Development Finance Review
June 2014

State Bank of Pakistan

Infrastructure, Housing and SME Finance Department

Development Finance Review

As of June 30, 2014

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 4.14% during outgoing fiscal year which is the highest since 2008-09. Signs of improvement in financing to priority sectors can also be witnessed from Table 1, wherein, total financing to private sector has shown a YoY growth of nearly 10.4%.

All priority sectors have witnessed positive growth in FY-14. The Microfinance witnessed an increase of 18.4%, followed by SME Finance with growth of 13.4%, Agriculture Credit with growth of 12.2%, Infrastructure Finance with 8.2% growth, and Housing Finance witnessed the lowest growth of 6.1% amongst priority sectors.

The aggregate number of DF outstanding borrowers saw a YoY growth of 10% mainly due to increase in microfinance borrowers followed by Agriculture while SME sector borrowers witnessed a small decline (Annex A). Furthermore, on half yearly basis, a small decline in cumulative number of borrowers can be witnessed.

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

Sectors	As on			Change	
	Jun 14	Jun-13	Dec-13	H.Y*	YoY
SME Finance	264.83	233.6	272.5	-2.8%	13.4%
Agriculture Finance	253.5	226	276.7	-8.4%	12.2%
Microfinance (MFBs Only)	33.5	28.3	25.4	31.9%	18.4%
Housing Finance (Gross)	52.6	52.2	51.3	2.5%	0.8%
Infrastructure Finance**	276.1	255.2	267	3.4%	8.2%
Total	1,025.43	929.2	1033.2	-0.7%	10.4%

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

1.0. SME Finance

SME Financing has witnessed a YoY growth of 8.21%.

Table 1A: SME Financing Profile of Banks/DFIs					
Category	**Periods ending**			**Change**	
(Amount in Billion Rs.)	**Jun-14**	**Dec-13**	**Jun-13**	**H.Y**	**YoY**
Total SME Exposure	264.83	272.53	233.55	-2.81%	13.42%
Total Financing	4,719.5	4,181.9	3,896.3	12.85%	21.13%
SME Exposure as % of total financing	5.61%	6.52%	5.99%		
SME NPLs	89.78	86.62	89.47	3.65%	0.35%
NPLs as % of Total SME Exposure	33.90%	31.78%	38.31%		
No. of SME Borrowers	134,019	136,940	144,141	-2.13%	-7.02%
H.Y: Half Yearly, YoY: Year on Year					

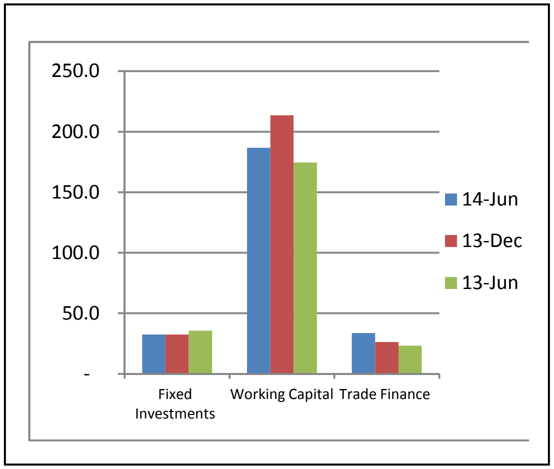
Note: *The position in the table and the adjunct analysis is based on aggregate trends in funded financing facilities of the banks and DFIs to SMEs. In addition, banks and DFIs also provide non-funded facilities to SMEs, like guarantees and letters of credit etc, which forms a significant portion of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

After a gap of six years, improvement in SME financing from the banks/DFIs was witnessed from a YoY increase of 13.42%, totaling to 264.83 billion as of June 30, 2014, while non-performing loans (NPLs) showed a minute increase of 0.35% on yearly basis. However, these improvements are not synergic with number of borrowers, which showed a YoY decline of almost 7%.

This increase in SME financing portfolio of banks/DFIs could be an alignment with revised SME Prudential Regulations, wherein, the total financing limits of medium enterprises has been raised up to Rs. 400 million. Also, overall improvements in macro-

Financing limit for Medium enterprises has been increased up to 400 million rupees economic indicators, improved law and order situation, etc could be catalyst in this improvement. The decline in absolute SME Finance NPLs indicates that either banks/DFIs are cleaning up their balance sheets by writing-off loans with longer delinquency periods and thus have little prospects of recovery or their recovery efforts have started to materialize in the wake of improved economic conditions. While another reason for lower NPLs ratio could be improved SME financing disbursements.

Non-performing loans nearly remained same on YoY basis while over the six month period; a small increase 3.6% can also be noted from the above table 1A. With improvements in overall SME Financing of the industry, the ratio of SME Finance NPLs to the total SME Financing decreased to 33.9% in June 2014 from 38.1% in Jun 2013. This improvement in NPLs ratio can be interpreted as higher SME financing. This trend, if continues, would provide a good opportunity to banks/DFIs lend more in this sector.



Facility wise breakup shows banks'/DFIs' inclination towards short-term financing to SMEs, as 74.5% of total SME financing was provided under working capital followed by trade finance and fixed investment with their respective share equaling to 12.9% and 12.6% respectively.

Short term financing-working capital- from banking sector still remains the highest at 74%

Nature of business wise distribution shows banks'/DFIs' inclination to short term financing, which can be witnessed from total SME loans to trading concern increasing to 44.3% during FY-14 from 35% during last year. While manufacturing and service concerns' share declined to 38.8% and 16.9% respectively.

Employee size wise SME financing data shows that SMEs with up-to 10 employees availed major share equaling to 42.6% of the total financing to SMEs, while SMEs having 151-250 employees availed only 3.2% of total SME Financing.

A **loan size wise** analysis shows that financing up to Rs. 3 million decreased to 21% of total SME loans compared to 25% at the end of Jun-13. 70% of total borrowers availed financing up to 0.5 million, while their share in total SME Financing was around 6.5% which substantiates a common perception, that only small percentage of total SME financing is given to large number of SME borrowers.

For ease of data analysis, banks/DFIs have been divided into different categories. **Bank-wise distribution** of SME lending shows that the share of Private Sector Banks in total SME financing remained at 72.3% during period under review, which is less than last year's share of 75%. Private sector banks are followed by public sector banks (NBP, FWBL, BOP, BOK, and Sindh Bank) whose share was around 21.6% of total SME financing as compared to 18% as of June-13.

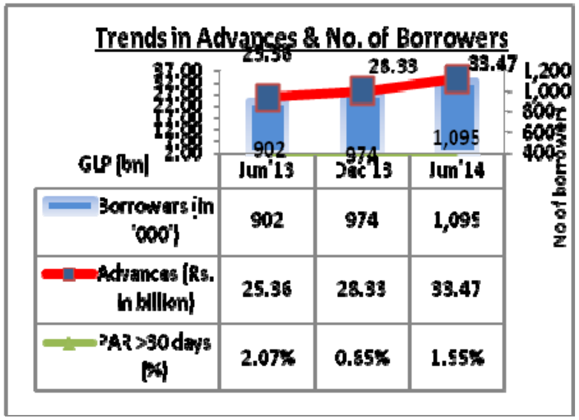
Five full fledged **Islamic Banks** provide 2.1% of SME Financing and combined with the financing of Islamic banking divisions of conventional banks, the total SME financing of Islamic banking industry totaled to nearly 4.6% of total SME financing in FY-14, almost equal to last year's share.

2.0. Microfinance

Table 2A: Microfinance Profile of Banks

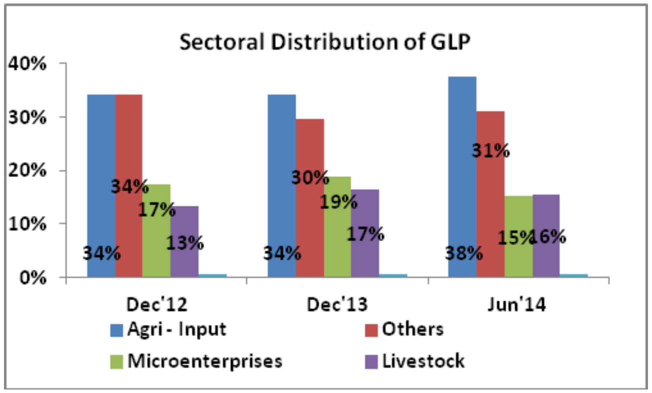
Indicators	Jun-13	Dec-13	Jun-14	Growth	
	*(Amount in Rs. Millions)			HY	YoY
Borrowers	902,175	974,352	1,095,960	12%	21%
Advances *	25,366	28,332	33,479	18%	32%
NPLs*	526.79	242.86	514.68	112%	-2%
PAR >30 Days (%)	2.07%	0.85%	1.55%		
Deposits*	28,605	33,580	36,923	10%	29%
Assets*	51,660	58,197	62,419	7%	21%
Equity*	12,013	12,769	13,452	5%	12%
Avg. Loan Balance	28,117	29,251	30,548	4%	9%

The growth momentum continued for microfinance banks (MFBs) in all major indicators during FY-14 (Table 2A). The number of borrowers crossed 1 million mark which is noteworthy. However, it signifies that the untapped market of microfinance still remains fairly large as the sector has been able to serve only 3 million borrowers out of potential 25 million. The entry of new and strong players in past two years has contributed a positive but small change in the overall growth indicators. Top 5 MFBs hold major share in the outreach and balance sheet footing. During the first half of 2014, advances exceeded Rs. 33 billion whereas the deposit to advances gap has continued to remain positive with deposits reaching to Rs. 37 billion. This growth indicates the resolve of



MFBs to continue building internal funding mechanism. With the injection of equity by investors in PakOman, all MFBs now comply with the regulatory-prescribed minimum capital requirement (MCR). Overall, the equity of MFBs was strengthened during the last six months largely owed to the profits of five MFBs for the year ended on December 31, 2013.

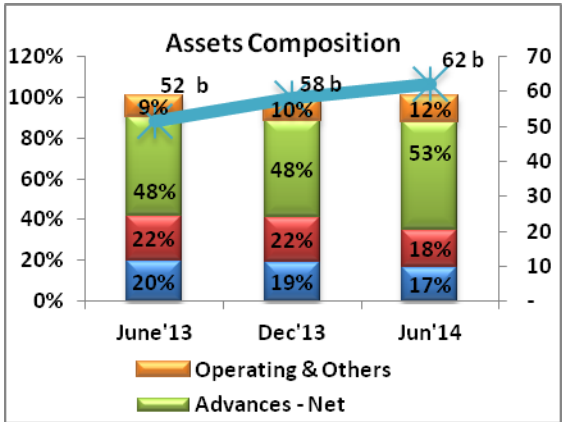
During FY-14, after an increase of 13% the number of microfinance borrowers reached to 1,095,960. This increase in borrowers was mainly due to fresh disbursements in the agriculture sector for Rabi crop season. Overall, 121,608 new borrowers were reached out by MFBs with the highest number of borrowers, 49,613, added by NRSP. Still, top 5 MFBs hold the major chunk in the number of borrowers with 97% share; with bottom five, which comprise mainly of new/recapitalized MFBs, slightly increased their share from 1% in June, 2013 to 3% in June, 2014.



Gross Loan Portfolio (GLP) registered an impressive growth of 18% during the first half of 2014 reaching at Rs. 33.5 billion. As mentioned earlier, this growth was mainly stimulated due to fresh credit disbursement for the agriculture sector. In terms of value, Rs. 5.1 billion increase was witnessed in the GLP out of which major portion (Rs. 2.9 billion) was contributed by agriculture sector. The growth contribution in GLP is mainly seen across NRSP (30%, Rs. 1.4 billion in value), Khushhali Bank-KBL (13%, 1.1 billion in value) and FINCA (41%, Rs. 827 million in value). Further, agriculture sector (agri. input & livestock) has largest share of 54% (48% in June, 2013) in GLP whereas, 31% of the total GLP is concentrated in 'others' category due to the gold backed lending of TMFB with FINCA MFB also increasing its portfolio of gold backed lending to Rs. 1.7 billion as at June 30, 2014 with half yearly growth of 155%.

KBL became industry leader in terms of both number of borrowers 424,216 and GLP with Rs. 10.02 billion, with top 5 MFBs still making up staggering 96% of the overall portfolio value. The average loan balance of MFBs continued to improve and currently stoods at Rs. 30,547 as of June 30, 2014.

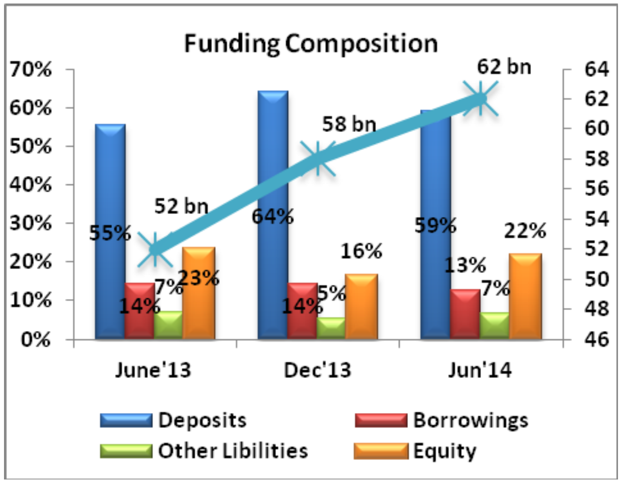
Non Performing Loans (NPLs) slightly increased to 1.55% from 0.87% in December 2013 due to an increase in the substandard and doubtful category caused by maturity of bullet loans. The rise in NPLs was mainly seen in FMFB, Tameer MFB and KBL.



Asset base of MFBs has risen to Rs. 62 billion as at June 30, 2014 showing a half yearly growth of 7%. This growth in assets base was mainly contributed by the increase in the advances during six months with other components showing little change. Share of advances increased from 48% in December, 2013 to 53% due to fresh agriculture lending which also caused a decline in the liquid assets (cash & cash equivalent and investments). The operating assets slightly increased due to expansion by newly/recapitalized MFBs whereas overall liquidity position of MFBs remained comfortable as liquid assets (cash & investments) constituted 35% of total assets.

Deposits of MFBs continued to register positive growth during the first half of 2014 and reached to Rs. 36.9 billion, with a half yearly growth of 10%. In terms of value, Tameer MFB showed an increase of Rs. 1.6 billion during first six months with deposit portfolio of FINCA increasing by Rs. 660 million. In new and recapitalized microfinance banks, Waseela and U MFB showed notable growth which could be attributed to their Branchless Banking (BB) operations.

TMFB still leads the sector in terms of value of deposits with Rs. 12.2 billion followed by First MFB with Rs. 8 billion and KBL with Rs. 7 billion. The growth in deposits was also complemented by simultaneous increase in number of depositors which showed an impressive growth of 57% to reach at 4.3 million depositors. Though deposits have recently shown growth, it is also important for MFBs to ensure quality of their deposit mix to enable sustainable and cheap source of funding in future and avoid related risks.



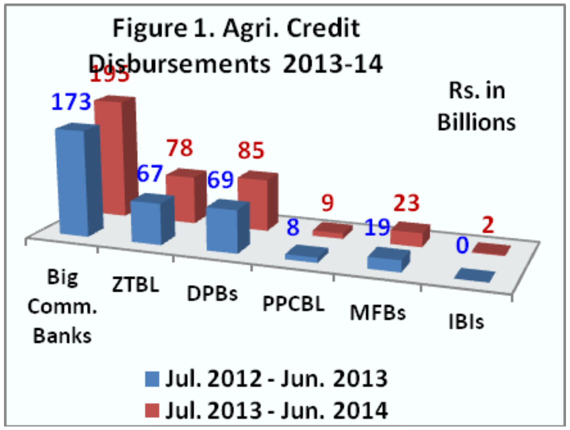
The funding side of MFBs has seen stability and improvement due to increase in the deposits and equity of MFBs. The equity of MFBs reached Rs. 13.4 billion which is mainly due to equity injection by PakOman to comply minimum capital requirement. With this injection, all MFBs are now aligned with prescribed capital requirements. Moreover, few MFBs also registered profitability which had an overall positive impact on their equity. With growing share of deposits in overall funding of MFBs, it is expected that MFBs are now heading towards cheaper and sustainable sources of funding.

3.0. Agricultural Finance

Table 3A Agricultural Credit Targets and Disbursement

				(Billion Rupees)
Banks	**Jul 13 – Jun 14**		**Jul 12 – Jun 13**	
	Target	**Disbursement**	**Target**	**Disbursement**
5 Big Banks	188	195.5	153.5	172.8
ZTBL	69.5	77.9	72	67.1
DPBs	90.4	84.8	66.7	69.3
PPCBL	10	8.8	9	8.3
MFBs	21.6	22.8	13.8	18.8
Islamic Banks*	0.5	1.5	-	-
Total	**380**	**391.4**	**315**	**336.3**

*** Assigning Agri. Credit Targets to Islamic Banks started from FY 2013–14**



The Agricultural Credit Advisory Committee in its mid-year appraisal made an upward adjustment in the annual indicative disbursement targets from Rs 360 billion to Rs 380 billion. The revised target was 13 percent higher than the actual disbursements of Rs 336 billion in the preceding period, i.e. FY-13.The revision of targets, came in the backdrop of increased per acre credit limits for crops, orchards and forestry and the enhanced credit requirements of the farming community due to an upward surge in prices of fertilizer, pesticides, seeds and other allied production costs. During FY-14, under agri. lending banks collectively disbursed Rs. 391.4 billion i.e. Rs 11.4 billion beyond the assigned target with major contribution coming from ZTBL besides the groups of big five commercial, microfinance and Islamic banks. Of the total disbursements during the year, credit to both farm and non-farm sectors registered increase of 9% and 27% over the previous year, while small farmers were able to secure around 48% or Rs. 186.6 billion of the total credit as against Rs. 159.1 billion.

Although, participating banks were able to surpass the challenging target of Rs.380 billion, there still exists a sizeable demand-supply gap as at the close of FY 2013-14 banks were able to meet only 50% of the overall demand of Rs. 790 billion estimated for the year. Therefore, to ensure famers' easy access to formal credit, State Bank has enhanced the volume of overall indicative agri. credit disbursement targets for FY 2014-15 to Rs. 500 billion.

3.2. Credit Disbursement vs. Allocated Targets

A review of the group wise allocation of Rs. 380 billion targets reveals that five large commercial banks were allocated Rs. 188.0 billion or 49.5% of the total indicative disbursements' targets while Rs. 90.4 billion or 23.8% was assigned to fourteen Domestic Private Banks. The Microfinance and Islamic Banks were given targets to disburse Rs. 21.6 billion (or 5.7%) and Rs 0.5 billion (or 0.1%) while the specialized banks, namely ZTBL and Punjab Provincial Cooperative Bank were assigned targets of Rs. 69.5 billion (or 18.3%) and Rs. 10.0 billion (or 2.6%) respectively.

During FY-14, the participating banks were able to disburse Rs 11.4 billion in excess of the annual indicative targets, thus mounting the aggregate disbursements to Rs. 391.4 billion. The performance of the newly inducted Islamic banks remained impressive, as they were able to disburse Rs. 1,527 million or almost three times (287%) the assigned target of Rs. 532 million under the Islamic modes of financing.

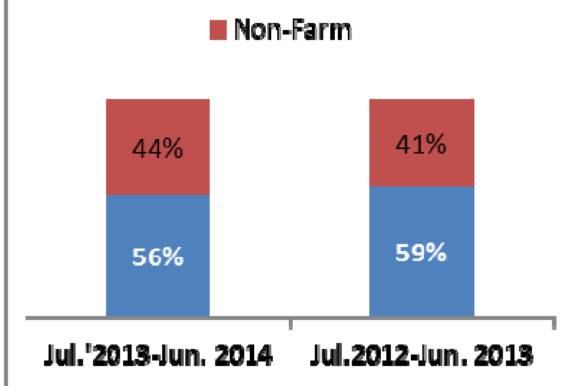
As a group, Microfinance Banks disbursed agri. loans of Rs 22.8 billion or 105.5% of their annual target of Rs. 21.6 billion while the five big commercial banks collectively disbursed agri. credit of Rs. 195.5 billion or 104% of their annual target which was Rs 22.7 billion higher than disbursements during the previous year. The specialized banks were able to extend credit of Rs 86.7 billion during the period under review and achieved 109% of the assigned target. Moreover, the fourteen Domestic Private Banks (DBPs) were able to achieve only 93.8% by disbursing Rs. 84.8 billion against a target of Rs. 90.4 billion. A details comparison of group wise disbursements by participating banks during FY-13 and FY-14 is provided in Table 3A.

Table: 3B Credit Disbursement to Farm & Non-Farm Sectors

(Billion Rupees)

Sector		Jun -14	Jun-13
A	**Farm Sector**	**217.6**	**199.6**
1	Subsistence Holding	124.4	116.4
2	Economic Holding	54.1	53.8
3	Above Economic Holding	39.1	29.4
B	**Non-Farm Sector**	**173.8**	**136.7**
1	Small Farms	62.2	42.7
2	Large Farms	111.6	94.0
Total (A+B)		**391.4**	**336.2**

Figure 2. % Share of Farm & Non-Farm Sectors



3.3. Agri. Credit Disbursed to Farm & Non-Farm Sectors

Disbursements to farm and non-farm sectors registered an increase of 9% and 27% respectively on YoY basis. The sector-wise distribution of overall credit disbursed during the year, depicts that Rs 217.6 billion (or 56%) and Rs. 173.8 billion (or 44%) were disbursed to farm and non-farm sectors, respectively.

During FY 2013-14, non-farm credit registered a growth of Rs 37 billion, mainly on account of persistent rise in prices of poultry, meat and fish. In addition to that SBP's market development interventions also increased the flow of credit to non-farm sector. A look at the finer details reveals that small & subsistence farmers' share in entire credit disbursements during FY-14 was around 47.7% or Rs. 196.6 billion. YoY basis, the share of financing to this marginalized segment witnessed an increase of Rs 27.5 billion or 17%. The sector-wise details of credit disbursements are provided in Table 3B above.

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

Province (Billion Rupees)	Jul 13 – Jun 14		Jul 12 – Jun 13	
	Target	Disbursement	Target	Disbursement
Punjab	294.7	339.1	246.0	290.3
Sindh	55.0	41.3	44.0	36.3
KPK	21.3	9.5	17.7	8.4
Baluchistan	5.7	0.4	4.6	0.3
AJK	2.0	0.7	1.8	0.7
Gilgit-Baltistan	1.3	0.3	0.9	0.2
Total	380.0	391.4	315.0	336.2

3.4. Province-wise Agri. Credit Disbursements

A review of annual agri. credit disbursements reveals that the Punjab continued to lead in terms of agri. credit disbursements by virtue of high intensity of agricultural activities and agro based industries. The credit disbursed in Punjab constituted 86.7% of the overall credit disbursed to the sector during the year. On YoY basis, nominal growth in credit disbursements can be witnessed across the provinces. However, during FY-14, only Punjab was able to surpass its annual targets, with disbursement of Rs 339.1 billion (or 115%) against an annual indicative target of Rs 294.7 billion. Contrarily, Sindh, Khyber Pakhtunkhwa and AJK were able to achieve only 75%, 44.6% and 36% against their respective targets while performances in Gilgit-Baltistan and Baluchistan were confined to only 25% and 6.6%. Details of provincial disbursements are provided in Table 3C.

3.5. Agri. Non-Performing Portfolio

Table 3D Agri. Non-Performing Loans (Billion Rupees)

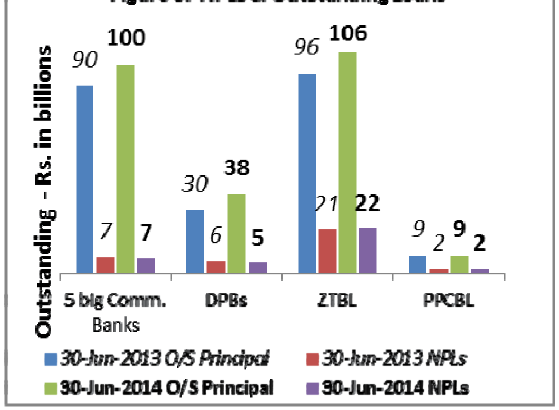
Banks	Jul 13 – Jun 14			Jul 12 – Jun 13		
	NPLs*	%	Outstanding loans**	NPLs	%	Outstanding loans**
5 big Banks	6.9	7	100.4	7.3	8	90.5
DPBs	4.7	12	38.1	5.7	19	30.5
ZTBL	21.5	20	106.2	20.9	22	96.4
PPCBL	2.0	23	8.7	2.2	25	8.7
Total	**35.1**	**14**	**253.3**	**36.1**	**16**	**226.0**

*** Provisional, ** Principal only.**

As of June 30, 2014 Agriculture sector's aggregate non-performing loans (NPLs) of Rs. 35.1 billion were reported, which is 14% of total outstanding loans of Rs 253.3 billion; slightly less than Rs. 36.1 billion or 16% of the outstanding loans as of FY-13.

The NPLs of 5 big banks as a group witnessed a decline from Rs. 7.3 billion to Rs. 6.9 billion during the FY-14. Likewise, the NPLs of Domestic Private Banks declined by Rs. 1 billion, while in case of the specialized institutions, NPLs soared by Rs. 0.4 billion on YoY basis. The group wise details of NPL are provided in Table 3D.

Figure 3. NPLs & Outstanding Loans



3.6. Agriculture Borrowers

At the close of FY-14, the number of outstanding agri. loan borrowers witnesses a YoY increase of 8%, reached to around 2.151 million against total of 1.990 million borrowers during FY-13. Major contributors to this increase in number of borrowers were microfinance banks and ZTBL who added 119,150 and 25,861 borrowers respectively. Further details are available in Table 3E below.

Table 3E Outstanding Number of Agri. Loan Borrowers

	Jul 13 – Jun 14		Jul 12 – Jun 13		
Banks	**No. of Borrowers***	**% Share**	**No. of Borrowers***	**% Share**	**YoY % Change**
5 Big Banks	68,278	17.1	60,743	18.1	2.1%
ZTBL	838,284	39.0	12,423	40.8	3.2%
DPBs	35,774	1.7	3,521	1.7	6.7%
PPCBL	220,970	10.3	16,271	10.9	2.2%
MFBs	687,151	31.9	68,001	28.5	21.0%
Islamic Banks	723	0.0	-	-	-
Total	2,151,180	100.0	1,990,959	100.0	8.0%

*** Active borrowers only.**

4.0. Housing Finance

Table: Housing Finance Profile (Amount in Billion Rs.)

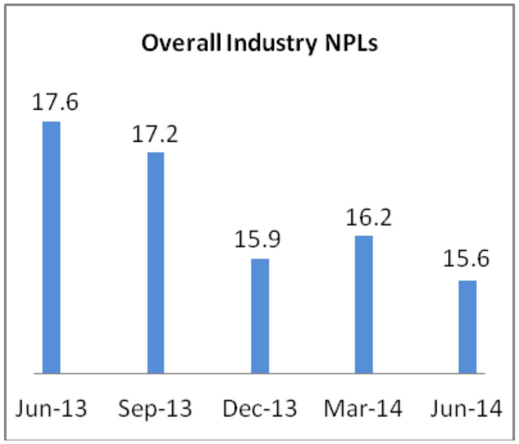
	June-14		Dec-13		Jun-13		% Change	
	Borrowers	Amount	Borrowers	Amount	Borrowers	Amount	H.Y	YoY
Cumulative Disbursement	508,381	197.5	506,632	191.6	504,812	186.2	3	6
Outstanding	30,791	36.9	30,855	35.4	31,421	34.6	4	7
NPLs	44,103	15.6	46,189	15.9	48,057	17.6	-2	11
Gross Outstanding	74,894	52.6	77,044	51.3	79,478	52.2	3	1

H.Y: Half Yearly

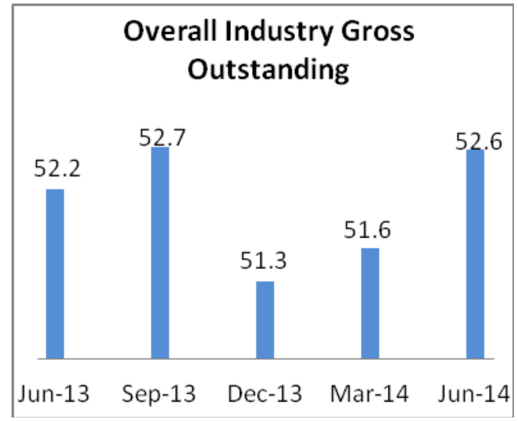
Presently, 27 commercial banks, House Building Finance Company Limited (HBFCL) and one microfinance bank is catering to housing finance needs. HBFCL's share in the total housing finance has reduced in absolute terms; however, it is the only institution that caters to the lower-middle and low-income groups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

Gross Outstanding

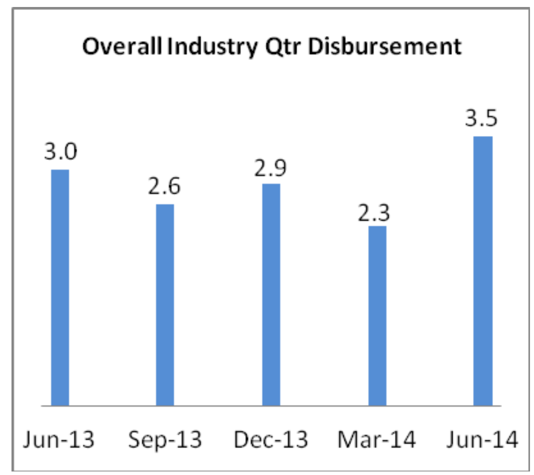
The gross outstanding housing finance as of June 30, 2014 of all banks/DFIs were Rs. 52.6 billion which is almost equal to last years' gross outstanding while housing finance showed 3% increase on half yearly basis. Commercial banks accounted for Rs 40.1 billion of total gross outstanding, showing a small increase of 3 percent on HY basis. Private banks reported Rs. 19.9 billion followed by Islamic banks at Rs. 13.8 billion, public sector banks at Rs. 6.1 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.4 billion; up by 1.1 percent since December 2013. Other DFIs had a meager share of Rs. 0.13 billion in outstanding loans.



The gross outstanding housing finance of Islamic Banking Industry (Five Islamic Banks (IBs) & 15 Islamic Banking Divisions (IBDs) of Conventional Banks) at the end of FY-14 was Rs. 16.8 billion. Of the total outstanding in Islamic housing finance, Islamic banks contribution was Rs. 14.93 billion, witnessed an increase of 14.12% on YoY basis. IBDs financed Rs. 3.05 billion for housing financing which is 4.2% lower on half yearly basis. The growth in total outstanding portfolio of Islamic banks reflects their aggressive efforts for pursuing housing finance.



Non-Performing Loans (NPLs): 15.6 billion (June 30, 2014); down by 1.8 HBFCL's NPLs decreased from Rs 6.8 billion to Rs 6.3 billion since December 2013; 7.3 percent decrease. HBFCL's percentage share in its total outstanding is greatest after Foreign Banks' NPLs, as 51 percent of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 41 percent. Compared to last year, HBFCL NPL's decreased by 11.26%.



Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs 1.88 billion on June 30, 2014, which were Rs. 1.74 billion at the end of Dec 31, 2013 showing increase of 8 percent. However, on YoY basis, NPFs have decreased by 11.73% from Rs. 2.13 Billion to Rs. 1.88 Billion.

Disbursements

Fresh disbursements of Rs 5.8 billion were made to 1471 borrowers during the period (Jan-June). On YoY basis, fresh disbursement totaled Rs. 11.23 Billion to 3016 borrowers. Islamic banks extended new disbursements with Rs 3.66 billion followed by private banks with Rs 1.1 billion and public sector banks with Rs 172 million during the period under review. HBFCL's fresh disbursements for Jan-June were reported to be Rs 1 billion. Among commercial banks, the number of new borrowers totaled 748, with private banks serving 154 new borrowers and Islamic banks 485 customers. HBFCL extended loans to 723 new borrowers during the period under review.

Fresh disbursement for Islamic Banking Industry was Rs 3.80 billion to 519 new borrowers during Jan-June. This includes new disbursements of Rs 243 million to 34 customers by IBDs of conventional banks. Furthermore, on YoY basis disbursement for Islamic Banking Industry totaled Rs. 6.69 Billion to 1002 borrowers.

Outstanding housing finance of MFBs increased by 9 percent since December 31, 2013 & NPLs were reported nil for the period under review.

Housing Finance Business of Microfinance Banks

The outstanding housing finance of Microfinance Banks (MFBs) was Rs. 217.89 million as on June 30, 2014 which was Rs. 199.75 million at the end of December, 2013. It registered a growth of 9 percent, when compared to the period ended December 31, 2013. NPLs for MFBs remained nil. Number of outstanding borrowers increased from 2039 (December 31, 2013) to 2,158 (June 30, 2014); an increase of 5.83 percent. However, on YoY basis housing finance business of Micro finance Banks registered growth of 28.70%.

5.0. Infrastructure Finance

Infrastructure is critical to national productivity and economic growth. However, despite many inititves, infrastructure development in the country is not keeping pace with either current or projected demand. Infrastructure development requires large capital investment over longer time period. Banks/DFIs participate only when there is a clear assurance of a project's viability or/and government's support. An analysis of the infrastructure financing profile of second half of FY-14 depicts the following trends;

Disbursements by banks and DFIs during the second half of FY14 increased from Rs 18 billion to Rs 45 billion, when compared first half

During second half FY-14, amount outstanding against infrastructure sectors witnessed growth of Rs. 24.3 billion or 8.2% when compared with the first half. This increase was largely due to the telecom, power generation and oil & gas sectors, where cumulative increase in outstanding amount was more than Rs 24 billion. The anomalous growth in telecom was observed due to the successful auction of 3G/4G licenses in April, 2014. It is noteworthy to mention here that a large part of the licensing fee was financed by local banks.

BOX 1: INFRASTRUCTURE PROJECT FINANCE GUIDELINES

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

Non-performing loans (NPLs) showed an encouraging decline of 7% and stood at Rs 18.1 billion compared to Rs 19.4 billion in December 2013.

BOX 2: GLOBAL PROJECT FINANCE INFRASTRUCTURE REVIEW FULL YEAR 2013

Total volume	US$ 280bn
Deal Count	548
Debt Volume	US$ 234bn

Full review available at: www.ijonline.com

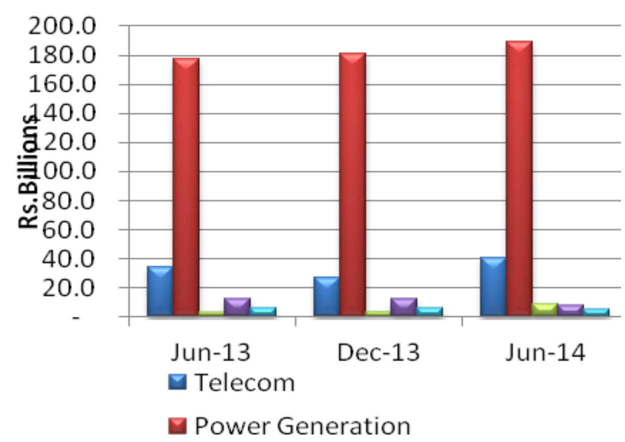
A sector-wise analysis shows that the major share (69% & 15%) in total outstanding infrastructure project finance remained with power generation and telecom sectors respectively. Government of Pakistan-backed guarantees is one of the reason that power generation sector has witnessed tremendous growth over the years. The share of power transmission sector was 1.5% while petroleum and oil & gas (exploration and distribution) sectors' share was 3.1% and 3.3% respectively in total outstanding amount.

Table 5A: Infrastructure Project Financing Profile of Banks & DFIs (Amount in Billion Rs.)					
	Periods			% Change	
	Jun-13	Dec-13	Jun-14	HY	YoY
Amount Outstanding	267.0	255.2	276.1	8.2%	3.4%
NPLs	18.6	19.4	18.1	-7.0%	-3.0%
Disbursements (Cumulative)	360.1	351.9	371.3	5.5%	3.1%
No. of Projects (*Cumulative)	370	363	375	3.3%	1.4%
Total Sanctioned Amount	505.0	502.9	535.6	6.5%	6.0%

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

The following sections present outstanding portfolio, disbursements, number of projects, non-performing loans, amount sanctioned, and sectoral share of Banks & DFIs in Infrastructure Project Financing (IPF). It is pertinent to mention here that the data/figures pertain to the existing projects and excludes projects which have matured at the end of June, 2014.

Fig 4a: Top 5 Infrastructure Sectors



Outstanding Portfolio

The total amount outstanding, against infrastructure finance, at the end of Jun-14 was Rs 276.1 billion as compared to Rs 255.2 billion at the end of Dec-13, recording a rise of

8.2%. Power generation and telecom sectors noticed a rise of 4.5% & 53% respectively while outstanding portfolio in the power transmission and petroleum sectors declined by 44% & 32% respectively. Following is the list of infrastructure sectors where lending has been made by banks/DFIs:-

a) Power Generation (PG)
b) Telecom
c) Oil & Gas (O&G) Exploration/Distribution
d) Petroleum
e) Road, Bridge, Flyover (RBF)
f) Power Transmission (PT)
g) LPG Extraction/ Distribution
h) Water Supply, Sanitation (WSS)

On YoY basis, amount outstanding against infrastructure grew by 3.4%. Most of the key infrastructure sectors witnessed decline except telecom, PG, O&G and WSS sectors. The share of O&G and WSS sector in total outstanding portfolio is 3.3% and 0.2% only.

Non Performing Loans

At the end of Jun-14, total amount of non-performing loans (NPLs) stood at Rs 18.1 billion, showing a decrease of 7% compared to Dec-13 position. Whereas, compared June-13, NPLs decreased by 3%. The major share in NPLs pertained to PG sector(60%) while telecom's share in total NPLs was 25%.

BOX 3: NATIONAL SANITATION POLICY 2006

IT PROVIDES A BROAD FRAMEWORK AND POLICY GUIDELINES TO ENHANCE AND SUPPORT SANITATION COVERAGE IN THE COUNTRY. FULL DOCUMENT IS AVAILABLE HERE:

http://www.environment.gov.pk/NEP/SanitationPolicy.pdf

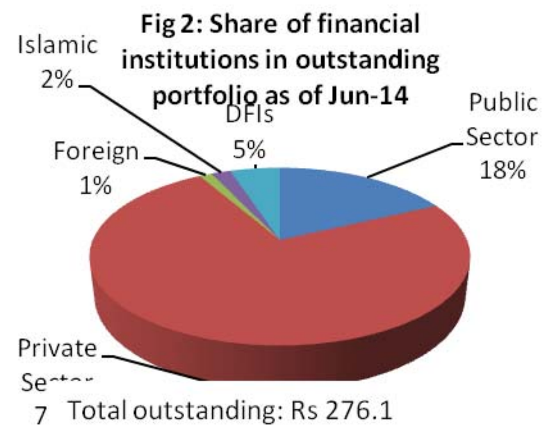


Fig 2: Share of financial institutions in outstanding portfolio as of Jun-14

Banking-sector wise Share

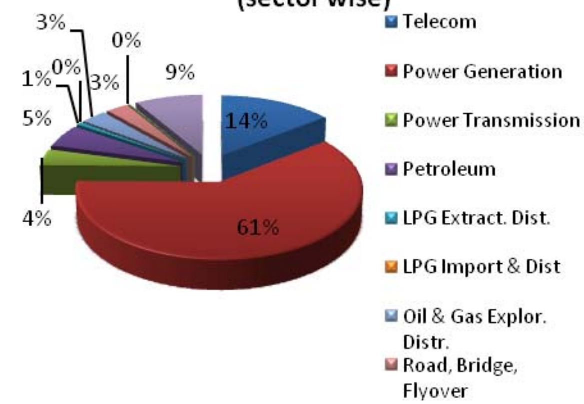
The institution wise share in outstanding portfolio has largely remained the same with private sector banks taking the lead, followed by public sector banks (Fig 2). DFIs share in total outstanding amount remains unchanged at 5%. Although, in absolute terms, share of institutions has increased as total outstanding amount has increased.

Moreover, at the end of Jun-14, total amount sanctioned for infrastructure sectors grew by 6.5% on half year basis and stood at Rs 535.6 billion. Of this amount, the share of private sector banks was 77% followed by public sector banks with 15%, DFIs with 3%, foreign banks with 1.5%, and Islamic banks with 3% share in total amount sanctioned.

Similarly, cumulative disbursements saw a rise of 5.5%, HY basis. Private sector bank's share in cumulative disbursements at the end of June, 2014 stood at 73%; public sector banks share 19%, DFIs with 4.4% and Islamic banks with 1.4%.

The private sector banks' share in NPLs was recorded at 59% followed by public sector with 25%. DFIs share in NPLs has increased to 16%, while foreign banks and Islamic banks did not report any NPLs.

Figure 3: Cumulative Disbursements (sector wise)



Disbursements

Up till June 2014, Rs 371 billion was the cumulative amount disbursed to all infrastructure sectors, of which 61% was in PG sector followed by telecom sector with 14% share (Figure 3).

During second half of FY-14, an amount of Rs 45.3 billion was disbursed under infrastructure project financing against Rs. 18 billion during first half of FY-14, showing a substantial increase of 151% in disbursements. The largest share was that of telecom (Rs. 17b) followed by power generation (Rs. 15.7b), petroleum (Rs. 6.6b) and O&G sector (Rs. 2.1b).

Number of Projects

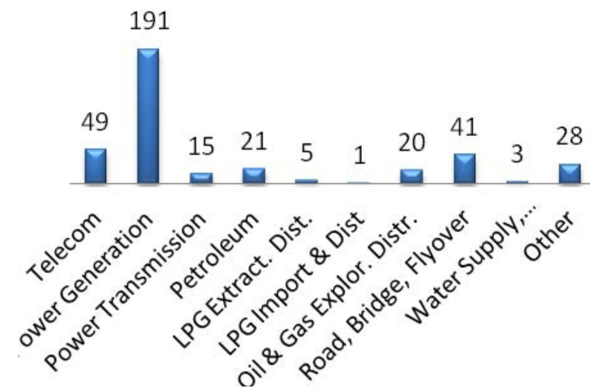
Out of 375 infrastructure projects financed, 249 were undertaken by private sector banks, 56 by public sector banks, 57 by DFIs, four by foreign banks, and eight by Islamic banks.

Thirty two new projects were added by the industry during Jan-Jun '14, of which, eleven were added in Power Generation (PG), seven projects in telecom, five in petroleum, four in Roads, Bridges and flyovers, three in O&G and one new project was each added in water supply & sanitation and LPG (Ext. & Dist.) sectors. Figure 4 shows sector-wise distribution of the all projects.

Amount Sanctioned

At the end of FY-14, the total amount sanctioned by Banks/DFIs for infrastructure projects increased from Rs. 502 billion to Rs 535 billion, recording a growth of 6.5% compared to the previous half year period. A similar trend was observed when compared on yearly basis. The sectors which witnessed higher increase in sanctioned amount were PG, telecom and O&G sector.

Figure 4: Cumulative number of projects sector wise as of Jun-14



6.0. Refinance Schemes

As usual, during second half of of FY-14, SBP continued pursuing its objectives of facilitating the exporters and industrialization of the country by providing financing under its short term and long term financing schemes. To encourage and support SME sector, SBP introduced certain changes in existing mechanism of Export Finance Scheme (EFS) to incentivize export financing for SMEs. Banks' Spread in EFS mark up rate has been enhanced from 1% to 2% for SME borrowers. Moreover, for SME exporters the range of performance based mark up rebate under EFS Part-II has been enhnced by 0.5 percentage point for each level of export performance. To facilitate long term investment in SMEs Sector and to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce SBP has extended the expiry dates of the Refinance Facility for Modernization of SMEs and Financing Facility for Storage of Agricultural Produce (FFSAP). These facilities will be available till further instructions in this regard.

SBP introduced certain changes in existing mechanism of EFS scheme to incentivize export financing for SMEs

Mark up rates for Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) were revised to encourage exports. The revised mark up rate for exporters availing financing facilities under EFS is 7.5% while the mark up rate under SBP's LTFF is 9% for end users.

Mark up rates on EFS and LTFF were revised to encourage exports

The outstanding financing under EFS stood at Rs 160.5 billion at the end of June 30, 2014. Outstanding financing showed a decrease of 9.7% from previous year's outstanding financing of Rs 177.8 billion at the end of June 30, 2013. One of the possible reasons for reduction in EFS outstanding financing may be stability of the PKR which induced exporters to avail other window of export financing under FE 25 deposits, however, EFS remained the principal source to support export financing. PKR has stabilized in early March 2014 and FE 25 loans during second half of FY14 increased by 70.5% from USD 580 million at the end of December 31, 2013 to USD 989 million at the end of June 30, 2014.

Sector-wise Financing under EFS and Long Term Financing Facilities

The sector-wise EFS outstanding financing of Rs 160.5 billion shows textile sector at the top with Rs 99.0 billion (62%) followed by edible goods with Rs 23.2 billion (14.5%) as shown in ***Table 1***. Similarly under LTFF, textile sector is the largets recipient of the SBP refinance facility with Rs 25.2 billion (60.3%). Total refinance outstanding under long term facilities extended by SBP was Rs 46.8 billion of which LTFF has 94% share that shows the primary focus of SBP remained on promotion of exports through long term investment. The remaining 6% 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

The number of borrowers under Export Finance Scheme (EFS) stood at 1,235 with an average loan size of Rs 130 million at the end of June 30, 2014, while the number of borrowers at the end of December 31, 2013 was 1,250. Out of total financing of Rs 160.5 billion four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad have 93.8% share. Sialkot and Karachi have largest chunk of borrowers with 400 and 351 numbers respectively but average loan size in Sialkot is Rs 22 million against Rs 182.6 million in Karachi.

Islamic Export Refinance Scheme (IERS)

During the half year under review, 13 Islamic Banking Institutions (5 Islamic Banks (IBs) and 8 Conventional Banks' Islamic Banking Branches) utilized refinance facilities under IERS. The outstanding financing for IBs was Rs 8.7 billion while the outstanding financing for IBBs was Rs 4.2 billion at the end of June 30, 2014. The total IERS financing outstanding stood at Rs 12.9 billion showing a decline of 21 percent at the end of June 30, 2014 on YoY basis.

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 Jan-Jun, 2014period.

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 August 25, 2014, total 12,863 loan applications amounting to Rs 13.47 billion were sanctioned by NBP and FWBL; while, an amount of Rs 2.33 billion has been disbursed. Province wise position of received applications transpired that highest numbers of applications were received from Punjab. While gender wise position indicated that nearly 87% of completed applications were submitted by male and 13% 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 is operating a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, which allows banks to develop a portfolio of fresh borrowers who do not fit into their usual credit parameters. Under CGS, SBP shares 40% of credit losses of lending banks on their loans, based on funds provided by the UK Department for International Development (DFID). State Bank allocated credit exposure limits of Rs 6.56 billion with its guarantee coverage limit of Rs 2.62 billion uptill December 2013 to 10 banks selected as Participating Financial Institutions (PFIs). The Scheme has been well received by banks. Net utilization of the guarantee limits by the banks as of December 2013 was 64% with sanctioned loans of Rs 4.19 billion to 6,268 borrowers. The Scheme is also a successful initiative in terms of helping the partcipating banks to develop viable financing portfolios, reaching out to a vast number of small & rural borrowers, in different sectors in 75 districts across the country. At the same time, they have managed to keep their delinquency ratios to only 3.4%, which is much lower than the SME and Agri-financing NPL ratios of 32% and 11% respectively as of December 2013.

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

The objective of this facility is to help the sponsors of rice husking mills in Sindh to undertake projects of BMR (Balancing, Modernization & Restructuring) for increasing efficiency of their mills. Under this scheme, Government of Sindh (GoS) provide 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 as part of 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 to help them recover from losses/ damages due to floods in last few years. State Bank allocates exposure limits to the selected banks under the Scheme which for FY-14 was Rs 500 million for 6 selected banks.

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:

Grass Root Training Programs: During FY-14, SBP oraganized three Grass Root Cluster Training Programs for branch level bankers at Lahore, Multan and Peshawar. The purpose of these training programs was to educate and aware branch level officers about different tools and techniques being practised globally for better SME Banking.

Microfinance

Credit Up-scaling: As a result of SBP's initative to encourage MFBs to venture into microenterprise lending, six MFBs namely Tameer MFB, Advans Pakistan MFB, Khushhali Bank Ltd., APNA MFB, FINCA MFB, and First Microfinance Bank Ltd. are currently undertaking microenterprise lending.

Review of Regualtory Frameowrok for MFBs: SBP in consultation with the industry players, issued revised Prudential Regulations (PRs) for Microfinance Banks on June 10, 2014 in view of the changing dynamics of the microfinance sector in Pakistan. These revisions have been made after carrying out a holistic review of existing regulatory framework and to promote sustainable growth of microfinance in the country. The revised Prudential Regulations are structured into four main categories; Governance (G), Operations/Consumer Protection (O), Anti Money Laundering- AML/ Combating Financing to Terrorism- CFT (M), and Risk (R). Furthermore, various instructions and directives issued by SBP from time to time have also been consolidated with PRs for consistency and convenience.

I-SIP Research: 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 approaches for optimally managing linkages between financial inclusion and central banks' traditionally core objectives of financial stability, financial integrity, and consumer protection.

Exposure Visits: An exposure visit was arranged for a four member Turkish delegation on the matters of legal and regulatory framework for microfinance. The members of delegation represented the Turkish Undersecretariat of Treasury and Banking Regulation & Supervision Agency. During the two day visit to SBP on 25-26 February, 2014, meetings of the visiting delegation were arranged with different departments of SBP and microfinance industry players, in order to provide them an insight of the financial inclusion initiatives, policy perspective, innovative approaches, business models, and microfinance business, legal and regulatory framework in Pakistan.

Donor Funded programs based SBP's initiatives

SBP is playing a proactive role in the development of microfinance sector through implementation of government and donor funded programs. These programs are managed with the objective to enhance provision of financial services to the unbanked segment, especially the poor and women through sustainable models. The funded interventions have been designed by SBP to address credit risk of the borrowers, enhance capacity of market players, spur innovations and bridge key market information and infrastructure gaps. Progress on funded initiatives during the period is as follows:

Microfinance Credit Guarantee Facility (MCGF), a £15 million facility, was launched by SBP in December 2008 under FIP to cover partial risks against the loans extended to microfinance providers by the commercial banks. MCGF has been showing continuous growth since its launch to address the funding needs of the microfinance sector and maximize the outreach in microfinance sector. So far, 32 guarantees have been issued under MCGF which has mobilized Rs.10.325 billion from commercial bank and capital markets/ retail investors for onward lending to more than 500,000 micro borrowers. There have been no calls on the guarantee yet. The facility has been positioned to mobilize non-bank financing from capital markets, to diversify financing for micro borrowers. The facility has helped develop the market and introduced poor borrowers to mainstream financial institutions.

Credit Guarantee Scheme (CGS), worth £13 million, was launched in March 2010 to facilitate credit to small and rural businesses for greater outreach. The scheme was launched after an assessment of commercial banks‟ risk appetite and demand for the facility. The objective of the scheme is to improve availability of credit by enhancing credit rating of small and rural borrowers through guarantees for greater outreach to the poor and rural segments. CGS has allocated limits of Rs.2.634 billion to 10 banks in line with the available seed money and request of the banks. The participating banks have sanctioned loans of Rs 6,328 million under CGS and SBP issued guarantees for risk coverage of Rs.2,554 million for onward lending to 9,823 borrowers, against the approved limits, representing a highly encouraging utilization of 97% of the Risk Coverage Limits.

Institutional Strengthening Fund (ISF), a £6 million facility, was launched by SBP with the objective to provide grants for institutional strengthening of the microfinance sector, develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives. Under ISF, The grants of Rs. 808 million have been approved for 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector. The ISF support has been transformational; supporting graduation of NGO MFIs to Microfinance Banks (MFBs) and has put the industry on a more sound footing. As a result the major segment of the MF industry has been brought under SBP's MF regulations. Particularly, FIP supported transformation of large NGO MFIs such as NRSP and Kashf into microfinance banks. As a result, both are now deposit taking institutions, enjoying the lower funding costs that savings provide. In addition, ISF has helped a number of institutions to be sustainable and efficient in financial service delivery such as the Tameer Bank in launching Easy Paisa Branchless Banking product

Financial Innovation Challenge Fund (FICF), a £10 million facility, was launched by SBP in May 2011 with the 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 fund holds specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. The 1st Challenge Round of FICF was launched in May 2011 to promote "Financially Inclusive Government to Person (G2P) Payments" through branchless banking models. Under this round, FICF is currently supporting Punjab Pension Fund, Employees Old-age Benefits Institution, UBL, and NADRA for a number of pilots for adoption of innovative approaches and solutions to deliver affordable and convenient financially inclusive G2P payments. The projects cover the entire spectrum of G2P payments including, salaries, pensions and welfare payments through financially inclusive models. For these projects, an amount of Rs. 282.44 million has been committed.

The 2nd Round was launched on March 6, 2014 to promote innovative rural and agricultural financial services. Under this round, eighteen proposals were received from commercial banks, microfinance banks, Islamic banks and third party service providers. These were reviewed by the FICF Advisory Committee and finally 12 proposals were approved, committing a total of PKR 410 million for grant assistance based on well defined criteria such as, uniqueness of the proposed innovations, sustainability of the ideas and potential for financial inclusion to establish value for money. Under this round, the grantee institutions will test innovations such as Agriculture Value Chain Financing, Warehouse Receipt Financing against agricultural commodities, use of third party service providers by the banks' agri. staff, green agricultural financing, Islamic microfinance, use of ICT solutions for agricultural finance and price information etc.

National Financial Inclusion Strategy (NFIS): In line with country requirements and global trends, SBP is developing a broader National Financial Inclusion Strategy for Pakistan in collaboration with World Bank. The strategy will address both demand and supply side issues and form the basis for coherent and sequential reforms needed to promote financial inclusion.

World Bank's initial scoping mission team visited Pakistan in April 2014 and held discussions with SBP, relevant Govt departments/agencies, leading private sector stakeholders, donors and financial sector players. Following the initial scoping mission, World Bank's team will be conducting a full mission in Sep 2014 for detailed consultations with SBP, other relevant key stakeholders and financial sector players. Thereafter, SBP-World Bank teams will prepare the draft strategy which will be shared with all stakeholders for their input and buy-in before its national launch.

The Financial Inclusion Strategy will identify factors, policies and market interventions along with an action plan with clear roles and responsibilities of each stakeholder for follow-up and monitoring of implementation of the action plan

Nationwide Financial Literacy program (NFLP): SBP launched Pakistan's first-ever Nationwide Financial Literacy Programme (NFLP), on 20th January 2012, in order to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The NFLP was launched with the support and collaboration of ADB, PBA, PPAF and Bearing Point (Consultant).

The pilot of the program was completed in July 2012 and 47, 800 beneficiaries were targeted through class room training sessions and street theater. 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. Currently the pilot assessment has been completed and it is being reviewed to further scale up the program to reach out to more than 500,000 poor and low income beneficiaries.

Farmers Financial Literacy & Awareness Programs on Agricultural Financing: Under Improving Access to Financial Services Fund (IAFSF), SBP has launched "Farmer Financial Literacy & Awareness Program on Agricultural Financing" worth Rs.1.8 million.

Grass-root level Training Program for Credit/Loan Officers of Microfinance Banks/ Microfinance Institutions (MFIs) under the IAFSF: The program aims to provide capacity building support to the industry. The main objective of the program is to develop understanding within the industry through mutual sharing of knowledge and ideas besides setting stage for much-needed capacity building of microfinance industry in Pakistan. The first phase of Grass Root Level Microfinance Training Program was completed by conducting 40 training programs at different locations across the country in which around 1,000 loan and field officers were targeted. Now after the completion of the Program it will be evaluated and then scaled up to train a large number of loan and field officers.

Establishment of Nationwide Microfinance Credit Information Bureau: SBP has been supporting the establishment of Nationwide Microfinance exclusive Credit Information Bureau (MF-CIB) that will help microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and loan defaults. The MF-CIB is being established with the objective to store all past and present credit transactions of all microfinance borrowers, to minimize the instances of over-indebtedness, bring financial discipline in microfinance sector and to improve the loan portfolio quality of (MFPs).

Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector: SBP is supporting these initiatives with the help of Pakistan Microfinance Network (PMN) which are aimed at a holistic client protection intervention at the industry level. The key objectives of the initiatives are monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks and standardization in calculating and communicating product prices to clients.

For CP monitoring initiative, PMN signed a Partnership agreement with Smart Campaign to support and review smart assessments of PMN Member Institutions and conduct training of local industry stakeholders in Pakistan to build their further capacity.

For pricing transparency initiative, PMN signed a Partnership agreement with Microfinance Transparency (MFT) to tailor MFT's data collection tool to the Pakistan market, build stakeholders' capacity in understanding pricing, data collection and analysis, publication of data on the MFTrasparency website, preparation and publication of pricing analysis report for Pakistan etc

Surveys, Studies and Assessments: SBP has also supported a number of surveys and studies under FIP such as G2P payments study, Islamic finance survey, SME cluster surveys, Hybrid Value Chain financing study, Branchless Banking survey, 2nd Access to Finance survey, Agriculture Finance Study, microfinance impact assessment study etc

Capacity building of SBP officers: SBP has also provided numerous opportunities to its officers to develop capacity in the development finance areas including microfinance, SME and agri/rural finance etc to help in implementing financial Inclusive policies.

Agriculture Finance

During the second half of FY 2013–14, SBP undertook the following financial reforms to enhance the flow of institutional credit to the farmers and agro based businesses;

Revision of PRs for Agriculture Financing: To enhance outreach of formal financing for the farming community, State Bank of Pakistan has issued revised Prudential Regulations (PRs) for Agriculture Financing, in January, 2014 after stakeholder consultations.

The revised instructions encompass prudent practices for financing various activities within agri. value chain and call upon banks to develop robust and market-oriented policies and practices to promote enhanced flow of credit to the agriculture sector without compromising financial stability and banks' risk management. The revised regulations also aim to;

- Encourage banks to formulate comprehensive agri. financing policies covering broad areas of strategic importance including loan administration, disbursement & monitoring mechanisms, set up and maintenance of dedicated agri. finance departments equipped with qualified agri. financing experts and delegation of powers relating to loan approval or sanction at appropriate level.
- Strengthen credit discipline by declaring CIB report as mandatory requirement for all agri. loans
- Encourage banks to develop and launch products under Shariah Compliant modes to promote Islamic Agriculture financing for meeting the needs of the farming community.
- Provide banks an SOP for rescheduling, treatment of mark-up, reporting to CIB and reversal of provisions.
- Withdraw requirement of 75% own produce for entities engaged in farming activities

Enhanced Indicative Credit Limits & List of Eligible Items for Agri Financing: In February, 2014 the report on "Indicative Credit Limits & List of Eligible Items for Agri Financing" has been revised in order to align the cost of production of various farming activities with inflationary pressures and current market practices. The revisions include;

- The production financing limits have been revised for major & minor crops, orchards and forestry. Under major corps, financing limits per acre for rice, wheat, cotton and sugarcane have been increased to Rs 34,000, Rs 29,000, Rs 39,000 & Rs 53,000 respectively from existing limits of Rs 19,000, Rs 16,000, Rs 21,000 and Rs 30,000 fixed in the year 2008.
- Parameters for segmentation of borrowers based on land holdings and average requirements of seed, fertilizers and pesticides have been included to facilitate provincial planning departments in computing financial and credit requirements of respective provinces for farm sector activities.

- An exhaustive list of activities and purposes segregated for farm and non-farm sector has also been annexed to the Report.

The revised report and enhanced indicative per acre credit limits will facilitate farmers in getting adequate loans for growing their farms and forestry besides facilitating banks and provincial governments to estimate actual credit requirements of the farmers.

Draft Framework for Warehouse Receipt Financing: According to an estimate, every year Pakistan's agriculture sector suffers post harvest losses ranging between 15-18% of grains and 25% of fruits and vegetables produced due to inadequate storage and market infrastructure.

To curb post the harvest losses and encourage development commodities physical trade and marketing system in the country, SBP issued 'Draft Framework for Warehouse Receipt (WHR) Financing in Pakistan. The draft Framework invites comments and aims to facilitate banks in development of specialized products for providing financing to farmers, traders, processors and other value chain actors against Warehouse Receipts. The framework envisages important areas of legal framework, pre-requisites of warehouse receipts system, risk management, roles of different actors, eligibility criteria, etc.

The framework aims to provide necessary regulatory space to facilitate banks in accepting warehouse receipts as collateral to secure loans extended to the farming community. As the concept of WHR financing is relatively new in Pakistan and involves a diverse group of stakeholders, the framework will be finalized after testing the concept on a pilot basis in light of stakeholder feedback.

Batch Training Programs: With a view to build the capacity of banks' agri. field officers and appraise them with the dynamics of agriculture financing, SBP is organizing a series of 4 days Batch Training programs in collaboration with NIBAF. During the second half of FY2013-14, seven iterations of the program were organized to benefit 167 newly inducted Agri. Credit Officers (ACOs). Since the launch of the program in April, 2013 a total of seventeen iterations have been organized in various cities which were attended by around 427 ACOs.

Housing Finance

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.

Workshop on Retail Financing in Developer's Housing Projects: A workshop on Retail Financing in Developer's Housing Projects was organized by State Bank of Pakistan on February 6, 2014 at Learning and Resource Center (LRC), Karachi. 26 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.

Workshop on General Housing Finance: A workshop on General Housing Finance was organized on March 31, 2014 at SBP-BSC (Bank) Sukkur. The workshop was organized with the objective to enhance understanding of housing finance to mortgage bankers. 26 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.

Workshop on Risks involved in Housing Finance Processing and Documentation: A workshop on Risks involved in Housing Finance Processing and Documentation on February 3, 2014 at SBP-BSC (Bank) Lahore. 44 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.

Housing Observatory: A meeting was held in Islamabad on March 24, 2014 at NIBAF, Islamabad with the stakeholders of Housing Observatory. It has been proposed that a cell may be established at National Housing Authority (NHA) under Ministry of Housing and Works to materialize the concept of housing observatory in Pakistan.

Issuance of Guidelines for Financing to Housing Builders/Developers: SBP, vide IH&SMEFD Circular No. 02 of 2014 issued its guidelines for financing to house builders/developers. The need of these guidelines was felt keeping in view the peculiar nature of the financing requirements of the builders/ developers. Based on an analysis of the mechanisms being adopted by central banks and regulatory authorities in the region and world, a model has been developed. It is hoped that through supply of bank finance, builders/developers would be able to increase the supply of affordable housing units. Based on given criteria, the banks/DFIs are encouraged to develop suitable products to facilitate finance to credit worthy Real Estate Builders/Developers.

Issuance of Prudential Regulations (PRs) for Housing Finance: SBP issued, vide IH&SMEFD Circular No. 03 of 2014, PRs for Housing Finance. This initiative has been taken to motivate banks through changes in general and specific provisioning and reserve requirements. Accordingly, necessary changes have been made in housing finance PRs to enable banks/DFIs to increase their outreach for provision of housing finance.

Five days training module on Housing Finance: An in depth training program on housing finance was organized on May 26-30, 2014 at LRC, SBP, Karachi. The program was designed with the objective to enhance technical knowledge of the professionals engaged in housing finance. 26 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

Infrastructure Finance

Infrastructure Finance Consultative Group (IFCG): 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 find out ways and means to meet the infrastructure financing requirements of the economy. SBP, therefore, established the Infrastructure Finance Consultative Group (IFCG). The group has a broad membership from federal/provincial Government, Banks/DFIs, private sector and Multi-lateral Agencies.

The first meeting of IFCG was held in May 2014, in which the various bottlenecks faced in extending finance to infrastructure projects and way forward were discussed.

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. This study is available online for public information (http://www.sbp.org.pk/departments/ihfd-pub-1.htm).

Capacity Building Programs on Infrastructure Finance: A full day workshop on '**Risk Allocation & Documentation in Infrastructure Project Finance**' was conducted on February 10, 2014 to enhance the knowledge and understanding of the participants in the area of infrastructure project finance. More than 38 officers from different banks and DFIs participated in the training programme, which proved to be very useful and knowledgeable for the participants.

A two-day seminar on **Infrastructure Project Financing** was held at SBP-BSC, Lahore on May 19-20, 2014, which was attended by 26 officials from banks & DFIs. The programme covered topics like Introduction to Project Finance, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation/Appraisal, Risk Allocation, Project Financing Documentation, Public Private Partnership (PPP), Successful PPP Programmes, and Domestic Experiences in Project Financing etc.

Refinance Schemes

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.

In order to further improve utilization of Export Finance Scheme (EFS) for SMEs, additional incentives for banks and exporters have been provided vide IH & SMED Circular No 01 of 2014. The banks' spread in EFS mark up rate has been enhanced from 1% to 2% for SME borrowers only and the performance based mark up rate benefit for SME borrowers under this scheme has been enhanced by 0.5% as compared to corporate sector exporters.

State Bank of Pakistan extended the validity period of the Scheme for Financing Power Plants Using Renewable Energy for Two Years. Now financing facilities under the captioned Scheme shall be available for LCs established for import / purchase of new plant, machinery & equipment up-to June 30, 2016.

Mark up rates for Export Finance Scheme (EFS) and Long Term Financing (LTFF) have been revised in line with the government's decision to encourage exports vide IH & SMEFD Circular No. 05 & 06 of 2014. The revised mark up rate for exporters availing financing facilities under EFS is 7.5% while the mark up rate under SBP's LTFF is 9% for end users.

Brief on Activities carried out by Development Finance Support Department (DFSD), SBP BSC

The Development Finance Support Department (DFSD) in the BSC is aimed at using the BSC field offices across the country to augment the DFG capacity and its role for connecting the unbanked/under-banked areas/sectors with the country's financial markets.

During FY14, DFSD and its field units remained actively involved in promoting, disseminating, monitoring & implementing and operational management of various SBP's policies, initiatives and schemes that include launching of Agri Indicative Targets, Agriculture Lending Diversification Project (ALDP), Farmer Financial Literacy Program (FFLP), SBP's Credit Guarantee Scheme for Small and Rural Enterprises (CGS), Microfinance Credit Guarantee Facility (MCGF), different Export Refinance Schemes, Technological Up-gradation Fund (TUF) Scheme, Mark-up subsidy and Guarantee Facility for Rice Husking Mills in Sindh, revised Prudential Regulations and other initiatives for Agriculture & SMEs financing. The major activities and achievements of DFSD and its field units during H2-FY14 are given in the following sections.

Focus Group Meetings: The Focus Groups forum at DFSD's field units aimed to disseminate the policy initiatives of DFG , SBP for the respective sectors; discuss and evolve operational strategies for increasing outreach of financial services amongst the Micro-enterprises and low income communities in both urban and rural areas; organize awareness & capacity building programs on the financial and business development services for the target groups and to collect feedback on different SBP/ Government initiatives in order to promote growth and development in development finance sector. During H2-FY14, a total of 39 Focus Group meetings were held, out of which 13 on Agri finance, 6 on Microfinance, 10 on SME finance, 8 on Islamic Banking and 2 joint sessions.

Monitoring of Agri Indicative Targets and Agricultural Lending Diversification Project: The DFSD, in collaboration with its field units and banks across the country made all out efforts for assisting AC&MFD, SBP in achieving the indicative agri credit disbursement target of Rs. 380 billion set for FY14. For the purpose the DFSD's field units conducted monitoring through 15 In-house meetings to review the progress of the banks against Agri Indicative Targets and provided requisite grass root level feedback to AC&MFD, SBP on participating banks' performance on monthly/quarterly basis. Moreover, AC&MFD, SBP has also assigned DFSD the responsibility of monitoring the performance of banks in conducting the farmer financial literacy sessions on monthly basis at grass root level from December 2012 onwards. During second half of-FY14, DFSD through its field offices successfully monitored a total of 496 such programs.

Awareness, information dissemination and capacity building activities: Dissemination of SBP policies, approach and initiatives for broadening and deepening of financial sector and increasing outreach of financial services to the under privileged sectors of the economy is the key strategic objective of DFSD. During the period under review, 69 programs were arranged by the field offices in collaboration with DFG, SBP, commercial banks and other stakeholders of the respective regions. Those programs include 22 awareness sessions, 05 conferences/ exhibitions, 16 seminars and workshops, 26 capacity building programs (Table-3).

Moreover, in all such capacity building programs, 13 were arranged for the DFG & other departments of SBP during the period under review, while 13 programs on development finance related subjects and SBP Schemes were arranged by the BSC filed offices in collaboration of commercial banks and other stakeholders in different part of the country to meet the specific training needs of bankers in their respective region.

Development of Linkages with Academia, Research Institutes and District/ Local Government Functionaries: As a part of strengthening the relationships with the educational institutions, the DFSD's field units coordinated with leading educational institutions and arranged internship programs of 6-8 weeks duration for the students of local business and economics schools at all the field offices, while five on-site visits & meetings were held with faculty members of different universities. Moreover, ten in-house/ on-site visits/ meetings with the representatives of provincial/ district administration, SME Regional Standing Committee, Regional Offices of SMEDA, Regional Office of Women Business Development Center Peshawar, Punjab Board of Investment & Trade, Women Chamber of Commerce & Industry KPK, Private Agriculture Farms, offices of the Chamber and Traders Associations, Bureau of Statistics and Development Authority Faisalabad, office of Banking Mohtasib Hyderabad etc have been held during the period (see table-1).

Developmental Initiatives: The DFSD initiated a Developmental Project for regional profiling of selected districts in collaboration with its field offices with the objective to facilitate DFG-SBP and DFSD in improving the mechanism of regional development finance related activities, take appropriate initiatives for uplifting socio-economic profile of a particular area, and devise adequate strategies for addressing specific development finance related issues. Accordingly the DFSD's team so far finalized regional profiles of Larkana, Bahawalpur and D.I. Khan Districts.

The Development Finance Compendium (DF Compendium) has been developed. The document compiles development finance related key information/statistics at one place on a monthly basis with the core objective to make references quickly available for Chief Managers and other SBP BSC officials while interacting with the stakeholders in Focus Group meetings, seminars/conferences, etc.

8.0. ANNEXURES

Annexure-1

Number of borrowers in DF sectors					
	14-Jun	**13-Jun**	**13-Dec**	**YoY**	**H.Y***
SME Finance	134,019	136,940	144,141	-2.9%	-7.7%
Agriculture Finance	2,151,180	1,990,959	2,347,802	8.0%	-8.4%
Microfinance (MFBs Only)	1,095,960	902,175	974,352	21.5%	12.5%
Housing Finance	508,381	504,812	506,632	0.7%	0.3%
Infrastructure Finance	–	–	–	–	–
Total	3,888,539	3,534,886	3,972,927	10.0%	-2.1%

Annexure-2

	SBP Refinance Schemes	June 30,2013	% share	December 31,2013	% share	June 30,2014	% share	% Change	
				Billion PKR				H.Y	YoY
A	**Export Finance Scheme (EFS)**	177.756		201.903		**160.471**		**-20.5%**	**-9.7%**
	Textile/Textile Products	112.891	63.51	121.282	60.07	98.969	61.67	**-18.4%**	**-12.3%**
	Edible Goods (including Rice)	27.792	15.63	37.678	18.66	23.230	14.48	**-38.3%**	**-16.4%**
	Leather/Leather Goods	10.043	5.65	11.793	5.84	11.315	7.05	**-4.1%**	**12.7%**
	Machinery and Metal Products	3.610	2.03	3.300	1.63	3.302	2.06	**0.1%**	**-8.5%**
	Carpets	1.207	0.68	1.183	0.59	1.054	0.66	**-10.9%**	**-12.7%**
	Cement	4.920	2.77	4.731	2.34	2.773	1.73	**-41.4%**	**-43.6%**
	Sports Goods	2.363	1.33	2.210	1.09	0.554	0.35	**-74.9%**	**-76.6%**
	Others	14.930	8.40	19.726	9.77	19.274	12.01	**-2.3%**	**29.1%**
B	**Long Term Financing Facilities (LTFF)**	36.028		36.464		**41.779**		**14.6%**	**16.0%**
	Textile Sector	18.920	52.51	19.876	54.51	25.193	60.30	**26.8%**	**33.2%**
	Engineering Goods	3.599	9.99	3.290	9.02	2.984	7.14	**-9.3%**	**-17.1%**
	Rice Processing	1.585	4.40	1.484	4.07	1.265	3.03	**-14.8%**	**-20.2%**
	Generators/Captive Power Plants	0.914	2.54	0.727	1.99	0.617	1.48	**-15.1%**	**-32.5%**
	Others	11.010	30.56	11.087	30.41	11.720	28.05	**5.7%**	**6.4%**
C	**Long Term Financing for Export Oriented Projects (LTF-EOP) (Defunct)**	5.277		3.597		**2.285**		**-36.5%**	**-56.7%**
D	**Refinance Facility for Modernization of SMEs**	0.094		0.094		**0.062**		**-34.0%**	**-34.0%**
E	**Financing Facility for Storage of Agricultural Produce (FFSAP)**	2.171		1.914		**1.747**		**-8.7%**	**-19.5%**
F	**Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas**	1.951		1.552		**0.928**		**-40.2%**	**-52.4%**
	Total (A to F)	223.3		245.5		**207.3**		**-15.6%**	**-7.2%**

Annexure-3

BSC office wise Summary of Development Finance Activities

Table-1: BSC Office wise Summary of Development Finance Activities (January - June 2014)

Activities/ SBP BSC Office	Sukkur	Faisalabad	Bahawalpur	Hyderabad	Peshawar	Multan	Gujranwala	Lahore	Rawalpindi	Sialkot	Quetta	D.I.Khan	Muzaffarabad	Grand Total
Agri Target vs Achievements/ FFLP	88	77	88	54	31	44	34	29	25	23	9	6	3	511
Awareness Programs	2	1	1	1	1	3			3	1	2	3	4	22
Capacity Building	4	6	1		4	3	4	1			1		2	26
Fair, Conference, Exhibition etc		1		1	1						2			5
Focus Group Meeting	6	4	4	1	5	2		2	5	4	4	1	1	39
Linkages With Academia	1	2	1	1	2		1		1		1	2		12
Linkages With Govt and Others				2	3	1		3	1					10
Others	9	11	1	5	8	2		4	3	2	2			47
Research Activities	1	2	1				1				1			6
Seminar and Workshop	2	3	1	1	2	1	1	2		1			2	16
Grand Total	113	107	98	66	57	56	41	41	38	31	22	12	12	694