


Development Finance Review, June 2015

State Bank of Pakistan

Infrastructure, Housing & SME Finance Department

Team Leader

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

Members

Reviewed by

Ghulam Muhammad Abbasi ghulam.muhammad@sbp.org.pk

Prepared by

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

Ms. Sabeen Raja sabeen.raja@sbp.org.pk

Contributors

- SME Finance – Mr. Imran Ahmad, Mr. Karim Alam, Mr. Sundeep Kumar
- Agriculture Finance – Mr. Kamran Bakhshi, Mr. Ahmad Sumair
- Housing & Infrastructure Finance – Dr. Muhammad Saleem, Mr. Awais Shafi, Mr. Zahir Sakhi
- SBP Refinance Schemes – Mr. Muhammad Ishfaq, Mr. Usman Shaukat
- Microfinance – Mr. M Imad Uddin, Mr. Saeed Ahmad
- Islamic Banking – Dr. Mian Farooq Haq, Mr. Muhammad Usman

For feedback/queries smefd@sbp.org.pk

Table of Contents

Executive Summary

All priority sectors have witnessed positive growth in FY-15. The Microfinance witnessed an increase of 36 percent, followed by Infrastructure Finance with growth of 19 percent, Agriculture Credit with growth of 15 percent, Housing Finance with 11 percent growth, and SME Finance witnessed a 3 percent growth. (**Table 1**). The aggregate growth in development finance (DF) remained 14 percent, which is quite high and promising. The same is depicted through Figure 1 as well. The number of DF outstanding borrowers saw a Y-o-Y growth of 29 percent mainly due to increase in Microfinance borrowers and SME borrowers (**Annex B**).

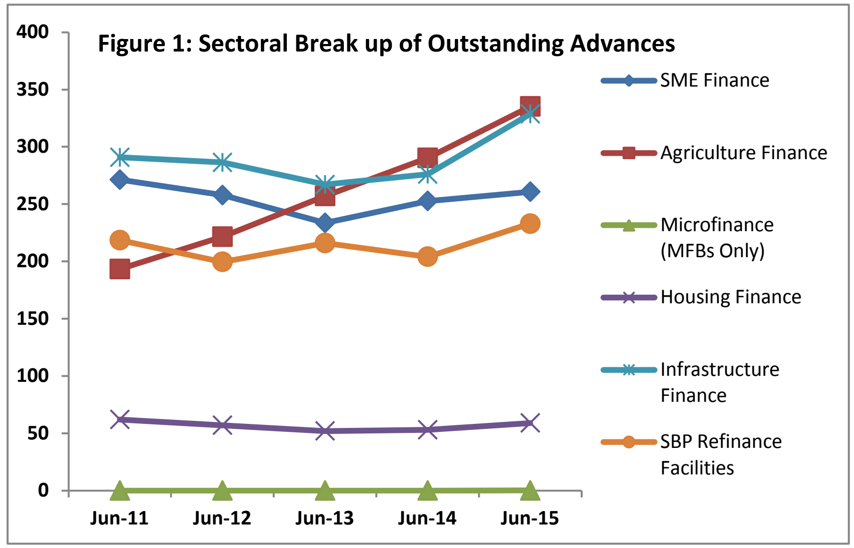


Table No 1:Sectoral Break up of Outstanding Financing (Amount in Billion Rupees)

Sectors	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	Change (Y-o-Y)	
SME Finance	271.28	257.82	233.55	252.73	260.77	8.04	3%
Agriculture Finance	193.3	221.5	257.1	290.3	335.2	44.9	15%
Housing Finance	62	57	52	53	59	6	11%
Infrastructure Finance	290.8	286.3	267	276.1	328.7	52.6	19%
SBP Refinance Facilities	218.5	199.6	216	204.1	232.9	28.8	14%
Microfinance (MFBs Only)	13.52	17.29	25.37	33.48	45.58	12.1	36%
Total	1,049.40	1,039.51	1,051.02	1,109.71	1,262.15	152.44	14%

Y-o-Y: Year on Year

1.0. SME Finance

SME outstanding finance was showing a declining trend up to 2013; however, after launch of revised prudential regulations in May, 2013, coupled with other initiatives for SME Finance promotion and development, SME outstanding financing has picked up pace and has been increasing year on year basis especially in absolute terms. SME financing increased by 3.19 percent from June, 2014 to June, 2015. The number of borrowers showed an increase of 15 percent from June, 2014 to June, 2015. On the other hand, the contribution of SME outstanding finance in the Gross Domestic Product (GDP) is quite low. At the end of June, 2015, share of SME Credit in total GDP was recorded as 1 percent.

Table 2: SME Financing Profile (Amount in Billion Rupees)

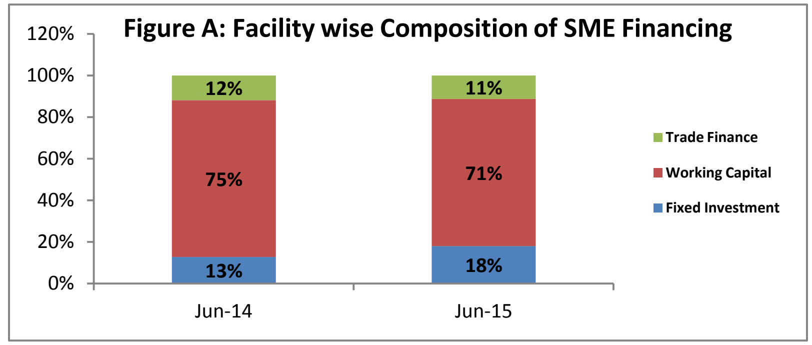
Category	As on		Y-o-Y Change	
	30-Jun-14	30-Jun-15	Absolute	Percentage
Outstanding SME Financing	252.73	260.77	8.03	3.20%
Total Financing by Banks/DFIs	4,339.23	4,685.68	346.45	8.00%
Outstanding SME Financing as % of Total Financing	5.82%	5.57%	-	-
SME Financing NPLs	85.49	81.77	-3.72	-4.40%
NPLs as % of Outstanding SME Financing	33.83%	31.36%	-	-
No. of Borrowers	133,018	152,495	19,477	14.60%
GDP (At Current Prices)	25,068.06	27,383.72	-	-
SME Financing to GDP (Ratio)	1.00%	1.00%	-	-

Non Performing Loans declined by almost 4 percent on Y-o-Y basis. (**Table2**). SME NPLs were Rs. 81.7 billion as on June 30, 2015 as compared to Rs. 85.4 billion as of June, 2014. In the **Table 3**, the position of the banks has been shown which managed to significantly bring down their SME NPLs during the year ended on 30th June, 2015.

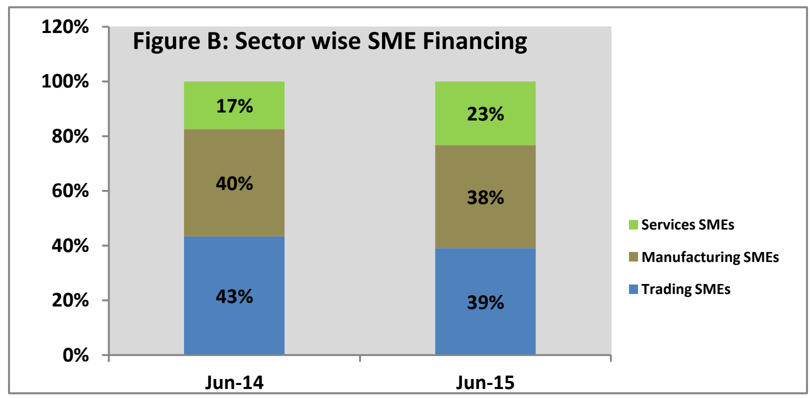
Table 3: Position Table of Banks w.r.t Highest Reduction in NPLs

S.No	Banks	% change in NPLs (Y-o-Y)
1	Silk Bank Limited	-23.0%
2	Bank of Khyber	-11.0%
3	Bank of Punjab	-7.0%
4	United Bank Limited	-5.0%
5	Summit Bank Limited	-4.3%

Facility-wise breakup (**Figure-A**) shows that the working capital financing constituted 71 percent of total outstanding SME financing followed by fixed investment and trade finance with shares of 18 percent and 11 percent respectively. The facility-wise distribution of borrowers depicted that working capital financing decreased by 4 percent when compared to previous year. On the other hand, fixed investment showed an increase of 5 percent when compared to previous year, while, trade finance shown a drop of 1 percent when compared to previous year.



Sector-wise SME financing shows that the share of trading sector at 39 percent, manufacturing at 38 percent and services sector at 23 percent in outstanding SME financing. On Y-o-Y basis, share of financing for manufacturing sector dropped by 1 percent, for trading decreased by 4 percent while for services sector increased by 6 percent. Comparing year on year, it is observed that financing to services SMEs improved



as their share increased to 23 percent in June, 2015 from 17 percent in June, 2014. On the other hand, manufacturing SMEs have been standing at 38 percent, same as June, 2014 (**Figure B**).

Loan size-wise review in **Table 4** shows that loans up to Rs. 3 million had 21 percent share which is 6 percent higher than previous year. It covered 89 percent of total SME borrowers, out of which, a major number of SME borrowers availed loans of up to 0.5 million. Advances over Rs. 3 million and up to Rs. 20 million had share of 42 percent in total financing which is 3 percent higher than previous year while Advances more than Rs. 50 million had a share of 15 percent in total financing.

Table 4: Loan size wise distribution of SME finance

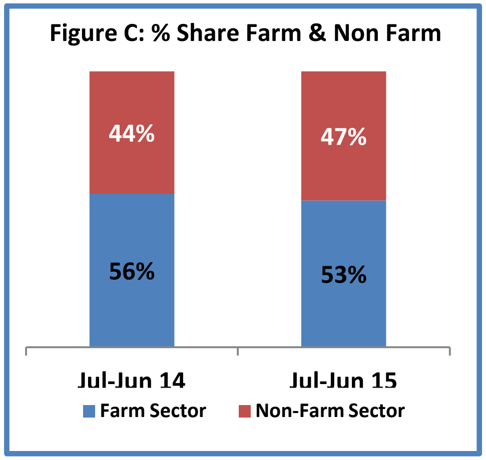
Loan size	30-June-14	30-June-15
Loan up to 3 M	27%	21%
Loan >3 M & < 20 M	39%	42%
Loan > 20 M & < 50 M	20%	22%
Loans > 50 M	14%	15%

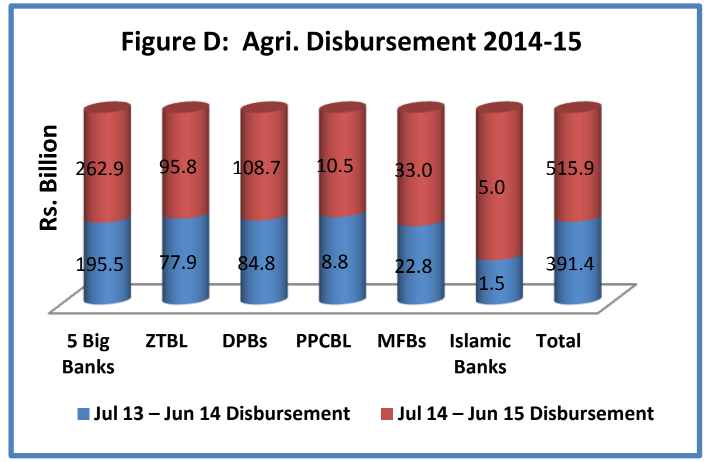
Banking Group-wise distribution of SME financing: In **Table 5** it is shown that the share of domestic private sector banks was highest in outstanding SME financing followed by public sector banks. Overall, outstanding SME financing increased by 3 percent as compared to same period, last year. Outstanding SME financing through Islamic banks increased tremendously as it showed an increase of 245 percent as compared to previous year. Share of public sector banks increased by 27 percent while DFIs showed 14 percent increase. Domestic Private Banks showed a decline of 10 percent in SME Financing.

Table No 5:Banking Group wise Distribution (Amounts in Billion Rupees)

Banking Groups	30-Jun-14	30-Jun-15	Y-o-Y Change
Public Sector Banks	50.60	64.36	27%
Specialized Banks	9.64	9.41	-2%
Domestic Private Banks	186.13	166.93	-10%
Foreign Banks	0.39	0.30	-23%
Islamic Banks	5.61	19.35	245%
DFIs	0.36	0.41	14%
Total	252.73	260.77	3%

2.0. Agriculture Finance





In the backdrop of Government's priority for growth and economic development of agriculture sector, State Bank of Pakistan allocated an annual indicative agricultural credit disbursement target of Rs. 500 billion to banks for FY 2014-15. The target was 31.5 percent higher than the last year's target of Rs. 380 billion and 28 percent higher than the actual disbursement of Rs. 391.4 billion for 2013-14. Out of the total target, Rs. 252.5 billion were allocated to five major banks, Rs. 90.0 billion to ZTBL, Rs. 115.5 billion to 15 Domestic Private Banks, Rs. 11.5 billion to Punjab Provincial Cooperative Bank, Rs. 28.2 billion to 7 Microfinance Banks and Rs. 2.3 billion to 4 Islamic Banks. During FY 2014-15, banks surpassed their target by Rs. 15.9 billion disbursing an amount of Rs. 515.9 billion, which was 31.8 percent higher than the last year's disbursements of Rs. 391.4 billion. Encouragingly, the agri. outstanding portfolio stood at Rs. 335.2 billion at end June, 2015 showing an increase of 15.5 percent compared with previous year's position of Rs. 290.3 billion. This

Table 6: Agricultural Credit Targets and Disbursement (Amount in Billion Rupees)

Banks	30-June-15		30-June-14	
	Target	Disbursement	Target	Disbursement
5 Major Banks	252.5	262.9	188.0	195.5
ZTBL	90.0	95.8	69.5	77.9
DPBs	115.6	108.7	90.4	84.8
PPCBL	11.5	10.5	10.0	8.8
MFBs	28.2	33.0	21.6	22.8
Islamic Banks	2.3	5.0	0.5	1.5
Total	500.0	515.9	380.0	391.4

increase was significant as overall growth in credit to private sector was subdued during the period. Institutional analysis for 2014-15 reveals that five major banks collectively disbursed agri. loans of Rs. 262.9 billion or 104.1 percent of their annual target of Rs. 252.2 billion which was higher by 34.5 percent from Rs. 195.5 billion disbursed during the corresponding period last year. Among the specialized banks, ZTBL disbursed Rs. 95.8 billion or 106.5 percent of its annual target of Rs. 90.0 billion which accounts for 18.58 percent of total disbursement, while PPCBL disbursed Rs. 10.5 billion by achieving 91.2 percent against its target of Rs. 11.5 billion during FY 2014-15. Fifteen Domestic private banks collectively disbursed Rs. 108.7 billion or 94.1 percent against their target of Rs. 115.6 billion. Seven microfinance banks surpassed their annual targets of Rs. 28.2 billion by disbursing Rs. 33 billion. Likewise, four Islamic banks, as a group, also surpassed their annual targets of Rs. 2.3 billion by disbursing Rs. 5.0 billion during the period under review. The group wise Y-o-Y comparative performance of banks is depicted in **Table 6**.

Table 7: Credit Disbursement to Farm & Non-Farm Sector **(Amount in Billion Rupees)**

Sector		30-June-14		30- June-15	
		Disbursement	**% Share in total**	**Disbursement**	**% Share in total**
A	**Farm Credit**	217.6	55.6	274.3	53.2
1	*Subsistence*	124.4	31.8	145.1	28.1
2	*Economic Holding*	54.1	13.8	62.4	12.1
3	*Above Eco. Holding*	39.1	10.0	66.8	13.0
B	**Non-farm Credit**	173.8	44.4	241.6	46.8
1	*Small Farms*	62.1	15.9	82.2	15.9
2	*Large Farms*	111.7	28.5	159.4	30.9
Total (A+B)		391.4	100	515.9	100

Sector-wise classification reveals that out of disbursements of Rs. 515.9 billion, Rs. 274.3 billion or 53.2 percent were disbursed to farm-sector and Rs. 241.6 billion or 46.8 percent to non-farm sector. In comparison, out of total disbursement of Rs. 391.4 billion during corresponding period last year, Rs. 217.6 billion or 55.6 percent were disbursed to farm sector and Rs. 173.8 billion or 44.4 percent to non-farm sector. The share of non-farm sector shows continuous increasing trend mainly due to SBP's initiatives for diversification of banks' credit portfolio towards non-farm activities. Resultantly, non-farm sector's share in total agri. credit disbursements has gradually increased from 17.4 percent in 2006-07 to 46.8 percent in 2014-15. While analyzing the size mix of sectoral disbursements, the distribution depicts that Rs. 227.3 billion or 44 percent of total disbursement was received by subsistence segment of the farming community as compared with Rs. 186.5 billion or 48 percent share in FY 2013-14. The details of farm and non-farm sector credit are shown in **Table-7**.

Province-wise Agri. Credit Disbursements:

The review of provincial/ regional distribution of annual disbursement for FY 2014-15 reveals that Punjab recieved a major chunk of Rs. 438.6 billion or 85 percent due to intensive agri. landscape and agro based industries. However, the Punjab's share of total disbursement slightly declined from 86.7 percent to 85 percent as compared with last year. Sindh received Rs. 65.6 billion of credit with increase in share from 10.6 percent to 12.7 percent compared with FY 2013-14. This increase was mainly due to SBP's focus towards rationalizing the credit allocation for narrowing the gap among the provinces/regions. Further, Khyber Pakhtunkhwa received Rs. 10 billion against the target of Rs. 30 billion. However, the rest of the province/regions collectively received a small amount of Rs. 1.6 billion against the allocation of Rs. 9.9 billion. Details of provincial disbursements are provided in **Table 8**.

Table 8. Province-wise Indicative Agri. Credit Targets and Disbursement (Amount in Billion Rupees)

Region	30-June-15		% share	30-June -14		% share
	Target	Disbursement		Target	Disbursement	
Punjab	390.0	438.6	85.0	294.7	339.1	86.7
Sindh	70.1	65.6	12.7	55.0	41.3	10.6
KPK	30.0	10.0	1.9	21.3	9.5	2.4
Baluchistan	7.5	0.4	0.1	5.7	0.4	0.1
AJK	1.2	0.7	0.1	2.0	0.7	0.2
GB	1.2	0.5	0.1	1.3	0.3	0.1
Total	**500.0**	**515.9**	**100**	**380.0**	**391.4**	**100**

Agriculture Non-performing portfolio: As of end June, 2015, non-performing agri. loans of banks/DFIs were reported to be Rs. 38.4 billion or 13.5 percent as compared with Rs. 35.1 billion or 13.8 percent of the outstanding loans at end June, 2014. The NPLs of 5 big banks, as a group, witnessed an increase of 2.6 percent i.e.; from Rs. 6.8 billion to Rs. 9.5 billion during the period under review. In contrast, the NPLs of domestic private banks reduced from 12.4 percent to 10.2 percent with similar NPLs portfolio, while, in case of the specialized institutions, NPLs increased by Rs. 0.7 billion on Y-o-Y bases. The group wise details of NPLs are provided in **Table 9**.

Table 9: Agriculture Non Performing Loans (Amount in Billion Rupees)

Banks	30-Jun-15			30-Jun-14		
	NPLs	Outstanding loans*	%NPLs	NPLs	Outstanding loans*	% NPLs
5 Major Banks	9.5	101.1	9.4	6.8	100.4	6.8
DPBs	4.7	46.4	10.2	4.7	38.1	12.4
ZTBL	22.3	126.8	17.6	21.5	106.2	20.3
PPCBL	1.9	10	19.2	2	8.7	23.1
Total	38.4	284.3	13.5	35.1	253.3	13.8
Outstanding as percent of GDP	-	1.0%	-	-	1.0%	-
***Principal only**						

Agriculture Borrowers

At the end of June 2015, the number of outstanding agri. loan borrowers was recorded at 2.186 million with an increase of around 35,000 borrowers or 1.6 percent Y-o-Y growth as against a total of 2.151 million borrowers on 30th June, 2014. According to statistics, a decline in number of borrowers was witnessed in PPCBL, 5 big Comm. banks and ZTBL by 26.1 percent, 6.1 percent and 3.3 percent borrowers respectively. On the other hand, there was significant increase in the number of borrowers of MFBs by 20.4

percent. This increase shows significant penetration in lower income groups who are in dire need of financial resources. The group wise and specialized banks details is shown in **Table 10**.

Table 10: Outstanding Number of Agri. Loan Borrowers					
	30-Jun-15		30-Jun-14		Y-o-Y % Change
Banks	**No. of Borrowers***	**% Share**	**No. of Borrowers***	**% Share**	
5 Big Banks	346	15.8	368	17.1	-6.1
DPBs	37	1.7	36	1.7	4.5
ZTBL	811	37.1	838	39	-3.3
PPCBL	163	7.5	221	10.3	-26.1
MFBs	828	37.9	687	31.9	20.4
Islamic Banks	1	0.1	1	0	53.5
Total	**2,186**	**100**	**2,151**	**100**	**1.6**
* Active borrowers only.					

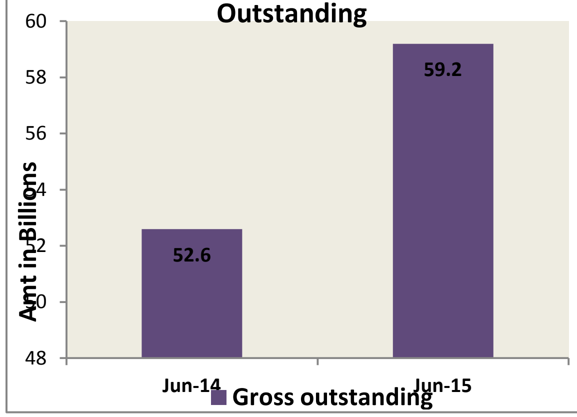
3.0. Housing Finance

Gross Outstanding The gross outstanding finance as on June 30, 2015 of all banks and DFIs stood at Rs. 59.2 billion, compared to Rs. 52.6 billion as on June 30, 2014, showing an increase of Rs. 6.6 billion (12.6 percent). Of the gross outstanding as on June 30, 2015, commercial banks accounted for Rs. 45.8 billion; 14 percent increase since June 30th, 2014. Private Banks reported Rs. 21.6 billion followed by Islamic banks at Rs. 17.9 billion and public sector banks at Rs. 5.9 billion. The outstanding loans of HBFCL were Rs. 13.3 billion; up by 7 percent since June, 2014. Other Banks/DFIs had a meager share of Rs. 0.42 billion in outstanding loans. The gross outstanding housing finance as on June 30, 2015 of Islamic Banking Industry (Five Islamic Banks (IBs) & 15 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 21.1 billion. Of the total outstanding (net of NPLs) in Islamic housing finance, Islamic banks accounted for Rs. 18 billion; an increase of 31 percent since June, 2014.

Table 11: Housing Finance Profile (Amount in Billion Rupees)

Category	30-Jun-15		30-Jun-14		Y-o-Y Change (%)
	Borrowers	Amount	Borrowers	Amount	
Cumulative Disbursement	-	206	-	197.5	4%
Outstanding	31,967	45.7	30,791	37	24%
NPLs	38,531	13.5	44,103	15.6	-13%
Gross Outstanding	70,498	59.2	74,894	52.6	12%
Outstanding as percent of GDP	-	0.2 %	-	0.2%	0%

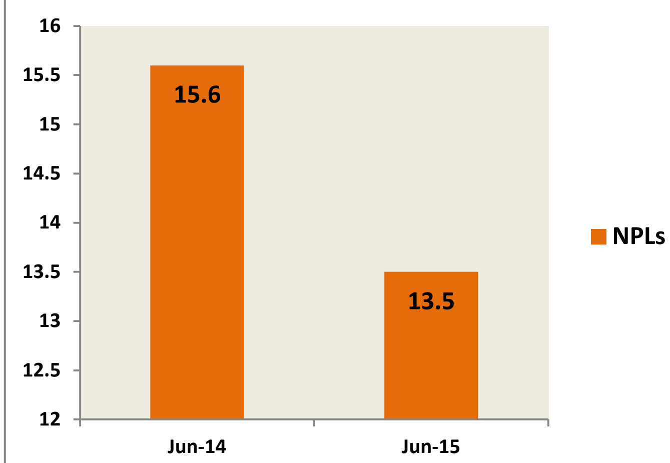
Figure E: Overall Industry Gross Outstanding



Non-Performing Loans (NPLs)

NPLs decreased from Rs. 15.6 billion (June 30, 2014) to Rs. 13.5 billion (June 30, 2015); down by 13 percent over the period of a year. HBFCL's NPLs decreased from Rs. 6.4 billion to Rs. 4.5 billion in June 2015; a significant decrease of 29 percent. HBFCL's percentage share of NPLs in its total outstanding is still on a higher side as 37 percent of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 33 percent. NPLs for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 1.81 billion on June 30, 2015, which were Rs. 1.86 billion at the end of June 30th, 2014 showing a decrease of 2.7 percent.

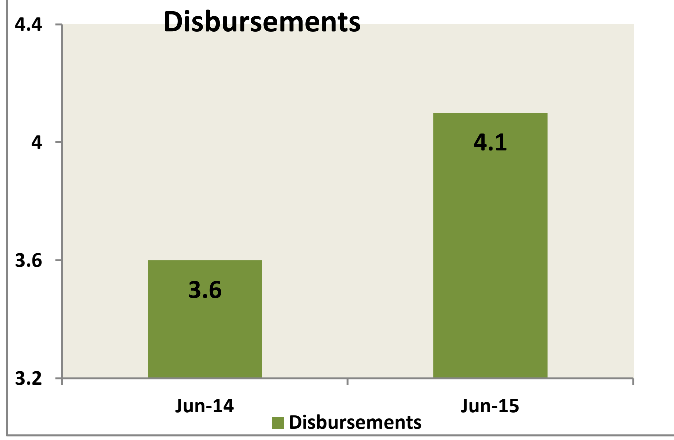
Figure F: Overall Industry NPLs



Disbursements

Fresh disbursements of Rs. 7.5 billion were made to 2,095 borrowers during the period ending on June 30th, 2015. Islamic banks extended new disbursements with Rs. 4 billion followed by private banks with Rs. 1.4 billion and public sector banks with Rs. 186 million. HBFCL's fresh disbursements for Jan-June were reported to be Rs. 1.75 billion.

Figure G: Overall Industry Disbursements



Among commercial banks, the number of new borrowers totaled 841, with private banks serving 249 new borrowers, Islamic banks 522 customers and others 70 borrowers. HBFCL extended loans to 1,252 new borrowers during the period under review. Fresh disbursement for Islamic Banking Industry was Rs. 4.44 billion to 585 new borrowers during Jan-June. This includes new disbursements of Rs. 416 million to 63 customers by IBDs of conventional banks.

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. 214.02 million at the end of previous year. It registered an increase of 1.81 percent, over the last year. The number of outstanding borrowers decreased from 2,173 to 2,158 over the year; a decrease of 0.7 percent. NPLs for MFBs were reported nil for the current year showing a decrease of 100 percent.

4.0. Infrastructure

Infrastructure plays a pivotal role in the development of a country. Quality infrastructure improves investment climate, enhances export competitiveness, creates employment, improves living conditions of public and leads to a higher tax revenue for the Government. However, public sector has limited resources to fill the huge infrastructure gap in the country and thus opportunities for private sector investment are vast. Infrastructure sector requires large upfront capital investment for benefits that spread over longer time. Unlike public sector, which takes into consideration the social benefits from new infrastructure projects; private sector's involvement looks at it from a commercial perspective. Therefore, appropriate incentives are required to draw private sector investment in infrastructure sectors. In Pakistan, Banks and Development Finance Institutions (DFIs) have provided major part of the credit for financing infrastructure projects in the private sector. This review is prepared based on data received from banks and DFIs. It includes infrastructure projects financed by banks & DFIs, as defined in the IPF Guidelines.

Table 12: Infrastructure Finance Profile (Amount in Billion Rupees)

Category	As on		Y-o-Y Change
	30-Jun-15	30-Jun-14	
Amount Outstanding	328.7	276.1	19.1%
NPLs	16.63	18.08	-8.0%
Disbursements (Cumulative)	393.9	371.3	6.1%
No. of Projects (*Cumulative)	378	375	0.8%
Total Sanctioned Amount	623.0	535.6	16.3%
Outstanding as percent of GDP	1.2%	1.1%	0.1%

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

Outstanding Portfolio: The total amount outstanding, against infrastructure finance, at the end of June-15 was Rs. 328.7 billion compared with Rs. 276.1 billion a year earlier (June-14), recording a considerable increase of 19.1 percent. Infrastructure Project Finance (IPF) portfolio of banks & DFIs has witnessed growth in the past two years. Telecom, power generation, petroleum, O&G and RBF sectors noticed a growth in outstanding portfolio. Following is the list of infrastructure sectors where lending was made by banks/DFIs.

a) Power Generation (PG)

b) Telecom

c) Oil & Gas (O&G) Exploration/Distribution

d) Petroleum

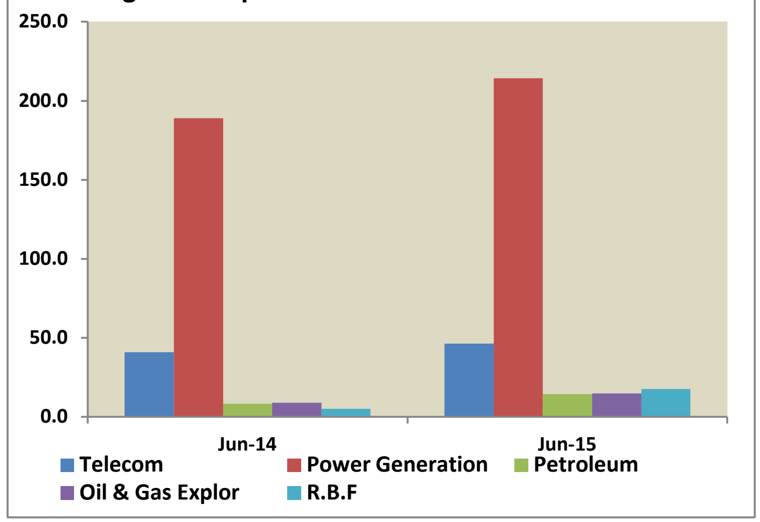
e) Road, Bridge, Flyover (RBF)

f) Power Transmission (PT)

g) LPG Extraction/ Distribution

h) Water Supply, Sanitation (WSS)

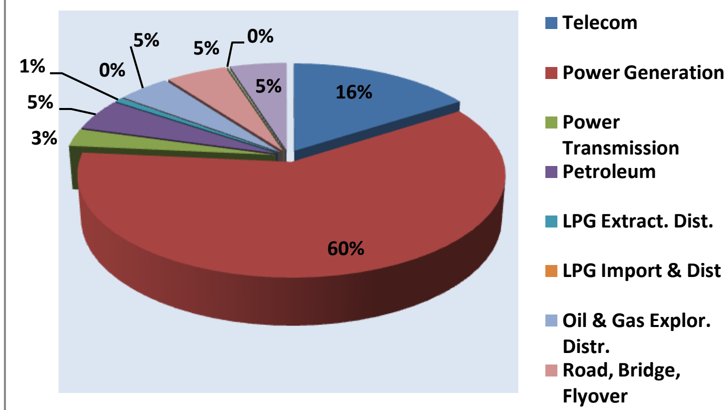
Figure H:Top 5 Infrastructure Sectors



Share of power generation in total outstanding amount is the highest at 65 percent followed by telecom with 14 percent share whereas; share of petroleum, O&G and RBF sectors is 4.4 percent, 4.5 percent and 5.4 percent respectively.

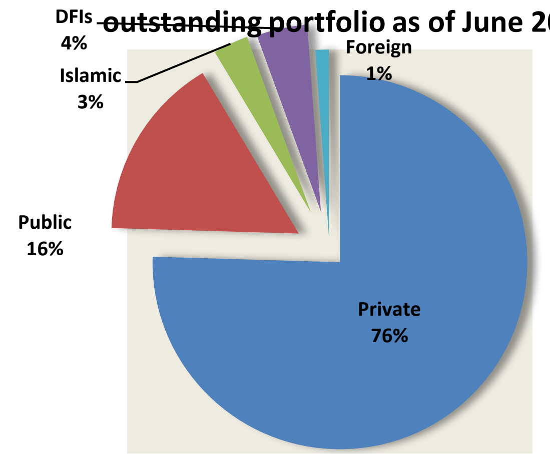
Disbursements: Disbursements as on June 30th, 2015 amounted to Rs. 329.8 billion, mainly made in power generation, petroleum, O&G and RB&F sectors. The cumulative amount of disbursements as of June, 2015 showed an increase of 6.1 percent on y-o-y basis. At the end of June, 2015, the cumulative amount disbursed was Rs. 329.8 billion to all infrastructure sectors, of which 60 percent was in PG sector followed by telecom sector with 16 percent share (**Figure L**).

Figure I: Cumulative Disbursements as of June 2015 (sector wise)



Number of Projects: Out of the 378 infrastructure projects financed, 216 were undertaken in power generation sector, 47 in telecom, 11 in power transmission, 19 in petroleum, 23 in O&G, and 29 in RBF sector.

Figure J: Share of financial institutions in outstanding portfolio as of June 2015



Banking-sector wise share: The institutional share in outstanding portfolio has largely remained the same with a large share resting with private sector banks followed by public sector banks (**Figure M**). Islamic banks' share in total outstanding amount has remained steady at 3 percent percent. The private sector banks' share in NPLs stood at 68 percent while public sector banks' share was at 16 percent. DFIs share in NPLs reached 16 percent although their share in cumulative disbursement was only 4.6 percent of the total. Foreign banks and Islamic banks did not report any NPLs as of June 2015. Infrastructure financing portfolio of banks & DFIs has shown encouraging growth since December 2013 when it was at Rs 255 billion. This trend is expected to further continue as SBP has decreased its policy rate. Banks will have to explore other sectors for new lending, like aviation, industrial parks, waste management, railways and tourism for new opportunities, instead of focusing on power sector only.

Amount Sanctioned: At the end of June, 2015, the total amount sanctioned by Banks & DFIs for infrastructure projects increased from Rs. 535.6 billion to Rs. 623 billion, recording a growth of 16.3 percent compared to previous year. Out of the total amount sanctioned, share of PG stood at 54 percent, telecom’s share at 18 percent followed by RBF and petroleum with 7 percent share each and O&G sector with 4 percent.

5.0. Refinance Schemes

During FY 2015, mark up rates for Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) were revised downward in line with policy rate as well as to encourage exports. The revised mark up rate for exporters availing financing facilities under EFS was 6 percent while the mark up rate/return under SBP's LTFF was 7.5 percent for end users on June 30, 2015[1]. The outstanding financing under EFS stood at Rs. 191.1 billion at the end of June 30, 2015. Outstanding financing showed an increase of 19.1 percent from previous year's outstanding financing of Rs. 160.4 billion at the end of June 30, 2014. The reason for increase in EFS outstanding financing may be attributed to reduced markup rates on EFS.

Sector-wise Financing under EFS and Long Term Financing Facilities: The sector-wise EFS outstanding financing of Rs. 191.1 billion shows that textile sector stood at the top with Rs. 116.2 billion (61 percent), followed by edible goods with Rs. 32.7 billion (17 percent). Similarly under LTFF, textile sector is the larget recipient of the SBP refinance facility with Rs. 27.3 billion (68 percent). Total refinance outstanding under long term facilities (LTFF) extended by SBP was Rs. 42 billion. Of the total LTFF, main recipient (95 percent) of SBP's long term financing facilities were export oriented sectors. The remaining 5 percent financing was provided 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 992 with an average loan size of Rs. 194.5 million at the end of June 30, 2015. Out of total financing of Rs. 191.1 billion, four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad have above 90 percent share. Sialkot and Karachi have largest chunk of borrowers i.e. 301 and 293 respectively but average loan size in Sialkot is Rs. 40.9 million against Rs. 282 million in Karachi.

[1] In July 2015, these rates have been further revised downward to 4.5% and 6% respectively.

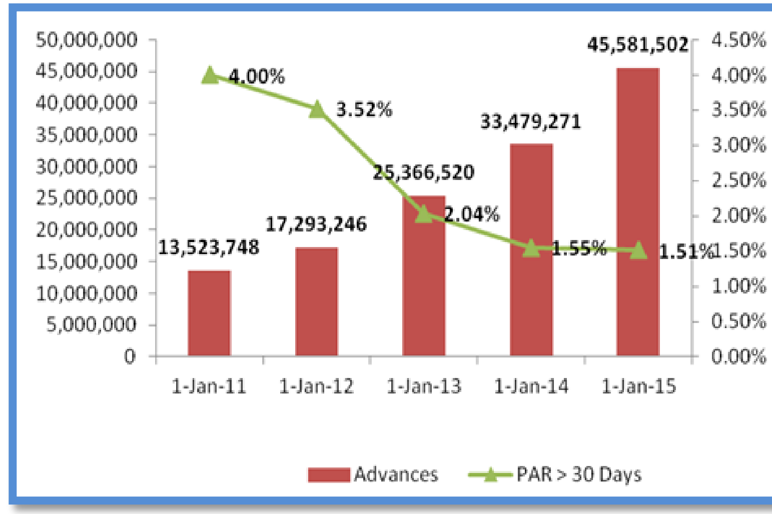
Islamic Export Refinance Scheme (IERS): During FY 2015, 12 Islamic Banking Institutions (5 Islamic Banks (IBs) and 7 Conventional Banks' Islamic Banking Branches (IBBs) utilized refinance facilities under IERS. The outstanding financing for IBs was Rs. 15 billion while the outstanding financing for IBBs was Rs. 8.5 billion at the end of June 30, 2015. The total IERS financing outstanding stood at Rs. 23.4 billion showing an increase of 81.4 percent at the end of June 30, 2014 on Y-o-Y basis. The increase in financing occurred due to more financing availed both by Islamic Banks and Islamic Banking Branches of conventional banks.

6.0. Microfinance

Table 13: Microfinance Banks (MFBs) (Amount in Billion Rupees)				
Indicators	As on		Growth (Y-o-Y)	
	Jun-14	Jun-15	Absolute	% Change
Equity	13.5	16.7	3	24%
Assets	62.4	82.8	20	33%
Deposits	36.9	52.0	15	41%
Advances	33.5	45.6	12	36%
Avg. Loan Balance	31	35	5	16%
PAR > 30 Days	1.55%	1.51%	-	-
No. of Borrowers	1,095,960	1,296,204	200,244	18%

The microfinance banking sector exhibited strong growth and made progress towards profitability despite various external challenges. Favorable regulatory environment strengthened the confidence of both existing and new investors who continued to invest in microfinance banks (MFBs). Growth was witnessed in all key performance indicators of MFBs, shown in Table-6. Microcredit, the core parameter for growth of microfinance services in the country, registered strong growth of 36 percent during last year. Another substantial development was healthy performance of mobile phone banking, which through eight players, continued to add low-cost, and easy-to-access distributional channels in the sector. Continuing their earlier performance trend, MFBs maintained their growth momentum at large during FY-15 **(Table-6)**. Presently, ten MFBs are operating in Pakistan; nine of them are operating at national level, while one (Advans MFB) at the provincial level (Sindh). All the MFBs are privately owned with both foreign and national investors. As of June 30, 2015, due to fresh equity injections in some of the MFBs, the overall equity base of MFBs jumped to Rs. 16.7 billion, experiencing 24.2 percent Y-o-Y growth from Rs. 13.4 billion last year. Deposits depicted a significant rise of 40.8 percent and crossed the amount of Rs. 50 billion at the end of FY-15 compared to Rs. 36.9 billion in the preceding year. This growth indicates enhanced deposit mobilization in MF industry and progess towards better reliance on sustainable funding resouce.

Microfinance banking assets also registered a growth of 32.7 percent during the period under review and reached at Rs. 82.8 billion. The gross loan portfolio (GLP) of MFBs increased by Rs. 12.1 billion (36.1 percent) during the year to reach at Rs. 45.6 billion. The number of MFBs' depositors reached 11.5 million at the end of June, 2015 registering an incredible growth of 167.8 percent from 4.3 million depositors last year. MFBs have been consistently strengthening their loan size owing to strong market.



Gross Loan Portfolio (GLP), as mentioned earlier, reflected a marked growth of 36.1 percent during the FY-15 reaching above Rs. 45 billion as compared to Rs. 33 billion last year. The growth in GLP was fueled by larger loan sizes which can be accredited to the newly introduced Micro Enterprise lending products, as well as, the introduction of a running finance (RF) facility to tap the high end market. Aggressive lending in microenterprise products heightened the big ticket loan extensions in FY-15. Growth in industry-wide GLP has been witnessed across the board due to contributions from Advans (above 200 percent), Ubank (above 170 percent), POMB (above 160 percent), WMFB (124 percent) and Apna (117percent). Further, agriculture sector continued to maintain the largest share of 40 percent of GLP as of June 30, 2015; however, it dropped from 54 percent as compared to corresponding period last year. Besides, Apna MFB launched its nation-wide operations on issuance of license in June 2015. Hence, all of the above contributing factors reflected positive and healthy growth indication collectively in long run. KBL remained the industry leader in terms of both number of borrowers (493,160) and GLP of Rs. 14.9 billion.

Non-Performing Loans (NPLs) witnessed a slight decrease of 1.51 percent at end of FY-15 from 1.55 percent in the corresponding period indicating improvement in industry's portfolio quality. Asset base of MFBs experienced a significant growth of 33 percent, primarily due to advances with other components showing little change. Despite highest growth (42.6 percent) demonstrated by KBL during the FY-15, TMFB leads the industry with an assets base of Rs. 21.23 billion as of June 30, 2015.

Deposits of MFBs continued to show progress during the period under review with an increment of 41 percent to cross Rs. 50 billion. Even as KBL managed to increase its deposits (by 57 percent) which was more than TMFB (i.e. 27 percent), the latter continued to lead the industry with a deposit base of Rs. 15 billion. Other relatively new microfinance banks which were smaller in size also showed significant increase in their deposit base i.e. Apna and Ubank registered 117 percent and 151 percent increase respectively. Apna MFB launched twelve branches during the year that contributed towards the strengthening its deposit base.

Funding side of MFBs has seen improvement and greater stability as a result of increase in their deposits and equity. While all MFBs remain compliant with minimum capital requirement, the aggregate equity of MFBs reached Rs. 16.7 billion. Some MFBs registered profits during the year which had an overall positive impact on their equity. With a growing share of deposits in overall funding composition of MFBs, it is expected that MFBs are now heading towards greater self-reliance through low-cost and sustainable sources of funding.

7.0. Islamic Banking

Growth momentum of Islamic banking industry (IBI) of Pakistan since its re-launch in 2001 continued during FY 15. At present, 22 Islamic Banking Institutions (IBIs) (5 full-fledged Islamic banks and 17 conventional banks) are operating in the country. Recently, SBP has issued a license for establishment of an Islamic Banking subsidiary to a conventional bank. Both assets and deposits of IBI witnessed increase of more than 37 percent during the review year. As of end June 2015, the industry's asset base reached Rs. 1,495 billion and constituted market share of 11.3 percent in overall banking industry. Similarly, deposits of Islamic banking industry increased to reach Rs. 1,281 billion having a share of 12.8 percent in overall banking industry deposits (see **Table 13**). The outreach of Islamic banking institutions also expanded and as of June 2015, the branch network of IBI consisted of 1,702 branches spread across 95 districts of the country.

Table 14: Industry Progress and market share (Amount in Billion Rupees)

Category	As on		Y-o-Y Change	Share in Overall Banking Industry	
	Jun-14	Jun-15		Jun-14	Jun-15
Total Assets	1,089	1,495	37%	10%	11%
Deposits	932	1,281	37%	11%	13%
Total Islamic Banking Institutions	22	22	-	-	-
Total No. of Branches*	1,335	1,702	-	-	-

Source: Quarterly Unaudited Accounts

number includes sub-branches

8.0. 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 period.

Initiatives for Small and Medium Enterprises' Financing

Prime Minister 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 million are to be provided through the banking system at service charges of 8 percent per annum (reduced to 6 percent since July, 2015) for borrowers, while the rate of return for banks working as Executing Agencies (EAs) for the scheme is KIBOR+500 bps.. As of 30th June, 2015, 62,909 applications had been received from potential borrowers, of which, 54,013 applications were received from male applicants while 8,896 applications were received from female borrowers. As of 30th June, 2015, an aggregate amount of Rs. 16,075 million had been sanctioned as of June 30th, 2015, whereas, total disbursements by banks were Rs. 5,100 million against 6,169 loans.

Secured Transaction Reforms: Access to credit is constrained for borrowers, particularly small and medium enterprises, micro-businesses and agri-borrowers as taking security interests over movable property is considered risky under the current legal framework since it:

a) does not adequately provide for the creation of security interests over movable property to secure the obligations owed by a customer to a financial institution;
b) provides a restrictive and ambiguous definition of movable property; and

c) Does not provide for the registration of security interests over movable property, where the borrower is not a company.

With a view to promote the conduct of banking business and to increase access to credit for unincorporated entities and farmers, SBP, with the Technical Assistance of UKAID, hired, M/s Haidermota BNR as Project Consultants for drafting of Secured Transactions Bill that provides legal regime for the creation, registration, priority and enforcement of security interests over movable property. State Bank also constituted Project Committee under the Chairmanship of Executive Director (DFG), SBP with members from Ministry of Finance, Ministry of Law GOP, PBA and SMEDA to provide supervisory insight and also to oversee timely drafting and finalizing of the Bill for onward submission to the Government of Pakistan for approval of the Bill from the Parliament. The Project Consultants submitted various drafts of the Secured Transactions Bill, which were revised from time to time by incorporating stakeholders' feedback including the feedback of World Bank (WB) consultants who were engaged by SBP in June 2014 to provide technical assistance to SBP for developing a broader National Financial Inclusion Strategy (NFIS) for Pakistan which also included the drafting and endorsement of a Secured Transaction Law (STL).

Credit Guarantee Scheme for Small and Rural Enterprises: State Bank of Pakistan is operating a Credit Guarantee Scheme (CGS) for Small and Rural Enterprise Financing, which allows banks to develop a portfolio of borrowers which are fresh borrowers and/or collateral deficient. Under CGS, SBP shares 40 percent of credit losses of lending banks on their loans, based on funds provided by the UK Department for International Development (DFID). SBP has allocated credit exposure limits of Rs. 8.4 billion with guarantee coverage limit of around Rs. 3.35 billion up till June 2016 to sixteen banks selected as Participating Financial Institutions (PFIs).

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 4.75 percent and credit risk sharing facility of up-to

30 percent 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 percent.

SBP's Initiatives for Promotion of Agricultural Credit

SBP, in collaboration with banks, federal & provincial governments, farming community and other stakeholders has been encouraging banks to adopt agri. lending as a viable business line. During 2014-15, a number of policy and regulatory initiatives have been taken to remove the bottlenecks and enhance access to financial services for the farmers, especially smaller ones. Some of the major initiatives during recent years are as under;

Enhancement of Scope of Crop Loan Insurance: The scope of crop loan insurance scheme (CLIS) was enhanced from 12.5 acres to 25 acres. The CLIS aims at mitigating the default risk of small farmers, in case of natural calamities, and provide repayment assurance to banks. Under the scheme, which is mandatory for small farmers, the government is bearing the cost of premium on account of small farmers up to 2 percent per crop per season. Livestock Insurance Scheme: SBP, in collaboration with stakeholders, has launched livestock insurance scheme for borrowers getting financing for up to 10 cattle. Its objective is to improve access to finance for the livestock & dairy sector and to mitigate risk of loss of livestock due to disease, natural calamities & accident. Framework for Warehouse Receipt Financing: In accordance with the objective of improving the performance of the agriculture sector and to develop commodities' physical trade and marketing system, SBP issued draft Framework for Warehouse Receipt Financing. The framework facilitates banks in development of specialized products for providing financing to farmers, traders, processors, and other players in the value chain. SBP facilitated two pilot projects (Sindh and Punjab) to test the feasibility of warehouse receipt financing in the country. These projects were launched in collaboration with banks, MFBs, warehouse operators, and collateral management company.

Credit Guarantee Scheme for Small and Marginalized Farmers: SBP developed a credit guarantee scheme, funded by the Federal Government, for small & marginalized farmers which would facilitate flow of credit to small and marginalized farmers who do not have any collateral. The objective of the guarantee scheme is to encourage financial institutions to lend to small farmers who do not have adequate collateral (acceptable to bank) in order to meet their working capital requirements.

International Conference on Agriculture Value Chain (VC) & Rural Finance: A two day international Conference was held on April 28-29, 2015 at Islamabad to promote innovative agriculture VC financing in Pakistan. The conference was attended by more than 350 local and international participants. The conference was successful in creating awareness among the banks, concerned Government departments, processors and other stakeholders on Value Chain financing.

Guidelines for Value Chain Financing: To develop linkages between banks and small farmers through cross guarantees by the input suppliers and traders/processors, SBP issued financing guidelines for Value Chain Contract Farming. These guidelines will not only facilitate banks in development of specialized products but also helps small farmers in getting quality inputs, marketing of agri. produce and timely payments by the traders/ processors.

Farmers' Financial Literacy Programs: SBP also engages farmers by conducting financial literacy and awareness building programs through its Farmers' Financial Literacy Programs. These programs have been instrumental in not only creating awareness among the farming community regarding the availability of different kind of financial services and their rights as well as building basic financial acumen in order to make efficient use of these services through basic financial concepts like agri. credit discipline, fund management, budgeting savings and investments and creating awareness regarding advanced financial services offered by banks. So far around 2,000 farmers have been benefitted in 12 such programs.

Infrastructure Finance Development Initiatives

Promotion of Green Banking and Finance: Pakistan is facing severe energy shortages for a few years now and we have suffered from extreme floods recently due to climate change effects. Recognizing the importance of this issue, SBP has initiated work on the promotion of green banking & finance in the country, which broadly includes concepts like renewable energy/ energy efficiency financing, resource efficiency & sustainable development. In this regard, SBP has held consultations with various stakeholders including multilateral agencies to design and implement policies and initiatives on green banking in the country and encourage local banks to extend credit to this sector. Various initiatives taken for promotion of green banking & finance include:

Concept paper on Green Banking: SBP has prepared a concept note on green banking to highlight its importance and to create awareness. This paper includes international developments, regulatory measures from other central banks like Nigeria, China, India, Bangladesh etc and recommendations/way forward for SBP.

Green Banking Guidelines: SBP is working, with technical assistance from German Bilateral Development Agency (GIZ), to develop a coherent set of guidelines for banks/DFIs to adopt environment friendly measures in their lending and operations. The proposed green banking guidelines are expected to serve as guiding instructions to steer banks/DFIs towards implementation of green banking measures in their products/ services and operations.

Environmental and Social Risk Management (ESRM) Survey: State Bank has partnered with IFC to conduct ESRM survey in Pakistan. IFC is conducting the survey in 17 other countries as well. The results of the survey will provide insights to State Bank for streamlining its regulatory and developmental initiatives for encouraging incorporation of environmental and social considerations in banking practices and products.

Awareness session on Green Banking: SBP partnered with GIZ (German Bilateral Development Agency) in organizing a half-day awareness session on "Green Financing" on May 19, 2015 at the Avari Towers Hotel, Karachi. The purpose of this session was to discuss the existing practices and challenges faced by banks & DFIs when financing green projects; and to assess future capacity development requirements. Around 45 participants from different commercial banks, DFIs, Islamic banks, Microfinance banks and the State Bank attended the session.

Accreditation under the Green Climate Fund (GCF): SBP is working with the Federal Ministry of Climate Change (MoCC) to get banks/DFIs voluntarily accredited to the Green Climate Fund (GCF). Pakistan is a signatory to United Nations Framework Convention on Climate Change (UNFCCC). UNFCCC has established a Green Climate Fund (GCF) as its key operating entity. The objective of GCF is to promote a paradigm shift towards a low carbon and climate resilient pathways by supporting developing countries to address their climate change mitigation and adaptation needs. The GCF is designed to serve as the focal point for the purpose of raising climate finance and aims to raise funds of $100 billion a year from 2020 and onwards. To access funds from GCF, accredited national, regional and international implementing entities (IEs) and intermediaries have to be developed to undertake climate change projects/programmes.

Sustainable Banking Network: SBP has recently joined the Sustainable Banking Network (SBN), which is an association of banking regulators and banking associations from emerging markets for the purpose of creating enabling frameworks for sustainable banking. The network facilitates collective learning of its members with focus of designing and implementing effective policies, guidelines and practices. The network's current members constitute of 12 central banks, 4 banking associations and government ministries from three countries**.**

European Union (EU) Funded High Pressure Cogeneration (HP-Cogen) Programme in Sugar Sector: The European Commission (EC) is funding High Pressure Cogeneration Capacity Building Project under its SWITCH Asia Program. The specific objective of the project is to promote sustainable production of electricity through replication of high pressure cogeneration technologies in the sugar sector by supporting sugar mills through technology standardization, enabling access to finance, and mobilizing relevant public sector authorities.

2nd Meeting of the 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 multilateral agencies. The second meeting of the group was held on 24 August 2015 under the chairmanship of Deputy Governor, Mr. Saeed Ahmed.

SBP's initiatives for Microfinance

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 key initiatives taken by SBP under these programs are as follows:

National Financial Inclusion Strategy (NFIS): In line with our country's requirements and global trends, SBP recently developed a broader National Financial Inclusion Strategy (NFIS) for Pakistan in collaboration with the World Bank (WB) Group. The objective of the strategy is to build momentum and push forward reforms to achieve universal financial inclusion in an integrated and sustained manner. The strategy has been formally launched on May 22, 2015. Globally, more than 50 countries have adopted financial inclusion strategies with explicit financial inclusion targets. Evidence suggests that having a NFIS could double the pace of progress on financial inclusion targets besides a number of benefits such as:

NFIS will help adopting a national financial inclusion vision along with a set of national targets to commit over the implementation period of the strategy to help realize universal financial inclusion;

NFIS has been developed through a consultative process which has identified factors, policies and market interventions along with a time bound action plan with clear roles and responsibilities of each stakeholder for implementation. The action plan would help in guiding and monitoring progress on various financial inclusion initiatives; and the strategy would help create a national platform for all stakeholders from both public and private sectors for consultation and implementation of the reforms and various initiatives for financial inclusion under the strategy.

The NFIS provides a vision that underlies a framework and a road map for priority actions aimed at addressing constraints and significantly increasing access to, and usage of, quality financial services. The strategy will guide efforts to promote financial inclusion over the coming five years (2015-2020). It includes targets and objectives that will be monitored, but it intended to be a living document that can be adjusted as required.

NFIS Coordination Structure: The objective of the strategy is to build momentum and push forward reforms to achieve universal financial inclusion an integrated and sustained manner. The strategy has created a national vision for universal financial inclusion in Pakistan. The implementation of NFIS will be focusing on four key actions:

- Promote Digital Transaction Accounts (DTAs) and reach scale through bulk payments
- Expand and diversify access points
- Improve capacity of financial service providers, and
- Increase levels of financial awareness

In order to achieve its objective and build momentum for pushing forward for reforms to achieve universal financial inclusion, a national coordination platform for all stakeholders from both public and private sectors has also been set up for implementation of the reforms and various initiatives for financial inclusion under the strategy. The NFIS coordination structure envisages three following governance bodies;

NFIS Council which is chaired by the Federal Finance Minister shall oversee its implementation. The Council had its first meeting in April 2015 and decided to adopt the strategy. NFIS Steering Committee, which is chaired by SBP Governor, has to implement the Strategy under the guidance of the NFIS Council with support from various technical committees. A number of Technical Committees to propose detailed implementation plans resolve technical issues and propose solutions to the Steering Committee. A fully functional NFIS Secretariat to facilitate NFIS coordination, implementation and monitoring of the targets. The other 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 these initiatives during the period is as follows:

Credit Enhancement Facilities: Microfinance Credit Guarantee Facility (MCGF), guidelines have been revised by SBP to offer higher risk coverage of up to 60 percent to Commercial Banks/ Development Finance Institutions (DFIs) for lending to smaller Microfinance Banks (MFBs)/ Microfinance institutions (MFIs). The renewed facility is expected to graduate smaller MFBs/ MFIs to avail credit lines from commercial banks/ DFIs for onward lending to microfinance clients. The £15 million facility, launched in December 2008 to cover partial risks against the loans extended to microfinance providers by the commercial banks. So far, 46 guarantees have been issued under MCGF which has mobilized Rs.16 billion from commercial bank and capital markets/ retail investors for onward lending to more than 800,000 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.

Smart Grants for Institutional Development and Financial Innovations: Financial Innovation Challenge Fund (FICF), Round 3 was unveiled on January 9, 2015 for promoting Excellence in Islamic Finance with an aim to develop education and research infrastructure for promoting Islamic Finance to meet the latent demand for Shariah compliant financial services in Pakistan. Under this round, SBP is supporting three eminent higher education institutions i.e. LUMS, IBA & IM Sciences-Peshawar for setting up Centre for Excellence in Islamic Finance Education. The initiative will develop the industry's human capital base in the form of Islamic finance professionals, specialists including Shariah scholars, economists and researchers to realize/meet the growing demands for Shariah compliant products and services in Pakistan. 2nd Access to Finance Survey has been conducted to gauge the performance of SBP's financial inclusion initiatives since 2008 when the 1st A2FS study was conducted. Earlier SBP signed a project document with Horus International in July 2014 to design and conduct the 2nd Access to Finance Survey. The survey was designed to determine demand side evolutions that can supplement upcoming supply side developments.

The survey results were used to create headline benchmarks for the National Financial Inclusion Strategy. The findings of the nation-wide survey with a sample size of 10,626 households are as follows**:**

Access to financial services significantly increased in Pakistan since 2008, with 16 percent of the population having access to bank accounts (including mobile wallets) and 23 percent having access to financial services offered by formal financial intermediaries (including providers of mobile money services), compared to 11 percent and 12 percent in 2008, respectively. Women have advanced remarkably in terms of financial inclusion; as 11 percent of women are banked in 2015, compared to just 4 percent in 2008. 67 percent of the population believes that making payments with branchless banking agents is a useful innovation.

Nationwide Financial Literacy program (NFLP): The program is now being rolled-out nationwide following its positive evaluation by an independent third party. The national roll-out has been segregated into two components: i) Scale up the scope of NFLP to national level ii) Initiation of Child and Youth Financial Literacy Program with the objective to provide basic financial education to children and youth and train them for their future roles as social and economic actors. Earlier, in January, 2012, SBP launched NFLP, on pilot basis, to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The NFLP pilot was launched with the support and collaboration of ADB, PBA, PPAF and Bearing Point (Consultant) to disseminate 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. The pilot phase of NFLP concluded in July 2012 with 47,800 beneficiaries targeted through class room training sessions and street theater.

Establishment of Nationwide Microfinance Credit Information Bureau: SBP is supporting the Nationwide Microfinance exclusive Credit Information Bureau (MF-CIB) that helps microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduces the risk of multiple borrowing and loan defaults. The MF-CIB has been established with the objective to store all past and present credit transactions of all microfinance borrowers, minimize the instances of over-indebtedness, bring financial discipline in microfinance sector and improve 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 MF Transparency website, preparation and publication of pricing analysis report for Pakistan, etc.

Surveys, Studies and Assessments: In addition to the 2nd Access to Finance survey SBP has also supported a number of other surveys and studies under FIP such as G2P payments study, Islamic finance survey, SME cluster surveys, Hybrid Value Chain financing study, Agriculture Finance Study, etc.

Training and Awareness Programs for broadening Access to Finance

Training of Trainers Program: In collaboration with FAO, SBP organized three TOT programs on Agri. value Chain Financing at Karachi and Islamabad attended by 85 officials from SBP and different commercial banks.

Exchange Learning Program: SBP has initiated international exchange learning programs as a part of "Capacity Development on Agricultural Value Chain and Rural Finance Program" between FAO and SBP. Under the initiative, four programs will be arranged in different countries. Recently, first exchange visit program was arranged in Turkey that aimed is to acquire in-depth knowledge about

Turkish financial sector on agricultural and partially SME finance. Officials from HBL, UBL, Meezan Bank, Khushhali Bank and SBP participated in the program. Batch Training Program for Agri. Credit Officers of Banks: To improve skill set of newly hired agriculture credit officers (with 2-3 years working experience) of banks/microfinance banks, SBP, under financial support from Improving Access to Financial Services Fund (IAFSF), organized a Batch training program for Agri. Credit officers of banks/MFBs. The program was a four day training intervention aimed to sensitize the trainees with the changing dynamics of agriculture sector particularly the innovations in agricultural financial products. The program successfully completed its 1st phase in January, 2015. Total 500 field officers of various agri. lending banks at different locations of the country were trained under this program.

Regional Internship Program for Agri. Graduates: SBP organized three months "Regional Internship Program for Agri. Graduates" at Hyderabad, Faisalabad and Rawalpindi during 2014-15 to create a pool of agri. finance experts for banks involved in agri. lending. In this regard, top 100 agri. graduates were selected from 13 leading Agri. Universities/Colleges/Institutes of the Country including AJK who successfully completed their internship.

Leadership Seminar on Agri. Value Chain Financing: The State Bank of Pakistan (SBP), in collaboration with Food and Agriculture Organization (FAO) of the United Nations, organized a Seminar on "Promoting Agricultural Value Chain Financing" in Pakistan on 30th March, 2015 at Marriott Hotel, Karachi. The Seminar was aimed at enhancing the understanding of senior executives of commercial and microfinance banks by providing them technical insights on innovation-backed global practices for improving delivery of agricultural and rural finance services across Pakistan. The seminar attended by around 100 senior executives of banks/MFBs. Experts from FAO, APRACA and local banks were invited to share their experience and best practices on Value Chain Financing.

Global Research: Impact and measurement of Financial Inclusion: Policy makers, donors, and investors are increasingly committed to advancing financial inclusion. This commitment underscores the need for greater accountability, evidence-based policymaking, and aid effectiveness. At the core of these efforts is a focus on measuring the impact of financial inclusion in a rigorous yet pragmatic way. Impact is often measured at the micro level by examining how access to and use of financial services benefit poor individuals, households, and small businesses. Without undermining its importance, the research suggests that, examining only this aspect does not give the full picture. It is equally important to understand how advancing financial inclusion contributes to the local economy and other macro-level indicators such as economic growth, equality, and stability. Recent evidence indicates that inclusive financial services have a direct impact in a variety of ways. At the micro level, access to a variety of services such as savings, credit, insurance and mobile payments can have positive effects on individuals, families, and small businesses by helping them smooth consumption, manage risks, and invest in small enterprises. In addition, broader financial inclusion can positively impact a variety of macroeconomic indicators, such as local economic activity, economic growth, stability, and equality. Under normal circumstances, financial inclusion is positively correlated with growth and employment, and in some cases, even increased GDP per capita.

Emerging evidence also indicates indirect benefits of inclusive, low-cost financial systems. Financial inclusion can improve how effectively and efficiently governments deliver social welfare payments to citizens (government-to-person payments), which play an important role in the welfare of many poor people. Second, financial innovation can significantly lower transaction costs and increase reach, which enables new private-sector business models that help address other development priorities. Many public donors and policy makers are currently focused on understanding the direct impact of their funding on the day-to-day lives of the poor. While this is important, there is growing consensus that a more holistic understanding of impact is needed. CGAP is working with donors and industry experts to develop innovative, and more complete, ways to measure inclusive market development and donor impact. The ultimate goal is to get a more complete picture of how financial inclusion affects the lives of the poor.

Resource: CGAP, "Impact and measurement of Financial Inclusion" Karina Broens Nielsen

Lesson Learned from Moroccan Crisis: For a decade, the Moroccan microcredit sector was a rising star, boasting top-performing institutions enthusiastically supported by local and international funders. Yet, by December 2009, credit risk had soared to 14 percent, reaching as high as 38 percent for one leading microfinance institution (MFI). Under Central Bank leadership, national associations, and funders scrambled to correct course. By December 2011, credit risk had been cut in half but remained relatively high at 8.6 percent. A year later, it had edged up again to 9.6 percent. This Brief outlines lessons learned from the rise, fall, and ongoing recovery of the Moroccan microcredit sector that may be useful when adapted in other countries in similar situations. Since its start in the late 1990s, the Moroccan microcredit sector enjoyed extraordinary growth rates. Its portfolio grew 10-fold from 2003 to 2007, becoming the largest in the Middle East and North Africa region, totaling US$733 million for 1.35 million loans outstanding by December 2007. Credit risk was consistently far below international benchmarks. Leading MFIs scored remarkably well on all microfinance performance matrices, including scale, profitability, and asset quality. In 2008, half of Morocco's 12 MFIs ranked in the MIX top 100, and most received good ratings. Such rapid growth soon proved unsustainable, and signs of stress surfaced in 2007. While credit risk was at a generally acceptable level of 2.3 percent, it had surged from 0.4 percent over a two-year period. The credit crisis had started; its extent hidden by skyrocketing portfolio growth. Shortly after, the new management information system (MIS) of the second largest MFI, Zakoura, revealed that its credit risk was much higher than previously reported, leading it to stop all disbursements. Many argue this decision triggered the crisis, notably by tightened liquidity for repaying clients, many of whom were affected by either the global financial crisis or serious floods in some regions of Morocco. Other clients seized the opportunity to default with no penalty, sometimes supported by local leaders. At this point, an estimated 40 percent of clients held multiple loans, borrowing from two to five MFIs. Repayment issues spread sector-wide. In May 2009, Zakoura's credit risk exceeded 30 percent. In December 2009, the sector's overall credit risk reached 13.7 percent. The response was swift, including measures for both short-term recovery and long-term industry building from the regulators and the industry itself. Although they failed to prevent the crisis, the Moroccan Central Bank, Banque Al-Maghrib (BAM), and the Ministry of Finance played catalytic roles in averting contagion and restoring confidence. In early 2006, before the crisis, and in light of unprecedented growth, the Ministry of Finance transferred industry supervision to BAM. *Resource: CGAP," Lesson Learned from Moroccan Crisis", Nadine Chehade Alice Nègre.*

Islamic Banking Initiatives

It is pertinent to mention here that State Bank of Pakistan (SBP) has played a key role in facilitating development of Islamic banking in the country through various promotional and regulatory initiatives. Some of the key measures and steps taken in this regard during FY15 are highlighted below:

Steering Committee for promotion of Islamic banking& Sub Committee: The Government of Pakistan (GOP) has shown a strong commitment for supporting development of Islamic finance in the country. To this end, a high level Steering Committee for promotion of Islamic banking has been set up which is chaired by Deputy Governor SBP. The Steering Committee comprises of renowned Shariah scholars, senior government officials, industry experts (local and international). The main objective of the Committee was to carry out an objective review of the current paradigm of Islamic banking and to formulate a comprehensive policy framework for an Islamic financial system in the country. To accomplish its mandate, the committee has made significant progress on various areas including review of legal, regulatory and taxation frameworks, developing liquidity management solutions, developing solutions for conversion of government debt into Shari'a compliant financing, development of an Islamic capital market, reforms in Modaraba sector and several initiatives for capacity building and creating awareness among masses to have a better understanding about Islamic finance.

Shariah Compliant Open Market Operations OMOs- Bai Muajjal of Sukuk: SBP is working on providing multiple liquidity management solutions for the industry. In this regard the Shariah compliant OMOs (Bai Muajjal of Sukuk) utilizing sukuk issued by the Government of Pakistan (GoP) was introduced during FY15. This transaction is helping SBP in mopping up excesses liquidity from the market and improving implementation of monetary policy stance of SBP.

Implementation of Shariah Governance Framework: To strengthen the overall Shariah compliance environment in Islamic banking institutions (IBIs), a comprehensive Shariah Governance Framework was issued during FY 2014. In view of the feedback received from various quarters and deliberations of SBP Shariah Board, the Framework has been further refined and issued for compliance by IBIs. The Framework has come into force with effect from. July 01, 2015. The Framework aims at institutionalizing Shariah compliance function in IBIs. The Framework requires constitution of Shariah Board at IBIs prescribes roles and responsibilities of Shariah Board and Resident Shariah Board member. Moreover, it also defines the roles and responsibilities of Board of Directors, executive management, Shariah Compliance Department, internal and external auditors towards Shariah compliance. Further, Fit and Proper criteria (FAPC) for the appointment of Shariah scholar members of SB have been made part of the framework with certain modifications.

Rationalization of Minimum Capital Requirements (MCR) for Islamic Banking Subsidiaries: In order to provide a level playing field to IBIs, SBP developed a proposal for rationalization of MCR for Islamic banking branches (IBBs) and Islamic banking subsidiaries of conventional banks. Accordingly, SBP has revised the MCR for Islamic Banking Subsidiary from Rs. 10 billion to Rs. 6 billion vide BPRD Circular No. 10 of 2014 dated 17th October, 2014.

Awareness Creation and Capacity Building Programmes for Islamic Banking Industry: Islamic banking industry in collaboration with State Bank of Pakistan has been running a Mass Media Campaign for promotion of Islamic banking. After the successful launch of the first phase in 2013, second phase was launched in December 2014 which focused more on the education, awareness and improving the understanding of Islamic banking & finance. This phase involved advertisements in newspapers, transmission of radio messages on FM channels and distribution of brochures & roll-up standees among general public, IBIs, academia, etc.

SBP has remained actively engaged in developing human resources through conducting regular and customized programs, trainings and courses through its training arm, the National Institute of Banking and Finance (NIBAF).

SBP has also been collaborating with reputed national and international institutions for organizing targeted seminars, lectures, training programmes and workshops for the Islamic banking industry. During FY15, SBP collaborated with Islamic Research and Training Institute (IRTI) in arranging an international course on ‘Financing SMEs-Islamic perspective’ at Karachi. It was attended by foreign and local participants from Islamic financial industry. Further, SBP-NIBAF offered training program titled “Fundamentals of Islamic Banking Operations” (FIBO) in Mirpur – Azad Jammu & Kashmir and Bahawalpur targeting Branch Managers, Operation Managers and Relationship Managers of Islamic Banking Institutions (IBIs) and academia. A specialized training course on “Fundamentals of Financial Accounting” was also organized to enhance the skill set of Shariah Advisors of IBIs.

Global Participation: SBP is playing its due role in addressing the challenges and issues faced by the global Islamic financial industry. In this regard, SBP continued to contribute in the Working Group of Islamic Financial Services Board (IFSB) on Core Principles for Islamic Finance Regulation (Banking Segment). SBP also became part of IFSB Task Force on Technical Note on Stress Testing for Institutions offering Islamic Financial Services. SBP participated actively at various international forums on Islamic finance, such as IFSB meetings & events, Global Islamic Finance Forum (GIFF) – 2014 at Malaysia, meeting of Central Banks and Monetary Authorities of the OIC Member Countries at Indonesia, Board of Trustees meeting of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) at Bahrain, etc. Moreover, SBP facilitated AAOIFI in arranging the meeting of its Shariah Board’s Shariah Standards Review and Translation Committee in Pakistan. During FY 2014-15, efforts of SBP for Islamic finance were also recognized by international stakeholders as well as SBP was awarded ‘IFN Deal of the Year’ by Islamic Finance News (IFN) for the deal of USD 1 billion Government of Pakistan (GoP) Ijara Sukuk.

Launch of KAP Study: SBP launched its survey based study; "Knowledge, Attitude and Practices of Islamic Finance in Pakistan (KAP)", during FY15. The survey findings are highly encouraging and positive for Islamic banking in the country. Given the supply-demand gaps, there is huge potential for further development of Islamic banking in Pakistan. As a large segment of demand for Islamic banking is yet to be met, and a significant proportion of demand lies amongst those who are still financially excluded, green field growth in Islamic banking has a huge scope**.**

Establishment of Centre of Excellence in Islamic Finance Education (CEIFE): In order to ensure adequate supply of trained human resource to the industry as well as to act as an incubator for research on contemporary issues CEIFE has been conceived. The centre will be a focal point for leading and steering all efforts and initiatives for bridging capacity gaps. The center will have i) comprehensive set of educational and training programs for various audience groups; ii) strong quality assurance framework; iii) state of the art research facilities, iv) partnerships with the industry and buy-in of the key stakeholders; v) best in class governance, management, faculty and technology; vi) International orientation; and vii) a knowledge environment that promotes innovation. This venture is being supported by UKAID-sponsored "Pakistan Financial Inclusion Program". SBP had completed a process of competitive bidding and initially three universities have been selected for establishment of CEIFEs. These institutes of high repute have been screened through comprehensive criteria include LUMS, IBA and IM Sciences.

9.0. Annexures

Table A: Outstanding Advances as a percentage of GDP					
Sectors	**30-Jun-11**	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**
GDP at mp[2] (Amounts in Billion Rupees)	18,276.4	20,046.5	22,379.0	25,068.0	27,383.7
SME Finance	1.5%	1.3%	1.0%	1.0%	1.0%
Agriculture Finance	1.1%	1.1%	1.1%	1.2%	1.2%
Housing Finance	0.3%	0.3%	0.2%	0.2%	0.2%
Infrastructure Finance	1.6%	1.4%	1.2%	1.1%	1.2%
SBP Refinance Facilities	1.2%	1.0%	1.0%	0.8%	0.9%
Microfinance (MFBs Only)	0.1%	0.1%	0.1%	0.1%	0.2%

Table B: Number of borrowers in DF sectors							
Sectors	**As on**					**Change (Y-o-Y)**	
	30-Jun-11	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**	**Absolute**	**Percentage**
SME Finance	157,658	149,421	144,141	133,018	152,495	19,477	14.60%
Agriculture Finance	1,445,266	1,960,378	1,990,959	2,151,149	2,185,761	34,612	1.6%
Microfinance (MFBs Only)	713,563	767,904	902,175	1,095,960	1,296,204	200,244	18%
Housing Finance	95,553	87,059	79,478	74,894	70,498	-4,396	-5.9%
Infrastructure Finance*	300	348	370	375	378	3	0.8%
Total	2,412,040	2,964,762	3,116,753	3,455,021	3,704,958	249,937	7.2%
**Total Number of Borrowers is exclusive of infrastructure Finance, because in infrastructure finance number of projects is considered.*							

[2] mp: Market Price

Table C: Agriculture Financing Profile of Banks/DFIs (Amount in Billion Rupees)							
Category	**As on**					**Change (Y-o-Y)**	
	30-Jun-11	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**	**Absolute**	**Percentage**
Annual Target (Jul-Jun)	270.0	285.0	315.0	380.0	500.0	120.0	31.6
Annual Disbursement (Jul-Jun)	263.0	293.8	336.2	391.4	515.9	124.5	31.8
Outstanding Agri Financing	193.3	221.5	257.1	290.3	335.2	44.9	15.5
Total Financing by Banks/DFIs	3,575.11	3,993.63	3,896.28	4,339.23	4,685.68	346.45	8.00%
Outstanding Agri Financing as % of Total Financing	5.4%	5.5%	6.6%	6.7%	7.2%	-	-
Agri Financing NPLs	32.5	35.1	36.1	35.1	38.4	3.3	9.4
NPLs as % of Outstanding Agri Financing *	18.0%	17.8%	16.0%	13.8%	13.5%	-	-2.2
No. of Outstanding Borrowers	1,445,266	1,960,378	1,990,959	2,151,149	2,185,761	34,612	1.6
Y-o-Y: Year on Year (2015 over 2014 position)							

Table D: Infrastructure Project Financing Profile over the years (Amount in Billion Rupees)							
Category	**As on**					**Change (Y-o-Y)**	
	30-Jun-11	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**	**Absolute**	**Percentage**
Amount Outstanding	290.8	286.3	267	276.1	328.7	52.6	19%
NPLs	8.2	17.5	18.6	18.1	16.63	-1.47	-8%
Disbursements (Cumulative)*	318.8	343.5	360.1	371.3	393.9	22.6	6%
No. of Projects (Cumulative)*	300	348	370	375	378	3	1%
Total Sanctioned Amount	557.3	480.8	505	535.6	623	87.4	16%
***Cumulative No of projects are the total number of projects less the matured ones.**							

Table E: Housing Finance Profile of Banks/DFIs (Amount in Billion Rupees)							
Category	**As on**					**Change (Y-o-Y)**	
	30-Jun-11	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**	**Absolute**	**Percentage**
Outstanding Housing Finance	62	57	52	53	59	7	12%
Total Financing by Banks/DFIs	3,575	3993.63	3,896	4339.23	4,686	346	8%
Outstanding Housing Finance as % of Total Financing	2%	1%	1%	1%	1%	-	-
Cumulative Disbursements	172	181	186	197	206	9	4%
Housing Finance NPLs	19	19	18	16	14	-2	-14%
NPLs as % of Outstanding Housing Finance	30%	33%	34%	30%	23%	-	-
No. of Borrowers	95,553	87,059	79,478	74,894	70,498	-4,396	-5.9%
Y-o-Y: Year on Year							

Table F: Outstanding Financing under SBP Refinance Facilities						(Amount in Billion Rupees)	
Category	**As on**					**Change (Y-o-Y)**	
	30-Jun-11	**30-Jun-12**	**30-Jun-13**	**30-Jun-14**	**30-Jun-15**	**Absolute**	**Percentage**
Export Finance Scheme (EFS)	190.6	164.8	177.8	160.5	191.1	30.6	19.1
Textile/Textile Products	119.3	100.3	112.9	99	116.2	17.2	17.4
Edible Goods (including Rice)	25.8	25.6	27.8	23.2	32.7	9.5	40.8
Leather/Leather Goods	11.7	9	10	11.3	12	0.7	6.1
Machinery and Metal Products	3.7	4.2	3.6	3.3	3.2	-0.1	-3.1
Carpets	2.1	1.5	1.2	1.1	0.8	-0.3	-24.1
Cement	8.7	7.8	4.9	2.8	4.2	1.4	51.5
Sports Goods	2.9	1.8	2.4	0.6	2.1	1.5	279.1
Others	16.4	14.6	14.9	19.3	19.9	0.6	3.2
Long Term Financing Facilities (LTFF)	26.6	32.7	36	41.8	39.8	-2	-4.7
Textile Sector	16.9	19.5	18.9	25.2	27.4	2.2	8.6
Engineering Goods	4.4	3.8	3.6	3	4.3	1.3	43.6
Rice Processing	1.5	1.7	1.6	1.3	0.5	-0.8	-64.4
Generators/Captive Power Plants	1.7	1.1	0.9	0.6	0.4	-0.2	-38.6
Others	2.2	6.6	11	11.7	7.3	-4.4	-37.3
Refinance Facility for Modernization of SMEs	0.2	0.1	0.1	0.06	0.09	0.02	38.7
Financing Facility for Storage of Agricultural Produce (FFSAP)	1.1	2	2.2	1.7	1.9	0.1	6.5
Total	218.5	199.6	216	204.1	232.9	28.8	14.1
Y-o-Y: Year on Year (2015 over 2014 position)							