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Floods Provide Banks Opportunity to Increase Financial Inclusion: Shahid Kardar

Mr. Shahid H. Kardar, Governor, State Bank of Pakistan has said that the recent floods – the biggest natural calamity in the country's history – provide an opportunity for the banking industry to increase financial inclusion, diversify its products on sustainable basis and play its due role in rebuilding the national economy.

Speaking at a Roundtable Discussion on 'Damage Assessment of Floods and Implications for the Financial Sector' arranged by the State Bank in Karachi today, Mr. Kardar said that the central bank is cognizant of the adversity and has taken initiatives to assess the damage and encourage the use of best practices in the interest of long-term development of the financial sector on sustainable basis anchored in inclusion and better financial services.

The SBP Governor said the floods had caused widespread devastation in 78 districts across Pakistan with huge losses of wealth in the form of crops, livestock, roads, infrastructure, public and private buildings, etc. Moreover, the floods have rendered approximately 20 million homeless and posed serious health risks for the affectees. He added that the agriculture sector, which accounts for 21% of GDP and 45% of employment, has been particularly hard hit and the direct losses to major crops have been estimated at Rs 281 billion by the Federal Ministry of Food & Agriculture & SUPARCO. In addition to agriculture, the manufacturing sector which depends on agricultural inputs, has also been adversely affected, he added.

"These developments will lead to adverse economic outcomes, with anemic growth and higher inflation. Pakistan will not be able to address these issues alone and will need external support," he added.

Mr. Kardar said that the present scenario does not bode well for the agenda on financial inclusion as a significant proportion of the flood-hit population could be pushed below the poverty line. Moreover, those already excluded will have little access to formal financial services such as savings or insurance mechanisms to re-build their asset base, he added.

The SBP Governor urged the financial institutions to come forward and play their due role in rebuilding of the affected areas as the State Bank and the Government would not be able to do it alone. "The agriculture, microfinance and SME sectors need special support of the banking industry in order to re-start the process of income generation," he stressed.

He said that the State Bank has constituted committees in the areas of SMEs, Microfinance & Agriculture and General Relief activities to develop a strategy for the settlement of existing loans and provision of fresh credit in the affected areas.

He informed the participants that these committees have recommended write-offs of existing loans where prospects of recovery are slim, restructuring/rescheduling of lending; refinance facilities for fresh lending and subsidy on associated financial charges. He said that the State Bank generally discourages such interventions as they create market and price distortions, promote mis-allocation of scarce credit resources and have monetary implications. However, keeping in view the special circumstances, decision makers may wish to consider a combination of such activities for a limited period, say two years, for flood affected areas, with the cost to be borne by the Federal Government. The State Bank in consultation with the Federal Government and donors is deliberating on the following measures:

- i. Deferral of Loan Repayment for 2 years – Restructuring/Rescheduling of overdue loans
- ii. Reduced Mark up for 2 years provided the interest differential between mark up charged and KIBOR (for banks) or Average Market Rate (for MFBS) is borne by the GOP for the period
- iii. Exemption from additional provisioning requirements for one year. However, classification will be as per SBP Prudential Regulations (PRs)
- iv. Provision of fresh credit at subsidized rate through the SBP refinance window for 2 years at 8 percent per annum with a bank spread of 3%
- v. Credit guarantee schemes on a 30% first loss sharing basis with funding support of GOP & multilateral agencies.
- vi. Expand the scope of existing Microfinance Credit Guarantee Facility (MCGF) to raise the additional borrowing requirements of Rs 3 billion for fresh lending in affected areas by Microfinance Banks (MFBS) with the funding support of GOP and multilateral agencies.

He concluded by saying that since financial services were only the one, although critical, component of the overall package of assistance required by those affected, the SBP would be working with the Federal Government to ensure better coordination for efficient and effective implementation of such support.

Different presentations were made on the occasion entailing initial estimates of the damage caused by floods.

In his presentation, Mr. Mansoor Ali, Director Economic Analysis Department of the SBP, talked about post-flood macroeconomic outlook. He began by cautioning that the assessment to be presented was still highly provisional, but based on the information available it seemed likely that GDP growth was expected to range between 2.0 percent to 3.0 percent in the current 2010-2011 fiscal year (FY11) while inflation is estimated to be 13.5 percent to 14.5 percent. Mr. Mansoor said that agriculture sector growth would be significantly weaker than earlier projections, but that the negative impact on the growth of industry and the services sectors would be lower.

Mr. Muhammad Ashraf Khan, Executive Director, Development Finance Group of SBP, said that according to initial estimates recent floods have caused additional loan losses of Rs 42.3 billion for banks out of which Rs 28.3 billion is from the agri. sector. Estimated loan losses for the microfinance institutions are estimated to be Rs 3.09 billion, he added.

Dr. Mushtaq A. Khan, Chief Economic Adviser, State Bank of Pakistan, in his remarks urged the banks to change their mindset and use non-conventional methods to increase outreach. "We need to refocus and develop indigenous methods, if we need to have sustainable rural financing in the affected areas," he added. Syed Mohsin Ahmed, CEO Pakistan Microfinance Network, also made a presentation.

Participants of the Roundtable gave various proposals to fulfill the needs of the flood affected areas. Mr. Nomaan Majid, representative of International Labour Organization, said that while conducting damage needs assessment we have to clearly demarcate the needs of flood affected people and flood affected areas in order to have a meaningful rebuilding exercise.

While summarizing the discussion, Mr. Yaseen Anwar, SBP Deputy Governor reiterated that this calamity provides us a golden opportunity to start afresh and build a platform to embark on new territory by diversifying products and increasing financial inclusion which will help bring down poverty level in the country.

The meeting was attended, among others, by presidents and heads of banks, microfinance institutions, representatives of multilateral donor agencies, besides senior officials of the State Bank and the Government.
