

## 2 Broadening Access to Financial Sector

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### 2.1 Infrastructure, Housing & SME Finance Department

#### 2.1.1 Small and Medium Enterprise Finance

Lending by banks to SMEs showed a declining trend over the past few years. Credit from formal sources to SMEs was Rs 234 billion as of end FY13 against Rs 248 billion on June 30, 2012; showing a decline of 5.8 percent. With this decline, the SMEs' loan proportion to the total loans of banks also decreased from 6.5 percent in FY12 to 6 percent in FY13. During last one year number of SME borrowers also decreased from 147,578 to 144,141. This decline in SME financing can be attributed to poor law and order situation, rising cost of doing business, and energy shortages. Besides, high ratio of NPLs in SMEs also kept banks from taking exposure on this sector. Furthermore, banks increased investment in government papers and commodity operations financing also caused crowding out effect on SME financing.

SBP, cognizant of the declining trend in SME financing, took following initiatives during the year to reverse the declining trend primarily through (i) improvements in regulatory regime; (ii) direct market interventions (like Mark-up subsidy and Guarantee Facility for Rice Husking Mills in Sindh); and (iii) capacity building of banks.

#### *SBPs Initiatives to Promote SME Finance*

##### *Revised Prudential Regulations for Small and Medium Enterprise (SME)*

State Bank of Pakistan issued revised Prudential Regulations for SME Financing on May 7, 2013. The revised SME PRs created more focus on Small Enterprises, by defining them separately (from the Medium Enterprises) and formulating more specific and simpler regulations for them. Given the importance of SMEs to the country's economic growth and employment prospects, SBP issued these facilitative SME Regulations to encourage lending to such enterprises (**Box 2.1**).

##### **Box 2.1: Revised Prudential Regulations (PRs) for Small and Medium Enterprise (SME)**

The new set of Regulations aims at improving the current Regulatory Environment in order to boost lending to SMEs. The revised SME PRs underscore importance of cash flow analysis and other proxies in assessing the primary source of repayment of SME borrowers and also emphasize on greater use of technology and documentation for disciplined credit control for monitoring of credit quality. Since Medium Enterprises are relatively less credit constrained (compared to Small Enterprises) in accessing loans on account of their size and sophistication level, a separate definition for Medium Enterprises has been given in revised Regulations, and their individual as well as aggregate borrowing limits have been revised upward.

Revised PRs are applicable with immediate effect for the fresh financing facilities. Banks/DFIs need to segregate their existing SME portfolio according to the new definitions and revised classification criteria. For this purpose, banks/DFIs are allowed an implementation period up to September 30, 2013.

**Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh:** In order to modernize and upgrade rice husking mills of Sindh, SBP introduced a Mark-up Subsidy and Guarantee Facility for the Rice Husking Mills in the province; in collaboration with the Government of Sindh. SBP provides mark up subsidy of 6.25 percent and credit risk sharing facility of up-to 30 percent against the long term loans extended to rice husking mills of Sindh under SBP Refinancing Scheme for modernization of SMEs.

**Credit Guarantee Scheme for Small and Rural Enterprises:** SBP put in place a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, which allowed banks to develop a portfolio of fresh borrowers who are creditworthy, but could not fit into the usual credit parameters of banks, especially

when collaterals were required. Under CGS, SBP shares 40 percent of credit losses of lending banks on their loans to Small and Rural Enterprises. SBP allocated credit exposure limits of Rs 6.585 billion (with SBP Guarantee Coverage Limit of Rs 2.634 billion) for the FY13 to 10 banks selected as Participating Financial Institutions (PFIs) under the Scheme.

#### **Capacity Building Programmes for SME Bankers**

- **Grass Root Training Programmes:** State Bank of Pakistan took many initiatives for the Development of SME sector, specifically for capacity building of banks. Grass root cluster training programmes was one of such initiatives for branch level officers. Three training programmes were organized in Faisalabad, Hyderabad and Quetta during FY13.
- **Scaling Up SME Banking Training Programme:** State Bank, in collaboration with IFC, organized a three day training programme for mid-level bankers during 7-9 January, 2013. The purpose of this training programme was to educate bankers in key areas like strategy formulation, quality and strength of human resource, product design etc. The international consultants/trainers were engaged for this programme.
- **Half-Day Roundtable for Presidents/CEOs:** Half-Day roundtable for Presidents/CEOs was organized on 16<sup>th</sup> January, 2013 to discuss effective strategies for SME banking in the light of global best practices.

**SME Cluster Survey Project:** During FY13 with the technical assistance of DFID UK, SBP hired the services of a local consultant to undertake survey of 10 important SME sub-sectors in the country. Project consultants completed the survey of over 1000 small businesses in selected 10 sectors<sup>1</sup> and submitted survey reports. These research reports contained an industry overview and chapters on market assessment, risk assessment, financial benchmarking and proposed banking products for the sector.

**Refinance Schemes for SMEs:** SBP also operates various concessionary financing schemes for promotion of SME sector like Refinance Facility for Modernization of SMEs, Scheme for Financing Power Plants using Renewable Energy, Refinance Scheme for Revitalization of SMEs in KPK, Gilgit-Baltistan & FATA, and Financing Facility for Storage of Agricultural Produce (FFSAP). The validity period of these schemes was extended during FY13 for one year, upto December 31, 2013.

**Secured Transaction Framework:** A draft Secured Transactions Law has been prepared through a legal consultant and the same is being finalized in consultation with relevant stakeholders. The law aims at establishment of a Secured Transaction Registry Office in the country to register charge on moveable assets of SME and Agri borrowers to facilitate them in accessing finance from banks.

#### **2.1.2 House Finance Market**

The housing and construction sector of Pakistan has huge potential to make significant contribution in the overall economic development. Through its multiplier effect, with a host of beneficial forward and backward linkages with more than forty allied industries, the housing sector of Pakistan can act as one of the key drivers of the economy, as has been the case in many developed and developing countries.

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<sup>1</sup> Cotton ginning, marble & marble products, plastic products, hand-made carpets, leather products, dry-cleaning & laundry services, beauty parlors & spa, super markets & retail shops, printing press, and gem & jewelry.

At present, 27 commercial banks, House Building Finance Company Limited (HBFCL), and two microfinance banks are catering to housing finance needs. HBFCL is the only specialized institution in the country, which has been providing housing finance to public since 1952, while commercial banks entered the mortgage business during FY03.

After showing a promising growth till 2008, the housing finance declined afterwards. The gross outstanding reported by banks and HBFCL, as of June 30, 2013, was Rs 52.2 billion, as compared to Rs 57.1 billion as of June 30, 2012 showing a decline of Rs 4.8 billion (8.5 percent) over the year. Of the total outstanding as of June 30, 2013, commercial banks accounted for Rs 39.8 billion; a 17.7 percent decline since June 30, 2012. The outstanding loans of HBFCL fell by 4.7 percent to Rs 12.3 billion in FY13. Number of borrowers also decreased from 87,059 to 79,478 during FY13. NPLs also decreased from Rs 19.1 billion during FY12 to Rs 17.6 billion in FY13 registering a decline of 7.6 percent during the year.

### ***SBP's Initiatives to Promote Housing Finance***

Following initiatives were taken by SBP in FY13 for the promotion of housing finance in Pakistan.

***Mortgage Refinance Company:*** A meeting of SBP and IFC representatives was held with the high level government officials to discuss the incorporation and way forward for the mortgage refinance company (MRC) in current economic scenario. It was decided in the meeting that SBP shall undertake the fresh round of consultation with stakeholders to carry forward the initiative according to the prevalent economic environment. MRC business plan and financial model prepared in 2009 would also be revalidated. The results of re-validation study would be presented to the stake-holders as well as the Ministry of Finance and Planning Commission on receipt of the comprehensive report from the IFC.

***Formation of Housing Finance Consultative Group:*** To flourish the housing industry and expand the outreach of housing finance, a housing finance consultative group with members from key stakeholders i.e. Association of Builders and Developers, Association of Mortgage Bankers, HBFCL, MoH&W, MoF & SBP. SBP has made an effort to increase coordination among various stakeholders. First meeting of the group was arranged by SBP in April, 2013, in which Terms of References (ToRs) of the consultative group were discussed and finalized.

***Seminar on Housing Microfinance:*** Being a developing country, Pakistan is facing acute shortage of houses especially in low income groups. Though microfinance banks are operating to cater the need of low income groups; however, due to non availability of suitable housing finance products large chunk of population remains underserved. In this regard, SBP held a seminar on housing microfinance to discuss the problems of microfinance banks and way forward to cater the housing finance needs of low income group. Representatives from commercial banks, NGOs, MFBs and MFIs participated in the seminar. Following recommendation of the seminar; a working group was formed to work for suitable products for low income group. Working group consists of members from commercial banks, MFBs and low income housing builders.

***Workshop on Regional & National Models of Housing Finance:*** SBP & Association of Mortgage Bankers (AMB) jointly organized the workshop on Regional & National Models of Housing Finance. Mr. Ashraf Mahmood Wathra, Deputy Governor, SBP made the inaugural speech. Contents of the workshop can be accessed on <http://www.sbp.org.pk/departments/ihfd-house.htm>

**Capacity Building Programmes:** State Bank of Pakistan (SBP) is extending its endeavors to flourish the housing finance system in the country. Efforts are also being made to build the capacity of the financial industry related to housing finance. During FY13, 8 different training programmes were organized in various cities across the country i.e. Islamic Housing Finance, Recoveries & Foreclosures, Land Titles, and Recovery of Willful Defaults in Housing Finance, etc. which were highly appreciated by the participants.

### **2.1.3 Infrastructure Finance Market**

Quality Infrastructure has significance for sustainable development of an economy. Infrastructure services encourage new investment and underpin many aspects of economic and social activity including implications for environmental sustainability, economic growth and poverty reduction. Further, improved infrastructure quality and quantity reduces inequality in an economy.

Infrastructure development requires considerable upfront capital for benefits that spread over longer time. Banks/DFIs participate only when there is a clear assurance of a project's viability or/and government's support. Banks/DFIs in Pakistan have been participating in such different projects. An analysis of the infrastructure financing profile during FY13 depicts the following trends.

The stock of infrastructure finance decreased from Rs 286.3 billion in FY12 to Rs 267.0 billion during FY13 registering a downfall of 6.7 percent, mainly attributable to telecom and power generation sectors. Sector-wise analysis reveals that the lion's share (66.3 percent) in total outstanding Infrastructure financing remained with Power Generation sector, followed by Telecom sector (13.0 percent). Furthermore, in FY13 a sectoral review of the total sanctioned amount (Rs 505.4 billion) revealed that 52.7 percent was the share of power generation sector, followed by telecom sector with 19.2 percent share, and petroleum sector with 9.3 percent. NPLs increased from Rs 17.5 billion to Rs 18.6 billion, YoY basis.

#### **Major initiatives to Promote Infrastructure Finance**

In FY13, SBP took many steps for the development of infrastructure finance in the economy. The major initiatives were as follow.

**Consultative Working Group:** SBP established a Consultative/Working Group on Infrastructure Financing in the country. Since, there is an increasing recognition of the fact that different stakeholders in both the public and the private sectors have to work in close coordination to find out ways and means to meet the infrastructure financing requirements of the economy.

#### **Capacity Building Programmes on Infrastructure Finance**

- A two-day's training programme on Infrastructure Project Finance was conducted on November 13-14, 2012 to enhance the knowledge and understanding of the participants in development of their technical side in the area of infrastructure project finance. More than 30 officers from different banks and DFIs participated in the training programme, which proved to be very useful and knowledgeable for the participants.
- A two days' programme on Infrastructure Project Financing was held at NIBAF, Islamabad on March 18-19, 2013. 40 officials from banks & DFIs attended the sessions. The programme covered topics like Introduction to Project Finance – a Lenders' Perspective, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation/Appraisal, Risk Allocation, Project Financing Documentation, Public Private Partnerships (PPP), Successful PPP Programmes, and Domestic Experiences in Project Financing etc.

- A one day programme on Islamic Infrastructure Project Financing was held at SBP BSC (Bank), Lahore on May 21, 2013. The programme covered topics like SBP Guidelines/Regulatory Framework on Infrastructure Project Financing, Islamic Modes of Financing for Infrastructure Projects and Challenges in Long Term Islamic Financing.

#### **2.1.4 SBP Refinance Facilities**

SBP, during FY13, continued pursuing its objectives of facilitating the exporters by providing financing under its Export Finance Scheme (EFS) on the one hand and enhancing the scope of various long-term and short-term financing schemes on the other hand aiming at the industrialization of the country. In order to promote the export of engineering goods, SBP introduced Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) during the year and to promote Power Plants using Renewable Energy in the country, SBP enhanced the capacity limit from 10MW to 20MW under the Scheme for Financing Power Plants Using Renewable Energy. To promote the exports of Services Sector, SBP has introduced a new Long Term Financing Facility for the Services Sector (LTFF-SS), which will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities to perform better services in line with the international competitive environment.

Markup rates of Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) were rationalized keeping in view the movement in Weighted Average Yields of 6 month T-bills and PIBs of relevant tenors.

**Export Finance Scheme (EFS):** The outstanding financing under EFS stood at Rs 177.8 billion in FY13 against overall limits of Rs 255.1 billion. Outstanding financing showed an increase of 8 percent from previous year's outstanding financing of Rs 164.8 billion.

**Long Term Financing Facility (LTFF):** The outstanding financing under LTFF was Rs 36.0 billion against 344 borrowers at the end of June 30, 2013. Textile sector is the largest recipient of this facility with Rs 18.9 billion (52.5 percent) against 275 borrowers. Of all the SBP's long term financing facilities, LTFF has 95 percent share that shows the primary focus of SBP remained on promotion of exports through long term investment.

**Other Refinance Facilities:** SBP introduced some others financing facilities during FY13 such as: **Financing Facility for Storage of Agricultural Produce** was introduced on June 04, 2010 to encourage Private Sector to establish Silos, Warehouses and Cold Storages. Outstanding refinance provided by SBP under this facility in FY13 was Rs 2.2 billion.

**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 was Rs 94.0 million during FY13.

**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 was Rs 2 billion at the end of FY12 which remained almost the same at the end of FY13.

**Major Initiatives taken for Trade, Industry and Services Sectors:** SBP took some important initiatives for the betterment of trade, industry and services during FY13; as presented in **Box 2.2**.

**Box 2.2: SBP's Major Initiatives for Refinance Facilities**

**SBP launched Export Finance Facility for Locally Manufactured Machinery (EFF-LMM)**, vide IHSMEFD Circular No. 04/2013, with a view to promote the export of Locally Manufactured Plant & Machinery.

**Technology Up-gradation Fund (TUF)**: Federal Government had announced TUF Scheme under Textile Policy 2009-14 for Textile Sector to support investment for upgrading textiles machinery and technology. The SBP vide IH&SMEFD Circular No. 03 /2012 issued necessary instructions to banks/DFIs regarding implementation of said Scheme of the Government.

**Long Term Financing Facility for the Services Sector (LTFF-SS)** introduced to promote the exports of Services Sector. LTFF-SS will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities.

SBP has extended the expiry date of the Refinance Facility for Modernization of Small & Medium Enterprises (SMEs), Refinance Scheme for Revitalization of SMEs in Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan (GB) and the Federally Administered Tribal Area (FATA), Financing Facility for Storage of Agricultural Produce (FFSAP), and Agri Loans Refinancing & Guarantee Scheme for War Affected Areas of KPK and FATA by one year. These facilities / schemes will now remain valid up to December 31, 2013. SBP has also extended the validity period of Refinance Scheme for Revival of SMEs & Agricultural Activities in flood affected areas from November 2012 to November 2013.

SBP enhanced scope/expiry time of the **Scheme for Financing Power Plants using Renewable Energy** allowing procurement of plant & machinery to be used in new Renewable Power Projects with a capacity of up to 20 MW.

SBP, in order facilitate banks to increase financing under Islamic Export Refinance Scheme, allowed un-encumbered GoP Ijara Sukuk to be included in the Musharaka Pool (MP) created under IERS vide IH&SMEFD Circular Letter No 5 / 2013.

**SBP allowed financing for Soda Ash Plant and Machinery under LTFF** for new imported and locally manufactured plant, vide IH&SMEFD circular letter No. 10 / 2012.

**SBP allowed further relaxations to exporters under Export Finance Scheme** part-II to include the export proceeds realized up to August 31, 2012 for entitlement of limit in the EE-1 statement for the year FY13.

**Payment of Mark-up Rate Support under Textile Policy Initiatives 2009-14**: On budgetary allocation for FY13 by Ministry of Textile Industry, SBP announced to release 22 percent Export Finance Mark up Rate Facility; and 100 percent Mark-up Rate Support on Long Term Loans to the beneficiaries of Textile Sector.

## **2.2 Agriculture Credit & Microfinance Department**

### **2.2.1 Agricultural Finance**

The banks surpassed the indicative agri (agriculture) credit disbursement target set by State Bank of Pakistan for the year FY13. Against the target of Rs 315 billion, the banks actually disbursed Rs 336.2 billion during the year, which is 14.4 percent higher than the disbursement of Rs 293.8 billion in the preceding year. The outstanding portfolio also showed an increase of 16 percent and reached to Rs 257.1 billion as on 30th June 2013 compared to Rs 221.5 billion as on June 30, 2012. The achievement of agri credit disbursement target during the year was extremely difficult in the backdrop of overall decline in the private sector credit and high risk perception of banks about agri financing due to unpredictability of calamities like floods, heavy rains, plant diseases/viruses, etc. However, SBP adopted a multipronged strategy and made all out efforts in achieving the target which inter alia included: sensitizing banks to adopt agri financing as a viable business line, follow up of targets with the top management of banks and their agri credit heads, introduction of agri lending diversification Project in the under-served districts, close co-ordination with provincial revenue departments to facilitate the One Window Operation for timely completion of necessary formalities, holding of farmers' awareness and financial literacy programmes at grass root level and capacity building of banks' field officers through Batch Training Programmes. The contribution by SBP BSC field offices in monitoring the regional targets was also greatly helpful.

Detailed analysis showed that five large banks disbursed Rs 172.8 billion against their target of Rs 153.5 billion, ZTBL disbursed Rs 67.1 billion against its target of Rs 72.0 billion, PPCBL disbursed Rs 8.3 billion against Rs 9.0 billion, and the Domestic Private Banks disbursed Rs 69.3 billion against their target of Rs 66.7 billion. Five Microfinance Banks as a group disbursed Rs 18.8 billion against their annual targets of Rs 13.8 billion (**Table 2.1**).

**Table 2.1: Agricultural Credit Targets and Actual Disbursement**

(billion rupees)

Bank	FY13		FY12		FY11		FY10		FY09	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>Five big commercial banks*</b>	153.5	172.8	141.0	146.3	132.5	140.3	124.0	119.6	119.5	110.7
<b>Specialized banks</b>										
ZTBL	72.0	67.1	70.1	66.1	81.8	65.4	80.0	79.0	72.0	75.1
PPCBL	9.0	8.3	7.6	8.5	6.9	7.2	6.0	5.7	6.0	5.6
<b>Domestic private banks</b>	66.7	69.3	54.1	60.9	48.9	50.2	50.0	43.8	52.5	41.6
<b>Microfinance banks**</b>	13.8	18.8	12.2	12.1	-	-	-	-	-	-
<b>Total</b>	<b>315.0</b>	<b>336.2</b>	<b>285.0</b>	<b>293.8</b>	<b>270.0</b>	<b>263.0</b>	<b>260.0</b>	<b>248.1</b>	<b>250.0</b>	<b>233.0</b>

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

\* Include ABL, HBL, NBP, MCB, and UBL

\*\* Khushhali Bank, NRSP Microfinance, The First Microfinance Bank, Pak Oman and Tameer Microfinance Bank have been included since July, 2011.

### ***SBP's Initiatives for Promotion of Agricultural Credit***

SBP has implemented several measures for the promotion and expansion in the coverage of agricultural and rural finance in the economy. The major initiatives taken during FY13 in collaboration with stakeholders are summarized as under (**Box 2.3**).

#### ***Box 2.3: Initiatives for Promotion of Agricultural Credit during FY13***

SBP has taken following measures during the year for the promotion of agri/ rural finance in the country:

- a) ***Developed framework for Livestock Loan Insurance*** to encourage banks to increase flow of credit to livestock sector and mitigate the risk of losses due to diseases and natural calamities (floods, earthquake), etc.
- b) ***Developed framework on National Agriculture Insurance Scheme*** in collaboration with key stakeholders and insurance companies as per the instructions of the President of Pakistan.
- c) ***Introduced Concessional Financing Facility for Storage of Agricultural Produce (FFSAP)*** to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce.
- d) ***Launched Farmers Financial Literacy & Awareness Programmes*** in collaboration with SBP-BSC & commercial/microfinance banks to improve financial inclusiveness in agriculture sector by creating demand of agri finance products through enhanced flow of information. Besides spreading financial education to farming community, major thrust of these programmes was to develop a pool of master trainers through 'training of trainers' sessions to facilitate banks to replicate this activity at grass root level. Around 250 agri credit officers of commercial/microfinance banks were trained in 15 master trainer programmes besides educating around 1800 farmers. Further, around 1000 grass root level programmes were conducted by SBP, by end June, 2013. The trained officers of banks have started replicating farmers' financial literacy programmes in the area of their jurisdiction.
- e) ***Launched Agri Lending Diversification Project (ALDP)*** to improve access to agriculture financing in underserved agri intensive districts after successful implementation of four pilot projects from March 2009 to September 2012. The project started off from 9 districts of Sindh and covered 60 districts of the country by the completion of Phase-IV of the project. After the completion of these phases, SBP launched agri lending diversification project under a "Lead Bank Concept" who will lead awareness campaign in selected districts.
- f) ***Roundtable Conference on Warehouse Receipt Financing (WHR)*** was conducted to sensitize the banks and other stakeholders on the initiative and best practices to facilitate them in development of specialized WHR financing products,

procedures and systems. The objective of WHR financing is to facilitate post harvest financing to farmers, traders and exporters

**g) A Study on Agri Financing & Value Chain Assessment** is being conducted by SBP through international consultants. Its objective is to make an assessment of agriculture sector's access to banking and finance that is analyzing demand/supply side issues/constraints; studying geographical patterns of agri sub-sectors and their value chains like those of rice, tobacco, potato, meat, milk and fisheries; and unearthing value chain actors and their role in provision of inputs to the farmers. The draft report of the study has been shared with stakeholders in a roundtable discussion and based on the feedback the report is being finalized. The study would follow capacity building of a few banks and development of a couple of value chain financing products on pilot basis before expanding its scope to other banks.

**h) For the capacity building of agri field officers of banks**, SBP (in collaboration with its training arm – NIBAF) is conducting a series of 4 days Batch Training programmes for newly inducted agri credit officers with an aim to sensitize them with the changing dynamics of agriculture financing. Four batch training programmes has been conducted so far whereby, 125 officers have been trained.

### 2.2.2 Microfinance

During FY13, microfinance banking sector has gained traction, marked by fresh equity investments, growing deposits, and rising profitability. Presently, ten privately owned MFBs are operating in Pakistan. With the establishment of U-MFB by Pakistan Telecom Company Ltd. (PTCL) and Waseela-MFB by Mobilink during the current year, three telecoms have now majority stakes in their respective owned MFBs. Further, Advans SA and FMO (the Netherlands Development Financial Company) have established a provincial (Sindh) MFB namely Advans SA Microfinance Bank. Resultantly, the overall equity base of MFBs has jumped to Rs 12 billion as of end June, 2013, experiencing 41 percent YoY growth from Rs 8.5 billion last year.

Deposits of MFBs have also shown a staggering growth of 72 percent during the year to reach an all time high of Rs 28.6 billion as of June, 2013 compared to Rs 16.6 billion in the preceding year. Microfinance banking assets have also shown remarkable growth of 45 percent during the period under review and reached Rs 51.6 billion. The gross loan portfolio of MFBs has increased by Rs 8 billion (or 47 percent) during the year to reach Rs 25.4 billion. The portfolio growth is largely result of higher loan size pursued by the leading MFBs. Importantly, the portfolio quality during the year also improved as NPLs decreased from 4.34 percent to 2.07 percent during the year. The decline in NPLs was largely owed to repayments and write-offs against rescheduled loans in the flood affected areas.

Another substantial development during the year was mobile phone banking which has been adding vast, easy-to-access alternative distributional channels in the sector. The SBP's prudent regulatory role in microfinance and branchless banking has been recognized at international forums like Consultative Group to Assist the Poor (which is housed at the World Bank); and by the global leaders in financial media such as The Economist, and the Financial Times. Other important developments and initiatives undertaken by the SBP during the year are discussed as follows (**Box 2.4**).



**Box 2.4: Initiatives and Developments for Promotion of Microfinance****Initiatives**

- Tameer Microfinance Bank and Advans Microfinance Banks were allowed to undertake microenterprise lending on a pilot basis. Other MFBs have also demonstrated interest to undertake microenterprise lending in the near future.
- To further facilitate micro-enterprises, the scope of SMEs credit guarantee scheme was extended to include microfinance banks as eligible participating financial institutions (PFIs); whereby, they would be able to access the guarantee facility for extending loans from above Rs 150,000 up to Rs 500,000 to micro-enterprises for a tenor not exceeding 5 years.
- SBP in collaboration with NIBAF completed forty microfinance grass root level training programmes, held in different parts of the country. In these programmes, around 1000 field/credit officers of microfinance banks and institutions have been trained.
- Khushhali Microfinance Bank has been acquired by UBL led consortium, while Kashf Microfinance Bank is in advanced stage of acquisition by M/s. FINCA Microfinance Holding Company (FMH), a subsidiary of FINCA International, Inc. a global leader in leveraging funding of socially responsible partners. Similarly, Rozgar microfinance bank has been acquired by Pakistan Telecom Company Limited and converted into a nation-wide microfinance bank. It has now been renamed as U Microfinance Bank after its acquisition. Like Tameer and Waseela, U MFB has also launched its branchless banking operations during the year for offering financial services.
- Advans SA was licensed, and it commenced business as a province-wide MFB in Sindh. The MFB is sponsored by Advans Group which is a network of financial institutions providing financial services to micro, small and medium sized enterprises (MSMEs) in developing/transition economies.

**Developments**

- SBP has been working with key stakeholders to undertake various market surveys and research projects to analyze the related demand and supply issues. In an important research initiative to observe key issues in registration and usage of branchless banking accounts, Bill & Melinda Gates Foundation conducted a mobile money survey in Pakistan between May and September 2012. According to the survey findings, 83 percent of mobile money transactions in Pakistan are conducted through over-the-counter (OTC) channels / agent locations rather than through a customer-driven branchless banking account. 59 percent of OTC users said they did not register for an account because they did not see the need to open an account. Moreover, 22 percent of OTC users said they did not open an account either because they did not know registration was possible (12 percent), they did not have the necessary documents (6 percent), or they did not think they could afford the account registration fee (4 percent).

**Policy Advocacy on Financial Inclusion**

State Bank of Pakistan's regulatory prudence to foster a thriving environment for microfinance and branchless banking in Pakistan has garnered esteem and acclamation from financial inclusion experts and organizations across the globe. The adopted policy measures demonstrate a pioneering shift from traditional regulatory stances and have led Pakistan's microfinance and branchless banking market to become one of the fastest growing and innovative markets in the world<sup>2</sup>. To support similar expansion in other parts of the world, SBP openly and ardently shares its endorsed regulatory approaches to various international financial inclusion alliances, platforms and advocacy groups, and hosts various exposure visits for countries that are interested to learn from Pakistan's financial inclusion experiences.

**SBP's Engagement with the Alliance for Financial Inclusion (AFI)**

Alliance for Financial Inclusion (AFI) is a global knowledge sharing network, with members from over 80 countries working together to advance innovative financial inclusion policy solutions globally. As a member of AFI since 2009, SBP has been playing an active role in promoting activities of this global network.

Senior officials from Development Finance Group, State Bank of Pakistan are part of AFI's various committees and working groups, which provide strategic guidance on the future direction of different

<sup>2</sup> Financial Times (November 06, 2012) and Consultative Group to Assist the Poor (January 30, 2013)

areas relating to financial inclusion, through offering innovative ideas, identifying new opportunities, and building the AFI network. In FY13, SBP officials were designated as chair and/or co-chair of AFI's various working groups including Financial Inclusion Strategy Peer Learning Group (FISPLG), The Consumer Empowerment and Market Conduct (CEMC) Group, and SME Group. In addition, SBP is also a member of the Mobile Financial Services Group (MFSWG). These platforms have provided avenues for capturing, tracking and sharing information on innovative financial products, business models and appropriate regulatory responses for global financial inclusion.

Currently, AFI is undergoing a critical transformation towards an independent international organization. An independent, self-funded institution is of significant importance to host discourse on policy reforms regarding financial inclusion and the AFI Steering Committee has actively promoted the idea of independence of AFI. The SBP's Head of Agricultural Credit & Microfinance Department has been selected as the Chair of the AFI Sub-Committee on Host-Country Evaluation. He has played a critical part in advancing the process of selection of a host country, in which AFI will be headquartered as an independent entity, and continue its enabling role for worldwide financial inclusion.

#### ***Exposure visits***

Central banks of several developing countries have expressed keenness to learn from Pakistan's microfinance and branchless banking experience and adopt the country's internationally recognized policy measures. SBP has an open and supportive approach to promote global knowledge sharing for financial inclusion and has hosted exposure visits for different countries each year. This year, delegations from Afghanistan and Republic of Zambia were hosted for a holistic exposure visit of Pakistan's financial landscape.

#### **2.2.3 Donor Funded Programmes Based SBP Initiatives**

SBP is managing a number of government and donor funded programmes with the objective to enhance financial inclusion in Pakistan. These programmes are playing a pivotal role in the development of financial markets to serve the unbanked low income segments, especially the poor and women through sustainable models. The funded interventions have been designed by SBP to enhance credit risk of the borrowers and capacity of market players, spur innovations and bridge key market information and infrastructure gaps. Progress on funded initiatives during the period is as follows:

#### ***Credit Enhancement Facilities***

- ***Microfinance Credit Guarantee Facility (MCGF<sup>3</sup>)***, a £15 million facility, was launched by SBP in December 2008 under UK's Department for International Development (DFID) funded Financial Inclusion Programme (FIP) to cover partial risks against the loans extended to microfinance providers by the commercial banks. MCGF has been showing continuous growth since its launch to address growth funding needs of the microfinance sector and maximize the outreach in microfinance sector. So far, 27 guarantees have been issued under MCGF which has mobilized over Rs 7.9 billion from commercial banks and capital markets/ retail investors for onward lending to around 400,000 micro borrowers. The facility has helped develop the market and introduced poor borrowers to mainstream financial institutions.

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<sup>3</sup> Initially, MCGF, CGS and ISF were launched for £10.0 million each, but later these were revised as £15 million, £13 million, and £6 million respectively.

- **Credit Guarantee Scheme (CGS)**, worth £13 million, was launched in March 2010 under FIP to facilitate credit to small and rural businesses for greater outreach. The scheme was launched after an assessment of commercial banks' risk appetite and demand for the facility. The objective of the scheme is to improve availability of credit by enhancing credit rating of small and rural borrowers through guarantees for greater outreach to the poor and rural segments. CGS has allocated limits of Rs 2.6 billion to 10 banks in line with the available seed money and request of the banks. The selected partner banks have booked guarantees of Rs 1.6 billion against sanctioned loans of Rs 3.9 billion for 6,239 small and rural enterprises.

#### **Smart Grants for Institutional Development and Financial Innovations**

- **Institutional Strengthening Fund (ISF)**, a £6 million facility, was launched by SBP in December 2008 under FIP. The objective was to provide grants for institutional strengthening of the microfinance sector, develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives. Under ISF, so far Rs 743.7 million has been approved for 15 microfinance providers including top and middle tier MFBs and MFIs as well as Pakistan Microfinance Network. The grants cover 23 projects addressing institutional strengthening needs of the grantee institutions for capacity building/ HR training, IT development, business plan/ strategic reviews, market research, branchless banking, corporate governance, credit ratings, remittances, and treasury functions etc. The ISF support has been transformational; supporting graduation of NGO MFIs to MFBs and has put the industry on a more sound footing. As a result the major segment of the MF industry has been brought under SBP's MF regulations and is enjoying the lower funding costs that savings provide. In addition, ISF has helped a number of institutions to be sustainable and efficient in financial service delivery.
- **Financial Innovation Challenge Fund (FICF)**, a £10 million facility, was launched by SBP in May 2011 under FIP with the aims 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. The fund will hold specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. The first round of the fund was held on Financially Inclusive Government to Person (G2P) Payments which has now been successfully concluded. As a way forward on FICF, it has now been decided that the 2<sup>nd</sup> FICF round would be held on rural financial services including agricultural finance and broad-based financial services projects using telecommunication infrastructure to promote small payment for people who are not part of financial services.

#### **Support to Cross Cutting Themes to Enhance Capacity and Bridge Market Information & Infrastructure Gaps**

- **Nationwide Financial Literacy Programme (NFLP)**: SBP launched Pakistan's first-ever Nationwide Financial Literacy Programme, on 20th January 2012, under Asian Development Bank (ADB) sponsored Improving Access to Financial Services Fund (IAFSF) in order to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The NFLP was launched with the support and collaboration of ADB, PBA, and PPAF. The pilot of the programme was completed in July 2012 and 47,800 beneficiaries were targeted through class room training sessions and street theaters. The programme focused on disseminating basic education about financial concepts, products and services to masses; explaining budgeting, saving, investment, debt management and consumer right and

responsibilities<sup>4</sup>, etc. Currently the pilot assessment is under process after which the programme will further be scaled up, based on the evaluation of the pilot project, to reach out to more than 500,000 poor and low income beneficiaries.

- **Grass-root Level Training Programme for Credit/Loan Officers of MFBs/MFIs:** The programme aims to provide capacity building support to the industry by developing understanding within the industry through mutual knowledge/ideas sharing. The first phase of Grass Root Level Microfinance Training Programme was completed by conducting 40 training programmes at different locations across the country in which around 1,000 loan and field officers were targeted. Now, after the completion of the programme, it will be evaluated and then scaled up to train a large number of loan and field officers
- **Regional Internship Programme for Agri Graduates:** Given the scarcity of agri finance professionals, a 10 weeks pilot internship programme for 100 agri graduates has been launched. Objective is to create a pool of agri finance human resources who would have hands on knowledge in agri financing; both its operational and regulatory aspects.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP is supporting establishment of Nationwide Microfinance-exclusive Credit Information Bureau (MF-CIB) that will help microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and loan defaults. The MF-CIB is being established with the objective to store all past and present credit transactions of all microfinance borrowers, to minimize the instances of over-indebtedness, to bring financial discipline in microfinance sector and to improve the loan portfolio quality of MFPs.
- **Launching of Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector:** SBP is supporting Pakistan Microfinance Network (PMN) to develop a holistic microfinance transparency and client protection intervention at the industry level. The key objectives of the initiatives are monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks and standardization in calculating and communicating product prices to clients.
  - a. For CP monitoring initiative, PMN signed a Partnership agreement with Smart Campaign to support and review smart assessments of PMN Member Institutions and conduct training of local industry stakeholders in Pakistan to build their capacity.
  - b. For pricing transparency initiative, PMN signed a Partnership agreement with Microfinance Transparency (MFT) to tailor MFT's data collection tool to the Pakistan market, build stakeholders' capacity in understanding pricing, data collection and analysis, publication of data on the MFT website, preparation and publication of pricing analysis report for Pakistan etc.
- **Training Programme on Governance Needs of the Microfinance Industry:** SBP is supporting the development of a customized course and roll out of training programmes on governance needs of microfinance providers. The objective of the programme is to develop a resource pool to be available for serving as BoDs of MFPs. The programme is focused on addressing the capacity gaps to empower the BoDs through building their awareness, vision and capacity for growth so as to make the goal of promoting financial inclusion achievable.

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<sup>4</sup> [www.financialeducation.pk](http://www.financialeducation.pk)

- ***SME Finance Grass Root Cluster Training Programmes:*** SBP, as part of its capacity building initiative for the commercial banks in the area of SME Finance, introduced an SME Finance Grass Root Cluster Training Programme under FIP for the credit officers of banks to equip them with the latest tools and technology being used in SME finance across the globe. About 500 credit officers from commercial banks have been trained in the SME finance area at SME hubs across the country. The major areas covered included risk mitigation tools like credit scoring, programme-based lending schemes, effective marketing strategies for SME finance and utilizing the area of social profiling in SME finance.
- ***Capacity Building of SBP officers in development finance areas:*** SBP also provided numerous opportunities to its officers to develop capacity in the development finance areas including microfinance, SME and agri/rural finance etc to help in implementing financial inclusive policies.