4 Broadening Access to Financial Services

4.1 National Financial Inclusion Strategy (NFIS)

SBP, being the apex policy and regulatory body for financial sector, is fully committed towards broadening access to financial services and implementing development finance reforms and policies. The stated vision for financial inclusion in Pakistan is to improve the access and usage of quality financial services among individuals and firms, with dignity and fairness.

Table 4.1: Financial Inclusion Indicators

Indicators	Jun 15	Jun 20	Growth (Percentage)
In terms of outreach			
No. of Deposit Accounts (million)	41.7	59.9	43.6
No. of Branchless Banking Accounts (million)	10.8	52.5	386.1
Scheduled Bank Deposits (Rs. in billions)	9,153	16,205	77.0
In terms of payment Infrastructure			
No. of ATMs	9,597	15,612	62.7
No. of Bank Branches	11,937	16,067	34.6
No. of POS Machines	41,183	49,067	19.1

Source:
Statistics on Scheduled Banks in Pakistan
Agricultural Credit & Microfinance Department, SBP
Payment System Review

In order to promote financial inclusion and improve access to finance for priority sectors, Government of Pakistan (GoP) and SBP adopted National Financial Inclusion Strategy (NFIS). The key objective of the Strategy is to achieve inclusive economic growth through enhanced access to finance & deposit base, promotion of small & medium enterprises, easy and affordable access to finance to farmers, facilitation in low cost housing finance and provision of Shariah compliant banking solutions.

NFIS has made significant headway in terms of creating an enabling legal and regulatory environment; establishing financial market infrastructure, developing innovative products & services and new alternate delivery channels; and enhancing the capacity building & awareness initiatives. As a result of these initiatives, the unique account ownership in Pakistan reached up to 66 million accounts with 60 percent active accounts. Regarding progress in priority sector lending, all the sectors have shown positive growth in terms of credit disbursement and outreach (Table 4.2). Further, the progress on major initiatives taken by SBP under NFIS are mentioned in **Box 4.1.**

Table 4.2: Sectoral Progress

Sector	Item	Baseline FY 15	FY 19-20 As of Jun	Percentage change
Agricultural Finance	Agri Credit Disbursement (Billion Rs.)	515.9	1,215	135.5
	Outstanding (O/S) Borrowers (Millions)	2.18	3.74	71.6
Microfinance (MFBs)	MF Gross Loan Portfolio (Billion Rs.)	45.6	218.2	378.5
	No. of Outstanding Borrowers (Millions)	1.29	3.54	174.4
SME Finance	Outstanding SME financing (Billion Rs.)	260.7	401.13	53.8
	Outstanding SME borrowers	152,495	188,804	23.8

Box 4.1: Initiatives under NFIS Strategy

- **Development of Asaan Mobile Account (AMA) Scheme:** The AMA Scheme has been developed to improve accessibility of new customers for account opening, drive usage of digital financial services through increased transaction volume across various channels and increase access to financial services through digital means. Pilot testing of AMA scheme in a live environment was completed in March 2020 and commercial launch is expected soon.
- **Setting up of Digital Financial Services (DFS) – Innovation Challenge Facility (ICF):** The ICF facility was set up to support financial service and financial technology providers/institutions to develop new or expand on existing digital financial products, services and delivery platforms that increase financial access for people living at the bottom of the pyramid. Currently, the facility focuses on two areas, i.e. (i) improving digital financial inclusion of small businesses and (ii) scale up an affordable online tax filing portal for SMEs.
- **Automation of Central Directorate of National Savings** (CDNS): CDNS was provided support to automate its 165 branches to enable CDNS to: (i) reduce the cost of funds by at least 25 percent; (ii) Increase customer base by at least 50 percent (iii) develop new digital channels to enhance customer experience; and (iv) develop HR capability and capacity regarding digitalization.
- **Automation of Securities and Exchange Commission of Pakistan (SECP):** SECP has been supported for its Leading Efficiency through Automation Prowess (LEAP) Programme to help SECP in digitization and automation of its business processes to improve ease of doing business in Pakistan. Particularly, under the LEAP program, SECP has established an electronic Secured Transactions Registry (STR) in line with Secure Transaction Act 2016. The registry helps SMEs to obtain financing from banks/DFIs against a registered charge on their movable assets.
- **National Financial Literacy Program (NFLP):** NFLP is SBP's flagship program focused on imparting basic financial education to unbanked/ underserved segments of population especially the women & youth. Keeping in view the diversity & literacy level of target audience, the NFLP program has been segmented into two components i.e. National Financial Literacy Program for Adults and National Financial Literacy Program for Youth. As of June 2020, more than 924,000 individuals have benefited from these programs.
- **Banking on Equality-A Policy to Reduce the Gender Gap in Financial Inclusion** by tackling the rising gender gap in access and usage of financial services in Pakistan. The policy aims to introduce a gender lens within the financial sector through identified pillars and specific measures, to bring about a shift towards women friendly business practices. The policy document will soon be made available for public consultation. Once issued, identified policy measures will be applicable on Commercial Banks, Islamic Banks, Microfinance Banks, Development Finance Institutions (DFIs) and Electronic Money Issuers (EMIs).
- **Development of Electronic Warehouse Receipt (WHR) financing mechanism.** The mechanism is being developed to enhance farm credit and reduce post-harvest losses. The Securities & Exchange Commission of Pakistan (SECP) in collaboration with SBP has issued the Collateral Management Companies (CMC) Regulations on July 31, 2019, under the Companies Act 2017. Further, in line with CMC Regulations 2019, SBP has issued the necessary amendments in Prudential Regulations for Agri. Financing, SME Financing, and Corporate & Commercial Banking to facilitate banks to provide financing against WHR.
- **Financial Inclusion and Infrastructure Project (FIIP):** In order to support the NFIS implementation, World Bank (WB) committed to provide a financial intermediary loan of USD 137 million to Govt. of Pakistan (GoP). SBP is responsible for implementing program components worth USD 127.6 million. This initiative aims to improve the access of financial services among masses by providing a line of credit to MFBs, MFIs and NBFCs for lending to micro-borrowers / enterprises. SBP successfully disbursed Rs. 9.1 Billion to the Participating Financial Institutions (PFIs). The PFIs have disbursed more than two hundred thirteen thousand (213,000) micro loans including more than one hundred fifty-five thousands (155,000) loans to women micro-borrowers. These loans are targeted to the poorest sector of the economy, especially women and will help in eliminating poverty and achieving a sustainable standard of living. Under FIIP, SBP is also developing a National Payment Gateway-NPG that provides an interoperable platform for micro, retail and high value payments.

4.2 Agricultural Finance

During the second half of FY20, Pakistan's agricultural sector faced multiple challenges due to the COVID-19 and locust attack, which reduced the sector's growth prospects and put millions of farmers under distress. To overcome these challenges, SBP along with the government and financial sector, made efforts to provide relief to farming communities. For FY20, a lending target of Rs.1,350 billion was allocated to Participating Financial Institutions (PFIs), to meet the growing credit demand of farmers. Despite the abovementioned challenges, PFIs were able to disburse around 90 percent of the overall target i.e. Rs.1,215 billion, an increase of 3.5 percent compared to last year disbursement of Rs.1,174 billion (**Table 4.3**)

Table: 4.3 Agricultural Credit Targets and Disbursement (Rupees in billions)

	FY 2019 - 20			FY 2018 - 19			
Banks	**Target**	**Disbursed**	**% achieved**	**Target**	**Disbursed**	**% achieved**	**% YoY**
5 Big CBs	705.0	708.3	100.5%	651	654	100.5%	8.3%
ZTBL	100.0	62.3	62.3%	100	72	72.0%	-13.5%
PPCBL	13.0	8.8	67.9%	13	10	76.9%	-12.0%
DPBs(14)	253.6	225.0	88.7%	245	212	86.5%	6.1%
IBs(5)	55.0	42.1	76.6%	50	39	78.0%	7.9%
MFBs(11)	184.0	139.3	75.7%	156	154	98.7%	-9.5%
MFIs/RSPs	39.4	28.9	73.4%	35	34	97.1%	-15.0%
Total	**1,350**	**1,215**	**90.0%**	**1,250**	**1,174**	**93.9%**	**3.5%**

The growth and resilience of agricultural financing can be attributed to SBP's continuous monitoring and follow-up of assigned targets with concerned financial institutions. Major initiatives taken by SBP to support agriculture sector include the following:

Box 4.2: Initiatives for promotion of Agriculture Financing

- **Loan repayment relief to dampen the effects of COVID-19**
  Banks have been instructed to allow deferment of loan principal to agri. borrowers, for one-year, upon their request. Regulatory space is also provided to facilitate banks in rescheduling/restructuring of loans for borrowers who cannot service markup or need deferment exceeding one year.
- **Regulatory space for innovative financing**
  Relevant Prudential Regulations have been amended to allow Electronic Warehouse Receipt (EWR) as acceptable collateral for bank financing. Further, the maximum tenure for agricultural development loans has been increased from 5 to 10 years to encourage development and mechanization for efficiency, resource conservation and yield enhancement. Additionally, Indicative Credit Limits and Eligible Items for Agri. Financing have also been revised to allow banks to provide loans to farmers as per their internal policies. This will also facilitate provincial planning departments in estimating the total financial and credit requirements of provinces/regions for agriculture sector.
- **Crop Loan Insurance Scheme (CLIS) & Livestock Insurance Scheme for Borrowers (LISB)**
  CLIS has enabled financial access for farmers, with premium for small farmers being borne by the government. During the period July 2008 to June 2019, banks have submitted premium claims of Rs.8.2 billion against 6.1 million beneficiaries. Insurance premium for small livestock farmers, availing bank financing, continues to benefit farmers as claims of Rs.2.3 billion against 0.6 million beneficiaries have been received during period July 2014 – June 2019.
- **Adoption of Automation of Land Record for Agri. Financing**
  SBP is working in collaboration with provincial governments and financial institutions for implementing and mainstreaming electronic land verification records and charge creation for availing bank loans. In Punjab, 32 out of 35 banks doing agriculture financing have signed MOU with Punjab Land Revenue Authority (PLRA) for availing these services. Out of these, 20 banks are already using the portal for issuing loans to farmers, while other banks are in process of integrating their banking system with the PLRA portal.

4.3 Microfinance

During FY20, the microfinance industry, constituted by Microfinance Banks (MFBs) and Non-Bank Microfinance Companies (NB-MFCs), was expected to continue to register growth across the board. Microfinance Sector is the largest contributor towards financial inclusion at the base of the pyramid in Pakistan and a major engine for poverty reduction and employment for the unbanked and underserved segment of the economy. As of June 2020, around 46 Microfinance Providers (MFPs) reported provision of microfinance services to poor and low-income clientele to help them increase their income and improve their standard of living. Microfinance Banking sector includes 11 deposit taking Microfinance Banks (MFBs) and MCB Islamic Bank[8] that are regulated by SBP while the rest were NB-MFCs regulated by Securities & Exchange Commission of Pakistan (SECP). MFPs are offering a host of financial services to low income segment to improve their livelihood opportunities and social well-being.

At the close of FY20, MFBs' asset base crossed Rs.400 billion, an increase of 14 percent from previous corresponding period (Rs.350 billion). MFBs witnessed a growth of 5.2 percent (Rs.10.9 billion) in its microcredit portfolio to reach Rs.218.3 billion as against Rs. 207.5 billion at the end of preceding fiscal year. Likewise, the number of MFBs' microcredit borrowers recorded an increase of 1.6 percent to grow over 3.5 million by the end of the FY20. Similarly, growth was also witnessed in MFBs' deposits that reached Rs.292.2 billion from Rs.248.8 billion, registering an impressive growth of 17.5 percent (Rs.43.4 billion). Concurrently, the number of depositors increased by 15 million to reach 49.3 million in FY20 from 34.3 million in FY19, an impressive 43.8 percent growth in outreach of deposit services. By the end of FY20, MFBs' aggregate equity stood at Rs.43.4 billion. (**Table 4.4**)

Table 4.4: Microfinance Banking Indicators

(Rupees in billions)

Indicators	FY19	FY20	Annual Growth
No. of Borrowers	3,485,757	3,541,183	1.6 %
Gross Loan Portfolio	207.500	218.360	5.2 %
Average Loan Balance (in Rs.)	59,528	61,663	3.6 %
Deposits	248.809	292.239	17.5 %
No. of Depositors	34,327,968	49,360,158	43.8 %
Equity	47.176	43.445	-7.9 %
Assets	350.139	400.417	14.4 %
Borrowings	27.329	24.408	-10.7 %

Source: Agricultural Credit & Microfinance Department, SBP.

Altogether, banks and non-bank microfinance providers were able to register 2.1 percent growth in aggregate microcredit portfolio, which grew by Rs.6.2 billion to surpass Rs.299.9 billion as of FY20 from Rs.293.6 billion in previous fiscal year. However, the number of borrowers dropped by 3.6 percent to over 6.8 million at the end of FY20.

Table 4.5: Microfinance Industry Major Indicators

(Rupees in billions)

Indicators	FY19	FY20*	Annual Growth
No. of Borrowers	7,142,247	6,885,117	-3.60 %
Gross loan portfolio	293.695	299.948	2.13 %
Average Loan Balance (in Rs.)	41,121	43,565	5.94 %

Source: PMN MicroWatch, Issues 52 & 56.

[8] Through separate counters in existing branches.

Over the years NB-MFCs served a larger number of borrowers, however, it was for the first year that MFBs were able to register their lead by serving 52 percent borrowers. Moreover, the MFBs also continued to be front-runners in terms of the aggregate value of loans (72 percent). The industry-wide average outstanding loan balance increased to Rs.43,565 billion, however, average outstanding balance of loans offered by MFBs (Rs.61,663) continued to be on a higher side (**Table 4.4)** when compared with their non-banking counterparts. (**Table 4.5)**.

Box 4.3: Initiatives for Promotion of Microfinance

SBP has provided continued support to microfinance sector to boost financial inclusion in Pakistan. Key initiatives to promote the sector are as follows:

a) Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) for MFBs were further aligned with the Financial Action Task Force (FATF) recommendations. The revisions are aimed at adding clarity besides strengthening the framework to preserve the integrity, soundness and safety of the financial system and deter against possible use of MFB channel for money laundering, terrorist financing, proliferation financing and other illicit activities.

- Amendments to align AML/CFT Regulations for MFBs with the Financial Action Task Force (FATF) recommendations[9].
- Compliance of AML/CFT Regime for MFBs, that require time bound biometric verification of accounts.[10]

b) Additional guidance on **Fit & Proper Test (Criteria)** for MFBs were issued to ensure that persons subject to FPT shall become disqualified if they are designated/proscribed or associated directly/indirectly with designated/proscribed entities/persons under United Nations Security Council Resolution on Anti-Terrorism Act 1997[11].

c) The scope of SBP's **AML/CFT Guidelines on Risk Based Approach (RBA)** has been broadened to include MFBs. These guidelines emphasize on (i) identifying and assessing the ML/TF risks in line with nature, scale, diversity and complexity of business, (ii) ensuring that internal policies, procedures etc. are compliant with applicable AML/ CFT laws and regulation and (iii) implementing adequate, reliable, efficient automated systems and technologies proportionate to ML/ TF/ PF risks.

d) SBP has enhanced the lending limits under 'Housing Finance' for MFBs by increasing the maximum loan size from Rs. 500,000 to Rs. 1,000,000. Moreover, the restriction to maintain 60 percent of housing portfolio within the loan limit of Rs.250,000/- has also been removed. MFBs have been advised to develop related institutional capacity and appropriate mechanisms for monitoring the housing finance exposure.

e) Regulation G-2 'Remuneration to Directors' has been revised to enhance remuneration ceiling and provide detailed guidance to ensure transparency and disclosure[12]. The revision is expected to enable MFBs to hire and retain experts on their BoD for a better strategic direction and long-term growth.

f) Measures to dampen the adverse effects of COVID-19 for MFBs/microfinance borrowers
In order to dampen the adverse effects of COVID-19 for microfinance borrowers and to enable the Microfinance Banks to continue to fulfill their role in funding the real economy, following significant decisions had been taken by State Bank of Pakistan.

- *Payment of principal on loan obligations will be deferred by Microfinance Banks (MFBs).*
  Microfinance Banks will defer the payment of principal loan amount by one year. To avail this relaxation, borrowers should submit a written request to the MFBs before June 30, 2020. They will, however, continue to service the mark-up amount as per agreed terms and conditions. The deferment of principal will not affect

[9] AC&MFD Circular No. 03 of 2019
[10] AC&MFD Circular No. 04 of 2019
[11] AC&MFD Circular Letter No. 04 of 2019
[12] AC&MFD Circular No. 01 of 2019

borrower's credit history and such facilities will also not be reported as restructured in the credit bureau's data. As COVID-19 pandemic prevails, the relief period has been extended up to September 30, 2020.

- Regulatory criteria for restructuring/rescheduling of loans have been temporarily relaxed till 31st March 2021 for MFBs.
  For borrowers, who are not able to service the mark-up amount and their financial conditions require extension exceeding one year, SBP has relaxed the regulatory criteria for restructuring/rescheduling of loans. The loans that are re-scheduled/restructured within 90 days from the due date of payment will not be treated as defaults and such facilities not be reported as restructured in the credit bureau's data. By the end of June 2020, around 1,018,204 microfinance banks' borrowers have applied for afore-stated relief and over Rs. 64 billion has been restructured or rescheduled by the microfinance banks for the period up to one year to ease the financial burden on low-income households from the impact of COVID-19.

  Relief to borrowers adversely affected by natural calamity: MFBs continued to provide relief to adversely influenced borrowers in eight districts declared as calamity affected by the Government of Sindh namely Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin and Kamber Shahdad Kot. Microfinance banks were advised to undertake all possible measures in line with Prudential Regulation R – 9: 'Rescheduling/ Restructuring of Loans.' The regulation requires MFBs to have in place a policy duly approved by their Board of Directors that among other things shall envisage steps to provide relief to borrowers adversely affected by natural calamities. As of June 2020 MFBs collectively provided relief of Rs.706 million to 11,636 borrowers in terms of restructuring and rescheduling of loans. Keeping in view ongoing Coronavirus Pandemic situation, aforesaid relief provided to MFBs' borrowers in calamity affected areas of Thar has been extended by SBP for one year till March 2021.

- Similarly, amid prevailing pandemic, MFBs have been advised to resume biometric verification, prescribed vide AC&MFD Circular No. 04 of 2019 with revised timelines of January 31, 2021 and March 31, 2021 for customers assigned medium and normal priorities, respectively.

4.4 Branchless Banking (BB)

Performance of the Branchless Banking Industry

During FY20, all key indicators of branchless banking exhibited an encouraging growth, which bodes well for the gradual adoption of digital channels and usage of basic financial services in the country. At the end of FY20, thirteen Authorized Financial Institutions (AFIs/branchless banking players) were operating and providing basic financial services across the country. The number of BB accounts reached 52.5 million after witnessing growth of 47 percent as compared to previous year. BB deposits increased by 42.8 percent during FY20 to reach Rs.36.7 billion from Rs.25.7 billion, compared to last year. Branchless banking players have also increased their agent network throughout the country to reach 445,181 by FY20 as compared to 421,053, showing a growth of 5.7 percent. Similarly, the volume and value of transactions witnessed 33.5 and 24.8 percent increase, respectively over FY19, which is a positive indicator regarding usage of BB channel. The number of transactions performed during FY20

Table 4.6 : Branchless Banking Indicators

BB Indicators	FY19	FY20	Growth
Number of Agents	421,053	445,181	5.7 %
Number of Accounts	35,730,704	52,522,222	47.0 %
Deposits (Rs. in millions)	25,664	36,660	42.8 %
No. of transactions ('000')	1,116,266	1,489,664	33.5 %
Value of transactions (Rs. in millions)	4,128,868	5,151,391	24.8 %

Source: Agricultural Credit & Microfinance Department, SBP.

were 1.49 billion with total value of around Rs.5.2 trillion. These compute to more than 4 million transactions per day and average transaction size of Rs.3,458.

Box 4.4: Initiatives for Promotion of Branchless Banking

a) **Branchless Banking Regulations for Financial Institutions:** In order to enhance the outreach of Branchless Banking (BB) operations for achieving the objective of financial inclusion and strengthening the controls related to Money Laundering (ML)/ Terrorist Financing (TF) risks, SBP issued revised Branchless Banking (BB) Regulations for Financial Institutions vide BPRD Circular No. 10 of 2019 dated December 30, 2019. It may be noted that SBP introduced BB in 2008 which is updated from time to time based on technological developments and market assessment/demand. The BB Framework of 2019 emphasized the prerequisites of Simplified Due Diligence of BB Operations in light of Financial Action Task Force (FATF)'s recommendations. Other key highlights of BB Framework of 2019 include:

- Gradually phasing out of Person-to-Person (P2P) transfer by June 30, 2020
- Biometric Verification is made mandatory for all Level 1 account
- Complete Biometric verification of all legacy BB accounts
- Enhance monthly limit of BB level 1 account to Rs. 200,000/- per month

b) **Measures to dampen the adverse effects of COVID-19:** SBP prescribed following measures (vide BPRD Circular Letter No. 10 dated March 26, 2020) to minimize the risks of the pandemic;

- Extended timelines for Biometric Verification of legacy BB Level - 1 accounts since March 2020 till September 30, 2020 enabling customers to open and use BB platform for financial services.
- Encouraged AFIs to introduce Biometric Verification through smart phone applications after complying with NADRA's security standards and also use digital channels for BB agents on-boarding with an objective of increasing financial services access points.
- Directed AFIs to ensure safety and hygiene measures, including the availability of liquid Soap/ Sanitizers, at all biometric touch-points.

c) **Capacity Building Program of BB Agents:** SBP initiated capacity building of BB agents on nationwide scale. In Phase-1 of the project, 73 bank officials were trained as trainers. During 2019, SBP launched Phase-2 of this project, under which the trained bank officials will further impart training to 10,000 unique BB agents in two years. This project is expected to enhance the capacity of BB agents through classroom training. As of December 2019, 4,140 BB agents were trained across 15 major cities.

4.5 Small and Medium Enterprise Finance

Small and Medium Enterprise (SME) sector is playing a pivotal role in the economy of Pakistan. SME sector is considered as backbone of the economy as it employs more than 80 percent of non-agricultural workforce. However, banks have been reluctant to lend to SME sector due to multitude of factors. This includes lack of acceptable collateral, perceived riskiness of the sector, corporate mindset, high transaction cost, lack of banking products matching with the business needs of SMEs, low level of financial literacy, taxation issue, religious mindset of potential borrowers, etc. SBP has taken following initiatives for promotion of SME financing during FY20:

4.5.1 Outstanding SME Finance

The outstanding portfolio of SME Financing by Banks/ DFIs as of June, 2020 stood at Rs.401 billion as compared to Rs.464 billion as of June, 2019, showing YoY decline of 13.7 percent. Main reason for this decline was COVID-19 pandemic which affected businesses and their borrowing capacity. Besides, banks also adopted cautious approach while lending to SMEs.

4.5.2 Establishment of Pakistan Credit Guarantee Company
Pakistan Credit Guarantee Company (PCGC) has been established to provide risk sharing facility to banks on their lending to SMEs. The company has been incorporated with SECP and has been notified as DFI by Federal Government and is being operationalized.

4.5.3 Strengthening Secured Transactions Framework in Pakistan
SBP provided support and coordinated with Ministry of Finance, Government of Pakistan and SECP in setting up electronic Secured Transactions Registry (STR). The registry has been made operational under the ambit of SECP since April 30, 2020. The STR would enable SMEs to avail financing against their movable assets as collateral since this registry will allow banks to create charge on movable assets. The process of charge registration with STR has also started and SBP provided necessary support by holding awareness sessions for banks in May-June, 2020.

4.5.4 Prime Minister's Kamyab Jawan – Youth Entrepreneurship Scheme (PMKJ-YES)
Prime Minister’s Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) was launched in October, 2019 to enable youth to avail affordable financing for starting up new business or strengthening their existing business. The scheme has been launched with the main objective of providing subsidized loans to unemployed youth aged between 21 and 45 years, however, minimum age limit for IT/e-commerce related businesses is 18 years. Government is providing markup subsidy to make loans affordable for the borrowers, while risk coverage of upto 50 percent is also provided by the government under this scheme to motivate banks to extend loans to SME sector. As of June 30, 2020, disbursement of Rs.655 million has been made to 1,595 borrowers under the scheme.

4.5.5 Capacity Building and Awareness Creation Campaign
In FY20, NIBAF conducted 20 training programs on SME financing for the banking officials. In addition, NIBAF conducted 14 awareness cum handholding sessions for SMEs in different cities of the country. Total 1,373 participants attended these training and handholding sessions. Additionally, SBP-BSC conducted 281 awareness sessions across the country in FY20. These programs are being held under capacity building and awareness creation campaign launched by SBP.

4.5.6 Regulatory Relief to Dampen the effect of COVID-19
SBP allowed banks/DFIs to defer repayment of principal part of loan amounts by one year, upon receipt of written request of SME borrowers and housing finance borrowers till September 30, 2020; provided the obligor will continue to service the mark-up as per agreed terms & conditions. In case where obligors are unable to service the mark-up amount or need deferment exceeding one year, SBP allowed banks/DFIs to reschedule / restructure such financing facilities upon written request of the borrowers. If the rescheduling / restructuring is done within 180 days of the loans being past due, such financing facilities will continue to be treated as regular and reported in the eCIB accordingly.

4.5.7 Increase in regulatory limit on extension of credit to SMEs
In an era of economic turmoil, SMEs are typically at the forefront to bear the brunt of credit supply contractions. Therefore, as a tool to incentivize banks to provide additional loans to SMEs, the existing regulatory retail limit of Rs.125 million has been enhanced to Rs.180 million. This measure will incentivize banks to provide loans to SMEs since such loans will attract less capital charge.

4.6 SBP Refinance Schemes

SBP is continuously making efforts to emphasize banks and DFIs to meet the financing needs of different priority segments of the country including SMEs and exporters. SBP launched a number of refinance schemes under which short and long-term financing facilities are available to priority segments through banks at concessional mark-up rates. Major SBP refinance schemes are as under:

4.6.1 Export Finance Scheme and Islamic Export Refinance Scheme (EFS/IERS)

Export Finance Scheme is a short-term financing facility for exports of value added goods available through participating banks as per the limits allocated to individual banks. Maximum loan tenor for financing is 180 days. The existing rate of mark-up under EFS is 3 percent per annum while higher export performance against availed ERF facilities qualifies the exporters for additional markup rebate. Shariah compliant mode of financing is also available for exporters under Islamic Export Refinance Scheme (IERS). The outstanding export finance as of June 30, 2020 stood at Rs.504 billion, which is 33 percent higher on YoY basis (Rs.379 billion as of June 30, 2019).

4.6.2 Long-Term Financing Facility (LTFF)/ Islamic Long Term Financing Facility (ILTFF)

LTFF / ILTFF is a long-term refinance facility to promote export oriented industrial development. With a view to promote industrial development, the per project limit under LTFF/ ILTFF was increased from Rs.1.5 billion to Rs.5 billion in January 2020. Further, the scope of LTFF / ILTFF has also been extended to all sectors, which are allowed as per ambit of export policy order issued by the Ministry of Commerce from time to time. As of June 30, 2020, outstanding finance under LTFF / ILTFF stood at Rs.209 billion which is 33 percent higher YoY (Rs.157 billion as on June 30, 2019).

4.6.3 Refinance Schemes by SBP to support business community and health sector during COVID-19 Pandemic:

To support business community and health sector during COVID-19 pandemic, SBP issued the following time bound refinance schemes along with Shariah compliant versions:

- **Temporary Economic Refinance Facility (TERF)**

SBP announced TERF in March 2020 to propel investment in the industrial sector. Under this scheme, SBP provides refinance through participating banks / DFIs at a maximum end-user rate of 5 percent with SBP refinance rate of 1 percent. Maximum financing limit is Rs.5 billion per establishment. The refinance is provided for a maximum time period of 10 years inclusive of two years grace period. The main purpose is for setting up of new industrial units as well as BMR / expansion of existing ones. Shariah compliant alternate of this facility is also available. As of September 03, 2020, Rs 53.73 billion have been approved for 99 industrial projects under this refinance facility.

- **Refinance Facility for Combating COVID-19 (RFCC)**

In order to combat the impact of COVID-19, SBP introduced in March 2020 a time bound emergency support refinance scheme for hospitals/medical centers & manufacturers of protective gears and equipment, including items such as masks, dresses, testing kits, hospital beds, ventilators etc. Further, 100 percent cost of civil works of isolation wards is also provided under the scheme. SBP provides refinance at zero percent while the end-user rate is 3 percent for 5 years including grace period of upto 6 months. Further, maximum financing limit to a single hospital / medical center was enhanced to Rs. 500 million from initial level of Rs.200 million. Shariah compliant alternate of this facility is also available. As of September 03, 2020, Rs.6.24 billion have been approved for 31 hospitals/manufacturers under this facility

- **Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns**

SBP introduced this refinance scheme in April, 2020 with a view to facilitate businesses to retain their employees and prevent layoffs. The end user rate is 5 percent under the scheme while SBP rate of refinance is 2 percent for corporate / commercial and 1percent for SME borrowers. Further, additional rebate of 1 percent by SBP is provided to borrowers who are on active tax payers list. With budgetary allocation from Government of Pakistan, risk sharing facility was also introduced under the scheme, wherein risk sharing of 40 percent is being provided against first loss on disbursed portfolio (principal portion only) of eligible borrowers with sales turnover upto Rs.2 billion while for loans to SMEs with turnover up to Rs.800 million, 60 percent risk coverage is being provided. Shariah compliant alternate of this scheme is also available. As of August 21, 2020, Rs.183.43 billion had been approved under this facility to pay off salaries and wages of approximately 1.43 million jobs.

- **Relaxations on financing under SBP's Refinance Schemes**
  - In case of deferral of principal or restructuring / rescheduling of financing of borrowers under SBP's long term refinance Schemes, SBP has allowed banks/ DFIs to extend repayment period for an additional period of one year over the maximum tenor available under these schemes.

  - **Export Finance Scheme (EFS):** SBP reduced the performance requirement under EFS Part-II from twice to one-and-a-half times that is not only effective for FY20 but also for FY21. SBP also extended existing export performance period under EFS Part-II of one year by another 6 months for FY20. The export performance of extended period will also be accounted for exporters' limits under EFS Part-II for FY 21, thereby allowing higher limits to exporters. Further, the shipment period under EFS Part-I has also been extended by 06 months for shipment falling due from January 2020 till June 2020.

  - **Long term Financing Facility:** The eligibility requirement for availing financing has been reduced from exports upto 50 percent, or USD 5 million to 40 percent or USD 4 million, whichever is lower, for all the borrowings during the period January 01, 2020 to September 30, 2020. In case of exporters opting for projected exports criteria, SBP has extended export performance period by one year for each stage of meeting minimum exports, thereby extending the maximum period of existing 4 years to 5 years.

4.7 Infrastructure Project Finance

The financing to infrastructure projects from banks and DFIs witnessed 5.43 percent increase during FY20. As of June, 2020, the outstanding financing for infrastructure projects reached Rs.767.7 billion as compared to Rs.728.1 billion in June 2019.

4.7.1 SBP Financing Scheme for Renewable Energy

SBP Financing Scheme for Renewable Energy was issued in June 2016 with the aim to address dual challenge of energy shortage and climate change. The scheme comprised of two categories: Category 1 allowed financing for setting up of renewable energy power projects with capacity ranging from 1 MW to 50 MW while category II allowed financing for installing renewable energy based solutions for generation of electricity up-to 1 MW. On July 26, 2019, SBP, based on feedback of stakeholders, introduced revised Financing Scheme for Renewable Energy (RE Scheme) along with offering its Shariah complaint version. This revised scheme introduced a new Category III for facilitating financing to vendors / suppliers for installation of wind and solar systems/ solutions of up-to 1 MW. The validity of the scheme has also been extended until June 30, 2022.

Since the issuance of the scheme, total outstanding financing under the scheme, as of June 30, 2020, reached to Rs.15.56 billion for 217 projects having combined potential of adding 292 MW to national grid. The current revision in the scheme is expected to not only attract fresh investment in the sector but also facilitate production of clean energy in the country, which will help in mitigating effect of climate change.

4.7.2 Green Banking Guidelines (GBGs):

The primary objective of GBGs is to motivate banks / DFIs for Green / Sustainable banking practices and reduce vulnerability of financial system from risks arising from the environmental hazards. SBP formulated a plan to implement the GBGs in all banks and DFIs. Under the plan, SBP seeks the implementation status of GBGs from all banks and DFIs, as and when required, through prescribed format.

4.8 Housing Finance Division

4.8.1 Pakistan Mortgage Refinance Company (PMRC)

PMRC has been incorporated to provide long term funding to Primary Mortgage Lenders (PMLs). Keeping in view the distinctive mode of PMRC operations, its low risk profile and mono-line business activity, SBP granted regulatory relaxations to PMRC in capital and reserve requirements. PMRC has also been allowed to avail preferential risk weights for its refinance portfolio and securities issued, owing to its low risk profile. It commenced business on June 12, 2018 and has an outstanding refinance portfolio of over Rs.10.7 billion as of June 30, 2020.

4.8.2 Capacity Building

In order to promote bank's outreach to borrowers in the area of Housing Finance, SBP in collaboration with NIBAF initiated capacity development programs for banks. Nine iterations of the housing finance capacity building programs have been conducted during FY20.

4.8.3 Mandatory Targets to banks to increase housing & construction financing

To promote housing and construction of buildings activities in the country, as envisaged by the GoP, SBP issued instructions for mandatory targets of financing for banks to extend mortgage loans and financing for developers and builders. Banks will be required to increase their housing and construction of building loan portfolios to at least 5 percent of their private sector credit by the end of December 2021.

4.8.4 Regulatory Relief to Dampen the Effects of COVID-19

Banks have been allowed to release and use the general provision maintained in terms of Regulation HF-9 of Prudential Regulations for Housing Finance, against the specific provision requirement of the housing finance portfolio until December 31, 2021.