

Promotion of Development Finance in Pakistan

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Outline of Presentation



1. Landscape of Financial Inclusion

2. Major Areas

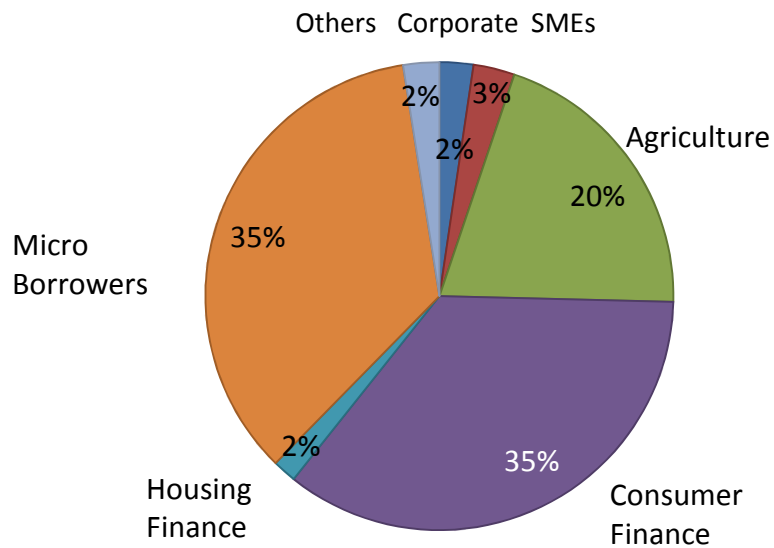
- i. Agri. Finance
- ii. Microfinance
- iii. Branchless Banking
- iv. SME Finance
- v. Financial Inclusion Program
- vi. Housing Finance



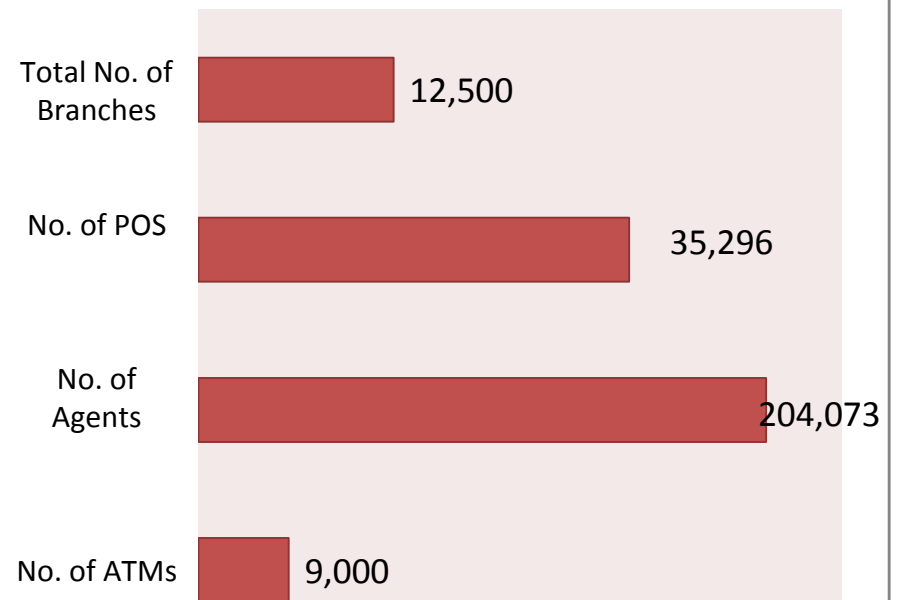
Financial Access and Usage



Number of Borrowers (Total 6 million)



Financial Access



- Adult Population (15 years +): 120 M
- CNIC Holders: 95 M
- Mobile phone subscription: 140
- Number of Deposit Accounts: 38 million



SBP's Strategic Direction



- **Developing financial inclusion policy and programs, addressing issues and market failures for broadening access to finance**
- **Strengthening regulatory environment for improving access to finance**
- **Promote innovation and alternative delivery channels**
- **Develop funding mechanism to improve flow of credit to under-served segments including SMEs, micro enterprises, agriculture, and infrastructure, housing sector**
- **Developing and strengthening Islamic Finance as alternate and compatible system**
- **To promote financial literacy and consumer awareness**



Agri. Finance



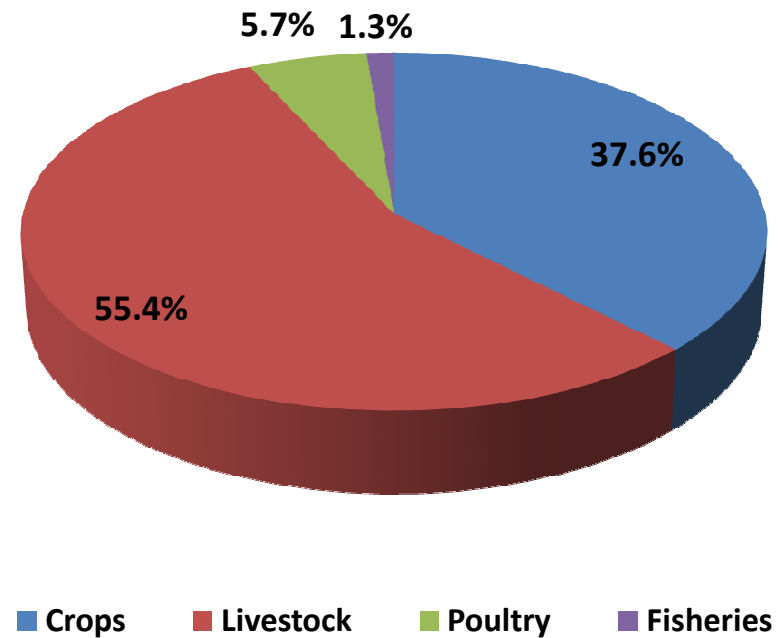
Agriculture Economy of Pakistan



Contribution

- 21% of GDP
- 45% of labor force
- 60% to exports

Sectoral share

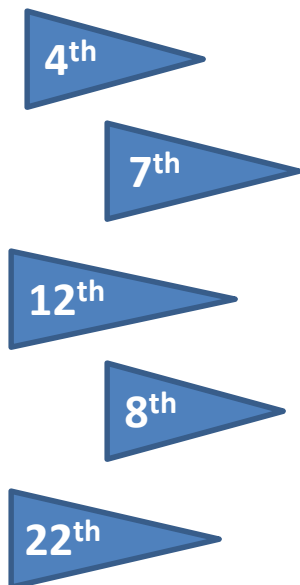




Agri. Commodity Sector Outlook



Contribution of Major Crops is 5.4% in GDP



	Production '000 tons	
	2012/13	2013/14
Cotton*	13,031	12,769
Wheat	24,211	25,286
Rice	5,536	6,798
Sugarcane	63,750	66,469
Maize	4,220	4,527

* '000 bales



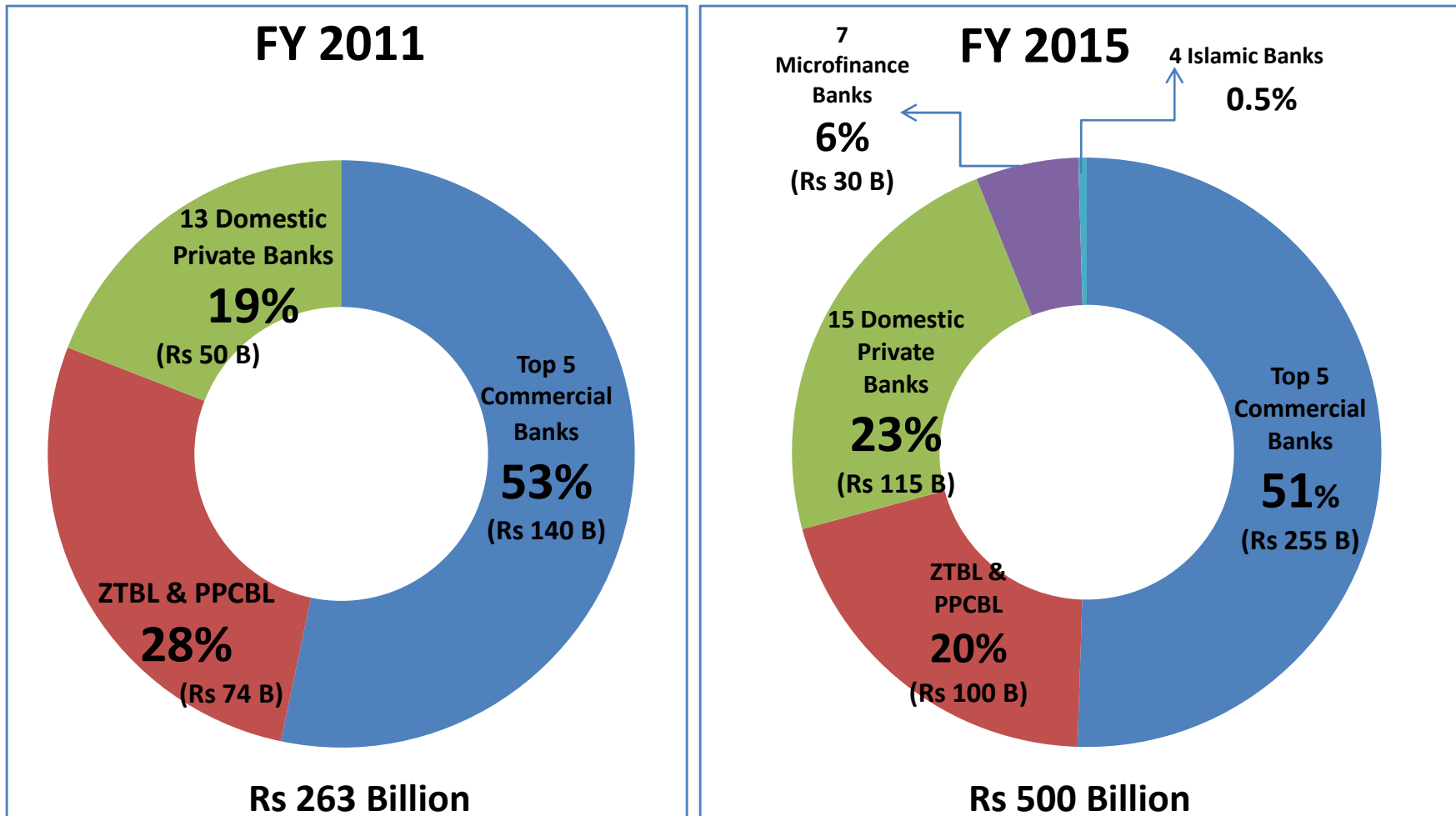
Importance of Livestock



- **5th** Largest milk producer-**41 billion liters** of milk
- **90%** of the milk is supplied by small farmers having **1-6 animals**
- **57 million** animals (Cattle & Buffalo)
- **Nili Ravi** is considered best buffalo breed in world and known as Black Gold of Pakistan. Other breeds are **Kundi** and **Aza Kheli**.
- **Sahiwal, Cholistani,** and **Red Sindhi** are our internationally well-known dairy breeds. Other cattle breeds are **Achai, Bhagnari, Dajal, Dhanni, Gibrali, Kankraj, Lohani, Rojhan,** and **Thari.**

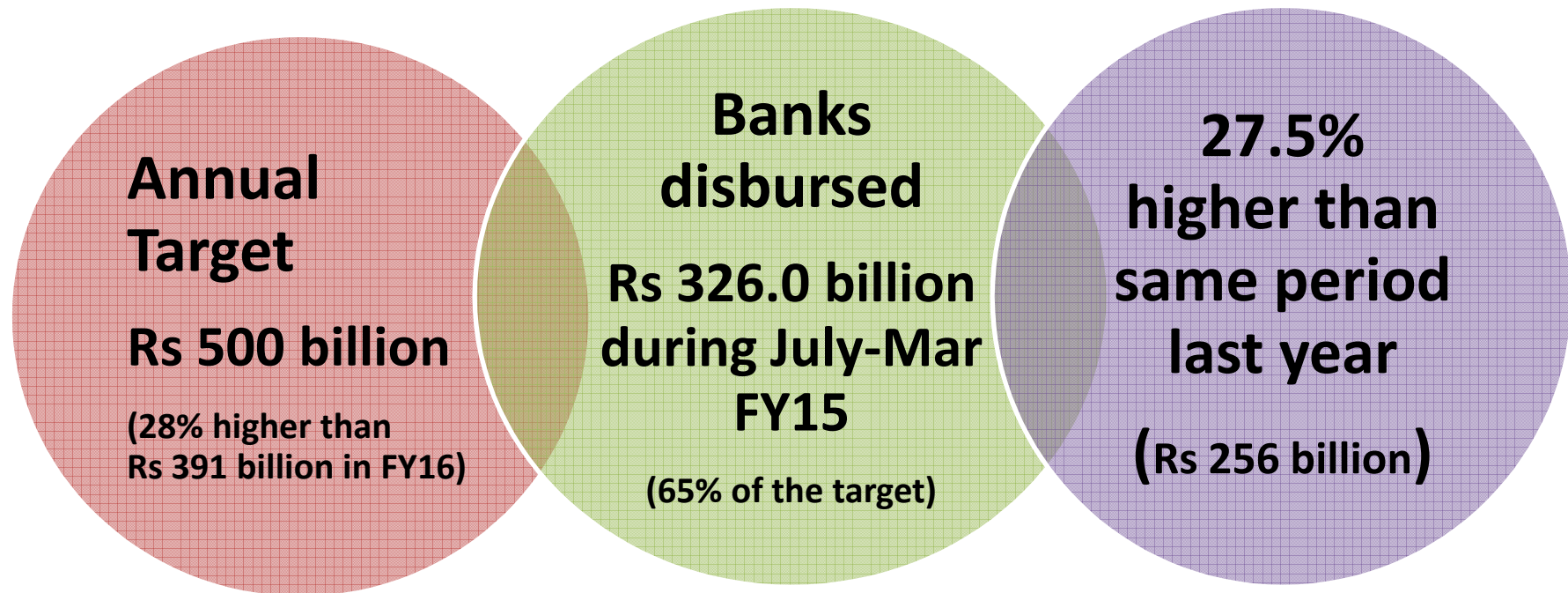


Agri. Financing banks increased from 20 to 33





Target Achieved 2014-15

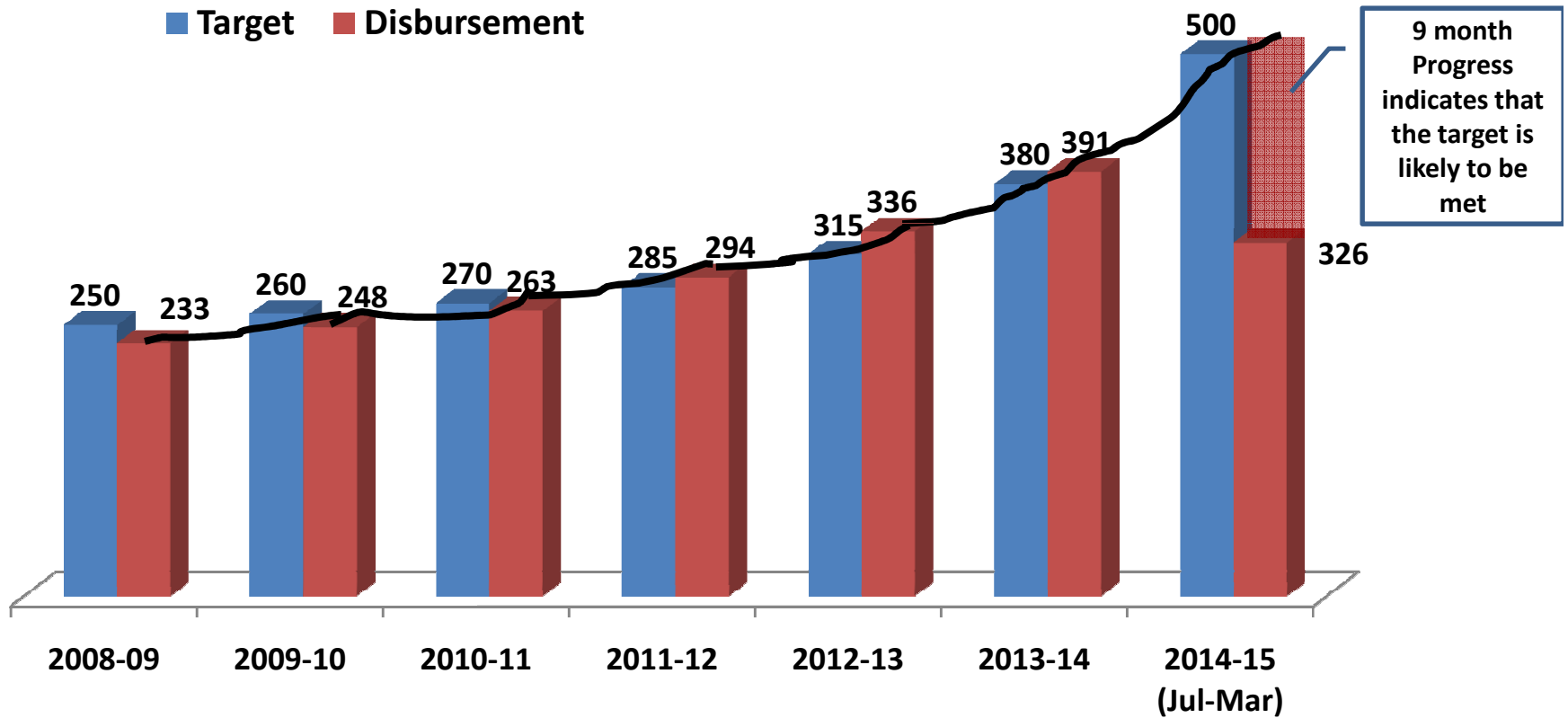




Financing to agri. sector accelerated in last two years

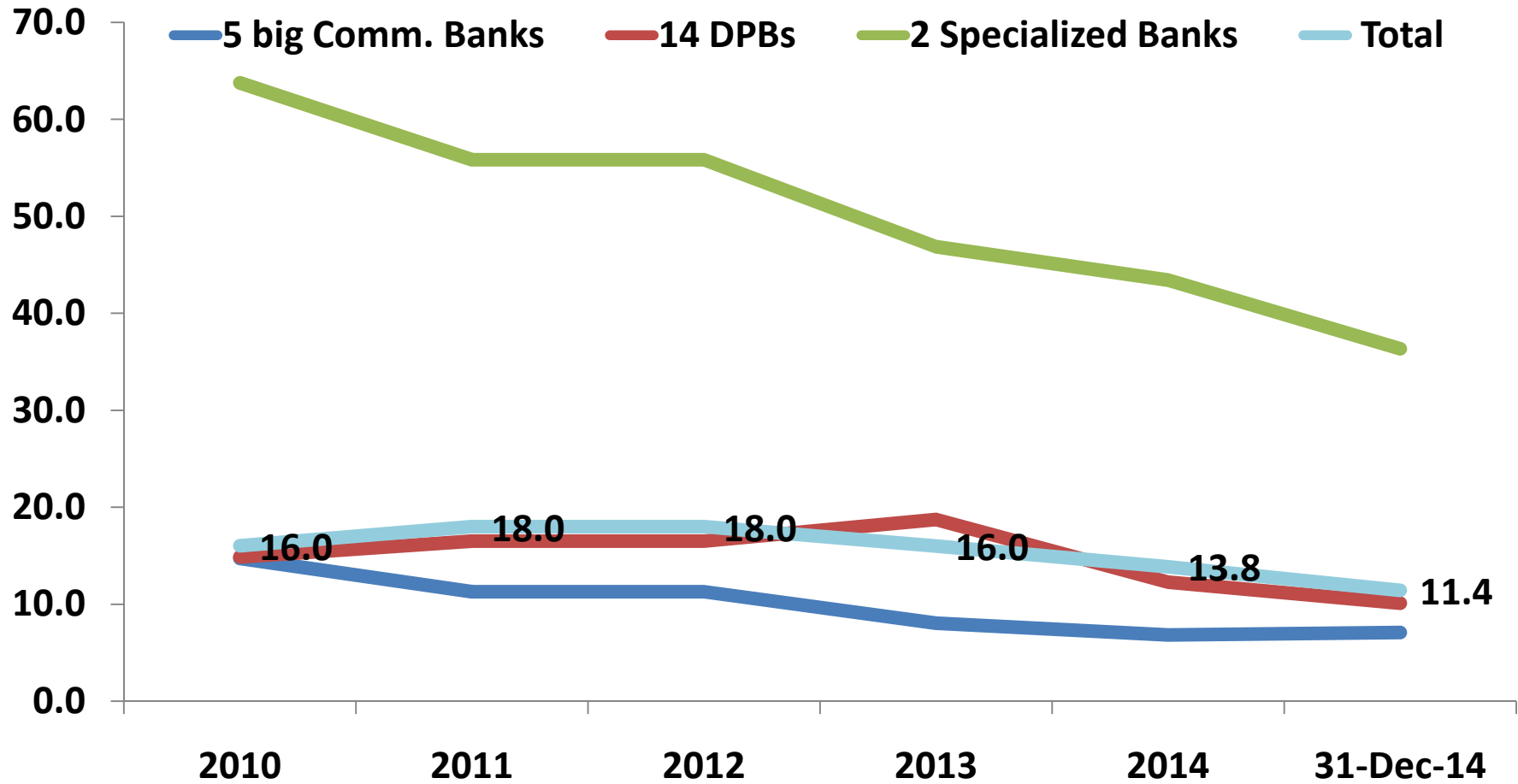


(Rs. In Billion)



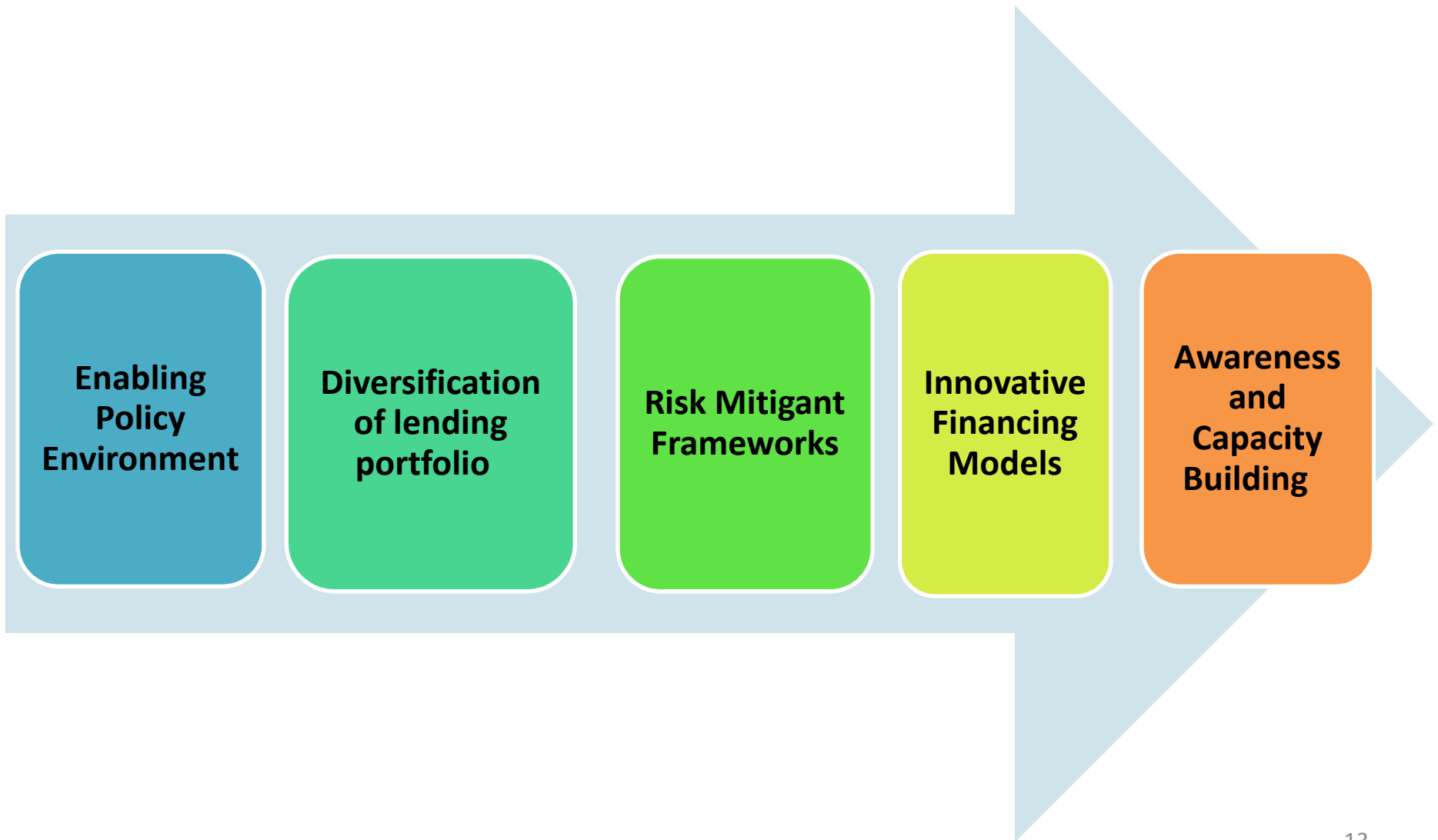


NPLs in (%) of Agri. Lending for Last 5 Years





SBP's holistic approach to promote Agri. finance





Innovative Market Development Initiatives in Agri. Finance being Introduced in Pakistan

- 1. Value Chain Contract Farmer Financing**
- 2. Warehouse Receipt Financing**
- 3. Credit Guarantee Scheme for Small Farmers**



Microfinance

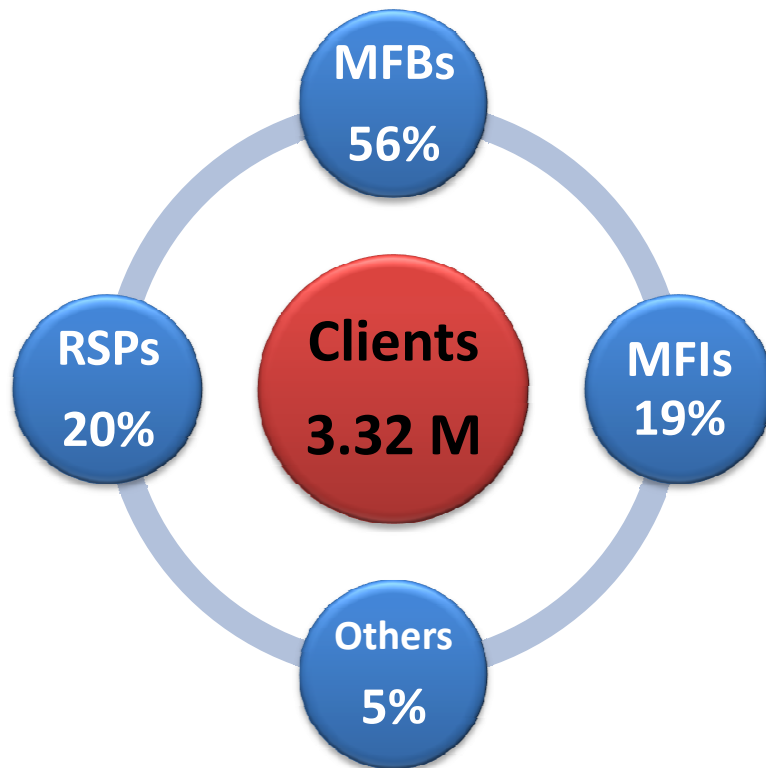


Industry Infrastructure



As of Mar. 2015

Industry Players and their market share



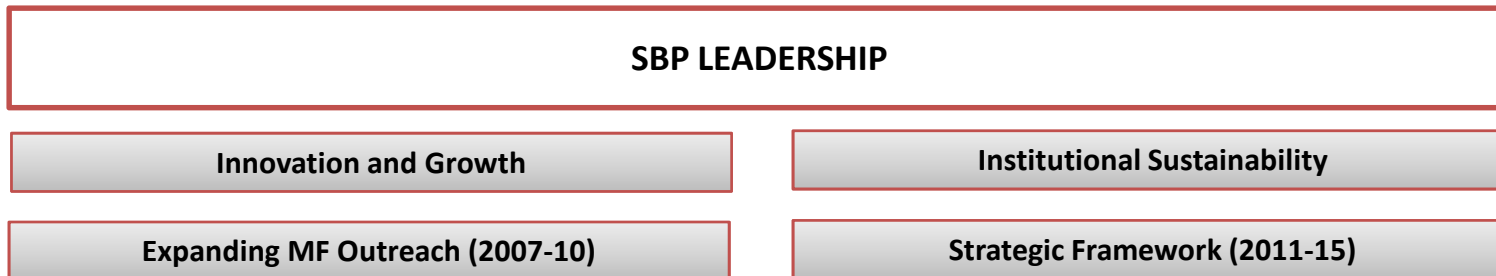
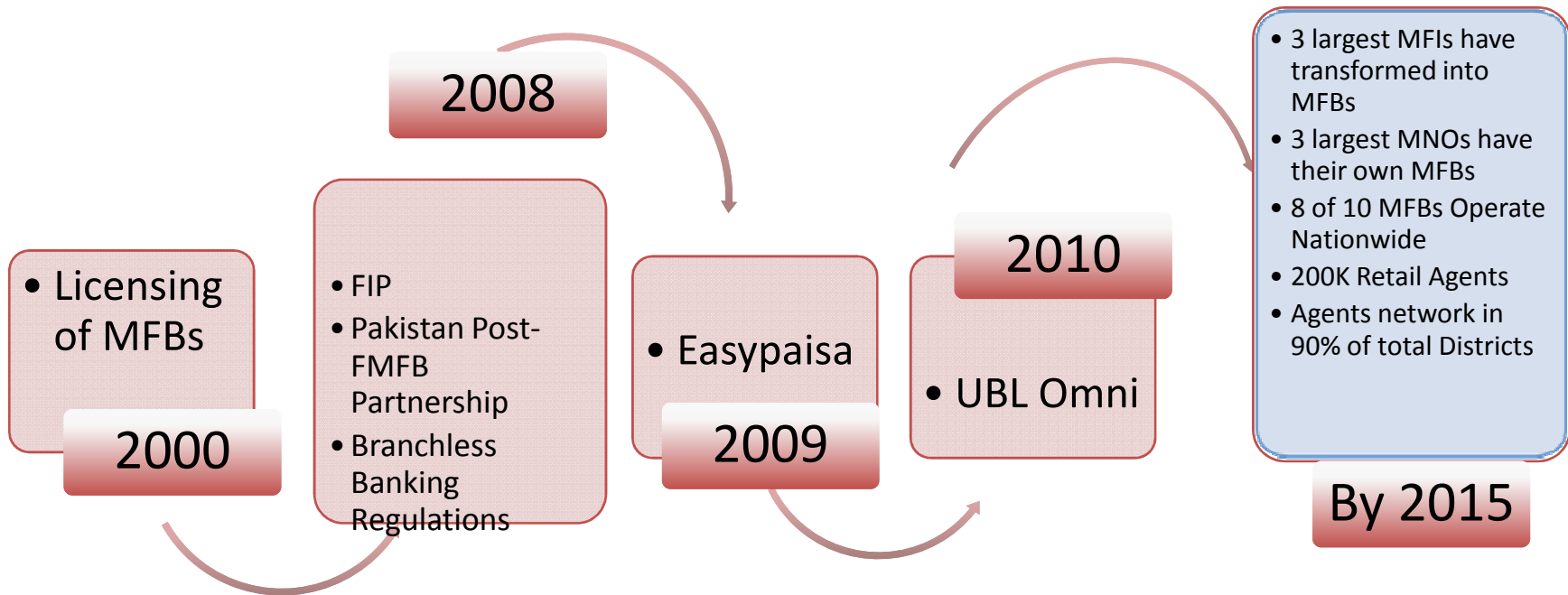
Infrastructure

- 10 Microfinance Banks (MFBs)
- 6 Rural Support Programs (RSPs)
- 16 Specialized Microfinance Institutions (MFIs)
- 12 Others (NGOs)

Outlets: 2,587



Mainstreaming of MF into Banking (2001-todate)





Microfinance Sector Outreach (As of March, 2015)



Indicators	MFBS	MFIs-NGOs/RSPs/Others	Total
Number of MFPS	10	34	44
Number of Branches	507	2,080	2,587
Total No. of Borrowers	1,249,857	2,070,397	3,320,254
Gross loan portfolio (Rs. In '000')	41,208	32,551	73,759
Average Loan Balance (Rs)	32,970	15,722	22,215
Total No. of Depositors	7,828,113	-	7,828,113
Deposits (Rs. In '000')	42,487	-	42,487



Microfinance Banks-Key Indicators (As of Mar. 2015)



(Amt. in Rs. '000)

MFBs	Branches	Borrowers	Advances	Deposits	Depositors	Assets	Equity	Borrowings
Khushhali	118	489,503	13,432,656	8,591,747	947,318	17,860,832	3,454,183	4,796,421
First MFB	84	161,220	4,894,254	8,522,413	271,896	10,581,726	1,335,431	247,689
Tameer	57	234,261	9,399,075	12,987,776	5,330,210	17,792,234	3,008,378	202,370
NRSP	58	236,666	6,803,008	4,193,754	384,125	10,018,962	2,171,081	3,016,549
FINCA	89	82,367	4,463,762	4,836,077	340,703	6,653,830	1,318,621	200,000
Pak Oman	24	8,529	285,266	17,021	17,967	1,126,767	1,081,134	-
APNA	19	11,963	919,772	1,332,342	47,212	1,987,769	591,172	-
U MFB	25	10,374	413,438	803,164	61,845	2,055,571	1,055,365	-
Waseela	30	13,102	454,668	1,188,853	423,944	2,733,861	1,127,493	-
Advans	3	1,872	142,658	14,792	2,893	645,924	563,418	-
Total	507	1,249,857	41,208,557	42,487,939	7,828,113	71,457,476	15,706,276	8,463,029











Branchless Banking



The evolution of BB Sector in Pakistan



Year	Product	Providers
2009	Easy Paisa 	Tameer Microfinance Bank & Telenor
2010	Omni 	United Bank Limited
2012	TimePey 	Askari Bank & Zong
2012	Mobicash 	Waseela Microfinance Bank & Mobilink
2013	HBL Express 	HBL
2013	UPaisa 	U-Microfinance Bank & Ufone
2013	MCB Lite 	MCB Bank
2013	Mobile Paisa 	Bank Alfalah & Warid



The modes of financial inclusion through MFS



Two modes to address basic financial needs of the masses.

1. Agent-Assisted Banking

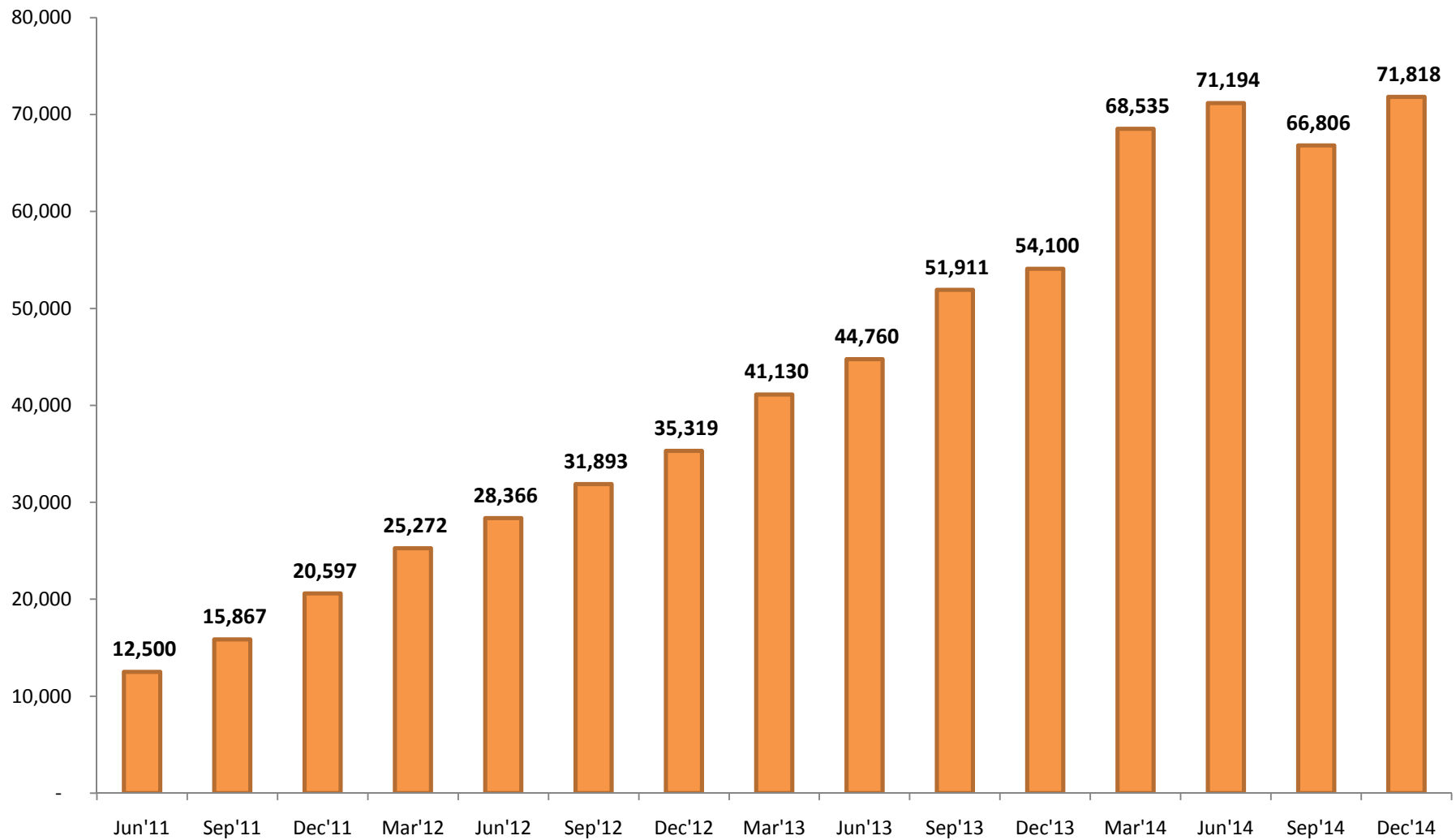


2. Self-Service Banking (through m-wallets)



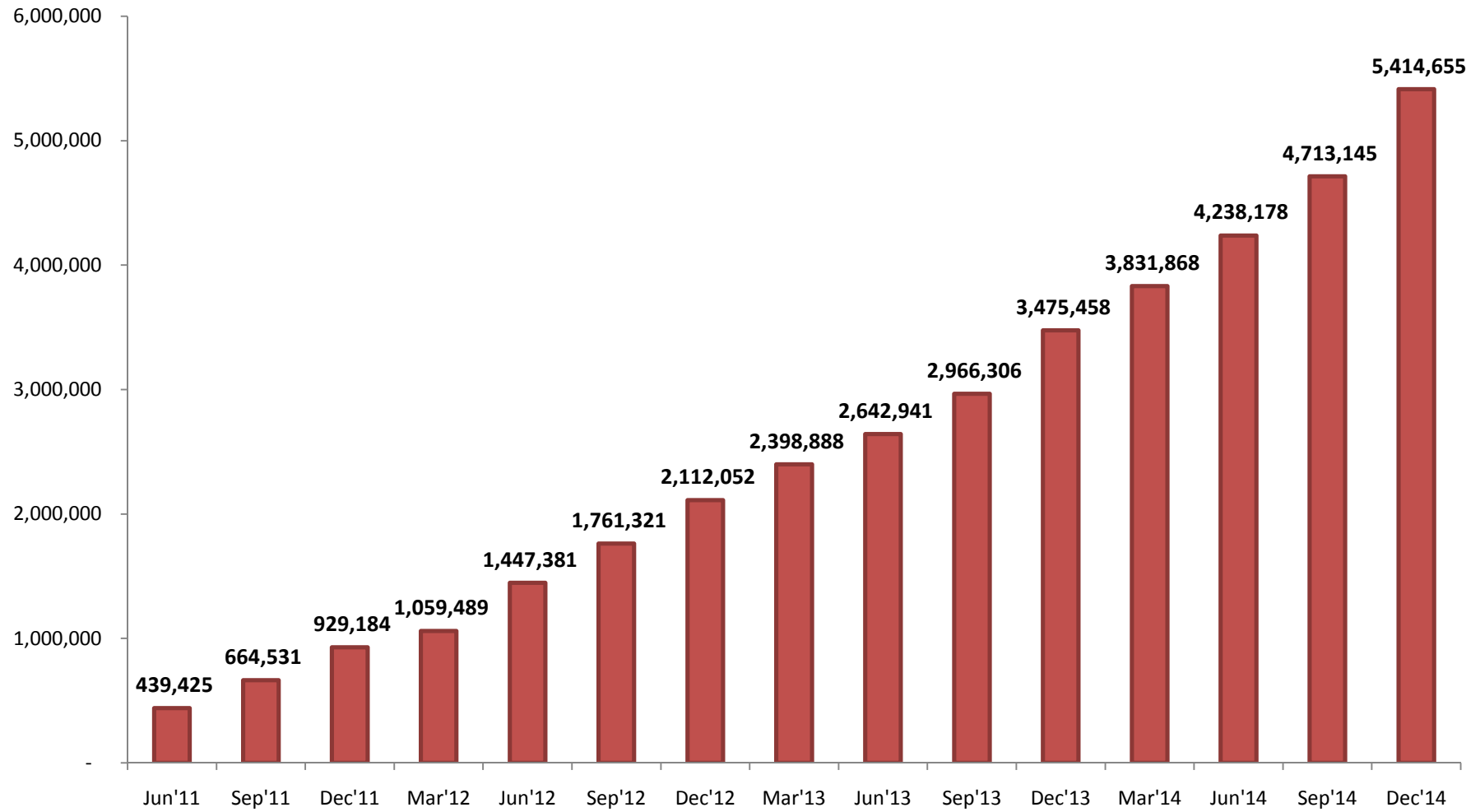


Number of Quarterly BB Transactions



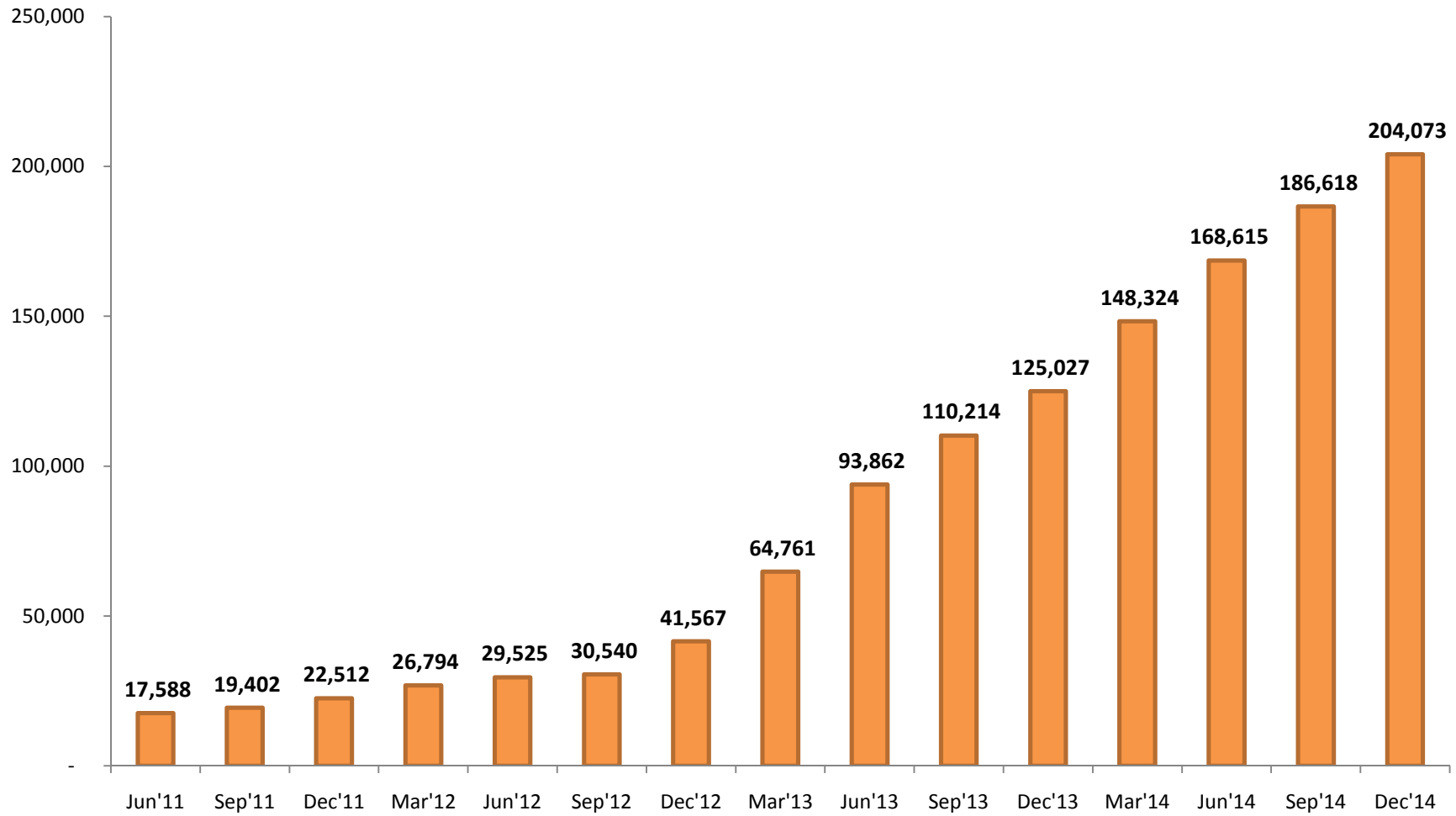


Number of BB Accounts (M-Wallets)



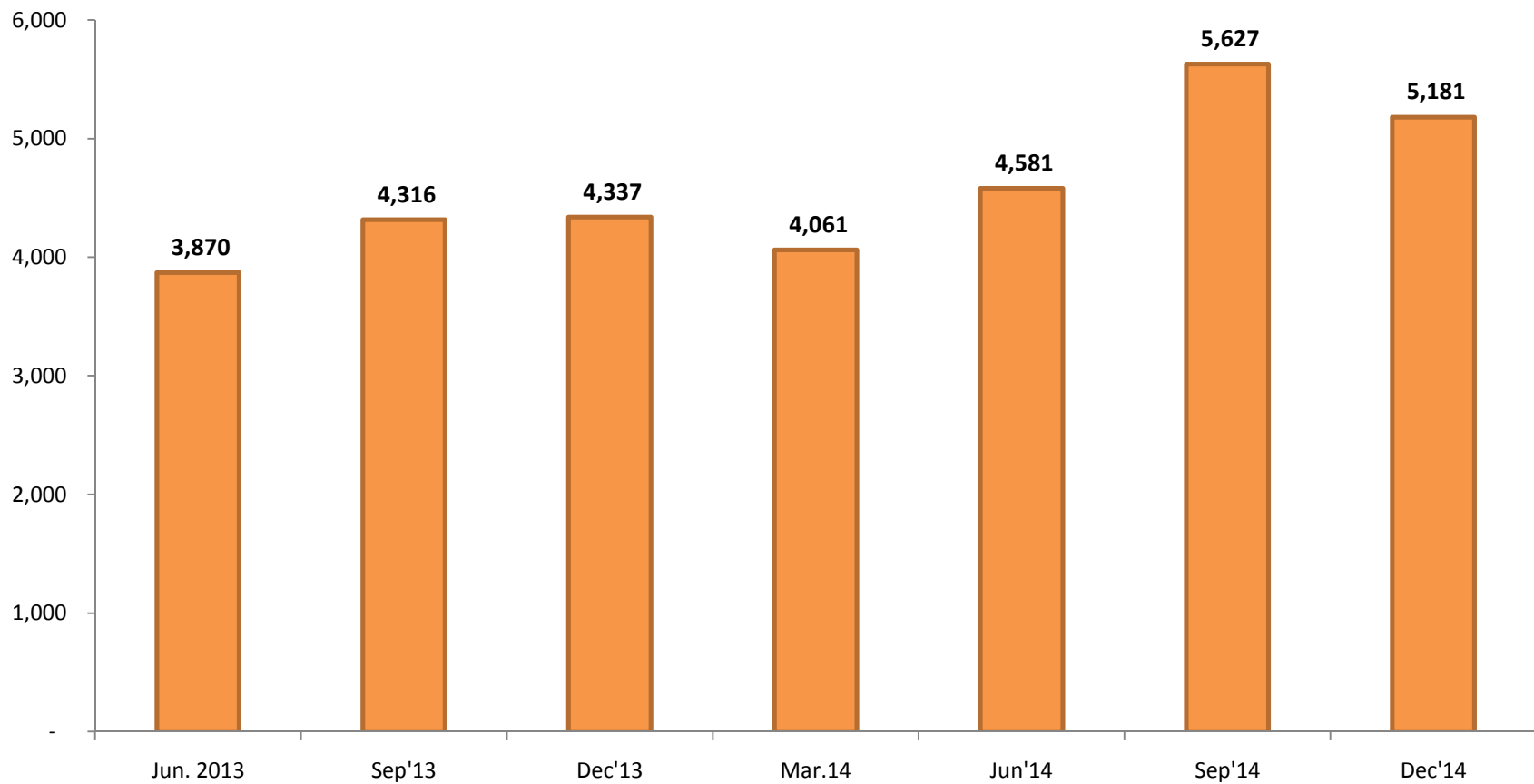


Number of BB Agents



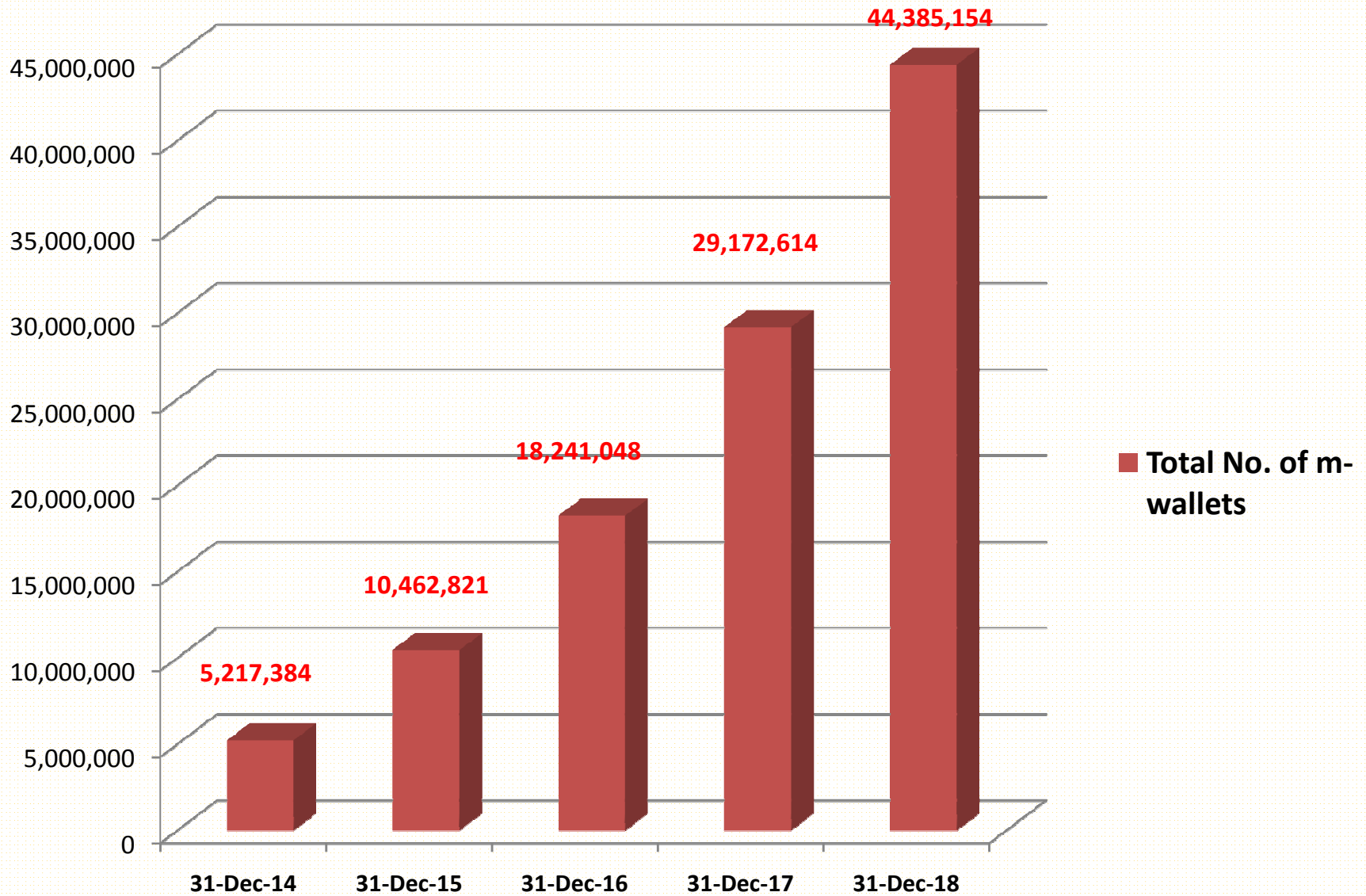


Average Size of Transactions





M-wallet projections for the next 3 years





Recent Developments



- A. Strategic partnerships between various entities/corporations/bodies with the BB players to facilitate :
- Govt Youth Loans scheme
 - International Home remittances
 - Network penetration to the unserved areas
 - Financial inclusion for farmers
 - Disbursement of govt salary/pensions
 - Micro-insurance
- B. Interoperability of MFS platform with Core Banking Account through Inter-Bank Funds Transfer
- C. Roll-out of Automated Customer Verification through NADRA's Bio Verisys at reduced rate.
- D. Payment Systems integration with m-wallets (ATM, IBFT, and PoS)



M-wallet uptake strategy



- Offer Tailor-made products for different market segments
- The BB Channel can play a vital role in facilitating e-governance
- Interoperability
- Merchant Payments & E-Commerce



SME Finance



SME Financing Trends



Borrowers is '000'						Amount in Billions					
	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
SME Outstanding	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3	266.5	272.5	287.9
% Share in Total O/S	17.5%	17.7%	17.0%	16.2%	11.7%	10.3%	9.6%	8.3%	6.8%	6.5%	6.3%
SME Borrowers	106	161	168	185	215	212	211	168	132	137	135
% Share in Total Borrowers	3.1%	3.8%	3.7%	3.9%	4.7%	4.8%	5.4%	4.5%	3.7%	4.0%	4.2%
NPLs - SME Sector	30.1	42.1	36	41.3	61.5	79.2	96.5	95.5	95.4	86.6	87.1
% Share in Total NPLs	16.7%	24.3%	22.6%	20.5%	20.6%	18.6%	19.4%	16.0%	16.0%	15.5%	15.4%

Note: Dec-08 and onwards is the aggregate of Banks & DFIs



SBP Role- SME Financing



Enabling Regulatory Framework for Increasing Finance to SMEs

1. Legal & Regulatory Framework

- Revised PRs on SME Finance

2. Financial Infrastructure

- Credit information Bureau
- Secured Transaction Registry
- SME Credit Rating

3. Provide a facilitative role in Government Interventions

- Government Subsidy Schemes



SBP Role- Measures in Pipeline



New Initiatives in Pipeline

- **Launch of Funding Facility for banks/DFIs for availing advisory services for diagnosis and revamping SME Banking portfolio**
- **Financial Literacy of SMEs**
- **Data Enrichment – New PRs, District-wise**
- **Wholesale Guarantee for NBFCs through FIP Window**
- **SME Finance details from banks through a questionnaire/survey**
- **NPL Study**
- **Launch of Financial Innovation Challenge Fund**



Financial Inclusion Program (FIP)



Financial Inclusion Programme



FIP Components

Microfinance
Credit
Guarantee
Facility

Institutional
Strengthening
Fund

Financial
Innovation
Challenge
Fund

Small and
Rural
Guarantee
Facility

Technical Assistance: Leverage technical assistance for surveys, assessments and market infrastructure and program management



Microfinance Credit Guarantee Facility



Objective

- Develop commercial funding market for MF growth

Coverage

- **Option 1:** 40% or 60% (for Tier II MFPs) Pari Passu
- **Option 2:** 25% First Loss

Interest Rate

- KIBOR of relevant tenor plus 200 bps

Incentives for Commercial Banks

- Risk Sharing and SLR & CRR deductibility for banks/DFIs



MCGF - Leveraged Commercial Capital for MFPs



Mobilized around Rs. 15.45 billion through 44 deals including 2 TFCs

Enabled 750,000 new microfinance loans to poor borrowers

Leverage of around 3 times

Expected to raise additional Rs. 2.0 billion by offering higher risk coverage for lending to weaker MFPs



Institutional Strengthening Fund



Objective

- Transformation of grant assistance from operational subsidies to project based financing for institutional development
- Level playing and open process
- Push and pull factors to enhance potential for growth and depth in outreach
- Preference for innovations in microfinance

Eligibility

- Any institution with a clear strategic vision and strategy. Grants were approved on quality of plans for developing institutional capacity, systems and adoption of innovations

Limit

- Up to \$1 million per year per recipient
- Subject to 25 percent matching contribution



Credit Guarantee Scheme (CGS) for Small and Rural Enterprises



Enhance Credit to micro, small and agricultural enterprise

Participating Financial Institutions: 10 Commercial Banks

Size of CGS: £13m + Rs. 300 million by GoP

Risk Coverage: up to 40%

Maximum loan per party: 15 million

Loan Tenor: up to 5 year depending upon activity

Annual Limits FY15: Rs. 3.356 billion were assigned to banks

CGS Exposure: Guarantee coverage of Rs. 2,554 million issued against MSEs
loans of Rs. 6,328 million

Leverage: around 2.5times

MSEs Served: 10,000 Loans to Agri / MSEs

Average loan size: less than Rs. 650,000

<http://www.sbp.org.pk/sme/d/circulars/2011/C2.htm>



Financial Innovation Challenge Fund



Promote innovations in a transparent and efficient manner

- **Objectives:**
 - ✓ Support financial inclusion innovations through risk capital
 - ✓ Leverage funds to attract private investment

- **Scope:**
 - ✓ Tested and proven products globally but new to Pakistan; and
 - ✓ Tested and proven innovation in Pakistan adopted by another organization or in a different geographic territory or segment

- **Mechanism**
 - ✓ Competitive Challenge round using a combination of Push & Pull Factors
 - ✓ Specialized challenge rounds to catalyse innovations in high impact areas
 - Challenge Round 1: ***Financially Inclusive G2P Payments***
 - Challenge Round 2: ***Innovative Rural & Agricultural Finance***
 - Challenge Round 3: ***Promoting Excellence in Islamic Finance***



Technical Assistance



Investments to enhance market Information and Infrastructure and also provision of technical assistance for FIP Implementation

- **Technical Assistance for FIP implementation**
- **Development of National Financial Inclusion Strategy**
- **Branchless Banking Surveys**
- **Islamic Finance KAP Survey**
- **Repeat Access to Finance survey**
- **Anti-Money Laundering - Strengthening of FMU's Systems and analytic ability**
- **Microfinance Credit Information Bureau**
- **MF transparency initiative for MF industry**
- **Strengthening Consumer protection monitoring vis-à-vis global benchmarks**
- **SBP Capacity Building**



FIP achievements



- **Market Transformation**
 - Transformed donors operations in Pakistan
 - Transformation and demonstrated success in Microfinance, Branchless Banking
 - Some progress in Small enterprise and rural Finance and Financial Innovation

- **Supporting critical market infrastructure**
 - Anti-Money Laundering, Collateral registry and Credit information bureau etc.

- **Level playing access and leveraging capital from donors and private investors**
 - Microfinance – Equity, Debt, Donor
 - Financial Innovation – Equity, Donor
 - Small enterprise Finance – Donor, Debt



Housing Finance



Housing – An Overview

- **Current State of Housing Sector in Pakistan**
 - **There is a large and widening gap in Housing market in Pakistan**
 - World Bank estimated a shortfall of 8 million housing units in Pakistan in 2009
 - According to estimates the annual incremental demand is 600,000 units, of which 50% is met by the private/public investment
 - **The ever-widening housing demand and supply gap requires huge investment**
 - With 600,000 incremental demand and 500,000 units from the backlog, total annual housing needs comes to **1.1 million**
 - At an average price of Rs. 3 million per unit, total funding requirement *is estimated at Rs. 3.3 trillion per year*
 - Assuming only 10% housing needs as effective demand, total funding needs are **Rs. 330 billion**
 - At 70% LTV (Loan-to-Value Ratio), this translates into **Rs. 231 billion** per annum housing credit requirement
- **The situation is compounded by Increased Urbanization and Demographics**



Demand for Housing finance in Pakistan



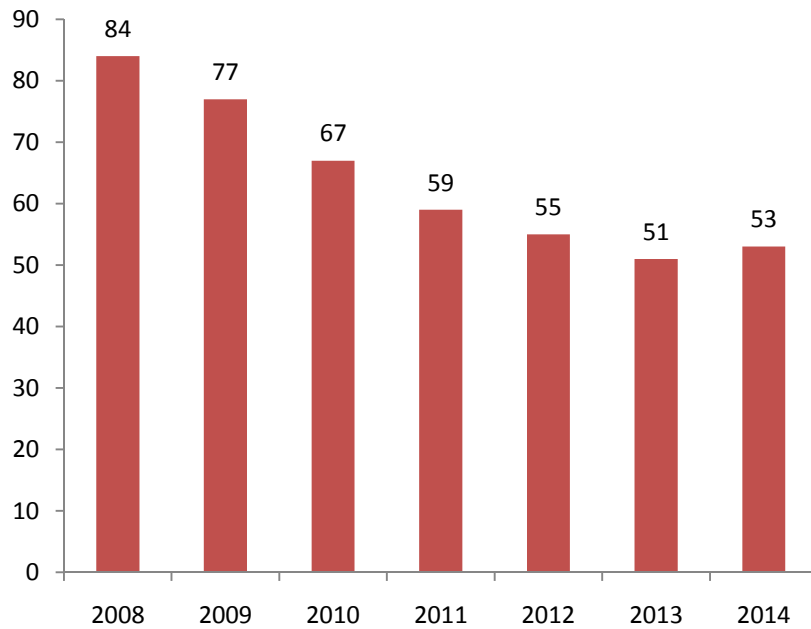
- **Low Income Group**
 - Most of the gap is for the low income/affordable segment.
 - The existing dwellings are non-standardized and of the low quality.
 - The development needs are currently not served by the formal sector.
- **High Income Group and Middle Income Group**
 - Has some access to formal financing and quality of units is standardized.
 - Significant potential for the formal sector to participate in commercially viable segments through development of housing schemes and standardization which will lower the cost of production.
- **Developers – Banks/ DFIs**
 - This segment is mostly unorganized but currently supplying some of the housing demand for middle and high income and commercial property in most of the major cities.
 - This segment is gaining momentum.



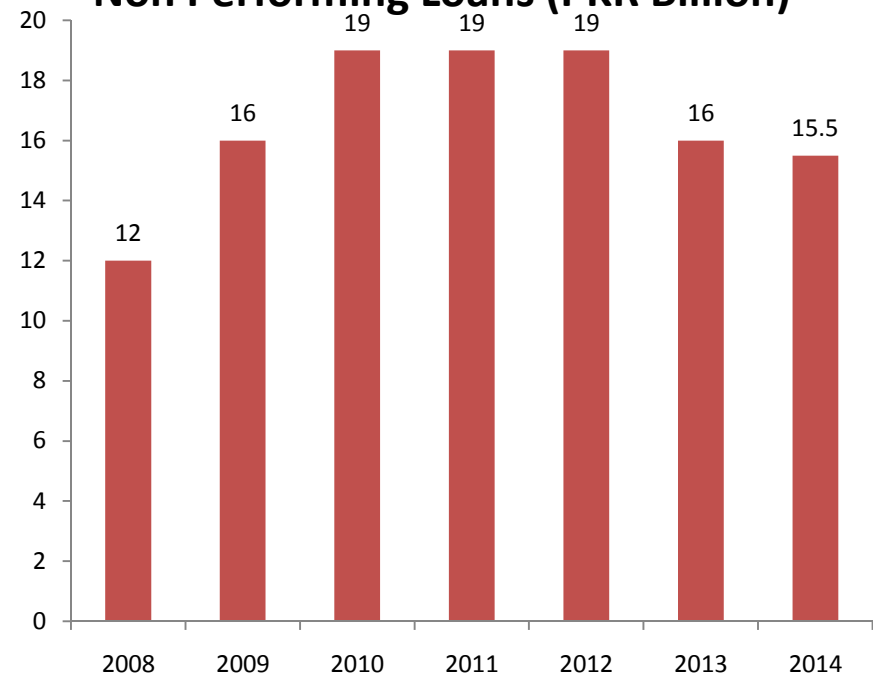
Due to structural Impediments the sector is beset with anemic growth and high NPLs!



Gross Outstanding (PKR Billion)

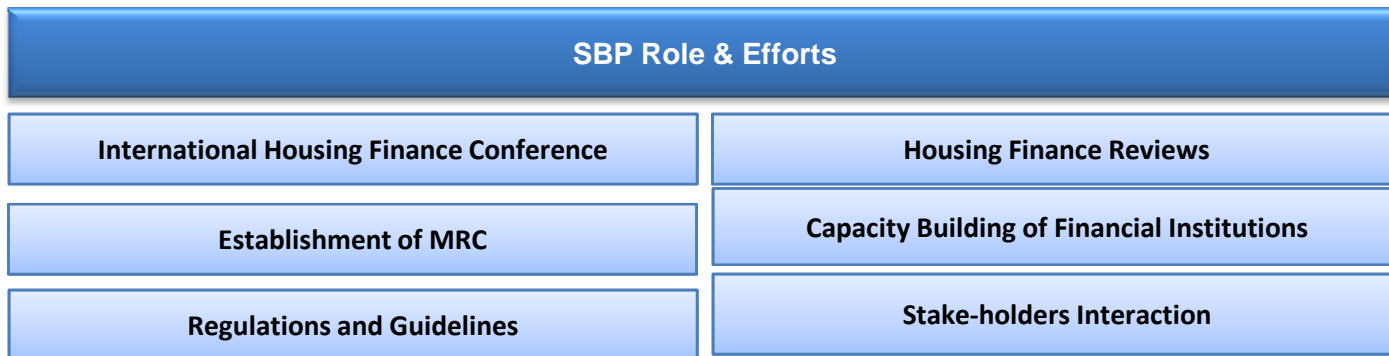
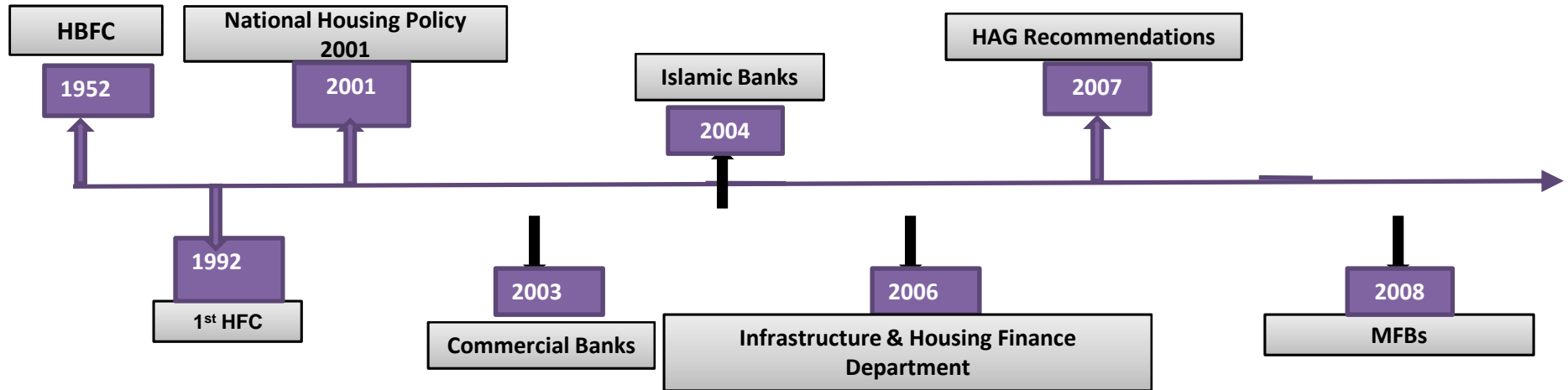


Non Performing Loans (PKR Billion)





Evolution of Housing Finance





Prominent Initiatives Taken by SBP to promote Housing Finance



- Formation of Housing Advisory Group (**HAG**)
 - Implementation of HAG Recommendations
- Separate **PRs** for housing finance
- Issuance of **Developer Finance Guidelines**
- Establishment of **Pakistan Mortgage Refinance Company**
- First **international conference** on affordable housing and mortgage finance
- Capacity building of **Banking court judges** in Pakistan
- **Trainings and Capacity Building** of stakeholders and industry



Thanks!