. 34.5 billion) against a target of Rs. 90.4 billion, while Microfinance Banks as a group disbursed agriculture loans of Rs. 11.2 billion or 52% of their annual target of Rs. 21.3 billion. Under the Islamic modes of financing, the newly inducted Islamic Banks collectively disbursed Rs. 0.250 billion or 47.2% against a target of Rs. 0.532 billion to agri. borrowers during period under review.

Agri. Credit Disbursed to Farm & Non-Farm Sectors

The overall credit disbursements of Rs. 159.4 billion during 1st half of 2013-14 when categorized on the basis of farm and non-farm sectors, reveal that an amount of Rs. 86.2 billion (or 54%) and Rs. 73.2 billion (or 46%) were disbursed to both sectors, respectively. Disbursements to farm and non-farm sectors registered increase of 8% and 21% respectively on a YoY basis. However, the share of credit to non-farm sector continues to grow as a percentage of overall credit to the sector. The continued rise in disbursements to the non-farm sector from Rs 36.6 billion (or 36%) in Dec. 2010 to Rs 73.2 billion (or 46%) in Dec. 2013, may be attributed as an outcome of SBP's successive pilot projects in selected districts across the country to encourage banks to diversify their agriculture credit portfolio by channelling credit towards livestock, poultry and fisheries. The sector-wise details of credit disbursements are provided in table 3C.

Table: 3C. Credit Disbursement to Farm & Non-Farm Sectors (Billion Rs.)

Sector		Jul-Dec 2013	Jul-Dec 2012
A	**Farm Credit**	**86.2**	**79.8**
1	Subsistence Holding	51.1	45.5
i	- *Production*	*46.7*	*42.3*
ii	- *Development*	*4.4*	*3.1*
2	Economic Holding	21.2	20.2
i	- *Production*	*20.1*	*19.0*
ii	- *Development*	*1.1*	*1.2*
3	Above Economic Holding	13.9	14.2
i	- *Production*	*13.0*	*12.5*
ii	- *Development*	*0.9*	*1.7*
B	**Non-Farm Credit**	**73.2**	**60.5**
1	- *Small Farms*	*23.6*	*17.0*
2	- *Large Farms*	*49.6*	*43.5*
Total (A+B)		**159.4**	**140.3**

Province-wise Agri. Credit Disbursements

During 2013-14, a mid-year review of agri. credit disbursements of Rs. 159.4 billion shows that volume of credit for agricultural activities disbursed by banks in each province was relative to their size of respective agricultural economies.

Table 3D. Province-wise Indicative Agri. Credit Targets and Disbursement

(Billion Rs.)

Province	Target 2013-14	Disbursement Jul.-Dec., 2013	Target 2012-13	Disbursement Jul.-Dec., 2012
Punjab	294.7	137.0	246.0	120.9
Sindh	55.0	18.0	44.0	15.5
Khyber Pakhtunkhwa	21.3	3.7	17.7	3.4
Balochistan	5.7	0.2	4.6	0.1
AJK	2.0	0.3	1.8	0.3
Gilgit-Baltistan	1.3	0.1	0.9	0.1
Total	**380.0**	**159.4**	**315.0**	**140.3**

Highest disbursements during the period under review were witnessed in the province of Punjab, where Rs. 137 billion (or 46.5%) were disbursed against an annual indicative target of Rs. 294.7 billion. In case of Sindh, around Rs. 18.0 billion (or 32.7%) were disbursed, in Khyber Pakhtunkhwa Rs. 3.7 billion (or 17.5%), in Baluchistan Rs. 0.2 billion (or 3.1%), in AJK Rs. 0.3 billion (or 16.2%) and in Gilgit-Baltistan Rs. 0.1 billion (or 11.2%) were disbursed against their respective targets. When compared with corresponding period of the previous year, all provinces registered growth except for AJK and G-B. Details of provincial disbursements are provided in Table 3D.

Box 2: District wise agri. financing data for 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

Box 3: Province wise agri. financing

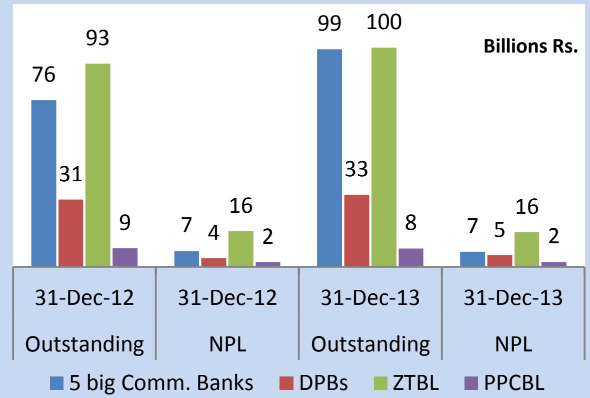
Agriculture financing in all provinces witnessed growth except AJK and G-B.

Agri. Non-Performing Portfolio

As of 31st December, 2013 the aggregate non-performing loans against outstanding agri. financing were reported to be Rs. 30.0 billion or 12% of the outstanding loans of Rs. 240.9 billion, as compared with Rs 29.3 billion or 14% of the outstanding loans at the close of corresponding period last year. Banking-groups-wise NPLs are given in Fig 3c.

Contrary to an overall increase, the NPLs of 5 big banks as a group witnessed a reduction from Rs. 7.2 billion to Rs. 6.8 billion during the first half of the current fiscal year. Similar has been the case with ZTBL whose NPLs declined by Rs. 0.5 billion as of end December, 2013 when compared with the corresponding period last year. However, Domestic Private Banks witnessed a rise in NPLs which grew from Rs. 3.9 billion as of end December 2012, to Rs. 5.3 billion in December 2013 registering a growth of around Rs. 1.4 billion.

Fig 3c. NPLs & Outstanding Loans



Banks' Agri. Credit Infrastructure

According to an estimate, there are about 3,942 agri. designated branches of all commercial, specialized, Islamic & microfinance banks which account for around 38 percent of total bank branches operating in the country. These branches extend agricultural credit through a field force of around 5,700 Agri./Micro credit officers who are engaged in agri. credit/ micro credit business and manage 2.347 million borrowers.

Agriculture Borrowers

At the close of first half of 2013-14, the number of agri. loan borrowers reached 2.347 million with an increase of around 136,799 borrowers (or 6.2%) on a YoY basis, as against a total of 2.211 million borrowers on 31st December, 2012.

4.0. Housing Finance

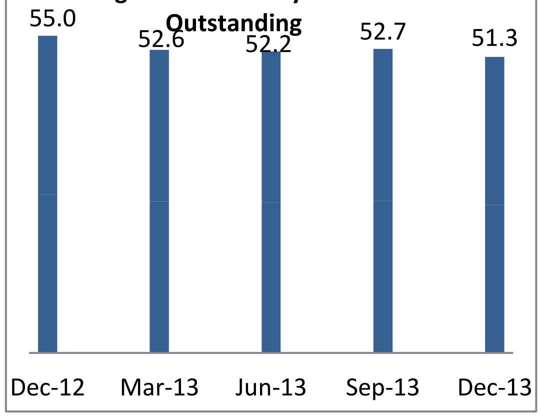
Table 4A: Housing Finance Profile (Amount in Billion Rs.)								
	Dec-13		**Jun-13**		**Dec-12**		**% Change (Amount)**	**% Change (Amount)**
	Borrowers	Amount	Borrowers	Amount	Borrowers	Amount	H.Y	YoY
Cumulative Disbursement	5,06,632	191.6	5,04,812	186.2	5,03,412	181.4	3%	6%
Outstanding	30,855	35.4	31,421	34.6	32,063	36.1	2%	-2%
NPLs	46,189	15.9	48,057	17.6	52,748	18.9	-10%	-16%
Gross Outstanding	77,044	51.3	79,478	52.2	84,811	55	-2%	-7%
H.Y: Half Yearly								

Presently, 27 commercial banks, House Building Finance Company Limited (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.

Gross Outstanding

The gross outstanding finance as on December 31, 2013 of all banks and DFIs stood at Rs 51.3 billion (fig. 4a), compared to Rs 52.2 billion as on June 30, 2013, showing a decrease of Rs. 0.9 billion (2 percent). Of the gross outstanding as on December 31, 2013, commercial banks accounted for Rs 38.9 billion; a 7.5 percent decline since quarter ending December 31, 2012. Private banks reported Rs. 20.6 billion followed by Islamic banks at Rs. 11.6 billion, public sector banks at Rs. 6.4 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.3 billion; down by 3.9 percent over the last year. Other DFIs had a meager share of Rs. 0.13 billion in outstanding loans.

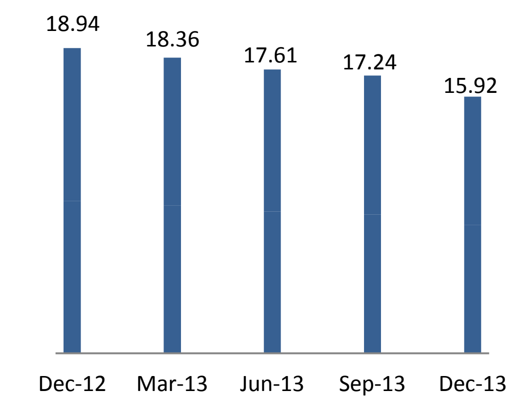
Figure 4a: Industry Gross Outstanding



The gross outstanding housing finance as on December 31, 2013 of Islamic Banking Industry (Five Islamic Banks (IBs) & 15 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 14.8 billion.

Of the total outstanding (net of NPLs) in Islamic housing finance, Islamic banks accounted for Rs. 10.29 billion; an increase of 21.5 percent over the year. IBDs of conventional banks posted Rs. 2.84 billion (8.39 percent decline since quarter ending Dec 31, 2012).

Figure 4b: Industry NPLs



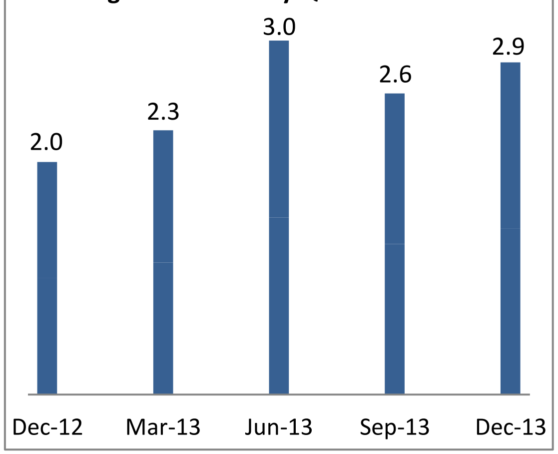
Non-Performing Loans (NPLs)

NPLs decreased from Rs 17.6 billion (June 30, 2013) to Rs 15.9 billion (December 31, 2013); down by 9.6 percent over the period of six months (Figure 4b).

HBFCL's NPLs decreased from Rs 7.9 billion to Rs 6.8 billion during the year; a 14.21 percent decrease as shown in Figure 5.1. Although, HBFCL's NPLs decreased low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest after Foreign Banks' NPLs, as 55 percent of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 42.7 percent.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs 1.74 billion on Dec 31, 2013, which were Rs. 2.21 billion at the end of Dec 31, 2012 showing decrease of 21.18 percent (Rs. 469 million).

Figure 4c: Industry Qtr Disbursement



Disbursements

Fresh disbursements of Rs 5.43 billion were made to 1545 borrowers during the period (Jul-Dec) (Figure 4c). Islamic banks extended new disbursements with Rs 2.56 billion followed by private banks with Rs 1.64 billion, public sector banks with Rs 345 million and foreign banks with Rs 4 million. HBFCL's fresh disbursements for Jul-Dec were reported to be Rs 885 million. Among commercial banks, the number of new borrowers totaled 947, with private banks serving 365 new borrowers and Islamic banks 440 customers. HBFCL extended loans to 596 new borrowers during the period under review.

Fresh disbursement for Islamic Banking Industry was Rs 2.88 billion to 483 new borrowers during Jul-Dec. This includes new disbursements of Rs 329.43 million to 43 customers by IBDs of conventional banks.

Outstanding housing finance of MFBs increased by 18 percent since the quarter ended June 30, 2013 & NPLs were reported nil for the quarter ended December 31, 2013

Housing Finance Business of Microfinance Banks

The outstanding housing finance of Microfinance Banks (MFBs) was Rs 199.7 millions as on December 31, 2013 which was Rs 169.2 million at the end of June 30, 2013. It registered a growth of 18 percent, when compared to the quarter ended June 30, 2013. NPLs for MFBs decreased from Rs 0.27 million to nil; showing a decrease of 100 percent in comparison to quarter ended June 30, 2013. Number of outstanding borrowers decreased from 2,314 (June 30, 2013) to 2,039 (December 31, 2013); a decrease of 11.8 percent.

5.0. Infrastructure Finance

Table 5A: Infrastructure Project Financing Profile of Banks & DFIs (Amount in Billion Rs.)					
	Periods			% Change	
	Dec-13	Jun-13	Dec-12	Half Yearly	YoY
Amount Outstanding	255.2	267	288.6	-4.4%	-11.6%
NPLs	19.4	18.6	17.5	4.3%	11.2%
Disbursements (Cumulative)	351.9	360.1	355.5	-2.3%	-1.0%
No. of Projects (*Cumulative)	363	370	363	-1.9%	0.0%
Total Sanctioned Amount	502.9	505	492.8	-0.4%	2.0%
*Cumulative number of projects is the total number of projects less the matured ones.					

Box 4: Infrastructure Project Finance Guidelines

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

Box 5: Quarterly IPF review for Dec'13

SBP publishes Infrastructure Finance Review on quarterly basis. The review for Oct-Dec 2013 quarter can be accessed at: http://www.sbp.org.pk/departments/ihfd-qdr3.htm

Infrastructure plays a pivotal role in the development of a country. Quality infrastructure improves investment climate, enhances export competitiveness, creates employment and leads to a higher tax revenue for the government.

At the end of Dec-13, amount outstanding against infrastructure sectors saw a decline of 4.4% when compared to the period ending June-13. Non-performing loans (NPLs) increased by 4.3%. Cumulative disbursements for the period Jul-Dec'13 saw a fall of 2.3% and the cumulative number of projects decreased by 1.9% when compared with previous half year data. The total amount sanctioned by banks and DFIs at the end of Dec-13 stood at Rs. 502.9 billion, compared to Rs. 492.8 billion a year earlier, showing an increase of 2%.

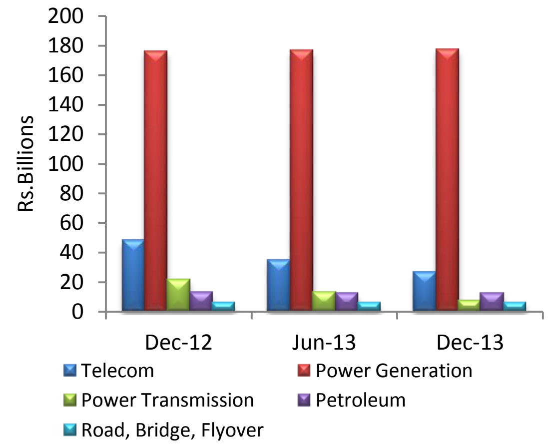
It is pertinent to mention here that the data/figures pertain to the existing projects excluding the matured ones at the end of Dec, 2013.

Outstanding Portfolio

Total amount outstanding, against infrastructure finance, at the end of Dec-13 was Rs 255.2 billion as compared to Rs 267 billion at the end of Jun-13, recording a decline of Rs 11.8 billion. Power Genegration and 'road, bridge & flyover' sector saw a growth of 0.3% and 0.1% whereas outstanding portfolio in the telecom, power transimission and petroleum sector declined by 22.5%, 42.1% and 1.6% respectively, when compared with June-13 data.

The decline recorded in outstanding portfolio, on YoY basis, was 11.6%. Most of the key infrastructure sectors witnessed decline except Power Generation, which saw growth of 2.7%.

Fig 5a: Top 5 Infrastructure Sectors

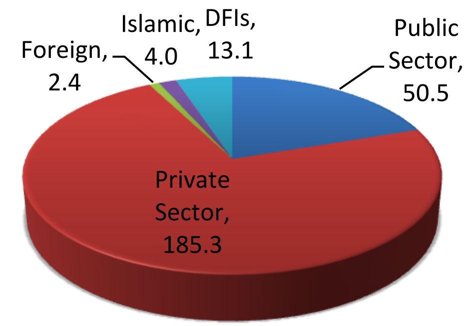


Non Performing Loans

At the end of Dec-13, total amount of non-performing loans (NPLs) stood at Rs 19.4 billion, showing an increase of 4.3% as compared to June-13. Telecom sector showed a decrease of 12% while Power Generation sector showed increase of 35.9% in NPLs (Half Yearly basis).

The total amount of NPLs for the year ending Dec-13 showed a rise in NPLs of 11.2% percent YoY basis. Furthermore, at the end of the period under review, a sectoral analysis reveals that major share (56%) in NPLs pertained to Power Generation sector whereas it was 47% at the end Dec'12. The Telecom sector's share in total NPLs declined to 24% from 27% last year.

Share of financial institutions in outstanding portfolio as of Dec'13



Billion Rs

Banking-sector wise Share

At the end of Dec-13, following the usual trend, private sector banks' share remained the highest in total outstanding amount against infrastructure sectors with 72.6% followed by public sector banks with 19.8%, DFIs with 5.1%, foreign banks with 0.9%, and Islamic banks with 1.6%.

Among the Islamic banks, two Islamic banks undertook Islamic project financing and their total outstanding was Rs 4.03 billion against Infrastructure sector at the end of the period under review.

Rs 17.5 billion dispersed by Banks and DFIs under IPF for the period Jul-Dec 2013.

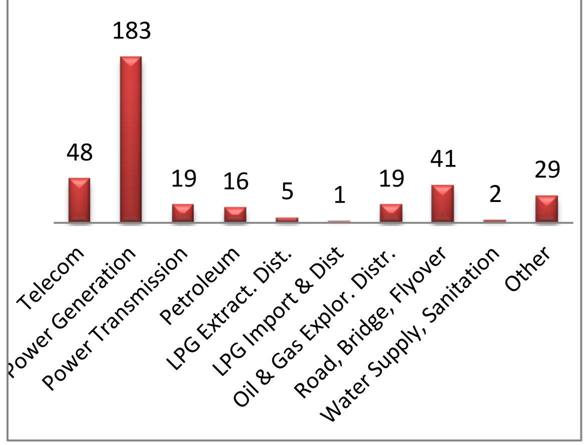
Moreover, at the end of Dec-13, of the total sanctioned amount (Rs 502.9 bn), the lion's share of 78.8 percent pertained to private sector banks, followed by 16.5 percent of public sector banks.

Disbursements

During the period (Jul-Dec), an amount of Rs 17.5 billion was disbursed under infrastructure project financing as compared to Rs 15.9 billion for the period (Jan-Jun) of 2013, showing an increase of 9.6 percent.

At the end of Dec'13, Rs 351.9 billion was the total cumulative amount disbursed to all infrastructure sectors, of which 60 percent was the share of Power Generation followed by Telecom with 14 percent, Power Transmission 6.9 percent, and Petroleum with 4.1 percent.

Fig 5c: Cumulative number of projects sector wise as of Dec'13



Number of Projects

At the end of the Dec'13, out of 363 infrastructure projects financed, 239 were undertaken by private sector banks, 58 by public sector banks, 57 by DFIs, four by foreign banks, and five by Islamic banks.

Out of the six new projects undertaken by the industry during the period (Jul-Dec'13), two were in the telecom sector, two in the 'road, bridge & flyover' sector and one each in power generation and petroleum sector. The fig. 5c shows sector-wise distribution of the projects.

Amount Sanctioned

At the end of the period under review, Rs 502.9 billion was the total amount sanctioned by the banks and DFIs for Infrastructure projects against an amount of Rs 492.8 billion at the end of Dec-12, recording a growth of 2 percent, YoY basis. The sectors which saw increase in amount sanctioned are Power Generation, Oil & Gas (exploration and distribution) and 'Road, Bridge & Flyover' sector.

Cumulative Amount Sanctioned by Banks & DFIs for infrastructure projects at the end of Dec-13 was Rs 502.4 billion.

Out of the total amount sanctioned during the quarter, 53.6 percent remained with Power Generation sector, 18.1 percent with Telecom sector, followed by Petroleum and Power Transmission with 7.2 and 6.1 percent respectively. Oil and Gas Exploration/Distribution sector's share was 4.4 percent, Road, Bridge & Flyover sector's share was 3.6 percent and Water Supply & Sanitation sector's share was only 0.1 percent.

6.0. SBP Refinance Schemes

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

	Period ending			% Change	
	Dec-12	Jun-13	Dec-13	H.Y	YoY
Export Finance Scheme	195.1	177.8	201.9	13.6%	3.5%
Long Term Financing Facilities	33.5	36.0	36.5	1.2%	8.7%
Defunct LTF-EOP	7.3	5.3	3.6	-31.8%	-50.7%
Scheme for Modernization of SMEs	0.1	0.1	0.1	0.0%	-16.8%
Scheme for Storage of Agri. Produce (FFSAP)	2.2	2.2	1.9	-11.8%	-11.0%
Scheme for Flood Affected Areas	1.1	2.0	1.6	-20.5%	40.2%
Total	239.3	223.3	245.5	10.0%	2.6%

H.Y: Half Yearly

Outstanding financing under SBP refinance schemes increased by 10% or Rs. 22.2 billion compared to June-13

SBP has continued to bolster its **Export Finance Scheme (EFS)** by enhancing/adjusting the EFS limits in response to the increasing demand of exporters for working capital to meet their export orders. The EFS outstanding financing increased by 3.5% at the end of December 31, 2013 on YoY basis. In addition to short-term financing need of exporters, SBP has been continuously focusing on the long term growth in fixed investment of the private sector by providing concessional financing under its various long term financing facilities through banks to revive economic growth in the country. These facilities play important role in export led growth of the country. These facilities also fulfill private sector's demand for long term loans to modernize their existing industrial units and to set new units.

During the period under review, SBP introduced Long Term Financing Facility for the Services Sector (LTFF-SS) to promote the exports of Services Sector. LTFF-SS will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities to perform better services in line with the international competitive environment.

SBP has introduced Long Term Financing Facility for the Service Sector (LTFF-SS) to promote exports of services sector

To facilitate long term investment in SMEs Sector and to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce, SBP extended the expiry dates of the Refinance Facility for Modernization of SMEs (RFM-SMEs) and Financing Facility for Storage of Agricultural Produce (FFSAP). These facilities will be available till further instructions.

SBP has extended the expiry dates of the RFM-SMEs and Financing Facility for Storage of Agricultural Produce (FFSAP)

Export Finance Scheme (EFS) is one the foremost schemes of SBP to cater the short-term financing needs of exporters. SBP sanctioned revolving limit of Rs. 259.36 billion under EFS to enable banks to meet exporters' financing requirements. The outstanding position under EFS stood at Rs. 201.9 billion at the end of December 31, 2013 showing an increase of about 3.5% on YoY basis.

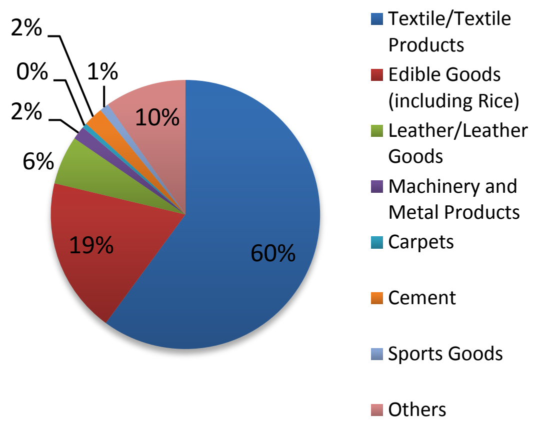
Financing under LTFF saw a rise of 8.7% on yearly basis

SBP, in a bid to promote efficiency and to enable exporters to become competitive in the international market, has incentivized financing under EFS (Part-II) by way of lowering mark-up rates for high performers since the year 2009. The exporters who have achieved excess performance claim benefit of mark-up rate differential from SBP through their banks provided they have no export proceeds overdue bills. SBP has so far paid mark up benefit of Rs 1.6 billion under this scheme.

Banking Group-wise utilization of EFS

The Private Sector Banks remained the major participants in the Export Finance Scheme with highest share of Rs 164.4 billion (81.4%) in the outstanding financing followed by Public-sector Banks with Rs 16.7 billion (8.3%). Islamic banks have 6.7% share in overall EFS outstanding.

Fig 6a: Commodity wise break of financing under EFS



Commodity Wise Break Up of Financing under EFS

The commodity-wise outstanding financing of Rs 201.9 billion shows textile sector at the top with Rs 121.3 billion (60%) followed by edible goods with Rs 37.7 billion (18.7%). Detailed break is shown in Fig 6a.

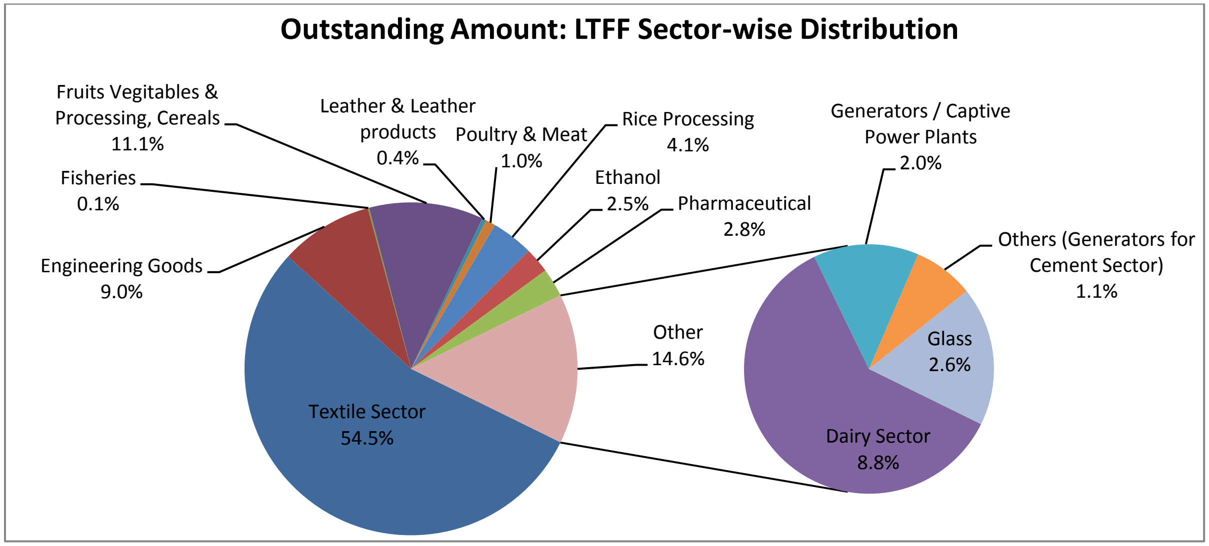
Borrower-wise Distribution of EFS Funds

The total number of exporters who availed EFS facility were 1,250 with outstanding financing of Rs 201.9 billion at the end of December 2013 against total 1,369 borrowers with Rs 195 billion financing at the end of December 2012. The reduction in the number of borrowers may be attributed to the inability of these borrowers to bring their overdue export proceeds within prescribed limit. The major regions of EFS borrowers are respectively Sialkot (33%), Karachi (29%) and Lahore (15%).

Long-Term Refinance

The outstanding amount of financing under Long Term Financing Scheme (LTFF) was Rs 36.5 billion as on December 31, 2013 which is higher by Rs 0.4 billion as compared to June 30, 2013. Under LTFF major portion of financing was availed by Textile Sector (Rs 19.9 billion) followed by Fruits/ Vegetable & Processing (Rs 4.0 billion). Within the Textile sector major financing was availed by weaving textiles. The graph below provides sector wise utilization of funds under the scheme.

Outstanding financing under 'Financing Facility for Storage of Agricultural Produce' stands at Rs 1.9 billion



Other Refinance Facilities

Outstanding financing under RFM-SME stands at Rs 93.6 million

Financing Facility for Storage of Agricultural Produce was introduced to encourage Private Sector to establish Silos, Warehouses and Cold Storages to store agricultural produce. This facility has been availed by 48 borrowers and Rs 2.8 billion disbursed up to December 31, 2013. Outstanding financing under this facility is Rs 1.9 billion.

Refinancing Facility for Modernization of SMEs was introduced to encourage the sponsors of SMEs to modernize their mills/units to produce quality products. This scheme has facilitated 15 borrowers and disbursed Rs 231 million. Outstanding financing under this facility was Rs 93.6 million.

Outstanding financing under RSR-SME-AA stands at Rs. 1.6 billion

Refinance Scheme for Revival of SMEs & Agricultural Activities (RSR-SME-AA) 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 Management Authority (NDMA). Outstanding financing under this scheme was Rs 1.6 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 in various sectors during the Jul-Dec, 2013 period.

Small and Medium Enterprise Financing

Prime Minister Youth Business Loans Programme

During half year under review, IH&SME Finance Department issued instructions to Banks through a Circular for participation in the Prime Ministers Youth Business Loans Programme. The Programme which was formally launched by the Prime Minister on December 7, 2013 is aimed to provide loans to unemployed youth for establishing or extending business enterprises in order to promote self-employment in the country. Under this Programme loans up to Rs. 2,000,000 will be provided through the banking system at service charges of 8% per annum for borrowers, while the rate of return for banks working as Executing Agencies (EAs) for the scheme would be KIBOR+500 bps. Government of Pakistan (GOP) shall absorb the difference between the rate of return for EAs and 8% as subsidy. Besides, GOP will also bear 5% of losses on the portfolio of banks under the Programme. It is estimated that in first year of the Programme, loans amounting to approximately Rs 100 billion would be extended to 100,000 borrowers. The programme is currently being implemented through National Bank of Pakistan and First Women Bank Limited.

State Bank has also advised other private banks to gear up their systems for participation in PMYBL. In this regard, Governor State Bank in a meeting held on November 19, 2013 at SBP Karachi and attended by Chief Executives of all Banks, sensitized the issue and advised the banks that they should participate in the programme as it would help them to build a strong image of delivering on their Corporate Social Responsibility (CSR). In this respect, IH&SMEFD in coordination with DFSD/SBP BSC Offices, NBP and SMEDA also conducted Training Workshops for all banks to apprise them about salient features of the PM Youth Business Loans Programme. IH&SMEFD successfully organized twelve (12) training workshops on PMYBL across Pakistan/AJK in major cities till January 2014 in which a total of 466 participants from all banks were trained.
PMYBL Application Forms are available at all the branches of NBP, FWBL, SMEDA and their websites. As of December 31, 2013, total 5,401 completed application forms were submitted by potential borrowers, out of which 5,361 completed applications were submitted in NBP while FWBL received 40 applications from female applicants. Province wise position of received applications transpired that 71% loan applications were received from Punjab,

12% from KPK, 6% from Sindh, 4% from Baluchistan and 6% from GB, FATA, AJK & Islamabad. Gender wise position indicated that 88% of completed applications were submitted by male and 12% by female borrowers.

Secured Transaction Reforms

Secured Transaction Framework calls for existence of a modern Secured Transaction Law that provides for establishment of Secured Transaction Registry in the country, which will register charge on assets especially moveable assets of the borrowers.

Implementation of Secured Transaction Reform Framework shall generate the following benefits:

- ❖ Enable SMEs and Agri Borrowers to use their assets especially moveable assets as collateral to obtain loans, thus enabling them to use a broader scope of assets as security for availing loans.
- ❖ Provide cheap & simple mechanism of online registration & search about encumbrance on assets.
- ❖ Provide clear rules on priority of creditors' claims on securities.
- ❖ Provision on effective enforcement of security will boost lenders' confidence in case of default

In view of the above, State Bank with the financial support of DFID UK is implementing Secured Transaction Reform (STR) Project. SBP has hired the services of legal consultants for drafting of Secured Transaction Law. During half year under review, SBP organized Project Committee meeting and a Video Conference with World Bank on October 9, 2013 to discuss and provide feedback on second draft of Secured Transaction Act. In the light of Project Committee members' feedback and VC discussions, the consultants submitted revised draft of the STR Act in November 2013, which was also shared with PC members and World Bank for their feedback on the revised Draft. PC members submitted their feedback on the revised Draft in December 2013, which was provided to Legal Consultants for further refinement of the Secured Transaction Law. After finalization of the Draft Secured Transaction Act by Project Committee, the same shall be forwarded to GOP for approval from the Parliament.

Credit Guarantee Scheme for Small and Rural Enterprises

SBP launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010, which allows banks to develop a portfolio of fresh borrowers who are creditworthy, but the banks are shy away from such customers due to perceived high risks, small ticket size, issues in documentation and collaterals, etc. The scheme shares 40% of credit losses of lending banks on their loans to Small and Rural Enterprises. The banks are encouraged to provide financing to fresh and collateral deficient borrowers, however, if the existing customers of banks clean up their account, they can also be entertained under the Scheme. The borrowers under the scheme are Small Enterprises and Farmers with economic landholding. The Selection Criteria for Eligible Borrowers include:

- Regular and estimable positive cash flows
- Be in conformity with the PRs for SMEs/Agri. Financing
- Should have clean e-CIB record
- In line with the Credit Policy of Banks.

State Bank allocated Credit exposure limits of Rs. 6.56 billion (SBP Guarantee Coverage Limit of Rs. 2.62 billion) for the CY 2013 to 10 banks selected as Participating Financial Institutions (PFIs) under the Scheme. The Scheme has been well-picked. The net utilization of the guarantee limits by the banks as of end of the year was 64% with sanctioned loans of Rs. 4.19 billion to 6,268 borrowers. However, this figure does not include 3,555 guaranteed loans with sanctioned amount of Rs. 2.14 billion which have already been closed. Serving as a role model, the Scheme facilitates banks to develop their own lending programs for the low end segments which will over time broaden the customer base of banks and help in economic growth and poverty reduction through employment generation. The Scheme is also a successful initiative in terms of helping the partcipating banks to develop viable small ticket financing portfolios reaching out to vast small & rural borrowers in a large number of sectors in around 75 districts across country but at the same time managing to keep their delinquency ratios to only 3.4% - quite low when comapred with NPL ratios of SME and Agri financing of banks.

Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh

The objective of Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh is to help the sponsors of rice husking mills of Sindh to undertake projects of BMR for increasing effecinecy of their mills. Under this scheme, SBP provides mark up subsidy of 6.25% and credit risk sharing facility of up-to 30% against the long term loans extended to rice husking mills of Sindh under the SBP Refinancing Scheme for modernization of SMEs. The end-user mark up rate for borrowers is only 2.75%. This scheme is expected to facilitate a number of rice mills in Sindh to modernize their existing units with latest equipment and technology and is also expected to help them recover from losses/ damages due to floods in last few years. The funds for providing mark up subsidy under the scheme have been provided by the Government of Sindh. In fact, the scheme affords an excellent opportunity for the Sindh Government to leverage bank branch network, field staff and credit evaluation expertise of banks for channeling available funds to the targeted segment in a transparent and efficient manner. The borrowers will have a subsidized loan facility, with partial guarantee to banks, available through normal banking channels. In view of the huge benefits of the structure of the Scheme, the Governor State Bank has invited other provinces to consider initiating similar mechanisms of lending to selected SME segments in their provinces from their budgetary resources and offered SBP's full support for such programs.

Capacity Building Programs for Banks

State Bank has conducted a number of training programs for the banks in the area of SME Finance during the six-monthly period under review:

Awareness for the Rice Husking Scheme: In order to create awareness and understanding of field staff of banks and the target borrowers as well as for encouraging them to start utilizing the facility, State Bank held two awareness sessions with the banks in Sukkur and Hyderabad on October 08 and October 10, 2013. To ensure maximum benefits of these awareness sessions, the SBP team was also accompanied by the Sindh Enterprises Development Fund, Government of Sindh Officials. Around 80 field bankers and targeted potential borrowers participated in these awareness sessions.

Awareness of revised Prudential Regulations for SMEs: A special presentation on the revised Prudential Regulations for SME Financing was organized at SBP BSC Lahore in June, 2013 for the representatives of regional SME Focus Group members comprising of representatives from the commercial banks, FPCCI, SMEDA and regional SME Association.

Awareness Programs for the Prime Minister's Youth Business Loans Program: State Bank arranged a series of training workshops on PM Youth Business Loans Programme so as to create awareness among the field staff of banks about structure of the programme for its smooth implementation and also motivate them to actively participate in identification and evaluation of viable business proposals of the prospective borrowers. These training sessions were held in 12 major locations (Karachi, Lahore, Sialkot, Gujranwala, Quetta, Peshawar, Faisalabad, Sargodha, Jhang, Gujrat, Jhelum and Mirpur) in which more than 450 field officials (Regional managers, Branch Managers and Credit Officers) from almost all banks of the respective areas participated. These training workshops were held in December-January, 2014.

The Development Finance Support Department of SBP Banking Services Corporation (DFSD) provides necessary logistic and adminitrative support for holing capacity building and awareness programs. In addition, the DFSD also initiates similar awarenss and capacity building programs to create understanding of field banks on reglatory and developmental initiatives of State Bank and create awareness of SMEs on availability of banking facilities.

Microfinance

- After Tameer MFB, Advans Pakistan MFB and Khushhali Bank Ltd. have also been allowed to undertake microenterprise lending on a pilot basis. The development came after SBP allowed higher loan limits to MFBs for undertaking microenterprise lending in March, 2012 with prior approval of SBP.

- The Consultative Group to Assist the Poor (CGAP) and SBP have jointly completed an I-SIP research in Pakistan to study the linkages between financial inclusion (I) and central banks' traditionally core objectives of Financial Stability (S), Financial Integrity (I), and Consumer Protection (P). Sharing the findings of I-SIP research, the CGAP testified in a workshop held at SBP in December, 2013 that SBP's policy framework for BB and financial inclusion is in sync with the best approach for optimally managing linkages between financial inclusion and central banks' traditionally core objectives of financial stability, financial integrity, and consumer protection.

- A four member delegation of Bank of Zambia (BoZ) visited SBP in September, 2013 to learn about innovative approaches of Pakistan for financial identification system. Meetings of the delegation were arranged with relevant stakeholders at SBP and NADRA to share Pakistan's experience in branchless banking, IT infrastructure, consumer protection, computerized national ID card system for identification and verification procedures under KYC requirements, etc.

- APNA Microfinance Bank, a Karachi-based district MFB, was granted in-principle approval to become a provincial MFB subject to meeting the prescribed capital requirement.

- Three new players i.e. U-paisa by U MFB, Mobile-paisa by Alfalah, and MCB-lite by MCB Bank Ltd. commenced their branchless banking operations after approval from SBP.

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 under FIP 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. (MCGF) has been showing an impressive progress since its beginning to address the funding needs of the microfinance sector. Since the launch of the facility, there have been 27 successful deals between the commercial banks and microfinance providers, mobilizing around Rs 8.0 billion for 5 leading microfinance providers. This has enabled microcredit access to around 400,000 new micro borrowers. As of Dec, 2013, the outstanding amount of the facility is Rs 4.1 billion, with an exposure of Rs 1.634 billion.

Institutional Strengthening Fund (ISF): In December 2008**,** SBP launched £10million ISF facility with the objective to provide grants for strengthening the institutional and human resource capacity of the microfinance providers (MFPs). ISF has so far approved Rs 708.277 million for 15 microfinance providers including top and middle tier MFBs and MFIs as well as Pakistan Microfinance Network. These grants are funding 24 institutional strengthening projects, supporting the sector's shortcomings in critical areas such as, 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 £10million was launched in March 2010 to facilitate credit to small and rural businesses for greater outreach. Under CGS, the participating banks have sanctioned loans of Rs 5,282 million (SBP risk coverage of Rs 2,129 million) to 8,477 borrowers against the approved limits of Rs 2,634 million by the end of December 2013, representing a highly encouraging utilization of 81% of the Risk Coverage Limits.

Financial Innovation Challenge Fund (FICF): FICF is a £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. FICF is supporting "Financially Inclusive Government to Persons (G2P) Payments" under its first round. Most of the projects approved under the 1st round have been initiated and their progress is underway. The 2nd Round of the fund will be held on promoting Rural 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 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 augment 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 has 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 and Services, Debt Management and Consumer Right and Responsibilities etc. As a way forward, the program will further be scaled up based on the evaluation findings 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 ultimate of broadening financial inclusion.

Agriculture Finance

Livestock Insurance Scheme for Borrowers was launched by State Bank of Pakistan in Nov, 2013 to improve access to finance for the livestock & dairy sector and mitigate the risk of loss of livestock due to disease, natural calamities & accidents. The Scheme is expected to safeguard the interests of farmers besides providing banks with a risk mitigating tool, thus encouraging them to enhance flow of credit to this underserved sector.

Agri. Lending Diversification Project (ALDP)/Pilot Project Phase - V concluded on 31st December, 2013. ALDP was a part of a series of pilot projects launched successfully by State Bank of Pakistan since March, 2009 to stimulate and synergize banks' agri. financing activities for improving farmers' access to institutional credit.

The ALDP was launched in 60 & 25 districts respectively for farm and non-farm sector financing under the "Lead Bank" concept. The Lead Banks were expected to play an effective role in selected districts to:

- Create awareness about their financial products in farming community in collaboration with Abadgar Associations, Agri. Chambers, Agri. Extension departments, etc.
- Ensure availability of banners, hand bills, wall posters and other promotional material in the branches, agri. markets, bus stands and other prominent areas.
- Ensure availability of dedicated agri. staff (with technical knowledge of non-farm lending procedure & full logistic support by bank) in designated branches.
- Arrange farmer gatherings on weekly basis at various locations in collaboration with Agri. Extension departments.
- Undertake advertisement, awareness campaign
- Assign responsibility to all BMs and AMs for achievement of targets
- Monitor their performance through Head Agri. Business

To ensure active participation, banks were required to advise their Regional Business Chiefs/Heads to take necessary steps for implementation and achievement of agreed targets besides sharing a list of concerned officials responsible in the matter. Altogether eighteen banks participated in ALDP.

Phase–V concluded, with an overall achievement of 99% of the disbursement target and 88% of fresh borrower target. The consolidated sector wise performance was as per the following details;

Category	Disbursements (Million Rs.)			Fresh Borrowers		
	Target	Achievement	%	Target	Achievement	%
Farm	101,174	102,173	101%	113,463	80,628	71%
Livestock	15,534	16,759	108%	21,827	39,413	181%

Poultry	12,698	9,863	78%	2,815	2,524	90%
Fisheries	1,923	664	35%	1,226	663	54%
Total	**131,329**	**129,459**	**99%**	**139,332**	**123,228**	**88%**

Islamic Banks inducted for agriculture financing, for the first time during the current year 2013-14. Islamic Banks have been enlisted to participate in agriculture financing with a view to enhance outreach and access to formal agriculture finance for the faith sensitive farm households through Shariah Compliant Islamic products.

Replication of Farmers Financial Literacy Programs at grass root level is underway through trained officers of commercial/microfinance banks and around 1000 programs were conducted by the participating banks during July – December, 2013. The program iterations are being held by State Bank of Pakistan in collaboration with SBP BSC (Bank), commercial banks & microfinance banks to improve financial inclusiveness in agriculture sector by creating demand of agri. finance products through enhanced flow of information.

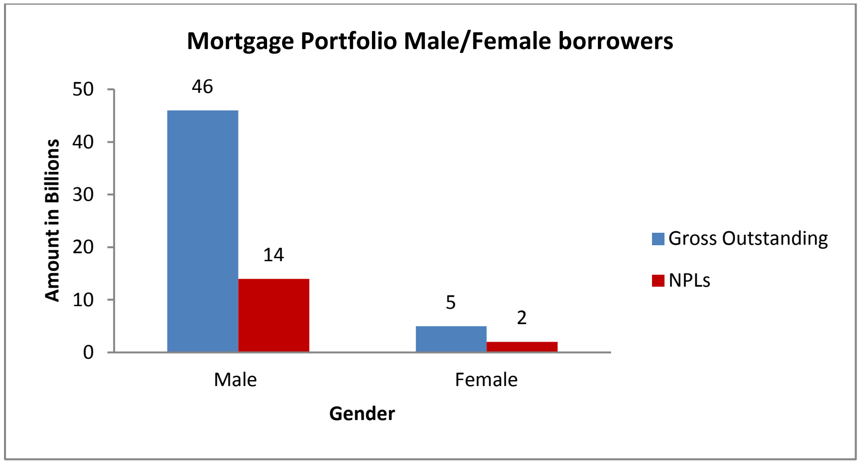
Capacity Building of Banks is being undertaken by SBP in collaboration with NIBAF. The initiative aims to build capacity of banks' agri. field officers and sensitize them with the changing dynamics of agriculture financing through a series of 4 days Batch Training programs for newly inducted agri. credit officers. So far 260 agri. field officers have participated in ten batch training programs in different cities.
Recognizing the importance of housing sector in boosting the domestic economy, following initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

Housing Finance

Two Days Training Session on Recoveries & Foreclosures and Product Restructuring/Rescheduling in Housing Finance:
Two Days training session on Recoveries & Foreclosures and Product Restructuring/Rescheduling in Housing Finance was organized by State Bank of Pakistan on October 11 and October 12, 2014 at NIBAF, Islamabad. 37 participants from different financial institutions participated in the session. For the presentation of the session, please visit http://www.sbp.org.pk/departments/ihfd-house.htm.

Gender wise research survey with respect to existing housing finance borrowers:

SBP took an initiative to gauge the level of financial inclusion in Pakistan. In this regard, the data from different Mortgage Financing Institutions (MFIs) was also congregated on required parameters. Results showed that in the current mortgage portfolio, 85 percent borrowers (62,472) are male and the remaining 15 percent (10,752) are female. Also, similar ratio has been observed in terms of NPL portfolio results (Figure below).



Mortgage Refinance Company (MRC):

Mortgage Refinance Company (MRC) is now in its final phase of incorporation. MRC is expected to address the critical issue of providing liquidity of Primary Mortgage Lenders (PMLs). This will ultimately result in bolstering the Mortgage Finance market in Pakistan.

Strategic Plan for Housing Finance in Pakistan:

The Objective of this report is to analyze the current scenario of housing finance industry in the country and to suggest various policy initiatives for the strengthening of this sector. A meeting with major players in Mortgage industry was held in order to obtain their input in this regard. The document is expected to be published in coming quarter.

Infrastructure Finance

Consultative/Working Group on Infrastructure Financing: Recognizing the fact that both the public and private sectors have to work together in bridging the huge gap in infrastructure financing, IH&SME Finance Department formed a consultative group on Infrastructure finance. The objective of this group is to identify the challenges being faced in financing Infrastructure projects and to devise solutions. The group has broad membership from government agencies, banks/DFIs and the private sector. The first meeting of the group is scheduled to be held May 5, 2014.

Infrastructure Finance Review: Work on 5-years' review on Infrastructure Project Financing in the country was finalized and the document was placed on SBP's website for information purpose. It can be accessed at: http://www.sbp.org.pk/departments/ihfd/2013/InfraFinReview2008-12.pdf

Study on Islamic Project Finance: A brief study on the potential of Islamic Project Financing in the country has been prepared on the basis of data/information collected from the banks & DFIs. The document is currently being reviewed by different departments within SBP and would be published soon.

Refinance Schemes

Launch of LTFF-SS: In order to promote the exports of Services Sector, the State Bank of Pakistan has launched a new Long Term Financing Facility for the Services Sector (LTFF-SS) on August 20, 2013 vide IH&SMEFD Circular No. 9 of 2013. The new Facility will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities to perform better services in line with the international competitive environment.

Extension in Expiry dates: State Bank of Pakistan has extended expiry dates of the "Financing Facility for Storage of Agricultural Produce (FFSAP)" and "Refinance Facility for Modernization of SMEs" on February 04, 2014 vide IH & SMEFD Circular Letter No. 2 of 2014. These facilities will now be available till further instructions.

8.0. Development Finance News from around the World

The following key developments/news occurred during the period (Jul-Dec, 2013) under review.

Small and Medium Enterprise News:

SECP approves SME regulations

December 03, 2013: The Securities and Exchange Commission of Pakistan (SECP) has approved regulations for the listing of small and medium enterprises (SMEs) at the Islamabad Stock Exchange. The regulations provide a set of procedures for listing and trading of shares of SMEs. Now, SMEs can raise funds from the capital market through listings for meeting their financial needs for executing new projects and expansion of their existing businesses http://www.thenews.com.pk/Todays-News-3-217689-SECP-approves-SME-regulations

SMEs can serve as growth engine of economy: Governor SBP

September 20, 2013: Mr. Yaseen Anwar, Governor State Bank of Pakistan has said that close collaboration among the key stakeholders would help in creating synergies for growth of SMEs. In his keynote address to 7th Pakistan SME Conference on "Strengthening Institutional Ties for Increasing SME's Access to Finance", he said SMEs "have the potential to serve as a growth engine of the economy by providing economic linkages/ services to the corporate sector, generating employment and alleviating poverty." http://www.sbp.org.pk/press/2013/SME-20-Sep-2013.pdf

Rs 100m SMEs club approved

November 18, 2013 - A project has been approved to set up an SME club at a cost of Rs 100 million for the promotion of industrial sector and small and medium enterprises (SMEs). In this regard, E-Business Directorate SMEDA, Salman Khalid Salman said, SMS alerts would also be available to SMEs. Facilities and discounts on software development, courier services and other value added services will also be arranged for business entrepreneurs through the SMEs club, he said. http://pakobserver.net/detailnews.asp?id=223996

SMEDA to start internship portal

November 06, 2013: The Small and Medium Enterprises Development Authority (SMEDA) is due to initiate an internship programme in collaboration with academia and SMEs through the launch of an internship portal (internship.smeda.org) on November 8, 2013. According to a SMEDA official, "The objective of this programme is to ascertain and offer demand side requirements of Small and Medium Enterprises (SME) and the industrial sector, and make them available through an e-platform for university students." http://www.thenews.com.pk/Todays-News-3-212367-SMEDA-to-start-internship-portal

Rs 2 billion fund to revive sick units

November 15, 2013: The Sindh government has created a Rs2 billion fund for revival of sick units in various industrial estates. The industries department has called a meeting of owners of sick units to identify reasons relating to closure of industries and to suggest measures, including financial help to bring them back into production.
http://dawn.com/news/1056360/rs2bn-fund-to-revive-sick-units

UAE looks for SME funding outside banks

November 26, 2013: The UAE will work towards a mechanism to provide credit to small and medium enterprises (SME) outside the banking system, Sultan Bin Nasser Al Suwaidi, Governor of the UAE Central Bank, said on Tuesday. The central bank and the federal government are currently studying the experience of countries such as South Korea, Italy and Malaysia in SME financing outside the banking system. The governor said the central bank is keen on developing priority sector lending to support economic and social development while improving financial inclusion in the country. http://gulfnews.com/business/banking/uae-looks-for-sme-funding-outside-banks-1.1260204

Mohammad Bin Rashid Establishment for SME Development launches Entrepreneurialism Forum

December 8, 2013: Mohammad Bin Rashid Establishment for SME Development of the Dubai Department of Economic Development (DED) launched on Sunday, the first forum of its kind in the Middle East to foster the development of entrepreneurialism. Taking place at Dubai World Trade Centre, the two-day Entrepreneurialism Forum is organized in conjunction with World Entrepreneurialism Forum. About 450 entrepreneurs, experts and investors are taking part in the event. Themed: "Leading Change Towards Sustainable Development". http://gulfnews.com/business/general/mbre-for-sme-development-launches-entrepreneurialism-forum-1.1264694

Office of Small and Medium Enterprises Promotion wants SMEs' portion of GDP to hit 40% by 2016

December 5, 2013: THE OFFICE of Small and Medium Enterprises Promotion has revised the target for SMEs' contribution to gross domestic product to 40 per cent by 2016, up from 38 per cent in the existing 2012-16 SME-promotion plan, said Osmep director Patima Jeerapaet. He said a strategy on how to accomplish this would be complete within six months. The office also aims to turn Thailand into a regional SME hub by 2017, which he said would not be hard to achieve thanks to the country's favorable investment climate in the eyes of Japanese and European businesses.
http://www.nationmultimedia.com/business/Osmep-wants-SMEs-portion-of-GDP-to-hit-40-by-2016-30221392.html

RPT-Fitch launches SME market review series – Italy

Jan 10, 2014: Fitch Ratings has published the fourth report in a series under the banner 'SME Market Review', which provides an overview of the SME market in key European jurisdictions that are active in the SME securitization sector. In July 2013 the yearly annual negative growth rate of bank loans to Italian non-financial companies (NFCs)

reached a record low for the second consecutive month of 4.1% compared to a less harsh contraction of 1.1% relating to bank loans granted to households. The spread charged by lending banks to their SME borrowers has reached record high levels of around 4% which mainly reflect the increase of financing costs faced by Italian banks as a result of the financial crisis (which began in September 2008) and the subsequent sovereign crisis (from summer 2011).
http://www.reuters.com/article/2014/01/10/fitch-launches-sme-market-review-series-idUSFit66666120140110

Microfinance News:

FINCA acquires Kashf Microfinance Bank

FINCA International, a global microfinance network, has acquired majority shareholding in Kashf Microfinance Bank Limited through an equity investment of more than Rs 820 million. With this takeover, the name of the bank has been changed to FINCA Microfinance Bank Limited.
www.dawn.com/news/1058587/finca-acquires-kashf-bank

Microfinance Transparency awards "The Seal of Transparency" to Khushhali bank Limited (KBL)

The Khushhali bank Limited (KBL) has received the Seal of Transparency from Microfinance Transparency (MFT) in recognition of its policy and commitment to responsible pricing practice within the market. The MFT is an international, non-governmental organization that promotes transparency by facilitating pricing disclosure.
http://businessobserver.pk/microfinance-transparency-awards-the-seal-of-transparency-to-khushhalibank/

PPAF disburses Rs 90 billion since inception

Pakistan Poverty Alleviation Fund (PPAF) has disbursed Rs 90 billion for microcredit in 5.6 million cases, since commencement of operations in April 2000 to December 31, 2013. According to official data, total funds available with PPAF as of December 31, 2013 are over Rs 25 billion. These include Rs 18 billion for Microcredit while Rs 7.6 billion is for grants.
http://www.microfinancegateway.org/p/site/m/template.rc/1.1.21017/

SSGC, U Microfinance Bank sign agreement

Sui Southern Gas Company (SSGC) and U Microfinance Bank Limited have signed a facilitation agreement that will enable SSGC customers to make online payments at thousands of U-paisa payment points across Pakistan. This latest collaboration with U Microfinance Bank is the first by any public utility in Pakistan.
http://www.nation.com.pk/business/05-Dec-2013/ssgc-u-microfinance-bank-sign-agreement

Khushhali bank Limited, SRE Solutions join hands to provide renewable energy solutions

Khushhali bank Limited (KBL) has signed a Value Chain Financing agreement with SRE Solutions (Smart and Renewable Solutions) Pvt. Limited - a firm specializing in solar-powered energy equipment for homes and businesses. It aims to provide financing for various models of 'Solar Magic Box' - an affordable plug and play device that can be used for generating electricity for Household as well as small businesses in off-grid areas of the country.

http://pakobserver.net/detailnews.asp?id=232560

In India, only 67 million mobile phones linked to bank accounts

Out of over 900 million mobile phones and over 450 million bank accounts, only 67 million cell phones are linked to bank accounts, underscoring the huge unfinished agenda of mobile banking in the country. Number of active mobile users in India is between 500 and 600 million, while the total connections are around 900 million. Out of these active users, 90 per cent or around 400 million users have bank accounts. Of these however, only 67 million mobiles are linked to their bank accounts",

Experts say that even though the RBI has mandated SMS alerts for every transaction, mobile-based payment systems will take off only when each and every existing customer is serviced better. Unless operators offer local language options, mobile banking will not take off.

http://www.microfinancegateway.org/p/site/m/template.rc/1.1.20958/

Alibaba and Baidu Inc. (BIDU) Revolutionize China's Financial Sector, By Bringing Together Microfinance And The Digital Age

China's financial sector is undergoing a dramatic facelift thanks to innovations from major Internet companies like Alibaba and Baidu Inc, which are quickly bringing the concept of microfinance into the digital age. The online personal finance product (Yu'e Bao's) introduced in June allows users to penny pinch by placing small savings – at least one Yuan (17 cents) – into a money market fund. By the end of the year, Yu'e Bao's 43.03 million users, from more than 2,000 counties and cities in 31 provincial-level regions, have made deposits of 185.3 billion Yuan ($30.4 billion) – the biggest single public fund in China.

Unlike traditional savings accounts with commercial banks, Yu'e Bao offers users a much higher return rate as well as wealth management services. Its rates vary day to day, sometimes moving as high as 7 percent – much higher than the 0.35 percent interest rates offered by major banks and the 3.25 percent rate for one-year deposits. That high rate of return had brought 1.79 billion Yuan in profits to its millions of users by the end of 2013, merely six months since its launch.

Following Alibaba's stunning success, Baidu, which operates China's most popular search engine, launched its own online wealth management product – Baifa. Two months later, another Internet firm, NetEase, launched Tianjin, another interpretation of the same idea.

http://www.microcapital.org/microcapital-brief-chinese-internet-companies-alibaba-baidu-offer-financial-services-through-subsidiaries-yue-bao-baifa/

Housing News:

PM approves low-cost ‘Apna Ghar’ housing scheme

Prime Minister Muhammad Nawaz Sharif in November, 2013 approved the establishment of a company under the supervision of the Ministry of Housing and Works to initiate “Apna Ghar” housing scheme for the low-income strata of society. The scheme aims at providing housing units to low-income sections of society at low-cost and easy installments.

http://dunyanews.tv/index.php/en/Pakistan/200453-PM-approves-lowcost-%E2%80%98Apna-Ghar%E2%80%99-housing-schem

Section 15 of the Financial Institutions (Recovery of Finance) Ordinance 2001 declared “ultra vires” to the constitution

Supreme Court declared Section 15 of the Financial Institutions (Recovery of Finance) Ordinance 2001 “ultra vires” to the constitution. This section empowered Financial Institutions to foreclose and register a mortgage property without recourse to the court of law.

http://tribune.com.pk/story/660739/regulations-wanted-stronger-stricter-foreclosure-laws

India's urban housing shortage has lessened by 25 percent

Minister of housing and urban poverty alleviation, India briefed at a press conference in September, 2013 that the deficit in housing had dropped by almost 25 percent from what was expected. According to earlier estimates, the urban development ministry was expecting a deficit of 26.5 million homes in urban areas, which now stands at 18.78 million.

http://m.firstpost.com/economy/good-news-indias-urban-housing-shortage-has-lessened-by-25-465074.html

U.S. refinance program hits its stride; reaches more than 3 million

The Home Affordable Refinance Program, or HARP, allows borrowers with loans backed by Fannie Mae and Freddie Mac to cut monthly payments by refinancing at lower interest rates even if they have little to no equity in their homes.

http://www.reuters.com/article/2014/02/10/us-usa-housing-fhfa-idUSBREA191BQ20140210

Government of India and World Bank Sign $100 Million Agreement to Help Low-Income Families Secure Housing Loans

The Low Income Housing Finance Project is expected to be implemented by the National Housing Bank (NHB). It will help to support financial inclusion by making it easier for low-income households in urban areas to access housing finance.

http://www.worldbank.org/en/news/press-elease/2013/08/14/india-overnment-of-india-world-bank-sign-agreement-to-help-low-income-families-secure-housing-loans

Infrastructure News

Energy, infrastructure projects: Chinese Group wants to make investment (http://www.brecorder.com)

October 14, 2013. The Chinese Gezhouba Group Corporation has expressed its desire for investment in Pakistan's infrastructure and energy sector's projects. Gezhouba Group has expertise in hydro power projects, infrastructure development and coal mining.

ECNEC approves 10 projects worth Rs 218.6 billion

December 31, 2013. ECNEC, in its meeting, approved ten projects totaling Rs 218.6 billion which include irrigation, water, power, infrastructure, education and a project for distribution of 100, 000 laptops under the Prime Minister's Scheme for Youth. http://www.pakistantoday.com.pk

German group to generate 100MW from solid waste

LAHORE (Nov 12, 2013) - Two MoUs were signed between Punjab government and international group of Germany, ALBA, with regard to generating energy from solid waste. Under the agreements, the German company will invest in the projects of generating energy from garbage and hospital waste. The project will be executed speedily and will start producing 100MW electricity in 2015. www.nation.com.pk

China proposes an Asian infrastructure investment bank

JAKARTA - Chinese President Xi Jinping on Wednesday proposed to establish an Asian infrastructure investment bank to promote interconnectivity and economic integration in the region. http://www.chinadaily.com.cn/china/201310/03/content_17007977.htm

ADB to Help Finance Crucial Private Infrastructure Projects in Bangladesh (www.adb.org/news/bangladesh)

ADB will provide a $110 million credit line to the state-owned Infrastructure Development Company Ltd. (IDCOL) for investment in projects in power generation, water and sanitation, transportation, and information technology.

India: CCEA allows IDFC to set up Infrastructure fund with Rs 5,500 corpus

December 13, 2013: Cabinet Committee on Economic Affairs (CCEA) has allowed the Infrastructure Development Finance Company (LDFC) Ltd. to set up an India Infrastructure Fund which would have a corpus of Rs. 5,500 crore. (http://economictimes.indiatimes.com)

9.0. Special Section

9.1. Revision in Prudential Regulations For SME Financing

SMEs play critical role in the economic development of a country by contributing in GDP growth, employment generation and export earnings. However, despite their immense economic significance, SMEs have faced impediments that have restricted their growth and resultantly limiting their due role in the national economy. Among various impediments, **Access to Formal Finance** has been the biggest problem being faced by SMEs.

Realizing the issue, SBP issued separate Prudential Regulations (PRs) for SMEs in 2003, which provided significant impetus to the efforts being made for enhanced access to finance by SMEs. However, a review of SME Finance over the years showed that banks/DFIs focus was mainly on high end SMES*;* resulting in exclusion of low end SMEs from the formal sources of credit. This was despite the fact that Small Enterprises constitute more than 90% of total SMEs in the country.

Keeping above factors in view, State Bank of Pakistan issued revised Prudential Regulations for Small and Medium Enterprise (SME) Financing in May 2013. The revised SME PRs create more focus on Small Enterprises, by defining them separately and formulating more specific and simpler regulations for them. The new set of Regulations aims at further improving the current Regulatory Environment in order to provide boost to the lending institutions to meet financing needs of SMEs. The revised SME PRs underscore importance of cash flow analysis and other proxies in assessing the primary source of repayment of SME borrowers and also emphasize on greater use of technology and documentation for disciplined credit control for monitoring of credit quality. Since Medium Enterprises compared to Small Enterprises are relatively less credit constrained in accessing loans on account of their size and sophistication level, the regulations governing them have not been changed, with the exception of separate definition for Medium Enterprises, and revising their individual & aggregate borrowing limits upward.

The revised *SME Prudential Regulations* have the following structure:

1. General Prudential Regulations that apply on both Small and Medium Enterprises
2. Specific Prudential Regulations for Small Enterprise Financing
3. Specific Prudential Regulations for Medium Enterprise Financing

Salient Features of revised Prudential Regulations for SMEs:

1. **Separate Definition for Small Enterprise and Medium Enterprise:** To bring simplicity in the definition and keeping in view that most of the developed and emerging markets use two parameters i.e. Sales Turn-over and Employees, SBP under revised SME Prudential Regulations separately defined SEs and MEs as under:

i. **Definition for Small Enterprises:**

A Small Enterprise (SE) is a business entity which meets both the following parameters:

Employees	Sales Turnover
Upto 20	Upto Rs 75 Million

*****_including contract employees_.

ii. **Definition for Medium Enterprises:**

Medium Enterprise (ME) is a business entity, ideally not a public limited company which meets both the following parameters:

No of employees	Sales turn-over
21-250 (Manufacturing & Service MEs) 21-50 (Trading MEs)	Above Rs 75 million and up to Rs 400 million (All types of Medium Enterprises)

*****_including contract employees._

<u>Other Salient Features of revised Prudential Regulations for SMEs</u>

<u>General Regulations for both 'S' and 'M'</u>

a. SME Credit Policy with special emphasis on *Small Enterprises*

b. Increased focus on program-based lending, cash flow based lending and credit scoring technology

c. Greater Limit for Clean Advances (increased from Rs 3 million to Rs 5 million)

d. Increased emphasis on cash flow based lending: Small Businesses may be better accommodated through their assessment on cash flow basis rather than on collaterals only. Further, this also helps banks to come up with small-ticket loans and program-based lending products

e. Simplified Basic Borrower Fact Sheet (BBFS) for Small Enterprise

f. e-CIB to be obtained at sanction/renewal etc

g. Proper utilization of Loan to be ensured

h. Proper disclosure of pricing and other terms & conditions

i. Effective handling of SME borrowers complaints

j. Emphasis on MIS and Capacity Building Measures

k. Elaboration of measures on improving delivery channels, adoption of Credit scoring techniques, and Cross selling Strategies

l. Emphasis on reducing Turn-around-time (TAT): To create greater emphasis on reducing banks' TAT, requirement of 30 working days for credit approval process has been prescribed. Besides all pre and post approval documentation requirements should also be told in one go by the bank to their SME clients.

<u>Prudential Regulations for Small Enterprises</u>

1. Separate loan limit of Rs 15 million for Small Enterprises (SEs)
2. Relaxation in the requirement of Audited Accounts for SEs: The waiver shall facilitate SEs access to formal finance without difficulty as SEs generally lack proper record keeping including audited financials
3. Less-cumbersome valuation process of securities: For securities valuing upto 5 million, evaluation may be made by the banks' internal capacity
4. Restructuring policy to be approved by BOD of banks: Banks can change status of classification after 6 months, and recovery of 10% of Outstanding loans in cash

5. General Reserve Requirement: 2% for unsecured SE portfolio and 1% for secured SE portfolio
6. Less stringent criteria for Classification and Provisioning for SEs:

- A new classification of loan portfolio category of "OAEM" has been added.
- Greater overdue period allowed for SE portfolio classification with overdue time period for loss category increased from one year to 18 months.

Category of Classification	Overdue time Period	Provisioning Requirement
OAEM (New Category for SE Financing)	90 days	10%
Sub-Standard	180 days	25%
Doubtful	1 year	50%
Loss	18 months	100%

7. Banks may visit SE clients according to their convenience, but at least one visit in a year.
8. Stock report on semi-annual basis for SE borrowers
9. Insurance cover at banks' discretion keeping in view the riskiness level of the borrower
10. Easy Collection process for recovery of loans: Banks can undertake cash collection/ recovery of loans at places other than their authorized places of business.

Prudential Regulations for Medium Enterprises

PRs for MEs are same, except that MEs are given separate definition as given above and increase in Single Party limit from Rs 75 Million to Rs 100 Million & Aggregate limit from Rs 150 Million to Rs 200 Million.

Expected benefits of revised SME Prudential Regulations:

The revised SME PRs are simplified and shall greatly facilitate in hassle free lending to SME sector. Separate definition for Small Enterprises and Medium Enterprise has been prescribed under the revised SME PRs, which will also facilitate State Bank in more closely monitoring and following up with banks regarding the flow of credit to SMEs and especially the SEs, who had remained credit constrained under old SME PRs. As SME lending is generally considered a risky business, so banks were of the view that they encounter higher delinquencies and consequently reserve higher provisioning against SME NPLs. To resolve this issue, under revised SME PRs a comparatively relaxed overdue timeframe for provisioning purposes has been prescribed. This relaxation in the form of lesser provisioning cost shall encourage banks for taking exposure on SME sector.

9.2. Revisions In Prudential Regulations For Agriculture Financing

State Bank of Pakistan (SBP) has issued revised Prudential Regulations (PRs) for Agriculture Financing with an objective to enhance access of formal financing for the farming community and to bring regulatory framework for farmer financing in line with the changing business environment.

The revised PRs envisage prudent practices for banks to undertake financing in support of various agricultural activities, including those at various levels within an agri. value chain. Under the revised PRs:

- Parameters for Agri. Finance Policies have been redefined to ensure speedy processing of agri. loan applications, increased outreach of agri. lending through dedicated structure & staff, delegation of sanctioning authority at grass root level, etc.

- Farmers have been facilitated in term of repayment of their crop production loans under 3 years Revolving Credit Scheme based on the basis of cropping cycle.

- The requirement of having 75% own produce for entities engaged in farming activities has been withdrawn which is expected to enable farmers particularly the small farmers to access facilities for processing, packaging & marketing services for their agri. output.

- Focus on Islamic Agriculture Finance will enable banks to offer Shariah Compliant Agri. Financing products for faith sensitive borrowers.

- CIB reports have been declared mandatory for all agri. loans, To further supplement credit discipline and prudent lending practices by curtailing information asymmetries,

The revised PRs[2] stipulate banks to develop robust and market-oriented policies and practices to promote enhanced flow of credit to agriculture sector without compromising banks' financial stability and risk management.

[2] available on SBP Website: http://www.sbp.org.pk/acd/2014/C1.htm

ANNEXURES

Annexure A:

Non-Performing Loans in the Development Finance sectors

NPLs	**Dec-12**	**Jun-13**	**Dec-13**	**H.Y**	**YoY**
SMEs	95.4	89.5	86.6	**-3.2%**	**-9.2%**
Agriculture	29.3	36.1	30.0	**-16.9%**	**2.3%**
Microfinance (MFBs Only)	0.2	0.5	0.2	**-54.7%**	**26.3%**
Housing Finance	18.9	17.6	15.9	**-9.7%**	**-15.9%**
Infrastructure Finance	17.5	18.6	19.4	**4.3%**	**11.1%**
Total	**161.3**	162.3	152.2	**-6.2%**	**-5.7%**
*H.Y: Half Yearly change, YoY: Year on Year change					

Number of borrowers in DF sectors

Borrowers	**Dec-12**	**Jun-13**	**Dec-13**	**H.Y**	**YoY**
SMEs	132,167	144,141	136,940	**-5.0%**	**3.6%**
Agriculture	2,211,003	2,318,695	2,347,802	**1.3%**	**6.2%**
Microfinance (MFBs Only)	803,096	902,175	974,352	**8.0%**	**21.3%**
Housing Finance (Gross)	84,811	79,478	77,044.0	**-3.1%**	**-9.2%**
Infrastructure Finance	-	-	-	-	-
Total	3,231,077	3,444,489	3,536,138	**2.7%**	**9.4%**

Annexure B: Outstanding Financing under SBP Refinance Facilities as on 31.12.2013

	SBP Refinance Schemes	Dec-12	% share	Jun-13	% share	Dec-13	% share	% Change	
		Billion Rs.						H.Y	YoY
A	**Export Finance Scheme (EFS)**	**195.1**		**177.8**		**201.9**		13.6	3.5
	Textile/Textile Products	117.3	60.1	112.9	63.5	121.3	60.1	7.4	3.4
	Edible Goods (including Rice)	35.9	18.4	27.8	15.6	37.7	18.7	35.6	5.1
	Leather/Leather Goods	9.1	4.7	10.0	5.6	11.8	5.8	17.4	30.0
	Machinery and Metal Products	3.9	2.0	3.6	2.0	3.3	1.6	-8.6	-15.0
	Carpets	1.2	0.6	1.2	0.7	1.2	0.6	-2.0	2.8
	Cement	9.4	4.8	4.9	2.8	4.7	2.3	-3.8	-49.7
	Sports Goods	1.9	1.0	2.4	1.3	2.2	1.1	-6.5	13.8
	Others	16.5	8.4	14.9	8.4	19.7	9.8	32.1	19.8
B	**Long Term Financing Facilities (LTFF)**	**33.5**		**36.0**		**36.5**		1.2	8.7
	Textile Sector	18.7	55.7	18.9	52.5	19.9	54.5	5.1	6.4
	Engineering Goods	3.9	11.6	3.6	10.0	3.3	9.0	-8.6	-15.1
	Rice Processing	1.7	5.0	1.6	4.4	1.5	4.1	-6.4	-11.5
	Generators/Captive Power Plants	0.9	2.8	0.9	2.5	0.7	2.0	-20.5	-21.8
	Others	8.4	25.0	11.0	30.6	11.1	30.4	0.7	32.3
C	Long Term Financing for Export Oriented Projects (LTF-EOP) (Defunct)	**7.3**		**5.3**		**3.6**		-31.8	-50.7
D	Refinance Facility for Modernization of SMEs	**0.1**		**0.1**		**0.1**		0.0	-16.8
E	Financing Facility for Storage of Agricultural Produce (FFSAP)	**2.2**		**2.2**		**1.9**		-11.8	-11.0
F	Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas	**1.1**		**2.0**		**1.6**		-20.5	40.2
	Total (A to F)	**239.3**		**223.3**		**245.5**		10.0	2.6