

DEVELOPMENT FINANCE REVIEW

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Executive Summary

Economy of Pakistan managed to grow by 2.4 percent during 2011 despite macroeconomic imbalances, energy shortages, poor law & order situation, and difficult financial position of the Government. The impact of these domestic factors was compounded by the declining FDI. In such an economic scenario, the Development Finance (DF) outstanding amount witnessed a decline of 4.5 percent on YoY basis (See **Table 1**).

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

Group	Dec-10		Sep-11		Dec-11		Change	
	Amount	Share	Amount	Share	Amount	Share	QoQ	YoY
SMEs	334.0	38.7%	268.2	32.8%	294.3	35.7%	9.7%	-11.9%
Agriculture	168.5	19.5%	173.8	21.2%	176.1	21.3%	1.3%	4.5%
Microfinance (MFBs Only)	10.0	1.2%	15.2	1.9%	14.7	1.8%	-3.9%	46.7%
Housing Finance	67.0	7.8%	61.2	7.5%	59.4	7.2%	-3.0%	-11.4%
Infrastructure Finance	284.5	32.9%	300.0	36.7%	281.0	34.0%	-6.3%	-1.2%
Total	864.0	100.0%	818.4	100.0%	825.4	100.0%	0.9%	-4.5%

At the end of Dec-11, when compared with the preceding quarter, the cumulative DF portfolio saw a marginal rise of 0.9 percent primarily driven by SME sector, posting a growth of 9.7 percent. However, on YoY basis, the DF portfolio witnessed a decline of 4.5 percent mainly driven by SME and Housing sectors. Moreover, while SME finance, and housing loans continued to decline, agricultural credit and microfinance recorded positive expansion on YoY basis. In addition to the factors stated earlier, 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 combined number of DF outstanding borrowers saw a negligible rise of 0.02 percent on QoQ basis primarily led by agri. sector (6.3% growth) as all other DF sectors witnessed decline in their number of outstanding borrowers. Moreover, on YoY basis, the number of outstanding DF borrowers rose by 2.4 percent chiefly attributed to micro sector that saw a growth of 16.3 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.

The aggregate non performing loans of the banks & DFIs saw a sharp rise of 20.2 percent on YoY basis, primarily driven by the corporate sector. On the contrary, NPLs of DF sector merely saw a rise of 6.8 percent largely driven by the infrastructure and agriculture sectors. However, when compared with the preceding quarter, the NPLs witnessed a decline of 3.0 percent mainly attributable to SME and agri. sectors whereas the remaining sectors contributed marginally to the quarterly decline. Of the total NPLs of DF Sectors, SME's share was 59.6 percent, agri. sector 21.3 percent, and the remaining 19.1 percent pertained to the remaining DF sectors.

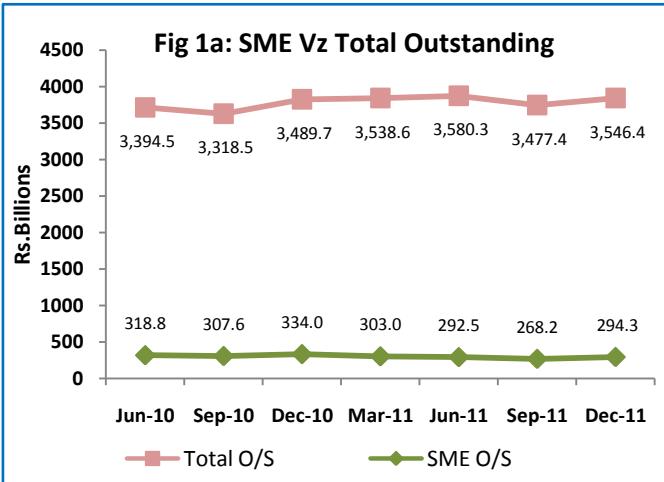
1.1. SME Finance

Financing towards Small and Medium enterprises has been declining since 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 (See **Annexure B**). In this regard, high interest rates, rising inflation, energy shortage, and law and order and increasing energy costs have also diminished the demand for bank credit by SMEs. This has resulted in reduction of the number of borrowers in SME sector by 6.9% QoQ and 20.6% YoY basis.

However, at the end of Dec-11, SME sector's outstanding advances recorded a rise of about 9.7% QoQ basis and amounted to Rs. 294.3 billion. This constitutes about 8.3% of total outstanding banking portfolio (corporate, SME, agriculture, consumer, commodity and others).

While, there has been a swell in NPLs of the whole banking industry during the last few years however; this quarter saw a decline of 2.2% in NPLs of SME sector besides NPLs of other subsectors too recorded decline QoQ basis. Furthermore, on YoY basis, defying the overall rising trends in NPLs of all subsectors, NPLs of SME sector witnessed a decline of 1.1% only.

An enterprise-wise review revealed that share of *trading* SMEs in total SME loans outstanding was 45.8%, *manufacturing* SMEs' share was 38.3%, and *services* SMEs 15.9% at the end of the period under review. Moreover, their respective share in the total SME borrowers was 50.3%, 13.0%, and 36.8%, indicating largest average loan size of about Rs.5.2 million in manufacturing sector, followed by Trading with Rs.1.6 million.



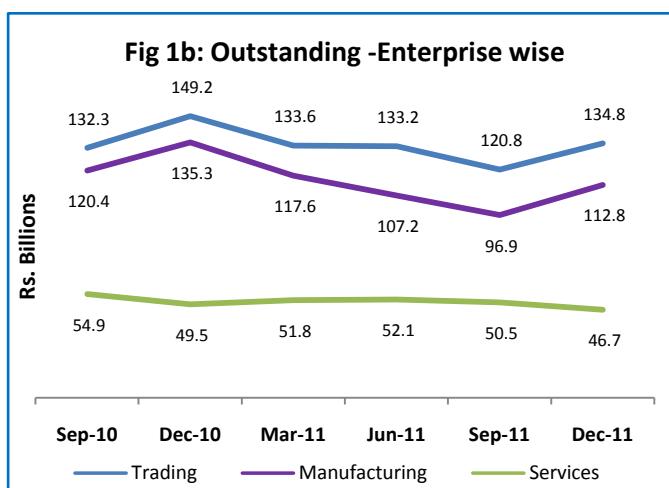
1.2. Outstanding Amount- Break-Ups

Enterprise wise

Trading, Manufacturing and Services sectors posted decline of 9.6%, 16.6% and 5.7% respectively when compared on YoY basis, at the end of the period under review.

However, on QoQ basis, trading and manufacturing sub-sectors saw a growth of 11.6% and 16.5% respectively. (See **figure 1b**)

The growth witnessed in these sub sectors is mainly attributed to the increase in short term advances for SMEs (working capital to SMEs other than SBP schemes) during the period under review. (See also **Annexure A** for quarterly trends)



Tenor wise

A duration wise review of the total SME outstanding advances showed that the dominant share of about 77.8%, following the usual trend, was availed by SMEs under the category of *Short Term* financing (up to one year), while the share of long and medium term financing was 14.6% and 7.6% respectively. SME financing for all tenors improved relative to the foregoing quarter, except the Long term financing which saw a decline of 10.7%. While YoY basis, financing against all tenors saw a marginal decline of 0.1-0.2%. (See **Annexure A**)

Furthermore, the average loan size under Short, Medium and Long Term financing recorded was Rs. 4.1 million, Rs. 0.9 million, and Rs. 0.5 million respectively. This is also consistent with the substantial share of financing for working capital.

Clean vs Collateral

A review of SME outstanding amount viz-a-viz **clean** and **collateral** revealed that the major chunk of financing (97.9%) was made against collaterals while only 2.1% of the amount was lent to SMEs under clean lending category. (See **Annexure A** for quarterly and YoY comparisons). The meager share under clean lending reflects (a) the banks approach of relying on collaterals (b) lack of innovative products and borrower evaluation techniques whereby borrowers' repayment capacity is judged through business/cashflows assessment instead of asset/collaterals. In addition to this, their respective *average loan size* remained Rs.0.2 million and Rs.2.3 million rupees respectively at the end of the period under review.

Size- wise

An analysis of Loan Size-Wise breakup revealed that the major chunk of about 70.4% of 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 of up to Rs. 1 million and Rs. 2 million was about 8.5% and 14.8% respectively.(See **Annexure A** for quarterly trends and YoY comparisons)

Facility- wise

The share of working capital (WC) in total SME outstanding was 80.0%, following the usual trend. The remaining financing was equally shared by fixed investment (FI) and trade finance (TF) related loans with 10.0% (See **Annexure A** for YoY trends). At the end of the period under review, WC saw a 15.8% growth while FI and TF witnessed a deciline of 14.8% and 2.5% respectively when compared with preceeding quarter.

Increased financing against FI is imperative for the sustainable growth of SME sector. Moreover, introduction of risk mitigation measures, increased availability of credible sector specific information and introduction of innovative financing products by both traditional and Islamic banks would be a value addition apart from enhanced financing against FI.

Furthermore, the average loan size recorded against FI, WC and TF, at the end of the period under review, was Rs.2.5 million, Rs.1.6 million and Rs.3.4 million respectively. This is in line with the above stated information of short term financing for working capital needs, an inherent characteristics of SMEs.

1.3. Number of Borrowers

SME and Consumer subsectors continued retardation in their number of borrowers by 6.9% and 4.7% respectively, while Corporate, Agriculture, and commodity financing witnessed a surge in their number of borrowers by 39.0%, 6.3% and 20.7% respectively, when compared with preceding quarter of Sep-11. This is in line with the reduction of total industry borrowers also evident in Fig 1c.

The total number of SME outstanding borrowers stood at 167,949 constituting about 4.5% of the total number of borrowers of banks & DFIs recording a decline of 6.9% at the end of Dec-11, whereas a similar decline of 6.1% was also observed during the corresponding period in 2010.

It is a matter of concern that the number of SME borrowers is falling incessantly which is higher than the comparative fall total industry borrowers. While, this overall decline in the number of borrowers is primarily led by the consumer sector. (**Figure 1c**)

Of the total SME borrowers, the lion's share of about 88.4% availed working capital finance as usual, 6.9% fixed investment, and 5.0% trade finance.

Moreover, the the share of the borrowers categorized as *trading SMEs* was highest with 50.0%, followed by *Services SMEs* with 37.0% and *Manufacturing SMEs* with 13.0% at the end of Dec-11. Likewise, a review of *loan size* wise borrowers marked that 45.5% of total SME Borrowers fell under the bracket size of *up to Rs. 0.5 million* followed by *over Rs. 0.5-1 million* and *over Rs. 5-10 million* with a share of 8.6% and 8.1% respectively. Besides, about 72.5% of the total SME borrowers availed advances of up to Rs. 5 million.

1.4. Non-performing loans

The NPLs of banks & DFIs saw a decline of 1.4%, at the end of Dec-11, primarily driven by the corporate and SME sectors when compared QoQ basis. (See **Fig 1d**)

The non-performing loans (NPLs) of SME Sector, following the industry trend, too saw a decline of about 2.2%, as all other sub-sectors like consumer, agriculture, and commodity witnessed decline in their respective NPLs. (See **Annexure B** for YoY trends of past few years)

Moreover, as a result of the decline in NPLs of the overall banking sector v/s a decline in NPLs of SMEs, share of SME NPLs in total NPLs dropped from 16.1% in Sep-11 to 15.9% by Dec-11.

Fig 1c: SME Borrowers vs Total Borrowers

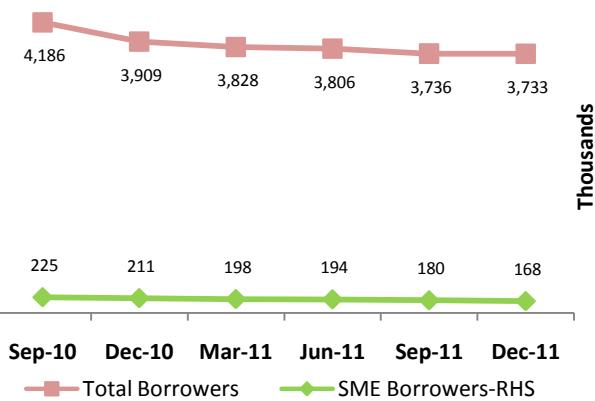
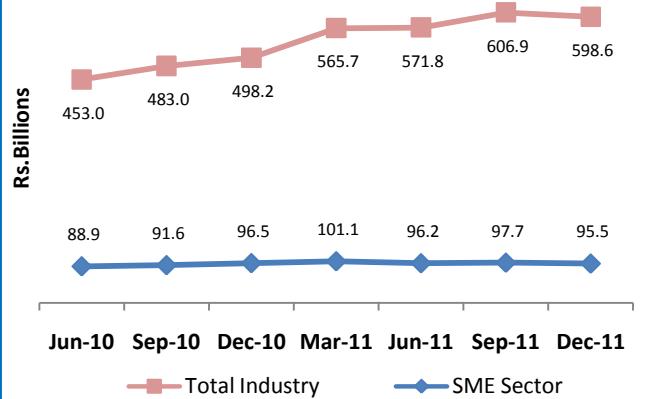


Fig 1d: SME NPLs Vz Total Industry NPLs



1.5. Banking Group wise Distribution

The share of *public sector banks* (NBP, FWBL, BOP, BOK, and Sindh Bank) constituted 15.5% of the total SME outstanding amount (**Table 1A**); and recorded a growth of about 35.7%, when compared with the preceding quarter of Sep-11. Their share is second highest after private sector banks in total SME outstanding. Further, their NPLs saw a slight decrease of 0.6%, QoQ basis. In addition to this, only 6.3% of their total portfolio was allocated towards SME sector.

Table 1A: Banking sector wise distribution- As of Dec-11

Category of Banks	Quarterly Change			% Share of SME in			% Share in Total		
	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	35.7%	-13.6%	-0.6%	6.3%	5.5%	9.4%	15.5%	32.1%	18.1%
Specialized	1.6%	-0.1%	-0.5%	8.5%	4.3%	22.7%	3.3%	22.7%	8.2%
Private	6.3%	-4.9%	-3.1%	9.6%	4.2%	20.0%	79.3%	44.6%	72.2%
Islamic	2.5%	2.0%	10.6%	3.5%	2.7%	9.2%	1.6%	0.4%	1.2%
Foreign	3.3%	-3.3%	-0.7%	0.7%	0.1%	3.4%	0.2%	0.1%	0.3%
DFIs	-5.9%	0.0%	0.0%	0.5%	0.8%	0.5%	0.1%	0.0%	0.1%
Total Banks	9.8%	-6.9%	-2.2%	8.4%	4.5%	16.4%	99.9%	100.0%	99.9%
Grand Total	9.7%	-6.9%	-2.2%	8.3%	4.5%	15.9%	100.0%	100.0%	100.0%

Private Sector Banks' (19 institutions) share in total SME loans outstanding was highest with 79.3%, and posted a growth of 6.3% in their portfolio during the quarter. This represented about 9.6% of their overall outstanding loans. Moreover, like the trend for public sector banks, the SME NPLs of private sector banks too saw a decline of 3.1% on QoQ basis.

The share of *Islamic banks* has been increasing and this quarter too saw a rise of about 2.5% amounting to Rs. 4.8 billion, thus constituting about 1.6% of the total SME outstanding amount. This category of banks witnessed a quarterly rise of 2.0% in their SME borrowers too. In addition to this, the share of Islamic Banking Divisions of the conventional banks in total SME outstanding was about 2.1% (Rs. 6.3 Billion) at the end of the period under review. However, given a sizeable share of trade related financing in SME sector, enormous opportunities for expansion are available to Islamic banks.

The *Specialized banks* category consists of SME Bank, ZTBL, PPCBL and IDBP. The absolute outstanding amount of this category saw a rise of 1.6% to Rs. 9.8 billion, constituting about 3.3% of total SME financing. Their portfolio has been hovering around Rs. 10 billion for the last few years and did not witness any significant improvement.

Finally, this quarter too, did not see any noteworthy improvement in the negligible share of *foreign banks'* and *DFIs* in total SME finance. Instead, the share of DFIs declined by 5.9% at the end of Dec-11. 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. It is imperative to note that a vibrant SME sector would help sustain strong economic growth that would ultimately support the 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 SBP, in collaboration with IFC 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 **Private Sector Hospitals** (<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 segment which include the private hospitals operating in different cities of Pakistan.

Private Hospitals-Key Impediments

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

Limitations of the Research

- The Sample may not be geographically exhaustive and may not suit the requirements of every bank.
- Some of the recommendations are based on knowledge of the market and best practices.
- Demographic information is attained from industry sources and primary research conducted used a selected sample.

Demand

- Increasing population, industrialization, resultant high level of environmental pollution, increased healthcare awareness and lack of focus on a structured public health care system

Supply

- The current ratio of one doctor per 1,183 persons is below the recommended ratio by WHO of one doctor per 1,000 persons.
- There are a number of doctors, dentists and nurses not registered with PMDC and practicing hospitals/clinics.
- Private clinics are mostly located in the urban areas while their presence in rural areas is negligible.
- Trusts, NGOs and social welfare organizations have invested and support health facilities.

Future Prospects

- Low public expenditure by government, lack of expansion in the public health sector, increasing population with rising income levels indicates a high potential for growth.

Market & Demographic Profile

- Most businesses are individual/family owned.
- Modern machinery and equipments along with their maintenance are the major costs incurred.
- High staff turnover is a constant threat to private sector hospitals

Owners Profile

- The business owners consist of people in different age group mostly between 30's and 60's.
- The sector is mainly operated by the qualified doctors and medical practitioners.
- Interestingly most of these businesses are owned and run as family businesses like any other SME.
- The maximum number of staff in the business for SMEs was between 5-8 or less than 4.

Business Suppliers

- They mostly rely on two to five suppliers to meet their requirements.
- Each supplier is chosen for a certain raw material, relying mostly on two to five on whom they have a strong reliance.
- Only 8% of interviewees were not satisfied with their supplier's consistency in meeting their requirements.

Business Cycle

- This segment does not experience cyclical trends as such.
- The business is service based and so there is no heavy reliance on its suppliers.
- Random customers usually visit the hospitals with few for regular checkups.
- The business has strong reliance on referrals by the existing customers and recurring customers.

Financial Assessment and Profile

- Around half of the businesses prepare formal financial statements and duly get them audited by the accountants.
- Owners/managers keep track of accounts themselves.
- Average income is between PKR 1-5 Million, with a great number banking on higher sales volume.
- Reluctance to share accurate financial data presents an issue for calculation of sector's benchmark financial ratios.

Financial Information

- Approximately 53% businesses operating with Total Capital and Total Assets less than PKR 10 Million.
- Business related assets constitute of high technology medical equipments and surgical instruments.
- Annual revenue is predominantly less than PKR 10 Million of about 59%;
- About 35% of businesses have revenue between PKR 10-50 Million.
- Only 3% owners experienced a decline in their earnings over the last year.
- Around 50% respondents earn between PKR 1-5 Million with 18% exceeding their earnings between PKR 6-10Million.

Financial Need Analysis

- Among the fixed assets, finance requirements mainly centered on machinery and equipment of the business.
- 68% businesses have funding needs for business assets
- Businesses are not very keen to obtain financing as they consider it complicated with lot of operational hassles.
- SMEs in private hospitals have preference for long term equipment financing and vehicle financing.

Segment Risk Considerations

- Businesses are largely sole proprietorships.
- Nearly 40% of the hospitals surveyed operate from rented premises.
- About 47% of the businesses have been working for more than 10 years.
- Almost half of the businesses are not formally registered with any trade union or association.
- Around half of the Businesses do not prepare financial statements and very few had an audit of financial statements.
- Segment operates in a low competitive market with maximum number of businesses having one to five competitors.
- The majority of subsector relies on the same supplier to meet material needs.

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 two years
- Review of accounts and register of invoices
- Qualified professionals in business

Proposed Banking Product Suite**Asset Products:**

- Medical Diagnostic Equipment leasing
- Lab Equipment Leasing
- Ward Expansion Business Loans

Liability Products

- Business Bank Account
- Privilege Banking Account for Professionals

Other Products

- Bancassurance
- Branchless Banking (Mobile)
- Utility Bill Payment

1.7. SBP Refinance Schemes

Overview

SBP continued to facilitate financing of export oriented projects both through short term and long term financing with the objective to promote exports and long term investment in the country. Total financing under SBP refinance facilities reached to Rs. 237.4 billion as of Dec-11.

During 2011, under Export Finance Scheme (EFS) the overall limits allocated to banks were Rs. 253.6 billion. However, at the end of 2011, the outstanding banks' financing under EFS stood at Rs. 192.4 billion showing a decrease

of about 8% on YoY basis. This decline may be due to imposition of maximum overdue export proceeds condition for availing EFS facility and decrease in cotton prices during 2011. This decline is also reflected in financing under EFS to textile sector (the largest beneficiary of EFS) which decreased by 14.0% during 2011 on YoY basis.

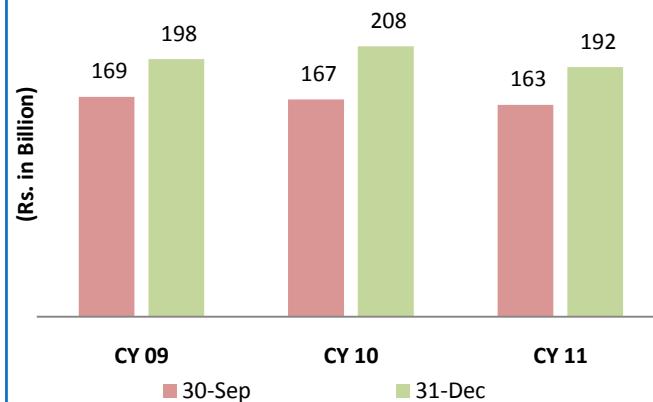
To emphasize on repatriation of export proceeds and discourage any practice of deliberately holding foreign exchange abroad, a new mechanism for availing financing under EFS was introduced by imposing a condition of maximum overdue exports proceeds as 5.0% of last year exports for any exporter. If overdue export position of an exporter is greater than 5.0% of the previous year export performance, the exporter would not be entitled to avail the EFS facility effective 1st October, 2011 till such time that the overdue position is reduced to the 5% benchmark level.

Under Long Term Financing Facility (LTFF), SBP extended the scope of the facility to include glass sector and projects producing packaging material used in packaging/preservation of food items with the objective to encourage more long term investment in export oriented projects. The maximum financing limit was also enhanced to Rs. 1.5 billion and the procedure for financing to new projects was streamlined. On 31st December, 2011, outstanding financing under the facility stood at Rs. 30.5 billion showing an increase of 34% on YoY basis. Under defunct long term financing facility, Rs. 12.4 billion was outstanding making the total financing under long term schemes at Rs. 42.9 billion.

1.7.1. Export Finance Scheme (EFS)

SBP is continuously striving to facilitate exporters and promote exports of the country by providing financing under Export Finance Scheme (EFS) through banks. To accommodate exporters' demand for financing, revolving limits under EFS were sanctioned to banks. During 2011 the overall limits earmarked to banks were Rs. 253.6 billion. However, at the end of 2011, the outstanding position of banks' financing under EFS stood at Rs. 192.4 billion showing a decrease of about 8% on YoY basis.

Fig 1e: Outstanding Financing Under EFS



Banking Group Wise Utilization of EFS

The Private Sector Banks remains the major participant in the Export Finance Scheme with highest share of Rs.161.7 billion (84.0%) in the outstanding financing followed by Public-sector Banks with Rs.14.1 billion (7.3%).

Compared to previous quarter, a major increase in outstanding financing amounting to Rs 24.9 billion is exhibited in private sector banks due to rollover of refinance facility during the quarter.

Commodity Wise Break Up of EFS

The commodity-wise outstanding financing of Rs. 192.4 billion shows textile sector at the top with Rs 111.4 billion (57.9%) followed by edible goods with Rs 31.2 billion (16.2%). Details with comparison to previous quarter and year are given below.

Table 1B: Banking Group Wise Position of EFS

Banking Group	Dec-11	Sep-11	Dec-10	Δ YoY
	(Rs in Billions)			%
Public	14.1	13.0	11.7	20.1%
Private	161.7	136.8	180.5	-10.4%
Islamic	8.6	6.9	6.3	37.2%
Foreign	8.0	6.5	9.8	-17.6%
Total	192.4	163.2	208.3	-7.6%

Sector	Dec.11	Sep.11	Dec.10	% Change	
				YoY	QoQ
Textile/Textile Products	111.4	102.6	130.1	-14.4%	8.5%
Edible Goods	31.2	19.1	29.8	4.8%	62.9%
Leather/Leather Goods	11.6	11.2	11.6	-0.2%	3.4%
Machinery	1.4	1.0	1.8	-21.5%	39.4%
Metal Products	2.7	2.7	2.8	-2.8%	2.1%
Carpets	1.4	1.6	4.2	-65.5%	-10.1%
Sports Goods	2.4	2.5	2.6	-6.7%	-2.7%
Other Commodities	30.3	22.4	25.5	19.1%	35.0%
Total	192.4	163.2	208.3	-7.6%	17.9%

Borrower Wise Distribution of EFS Funds

As on Dec-11 the total number of borrowers under Export Finance Scheme (EFS) stood at 1,482 with an average loan size of Rs. 130 million. Reduction of 235 borrowers was observed as compared to 1,717 borrowers in the same quarter of last year. It may be attributed to capping of availability EFS funds to only those exporters whose overdue bills are not more than 5.0% of the last year's exports.

Region Wise Utilization of EFS Funds

Out of total financing of Rs.192.2 billion, about 93.0% of EFS funds are concentrated in four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad. But there is a vast disproportion in terms of utilization of EFS funds from one region to another. For instance, Karachi and Sialkot may be almost identical in terms of total number of borrowers, but the total EFS financing in Karachi stands at 46.0% (*Rs.89.3 billion*) out of total financing, whereas the same is at 5.0% (*Rs.10.1 billion*) in Sialkot. Further varying 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. 337 million, in Karachi the same is at Rs. 202 million, while it is just Rs. 22 million per borrower in Sialkot. The smaller loan size in Sialkot despite huge number of borrowers 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.

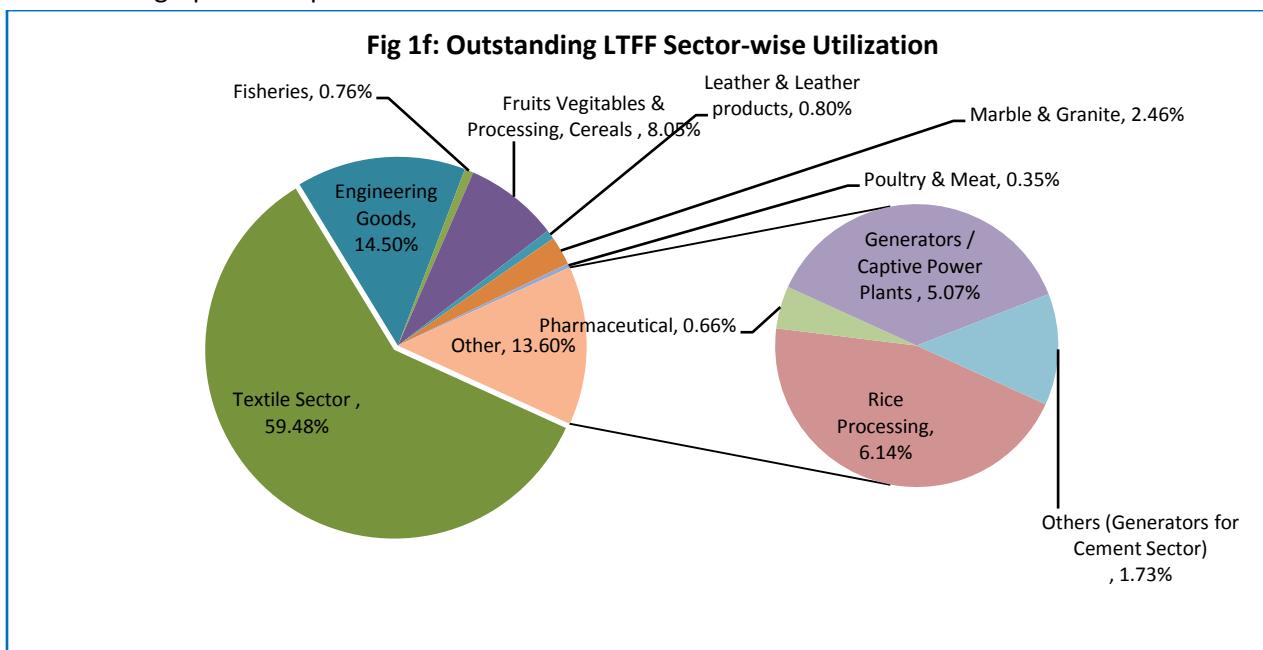
Regional Composition of Borrowers

No change was observed in region-wise number of EFS Borrowers. According to banks' data for the quarter ended Dec-11, about 87.0% of borrowers are located in the above mentioned four major cities, whereas only Karachi & Sialkot have about 61.0% of total beneficiaries with both sharing 30.0% and 31.0% respectively. There was only 1 borrower at Hyderabad and 2 at Quetta at the end of Dec-11.

1.7.2. Long-Term Financing Facility (LTFF)

Under the Long Term Financing Facility for Plant and Machinery, limits of Rs.22.3 billion have been allocated to banks/DFIs. The outstanding amount of financing was Rs.30.5 billion as on Dec-11 which is higher by Rs.7.8 billion when compared with Dec-10.

Under LTFF major portion of financing was availed by Textile Sector (Rs.18.1 billion) followed by Engineering goods (Rs.4.4 billion). Within the Textile sector major financing was availed by weaving textiles. The graph below provides sector wise utilization of funds under the scheme.



1.7.3. Other Refinance Facilities

- **Financing Facility for Storage of Agricultural Produce** was introduced to encourage Private Sector to establish Silos, Warehouses and Cold Storages to store agricultural produce. Outstanding refinance provided by SBP under this facility is Rs.1,301.4 million.
- **Refinancing Facility for Modernization of SMEs** was introduced to encourage the sponsors of SMEs to modernize their mills/units to produce quality products. Outstanding refinance under this facility is Rs.249.8 million.

- **Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas** was introduced for agri. production/working capital finance to Farmers and Small & Medium Enterprises (SMEs) in districts affected by Floods of 2010 as notified by National Disaster Management Authority (NDMA). Outstanding refinance under this scheme is Rs. 313.6 million.

1.7.4. Islamic Export Refinance Scheme (IERS)

During the quarter under review, the total number of participating banks was 11 (5 Islamic Banks, 6

Fig 1g: Limits Assigned Vs Limits Utilized under IERS (Rs. Billion)

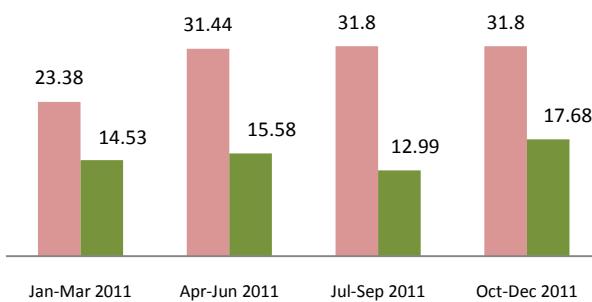
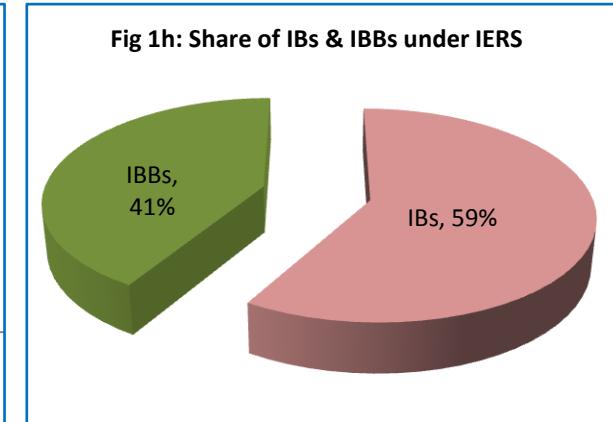
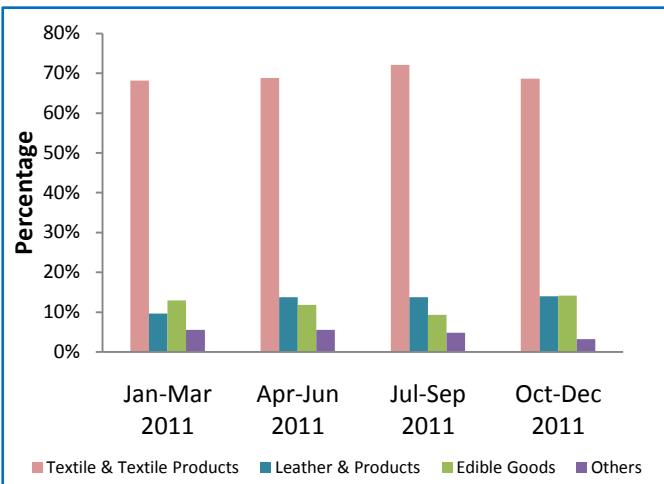


Fig 1h: Share of IBs & IBBs under IERS



Conventional Banks' Islamic Banking Operations). The limits assigned to Islamic Banking Institutions remained same over the quarter as Rs. 31.8 billion and IERS limit remained same as 13.0% 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. 17.6 billion, which increased by 36% i.e.; from Rs. 12.99 billion in previous quarter. The limit utilized as percentage of limit assigned was 55.6% at the end of Oct-Dec, 2011 quarter. The utilized limit decreased by 14.8% when compared to last quarter.

The Textile and Textile products sector exposure was around 68.6% for the quarter Oct-Dec, 2011 under IERS. The sector exposure in the Leather & Leather Products and Edible Goods was 14.0% and 14.1% respectively as of Dec 31, 2011.

2.0. Microfinance

2.1. State of Microfinance Banks in Pakistan

Microfinance Banks (MFBs) have shown considerable growth during the year 2011 in all indicators (see Table 2A), despite facing many challenges. The asset base has remarkably increased by 41%, the most significant rise in a year since 2001, on the back of robust increase of secured advances and inclusion of NRSP portfolio into the ambit of microfinance banking. Deposits were up by 35%, on the back of term finance certificates offered by major MFBs at higher rates and micro-saving mobilization through alternative delivery channels.

Table 2A: Snapshot of MFBs

Outreach	Dec-10	Sep-11	Dec-11	Growth			
				(YOY) %		(QoQ)%	
*(Amount in Rs. '000')							
Borrowers	631,238	789,013	733,931	16%	↑	-7%	↓
Advances *	9,985,488	15,242,511	14,650,231	47%	↑	-4%	↓
NPLs*	349,502	418,145	313,983	-10%	↓	-25%	↓
PAR >30 Days in %	3.50%	2.74%	2.14%	-39%	↓	-22%	↓
Deposits*	10,338,682	11,372,036	13,927,066	35%	↑	22%	↑
Assets*	21,437,837	26,794,450	30,263,768	41%	↑	13%	↑
Equity*	5,775,137	6,458,428	6,745,902	17%	↑	4%	↑

The October – December quarter is considered as recovery period for MFBs on account of seasonal financing in agri. and livestock. Accordingly, MFBs have recovered Rs. 6.34 billion during the 4th quarter of 2011. Due to this effect, the share of gross loan portfolio, among total assets, has reduced from 56% to 47% during the quarter. On the other hand, the share of cash and cash equivalent has increased from 13% to 26%, due to loan recoveries and deposits growth. Temporarily, this has caused excess liquidity in the micro banking sector. However, the situation will be reversed once the agri. disbursements start in the coming quarters.

Notably, the asset quality has been improved during the year, as the percentage of NPLs to gross loan portfolio has been reduced from 3.5% in Dec. 2010 to 2.1% in Dec. 2011. It is pertinent to mention here that MFBs have also experienced positive recoveries from those districts which were badly affected by rain flood during the middle of the year 2011. This has eased the difficult situation caused by devastating natural calamities as well as high inflationary pressures experienced consecutively during the last two years.

Moreover, the funding base of the MFBs has reached at Rs. 30 billion with 41% growth on YoY basis, on the back of Rs. 14 billion deposits, Rs. 8.2 billion commercial borrowing, and Rs. 6.7 billion equity. However, few MFBs are still facing funding constraints due to inadequate equity (free of losses), and limited commercial funding due to unsustainable models. On positive side the weaker MFBs (Rozgar and Network) have now been acquired or are in process of acquisition by new investors. Moreover, divestment process KBL has also entered in its final stage.

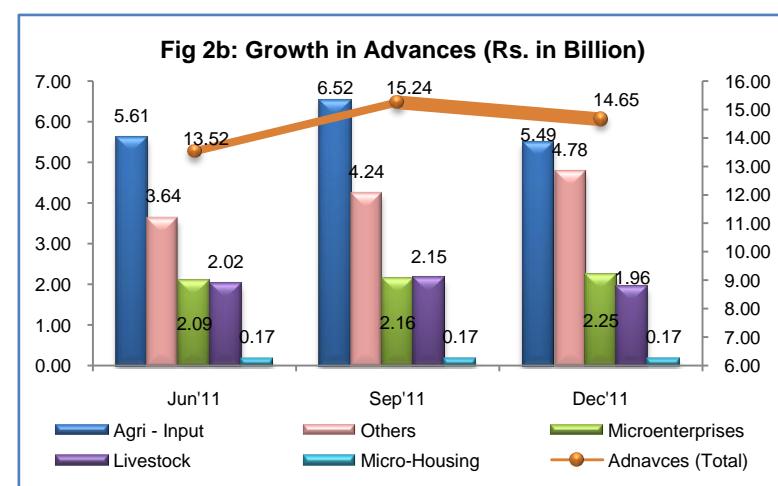
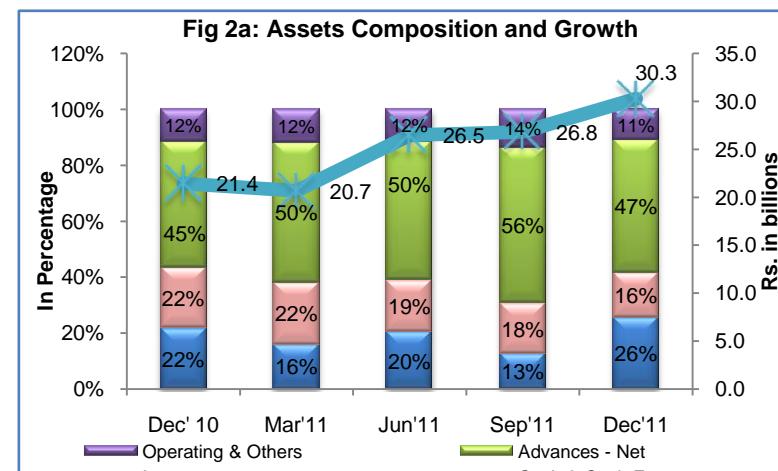
With the completion of much of restructuring in existing MFBs and addition of new players, it is hoped that the MFBs will work hard to accelerate the development and diversification of their products and services.

2.2. Assets

The asset base of MFBs has progressively increased during the year 2011 by a growth rate of 41% and stood at Rs. 30.3 billion as of December, 2011 (Figure 2a). It is the most significant rise in MFBs' asset base within a year since 2001. There are two main reasons behind this phenomenal growth. First, all big four MFBs have increased their loan portfolio on the back of commercial borrowing and/or increased deposits base. Second, the NRSP (Foundation) has transformed its operations in Bahawalpur region into NRSP Microfinance Bank in March 2011, which has now become the 4th largest MFB. These factors also impacted on the asset and portfolio mix of the MFBs.

In the 4th quarter of CY 2011, significant changes have been observed in the asset mix of the MFBs due to seasonal financing for cash crops like sugarcane

and cotton. Accordingly, MFBs have recovered Rs. 6.34 billion during the quarter, which is 30% more during the same period last year. Consequently, 'advances' and 'cash & cash equivalent' categories have shown reverse growth in shares, like the former category's share has been reduced from 56% to 47% and the share of later category has been increased from 13% to 26% respectively (Figure 2a). The share of 'investments' has been slightly reduced from 18% to 16% due to maturity dates during the quarter (Figure 2a). These



changes in asset mix illustrates that MFBs have accumulated excess liquidity in the last quarter, particularly the big four MFBs (KBL, Tameer, FMFBL, and NRSP). However, this is temporary phase and will eventually reverse back in the up-coming quarters when next phase of agri. financing will start. Trend in growth of advances is shown in (Figure 2b).

2.3. Advances

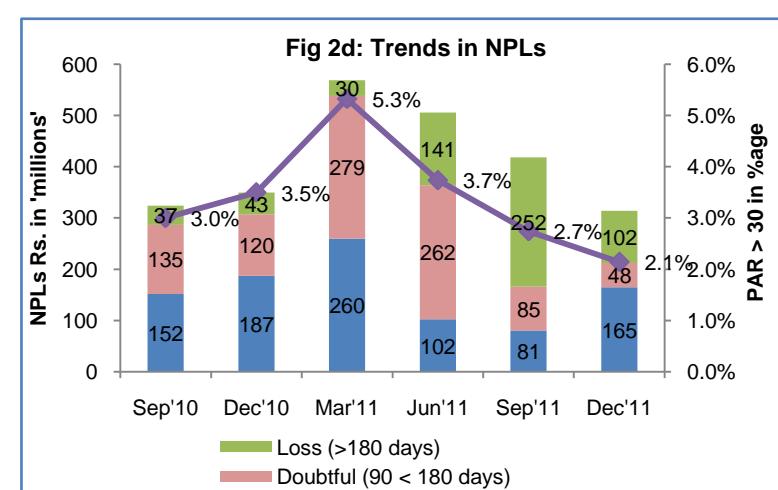
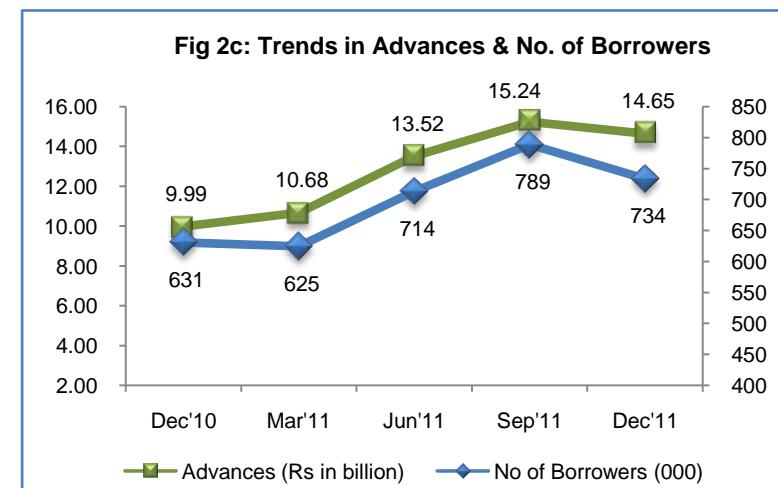
Advances have shown a mixed growth during the year 2011. Advances have gradually increased till the end of 3rd quarter 2011 but declined by 4% in the 4th quarter and currently stood at Rs. 14.65 billion. During the year, the growth in advances was contributed mainly by the inclusion of NRSP as an MFB and aggressive growth of Tameer MFB. The total advances of NRSP as of December 2011 stood at over Rs. 2 billion.

The negative growth of 4% in the 4th quarter was contributed mainly by seasonal factors and recovery focus of MFBs. The distribution of advances show that both Agri-input and livestock categories have declined by 25% during the 4th quarter and stood at Rs. 5.49 billion and Rs. 1.96 billion respectively as of December 2011 (Figure 2b). On the other hand, the ‘others’ and ‘microenterprise’ categories have shown positive quarterly growth of 13% and 4% respectively.

The similar trend has also been observed in the number of borrowers as illustrated in the Figure 2c. Number of Borrowers have increased during the year (16%) but declined in the 4th quarter (7%). As of December 2011, total number of borrowers stood at 733,933 which constituted 75% male borrowers. The average outstanding loan size of MFBs is consistently improving and currently stands at Rs.19,961 which indicates that MFBs are gradually up-scaling. The YOY growth in number of borrowers was due to Tameer MFB (19%) and Kashf MFB (14%). The positive trend of borrowers during the year can also be accounted to the transformation of leading microfinance player like NRSP into regulated bank and expansion of Branchless Banking.

2.4. Non Performing Loans

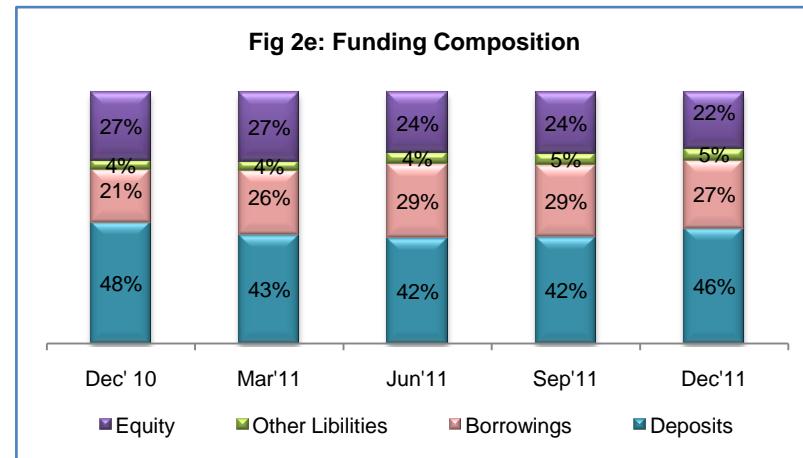
NPLs have shown a decreasing trend during the year 2011 after accumulation in 2010 due to devastating floods (See Figure 2d). Starting from Rs. 349 million as of December 2010, NPLs have decreased by 10% to reach at Rs 314 million as of December 2011. During the 4th quarter, the loss category has decreased sharply and accounted for 32% of the total portfolio at risk compared to that of 60% during the 3rd quarter of 2011.



The reason for decreasing NPLs during 4th quarter may be attributed to the write offs of Rs 214 million in which KBL has written off loans of Rs. 171 million.

2.5. Funding

The total funding of MFBs has continuously improved over the period and recorded 41.0% growth during the year CY 2011 (13.0% growth during the 4th quarter) and stood at Rs. 30.3 billion. This growth in funding is mainly contributed by remarkable growth in deposits (35% YoY) and equity (17% YoY). Total deposits, being the largest part, have contributed 46% of the total funding



(Figure 2e). Khushhali (122%), Tameer (31%), and Kashf (28%) have shown a significant growth in deposits during the 4th quarter which shows success of their savings products as key funding strategy.

The equity has also posted 4.5% growth during the quarter, which is attributable to positive retained earnings of Khushhali, The First Microfinance, and Pak-Oman MFBs, and share subscription of KfW in NRSP Microfinance Bank. On the other hand, borrowings contributed 27% of the total funding of MFBs. Overall commercial borrowings increased by 81% during the year and stood at Rs 8.2 billion as of December 2011 compared to Rs 4.5 billion in December 2010.

These growing trends in deposits, borrowing and equity indicate that the micro-banking industry is now leading towards sustainable sources of funding. This healthy trend in funding will eventually lessen the MFBs' dependence on subsidies/ grants.

3.0. Agricultural Finance

3.1. Introduction

An indicative agri. credit disbursement target of Rs 285 billion was set by SBP for banks for FY 2011-12. The target is 8.4% higher than the disbursement and 5.5% higher than the target of 2010-11. Out of the total target, Rs 195.1 billion were 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).

3.2. Agricultural Credit Disbursement

During the 1st half of FY 2011-12, banks disbursed Rs 125.2 billion to agriculture sector as against a disbursement of Rs 101.6 billion in the same period last year. Quarter-wise disbursement reveals that banks disbursed Rs 70.9 billion during Oct-Dec, 2011 quarter compared to disbursement of Rs 54.3 billion in the preceding quarter and Rs 60.1 billion during corresponding quarter last year. Annual agri. credit targets for FY12 & FY11 and actual disbursements by banks are given in Table 3A. Bank-wise break up of agri. credit disbursement reveals that during 1st half of FY 2011-12, five major banks as a group disbursed Rs. 70.6 billion or 50% of their annual targets, ZTBL disbursed Rs 21 billion or 30% of its target, Domestic Private Banks (DPBs) disbursed Rs 24.2 billion or 44.8% of the target, PPCBL disbursed Rs. 3.9 billion or 50.9% of the target, while MFBs disbursed Rs. 5.5 billion or 45.1% of their whole year's targets. During Oct-Dec, 2011 five major banks as a group disbursed Rs. 35.6 billion or 25.2% of their whole year targets, ZTBL disbursed Rs. 16.0 billion or 22.8% of targets,

Fig 3a: Disbursement by 5 Big Banks

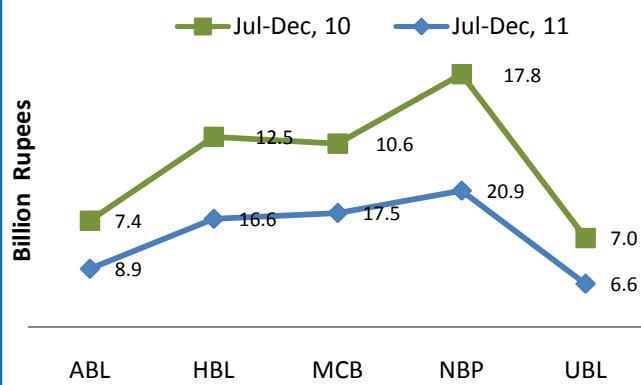
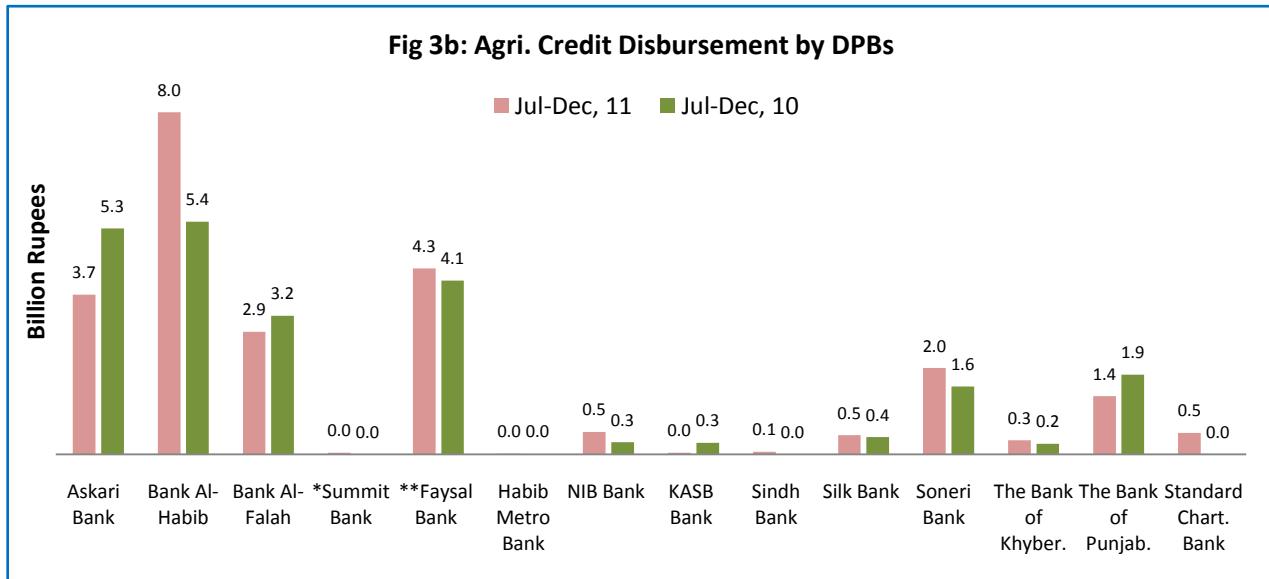


Table 3A: Agricultural Credit Targets and Disbursement (Billion Rupees)

Banks	Target 2011-12	Disbursement			Target 2010-11	Disbursement		
		Jul-Sep 2011	Oct-Dec, 2011	Jul-Dec 2011		Jul-Sep 2010	Oct-Dec, 2010	Jul-Dec 2010
Big Five	141.0	34.9	35.6	70.6	132.4	25.9	29.1	55.0
ZTBL	70.1	5.1	16.0	21.0	81.8	5.3	15.7	21.0
DPBs	54.1	11.2	13.0	24.2	48.9	9.4	13.3	22.7
PPCBL	7.6	1.6	2.3	3.9	6.9	0.9	2.0	2.9
MFBs	12.2	1.4	4.1	5.5	0.0	0.0	0.0	0.0
Total	285.0	54.3	70.9	125.2	270.0	41.5	60.1	101.6

DPBs disbursed Rs. 13.0 billion or 24.0% of targets, PPCBL disbursed Rs. 2.3 billion or 30.2% of targets and MFBs disbursed Rs. 4.1 billion or 33.6% of the target. The cumulative position of agri. Credit disbursements by five major banks for the period July-Dec, 2011 and, 2010 has been illustrated in figure 3a.

Half yearly comparative agri. credit disbursement position of DPBs for the period July-Dec, 2011 and 2010



is illustrated in figure 3b.

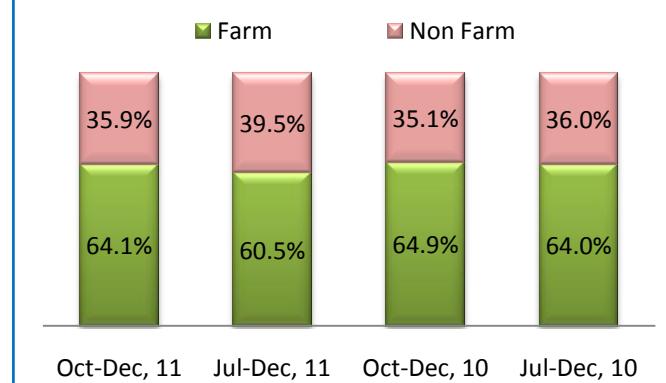
Sector-wise classification reveals that during 1st half of FY 2011-12 out of disbursement of Rs 125.2 billion,

Table 3B: Credit Disbursement to Farm & Non-Farm Sectors (Billion Rupees)

Segment		2011-12		2010-11	
		Oct-Dec, 11	Jul-Dec, 11	Oct-Dec, 10	Jul-Dec, 10
A	Farm Credit	45.5	75.7	39.0	65.0
1	Subsistence Holding	25.5	43.3	23.1	38.1
i	<i>Production</i>	25.0	42.1	21.9	36.1
ii	<i>Development</i>	0.6	1.2	1.2	2.0
2	Economic Holding	11.9	19.4	9.9	16.9
i	<i>Production</i>	11.6	18.9	9.6	16.4
ii	<i>Development</i>	0.3	0.5	0.3	0.5
3	Above Economic Holding	8.1	13.0	6.0	10.0
i	<i>Production</i>	7.4	11.9	5.6	9.4
ii	<i>Development</i>	0.7	1.1	0.4	0.6
B	Non-Farm Credit	25.5	49.5	21.1	36.6
1	Small Farms	6.4	12.0	4.4	7.8
2	Large Farms	19.1	37.5	16.7	28.8
Total (A+B)		70.9	125.2	60.1	101.6

an amount of Rs 75.7 billion or 60.5% was disbursed to farm sector and Rs 49.5 billion or 39.5% were disbursed to non-farm sector as compared with disbursement of Rs 65 billion or 64% and Rs 36.6 billion or 36% respectively during the corresponding period last year.

During Oct-Dec, 2011 quarter out of disbursement of Rs. 70.9 billion, an amount of Rs. 45.5 billion or 64.1% was disbursed to farm- sector and Rs 25.5 billion or 35.9% to non-farm sector, while during the corresponding period last year, Rs. 39 billion or 64.9% agri. credit was extended to farm sector and Rs. 21.1 billion or 35.1% to non-farm sector. Rising tendency in non-farm sector credit disbursements is largely due to continual disbursement in livestock and fisheries sub-sectors 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. Financing to poultry sector also increased due to high prices of poultry amid strong domestic demand. Banks' disbursements to farm and non-farm sectors are illustrated in Table 3B. Whereas the percentage share of farm and non-farm sectors in agri. credit disbursement during the period is illustrated in Figure 3c.

Fig 3c: % Share of Farm & Non-Farm Sectors

3.3. Province-Wise Disbursement

During 1st half of FY 2011-12, out of total disbursement of Rs. 125.2 billion, Rs. 108.3 billion or 86.5% were disbursed in Punjab, Rs. 13.2 billion or 10.5% in Sindh, Rs. 3.2 billion or 2.5% in Khyber Pakhtunkhwa, Rs. 0.1 billion or 0.1% in Baluchistan and Rs. 0.4 billion or 0.3% in AJK & GB compared with Rs. 89 billion or 87.6%, Rs.9.5 billion or 9.4%, Rs. 2.6 billion or 2.5%, Rs. 0.1 billion or 0.1% and Rs. 0.4 billion or 0.4% respectively during the corresponding period last year.

During Oct-Dec, 2011 Rs. 61.1 billion were disbursed in Punjab which is 27.1% of its target, Rs. 7.7 billion in Sindh or 20.1% of the target, Rs. 1.8 billion in Khyber Pakhtunkhwa or 11.5% of the target, Rs .0.1 billion in Baluchistan or 2.5% of the target, Rs. 0.2 billion in AJK & GB or 14.3% of the target. Details of province-wise disbursements, vis-à-vis targets achieved are given in Table 3C:

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

Province	Target 2011-12	Disbursement		Target 2010-11	Disbursement	
		Oct-Dec, 11	Jul-Dec, 11		Oct-Dec, 10	Jul-Dec, 10
Punjab	225.7	61.1	108.3	210.6	53.0	89.0
Sindh	38.3	7.7	13.2	37.8	5.3	9.5
Khyber Pakhtunkhwa	15.6	1.8	3.2	16.2	1.5	2.6
Baluchistan	4.0	0.1	0.1	4.1	0.0	0.1
AJK & Gilgit-Baltistan	1.4	0.2	0.4	1.4	0.3	0.4
Total	285.0	70.9	125.2	270.0	60.1	101.6

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

3.4. Agri. Non-Performing Loans

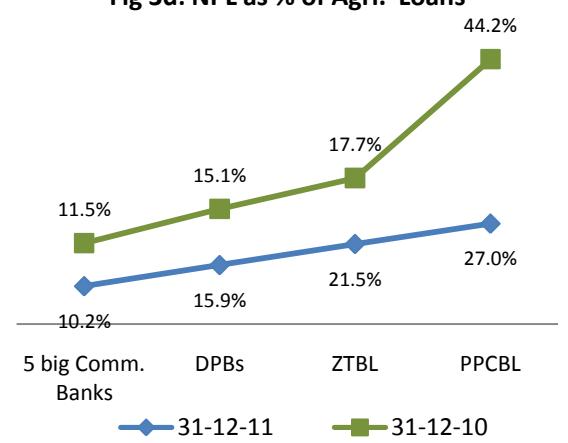
Non-performing loans in agri. financing stood at Rs. 32 billion or 17% of the outstanding loans as on 31st Dec-11 compared with Rs. 28.8 billion or 16.5% of the outstanding loans as on Dec-10. Bank wise detail of NPLs is given in Table 3D.

Table 3D: Agri. Non Performing Loans				
	NPLs*	Outstanding loans	NPLs	Outstanding loans
Banks	Dec-11	Dec-11	Dec-10	Dec-10
Big Five	6.7	65.2	6.3	54.4
DPBs	4.0	25.2	3.6	24.0
ZTBL	19.2	89.4	15.9	89.8
PPCBL	2.1	7.9	3.0	6.8
Total	32.0	187.8	28.8	174.9

*provisional

Figure 3d shows NPLs' position of banks as a percentage of their outstanding loans during first half of FY 2011-12 and FY 2010-11.

Fig 3d: NPL as % of Agri. Loans



3.5. Number of Agri. Loan Borrowers

The number of agri. loan borrowers was 1.973 million as on Dec-11, as against 1.783 million as on Dec-10, showing an increase of 11% YoY (also due to inclusion of borrowers of MFBs). Bank-wise position of outstanding number of borrowers reveals that decrease in number of borrowers

Table 3E: Number of Outstanding Agri. Loan Borrowers

Banks	FY 2011-12 As on December		FY 2010-11 As on December		YoY % Change	Trend
	No. of Borrowers	% Share in Total	No. of Borrowers	% Share in Total		
Big Five	327,846	16.6	425,917	23.9	-23.0	↓
ZTBL	1,101,552	55.8	1,133,400	63.6	-2.8	↓
DPBs	35,835	1.8	38,363	2.2	-6.6	↓
PPCBL	199,486	10.1	185,595	10.4	7.5	↑
MFBs	308,565	15.6	0	0	0.0	
Total	1,973,284	100.0	1,783,275	100.0	10.7	↑

was witnessed in five major banks, ZTBL and DPBs; whereas borrowers of PPCBL rose modestly by 7.5%. High mark up rate, increasing NPLs and defaults in repayment due to a variety of reasons, resulted in the decline in outstanding number of borrowers in the stated banks. Bank-wise position of number of borrowers is shown in Table 3E.

4.0. Housing Finance

4.1. 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.

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.

The “property valuers” have professional conduct requirements that were established by SBP and the Pakistan Banks’ Association (PBA), 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 using a strong regulatory authority to enforce corporate governance and allied standards for this stratum of business entrepreneurship, the quality of availability of housing facilities across population spectrum will not improve.

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 Dec-11 was Rs. 59.4 billion showing a decline of Rs. 7.6 billion as compared to Rs. 67.0 billion as on Dec-10 (a decline of 11.4%) and Rs. 61.2 billion at the end of Sep-11. The total number of outstanding borrowers has also decreased from 98,451 to 91,398 since Dec-10; showing a fall of 7.2% which was 5.7% decline in the last quarter since Sep-11.

Approximately 786 new borrowers were extended house finance during the quarter (Oct-Dec, 2011), accounting for Rs. 1.6 billion of new disbursements. HBFCL accounted for 52.3% of these new borrowers and contributed 19.5% of the new disbursements equivalent to Rs. 318.5 million.

Financing for outright purchase continued to dominate financing for construction and renovation by comprising almost 54.9% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 33.5% and 11.6% respectively.

Non-performing loans have increased from Rs. 18.5 billion (Dec-10) to Rs. 19.0 billion (Dec-11); a 2.9% increase over the year. The stock of NPLs as on Sep-11 was Rs. 19.1 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.

4.2. Gross Outstanding

The total outstanding finance as on Dec-11 of all banks and DFIs stood at Rs. 59.4 billion, as compared to Rs. 61.3 billion as on Sep-11, showing a decrease of Rs. 1.9 billion (3.2%). When compared to the position of Dec-10, outstanding of all commercial banks and DFIs collectively decreased by 11.4% (see Figure 4b).

Banking sector-wise total outstanding on quarters ending Dec-10 & 11 are shown in Figure 4c. Of the total outstanding as on Dec-11, commercial banks accounted for Rs. 45.90 billion; a 13% decline since quarter ending

Fig 4a: Islamic Banks Gross Outstanding

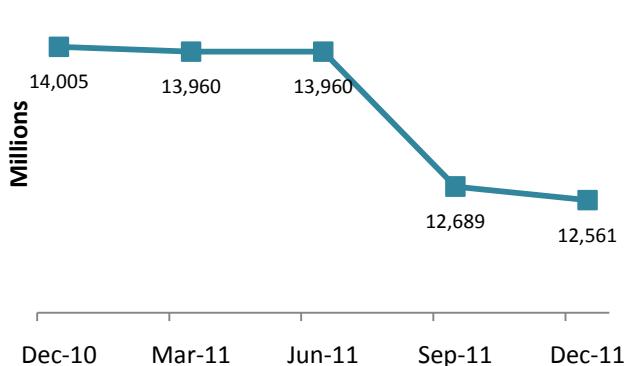
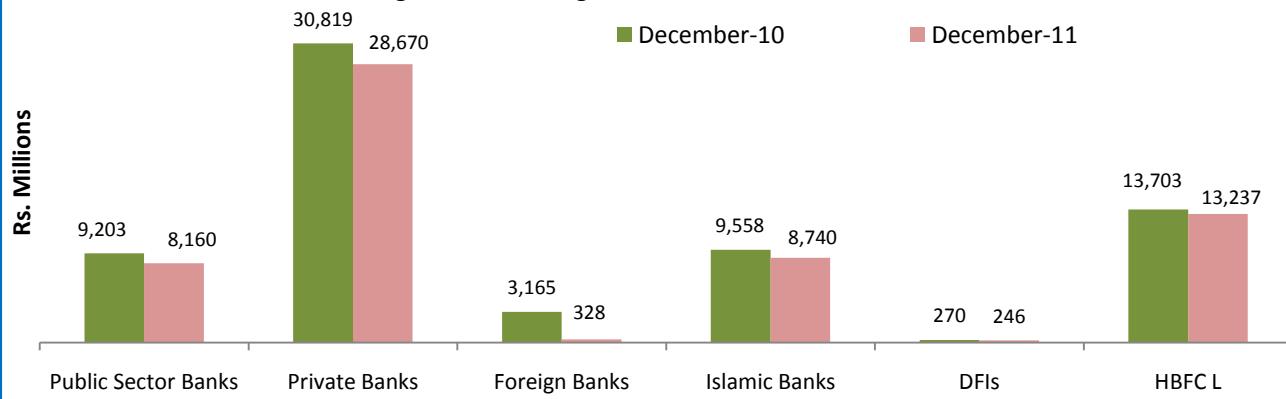


Fig 4b: Overall Industry Gross Outstanding



Fig 4c: Outstanding as on December 31, 2011 & 2010



Dec-10. Private banks reported Rs. 28.7 billion followed by Islamic banks at Rs. 8.7 billion, public sector banks at Rs. 8.2 billion and foreign banks with Rs. 0.33 billion. The outstanding loans of HBFCL were Rs. 13.2 billion; down by 3.5% over the last year. Other DFIs have a meager share of Rs. 0.25 billion in outstanding loans.

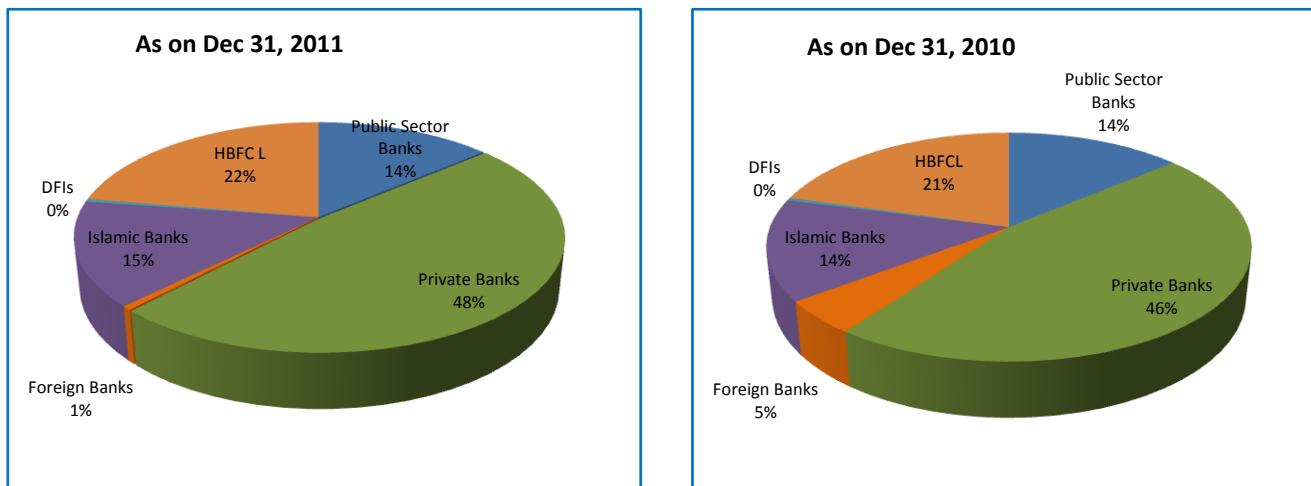
The total outstanding housing finance as on Dec-11 of Islamic Banking Industry (05 Islamic Banks & 13 Islamic Banking Divisions of Conventional Banks) stood at Rs. 12.6 billion. Compared to quarter ending Sep-11 (Rs. 12.7 billion), outstanding of Islamic banking Industry decreased by 0.9% (see figure 4a).

Of the total outstanding Islamic housing finance, Islamic banks accounted for Rs. 8.7 billion (0.7% decrease over the last quarter Sep-11). IBDs of conventional banks posted Rs. 3.8 billion (a 1.5% decline since quarter ending Sep-11).

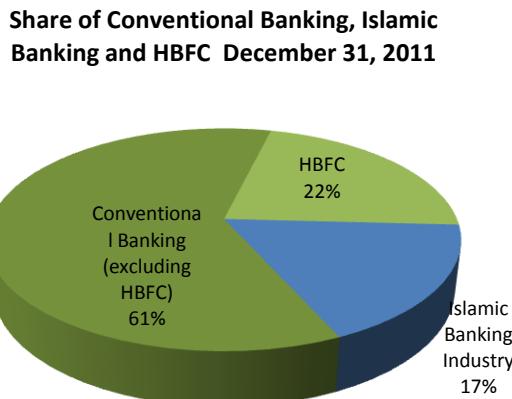
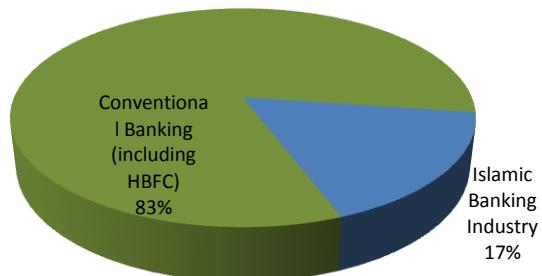
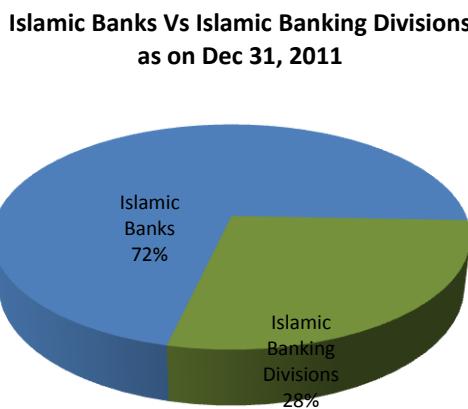
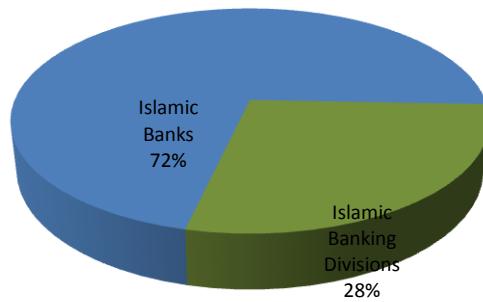
4.3. Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) has shown no change since last year, as 78%. In comparison with last quarter (Oct-Sep 2010), there was a decline of 1% in overall market share of commercial banks (excluding DFIs). Within commercial banks, the share of private banks in the total outstanding increased marginally from 46% to 48% and the share of foreign banks decreased from 5% to 1% due to take-over of RBS portfolio by Faysal Bank (Figure 4d). The share of Islamic Banks in the total outstanding increased from 14% to 15%, over the year. Share of HBFCL has increased by 1%, over the year, to 22%.

Fig 4d: Share of Banks in Total Outstanding



The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 61%, 17% and 22% respectively on December 31, 2011 (Figure 4e). IBDs (13 windows) and Islamic banks (05 banks) have 72% and 28% share in housing finance portfolio of Islamic Banking Industry (Figure 4f), which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy.

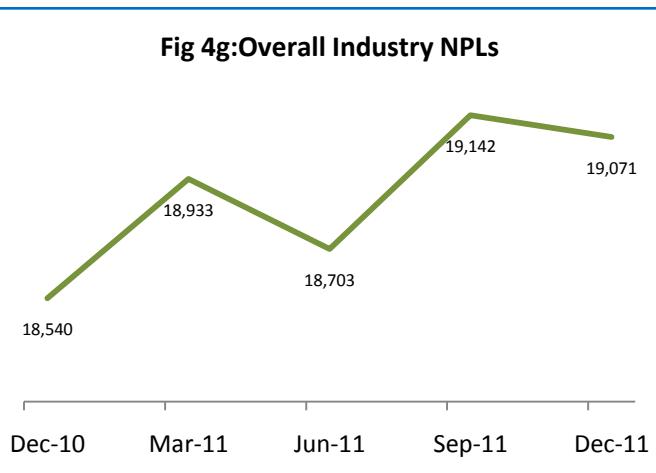
Fig 4e: Share of Islamic Banking Industry & Conventional Banking in Total Outstanding**Islamic Banking Industry vs Conventional Banking (including HBFC) as on December 31, 2011****Fig 4f: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry****Islamic Banks Vs Islamic Banking Divisions as on Sep 30, 2011**

4.4. Non-Performing Loans (NPLs)

NPLs have increased from Rs. 18.54 billion (Dec-10) to Rs. 19.1 billion (Dec-11); a 2.9% increase during the year. The stock of NPLs as on Sept-11 was Rs. 19.2 billion, showing a decrease of 0.87% during a quarter (Oct-Dec, 2011) as shown in figure 4g. Figure 4c shows a comparison of existing NPLs status of different banking sectors with last year.

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.

HBFC's NPLs have increased from Rs. 7.1 billion to Rs. 7.3 billion during the year; a 2.95% increase as

Fig 4g:Overall Industry NPLs

shown in **figure 4i**. 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 55.41% of its total outstanding constitutes NPLs. HBFCL's percentage share in total NPLs is 38.5%.

Excluding HBFCL, NPLs for all banks and other DFIs have increased by 2.8% over the year from Rs. 11.4 billion to Rs. 11.7 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFCL) constitute is 61.5% in total NPLs, compared to a 61.6% as on Dec-10.

Among banks, non-performing finances (NPFs) of Islamic banks witnessed an increase of almost 1.9% during the year, from Rs. 1.27 billion to Rs. 1.3 billion.

Their NPFs constitute 14.9% of total outstanding, which was 13.4% on Dec-10. NPLs of the public sector banks have increased from Rs. 1.7 billion to Rs. 1.9 billion (an increase of 10.9%) which are 23.6% of total outstanding. Private Banks' NPLs have increased by 11.4%, from Rs. 7.4 billion to Rs. 8.26 billion which is 28.8% of their total outstanding as against 24.1% on Dec-10. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 27.6% (at the end of last year) to 44.98%. However, in absolute terms, NPLs have increased only marginally as their portfolio has significantly reduced due to take-over of RBS portfolio by Faysal Bank. NPLs of DFIs (excluding HBFCL) have decreased from Rs. 109 million to Rs. 100 million, over a year, a 8.25% decrease with 40.7% of its total outstanding classified as NPLs as on Dec-11.

Fig 4h: Islamic Banking Industry NPLs

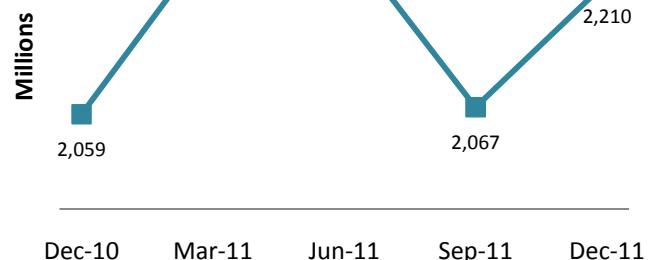
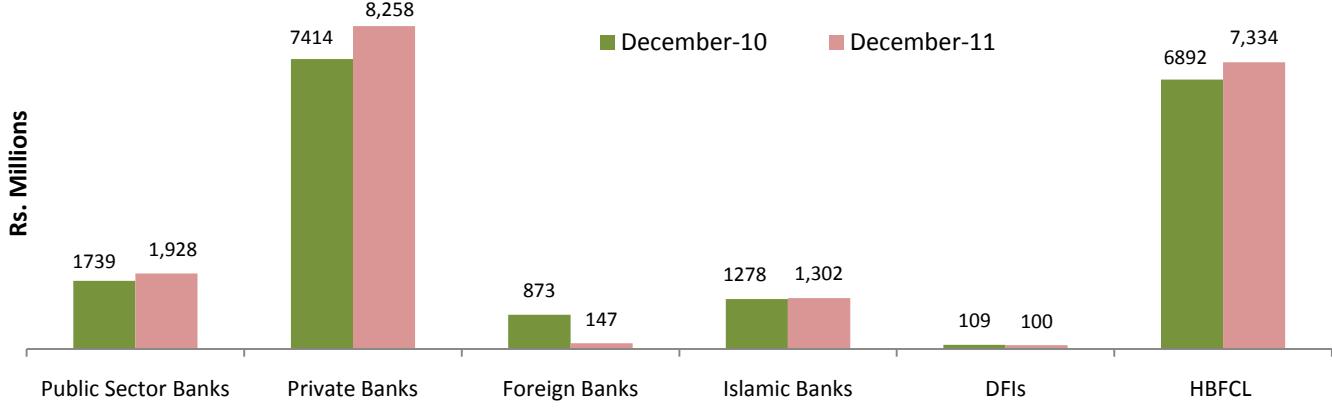


Fig 4i: Non-Performing Loans as on Dec 31, 2010 & 2011



Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.2 billion on Dec-11, which were Rs. 2.1 billion at the end of last quarter (Jul-Sep, 2011) showing an increase of 6.9%.

4.5. Number of Borrowers

Total number of outstanding borrowers decreased from 98,665 to 91,398 since Dec-10; a decline of 7.4%. As shown in Table 4A, there is a decrease in no. of borrowers in each category except Private Banks, where numbers increased from 11,982 to 13,312.

Table 4A shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. In terms of numbers, approximately 59.3% of total borrowers of housing finance borrowers have been classified as non-performing. However, this is primarily due to HBFCL's number (50,798) of non-active borrowers, classified as non-performing, which comes to 73.65% of its total borrowers. Thus, excluding HBFCL in such an analysis will be important as it caters to 75.5% of the total borrowers in housing finance sector which accounts for only 22% of total outstanding portfolio. Thus, by excluding HBFCL, 15% of total borrowers of housing loans have been classified as non-performing.

Table 4A	December-11			December-10		
	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers
Public	5,420	981	6,401	6,171	872	7,043
Private	11,152	2,160	13,312	9,873	2,109	11,982
Foreign	51	33	84	2,239	159	2,398
Islamic	2,311	224	2,535	2,480	227	2,707
DFIs	87	9	96	94	12	106
HBFCL	18,172	50,798	68,970	21,940	52,489	74,429
Total	37,193	54,205	91,398	42,797	55,868	98,665

4.6. Disbursements

Fresh disbursements to the tune of Rs. 1.63 billion were made to 786 borrowers during the quarter ending Dec-11 (Table 4B). Private Banks extended new disbursements worth Rs. 793 million followed by Islamic banks with Rs. 465 million, public sector banks with Rs. 46 million and foreign banks with Rs. 9 million.

HBFCL's fresh disbursements for the quarter were reported to be Rs. 318.6 million. Among commercial banks, the number of new borrowers totaled 375, with private banks serving 190 borrowers and Islamic banks 133 customers. HBFCL extended loans to 411 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 601 million to 157 new borrowers during the quarter ending December 31, 2011. This includes new disbursements of Rs. 135.8 million to 24 customers by IBDs of conventional banks.

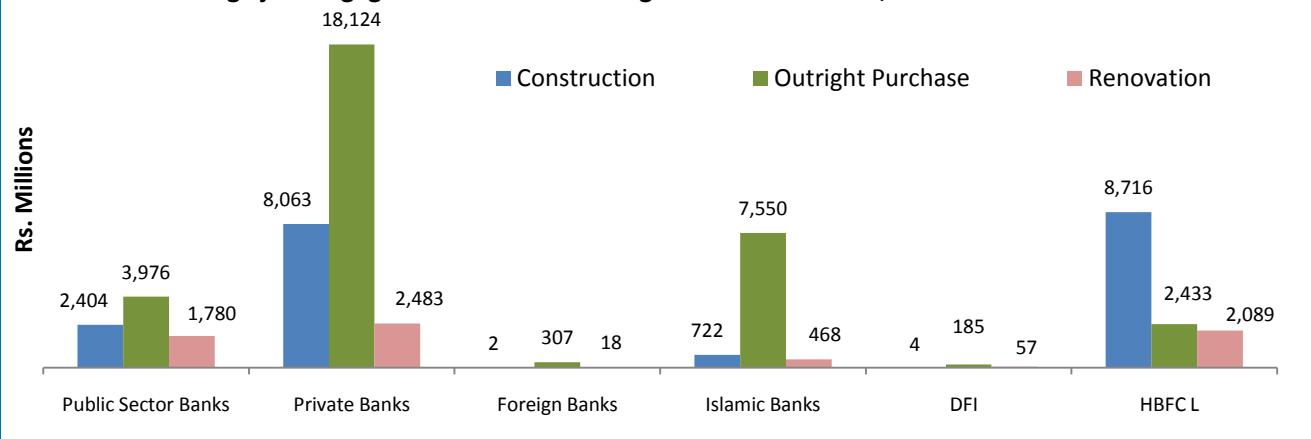
Table 4B: New Disbursements During the Quarter

		Amount (Rs. In Bn)	No. of Borrowers
Public		46	47
Private		793	190
Foreign		9	5
Islamic		465	133
All Banks		1,314	375
DFIs		-	-
HBFCL		318.6	411
Total		1,632	786
Islamic Industry		601	157

4.7. Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 4j). The outstanding for outright purchase stood at Rs. 32.6 billion as on Dec-11; a 54.9% share in total outstanding of Rs. 59.4 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 19.9 billion and that of renovation stood at Rs. 6.89 billion. Active portfolio shows that private banks have taken a lead in financing for two sectors; outright purchase 55% and renovation 36% but HBFCL has taken lead in

Fig 4j: Mortgage Products: Outstanding as on December 31, 2011



financing construction category i.e. 43.8%.

4.8. Analysis of Loan Variables

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

Weighted average interest rate

The overall weighted average interest rate was 16.0% at the end of the current quarter. Highest weighted average profit rate was reported by Foreign Banks 16.8%, followed by Islamic banks 16.7%, HBFCL 16%, Private Banks 15.8%, while public sector banks average came to 15.7%. (Table reference 4c)

Average maturity periods

Average maturity period of outstanding loans as on Dec-11 came to 12.2 years, which is same as compared to quarter ending Dec-10 when it was 12.2 years. HBFCL's average maturity period is reported to be 14.1 years, while that of Private Banks is 11.7 years. Table 4C shows that among commercial banks, Islamic Banks have extended housing loans for an average tenure of 9.9 years followed by Foreign Banks with 8.6 years and public sector banks with 8.1 years

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs decreased during last year (Table 4D) from 55.2% to 37.3%. Average LTVs of commercial banks have decreased from 55.2% to 37.3%. The average LTV for HBFCL has decreased from 43.5% to 42.9% over the year.

Average loan size

Average loan size for disbursements made during the quarter ending Dec-11 is Rs. 4.7 million for all banks, except HBFCL. The average loan size for HBFCL is reported to be Rs. 1.2 million for the reporting quarter. Private Banks reported an average financing size of Rs. 7.4 million, Foreign Banks as well as Islamic Banks Rs. 1.7 million, Public sector banks Rs. 1.4 million and HBFCL Rs. 1.3 million. The housing finance market is still inclined towards lending to high income groups.

Table 4C	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10
Public	15.7	16.5	17.2	16.8	15.9	8.1	5.9	10.1	13.2	10.6
Private	15.8	16.4	17.1	17.1	16.4	11.7	10.6	13.2	13.0	11.0
Foreign	16.8	16.3	15.6	14.1	15.7	8.6	16.0	17.5	20.0	14.8
Islamic	16.7	17.1	17.0	17.3	16.6	9.9	12.2	10.7	12.2	10.0
All Banks	16.1	16.7	17.0	16.9	16.3	10.4	10.5	12.3	13.2	11.1
DFIs	-	-	-	16.8	16.6	-	-	-	-	-
Banks & DFIs	16.1	16.7	17.0	16.9	16.3	10.4	10.5	12.3	13.2	11.1
HBFCL	16.0	17.4	17.5	17.5	17.0	14.1	13.5	12.7	13.5	13.3
Total Average	16.0	17.0	17.3	17.2	16.7	12.2	12.0	12.5	13.4	12.2

Table 4D	Loan to Value Ratio (%)					Average Loan Size (Rs. Millions)				
	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10
Public	30.6	35.2	31.7	49.6	62.1	1.4	3.0	0.8	2.5	1.1
Private	36.5	57.8	44.6	49.4	55.0	7.4	2.7	4.7	4.5	2.9
Foreign	47.1	49.0	63.4	65.5	50.1	1.7	1.9	2.5	2.4	1.7
Islamic	43.6	45.4	39.7	42.2	53.2	1.7	2.0	1.9	2.1	2.9
All Banks	37.3	48.8	42.6	48.5	55.2	4.7	2.5	3.2	3.5	2.5
DFIs	-	-	-	-	-	-	-	-	-	-
Banks & DFIs	37.3	48.8	42.6	48.5	55.2	4.7	2.5	3.2	3.5	2.5
HBFCL	42.9	38.7	42.8	44.7	43.5	1.3	1.3	1.9	1.2	1.2
Total Average	40.1	43.7	42.7	46.6	49.3	3.0	1.9	2.5	2.3	1.9

4.9. Housing Finance Business of Micro Finance Banks

Gross Outstanding

The total outstanding housing finance as on Dec-11 of Micro Finance Banks (MFBs) stood at Rs. 174.5 millions, which was Rs. 174.2 millions at the end of Sep-11, showing an increase of 0.18%, over the last quarter.

Number of Borrowers

Total number of outstanding borrowers has increased from 2,554 to 2,594 since September 30, 2011; an increase of 1.56%.

Non-Performing Loans

NPLs for MFBs have increased from Rs. 1.55 million (Sep 2011) to Rs. 1.62 million (December 2011); showing an increase of 4.51% over the last quarter. NPLs of MFBs arising out of housing finance business are around 0.92% of their outstanding housing finance portfolio.

Conclusion

The quarter ending December 31, 2011 depicted a decrease 11.40% (Rs. 7.62 billion) as compared to quarter ending December 31, 2010, in overall outstanding portfolio of housing finance industry. NPLs of the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers due to inflated prices of property/houses, labor and construction material. Another reason hindering the growth of housing finance in Pakistan is reluctance of banks for lending beyond certain big cities. Average loan size has increased while LTVs have decreased and maturity periods have remained same over the last year. 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 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.

The stock of infrastructure finance has seen some roller coaster ride in recent times as it was Rs. 290

billion in April - June 2011 which rose to Rs. 300 billion in July - September 2011.

At the end of the quarter under review the outstanding portfolio of infrastructure saw some sluggishness and decreased to Rs. 281 billion. On annual basis, as depicted in figure 5a, the outstanding is showing a smooth upward trend – 6.4% rise in stock from Dec-10 to Dec-11. The trend of financing in different sectors is topped by power generation sector as shown in detail in the following sections. The disbursement figures are most volatile in recent history as these were Rs. 6.7 billion in April – June 2011 and saw a dip at Rs. 3 billion in July – September 2011 which again went upward to Rs. 7 billion during quarter under review. Power sector, once again, was the major beneficiary of financing as it got Rs. 4.5 billion with substantial 64.4% share. In quarter of July – September 2011, power sector, although, had the largest percentage of financing but in actual it was paltry Rs. 1.16 billion. The overall scenario did not present a glowing picture as shown by the financing trends.

5.2. Outstanding Portfolio

Total financing outstanding at close of Dec-11 was Rs. 281 billion against Rs. 300 billion at the end of previous quarter ending Sep-11. The volume of outstanding portfolio was Rs. 285 billion at the end of Dec-10. Figure 5b shows the quarterly position of top five sectors from Dec-10 to 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 are the

Fig 5a: Annual Value of Outstanding Stock

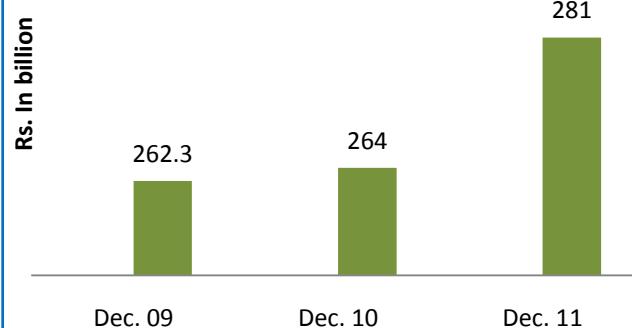
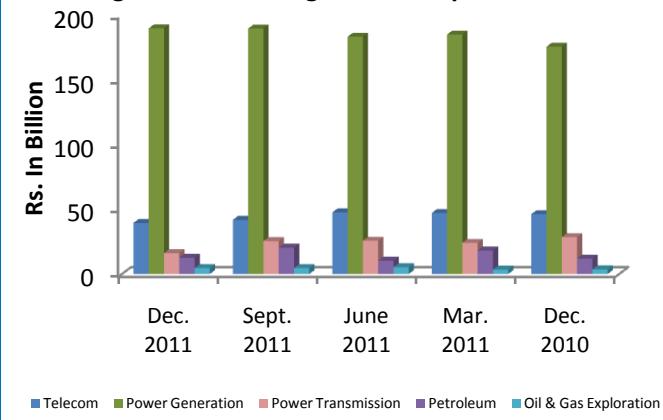


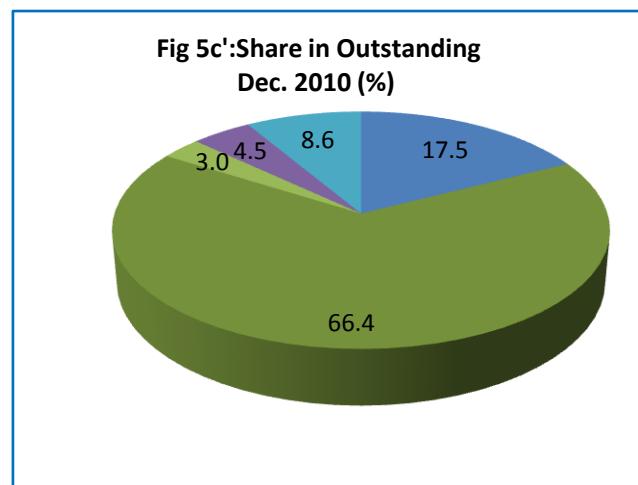
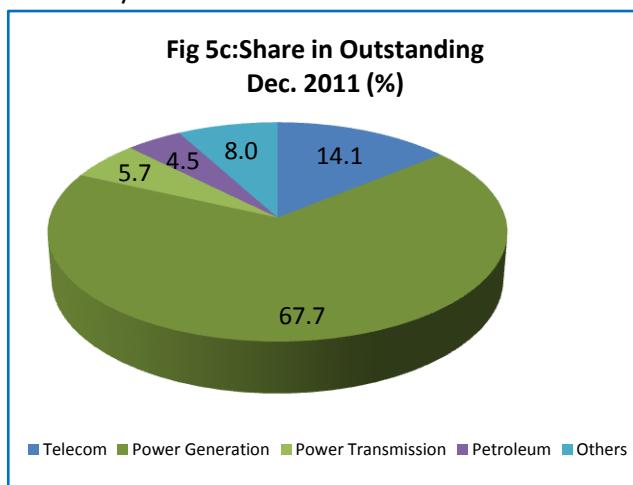
Fig 5b: Outstanding Stock in Top 5 Sectors



main reasons of its consistent lead over the other sectors. A considerable activity had been witnessed in petroleum sector during couple of previous quarters which again slowed down in this quarter under review which is a testament to the cyclical nature of this sector. Other than petroleum, telecom and power transmission sectors also showed a downward trend.

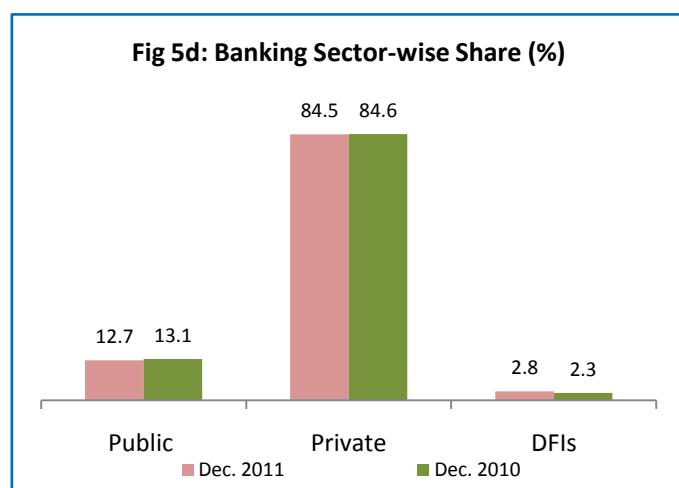
5.3. Sectoral Share in Outstanding Portfolio

Figure 5c &5c' shows the comparison of top five sectors in outstanding infrastructure financing at the end of Dec-11 with the status existing on Dec-10. At the end of Dec-10, power generation sector had 66.4% of the total stock followed by telecommunication sector with 17.5%. After a year, the top slot continues to be held by power generation sector with a substantial 67.7% share in the pie. Most of the other major sectors in graph showed a declining trend. The telecommunication sector dipped at 14.1% share. Other sectors went down from 8.6% to 8.0% in a year.



5.4. Banking Sector-wise Share in Outstanding Portfolio

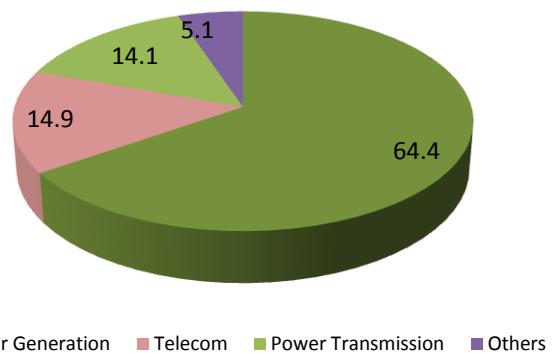
Figure 5d shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend has been in favor of private sector as it was in previous quarters. Share of private sector banks have been stable over the year at around 84.5%, while share of public sector banks declined from 13.1% to 12.7% 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.



5.5. Disbursements

Total of Rs. 7 billion were disbursed during October - December 2011 quarter in all infrastructure sectors against Rs. 3.1 billion in the previous quarter. The disbursement during Oct-Dec 2010 quarter was Rs. 13 billion. Figures 5e shows the share of each sector during the quarter under review. Power generation sector received Rs. 4.5 billion, which is 64.4% of overall disbursement. Power generation sector got Rs. 1.16 billion in last quarter while it received Rs. 7.9 billion in October - December 2010. Oil & gas sector, which was revived with Rs. 2 billion in April – June 2011 and Rs. 500 million in previous quarter got Rs. 100 million in this quarter under review. 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 apiece in couple of last sectors and also received over Rs. 1 billion in quarter under review. Apart from this recent funding, overall the 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 5e: Share in Disbursement During Oct-Dec-11 (%)

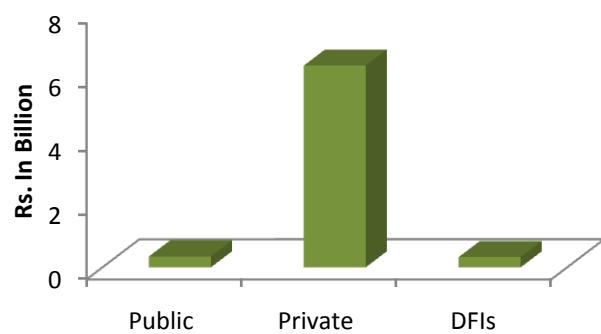


5.6. Banking Sector-wise Disbursements

Figure 5f shows that private sector commercial banks disbursed Rs. 6.3 billion (90.6%) out of total Rs. 7 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 335 million (4.8%) while DFIs disbursed Rs. 318 million (4.6%) despite having a mandate of development finance.

In the same quarter last year, private sector banks disbursed Rs. 11.9 billion (96%) while public sector banks disbursed Rs. 1 million (less than 1%). DFIs' share in disbursements during the quarter ending December 31, 2010 was Rs. 452 million (4%).

Fig 5f: Banking Sector-wise Disbursements



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 CY 2010-11.

Credit Guarantee Scheme for Small and Rural Enterprises

SBP launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010, which allows banks to develop a portfolio of fresh borrowers who are creditworthy, but cannot fit into the usual credit parameters of banks, especially when collaterals are required. Based on the feedback of banks and target borrowers during the first year of implementation of the facility, the Scheme was reviewed and the revised Scheme was issued in February 2011. Under the revised Scheme, SBP shares 40% of credit losses of lending banks on their loans to Small and Rural Enterprises. Only fresh and collateral deficient borrowers are entertained under the Scheme. The position of utilization of limits expiring on December 2011 is highly encouraging and more than 50% of the allocated limits has been utilized by banks.

Strengthening Secured Transaction Reform Framework

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.

As a 1st step in this regard, Asian Development Bank (ADB) provided TA grant to Pakistan in 2007-08 for developing a Secured Transactions Reform Framework in the country. ISC-Hong Kong was selected as consulting firm for the purpose, while Ministry of Finance, GOP was Executing Agency and State Bank was Implementing Agency for the project. The consulting firm was required to suggest various reform options on legal and registry side including their recommendations for the most feasible and workable option for establishment of a modern registration system in the country.

The Consulting Firm concluded its assignment with following two broad recommendations:

1. Drafting and approval of separate law for secured transaction framework; and,
2. Establish Registry for creating charge on assets, specially movable assets

SBP is in consultation with relevant stakeholders to implement the above two recommendations.

Launching of various Training Programs for commercial bankers

- SBP periodically organizes SME Finance Grass Root Cluster Training Programs with the objective to reach out to the SME bankers at their locations and introduce them to the new lending techniques of SME Financing. The broad objective of this Training program is to enhance and strengthen the skill set of credit/loan officers at grass root level as they are the persons who are directly dealing with the SME borrowers. During the last 2 years, more than 500 SME credit officers from different commercial banks have been imparted training under the "SME Finance Grass Root Cluster Training Programs"
- State Bank also initiated an awareness campaign for the SMEs regarding available credit options, regulatory requirements and SME guarantee and refinance schemes. These seminars were held in 6 cities.
- SBP arranged another important capacity building event credit scoring and its application in SME lending for senior commercial bankers. The trainer was a reputed International Expert on SME Credit Scoring Mr. Daniel

Citbjaj who delivered lectures on the area. The event will lead to greater use of the technique, resulting in cost reduction of banks in small loans transactions, effective credit risk mitigation and lowering the turn-around-time in small business lending.

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 has completed primary survey of 11 important SME Clusters in collaboration with IFC and LUMS. Broad Objectives of SME Cluster Survey Project are:

- Determine banking and financial needs of the target clusters
- Design appropriate products to meet banking needs of SMEs.
- Facilitate SBP to bring changes in its regulatory framework, if required

In addition to the above mentioned completed surveys, SBP has initiated cluster surveys of 10 more SME sub-sectors during the CY 2012.

Verification of Documents under Export Finance Scheme Streamlined

SBP vide IH& SMEFD Circular Letter No.15 of November 03, 2011 have issued revised procedure in order to streamline the monitoring process of on-site verification of relevant documents on the basis of which transfer of limit and performance is allowed from the SBP BSC office or bank to another SBP BSC office or banks

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

To implement Prime Minister's Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA, State Bank of Pakistan announced release of 1st, 2nd, 3rd and 4th instalments of mark-up rate subsidy on business loans vide IH&SMEFD Circular Letter Nos. 1,3,14 and 16 of 2011 respectively.

Rationalization of service charges 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 July 01, 2011 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 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 and up to 5 years	10.1%	2.5%	12.6%
Over 5 and up to 10 years	9.7%	3.0%	12.7%

Scheme for Financing Power Plants Using Renewable Energy

It was decided through IH&SMEFD Circular No. 7 of 2011, that effective July 01, 2011 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	10.10%	2.50%	12.60%
Over 5 and up to 10 years	9.70%	3.00%	12.70%

Linkage of Export Overdue with Export Finance Scheme

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 October 01, 2011.

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 subsidized 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. The debt-swap facility of refinance was valid up to September 15, 2011.

Payment of Mark-Up Subsidy under Textile Policy

SBP released mark-up subsidy under Export Finance Mark-Up Rate Facility & Mark up Rate Support for Textile Sector against Long Term Loans vide IH&SMEFD Circular Letter No. 07 and 09 dated February 24 and May 20, 2011 respectively.

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

SBP expanded the scope and extended the validity of above Scheme, with a view to improve access to finance for SMEs and Farmers in the flood affected areas, vide IH&SMEFD Circular No.4 dated May 25, 2011. Now the scheme will also provide financing to the non-farm sector. Likewise, SBP has also allowed banks/DFIs to repay the principal amount of refinance within 15 days of the due date(s), instead of 7 days as allowed earlier under the scheme. The validity of the scheme has been extended up to November 30, 2012.

LTFF Scheme – Eligibility of Packaging / Preservations of Food Items

In order to encourage export of Foods Items, SBP had clarified that plant and machinery used in the export oriented projects for producing packaging material exclusively used in packaging / preservation of food items are also eligible under the Scheme, vide IH & SMEFD Circular Letter No. 12 dated June 27, 2011

Reduction in Export Performance Requirements under EFS-II

In order to facilitate the exporters of Hand Knotted Carpets, export performance requirement under EFS Part II for FY 2010-11 has been reduced to 1.50 times from 2.0 times.

Total Write Off of Loans

In pursuance of Prime Minister's announcement of relief package, SBP vide SMEFD Circular No. 1 dated February 2, 2011 announced a procedure for reimbursement of subsidy on account of write off of loans outstanding as of December 31, 2009 against the borrowers of Malakand, Swat, Buner and Chitral districts under above Fiscal Relief Package. Further, banks, DFIs and MFBs shall bear the cost of such write-offs to the extent of amount held into provision against NPLs and interest in suspense account, while the rest of the cost will be paid by the Government of Pakistan as subsidy. The banks, DFIs and MFBs were advised to submit their claims to SBP-BSC (Bank) Peshawar up to March 15, 2011 which was later extended to April 15, 2011.

Eligibility of Glass Sector under LTFF

To increase exportable goods of glass sector, SBP vide SMEFD Circular Letter No. 2 dated January 20, 2011, announced that plant, machinery & equipment to be used by the export oriented projects in glass sector shall also be eligible under the LTFF Scheme.

Revised Maximum Borrowing Limit under LTFF

In order to meet growing demand of the stakeholders, State Bank of Pakistan vide SMEFD Circular Letter No. 04 dated February 14, 2011 enhanced the maximum financing limit to a single export oriented project from Rs. 1,000 million to Rs. 1,500 million under the Long Term Financing Facility (LTFF) Scheme for Plant & Machinery.

Requirement of Projected Exports under LTFF

The State Bank vide SMEFD Circular Letter No. 05 of February 14, 2011 advised banks/DFIs to entertain financing requests of New Project or Expansion / BMR of Existing Projects on the basis of projected exports adding that Minimum Export Target [viz. annual exports of US\$5 million or 50% of sales, whichever is lower] will be met within a maximum period of four (04) years, from the date of grant of refinance from SBP-BSC (Bank), in a phased manner. In the first phase, 40% of the export target would be required to be met in first two years while remaining 60% target will be met during next two years or total tenor of loan, whichever is less.

Microfinance Banks allowed to lend to Micro-enterprises any amount up to Rs. 500,000/-

Recently, vide AC&MFD Circular No. 2, dated March 16, 2012 State Bank of Pakistan has allowed Microfinance Banks (MFBs) to lend to microenterprises any amount upto Rs. 500,000. Earlier, MFBs were allowed to lend up to Rs. 150,000/- for general purpose loans to individuals. The new instructions will help in addressing the credit needs of a large microenterprises market which has traditionally remained unbanked, and will also provide an opportunity to microfinance banks to upscale their credit operations. The main highlights of the circular are as follows:

- MFBs have been allowed to lend to microenterprises any amount up to Rs. 500,000. Earlier, MFBs were allowed to lend up to Rs. 150,000/- for general purpose loans to individuals.
- The aggregate exposure of a borrower who is eligible to avail both general and micro-enterprise loans shall not exceed Rs. 500,000/-
- MFBs shall restrict their exposure under microenterprise lending at maximum 40% of their gross loan portfolio ensuring a fair share of lending to each economic segment of the target market.

- The MFBs shall apply to Director-AC&MFD for seeking approval of SBP before undertaking ‘microenterprise’ lending. SBP shall grant approval based on satisfactory assessment of the Capital position and readiness level of the applicant MFB.
- MFBs shall henceforth obtain CIB reports for all types of credit facilities on mandatory basis.

Tajik Delegation Visited Pakistan to Study Mobile Financial Services

Development Finance Group of the State Bank of Pakistan hosted a one week study visit on regulatory and operational aspects of mobile financial services in Pakistan for National Bank of Tajikistan from 28th to 30th November, 2011 at Karachi. The visit was initiated by M/s *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* - German International Cooperation under a “Regional Program in Support of Microfinance in Central Asia” to draw a road map for starting mobile financial services in Tajikistan.

During the visit, the Tajik delegation, consisting of 6 members (two Sr. officials from National Bank of Tajikistan, one IT specialist, one advisor from private sector, and two coordinators from GIZ), was provided an opportunity of round table sessions with senior officials from different departments of SBP on branchless banking regulations, banking policy, inspection, agri. & rural finance, and SME finance. Exposure visits to Easypaisa (Tameer Microfinance Bank), Omni (United Bank Limited), and MCB Bank were also arranged for the delegation. Extensive meetings with technology experts and physical demonstration of different technological instruments for routing transactions; visit of super agent, direct agents and sub agents of different m-banking products were also part of the study program.

SBP launched Financial Literacy Program to Accelerate Financial Inclusion

On 20-January 2012, SBP launched Pakistan's first-ever Nationwide Financial Literacy Programme (NFLP) in order to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The 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 programme is being rolled out by BearingPoint Management and Technology Consultants. The programme will disseminate basic education about financial concepts, products and services to masses focusing on Budgeting, Savings, Investments, Banking Products and Services, Branchless Banking (opening m-wallet account, fund transfers, bill payments, and other dealings with branchless banking agents), Debt Management and Consumer Right and Responsibilities.

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 programme will cover 60 percent rural, 20 percent urban and 20 percent peri-urban regions.

Financial Innovation Challenge Fund (FICF)

FICF - a UK £10million innovation grant facility - was launched by SBP in May 2011, to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services.

Recently, the FICF concluded stage 1 of the Financially Inclusive Government to Persons (G2P) Payments Challenge round by qualifying 10 Expression of Interests (EOIs) for stage 2. The stage 1 of the challenge round was successful in generating 14 EOIs from 13 G2P payments ecosystem providers including Banks, government departments & agencies and technology companies covering salaries, pensions and social cash transfer programs.

In stage 2 of the Challenge round, the successful applicants have been invited to present complete business plans for conducting G2P payments pilots. The successful stage 2 challengers will be provided grant funding for testing G2P payments technologies and experiments through pilots.

Branchless Banking Newsletter

SBP has issued a 2nd “Branchless Banking Newsletter” for the Quarter Oct-Dec. 2011. According to the publication, a large segment of the previously unbanked population has started entering into a new arena of branchless banking (BB). Compared with the last quarter (Jul-Sep 2011), the following trends are noteworthy:

- Total number of BB agents reached to 22,512 as of Dec 31, 2011 from 19,402 as on Sep 30th, 2011 registering an increase of 16 percent.
- Total volume (number) of transactions has jumped to 20.5 million (up 30 percent) during the quarter. Thus, the average daily transactions have increased to 228,855 from 176,296.
- Value of transactions during the quarter reached to Rs 79,410 million (up 35 percent).
- Total numbers of branchless banking accounts have increased by 40 percent to 929,184.
- Branchless banking deposits have grown by 69 percent to Rs 503 million.

The average size of branchless banking transactions is Rs 3,855 (US\$ 43) which shows that mobile phone technology and agent-based banking are helping access to financial services by the hitherto unbanked poor.

Bills payment & top-ups remained the dominating activity with 53% share in total numbers, followed by fund transfers and deposits with share of 39% and 8% respectively. The Person to Person (P2P) payments remained the most popular mechanism with 74% share in the total fund transfer. Initial high concentration in P2P transactions suggests that the industry needs to develop a viable value-proposition for registration and activation of mobile accounts.

The BB Newsletter can also be accessed via: <http://www.sbp.org.pk/publications/acd/BranchlessBanking-Oct-Dec-2011.pdf>

Task Force on Crop Insurance Scheme in Pakistan

Considering the intensity of natural calamities in the country due to climatic changes, the President of Pakistan constituted a Task Force; vide directives dated 14th October, 2011, to formulate a plan for crop insurance in Pakistan. The work of the Task Force is coordinated by Mr. Shahid Aziz Siddiqi, Chairman, State Life Corporation of Pakistan. The Task Force comprises of members from SBP, State Life Insurance Corporation, SECP, SUPARCO, Pakistan Re-insurance Company, banks and leading insurance companies.

The Task Force and its sub-committee had six meetings and reviewed international best practices in crop insurance, types of insurance products in developing/ developed countries, all previous crop insurance schemes initiated in Pakistan, issues in re-insurance of crop insurance schemes, etc. A report has been finalized in

consultation with stakeholders and submitted to Government of Pakistan for further consideration and implementation.

Task Force on Livestock Loan Insurance Scheme

Livestock is an important sector of national economy, especially for the rural areas, as it has potential for job creation, meeting growing food requirements and boosting national exports. It contributes 11% to the National GDP and roughly about 53% of the agricultural GDP. For promotion of the livestock sector, it is imperative to provide a mechanism of financial protection to the farmers and cattle rearers to mitigate their loss of earning assets by comprehensively insuring the livestock from reputed insurance company or group of companies against death, disability, theft, etc.

In this regard, to mitigate the risk of losses due to natural calamities, externalities, diseases & natural causes and to encourage banks to enhance financing to livestock sector, the Governor, State Bank of Pakistan has constituted a Task Force under the chairmanship of Mr. Muhammad Ashraf Khan, Executive Director, SBP, comprising of members representing Security & Exchange Commission of Pakistan (SECP), Provincial Livestock & Dairy Development Departments, Pakistan Dairy Development Board, banks and leading insurance companies to develop framework on Livestock Loan Insurance Scheme in Pakistan.

Introduction of Pilot Project Phase IV

Encouraged by the successful completion of PP-III, SBP has 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, amount outstanding, etc. to 16 participating banks were assigned.

So far up to 31st December, 2011 banks have disbursed Rs 21.3 billion or 18% of the target for farm sector, Rs 7.2 billion or 28% of the target for the non-farm sector and Rs 0.2 billion or 34% of the target for Group Based lending in the targeted districts. Number of borrowers served is 138,588 or 21% of the target for farm sector, 22,846 or 22% of the target for non-farm sector and 1,194 groups having total of 7,210 borrowers or 58% of the target for Group Based lending. During the period under review, the number of fresh borrowers tapped by banks was 41,572 and 17,491 in the farm and non-farm sectors, respectively.

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.

Islamic Agricultural Financing for Farm/Crop Production Purposes under Salam

While reviewing the implementation status of SBP guidelines on Islamic financing for agriculture issued vide ACD Circular No. 1 dated 3rd February, 2009, it was observed that difficulties were being faced by IBIs in development of specific products for farm and non-farm sector activities. Therefore, to further facilitate IBIs and to improve the access of agricultural Islamic financing to the farming community, a model product based on 'Salam' was developed and issued vide AC&MFD Circular No. 3, dated 18th October, 2011, in consultation with stakeholders. The product would cover the Sharia related aspects as well as business cycle and financing requirements of farm/ crop production activities. The product is supported by practical examples and process flow of the Salam transaction.

Further, IBIs were advised to ensure that their relevant staff possesses the requisite knowledge and expertise about the product. They should also launch awareness campaigns through electronic & print media, seminars, workshops, etc to ensure that their clients/ farmers are fully educated about the product and familiar with the requirements like documentation, loan limit, process flow/ procedure, etc.

Training Workshop for CAD/Risk Management Departments of Banks

In order to develop the understanding of officials of Credit Administration Department (CAD) and Risk Management Department (RMD) of banks about the dynamics of agri. lending, SBP developed two day 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 July-December, 2011 one training workshop was arranged at Peshawar which was 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, microfinance banks and agri. universities/ colleges, arranged "Policy Adequacy and Awareness Seminars on Agri. Financing" at University College of Agriculture, University of Sargodha on 11th October, 2011 and at University College of Agriculture, Bahauddin Zakariya University, Multan on 26th October, 2011.

The seminars were attended by a large number of students, teaching faculty, academia, Chief Managers of SBP-BSC Offices, officials of DFSD, SBP-BSC and senior officials of banks.

Internship Program for Agricultural Graduates

Agricultural Credit & Microfinance Department (AC&MFD) in collaboration with Human Resources Department arranged 6-weeks 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.

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.

SBP disseminated the recommendations to the concerned stakeholders and is currently coordinating with Provincial Governments, Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations. IH&SMEFD is continuously in consultation with Federal and Provincial governments by making presentation on HAG recommendations and holding meetings with them for the implementation of HAG recommendations.

Review of Housing Finance Prudential Regulations (PRs)

On the basis of industry feedback and nature of business, housing/mortgage PRs have been reviewed. The draft of reviewed PRs has been put up with SBP's PRs Review Committee for further debate and approval.

Automation of Housing Finance Quarterly Data

Software has been developed to acquire online housing finance quarterly data from banks through Data Acquisition Portal (DAP4). 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.

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 in 2009. Principal buy-in of the Ministry of Finance was elicited and equity commitments from the GoP, commercial banks and HBFCL had been received. Memorandum & Articles of Association of the proposed company developed and consultant hired to assist in incorporation of the company. IFC and ADB are expected to inject equity into MRC, once it is incorporated with SECP. For fostering the process of MRC's incorporation, a meeting of stake-holders was called and a Steering Committee has been formed.

Capacity building Program on Housing Finance

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. Six training programs were conducted during the year in different cities of country. First training program was conducted on "Issues in Islamic Housing Finance" in Lahore, second on "General Housing Finance" in Peshawar, third on "Property Registration & Title Documents" in Karachi, fourth on "Legal Documentation & Foreclosures in Housing Finance" in Rawalpindi, fifth program was conducted on "Retail Financing on Developer's Housing Projects" in Karachi and sixth training was conducted on "Issues in Islamic Housing Finance" at Karachi.

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. These will shortly be issued for the benefit of the mortgage industry.

Guidelines for Financing to Housing Builders/Developers

After consultation with key stakeholders like banks/DFIs, ABAD and AMB, “Guidelines for Financing to Housing Builders/Developers” have been prepared to promote large scale as well as retail financing on the construction projects of builders/developers of the country. It is expected that the banks/DFIs will make use of these Guidelines in designing housing finance products which meet varied needs of Builders/Developers, ultimately leading to better service and supply of affordable housing units in the country.

Coordination with AMB

SBP is continuously in coordination with Association of Mortgage Bankers (AMB) to solve the policy issues hindering growth of housing finance in economy.

Creation of Web Portal

In a drive to provide different stakeholders with reliable and needed information on various factors of housing/mortgage finance industry, as also recommended by HAG, SBP is working in coordination with the Association of Mortgage Bankers (AMB) for developing a web portal. As an initial step, AMB's website has been created which contains information on basic housing parameters.

Training Program on Shariah-compliant Infrastructure Project Finance

Infrastructure, Housing & SME Finance Department conducted a training session in this quarter under review on Shariah-compliant Infrastructure Project Finance. The program was intended to the capacity building of mid-level to senior bankers engaged in Shariah-compliant infrastructure project finance to enhance their knowledge as well providing for an interactive forum for exchange of mutual experience to the benefit of other practitioners. The program was half-day and scheduled on 18th January 2012 at LRC, SBP, Karachi. Twenty-five participants from banks attended this session. Mr. Ali Ahmed Siddiqui, Executive Vice President & Head Product Development and Shariah Compliance, Meezan Bank was invited to impart the training on aforementioned topic to the attendees. The training session was very interactive and involved where different practical issues were brought up during discussion and debated to the higher understanding of the subject.

7.0. Development Finance news from around the World

China to Allow Higher Bad Loans for Small Businesses

<http://www.foxbusiness.com/industries/2011/09/28/china-to-allow-higher-bad-loans-for-small-businesses/>

SHANGHAI: China's banking regulator will likely raise the nonperforming loan ratios that banks can chalk up on their loans to small and medium-sized enterprises to 5%, the state-run Shanghai Securities News reported.

Xiao Yuanqi, a director who oversees financial services for small businesses at the China Banking Regulatory Commission, was quoted as saying that according to global practice, banks should be able to absorb the losses if 5% of outstanding loans to small businesses sour.

RMG SMEs to get help for power generation

<http://bdnews24.com/details.php?id=206429&cid=4>

Dhaka, Sep 18: Small and medium enterprises in the readymade garment sector will get financial support from the government to generate power for their own use and expand market of new products. The facility will be given under the second stimulus package programme, according to a Bangladesh Bank circular issued on Sunday.

EBRD supports micro, small and medium enterprises in Tajikistan

http://finchannel.com/Main_News/Business/95286_EBRD_supports_micro,_small_and_medium_enterprises_in_Tajikistan/

The FINANCIAL - The EBRD is supporting the development of the market economy in Tajikistan with a syndicated loan of up to US\$ 8 million to Bank Eskhata, Fifth largest Bank in Tajikistan.

The financing will help the latter to support its maturing micro and small business customers and also to reach out to new clients in the emerging small and medium-sized business sector.

SMEs Advised to Cross Borders

<http://thecitizen.co.tz/news/-/15017-smes-advised-to-cross-borders>

Dar es Salaam: Small and Medium Enterprises (SMEs) in the country should think of partnering with counterparts in the East African Community region to raise their business portfolio quickly. The call was made by the chairman of the Nation Media Group (NMG) board of directors, Mr Wilfred Kiboro, at a dinner he hosted for the company's clients and partners. He said while penetrating foreign markets may seem impossible for most SMEs; the opposite would be true if the entrepreneurs pursued this endeavor through partnerships.

India, South Africa to strengthen ties in MSME sector

<http://www.thehindu.com/business/Industry/article2476808.ece>

India and South Africa agreed to strengthen cooperation in the medium, small and medium enterprises (MSME) sector through joint ventures, technology collaborations and marketing tie-ups.

Small businesses told to cut production costs or perish

<http://www.bangkokpost.com/business/economics/257557/small-businesses-told-to-cut-production-costs-or-perish>

Small businesses must cut production costs in order to cope with the effects of higher daily minimum wages, says the Small and Medium Enterprise Development Bank of Thailand.

Cluster approach key to SME growth: experts

<http://www.smetimes.in/smetimes/news/top-stories/2011/Oct/01/cluster-approach-key-to-sme-growth675454.html>

The cluster development approach holds the key to growth of the Small and Medium Enterprise (SME) sector, viewed participants at the two-day summit organized by industry body CII in New Delhi.

"Clusters help in overcoming the challenges of obsolescence, skill levels, quality and credibility," said CII Northern Region Chairman Mr Vijay Thadani.

SECP proposes separate stock exchange for SMEs

<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=70721&Cat=3>

LAHORE: Securities and Exchange Commission of Pakistan (SECP) Chairman Muhammad Ali has proposed separate stock exchange for small and medium enterprises (SMEs) of Pakistan to attract investors, a statement said on Monday.

China mulls new agency to help cash-starved SMEs

<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=72401&Cat=3>

BEIJING: China's cabinet is considering creating a government agency to facilitate lending to cash-strapped small and medium-sized enterprises that have been driven to loan sharks and shadow banks by a Beijing-led credit clampdown, two independent sources said. Many of these SMEs, a pillar of the economy, are drowning squeezed by a firmer yuan, falling export orders and rising raw material, land and labor costs.

Set up technology parks to promote SMEs'

http://www.dailytimes.com.pk/default.asp?page=2011\10\13\story_13-10-2011_pg10_2

ISLAMABAD: In Pakistan SMEs are still unable to achieve maximum potential due to multiple factors, said Yassar Sakhi Butt President Islamabad Chamber of Commerce and Industry (ICCI). Government should encourage the establishment of business incubator centers and technology parks to spur the growth of SMEs and to promote sustainable economic development in the country.

RBI offers cheaper credit to small units, exporters

<http://www.expressindia.com/latest-news/RBI-offers-cheaper-credit-to-small-units--exporters/858689/>

Mumbai The Reserve Bank of India has announced a 2 per cent interest subsidy on rupee export credit to the labor-oriented and small-scale sectors as cushion against the slowdown in big markets like the US and Europe.

Easypaisa, Adamjee Life to launch first free life insurance

KARACHI: For the first time in Pakistan, Easypaisa is set to launch a free life insurance plan to its subscribers. The innovative service will be launched in collaboration with Adamjee Life Assurance Co Ltd.

Roshan of Afghanistan to Add Western Union services

Afghanistan-based telecommunications provider Roshan and US-based Western Union have announced plans to offer Western Union money transfers into mobile phone accounts in Afghanistan through the mobile financial services platform M-Paisa. This will allow Roshan customers to receive transfers from 200 countries.

Thailand wins ADB grant to improve access to financial services

Asian Development Bank (ADB) and the Finance Ministry signed a technical assistance letter to improve access to financial services in Thailand, such as microfinance, remittances, micropensions and mobile banking. Under the US\$1.5 million grant, a strategic framework for financial inclusion would be developed.

CDA to establish new residential sector for low-income groups

ISLAMABAD: The Capital Development Authority (CDA) has decided to establish a new residential sector near 'Park Enclave' to reduce residential problems of low-income groups, said the CDA Chairman Imtiaz Inayat Elahi on Tuesday. In order to reduce common men problems, the authority has decided to initiate housing projects in the capital city. He said that the sector plot size would be consisted of one canal and 10 marla and it would be given on affordable rates. Source: [The News]

USAID helps Water & Power Ministry enhance capacity

The US Government sponsored Power Distribution Program has started providing computers, laptops, servers and printers to the Ministry of Water and Power. This assistance is aimed at improving the IT infrastructure of the ministry and the efficiency of the staff. The existing IT infrastructure at MWP is pretty rudimentary with very little internal or external communications. The lack of IT facilities results in low efficiency at the ministry. (The Express Tribune: December 29, 2011)

Anti-poverty unit to fund 109 infrastructure projects

The Pakistan Poverty Alleviation Fund (PPAF) announced to provide Rs238 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. (The Express Tribune: December 10, 2011)

Power companies: Management control to be outsourced

Managing Director of Private Power and Infrastructure Board (PPIB) NA Zuberi said that in order to enhance efficiency of nine public sector power companies, the government had decided to outsource their managements, operations, maintenance and rehabilitation, including conversion to cheaper fuel, to the private sector companies located one each in Jamshoro, Kotri, Quetta, Guddu, Muzaffargarh, Multan, Shahdara and two in Faisalabad. (The Express Tribune: October 19, 2011)

8.0. Special Section – Food Security- The Case of Pakistan

Food Security

Current havoc wreaked by galloping food prices coupled with financial crisis have stumbled the policy makers globally, particularly in developing economies including Pakistan. The situation requires a shared vision and close integration among the developing countries to review the roles of governments and regulators in ensuring food security.

Components and Policy Adoption

Food security can be broadly divided into three main components namely; food availability (physical access to food), economic access to food, and equity of food distribution. This has widened the scope of policy interventions from availability of staple food to the economic growth and poverty alleviation. Therefore, policies to ensure food security do not operate in a vacuum. It has multi causes namely reduced local food production, rising oil prices, shift from food to bio-fuel crops, climate changes, depleting food stock, population growth, inflation, speculations in commodity market and lower investment in agriculture.

While there are sufficient resources in the world to provide food security for all, policy and behavioral changes are necessary to guarantee a fair share for all people, especially the poor. Equity is a major issue of concern related to food security, particularly in the context of Pakistan, wherein inequality in land holdings and incomes is relatively high.

Pakistan and Food Security

There is a wide variation in income, human development as well as overall development across regions and provinces. Ethnic divide within some provinces makes the intra- provincial inequities more sensitive than they would have been in a homogenous set-up.

Pakistan, a developing country is no exception to this peculiar phenomenon. Agriculture is considered the mainstay of Pakistan's economy and nearly one-fourth of the GDP and 44 per cent of total employment is being contributed by the agriculture. More than 67 per cent of the country's rural population is directly or indirectly linked with agriculture for their livelihood. It is the main source of providing food to the fast growing population of the country with a growth rate of 2.23 per cent, or there is a net addition of around 3.0 million persons annually. The country is confronted with food security issues and every year the government is compelled to spend invaluable foreign exchange over imports of wheat, sugar, palm oil and other food items.

Despite severe ecological challenge, Pakistan has made amazing strides towards achieving food security in the past as well in recent years. Due to population pressure, by mid of 20th century, the food security problems were viewed as almost insurmountable. Agriculture dominated economies were largely subsistence-oriented with low labor productivity and cereal yield was 20 per cent lower than average of developed countries. Under the green revolution during 1960s and in early 1970s, food supply in the country was dramatically improved as yield enhanced by over 150% (World Bank, 2002). However, Pakistan is still facing food security challenges due to population growth, substitution of food crop lands with bio-fuel crops and inefficiencies in irrigation. Research and effective policies regarding agricultural resource, policies for water irrigation, skilled labor,

technology, transportation and marketing, can be much helpful to reduce risk of severe hunger like situation and improve food security.

Country's major food crops are wheat and rice, however, wheat being the staple diet is the most important crop and cultivated on the largest acreages (9.1 million hectares during the growing season 2008-09) in almost every part of the country. A record crop of over consumption levels was harvested in the preceding year. It contributes 14 per cent to the value added in agriculture and 3 per cent to GDP. Wheat production in the country, however, has been well below potential and stagnant around 2400 kg/ha since more than a decade. The major reason for low productivity and instability includes: delayed harvesting of matured crops and consequent late planting of wheat, non availability of improved inputs like seeds, inefficient fertilizer use, weed infestation, shortage of irrigation water, drought like situation and terminal heat stress, soil degradation, inefficient extension services, lack of funds and low public and private investment in the sector. Moreover, farmers are not aware of modern technologies because of weak extension services system.

The country is facing water shortage particularly in Southern parts of Sindh and Baluchistan. It is an impact of global climate changes; according to UN climate report, the Himalayan glaciers that are the principal dry-season water resource of Asia's biggest rivers could disappear by 2035 as temperatures rise. Repentantly, people living in the drainage basin including Pakistan would experience floods followed by severe drought in coming forward. According to the UN World Food Program, out of 56 million people living in Pakistan's urban areas, about 21 million are now deemed food insecure. Majority of the rural population is facing food insecurity including malnutrition, under nutrition, hunger, etc. The population consuming less than 1700 calories per day, which is far below the international levels, has increased from 35 million to 45 million during last couple of years.

Therefore, Pakistan is vulnerable to food insecurity due to (1) slowdown in availability of irrigation water, (2) slower growth of food crops (comparatively low yield), (3) insufficient storage capacity, (4) higher post harvest losses, (5) weaker management, (6) ongoing war against terrorism, (7) rising trade deficit, (8) high inflation, (9) rising cost of production and rising oil prices. Through effective policy and administrative measures the Government of Pakistan and Central Bank are trying hard to achieve food security and ensure swift supply of food commodities with integrated efforts in agriculture, fiscal, monetary and trade policies.

Role of Government

Poverty alleviation and food security through agriculture development is the top priority of the Government of Pakistan. A special Task Force on Food Security was set up by the Prime Minister in May 2008, which recommended a comprehensive National Food Security Strategy as follows: -

- Ensure adequate supply of food by achieving an average agriculture growth rate of at least 4% per annum in the next decade – 2010-2020.
- Evolve an efficient and equitable system of food procurement, storage and distribution to ensure that food is available at affordable prices throughout the year in all parts of the country.
- Improve the access of poor households to food by adopting a pro-poor growth strategy and providing non-farm employment on a substantial scale.
- Build a transparent and well managed system of safety nets to provide income support to poor households.

Based on recommendations of the Task Force and feedback of other stakeholders, the Government of Pakistan has taken various policy initiatives to raise crop production, ensure food supply and create opportunities for poverty alleviation in the country as follows:

- The system of procurement, storage, distribution and marketing of essential food items is being revamped.
- The support price of wheat has been increased significantly to encourage farmers to enhance wheat cultivation area and yield.
- A substantial amount of subsidy on fertilizer has also been provided to reduce the cost of production.
- Under farm mechanization programme, subsidized tractor and farm implements are being provided to farmers.
- Mandatory Crop Loan Insurance Scheme for five major crops viz. wheat, rice, sugarcane, maize and cotton has been introduced from 2008-09 to provide risk cover to the farming sector. The government is bearing the cost of premium on account of subsistence farmers up to a maximum of 2% per crop.
- Various projects for construction of silos, cool chain, warehouses, agri. malls, cooperative farming, etc. are being finalized by the Government under public-private partnership throughout the country.
- A Livestock Policy and Strategy has been formulated under which there will be up-scaling of promising Hala Model (Milk Processing company run by farmers) in Punjab, initiating milk collection & processing pilot project of LEADS (NGO), also initiating establishment of autonomous Livestock & Dairy Development Board (LDDB) to promote collection, processing & marketing of milk and dairy products.
- Some development projects are underway to develop the Horticulture sector through agribusiness development, capitalization of Pakistan Horticultural Development & Export Board (PHDEB), promotion of regional trade etc.
- Development of Fisheries sector is in progress through formulation of Fisheries Policy and Strategy, institutional strengthening & capacity building, Aquaculture development project, Pilot project & technical assistance for coastal aquaculture -shrimp & prawn hatcheries and sustained exploitation of Extended Economic Zone.
- To utilize barren land and increase the area under cultivation, Government owned land is being distributed to landless families/ farmers.
- To improve the efficiency of water use, water reservoirs are being increased by building new dams, increasing height of existing Mangla dam, lining of irrigation channels, empowering water user associations, promoting drip irrigation system and harvesting of hill torrent.
- Crop Maximization Program (CMP-II) is being launched in 1012 villages to improve the crop productivity of small farms.

Further, for providing safety nets directly to the poor, following schemes were introduced/ implemented:

- Benazir Income Support Program has been launched to target around 3.4 million households through a monthly cash support of Rs 1000/- per household.
- Similar scheme has been launched in Punjab to target 1.8 million household.
- Funding to the deserving people is also extended through ongoing Bait-ul-Mal (2 million households) and Zakat funds to 0.49 million individuals.
- Subsidized essential food items i.e. wheat flour, sugar, pulses, edible oil and rice are provided through 1600 outlets of Utility Stores and National Feeding Program.

State Bank's Endeavor

In line with government priority for agriculture, SBP, since its inception has been endeavoring to make the much needed credit available for agriculture sector. It has adopted a consultative mechanism for policy formulation for banks through close liaison with federal & provincial governments, banks, farming community, agri. experts and other stakeholders.

SBP has taken various initiatives during last 6-7 years to create an enabling environment for banks to adopt agri. credit as a viable business under free market mechanism. The initiatives have paid dividend in the form of robust increase in agricultural credit disbursement with an average growth of around 22% per year from 1999-2000 to 2011-12. However, agri. loans are only 5% of banks' advances and banks are meeting only around 45% of the agri. credit requirements of the farming community for production purposes as reported by provincial planning departments. Out of 6.6 million farmers, 2.5 million have access to formal credit. The rest of the credit is provided by informal sector at exorbitant interest rates. Small farmers with holdings of 12.5 acres or less and constituting 86% of the country's farms have limited access to credit.

The initiatives taken by SBP include:-

- Inducted Domestic Private Banks and MFBs in Agri. Financing in addition to 5 large banks and two specialized banks.
- Developed and implemented mandatory Crop Loan Insurance Scheme for the borrowers of commercial and microfinance banks for five major crops namely wheat, rice, sugarcane, maize and cotton.
- To improve access to agri/rural finance, it has been made mandatory for banks to open at least 20% of new branches in rural areas. For cost effective delivery channels, branchless banking model and booths have been introduced.
- For diversification of agri. loans, guidelines for livestock, fisheries, poultry and horticulture financing were issued to facilitate banks in development of specific products and increasing the flow of credit to these activities.
- A grant of 50 million Pound Sterling has been obtained from Department for International Development (DFID), UK under Financial Inclusion Program that also includes access to finance to small farmers and marginalized people.
- To deepen the outreach of agri. finance on fast track basis, pilot projects have been launched in underserved agri. districts of the country.

- Credit guarantee scheme for small and marginalized farmers is being developed to encourage banks to increase financing on group based lending to these farmers to meet the cost of production.
- National crop insurance scheme is being developed in collaboration with stakeholders to mitigate the risk of losses of farmers against natural calamities.
- SBP also ensures availability of credit for procurement of agricultural produce by the public and private sector through commodity operation funding (COF).
- To facilitate the export of agriculture produce and to meet the short term credit requirements of exporters, Export Finance Scheme is in place since 1973. Under this scheme subsidized financing is provided by SBP to promote exports.
- A scheme of Balancing, Modernization & Replacement (BMR) is being introduced for long term financing to export oriented agri. produce value addition industry including ginning, rice husking, etc.

State Bank, through its monetary policy and guidelines to banks contributed in efforts to improve food security, i.e. (1) ensure sufficient credit supply in the banking sector to enable farming sector to utilize it for yield maximization, and (2) provide sufficient funds to the private and public sector for wheat procurement and storage. In FY09 a record amount was disbursed for the production and development of agriculture sector and provincial governments, PASSCO and private sector also consumed huge funds for wheat procurement (9.1 million tons in FY09, never procured before), which raised food security/ supply as well as helped to reduce domestic wheat prices. In addition, a record indicative target of Rs. 285 billion is fixed for credit disbursement to the farming sector during FY12, aimed at better production of food as well as fiber crops to ensure food security of the country.

Way Forward

For the practical realization of the goal of food sovereignty that has been eluding our nation since the time of independence, the importance of genuine agrarian reform and peasants' rights cannot be underestimated. The unequal distribution of land and the lack of constitutional rights of peasants prevalent in our country have to be addressed squarely, so that poor people in rural areas gain access to and control over land resources. The state must simultaneously assure that they are provided the required resources to produce surplus food, using sustainable agricultural practices to be able to adequately feed the population of the country. The Government of Pakistan & SBP are very much alive to the situation and are looking forward to establishing a farmer-friendly policy and regulatory environment to develop a sustainable agriculture sector for economic growth, poverty alleviation and food security.

9.0. 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 Sectors 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>

Annexure

Annexure-A

Amount in Rs. Billions	Breakups - SME Outstanding Advances of Banks & DFIs								
Categories	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Breakup of SME Advances - Clean Vz Collateral									
Clean Facilities	16.9	7.8	7.8	7.6	11.9	6.6	6.3	6.3	6.3
Collateral Based	331.3	318.3	311.0	300.0	322.1	296.4	286.2	261.8	288.0
Total	348.2	326.1	318.8	307.6	334.0	303.0	292.5	268.2	294.3
Breakup of SME Advances - Tenor Wise									
Up to one year	264.6	245.7	240.2	231.0	254.4	230.6	219.0	199.8	228.9
1 to 3 years	24.6	28.2	25.0	27.0	28.9	25.3	26.0	20.2	22.4
Exceeding 3 years	59.1	52.1	53.6	49.6	50.7	47.1	47.6	48.2	43.1
Total	348.2	326.1	318.8	307.6	334.0	303.0	292.5	268.2	294.3
Breakup of SME Advances - Enterprise Wise									
Trading	152.2	139.6	140.7	132.3	149.2	133.6	133.2	120.8	134.8
Manufacturing	142.8	134.7	124.9	120.4	135.3	117.6	107.2	96.9	112.8
Services	53.1	51.8	53.2	54.9	49.5	51.8	52.1	50.5	46.7
Total	348.2	326.1	318.8	307.6	334.0	303.0	292.5	268.2	294.3
Breakup of SME Advances - Loan Size Wise									
Total Advances to SMEs upto Rs. 0.5 M	27.0	22.0	21.2	20.0	18.4	16.9	15.8	14.9	12.9
Total Advances to SMEs over Rs. 0.5 to Rs. 1 M	13.5	11.9	12.9	12.6	13.2	13.0	12.7	10.7	12.0
Total Advances to SMEs over Rs. 1 to Rs. 2 M	22.9	20.4	21.4	20.8	21.6	21.1	20.6	19.2	18.5
Total Advances to SMEs over Rs. 2 to Rs. 3 M	15.6	17.0	17.9	16.3	16.3	16.4	16.0	14.8	15.8
Total Advances to SMEs over Rs. 3 to Rs. 5 M	27.9	29.2	30.5	28.5	30.4	28.5	28.4	26.4	28.0
Total Advances to SMEs over Rs. 5 to Rs. 10 M	51.8	50.6	52.4	51.7	55.7	51.4	50.4	44.7	48.5
Total Advances to SMEs over Rs. 10 to Rs. 20 M	51.8	50.0	50.5	48.6	54.9	52.2	48.5	42.5	49.7
Total Advances to SMEs over Rs. 20 M	137.8	124.9	112.0	109.1	123.6	103.7	100.0	94.9	109.0
Total	348.2	326.1	318.8	307.6	334.0	303.0	292.5	268.2	294.3

Annexure-B

Breakups - SME Financing Profile								
	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Outstanding Advances (Rs. Billions)								
SME Outstanding	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3
Total Industry Outstanding	1,620.4	2,043.0	2,400.8	2,700.9	3,191.8	3,391.0	3,489.7	3,546.4
Outstanding Borrowers (Thousands)								
SME Borrowers	106	161	168	185	215	212	211	168
Total Industry Borrowers	3,398	4,247	4,487	4,781	4,544	4,407	3,909	3,733
Nature of Facilities (Rs. Billions)								
Fixed Investment	23.9	34.1	41.8	60.3	43.9	41.0	36.1	29.5
Working Capital	204.2	267.7	308.4	309.1	288.8	263.2	261.4	235.4
Trade Finance/Other	55.9	59.6	58.1	67.9	42.3	44.0	36.5	29.5
Total	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3
Non Performing Loans (Rs. Billions)								
NPLs - SME Sector	30.1	42.1	36.0	41.3	61.5	79.2	96.5	95.5
NPLs - Total	180.4	173.1	159.0	201.3	299.0	425.7	498.2	598.6

Note: Dec-08 and onwards is the aggregate of Banks & DFIs in both Annexure.

Development Finance Reviews Published by SBP

Development Finance Quarterly (Dec-2011)

Development Finance Quarterly Review (Sep-2011)

Development Finance Quarterly Review (Jun-2011)

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These Reviews are available at

<http://www.sbp.org.pk/SME/DFG.htm>