



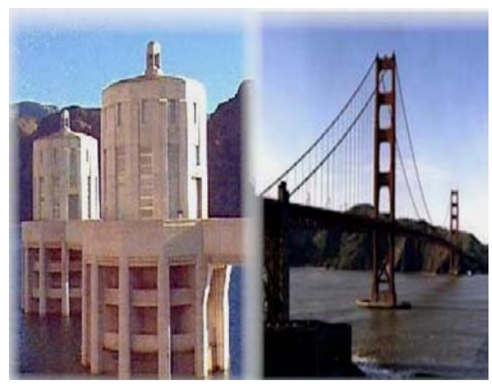

Development Finance Quarterly Review

March 2012

Development Finance Group

State Bank of Pakistan

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Executive Summary

Pakistan's economy has continuously been facing challenges like domestic energy crisis, decline in investment, high inflation, and poor law & order. Besides, government's difficult financial position and dwindling FDI remained critical areas of distress for the economy. In such an economic scenario, the Development Finance (DF) sectors were not an exception which is evident from the decline in outstanding amount by 5.0 percent on QoQ basis and 6.7 percent on YoY basis (See Table 1 for QoQ and YoY changes).

Table 1: Sectoral Break up of Outstanding Advances (Billions)

Sectors	Periods			Change	
	Mar-11	Dec-11	Mar-12	Q.C	Y.C
SMEs	303.0	294.3	259.4	-11.9%	-14.4%
Agriculture	164.9	176.1	176.3	0.2%	6.9%
Microfinance (MFBs Only)	10.7	14.7	16.8	14.9%	57.7%
Housing Finance	65.4	59.4	58.6	-1.3%	-10.4%
Infrastructure Finance	296.5	281.0	273.0	-2.8%	-7.9%
Total	840.6	825.4	784.2	-5.0%	-6.7%

At the end of Mar-12, when compared with the preceding quarter, the decline of 5.0 percent cumulative DF portfolio was primarily driven by SME sector, posting a decrease of 11.9 percent. Moreover, on YoY basis, the DF portfolio witnessed a decline of 6.7 percent driven by SME and infrastructure sectors. Further, while SME and Infrastructure finances continued to decline, agricultural credit and microfinance recorded positive expansion on QoQ and YoY basis. In addition to the factors stated earlier, the decline in aggregate DF 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, the demand was constrained by the unfavorable economic conditions.

Pakistan's economy continued facing challenges during the quarter too

Agriculture and microcredit posted growth both QoQ and YoY basis

The combined number of DF outstanding borrowers saw a decline of 1.2 percent on QoQ basis primarily led by agri. sector (7.4 percent). Furthermore, excluding microfinance sector, all other DF sectors witnessed decline in their number of outstanding borrowers. However, on YoY basis, the number of outstanding DF borrowers rose by 5.2 percent mostly attributed to microfinance sector that saw a growth of 29.3 percent. The rise in microfinance borrowers can be attributed to the use of alternative delivery mechanisms adopted by MFBs and in particular the branchless banking.

Only microfinance borrowers witnessed growth at the end of the quarter under review

Statistics regarding aggregate non-performing loans (NPLs) of the Banks & DFIs depict a rise of 2.8 percent on QoQ basis, primarily driven by the SME and Infrastructure sectors. However, on YoY basis, the rise in DF NPLs was recorded at 0.6 percent. Surprisingly, the NPLs of agri. sector saw a decline of 7.3 percent on QoQ basis and 5.0 percent on YoY basis. Additionally, NPLs of SME sector too saw a decline of 1.9 percent YoY basis. Of the total NPLs of DF Sectors, SME's share was 60.2 percent, agri. sector 21.3 percent, and the remaining 20.6 percent pertained to the remaining DF sectors.

NPLs of DF sector saw some increase primarily due to SME and Agri. sectors

1.0. SME Financing

Small and Medium enterprises were severely hit by the economic slowdown that started in the end of 2008. This is evident from the fact that both advances and number of borrowers have significantly decreased. (See Table 1 for quarterly yearly trends).

SMEs have been hit hardly by the prevailing economic conditions.

Table1: SME Financing Profile					
Category	Periods			Change	
(Amount in Rs. Billions)	Mar-11	Dec-11	Mar-12	QoQ	YoY
Amount Outstanding	303.0	294.3	259.4	-11.9%	-14.4%
SME exposure as % of total advances	8.6%	8.3%	7.1%		
NPLs: absolute amount	101.1	95.5	99.2	3.9%	-1.9%
NPLs as % of total SME exposure	33.4%	32.4%	38.2%		
SME Borrowers	197,808	167,949	157,115	-6.5%	-20.6%

The share of SMEs in total industry advances stood at 7.1% at the end of March 2012

Total exposure to SME sector has declined since 2008, primarily due to the risk averse attitude of banks to the sector and diversion of funds to less risky areas in the recent years such as commodity operations of the government and investing in T-bills. Moreover, rising inflation, energy shortages and poor law & order situation have also contributed in the decline of credit to SMEs.

Banks diverted their funds to less risky areas in the recent years such as commodity operations of the government and T-Bills.

The total SME sector advances has declined by about 11.9 percent QoQ basis and reduced to Rs. 259.4 billion from Rs. 294.3 billion at the end of Mar-12.

Similarly, the number of SME borrowers has declined by 6.5 percent QoQ and 20.6 percent YoY basis. Non-performing loans of the industry has remained stagnant and saw a negligible decrease (0.02 percent) only. However, NPLs of SME Sector saw a rise of 3.9 percent, QoQ basis.

Enterprise wise break up of advances reveal that the major share pertains to Trading SMEs

A breakup of enterprise-wise position shows that the biggest share of 45.6 percent is taken by the trading SMEs, followed by *manufacturing SMEs with* 37.7 percent, and *services* SMEs with 16.7 percent. The position further shows that major share of SME outstanding consists of working capital being 78.4 percent, followed by fixed investment and trade finance with 10.9 percent and 10.7 percent respectively.

About 98 percent of the SME financing is being made against collaterals as security.

Clean Vz Collateral

Clean vs Collateral position shows the major chunk of financing (97.6 percent) was made against collaterals while only 2.4

percent of the amount was lent to SMEs under clean lending category. Similarly, size- wise position shows a major portion being 69.2 percent of total SME portfolio consists of loans of over Rs. 5 million.

Bank wise Share

Bank-wise distribution of SME lending shows that the share of *public sector banks* (NBP, FWBL, BOP, BOK, and Sindh Bank) constituted 14.5 percent of the total SME outstanding amount; and recorded a decrease of about 17.5 percent, when compared with the preceding quarter of Dec-11. Their share is second highest after *private sector banks* in total SME outstanding. *Private Sector Banks' (17 institutions)* share in total SME loans outstanding was highest with 79.7 percent. Their share witnessed a decrease of 11.3 percent at the end of the quarter. The exposure of Islamic Banking (including Islamic Banks and Islamic Banking Divisions of Commercial Banks) towards SMEs stood at Rs. 10.4 billion at the end of Mar-12, recording a decline of 5.7 percent, QoQ basis. The SME exposure of *Islamic banks'* witnessed a decline of about 9.1 percent, following the overall trend from Rs. 4.8 billion in Dec-11 to Rs. 4.3 billion in Mar-12. In addition to this, the share of Islamic Banking Divisions of the conventional banks in total SME outstanding was percent 2.3 percent (Rs. 6.08 Billion) at the end of the period under review.

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.
SME cluster profiling project was implemented by SBP, in collaboration with IFC. The objective of the exercise was to provide critical information to the banking industry so that SMEs are catered with a responsible, profitable and sustainable manner.
The Survey contains the findings pertaining to eleven SME segments. The complete details can be seen at http://www.sbp.org.pk/departments/ihfd-ifc.htm.

Banks need to take cognizance of the huge untapped SME market

During the quarter SBP broadened the coverage of beneficiaries under its financing facilities

2.0. Refinance Schemes

Table 2: Outstanding Financing Under SBP Refinance Schemes

	Periods			% Change	
	Mar-11	**Dec-11**	**Mar-12**	**YoY**	**QoQ**
Export Finance Scheme	200.1	192.4	178.5	-10.8%	-7.2%
Long Term Financing Facilities	23.9	30.5	31.6	31.8%	3.5%
Defunct LTF-EOP	18.6	12.4	11.1	-40.4%	-10.7%
Scheme for Modernization of SMEs	0.1	0.3	0.2	24.4%	-51.1%
Scheme for Storage of Agri. Produce (FFSAP)	0.0	1.3	1.7	8255.0%	23.9%
Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas	0.0	0.4	3.0	24558.3%	674.6%
Total	**242.9**	**237.4**	**226.0**	**-6.9%**	**-4.8%**

SBP continued to facilitate financing of export oriented projects both through short term and long term financing with the objective of promoting exports and long term investment in the country. SBP broadened the outreach of its financing facilities by including dairy sector and soda ash to encourage more long term investment in export oriented projects. The total outstanding financing under Long Term Financing Facility (LTFF) scheme during the quarter increased by 3.5 percent while other financing facilities viz. modernization of SMEs, storage facilities for agriculture produce and scheme for revival of SMEs and Agricultural Activities in flood affected areas also increased substantially from Rs. 2 billion to Rs. 4.8 billion within a span of one quarter.

Under Export finance Scheme, revolving limits of Rs. 253.6 billion sanctioned to banks for FY 2011-12 were continued to avoid financing problems for exporters. However, outstanding financing under the EFS decreased by 7.2 percent QoQ basis. This may be a possible consequence of linking the export finance facility to certain performance parameters (imposition of ceiling of maximum overdue export proceeds viz. 5 percent of last year exports.) and decrease in cotton prices.

Box No 1: SBP Published Booklet on Export Finance Scheme

- It was a persistent demand from various stakeholders that updated operational instructions issued under the Export Finance Scheme (EFS), since its inception, should be summarized and published in consolidated form for their information, ease and guidance.
- In order to facilitate the stakeholders, all instructions have been summarized and incorporated in the shape of a booklet for general guidance and benefit of bankers and exporters intending to avail export finance facility under the Scheme.
- The subject booklet can be accessed through the link http://www.sbp.org.pk/incentives/BookGuidlines-EFS.pdf

LTFF saw a rise of 31.8 percent YoY basis

Sector Wise Break Up of Financing under EFS and LTFF

The commodity-wise EFS outstanding financing of Rs. 178.5 billion shows textile sector at the top with Rs. 106.3 billion (59.2 percent) followed by edible goods with Rs. 30.3 billion (17.0 percent). Similarly under LTFF, textile sector is the largest beneficiary of the SBP refinance facility. Total refinance outstanding under long term facilities extended by SBP was Rs. 44.5 billion as of Mar-12. Since prime focus of SBP remained on promotion of exports through long term investment, therefore, share of Long Term Financing Facility (LTFF) and Long Term Facility for Export Oriented Projects (LTF-EOP) in total outstanding was 96 percent. The remaining 4 percent financing was made for the development of agricultural produce storage facilities and long term investment in Small and Medium Enterprises (SMEs). Details with comparison to previous quarter and year are given below.

About 4 percent of the financing under LTFF was made for the development of the storage facilities and modernization of SMEs.

Borrower-wise Distribution of EFS Funds

At the end of Mar-12, the total number of borrowers under Export Finance Scheme (EFS) stood at 1,420 with an average loan size of Rs. 125 million. This quarter saw a decrease of 4.2 percent in total number of borrowers as compared to previous

There was a decline in the number of borrowers-reason might be the linking of EFS facility with the overdue proceeds.

quarter. SBP's decision of linking EFS facility with the overdue proceeds is believed to be the reason behind the drop in number of borrowers.

3.0. Microfinance

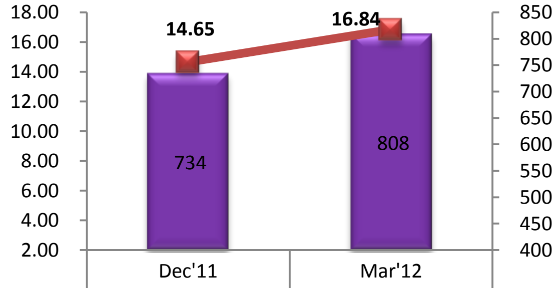
The increase in microcredit during the quarter is attributed to fresh credit disbursement to agriculture sector.

Table 3: Snapshot of Micro Financing					
Outreach	**Mar-11**	**Dec-11**	**Mar-12**	**Growth**	
*(Amount in Rs. '000')				**QoQ**	**YoY**
Borrowers	624,896	733,931	807,986	10%	29%
Advances *	10,677,662	14,650,231	16,837,011	15%	58%
NPLs*	568,594	313,983	626,165	99%	10%
PAR >30 Days in %	5.33%	2.14%	3.72%	74%	-30%
Deposits*	8,901,277	13,927,066	13,634,625	-2%	53%
Assets*	20,667,506	30,263,768	30,443,035	1%	47%
Equity*	5,615,400	6,745,902	6,951,699	3%	24%
Avg. Loan Size	17,087	19,961	20,838	4%	22%

Microfinance Banks (MFBs) have continued to exhibit growth in almost all indicators in the first quarter of 2012 (see table 3). On positive side, advances, number of borrowers, and average loan

Funding base of MFBs reached at Rs.30.4 billion at the end of the quarter

Fig 3a: Trends in Advances & No. of Borrowers



	Dec'11	Mar'12
Borrowers (in '000')	734	808
GLP (Rs. in bn)	14.65	16.84
PAR >30 days	2.14%	3.72%

Advances saw a growth of Rs. 2.2 billion mainly contributed by agri. financing

size have increased by 15 percent, 10 percent and 4 percent respectively.

Outstanding advances of MFBs stand at Rs. 16.84 billion after an increase of Rs. 2.2 billion during the quarter (Figure 3a). The growth in advances was mainly contributed by agriculture fnancing as share of agri inputs and livestock in the overall credit growth remained at 23 percent and 16 percent respectively. ***Agriculture financing*** (agri inputs & livestock) currently

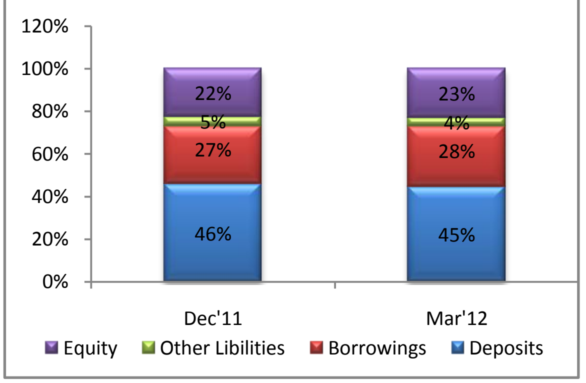
Agri. financing constitutes 53 percent of the total outstanding.

constitutes 53 percent of the total outstanding advances of the sector. The current credit
growth was led by all major MFBs - NRSP (48 percent), FMFBL (19 percent), and Tameer (10 percent). It was encouraging to see that the growth in advances was complemented by growth in number of borrowers. The ***average outstanding loan size*** of MFBs is consistently improving and currently stands at ***Rs. 20,838***.

NPLs increased from 2.1 to 3.7 percent QoQ basis.

Non Performing Loans (NPLs) have increased during the quarter. NPLs increased from 2.1 percent to 3.7 percent (Figure 3a) primarily because maturity of some bullet loans in flood-affected area fell during the current quarter. MFBs with concentration in the flood-sensitive areas have already started taking pre-emptive measures to minimize the loss to their portfolio from anticipated flood/rains in future. To diversify credit portfolio of MFBs and address the credit need of microenterprises, SBP has also issued regulation to MFBs encouraging them to develop readiness for entering into enterprise lending. In another initiative to improve the credit appraisal of the borrowers by MFBs, MF-CIB was recently launched. The CIB is expected to further improve loan quality of portfolio of MFBs in future.

Fig 3b: Funding Composition



The quarter witnessed no significant change in the overall **asset** base of MFBs. The asset base of MFBs still hovers around ***Rs 30 billion***. Advances and investment component have shown an increase during the quarter whereas cash and cash equivalent declined. Advances constituted 54 percent compared to 47 percent during the last quarter, whereas investments constituted 20 percent of total asset. The significant increase of 27 percent in the investment category was mainly contributed by Tameer and NRSP MFB. Overall, MFBs liquidity position remains quite comfortable as liquid assets (cash & investments) constitute 35 percent of total assets.

The quarter witnessed no significant change in the overall asset base of MFBs

On the ***funding*** side, equity and borrowing were increased by 3 percent and 4 percent respectively. The equity increase was due to new equity injection in NRSP which now has equity exceeding Rs. 1 billion. However, the increase in equity & borrowing was offset by corresponding decrease in the deposits and other liabilities which were decreased by 2.1 percent and 7 percent respectively. Deposit-Debt mix changed from 46-27 percent to 45-28 percent in this quarter (Figure 3b). Deposits declined due to fall of 46 percent in current deposits of KBL owing to redemption of one-month term deposit receipts (TDRs).

Deposits declined slightly at the end of the quarter under review.

4.0. Agricultural Finance

Given the meager access to financial services among the rural poor and the importance of agriculture as a critical livelihood activity, agricultural finance is a key focus area for SBP. The importance of agriculture cannot be overemphasized for the economy of Pakistan. Therefore, a progressive and well developed agri. sector can play a crucial role in accelerating the overall pace of development of the country and alleviating poverty.

An indicative agri. credit disbursement target of Rs.285 billion was set for FY 11-12

Table 4: Agriculture Finance

Category (Amount in Billions)	Period			% Change YoY
	Oct-Dec, 2011	Jul-Mar, 2010-11	Jul-Mar, 2011-12	
Amount Disbursed	125.2	168.7	197.4	17.0
Amount Outstanding	211.8	185.7	215.8	16.2
NPLs	32.0	28.9	32.7	13.0
Outstanding Borrowers	1,973,258	1,778,252	2,127,321	19.6

Source: Agricultural Credit & Microfinance Department, State Bank of Pakistan. MFBs included since July 2011

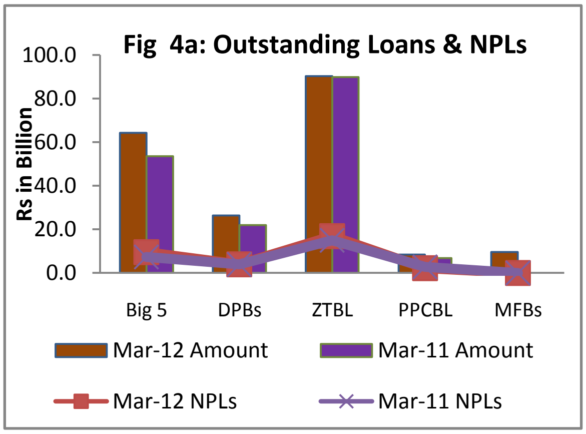
Under indicative agri. credit disbursement target about Rs.12.2 billion were allocated to microfinance banks for FY 11-12

Banks' disbursement to agriculture sector surged by 17 percent year on year basis to Rs. 197.4 billion or 69.2 percent of the target of Rs. 285 billion during July-March 2011-12, compared with disbursement of Rs. 168.7 billion during corresponding period last year. The amount outstanding also increased by 16.2 percent to Rs 215.8 billion as on end March, 2012 from Rs 185.7 billion in corresponding period. NPLs, although rose marginally in absolute terms during the periods under review but as a percentage of outstanding loans declined to 16.4 percent in July-March 2011-12 against 16.8 percent of outstanding loans in corresponding period last year. The number of agri. loan borrowers witnessed 19.6 percent YoY growth, mainly because of induction of MFBs in agri. finance scheme (See table 4). The factors igniting growth in agri. credit disbursement were: one window operations facility providing speedy access to credit, pilot project phase IV expanding credit outreach in the target areas across the country, awareness programs on agri. financing for farmers, training sessions for banks' CAD/ Risk Management Departments on agri. loan documentation, etc.

Banks disbursements increased by 17 percent on YoY basis

Non-performing loans in agri. financing stood at Rs 32 billion or 16.4 percent of the outstanding loans as on 31st March, 2012 compared with Rs 28.9 billion or 16.8 percent of the outstanding loans as on 31st March, 2011. Smooth settlement of Crop Loan Insurance claims of banks and prudent lending practices may be attributed for this declining trend.

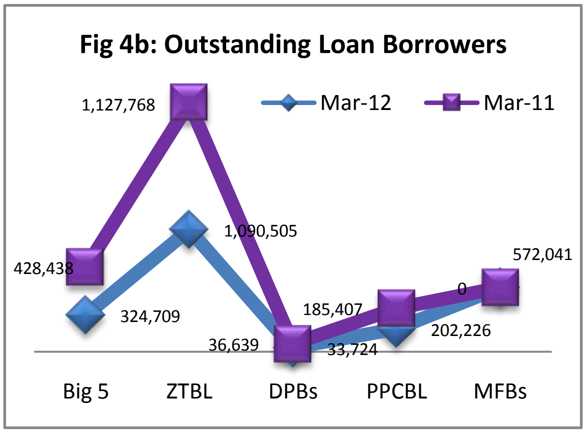
NPLs of Agri. sector saw a decline when compared YoY basis.



Outstanding loans by banks during the period amounted to Rs 198.9 compared with Rs 172 billion in the corresponding period last year, showing an increase of 15.7 percent. Figure 4a shows outstanding agri. loans and NPLs' position of banks during July-March, 2011-12 and 2010-11.

The number of agri. loan borrowers was 2.127 million as on 31st March, 2012 as against 1.778 million as on 31st March, 2011, showing an increase of 25 percent YoY mainly due to inclusion of borrowers of MFBs. On the other hand borrowers of five major banks, ZTBL and DPBs declined; whereas borrowers of PPCBL rose modestly by 9.1 percent. High mark up rate, law & order situation, etc. resulted in decline in outstanding number of borrowers in the stated banks. Bank-wise position of number of borrowers is shown in Figure 4b.

Persistent disbursement to non farm sector was witnessed because of huge potential and prospective returns



Sector-wise classification reveals that during July-March, 2011-12, out of disbursement of Rs. 197.4 billion, an amount of Rs. 125.6 billion or 63.7 percent was disbursed to farm sector and Rs. 71.7 billion or 36.3 percent were disbursed to non-farm sector as compared with disbursement of Rs. 110.5 billion or 65.5 percent and Rs. 58.2 billion or 34.5 percent respectively during the corresponding period last year. In the farm sub-sectors, a major chunk (96.1 percent) of credit was disbursed as production loans while the share of development loans remained stagnant at 3.9 percent of the total credit to farm sectors. Overall position indicates that disbursement to non-farm sector has continued its rising trend. This is mainly due to continual disbursement in livestock by banks due to their huge potential and prospective returns. High prices of meat, fish and export of livestock, attracted investment in non-farm sector.

Disbursement to non farm sector continued its rising trend during the quarter too.

5.0. 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. 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 percent of such transactions.

The formal financial sector caters only 1-2 percent of all housing needs in the country

Presently, 27 commercial banks, House Building Finance Company Limited (HBFCL), one DFI and two microfinance banks are catering

Table 5: Housing Finance - Amount (Rs. Billions)

	June-12		Mar-12		% Change (Amount)	
	Borrowers	Amount	Borrowers	Amount	QoQ	YoY
Cumulative Disbursement	502,184	181.35	501,270	178.63	0.2%	6%
Outstanding	34,049	38.66	34,287	38.42	-0.7%	-11%
NPLs	53,147	19.07	54,974	20.13	-3.3%	2%
Gross Outstanding	87,196	57.74	89,261	58.55	-2.3%	-7%

to housing finance needs. HBFCL is the only specialized housing finance institution in the country, which has been serving the public since 1952 while commercial banks entered the mortgage business in 2003. 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.

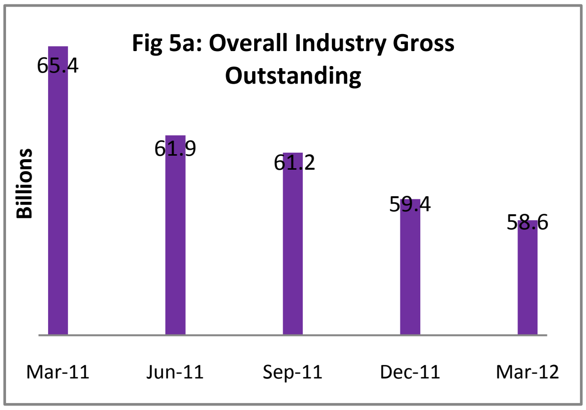
Financial Institution Recovery Ordinance 2001, empowers Banks/DFIs to foreclose a mortgage property without recourse to the court of law

Gross Outstanding

The total outstanding finance as on March 31, 2012 of all banks and DFIs stood at Rs. 58.6 billion, as compared to Rs. 59.4 billion as on December 31, 2011, showing a decrease of Rs. 0.8 billion (1.34 percent).

Of the total outstanding as on March 31, 2012, commercial banks accounted for Rs. 45.28 billion. Private banks reported Rs. 28.4 billion followed by Islamic banks at Rs. 8.7 billion, public sector banks at Rs. 7.9 billion and foreign banks with Rs. 0.3 billion. The outstanding portfolio of HBFCL was Rs. 13 billion as of March 31, 2012. Other DFIs have a meager share of Rs. 0.2 billion in outstanding loans.

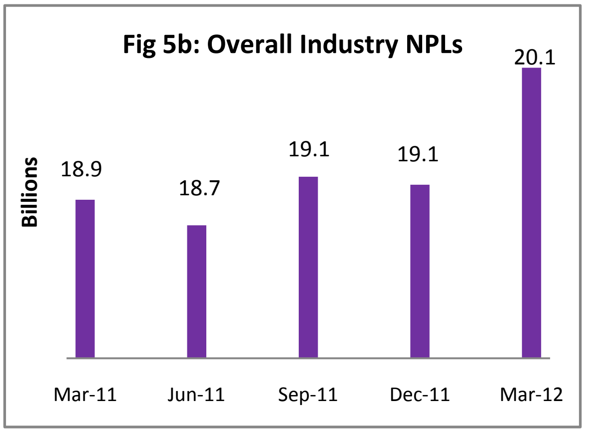
Fig 5a: Overall Industry Gross Outstanding



The total outstanding housing finance as on March 31, 2012 of Islamic Banking Industry (05 Islamic Banks & 12 Islamic Banking Divisions of Conventional Banks) stood at Rs. 12.4 billion. Of the total outstanding Islamic housing finance, Islamic banks accounted for Rs. 7.3 billion. IBDs of conventional banks posted Rs. 2.86 billion.

Non-Performing Loans (NPLs)

NPLs increased from Rs. 19.1 billion (December 31, 2011) to Rs. 20.1 billion (March 31, 2012); a 5.24 percent increase during the quarter as shown in Figure 5b. The overall rise in NPLs is primarily due to rising inflation and high interest rates.

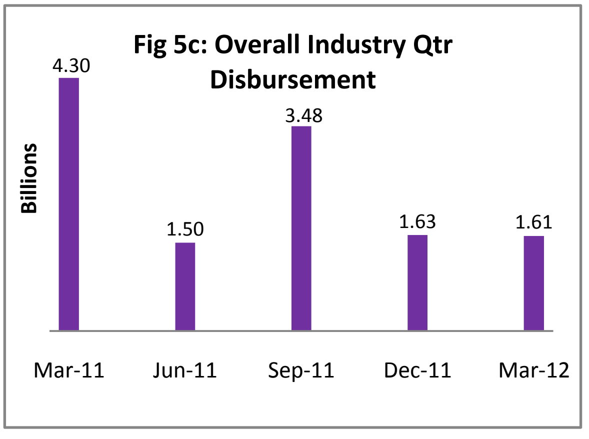


HBFCL's NPLs have increased from Rs. 7.3 billion to Rs. 7.9 billion during the quarter; an 8.2 percent increase. Although growth of its NPLs remained relatively low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the largest, as 61 percent of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 39.42 percent. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) is 61 percent in total NPLs, compared to 63 percent as on March 31, 2011.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.2 billion on March 31, 2012, which were Rs. 3.1 billion at the end of last quarter (Oct-Dec, 2011) showing a decrease of 30 percent.

Disbursements

Fresh disbursements to the tune of Rs. 1.61 billion (Figure 5c) were made to 766 borrowers during the quarter ending March 31, 2012. Private Banks extended new disbursements worth Rs. 888 million followed by Islamic banks with Rs. 407 million, public sector banks with Rs. 15 million and foreign banks with Rs. 6 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 296 million. Among commercial banks, the number of new borrowers totaled 400, with private banks serving 290 borrowers and Islamic banks 98 customers. HBFCL extended loans to 366 new borrowers during the reporting quarter.



Fresh disbursement for Islamic Banking Industry was Rs. 717 million to 141 new borrowers during the quarter ending March 31, 2012. This includes new disbursements of Rs. 310 million to 43 customers by IBDs of conventional banks.

Housing Finance Business of Microfinance Banks:

The **total outstanding housing finance** as on March 31, 2012 of Micro Finance Banks (MFBs) stood at Rs. 174.4 millions, which was Rs. 174.4 millions at the end of December 31, 2011, remained almost unchanged over the last quarter. **NPLs** for MFBs have increased from Rs. 1.62 million (Dec-31, 2011) to Rs. 1.72 million (Mar-31, 2012); showing an increase of 6.17 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 1.01 percent of their outstanding housing finance portfolio. **Number of outstanding borrowers** increased from 2,634 to 2,883 since March 31, 2011; an increase of 9.45 percent.

Banks are reluctant in lending beyond certain big cities

6.0. Infrastructure Finance

Table 6: Infrastructure Project Financing Profile

(Amount in Rs. Billions)	Periods			% Change	
	Mar-11	**Dec-11**	**Mar-12**	**QoQ**	**YoY**
Amount Outstanding	296.5	281.0	273.2	-2.8%	-7.9%
NPLs	10.0	11.3	13.3	17.7%	33.0%
Disbursements (Cumulative)	320.4	325.7	342.7	5.2%	7.0%
No. of Projects (Cumulative*)	326	334	325	-2.7%	-0.3%
Total Sanctioned Amount	546.7	544.9	541.1	-0.7%	-1.0%

***Cumulative No of projects is the total number of projects less the matured ones.**

Cumulative disbursements to Infrastructure sectors saw a rise of 5.2 percent, QoQ basis and about 7 percent YoY basis.

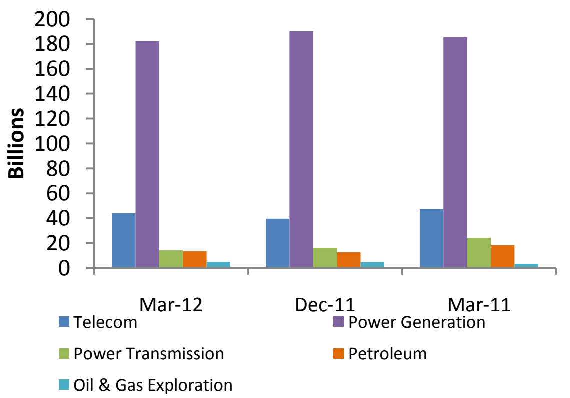
Most developing countries have varied institutions to supply a pipeline of viable projects and means

The importance of physical infrastructure cannot be overemphasized. 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.

All developing countries have institutions with a common thread i.e. Supply of viable projects and means to provide long term fixed rate financing.

The infrastructure finance in Pakistan has not been consistent in the recent times. It was at Rs. 296.5 billion at the end of Mar-11 which fell to Rs. 290 billion at the end of Jun-11 and resurged to Rs. 300 billon at the end of Sep-11. At the end of the quarter under review, the outstanding portfolio of infrastructure finance again dropped to Rs. 273.2 billion.

Fig: Top Five Infrastructure Sectors



Outstanding Portfolio

Total financing outstanding at close of Mar-12 has been Rs. 273.2 billion against Rs. 281 billion at the end of previous quarter ending Dec-11. The analysis shows 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 for energy contributed to its consistent lead over other sectors. Petroleum and Power Transmission sectors have shown a downward trend, while Oil and Gas sector has shown a steady trend over the last few quarters.

Box No 2: Infrastructure Project Financing Guidelines

- Infrastructure is the foundation of a country's economy and infrastructure assets such as road networks, energy, telecommunication, airports etc serve as a backbone for public services and are vital to sustain economic and social activity. Moreover, status of infrastructure is often seen as an indicator of socio-economic position of a country.
- To facilitate banks/DFIs to undertake Infrastructure Projects Financing (IPF), SBP has revised the existing guidelines in consultation with various stakeholders.
- The revised guidelines can be seen at http://www.sbp.org.pk/ihfd/2010/Annex-CL1.pdf

Sectoral Share in Outstanding Portfolio

At the end of Mar-11, Power Generation sector had 62.5 percent of the total stock followed by Telecom sector with 15.9 percent. After a year, the top slot continues to be held by Power Generation sector with a substantial 66.7 percent share in the pie. Except for Telecommunication sector, other major sectors in graph showed a declining trend. Telecom sector trended marginally upward from 15.9 to 16.1 percent. Petroleum sector's share dropped from 6.2 to 4.9 percent in a year.

Disbursements

A total of Rs. 10.3 billion were disbursed during Jan-Mar, 2012 quarter in all infrastructure sectors against Rs. 7 billion in the previous quarter. The disbursement during Jan-Mar, 2011 quarter was Rs. 7.6 billion. Telecom sector received Rs. 4.2 billion, which is 40.7 percent of overall disbursement. Telecom sector got Rs. 1.0 billion in last quarter while Telecom and Ports & Shipping sectors were conspicuous by their absence in the quarter ending Mar-11. Apart from this recent funding, overall 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. Petroleum sector also received Rs. 1.5 billion in the quarter under review which is a healthy sign for the sector.

Power generation sector took lead in all sectors primarily on account of factors like power policy, availability of sovereign guarantees as well as its demand.

Telecom sector seems reaching a saturation point as no new initiatives are on ground

7.0. Key Development Finance Initiatives – Policy and Industry

Appreciating the critical role and significance of Development Finance for the sustainable economic growth in the country, SBP took the following key measures during the quarter Dec-Mar, 2012.

SME Credit Advisory Committee (SMECAC)

The 4th meeting of SME Credit Advisory Committee (SMECAC) was held on January 04, 2012 at SBP, Karachi under the chairmanship of the Governor SBP. The Governor pointed out that SMECAC is an effective platform for improving interaction among SME stakeholders. He mentioned that members' suggestions can greatly help in improving policy environment and flow of credit to SMEs. He underscored the importance of a sustainable approach towards the development of SME sector through a more active role from all stakeholders specially the banks. He stressed upon banks to develop an effective SME Strategy to efficiently focus on their SME customers as well as establish necessary tools/infrastructure to benefit from lucrative profit margins offered by the sector.

Credit Scoring Training Program:

Credit Scoring is a popular risk assessment quantitative tool that has greatly helped banks across the globe to mitigate their risk and proliferate their small business portfolio while bringing down the transactions cost significantly. Further, the technique helps in making lending decisions quickly and more objectively, leading to significant reduction in turnaround time and a more prudently managed risk measures for SMEs. In this regard, IH&SME Finance Department arranged a two-day training program on "Credit Scoring for SMEs" at NIBAF, Islamabad on March 15-16, 2012, in collaboration with Shore Bank International-Pakistan. The training was designed for senior executives of commercial banks, to develop their capacity in the area of Credit Scoring. The trainer was a renowned international expert Mr. Daniel Citbaj, currently associated with Shore Bank International.

Financial Awareness Seminars

Financial Awareness plays vital role in improving financial understanding of SMEs, enabling them to access formal sector for fulfillment of their banking needs, and resultantly also help us achieve our objective of increasing financial inclusion. This exclusion is more severe for Small Enterprises that are unaware of banking products and services, mark-up rate, tenure of lending facilities, repayment schedule and term and conditions associated, etc. In view of the above, Financial Awareness Seminars for SMEs were held in six different cities, viz. Quetta, Hyderabad, Sukkur, Peshawar, Faisalabad and Gujranwala in the months of February and March 2012.

Grass Root Training Program on SME Financing

This program has been designed to enhance and strengthen the skill set of credit/loan officers at grass root level. The same was held on January 5-6, 2012 at SBP, BSC Bank Sukkur.

SME Cluster Surveys

With a view to address the issue of lack of reliable and credible data on SMEs which is understood as a pre-requisite for banks to align their lending strategies and design their SME specific lending products and services, SBP completed primary survey of important 11 SME Clusters in collaboration with IFC and LUMS. In addition to these SBP has signed agreement in February 2012 with M/S Corporate Development Partners (Pvt. Ltd) for conducting primary survey of 10 more SME sub-sectors during the 2012.

Scheme for Financing Power Plants Using Renewable Energy - Enhancement of Scope

The scope of financing facility for establishment of new power projects using renewable energy has been enhanced with a view to promoting the use of renewable energy and meeting the growing electricity demand of the country. Therefore, banks/DFIs were advised, vide IH&SMEFD Cir Letter No. 01 of January 18, 2012, to consider financing requests of the sponsors for setting up Power Projects up-to a maximum capacity of 20 MW in cases where only Biomass/Biogas is used as renewable energy source. Earlier, the financing facility was allowed for establishment of new Power Projects using Renewable Energy with a capacity of up-to 10 MW.

SBP allows financing to dairy sector under LTFF

The SBP, vide IH&SMEFD Cir Letter No. 04 of March 16, 2012, allowed banks/DFIs to provide financing to dairy sector under the Long Term Financing Facility (LTFF) for Plant & Machinery. Therefore, banks/DFIs can also provide financing facilities for new imported and locally manufactured plant, machinery & equipment to be used by the export oriented projects for storage, chilling, processing and packaging of dairy products including machinery used in the conversion/preservation of milk into powdered form, keeping in view the terms and conditions of the subject facility.

SBP allows banks to write-off outstanding loans of three more districts under Government Relief Package

Banks/DFIs/MFBs were allowed, vide IH&SMEFD Circular Letter No. 02 dated February 28, 2012, to write-off the total outstanding loans as of Dec 31, 2009 of the borrowers of Lower Dir, Upper Dir, and Shangla Districts under the Prime Minister's Fiscal Relief Package to Rehabilitate the Economic Life in KPK, FATA and PATA. However, banks, DFIs and MFBs shall bear the cost of such write-offs to the extent of amount held into provisions against NPLs and interest in suspense account, while the rest of the cost will be paid by the Government of Pakistan.

Consultative Group on Branchless Banking

State Bank of Pakistan has established a National Consultative Group on "Development of Branchless Banking to foster market development. The Group is headed by the Executive Director, Development Finance Group (DFG), SBP. The Group will provide a common platform for branchless banking eco-system developers and an opportunity to develop collective policy recommendations on critical developmental issues. Composition of the Group draws members from key stakeholders such as Pakistan telecommunication Authority, NADRA, banks, MNOs, and, Technology Solution Providers. The Group will assist SBP in the formulation of a National Branchless Banking Strategy.

The Group held its first meeting on 7th May 2010 at SBP Karachi, wherein, three working groups on Agents Developments, Code of Conduct for BB ecosystem and BB Financial Literacy Program were formed by the Group Chairman Mr. Muhammad Ashraf Khan, Executive Director DFG.

Second Phase of Grass Root level Training Program on Microfinance

The second phase of the Grass Root Level Training Program commenced in collaboration with NIBAF after successful completion of first phase during FY 2010-11. During the second phase, ten programs have been organized in FY 2011-12 for capacity building of loan officers. The training helps meet the capacity building requirements of the MF sector thus expanding horizon and scope of financial services & outreach as prime objective. The program mainly focuses on the development of retail capacity of Loan/Credit officers of MFBs/MFIs and best trainers/facilitators are engaged to conduct the training sessions to equip the participants of the basics tools.

Financial literacy program

State Bank launched Pakistan's first-ever Nationwide Financial Literacy Program (NFLP) in January 2012 to literate the unbanked population about the basic financial concepts. The Program focuses on six main themes i.e. budgeting, saving, investment, debt management, branchless banking and consumer protectionism. The pilot phase aimed at targeting 45,000 direct beneficiaries has successfully been completed in June 2012 by imparting financial education through class room training and street theatres. Besides the direct beneficiaries a significant number of the indirect beneficiaries have been benefited through Mass media campaign. After the impact assessment of the pilot phase the Program aims to target 500,000 beneficiaries all over the country.

Financial Innovation Challenge Fund (FICF)

Financial Innovation Challenge Fund (FICF) worth UK £10million was launched by SBP in May 2011 to support innovative pilots for financial inclusion. The first FICF challenge Round was focused on Government to Persons (G2P) Payments and under this round, strong interest was shown by public sector institutions, Microfinance institutions, government agencies, pension funds, and other institutions for promotion of financial inclusive G2P payments through bank accounts at branchless banking outlets and also provide other financial services to the G2P payments beneficiaries. Now, the 1st round has been completed successfully, and the following seven institutions have been declared successful for providing the grants under the 1st Challenge Round of FICF:

HBL-PIFRA, Technologix-EOBI, AKBL, NADRA, Punjab Pension Fund (PPF), BISP, and UBL

As a way forward, the FICF Advisory Committee has recommended following areas for the 2nd FICF Round:

a. Rural Financial services including agricultural finance
b. Broad based Financial Services Projects using telecommunication infrastructure
c. Encourage Academic institutions for conducting a research on product innovation for financial inclusion.

Pilot Project Phase IV

Encouraged by the successful completion of PP-III, SBP launched Pilot Project Phase IV from Rabi season 2011 to deepen the outreach of agri. finance on fast track basis. PP-IV will cover 54 districts for farm and non-farm financing, while 22 districts will be especially targeted for group-based lending to small/landless farmers. In this connection, respective targets in terms of number of borrowers, amount to be disbursed, etc. to 16 participating banks were assigned.

By 31st March, 2012, banks disbursed Rs. 51.7 billion or 45 percent of the target for farm sector, Rs. 13.8 billion or 54 percent of the target for the non-farm sector and Rs. 0.37 billion or 55 percent of the target for Group Based lending in the targeted districts. Number of borrowers served is 288,352 or 44 percent of the target for farm sector, 47,382 or 47 percent of the target for non-farm sector and 1,777 groups having total of 10,827 borrowers or 87 percent of the target for Group Based lending. During the period under review, the number of fresh borrowers tapped by banks was 117,267 and 35,704 in the farm and non-farm sectors, respectively.

Training Workshop for CAD/Risk Management Departments of Banks on Agri. Loan Documents/Procedures

In order to develop the understanding of officials of Credit Administration Department (CAD) and Risk Management Department (RMD) of banks/DFIs about the dynamics of agri. lending, SBP developed two days training workshop on important topics such as overview of agri. sector, SBP regulations regarding agri. finance, agri. credit risk management tools & techniques, loan appraisal and documentation, agri. passbook and other documents of revenue department, etc. in consultation with banks. During Jan-March, 2012 three training workshops were arranged at Bahawalpur, Sukkur and Lahore which were attended by senior officials of agri. lending banks, SBP and DFSD, SBP-BSC.

Policy Adequacy and Awareness Seminars on Agri. Financing

In order to acquaint agri. graduates about the basic structure of agri. financing, related policies, schemes, initiatives taken by SBP in recent years to enhance the outreach of agri/rural finance, SBP, in collaboration with SBP-BSC, banks, MFBs and agri. universities/colleges, arranged "Policy Adequacy and Awareness Seminars on Agri. Financing" at Agriculture College Dokri, Larkana on 26th March, 2012.

The seminar was attended by a large number of students, teaching faculty, academia, Chief Manager of SBP-BSC, officials of DFSD, SBP-BSC and senior officials of banks.

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 that include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/low income housing finance products. During the quarter from Jan-Mar, 2012, IH&MSEFD made presentation on HAG recommendation to the Provincial Government of Baluchistan.

Automation of Housing Finance Quarterly Data

Software developed to acquire online housing finance quarterly data from banks through Data Acquisition Portal (DAP 4). The development of this software has eliminated the need for submission of housing finance quarterly data in paper form and would also help in ensuring data accuracy. Quarterly housing finance data of quarter Jan- Mar 2012 was submitted by banks through DAP 4.

Capacity Building Programs

A training program on the topic "Issues in Housing Finance" was held in Quetta to create the awareness regarding the housing finance in the underdeveloped markets.

Learning from International Experiences

IH&SMEFD officials attended the conference on "Growth with Stability in Affordable Housing Markets" jointly organized by National Housing Bank (NHB) of India and Asia Pacific Union for Housing Finance (APUHF) at New Delhi, India. The prevailing scenarios of underdeveloped countries of Asia Pacific were discussed in detail along with the way forward to flourish the housing finance.

8.0. Development Finance news from around the World

The following key developments/news occurred during the quarter under review.

Preferential treatment Policies for SMEs

http://www.chinadaily.com.cn/usa/business/2012-01/07/content_14397164.htm

BEIJING - The government has created preferential procurement policies for small-and medium-sized enterprises (SMEs) to boost their development, according to a government statement issued on Friday. It is often difficult for SMEs to win tenders when bidding for government procurement projects due to the government's strict procurement requirements, said a joint statement by the Ministry of Finance (MOF) and the Ministry of Industry and Information Technology (MIIT).

SIDBI and IOB sign MoU to provide growth capital to MSMEs

http://www.indiaprwire.com/pressrelease/financial-services/20120106108387.htm

SIDBI, an apex financial institution for the promotion, financing and development of industries in the Micro, Small & Medium Enterprise [MSME] and India Overseas Bank, a leading public sector bank of the country entered into an MoU to provide growth capital/equity to their customers in the Micro, Small and Medium Enterprises [MSME] segment. The MoU was signed by Shri S Muhnot, CMD, SIDBI and Shri M Narendra, CMD, IOB.

Google India to hold SMEs go online

http://www.business-standard.com/india/news/google-india-to-help-smes-go-online/461498/

Google India, announced launching of new initiative, targeted towards SME, in Punjab. Nikhil Rungta, country marketing head, Google India maintained the program 'India Get Your Business Online' is aimed at helping small and medium business houses grow business online. Google India would be organizing road shows across the country to sensitize SMEs on how the programme could benefit them. Google India is eyeing 5mn business houses go online by 2012.

IFC injects another $12.5m into Bank Hana to boost SMEs

http://www.thejakartapost.com/news/2012/01/12/ifc-injects-another-125m-bank-hana-boost-smes.html

The International Finance Corporation (IFC), is due to invest an additional US$12.5 million in its long-term partner PT Bank Hana to help Indonesia's small and medium enterprises (SMEs) to grow and contribute more to the country's economic development. IFC has a total lending portfolio of $1 billion in Indonesia to promote sustainable growth through financial investment and provide advisory services.

City unveils new initiatives to support SMEs

http://english.eastday.com/e/120117/u1a6315944.html

SHANGHAI is to launch new initiatives and expand existing schemes to help the city's 337,000 small and medium enterprises, officials said yesterday. The city will help SMEs that are individually too small to issue bonds to band together and do so, officials told the Shanghai People's Congress. Subsidies of up to 3 million yuan (US$476,190) will also be provided for business-related services, and improved information services offered, they added.

KCC&I & SMEDA to set up help line for SMEs

http://www.brecorder.com/business-a-economy/single/672/189/1138728/

The Small and Medium Enterprises Development Authority (SMEDA) with the support of United Nations Development Programme (UNDP) launched the "Right to Do Business" project at Karachi Chamber of Commerce and Industry (KCC&I) to strengthen the street vendors, small traders and growers.

Indian Parliament approves bill to help micro, small and medium enterprises

http://articles.economictimes.indiatimes.com/2011-12-27/news/30561663_1_msmes-factoring-medium-enterprises

NEW DELHI: To help micro, small and medium enterprises (MSMEs) in dealing with their liquidity problems, Parliament today passed a bill to regulate the factoring business. The Regulation of Factors (Assignment of Receivables) Bill 2011, earlier been passed by the Lok Sabha, was passed by the Upper House.

SMEDA accord with IPO

http://dawn.com/2011/12/24/smeda-accord-with-ipo/

ISLAMABAD: The Small and Medium Enterprises Development Authority (SMEDA) and Intellectual Property Organisation (IPO), Pakistan, have entered into an agreement to facilitate SMEs in respective ambit of their service. Yousaf Naseem Khokhar, CEO SMEDA and Sajjad Bhutta, DG, IPO-Pakistan signed the agreement on behalf of their organizations.

RBI to promote small, medium enterprises

http://articles.timesofindia.indiatimes.com/2011-12-17/guwahati/30528146_1_rbi-reserve-bank-loans

GUWAHATI: The Reserve Bank of India (RBI), NE region wants banks to clear the credits of the Micro Small Medium Enterprises (MSME) faster to promote these enterprises for the sustainable growth of the region.

To mark its centenary celebration, the Central Bank of India organized a symposium themed 'Role of entrepreneurship and bank credit for development of MSME'.

Government looks to give SMEs a shoulder up

http://www.guardian.co.tt/business/thursday-january-19-2012/govt-looks-give-smes-shoulder

The programme, would serve to create revenue opportunities for SMEs. McLeod quickly warned SMEs to be mindful that the “programme is not a handout, but a shoulder for them to stand on.” Questioned by the media as to what structures the ministry has in place to ensure that the Fair Share Programme is fairly executed,

SMEDA and SZABIST join hands to promote entrepreneurship

http://www.dailytimes.com.pk/default.asp?page=2011\12\15\story_15-12-2011_pg5_11

ISLAMABAD: The state run Small and Medium Enterprise Development Authority (SMEDA) and SZABIST have geared up their joint efforts to promote Industry, Academia collaboration in order to ensure that the unemployed youth of Pakistan get job opportunities and utilize their talent in Socio-Economic Development of Pakistan.

Oxfam launches emerging market small business fund

http://economictimes.indiatimes.com/news/international-business/oxfam-launches-emerging-market-small-business-fund/articleshow/11602697.cms

LONDON: Aid agency Oxfam has launched a new fund aimed at helping small-and-medium sized enterprises (SMEs) in developing countries, in conjunction with asset management company Symbiotics.

Oxfam said it was aiming to raise $100 million after three years for its Small Enterprise Impact Investment Fund, and hoped the fund would help create 100,000 jobs within five years. Oxfam said that despite many African and Asian countries being viewed as fast-growing markets, many small businesses in those regions were stifled by a lack of funding and limited access to credit.

RBI calls for dedicated SME verticals at banks

http://www.moneylife.in/article/rbi-calls-for-dedicated-sme-verticals-at-banks/23451.html

Banks, which have long-term association with such SMEs as lending partners, can further this relationship by providing consultancy on finance, cash-flow management, taxation and other related things for a fee, RBI deputy governor KC Chakrabarty said. The Reserve Bank of India (RBI) has asked banks to set up dedicated verticals to help small and medium enterprises (SMEs) to deal with financial matters. In a related development, State Bank of India (SBI) has decided to waive guarantees and annual service fees on loans given to small and medium businesses, guaranteed under the Credit Guarantee Fund Trust scheme.

HBFCL, ABAD meet to explore cooperation in housing sector

http://pakobserver.net/detailnews.asp?id=137661

While highlighting the significance of ABAD’s role in the development of the housing sector, Managing Director and CEO, HBFCL, Mr Azhar Jaffri, said “In order to address the burgeoning housing shortage in the country, it is essential that key players such as ABAD and HBFCL join hands and work together to address the challenges faced by the housing sector in Pakistan. It is indeed a great opportunity for us today that both organizations have come together for a common cause.”

China limits mortgage loans for foreigners

http://www.telegraph.co.uk/finance/personalfinance/offshorefinance/9066684/China-limits-mortgage-loans-for-foreigners.html

China’s top economic planner, the **National Development and Reform Commission** (NDRC), stated that it will no longer approve medium and long-term loans to banks if they intend to use such borrowings to fund mortgages taken out by foreigners. Chinese authorities introduced a host of measures last year to try and prevent speculative bubbles in the property market. Curbs included bans on buying second homes in some cities and raising the minimum deposit as well as property taxes.

China Central Bank Pledges Housing Market Support as Curbs Bite: Economy

http://www.bloomberg.com/news/2012-02-07/china-central-bank-to-aid-home-buyers-to-balance-crackdown-on-speculators.html

China's central bank pledged support for first-home buyers as a crackdown on real-estate speculation threatens to trigger a property slump in the world's second- biggest economy.
Officials will increase support for construction of affordable housing and ensure that "loan demand from first-home families" is met, the People's Bank of China said on its website yesterday evening.

Decent housing is every citizen's right
http://www.pakistantoday.com.pk/2012/02/10/news/national/decent-housing-is-every-citizen%E2%80%99s-right-gilani/
ISLAMABAD - Addressing the ground-breaking ceremony of Kurri Housing Scheme, prime minster Gilani said the state was responsible to explore all available options to provide people housing. He said government servants deserve respectable living and the PHA affordable housing scheme was a good step in this direction. He said, "The present scheme at Kurri aims at providing residences to serving and retired civil servants on ownership basis at reasonable prices. It has been conceived by leading designers and professionals."

Expanded financing for affordable housing urged
http://www.chinadaily.com.cn/business/2012-02/21/content_14655168.htm
BEIJING - China is encouraging local governments to make full use of their financing vehicles in 2012 in an effort to boost financial support for low-income housing projects, the country's top economic planner said Monday. China has vowed to build 36 million affordable housing units during the 2011-2015 period in a bid to meet the demand of low income families, as well as take some heat out of the runaway property market. In 2011, it started construction of 10 million units.

Pakistan's Anwar Plans Lending Boost to Bolster Economic Growth
http://www.bloomberg.com/news/2012-03-04/pakistan-s-anwar-plans-lending-boost-to-bolster-economic-growth.html
Pakistan's central bank aims to spur lending to small companies, farming and housing in the next three years to boost growth in an economy where government borrowing has curbed credit and kept interest rates elevated.
"These three areas have to be stimulated and will become engines of growth," Governor Yaseen Anwar, 60, said in an interview at the State Bank of Pakistan in Karachi on March 2. He forecast the economy will expand by 3 percent to 4 percent in the year ending June.

USAID helps Water & Power Ministry enhance capacity
http://tribune.com.pk/story/318855/energy-crisis-usaid-launches-training-program-for-power-sector-employees/
The United States Agency for International Development (USAID) started on Monday a capacity-building training course for engineers and trainees to help them gain a deeper insight and resolve system problems in the power transmission network. The training programme comprises a beginner course for junior engineers and an advanced course for experienced and senior engineers.

Anti-poverty unit to fund 109 infrastructure projects
http://tribune.com.pk/story/304455/building-capacity-anti-poverty-unit-to-fund-109-infrastructure-projects/
The Pakistan Poverty Alleviation Fund (PPAF) announced to provide Rs. 238 million grant to finance 109 small-scale community development schemes in the poorest areas of the country. The development program would benefit over 40,000 marginalized communities in the districts of Rajanpur, Layyah, Dera Ismail Khan

and Khyber Agency. This financing would be used for small-scale infrastructure, water, energy, livelihood enhancement and protection and capacity-building schemes in four districts. The assets would be transferred to the poor and ultra poor community organizations to sustain their livelihood while capacity-building trainings would also be imparted to the marginalized communities.

Pakistan urges Korean Investment

http://www.brecorder.com/pakistan/business-a-economy/57125-korea-urged-to-enhance-investment-in-pakistan-.html

Secretary Industries urged South Korean Ambassador to enhance Korean investment in Pakistan. "The Korean investment in Pakistan is much lower than its potential which in 2010-2011 stood at $ 7.7 million", Aziz Bilour said here in a meeting with Ambassador of Korea in Pakistan Choongioo Choi on Friday. Both discussed the prospects of enhancing investment in the energy, steel, consumer goods, domestic appliances, electronics, auto sector and relocation of Korean industries in Pakistan.

Power companies: Management control to be outsourced

http://tribune.com.pk/story/276916/power-companies-management-control-to-be-outsourced/

In order to enhance efficiency of nine public sector power companies, the government has decided to outsource their managements, operations, maintenance and rehabilitation, including conversion to cheaper fuel, to the private sector, said Managing Director of Private Power and Infrastructure Board (PPIB) NA Zuberi. Zuberi said that among these power companies one each is located in Jamshoro, Kotri, Quetta, Guddu, Muzaffargarh, Multan, Shahdara and two in Faisalabad.

9.0. Special Section – Global Microscope on the Microfinance Business Environment

Economist Intelligence Unit

The Economist Intelligence Unit (EIU) is the business information arm of The Economist Group, publisher of The Economist. Through a global network of more than 900 analysts and contributors, EIU assess and forecast political, economic and business conditions in more than 200 countries. EIU also assist executives, governments and institutions by providing timely, reliable and impartial analysis of economic and development strategies.

Business Environment for Microfinance

The annual study 2011, prepared by the Economist Intelligence Unit (EIU), ranks the business environment for microfinance in 55 countries and provides a perspective on both country-specific and global trends. The index that underlies this report allows countries and regions to be compared across two broad categories: *Regulatory Framework and Practices*, which examines regulatory, and market-entry conditions, and *Supporting Institutional Framework*, which assesses business practices and client interaction. Most of the research for this report, which included surveys, interviews and desk analysis, was conducted in the first half of 2011.

Effects of Global Financial Crisis

According to the EIU index report, microfinance has begun to enter a more mature and sustainable growth phase in the aftermath of global financial crisis. After years of rapid expansion, the focus has turned to accelerating the improvements already underway in corporate governance, regulatory capacity and risk management. Indeed, risk management, which has become a post-crisis priority for all financial institutions, has improved considerably in the microfinance sector, which is essential, given that it is offering an increasingly diversified range of innovative financial services to the poor. Efforts to strengthen the sector sit comfortably beside new opportunities; microfinance is well positioned to take further advantage of technological and market innovations and to build on improvements already underway.

Pakistan's Ranking

This report analyzed the microfinance environment in 55 countries worldwide and ranked them accordingly. Here, only Pakistan's ranking is being presented for information. Complete report can be seen at www.eiu.com/microscope2011

Regional Ranking (East & South Asia)

As per the regional findings of the report, Pakistan again topped the regional rankings for East and South Asia along with Philippines. These countries both finished in the top ten globally, signifying strong environments for microfinance. Indeed, Pakistan and the Philippines came first and second globally, respectively, in the Regulatory Framework and Practices category, suggesting strong regulatory regimes and good prospects for MFIs to enter the sector and perform effectively.

Overall Microfinance Business Environment and Category wise Rankings (Among 55 Countries)

In overall microfinance business environment, Pakistan was ranked 3rd worldwide and gained score of 62.8 out of 100 points scale. In category wise rankings, Pakistan got the following scores:

- **1st** in overall regulatory framework
- **3rd** in microfinance business environment category (Previously ranked 5th)
- **5th** in supporting institutional framework

Pakistan got the above high rankings based on the following key characteristics of the microfinance business environment:

- Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for microfinance banks, and the **State Bank of Pakistan (the central bank)** maintains a highly enabling environment for the sector.
- MFBs were allowed to obtain debt funding from foreign sources.
- A Consumer Protection Framework has been in place.

Key changes and impacts observed since last year (2010) in Pakistan Microfinance Environments:

- The central bank recently raised the minimum capital requirements for MFBs.
- A credit bureau for MFIs is being pilot-tested.
- Comprehensive branchless banking (BB) regulations have been issued and several large retail organizations and mobile network operators are currently in the process of establishing their own MFBs to extend the distribution of financial services.

10.0. Development Finance - Outlook

"Before the start of FY12, policymakers forecast 4.2 percent economic growth on the basis of a positive outlook for cotton; a recovery in the manufacturing sector; and policy measures to address the energy shortage. However, the agricultural outlook has once again been adversely impacted by the floods in Sindh, which has damaged half of its area under cultivation.
We also believe the economic costs of the energy shortage are understated. The primary impact is on small and medium size manufacturing units and service providers, which are not properly documented and therefore do not show up in our GDP numbers. Furthermore, the loss of employment is more severe, as these units tend to be labor intensive. The socio-political unrest triggered by the energy shortage in many parts of the country, is ominous. Large-scale projects that focus on alternative energy sources (like hydel and coal) must be launched".[1]

In view of the prevailing economic sluggishness, the likelihood of the projected GDP growth rate and overall shyness of the industry towards the DF sectors, it would be unrealistic to expect a significant improvement in the overall economic conditions and DF sectors in particular. 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.

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, Capacity Building and Awareness Programs for the stakeholders.

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