

7 Credit Guarantee Schemes of SBP - Implementation thereof

For broadening the base of institutional credit to non-conventional businesses, SBP is motivating financial institutions to lend for the growth of this potential area of financing. To facilitate credit to underserved segments, the lending institutions are being provided partial cover in case the borrowers default on genuine reasons. Recently, two credit guarantee schemes have been launched to encourage micro and SMEs financing and are being executed by SBP BSC.

7.1 Overview

State Bank of Pakistan (SBP) has a special focus on development finance initiatives. Different schemes have been launched to facilitate lending to underserved segments especially to the Micro, SME and Agriculture sectors. SBP is using indirect tool of sharing credit risk with banks for provision of funds to these priority sectors under credit guarantee schemes. These schemes provide partial repayment of delinquent loans to motivate lenders to lend to borrowers who do not, otherwise have access to credit. Banks/ Development Financial Institution (DFIs) are at times reluctant to extend credit to Microfinance Banks (MFBs)/Microfinance Institutions (MFIs), Small and Medium Enterprises (SMEs) and Agri. sector as they perceive lending to these sectors to be comparatively riskier. Experiences of many other countries have also established that financial institutions do not extend loans to these sectors unless their default risk is shared by government. This enables the borrowers of these neglected sectors to avail financing from formal financial channel. Keeping this in view, SBP designed two schemes: Microfinance Credit Guarantee Facility (MCGF) and Credit Guarantee Schemes (CGS) for lending to small, medium, and rural enterprises (**Table 7.1**).

Highlights

- Eight guarantees issued under MCGF of Rs. 612.5 million against the sanctioned amount of Rs. 1,700 million to commercial banks for varying maturities ranging from 1 to 5 years.
- Out of the allocated limit under CGS there is an exposure of Rs. 1,243.79 million on CGS funds against the sanctioned amount of Rs. 3,052.9 million by 9 Banks for their 4,400 SME/ Agri borrowers.
- Arranged 5 workshops and one awareness session on SBP guarantees Schemes and facilitated more than 300 participants from banks and other stakeholders.

7.2 Microfinance Credit Guarantee Facility

As microfinance is relatively a new phenomenon in Pakistan and generally speaking, microfinance banks are unable to mobilize deposits for meeting demands for loans, therefore, they need some support from regulatory bodies. To this effect, MCGF was initially launched in 2008 with the objective to share risk of commercial banks/DFIs for lending to MFBs/MFIs for facilitating to lending to this or otherwise unexploited commercially viable sectors. The scheme was re-launched in 2010 with some amendments to cater to the needs of the MF sector.

Table 7.1: Salient Features of MCGF and CGS

Features	Microfinance Credit Guarantee Facility (MCGF)	Credit Guarantee Scheme (CGS) for Small and Rural Enterprise
Launched in	Dec-08	March-10
Target Sectors	Microfinance Sector (MFBs/MFIs)	Agriculture and SME Sectors
Funds Providers/Supported by	Department for International Development (DFID), UK.	Department for International Development (DFID), UK .and Government of Pakistan
Fund Manager	DFSD, SBP BSC.	DFSD, SBP BSC.
Seed Money Provided by DFID	GBP 10 million	GBP 10 million
Grant Amount Received	Rs. 1,394 million (GBP 10 million received from DFID)	Rs. 1,671 million (includes GBP 10 million received from DFID plus Rs. 300 million Government of Pakistan contribution)
Participating Financial Institutions	Commercial Banks/DFIs	PFIs (Selected Banks)*
Guarantor	SBP BSC	SBP BSC
Maturity Period	upto 5 Years	upto 3 Years for Agri & 5 years for SME
Markup Rate Cap (if any)	6 Month KIBOR+ 2%	No Cap
Guarantee Coverage	Two options i-e i) 40% Partial guarantee (Pari passu) on the principal outstanding ii) 25% First Loss Default on the principal disbursed.	40% of outstanding principal
Per Borrower Limit	No limit	Agri- Rs. 2 million, SME Rs.15 million

* PFIs include ABL, BOK, MCB, Askari, HBL, NBP, NIB, FBL, UBL, and BAFL & FWBL.

Microfinance activity provides business financing solutions to the middle lower income individuals, group and entities for initiating businesses through small loans. To encourage mainstream commercial banks, the SBP in collaboration with UK Department for International Development (DFID) launched MCGF in December, 2008 (**Table 7.1**). For the purpose, DFID provided funds to the extent of GBP 10.0 million. Under the guarantee, SBP shares the borrower's default risk with banks for their lending to MFBs/MFIs as; a) 40% Partial guarantee (Pari passu) on the principal outstanding; and b) 25% First Loss Default (FLD) on the principal disbursed. The facility is available for commercial banks/DFIs entering into lending arrangements with financially and socially sustainable MFBs/MFIs with significant potential to maximize the outreach to poor and marginalized segments of the society. Under the facility, responsibility of carrying out due diligence in evaluating the borrowers rests with the commercial banks as major portion of default risk is assumed by them. In case of default, responsibility of recovery efforts also lies with banks.

7.2.1. Major Amendments in MCGF

For MFBs to explore possibilities of issuance of redeemable capital to meet their financing needs, SBP amended MCGF to include redeemable capital for issuance of guarantee under the scheme. The main features of Redeemable Capital Guarantee are

- MFIs may issue redeemable capital and get guarantee cover from SBP BSC
- There is no interest rate cap for Term Finance Certificates (TFCs)
- The maximum tenor is 5 years
- MFPs will get clearance from Security and Exchange Commission of Pakistan (SECP) and Stock exchange if TFCs are being listed
- Only trustee can enforce the guarantee claim

7.2.2 Guarantees Issued under MCGF

Utilization of MCGF during last three years has been fairly encouraging and the rising trend reflects that the banks have started taking interest and are more comfortable with the scheme for provisioning funds to MFBs/MFIs (Figure 7.1). The facility has been utilized by leading micro finance organizations (Table 7.2 & Figure 7.2).

DFSD closely monitors repayment of principal and mark up of the loans against which guarantees have been issued. The Outstanding position of such loans shows that Rs.3,183 millions

are outstanding against the loans for which guarantees issued by DFSD with a

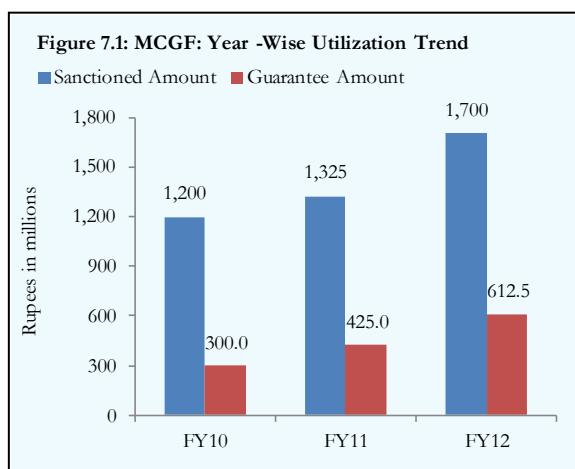


Table 7.2: MCGF Guarantees Issued

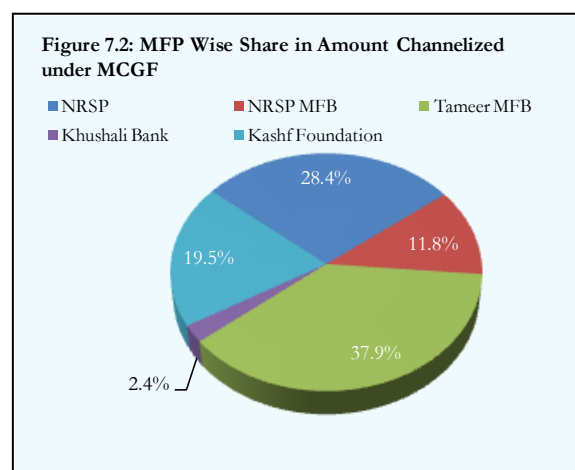
MFB/MFI	Lender	Amount (in millions Rupees)	Tenor	Option	Issuance Date	Exposure (in millions Rupees)
Guarantees Issued as on June 30, 2010						
NRSP	Consortium(HBL, NBP,ABL,MCB,UBL,AKBL,NIB & FBL)	1,200	3 Years	25% First Loss	29th June,2010	300
Sub-Total		1,200				300
Guarantees Issued as on June 30, 2011						
Tameer MFB	BAF	50	5 years	40% Partial	5 th Oct, 2010	20
Tameer MFB	KASB	Canceled(100)	3.5 Years	40% Partial	5 th Oct, 2010	Cancelled
Tameer MFB	JS Bank	100	2 Years	40% Partial	3 rd Nov, 2010	40
Kashf Foundation	MCB Bank	225	2 Years	40% Partial	14 th Dec, 2010	90
Tameer MFB	ABL	100	5 years	40% Partial	28 th Feb,2011	40
Tameer MFB	Standard Chartered	600	2 Years	25% First Loss	17 th March, 2011	150
Kashf Foundation	Silk Bank Ltd	150	1 Year	40% Partial	5 th May,2011	60
Tameer MFB	MCB Bank	100	5 Years	25% First Loss	26 th May, 2011	25
Sub-total		1325				425
Guarantees Issued as on June 30, 2012						
Tameer MFB	NBP	200	5 Years	40% Partial	17 th Aug,2011	80
Khushali Bank	Soneri bank Ltd	100	3 Years	40% Partial	21 st sep, 2011	40
Tameer MFB	UBL	300	5 years	25% First Loss	14 th Nov, 2011	75
Tameer MFB	FBL	100	5 years	25% First Loss	14 th Nov, 2011	25
Tameer MFB	BoP	50	3 Years	25% First Loss	10 th Jan, 2012	12.5
Kashf Foundation	JSBL	300	3 Years	40% Partial	18 th April, 2012	120
NRSP MFB	JSBL	500	5 Years	40% Partial	4 th June,2012	200
Kashf Foundation	Silkbank Ltd	150	1 Year	40% Partial	27 th June,2012	60
Sub-total		1700				612.5
Grand Total		4,225				1337.5

Pricing at: 6MK+2% (except Soneri Bank @ 6MK+1.75)

guarantee cover exposure of Rs. 1,185 million. Notably, no default has been reported since the inception of the scheme.

7.2.3. MCGF Funds Management

DFSD is also responsible for management of MCGF Funds. A remunerative account has also been opened recently for settling any guarantee claims. The total seed money available for issuing guarantees under MCGF stood at Rs. 1,394/- million. Fortunately, no guarantee has been invoked so far. DFSD invests funds in MTBs through MCGF Funds Investment Committee (FIC). The current status of MCGF funds is presented in **Table 7.3**.



As no claims have been launched under MCGF, a profit of Rs. 471.7 million has been earned through investments since 2009 (**Table 7.4**).

Table 7.3: MCGF Funds As on June 30, 2012

Amount in Rupees				
Instrument/Tenor	Date of Investment	Amount	Maturity Date	Maturity Amounts
12-Month T bill	21 st Dec, 2011	167,065,944	26 July, 2012	178,900,000
06-Months T bills	8 th Mar, 2012	4,092,673	6-Sep-12	4,335,000
12-Month T bill	21 st Dec, 2011	99,935,134	20 Sep, 2012	108,900,000
06-Months T bills	22 nd Mar, 2012	177,382,407	20 Sep, 2012	187,925,000
12-Months T bills	5 th Oct, 2011	111,999,077	4th Oct, 2012	126,310,000
06-Months T bills	5 th Apr, 2012	377,560,000	4th Oct, 2012	400,000,000
12-Month T bill	12 th Jan, 2012	156,450,000	10 Jan, 2013	175,000,000
06-Months T bills	12 th Jul, 12	151,892,388	10 Jan, 2013	160,920,000
12-Month T bill	22 nd Mar, 2012	134,040,000	21-Mar-13	150,000,000
12-Month T bill	5 th Apr, 2012	204,366,320	4-Apr-13	228,700,000
12-Month T bill	12 th Jul-2012	223,425,000	11-Jul-13	250,000,000
Total		1,808,208,943		1,970,990,000

Table 7.4: MCGF Funds Profit Earned

	Seed Money	Profit for					Total Funds Available for Issuance of Guarantees
		FY09	FY10	FY11	FY12	Total Profit	
MCGF	1,394,379,500	49,995,165	107,429,748	130,785,431	183,442,914	471,653,258	1,866,032,758

7.2.4. Emerging Trend in MCGF

The availability of MCGF has encouraged the banks/ DFIs to extend lending to the otherwise potential microfinance sector. No default has been observed under the scheme and based on the past experience; chances of any defaults in future are also low. It is expected that as banks improve their lending skills to MFBs/MFIs with MCGF, they, in future, would develop capacity to lend to microfinance sector without guarantee cover from SBP BSC. The ultimate beneficiaries of the initiative are the financially starved

sectors/ people. It is expected that with additional funds provided for MCGF, more & more guarantee requests of commercial banks and MFBs may be entertained.

7.3 Credit Guarantee Scheme

In Pakistan, less than the adequate access of Small and Medium Enterprises (SMEs) to formal finance has been a major hindrance in the growth of small and medium enterprises, particularly in the rural areas. There are around 3.2 million economic establishments in Pakistan out of which SME sector represents over 90 percent of these enterprises and employs approximately 75 percent of the non-agricultural workforce and contributes close to 30 percent towards the national GDP. The sector has remained largely excluded from formal finance and accounts for only about seven percent of banks advances.

To promote access to finance to SMEs, SBP has launched Credit Guarantee Scheme on March 19, 2010 with the support of UK's Department for International Development (DFID) under the Financial Inclusion Program (FIP) and Government of Pakistan. Under the facility DFID, UK provided GBP 10.0 million and the Government of Pakistan provided Rs. 300.0 million as seed money to run this scheme. According to the SOPs of the scheme, SBP shares 40% of the bonafide losses of banks resulting due to defaults by the SME and Agri. sector borrowers of the banks.

7.3.1. Major Changes during the Year

The scheme was revised vide SMEFD Circular No. 02 of February 14, 2011; where-after, the Technical Committee on Credit Guarantee (TCCG) approved allocation of Credit Guarantee Limits of Rs. 1,932/- million to 12 banks in February, 2012 for the period up to 31-12-2012.

Following are major amendments in CGS during the year:

- Reporting deadline has been extended from 5 days to 15 days.
- Some new fields have been incorporated in CG-1 forms on DFSD's feedback. These forms are used for reporting of fresh credit guarantees.
- The maximum tenor for SMEs has been enhanced from 3 years to 5 years.

7.3.2. CGS Utilization Status

Participating Financial Institutions (PFIs) have utilized their limits as presented in **Table 7.5**. Some of the banks could not utilize their limits and their limits have been cancelled so that additional limits are being assigned to interested PFIs. Utilization trend under CGS is presented in **Figure 7.3 & 7.4**. Most PFIs under private sector with larger branch network were able to extend more loans under CGS while some others showed lesser utilization. **Figure 7.5** shows utilization share of PFIs in total loans extended under CGS. Regional distribution of CGS cases show that regions with more share in agricultural output got higher guarantee cover under CGS (**Figure 7.6 & 7.7**).

7.4 Investments of CGS Funds

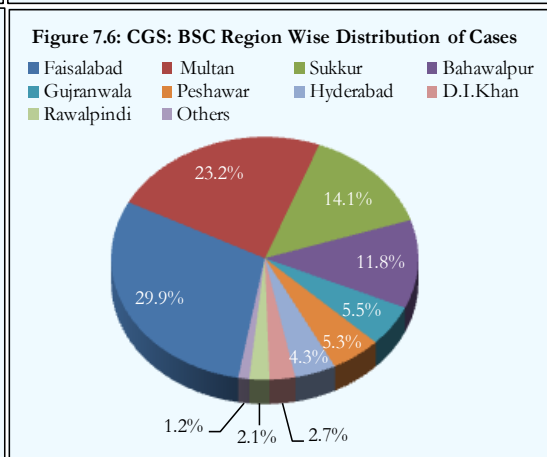
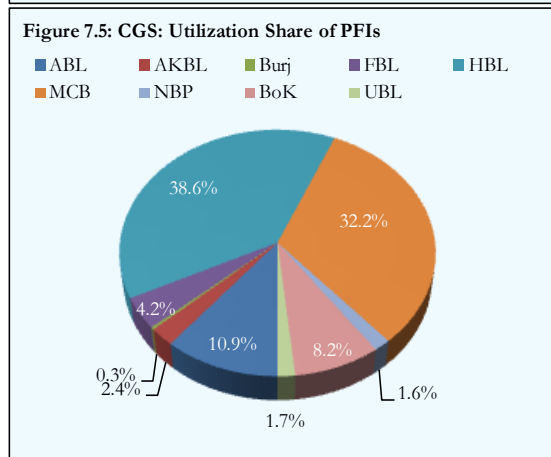
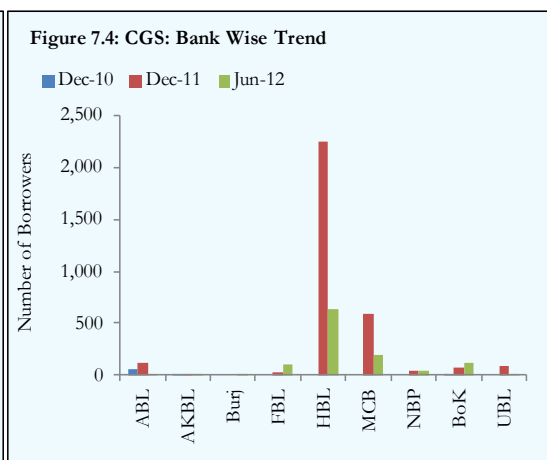
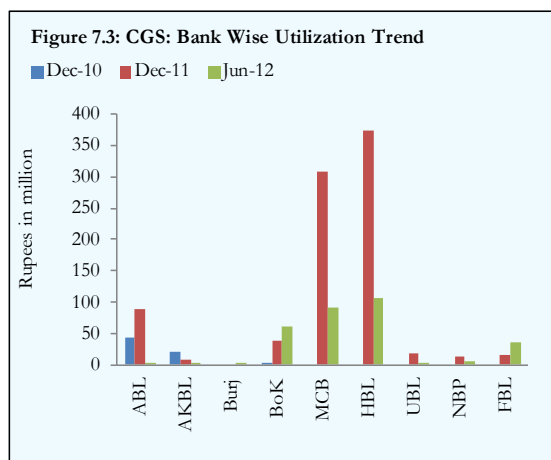
CGS funds contributed by DFID and Government of Pakistan are also managed by DFSD. For prudent management of these funds, DFSD usually keeps these funds in the form of investment in risk free government securities, i.e., T-bills (TBs) of varying maturities of 3, 6 and 12 months. Rs. 1,671.0 million was provided as total seed money

for issuing CGS guarantees by DFID and Government of Pakistan. The seed capital has been invested in risk free government 6 months & 12 months TBs (Table 7.6 & 7.7).

Table 7.5: Summary of CGS as on June 30, 2012

Bank Name	Amounts in Rupees					
	CG Limits-2012	No. of Cases	Total Amount Sanctioned by PFI	Total Guarantee Cover provided by DFSD	Total Guarantee Cover Outstanding	Limit Utilized by PFI (D/A) (in percent)
	A	B	C	D	E	F
Allied Bank Ltd.	140,000,000	180	304,550,000	136,090,000	73,098,734	97.21
Askari Bank Ltd.	30,000,000	26	56,490,000	29,686,000	14,123,638	98.95
Burj Bank Ltd.	80,000,000	1	9,355,000	3,742,000	3,742,000	4.68
Faysal Bank Ltd.	140,000,000	127	129,485,000	51,794,000	31,002,218	37.00
First Women Bank Ltd.*	40,000,000	-	-	-	-	-
Habib Bank Ltd.	480,000,000	2,877	1,199,958,000	479,983,200	276,686,424	100.00
MCB Bank Ltd.	400,000,000	793	999,900,000	399,960,000	227,471,349	99.99
National Bank of Pakistan	320,000,000	82	49,435,500	19,774,200	14,452,749	6.18
Sindh Bank Ltd.*	20,000,000	-	-	-	-	-
The Bank of Khyber	120,000,000	207	252,335,000	102,188,000	40,064,708	85.16
The Bank of Punjab*	100,000,000	-	-	-	-	-
United Bank Ltd.	62,000,000	107	51,448,000	20,579,200	15,576,541	33.19
Total	1,932,000,000	4,400	3,052,956,500	1,243,796,600	680,641,820	64.38

* Guarantee Limits Cancelled by IH&SMEFD owing to non-utilization



7.5 Awareness and Capacity Building

To create adequate capacity in the Commercial Banks to effectively undertake the SBP Credit Guarantee Schemes, five workshops and two awareness session on SBP Credit Guarantee Schemes were arranged by Access to Finance Unit (AFUs) in coordination with DFSD and Infrastructure Housing & SME Finance Department of SBP, at BSC offices i.e., Lahore, Faisalabad, Gujranwala, Peshawar and Quetta during the year.

More than 300 participants from the commercial banks and other stakeholders benefited from these programs.

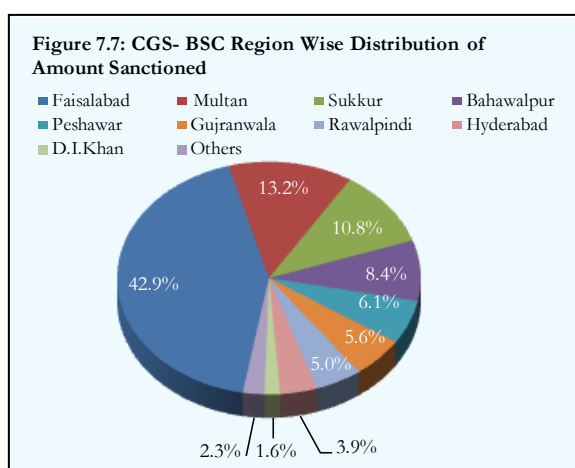


Table 7.6: CGS Funds Management

Instrument/Tenor	Date of Investment	DFID Funds		Amount in Rupees
		Amount	Maturity Date	Maturity Amounts
12-Months T bills	Sep 21, 2011	286,975,000	Sep 20, 2012	325,000,000
06-Months T bills	Mar 22, 2012	245,409,280	Sep 20, 2012	250,000,000
12-Months T bills	Dec 26, 2011	4,000,487	Oct 04,2012	4,372,695
12-Months T bills	Nov 17, 2011	245,905,000	Nov 15, 2012	275,000,000
06-Months T bills	May 17, 2012	259,545,000	Nov 15, 2012	275,000,000
12-Months T bills	Feb 09, 2012	181,804,688	Feb 07,2013	203,270,000
12-Months T bills	Mar 22, 2012	223,400,000	Mar 21,2013	259,995,000
12-Months T bills	May 17, 2012	169,429,937	May 16, 2013	189,625,000
Sub Total		1,616,469,392		1,782,262,695
GoP funds				
12-Months T bills	Dec 26,2011	171,098,229	July 26,2012	183,000,000
06-Months T bills	Mar 8, 2012	76,703,404	Sep 06, 2012	81,245,000
12-Months T bills	Dec 26, 2011	95,995,788	Oct 04,2012	104,927,305
Sub Total		343,797,421		369,172,305
Grand Total		1,960,266,813		2,151,435,000

Table. 7.7: CGS Funds Profit Earned

	Seed Money	Profit for				Total Funds Available for issuance of Guarantees
		FY10	FY11	FY12	Total Profit	
		Amount in Rupees				
CGS-DFID	1,371,767,700	9,530,060	113,834,615	196,861,171	320,225,846	1,691,993,546
CGS-GOP	300,000,000	-	21,681,238	41,322,073	63,003,311	363,003,311
Total	1,671,767,700	9,530,060	135,515,853	238,183,244	383,229,157	2,054,996,857

7.6 Future Outlook

In order to improve the operational working, the department is taking steps aimed at capacity building. The planned initiatives are:

- i) Capacity building initiatives under the umbrella of DFSD specifically targeting introduction of due diligence with respect to issuance of Term Finance Certificates;
- ii) Graduating of Loans to non-guaranteed loans after deeper understanding of sector by PFIs
- iii) Analysis of Trends and Banks behavior towards Credit Guarantee Schemes- Agri &SME aimed at exploring the utilization trend of CGS and exploring expansion avenues.