Development Finance Review (Half Yearly)

As of June, 2013

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Executive Summary

Although, there is decline in Development Finance (DF) outstanding amount at 30th June, 2013 by 3.6 percent on half yearly basis, a rise of 0.6 percent was recorded when compared YoY basis. (See Table 1 for half yearly and YoY changes).

Table 1: Sectoral Break up of Outstanding Advances (Amount/Rupees in Billions)					
Sectors	Periods			Change	
	Jun-12	**Dec-12**	**Jun-13**	**H.Y***	**Y.C**
SME Finance	247.9	266.5	233.6	-12.3%	-6%
Agriculture	221.5	235.9+	257.1	9.0%	16.1%
Microfinance (MFBs Only)	17.3	20.02	25.4	27%	47%
Housing Finance (Gross)	57.7	55.0	52.2	-5.1%	-9.5%
Infrastructure Finance^	286.3	289.3	267.0	-7.7%	-6.7%
Total	830.6	866.7	835.3	-3.6%	0.6%

*(H.Y – Half Yearly Change)
^ Infrastructure Finance data may contain certain part of SME and Agricultural financing.
+Outstanding was erroneously published as Rs. 202.5 billion in yester review.

A decline of 3.6 percent in cumulative Development Finance (DF) portfolio, during the half year, was primarily attributable to decline in SME finance. However, YoY rise of 0.6 percent relates to agricultural credit. While SME, Infrastructure and housing finances continued to decline, agricultural credit and microfinance recorded positive growth on both half yearly and YoY basis. Despite the potential of DF, banks remained unable to tap the huge market owing to both demand and supply factors. On the supply side, banks' risk appetite remained subdued, particularly given the opportunity offered by aggressive government sector borrowings. Similarly, the demand was constrained by the unfavorable economic conditions.

Agriculture and microcredit posted growth both QoQ and YoY basis

The aggregate number of DF outstanding borrowers saw a growth of 6.6 percent on half yearly basis and 5.3 percent on YoY basis primarily led by agri. (agri. clientele of MFBs) and micro sectors. Furthermore, all other DF sectors witnessed growth except housing sector on half yearly basis, while on YoY basis Housing and SME finance saw a decline in their number of outstanding borrowers. The rise in microfinance borrowers can be attributed to the use of alternative delivery channels and in particular the branchless banking.

Agri and microfinance borrowers witnessed growth at the end of period under review

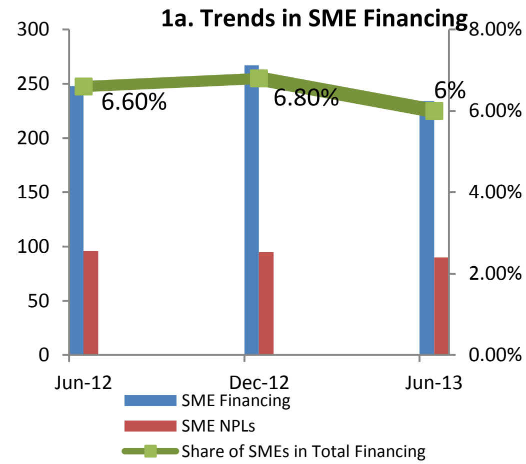
Statistics regarding aggregate non-performing loans (NPLs) of the Banks & DFIs depict a rise of 0.5 percent on half yearly basis. However, on YoY basis, there was a decline of 3.6 percent in NPLs mainly attributed to SME finance. Of the total NPLs of DF Sectors, SME's share was 55.1 percent, agri. sector 22.2 percent, and the remaining 22.6 percent pertained to the remaining DF sectors.

1.0. SME Finance

Table 1A: SME Financing Profile					
Category	**Periods**			**Change**	
(Amount/Rupees in Billions)	**Jun-12**	**Dec-12**	**Jun-13**	**H.Y**	**Y.Y**
Total SME Exposure	247.9	266.5	233.6	-12.4%	-5.8%
Total Financing	3,785.9	3,943.9	3,896.3	-1.2%	2.9%
SME exposure as % of total advances	6.6%	6.8%	6.0%		
SME NPLs: absolute amount	96.4	95.4	89.5	-6.3%	-7.2%
NPLs as % of total SME exposure	38.9%	35.8%	38.3%		
No. of SME Borrowers	147,578	132,167	144,141	9.1%	-2.3%
H.Y: Half Yearly, Y.Y: Year on Year					

SME Financing has been witnessing a declining trend over the past 5 years.

The overall declining trend in SME Financing of Banks and DFIs which ensued 5 years ago has persisted during the last bi-annual period also and SME Financing decreased from Rs. 267 billion in Dec-12 to Rs. 234 billion in Jun-13. However, the number of SME Borrowers which stood at 132,167 in Dec-12 has increased to 144,141 in Jun-13, registering an increase of more than 9 percent during the period. The increase indicates that some of the lower-end SMEs have started getting financing facilities from the banking channels which is a positive indication for increased economic activities of these units in coming months.



It is worth mentioning here that the overall non-performing loans (absolute amount) of the industry has shown a decreasing trend through-out the year showing a decline of more than 6 percent over the six month period and a decline of 7.2 percent on YoY basis. However, the ratio of SMEs NPLs to the total SME financing has increased to 38.3 percent in Jun-13 reaching to almost the same levels as at the end of Jun-12 primarily due to the adjunct decline in the overall SME financing of banks. The decline in absolute SME NPLs may indicate that banks are cleaning their balance sheets (and SME financing positions) by writing-off some outstanding loans which

No. of SME Borrowers saw a rise of 9.1 percent on half yearly basis.

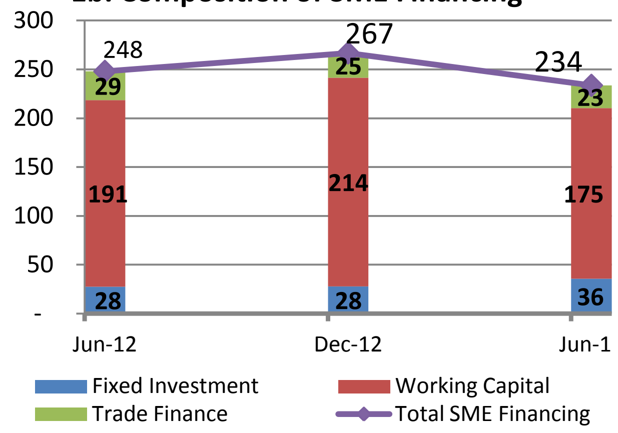
NPLs of SME sector saw a decline of 6.3 percent on half yearly basis.

have longer delinquency periods and thus have little prospects of recovery in the coming months.

The declining trend in SME Financing has reduced the share of SMEs in total financing of banks & DFIs from 6.8 percent in Dec-12 to less than 6 percent in Jun-13. Although overall SME Financing is on a declining trajectory as reflected in the YoY decrease of 5.8 percent, the faster decline of more than 12 percent during the six-monthly period under consideration seems primarily due to the 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. The continuous declining trend in SME Financing may, however, come to a halt due to decrease in interest rates and overall improvements in the economic conditions particularly decrease in inflation and better profitability of businesses. We, therefore, expect to see better SME Financing positions of banks in second six-monthly period not only due to cyclical effects but also due to core economic fundamentals.

Working capital constitutes about 75 percent in total SME Outstanding Amount.

1b. Composition of SME Financing



Facility wise breakup shows that the working capital financing constitutes around 75 percent of total SME financing followed by fixed investment and trade finance with their respective shares of 15 percent and 10 percent. 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. Among the enterprises, the manufacturing and trading units which were availing 46.3 percent and 38.6 percent of the facilities at the end of previous year have seen a decline in their shares during the six-monthly period with their respective shares at 45 percent and 35 percent at the end of period under review. As a result of this decline in the share of trading & manufacturing, services SMEs have picked up 20 percent of the SME financing as compared to their share of 15.1 percent at the end of previous calendar year.

About 63 percent of total SME outstanding Finance was availed by SMEs with up-to 20 employees.

At the end of Jun-13, Share of Manufacturing & Trading concerns in total SME Financing was 45 percent and 35 percent respectively.

The SMEs with up-to 20 employees availed 63 percent 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 39 percent of financing to the SME manufacturers.

A **loan size wise review** also shows that the share of loans up to Rs. 3 million have increased to 25 percent at the end of Jun-13 compared to 18.7 percent at the end of previous year further accentuating our earlier observation that the lower end SMEs have started receiving financing facilities from banks. However, due to smaller loan size, a predominantly higher number of SME borrowers i.e. 71 percent are availing facilities of less than Rs. 3 million.

At the end of Jun-13, lower end SMEs with loan size of up to Rs. 3 million saw a rise of 25 percent YoY basis.

Bank-wise distribution of SME lending shows that the share of Private Sector Banks (17 institutions) in total SME loans outstanding is highest 75 percent (decreased from 77.7 percent at previous year end). Private sector banks are followed by public sector banks (NBP, FWBL, BOP, BOK, and Sindh Bank) which share around 18 percent (increased from 16 percent at previous year end) of total SME outstanding amount.

Private sector banks share remained highest with 75 percent in total SME financing at the end of Jun-13

The Islamic Banks (5 institutions) provide 1.7 percent of SME Financing and combined with financing of Islamic banking divisions of conventional banks, the total SME financing of Islamic banking industry accounts for 4.4 percent of SME financing as of Jun-13 compared with its share of 4 percent as of Dec-12. Further, the quality of SME portfolio of Islamic banking industry was also better as compared to their conventional counterparts as the infection ratio of Islamic Banking industry's SME portfolio was 21.4 percent as compared to infection ratio of 38.6 percent of conventional banks as of Jun-13.

2.0. Microfinance

Table 2A: Key Performance Indicators of MFBs					
Outreach	Jun-12	Dec-12	Jun-13	Growth	
	*(Amount in Rs. '000')			H.Y	Y.Y
Borrowers	767,904	803,096	902,175	12%	17%
Advances *	17,293,246	20,022,546	25,366,520	27%	47%
NPLs*	750,082	188,800	526,791	179%	-30%
PAR >30 Days in %	4.34%	1.45%	2.07%		
Deposits*	16,609,330	23,155,003	28,605,007	24%	72%
Assets*	34,622,345	43,623,713	51,660,564	18%	49%
Equity*	8,202,272	9,826,855	12,013,786	22%	46%
Avg Loan Size	22,520	24,932	28,117	13%	25%

Box 4: Branchless Banking Newsletter

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

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

The first half of 2013 has witnessed a positive growth for microfinance banking sector in all key indicators (Table 2A). The period under discussion also witnessed the number of borrowers crossing 0.9 million whereas advances exceeded Rs. 25 billion. The deposits have also continued an upward trend manifested by half yearly growth of 24 percent.

First half of CY 13 witnessed a positive growth in all key indicators.

Moreover, due to restructuring/acquisition of few MFBs by strong investors, the equity of MFBs have increased by approximately Rs. 2 billion, mainly owed to the injection of around Rs. 800 million in Kashf MFB by FINCA. As of Jun-13, equity of MFBs stands at Rs. 12 billion and all MFBs are well capitalized except for Apna MFB.

Number of microfinance borrowers increased by 17 percent to reach at 902,175 as on 30th Jun-13. Increase in number of borrowers was seen in all major MFBs but it was highest in NRSP (39 percent) and KASHF (22 percent) respectively. Still, the top 4 MFBs (KBL, Tameer, FMFB, and

At the end of Jun-13, number of micro borrowers increased by 17 percent when compared with Dec-12.

NRSP MFB) have the largest share of 95 percent in number of borrowers. This could be attributed to the 80 percent share of these MFBs in total number of branches. The new entrants/recapitalized MFBs have a meager share of 1 percent in number of borrowers but it is expected that in future, these MFBs will gradually expand their outreach.

Gross Loan Portfolio (GLP) reveals growth of 27 percent during the first half of 2013 reaching Rs. 25.3 billion mark. The contribution in GLP was seen across all major MFBs with significant half yearly growth reported by KASHF (125 percent) and NRSP (47 percent). This growth is mostly due to fresh credit disbursements to the agriculture sector during the first quarter of 2013. Further, break-up of GLP in different sectors show no difference in the lending priorities for MFBs.

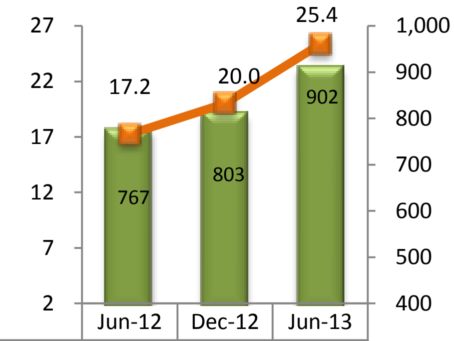
As seen in the previous years, agriculture sector (agri. input & livestock) had largest share of 48 percent in GLP whereas, 34 percent of the total GLP is concentrated in ‘others’ category due to the gold backed lending of Tameer. In terms of value of advances, top 4 MFBs constitute 88 percent of the total advances with Tameer leading with Rs 7.4 billion followed by KBL with Rs 6.9 billion. The average loan balance of MFBs is consistently improving; standing at Rs. 28,117 as of June 30, 2013.

Non Performing Loans (NPLs) have slightly increased to 2.07% from 1.45% in December 2012 owing mainly to an increase in the doubtful category caused by maturity of bullet loans. The rise in NPLs was mainly seen in FMFB and Pak Oman.

Asset analysis of MFBs shows a positive trend in the overall asset base of MFBs on the back of growth in deposits and equity. The asset base has risen to Rs. 51.6 billion compared to Rs. 43.6 billion in Dec-12. Advances constituted 48 percent of total asset base as of June 30, 2013 compared to 45 percent in Dec-12 due to increase in the lending to agriculture sector, whereas cash and cash equivalent and advances have shown slight decline to reach at 20 percent and 22 percent respectively.

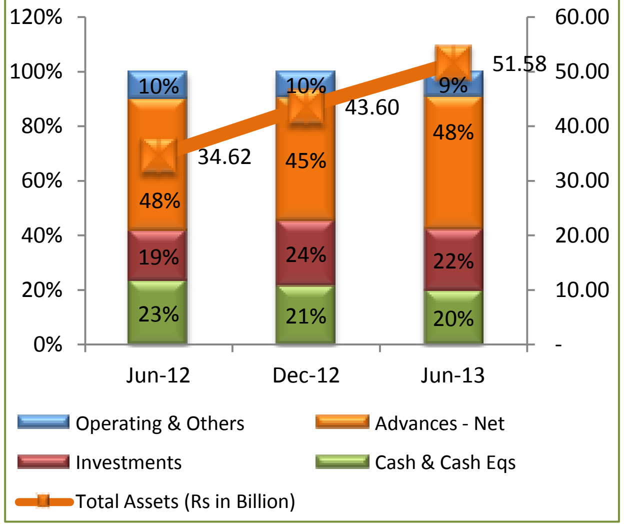
Overall, the liquidity position of MFBs remained quite comfortable as liquid assets (cash & investments) constitute 42 percent of total assets.

Fig 2a: Trends in Advances & Borrowers



	Jun-12	Dec-12	Jun-13
Borrowers (in '000')	767	803	902
Advances (Rs. in billion)	17.23	20.02	25.36
PAR >30 days	4.30%	1.45%	2.07%

Fig 2b: Assets Composition

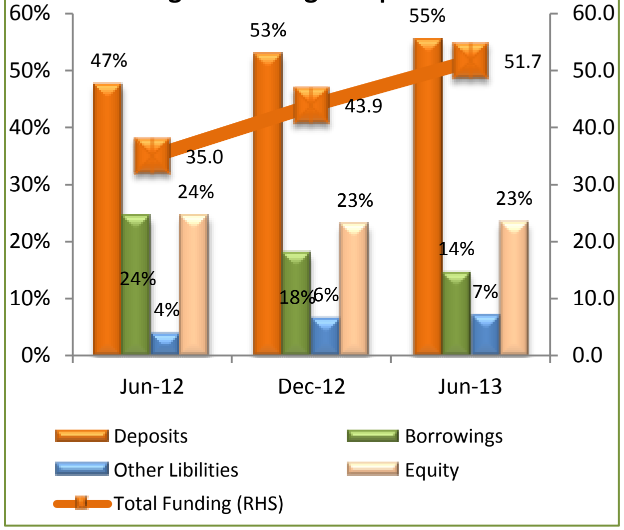


Deposits of MFBs also showed a steady growth of 24 percent in period under review to reach an all time high of Rs. 28 billion. On deposit side, NRSP (36 percent), KBL (35 percent) and TMFB (27 percent) have shown impressive growth during first half of 2013. TMFB also leads the sector in terms of value of deposits with Rs. 10.5 billion followed by FMFB with Rs. 7 billion. The growth in deposits was also complemented by simultaneous increase in number of depositors to 2.3 million with half yearly growth of 20 percent.

On the funding side, the significant boost for the sector was the injection of equity in KASHF MFB by FINCA Microfinance Coöperatief U.A., a Netherlands-based entity controlled by US-based NGO FINCA International. This transaction makes FINCA the majority shareholder in KMBL with 82.8 percent of the shares. After this injection, almost all MFBs are now well capitalized. The equity of MF banking sector has reached to Rs. 12 billion as of Jun 30, 2013.

It was encouraging to see that the 78 percent of the total funding of the sector came from deposits and equity. This shows that microfinance banking industry is heading towards sustainable sources of funding.

Fig 2c:Funding Composition



3.0. Agricultural Finance

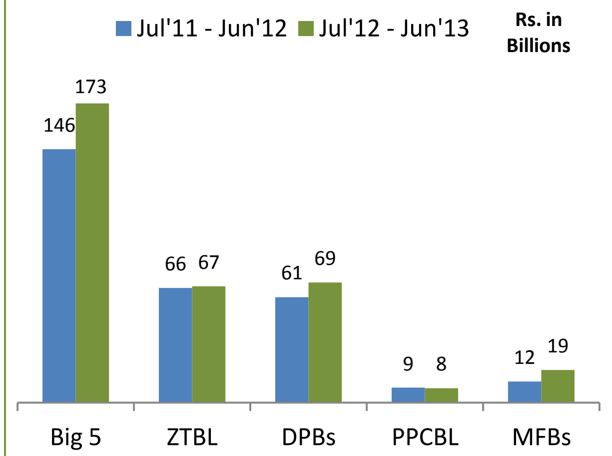
At the end of Jun-13, PFIs surpassed the indicative target for the second consecutive year.

Table 3A: Agricultural Financing Profile of Banks					
(Amount/Rupees in Billions)	**Periods ending**			**% Change**	
	Jun, 12	**Dec - 12**	**Jun, 13**	**Half Yearly**	**YoY**
Amount Outstanding	221.5	235.9+	257.1	9.0%	16.1%
NPLs Outstanding	35.1	29.3	36.1	23.2%	2.9%
Disbursements (Cumulative)*	293.8	140.3	336.2	139.7%	14.4%
Outstanding Borrowers	2,267,867	2,209,659	2,318,695	4.9%	2.2%

* Disbursement for period ending Jun-2012/13 depict 12 months aggregate for FY12/13 while disbursements for period ending Dec-2012 only depict first 6 month disb. in FY13.
+Outstanding was erroneously published as Rs. 202.5 billion in the yester review.

At the close of FY12-13, the participating banks successfully surpassed the indicative target for the second consecutive year. The participating banks disbursed Rs. 336.2 billion, which is Rs. 21.1 billion (or 7 percent) in excess of Rs. 315 billion target and 42.4 billion (or 14.4 percent) higher than last year's actual disbursements of Rs. 293.8 billion.

Fig 3a:Agri. Credit Disbursements



The achievement of overall target was extremely difficult in the backdrop of high risk perception of banks about the agri. financing due to unpredictability of calamities like floods, heavy rains, and plant diseases/viruses, etc. However, SBP adopted a multipronged strategy and made all out efforts for achieving the annual targets which inter alia included; sensitizing banks to adopt agri. financing as a viable business line, follow up on targets and performance with top management of banks and their agri. credit heads, launch of Agri. Credit Diversification Project in the under-served districts, close co-ordination with provincial revenue departments to facilitate one window operations for timely completion of revenue formalities, holding of Farmers' Financial Literacy & Awareness Programs for demand side capacity enhancement besides capacity building of field officers through batch training programs. SBP BSC (Bank) field offices also made vital contribution through effective monitoring of regional targets.

Credit Disbursement by banks during FY 12-13 was Rs. 336.2 billion (106.7 percent) against a target of Rs. 315 billion for the year. A comparison of annual indicative targets for FY11-12 & FY12-13 in terms of actual disbursements by banks is provided hereunder in Table 3B.

During FY 12-13, banks disbursed an amount of Rs. 336.2 billion against a target of Rs. 315 billion.

Table 3B: Agricultural Credit Targets and Disbursement

(Amount/Rupees in Billions)

Banks	Target 2012-13	Disbursement Jul 2012- Jun 2013	Target 2011-12	Disbursement Jul 2011 - Jun 2012
Big 5	153.5	172.8	141.0	146.3
ZTBL	72.0	67.1	70.1	66.1
DPBs	66.7	69.3	54.1	60.9
PPCBL	9.0	8.3	7.6	8.5
MFBs	13.8	18.8	12.2	12.1
Total	**315.0**	**336.2**	**285.0**	**293.8**

The bank-wise break up of agri. credit disbursements reveal that during FY12-13, the 5 Big banks' cluster disbursed Rs. 172.8 billion (113 percent) while the domestic private banks, specialized and microfinance banks were able to dispense Rs. 69.3 billion (104 percent), Rs. 75.4 billion (93 percent) and Rs. 18.8 billion (136 percent) respectively against the targets assigned.

As a cluster, the performance of each group has improved when compared with its last year's performance. The cluster-wise performances of 5 big commercial banks, domestic private banks besides specialized and microfinance banks have improved by Rs. 26.5 billion (18 percent), Rs. 8.4 billion (14 percent), Rs.0.8 billion (1 percent) and Rs. 6.7 billion (55 percent) respectively.

Credit Classification by Farm and Non Farm Sectors: Agri. credit of Rs. 336.2 billion disbursed during current period included disbursements of Rs. 199.5 billion (59 percent) to the farm and Rs. 136.7 billion (41 percent) to non-farm sectors. The disbursements to both these sectors increased by Rs. 3.4 billion or 2 percent and Rs. 39.1 billion or 40 percent on a YoY basis.

The share of farm & non-farm sector in agri. credit disbursement was 59 percent, and 41 percent respectively.

While looking at the **Province-wise Disbursement**, Punjab was able to contribute 86 percent (or Rs. 290.3 billion) towards aggregate annual disbursements of Rs. 336.2 billion by the close of period ending June ’13 while Sindh had a share of 11 percent (or Rs. 36.3 billion).

The collective share of KPK, GB, and Baluchistan collectively contributed 3 percent in total disbursements of Rs. 336 billion.

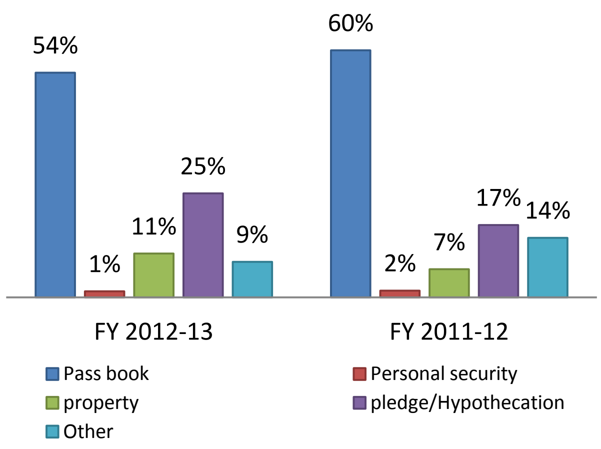
Punjab contributed about 86 percent in total annual disbursements of Rs. 336 billion.

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

(Amount/Rupees in Billions)

Province/Region	Target 2012-13	Disbursement Jul-Jun, 2013	Target 2011-12	Disbursement Jul-Jun, 2012
Punjab	246.0	290.3	225.7	249.4
Sindh	44.0	36.3	38.3	35.4
KPK	17.7	8.4	15.6	8.0
Baluchistan	4.6	0.3	4.0	0.3
AJK	1.8	0.7	0.7	0.6
GB	0.9	0.2	0.7	0.3
Total	**315.0**	**336.2**	**285.0**	**293.8**

Fig 3b: Security Wise Disbursement



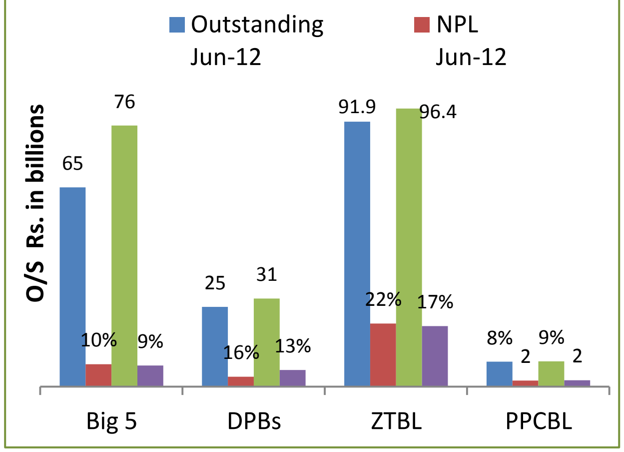
The Khyber Pakhtunkhwa, Baluchistan, AJK and Gilgit-Baltistan provinces/region collectively contributed 3 percent (or Rs. 9.6 billion). Comparison with previous year’s corresponding period reveals that disbursements in The Punjab, Sindh, and Khyber Pakhtunkhwa have increased on a YoY basis; in Baluchistan the disbursement levels remain unaltered while a slight decline is observed in Gilgit-Baltistan. Details of province-wise disbursements, vis-à-vis targets achieved are given in Table 3C.

Security-wise Disbursements of agricultural credit reveal that passbook continued to be the major security in agricultural lending and share of pledge/hypothecation is gradually increasing over the years since banks are encouraged to switch towards other modes of securities apart from passbook. During 2012-13, an amount of Rs. 172.4 billion or 54 percent of the total disbursement was extended against the passbooks.

Agri. Non-Performing Loans stood at Rs. 36.1 billion or 16 percent of the outstanding loans at the end of Jun-13 compared with Rs. 35.1 billion or 18 percent of the outstanding loans as on end Jun-12. Bank-wise NPLs are given in figure 3c.

Number of Agri. Loan Borrowers were 2,318 million at the conclusion of FY12-13, showing an increase of around 50,828 borrowers or 2 percent on a YoY basis as against a total of 2,267 million borrowers at the end of Jun-12. During the year, around 109,143 additional borrowers were mobilized primarily by the MFBs; however, this increment in agri. loan clientele was partially offset by decline in borrowers (58,315) of big commercial banks, DBPs and ZTBL.

Fig 3c: NPLs & Outstanding Loans



4.0. Housing Finance

Table 4A: Housing Finance Profile (Amount/Rupees in Billions)

	June-13		Dec-12		June-12		% Change (Amount)	% Change (Amount)
	Borrowers	Amount	Borrowers	Amount	Borrowers	Amount	Half Yearly	YoY
Cumulative Disbursement	5,04,812	186.2	5,03,412	181.4	5,02,183	180.6	3%	-3%
Outstanding	31,421	34.6	32,063	36.1	34,048	38	-4%	9%
NPLs	48,057	17.6	52,748	18.9	53,011	19	-7%	7%
Gross Outstanding	79,478	52.2	84,811	55	87,059	57.7	-5%	8%

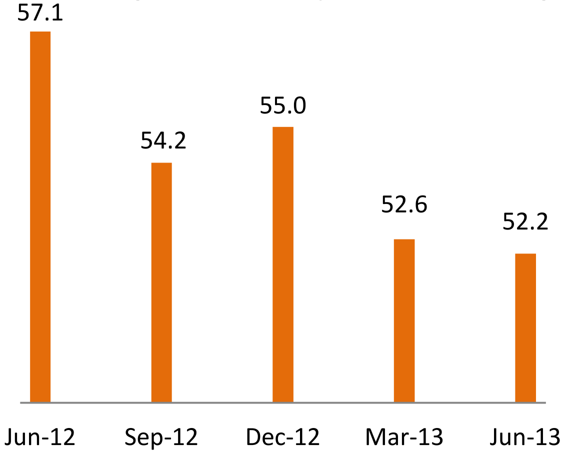
Presently, 27 commercial banks, House Building Finance Company Limited (HBFCL) and two microfinance banks are catering to housing finance needs. HBFCL's share in the total housing finance has reduced in absolute terms; it is the only institution that caters to the lower-middle and low-income groups and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

Gross Outstanding finance at the end of Jun-13 of all banks and DFIs stood at Rs.52.2 billion (Figure 4a), compared to Rs. 55 billion as on Dec-12, showing a decrease of Rs. 2.8 billion (5 percent).

Of the total outstanding as of June 30, 2013, commercial banks accounted for Rs. 39.8 billion; a 17.7 percent decline since quarter ending Jun-12. Private banks reported Rs. 22.5 billion followed by Islamic banks at Rs. 10.4 billion, public sector banks at Rs. 6.6 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.3 billion; down by 4.7 percent over the last year. Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

The gross outstanding housing finance as on Jun-13 of Islamic Banking Industry (Five Islamic Banks (IBs) & 12 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 13.7 billion.

Figure 4a: Industry Gross Outstanding



Of the gross outstanding Islamic housing finance, Islamic banks accounted for Rs. 10.4 billion (17.7 percent increase over the year). IBDs of conventional banks posted Rs. 2.8 billion (13 percent decline since quarter ending Jun-12).

Non-Performing Loans (NPLs) decreased from Rs. 18.9 billion (Dec-12) to Rs. 17.6 billion (Jun-13); down by seven percent over the period of six months.

HBFCL's NPLs increased from Rs. 7.3 billion to Rs. 7.9 billion during the year; a 13.9 percent increase as shown in Figure 4b. Although growth of its NPLs remains relatively low in absolute terms, its percentage share in its total outstanding is the greatest, at 62 percent. HBFCL's percentage share in total NPLs is 42 percent.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.2 billion at the end of Dec-12, which were Rs. 2.1 billion at the end of quarter Apr-Jun, 2012 reflecting an increase of 4 percent (Rs. 90 million).

Fresh Disbursements of Rs. 5.3 billion (Figure 4c) were made over the period of six months from January to June 2013. Islamic banks extended new disbursements with Rs. 2.3 billion followed by private banks with Rs. 1.4 billion, public sector banks with Rs. 77 million and foreign banks with Rs. 22 million. HBFCL's fresh disbursement for the six months was reported to be Rs. 524 million.

Among commercial banks, the number of new borrowers totaled 1,227, with Islamic banks served 381, private banks served 331, public sector banks 64 and foreign banks served 3 new borrowers during the period under review. HBFCL extended loans to 446 new borrowers during 2nd half of the FY 2012-2013. Fresh disbursement for Islamic Banking Industry was Rs. 2.9 billion to 429 new borrowers during Jan-Jun, 2013.

Figure 4b: Industry NPLs

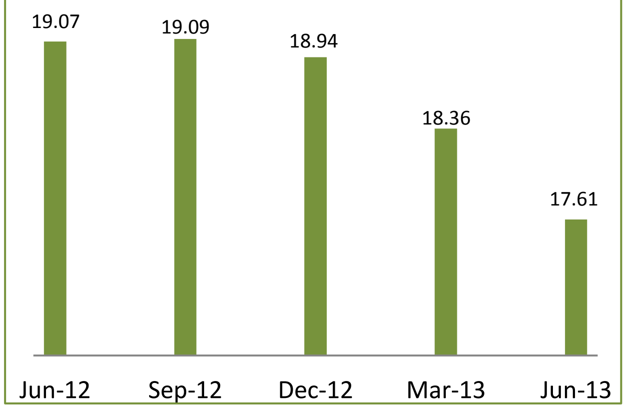
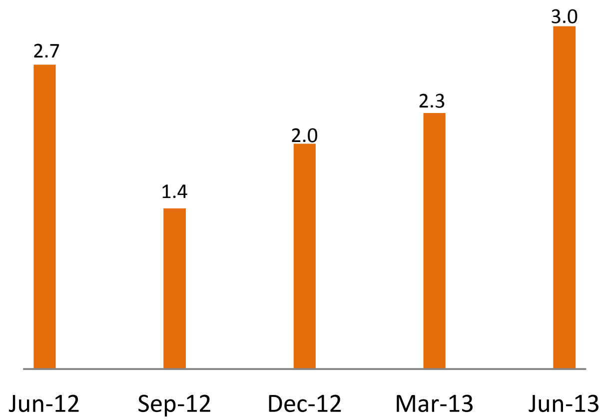


Figure 4c: Industry Qtr Disbursement



Housing Finance Business of Microfinance Banks

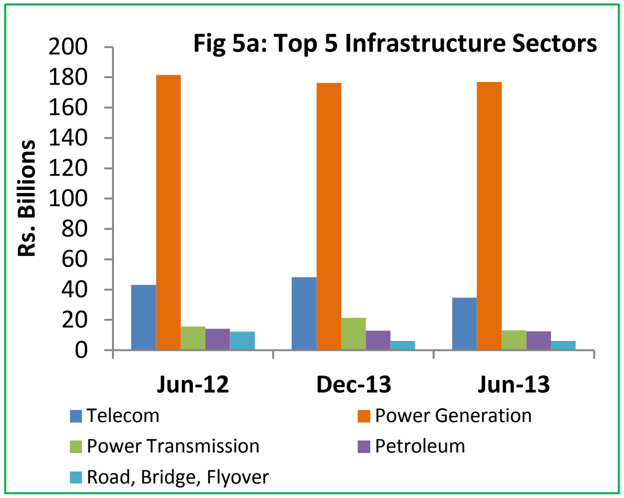
The **outstanding housing finance** of Microfinance Banks (MFBs) was Rs. 160.5 millions at the end of Jun-13 which was Rs. 155.0 millions at the end of Dec-12. It registered a growth of 3.5 percent, when compared to the year ended Dec-12.

Outstanding amount of MFBs increased by 3.5 percent since the quarter ended December 31, 2012 & NPLs decreased by 59 percent when compared to the quarter ended December 31, 2012.

NPLs for MFBs decreased from Rs. 0.5 million to Rs. 0.3 million; showing a decrease of 59 percent in comparison to quarter ended Dec-12. NPLs of MFBs arising out of housing finance business are around 0.2 percent of their outstanding housing finance portfolio. **Number of outstanding borrowers** decreased from 2,552 (Dec-13) to 2,314 (Jun-13); a decrease of 9 percent.

5.0. Infrastructure Finance

Table 5A: Infrastructure Project Financing Profile of Banks & DFIs					
(Amount/Rupees in Billions)	**Periods**			**% Change**	
	Jun-12	Dec-12	Jun-13	Half Yearly	YoY
Amount Outstanding	286.3	289.3	267.0	-7.7%	-6.7%
NPLs	17.5	17.5	18.6	6.6%	6.5%
Disbursements (Cumulative)	343.5	356.3	360.1	1.1%	4.8%
No. of Projects (*Cumulative)	348	364.0	370	1.6%	6.3%
Total Sanctioned Amount	480.8	493.5	505.4	2.4%	5.1%
*Cumulative number of projects is the total number of projects less the matured ones.					



At the end of Jun-13, the amount outstanding against infrastructure sectors declined by 7.7 percent when compared with Dec-12 (half-yearly basis), while the decline was 6.7 percent when compared YoY basis. Moreover, a sector-wise analysis reveals that the lion's share (66.3 percent) in total outstanding infrastructure financing remained with Power Generation sector, followed by Telecom sector with 13.0 percent.

Quality Infrastructure affects economic growth potential of a country.

Furthermore, a sectoral review of the total sanctioned amount (Rs. 505.4 billion) revealed that 52.7 percent was the share of Power Generation sector, followed by Telecom sector with 19.2 percent share, and petroleum sector with 9.3 percent.

Cumulative disbursements to Infrastructure sectors saw a rise of 1.1 percent on half yearly

Outstanding Portfolio against infrastructure finance, at the end of Jun-13 was Rs. 267.0 billion, recording a decline of 7.7 percent, when compared with Rs. 289.3 billion at the end Dec-12. The delcine is primarily led by Telecom and followed by power transmission sector.

Infrastructure outstanding finance saw a decline of 7.7 percent on half yearly basis.

However, on YoY basis, the decline recorded was 6.7 percent again led by Telecom and followed by Power Generation sector.

A segregate review shows that Power Generation sector recorded a minor grwoth of 0.4 percent when compared with Dec-12 (Half Yearly basis). However, all other key infrastructure sectors witnessed decline; Petroleum sector showed a decline of 4.0 percent on half yearly basis, Oil & Gas Exploration & Distribution 30.5 percent, whereas Telecom, Power Transmission, and LPG Import & Distribution sectors saw decline of 28.3 percent, 39.0 percent, and 64.7 percent respectively.

At the end of Jun-13, Power Generation sector recorded a minor grwoth of 0.4 percent when

Non Performing Loans (NPLs) increased from Rs. 17.5 billion, at the end of Dec-12, to Rs. 18.6 billion at the end Jun-13 registering a growth of 6.6 percent; while on YoY basis, NPLs saw an increase of 6.5 percent.

Total Non Performing Loans amounted to Rs. 18.6 billion at the end of Jun-13

At the end of Jun-13, a sectoral analysis reveals that the major share of 43.0 percent in NPLs pertained to Power Generation Sector, followed by Telecom and Power Transmission with 28.2 percent and 12.3 percent respectively whereas the remaining 16.4 percent was the share of all other sectors.

Following the usual trend under **Banking-Sector Wise Share,** at the end of the Jun-13 as well, private sector banks' share remained the highest contributors of infrastructure financing (70.9 percent) followed by public sector banks (20.5 percent) and DFIs (5.4 percent), whereas the share of foreign and Islamic banks was 1.8 percent and 1.3 percent respectively. Similar trends were observed in total amount disbursed, total amount sanctioned and cumulative disbursements during the period under review.

Among the Islamic banks, two Islamic banks have undertaken Islamic project financing and their total outstanding was Rs. 3.9 billion against Infrastructure sectors at the end of the period under review.

BOX 2: National Sanitation Policy of Pakistan

National Sanitation Policy of 2006 provides a broad framework and policy guidelines to the federal governments, to enhance and support sanitation coverage in the country through formulation of their sanitation strategies, plans and programmes at all respective levels for improving the quality of life of the people of Pakistan and the physical environment necessary for healthy life.

The complete document can be seen at:-

- http://www.environment.gov.pk

Moreover, at the end of Jun-13, of the total sanctioned amount of Rs. 505.4 billion, the lion's share of 77.6 percent pertained to private sector banks, followed by 16.4 percent of public sector banks.

Disbursements during Apr-Jun, 2013 quarter were made to tune of Rs. 9.3 billion in all infrastructure sectors against Rs. 10.3 billion in the corresponding quarter (Apr-Jun, 2012) of 2012 whereas, about Rs. 16.0 billion was disbursed during the half yearly period of Jan-Jun 2013.

Furthermore, the cumulative disbursements (at the end of the Jun-13) stood at Rs. 360.1 billion recording a growth of 1.1 percent on half yearly basis mainly driven by Petroleum and Power Transmission sectors while on YoY basis, a rise of 4.8 percent was recorded in cumulative disbursements mainly attributable to Petroleum and Telecom sectors.

Cumulative amount disbursed by banks & DFIs to infrastructure projects at the end of Jun-13 was Rs. 360.1 billion.

During the quarter Apr-Jun, 2013, **15 new projects** were undertaken by the banks & DFIs, of which 3 by public sector banks, 8 by private sector, 3 by DFIs and one by an Islamic Bank.

15 new projects were undertaken by Banks & DFIs in infrastructure sectors during the quarter Apr-Jun 2013.

At the end of Jun-13, out of reported 370 infrastructure projects, 242 were undertaken by private sector banks, 58 by public sector banks, 4 by foreign banks, 5 by Islamic Banks and 61 by DFIs. Moreover, 11 new projects were undertaken by the industry during the quarter Apr-Jun'13, of which 7 were undertaken by private sector banks, 2 by public sector banks, and 1 each by foreign banks' category and DFIs.

A sectoral review of the 11 new projects shows that 4 new projects were undertaken in Power Generation sector, 2 in Power Transmission, 2 in Petroleum, 2 in Road/Flyovers/Bridge and 1 in Telecom sectors.

BOX 3: Consultative Workshop on Vision 2025 & 11th Five Year Plan

A consultative workshop on the vision 2025 and 11th 5 year plan was organized by Planning Commission GoP. The Key components of the plan are:-

- Integrated Energy
- Modernization of Infrastructure
- Indigenous Resource Mobilization
- Institutional Reforms & Governance
- Value Addition in Production Sectors
- Export & Private Sector Led Growth
- Social Capital

Source: http://www.pc.gov.pk/

6.0. SBP Refinance Schemes

Table 6A: Outstanding Financing Under SBP Refinance Schemes (Amount/Rupees in Billions)

	Periods			% Change	
	Jun-12	**Dec-12**	**Jun-13**	**YoY**	**H.Y**
Export Finance Scheme	164.8	195.1	177.8	7.9%	-8.9%
Long Term Financing Facilities	32.7	33.5	36.0	10.1%	7.4%
Defunct LTF-EOP	9.7	7.3	5.3	-45.3%	-27.7%
Scheme for Modernization of SMEs	0.11	0.14	0.09	-34.3%	-16.8%
Scheme for Storage of Agri. Produce (FFSAP)	1.96	2.15	2.17	10.9%	1.0%
Scheme for Flood Affected Areas	1.89	1.11	1.95	2.9%	76.2%
Total	211.2	239.3	223.3	5.7%	-6.7%

Source: IH&SME Finance Department; H.Y: Half Yearly

SBP launched Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) to promote the export of locally manufactured plant & machinery and LTFF for services sector to promote export of services sector

SBP, besides continuing with its various short term and long term financing schemes, enhanced its efforts of faciliating exporters by launching Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) to promote the export of locally manufatcured plant & machinery. In order to promote the exports of Services Sector, the State Bank of Pakistan also introduced a new Long Term Financing Facility for the Services Sector (LTFF-SS), under which finance will be provided 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.

Financing under LTFF saw a rise of around 7 percent on half yearly basis.

Markup rates of Export Finance Scheme (EFS), Long Term Financing Scheme (LTFF) and Scheme for Financing Power Plants using Renewable Energy were rationalized keeping in view

The markup on EFS was adjusted in line with the movement in weighted average yield on 6 Months T-bills.

the movement in Weighted Average Yields of 6 month T-bills and PIBs of relevant tenors. Current rate of EFS is 9.4 percent p.a., while markup rates of LTFF for 3, 5 & 10 years are 10.3 percent, 10.9 percent & 11.4 percent respectively. Similarly, the markup rates under Financing Power Plants Using Renewable Energy Scheme were adjusted in line with LTFF rates.

The outstanding financing under EFS stood at Rs. 177.8 billion at the end of Jun-13 against overall limits of Rs. 255.1 billion. Outstanding financing showed an increase of 8 percent from previous year's outstanding financing of Rs. 164.8 billion at the end of Jun-12. The decline in outstanding financing of last year was largely attributed to SBP's decision of linking EFS facility with the overdue export proceeds. However, the exporters adjusted their export proceeds in line with SBP's policy and outstanding financing started to regain its normal course by the end of Dec-12.

The **commodity-wise EFS outstanding financing** of Rs. 177.8 billion shows textile sector at the top with Rs. 112.9 billion (63.5 percent) followed by edible goods with Rs. 27.8 billion (15.6 percent).

Similarly under LTFF, textile sector is the largest recipient of the SBP refinance facility with Rs. 18.9 billion (52.5 percent). Total refinance outstanding under long term facilities extended by SBP was Rs. 43.6 billion of which LTFF has 95 percent share that shows the primary focus of SBP remained on promotion of exports through long term investment. The remaining 5 percent financing was made for the development of agriculture produce storage facilities and long term investment in Small and Medium Enterprises (SMEs).

Borrower-wise Distribution of EFS: Following the introduction of 5 percent limit on overdue export proceeds to avail EFS; many borrowers may have been barred from availing the EFS facility. However, it appears that borrowers adjusted their overdue export proceeds as per the prescribed limit and the number of exporters started to increase subsequently. The number of EFS borrowers was 1,332 at the end of Jun-13 while the same was 1,273 at the end of Jun-12.

The total limit earmarked for **Islamic Export Refinance Scheme** (IERS) during period under review was Rs 42.4 billion out of which Rs. 13.7 billion were allocated to Islamic Banks (IBs) and Rs. 28.7 billion were allowed to be availed by Islamic Banking Branches of Conventional Banks (IBBs) under prescribed limit.

At the end of Jun-13, total IERS outstanding was Rs.16.4 billion.

The total IERS financing outstanding at the end of Jun-13 was Rs. 16.4 billion which is 21.5 percent higher from previous year's outstanding financing of Rs. 13.5 billion at the end of Jun-12.

SBP allowed un-encumbered **GoP Ijara Sukuk to be included in the Musharaka Pool (MP)** created under IERS to facilitate banks to increase financing under Islamic Export Refinance Scheme.

SBP allowed un-encumbered GoP Ijara Sukuk to be included in the Musharaka Pool (MP) created under IERS to facilitate banks to increase financing under IERS Scheme.

7.0. Key Development Finance Initiatives – Policy and Industry

Appreciating the critical role and significance of Development Finance for the sustainable economic growth in the country, SBP took the following key measures during the half yearly period (Jan-Jun, 2013) under review.

SME Finance

Revised Prudential Regulations for Small and Medium Enterprise (SME): State Bank of Pakistan issued revised Prudential Regulations for Small and Medium Enterprise (SME) Financing on May 7, 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.

Revised PRs are applicable with immediate effect for the fresh financing facilities. However, since the banks/DFIs need to segregate their existing SME portfolio according to the new definitions and revised classification criteria, Banks/DFIs are allowed a maximum implementation period upto September 30, 2013 for the purpose for existing portfolio.

Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh: In order to modernize and upgrade rice husking mills of Sindh, State Bank introduced a Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh in March 2013. Under this Scheme, SBP provides mark up subsidy of 6.25 percent and credit risk sharing facility of up-to 30 percent against the long term loans extended to rice husking mills of Sindh under the SBP Refinancing Scheme for modernization of SMEs. 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 Sindh Enterprise Development Fund (SEDF), Government of Sindh has provided funds for the facility, which are invested by SBP in Market Treasury Bills. Return of invested funds will be used to cover mark-up subsidy and the guarantee claims of banks under the scheme. State Bank allocates exposure limits to the selected and willing banks under the Scheme. For first half of CY13, SBP has allocated exposure limits of Rs. 500 million to 6 banks.

Credit Guarantee Scheme for small and rural borrowers (CGS): CGS launched in March 2010 is a facility worth £13million to facilitate credit to small and rural businesses for greater outreach. Under CGS, limits worth PKR 2.634 billion have been assigned to 10 banks for 2013 and the Guarantees of Rs. 1,402 million have been issued against sanctioned loans of Rs. 3,465 million for providing new loans of 5,473 to Agri. & Small Enterprises.

Secured Transaction Reforms: With the financial support of UK DFID, SBP is implementing Secured Transaction Reform (STR) Project. The objective of this Project is to develop a modern Secured Transaction Law that provides for establishment of Registry Office in the country to register charge on assets especially moveable assets of the borrowers. The implementation of the project will enable lenders to create charge on the movable assets of the borrowers specially SMEs and Farmers, that will consequently facilitate unhindered flow of financing to these sectors. SBP has hired the services of legal consultants for drafting of Secured Transaction Law. During half year under review, the legal Consultants submitted second draft of Secured Transaction Act in February 2013, which is being finalized by the Project Committee in consultation with all relevant stakeholders including the World Bank. After finalization of the Draft Secured Transaction Act by Project Committee, the same shall be forwarded to GOP for approval from the Parliament.

Training Programs for Banks: State Bank conducted a number of training programs for the banks during the six-monthly period under review:

- **Grass Root SME Training Programs:** Grass Root cluster Training Programs is one of the important initiatives for Branch level bankers. Three training programs were organized in Faisalabad, Hyderabad and Quetta during 2013. The purpose of these training programs is to educate credit officers about different tools and techniques which may help them in dealing with SME customers.

- **Scaling Up SME Banking Training Program:** State Bank in collaboration with IFC, organized a three day training program for mid-level bankers. The purpose of this training program was to educate bankers in key areas like strategy formulation, quality and strength of human resource, product design etc. The international consultants/trainers were engaged for this training program.

- **Half-Day Roundtable for CEOs on SME Financing:** Half-Day roundtable for Presidents/CEOs was also organized to discuss effective strategies for SME Banking in the light of global best practices.

SME Cluster Survey Project: During 2012-13 with the technical assistance of DFID UK, SBP hired the services of a consultant to undertake survey of 10 important SME sub-sectors in the country. The broad objective of SME Cluster Survey Project is to address the issue of lack of reliable and credible data on SMEs and to develop information in the form of Research Reports for information and use by the relevant stakeholders especially financial institutions.

During the year, Project Consultants completed the survey of over 1,000 small businesses in selected 10 sectors and submitted survey reports on 1.Cotton Ginning 2.Marble and Marble Products 3.Plastic Products 4. Hand Made Carpet Manufacturing 5.Leather Products 6.Dry-cleaning and Laundry services 7.Beauty parlors and Spa 8.Super markets and retail shops 9.Printing Press and 10.Gem & Jewelry.

These research reports contain an industry overview and chapters on market assessment, risk assessment, financial benchmarking and proposed banking products for the sector. The Research Reports would greatly facilitate the financial institutions while servicing the studied SME segments through appropriate loan products and marketing/distribution strategies.

Microfinance

- The 13th meeting of the **Microfinance Consultative Group (MFCG)** was held on 31st January, 2013 under the chairmanship of Mr. Muhammad Ashraf Khan, Executive Director, BPR & DF Groups, SBP. While discussing annual implementation plan for microfinance strategic framework, the group identified five key areas including: i) legal and regulatory framework, ii) clearing house membership, iii) credit up-scaling, iv) MF-CIB, and v) market research.
- The 2nd meeting of **Branchless Banking Consultative Group (BBCG)** was held under the chairmanship of Mr. Muhammad Ashraf Khan, Executive Director, BPR & DF Groups, on 3rd May, 2013 at LRC building, SBP. The chairman highlighted recent SBP diagnostic of BB players and Gates Foundation's demand-side survey; and stressed on adopting balanced approach towards enhancing digital financial inclusion and regulatory compliance. The members were informed that SBP is launching a national survey on the branchless banking development which will cover both demand-side and supply-side areas. Further, the proposals of the three sub-groups of BBCG were presented and deliberations were made to seek members' views on the related challenges and recommendations.
- A **CGAP** team visited State Bank of Pakistan (SBP) in March to carry out an **assessment of country's financial sector under I-SIP framework**; that is, Financial Inclusion (I) – Stability (S), financial Integrity (I), consumer Protection (P). The survey is aimed at working with SBP to explore the relationship between innovation and the I-SIP pillars to further develop I-SIP methodology and create an approach specifically relevant for Pakistan. The methodology developed out of this process could be widely applicable for future policy changes to be implemented by SBP. In this exercise, CGAP would undertake various case studies and the branchless banking regulations will be the first case study that the mission will focus on.

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 during Jan-Jun, 2013 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 £15 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. So far 27 guarantees have mobilized around Rs.8.0 billion from commercial banks and capital markets/ retail investors for onward lending to around 400,000 new micro borrowers. The scope of the facility has been extended to mobilize non-bank financing from capital markets, thus further diversifying sources of financing for micro borrowers.

Institutional Strengthening Fund (ISF): In December 2008**,** SBP launched the ISF, a £6million facility with the objective to provide grants for strengthening the institutional and human resource capacity of the microfinance providers (MFPs). Up till now, Rs.745 million have been approved for 15 MFPs which cover 23 projects addressing institutional strengthening needs of the grantee institutions for Capacity Building/ HR Training, IT development, Business Plan/ Strategic reviews, Market Research, Branchless Banking, Corporate Governance, Credit Ratings, Remittances, and Treasury functions etc.

Financial Innovation Challenge Fund (FICF): It 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. The first round of the Fund which was held on Government to Person (G2P) Payments has now been successfully concluded by deciding to award Rs. 505 Million to six applicant institutions. The second FICF Round would be held on Rural Financial services including agricultural finance and broad based Financial Services Projects using telecommunication infrastructure to promote micro payment for people who are not part of financial services.

Technical Assistance (TA) worth £6 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 assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The dissemination of the pilot program has now been completed successfully. The pilot program has targeted 47,800 beneficiaries through Class Room training sessions, street theater and mass media. The program focused on disseminating basic education about financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products & services, debt management and consumer rights and responsibilities, etc. As a way forward, the program will further be scaled up, based on the evaluation of the pilot project to reach out to more than 500,000 poor and low income beneficiaries. Farmers Financial Literacy & Awareness Programs on Agricultural Financing, Grass-root level Training Programs for Credit/Loan Officers of Microfinance Banks/Microfinance Institutions (MFIs), and likewise SME Finance Grass Root Cluster Training Programs were arranged by SBP with the aim of broadening financial inclusion.

Agriculture Finance

Farmers' Financial Literacy & Awareness Program: To improve financial inclusiveness in agriculture sector by creating demand of agri. finance products through enhanced flow of information, SBP, in collaboration with SBP-BSC & commercial/microfinance banks is conducting a series of Farmers Financial Literacy & Awareness programs on agri. financing throughout the country. Besides imparting financial education to farming community, major thrust of these programs is to develop a pool of master trainers through TOT sessions to facilitate banks to replicate this activity at grass root level.

In this regard, around 300 agri credit officers of commercial/microfinance banks have been trained in 15 master trainer programs besides educating around 1800 farmers. Further, during this phase 9 FFLP programs are planned to be conducted till January 2014 whereby it is expected that around 180 more officers will become the part of master trainer pool. It is pertinent to mention that these trained officers have started replicating FFLP programs in the area of their jurisdiction and around 1000 grass root level programs have been conducted by June, 2013 whereas 567 programs will be conducted during the period July - September, 2013.

Agri. Lending Diversification Project (ALDP) – 2013: After successful implementation of four pilot projects, Agri. Lending Diversification Project (ALDP) -2013 was launched in 60 & 25 districts including AJK for financing Farm and Non Farm Sectors respectively under the "Lead Bank" concept, onwards from March to December, 2013. The Lead Banks were expected to play effective role in selected districts to create awareness.

Meeting of SBP Committee on Development of Rural Bank Franchising Model in Pakistan: The Committee on "Development of Rural Bank Franchising Model in Pakistan" met on April 5, 2013 to elaborate the concept. A presentation was made by SBP, after detailed deliberations and discussions the committee decided to form a working group to develop draft model for Rural Franchising Model. The working group has developed draft model which will be presented to the committee for its consideration.

Warehouse Receipt Financing: A Roundtable on Warehouse Receipt Financing (WHR) has been conducted to sensitize the banks and other stakeholders on the initiative and best practices to facilitate them in development of specialized WHR financing products, procedures and systems. The objective of WHR financing is to facilitate post harvest financing to farmers, traders and exporters.

Capacity Building of Banks: In order to build capacity of agri. field officers of banks, SBP in collaboration with NIBAF is conducting a series of 4 days Batch Training programs for newly inducted agri. credit officers with an aim to sensitize them with the changing dynamics of agriculture financing. Four batch training programs have been conducted so for whereby, 125 officers have been trained.

Joint Roundtable on Promotion of Agriculture Finance: A roundtable on "Promotion of Agriculture Finance" was held on 14th February, 2013 with Shore Bank International-Pakistan (SBI-P) with an objective to share the findings of a study undertaken to highlight the issues and bottlenecks in improving access to agricultural finance.
The Roundtable provided banks an opportunity to understand and discuss the real issues in increasing credit towards agricultural activities from the formal sector. The consultants shared their value chain analysis (VCA) of six value chains namely rice, tobacco, potato, meat, milk and aquaculture. The underlying focus of the VCA was to identify constraints and opportunities for increased participation in value chains by formal financial institutions through the provision of credit to value chain actors.

Housing Finance

Capacity building Program: State Bank of Pakistan (SBP) has been extending its endeavours to flourish the housing finance system in the country. Being the regulator of financial institutions, SBP is thriving hard to build the capacity of the financial industry. During the quarter ended March 31, 2013, two days' training program was conducted in Multan on the topic "Islamic Housing Finance". Contents of the training can be accessed on http://www.sbp.org.pk/departments/ihfd-house.htm

Workshop on Regional & National Models of Housing Finance: SBP & Association of Mortgage Bankers (AMB) jointly organized the workshop on Regional & National Models of Housing Finance. Mr. Ashraf Mahmood Wathra, Deputy Governor delivered the inaugural speech. Contents of the training can be accessed on http://www.sbp.org.pk/departments/ihfd-house.htm

First meeting of Housing Finance Consultative Group: State Bank of Pakistan constituted the Housing Finance Consultative Group which includes members from Provincial Governments, Financial Institutions and other key stakeholders. The objective of the group is to identify the impediments in the way of housing finance and their resolution. The first meeting of the group was held in April, 2013.

Infrastructure Finance

Consultative/Working Group on Infrastructure Financing: A Consultative/Working Group on Infrastructure Financing has been established. Since, there is an increasing recognition of the fact that different stake-holders in both the public and the private sectors have to work in close coordination to work on solutions meet the infrastructure financing requirements of the economy.

Training Program: A two days' program on Infrastructure Project Financing was held at NIBAF, Islamabad on March 18-19, 2013. Around 40 officials from banks & DFIs attended the sessions. The program covered topics like Introduction to Project Finance-a Lenders' Perspective, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation/Appraisal, Risk Allocation, Project Financing Documentation, Public Private Partnerships, Successful PPP Programs and Domestic Experiences in Project Financing etc.

A one day program on Islamic Infrastructure Project financing was held at SBPBSC Bank, Lahore on May 21, 2013. The program covered topics like SBP Guidelines/Regulatory Framework on Infrastructure Project Financing, Introduction to Islamic Banking, Islamic Modes of Financing for Infrastructure Projects and Challenges in Long Term Islamic Financing.

Infrastructure Finance Review: Work on 5-years' review on Infrastructure Project Financing in the country has been finalized and the document will soon be published.

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 would soon be published.

Refinance Schemes

Markup Rates Rationalized: Markup rates of EFS and LTFF & Scheme for Financing Power Plants using Renewable Energy were rationalized keeping in view movement in Weighted Average Yields of 6 month T-bills and PIBs of relevant tenors. Current rate of EFS is 9.4 percent p.a. with effect from April 01, 2013, while markup rates of LTFF for 3, 5 & 10 years are 10.3 percent, 10.9 percent & 11.4 percent respectively and markup rates under Financing Power Plants Using Renewable Energy Scheme are 10.9 percent & 11.4 percent for 5 and 10 years tenor respectively.

Launching of EFF-LMM: Launched Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) with a view to promote the export of Locally Manufactured Plant & Machinery on January 03, 2013. The exporters can avail long term financing facilities through banks for export of eligible Plant & Machinery and Engineering Goods under the Facility. Financing facilities shall be available both at pre-shipment and post-shipment stages for a maximum period of five years.

GoP Ijara Sukuk allowed in the Musharaka Pool (MP) under IERS: In order facilitate banks to increase financing under Islamic Export Refinance Scheme, on May 22, 2013, SBP allowed un-encumbered GoP Ijara Sukuk to include in the Musharaka Pool (MP), created under IERS.

Incentive for Textile Sector: SBP announced to release 22 percent Export Finance Markup Rate Facility, on budgetary allocation for FY 2012-13 by Ministry of Textile Industry, for the period from March 1 to August 31, 2010; and 100 percent Mark-up Rate Support on Long Term Loans to the beneficiaries of Textile Sector for the period from 1st September, 2010 to 28th February, 2011.

8.0. Development Finance News from around the World

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

Microfinance News:

PMEX and Tameer Microfinance ink MoU

http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/29-Mar-2013/pmex-and-tameer-microfinance-ink-mou

March 29, 2013: Pakistan Mercantile Exchange Limited (PMEX) and Tameer Microfinance Bank Limited (TMFB) have signed an MoU on introducing a gold-based investment product. The PMEX and TMFB have developed an understanding that TMFB shall introduce and provide E-Gold products through the trading platform of PMEX to its customers. The investors shall be able to buy/sell gold through TMFB branches/agents and Branchless banking Channels using their Mobile Accounts (M-Wallet) through the trading platform of PMEX.

Credit guarantee scheme tenure enhanced by SBP

http://pakobserver.net/detailnews.asp?id=206885

Karachi, May 15, 2013: The State Bank of Pakistan has announced to enhance the maximum tenure of Credit Guarantee Scheme for Small and Rural Enterprises. According to SBP's IH&SMEFD Circular Letter No. 04 of 2013, in order to facilitate farmers under Credit Guarantee Scheme for Small and Rural Enterprises scheme, maximum tenure of loans to farmers for purchase of tractors and other agricultural implements has been raised from 3 years to 5 years.

KASHF Microfinance Bank announces FINCA acquisition

http://pakobserver.net/detailnews.asp?id=208744

Lahore, June 04, 2013: Kashf Microfinance Bank Limited (KMBL) has announced an equity injection of PKR 824.7 million by FINCA Microfinance Cooperatief U.A. (Netherlands). With this transaction, FINCA becomes the majority shareholder of KMBL, acquiring 82.8 percent of the shares. Dr. Saeed Ahmed, Director Agricultural Credit & Microfinance Department, State Bank of Pakistan (SBP) was the guest of honor at the occasion, a well-attended event, with representatives from SBP, the Securities.

Micro-insurance business: SECP issues Code of Consumer Protection

http://www.brecorder.com/market-data/stocks-a-bonds/0/1203460/

June 26, 2013: The Securities and Exchange Commission of Pakistan (SECP) has issued a 'Code of Consumer Protection' applicable on all insurers in the business of micro-insurance. The Commission issued the draft of the Securities and Exchange Commission (Micro-insurance) Rules of 2013. As per draft rules, all micro-insurance related complaints should be handled in the first place by the insurer and the insurer shall make sure that the complaints shall be acted upon within five working days from the filing of a complaint along with completion of all required documentation and a resolution shall be made within 25 working days from such time.

100 Microfinance Organizations adopt Mambu

http://www.watchlistnews.com/2013/07/25/100-microfinance-organisations-adopt-mambu-mambus-cloud-based-microfinance-platform-achieves-global-footprint/

July 25, 2013: Mambu GmbH, the microfinance software-as-a-service technology provider, has been adopted by 100 microfinance organizations in 26 countries worldwide. This milestone has been achieved in just two years. Mambu helps microfinance institutions, banks and financial innovators deliver essential banking services to individuals and emerging enterprises around the world by making modern banking technology accessible and affordable via its cloud-based SaaS delivery model.

Draft rules for microfinance NGOs in Philippines

http://business.inquirer.net/134409/draft-rules-for-microfinance-ngos-out

July 25, 2013: The Securities and Exchange Commission (SEC) has released the draft rules for non-government microfinance organizations as part of broader efforts to support businesses of low-income households. The rules are also seen to bolster consumer protection efforts and encourage these households to save. The goal is to grant loans to the “poor and low-income households for their microenterprises and small businesses, to enable them to raise their living standards.

CardPlanet launches PesaCard to limit cash transaction in schools in Kenya

http://www.microcapital.org/microcapital-brief-cardplanet-solutions-of-kenya-inaugurates-pesacard-to-enable-parents-to-send-mobile-money-to-school-children/

August 02, 2013: Kenyan startup CardPlanet Solutions has launched Pesacard, an electronic wallet linked to mobile money, enabling parents to send money to their children in school. The Pesacard is mainly targeted at students in boarding and in-school who receive regular cash transfers from parents or other caregivers. The product aims to provide a secure way of keeping money to youth, promote accountability and saving culture among youth and promote financial inclusion among youth.

Housing Finance News:

Housing finance issues discussed

http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/10-Jan-2013/housing-finance-issues-discussed

January 10, 2013: A delegation of Association of Builders & Developers (ABAD), led by its chairman M Anwar Gagai, called on House Building Finance Co. Ltd (HBFCL) Managing Director Saeed Khan and discussed issues of housing finance.

AMB needs to be strengthened

http://www.brecorder.com/articles-a-letters/187/1148104/

January 29, 2013: The Mortgage Bankers Association (MBA) needs to be strengthened with human and financial resources. The association is required to attract human resources through creating strategic partnerships with good business schools in the country.

National Housing Policy in the works

http://www.brecorder.com/br-research/44:miscellaneous/3502:national-housing-policy-in-the-works/

January 29, 2013: Much optimism was stirred by the budget speech which announced that development of three-marla housing schemes for the homeless and the construction of at least, 1,000 clusters of 500 houses each for low-income families through public-private partnership were planned for the year. And now there is news that a five-year National Housing Policy is in the final stages of being drafted. When reached for comment, the Media Advisor to CM Punjab confirmed that the provincial chapter of the policy was indeed in the final leg of preparation and will be released to the public within the next 10 days.

Infrastructure Finance News:

Financing power project: Government mulls increase in surcharge, expensive bank loan

http://tribune.com.pk/story/487224/financing-power-project-government-mulls-increase-in-surcharge-expensive-bank-loan/

Islamabad, January 01, 2013: As Chances of Neelum Jhelum hydropower project coming to a standstill are increasing due to a whopping financing gap of Rs.145 billion, the government is considering increasing the 'Neelum Jhelum surcharge' by 100 percent for all electricity consumers to partly cover the deficit.

Plastic waste recycling, treatment still a big challenge in Pakistan

http://pakobserver.net/detailnews.asp?id=202916

Lahore, April 07, 2013: Plastic waste recycling and treatment has emerged as a challenging task in recent years due to ascending trends in use of plastic products and lack of proper disposal system. In Pakistan, 47 percent of solid waste remains uncollected in the country and that the mixing of polythene bags with human, animal and industrial residues worsens the problem. Although, Pakistan Environment Protection Agency (Pak-EPA) has banned use of black polythene bags but it is not sufficient to save the environment.

Solid waste management: ICT looks towards local traders to fund project

http://tribune.com.pk/story/537997/solid-waste-management-ict-looks-towards-local-traders-to-fund-project/

Islamabad, April 20, 2013: After failing to get funds for its solid waste management project in rural areas, the Islamabad Capital Territory (ICT) has decided to approach local traders to generate funds for the plan. "We have been waiting for the release of funds amounting to around Rs.15 million for the past two years, but to date there has been no progress.

Market Trends: Renewables Growth Shifting from Europe to Emerging Markets

http://www.renewableenergyworld.com/rea/news/article/2013/04/market-trends-renewables-growth-shifting-from-europe-to-emerging-markets

London, April 04, 2013: Triodos Investment Management BV, an arm of Dutch lender Triodos Bank NV, plans a clean-energy fund focused on emerging markets as growth in the industry shifts away from Europe. The fund will invest in the "more developed" emerging nations and center on wind, solar and hydropower, said Matthew Clayton, executive director for Bristol, England-based Triodos Renewables Plc, a fund under Triodos Investment Management.

Standard Bank Group, ICBC sign South African renewable energy project financing deal

http://www.pv-tech.org/news/standard_bank_group_icbc_sign_south_african_renewable_energy_project_financ

April 08, 2013: Standard Bank Group and ICBC will provide R. 20 billion (US$2.2 billion) to fund renewable energy projects in South Africa. Standard Bank Group and the Industrial and Commercial Bank of China (ICBC) have inked a Rs.20 billion (US$2.2 billion) deal to fund renewable energy projects in South Africa.

Nepalese government to finance hydro projects above 15 MW

http://hydro.energy-business-review.com/news/nepalese-government-to-finance-hydro-projects-above-15mw-080413

April 08, 2013: The Hydroelectric Investment and Development Company (HIDCL) has extended its finance provision to hydropower projects of capacity above 15MW in Nepal. Earlier, the federal body provided monetary aid to the projects with generation capacity of more than 25MW.

As per the new regulations, it will provide funds of up to NPR.200m ($2.25m) for medium-size projects under consortium model, reported Hydroworld.com.

Rising NPAs, a major concern for financing infra projects: bankers

http://www.thehindu.com/business/govt-to-make-all-efforts-to-push-stalled-projects-chidambaram/article4594658.ece

Mumbai, April 09, 2013: Growing non-performing assets (NPAs) is a major hurdle for providing more finances to infrastructure projects, bankers told Finance Minister P. Chidambaram.

India aims to double its renewable energy capacity to 55000 megawatts by 2017

http://www.upi.com/Business_News/Energy-Resources/2013/04/18/India-to-boost-clean-energy/UPI-14981366306351/

New Delhi, April 18, 2013: India aims to double its renewable energy capacity to 55,000 megawatts by 2017, Indian Prime Minister Manmohan Singh said. The initiative would include exploiting non-conventional energy sources such as solar, wind power and energy from biomass, Singh told the Clean Energy Ministerial Meeting Wednesday in New Delhi.

E-Waste Legislation Could Prove a Major Boon to GTSO's Recycling Initiative

http://online.wsj.com/article/PR-CO-20130419-908618.html?mod=googlenews_wsj

SAN JOSE, April 19, 2013: New legislation to keep more e-waste out of landfills could prove to be a major boon in Green Technology Solutions' (OTCBB: GTSO) expansion efforts into the billion-dollar urban mining industry. Electronic products have become the fastest-growing portion of the solid waste stream in the U.S., posing a daunting challenge to government agencies that oversee landfills. Many discarded electronics contain toxic materials such as lead and mercury, making their improper disposal a risk to human health and the environment.

Central Bank to ease collateral requirements for project financing and development projects

http://abc.az/eng/news_01_05_2013_73255.html

May 01, 2013: The Central Bank of Azerbaijan and the country's largest corporate bank PASHA Bank have completed consultations on issues of collateral within project financing. PASHA Bank's chairman of board Farid Akhundov says that CBA's liberal approach towards the assessment of the collateral required for project financing gladdened them.

ADB makes first equity investment in Indian renewable energy firm

http://www.thehindubusinessline.com/companies/adb-makes-first-equity-investment-in-indian-renewable-energy-firm/article4673357.ece?ref=wl_opinion

New Delhi, May 01, 2013: The Asian Development Bank on Wednesday announced its first equity investment in India's private sector renewable power generation. The Philippines-based bank has decided to invest $30 million in Hyderabad-based NSL Renewable Power Private Ltd. ADB did not divulge the percentage of stake it is buying in the firm. NSL Renewable has a book value of Rs. 525 crore as on March 31.

World Bank may allocate additional funding on waste project in Azerbaijan

http://www.azernews.az/business/53288.html

May 02, 2013: The World Bank (WB) and the Azerbaijani government began official negotiations on additional funding for an Integrated Solid Waste Management Project. The Solid Waste Management Project was approved by the WB's Board of Directors in June 2008. A relevant loan agreement between the bank and Azerbaijan was signed on May 20, 2009. The total project cost is $41.5 million of which $29.5 million falls to the WB's 20-year loan and the rest is funded by the government of Azerbaijan.

Banks advised not to reject loans for renewable energy projects: Government

http://articles.economictimes.indiatimes.com/2013-05-03/news/39009455_1_power-sector-renewable-energy-projects-clean-energy

New Delhi, May 03, 2013: The governments on Friday said banks have been advised not to reject financing proposals for renewable energy projects on the grounds that power sector as a whole is under stress.

IFC plans to fund renewable energy projects in Azerbaijan

http://www.neurope.eu/article/ifc-plans-fund-renewable-energy-projects-azerbaijan

May 04, 2013: The International Finance Corporation (IFC), intends to expand the practice of granting loans to banks in Azerbaijan to finance renewable energy and energy efficiency (RE/EE-credit) projects.

HIDC studying possible financing of three hydropower projects

http://ekantipur.com/2013/05/07/business/hidc-studying-possible-financing-of-three-hydropower-projects/371254.html

Kathmandu, May 07, 2013: Hydroelectric Investment and Development Company (HIDC) has been conducting studies to possibly finance three more hydropower projects after funding the 42 MW Mistri Khola project.

Overseas debt norms relaxed for infrastructure firms

http://articles.economictimes.indiatimes.com/2013-05-15/news/39281867_1_low-cost-housing-projects-national-housing-bank-housing-finance-companies

New Delhi, May 15, 2013: India has eased overseas debt norms for infrastructure firms allowing oil marketing companies to finance short-term credit through external commercial borrowings but kept the overall limit unchanged for the fiscal.

The financing of infrastructure projects

http://www.livemint.com/Opinion/9ZuQTD15272Q2muI3yg8UM/The-financing-of-infrastructure-projects.html

May 15, 2013: In the 12th Five-Year Plan, the Planning Commission of India has identified an infrastructure investment requirement of $1 trillion. The government of India alone cannot fund this requirement and it has to depend on the private sector either directly or through public-private partnership (PPP) initiatives to help finance nearly half of the investment needed.

Sberbank Kazakhstan and Development Bank of Kazakhstan to jointly finance projects

http://en.tengrinews.kz/finance/Sberbank-Kazakhstan-and-Development-Bank-of-Kazakhstan-to-jointly-finance-19610/

May 22, 2013: Kazakhstan-based subsidiary of the Russia's Sberbank and Development Bank of Kazakhstan (DBK) have signed a memorandum on cooperation to jointly finance large-scaled investment projects, Newskaz.ru reports.

IDB to finance construction of Turkmenistan-Tajikistan-Afghanistan railroad

http://en.trend.az/capital/business/2154348.html

Azerbaijan, May 25, 2013: The Islamic Development Bank will finance implementation of the Turkmenistan-Tajikistan-Afghanistan railway project, the Turkish news agency Cihan reported on Thursday. Such a statement came from the bank's president Ahmed Mohammed Ali, who takes part in the 38th meeting of the IDB Board of Governors in Dushanbe.

German bank invests in Pakistan energy sector

http://paktribune.com/business/news/German-bank-invests-in-Pakistan-energy-sector-11226.html

Lahore, May 28, 2013: A delegation of the KfW Development Bank, Germany, headed by Dr Claudia Loy called on WAPDA Chairman here on Monday and discussed with him the matters relating to financing of various hydropower projects. The KfW Development Bank is providing 97 million Euros for the construction of 122 MW-Keyal Khwar and has also committed to co-finance the 35 MW-Harpo Hydropower Project along with its French counterpart AFD by providing 20 million Euros. In addition, the KfW Development Bank has also shown interest in financing the 80 MW-Phandar Hydropower Project.

State Bank (of India) approached to finance Vizhinjam Project

http://newindianexpress.com/cities/thiruvananthapuram/State-Bank-approached-to-finance-Vizhinjam-Project/2013/05/30/article1611954.ece

May 30, 2013: State Bank Group chairman Pratip Chaudhuri has said that the State Bank has been approached to finance the Vizhinjam International Container Transshipment project and Kochi Metro Rail project.

India's 100-MW Tidong hydel project receives IFC investment

http://www.hydroworld.com/articles/2013/05/india-s-100-mw-tidong-hydel-project-receives-ifc-investment.html

New Delhi, May 31, 2013: Green energy producer NSL Renewable Power has received US$5 million in financing from the International Finance Corporation (IFC) that will be used in part to fund its 100-MW Tidong hydroelectric project, Indian sources report. "IFC's support to NSL Renewable

Power will also help the company benchmark its environmental and social standards to global best practices," Thomas Davenport, IFC's director for south Asia, said in a release.

NBP to finance energy, farming sectors

http://pakobserver.net/detailnews.asp?id=208589

Karachi, June 02, 2013: NBP "will finance energy-related project on top priority". "So far, some 10 energy projects had been initiated in the country, of which seven have been financed by the NBP. Of these seven, five have already commenced operations and two more are expected to become operational shortly.

World Bank's "indirect" boost for Padma Bridge

http://bdnews24.com/economy/2013/06/17/world-bank-s-indirect-boost-for-padma-bridge

June 17, 2013: World Bank will continue financing important projects in Bangladesh that will help the country 'self-finance' the Padma bridge project, its country representative says. The lender's Bangladesh Representative Johannes Zutt said on Sunday that the Padma Bridge will not be funded directly, but the financing of other frontline projects will continue.

9.0. Special Section – Contract Farmer Financing

Background

According to the Agriculture Census 2010, out of total 8.3 million farm households, around 89% are small farmers who mainly rely on informal sector credit for their farming needs. The mainstream financial institutions have remained reluctant to bank with low income rural households, this has left majority of farmers and rural entrepreneurs financially underserved. These farmers are facing various problems in terms of their inability to provide collateral acceptable to banks, timely availability of quality inputs & credit, sale of produce etc.

It is so, despite the fact that our rural sector offers a huge bankable market with largely unmet demand for basic financial products like credit, savings and insurance services. Nevertheless, despite lacking both in terms of productivity and contribution towards GDP (in terms of value added products), agriculture continues to grow as a supplier of raw material to major industries besides offering a market for industrial products in the country such as fertilizer, pesticides, tractors and agricultural implements.

Concept

In such scenario, Contract farming may be considered as a tool to promote access of small farmers to the market. Contract Farmer Financing schemes, are broadly defined as binding arrangements between banks and agri. value chain actors including producers, processors, aggregators, traders through which a farmer or group of farmers ensures supply of agricultural products to individual firms. In other words, the contract farmer financing schemes replace the traditional collateral requirements with trade agreements by facilitating coordinated commercial relations between lead firm, banks and farmers leading to a vertical integration of the agricultural value chain. Various forms and instruments of product financing have been used for centuries, and often credit is provided in kind, such as in the form of seeds and fertilizer. Various approaches have been tried out to expand farm trade credit in both developing as well as developed countries. The product financing instruments are not new; rather, what is significant is the way an agri. value chain (Ag VC) system can build up on and improve these instruments because of the stronger linkages and the availability of improved information and communication. These financing arrangements could be through trader, input supplier, marketing company or lead firm engaged in agri. processing. These instruments are different in the way they are used in agricultural value chain framework, which describe a typical way of extending financial services. Each of these instruments has many features in common; however, there exist some differences in their application.

Mechanism & Tripartite Agreement

The concept of contract farmer financing is based on contractual agreement between three parties i.e. producer, agri. Processor and bank. This arrangement is classified as a financial instrument only because of the prevailing nature of the commercial relationship. It combines credit for specific use, guaranteed market, fixed prices or price parameters, technical assistance, and strict standards of delivery commitments. Under this arrangement finance is arranged by the bank and guaranteed by the driver firm. The successful implementation of contract financing scheme is based on the relationship between the parties involved in the arrangement to promote their business mutually. The type of agreement may be formal or semi-formal ranging from written legal documents to well defined memorandums of understanding (MOUs). Financing contracts can facilitate transactional transparency and help build the trust between the partners that is critical for long-term success. Contractual terms and conditions depend largely on the scale of the size of investment. They may be open-ended or structured to fit seasonal crop requirement or specific calendar period or volume of produce. Contract may also include input supply, extension services, other support services and repayment terms. However, all such contracts should clearly and unequivocally set out the terms of payment and price of produce, quality and quantity. Under this tripartite arrangement, buyer (Agri. processor, trader, farmer’s association, marketing company, exporter, aggregator), financial institution (Bank) and agri. producers (farmers/cultivator, farmers’ organization) reach an agreement on certain terms & condition, specified roles and responsibilities to carry out the contract.

Risk Management

The contractual relationship under Contract farming financing carries few associated risks, especially in Pakistan's context where huge gaps exists in the basic & financial literacy and capacities of farmers and buyers. It is thus imperative that the parties under tripartite agreement equally respect the underlying terms and individual obligations. The advocates of Contract farmer financing argue that it links small farmers with rewarding markets and solves a number of problems they face in the course of diversifying their produce into high-value commodities.

In order to shift banks from conventional lending methodology to alternative credit delivery techniques, there is a need introduce a favorable investment climate, regulatory support, create linkages between producers and buyers, mechanisms for rights protection and dispute resolution besides for building trustful, reliable and sustainable coordination and cooperation between farmers and buyers.

SBP Initiative-Development of Contract Farmer Financing Scheme

SBP continues to develop an enabling environment, regulatory support and guidance, to encourage and facilitate banks for adoption of innovative lending approaches in agri. financing. To promote adoption of contract farmer financing on a formal basis as an alternate lending methodology, SBP intends to issue, a mechanism for development of coordinated commercial relationships between farmers and banks backed by guarantee of buyers (agri. processors), based on the international best practices and in consultation with farmers' forums, agri. processors and banks.

Introduction of Contract farming scheme in Pakistan, shall facilitate development of backward/forward linkages and cementing the relationship on pre agreed terms and conditions besides interalia providing an opportunity to small farmers to invest augmenting their productivity; avail inputs facilities, adopt new technologies & hybrid seeds, buy insurance coverage and assured market for their produce at the time of harvest. On the other hand, such a mechanism and contracts are also expected to attract many buyers and processors who seek assured supplies of agri. produce for sale or processing. Contract farmer financing shall provide a win-win situation to small farmers and processors like tobacco companies, sugar mills, milk processors, rice mills, cotton ginning, seed processors etc. who may like to develop a portfolio of preferred suppliers, to utilize their plant capacity and business resources.