INFRASTRUCTURE, HOUSING & SME FINANCE DEPARTMENT

State Bank of Pakistan

SEPTEMBER, 2011

Development Finance Quarterly Review

SPECIAL POINTS OF INTEREST:

- SME Finance
- Microfinance
- Agri. finance
- Housing finance
- Infrastructure finance
- SBP Refinance Schemes
- SBP Policy Initiatives
- Global News
- Special Section on Secured Transaction Framework in Pakistan
- DF Outlook

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Contents

Executive Summary

In the prevailing environment characterized by severe energy crisis, poor law and order situation, and challenging economic conditions, the banking trends remain intractable which have restrained the off-take of credit to private sector. In such a scenario, Development Finance (DF) outstanding amount witnessed a decline of 0.4 percent on YoY basis and 1.1 percent on QoQ basis. (See **Table 1)**

Table 1: DFG Wise Break up of Outstanding Amount (Rs. Billions)

Category	Sep-10		Jun-11		Sep-11		Change	
	Amount	%Share	Amount	%Share	Amount	% Share	Q.C	Y.C
SME Finance	307.6	37.4	292.5	35.4%	268.2	32.8%	-8.3%	-12.8%
Agricultural Finance	167.8	20.4	169.2	20.5%	173.8	21.2%	2.7%	3.6%
Microfinance (MFBs Only)	10.5	1.3	13.5	1.6%	15.2	1.9%	12.7%	45.6%
Housing Finance	68.6	8.3	61.9	7.5%	61.2	7.5%	-1.1%	-10.8%
Infrastructure Finance	267.5	32.5	290.0	35.1%	300.0	36.7%	3.4%	12.1%
Total	**822.0**	**100.0**	**827.2**	**100.0%**	**818.4**	**100.0%**	**-1.1%**	**-0.4%**

It is evident that the fall in total DF portfolio at the end of the Sep-11 is largely attributed to SME sector which saw a decline of about 8.3 percent when compared with the preceding quarter of Jun-11. Moreover, while SME finance, and housing loans continued to decline, agricultural credit, microfinance and infrastructure finance all recorded positive growth both QoQ and YoY basis. In addition to the above stated factors, the decline in aggregate DF loans is owed to both demand and supply factors. On the supply side, banks' risk appetite remained subdued, particularly given the opportunity offered by aggressive government sector borrowings. Similarly, demand was constrained by the unfavorable economic conditions.

The total NPLs of the banking industry rose by 6.1 percent at the end of the period under review primarily ascribed to the corporate sector. However, NPLs in DF sectors saw a rise of only 1.6 percent and amounted to Rs 165.1 billion. Of the total NPLs of DF Sectors, SME's share was 59.1 percent, agri. sector 21.8 percent, and the remaining 19.1 percent pertained to other DF sectors. The trivial rise in NPLs is in line with the overall rising trend in the economy.

Following the declining trend in the DF portfolio, the number of outstanding DF borrowers declined too by 0.5 percent at the end of Sep-11 when compared with Jun-11. This was also in line with the overall decline in the number of borrowers of the banking industry as it saw a decline of 1.8 percent, QoQ basis. It is pertinent to mention that all DF sectors saw decline in their number of borrowers except the microfinance sector that posted a healthy rise of about 10.6 percent. The rise can be attributed to the use of alternative delivery mechanisms adopted by MFBs in particular, the branchless banking.

1.1. SME Finance

SME sector's outstanding credit stood at Rs. 268.5 billion constituting about 7.7 percent of total outstanding banking portfolio (corporate, SME, agriculture, consumer, commodity and others), at the end of Sep-11. This was 8.3% lower than the previous quarter and 3.5% lower than the corresponding period in 2010.

Credit flow to Small and Medium Enterprises (SMEs) has been declining since 2008 (after the liquidity crunch in Q4-2008) as banks being risk averse are observing greater due diligence while financing SMEs and thus are diverting funds towards less risky commodity operations of the government as well as investing in T-bills. In addition, high interest rates, rising inflation, energy shortage, and gradually increasing energy costs have also diminished the demand for bank credit by SMEs. Resultantly, number of borrowers in SME sector declined by 7.1% QoQ at end-Sep 2011.

An enterprise-wise analysis revealed that share of trading SMEs in total SME loans outstanding was 45.1%, m*anufacturing SMEs'* share was 36.1%, and *services* SMEs 18.8% at the end of the period under review. Moreover, their respective share in the total SME borrowers was 49.8%, 11.9%, and 38.3%, indicating largest average loan size of about Rs.4.5 million in manufacturing sector, followed by Trading with Rs.1.4 million.

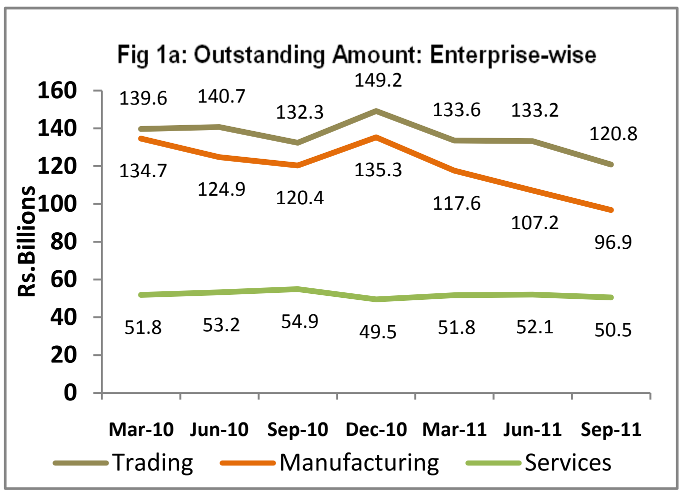
There has been a swell in NPLs of the whole banking industry during the last couple of years and this quarter, too, saw a rise of about 6.1%, mostly driven by the corporate sector. However, NPLs of SME sector enlarged merely by 1.5% on QoQ basis.

1.2. Outstanding Amount- Break-Ups

Enterprise wise

At the end of Sep-11, each sub sector posted a decline in outstanding amount compared to preceding quarter; the fall in outstanding amount was mainly driven by a fall in lending to trading and manufacturing sub-sectors respectively.

It is important to note that a decline in lending to these sub sectors is mainly attributed to the decrease in short term advances for SMEs (other than SBP schemes) during this period (**See figure 1a).**



Tenor wise

The tenor-wise breakup of the total SME outstanding loans showed that the dominant share of about 74.5%, following the usual trend, was availed by SMEs under the category of s*hort term* financing (up to one year), while the share of l*ong* and m*edium* term financing was 18.0% and 7.5% respectively. At the end of the period under review, SME financing for all tenors declined relative to the foregoing quarter, except the Long term financing which saw a rise of 1.3%.

Furthermore, the *average loan size* under Short, Medium and Long term financing recorded was Rs. 3.5 million, Rs. 1.2 million, and Rs. 0.5 million respectively. This is also consistent with the substantial share of financing for working capital.

Clean vs Collateral

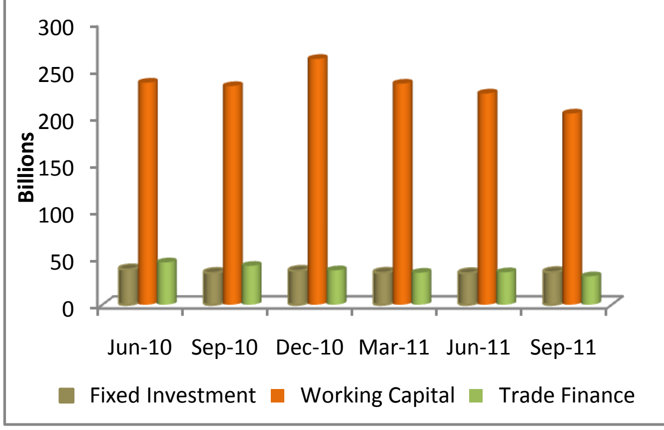
An analysis of SME outstanding amount viz-a-viz **clean** and **collateral** uncovered that the major chunk of financing (97.6%) was made against collaterals while only 2.4% of the amount was lent to SMEs under clean lending category.

The meager share under clean lending reflects (a) the banks approach of relying on security/collateral while lending to SMEs (b) a lack of innovative products and borrower evaluation techniques whereby borrowers' repayment capacity is judged through business/cashflows assessment instead of asset/collaterals. In addition, their respective *average loan size* recorded was Rs.1.9 million and Rs.0.15 million rupees respectively.

Facility- wise

An analysis of facility-wise breakup, exhibited that the share of working capital (WC) in outstanding SME amount was 75.8%. The remaining financing was almost equally shared by fixed investment (FI) 12.9% and trade finance (TF) related loans with 11.3% (**Fig 1b**).

Fig 1b: Outstanding Amount- Facility wise



To achieve a rapid and sustainable growth of SME sector, there is a need to encourage SMEs to increase fixed investment with the introduction of risk mitigation measures and increased availability of credible sector information as well as the introduction of innovative financing products by both traditional and Islamic banks.

Additionally, the average loan size under FI, WC and TF was Rs.3.0 million, Rs.1.3 million and Rs.3.0 million respectively.

Size- wise

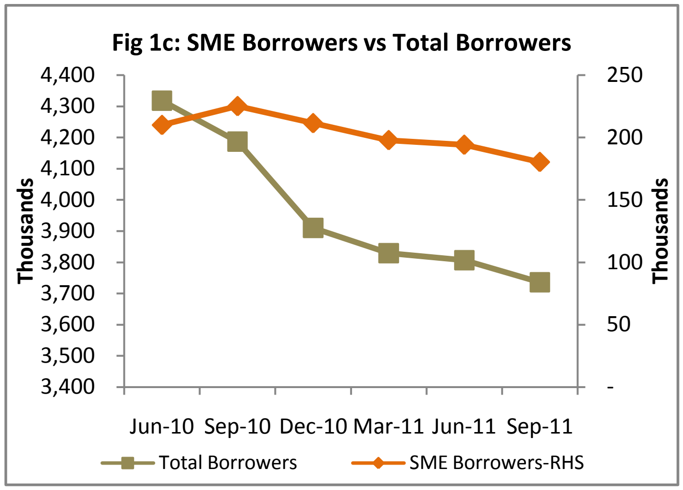
Table 1A: Outstanding Amount: Loan Size wise Breakup (Rs. Billions)

Breakup	*Jun-10*	*Sep-10*	*Dec-10*	*Mar-11*	*Jun-11*	*Sep-11*	Change (QoQ)
Advances to SMEs up to 0.5 Million	21.2	20.0	18.4	16.9	15.8	14.9	-5.8%
Advances to SMEs over 0.5 to 1 Million	12.9	12.6	13.2	13.0	12.7	10.7	-16.2%
Advances to SMEs over 1 to 2 Million	21.4	20.8	21.6	21.1	20.6	19.2	-6.9%
Advances to SMEs over 2 to 3 Million	17.9	16.3	16.3	16.4	16.0	14.8	-7.5%
Advances to SMEs over 3 to 5 Million	30.5	28.5	30.4	28.5	28.4	26.4	-7.1%
Advances to SMEs over 5 to 10 million	52.4	51.7	55.7	51.4	50.4	44.7	-11.2%
Advances to SMEs over 10 to 20 million	50.5	48.6	54.9	52.2	48.5	42.5	-12.5%
Advances to SMEs over 20 Million	112.0	109.1	123.6	103.7	100.0	94.9	-5.0%
Total	**318.8**	**307.6**	**334.0**	**303.0**	**292.5**	**268.2**	**-8.3%**

The size-wise loan breakup (**Table 1A**) exhibits that the major chunk of about 67.9%, in total SME portfolio was availed by SMEs against the bracket size of loans of over Rs. 5 million. While the share of SMEs against the bracket size of loans up to Rs. 1 million was about 9.5%. At the end of the quarter under review, all bracket sizes witnessed decline, as evident from the table, in line with the overall declining trend.

1.3. Number of borrowers

All sub sectors (Corporate, SME, Agriculture, Consumer and commodity) of the economy saw a decline in their number of borrowers except the corporate and commodity financing which saw a growth of 18.8% and 25.7% respectively when compared with preceding quarter.



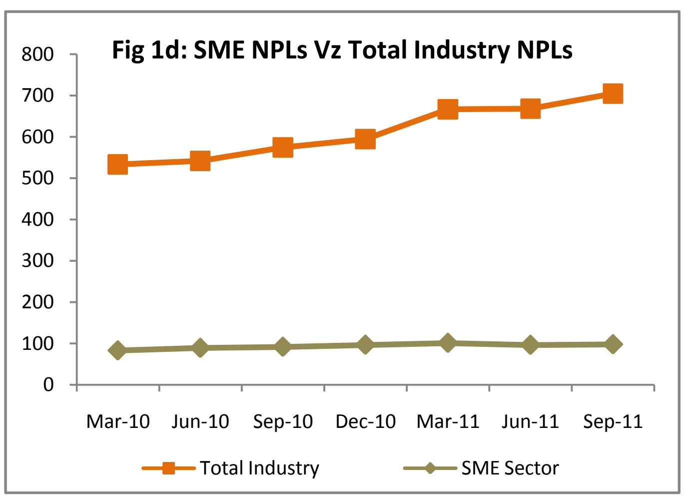
The total number of SME borrowers stood at 197,808 constituting about 5.1% of the total number of outstanding borrowers of the banks & DFIs. And recording a decline of 7.1% at the end of Sep-11 when compared with a rise of 7.2% during the corresponding period in 2010 (**Figure 1c**).

It is a source of concern that the decline in number of SME borrowers is comparatively higher than the overall reduction of 1.8 % in the number of total industry borrowers.

Of the total SME borrowers, the lion's share of about 88.4% availed working capital finance, 6.4% fixed investment, and 5.6% trade finance. Similarly, the the share of the borrowers categorized as *trading SMEs* was highest with 49.8%, followed by *Services SMEs* with 38.3% and *Manufacturing SMEs* with 11.9% at the end of Sep-11. Likewise, an analysis of *loan size* wise borrowers marked that 48.8% of total SME Borrowers fell under the bracket size of *up to Rs. 0.5 million* followed by over *Rs. 0.5 to 1 million and Rs. 1 to 2 million with* a share of 8.9*%, 8.0%, r*espectively. Besides, about 77.6% of the total SME borrowers availed advances of up to Rs. 5 million.

1.4. Non-performing loans

At the end of Sep-11, the NPLs of Banks and DFIs saw a rise of 6.1% primarily driven by the corporate sector. **(Fig 1d)**



The non-performing loans (NPLs) of SME Sector saw a marginal rise of about 1.5%, whereas other sub-sectors like consumer, agriculture, and commodity witnessed decline in their NPLs.

Moreover, as a result of the rise in NPLs of the overall banking sector vz a marginal rise in NPLs of SMEs, share of SME NPLs in total NPLs dropped from 19.0% in Sep-10 to 16.1% by Sep-11.

1.5. Banking group wise distribution

The share of *public sector banks* (NBP, FWBL, BOP, BOK, and Sindh bank) constituted 12.5% of the total SME outstanding amount **(Table 1B**); and recorded a decline of about 13.9%, when compared with the preceding quarter of Jun-11. Their share is second highest after private sector banks. While their NPLs saw a slight decrease of 0.2%, QoQ basis. Of their total portfolio, the share of public sector banks against SME sector was recorded 4.8%.

Table 1B: Banking Sector wise Distribution- As of Sep-11

	Quarterly Change			% Share of SME in			% Share in Total		
Bank Group	**SME O/S**	**SME Borrowers**	**SME NPLs**	**Total O/S Amount**	**Total O/S Borrowers**	**Total NPLs**	**SME O/S**	**SME Borrowers**	**SME NPLs**
Public	-13.9%	-2.3%	-0.2%	4.8%	6.4%	9.1%	12.5%	34.7%	17.8%
Specialized	-0.3%	-0.3%	1.1%	8.4%	4.7%	22.3%	3.6%	21.2%	8.1%
Private	-8.4%	-13.6%	1.4%	9.1%	4.3%	20.6%	81.8%	43.7%	72.8%
Islamic	39.5%	54.6%	35.3%	3.9%	2.7%	8.3%	1.7%	0.4%	1.1%
Foreign	-14.1%	-4.2%	-1.2%	0.7%	0.1%	3.6%	0.2%	0.1%	0.3%
DFIs	11.4%	-5.3%	0.0%	0.6%	0.9%	0.5%	0.1%	0.0%	0.1%
Total Banks	-8.4%	-7.1%	1.5%	7.8%	4.8%	16.6%	99.9%	100.0%	99.9%
G. Total	**-8.3%**	**-7.1%**	**1.5%**	**7.7%**	**4.8%**	**16.1%**	**100.0%**	**100.0%**	**100.0%**

Private Banks (19 institutions) share in total SME loans outstanding was 81.8%, following an 8.4 percent decline in their portfolio during the quarter. This represented about 9.1% of their overall outstanding loans. Moreover, unlike the trend for public banks, the SME NPLs of private sector banks saw a rise by 1.4% on QoQ basis.

It is indeed encouraging that the share of *Islamic banks'* increased considerably from Rs. 3.3 Billion at end Jun-11 to Rs. 4.6 billion at quarter end Sep-11, thus constituting about 1.7% of the total SME outstanding amount. This category of banks witnessed a quarterly rise of 54.6% in SME borrowers. However, given a sizeable share of trade related financing in SME sector, enormous opportunities for expansion are available to Islamic banks.

Specialized banks category consists of SME Bank, ZTBL, PPCBL and IDBP. The absolute outstanding amount of this category saw a minor decrease from Rs. 9.68 billion as of Jun-11 to Rs. 9.65 billion as of Sep-11, constituting about 3.6% of total SME financing. Their portfolio has been hovering around Rs. 10 billion for the last few years and did not witness any significant change.

This quarter, too, did not see any noteworthy improvement in the negligible share of *foreign banks'* and *DFIs* in total SME finance. The lackluster performance of these Financial Institutions thus, suggests that these institutions in particular and banks in general need to recognize the significance of priority sectors in terms of a huge untapped market. Banks need to take innovative measures, besides building their capacity, in order to target the SME market in an effective way. When assessing comparatively small and straightforward business applications, banks may largely rely on standardized credit scoring techniques. Additionally, standardized computer-based assessments may also be more accurate and transparent than relying on personal judgments.

It is imperative to note that a vibrant SME sector would help sustain strong economic growth that would support future growth of the overall financial sector.

1.6. SME Cluster Profiling- Survey Findings

State Bank of Pakistan, like a central bank in any developing country, performs both the traditional and developmental functions to achieve macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also assists the process of economic growth and promotes the utilization of the country's resources.

SME cluster profiling project was implemented by IFC, in collaboration with SBP and in consultation with major banks in Pakistan. The objective was to provide critical information to the banking industry so that SMEs are catered with a responsible, profitable and sustainable manner.

Below mentioned section presents selected information concerning ***Education Segment*** (http://www.sbp.org.pk/departments/ihfd-ifc.htm), based on primary findings of the survey exercise conducted in major cities of Pakistan. The Survey contains the findings pertaining to the services segment of "Education" which include the educational institutions operating in different cities of Pakistan.

At present, the Education segment in Pakistan is relatively organized with services primarily provided via Educational Institutions with good financial and banking history. The Educational segment is largely dispersed and has limited exposure to products and services that can be availed from financial institutions.

Key Impediments- Education Segment

The segment remains largely unbanked owing to the following impediments:

- A different risk profile, Lack of substantial collateral, Conservative approach adopted by financial institutions, Lack of awareness and willingness to bank

Information Used

- The Education Industry overview is developed using information obtained from secondary and tertiary sources including industry associations and data available in public domain
- In total, interviews with 37 SME owners were conducted for Education segment.

Limitations

- The Sample may not be geographically exhaustive and may not suit the requirements of every bank.
- Some of the recommendations are not backed by qualitative primary research but are based on knowledge of the market and best practices.
- Unstable economic and political situation, and worsening law and order situation have been major impediments to growth

Demand

- The economy grew by 4% in FY 2010, after a modest growth of 1.2% in FY 2008-09.
- The public confidence lies in the private sector education creating a demand for more schools.
- According to UN more than 10,000 schools have been hit and destroyed country wide, by natural calamities.
- Public expenditure remained 2.05% of GDP, the lowest compared to other surrounding Asian countries.
- Literacy and primary school enrolment rates are low when compared to the other countries of the region.
- There is an increased awareness and will amongst the masses to gain education.

Supply

- Total government spending has been less than 3% of the total GDP over the last 5 years, of which approximately 95% comprises of salaries provided to teachers.
- The spending has decreased by 0.05% of GDP in comparison to last year as opposed to increase in population and literacy rate,

Future Prospects

- Increased growth and expansion is expected, depending on stable economic and political environment.
- General perception is optimistic and industry may experience increased growth in the next 5-10 years.

Demography

- There are three systems of schooling in Pakistan namely the Federal/Provincial board system, Cambridge system and Madarssa System

Owners Profiles

- Most business owners are sole proprietorships having a sound educational background.
- The business owners consist mainly of people in the age group of 41-50 years.
- Predominantly businesses are run by families.
- More than 50% educational setups employ between 10-24 employees.

Business Cycle

- Runs smoothly throughout the year, the provision of services is not subject to raw material prices or fluctuation in power, fuel or other cost.
- The operations run effectively right through the year unless some political or social issues disrupt it.
- Students coming in or enrolling at the start of the academic year and take services for at least one year in most of the cases.

Financial Need Analysis

- Some businesses in the segment do not prepare formal financial statements. However, they do prepare single entry records and/or cash registers.
- The percentage of profits is not fixed as is the case with some manufacturing establishments.
- Approximately 50% businesses operate with Total Capital and Total Assets less than PKR10 MN.
- Total assets comprise of Vehicles, and land/building, liabilities constitute payables and borrowing for vehicles
- Annual revenue is predominantly less than PKR 10 MN throughout the segment.
- All businesses display healthy earnings and none of the owners experienced decline over the last year.
- 43% respondents earn less than PKR 1 MN along with 35% owners earning between PKR 1-5 MN depicting a relatively higher percentage of return over initial investment.

Usage of Banking Products

- Some owners are aware of loan products offered by banks and have availed the facility of loan products.
- The owners cited high interest rates, bank charges and documentation reasons for not applying for a loan.
- Significant 28% and 25% business owners have demonstrated intent to avail payroll and cash management/collection
- Only 6% demonstrate intent to avail money transfer facility.
- 79% respondents do not pay for any of the proposed Insurance products and 73% of them are not interested in availing any product in future.
- The percentage of owners paying for advisory services rests at only 4% only.
- More than 35% owners are willing to pay for advisory services.

Risk Considerations

- The segment does not face the risk of uneven cash flows, or business uncertainty, student registering at the start of the year tend to continue school throughout the year, once profitable the educational institutes are less likely to face losses. The risks that still pertain to the segment are as follows:
- Single entry accounts, Unaudited financial statements, Employee turnover and Lack of succession planning

Possible Mitigates:

- Lending only to those businesses which have been operating for more than five years, Proposing products to business with a verifiable banking history of more than three years, Review of accounts and register of student fee records and Review of ownership documents of school/business premises

Proposed Banking Products

- Based on primary and secondary research the following banking products are being proposed for social and economic growth of "Education" segment.
- **Asset Products**: Vehicle Leasing for School Vans, Premises Expansion or Acquisition for Schools, and School Furniture, Fixtures and Fittings Leasing
- **Liability Products**: Business Bank Account
- **Other Products**: Bancassurance, Utility Bill Payment, Advisory Services, Cash Management Services

1.7. SBP Refinance Schemes

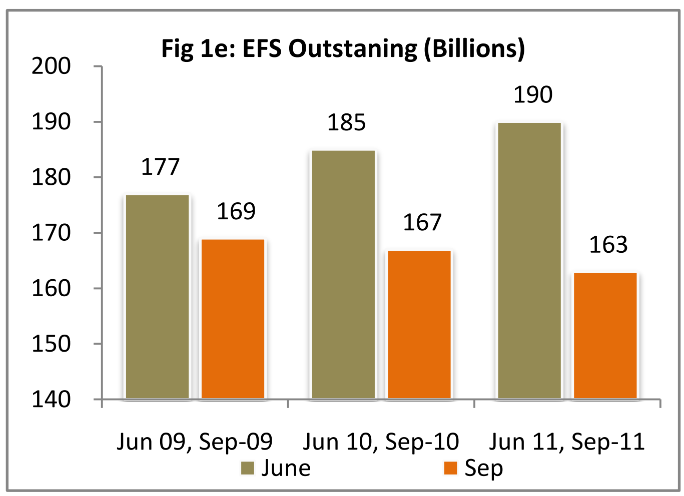
SBP continued its strategy to gradually rationalize mark-up rate of refinance facilities and mitigate market distortions caused by subsidized rates of financing. Refinance rates under Long Term Financing Facility (LTFF) and Scheme for Financing Power Plants Using Renewable Energy were increased by 1.5 % and 0.2% respectively. During this quarter SBP has allowed some relaxations in the Export Finance Scheme (EFS) for the benefit of exporters whose export proceeds are overdue. An exporter shall be eligible to avail financing under EFS Part-I and/or Part-II, if the total amount of overdue export bills at the time of availing the facility is not more than 5% of the previous year export performance.

Overall outstanding financing under Export Finance Scheme (EFS) was Rs. 163 billion at the end of Sep'11, which showed a slight decline from Rs. 167 billion in the same quarter of previous year due to adjustment of outstanding loans by exporters, keeping in view the size of their new limits for next Financial Year. Under the Long Term Financing Facility the outstanding financing increased to Rs 28 billion from Rs 26.6 billion in the previous quarter showing an increase of 5%.

Under government initiative to support Textile Sector and Other Eligible Sectors of Khyber Pakhtunkhwa, Federal and Provincial Administered Tribal Areas, SBP released 3rd installment of the mark-up rate subsidy under Fiscal Relief for the period from 01-01-2011 to 30-06-2011. Further, with a view to improve access to finance for SMEs and Farmers in the flood affected areas at concessionary rate SBP, allowed debt-swap facility to banks/DFIs against banks' short term outstanding loans of Rice Millers & Grain Traders disbursed from own sources.

1.7.1. Export Finance Scheme (EFS)

SBP continued to facilitate exporters through providing financing under Export Finance Scheme (EFS) in FY 2011-12. To streamline the procedure for availing finance under EFS for exporters having overdue export proceeds, SBP introduced a new mechanism by laying a condition of maximum overdue exports proceeds of 5% of last year exports for any exporter. Under this mechanism if overdue export position of an exporter is greater than 5% of the previous year export performance. The exporter would not be entitled to avail the EFS facility w.e.f 1-10-2011 till such time that the overdue position is reduced to the 5% benchmark level.



For FY 2011-12 revolving limits of Rs. 253.6 billion were sanctioned to banks under EFS to avoid problems for exporters. The total outstanding position under EFS stood at Rs. 163 billion, which has shown 14.0% decrease of QoQ basis (**Fig 1e**). This decrease may be due to adjustment period as during quarter under review exporters availing EFS Part-II facility adjust their last years financing before finalization of new limits.

Banking Group-wise Breakup of EFS

The Private Sector Banks remains the major participant in the Export Finance Scheme with highest share of Rs.137 billion (84%) in the outstanding, followed by Public-sector Banks with Rs.13 billion (8%). Compared to previous quarter, a major decrease of Rs 24 billion is exhibited in outstanding financing provided by private sector banks (**Table 1C**). This decrease was observed under EFS Part-II which reduced to Rs.102 billion from Rs.126 billion as during July – September period, old loans under Part-II are adjusted and exporters' limits are renewed for next year.

Table 1C: Banking Group Wise Outstanding EFS				
Banking Group	Sep.11	June.11	Sep.10	Δ YoY
	(Rs in Billions)			%
Public Sector Banks	13	14	9	44%
Private Banks	137	161	146	-6%
Islamic Banks	7	7	5	40%
Foreign Banks	6	8	7	-14%
Total	**163**	**190**	**167**	-2%

Commodity Wise Breakup of EFS

The commodity-wise outstanding financing of Rs. 163 billion shows textile sector at the top with Rs 102.6 billion (63%) followed by edible goods with Rs 19.1 billion (12%). Both the sectors showed decrease of 14% and 26 % respectively as compared to June-2011 quarter (**Table 1D**).

Table 1D: Commodity Wise Outstanding under EFS					
Sectors	Sep.10	June.11	Sep.11	% Change	
	Billion PKR			YoY	QoQ
Textile/Textile Products	112.8	119.3	102.6	-9%	-14%
Edible Goods	16.9	25.8	19.1	14%	-26%
Leather/Leather Goods	10.4	11.7	11.2	7%	-4%
Machinery	1.2	1.4	1.0	-12%	-28%
Metal Products	2.5	2.3	2.7	7%	15%
Carpets	3.7	2.1	1.6	-57%	-24%
Sports Goods	2.5	2.9	2.5	-2%	-14%
Other Commodities	17.1	25	22.4	31%	-10%
Total	**167.1**	**190.5**	**163.2**	**-2%**	**-14%**

Borrower wise Breakup of EFS

During the 1st quarter of FY-12, the total number of borrowers under Export Finance Scheme (EFS) stood at 1,467 with an average loan size of Rs 116 million. A decrease of 13.6% was recorded in total number of borrowers during the quarter under review as compared to previous quarter, because during July – September period, old loans under Part-II are adjusted and exporters' limits are renewed for next year.

Region-wise Breakup of EFS Funds

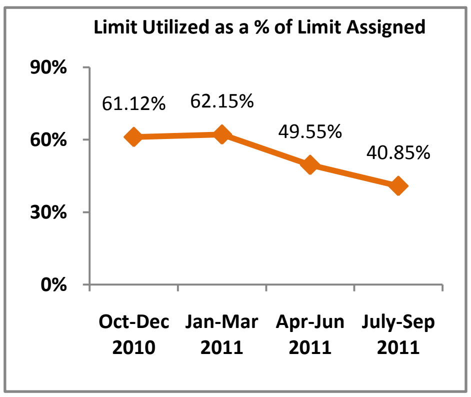
About 97% of total EFS funds are concentrated in four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad but there is an extensive disparity in terms of utilization of EFS funds from one region to another. For instance, Karachi and Sialkot may be identical in terms of total number of borrowers, but the total EFS financing in Karachi stands at 48% *(Rs 81.1 billion)* of total financing, whereas the same is at 6% *(Rs 9.7 billion)* in Sialkot. Further inconsistent patterns have been witnessed with regard to average loan size and number of borrowers across the regions. For instance, the average loan size at Rawalpindi is Rs 216 Million, in Karachi the same is at Rs 179 million, while it is just Rs 21 Million per borrower in Sialkot. The smaller loan size in Sialkot is mainly due to the existence of a large number of Small Business Enterprises that are involved in manufacturing and exporting Sports goods, Surgical Instruments and Leather products.

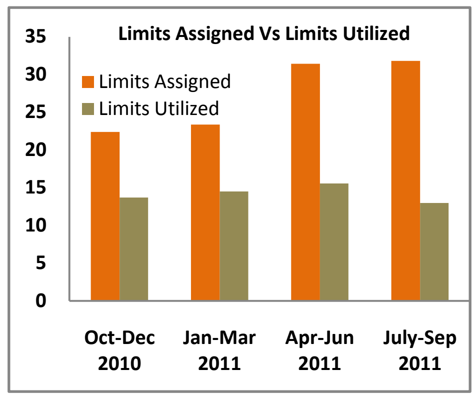
Regional Composition of Borrowers

No change was observed in regional composition of borrowers availing EFS. According to banks' data for the quarter ended September 30, 2011, about 89% of borrowers are in the above mentioned four major cities, where only Karachi & Sialkot has about 63% of total beneficiaries with both sharing 31% and 32% respectively. There is only 1 borrower each at Quetta and Hyderabad at the end of September 2011.

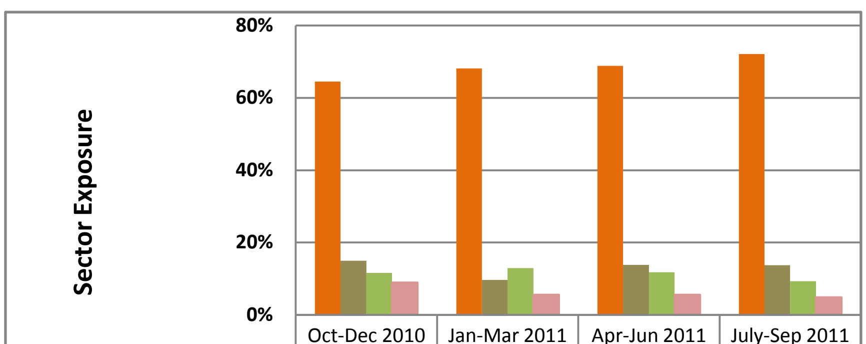
1.7.2. Islamic Export Refinance Scheme (IERS)

During the quarter under review, the total number of participating banks was 11 (5 Islamic Banks, 6 Conventional Banks' Islamic Banking Operations). Due to overall expansion in Islamic mode of financing portfolio of conventional banks resulting from allowing increased maximum cap for IERS under their EFS limit, the limits assigned under the scheme increased by 1.3% (from Rs 31.4 billion to Rs. 31.8 billion in Sep-11) and IERS limit comes to 13% of EFS limit approx (Total limit is Rs. 253.2 billion). Out of total limit, Rs. 13.3 billion has been allocated to Islamic Banks and remaining Rs. 18.5 billion to Islamic Banking Divisions (IBDs) of Conventional Banks.





Against a total limit, under IERS, of Rs. 31.8 billion, the total IERS financing outstanding at the end of the quarter stood at Rs. 13.0 billion, which decreased by 15.6% i.e.; from Rs. 15.4 billion in previous quarter. The limit utilized as percent of limit assigned was 40.9%. The utilized limit decreased by 8.7% when compared to last quarter.



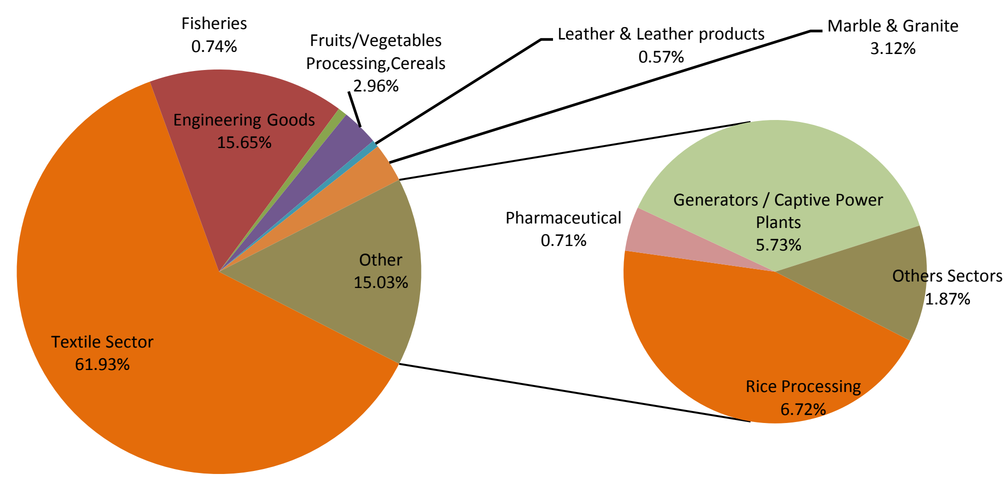
	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	July-Sep 2011
Textile & Textile Products	64.53%	68.16%	68.84%	72.13%
Leather & Products	14.93%	9.61%	13.79%	13.72%
Edible Goods	11.58%	12.92%	11.79%	9.31%
Others	8.96%	5.59%	5.59%	4.84%

The Textile and Textile products sector exposure was around 72.0% for the last four quarters under IERS. The sector exposure in the Leather & Leather Products and Edible Goods was 13.7% and 9.3% respectively as of Sep-11.

1.7.3. Long-Term Financing Facility (LTFF)

LTFF is one of the most important facilities, which has been designed to facilitate export led growth through setting up export oriented projects. Under the Facility funds on long term basis (up-to 10 years) are provided for procurement of imported and locally manufactured plant & machinery. In order to meet the demand of export oriented projects, limits of Rs. 21,700 million were sanctioned under the Facility for FY 2011-12 as compared to Rs. 19,770 million for 2010-11. As of Sep-11 outstanding financing under LTFF stood at Rs. 28,010 million

Fig 1f: Outstanding Amount-LTFF Sector-Wise Distribution



showing an increase of 39.0% on YoY basis. The graph provides a sector wise utilization of funds under LTFF. Textile sector is the main beneficiary of the facility with about 62.0% share followed by engineering goods with about 16.0 % share in total financing.

2.0. Microfinance

2.1. State of Microfinance Banks in Pakistan

The third quarter of CY 11 shows improvement in growth. The value of advances have increased by 13.0% during the quarter (41.0% YoY basis) on account of seasonal demand in agriculture & livestock, gold based secured lending, and micro-loans to small businesses in urban areas. The MFB's borrowers have also increased by 11.0%, though remains concentrated among the big four MFBs. The asset mix and quality have further improved. The non-performing loans (NPLs) have partially constrained from 3.7% to 2.7% after accumulation in 2010 due to devastating floods. However, recent floods may have a negative impact on recoveries in the upcoming quarters.

Table 1: Key Microfinance Growth Indicators

	Sep-10	Jun-11	Sep-11	Growth		
	*(Amount in Rs. '000')			(YOY) %	(QoQ)%	Trend
Advances *	10,790,314	13,523,748	15,242,511	41%	13%	↑
NPLs*	323,855	505,431	418,145	29%	-17%	↓
Deposits*	8,357,421	11,167,174	11,372,036	36%	2%	↑
Assets*	19,170,692	26,471,237	26,794,450	40%	1%	↑
Equity*	5,217,545	6,364,125	6,458,428	24%	1%	↑
Borrowers	694,263	713,563	789,013	14%	11%	↑
PAR >30 Days in %	3.00%	3.74%	2.74%	-9%	-27%	↓

The changing asset mix of MFB's indicates that they have utilized liquid assets (cash & investments) to increase their lending portfolio which now constitutes 56.0% of the MFBs' assets compared with 50.0% in the 2nd quarter of CY11. The share of liquid assets has dropped from 39.0% to 31.0% of the total assets during the quarter showing. This suggests MFB's eagerness to extend micro loans into the market, though it may increase their risk profile. Additionally, MFB's role as financial intermediaries has started emerging evident from the growing deposit.

On outreach side, MFBs' growing interest in alternative delivery channels, particularly in branchless banking (BB), may ultimately change the economics of microfinance by reducing their operating costs and increasing outreach. In the previous quarter, 666 new agents were added by Tameer in its growing network of agents (which now stands at almost 15,000). Moreover, the entry of up-coming players like Waseela may boost up the growth in branchless banking channels. Although, it needs much more time to realize the promises of BB i.e. access to all financial services, including credit and savings along with bill payments and transfers for the poor.

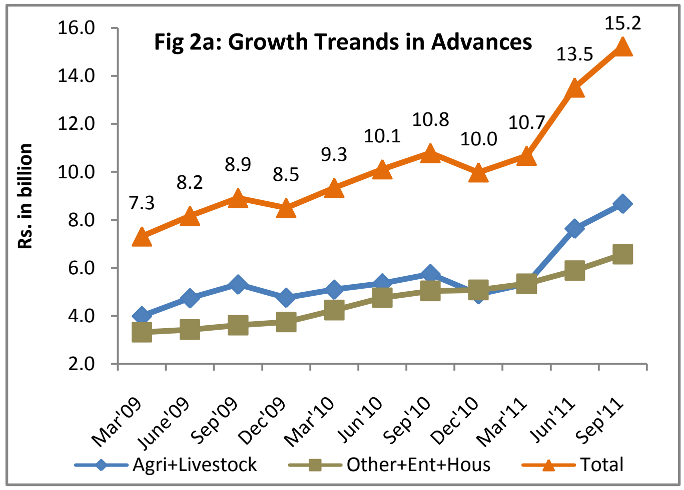
Going forward, the growth in advances may experience a decline in next quarter mainly due to seasonal recoveries and adverse fallout of rain floods in Sind Province. Branchless banking will continue at its pace with the expected increase in competition not only from MFBs but also from commercial banks. Few MFBs need to strengthen their equity base before entering into 2012 in order to meet the increased Minimum Capital Requirements (MCR).

2.2. Advances – growth, Up-Scaling and Quality

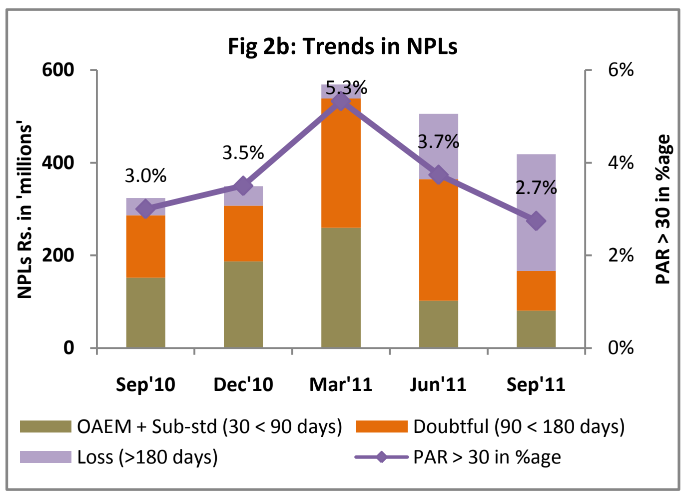
Gross advances of MFB's increased by Rs. 1.72 billion during the quarter, translating into a growth rate of 13.0%. However, the growth remained slower compared to that of 27.0% during Apr-Jun-11. The growth in advances was seasonal mainly driven by growth in agri. financing (16.2%) and livestock (6.4%). This seasonal impact was somewhat rationalized by growth in others (16.7%), microenterprise (3.5%) and housing (2%) categories (See **Figure 2a**). KBL and NRSP have mainly extended advances in agri and livestock categories, whereas NRSP has contributed a little in microenterprise financing. Tameer has continued its secured lending policy thereby mainly provided loans in others category, while contributing a little in agri and housing finance as well. FMFBL and Kashf have maintained their growth in microenterprise financing while extending advances in agri and livestock categories.

In terms of active borrowers, KBL has continued its lead in market share whereas Tameer has surpassed in Gross Loan Portfolio (GLP). NRSP has contributed significantly both in terms of growth of active borrowers and GLP at 27.0% and 21.0% respectively.

In other microcredit indicators, rural borrowers constituted 68.0% whereas male borrowers comprise 76.0% share of total active borrowers. The average outstanding loan size of MFBs is persistently improving and currently stood at Rs.19,318 which indicates that MFBs are gradually up-scaling.



On loan portfolio quality side, the big MFBs have continued their efforts to reduce their NPLs after accumulation in 2010 due to devastating flood in the country. Consequently, the NPLs have been reduced by 11.0% during the quarter and stood at 2.7% of the GLP – the lowest among the last five quarters. However, a look at the break-up of the NPLs reveals that loss category has been increasing more rapidly and accumulated the most – 60.0% of the total portfolio at risk compared to 28% in the previous quarter (See **figure 2b**). This change in NPLs' mix is mainly due to non-repayment capacity of borrowers badly affected by flood during 2010.



On financial stability side, the direct and indirect impacts of floods during 2010-11 and slowdown in overall domestic economic activities increased the potential credit risk for MFBs particularly in Sind Province. Consequently, the growth in outstanding advances may be constrained in the up-coming quarter mainly due to seasonal factors.

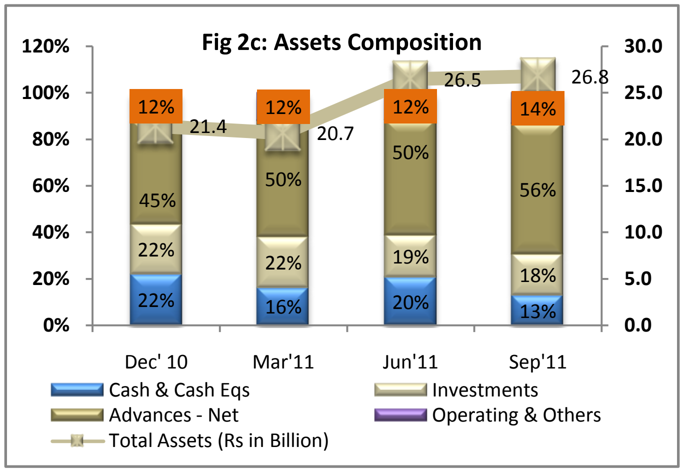
2.3. Branchless Banking Growth

MFBs are forerunner in expanding wide-range of alternative delivery channels, thus radically changing the retail landscape of financial service industry. Moreover, they are increasingly aiming to accelerate the flow of financial services through the use of service centers, branchless banking (BB) agents, kiosks at third party locations, and ATMs.

During the quarter under review, the total number of active branchless banking agents has reached to 17,448 in a short span of two years, whereas number of branches of all commercial banks is almost 10,000. The total number of active branchless banking accounts increased by 51.2% to 357,598, total branchless banking deposits by 28.0% to Rs. 187 million, number of transactions by 26.9% to 15.867 million and the volume of transactions by 43.2% to Rs 58,710 million during the Jul-Sep-11 quarter.

2.4. Assets Growth

Assets of the MFBs exhibited a marginal growth of 1% and reached at Rs. 26.8 billion during the quarter. However, the asset mix of the MFBs has considerably changed due to growth in advances backed by liquid assets (see **figure 2c**). Cash & cash equivalent has decreased by 37.0% and accounted for 13.0% of the total assets compared to 20.0% in the previous quarter. Similarly, investments have also reduced during the quarter but at a minor rate of 1.2% and comprised 18.0% of the total assets compared to 19.0% in the previous quarter. On the other hand, the share of advances and operating /other assets have increased from 50.0% to 56.0% and 12.0% to 14.0% respectively.



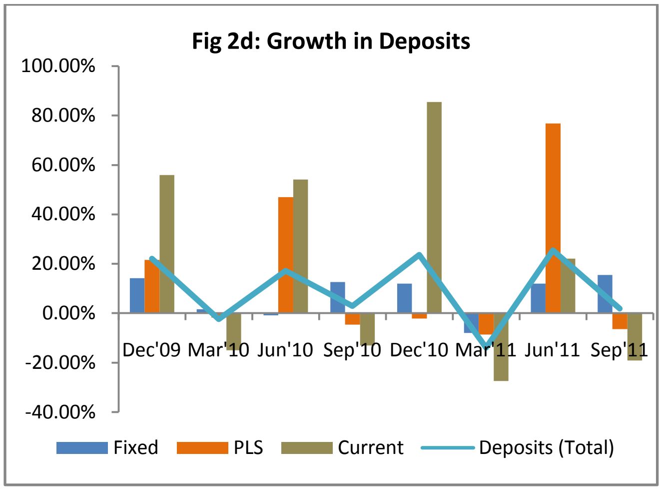
This change in asset mix reflects the MFBs' interest in expanding their loan portfolios while increasing their retail outreach. Moreover, the efficiency of the assets has also increased by utilizing idle funds in profitable ventures of micro-lending that would eventually increase the MFBs profitability. However, this change may not impact adversely on liquidity comfort of MFBs as they still have enough liquid assets in their hands and secondly they mostly have extended micro-loans with less than or equal to 1 year maturity.

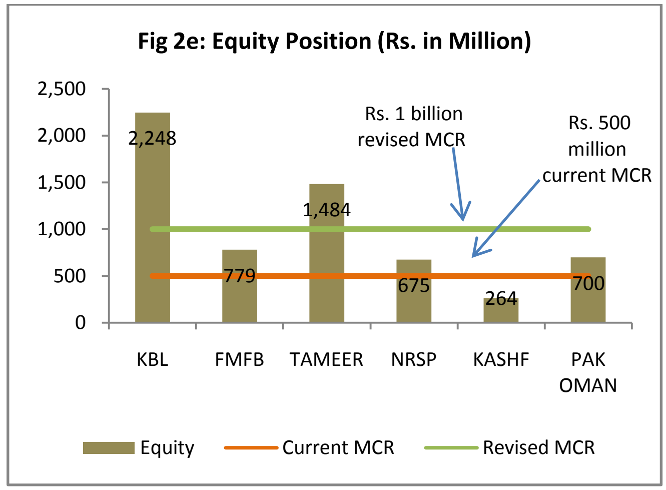
2.5. Funding Structure

During the quarter, total deposits of the MFBs have marginally increased by 2.0%, compared to 3.0% growth during same quarter last year (See **figure 2d**). The growth in total deposits has been dominated by high return fixed deposits, which grew by 15.0% in the same quarter.

Savings and non-remunerative current accounts have witnessed negative growth because of high withdrawals on the occasion of Eid-ul-Fiter and partially because of decreasing saving capacity of MFBs clients due high inflation.

On the other hand, MFBs have registered 6.0% growth in number of depositors mainly contributed by KBL, Tameer and NRSP.





On the equity side, MFBs have registered marginal growth of 1.5% during the quarter mainly contributed by KBL, Tameer, and FMFBL.

Kashf MFB is still lacking capital to meet the Minimum Capital Requirement (MCR). **Figure 2e** presents current scenario of equity position with respect to current and revised MCR.

3.0. Agricultural Finance

Introduction

An indicative agricultural credit disbursement target of Rs 285 billion has been proposed by SBP for banks for FY 11-12.The target is 8.4% higher than the disbursement and 5.5% higher than the target set for FY 10-11. Out of the total target, Rs. 195.1 billion are allocated to commercial banks, Rs. 70.1 billion to ZTBL, Rs. 12.2 billion to Microfinance Banks (MFBs), and Rs. 7.6 billion to Punjab Provincial Cooperative Bank Limited (PPCBL).

3.1. Agricultural Credit Disbursement

During Jul-Sep-11 banks disbursed an amount of Rs. 54.3 billion or 19.0% of the annual target compared with disbursement of Rs.41.6 billion or 15.4% of the target of Rs. 270 billion during corresponding period last year. Growth in 1st quarter of FY12 remained modest with a rise of Rs.12.7 billion or around 30.5% compared with corresponding period last year. Detail of indicative agricultural credit targets and actual disbursements by banks during first quarter of FY 2011-12 and FY 2010-11 are given in **Table 3A.**

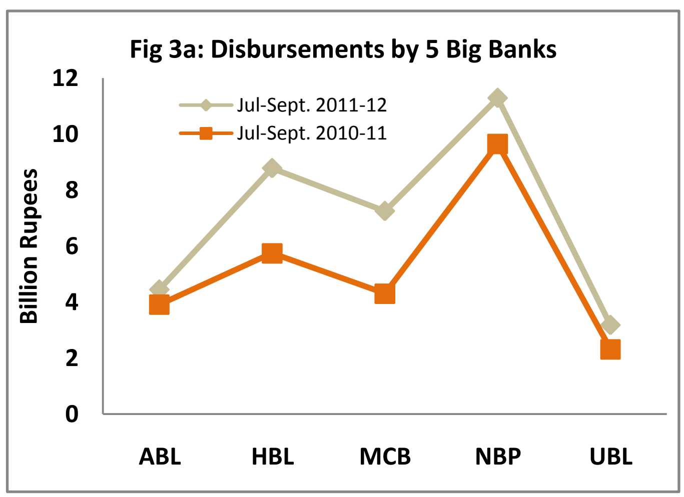
Table 3A: Indicative Agri. Credit Targets and Disbursement

(Billion Rupees)

Banks	**Proposed Target 2011-12**	**Disbursement FY 2011-12**			**Target 2010-11**	**Disbursement FY 2010-11**		
		Flow (Jul-Sept.) 11-12	%age Achievement	%age Share in Total		Flow (Jul-Sept.) 10-11	%age Achievement	%age Share in Total
5 Big Banks	141.0	34.95	24.8	64.4	132.5	25.94	19.6	62.3
ZTBL	70.1	5.07	7.2	9.3	81.8	5.30	6.5	12.7
DPBs	54.1	11.24	20.8	20.7	48.9	9.42	19.3	22.6
PPCBL	7.6	1.61	21.1	3.0	6.9	0.98	14.3	2.4
MFBs	12.2	1.41	11.6	2.6	0.0	0.00	0.0	0.0
Total	**285.0**	**54.28**	**19.0**	**100.0**	**270.0**	**41.64**	**15.4**	**100.0**

Source: Agricultural Credit & Microfinance Department, State Bank of Pakistan

Bank-wise break up of agri. credit disbursements reveals that during Jul-Sep-11 five major banks as a group disbursed Rs.35.0 billion or 24.8% of their whole year's targets, ZTBL disbursed Rs.5.1 billion or 7.2% of its targets, Domestic Private Banks (DPBs) disbursed Rs.11.2 billion or 20.8% of their targets, PPCBL disbursed Rs.1.6 billion or 21.2% of its target and MFBs disbursed Rs.1.4 billion or 11.6% of their allocated target. The comparative position in corresponding period last year reflects that performance of 5 major banks; ZTBL, DPBs & PPCBL in terms of disbursements have shown some improvement.



Bank-wise position of agri. credit disbursements by five major banks for the period Jul-Sep-11 and 2010 has

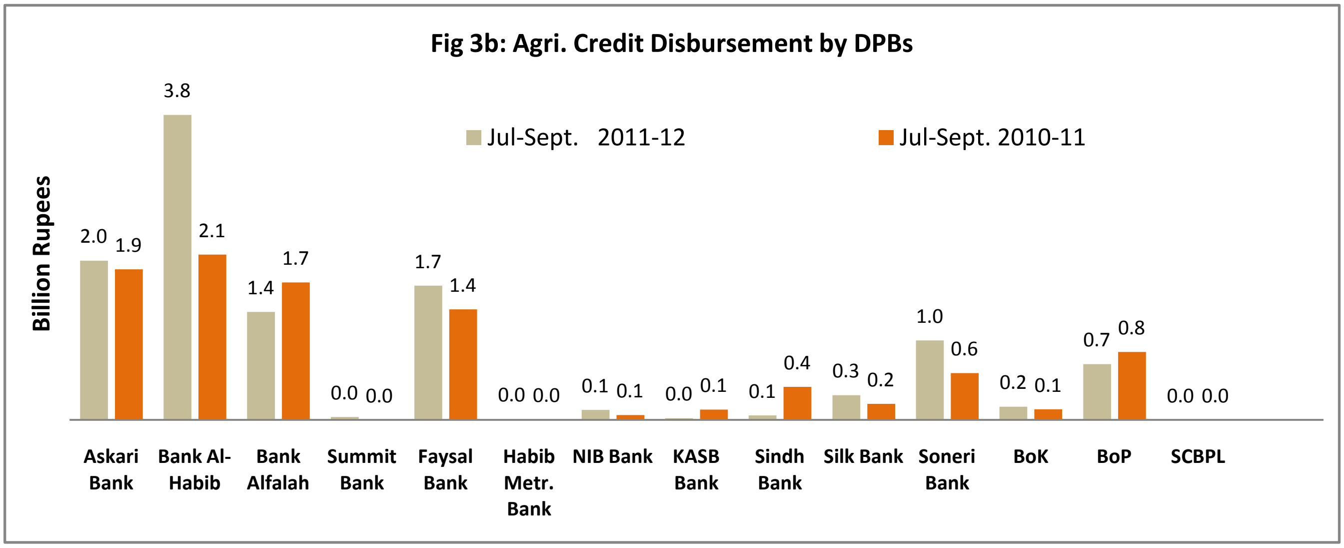
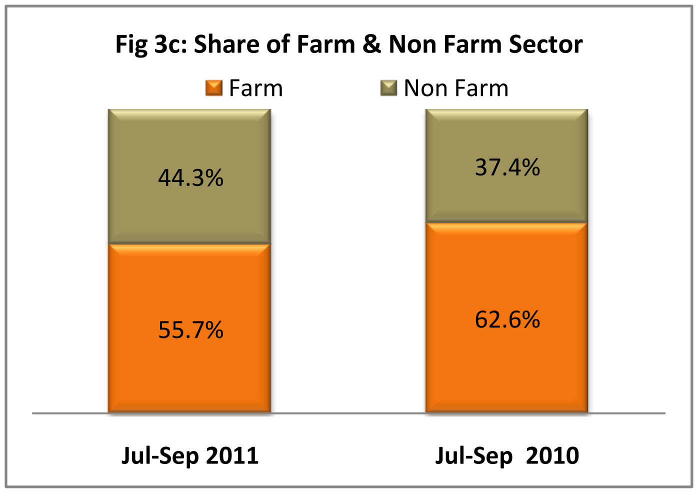


Table 3B: Disbursements Sector wise			
(Amount in Billions)		Jul-Sep 2011	Jul-Sep 2010
A	**Farm Credit**	**30.2**	**26.1**
1	**Subsistence Holding**	**17.8**	**15.0**
i	*Production*	17.2	14.16
ii	*Development*	0.6	0.82
2	**Economic Holding**	**7.6**	**7.1**
i	*Production*	7.3	6.84
ii	*Development*	0.2	0.21
3	**Above Economic Holding**	**4.9**	**4.0**
i	*Production*	4.5	3.78
ii	*Development*	0.4	0.24
B	**Non-Farm Credit**	**24.1**	**15.6**
1	Small Farms	5.6	3.37
2	Large Farms	18.4	12.21
Total (A+B)		**54.3**	**41.6**



been illustrated in **figure 3a**.

Comparative analysis/ position of agri. credit disbursement by DPBs during Jul-Sep-11 and 2010 is illustrated in **figure 3b**.

Sector-wise classification indicates that out of Rs.54.3 billion disbursement during Jul-Sep-11 an amount of Rs.30.2 billion was disbursed in farm- sector and Rs.24.1 billion were extended to non-farm sector.

Last year during the same period an amount of Rs.26.1 billion was extended to farm sector and Rs.15.6 billion was disbursed to non-farm sector.

The share of non-farm sector has increased from 37.4% to 44.3% YoY. Rising trend in the share of non-farm sector continues mainly due to SBP's initiatives, i.e. issuance of guidelines for non-farm sector in the areas of livestock, fisheries and poultry financing, rising domestic demand for fish & poultry, increase in export of livestock, etc.

Quarter-wise disbursement to farm and non-farm sectors is given in **Table 3B**, while their percentage share in agricultural credit disbursement is given in **Figure 3c**.

3.2. Province-Wise Disbursement

Province wise agri. credit disbursement position during Jul-Sep-11 shows that out of total disbursement of Rs.54.3 billion, Rs.47.2 billion or 86.9% were disbursed in Punjab, Rs.5.5 billion or 10.1% in Sindh, Rs.1.4 billion or 2.6% in Khyber Pakhtunkhwa, Rs.0.05 billion or 1.1% in Baluchistan, Rs 0.16 billion or 11.1% in AJK & Gilgit-Baltistan.

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

(Billion Rupees)

Province	Proposed Target 2011-12	Disbursement FY 2011-12			Target 2010-11	Disbursement FY 2010-11		
		Flow (Jul-Sept.) 2011-12	%age Achieved	%age Share in Total		Flow (Jul-Sept.) 2010-11	%age Achieved	%age Share in Total
Punjab	225.7	47.16	20.9	86.9	210.6	36.04	17.1	86.5
Sindh	38.3	5.49	14.3	10.1	37.8	4.28	11.3	10.3
KPK	15.6	1.43	9.2	2.6	16.2	1.13	7.0	2.7
Baluchistan	4.0	0.05	1.1	0.1	4.1	0.06	1.5	0.1
AJK & GB	1.4	0.16	11.1	0.3	1.4	0.13	9.8	0.3
Total	**285.0**	**54.28**	**19.0**	**100.0**	**270.0**	**41.64**	**15.4**	**100.0**

Source: Agricultural Credit & Microfinance Department, State Bank of Pakistan

This analysis reveals considerable improvement in agri. credit disbursement in Punjab (30.8% growth), Sindh (28.3% growth), Khyber Pakhtunkhwa (26.5%), AJK & Gilgit Baltistan (18.1% growth), whereas disbursement in Baluchistan continued the declining trend of last year in agri. credit disbursement. The share of other provinces and regions apart from Punjab is trivial in agri. credit due to weak demand, deteriorating law and order situation especially in Baluchistan, difficulties & delays in documentation and shyness of banks to expand their agri. credit exposure. Details of province-wise disbursements, vis-à-vis targets achieved are given in **Table 3C**.

3.3. Agri. Non-Performing Loans

Non-performing loans in agri. financing stood at Rs.34.6 billion or 17.6% of the outstanding loans as on 30th Sep-11 compared with Rs.30.3 billion or 19.0% of the outstanding loans as of 30th Sep-10. Bank wise detail of NPLs is given in **Table 3D**.

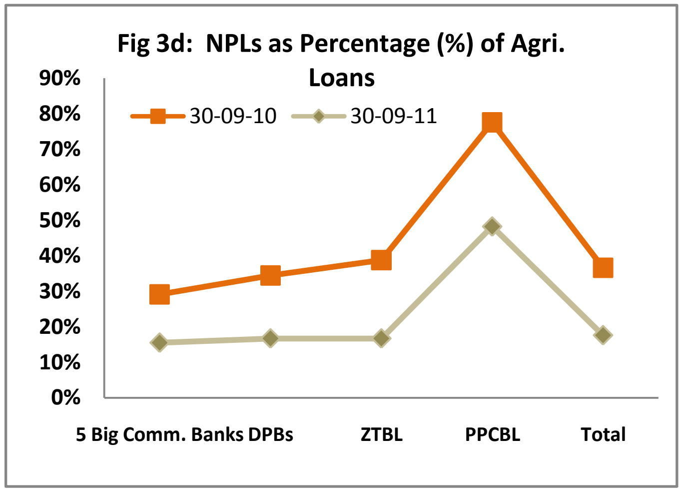
Table 3D: Agri. Non-Performing Loans (Rs. Billions)

	30-09-11		30-09-10	
Banks	**NPLs**	**Outstanding loans**	**NPLs**	**Outstanding loans**
5 big Banks	8.4	61.4	8.0	51.6
DPBs	4.1	23.2	3.8	22.8
ZTBL	19.9	90.1	15.2	90.9
PPCBL	2.2	7.6	3.3	6.8
Total	**34.6**	**182.3**	**30.3**	**172.1**

Figure 3d shows NPLs' position of banks as a percentage of their outstanding loans as on end Sep-10 and 2011.

3.4. Number of Agri. Loan Borrowers

The number of agri. loan borrowers was 2.31 million (including borrowers of MFBs) as on 30th Sep-11 against 1.85 million (excluding borrowers of MFBs) as of Sep-10.



Bank-wise position of outstanding number of borrowers reveals that decrease in number of borrowers was witnessed especially in 5 major banks, DPBs, marginally in ZTBL, while number of borrowers of PPCBL showed a modest improvement of 4.8%.

High mark up rate, increasing NPLs and defaults in repayment due to a variety of reasons like recent floods in Sindh, law & order situation, good prices of wheat and cotton in non-flood affected areas and improving cash flow of farmers resulted in decline in outstanding number of borrowers over the period, as shown in **Table 3E**.

Table 3E: Outstanding Number of Agri. Loan Borrowers

Banks	As on 30-09-2011		As on 30-09-2010	
	No. of Borrowers	% Share in Total	No. of Borrowers	% Share in Total
5 Big Banks	412,661	23.6	472,775	25.6
ZTBL	1,104,837	63.1	1,146,993	62.1
DPBs	36,398	2.1	39,339	2.1
PPCBL	197,790	11.3	188,649	10.2
MFBs	559,236	24.2		
Total	**23,10,922**	**100.0**	**1,847,756**	**100.0**

4.0. Housing Finance

State of Housing Finance

In Pakistan, rapid urbanization has become a challenge for increasing number of people. Studies indicate that lack of finance from a formal source is primarily a supply-side problem. Most of the housing finance is arranged through personal resources. The formal financial sector caters to only 1 to 2 percent of all housing transactions in the country, whereas the informal lending caters up to 10-12% of such transactions. Presently, the formal financial sector provides housing support through two major sources namely the Government-owned House Building Finance Company Limited (HBFCL) and private commercial banks/DFI.

The property development industry suffers from low public confidence. Financial weaknesses and the absence of clear, uniform and fair business practices have affected its credibility contributing to the reluctance of financial institutions in providing development and construction finance. There is a strong need to strengthen the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue records. These steps will enhance the financing by the formal sector. Weakness in the existing legal framework also impedes the financing opportunities of the formal financial sector. Though the Financial Institution Recovery Ordinance, 2001 empowers the financial institutions in case of default to foreclose a mortgage property without recourse to the court of law, lack of full implementation of the recovery law in its letter and spirit dilutes its effectiveness in protection of rights of the respective parties, i.e., the financial institutions, mortgagors, landlords and tenants, thus needing a major improvement.

Although the regulatory framework for land registration and transfer regime exists in Pakistan, the process by which land is acquired and registered is cumbersome, because of number of institutions and registration procedures required to execute property transactions. Land records are manually maintained leading to errors and omissions and resultantly they have modest commercial value for the mortgagee financial institutions especially in rural and semi-urban areas. The lack of efficient and reliable system of ascertaining the bona-fides of property titles has forced banks to limit the access of housing finance to a certain number of urban localities within the urban centers.

National and local master plans for town planning and housing facilities are either inadequate or poorly enforced, which lead to inefficient allocation of land and uncontrolled urban development. Lack of transparency and accountability in the planning process also give opportunities to land grabbers/mafias to have valuable inside information as to future infrastructure developments or to be able to influence such plans so that value of its land increases. Moreover, the large scale projects often get delayed due to failure of utility companies in connecting new housing developments in time.

The “property valuers”, on the approved panel of the Pakistan Banks’ Association (PBA) have professional conduct requirements, whereas majority of real estate builders and developers are working as sole proprietorships or partnerships with limited capital and informal corporate governance structures. Absence of sound governance structure within the housing developer industry creates lack of good practices, illegal construction, unreliable building permits, and legally unprotected advance purchase of units that are required to be built in future. The unstructured and unsupervised nature of business of real estate brokers/ agencies, which could serve as natural arrangers for the provision of financial services, is also a significant constraint to the provision of housing and housing finance. Consequently, it is difficult for financial institutions to verify the character, capital, and capacity of potential clients. Risk assessment and portfolio valuation is also fragile, which is another factor for the lenders' extreme caution for transaction initiated by these venture. As a result, financial institutions are reluctant to enter this market, which in turn causes scarcity of finance and constraints in the supply of housing. In the absence of the formal arrangements between the housing developers/real estate agents etc and financial institutions, the protection of individual purchasers remains limited as the market is dominated by cash transactions with limited availability of systematic information in a transparent manner. Without a strong regulatory authority to enforce corporate governance and allied standards for this stratum of business entrepreneurship, the quality and availability of housing facilities across population spectrum will not improve.

At present, 23 commercial banks, HBFCL and two microfinance banks are catering to housing finance needs. HBFCL is the only specialized housing company in the country, which has been providing housing finance to public since 1952. Commercial banks entered the mortgage business during 2003 contributing very small share in the housing finance system. Although HBFCL's share in the total housing finance has reduced in absolute terms, it is still the only institution that continues to cater to the lower-middle and low-income groups and enjoys the largest customer base. Recently microfinance banks have also started serving the lower income groups.

After demonstrating a promising growth trend till 2008, the housing finance sector has recently been showing a declining trend. The total outstanding reported by banks and DFIs as on Sep-11 was Rs. 61.2 billion as compared to Rs. 68.6 billion as on Sep-10 (a decline of 11.0**%**) and Rs. 61.9 billion at the end of Jun-11. The total number of outstanding borrowers has also decreased from 100,214 to 94,492 since Sep-10; showing a fall of 5.7%. Approximately 638 new borrowers were extended house finance during the quarter (Jul-Sep-11), accounting for Rs. 3.5 billion of new disbursements. HBFCL accounted for 45.8% of these new borrowers and contributed 6.6% of the new disbursements equivalent to Rs. 231 million.

Financing for outright purchase continued to dominate financing for construction and renovation by comprising almost 55.0% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 34.0% and 11.0**%** respectively.

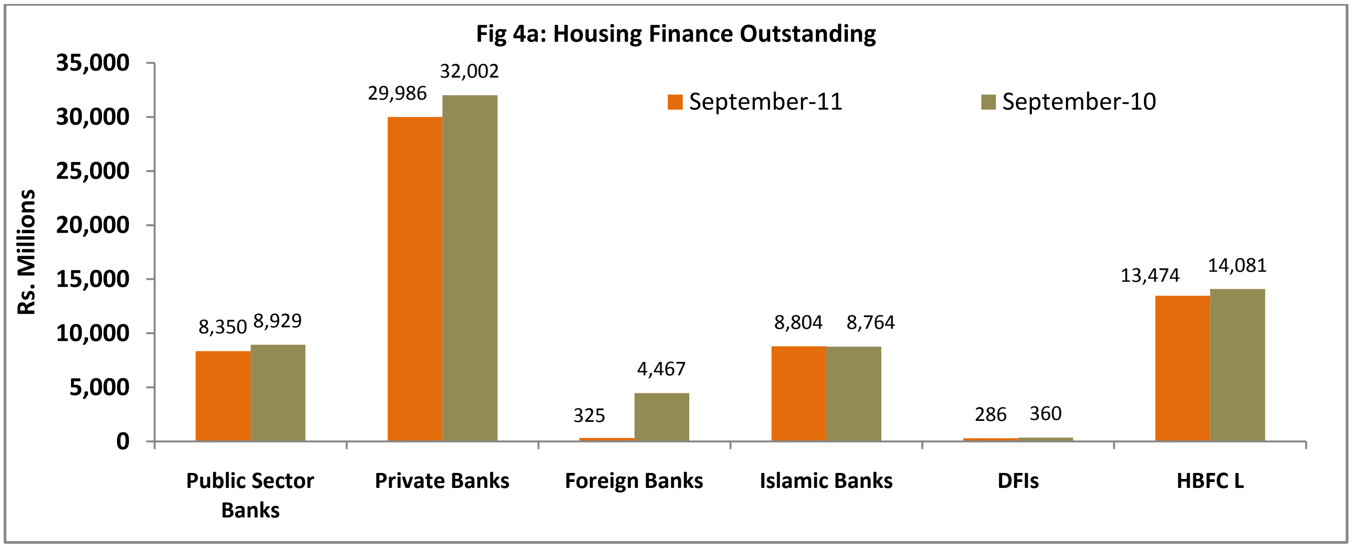
Non-performing loans have increased from Rs. 18.1 billion (Sep-10) to Rs. 19.1 billion (Sep-11); a 5.7% increase over the year. The stock of NPLs as on Jun-11 was Rs. 18.7 billion. However; this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

4.1. Gross Outstanding

The total outstanding finance as on Sep-11 of all banks and DFIs stood at Rs. 61.2 billion, as compared to Rs. 61.9 billion as on Jun-11, showing a decrease of Rs. 0.7 billion (1.1%). Moreover, when compared to quarter ending Sep-10, outstanding of all commercial banks and DFIs collectively decreased by 11.0%.

Banking sector-wise total outstanding on quarters ending Sep-10 & Sep-11 are shown in **Figure 4a**. Of the total outstanding as of Sep-11, commercial banks accounted for Rs. 47.5 billion; a 12.4% decline since quarter ending Sep-10. Private banks reported approximately Rs. 30.0 billion followed by Islamic banks of Rs. 8.8 billion, public sector banks of Rs. 8.4 billion and foreign banks with Rs. 0.33 billion. The outstanding loans of HBFCL were Rs.

13.5 billion; down by 4.3% over the last year. Other DFIs have a meager share of Rs. 0.3 billion in outstanding loans.



The total outstanding housing finance as on Sep-11 of Islamic Banking Industry (05 Islamic Banks & 13 Islamic Banking Divisions of Conventional Banks) stood at Rs. 12.7 billion. Compared to quarter ending Jun-11 (Rs. 12.5 billion), outstanding of Islamic banking Industry increased by 1.5**%.**

Of the total outstanding Islamic housing finance, 05 Islamic banks accounted for Rs. 8.8 billion (a 4.5% increase over the last quarter Jun-11) and IBDs of conventional banks posted Rs. 3.9 billion (a 4.5% decline since quarter ending Jun-11).

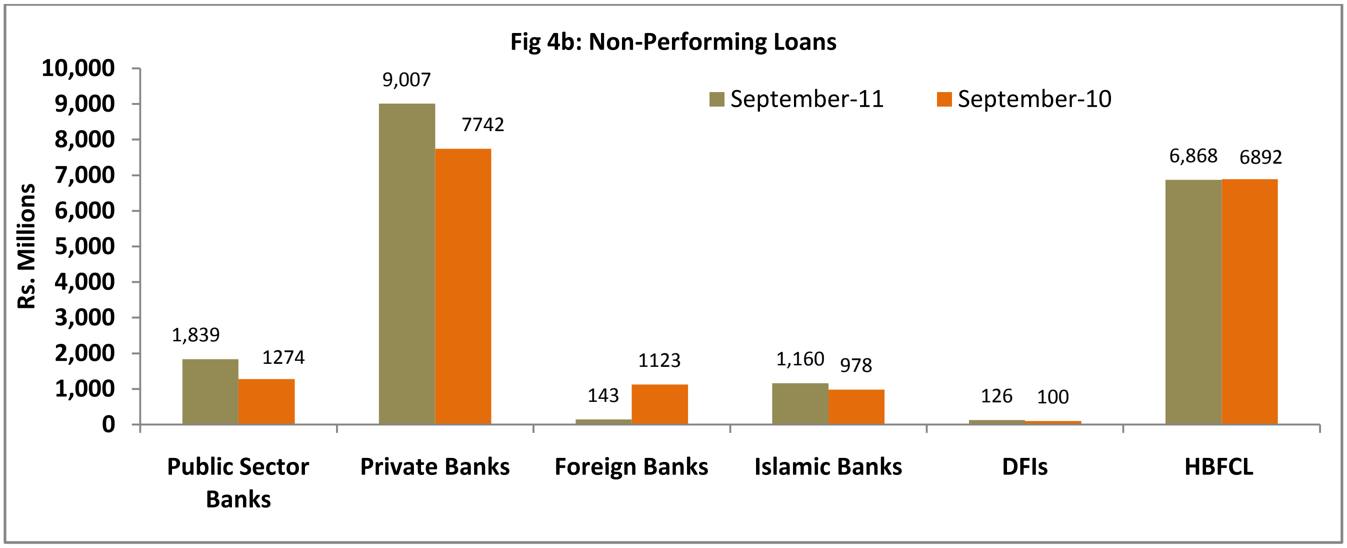
4.2. Non-Performing Loans

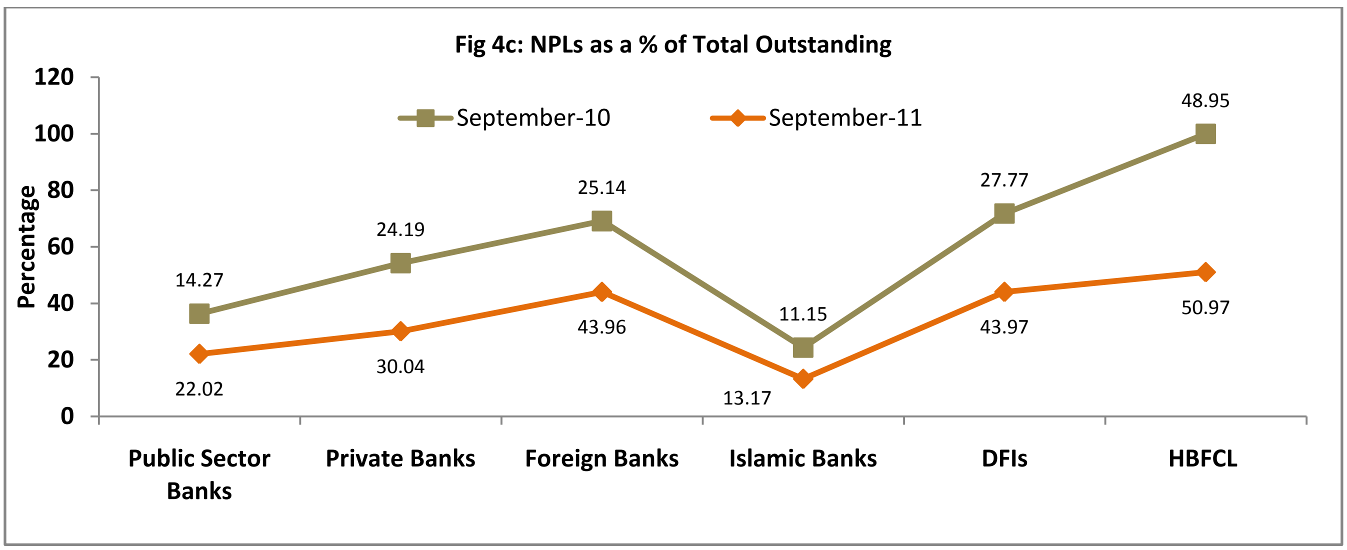
NPLs have increased from Rs. 18.1 billion (Sep-10) to Rs. 19.1 billion (Sep-11); a 5.7% increase during the year. The stock of NPLs as on Jun-11 was Rs. 18.7 billion, showing an increase of 2.4% during the quarter (Jul-Sep-11). **Figure 4b** shows a comparison of existing NPLs status of different banking sectors with last year. **Figure 4c** compares NPLs as a percentage of outstanding portfolio at the end of quarters on Sep-11 and Sep-10. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and high interest rates. HBFCL's NPLs have decreased from Rs. 6.9 billion to Rs. 6.9 billion during the year; a 0.4% decrease.

Although growth of its NPLs remains relatively low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 51.0% of its total outstanding constitutes NPLs (**Figure 4c**). HBFCL's percentage share in total NPLs is 35.9%.

Excluding HBFCL, NPLs for all banks and other DFIs have increased by 9.4% over the year from Rs. 11.2 billion to Rs. 12.3 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFCL) constitute is 25.7% of their total outstanding portfolio, compared to a 20.6% as on Sep 30, 2010.

Among banks, NPLs of Public banks witnessed the sharpest increase of almost 44.3% during the year, from Rs. 1.3 billion to Rs. 1.8 billion. Non-performing finances (NPFs) of the Islamic banks have increased from Rs. 978 million to Rs. 1.2 billion (an increase of 18.6 %) which are 13.2% of their total outstanding. Their NPFs constitute 6.1% of total outstanding, which was only 5.4% on Sep 30, 2010 Private banks' NPLs have increased by 16.3%, from Rs. 7.7 billion to Rs. 9.0 billion which is 30.0% of their total outstanding as against 24.2% on Sep-10. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 25.1% to 44.0%. NPLs of DFIs (excluding HBFCL) have increased from Rs. 100 million to Rs. 126 million, a 26.1% increase with 44.0% of its total outstanding classified as NPLs, which was 27.8% on Sep-10.

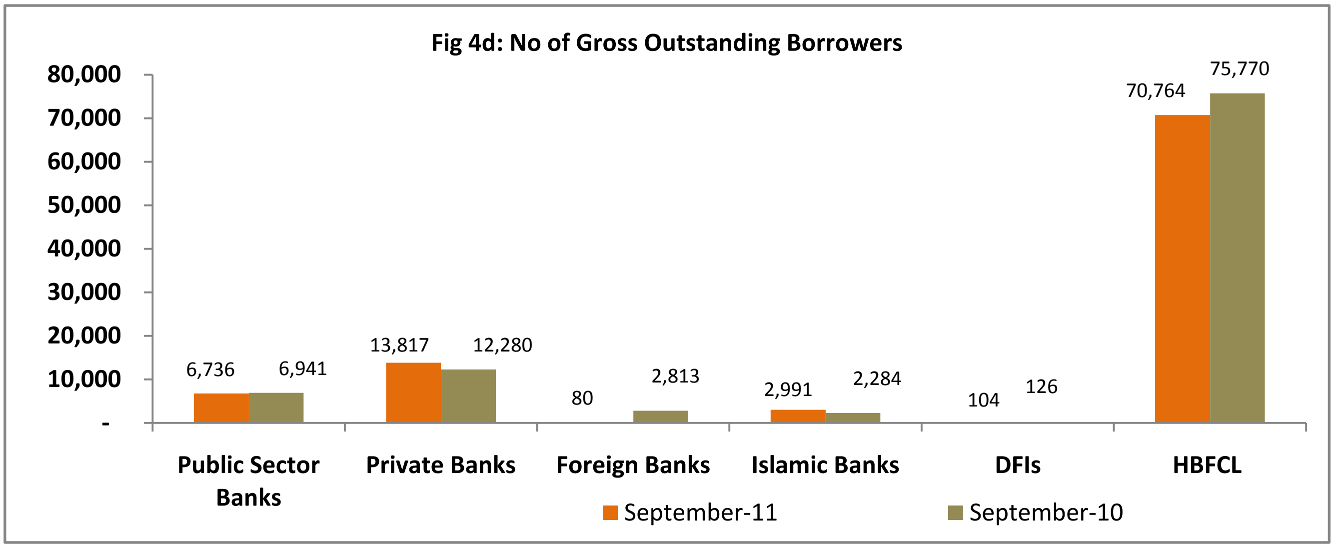




Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.1 billion on Sep-11, which were Rs. 2.2 billion at the end of last quarter Apr-Jun-11 showing a decrease of 5.2%.

4.3. Number of Borrowers

Total number of outstanding borrowers decreased from 100,214 to 94,492 since Sep-10; a decline of 5.7%. As shown in Figure 4d, there is a decrease in number of borrowers in each category except Islamic banks and private banks, where numbers increased from 2,284 to 2,991 and 12,280 to 13,817 respectively.



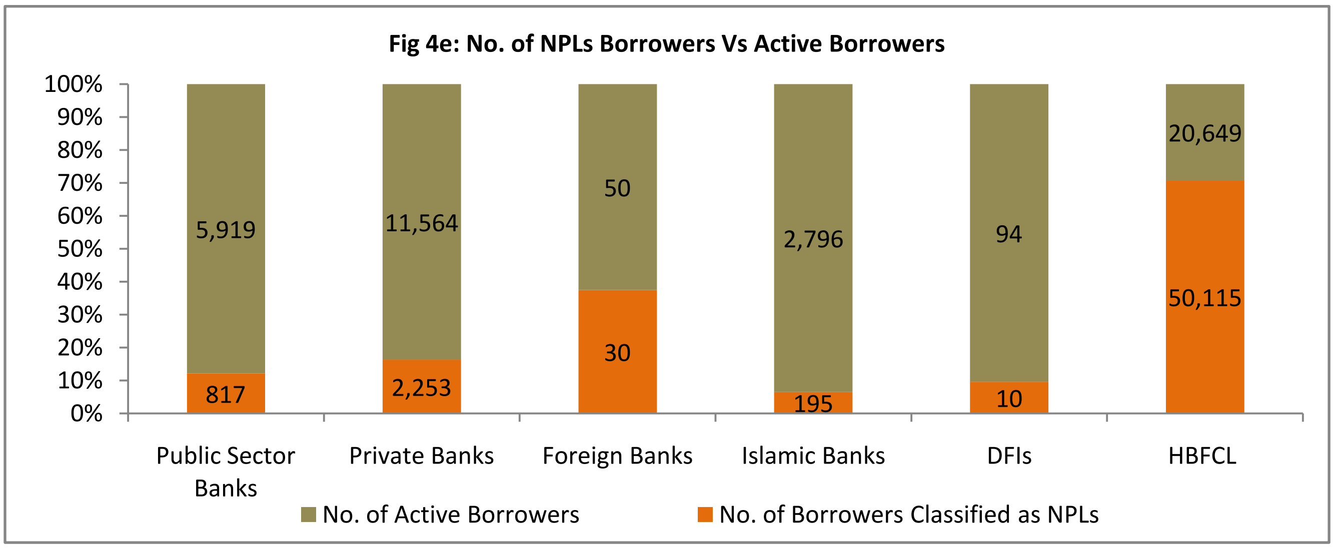


Figure 4e shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. In terms of numbers, approximately 56.5% of total borrowers of housing finance borrowers have been classified as non-performing. However, this is primarily due to HBFCL's number (50,115) of non-active borrowers, classified as non-performing, which comes to 70.8% of its total borrowers. Thus, excluding HBFCL in such an analysis will be important as it caters to 78.0% of the total borrowers in housing finance sector which accounts for only 22.0% of total outstanding portfolio. Thus, by excluding HBFCL, 14.0% of total borrowers of housing loans have been classified as non-performing.

Total number of customers served by Islamic Banking Industry increased from 4,089 to 4,145 (an increase of 1.4%) since June 2011.

4.4. Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) increased marginally from 78% to 79% since Sep-10.

Within commercial banks, the share of private banks in the total outstanding increased marginally from 47% to 49% and the share of foreign banks decreased from 6% to 1% due to take over of RBS portfolio by Faysal Bank and Citi Bank portfolio by BankIslami (**Figure 4f & 4f'**). The share of public sector banks and Islamic Banks in the total outstanding increased from 13% to 14% and 13% to 14% respectively. Share of HBFCL in the total outstanding increased from 21% to 22% since Sep-10.

Fig 4f: As on Sep 30, 2011

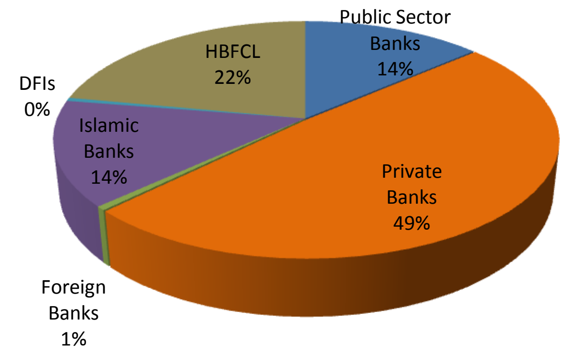
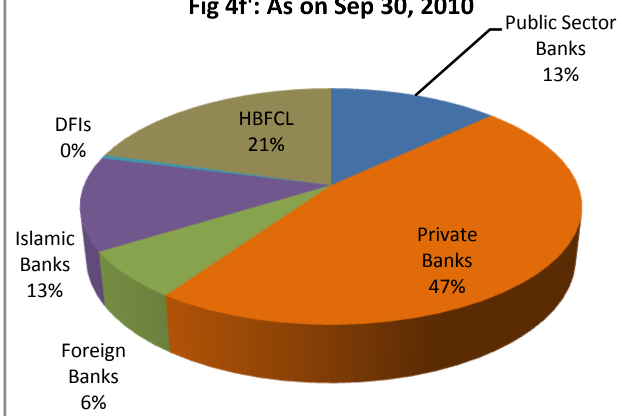


Fig 4f': As on Sep 30, 2010



The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 58%, 20% and 22% respectively Sep-11 (**Figure 4g & 4g'**). IBDs (13 windows) and Islamic banks (05 banks) have 69% and 31% share in housing finance portfolio of Islamic Banking Industry, which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy.

Fig 4g:Banks Share-As of Sep 30, 2011

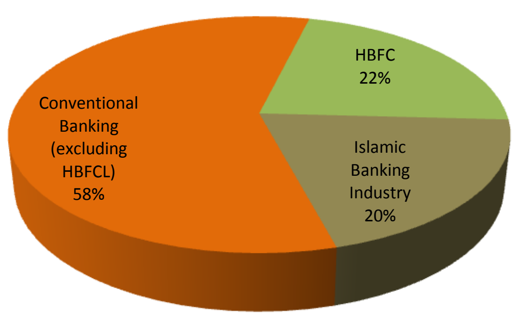
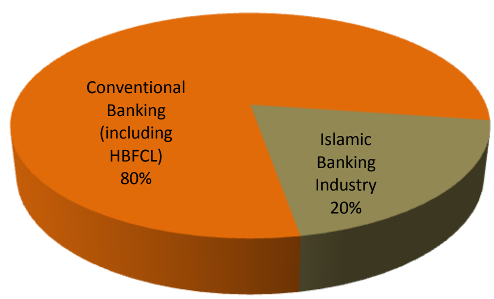


Fig 4g': Share of Industry (Sep 30, 2011)



4.5. Disbursements

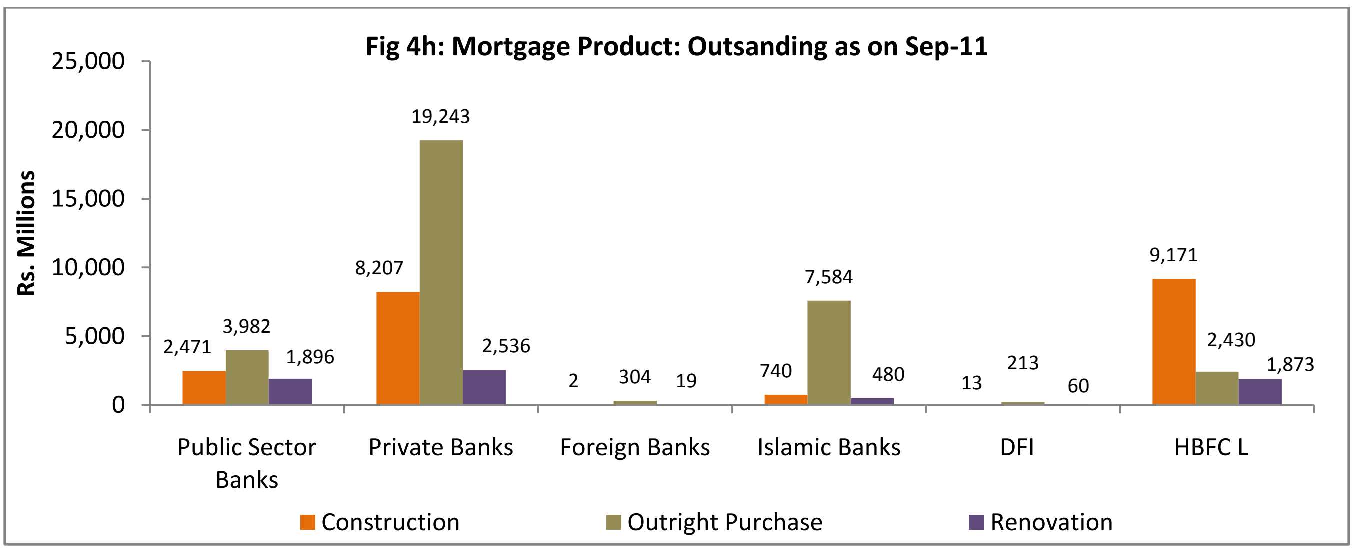
Fresh disbursements to the tune of Rs. 3.5 billion were made to 638 borrowers during the quarter ending Sep-11 (**Table 4A**). Private bank's extended new disbursements worth Rs. 2.74 million followed by Islamic banks with Rs. 429 million, public sector banks with Rs. 61 million and foreign banks with Rs. 19 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 231 million. Among commercial banks, the number of new borrowers was 346, with private banks serving 193 borrowers and Islamic banks 118 borrowers. HBFCL extended loans to 231 new borrowers during the reporting quarter.

Table 4A: New Disbursements during the quarter		
Banks	Amount (Rs. Millions)	No. of Borrowers
Public Sector	61	23
Private Banks	2,737	193
Foreign Banks	19	12
Islamic Banks	429	118
All Banks	3,246	346
DFIs	-	-
HBFCL	231	292
Total	**3,477**	**638**
Islamic Industry	550	139

Fresh disbursement for Islamic Banking Industry was Rs. 550 million to 139 new borrowers during the quarter ending Sep-11 (**Table 4A**). This includes new disbursements of Rs. 122 million to 21 customers by IBDs of conventional banks. One of reasons of increasing fresh disbursement is the merger of two banks, My Bank & Summit bank in the quarter ending June-11.

4.6. Sectoral Share

The biggest share of housing finance continued to be attracted towards outright purchase (**Figure 4h**).



The outstanding for outright purchase stood at Rs. 33.8 billion as on Sep-11; a 55.0% share in total outstanding of Rs. 61.2 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 20.6 billion and that of renovation stood at Rs. 6.9 billion. Active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 47.0%, outright purchase 54.0% and renovation 35%.

4.7. Housing Finance Business of Micro Finance Banks

Gross Outstanding

The total outstanding housing finance as on Sep-11 of Micro Finance Banks (MFBs) stood at Rs. 174.2 millions, which was Rs. 169.6 millions at the end of Jun-11, showing an increase of 2.7%, over the last quarter.

Number of Borrowers

Total number of outstanding borrowers has increased from 2,297 to 2545 since Jun-11; an increase of 11.2%.

Non-Performing Loans

NPLs for Micro Finance Banks have decreased from Rs. 1.57 million (Jun-11) to Rs. 1.55 million (Sep-11); a 1.3% decrease over the last quarter. NPLs of MFBs arising out of housing finance business are around 1.0% of their outstanding housing finance portfolio.

4.8. Analysis of Loan Variables adopted by Banks/DFIs & HBFCL

Tables 4B & 4C summarize loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity period, average loan size and average time for loan processing.

Table 4B	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10
Public Banks	16.5	17.2	16.8	15.9	13.8	5.9	10.1	13.2	10.6	9.8
Private Banks	16.4	17.1	17.1	16.4	15.0	10.6	13.2	13.0	11.0	10.0
Foreign Banks	16.3	15.6	14.1	15.7	16.9	16.0	17.5	20.0	14.8	9.5
Islamic Banks	17.1	17.0	17.3	16.6	16.3	12.2	10.7	12.2	10.0	11.4
All Banks	16.7	17.0	16.9	16.3	15.5	10.5	12.3	13.2	11.1	10.4
DFIs	-	-	16.8	16.6	16.3	-	-	-	-	-
All Banks & DFIs	16.7	17.0	16.9	16.3	15.6	10.5	12.3	13.2	11.1	10.4
HBFCL	17.4	17.5	17.5	17.0	16.2	13.5	12.7	13.5	13.3	12.9
Total Average	17.0	17.3	17.2	16.7	15.8	12.0	12.5	13.4	12.2	11.7

Weighted average interest rate

The overall weighted average interest rate was 17.0% at the end of the current quarter. Highest weighted average profit rate was reported by HBFCL 17.4%, followed by Islamic banks 17.1%, public sector banks 16.5%, private banks 16.4% while those of foreign banks average was 16.3%.

Average maturity periods

Average maturity period of outstanding loans as on Sep-11 came to 12.0 years, which is high as compared to quarter ending Sep-10 when it was 11.7 years. HBFCL's average maturity period is reported to be 13.5 years, while that of Islamic banks is 12.2 years. *Table 4B* shows that among commercial banks, foreign banks have extended housing loans for an average tenure of 16 years followed by private sector banks with 10.6 years and public sector banks with 5.9 years

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks and DFIs increased during last year (Table 4C) from 48.1% to 48.8%. The average LTV for HBFCL has decreased from 48.5% to 38.7% during the last year, which is a significant change.

Average loan size

Average loan size for disbursements made during the quarter ending Sep-11 is Rs. 2.5 million for all banks, except HBFCL. The average loan size for HBFCL is reported to be Rs. 1.3 million for the reporting quarter. Islamic as well as private banks reported an average finance size of Rs. 2 and Rs.2.7 million, foreign banks Rs. 1.9 million and public sector banks reported Rs. 3.0 million. The housing finance market is still inclined towards lending to high income groups.

Table 4C	Loan to Value Ratio					Average Loan Size				
	Sep-11	**Jun-11**	**Mar-11**	**Dec-10**	**Sep-10**	**Sep-11**	**Jun-11**	**Mar-11**	**Dec-10**	**Sep-10**
Public Banks	35.2	31.7	49.6	62.1	52.4	3.0	0.8	2.5	1.1	1.4
Private Banks	57.8	44.6	49.4	55.0	45.9	2.7	4.7	4.5	2.9	3.2
Foreign Banks	49.0	63.4	65.5	50.1	33.2	1.9	2.5	2.4	1.7	2.2
Islamic Banks	45.4	39.7	42.2	53.2	51.4	2.0	1.9	2.1	2.9	2.6
All Banks	48.8	42.6	48.5	55.2	48.1	2.5	3.2	3.5	2.5	2.6
DFIs	-	-	-	-	-	-	-	-	-	-
All Banks & DFIs	48.8	42.6	48.5	55.2	48.1	2.5	3.2	3.5	2.5	2.6
HBFCL	38.7	42.8	44.7	43.5	48.5	1.3	1.9	1.2	1.2	1.6
Total Average	43.7	42.7	46.6	49.3	48.3	1.9	2.5	2.3	1.9	2.1

Conclusion

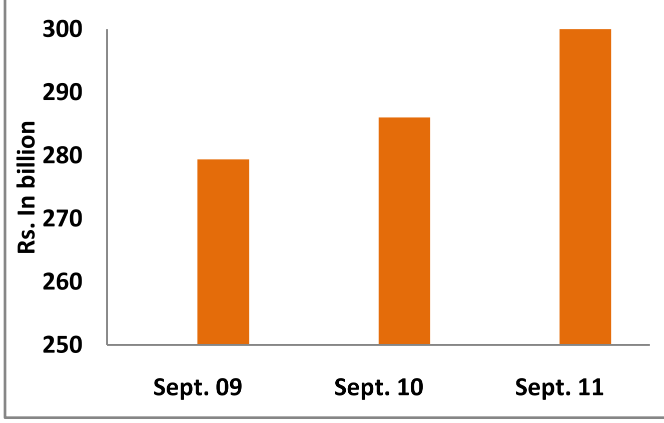
The quarter ending Sep-11 depicted a slight decrease as compared to quarter ending Sep-10, in overall portfolio. NPLs of the housing finance portfolio display an increasing trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers. However, the lack of a conducive institutional framework and secondary mortgage market and high interest rates are still the major constraints towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

5.0. Infrastructure Finance

5.1. Overview of infrastructure Finance

The stock of infrastructure finance has seen some roller coaster ride in recent time as it was Rs. 296.5 billion in Jan-Mar 2011 and with a slight dip settled at Rs. 290 billion in Apr-Jun 2011. In this quarter under review the outstanding portfolio of infrastructure had touched the figure of Rs. 300 billion for the first time. On annual basis, as depicted in **figure 5a**, the outstanding is showing a smooth upward trend – 4.9% rise in stock from Sep-10 to Sep-11. The trend of financing in different sectors is topped by power generation sector as shown in detail in following sections. The disbursement figure for this quarter was lower than the previous quarters with Rs. 3 billion against Rs. 6.7 billion during previous quarter. Though power sector was the largest beneficiary in terms of percentage but in terms of volume it did not post a healthy sign as it was mere Rs. 1.16 billion. The NPLs have increased considerably over the year with Rs. 12 billion which were Rs. 7 billion a year ago. The overall scenario did not present a rosy picture as shown by the financing trends.

Fig 5a: Value of Outstanding Stock

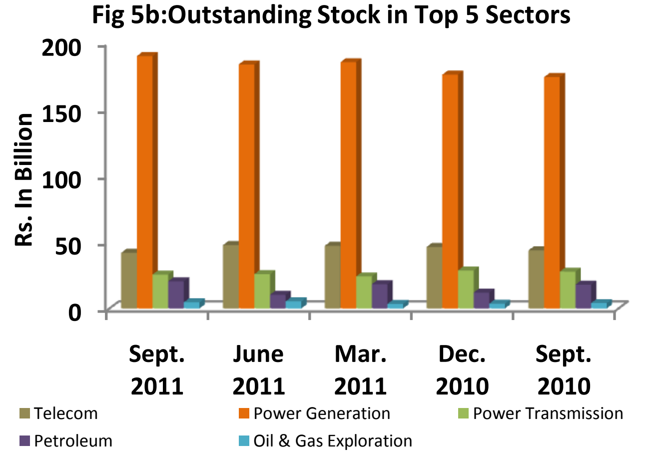


The importance of physical infrastructure cannot be overemphasized but the commensurate response is still lacking and leaving a lot to be desired. International experience emphasizes the need of institutional capacity for project development to achieve meaningful progress in infrastructure financing. All the developing countries have multiple institutions with varying degrees of mandate and functions peculiar to their economic needs but the common thread among them is they supply a pipeline of viable projects and means to provide long term fixed-rate financing.

5.2. Outstanding Portfolio

Total financing outstanding at close of Sep-11 was Rs. 300 billion against Rs. 290 billion at the end of previous quarter ending Jun-11. The volume of outstanding portfolio was Rs. 285.9 billion at the end of Sep-10. The analysis shows, as in Figure 5a, that power generation sector stood out among all the sectors of infrastructure. A number of factors like power policy, availability of sovereign guarantees in case of IPPs, expertise of financial sector in this area and demand of energy are the main reasons of its consistent lead over the other sectors. Figure 5b

Fig 5b:Outstanding Stock in Top 5 Sectors



shows the quarterly position of top five sectors from Sep-10 to Sep-11. A considerable activity has been witnessed in petroleum sector which shows the cyclical nature of this sector. Other than petroleum, remaining sectors showed a stabilizing trend in their respective volume of outstanding with power sector clearly dwarfing other sectors.

5.3. Disbursements

Total of Rs. 3.6 billion were disbursed during Jul-Sep-11 quarter in all infrastructure sectors against Rs. 6.7 billion in the previous quarter. The disbursement during July-Sep-10 quarter was Rs. 7.9 billion. Figures 5c and 5d show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 1.2 billion, which is 38.0% of overall disbursement. Power generation sector got Rs. 2.9 billion in last quarter while it received Rs. 7.3 billion in Jul-Sep-10. Oil & gas sector, which was revived with Rs. 2.0 billion in previous quarter, received financing of Rs. 500 million. This amount has been financed to improve and enhance the distribution network of public sector gas utilities. Telecom sector also reprised its activity with Rs. 500 million financing – it received Rs. 500 million in previous quarter. Telecom sector seems reaching a saturation point as most of telecom companies are in paying back mode and no new initiatives are on the ground.

Fig 5d: Share in Disbursement Jul-Sept-11

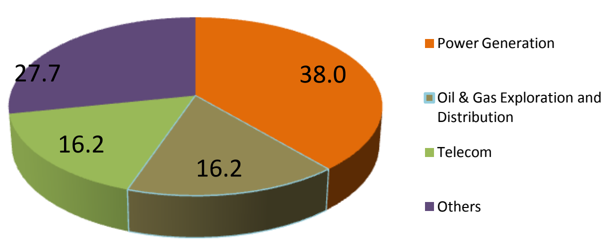
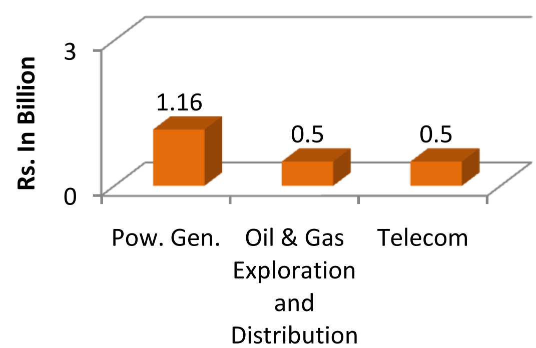


Fig 5c: Disbursements Jul-Sept-11



5.4. Analysis of Sectoral Share in Infrastructure Finance Portfolio

Fig 5e: Share in Outstanding Sept-11

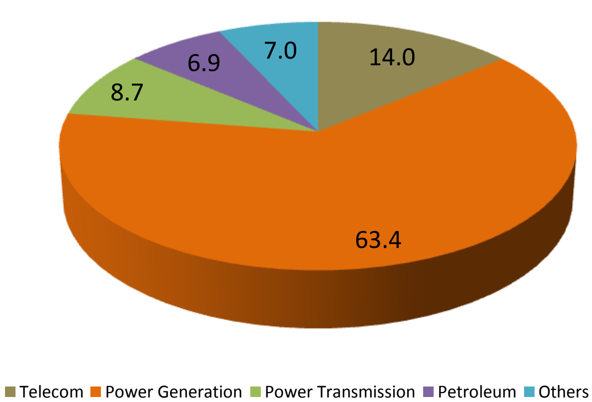


Fig 5e': Share in Outstanding Sep-10

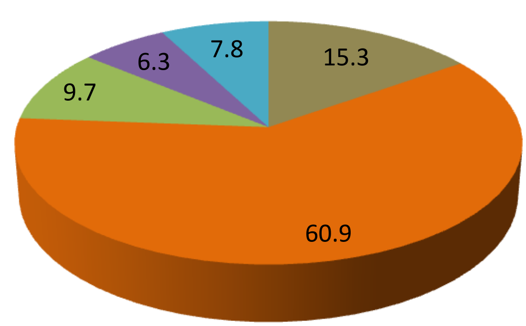


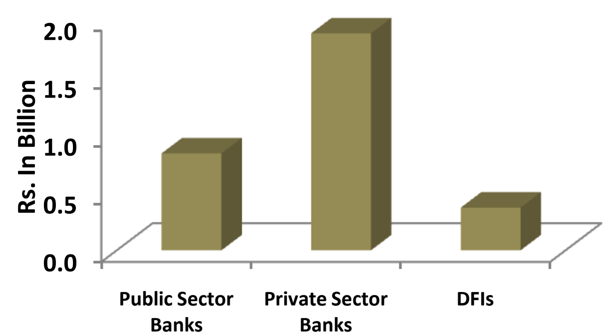
Figure 5e & 5e' show the comparison of top five sectors in outstanding infrastructure financing at the end of Sep-11 with the status existing on Sep-10. At the end of Sep-10, power generation sector had 60.9% of the total stock followed by telecommunication sector with 15.3%. After a year, the top slot continues to be held by power generation sector with a substantial 63.4% share in the pie. All other major sectors in graph showed a declining trend except for a small increase in petroleum. The Telecommunication sector dipped with 14.0% share. Petroleum sector posted a slight increase from 6.3% to 6.9% in a year.

5.5. Banking Sector-wise Disbursements

Figure 5f shows that private sector commercial banks disbursed Rs. 1.9 billion (61%) out of total Rs. 3 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 835 million (27%) while DFIs disbursed Rs. 366 million (11.8%) despite having a mandate of development finance.

In same quarter last year, private sector banks disbursed Rs. 7.3 billion (91.6%) while public sector banks disbursed Rs. 348 million (4.4%). DFIs' share in disbursements during the quarter ending Sep-10 was also miniscule at Rs. 320 million (4%).

Fig 5f:Banking Sector-wise Disbursement During Jul-Sep-11

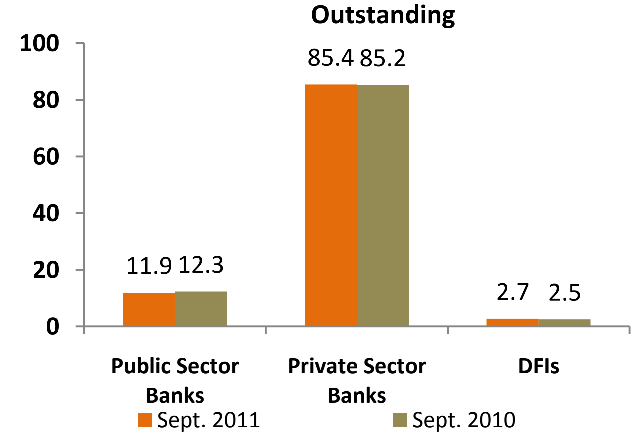


5.6. Banking Sector-wise Share in Outstanding

Figure 5g shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend has been in favor of private sector as it was in previous quarters. Share of private sector banks rose slightly from 85.2% to 85.4%, while share of public sector banks declined from 12.3% to 11.9% after a year.

The share of DFIs remained below par through-out the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.

Fig 5g: Banking Sector-wise Share in Outstanding



6.0. Key Development Finance Initiatives – Policy and Industry

Appreciating the critical role and significance of Development Finance for the sustainable economic growth in the country, SBP took the following key measures during the Quarter.

Credit Guarantee Scheme for Small and Rural Enterprises

SBP had earlier launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010. The scheme was modified in February 2011 and important features were made part of it; which include sharing 40 percent of bona-fide losses of PFI's credit portfolio, removal of interest rate cap and bifurcation into two components, introducing eligibility of farmers with economic landholding and increasing their loan size from Rs. 0.5 million to Rs. 2 million, giving definition of Small Enterprises and increasing loan limit from Rs. 5 million to Rs. 15 million. After necessary revisions in the CGS scheme, the PFIs are using the facility in an aggressive manner.

SME Market Segmentation in Pakistan

In order to develop profiles of key SME clusters, SBP, in collaboration with IFC, conducted **"SME Market Segmentation Study"** on 10 important SME Clusters of the economy. During the process, top 16 commercial banks were also involved and their feedback was incorporated in the study.
The project has been accomplished, and booklets published (http://www.sbp.org.pk/departments/ihfd-ifc.htm).

Rationalization of Rate under Long Term Financing Facility (LTFF)

SBP continued its strategy to rationalize mark-up rate of LTFF and mitigate market distortions caused by subsidized rate of financing. Therefore, effective from Jul-11 vide IH&SMEFD Circular No. 6 of 2011, SBP increased tenor wise rates of service charges by 1.5 % for Participating Financial Institutions (PFIs) and rates for end users detail are as under:-

Tenor	Rate of Refinance	Banks'/DFIs' Spread	End User's Rate
Up-to 3 years	11.0%	1.5%	12.5%
Over 3 years and up to 5 years	10.1%	2.5%	12.6%
Over 5 years and up to 10 years	9.7%	3.0%	12.7%

Scheme for Financing Power Plants Using Renewable Energy

It was decided vide IH&SMEFD Circular No. 7 of 2011, that effective Jul-10 the rates of service charges for banks/DFIs and rates for end users under the captioned Scheme shall be as under:

Tenor	Rate of Refinance	Banks'/DFIs' Spread	End User's Rate
Up-to 5 years	10.1%	2.5%	12.6%
Over 5 years and up to 10 years	9.7%	3.0%	12.7%

SBP Allows Relaxations in EFS to Facilitate Exporters

The State Bank of Pakistan (SBP) has allowed some relaxations in the Export Finance Scheme (EFS) for the benefit of exporters whose export proceeds are overdue. An exporter shall be eligible to avail financing under

EFS Part-I and/or Part-II, if the total amount of overdue export bills at the time of availing the facility is not more than 5% of the previous year's export performance, announced vide IH & SMEFD Circular No. 08 of July 23, 2011. In case the overdue export position of an exporter is greater than 5% of the previous year's exports, the exporter will not be entitled to avail the EFS facility till such time that the overdue position is reduced to the 5% benchmark level. These instructions have been issued in order to streamline the procedure for availing finance under EFS by exporters who have overdue export proceeds and are effective from Oct-11.

Fiscal Relief to Rehabilitate the Economic Life in Khyber Pakhtunkhwa, FATA and PATA

On release of budgetary allocation by the Ministry of Finance on account of Markup rate subsidy against outstanding loans of the borrowers of textile sector and other eligible sectors of Khyber-Pakhtunkhwa, Federal and provincial administered tribal areas, SBP vide IH&SMEFD Circular Letters No. 14 dated July 25, 2011 advised Banks/DFIs to release 3rd installment of the subsidy under the Scheme for the period from 01-01-2011 to 30-06-2011. Accordingly, banks/DFIs/MFBs were advised to submit claims in favor of textile sector and other eligible sectors on the prescribed form to SBP-BSC; Office up to August 31, 2011 keeping in view the terms & conditions of the Scheme.

Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas

With a view to improve access to finance for SMEs and farmers in the flood affected areas at cheaper rate SBP, vide IH&SMEFD Circular No.9 dated August 03, 2011 has decided to allow debt-swap facility to banks/DFIs against banks' short term outstanding loans of Rice Millers & Grain Traders disbursed from own sources since November 02, 2010 i.e. after issuance of the refinance scheme. The debt-swap facility of refinance was valid up to September 15, 2011.

Microfinance Related Initiatives

- The State Bank of Pakistan (SBP) granted the license to Orascom to establish nation-wide microfinance bank in the country. The largest cellular service provider will join hands with the proposed microfinance bank to offer branchless banking services. Orascom, the parent company of Mobilink, invested at least Rs.1 billion to meet prescribed minimum capital requirement for establishing microfinance bank.
- Pakistan's first ever Nationwide Financial Literacy Program (NFLP) has been launched with the support and collaboration of Asian Development Bank (ADB), Pakistan Banks Association (PBA), Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF) and BearingPoint. The pilot phase of the program is being rolled out by BearingPoint Management and Technology Consultants.
  - The program will disseminate basic education about financial concepts, products and services to masses focusing on Budgeting, Savings, Investments, Banking Products and Services, Branchless Banking, Debt Management and Consumer Right and Responsibilities. Objective of these modules is to bring about behavioral change among masses towards financial practices, debt management, economic well-being and saving habits.
  - The NFLP, which will be carried out in two phases, will reach out to 45,000 people in its pilot phase and shall approach 500,000 individuals in the second phase. The intended beneficiaries, aged between 18-60 years, are industrial workers, farmers, domestic

workers, homemakers and self-employed by profession; representing low-income strata. The program will cover 60 percent rural, 20 percent urban and 20 percent peri-urban regions.

    - To disseminate program message effectively, mass mobilization initiatives including street theatre performances and cellular-based audio/text message services will be used. MNCs and national business entities, as part of their corporate social responsibility, have also been taken on board to create awareness among their concerned staff.

- To disseminate various developments taking place in area of branchless banking, SBP issued a "Branchless Banking News Bulletin". The bulletin will be published on quarterly basis. The publication will serve as an information hub for all kinds of developments in branchless banking in Pakistan and will also cover regional as well as international news/events in this area.

Internship Program for Agricultural Graduates

Agricultural Credit & Microfinance Department in collaboration with Human Resources Department arranged 6-week specialized Internship Program for 25 students of Agricultural Universities/Departments from 4th July, 2011 at SBP. The program aims at provision of quality human resource for banks in agri. financing to achieve the overall objective of access to finance to the farming community.

Guidelines for Efficient Water Management Financing

Climate changes, scarcity of usable canal water availability, wastage of water and depleting underground water tables are the challenges in the growth of agriculture in the country. Adoption of modern water management techniques by the farmers is necessary to ensure optimal water utilization for soil fertility and better yield.

To ensure availability of credit to the farmers for the purchase and maintenance of such systems and techniques, SBP in consultation with stakeholders developed Guidelines for Efficient Water Management Financing, which were issued vide AC&MFD Circular No.2 of 2011. The guidelines are aimed at facilitating banks in developing specific products for the purpose.

Implementation of Housing Advisory Group's Recommendations

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG) with an intention to conduct a thorough analysis of 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 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 disseminated the recommendations to the concerned stakeholders and is currently coordinating with Provincial Governments, Pakistan Banks' Association (PBA), Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations.

Mortgage Refinance Company

Work on the establishment of Mortgage Refinance Company is being pursued aggressively. IFC developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and equity commitments from the GoP, commercial banks and HBFCL have been received. Memorandum & Articles of Association of the proposed company have been developed and consultant has been hired to assist in incorporation of the company during the current financial year (2011-12).

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. Few training programs have been conducted on different aspects of housing finance including product development, loan marketing/distribution and origination & loan underwriting, servicing and risk management. Till date, approximately 500 bankers from over 20 banks have been trained in the mortgage business.

Development of Housing Finance Guidelines

To increase the efficiency of mortgage bankers, Housing/Mortgage Finance Guidelines have been developed, by adopting best international practices, and after consultation with internal and external stakeholders, including PBA.

A half-day Training Program on Infrastructure Project Finance Guidelines

Infrastructure, Housing & SME Finance Department conducted a training session on October 12, 2011 on Infrastructure Project Finance Guidelines which incorporated a blend of international best practices and indigenous experience. The event was well-attended and well-participated. The objective of the training was initiating the young professionals into the theoretical as well as practical aspects of project finance in light of SBP's guidelines thereof. The trainers who shared the practical significance of the guidelines in structuring financing arrangements to infrastructure projects to more than 50 participants of the event

7.0. Development Finance news from around the World

The following are some of the important news concerning Development Finance across the globe during the quarter, Jun-11 to Sep-11.

International body offers help to Pak SMEs

http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=63296&Cat=3

KARACHI: The International Council of SMEs (ICSMEs) has said that it would help the Pakistani Small and Medium Enterprises (SME) sector acquire advanced technology, a statement said on Wednesday. “The ICSME has expressed confidence in the Pakistan SME sector,” Union of Small and Medium Enterprises (UNISAME) Zulfikar Thaver said in the statement.

ICSME believes that the SME stakeholders in Pakistan are competent and keen to promote and develop the sector and the only drawback is the lack of funds for the development programs, the statement said. The ICSMEs explained that funds could be created through Corporate Social Responsibility (CSR) subscriptions from the corporations and the contributions channelized through the Small and Medium Enterprises Development Authority (SMEDA) for direct SME promotion and development.

The ICSME has advised the Pakistani policy makers not to be discouraged but work step by step from grass root level and added that SMEDA is best suited to enhance activities and should select items for upgrading which are essential for the common man like food, clothing and shelter.

Business community gives nod to new measures

http://www.chinadaily.com.cn/china/2011-08/18/content_13145435.htm

Hong Kong's business community welcomed the central government's new support measures that are expected to give a strong uplift to the Hong Kong economy. Business leaders predict that the city's financial and service sectors will be strengthened significantly.

These measures supporting development of an offshore yuan trading centre and international asset management centre, will also benefit the city's hundred-thousand small and medium enterprises (SMEs), according to Anthony Wu, Chairman of the Hong Kong General Chamber of Commerce (HKGCC).

"Hong Kong's development as an offshore financial center will help SMEs lower the cost of cross-currency transactions," said Wu. "The increases in options for yuan-denominated investment instruments, in addition, will also help SMEs better manage their cash flows and exchange rate risks," he added.

India to Launch Global Portal like Alibaba.com for SMEs

http://www.business-standard.com/india/news/india-to-launch-global-portal-like-alibabacom-for-smes/144937/on

In order to attract foreign players in the SME segment, the government will this year launch a portal providing information about small and medium companies, which contribute 45% to the country's manufacturing output.

He said that through this portal, Indian SMEs could gain access to about 2.5 lakh potential customers across the globe. The foreign players can gather information like number of enterprises in specific sectors, their location and products manufactured.

"It is going to be an extensive portal like what China has - Alibaba.Com - something on those lines but tailored to our situation," he added. National Small Industries Corporation (NSIC), a mini-ratna enterprise under the MSME

Ministry is developing this website. The initiative is a part of the recommendation by the Prime Minister's Task Force Report on MSME to improve marketing and promote Information and Communication Technology in Indian manufacturing sector.

Low Trademark Utilization hinders enterprise Growth

http://thecitizen.co.tz/business/13-local-business/14044-low-trademark-utilisation-hinders-enterprise-growth.html

Dar-us-Salaam: Lack of strategic and effective use of trademarks, poor packaging and branding strategies are major factors hindering small and medium entrepreneurs (SMEs) from competing effectively in domestic, regional and global markets.

The Business Registrations and Licensing Agency (Brela) chief executive officer, Mr Estariano Mahingila made the observation in Dar es Salaam, when he opened World Intellectual Property Organization (Wipo) training of trainers program. The program centered on how small and medium enterprises (SMEs) can effectively manage their intellectual property assets. He said effective management of intellectual property assets is crucial for SMEs to compete in national, regional and international markets. “In Tanzania, SMEs constitute over 80 per cent of all businesses and for them to effectively and efficiently compete and also take advantage of the expanding markets in the sub region, the East and Central Africa, they need to have their intellectual property assets respected,” said Mr Mahingila.

Stock Exchange for SMES

http://www.businessdailyafrica.com/Stock+exchange+for+small+enterprises++to+be+ready+in+Jan/-/539552/1224656/-/13654i0z/-/

The Capital Markets Authority chief executive, Mrs Stella Kilonzo, said that the Small and Medium Enterprises Exchange (SMEX) will be set up by the end of the year.

Trading and listing rules for the SMEX are also to be gazetted in December, paving way for small and medium sized enterprises to go public. “We expect that SMEs will be keen to enter the market as from January,” said Mrs Kilonzo. Stakeholders are reviewing two draft laws, the Nairobi Stock Exchange (NSE) Nominal Advisers rules 2011 and the SMEX Public Offers Listing and Disclosure (POLD) requirement regulations 2002.

The proposals are on the licensing of firms that will guide SMEs on listing, the obligations and operating the proposed exchange. The CMA choice of a separate exchange is borrowing from South Africa, Brazil, Malaysia, Canada and Tanzania. Although Tanzania began the process 5 years ago, it has never taken off due to the slow gazetting. Small firms that want to list on the Nairobi Stock Exchange have the Alternative Markets Investment Segment which has less stringent requirements than the Main Investment Market Segment.

AfDB Okays $700m to Boost SMEs

http://www.thisdaylive.com/articles/afdb-okays-700m-to-boost-smes/97089/

African Development Bank (AfDB) has approved the sum of $700 million to support the growth of Small and Medium Enterprises (SMEs) in Nigeria. Though yet to be signed, the fund would be disbursed to both the Bank of Industry (BOI) and Nigerian Export-Import (NEXIM) Bank in the ratio of $500 million and $200 million respectively for on-lending to SMEs.

Govt Plans Interest Subsidy for SMEs

http://articles.economictimes.indiatimes.com/2011-08-26/news/29931935_1_sme-sector-subvention-medium-sector

New Delhi: The small and medium industry could for the first time get credit at lower rates through an interest subvention scheme which the government is considering for the sector. Small and medium enterprises selling both in the domestic and foreign markets would be eligible for the subsidized loans, according to a commerce department proposal.

"The small and medium sector faces the toughest time in accessing credit and they get it at the highest rate. With rising interest rates, there is a need to help them out," a commerce department official told ET.

The department is discussing the proposal with the finance ministry and hopes to get a favorable decision on the issue soon.

IFC Investment in Grupo Financiero Mifel to Support Smaller Businesses in Mexico

http://www.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/AE00771E3D5F8D54852578F8004D413A?OpenDocument

Washington—IFC, a member of the World Bank Group, has announced that it will buy up to $25 million of new common shares in Grupo Financiero Mifel, S.A. de C.V., to support the growth, income distribution, and competitiveness of smaller businesses in Mexico.

Small and medium enterprises generate 72 percent of formal sector jobs in Mexico. However, only less than 3 percent of these companies have access to bank financing. With this transaction, IFC will become a strategic partner of Grupo Mifel, the Mexican-owned financial group focused on local small and medium enterprises in the manufacturing, agribusiness, and construction industries, enabling it to increase lending to small and midsize business owners, help expand their businesses, and create employment opportunities.

Kenya: Investors to Buy Bonds by Mobile Cash Transfers

Phone users could soon buy Treasury bonds through mobile money transfers in a move that would introduce tough competition for depositors' cash. Although details are yet to be worked out, it is envisaged that the minimum requirement for a retail investor to buy a bond will be reduced from the current Sh50,000. The proposal is under discussion between the Treasury, the Capital Markets Authority and the World Bank's private sector lending affiliate, the International Finance Corporation, which is spearheading securities markets reforms in Africa.

Philippines: BSP Raises Ceiling on Micro-Credit

In Circular No. 744 dated Dec. 28 and posted on its Web site, the BSP added "microenterprise loan plus" or "microfinance plus" to the types of microfinance loans that banks may extend to their clients. Whereas microfinance loans are capped at P150,000, the microenterprise loan plus or microfinance plus are capped at double that or at P300,000.

HDFC plans to complete national roll-out of M-paise in 15 months in India

Banking major HDFC is looking at completing within 15 months the nation-wide roll-out of the MobileBank account 'm-paisa' facility that it launched recently with Vodafone. Under the m-paisa arrangement, customers are able to carry out basic banking transactions through mobile phones and even deposit and withdraw cash at appointed Vodafone m-paisa outlets, without having to go to bank branches. The transactions include cash deposit, cash withdrawal, money transfer and balance enquiry.

IFC to invest $1 million in ACCION Microfinance China to promote financial inclusion in Inner Mongolia

ACCION® International, a pioneer and leader in global microfinance, has signed an agreement with IFC, in which IFC will invest approximately $1 million in ACCION's Chinese affiliate, ACCION Microfinance China (AMC). The investment will enable ACCION to strengthen the operations of AMC, which it launched in December 2009 in Chifeng Prefecture, Inner Mongolia, to deliver financial services to the region's working poor.

In Inner Mongolia, 40 percent of the population remains below the poverty line. While the Chinese economy has seen unprecedented growth in recent years, income inequality between the country's coastal regions and interior provinces is escalating.

Kingdom, Qatar set to lead growth of Islamic mortgage market

http://arabnews.com/economy/islamicfinance/article523178.ece

The development of mortgage finance is key to the growth of the housing sector in the Gulf Cooperation Council (GCC) countries where demand for affordable housing is set to increase significantly because of the demography of the region where some 65 per cent of the population is under 30 years old.

"Islamic mortgage finance is set to grow at varying levels in the GCC markets as compared to previous years," explains R. Lakshmanan, chief executive officer of Bahrain-based Sakana Holistic Housing Solutions, one of the pioneers of Islamic mortgage finance in the GCC, in an interview with Arab News.

"Saudi Arabia and Qatar are likely to witness higher growth compared to other markets due to ongoing increased economic activity in those markets. The Islamic finance industry is also expected to grow in Oman with the recent licensing of three Islamic banks in the sultanate," he adds.

Agreement for Aashiyana Soft Loan

http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Lahore/13-Oct-2011/Agreement-for-Aashiyana-soft-loan

Lahore- Chief Minister Punjab has said that Aashiyana Housing Scheme is a unique with regard to transparency. He disclosed that the project of Aashiyana-II will soon be started near Barki and Ring Road in Lahore whereas Aashiyana schemes will be started this year in 17 districts of the province.

He was addressing a ceremony of signing an agreement between Bank of Punjab and Punjab Land Development Company with regard to provision of soft term loans to those who got houses in Aashiyana Housing Scheme. He said that more facilities than the schemes of elite have been provided in Aashiyana Housing Scheme which included solar energy system, school, hospital, park, community centers and playgrounds.

Rs 916 million HBFCL loans of quake victims written off

http://www.dailytimes.com.pk/default.asp?page=2011\10\11\story_11-10-2011_pg10_3

Karachi: The outstanding loans amounting to Rs 916 million were written off by HBFCL and the properties were transferred to the near 5,000 affected HBFCL customers. Minister for Finance Abdul Hafeez Shaikh handed over ownership documents to a small group of the legal heirs and owners of the affected properties.

Diamer-Bhasha: A ground-breaking project after 5 decades

http://tribune.com.pk/story/276582/pm-gilani-lays-foundation-stone-for-diamer-bhasha-dam/

Prime Minister Yousaf Raza Gilani laid the foundation stone for the 4,500MW Diamer-Bhasha Dam. With a storage capacity of about 8 million acre feet (MAF) and projected electricity generation of 4,500MWs, Diamer-Bhasha will top both Tarbela and Mangla dams, whose storage capacities have fallen drastically due to silting over the years. The project will take eight years to complete and will cost over $12 billion. In addition to the Rs.11.5 billion already allocated for the project, Prime Minister announced an additional Rs.1 billion for repair and expansion of Karakoram Highway and other roads in the region. Prime Minister announced Rs.200 million for the development of Diamer district, besides announcing a cadet college for the region and upgradation of district headquarters hospitals of Chilas, Gilgit and Skardu.

Doing business in Pakistan is 25% cheaper than China

http://tribune.com.pk/story/278453/doing-business-in-pakistan-is-25-cheaper-than-india-bangladesh/

Addressing the ‘Multilateral Investment and Trade Conference, 2011’, Edward Hertzman, Director of business development at Synergies Worldwide, a global apparel sourcing company, said that doing business in Pakistan costs 25% less than doing business in China and about 15% cheaper than other countries. He also said that “Although strikes and instability affect production, Pakistan offers the lowest cost alternative in the region”.

Newly appointed Governor of the State Bank of Pakistan, Yaseen Anwar said that there was huge investment potential in small and medium size enterprises (SMEs) and housing and agriculture sectors. Terming them “engines of growth,” Anwar said Pakistan needed to develop its capital market to promote investment in the three sectors.

Conference on draft policy framework for investment

http://www.dailytimes.com.pk/default.asp?page=2011\10\07\story_7-10-2011_pg5_6

Punjab Board for Investment and Trade (PBIT) organized a conference on Policy Framework for Investment in Punjab (PFIP) at Lahore Chambers of Commerce and Industry (LCCI). The conference focused on sectors important to Punjab’s economic growth, such as agriculture, dairy and livestock, textile, energy and power, mines and minerals, transportation and service including health and education, infrastructure, housing and urban development, manufacturing, tourism and information technology. Chief Executive Officer PBIT, Dr Sajid Yoosufani said, “PFIP is a significant initiative taken by PBIT to educate and enlighten investors about legal and regulatory regime that highlights long-term incentives and risk returns in Punjab”.

International conference: Coal termed vital to country’s energy security

http://tribune.com.pk/story/279928/international-conference-coal-termed-vital-to-countrys-energy-security/

Speakers at an international conference, while terming coal an important resource for energy security, called on the federal government to develop Thar coal reserves and switch from expensive furnace oil and gas to coal in power generation. Domestic and international specialists, foreign investors, representatives of development finance institutions, diplomats and other stakeholders attended the coal conference, jointly organized by the Coal and Energy Department and the Sindh Board of Investment in Karachi. The Thar region has mammoth coal (lignite) reserves estimated at 175 billion tons, which can produce 100,000 megawatts of electricity for the next 300 years and can serve as a key to energy security and economic prosperity.

Speaking at the conference, Federal Water and Power Minister Naveed Qamar said the government was focusing on shifting power generation from expensive furnace oil and gas to coal. He also told the audience that the government had started work to convert 5,300-megawatt oil-fired power plants to coal-based plants. Initially, they would run on imported coal and then shift to technically compatible indigenous coal. He admitted that electricity needs could not be met through rental power and independent power producers, so the government was considering other options and exploring other resources.

8.0. Special Section – Implementing Secured Transaction Framework (STR) in Pakistan

What is STR?

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

Benefits of the Framework

Implementation of *Secured Transaction Framework* generally produces following specific benefits:

- Enables SMEs and Agri Borrowers to use their assets especially moveable assets as collateral to obtain loans, thus enabling the borrowers & lenders to use a broader scope of assets as security for availing loans.
- Provides cheap & simple mechanism of online registration & searching of about encumbrance on assets of the borrowers.
- Provides clear rules on priority of creditors' claims on securities
- Provision in ST Law about effective enforcement of security upon default, will boost confidence of lenders about repayment of loans.

Asset Based Finance System

Secured[1] or asset-based finance system is at the core of economic development and expansion. It enables private capital to be accumulated through deposits and released as credit to create new businesses and expansion of existing ones. It allows manufacturers and farmers to acquire new production equipment and fertilizers, and consumers to acquire new consumer goods. The terms on which lenders make credit available to borrowers depend on a variety of factors, including the lenders' cost of capital, the transaction costs to make the loan, and risks the loan will not be repaid. Higher costs and risks result in smaller, shorter loans at higher interest rates. Modern secured transaction systems increase credit security, reduce credit risk, and consequently decrease lenders' disincentives to grant more credit on better credit terms and for longer periods. This can increase the number of borrowers that can afford credit.

There are several reasons why movable property is often not used or underused as collateral in developing countries: information about borrowers' creditworthiness or the status of collateral is weak or absent; political and economic conditions are unstable; and mechanisms to enforce collection are costly and unreliable.

In a modern secured financing regime, the relationship among claimants to movable property, regardless of what legal form gives rise to the claim, is regulated by a transparent and simple system of registration and rules of priority. This enables all financial service providers to calculate and reduce the risk associated with advancing secured credit, not matter what form. Secured Transaction systems, therefore, promote a more stable, lower-cost, and less risky financial environment.

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[1] Establishing Model Secured Financing Systems In Developing Countries-A USAID Primer

Users of the System

Secured Transaction is often associated with banking loans. Banking institutions are usually the primary users of the system, but microfinance organizations, leasing companies and government agencies also use movable property as security for the finance they provide. A well-designed secured financing reform program facilitates increased activity among all financial institutions, contributing to larger volumes of all loans, including micro and macro loans, and leases, to all sectors of the economy.

Components of STR

A secured transaction reform program has three major components:

1. ***Legal Reforms that provide for Enactment of Separate Secured Transaction Law*** to clarify the lender's rights against the collateral with respect to the borrower and third parties, and provide mechanisms for simple publication and effective enforcement of these rights.
2. **Registry Reforms that Provide for establishment of Secured Transaction Registry** in the country for registering the claims against movable property so they are publicly recorded and easily accessed. This reform usually involves computer technology to streamline and automate the registration process, and to publish registered claims.
3. **Capacity-Building** is required to help stakeholders understand their role in the new regime; ensure that it is implemented, and that businesses and consumers have more access to credit on better terms. Local capacity-building primarily targets financial institutions, businesses, lawyers, the judiciary, enforcement officials, and academic institutions.

Some Countries Using STR

Recognizing the potential for using movable property as collateral to expand access to credit, various countries such as Vietnam, Sri Lanka, Canada, Bosnia-Herzegovina, Albania, Tanzania and Georgia have successfully implemented secured transaction reform projects. The increasing need and demand for private capital for development can be met only with parallel decreases in the costs and risks of granting credit.

Probable Model of STR in Pakistan

Realizing the importance of Secured Transaction System in increasing access to credit by SME and Agri borrowers, State Bank of Pakistan with technical assistance from Asian Development Bank (ADB) had hired an international consulting firm to suggest various reform options on legal and registry side including recommendations for the most feasible and workable option for establishment of a modern registration system in the country.

The Consulting Firm has concluded its assignment and has suggested drafting and approval of Secured Transaction Law that contains following important recommendations for successful implementation of Secured Transaction System in Pakistan:

(1) Legislative form (including constitutional considerations)

Recommendation 1:

A single comprehensive law should be enacted to provide a movable property secured transactions code

Recommendation 2:

The law should be enacted by the Federal Government of Pakistan.

Recommendation 3:

The registry and registration system should be established and administered in such a way that guarantees uniformity and centralization. This should be effected either through solely Federal government responsibility or through shared federal/provincial co-operation and responsibility.

(2) Scope of the law

Recommendation 4:

(a) The law should apply to all legal and natural persons, including consumers, who transact business on the security of movable property.

(b) Relevant consumer protection laws should be reviewed and, if necessary, amended to provide appropriate protection for non-business consumers.

Recommendation 5: The law should:

(a) apply to all types of debt and monetary obligation, present or future, and including fluctuating debt or monetary obligation

(b) provide that a security over movable property is invalid and of no effect unless the security has been created to secure a debt or other monetary obligation

Recommendation 6:

(a) The law should:

- apply to all types of movable property and property rights in movable property, tangible or intangible, present or future, including after acquired property, inventory, equipment, receivables, intellectual property, growing crops, livestock and fixtures, but with the exception of necessary living and basic income producing property

(b) The law/s regarding an assignment over receivables should be reviewed to ensure that those law/s clearly facilitate the creation of a security over receivables

(c) The law/s dealing with intellectual property should be reviewed to ensure that hose laws clearly facilitate the creation of a security over intellectual property.

(3) Creation of a secured transaction framework

Recommendation 7:

(a) The law should provide that a secured transaction contract should:

- be written;
- be signed by all parties, dated and witnessed;
- contain names and addresses of the parties;
- contain a description of the secured property;

(b) The law should provide that a description of the property that is or is intended to be secured must be sufficient to identify the property.

(4) Publicity and effectiveness of STR system

Recommendation 8:

- The law should provide that a security right becomes effective between the parties by the creation of the security right.
- The law should provide that a security right that is effective between the parties becomes effective against third parties:
  (a) in the case of tangible movable property, either by:
    (i) the entry of a notice in the register as provided for in this law, or
    (ii) dispossession of the property from the grantor;
  (b) In the case of all other property, by the entry of a notice in the register as provided for in this law.

(5) Registration

Recommendation 9:

5.1 Establishment and operation of a registry.

The law should provide for:

(a) the establishment and operation of registry for the purpose of registering secured transactions in respect of movable property;
(b) the appointment of a registrar, together with such other officials as may be required, to be responsible for the operation and supervision of the registry;
(c) the registrar to have such powers, duties and responsibilities as may be appropriate to ensure the effective and efficient operation of the registry;
(d) the registrar to be liable for claims as a result of errors on the part of the registrar/registry or the malfunctioning of the registry, at all times subject, however, to a right of indemnity against any such liability;
(e) the compulsory removal of an entry wrongly or unlawfully made in the register;
(f) such fees as may be appropriate to be paid by persons using the registry; and
(g) Pro-forma forms to be used for the purposes of filing, searching, alteration, removal, cancellation or other purposes in the registry.

5.2 Access to the registry – filing, amending, cancelling, removing, searching, retention of archival information.

- The law should provide that:
  (a) any person may have access to the registry for the purpose of filing a notice or searching the register
  (b) notice of a secured transaction may be filed electronically by a statutory form of notice containing the names, identity and addresses of the parties to the transaction, a description of the secured transaction and a description of the secured property
  (c) the information contained in the notice shall be electronically entered in the register exactly as it is recorded on the notice together with the date and time of the entry
  (d) a notice shall be deemed to be filed at the time and on the date the information is recorded in the register
  (e) an entry in the register may be amended, cancelled and removed

(f) all information in the register shall be available by search and shall be presented exactly as recorded on the register

(6) Priorities of Claims

Recommendation 10:

(a) The law should provide that priority is determined by the application of the chronological rule.

(b) As regards competing securities over the same property, the rule should be that the first in time to publicize has priority.

(7) Enforcement

Recommendation 11:

(a) The law should provide for:

- (i) the initiation of the enforcement process by notice to a defaulting grantor, including the power of the grantor to contest/remedy any default;
- (ii) safeguarding the secured property in urgent cases pending enforcement;
- (iii) the grantee to speedily obtain possession or control of the secured property;
- (iv) the grantee to be able sell the secured property 'out of court', including appropriate safeguards on the exercise of the power to sell;
- (v) accounting for and distribution of the proceeds of sale;

(b) In general, the powers relating to the recovery of loans and enforcement of security rights by banks and other financial institutions as contained in relevant laws should apply to the secured transactions law.

To implement the above recommendations, State Bank of Pakistan is in coordination with Ministry of Finance, Government of Pakistan for initiating work on Phase-2 of the Strengthening Secured Transaction Reform Project, wherein consultants will be hired for drafting of Secured Transaction Law. After approval of this Law from Parliament, Secured Transaction Registry shall be established in the country.

9.0. Development Finance - Outlook

"Pakistan's economy managed to grow by 2.4 percent in FY11, despite devastating floods in the early part of the fiscal year. One-fifth of the country's agricultural heartland was inundated, which interrupted production processes and disrupted the subsequent supply of both labor and capital. It is estimated that 6.6 million of Pakistan's labor force was out of work for 2 to 3 months, and capital stock worth US$ 2.6 billion (1.2 percent of GDP) was lost".[2]

In view of the prevailing economic slowdown, power outages, domestic law & order situation, natural calamities, and overall shyness of the industry towards the sectors the total outstanding portfolio of the banking industry saw a decline of 2.9 percent QoQ basis. And Development Finance (DF) sector was not an exception as it too posted a decline of 1.1 percent. Moreover, non performing loans (NPLs) increased to Rs. 165.1 billion, recording a quarterly rise of 1.6 percent. The rise in NPLs is also in line with the overall rising trend of NPLs in other sectors in particularly corporate sector.

However, despite the prevailing adverse conditions, there still exists a strong reason for a positive course of action to take place since the huge potential of the DF sectors itself is a highly motivating factor to encourage the stakeholders to tap on, and consequently develop it for the benefit of economy and their own business interests. However, it would be unrealistic to expect a change that could bring drastic improvement in the overall economic situation in general and DF sectors in particular.

The State Bank, on its part, has taken various important initiatives for the development of the DF Sector that will cause positive impact on the availability of funds for the sector and its overall development in the long run. Some important initiatives include improvements in Credit Guarantee Scheme for Small & Rural Enterprises, Refinance schemes for flood affected districts, Microfinance Credit Guarantee Scheme, Refinance Scheme for Revitalization of SMEs, Scheme for modernization of SMEs, Cluster Profiling Surveys, introduction of Branchless Banking, Mortgage Refinance Company and Capacity Building/Awareness Programs for the stakeholders.

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[2] http://www.sbp.org.pk/reports/annual/arFY11/complete.pdf

Development Finance reviews published by SBP

Development Finance Quarterly Review (Sep-2011)
Development Finance Quarterly Review (Jun-2011)
Development Finance Quarterly Review (Mar-2011)

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These Reviews are available at
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