

4 Broadening Access to Financial Services

Financial inclusion is considered an effective tool for promoting inclusive growth in countries by cultivating opportunities for enhanced socio-economic outcomes and enabling masses to integrate into the economy, improve their livelihoods and protect themselves against economic shocks. Therefore, financial inclusion is a key priority for SBP to promote inclusive economic growth. In order to promote financial inclusion, SBP has taken a number of initiatives during FY21, including: introducing regulatory changes, setting ambitious targets and pushing financial institutions to enhance disbursement and outreach of credit and financial services to priority sectors. As a result, and despite challenging environment due to COVID pandemic, active accounts continued to grow and disbursement of credit to priority sectors recorded a double-digit growth during FY21.

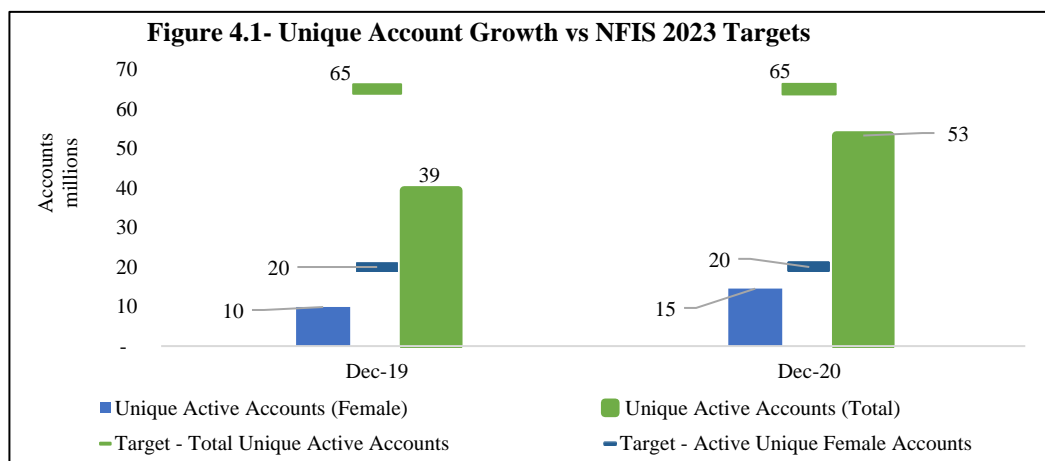
4.1 National Financial Inclusion Strategy (NFIS)

To promote financial inclusion and improve access to finance for priority sectors, GoP and SBP adopted National Financial Inclusion Strategy (NFIS) in 2015. NFIS instilled positive vigor within SBP to improve financial inclusion through enabling regulatory environment to spur innovation, provide support to modernize financial market infrastructure, improve financial access through cost effective digital financial products and enhance awareness & capacity building initiatives. The progress made under the key FI indicators is given in **Table 4.1**.

Table 4.1: Financial Inclusion Indicators

Indicators	June 15	June 21	Growth (Percentage)
In terms of outreach			
No. of Depositors Accounts (million)	41.7	62.0*	49%
No. of Branchless Banking Accounts (million)	10.8	74.62	591%
Scheduled Bank Deposits (Rs. in billion)	9,153	19,796	116%
In terms of payment Infrastructure			
No. of ATMs	9,597	16,355	70%
No. of Bank Branches	11,937	16,308	37%
No. of POS Machines	41,183	71,907	75%
*Dec 2020			
Source: SBP			

In 2018, scope of NFIS was enhanced with the goal to achieve inclusive economic growth by 2023, through enhanced access to finance and deposit base, promotion of small and medium enterprises, easy and affordable access to finance for farmers, facilitation in low-cost housing finance, and provision of Shariah compliant banking solutions. Under NFIS 2023, GoP has set the target of 65 million active digital transaction accounts, with gender segregation of 20 million accounts by women, as one of the headline targets to be achieved by 2023.



In terms of progress, it is highlighted that as of December 2020, Pakistan has reached 82 million unique accounts, out of which 65 percent are active. Further, unique account ownership in women has increased to 21 million (**Figure 4.1**). Regarding progress in priority sectors lending, all the sectors showed double digit growth in terms of credit disbursement and outreach (**Table 4.2**).

Table 4.2: Sectoral Progress

Sector	Item	Baseline FY15	FY21	Percentage change
Agricultural Finance	Agricultural Credit Disbursement (Billion Rs.)	515.9	1,365.9	165%
	Outstanding (O/S) Borrowers (billion)	2.18	3.49	60%
Microfinance (MFBs)	MF Gross Loan Portfolio (Billion Rs.)	45.6	262.529	476%
	No. of Outstanding Borrowers (millions)	1.29	4.63	259%
SME Finance	Outstanding SME financing (Billion Rs.)	260.7	437.6	68%
	Outstanding SME borrowers	152,495	172,893	13%

4.1.1 Banking on Equality Policy

SBP has launched “Banking on Equality Policy” in September 2021 to reduce the gender gap in financial inclusion and enhance women’s financial inclusion. The policy aims to introduce a gender lens within the financial sector through specific measures in key areas, to bring a shift towards women friendly business practices. These measures are targeted to improve institutional diversity, product diversification, customer acquisition & facilitation approaches and better gender-disaggregated data collection for improving women’s access to financial services.

The policy will facilitate in reducing the gender gap in bank staff, and improve access and use of financial products and services by women. It will also assist in achieving the headline targets of National Financial Inclusion Strategy (NFIS) of reaching 20 million active women owned bank accounts by 2023. The policy will be applicable on all Regulated Entities of SBP.

Furthermore, the progress on major initiatives taken by SBP under NFIS are mentioned below in **(Box 4.1)**

Initiatives under NFIS Strategy

- **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 a shift towards women friendly business practices. The policy has been launched in September 2021, and will be applicable on Commercial Banks, Islamic Banks, Microfinance Banks, Development Finance Institutions (DFIs) and Electronic Money Issuers (EMIs).
- **Automation of Central Directorate of National Savings (CDNS):** CDNS was provided support to automate its 165 sites/centers to enable 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. The project has been completed successfully as all 165 sites have been fully automated.
- **Automation of Securities and Exchange Commission of Pakistan (SECP):** SECP has been supported for its Leading Efficiency through Automation Prowess (LEAP) Program 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 and small farmers 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 2021, more than 1.63 million individuals have benefited from these programs.
- **Development of Electronic Warehouse Receipt (WHR) financing mechanism.** The mechanism is being developed to enhance farm credit and reduce post-harvest losses. The 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 necessary amendments in Prudential Regulations for Agricultural Financing, SME Financing, and Corporate & Commercial Banking to facilitate banks to provide financing against WHR. In this regard, SECP has also issued license to Naymat Collateral Management Company as CMC.
- **Financial Inclusion and Infrastructure Project (FIIP):** To facilitate achievements of NFIS targets, the World Bank provided a financial intermediary loan of USD 137 million to GOP for its "Financial Inclusion and Infrastructure Project" (FIIP). The activities covered in FIIP are mainly focused on the development of financial infrastructure to enhance financial inclusion and improved access for MSMEs. SBP is responsible for implementing program components worth USD 127.6 million, including USD 75.0 million for Line of Credit (LoC) funds to improve the availability of funds to poorest segment of the society through MFBs and NBMFCs. Since February 2019, SBP successfully disbursed LoC funds of Rs.9.6 billion to eight Participating Financial Institutions (PFIs). As of end-June 2021, these PFIs have onward disbursed around Rs.19.7 billion to 265,740 poor borrowers (of which 71 percent are women borrowers). 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

To take the financial inclusion agenda forward, SBP assigned annual agricultural credit disbursement target of Rs.1,500 billion for FY21, which is 23.5 percent higher than the disbursement of Rs.1,215 billion made during FY20.

Despite prevailing COVID situation, the disbursement is encouraging. During FY21, the agriculture lending institutions disbursed Rs.1,365.9 billion, which is 91.1 percent of the overall annual target and 12.4 percent higher than the disbursement of Rs.1,214.7 billion made during the corresponding period last year. Further, the outstanding portfolio of agricultural credit increased to Rs. 627.9 billion on end June 2021, registering a growth of 8.1 percent compared to the last year's outstanding credit of Rs. 580.8 billion. In terms of outreach, the agricultural outstanding borrowers reached to 3.5 million borrowers in June 2021. (Table 4.3)

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

Banks	FY 2019 – 20			FY 2020 – 21			
	Target	Disbursed	% achieved	Target	Disbursed	% achieved	% YoY
5 Big CBs	705	708.2	100.5	800	801.5	100.2	13.2
ZTBL	100	62.3	62.3	105	78.5	74.8	26.0
PPCBL	13	8.8	67.9	13	8.2	63.1	(7.0)
DPBs(14)	253.6	225.0	88.7	296	274.5	92.7	22.0
IBs(5)	55	42.1	76.6	63	47.8	75.9	13.5
MFBs(11)	184	139.3	75.7	182	132.1	72.6	(5.2)
MFIs/RSPs	39.4	28.9	73.4	41	23.3	56.8	(19.5)
Total	1,350	1,214.7	90.0	1,500	1,365.9	91.1	12.4

The augmented growth in agricultural financing is due to regular follow-ups and close liaising with financial institutions regarding their assigned targets. The major initiatives taken by SBP to promote 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 were advised to allow deferment of loan principal to agriculture 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. In this regard, as of April 16, 2021 banks provided relief of Rs.11.6 billion to 27,216 agriculture borrowers.

- **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 agriculture 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 December 2020, banks have submitted premium claims of Rs.9.4 billion against 6.54 million beneficiaries. Insurance premium for small livestock farmers, availing bank financing, continues to benefit farmers as claims of Rs.2.84 billion against 0.82 million beneficiaries have been received during period July 2014 – December 2020.
- Adoption of Automation of Land Record for Agriculture 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, 35 banks doing agriculture financing have signed MOU with Punjab Land Revenue Authority (PLRA) for availing these services. Out of these, 25 banks are already using the portal for issuing loans to farmers, while remaining 10 banks are in process of integrating their banking system with the PLRA portal.
- Credit Guarantee Scheme for Small & Marginalized Farmers**
 With support from federal government, SBP is offering a Credit Guarantee Scheme for Small and Marginalized Farmers (CGSMF). This scheme can be availed by banks for providing loans to small farmers, with default protection of up to 50 percent. Under this scheme, loans of Rs. 2.32 billion are outstanding as of June 30, 2021 by 12 PFIs. Since inception more than 131,000 farmers have benefitted through this scheme against Rs.1.1 billion funds released by the federal government.

4.3 Microfinance

The FY21 remained challenging for the microfinance industry as economic issues, amidst COVID-19 pandemic, adversely affected the repayment capacity of borrowers of low-income segments. To counter the adverse impact of COVID-19 pandemic, SBP remained proactive and introduced/made number of policy interventions to support Microfinance Banks (MFBs) and their vulnerable clients.

Table 4.4: Microfinance Banking Indicators

(Rupees in billion)

Indicators	FY20	FY21	Annual Growth
No. of Borrowers	3,541,183	4,630,716	30.77%
Gross Loan Portfolio	218.360	262.529	20.23%
Average Loan Balance (in Rs.)	61,663	56,693	-8.06%
Deposits	292.239	378.438	29.50%
No. of Depositors	49,360,158	66,687,601	35.10%
Equity	43.445	54.65	25.79%
Assets	400.417	513.752	28.30%
Borrowings	24.408	33.899	38.88%
NPL	4.57%	5.43%	-

Source: RCOA, Agricultural Credit & Microfinance Department, SBP.

4.3.1 Performance of the Microfinance Banks

As of June 2021, eleven MFBs and one Islamic bank (MCB Islamic)¹⁴ were involved in extending

¹⁴ Since October/November 2017, MCB Islamic Bank is extending microfinance banking services by establishing counters at its existing branches in line with [IBD Circular No. 5 of 2007](#).

complete range of micro-banking services to the low-income populace of the country.

During the period under review, the combined asset base of MFBs, witnessed a YoY growth of 28.3 percent (or Rs. 113 billion) increasing to Rs. 513.8 billion. Similarly, aggregate loan portfolio of MFBs registered a growth of 20.2 percent to reach Rs. 262.5 billion, as compared to Rs. 218.3 billion as on June 30, 2020. Likewise, the number of borrowers registered an increase of 30.8 percent from 3.5 million to 4.6 million (or 1,089,533 clients). The average loan balance decreased by 8.0 percent to Rs. 56,693. MFBs reported Non-Performing Loans (NPLs) to be around 5.43 percent at the end of the period, that have risen owing to challenges in recovering deferred and restructured portfolio.

The deposit base of MFBs registered an impressive growth of 29.5 percent to reach Rs 378.4 billion, compared to Rs. 292.2 billion at June 30, 2020. Concurrent growth was also witnessed in number of depositors which grew by 29.5 percent to 66.7 million. As of June 2021, MFBs were operating through a network of over 1,208 retail outlets (**Table 4.4**)

4.3.2 Microfinance Industry Performance

As of June 30 2021, around 40 institutions reported provision of microfinance services. These included eleven deposits taking MFBs, one Islamic Banking Institution (MCB Islamic Bank) while the rest were Non-Bank Microfinance Companies (NB-MFCs).¹⁵

Table 4.5: Microfinance Industry Major Indicators

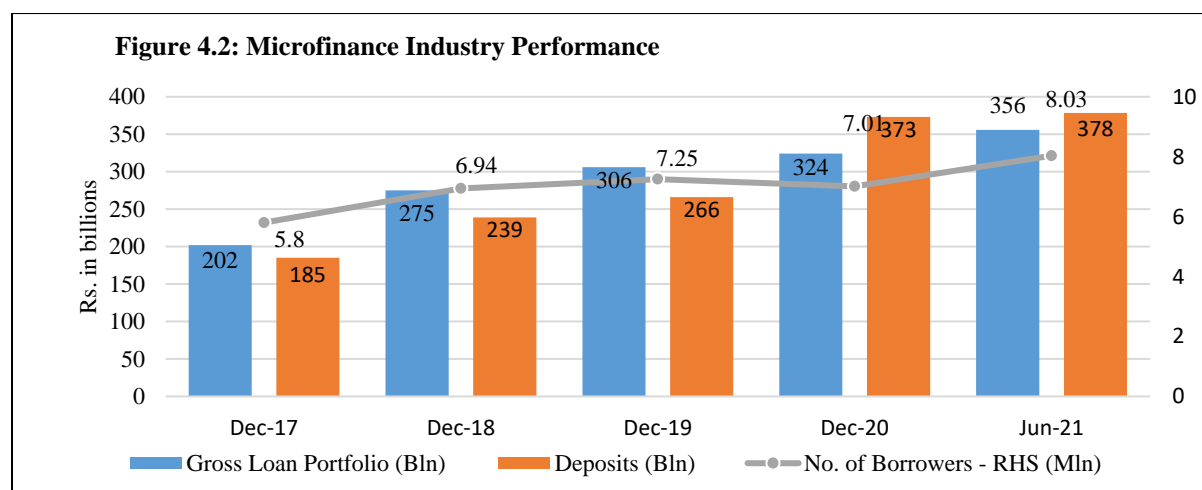
(Rupees in billion)			
Indicators	FY20	FY21	Annual Growth
Number of Branches	3,755	3,782	0.7%
No. of Borrowers	6,885,117	8,031,941	16.7%
Gross loan portfolio	299.948	355.700	18.6%
Average Loan Balance (in Rs.)	43,565	44,286	1.6%

Source: PMN MicroWatch, Issue No 57 and 60

The microfinance industry witnessed 18.6 percent growth in its aggregate microcredit portfolio, which increased by Rs.55.70 billion to Rs.355.7 billion from Rs 299.9 billion at the end of June 30, 2020. The number of borrowers increased by 16.7 percent to 8.0 million at end of the June 30, 2020.

The microfinance industry players operated through 3,782 branches spread in 138 districts across the country (**Table 4.5**). Performance of the microfinance industry is presented below in **Figure 4.2**, which depicts an increasing trend in number of borrowers and gross loan portfolio over the past few years apart from the impact of prevailing pandemic. MFBs continued to serve a slightly larger number of borrowers (56 percent) besides taking lead in terms of the aggregate value of loans (75.2 percent).

¹⁵ Include specialized microfinance institutions, rural support programs besides organizations running microfinance, as a part of their multi-dimensional service offering.



Box 4.3: Key initiatives for Microfinance Banking

- a) In order to provide relief to borrowers affected due to the COVID-19 pandemic, MFBs have been advised that upon receipt of written request within 90 days from the due date of payment:
- **Defer payment of principal on loan obligations for one year**, whereby borrowers will, continue to service the mark-up amount as per agreed terms and conditions.
 - **Reschedule / Restructure financing facilities** of borrowers who are unable to service the mark-up amount or need deferment exceeding one year.

The aforesaid treatment did not affect borrower's credit history as these facilities were not to be reported as restructured in the credit bureaus' data. Later, considering the prevalent COVID-19 pandemic and the representation of the stakeholders;

- Last date for submission of the requests by the borrowers for deferment of principal was extended up to September 30, 2020.
- Relief cover was expanded to accommodate borrowers who were regular on December 31, 2019.
- Borrowers' requests were accommodated via authorized email address or call centers equipped with recorded lines to facilitate them in availing relief on loans and microfinance banks were, vice versa, enabled to contact borrowers on their registered numbers.
- NPL categories were extended by 2-months for borrowers who could not avail relief under the scheme till March 31, 2021.
- MFBs extended relief to over 1.8 million customers amounting to Rs.119 billion in terms of principal deferment and loan restructuring.

b) **Regulatory requirement of Biometric Verification has been relaxed for Microfinance**

Customers until December 31, 2021: In order to help mitigate the risk of spread of COVID-19, which may arise from physical contact/ interaction during account opening activities, MFBs have been advised to use NADRA's online Verification System for verification purpose in place of Biometric Verification (BMV). Now MFBs will resume biometric verification with revised timelines of January 31, 2022 and March 31, 2022 for customers assigned medium and normal priorities, respectively.

- c) **Amendments in Regulation R-5 (Maximum Loan Size and Eligibility of Borrowers) and R-6 (Maximum Exposure of a Borrower from MFBs/MFIs/Other Financial Institutions)** were made to enable MFBs to serve financing needs of the low-income segments.¹⁶ Towards this end, the maximum loan sizes under all categories were up-scaled along with corresponding borrowers' eligibility criteria. To accommodate these revisions maximum exposure per borrowers prescribed under R-6 was also updated. Maximum loan sizes and borrowers' eligibility and exposure limits are tabulated below;

Table 3: Maximum Loan Sizes and Borrowers Exposure Limits

Category	Maximum Loan Size	Eligible Income	Maximum Exposure
General Loans	Rs. 0.35 million	Rs. 1.2 million	Rs.3.0 million^
Microenterprise Loans	Rs. 3.0 million	n/a	
Housing Loans	Rs. 3.0 million	Rs. 1.5 million	Rs.3.0 million

^ The aggregate exposure of borrowers who are eligible to avail both general and microenterprise loans shall not exceed Rs.3.0 million.

These enhanced loan sizes and eligibility income ceilings would allow MFBs to play a meaningful role towards asset creation in segments at the bottom of the pyramid, besides meeting demand for housing finance particularly in the peri-urban and rural areas.

Moreover, MFBs have also been allowed to extend loans against gold collateral for consumption purposes to meet domestic needs/emergencies. The aggregate loan exposure of a MFB against the security of gold shall not exceed 50 percent of its gross loan portfolio. However, this relaxation shall expire in one year, after which MFBs shall reduce their aggregate loan exposure to 35 percent within a maximum period of 1 year.

- d) MFBs continued to provide relief to adversely influenced borrowers in Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin, and Kamber Shahdad Kot districts that were earlier declared as calamity affected by the Government of Sindh. MFBs were advised to undertake all possible measures in line with Prudential Regulation R – 9 (Rescheduling/ Restructuring of Loans) and their internal policy duly approved by their Board of Directors to provide relief to borrowers adversely affected by natural calamities. As of June 2021, MFBs collectively provided relief of Rs.586 million to 10,997 borrowers in terms of restructuring and rescheduling of loans, whereas, 19,972 loans amounting to Rs.1,230 million have been charged/written-off since November 2018.

4.4 Branchless Banking (BB)

Performance of the Branchless Banking Industry

During FY21, 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 FY21, sixteen Authorized Financial Institutions (AFIs / branchless banking players) were operating and providing basic financial services across the country.

The number of BB accounts reached 74.6 million after witnessing a growth of 42 percent in FY 21 as compared to the FY20. BB deposits increased by 51 percent to reach Rs. Rs.55.2 billion from Rs.36.6 billion, compared to FY20.

¹⁶ [AC&MFD Circular No. 02 of 2020](#)

Branchless banking players have also increased their agent network throughout the country to reach 534,460 as compared to 445,181 at the end of FY21, showing a growth of 20 percent. Similarly, the volume and value of transactions witnessed 50 percent and 57 percent increase, respectively over FY20, which is a positive indicator regarding usage of BB channel. A little over 2.2 billion transactions were performed during FY21, with total value of around Rs.8,086 billion. This computes to more than 6 million transactions per day and an average transaction size of Rs.3,621.

Table 4.6: Branchless Banking Indicators

BB Indicators	FY20	FY21	Growth
Number of Agents	445,181	534,460	20%
Number of Accounts	52,522,222	74,620,636	42%
Deposits (Rs. In millions)	36,660	55,259	51%
No. of transactions ('000')	1,489,664	2,233,117	50%
Value of transactions* (Rs. In millions)	5,151,391	8,086,149	57%

Source: Agricultural Credit & Microfinance Department, SBP.

Box 4.4: Initiatives for Promotion of Branchless Banking

1. New Branchless Banking Authorizations

SBP in its efforts to promote branchless banking and digital innovation, granted a branchless banking license for pilot operations to Dubai Islamic Bank Pakistan Ltd. (DIBPL) in the year 2020. Addition of DIBPL in the list of authorized branchless banking players has increased the total number of Banks/MFBs to 16 that are allowed to offer branchless banking services in the country. Furthermore, after successful completion of the pilot launch of Allied Bank Ltd and First Microfinance Bank Ltd, they have been granted the final approval to launch their branchless banking services commercially in the same year.

2. Initiatives to control COVID-19

Following measures that were previously taken by SBP to minimize the risk of COVID-19 due to biometric verification and physical interaction of general public in branchless banking business, have now been extended till December 2021:

- a) Extended timelines for the requirement to conduct biometric verification for the following activities:
 - i. Legacy Branchless Banking Level-1 accounts
 - ii. Monthly Cash in/cash out up to Rs.25,000 from Level-0 accounts, with two-factor authentication mandatory for cash out transactions
- b) Excluded payments made to the trusted merchants, from Level-0 account limits
- c) Allowed Authorized Financial Institutions (AFIs) to introduce biometric verification through mobile apps for BB customers onboarding while complying with NADRA security standards
- d) Advised banks/MFBs to ensure their BB agents wear masks and make liquid soap/sanitizers available at all biometric touch points
- e) Allowed AFIs to onboard agents through digital channels including portal and mobile apps with certain terms applied.

4.5 Small and Medium Enterprise Finance

SBP continued its support for increasing SME financing in the country. Banks/ DFIs have reported outstanding SME finance of Rs.437.57 billion at end of June 2021, showing YoY increase of 9.08 percent in total SME finance outstanding portfolio. Total number of SME borrowers were 172,893 at the end of June 2021. Major developments undertaken to promote SME financing during FY21 are as follows:

4.5.1 National Coordination Committee (NCC) on SME Development

Prime Minister of Pakistan constituted a National Coordination Committee (NCC) on SME Development on August 20, 2020. The NCC is chaired by the Federal Minister for Industries & Production (MOI&P) whereas Deputy Governor represents SBP in the committee.

The core responsibility of NCC is to facilitate development and promotion of SMEs in the country. NCC is currently in process of finalizing the National SME Policy. The policy identifies key challenges faced by SMEs in getting credit and proposes measures to address them. Besides, it focuses on defining SMEs on single criteria, offering fiscal and monetary incentives required for SMEs growth, developing credit guarantee mechanism for SMEs etc. SBP facilitates NCC in implementation of these proposals.

4.5.2 Prime Minister's Kamyab Jawan – Youth Entrepreneurship Scheme (PMKJ-YES)

GoP in collaboration with SBP launched Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme (YES). The scheme has opened new windows of job opportunities for youth. It has enabled youth entrepreneurs to avail affordable financing for starting a new business or strengthening their existing businesses. The scheme provides business loans in three tiers. Under tier-1 (T1), loan limit is Rs. 100 thousand to Rs 1 million. Under tier-2 (T2), loan limit is above Rs. 1 million to Rs. 10 million. Under tier-3 (T3), loan limit is from above Rs.10 million to Rs.25 million.

End user rate under T1, T2 and T3 loans is 3, 4 and 5 percent respectively. Maximum loan tenor is up to 8 years including grace period of up to one year. As a further incentive to banks, GoP is bearing credit losses (principal portion only) on the disbursed portfolio of the banks. For, T1 loans, GoP is providing risk coverage of up to 50 percent, whereas for T2 and T3 loans, risk coverage of 20 and 10 percent respectively is available. At the end of June 2021, participating financial institutions reported cumulative disbursement of Rs.14.89 billion to 13,224 borrowers.

4.5.3 Risk Sharing Facility (RSF) under World Bank's Financial Inclusion and Infrastructure Project (FIIP)

Under the World Bank funded Financial Inclusion and Infrastructure Project (FIIP), USD 35.1 million has been allocated to facilitate Micro, Small and Medium Enterprises (MSMEs) access to finance. Out of the total, USD 33.1 million has been allocated for Risk Sharing Facility (RSF). World Bank has disbursed USD 33.1 to SBP in June 2021 to provide RSF for MSMEs.

4.5.4 Promoting Supply Chain Financing

SBP in collaboration with stakeholders viz banks and multilaterals is working to promote the Supply Chain Financing (SCF) for SME sector. In this regard, SBP is evaluating the possibility of setting up a central technological platform for invoice discounting facility, wherein financial institutions, suppliers

and buyers would be on-boarded. A Working Group comprising members from SBP & IFC has been formed to explore suitable options for setting up a technological platform for SCF in Pakistan.

Further, SBP has recently given regulatory approval to Bank Alfalah and Standard Chartered Bank for launching payable finance products on pilot basis.

4.5.5 Awareness Sessions on SME Financing

SBP in collaboration with NIBAF conducted 30 training programs on SME financing and refinance schemes in FY21. Similarly, SBP in coordination with DFSD, SBP-BSC and local SBP BSC offices conducted 37 awareness sessions on SBP's refinance schemes for SME financing till March 2021.

4.6 SBP Refinance Schemes

SBP is continuously making efforts to encourage banking industry to meet the financing needs of different priority segments of the country including SMEs and exporters. A number of refinance schemes for short and long-term financing facilities are available to priority segments through banks/DFIs at concessional mark-up rates. Further, in order to provide support to industries in the challenging times of COVID-19, SBP launched various time bound subsidized refinance schemes like SBP's Rozgar Scheme to prevent layoff, Temporary Economic Refinance Facility to stimulate investment and Refinance Facility for Combating COVID-19 for enhancing capacity of health sector. Significant developments in schemes that have taken place during FY21 are below:

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

During FY21, meat of bovine animals, fresh or chilled (HS Code 0201) and meat of sheep or goats, fresh, chilled or frozen (HS Code 0204) have been made eligible for export refinance facility under the EFS.

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, 2021 stood at Rs.578 billion, which is 14.7 percent higher compared to corresponding last year (Rs.504 billion as of June 30, 2020).

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. To promote industrial development, 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. Outstanding finance under LTFF / ILTFF as of June 30, 2021 stood at Rs.253.2 billion, which is 21 percent higher compared to corresponding last year (Rs.209 billion as on June 30, 2020).

4.6.3 Financing Facility for Storage of Agricultural Produce (FFSAP)/ Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP)

During FY21, businesses/industries/agriculturists have benefited from FFSAP/IFFSAP, to develop and enhance storage capacity for agricultural produce through establishment, expansion and

balancing, modernization & replacement (BMR) of Steel/Metal/Concrete Silos, Warehouses & Cold Storage Facilities. The financing is available for a maximum period of 10 years including grace period of up to 6 months at markup rate of 6 percent per annum. The outstanding financing as of June 30, 2021 stood at Rs.4 billion, which is more than 122 percent higher compared to previous year (Rs.1.8 billion as on June 30, 2020).

4.6.4 Temporary Economic Refinance Facility (TERF)/ Islamic Temporary Economic Refinance Facility (ITERF)

In March 2020, SBP launched a time bound facility namely TERF/ITERF, to stimulate investment both new and expansion/ BMR of units. Under the scheme, maximum end-user rate was 5 percent with SBP refinance rate of 1 percent while maximum financing limit was Rs.5 billion per establishment with maximum time period of 10 years inclusive of two years grace period. The scheme remained valid till March 31, 2021.

The response to the scheme was overwhelming with an amount of Rs.436 billion being approved for 628 industrial projects.

4.6.5 Refinance Facility for Combating COVID-19 (RFCC)/ Islamic Refinance Facility for Combating COVID-19 (IRFCC)

RFCC/IRFCC was launched in March 2020 and remained valid till September 30, 2020 for expansion of hospitals/medical centers and manufacturers of COVID related items and was valid for new hospital till June 30, 2021. Under the scheme, refinance was provided at zero percent while the end-user rate is 3 percent for 5 years including grace period of up to 6 months. As of June 30, 2021, Rs.19 billion have been approved for 47 hospitals/manufacturers under this facility.

4.6.6 Refinance Scheme for Payment of Wages and Salaries/Islamic Refinance Scheme for Payment of Wages and Salaries - (Rozgar Scheme)

Under the scheme, Rs.238.24 billion was approved against the requests of Rs.276.23 billion which has helped to prevent layoff of 1.7 million jobs out of which more than 382,000 were of SMEs and small corporates.

To provide support for working capital requirements of businesses, this temporary refinance facility for Payment of Wages & Salaries to prevent layoff was launched by SBP. Wages and salaries of employees (permanent, contractual, daily wagers as well as outsourced) for six months (April 2020-September 2020) were being financed under the scheme. The end user rate was 5 percent while SBP rate of refinance was 2 percent for corporate / commercial and 1 percent for SME borrowers. Further, additional rebate of 1 percent was provided by SBP to borrowers who were on active taxpayers list. Further, GoP had also provided the budgetary allocation for risk sharing facility under the scheme; wherein, risk sharing of 40 percent was provided against first loss on disbursed portfolio (principal portion only) of eligible borrowers with sales turnover upto Rs.2 billion and for loans to SMEs with turnover up to Rs.800 million, 60 percent risk coverage was provided.

4.7 Green Banking

4.7.1 SBP Financing Scheme for Renewable Energy

To overcome the challenges of energy shortage, inefficiencies in energy generation and distribution systems, and to mitigate the adverse impact of climate change, SBP has been proactively promoting green banking by use of indigenous resources especially renewable energy. To this end, SBP issued Financing Scheme for Renewable Energy in 2016, which was further revised/updated in 2019 and 2020.

The scheme comprises of three categories. Under categories I & II, financing is available for new Renewable Energy projects of up to 50 MW capacity using solar, wind, hydro and biomass resources. Under category III of the scheme, financing is available to vendors/ suppliers/energy sale companies for their onward selling of electricity or leasing /renting/deferred payment sale of RE equipment up-to 5 MW to ultimate owners/ users.

As of June 2021, cumulative outstanding financing under the scheme reached Rs 53.3 billion depicting growth of 242 percent, for 598 projects having potential of adding 900 MWs of energy supply. The total outstanding amount under the scheme as of June 30, 2020 was Rs.15.56 billion for 217 projects with total capacity ranging to 292 MWs. It is evident that the revised scheme has been welcomed by the market, as there has been 176 percent growth in projects and 208 percent growth in total energy supply under the scheme.

4.7.2 SBP-IFC Pakistan Sustainable Banking Project

SBP in coordination with IFC initiated a two –year work program on improving Sustainable Banking practices in the country. The SBP-IFC Pakistan Sustainable Banking Project focuses on regulatory guidance for banks and capacity building of stakeholders regarding Environmental and Social Risk Management (ESRM).

The project's goal is to increase the share and volume of bank loans screened against improved Green Banking Guidelines (GBGs), enhance banks' awareness and understanding on ESRM and increase the number of intermediaries to provide Environmental, Social & Governance (ESG) training to banks after IFC exit. At least two local intermediaries (NIBAF and WWF-Pakistan) will continue to provide ESG training to banks after IFC exits.

Earlier, to encourage banks and DFIs for adoption of green/sustainable banking practices, SBP issued Green Banking Guidelines in October 2017. These guidelines encourage banks and DFIs to adopt green/sustainable banking practices by focusing on three main aspects: (i) To formulate a policy for environmental risk management, (ii) To increase green financing portfolio by facilitating Green businesses through attractive green products, and (iii) To reduce its own carbon footprint by using sustainable/environmental friendly operational activities like paperless banking operations and services, branches based renewable energy and ATMs.

SBP has received positive response from banks and DFIs in implementation of these guidelines. Most of the banks have formulated their respective Green Banking Policies while others are in process of

getting their policies approved by respective Boards of Directors (BODs). Moreover, many banks/DFIs have established their Environmental Risk Management Procedures and are undertaking measures for facilitation of green businesses and reduction of their own impact on the environment. SBP monitors implementation status of banks/DFIs against GBGs on quarterly basis.

4.8 Housing and Construction Finance

Housing and construction sectors play an important role in reviving economic activity in the country. This year marked significant milestones for housing and construction finance, as it remains center of attention for GoP and SBP. GoP took numerous measures for developing a more facilitative and enabling environment for all stakeholders. Their initiatives include announcement of tax amnesty scheme for construction sector, launch of Naya Pakistan housing program etc., SBP also undertook many initiatives and regulatory facilitative measures to develop mortgage market in the country. Resultantly, the housing and construction credit portfolio witnessed a 74 percent growth during FY21. As of June 2021, the outstanding credit portfolio for housing and construction credit reached Rs.257 billion as compared to Rs.148 billion in June 2020. Initiatives taken by SBP for promotion of Housing and Construction Finance during FY21 are as follows:

4.8.1 Mandatory housing & construction finance Targets and Incentive & Penalty Structure

To promote housing and construction of residential and non-residential buildings in the country, as envisaged by the GoP, SBP assigned mandatory targets to banks to enhance 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 advances by end of December 2021.

These targets have been further broken down to quarterly targets for each bank for regular monitoring. Banks that achieve or exceed their quarterly financing target are incentivized by maintaining a lower CRR, in the next quarter equivalent to incremental outstanding financing amount as of relevant quarter end. While banks that do not meet the target, will have to maintain additional CRR in the next quarter equivalent to the shortfall.

To further attract funding for housing and construction through capital markets and microfinance banks (MFBs), SBP allowed counting of exposures of banks/DFIs in REITs, PMRC Sukuk/bonds and financing to MFBs to extend housing finance to eligible borrowers) achievement of their housing & construction finance mandatory targets.

4.8.2 Government Mera Pakistan Mera Ghar (MPMG) Scheme for housing finance

In line with its vision of providing affordable housing to the masses, GoP announced mark-up subsidy facility Mera Pakistan Mera Ghar (MPMG) for the construction and purchase of new houses. This facility would allow individuals to avail bank's financing at subsidized and affordable markup rates for construction or purchase of new house for the first time. SBP is the executing partner with GoP and Naya Pakistan Housing and Development Authority (NAPHDA) in the said scheme. Based on the feedback received from Steering Committee, Government also revised the scheme features in March 2021 to align it with consumer dynamics, make it forthcoming and allow greater portion of population to benefit from the scheme.

MFBs were also allowed to extend home finance under revised Government Mera Pakistan Mera Ghar (MPMG) Scheme. It is expected that participation of MFBs will significantly enhance outreach of scheme to low income households.

SBP also assigned mandatory targets to banks for the quarter ending June 30, 2021 and monthly targets for July 2021 onwards. The targets have been assigned in terms of both number of loans and amount disbursed. Progress made by end-June 2021 has been summarized in the **Table 4.7**.

Table 4.7: MPMG Scheme for Housing Finance

Information as on June 30, 2021

Applications:

Received 33,738

Processed 12,556

Housing Finance:

Requested Rs. 111 billion

Approved Rs. 39 billion

Following are few other major measures undertaken for low cost housing finance under MPMG;

- SBP aligned its definition of low cost housing finance with housing units eligible under Tier 1 and Tier 2 of MPMG; thereby, extending existing regulatory relaxations for low cost housing to these tiers of the scheme. Further, SBP granted regulatory relaxations from requirement of debt burden ratio and internal risk rating in existing regulations for low cost housing finance.
- SBP also allowed banks to accept personal guarantee of third party until the housing unit is completed and the mortgage is perfected. The guarantee would remain valid for a maximum period of one year.
- To provide benefit of above relaxations to the applicants of low cost housing finance with informal sources of income, all banks/DFIs are advised to develop and deploy income estimation /proxy models for assessment of income and repayment capacity.
- To ensure availability of financing to masses, SBP mandated that 50 percent of each bank's network in each district offer housing finance under MPMG.
- To improve the visibility of MPMG for housing finance and facilitate the potential beneficiaries of the scheme, banks have been advised to put in place E-tracking system for all applications received under MPMG to ensure strict compliance of TAT of 30 days. Instructions were also given regarding rationalization and disclosure of allied processing charges and even handholding of applicants under MPMG.
- Banks standardized loan application form, facility offer letter and checklist of property documents required for approval and disbursement of financing across the banking industry.
- To resolve complaints of potential customers under MPMG for affordable housing, SBP launched an Online Complaint Resolution System on January 21, 2021. The complaint resolution mechanism comprises an IT based portal supported by a comprehensive network of SBP and commercial bank staff for resolution of problems faced by applicants. The IT portal has been live for registration of complaints and will help low and middle-income segments to access the formal financial sector, being a key goal of SBP.

- SBP conducted eight rounds of mystery shopping surveys of banks' branches and call centers based on defined parameters to improve customer experience and assess the readiness of banks and their staff for financing under MPMG.

4.8.3 Other Initiatives

- PBA developed a dedicated call center for MPMG customers for the entire banking system. PBA is also involved in facilitation of alternative delivery channels through development of framework for banks' engagement with real estate agents for extension of housing finance.
- A standardized income proxy model was developed to facilitate housing finance to customers with informal sources of income.
- To create an enabling regulatory environment for banks, SBP allowed the banks to accept existing property/liquid assets of a housing finance borrower as equity to avail financing to purchase property.
- Other significant initiatives to boost housing and construction finance by SBP include active role in digitization of land records at the provincial level for online land transfers, alternate data sources to transform the traditional credit approval process to a scorecard and behavior pattern analysis., working with relevant stakeholders on capital market development to create velocity in the banks' balance sheet and produce a financial asset class for institutional / retail investors and development of framework for new channels like micro finance banks, NGO's like Akhuwat and RE brokers etc. In addition to the initiatives above, the supreme court ruling on 15B upholding the Lahore high court full bench decision and the Pakistan mortgage refinance company (PRMC) to provide first loss cover of up to 40 percent with support from World bank have been among the other important developments to boost housing finance in Pakistan.

4.8.4 Capacity Building

To promote banks' outreach to borrowers in the area of Housing Finance, SBP in collaboration with NIBAF initiated an extensive capacity development program for banks' staff. Three iterations of the housing finance capacity building programs have been conducted by NIBAF in FY21. Besides, separate iterations of training for all banks offering housing finance have been completed for capacity building of staff on complaint portal as well as title document verification portal.

4.9 Wheat/Flour mills for procurement of Wheat by private sector

In order to ensure transparency in wheat financing and discourage hoarding, SBP in consultation with the Ministry of National Food Security & Research (MNFS&R) issued instructions to banks on procurement of wheat by the private sector-2021. Banks have been advised to take certain measures besides complying with relevant prudential regulations to avoid market speculation and hoarding while extending financing to private sector for wheat. Further, to monitor situation of financing and stocks of wheat procured by private sector, a monthly data is collected from banks on a prescribed format.