

State Bank urges banks to utilize SBP financial inclusion initiatives

Mr Yaseen Anwar, Deputy Governor State Bank of Pakistan, today stressed upon all commercial banks, microfinance banks and microfinance institutions to utilize State Bank's initiatives regarding agricultural, microfinance and SME financing to create an enabling environment for financial inclusion of the rural population.

Speaking at Asia Pacific Rural And Agricultural Credit Association's (APRACA) FinPower Program on Rural Finance held at State Bank of Pakistan in Karachi, Mr Anwar said that banks should undertake their best efforts to meet the maximum credit needs of the rural community.

"Innovations in product development and adoption of best practices are the need of the hour that would assist in developing the rural economy, eradicating poverty and increasing food security," he added.

APRACA is a regional forum for sharing knowledge of international best practices of the region in agri/rural finance. State Bank is a member of APRACA.

Highlighting State Bank's initiatives to promote rural finance in the country, Mr Anwar said that the State Bank has formulated a separate Development Finance Group to synergize all rural finance activities vis. agriculture, SME and microfinance. In addition to this group, other arms of SBP are contributing in aligning its policies to the initiatives and developments for encouraging the banks to adopt development finance as a viable business, he added.

He said Agriculture lending has received a significant boost as the banks have met their targets over the past 5 to 6 years and the agri. disbursement has increased to Rs 212 billion in FY 2007-08 from Rs 39 billion in FY 1999-2000.

Under the new paradigm, SBP has taken several initiatives in the last 7 years which, inter alia, include the induction of 14 domestic private banks in agricultural credit scheme, besides the five big banks and two specialized banks viz. ZTBL & PPCBL, standardization of loan documents and issuance of guidelines for livestock, fisheries, poultry & horticulture financing. Further, to resolve the issue of the farmers for fresh documentation for input loans on each crop loans, a Revolving Credit Scheme for three year credit limits with one time documentation was introduced. To implement SBP's initiatives at the regional level, separate Development Finance Support Department and its units have been established at SBP-BSC.

He said to mitigate the risk of banks and the farming community against losses caused by natural calamities, the SBP has developed a Crop Loan Insurance Framework with the help of a Task Force comprising of representatives of banks, leading insurance companies, the farming community and other stakeholders. Based on SBP's framework, a mandatory crop loan insurance scheme has been introduced from Rabi crop 2008-09 for major crops, viz. wheat, cotton, rice, sugarcane and maize, he added.

"SBP is striving to establish a farmer-friendly market based financial sector in the country to meet the increasing credit requirements of the agriculture sector," he added.

Referring to microfinance sector, he said that the State Bank has developed a national strategy to target 3 million microfinance clients by 2010 and 10 million by 2015. Currently, MFBs and MFIs have an outreach of 1.8 million borrowers. SBP has identified three concurrent

steps the industry needs to undergo in order to fulfill its set goals viz; Sustainable and cost covering operating/business model; Mobilization of private domestic capital; and building human resource capacity/systems.

Mr Anwar said in order to develop these critical components of the microfinance industry, SBP has undertaken several steps, that includes but not limited to, launching the Financial Inclusion Program (FIP), aimed at eliminating market failure and improving access to financial services. FIP is a £50 million program funded by the UK Department for International Development (DFID), he said and added it includes a Microfinance Credit Guarantee Facility aimed at providing incentive to banks / DFIs to channelize funds to MFBs/MFIs for on-lending to low income segment of the population. “The facility will provide a credit guarantee for up to 40 percent of funding provided by banks/DFIs and aims to develop the market and graduate poor borrowers to mainstream financial service providers,” he said.

SBP Deputy Governor said that the Institutional Strengthening Fund is designed to build capacity of the microfinance sector and is expected to enhance the potential for growth and create depth in outreach by improving human resource quality, service delivery and increase service availability to prudential microfinance clients. The improving Access to Finance Service Fund is designed to enhance capacity of the microfinance sector and promotes financial literacy in the country. Besides the above, SBP has issued Branchless Banking guidelines, which is the regulatory framework to promote banking in remote/rural areas, he said.

Talking about the SME sector, he said that the sector is confronted with a number of demand side constraints, including a lack of bookkeeping at SMEs, missing succession planning, rare strategic objectives or business planning, low level of financial literacy, unskilled human resources, lack of collateral, etc. On top of these, there is an issue of availability of formal credit to SMEs which hinders the progression of smooth growth of this sector. The banks also consider financing to SMEs and Rural Entrepreneurs (RE) as risky ventures; hence they are shy of lending to rural sector enterprises. The issues at the bank level include non aggressive lending strategies by banks, absence of specific products offered for SMEs, and a perceived high risk area by the banks, etc.

He said to motivate banks for lending to SMEs and Rural Enterprises, SBP has taken several initiatives. He said that SBP has also completed an ADB-funded project for Strengthening Secured Transaction Framework. The project is aimed at enhancing SMEs, agri-farmers’ and rural entrepreneurs’ access to formal source of finance by establishing a system of charge creation on moveable & immovable assets of small borrowers in urban and rural areas. Based on the study, the necessary amendment in the Legal Framework has been suggested to the government.

Ms. Rose Cooray, Assistant Governor Central Bank of Sri Lanka and member of APRACA, also shared the experience of Sri Lanka’s rural finance policies & programs with participants of the Program.
