

### 3 Development Finance Support Services

*Development Finance Support Department (DFSD) provides necessary operational support to the Development Finance Group (DFG) of State Bank of Pakistan (SBP) in achieving its strategic objective of promoting an inclusive financial system.*

#### 3.1 Overview

SBP BSC performs Development Finance Support function (DFS) through its Development Finance Department at HOK and DFS Divisions/Units at 16 SBP BSC Field Offices. Its role is vital in implementing and monitoring of SBP's policies, initiatives and refinance & credit guarantee schemes for the promotion of financial inclusion. SBP BSC Field Offices provide a platform for sharing information, ensuring collaboration with regional stakeholders, and collecting feedback at grassroots level for consideration of policy interventions by SBP.

SBP BSC Field Offices, through their strategic presence across the country, are well placed to augment the role of Development Finance Group (DFG) of SBP by reaching out to urban and rural markets. These Field Offices take various demand and supply side initiatives with the aim to connect the country's underserved segments with financial institutions and other related stakeholders.

Throughout the year, DFSD facilitated DFG in the implementation of its various programs and initiatives through SBP BSC Field Offices (**Box 3.1** and **Table 3.1**).

#### 3.2 National Financial Literacy Program (NFLP)

During FY19, SBP BSC has expanded the National Financial Literacy Program (NFLP) to cover 158 districts of the country. NFLP is a five-year project designed by SBP, being implemented by SBP BSC in collaboration with commercial/ microfinance banks and partner institutions such as Non-Governmental Organizations (NGOs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs). The objective of the program is to impart financial literacy to one million beneficiaries in five years. For the purpose, 9,876 classroom sessions were held during FY19 in which field trainers of banks taught a comprehensive curriculum to the underserved segments of society. In total, 256,000 participants attended these sessions whereas more than 115,000 participants opened branchless banking/ Asaan accounts on the spot, thus beginning their respective banking relationships. SBP BSC officers monitored these sessions using a combination of on-site and off-site methods. These officers also conducted 28 Training-of-Trainers sessions during the year where more than 500 bankers were trained as NFLP Field Trainers.

To promote awareness of basic financial services amongst the communities a mechanism was also devised for conducting NFLP Street Theaters. During these theater sessions, a pre-recorded video of a theater performance emphasizing the importance of financial literacy is played for the audience, followed by on-the-spot account opening activity. SBP BSC Offices organized 104 such street theaters in FY19.

In order to enable SBP BSC Offices to develop formal partnership arrangements with important stakeholders to collaborate under NFLP, a standardized Memorandum of Understanding (MoU) was

designed under guidance from Legal Services Department. Moreover, DFSD also conducted periodic meetings with lead focal persons (of banks) to ensure consistent communication and resolution of problems faced at the grassroots level.

**Box 3.1: Performance Highlights for FY19**

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 1,250 billion indicative target set by SBP for the agriculture sector for FY19. Disbursement during the year was Rs 1,174 billion, which was approximately 20.7% higher than disbursement of Rs 973 billion in the previous year.
- Meetings of Managing Director, SBP BSC with Regional Heads of commercial banks as well as Executive Committee of Quetta Bankers' Club were arranged by SBP BSC Quetta to discuss issues relevant to the region such as expansion of credit to priority sectors, need for enhancement in agriculture and SME financing, performance in NFLP, and challenges faced by the banking sector in Balochistan.
- Throughout the year, DFSD and SBP BSC Field Offices facilitated NIBAF for capacity building programs for bankers on SME finance in Faisalabad, Hyderabad, Quetta, Rawalpindi, Sialkot, and Sukkur. Further, NIBAF was assisted in conducting 5-day training programs for newly inducted Agriculture Credit Officers at two SBP BSC Field Offices, as well as three 3-day training programs on agriculture value chain financing, in view of SBP's commitment towards capacity building of banks regarding agriculture finance. Job fairs for agriculture graduates were also held at three universities in collaboration with AC&MFD-SBP in order to bridge the gap between academia and industry.
- 22 SME, 5 I-SME, 4 Islamic and 4 Housing finance Focus Groups' meetings were held during FY19, while 18 Agri-Finance Focus Group meetings and 3 Joint Focus Groups' meetings were organized.

A dedicated toll-free helpline for NFLP, publicized through a media campaign, was established during FY19, which is housed at DFSD. Moreover, DFSD assisted AC&MFD in update of NFLP website through provision of relevant material, including schedules for upcoming classroom sessions. An online reporting mechanism through Data Acquisition Portal (DAP) is being developed to allow direct reporting by banks, instead of through SBP BSC Offices, thereby reducing the workload of field offices.

The NFLP Student Ambassador Plan (NFLP-SAP), which engaged university students to deliver lectures at NFLP sessions in their summer and winter vacations, was continued during FY19. A total of 2,834 sessions were conducted under the program attended by over 70,000 participants.

### 3.3 Capacity Building of Branchless Banking Agents

A capacity building program for branchless banking agents was launched by AC&MFD in view of the important role these agents play as the first point of contact between unbanked and under-banked segments of society and the formal banking system. In line with the guidelines provided by AC&MFD and DFSD, SBP BSC Offices carried out on-site monitoring and evaluation of the programs conducted by participating banks by visiting 90 classroom training sessions during the second half of FY19. Further, the officers also conducted surprise visits to already trained agents in order to gauge the effectiveness of the training.

**Table 3.1: Activities Arranged & Participated by SBP BSC Field Offices during FY19**

S.N.	Activity	Number of	
		Activities	Participants
1	Awareness Programs	191	17,761
2	NFLP-related meetings, and activities etc.	123	6,664
3	Capacity Building	52	1,097
4	Seminars and Workshops	20	1,092
5	Fair, Conference, Exhibition etc.	8	1,900
Sub-total		394	28,514
6	Focus Group Meetings	56	-
7	Linkages with Govt. and Others	18	
8	Linkages with Academia	4	
9	Agri. Target related meetings	9	
Sub-total		87	
Total		481	28,514

### 3.4 Management of Refinance Schemes

To fulfill credit requirements of the critical sectors of Pakistan's economy including agriculture, trade, manufacturing and energy, SBP has introduced various short and long-term concessionary financing schemes.

DFSD ensures implementation and monitoring of proper utilization of funds disbursed under these schemes with the help of field offices across the country. The provision of refinance facility to commercial banks/ DFIs and timely recovery of principal and mark-up are the responsibilities of respective disbursing field office.

#### Box 3.2: Performance Highlights for FY19 – Management of Export Refinance Schemes

- Total Rs 901.5 billion disbursed under Export Refinance Schemes:
  - Rs 727.0 billion under EFS
  - Rs 174.5 billion under IERS
- Rs 9.8 million charged as OSV penalty from 25 participating banks on account of violation of EFS/ IERS instructions.
- Rs 57.2 billion disbursed under LTFF.

#### 3.4.1 Export Finance Scheme

Export Finance Scheme (EFS) – the most prominent among all refinance schemes of SBP – was introduced with the objective to boost country's value-added exports by providing access to low-cost funds to exporters to meet their short-term financing needs. Further, to facilitate exporters, who wish to avail financing under Islamic banking principles, the Islamic Export Refinance Scheme (IERS) has also been in operation since 2002-03. Moreover, in order to encourage financing to SME sector, banks have been incentivized with an additional spread of 1% on lending to SMEs since 2014.

During FY19, SBP BSC Offices disbursed a total of Rs 901.5 billion under the Export Refinance Schemes of SBP, out of which Rs 727.0 billion were disbursed under EFS and Rs 174.5 billion under IERS. Out of the total amount disbursed, Rs 40.2 billion were disbursed to SME exporters.

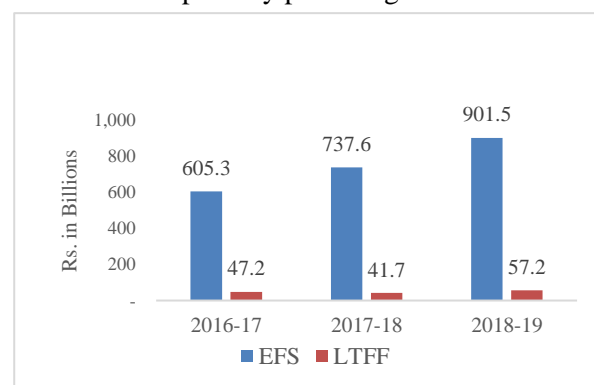


Figure 3.1: Disbursement Trends under EFS and LTFF

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP and that the funds disbursed are utilized for value-added export purposes, SBP BSC conducted the onsite verification process every year. During CY18, onsite verification teams completed compliance verification of 12,658 loans, with total refinance of Rs 605.3 billion that was disbursed to 24 banks in FY17.

As a result of various violations of instructions of the EFS/ IERS observed during On-Site Verification (OSV) visits, field offices imposed a penalty of Rs 9.8 million on banks. Penalty against violations pertaining to Part-I category of EFS/ IERS accounted for 62.2% (Rs 6.1 million) of the total amount, while the remaining 37.8% (Rs 3.7 million) was against Part-II category. The total amount of penalty charged in OSV in CY18 decreased by Rs 1.9 million, or 16.2%, as compared to last year, showing that the purpose of conducting compliance verification was, by and large met, as banks were ensuring compliance to the instructions issued by SBP under the EFS/ IERS.

### **3.4.2 Long Term Financing Facility**

Under the Long Term Financing Facility (LTFF) & Islamic Long Term Financing Facility (ILTFF), financing is provided to exporters for adopting new technology in production/ manufacturing process and/ or upgrading their existing plants and machinery. Loans are repayable in 3, 5 or maximum 10 years. During FY19, Rs 57.2 billion were disbursed through banks under LTFF.

### **3.4.3 Refinance Scheme for Modernization of SMEs**

The scheme is available for SME borrowers for local purchase/ import of new machinery for balancing, modernization and replacement (BMR) of existing SME units and setting up of new ones. Cumulative disbursement since inception of the scheme reached Rs 658.6 million on 30<sup>th</sup> June 2019 against Rs 367.1 million on 30<sup>th</sup> June 2018. 17 banks have been allocated limits of Rs 6,825 million under the Scheme and limit utilization by banks on their outstanding financing stood at 4.4% (as of 30<sup>th</sup> June 2019).

### **3.4.4 SBP Financing Scheme for Renewable Energy**

State Bank of Pakistan first introduced the scheme for Financing of Power Plants using Renewable Energy in 2009. The objective of the facility was to lend support in addressing dual challenge of energy shortage and climate change through promotion of renewable energy by providing long-term financing at concessional rates. The inadequate supply of energy has severely impacted the growth of industries / businesses and the welfare of public in general. Similarly, the effects of climate change have been observed in the form of devastating floods, droughts, heat waves and changing weather patterns. These changes essentially inhibit our ability to develop sustainably. In order to overcome these challenges, SBP decided to promote green banking i.e. use of indigenous resources especially renewable energy in order to ensure sustainable banking and development. For this purpose, the scheme has been amended based on the feedback received from various stakeholders. The scheme provides concessionary financing for large renewable energy power projects as well as for small scale renewable energy solutions. The scheme is available for power generated by using alternative / renewable energy sources (solar, wind, hydro, biogas, bio-fuels, bagasse cogeneration, and geothermal as fuel). During FY 2018-19, SBP BSC offices disbursed Rs. 1,520.95 million against 80 projects.

### **3.4.5 Refinance and Credit Guarantee Scheme for Rice Husking Mills in Sind**

Eleven banks were allocated limit of Rs 975 million for FY19 under this facility. Utilization of the scheme on 30<sup>th</sup> June 2019 stood at 5.3%, with outstanding amount of Rs 51.5 million for 8 borrowers. During the year under review, 30% guarantee was issued against financing of Rs 39.8 million to 4 rice mills under the scheme. In view of low-limit utilization, SBP BSC Hyderabad advised the banks to conduct field visits to rice mills which were in the districts falling under the jurisdiction of SBP BSC Hyderabad. Fieldwork will ensure that banks actively pursue potential rice millers, create leads for financing and disseminate the scheme to potential beneficiaries.

### **3.4.6 Refinance and Credit Guarantee Scheme for Women Entrepreneurs**

Under the scheme, 17 banks have been allocated disbursement limits of Rs 2,470 million up to December 31, 2019. As of 30<sup>th</sup> June, 2019, the number of borrowers availing the scheme since its inception was 217, whereas the amount disbursed since inception was Rs 92.4 million. In order to improve utilization of the scheme, SBP BSC field offices were tasked for the collection of feedback from banks' regional management on the scheme. This exercise will facilitate in creating awareness of the scheme amongst regional bankers as well as in understanding reasons for low utilization by banks so that necessary corrective action may be taken by SBP/ SBP BSC. Moreover, field offices conducted 9 SME awareness sessions focused exclusively on the scheme. In order to address the

recurring concern regarding unawareness on part of regional bankers, SBP BSC will be conducting capacity-building programs for them on the subject scheme. The plan will be executed in a phased manner, targeting selected banks and districts.

### 3.5 Credit Guarantee and Other Schemes

In order to motivate financial institutions for lending to priority, marginalized and collateral deficient segments, one way is to share their credit risk, for which credit guarantee schemes have been launched by SBP, with the funding support of UK's Department for International Development (DFID), provincial and federal governments.

SBP BSC is responsible for management of three credit guarantee schemes for priority sectors namely Credit Guarantee Scheme for Small and Rural Enterprises (CGS-SRE), Credit Guarantee Scheme for Small & Marginalized Farmers (CGSMF) and Mark-up Subsidy & Guarantee Facility for Rice Husking Mills, Women Scheme. During FY19, 7,702 loans for a financing amount of Rs 8,603 million were processed for up to 60% guarantee issued to 20 Participating Financial Institutions (PFIs), including commercial banks and microfinance banks under CGS-SRE; 22,790 loans for a financing amount of Rs 1,576.8 million were processed for issuance of 50% guarantees to six PFIs (commercial & microfinance banks) under CGSMF during July-18 to June-19. CGS-SRE claims of Rs 59.9 million were reimbursed to concerned PFIs against recoveries of Rs 25.6 million since inception of the scheme in 2010. Details of the scheme for rice husking mills are given in Section 3.4.4. Highlights of CGS and other schemes are presented in **Box 3.3**.

#### Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 88,869 PMYBL related transactions were processed by DFSD for subsidy amounting to Rs 1.3 billion.
- 7,702 loans for a financing amount of Rs 8,603 million were issued guarantees to 20 Participating Financial Institutions (PFIs) directed towards 53 sectors under CGS for Small and Rural Enterprises for FY19.
- CGS claims of Rs 59.9 million were reimbursed to concerned PFIs against recoveries of Rs 25.6 million since inception of the Scheme.
- Guarantees were issued to seven PFIs under CGSMF for 22,790 loans with a total financing amount of Rs 1,576.8 million.
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 10.7 billion approximately were managed by DFSD.

Since inception of CGS-SRE till June 2019, 43,390 guarantees were issued against lending of Rs 36.7 billion to 21 PFIs. These loans were granted to mainly 58 different sectors to borrowers from 107 districts of the country. Fresh borrowers constituted 66% of the total borrowers and composition of borrower-type may be seen in **Figure 3.2**. Rural versus urban sanctioned loans were 53% and 47% respectively.

SBP BSC is also entrusted with the responsibility of processing the claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by the Government of Pakistan (GoP) in 2013. During FY19, twelve banks submitted 88,869 transactions of subsidy claims under PMYBL scheme. After processing, subsidy amounting to Rs 1.3 billion and loss claim of Rs 241.6 million were forwarded to Finance Division, GoP for arranging payments to concerned banks during the said period.

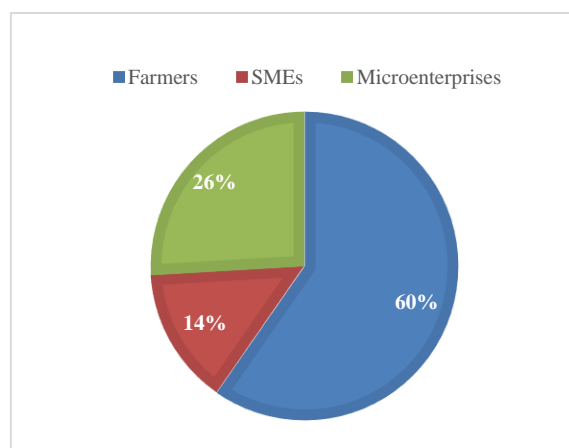


Figure 3.2: Borrower-type under CGS-SRE

### **3.5.1 Fund Management**

SBP BSC managed funds of around Rs 10.7 billion under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/ reinvested in government securities in consultation with Domestic Markets and Monetary Management Department (DMMD) of SBP and operational support by SBP BSC Karachi for execution of the transactions. During FY19, One hundred and twenty-one re-investment/ encashment transactions in T-bills were undertaken through primary and secondary markets on account of these funds.

### **3.6 SME Finance Awareness Sessions**

In order to meet the targets set under SBP's Policy for Promotion of SME-Financing-2020, SBP BSC is playing a vital role for dissemination of information on SBP refinance schemes for SMEs through awareness sessions across Pakistan. These sessions are conducted for stakeholders such as SMEs, traders, academia, SMEDA, banks, chambers etc.

SBP BSC was assigned a target of conducting 150 programs per calendar year till December 2020. During CY2018, SBP BSC Field Offices conducted 191 programs reaching over 11,000 stakeholders, where 187 sessions were carried out by SBP BSC Field Offices and 4 sessions were conducted by IH&SMEFD. During Jan-Jun 2019, SBP BSC Field Offices conducted 84 sessions of which 9 sessions were conducted exclusively on Refinance and Credit Guarantee Scheme for Women Entrepreneurs.

### **3.7 Developmental Initiatives**

#### **3.7.1 Preparation of Report on Low Utilization of SBP Refinance Schemes**

The report is based on the questionnaires that were filled by banks. The report helps to understand the trends of utilization of the schemes and suggests measures for enhancing their utilization. The report contains following recommendations, which have been shared with DFG:

- a. Allow financing of used/ second-hand machinery
- b. Allow financing of vehicles
- c. Re-allocation of limits to actively performing PFIs
- d. Training/ orientation sessions for banks
- e. Revision in number of working days allowed for adjustment of early repayments

#### **3.7.2 Functionalities developed in T-24 for EFS and PMYBL**

In order to overcome operational gaps and improve efficiency, eight IT based developments were made during the year for EFS and PMYBL combined.

#### **3.7.3 Development of Query Management System**

An Oracle-based Query Management System for refinance schemes was developed to ensure provision of prompt responses, establishment of an information database and knowledge sharing with all SBP BSC field offices.

#### **3.7.4 Annual Development Finance Symposium**

In order to align SBP BSC's action plan with SBP's financial inclusion strategy, first Annual Development Finance Symposium was organized on 1-2 April 2019 for all DFD officers at Field Offices. The session was inaugurated by MD – BSC and Group Head – FX&DF while representatives from SBP BSC and DFG – SBP departments made presentations on their

respective areas and covered the current as well as planned/ upcoming activities for SBP/ SBP BSC. The symposium was concluded with a brainstorming session, where action points were agreed upon to improve the efficiency across all field offices and to play a pivotal role in promotion of development finance activities.

### **3.7.5 Development of Data Acquisition Portal (DAP) for Credit Guarantee Schemes**

DAP for credit guarantee schemes was developed and made operational in September 2018. The system has not only reduced processing time and chances of human error, but also ensured accurate and timely reporting of data by PFIs. Subsequent to the automation, SBP BSC also prepared reporting instructions for PFIs which were circulated and placed on SBP website for ready reference and guidance.

### **3.7.6 Preparation of Operational Mechanism for Line of Credit Fund for MFBs**

In order to address funding constraints of the microfinance sector, SBP set up a Line of Credit (LoC) Fund for Microfinance Banks (MFBs) and Non-Bank Microfinance Companies (NBMFCs) for onward lending to microfinance borrowers. Accordingly, SBP BSC developed a complete operational mechanism and oracle-based module in system for successful implementation of the newly launched scheme.

### **3.7.7 Research Study on Role of Fintech**

A research study was conducted on the role of “Fintech” in promotion of development finance during the year. For the purpose interviews were held with relevant internal and external stakeholders. The report contains various recommendations for concerned stakeholders

### **3.7.8 Course Correction for NFLP**

A survey was conducted for assessment and course correction study of NFLP with input from Research Department. The idea was to assess the effectiveness of the program by asking questions from the program participants, and to identify the mid-course corrective measures necessary to make the program implementation more focused for remaining three years of program. The survey has been completed and results show that program is moving in right direction. However, in order to have a more realistic view with large population size, a project is being planned for impact evaluation of the program through external consultant

### **3.7.9 SOPs for Focus Group’s Meetings**

SOPs for conduct of meetings for sectors of SME, I-SME, Islamic Banking and Housing were revised and shared with SBP BSC Field Offices. In order to enhance the effectiveness of these meetings, various initiatives were taken including introduction of standardized regional data collection sheets, effective planning of the meetings in advance, participation of SBP BSC in the meetings (mostly through video conferencing or Skype), presentations by banks etc. A consolidated review of the discussions in the focus groups’ meetings held during Jul-Dec 2018 across all AFUs was prepared for Islamic banking, SME Finance and housing finance. Based on these reviews, suggestions/ recommendations to IBD-SBP and IH&SMEFD-SBP were put forth respectively for the promotion of relevant sectors.

## **3.8 Future Outlook**

SBP BSC will endeavor to proactively support DFG in the upcoming year in achievement of the financial inclusion vision of SBP. For the purpose, it aims to work closely with departments of DFG-

SBP through SBP BSC Field Offices according to the philosophy and wisdom of the 5Cs: Capacity Building, Coordination, Connectivity, Communication and Conducive Environment.

Further, SBP BSC will continue to improve operational controls for various processes and endeavor to provide its field Offices with the necessary knowledge and capacity building opportunities to interact with regional level stakeholders effectively. SBP BSC will also strive to play a lead role in conceptualizing and implementing financial inclusion initiatives through its Field Offices.

NFLP will be continued over the next three years in order to reach the target of one million people for imparting financial literacy, enhancing female participation and opening accounts in the program through various tailored strategies, and course correction based on survey conducted in FY19. Moreover, a sector-specific approach for SBP BSC Field Offices has been adopted by DFSD for development of various SME sectors on regional basis. Under this initiative, SBP BSC Field Offices will focus on one economically important SME sector in their respective areas for its promotion and development. SBP BSC will also be giving special focus to promotion of Islamic banking in the upcoming year by conducting awareness and capacity building programs for local *Muftian/ Ulema* and SBP BSC officers respectively. For the promotion of financing by banks for agriculture sector, 5 underserved districts will be focused on for developing a report with strategy and recommendations.