

# Development Finance Quarterly Review

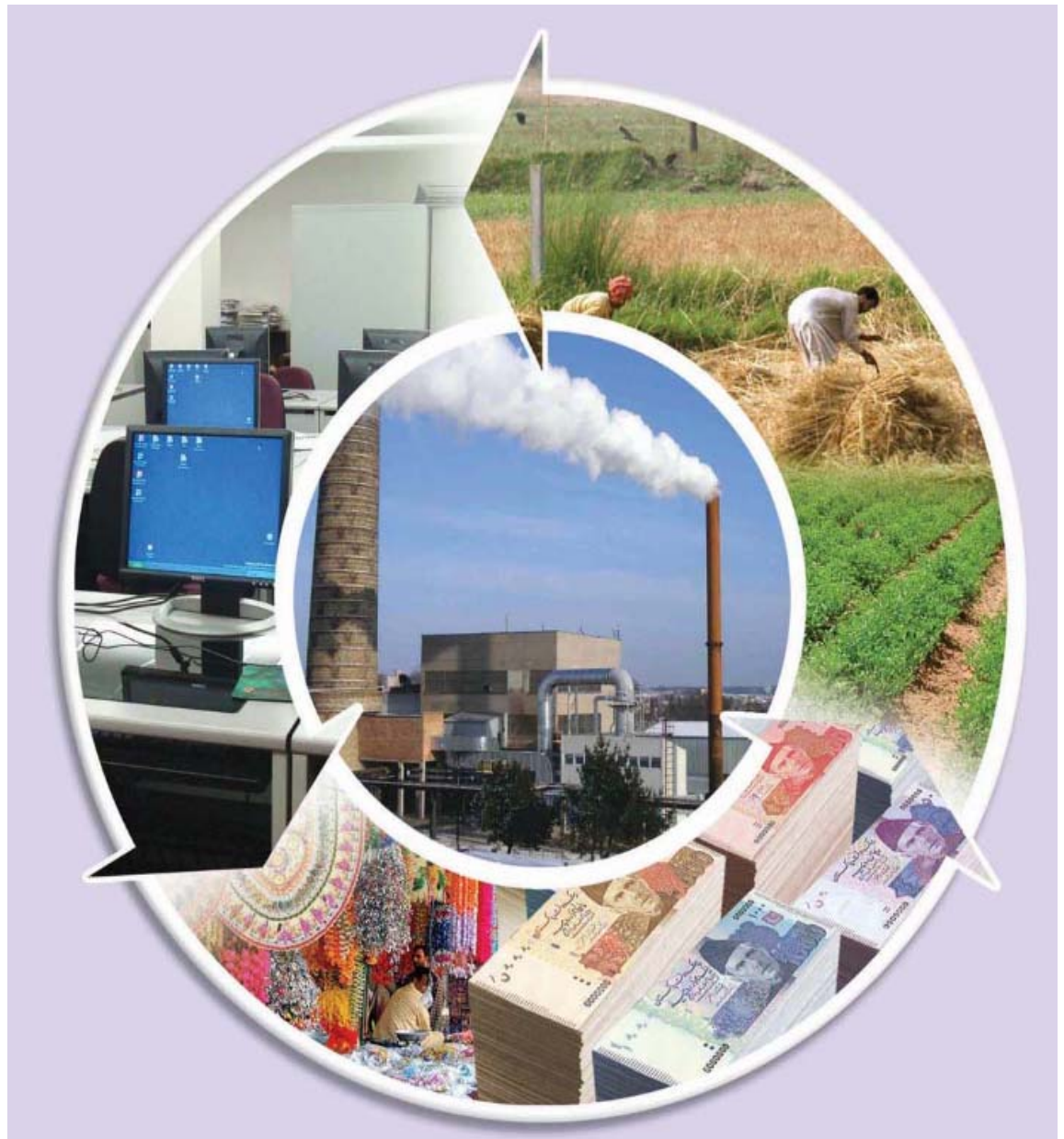
*Inside:*

*SME Finance  
Microfinance  
Agri. Finance*

*Infrastructure &  
Housing Finance*

*Refinance  
Schemes*

*March, 2009*



**SME FINANCE DEPARTMENT**

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## EXECUTIVE SUMMARY

The SME, Microfinance, Housing, Infrastructure and Agriculture sectors have not been fully able to get ready access to finance from formal financing institutions. The measures taken by State Bank have however yielded fruitful results in terms of improved levels of formal financing to these sectors, accompanied by changes in commercial banks' strategic focus towards these sectors. SBP has also been encouraging banks to develop capacity in these areas to tap the potential business opportunities offered by these sectors to the banking industry.

For the past one year the scenario in Development finance has retarded due to a number of domestic, international economic and financial factors. This has led to a slight decline in growth of these sectors formal financing excluding the Microfinance and Infrastructure sectors where an increase of 14% and 3.7% has been recorded respectively. The following table shows the trends of last two quarters for Development Finance and their share in total bank advances.

Outstanding Amount to Priority Sectors	DF Break up of Outstanding Advances (domestic) by Banks (Billions)			
	As of March, 2009		As of December, 2008	
	Amount	% age Share	Amount	% age Share
SMEs	349.1	41.2	383.0	43.5
Agriculture	150.7	17.8	155.5	17.7
Microfinance (MFBs Only)	7.3	0.9	6.4	0.7
Housing Finance	80.4	9.5	83.7	9.5
Infrastructure Finance	260.5	30.7	251.1	28.5
<b>Total</b>	<b>847.97</b>	<b>100.0</b>	<b>879.7</b>	<b>100</b>

The banking industry's exposure towards SME Sector is the second largest after Corporate Finance; however, its share has gradually declined over the past one year. SME sector takes the lions share in Development Finance constituting about 43.5% of total DF outstanding. At the end of first quarter of the current year the SME sector's outstanding credit stood at Rs. 349.1 billion (11.5%) of the total credit of the banking industry. A negative quarterly growth of 6.9% has been recorded in advances to SME Sector mainly due to rise in inflation, power outages, credit crunch and NPLs. An overview of the facility wise financing to SME sector reveals that the major portion of the outstanding amount is utilized for working capital (WC) finance followed by fixed investment (TF) and trade finance (TF) respectively. Utilization of SME loans by different types of SMEs displays that Manufacturing SMEs received the largest share about 45.2% of total SME finance followed by Trading SMEs with 39.7%, and Services SMEs 15.1% respectively.

SBP has also been running **Refinance Schemes** to meet funding needs of certain sectors to promote the exports of the country. These schemes are *Export Finance Scheme and Long Term Financing Facility (LTFF)*. In view of the changing international and domestic economic environment, SBP under its refinance schemes offered certain relaxations in the Long Term Financing Facility. Moreover, financing for plant, machinery & equipment to be used by the export oriented projects for regeneration of textile waste into usable fiber for producing value added exportable products was also allowed. Further, Exporters of the hand knotted carpets were allowed a relaxation to show performance of 1.5 times for the year 2008-09. At the end of the period under review Banks were allocated limits of Rs 204 billion under the Export Finance scheme (including

Rs 11.5 billion for IERS), Rs. 167 billion was outstanding under the scheme as compared to Rs.138 billion for same period last year mainly due to the revision in EFS Scheme of financing from 70% to 100%. The commodity wise and borrower wise analysis under EFS financing continues to show skewed distribution. Out of total credit extended under EFS, 62% was outstanding against the textile sector. The top 10% beneficiaries/borrowers are availing upto 75% of the total financing under the scheme.

The share of outstanding **Microcredit** is about 1% of total Development Finance position. However, the first quarter of year 2009 has shown an overall positive growth in different accounts of MFBs. The outreach, (borrowers, branches, deposits etc.) grew positively with encouraging note at the end of 1<sup>st</sup> quarter 09. The MF borrowers have registered 5% growth after recovering from the negative growth, seen in 4<sup>th</sup> Quarter of 2008. The biggest contributor to the growth was the First Microfinance Bank Ltd (FMFBL) with a net increase of 25,562 borrowers. The Gross Loan Portfolio (GLP) has recorded 13% growth with FMFBL as the main contributor. The Deposits have been escalated by 12% as of 1<sup>st</sup> Q09 mainly led by FMFBL with considerable increase in its saving deposits. The number of depositors has increased by 17% during the quarter. The total assets grew by 4% from Rs. 14.2 billion to Rs. 15.6 billion as of 1<sup>st</sup> Q 09. The borrowings by MFBs have declined by 8% registering a value of 4.6 billion as of 1<sup>st</sup> Q09.

**Agriculture** is an important sector of our economy, a dominant driving force for growth and the main source of livelihood for 66% of the country's population. Its share is about 17.8% in the total Development finance while its share is about 5% of the total outstanding credit by the Banking Industry. An indicative target of Rs 250 billion has been set for 2008-09. As against the target, banks have disbursed Rs 151.9 billion during July-March 2008-09 which is higher by Rs 11.8 billion or 8.4% as compared to Rs 138.6 billion disbursed during the corresponding period last year. Although SBP has taken a number of initiatives to facilitate banks in their capacity building, enhancement of per acre credit limit for provision of adequate credit to the farming community, banks' disbursement position is not encouraging due to liquidity crunch and NPLs faced by banks during the period under review.

Out of total Development Finance **Housing Finance** constitutes about 9.5% at the end of the period under review. The quarter ended March 2009 witnessed a slight decline of 1.43% in gross outstanding portfolio of the housing finance. The total number of outstanding borrowers has also decreased from 126,595 to 121,368 since March 2008. Moreover, Non-performing loans have increased from Rs.8.99 billion (March 2008) to Rs.13 billion (March 2009); a 45% increase over the year. Approximately 940 new borrowers were served during the quarter accounting for Rs. 1.78 billion of additional disbursements in housing loans. HBFC accounted for 55% of these new borrowers and contributed over 16% of the Rs.1.78 billion additional disbursement made. Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 59% share in outstanding.

The share of the **Infrastructure Sector** is about 30.7% in DF at the end of the first quarter of current year. Infrastructure project financing portfolio registered a 40% increase, even in the face of global economic meltdown, on YOY basis from March 2008 to March 2009. The rise was caused by significant increase in share of power sector. The quantum of overall disbursements remains almost the same during past couple of quarters. No NPL events are reported in this quarter as well as in couple of previous quarters which show the prudence exercised by the financial institutions.

## SME FINANCE

## 1.1 SME FINANCING-OVERVIEW

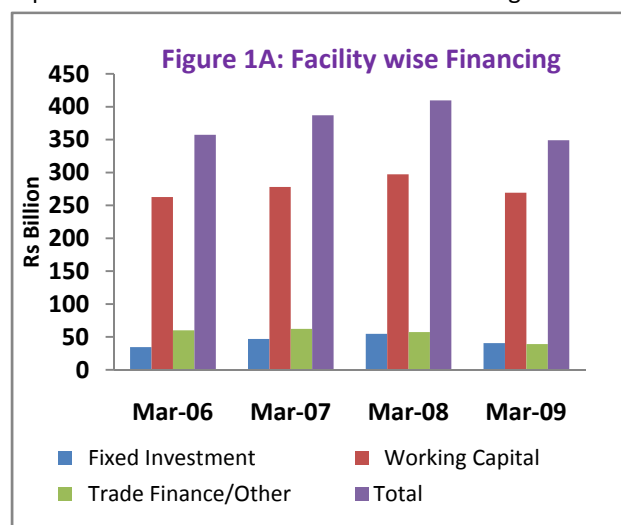
**S**ME sector has experienced difficulties during the last one year mainly due to the economic and financial crises in the country. Though the primary reason lies in the law & order situation of the country coupled by Oil price hikes, inflation and power outages which have led to the decreased performance of the economy, however, the liquidity crunch and international financial crises have also played their role in Pakistan as well. Like every other sector Banks in Pakistan have moved in a very cautious manner in extending credit to SME sector which also hold true for other sectors of the economy as well. Tight monetary policy and bleak prospects for a good economic growth resulted in decreased financing to SME sector.

The end of March 2009 shows that SME sector's outstanding credit stood at Rs. 349.1 Billion. During the period under review the SME finance portfolio accounts for 11.5% of total outstanding portfolio of the banking industry. Apparently the SME finance portfolio has recorded a quarterly decrease of 8.89%, however, it is pertinent to mention that a consistent pattern has been observed during the past few years which displays that banks' SME portfolio shrinks in the first quarter of the year mainly attributed to seasonal nature of financing especially when more than 70% of total SME finance is provided for working capital requirement. This decrease is also in consistency with total credit outstanding of the banking industry negative growth of about 4.5% for the first quarter of 2009. This decline in the banking sector portfolios including SMEs is an after effect of the financial crises which had started in second half of 2008.

An analysis of the SME portfolio in different sectors reveal that Manufacturing sector takes the lions shares of Rs.157 billion followed by Trading concerns Rs.138 billion and Services sector Rs.53 billion by the end of first quarter 2009. **Short term loans** (upto one year) constitute about 80.2% and **long term loans** (exceeding 3 years) were about 11 % and the rest was the share of **Medium term Loans** (1-3 years). (See Figure 1D)

## 1.1 FACILITY WISE FINANCING

Facility wise Financing (*See Figure 1A*) to SME sector reveals that major chunk of the outstanding amount is being utilized for Working Capital (WC) accounting for 77.13%, followed by Fixed Investment (FI) with 11.63% and Trade Finance (TF) 11.24% of total SME portfolio at the end of March, 2009. Predominant portion of working capital finance reflects the need of SMEs to get finance



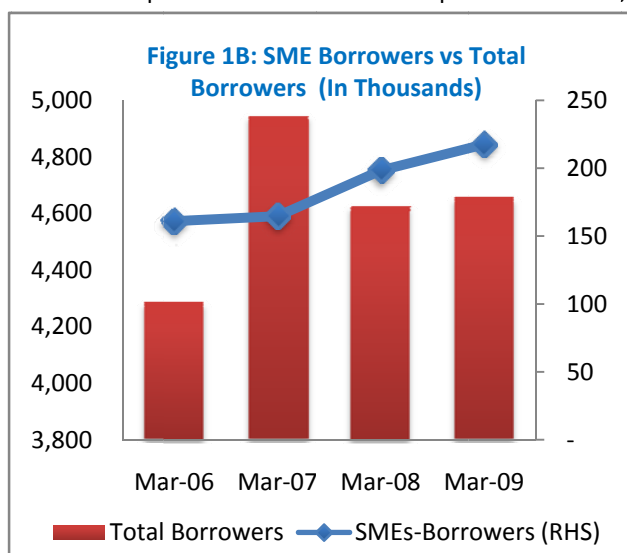
for inventory and day to day operations. This also reflects on the fact that long term investment and development by the SMEs is not considered an important business development initiatives. The meagre share of fixed investment finance in total SME loan portfolio is a clear reflection as it has been hovering in the vicinity of 10% to 15% for the last few years.

The absolute outstanding amount for working capital finance stood at Rs. 269.3 billion at the end of the reporting period, recording a negative quarterly growth of 6.8%. Trade Finance received an outstanding amount of Rs. 39.2 billion registering a negative quarterly growth of 7.3% followed by Fixed Investment Finance with Rs. 40.6 billion also recorded a negative quarterly growth of 7.5% at the end of March 2009.



## 1.2 NUMBER OF BORROWERS

At the end of March 2009, SME borrowers stood at 217,662 constituting about 4.7% of the total number of borrowers in the banking industry (See Figure 1B). About 66.9% of the SME borrowers availed working capital finance, 25% Fixed Investment and the rest resorted to Trade Finance. There has been a remarkable growth of 35.2% during the period March-2006 to March-2009 in the SME number of borrowers. Also an encouraging growth of 9.7% in the number of SME borrowers was recorded in period under review compared to March,



2008. This rise can be attributed to the diversification of banks SME exposure by increasing the number of smaller loans.

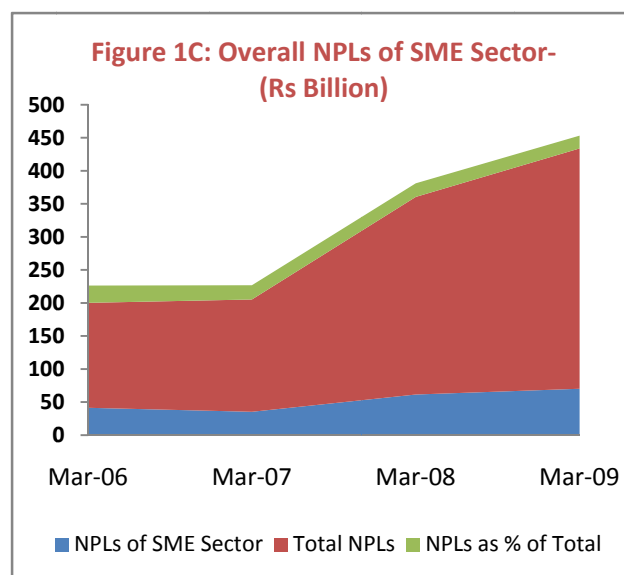
The percentage share of the borrowers categorized as **Trading SMEs** was about 66.2% of the total SME borrowers, followed by **Manufacturing SMEs** with 24% and **Services SMEs** about 9.8% during the quarter. Analysis of the outstanding **Advances by Duration** indicates that the number of borrowers availing **long term loans** (exceeding 3 years) were about 42.5% , **Short Term loans** (upto one year) were 50.8%, and **Medium Term loans**(1 to 3 years) constituted about 6.7% of the total SME borrowers at the end of March, 2009. However, their respective quarterly growth recorded was -14.6%, 20% and -1.9%. for Long term, Short term and Medium term loans (See Figure 1D)

**SME Borrowers categorized on Loan Size** manifest that about 67.5% availed loans of **upto Rs. 0.5 Million**, recording a quarterly growth of 7.3%. While the borrowers against the bracket size of over **Rs. 0.5 to 1 M, Rs. 1 to 2 M, Rs. 2 to 3M, and over Rs. 3 to 5M** were having a share of 7.69%, 5.32%, 3.14%, and 3.14% respectively with quarterly change of -1.2%, -0.12%, 0.27% and -2.33% accordingly at the end of the period under consideration.

An analysis of borrowers against **Clean** viz. **Collateral Based Loans** reveals that 20.8% of the total SME Borrowers availed clean loans, while 79.2% availed collateral based loans. While their respective Quarterly change was -72.1% and 75.5% respectively. This sharp decline in clean lending may be attributed to the Overall decline (4.5% at the end of the period under review) in the outstanding amount by the whole Banking Industry and the prevailing economic scenario.

## 1.3 NON PERFORMING LOANS

SME sector's NPLs have swelled to Rs. 70.2 billion constituting about 19.3% of the total NPLs of the whole Banking industry at the end of March, 2009 (See Figure 1C). Of this amount about 69.9% was attributed to Working Capital finance, 17.9% to Fixed Investment Finance, and the remaining 12.3% pertained to Trade Finance. A closer look at the behavior of SME sector's



NPLs revealed that it has been increased by 70% during the period March 08-March 09. An increase of about 14.2% has been recorded in the corresponding quarter of 2009. This sharp rise in the NPLs of SME Sector can safely be attributed to the current wave of economic meltdown in the country. Swelling in SME NPLs is in consonance with the rise of the Total NPLs of banking industry which recorded a growth of 21.7% during the first quarter of 2009.

#### 1.4 PUBLIC SECTOR BANKS

The share of public sector banks i.e. NBP, FWBL, BOP and BOK constitute about 12.8% of the total SME Finance portfolio at the end of the reporting period.

In absolute terms, the outstanding amount of **Public Sector Banks** stood at Rs. 44.7 billion at the end of March, 2009. Among the **Public Sector Banks**, NBP has the lion's share of about 63.5%, followed by BOP with 22.9% of their total share in SME Finance outstanding amount.

A decline of 18.4% in SME Finance has been registered by the **Public Sector Banks** at the end of the period under review. The share of this category of banks towards **Trading SMEs**, **Manufacturing SMEs** and **Services SMEs** was recorded respectively as 8.4%, 3.5% and 1% of the total SME Finance. Public sector banks' share in Total **Clean Lending** is about 0.5% and about 14% in Total **Collateral Based** lending of Rs. 318.4 Billion extended to SMEs. (See Figures 1D, 1E, 1F, and 1G)

#### 1.5 PRIVATE BANKS

Private Banks have been doing well in SME Finance arena for the last few years, recording consistent growth compared with other categories of Banks. The share of **Private Banks** stands at 82.2% of the total outstanding SME finance portfolio by the end of the reporting period. The absolute outstanding amount of the **Private Banks** was Rs. 286.8 billion, recording a quarterly decline of 7.4%. Among **Private Banks** HBL has the highest share of 13.3% followed by NIB bank with 9.6%, Bank Alfalah with

8.9%, MCB with 6.4%, and ABL 6.2% respectively in the total SME financing.

A comparison of **Private Banks** share in total SME Finance viz-a-viz the type of SMEs shows that the **Trading SMEs** share was 28.8%, **Manufacturing SMEs** 39.8% and **Services SMEs** was 13.6% respectively, in Private Banks' SME financing. While the share of the private Banks in Advances **upto 0.5 Million** was 5.6%.

Moreover, their share in the **Total Clean Lending** to SME Sector was witnessed at 84.8%. This can be attributed to the fact that Private Banks intend to penetrate the sector through innovative financing/cash flow based financing. (See Figures 1D, 1E, 1F, and 1G)

#### 1.6 ISLAMIC BANKS:

Islamic bank's share has enhanced considerably from an outstanding amount of Rs. 2.4 Billion to Rs. 5.8 Billion during the period March 2007 to March 2009 constituting around 1.7% of the total SME outstanding amount. However this category of banks also witnessed a quarterly decline of 14.7% by the end of March 09. In this category, Meezan Bank leads with a share of 67.9%, Bank Islamic 12.2% and Emirates Global with 7.2% at the end of the period under consideration. (See Figures 1D, 1E, 1F, and 1G)

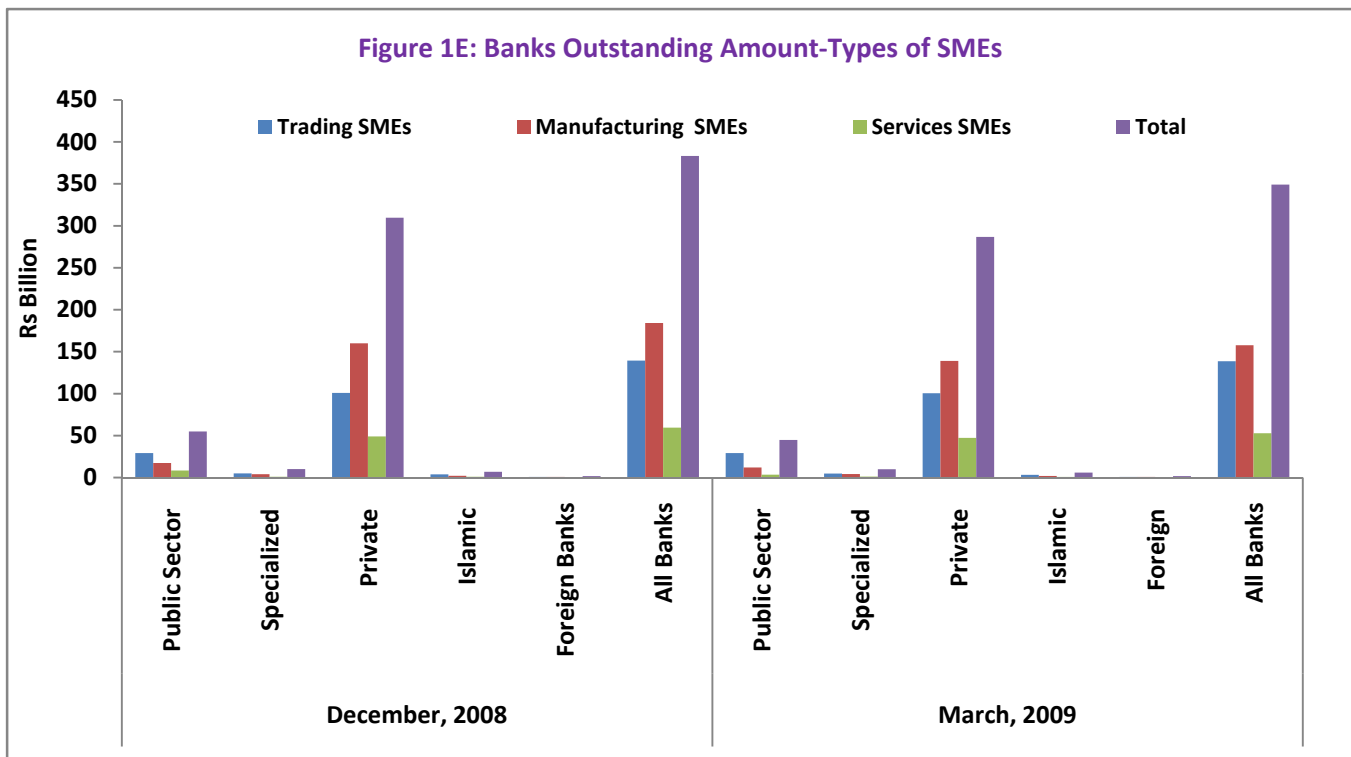
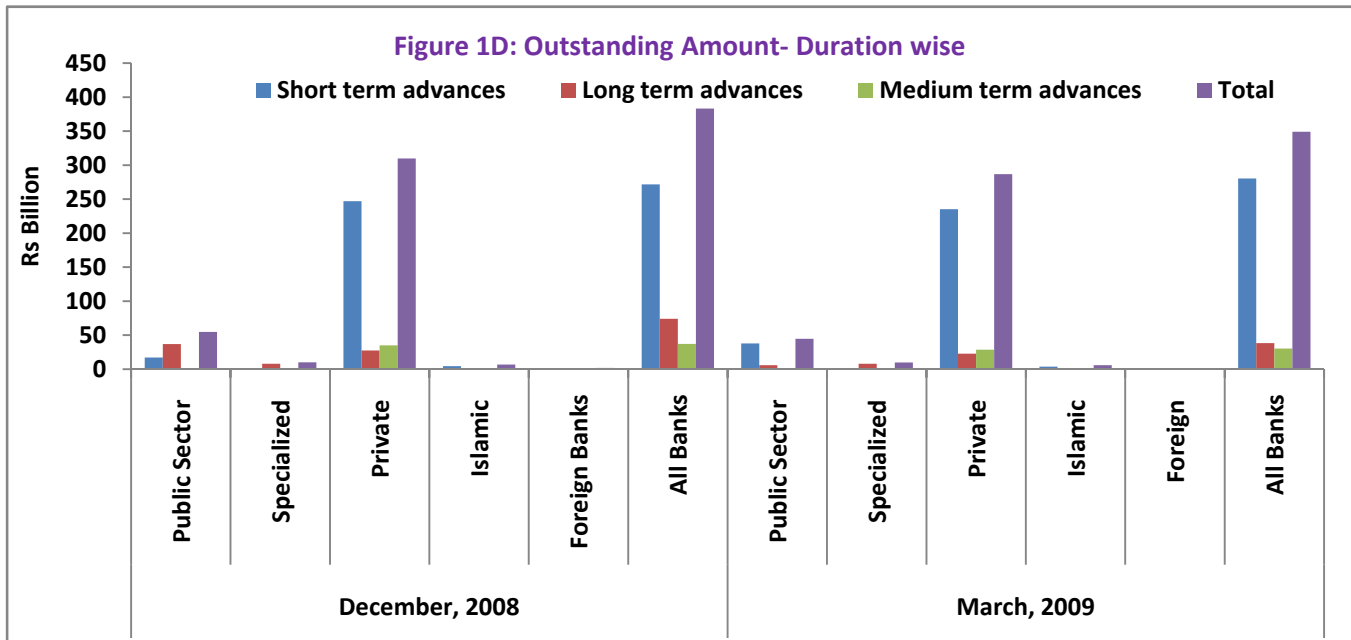
#### 1.7 SPECIALIZED BANKS:

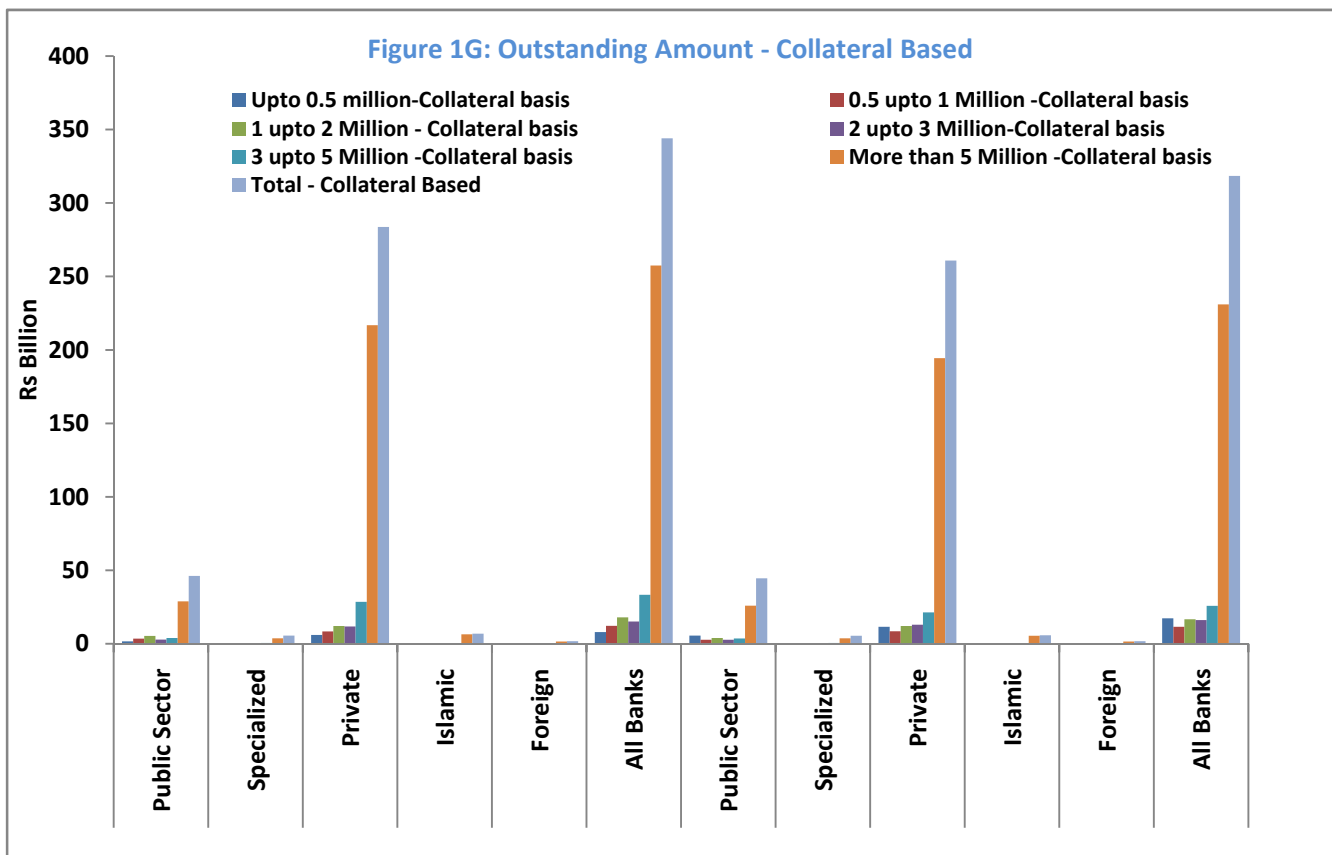
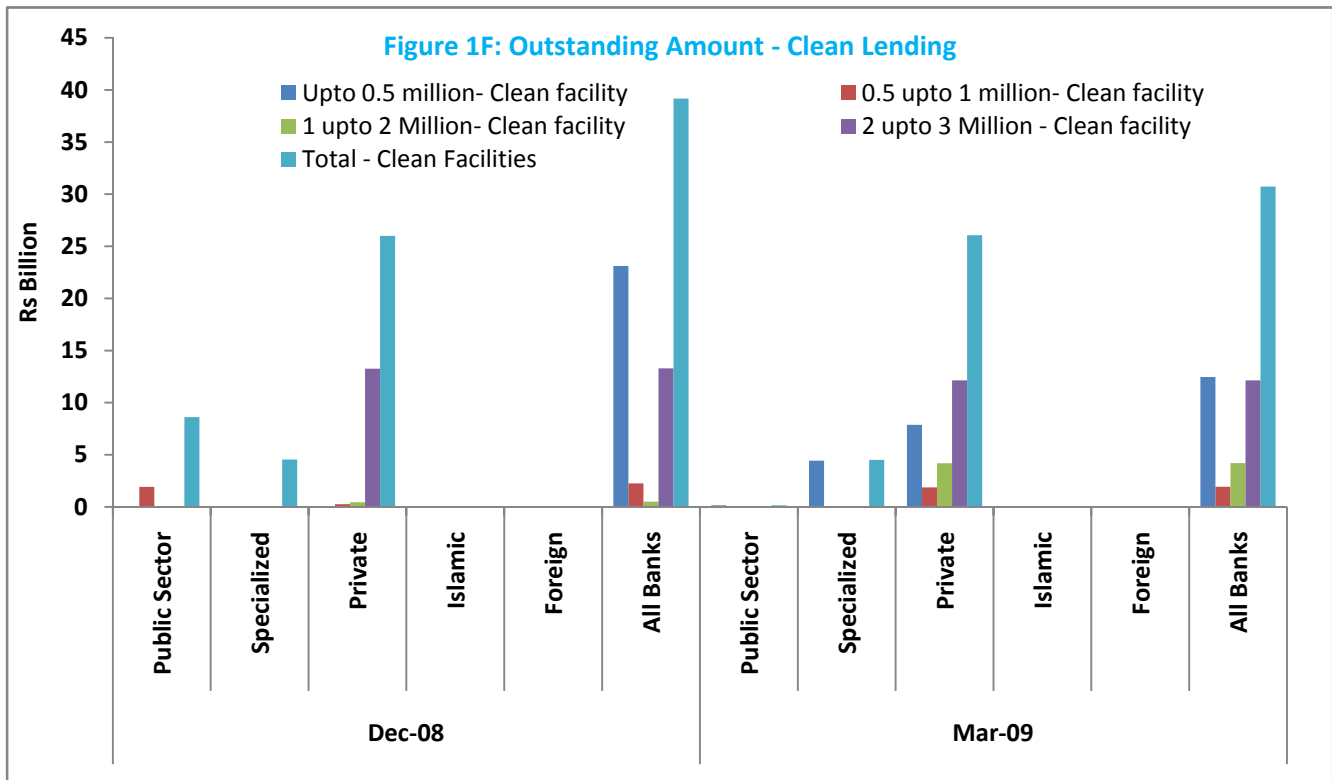
This category of Banks consists of SME Bank, ZTBL, PPCBL and IDBP. The absolute amount outstanding of the **Specialized Banks** towards SME sector was Rs. 9.9 billion constituting about 2.9% of the SME total portfolio of the banking industry at the end of the reporting period. By having a closer look at SME Finance performance of the specialized banks it is evident that their portfolio has been hovering around Rs. 10 billion for the last few years. SME Bank has the largest portfolio of Rs.7.5 billion constituting about 2.2% of total SME finance. Specialized banks outstanding amount has witnessed a decline of 0.5% at the end of the quarter. (See Figures 1D, 1E, 1F, and 1G)

about 0.8% has been recorded at the end of the reporting quarter. (See Figure 1D, 1E, 1F, and 1G)

### 1.8 FOREIGN BANKS:

This category of banks' comprises of Albaraka Islamic Bank, Deutsche Bank, Bank of Oman, HSBC, Bank of Tokyo Mitsubishi, and City Bank. At the end of the period under review their share was about Rs.1.7 billion forming 0.5% of the total SME finance. Moreover, a decline of





## 1.9 EXPORT REFINANCE- OVERVIEW

Due to the global recessionary trend and the difficulties suffered by the exporters on account of both the domestic economy and the international economy, SBP under refinance schemes offered relaxation in the Long Term Financing Facility and allowed 50% refinance for LC's established before announcement of the LTFF Scheme and retired after June 30, 2007. The SBP shall also provide financing for plant, machinery & equipment to be used by the export oriented projects for regeneration of textile waste into usable fiber for producing value added exportable products shall also be eligible under the subject Scheme. Under the Export Finance scheme, exporters of the hand knotted carpets were allowed a relaxation to show performance of 1.5 times instead of 2 times for the year 2008-09.

For the quarter ended March 31, 2009 the banks were allocated limits of Rs 204 billion under the Export Finance scheme (including Rs 11.5 billion for IERS). At the end of the quarter, Rs. 167 billion was outstanding under the scheme as compared to Rs.138 billion for same period last year. The commodity wise and borrower wise analysis under EFS financing continue to show skewed distribution. Out of total credit extended under EFS, 62% was outstanding against the textile sector. The top 10%

beneficiaries/borrowers are availing upto 75% of the total financing under the scheme.

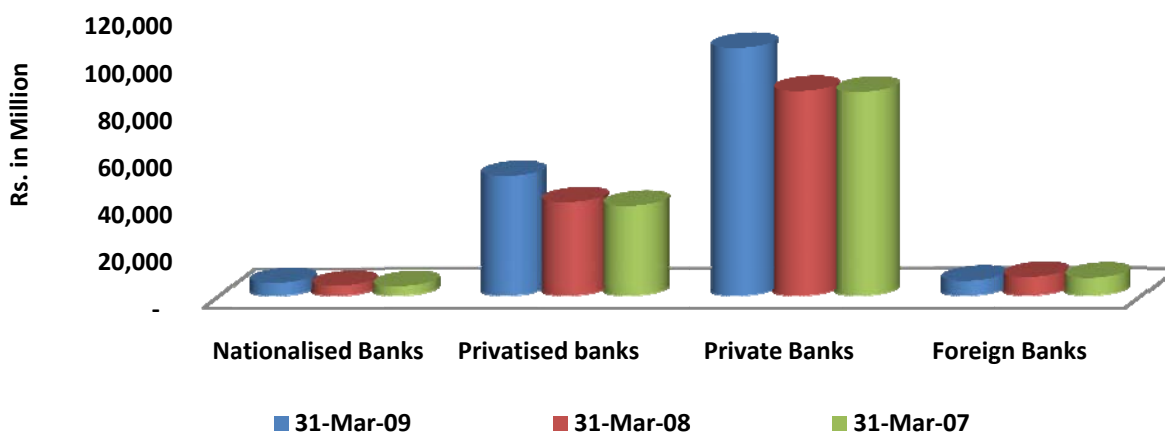
As on March 31, 2009 Rs.4.2 billion was outstanding against the financing provided under the Long Term Financing Facility for Plant & Machinery (LTFF). Under the defunct LTF-EOP scheme, Rs. 31 billion was outstanding, of which Rs. 14 billion pertains to the debt swap option offered to the textile sector under the scheme.

## 1.10 EXPORT FINANCE SCHEME (EFS)

The Export Finance Scheme has remained one of the major sources of financing the exports through banking system. During the quarter ended March 31, 2009 Rs.129 billion has been disbursed which is approximately 26% higher compared to March'08 quarter. One of the contributory factors is the reversion to 100% refinance facility from SBP compared to the earlier system of providing 70% financing through SBP and 30% funding by the commercial banks from own sources. The additional financing is reflective of this change as also a higher demand for refinance in view of the higher rates of commercial loans. *(See Figure 1H)*

### 1.10.1 LIMITS UNDER EFS

Figure 1H: Banking Group's Outstanding Position under EFS



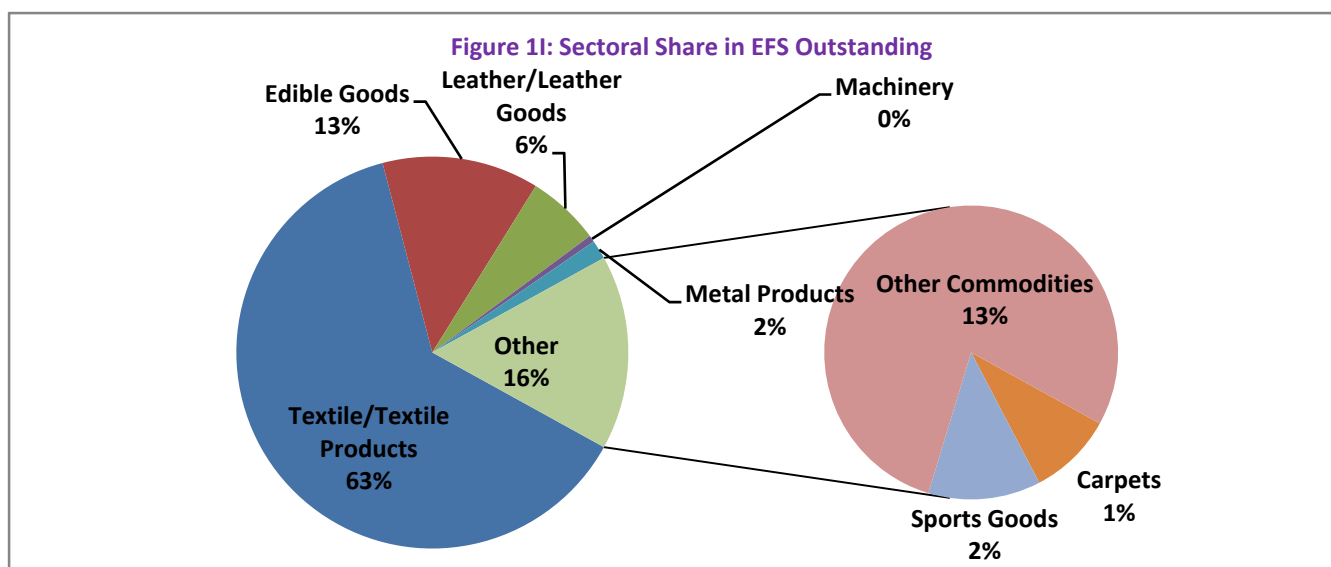
SBP increased the EFS limits by a marginal 1% from their Dec'09 positions to Rs 204 billion (including Rs 11.5 billion under IERS) to ensure adequate supply of funds to the export sector in a period of liquidity squeeze in the

banking system and slowdown in the economic activity.

### 1.10.2 OUTSTANDING FINANCING (EFS)

**Table 1a : Flows of EFS (Rs. in millions)**

Banking Group	Change Jan-March 2009	Change Jan-March 2008	Change Jan-March 2007	YoY change 2007-2008	YoY change 2006-2007
<b>Nationalized Banks</b>	507	(282)	(29)	892	896
<b>Privatized banks</b>	5,218	(1,058)	702	4,192	6,509
<b>Private Banks</b>	5,011	(2,085)	7,126	6,599	21,981
<b>Foreign Banks</b>	1,026	(668)	(3,684)	(1,090)	(2,844)
<b>Specialized Banks</b>	-	-	(18)	(4)	(5)
<b>Total</b>	11,762	(4,093)	2,824	10,589	26,537



At quarter ended March 31, 2009, Rs. 167.4 billion was

The amount outstanding against nationalized banks increased by 41% when compared with first quarter of

**Table 1b: Commodity Sector Wise Outstanding Financing under EFS as of 31.03.2009**

Sector	March 31,2009		March 31,2008		March 31,2007	
	Billion PKR	%	Billion PKR	%	Billion PKR	%
<b>Textile/Textile Products</b>	105.26	62.88%	89.36	64.53%	90.76	66.97%
<b>Edible Goods</b>	21.66	12.94%	18.61	13.44%	16.74	12.35%
<b>Leather/Leather Goods</b>	10.08	6.02%	10.77	7.77%	9.59	7.08%
<b>Machinery</b>	0.91	0.54%	0.81	0.58%	0.82	0.61%
<b>Metal Products</b>	2.62	1.56%	2.68	1.93%	2.78	2.05%
<b>Carpets</b>	2.50	1.49%	2.76	1.99%	2.56	1.89%
<b>Sports Goods</b>	3.33	1.99%	3.78	2.73%	4.34	3.20%
<b>Other Commodities</b>	21.04	12.57%	9.73	7.02%	7.93	5.85%
<b>Total</b>	<b>167.39</b>	<b>100.00%</b>	<b>138.49</b>	<b>100.00%</b>	<b>135.52</b>	<b>100.00%</b>

outstanding under the EFS as compared Rs. 138 billion on March 31, 2008 and Rs.135 billion on March 31, 2007. A look at the trend of amount outstanding under the Export Finance Scheme clearly suggests that the quantum of outstanding financing increased by 24% over Sept'06 position.

2007 and 30% when compared to the first quarter of 2008; however, in monetary terms, financing extended by the private banks reflected an increase of Rs 19 billion over the comparative quarters of 2007 & 2008. A comparative position of the amounts outstanding under EFS for the quarters ended Mar'09, Mar'08 & Mar'07 is presented in **Figure 1H**.

The growth of financing under EFS since Jan 1, 2009 shows increase of Rs. 11.5 billion during the quarter under review, with the maximum increase in Privatized banks. The increased flows seen during the quarter ended Mar'09 (when compared to quarter ended Mar'08) is reflective of the SBP's resolve to ensure adequate liquidity to the exporters, reflecting greater disbursements compared to repayments. (See Table 1a)

### 1.10.3 COMMODITY-WISE POSITION

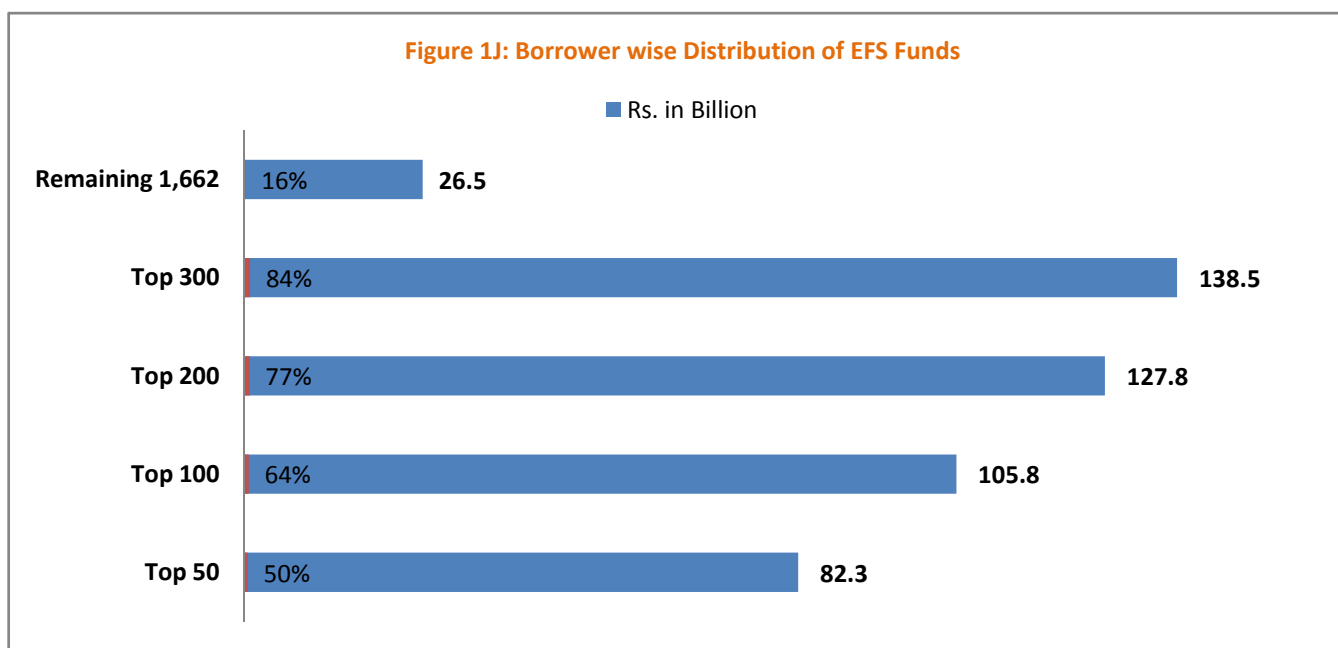
A distribution of the EFS funds along different sectors of the economy is shown in Figure 1I. Although the share of textile sector has declined compared to the previous quarters, it continues to avail the major share of financing under the scheme, which is 63%. Other sectors such as edibles (dominated by rice), leather and leather

200 availed 77 % of the total financing under EFS which reflects that just 10% of total borrowers have availed more than 75% of total EFS funds.

It is interesting to note that while the outstanding funds under the scheme increased by 7%, the number of borrowers under EFS decreased by almost 23% and stood at 1,962. This reflects the effects of the slowdown in international markets and reemphasizes the fact that the majority of EFS funds are availed by a few large exporters. (See Figure 1J)

### 1.10.5 REGIONAL ALLOCATION-BORROWERS

The trend for regional distribution of borrowers remains consistent even for the quarter ended March 31, 2009; up to 90% borrowers are from four major cities i.e.



goods also received a significant share. The details of sector-wise utilization of EFS financing are given in the Table 1b.

### 1.10.4 BORROWER WISE DISTRIBUTION

The distribution of EFS funds has been concentrated in the top big borrowers. Top 100 beneficiaries have availed about 64% of total financing under EFS, while the Top

Karachi, Sialkot, Lahore and Faisalabad. Similarly, almost 95% EFS funds are accumulated in these four cities. Moreover, almost 49% funds have been availed by Karachi based exporters.

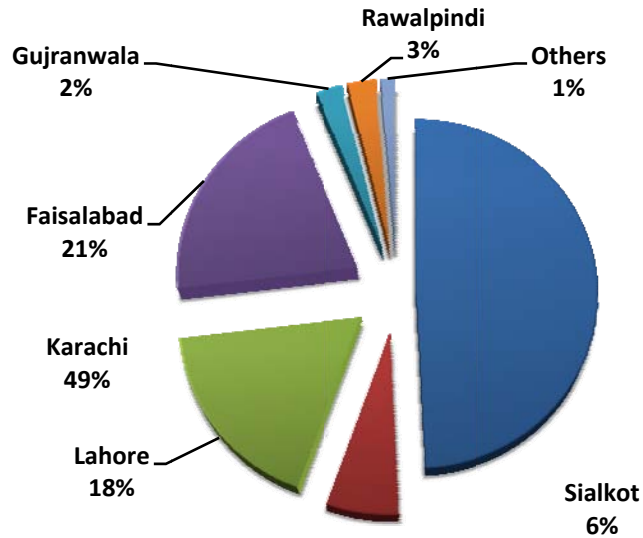
The average loan size availed by borrowers under EFS varies from region to region. For instance, the average loan size is Rs. 528M at Rawalpindi, while at Sialkot the same is Rs. 16M. However, inconsistent patterns have been witnessed with regard to average loan size and



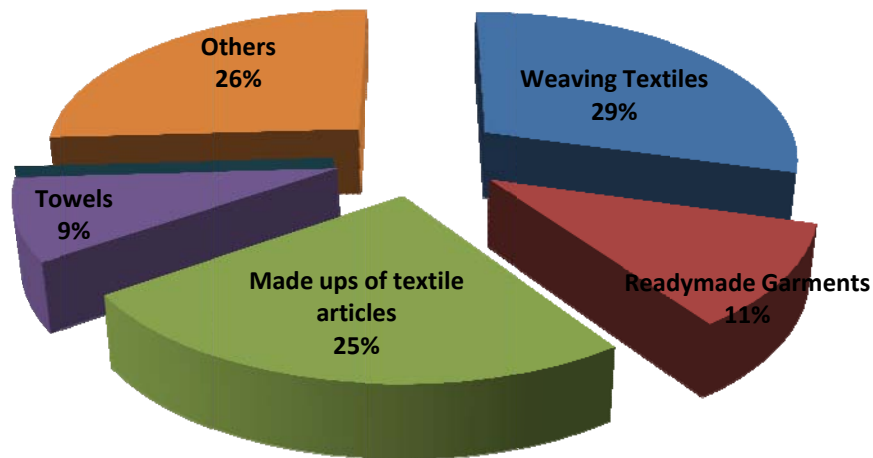
number of borrowers across regions. As is indicated in **Figure 1K**, there were just 8 borrowers at Rawalpindi at

Bank or Islamic Banking Operations of a conventional Bank and at present has 8 participating banks under the

**Figure 1K: Region wise allocation of EFS funds**



**Figure 1L: Distribution of funds Outstanding under LTFF within Textile Sector**



the end of December 2008 as compared to 649 borrowers at Sialkot at the same period. Likewise, the number of borrowers and the borrowing capacity of borrower/exporter are different at different regions.

### 1.11 ISLAMIC EXPORT REFINANCE SCHEME

The Islamic Export Refinance Scheme has been designed as a Musharaka between SBP and a participating Islamic

scheme (5 Islamic Banks and 3 conventional banks' Islamic Banking Operations).

The limits assigned under IERS for the quarter ended Mar'09 were Rs. 11.5 billion, approximately 18% higher compared to Mar'08, 16% compared to Mar'07 and 76% higher compared to Mar'06.

During the quarter Rs. 5.4 billion were disbursed while amount outstanding at the end of the quarter under IERS

was Rs.7.11 billion, 63% higher than the comparative quarter of CY08.

### 1.12 LTFF FACILITY

Under the Long Term Financing Facility for Plant & Machinery, a limit of Rs. 9.5 billion had been allocated for the fiscal year to the financial institutions, with privatized banks (MCB, ABL, UBL & HBL) being assigned the biggest share of Rs. 4.4 billion, followed by private banks at Rs 4 billion. Further, in view of the fact that the scope of the scheme has been enhanced to include some of the sectors which were previously ineligible; an additional amount of Rs 10 billion has been earmarked under the scheme. The disbursements under the scheme for the quarter ended Mar'09 were Rs. 1.4 billion, bringing the total disbursements to Rs. 4.6 billion (since inception), while the amount outstanding at the end of the quarter was Rs. 4.2 billion.

A look at the sector wise outstanding funds under LTFF reveals that the textile sector, with 71% share, is the main beneficiary under the scheme, with engineering goods receiving 23% and other sectors receiving 6% of total funds. The graph (**Figure 1L**) shows the distribution of outstanding funds within the textile sector.

### 1.13 LTF-EOP FACILITY

In May 2004, SBP introduced a long term financing scheme specifically for the value added export oriented projects in order to facilitate import of machinery for up-gradation of existing technology and enhancement in the quality of industrial production. In September 2006, SBP allowed the textile Sector to swap its commercial debt for SBP refinance to provide relief against the rising rates. The LTF-EOP Scheme stands abolished as on 31.12.2007.

As on March 31, 2009, Rs 14 billion was outstanding under the debt swap option provided under the scheme while Rs 17 billion was outstanding under regular disbursements of the scheme.

## 1.14 POLICY CHANGES

### 1. Long Term Financing Facility for plant & machinery – expansion in scope of financing

It has been decided vide SMEFD Circular No. 11 of 2009 that SBP shall provide 50% refinance for

- a) LCs (sight and usance) established before the announcement of the LTFF Scheme and retired after June 30, 2007 shall also be eligible for financing under the Scheme. However, LCs which have been retired through own sources of the sponsors of the export oriented industries, shall not be eligible under the Scheme.
- b) Financing for plant, machinery & equipment to be used by the export oriented projects for regeneration of textile waste into usable fiber for producing value added exportable products shall also be eligible under the subject Scheme.

### 2. Relaxation to Exporters of Hand knotted Carpets

It has been decided, vide SMEFD Circular No. 10 of 2009, that the required performance for financing facilities availed under Part II of EFS during FY 2008-09 be revised to 1.5 times as against existing performance requirements of 2.0 times for the exporters of Hand knotted Carpets. The entitlement of limits for FY 2009-10 shall, however, continue to be fixed as per existing criteria / instructions.

\*\*\*\*\*

## MICROFINANCE

## 2.0 OVERVIEW OF THE SECTOR

The first quarter of year 2009 has shown an overall positive growth in different accounts of MFBs. The

positively with encouraging note at the end of 1<sup>st</sup> quarter 09.

The number of branches has increased from 271 in 4Q08

Table 2a. MF BANKING SECTOR AT A GLANCE

PARTICULARS	4th Q08	1st Q09	Growth
MFBs	8	8	0%
Branches	271	272	0.37%
Borrowers	542,641	570,081	5.0%
Advances (Rs. `000)	6,461,462	7,313,770	13%
Deposits (Rs. `000)	4,115,667	4,615,376	12%
Depositors	254,381	297,009	17%
Assets (Rs. `000)	14,623,553	15,248,397	4.0%
Borrowings (Rs. `000)	5,069,820	4,660,998	-8%
Equity (Rs. `000)	5,034,783	5,060,439	0.45%
NPLs (Rs. `000)	148,195	224,452	51%

outreach, (borrowers, branches, deposits etc.) grew to 272 as of March 31, 09. The borrowers have registered

Table 2b. Outreach at a Glance

	Active Borrowers			Value of Microcredit		
	MFBs	MFI	Total	MFBs	MFI	Total
4 <sup>th</sup> Q08	542,641	1,190,238	1,732,897	6,461	14,091	18,752
1 <sup>st</sup> Q09	570,081	1,181,030	1,751,111	7,314	11,938	19,252
Growth	5.0%	(0.77%)	1.05%	13%	(15%)	3%

5% growth after recovering from the negative growth,

seen in 4<sup>th</sup> Q08. The biggest contributor to the growth also looking for possibilities of joint ventures and

Table 2c. Licensed MFBs in Pakistan

No.	MFBs	Year	Status	Key Sponsors
1.	Khushhali Bank Ltd.	2000	Country-wide	Commercial Banks
2.	The First Microfinance Bank	2001	Country-wide	AKAM, & IFC
3.	Rozgar Microfinance Bank	2004	District-wide	Arif Habib Group
4.	Network Microfinance Bank	2004	District-wide	JS & KASB Group
5.	Tameer Microfinance Bank	2005	Country-wide	EMCL & IFC
6.	Pak Oman Microfinance Bank	2006	Country-wide	Pak Oman Investment
7.	Kashf Microfinance Bank	12 Aug 2008	Country-wide	Kashf Holding
8.	NRSP Microfinance Bank	18 Feb 2009	Country-wide	NRSP

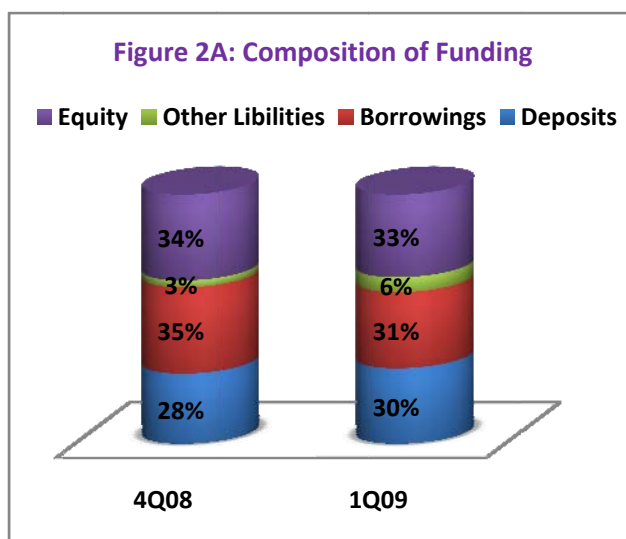
was the First Microfinance Bank Ltd (FMFBL) with a net increase of 25,562 borrowers. The Tameer Microfinance Bank and Kashf Microfinance bank have also added 7000 and 14000 borrowers respectively during the quarter. The remaining four MFBs posed marginal decrease in their active borrowers.

The Gross Loan Portfolio (GLP) has recorded 13% growth with FMFBL as the main contributor. The kashf and Tameer are the second and third suppliers of microcredit. The remaining MFBs have shown a marginal decline in their portfolio.

The Deposits have been escalated by 12% as of 1<sup>st</sup> Q09. The growth is mainly led by FMFBL with considerable increase in its saving deposits. Tameer, Pak Oman, and Rozgar MFBs have also shown marginal increase in their deposit base. The number of depositors has increased by 17% during the quarter. The mobilization of core savings has emerged as a key challenge for the future growth of MFBs. To overcome this challenge, MFBs besides developing internal strategies for saving mobilization, are

developing partnerships for innovation of products and better delivery of financial services. Financial Inclusion Program (FIP) by State Bank of Pakistan tends to encourage MFBs' proposals for developing sector-wide innovative solutions.

The total assets grew by 4% from Rs. 14.62 billion to Rs. 15.25 billion as of 1<sup>st</sup> Q 09. The borrowings by MFBs have



declined by 8% registering a value of Rs. 4.66 billion as of 1<sup>st</sup> Q09. The Equity has marginally increased by 0.45% listing a value of Rs. 5.06 billion. The NPLs have drastically increased to Rs. 224 million from Rs. 148.20 million with a growth rate of 51% over the quarter.

## 2.1 OUTREACH AT A GLANCE

The overall outreach by microfinance sector (MFIs + MFBs) has shown 1% growth in terms of active borrowers and 3% in terms of value of microcredit. The growth is mainly led by MFBs, both in number of borrowers and value of microcredit. On the contrary, outreach of MFIs has been marginally declined by 0.77% at the end of 1<sup>st</sup> Q09. (See Table 2b)

As of March 31, 2009, eight MFBs are operating in the country; six of them operate on nation-wide, while the remaining two MFBs are district-based (Karachi district). The licensed MFB's are given in **Table 2c**.

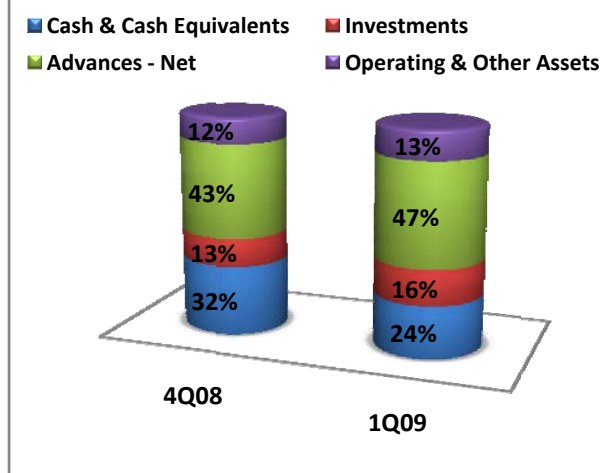
## 2.2 ASSETS

The Assets have shown slight change in their composition, the share of cash and cash equivalents has been squeezed to 24% as of 1<sup>st</sup> quarter 09 from 32% in the 4<sup>th</sup> quarter 08. The share of investments has increased from 13% as of 4<sup>th</sup> quarter to 16% during the current quarter. Advances as the core earning asset have recorded a share of 47% of total assets during the current quarter as compared to 43% of previous quarter. The operating and other assets have gradually increased from 12% in the 4<sup>th</sup> quarter 08 to 13% as of 1<sup>st</sup> quarter 09. (See **Figure 2B**)

## 2.3 FUNDING

The funding structure of MFBs shows slight change during the quarter under review. MFBs have managed to raise the level of deposits up to 30% of their funding during 1<sup>st</sup> Q09 as compared to 28% in last quarter. The share of borrowing has declined to 31% from 35% during the quarter; the decline was mainly due to squeezing of funding lines by Asian Development Bank to largest MFB.

**Figure 2B: Composition of Assets**

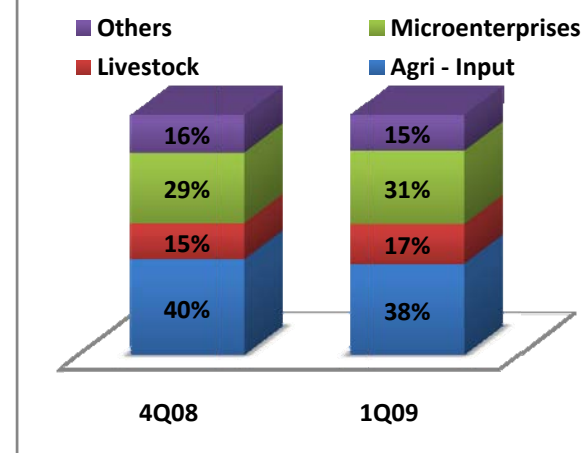


The proportion of equity declined slightly by a percentage point, registering 33% of total funding. Efforts are underway to mobilize deposits as the most sustainable source of funding. (See **Figure 2A**)

## 2.4 ADVANCES

The concentration of loan portfolio of MFBs has shown slight changes during 1<sup>st</sup> quarter of 2009. Agriculture

**Figure 2C: Composition of Advances**

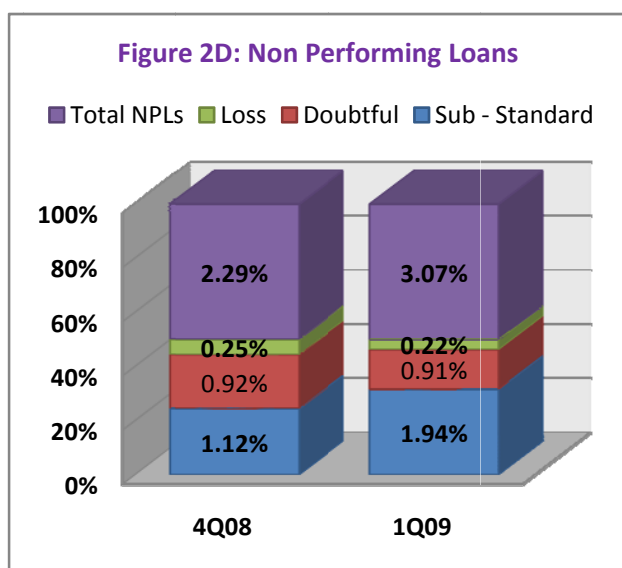


financing continues to receive the major fraction of financing by MFBs obtaining 38% of total advances by MFBs.

The microenterprise and livestock are second and third largest sector being financed by MFBs in terms of their

relative share of microcredit. The share of microenterprise and livestock in total microcredit, stood at 31% and 17% respectively with a growth of 2% by each component over the previous quarter. The 55% of total advances to Agriculture sector (Agri-Input + Livestock); clearly indicates the rural focus of microfinance banks. (See Figure 2C)

## 2.5 NON PERFORMING LOANS



The 1<sup>st</sup> Q09 witnessed a slight increase in Non-Performing loans (NPLs) by microfinance banks attributed to the wave of economic meltdown. The value of total NPLs (PAR>30) has increased to Rs. 224 million from Rs. 148 million as of 4<sup>th</sup> Q08. The overall NPLs stood at 3.07% of total loan portfolio while these were 2.29% as of 4<sup>th</sup> Q08. The increase in overall NPLs is mainly contributed by increase in substandard category from 1.12% to 1.94% during the quarter. On the other hand the share of Doubtful and Loss categories has improved with slight decrease in their fractions. (See Figure 2D)

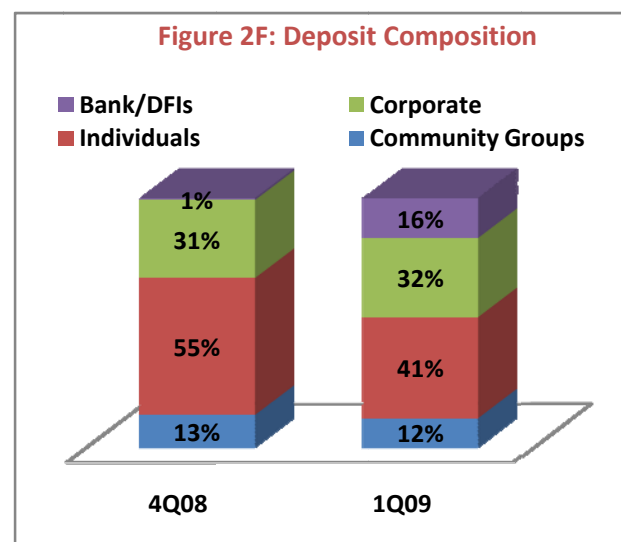
## 2.6 GROWTH IN DEPOSITS

The overall deposits have shown positive growth during the quarter. The fixed deposits have significantly grown by 32%, offsetting the negative growth posed by Current and PLS deposits and finally maintaining an overall 12%

growth in total deposits. The deposit base of MFBs is still very low and there is considerable potential for future growth.

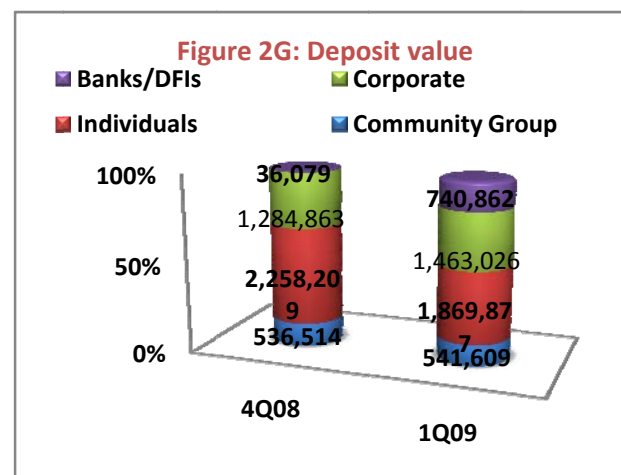
## 2.7 COMPOSITION

As visible from the Figure 2F, the individual's depositors by decreasing from 55% to 41% during 1<sup>st</sup> Q09 have still the highest fraction of overall deposits. The deposits by corporates constitute second largest share at 32%. The share of Banks /DFIs deposits significantly increased to



16% from 1% of its share during the 4<sup>th</sup> Q08, due to their efforts for deposit mobilization. The community deposits stood at 12% with slight decrease from 13% in the previous quarter.

## 2.8 DEPOSIT VALUE

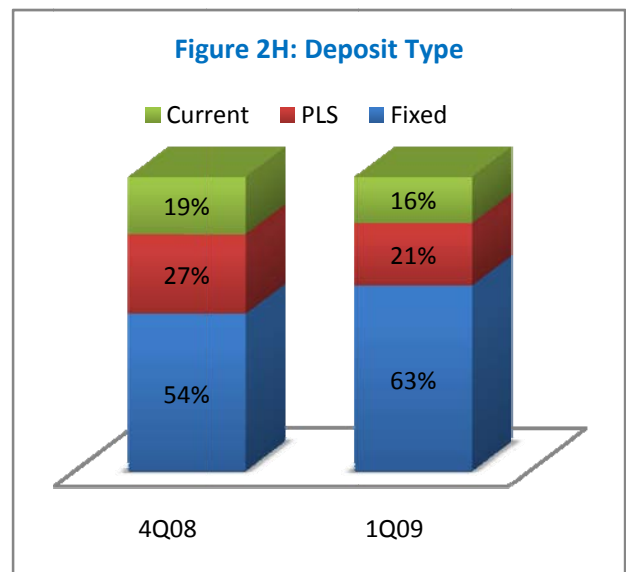


As visible from the **Figure 2G**, the value of individual's deposits after registering a significant decline from Rs. 2.26 billion to Rs. 1.87 billion, still dominates the overall deposit base as of 1<sup>st</sup> Q09. The deposits by corporate constitute the second largest share and stood at Rs. 1.46 billion as of 1<sup>st</sup> Q09. The share of Bank /DFI deposits has significantly increased to Rs. 0.74 billion from Rs. 0.036 billion during the quarter. The community deposits stood at Rs. 0.54 billion with slight increase in its value over the quarter.

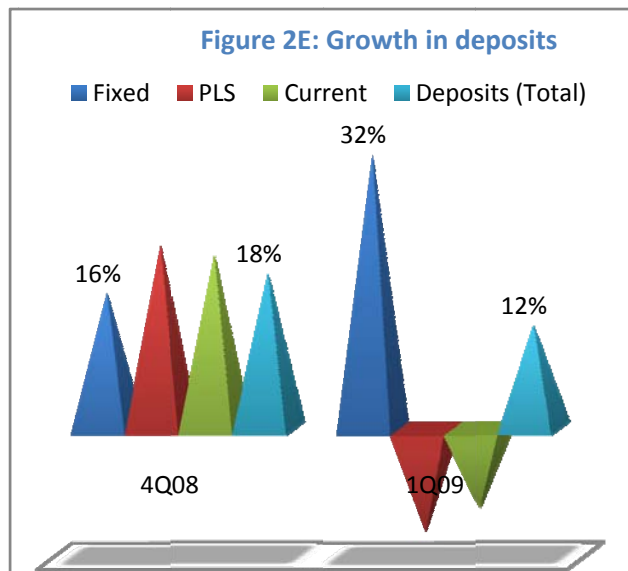
### 2.9 DEPOSIT COMPOSITION

In terms of type of deposits (Current, PLS, Fixed), fixed deposits continue to dominate the deposit base. The fixed deposits have significantly increased to 63% as of 1<sup>st</sup> Q09 from 54%. The share of PLS has been decreased from 27% to 21% as of 1<sup>st</sup> Q09. The current deposits have the smallest fraction and stood at 16% of total deposits

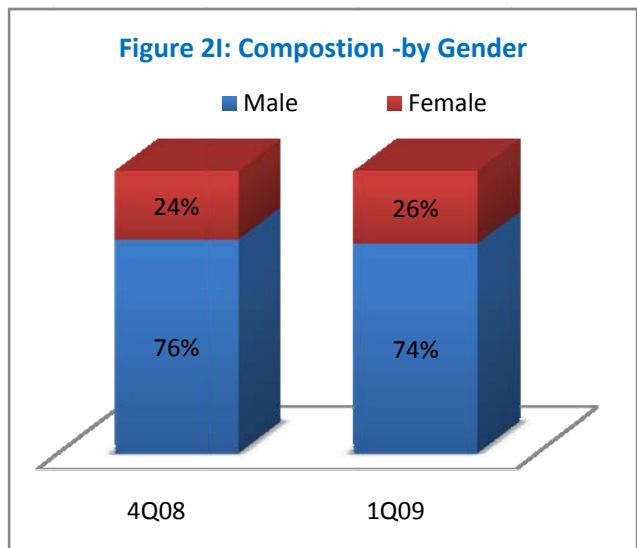
female borrowers has increased to 26% from 24% during the quarter. The similar trend is also witnessed in



advances where male have received 80% of advances and female of 20% with a percentage change in its proportion in the favor of women. The trend is expected to continue as the microfinance experience in South Asian region has largely been women-focused. The average loan size has been increased for both male and female clients, with an amount of Rs 13,900 for male and



by MFBS. (See Figure 2H, 2E)



Rs. 10, 800 for female client, as of 1<sup>st</sup> Q09. (See Figure 2I)

### 2.10 GENDER

The MFBS are continued to be dominated by male clients in terms of borrowers as well as advances but fraction of females clients is witnessing a gradual increasing trend. The share of male borrowers has been reduced to 74% from 76% as of 1<sup>st</sup> Q09. On the contrary, the share of

### 2.11 NEWS AND UPDATES



### 1. Mobile Money for Poor Projected

The market of mobile financial services to poor people in emerging markets will surge from nothing to US\$5 billion in 2012. The estimates are part of CGAP's joint study with industry group GSMA on estimating the size of mobile financial markets. Mobile money is one of the hottest topics in the wireless world, but so far take-up of services has been mostly limited to a few emerging markets, as in developed countries the popularity of online banking has been a brake on mobile money.

The market began in early 2007 with a launch of Safaricom's M-PESA in Kenya, which has attracted 6.5 million customers, or one in six Kenyans. Operators in several emerging countries have followed, and by end-2009 CGAP expects more than 120 mobile money implementations in developing markets.

### 2. Microfinance Professional Association

A global professional body catering to the needs of practitioners in the microfinance sector has been established in the United Kingdom. The Microfinance Association plans to offer its members an information center, a career advice center, and a knowledge management center. The information center will provide information such as links and resources to rating agencies, market information, microfinance news, information on government agencies, forums and conferences, training and research, and networking opportunities. Membership in the association is open to all practitioners working in the microfinance sector worldwide.

### 3. PlaNet Finance Announces Scholarships

PlaNet Finance is inviting students writing or finalizing a Thesis on a microfinance-related topic to participate in its Scholarships & Awards Program. PlaNet Finance is offering 8 Scholarships of up to EUR1500 (US\$2000) in 2009 to allow students to conduct in-the-field research on microfinance. Participating students may get additional assistance in organizing the field research. The

Scholarships will be granted to cover travel and/or accommodation expenses during the field research.

PlaNet Finance is also offering 4 Awards for students having completed their final thesis in a Master or equivalent program and presenting an outstanding research in the microfinance field. The Final Thesis will be published and the 1st Prize will receive EUR500 (US\$700). Students will be invited to share and discuss their findings with academics, other students and practitioners. Interested candidates can submit their research proposal or final thesis to [umm@planetfinance.org](mailto:umm@planetfinance.org) by July 15 and October 31, 2009. Selected participants for the Scholarship Program will be informed three weeks after submission deadline. The winners of the Awards will be announced in November 2009.

### 4. Microinsurance Innovation Facility

The Microinsurance Innovation Facility and the European Development Research Network (EUDN) are inviting academic researchers to submit proposals for research that will contribute new knowledge to support Microinsurance development in developing countries. The Facility offers small research grants on a competitive basis for academics, particularly from developing countries, to analyze various Microinsurance issues. Besides answering key questions in the Facility's research agenda, these grants are intended to increase the supply of knowledgeable Microinsurance experts and promote Microinsurance in academic circles.

To apply, first fill in the cover sheet, then make sure your research proposal strictly follows the guidelines. Applications should be sent to [microinsurance@fundp.ac.be](mailto:microinsurance@fundp.ac.be) by 30th October 2009 at 12pm (noon) Central European Time.

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## AGRICULTURE FINANCE

### 3.0 AGRICULTURE FINANCE

An indicative target of Rs 250 billion has been set for 2008-09. Out of which, Rs 119.5 billion has been allocated to five major banks followed by Rs 72 billion to Zarai Taraqati Bank Ltd. (ZTBL), Rs 52.5 billion to domestic private banks and Rs 6 billion to Punjab Provincial Cooperative Bank Ltd. (PPCBL). As against the target, banks have disbursed Rs 151.9 billion during July-March 2008-09 which is higher by Rs 11.8 billion or 8.4% as compared to Rs 138.6 billion disbursed during the corresponding period last year. Pace of credit disbursement remained slow during the three quarters of FY2008-09 and banks could achieve only 61 % of the

of initiatives to facilitate banks in their capacity building, enhancement of per acre credit limit for provision of adequate credit to the farming community, banks' disbursement position is not encouraging due to liquidity crunch faced by banks coupled with banks cautious lending to the sector during the period under review.

A review of the agri. credit disbursement and SBP's initiatives taken during January-March, 2009 quarter for increasing access to agri. financing is given as under:

### 3.1 AGRI. CREDIT DISBURSEMENTS

During the quarter January-March, 2009 banks disbursed Rs 52.5 billion compared to disbursement of Rs 52.8

Table 3a: Indicative Agri. Credit Targets and Disbursement (Billion Rupees)

Banks	Target 2008-09	Disbursement 2008-09			Target 2007-08	Disbursement 2007-08		
		Oct-Dec 2008	Jan-Mar 2009	Jul-Mar 2008-09		Oct-Dec 2007	Jan- Mar 2008	Jul-Mar 2007-08
<b>5 Big Comm. Banks</b>	119.5	23.0	25.7	74.4	96.5	25.4	20.2	65.1
<b>ZTBL</b>	72.0	18.9	17.7	45.4	60.0	16.7	15.7	39.6
<b>DPBs</b>	52.5	9.5	7.7	28.6	35.5	10.8	10.9	30.0
<b>PPCBL</b>	6.0	1.4	1.3	3.5	8.0	1.1	1.5	3.9
<b>Total</b>	<b>250.0</b>	<b>52.8</b>	<b>52.4</b>	<b>151.9</b>	<b>200.0</b>	<b>54.0</b>	<b>48.3</b>	<b>138.6</b>

Source: Agricultural Credit Department, State Bank of Pakistan

indicative targets during July-March, 2008-09, in the corresponding period last year banks achieved 69% of their allocated targets. Although SBP has taken a number

billion in October-December, 2008 (preceding quarter) and Rs 48.3 billion in the same quarter last year. Detail of indicative agricultural credit targets of Rs 250 billion to

be disbursed by banks during FY 2008-09 and actual considerably and stood at Rs 18.2 billion during the

**Table 3b: Province-wise Indicative Agri. Credit Targets and Disbursement (Billion Rupees)**

Province	Target 2008-09	Disbursement 2008-09			Target 2007-08	Disbursement 2007-08		
		Oct-Dec 2008	Jan-Mar 2009	Jul-Mar 2008-09		Oct-Dec 2007	Jan-Mar 2008	Jul-Mar 2007-08
<b>Punjab</b>	195	46.1	40.8	127.0	156	45.4	41.0	116.7
<b>Sindh</b>	35	4.6	9.1	18.2	28	6.6	4.8	15.0
<b>N.W.F.P</b>	15	1.8	2.2	5.8	12	1.7	2.3	6.1
<b>Baluchistan</b>	4	0.1	0.1	0.3	3	0.1	0.1	0.3
<b>AJK &amp; NAs</b>	1	0.2	0.2	0.6	1	0.2	0.1	0.5
<b>Total</b>	<b>250</b>	<b>52.8</b>	<b>52.4</b>	<b>151.9</b>	<b>200</b>	<b>54.0</b>	<b>48.3</b>	<b>138.6</b>

**Source: Agricultural Credit Department, State Bank of Pakistan**

disbursements by banks up to March, 2009 and in the corresponding period last year are given in **Table 3a**

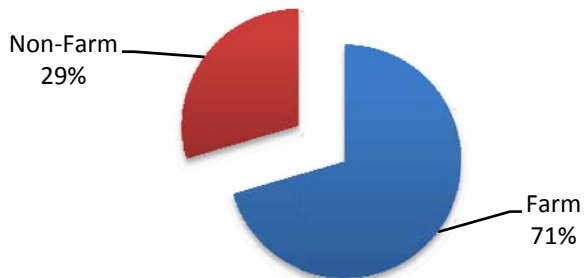
Province-wise disbursements reveal that during the quarter January-March, 2009 banks disbursed Rs 40.8 billion in Punjab, Rs 9.1 billion in Sindh, Rs 2.2 billion in N.W.F.P, Rs 0.1 billion in Baluchistan and Rs 0.2 billion in AJK& Northern Areas. Province-wise detail of disbursements is given in **Table 3b**. Accumulated disbursements during July-March 2008-09 shows that Punjab maintained its highest share (83.6 %) in disbursements by receiving Rs 127 billion compared with whole year target of Rs 195 billion and its actual disbursements of Rs 116.7 billion in the same period during last year. Disbursements in Sindh also improved

period under review compared with Rs 15 billion during July-March 2007-08; accordingly its share in total disbursements increased from 10.8 % to 12 %. An amount of Rs.5.8 billion was disbursed in N.W.F.P compared with Rs 6.1 billion disbursed during the same period last year. Rs 0.3 billion were disbursed in Baluchistan and Rs 0.6 billion were disbursed in AJK/ NAs compared with Rs. 0.3 billion and Rs 0.5 billion disbursed during July-March 2007-08 respectively.

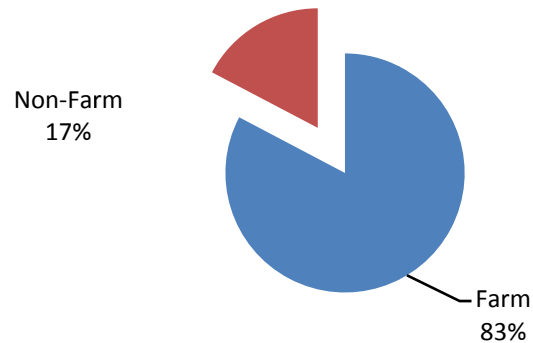
Sector-wise classification of credit disbursement reveals that during the quarter January-March, 2009 out of total

On non-farm sector, SBP has taken a number of initiatives which include issuance of guidelines for

**Figure 3 A: Share of Farm & Non Farm Sectors Disbursements (Jan-March 2009)**



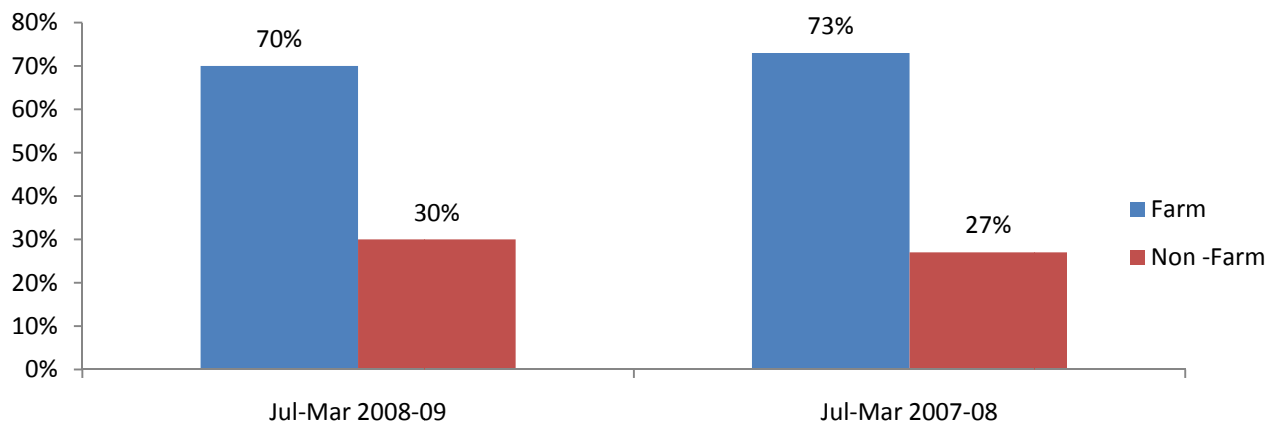
**Figure 3 B: Share of Farm & Non Farm Sectors Disbursements (Jan-March 2008)**



disbursements of Rs 52.4 billion, an amount of Rs 37 billion or 71% was disbursed to farm- sector and Rs.15.5

livestock, fisheries & horticulture financing and preparing of financing scheme for small farmers based on group

**Figure 3C: Share of Farm & Non-Farm Sectors Disbursement**



billion or 29% to non-farm sector. Last year during this quarter an amount of Rs 32.4 billion or 83% was extended to farm sector and Rs 6.8 billion or 17% was disbursed to non-farm sector. Disbursements during July-March, 2008-09 reveals that out of total disbursements of Rs 151.9 billion, an amount of Rs 106.3 billion or 70% was disbursed to farm- sector and Rs.45.6 billion or 30% to non-farm sector. Last year during this period an amount of Rs 101.7 billion or 73% was extended to farm sector and Rs 36.9 billion or 27% was disbursed to non-farm sector. To facilitate and encourage banks to focus

based lending methodology. Resultantly, share of non-farm sector in total agri. credit disbursement has improved.

The land holding-wise disbursement pattern shows that out of Rs 106.3 billion disbursements to farm sector during July-March, 2008-09, Rs 67.1 billion were absorbed by farmers having land up to subsistence level, Rs 25 billion by farmers having economic and Rs.14.2 billion by farmers having above economic holding. The disbursement to non-farm sector reveals that during

July-March 2008-09 an amount of Rs 36.8 billion was

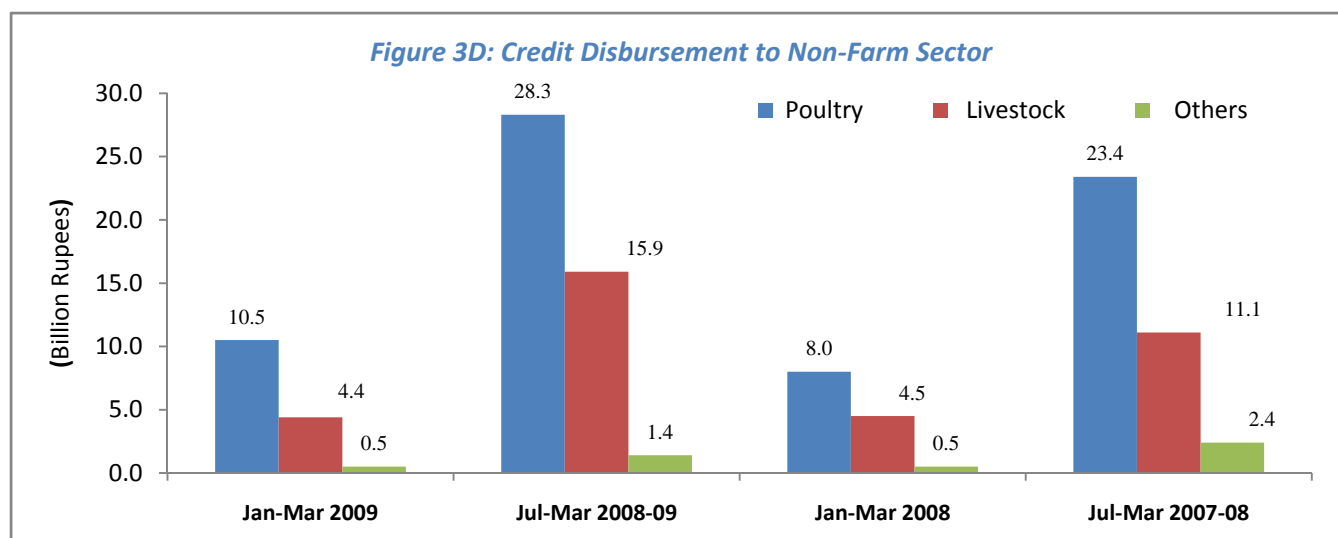
Details of disbursements to farmers having different farm

Table: 3c: Credit Disbursement to Farm & Non-Farm Sectors						
(Billion Rupees)						
Sector	2008-09			2007-08		
	Oct- Dec 2008	Jan-Mar 2009	Jul-Mar 2008-09	Oct- Dec 2007	Jan-Mar 2008	Jul-Mar 2007-08
<b>A</b>	<b>Farm Credit</b>	<b>39.5</b>	<b>37.0</b>	<b>106.3</b>	<b>39.2</b>	<b>101.7</b>
<b>1</b>	<b>Subsistence Holding</b>	<b>25.3</b>	<b>23.5</b>	<b>67.1</b>	<b>22.5</b>	<b>60.7</b>
	<i>i</i> Production	23.5	21.6	61.6	20.9	55.9
	<i>ii</i> Development	1.8	1.9	5.5	1.6	4.8
<b>2</b>	<b>Economic Holding</b>	<b>9.4</b>	<b>9.3</b>	<b>25.0</b>	<b>9.2</b>	<b>23.2</b>
	<i>i</i> Production	9.1	8.9	23.8	8.8	21.9
	<i>ii</i> Development	0.3	0.4	1.2	0.4	1.3
<b>3</b>	<b>Above Economic Holding</b>	<b>4.8</b>	<b>4.2</b>	<b>14.2</b>	<b>7.5</b>	<b>17.8</b>
	<i>i</i> Production	4.4	4.1	13.5	7.1	16.7
	<i>ii</i> Development	0.4	0.1	0.7	0.4	1.1
<b>B</b>	<b>Non-farm Credit</b>	<b>13.3</b>	<b>15.5</b>	<b>45.6</b>	<b>15.0</b>	<b>36.9</b>
<b>1</b>	Small Farms	3.2	2.7	8.8	2.6	6.5
<b>2</b>	Large Farms	10.1	12.8	36.8	12.4	30.4
	<b>Total (A+B)</b>	<b>52.8</b>	<b>52.5</b>	<b>151.9</b>	<b>54.2</b>	<b>138.6</b>

extended to large farms, mainly to livestock and poultry sector and Rs 8.8 billion were disbursed to small farmers compared with Rs 34.4 billion and Rs 6.5 billion respectively disbursed in the same period last year.

sizes are given in **Table 3c**.

Break up of non-farm sector reveals that out of Rs 45.6 billion disbursed during July-March, 2008-09, Rs 28.3



billion were disbursed to poultry sector and Rs 15.9 billion to livestock compared with Rs 23.4 billion and Rs 11.1 billion respectively disbursed in the same period last year. Details of credit disbursement to non-farm sector are given in **Figure 3D**

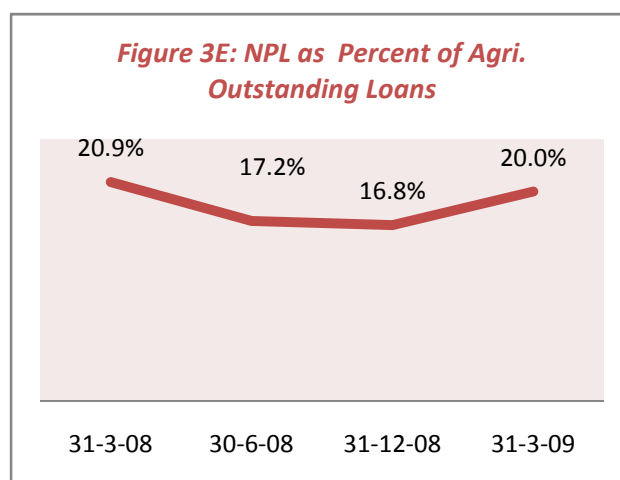
### 3.2 AGRICULTURAL CREDIT RECOVERY

During July-March, 2008-09, banks recovered Rs 150.4 billion or 88 % of recoverable amount of Rs 170.9 billion agri. loans compared with Rs 130.7 billion or 76 % of the recoverable amount of Rs 159.6 billion during the same period last year. The five major banks recovered Rs 74.8 billion or 93.5 % of the recoverable amount, ZTBL recovered Rs 41.4 billion or 77 % of the recoverable amount, DPBs recovered Rs 29.6 billion against Rs 29.2 billion recoverable. PPCBL recovered Rs 4.6 billion or 56 % out of recoverable amount of Rs 8.1 billion.

### 3.3 AGRI. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 35 billion, 20 % of the outstanding loans as on 31<sup>st</sup> March, 2009 compared with Rs. 33.2 billion or 20.9 % of the outstanding loans as 31<sup>st</sup> March, 2008. Non-performing loan as percent of agricultural outstanding loans during the period under review are given in **Figure 3E**. Bank-wise break-up of NPL as on 31<sup>st</sup> March, 2009 reveals that five major banks' NPL were 16.3 % of their outstanding loans, while for DPBs' it was 16.2 % against last year 6.8

% NPL of ZTBL was 18.9 % compared with last year level of 26.1 %. PPCBL NPL remained much higher than other



banks. Details of NPL as percent of outstanding agri. loans are given in **Figure 3E**.

### 3.4 NUMBER OF AGRI. LOAN BORROWERS

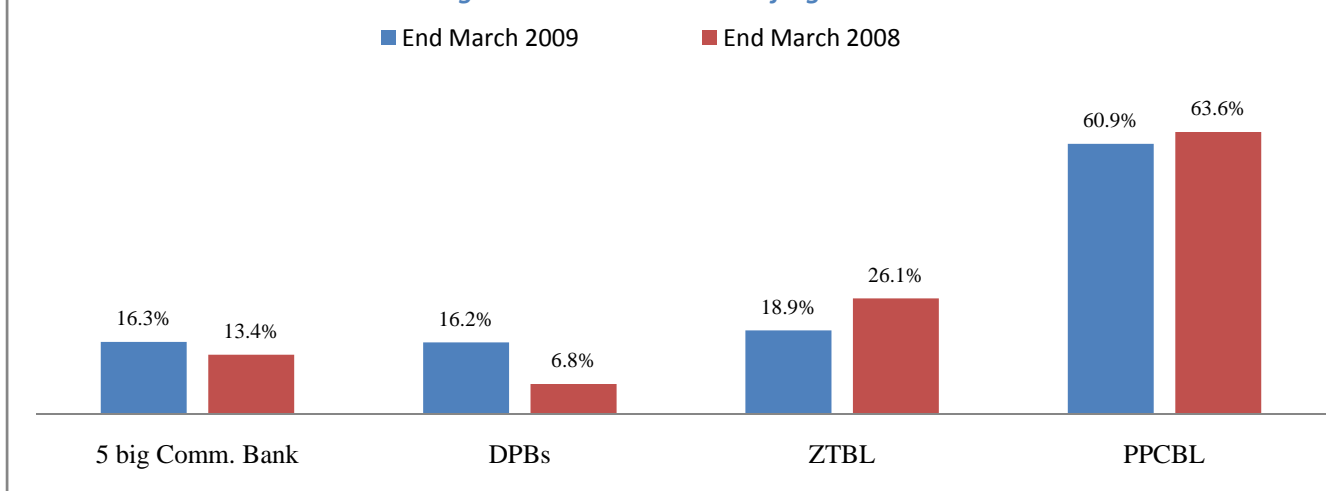
Agri. loan borrowers were 1,958,380 as on 31<sup>st</sup> March, 2009 as compared to 1,719,109 at end March, 2008. Out of them 1,174,341 borrowers (60 %) were of ZTBL, 596,013 (30.4 %) of 5 major commercial banks, 127358 (6.5 %) of PPCBL and 60,668 (3.1 %) of DPBs.

### 3.5 SBP'S INITIATIVES AGRI CREDIT

Owing to increased activities in the agriculture sector and

### c. Induction of MFBs into agri. financing

**Figure 3F: NPL as Percent of Agri. Loans**



expanding demand for credit in the sector, SBP has taken various key steps for the promotion of agri/ rural finance during January-March, 2009, which include:

#### a. Crash Training Program

The crash training program covers major dimensions of agri. financing including SBP's policies & schemes, agri. financing tools and techniques, security & loan documentations, loan monitoring & recovery mechanism, agri. credit risk management, group based lending to farmers, agri. loan marketing & sales system, etc. During January-March, 2009 four programs were arranged at Sargodha, Rawalpindi, Hyderabad and Multan, wherein around 109 Agri. Field Officers (AFOs) of banks and officers of SBP-BSC were imparted training. Around 550 AFOs have been trained till end March 2009 in 18 such programs throughout the country.

#### b. Sindh Pilot Project

To deepen the outreach of agri. finance on fast track basis in the underserved districts of Sindh, Pilot Project has been launched in 7 agri. intensive districts viz. Hyderabad, Tando Allahyar, Nawabshah, Sanghar, Khairpur, Mirpur Khas and Larkana from Kharif Crop 2009. The program will be replicated in other districts of the country to achieve the desired objectives of enhancing institutional credit to the agriculture sector and its development on priority basis.

To increase the outreach of agriculture finance and meet the requirements of farming community, SBP has inducted Microfinance Banks in the Agriculture Finance Network. A proper database on agri. microfinance is being developed for this purpose. Moreover, the Mandatory Crop Loan Insurance Scheme has been also extended to MFBs to cover their risks.

#### d. Introduction of One Window Operation

To address issues of delays in issuance of passbook and timely completion of revenue formalities, a framework for 'One Window Operation in Sindh' was developed and the Operation was launched in the Pilot districts of Sindh by the Sindh Board of Revenue from Kharif Season 2009. The Operation has facilitated banks and farming community in timely completion of revenue formalities and access to finance on fast track basis.

#### e. Developed Benazir Zari Credit Card Scheme

In accordance with the Prime Minister of Pakistan's announcement of introduction of Benazir Zari Card Scheme (BZCS) to improve farmers' access to institutional credit, the scheme has been developed in collaboration with Pakistan Banks Association, vendors' network, input suppliers, etc. The BZCS is being test-launched by ZTBL and NBP in one district each of the four provinces before expanding its coverage.



## HOUSING FINANCE

## 4.0 HOUSING FINANCE- OVERVIEW

Over the last twelve months, the quarter ended March 2009 witnessed a slight decline of 1.43% in gross outstanding portfolio of the housing finance. The total outstanding reported by banks and DFIs as on March 31, 2009 was Rs. 80.87 billion compared to Rs. 82 billion as on March 31, 2008. The total number of outstanding borrowers has decreased from 126,595 to 121,368 since March 2008; a 4% fall.

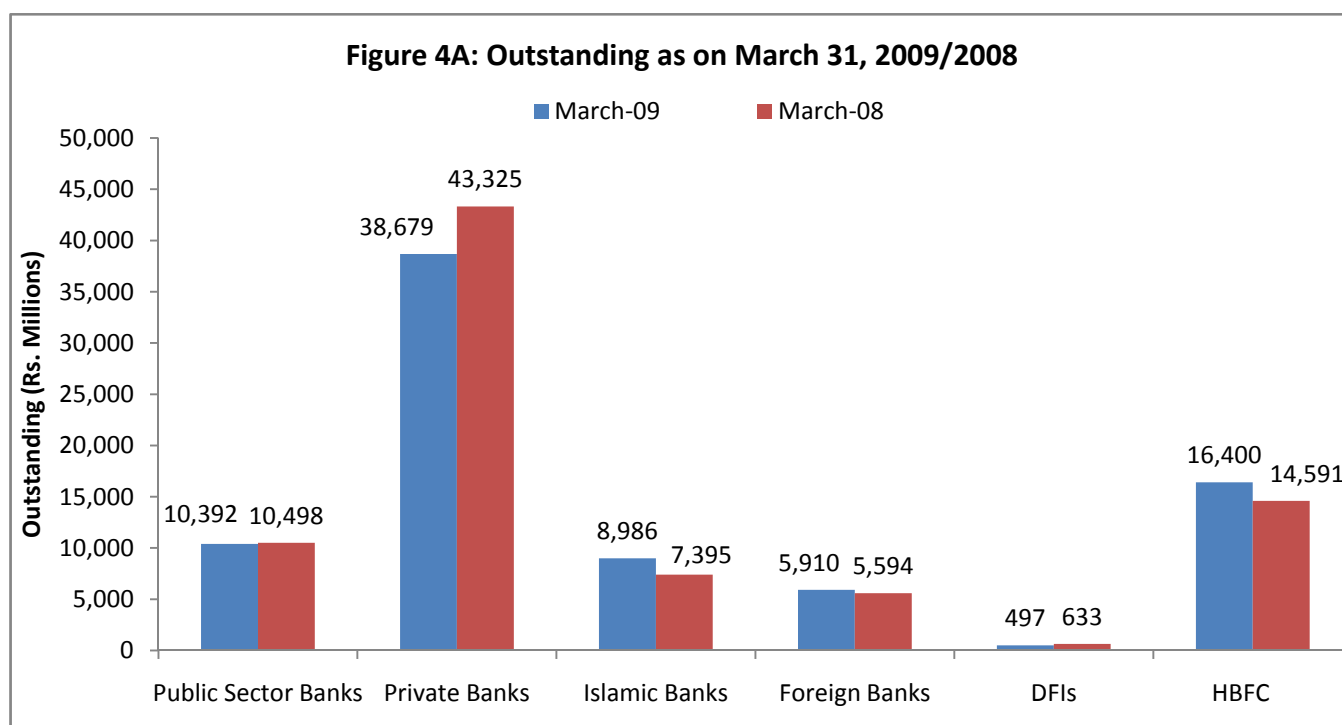
Non-performing loans have increased from Rs.8.99 billion (March 2008) to Rs.13 billion (March 2009); a 45% increase over the year. However, this rise in NPLs is not unique to Housing Finance and is only depicting the

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 59% share in outstanding.

## 4.1 GROSS OUTSTANDING

The total outstanding finance as on March 31, 2009, of all banks and DFIs stood at Rs.80.87 billion. Compared to quarter ended March 2008 (**Figure 4A**), outstanding of all commercial banks and DFIs decreased by 1.43%.

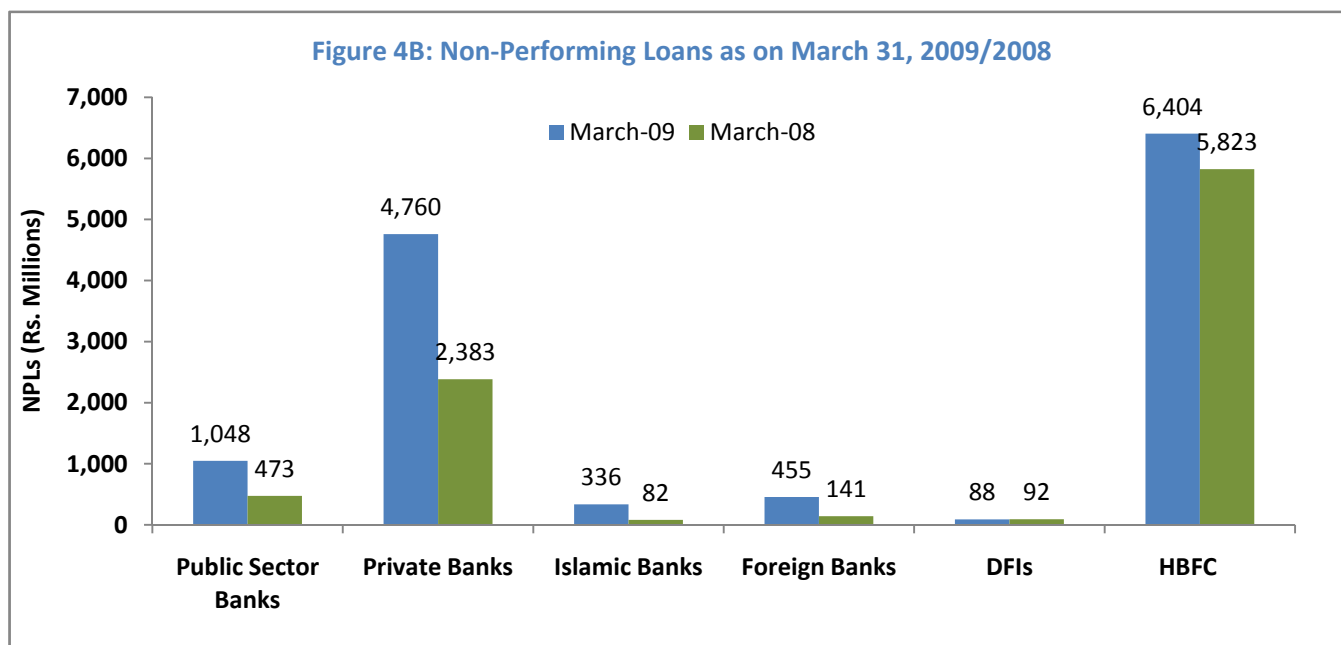
**Figure 4A** shows banking sector wise total outstanding at the end of March 2009. Of the total outstanding of Rs. 80.87 billion, commercial banks accounted for Rs.63.97 billion with private banks posting an outstanding of Rs.38.68 billion; a 10.72% decline since March 2008.



overall increase in NPLs of all sectors witnessed in the banking industry during the year.

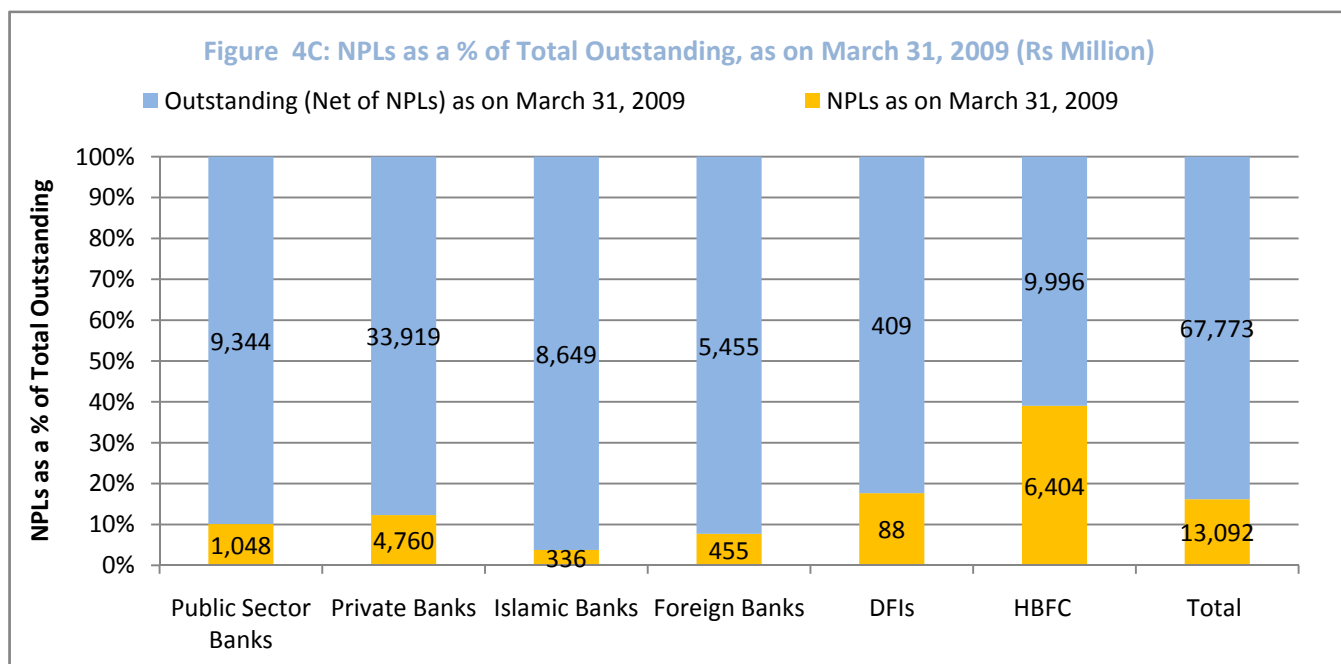
Approximately 940 new borrowers were served this quarter accounting for Rs. 1.78 billion of additional disbursements in housing loans. HBFC accounted for 55% of these new borrowers and contributed over 16% of the Rs.1.78 billion additional disbursement made.

Public sector banks reported an outstanding of Rs.10.39 billion, followed by Islamic Banks with Rs. 8.99 billion and foreign banks with Rs.5.91 billion. The highest growth of 21.5% was reported among Islamic banks. Excluding DFIs, all commercial banks (public sector banks, private banks, Islamic banks and foreign banks) together posted a 4.26% decline when compared to quarter ended March 2008.



The outstanding loans of HBFC were Rs.16.4 billion; a 12.39% increase over the last year. Other DFIs have a

NPLs share in total outstanding at the end of the reporting quarter. **Figure 4B** compares the position of

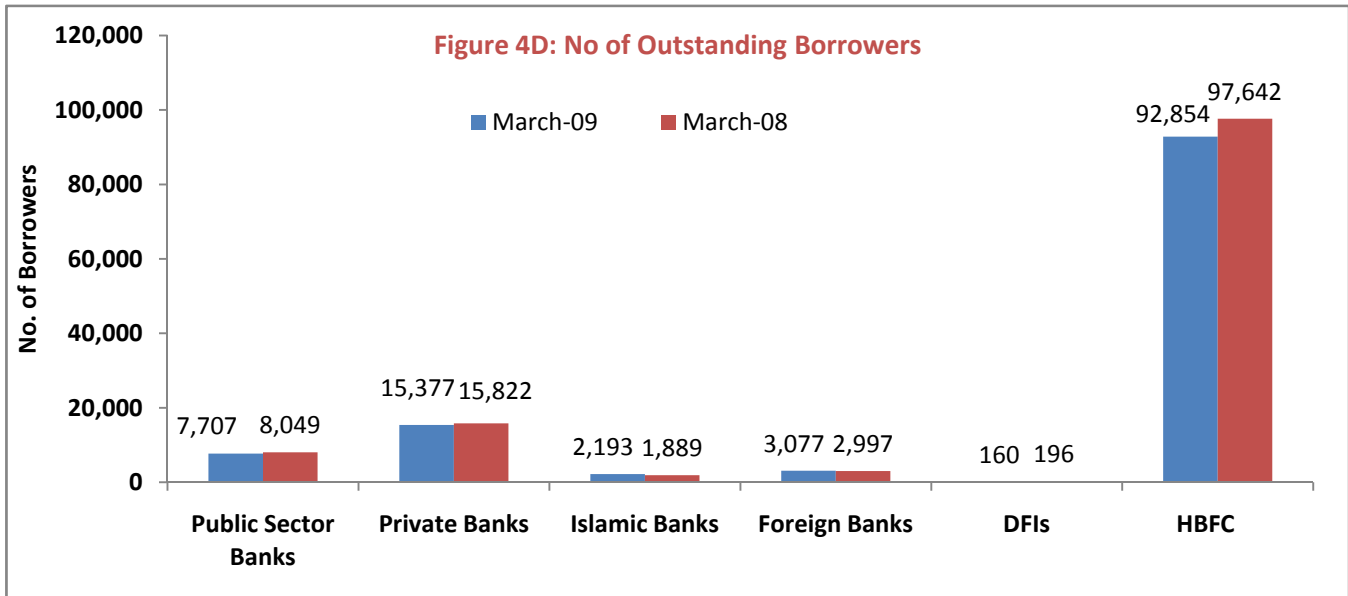


meager share of Rs. Rs. 0.5 billion in outstanding loans.

## 4.2 NON-PERFORMING LOANS

This section analyzes the position of NPLs by first observing increase/decrease in its levels followed by

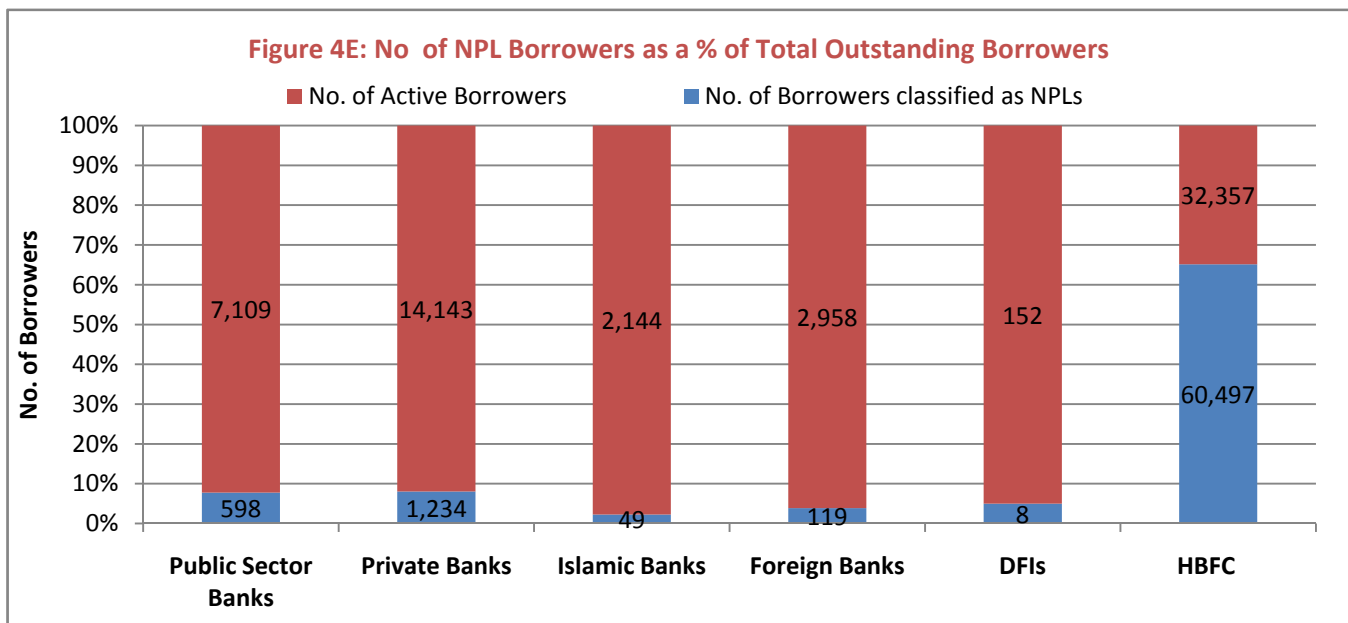
NPLs at the end of March 2009 with March 2008. **Figure 4C** shows NPLs as a percentage of total outstanding as on March 31, 2009. Overall, NPLs have increased from Rs.8.99 billion (March 2008) to Rs.13.09 billion (March 2009); a 45% increase during the year.



For the purpose of the analysis, NPLs position of HBFC merits exclusivity. HBFC's NPLs have increased from Rs.5.82 billion to Rs.6.40 billion during the year; an almost 10% increase (**Figure 4B**). Although growth of NPLs remains relatively low in absolute terms when

Rs.6.69 billion. The % share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 10.37% of the total outstanding.

Among banks, **Private Banks** have highest NPLs to



compared to other banking sectors, its % share in total outstanding, however, is the greatest; a 39% of its total outstanding constitutes of NPLs (**Figure 4C**).

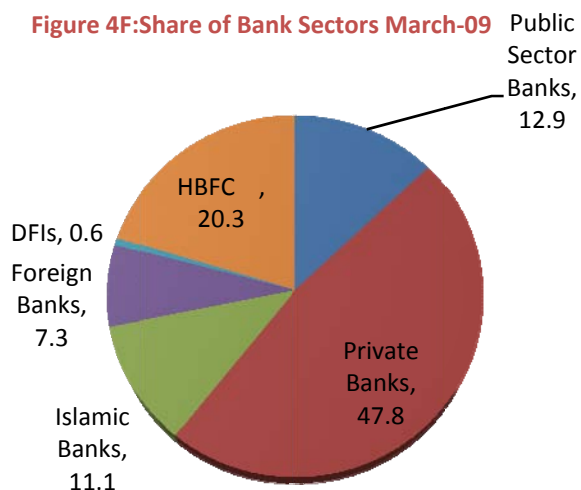
Excluding HBFC, NPLs for all banks and other DFIs have increased by 111% over the year from Rs. 3.17 billion to

outstanding ratio of 12.3% followed by public sector banks with 10.1% and foreign banks 7.7%. Islamic banks have lowest NPLs to outstanding ratio of 3.7%. DFIs, though have a meager portfolio, has NPLs to outstanding ratio of 17.7%, which is second to HBFC's 39%.

The overall rise in NPLs is due to high inflation and interest rates, which directly affects the affordability level and is constraining the access to credit, which in turn has caused the growth of mortgage sector to slow down.

#### 4.3 NUMBER OF BORROWERS

Figure 4F: Share of Bank Sectors March-09



The total number of outstanding borrowers has decreased from 126,595 to 121,368 since March 2008; a 4% decrease (See Figure 4D). Islamic banks have shown an increase (of 16%) with numbers increasing from 1,889 to 2,193 over the year since March 2008, followed by foreign banks (2.7%). Private Banks, Public sector Banks, HBFC and other DFIs report a decline of 2.8%, 4.25%, 5% and 18.4%, respectively.

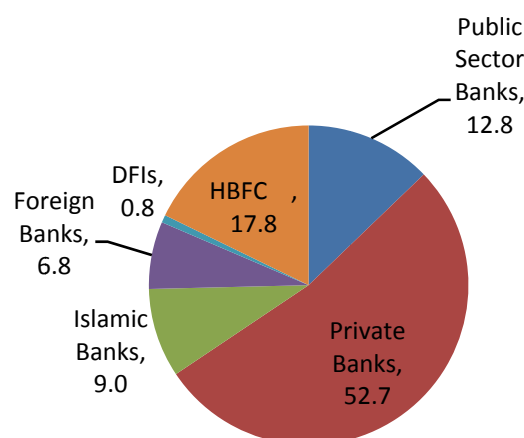
Figure 4E shows number of borrowers that have been classified as NPLs as a percentage of total borrowers. Approximately 51.5% of total borrowers of housing loans have been classified as non-performing. However, this is prominently due to HBFC's number of non-active borrowers that have been classified as non-performing; 65.15 % of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important since HBFC caters to 76% of the total outstanding borrowers in housing finance sector which accounts for only 20 % of total outstanding portfolio. Therefore by excluding HBFC,

only 7% of total borrowers of housing loans have been classified as non-performing.

#### 4.4 SHARE OF BANKS

The overall market share<sup>1</sup> of commercial banks (excluding DFIs) remained almost the same as at the end

Figure 4F': Share of Bank Sectors March-08



of last year as it is decreased marginally from 81% to 79%. Within commercial banks (Figure 4F & 4F'), the share of private banks in the total outstanding decreased from 52.7% to 47.8%. Islamic banks have shown good growth; with its share increasing from 9% (March 2008) to 11% (March 2009). Share of public sector banks has remained almost the same; just below 13%. Foreign banks' share has marginally increased from 6.8% to 7.3%, since March 2008. The share of HBFC has risen from 17.8% to 20.3% of the total outstanding.

#### 4.5 DISBURSEMENTS

A total of Rs.1.78 billion worth additional disbursements were made during the quarter March 2009 (Table 4a). Private Banks extended fresh disbursements of Rs. 629 million followed by foreign banks and Islamic banks with Rs. 393 million and Rs.333 million respectively. HBFC's

<sup>1</sup> Based on gross outstanding

Table 4a: Disbursements during the Quarter (Rs Million)

	Amount	No. of Borrowers
Public Sector	139.26	92
Private Banks	629.21	225
Islamic Banks	333.42	57
Foreign Banks	392.63	47
All Banks	1,494.52	421
DFIs	0	0
HBFC	283.02	520
Total	1,777.54	941

additional disbursements for the quarter were reported to be Rs. 283 million. Among commercial banks the number of new borrowers totaled 421, with private banks contributing 225 borrowers. HBFC extended loans

to 520 new borrowers during the reporting quarter.

#### 4.6 SECTORAL SHARE

The greatest share of housing finance is currently being attracted towards outright purchase (**Figure 4G**).

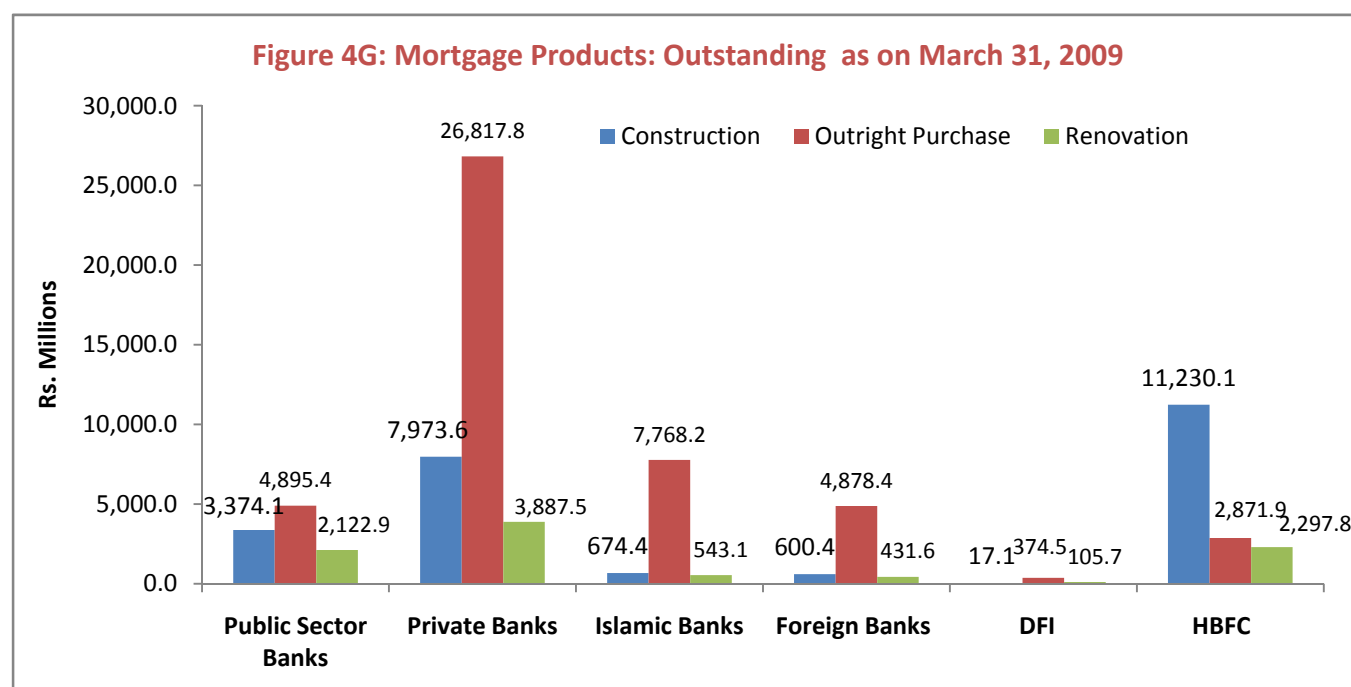
The total outstanding for outright purchase stood at Rs.47.6 billion as on March 31, 2009; a 59% share in total outstanding of Rs.80.8 billion. This is followed by the construction category where outstanding reported at quarter end stood at Rs.23.8 billion and that of renovation stood at Rs.9.39 billion. Over the year, financing for construction increased by 6%, while that for outright purchase and renovation decreased by 4% and 7.3%, respectively.

HBFC has taken a lead in financing for construction; a share of 47%. Private Banks have taken a lead in the outright purchase and renovation sector; a 56% and 41% share, respectively.

#### 4.7 ANALYSIS OF LOAN VARIABLES

**Table 4b, 4c & 4d** summarizes loan variables across all

Figure 4G: Mortgage Products: Outstanding as on March 31, 2009



weighted average interest rate of 14.96% and private

Table 4b:	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
<b>Public Sector</b>	14.96	14.3	13.33	13.13	12.78	10.6	10.8	9.4	11.1	11
<b>Private Banks</b>	14.55	13.34	13.61	12.94	12.75	11.9	11.9	11.9	12.1	12.5
<b>Islamic Banks</b>	17.81	18.23	14.86	13.22	13.84	14.9	15.3	15	16.6	16.6
<b>Foreign Banks</b>	17.53	16.89	15.05	14.67	14.4	12.0	11.8	9.1	12.5	14.5
<b>All Banks</b>	15.52	14.57	13.94	13.23	13.1	12.3	12.1	11.6	12.7	12.75
<b>DFIs</b>	17.6	16.84	16.01	14.84	13.68	14.5	14.7	12.4	14.7	14.8
<b>All Banks &amp; DFIs</b>	15.60	14.65	14.02	13.29	13.12	12.4	12.2	11.6	12.8	13
<b>HBFC</b>	11.88	11.35	13.71	13.71	13.71	15.2	15.1	15.1	16.7	16.7
<b>Total Average</b>	15.42	14.4	13.97	13.45	13.42	12.5	12.4	11.8	12.9	13.2

banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size, average time for loan processing and number of cases classified as foreclosure.

#### 4.7.1 WEIGHTED AVERAGE INTEREST RATE

The overall weighted average interest rate for the quarter ended March 2009 comes to 15.42%; an increase of 2 percentage points when compared to March 2008. Highest weighted average interest rate was reported by Islamic banks at

17.81%, DFIs (excluding HBFC) at 17.6% and foreign banks at 17.53%. Public sector banks reported a

banks reported 14.55%. The weighted average interest rate reported by HBFC is 11.88%; a 1.83 percentage point decrease compared to quarter ended March 2008. (*See Table 4b*)

#### 4.7.2 AVERAGE MATURITY PERIODS

Average maturity periods have slightly declined; from

13.2 years (March 2008) to 12.5 years (March 2009). Table 2 shows that public sector banks have extended housing loans for an average tenure of 10.6 years followed by private sector banks with 11.9 years, foreign Banks with 12 years, DFIs (excluding HBFC) with 14.5 years and Islamic banks for 14.9 years. HBFC's average maturity period is reported to be 15.2 years; a decrease

from 16.7 years when compared to March 2008 figures. (See Table 4b)

#### 4.7.3 LOAN TO VALUE RATIO

Table 4c:	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
<b>Public Sector</b>	60.5	63.1	58.3	63.7	58.2	31.7	38	38.6	39.2	38
<b>Private Banks</b>	55.3	40.3	52.7	57.9	56.8	22.8	22	22.8	22.6	22.8
<b>Islamic Banks</b>	55.3	39.8	56.7	59.1	55.9	30.4	36.9	33.6	21.5	20.9
<b>Foreign Banks</b>	36.1	41.9	36.5	59.8	58.9	22.5	23.6	18.8	23.8	23.8
<b>All Banks</b>	53.0	44	52.4	58.9	56.5	25.3	26.3	25.7	24.5	24.7
<b>DFIs</b>	43.1	44.2	49.1	45.4	47.5	30.0	30	30	30	30
<b>All Banks &amp; DFIs</b>	52.6	44	52.3	58.3	56.5	25.5	26.4	25.9	24.7	24.9
<b>HBFC</b>	55.8	67.5	55	55	55	30.0	30	30	30	30
<b>Total Average</b>	52.8	44.7	52.3	58.1	56.5	25.7	26.6	26.1	25	25.17

The percentage of financing (Loan to Value ratio) extended by banks has slightly declined during last year (Table 4c). The LTV ratios for housing finance fell from 56.5% during quarter March 2008 to 52.8% during quarter ended March 2009. The sharpest decline was witnessed among foreign banks where the LTV ratios fell from 59% to 36% during quarter ended March 2009. The LTVs for HBFC remained almost the same at 55%. Decline in LTV ratios and increasing interest rates reflects that housing finance is becoming more unaffordable, especially for the salaried class and middle and lower income groups.

#### 4.7.4 AVERAGE TIME FOR LOAN PROCESSING

The reported average time for loan processing is 25 days for all banks and DFIs; a trend that has remained the same over the year. The processing time can be

considerably reduced if land titling issues are resolved; documentation is standardized and institutional inefficiencies removed. Moreover, application processing is a centralized process, where branches forward applications to central branches/head offices for

assessment and approvals.

#### 4.7.5 AVERAGE LOAN SIZE

Average loan size for disbursements made during the quarter ended March 2009 is Rs. 2.52 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs.1.08 million for the reporting quarter. Islamic banks have disbursed loans with an average loan size of Rs. 3.7 millions. This is an increase of over 20% in size (in Rs.) compared to March 2008 when average loan size was reported at Rs. 3.05 million. Private Banks report an average loan size of Rs. 2.29 million, foreign banks of Rs. 2.69 million and public sector banks report Rs. 1.75 million. The housing finance market is still inclined towards lending to high income group.

#### 4.7.6 NO. OF FORECLOSURES



No. of cases initiated for foreclosures have increased by 84 during the quarter March 2009, for banks/DFIs.

size. It is due to the small size of the housing finance portfolio that financial institutions are currently

Table 4d	Average Loan Size (Rs. Millions)					No. of Foreclosures <sup>2</sup>		
	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Mar-09	Dec-08	Sep-08
Public Sector Banks	1.75	1.46	1.8	2.08	1.36	26	N.A	N.A
Private Banks	2.29	2.4	2.38	4.12	2.88	199	178	173
Islamic Banks	3.70	2.52	3.63	2.84	3.05	14	12	8
Foreign Banks	2.68	2.79	1.97	2.48	2.48	88	69	N.A
All Banks	2.50	2.33	2.41	3.41	2.7	327	259	181
DFIs	0 <sup>3</sup>	3.01	2.47	2.73	2.6	1	1	1
All Banks & DFIs	2.52	2.35	2.41	3.38	2.6	328	260	182
HBFC	1.08	0.86	0.86	0.89	0.89	2,674	2,658	2,658
Total Average/Total	2.46	2.29	2.35	3.32	2.56	3,002	2,918	2,840

#### 4.8 CONCLUSIONS

Statistics for the quarter ending March 2009 depict reduction in overall mortgage folio since last year. With a rising trend in NPLs, the sector needs to be monitored closely. Islamic banks continued displaying promising growth in the housing finance sector.

The quarter continues to give signs of cautious lending from banks amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. Signs of cautious lending include, fall in LTVs (with the exception of HBFC) and a slight decline in average loan

managing housing-related risk. However, the lack of a conducive institutional framework and Secondary Mortgage Market still poses as a constraint towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

#### 4.9 MAJOR INITIATIVES AND ACHIEVEMENTS

Recognizing the importance of housing sector, in boosting the domestic economy, following key initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

##### 4.9.1 Establishment of Housing Advisory Group

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG). The HAG was established with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. The HAG made number of recommendations stressing on the need to enhance access of financial services for the development of

<sup>2</sup> The no. of foreclosure cases are cumulative figures, i.e, cases initiated for foreclosures since inception and include those actually settled.

<sup>3</sup> No disbursements were made during the quarter by DFIs

housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products. SBP had already disseminated the recommendations to the concerned stakeholders and is also in process of initiating measures for implementation of number of these recommendations, including establishment of secondary mortgage market.

#### **4.9.2 SBP-World Bank Proposal for housing sector development**

SBP and World Bank have agreed to work together for implementing key recommendations of HAG and bring about financing environment conducive to growth of housing sector by focusing on: restructuring of HBFC, establishment of Mortgage Refinance Company, low cost housing finance, establishment of an observatory for real estate market and capacity building of professionals engaged in housing finance through housing experts.

#### **4.9.3 Capacity building Program**

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. A Cooperation Agreement was signed between International Finance Corporation, the private sector arm of the World Bank Group, and SBP to launch a housing finance training program in Pakistan. The training intends to cover all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Representatives of banks and non-bank financial institutions associated with mortgage lending business benefited from this. First session of training was conducted and designed by the Canadian Mortgage Housing Corporation (CMHC) in December 2007 in SBP Karachi. In pursuance of continued capacity building, the second and third sessions were conducted by SBP and a panel of local experts, in May 2008 and in November 2008. Till date, approximately 200 bankers from over 20 banks have been trained in the mortgage business.

#### **4.9.4 Report on 'Expanding Housing Finance System in Pakistan'**

A report titled 'Expanding Housing Finance System in Pakistan' has been published, combining SBP-World bank study on 'Housing Finance Reforms in Pakistan' and SBP Housing Advisory Group (HAG)'s report. This publication presented an overview of housing finance market in Pakistan and key constraints that impede development of housing sector in the country. A set of policies and strategies suggested in the source reports, were also presented in this combined report.

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## INFRASTRUCTURE FINANCE

## 5.0 INFRASTRUCTURE FINANCE OVERVIEW

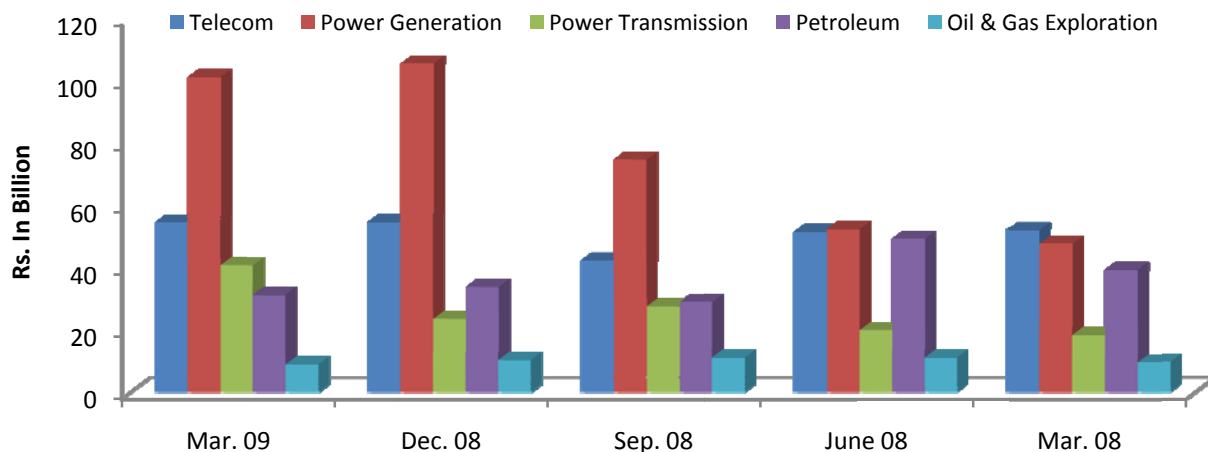
The portfolio of Infrastructure Project Financing registered a 40% increase, in the face of global economic meltdown, on YOY basis from March 2008 to March 2009 which shows the resilience of local financial sector but, apart from this increase, a lot of financing is required to meet the huge infrastructure backlog in the country. The quantum of overall disbursements remain almost the same during past couple of quarters but the diminishing rates in other sectors are offset with the rise of funding in Power Generation and Distribution sector which is a function of exceptional circumstances faced by the country in the present energy crisis. Except for the telecom, the remaining horizon of infrastructure sector is singularly dominated by power sector, although some sparse funding is seen in sectors in airport development and construction of roads but their percentage share in

Partnership in infrastructure sectors with institutional arrangement of providing technical expertise in project development and funding those huge projects is ever increasing.

## 5.1 OUTSTANDING PORTFOLIO

Total outstanding financing at close of March 2009 was Rs. 260.5 billion as against Rs. 185 billion at the end of March 2008. On a YoY basis there is 40% increase in outstanding stock which was 47.7% in the previous quarter on YoY basis. The analysis shows that over a year the infrastructure financing is less diversified and space of financing is hogged by Power Sector at the expense of other sectors. The unrelenting energy demand in the country shoves the power generation sector to enhance the generation capacity and financial sector is funneling huge funds in power sector. The outstanding stock of Power Generation sector escalated significantly from Rs

**Figure 5A: Quarter-wise Value of Outstanding Stock in Infrastructure Sector**



total financing is infinitesimal. NPL events are unreported in this quarter as well as in the couple of previous quarters which show the prudence exercised by the financial institutions in one hand and the flip side is perhaps our domestic financial market is risk averse and / or lacks mettle to explore uncharted courses available in other vast array of sectors viz. Mass Transit, Railway, Oil & Gas Exploration, Water Supply and Sanitation. The need of a vivid policy to undertake Public Private

47.9 billion in March 2008 to Rs 101.2 billion in March 2009. **Figure 5A** shows the position of top five sectors from March 2008 to March 2009. Telecom sector remained stable over the year and Power Generation Sector started to pick up the momentum and stood out in September 2008 quarter and its bar had been further expanded during December 2008 quarter and remained tall in March 2009 as well.

## 5.2 DISBURSEMENTS

second position with Rs. 12.6 billion (33%). Other sectors

Figure 5B: Disbursements in Infrastructure Sectors During Jan.-Mar. 2009

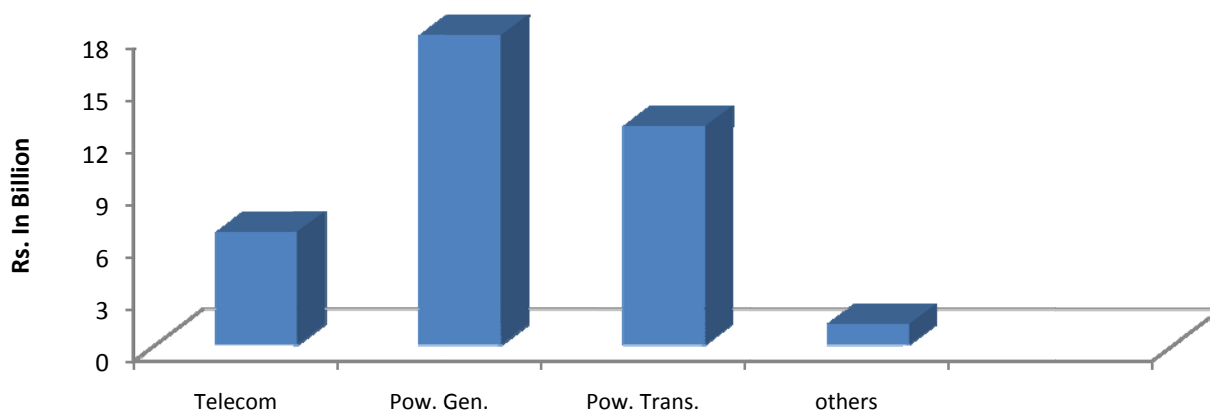
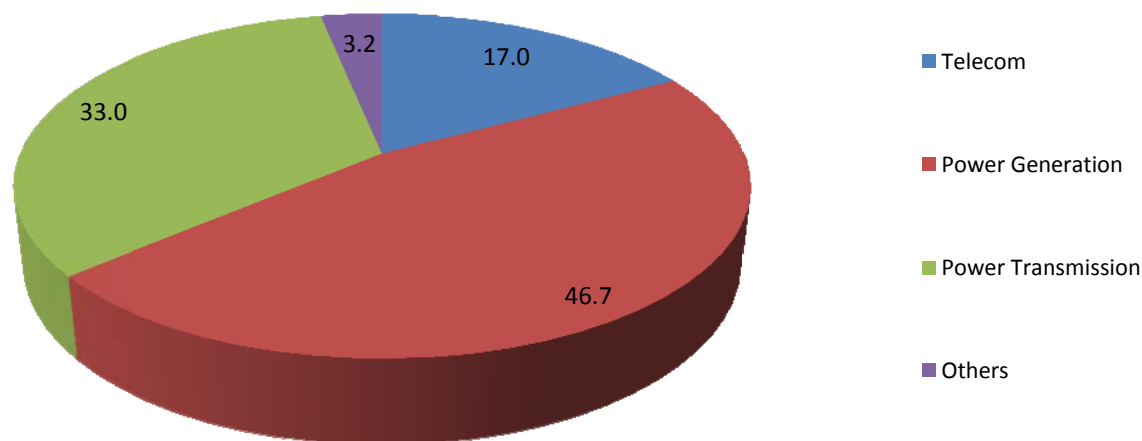


Figure 5C: Share in Disbursement by Infrastructure Sectors During Jan.-Mar. 2009 Quarter



Total Rs. 38 billion disbursed during January-March 2009 quarter in all infrastructure sectors against a disbursement of Rs. 38.8 billion in previous quarter. **Figures 5B & 5C** show the amount disbursed and share of each sector during the quarter under review. Power Generation sector received Rs. 17.8 billion (46.7%) which is significantly higher than other sectors. The share of Power Generation in disbursement was 65% in the last quarter. Telecommunication sector received Rs. 6.5 billion (17%). Power Transmission sector rose to the

received much less funds as compared to Power Generation and Transmission sectors, other sectors seem being crowded out and concentration of financing in just couple of sectors is a cause for concern and requires a more diversified approach on the part of policy makers and financial institutions.

## 5.3 YEAR-WISE ANALYSIS

Figure 5D: Share in Outstanding  
Jan.-Mar. 2009

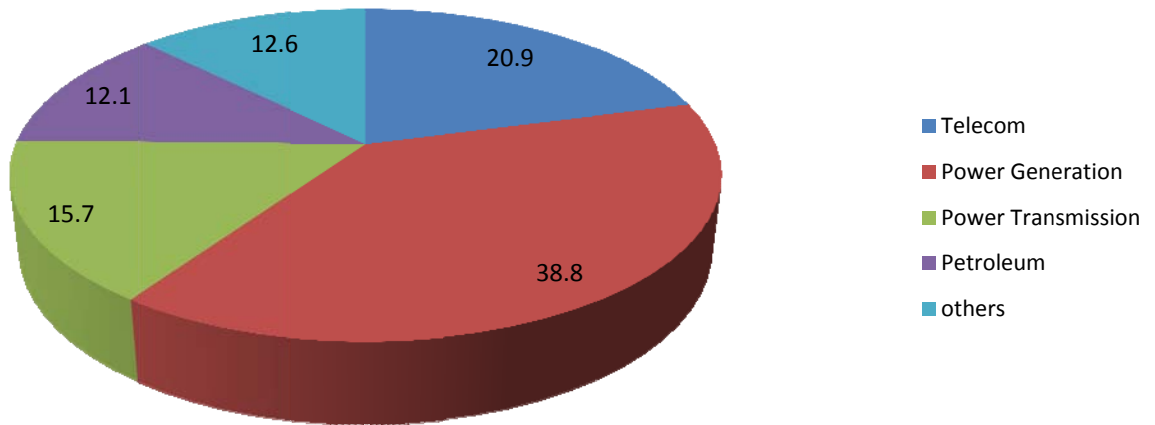


Figure 5D': Share in Outstanding  
Jan.-Mar. 2008

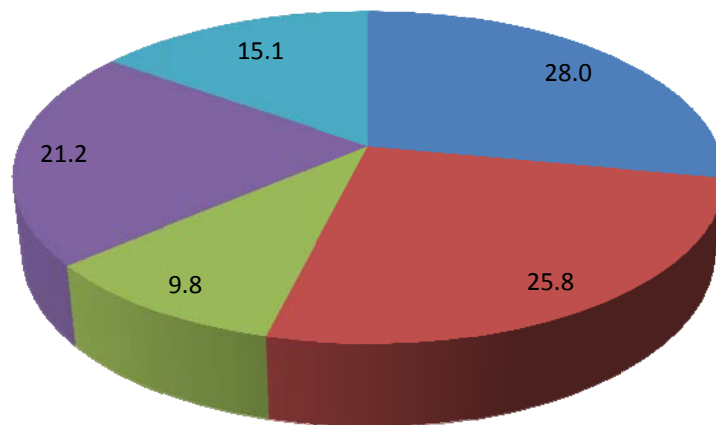


Figure 5E: Banking Sector-wise Disbursement During Jan.-Mar. 2009

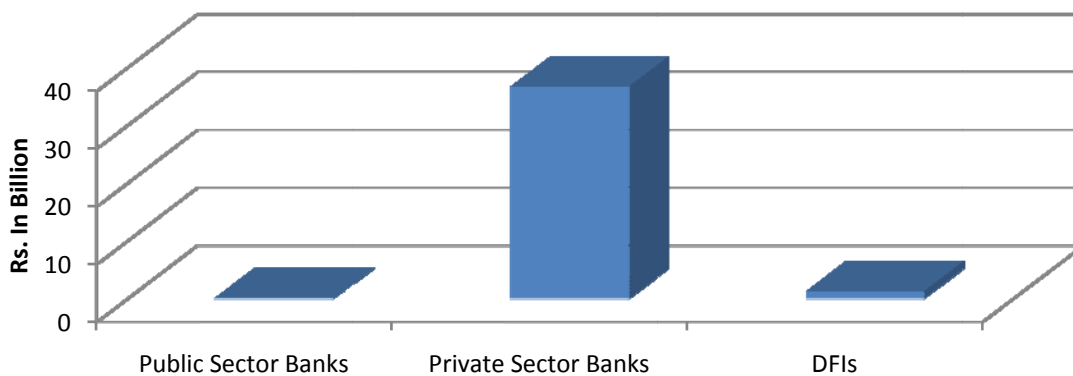
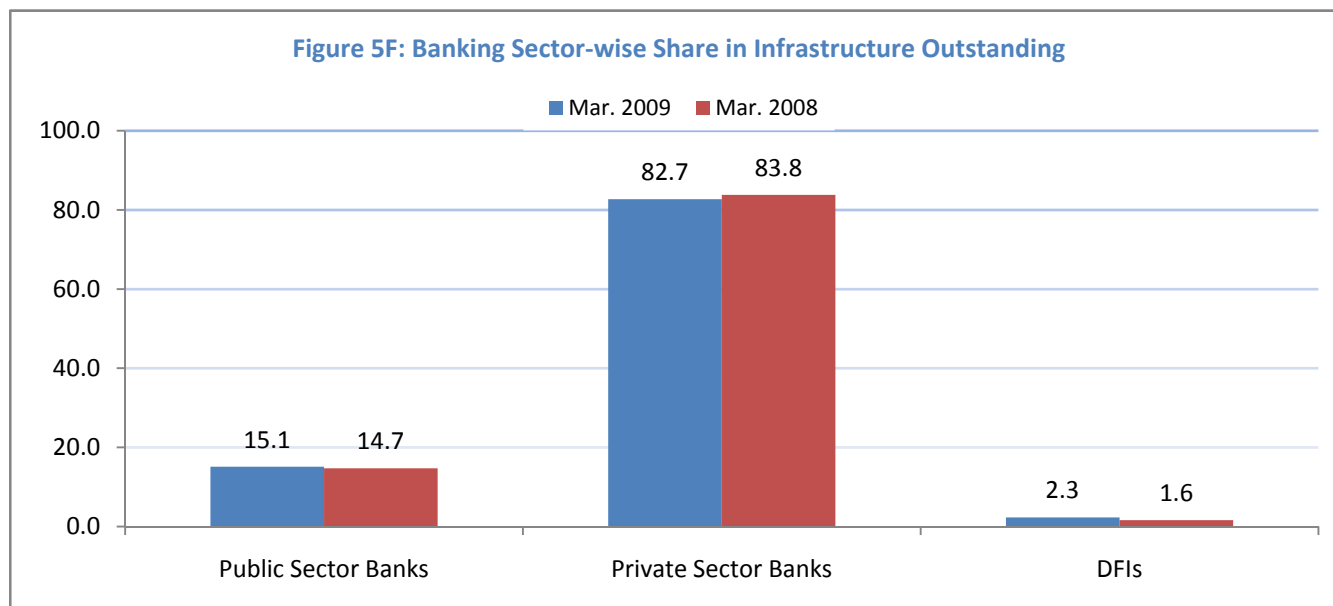


Figure 5D & 5D' shows the comparison of top four

sectors in outstanding infrastructure financing at the end of March 2008 with the status existing in March 2009. In March 2008 Telecommunication sector was at the top as far as share in total outstanding is concerned with 28%, followed by Power Generation sector with 25.8% in the total pie of outstanding. After a year the top slot has been secured by power generation sector which nudged the Telecommunication sector at second place with

trend further leaned in private sector banks' way after a year. The stock share of private sector banks rose from 82.7% to 83.8% from March 2008 to March 2009. Public Sector banks saw a decline in their share from 15.1% in March 2008 to 14.7% in March 2009.

DFIs have a very marginal share and did not present a major shift during the year. Analysis shows that it is the



sizable 38.8% share in this quarter. With rise in Power Transmission Sector also, more than half of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector had also been on the downside from 21.2% to 12.1% in a year.

#### 5.4 BANKS SECTOR-WISE DISBURSEMENTS

**Figure 5E** shows significant contribution of the private sector commercial banks in infrastructure project financing. Private sector commercial banks disbursed Rs. 36.7 billion during the quarter out of total Rs. 38.8 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed less than one billion and DFIs over one billion.

#### 5.5 BANKS SECTOR-WISE SHARE

**Figure 5F** shows the category-wise share of banking sector in outstanding stock of infrastructure sector. The

enterprising private sector which takes lead in infrastructure financing and sees this sector vibrant while public sector is becoming rather more orthodox in lending options.

#### 5.6 NEW INITIATIVES IN THE QUARTER:-

**Table 5a** shows that during the quarter total 16 projects have been finalized in Power sector, Telecom, LPG Import & Distribution, Oil & Gas exploration and Petroleum sectors to the tune of Rs. 147.7 billion. Banking Sector financing is Rs. 107.1 billion which is 72% of the total combined cost of these projects. Power sector figures prominently both in terms of project cost (Rs. 80.1 billion) and financing by banks and DFIs (Rs. 58.3 billion). This is directed towards eight power projects which are expected to add 1150 MW of power to the national grid. Telecom sector comes next as far as the financing by banking sector is concerned. This is 74% of the total estimated cost and the projects will mainly

contribute in expansion of cellular networks through investments in equipment, land and other infrastructure, and will provide more employment opportunities in the telecom sector.

An SBP Task Force on Infrastructure Finance was established and delegated with a mandate to identify institutional bottlenecks and recommend an institutional mechanism for risk management of project financing. A set of recommendations aimed at enhancing flow of

Sectors	No. of Projects	Estimated Project Cost	Banks' Financing
Power Generation	8	80.1	58.3
Telecom	4	61.1	45.1
LPG Import & Distribution	2	3.8	2.4
Oil & Gas Exploration	1	1.9	0.7
Petroleum	1	0.8	0.6
<b>Total</b>	<b>16</b>	<b>147.7</b>	<b>107.1</b>

LPG sector comes next with two new projects worth Rs. 3.8 billion have secured banks financing to the tune of Rs. 2.4 billion. One project each in Oil & Gas Exploration and Petroleum sectors, with a combined project cost of Rs. 2.7 billion have secured financing of Rs. 1.3 billion.

## 5.7 MAJOR INITIATIVES AND ACHIEVEMENTS

Appreciating the critical role of infrastructure sector in propelling the domestic economy, following key initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

### 5.7.1 Dissemination of Infrastructure Task Force Report:-

credit to project financing have been made by the Task Force. These recommendations primarily focus on development of long-term funding mechanism through establishment of dedicated Infrastructure Lending Organization, which is under consideration. The recommendations of Infrastructure Task Force were disseminated to an array of ministries with a view that the issues identified in recommendations would be taken care of by the concerned ministries which in turn will lead to enhanced partnership of private sector in development of infrastructure services.

### 5.7.2 Capacity building Program:-

In addition to initiatives taken to institutionalize project financing, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of project financing. In this regard a



training program titled 'Frontiers in Infrastructure Financing' is planned in partnership with World Bank.

**5.7.3 Revised Guidelines for Infrastructure Project Finance:-**

The department reviewed existing guidelines for Infrastructure Project Finance and identified a number of areas which if bring in tune with international standards can facilitate project financing. The department is in the process of drafting the revised guidelines blending international standards and peculiar domestic experiences in infrastructure financing.

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