

3 Development Finance

To achieve SBP's strategic objectives related to the development of a sustainable and inclusive financial system in the country, BSC, by utilizing its geographical outreach, augments the role of SBP by catering to the financial needs of various segments of the economy as well as by connecting the unbanked and under-banked areas and sectors with financial markets.

3.1 Overview

BSC's development finance function complements the role of the Development Finance Group of the SBP in promoting an inclusive financial system in the country. All the BSC field offices facilitate implementation of SBP's policies, initiatives, and concessional financing schemes as well as arrange various events and programs to promote key priority areas of development finance.

Under NFLP, BSC surpassed all targets and sub targets for FY21 by conducting more than 12,000 classroom sessions and reaching out to over 360,000 individuals of the unbanked population for imparting financial literacy. To combat the impact of COVID-19 during FY21, BSC managed the implementation of SBP's concessional schemes including Wages & Salary Scheme (Rozgar), TERF and RFCC along with supporting initiatives for healthcare.

BSC proactively developed mechanisms for facilitation and implementation of these schemes across the country. In this context, the BSC launched a campaign for broad awareness and provided a platform for complaint handling of the end users. In another major activity, BSC took measures to promote G-MSS for housing finance since its launch on October 12, 2020. In a short span, BSC took three major initiatives to facilitate the low-cost house financing under the G-MSS. These initiatives include monthly mystery shopping survey of commercial banks' branches, establishment of a dedicated complaints' portal, and setting-up of housing finance helpdesks at all field offices. Furthermore, for promotion of SME financing in the country, all field offices worked on two key development projects, namely sector-of-the-year and SME finance clinics, to explore potential sectors for financing and reduction of gaps between credit supply and demand sides.

BSC is also at an advanced stage of a key project to automate and delegate its operational functions to participating banks under the EFS in order to enhance its offsite monitoring operations. During the year, BSC also conducted various conferences, focus-group meetings, and stakeholders' consultations to promote financing to various development finance areas.

3.2 Key Stakeholders

- Banking Industry
- Ministries / Local Government bodies
- Chamber of Commerce and Industries
- Trade Bodies
- Non-Governmental Organizations (NGOs)
- General Public

3.3 Key Performance Highlights during the Year

Box 3.1: Key Performance Highlights during FY21

Agriculture Credit Financing:

- Ensured disbursement of Rs. 1,365.8 billion against a target of Rs. 1,500 billion through 50 PFIs with a credit expansion of 12.4 percent in comparison to FY20

Islamic Banking

- Organized series of workshops on Islamic banking for local Muftian/Ulema which facilitated in allaying concerns of more than 700 religious scholars regarding Islamic banking

National Financial Literacy Program

Milestone	FY21	
	Target	Achievement
No. of District	158	158
No. of Classroom Sessions	7,232	12,487 (173%)
No. of Beneficiaries	180,800	362,223 (200%)
Female Participation %	50%	58%
Account Conversion %	80%	90%

Management of Refinance Schemes

- Disbursed Rs. 1,394.54 billion under Export Refinance Schemes; Rs. 992.55 billion under conventional Export Financing Scheme and Rs. 401.99 billion under IERS
- Disbursed Rs. 54.57 billion under LTFF
- Disbursed Rs. 39.62 billion under Refinance Scheme for Renewable Energy
- Disbursed Rs. 2.61 billion under FFSAP
- Disbursed Rs. 178.08 billion under Refinance Scheme for Payment of Wages and Salaries
- Disbursed Rs. 123.28 billion under Temporary Economic Refinance Facility
- Disbursed Rs. 4.57 billion under RFCC

SBP Service Desk Portal - State Bank of Pakistan

- Addressed over 10,000 complaints and queries related to Government's Markup Subsidy Scheme for Housing Finance through helpdesks and web portal

Mystery Shopping Survey for Housing Finance

- Conducted 10,500 MS surveys of bank branches to assess staff's level of knowledge about the scheme, their behavior with customers, and quality of displays at branches' premises. The results of these surveys were regularly presented to SBP senior management & Housing Finance Steering Committee

Awareness Sessions

- Held 61 awareness sessions and seminars related to Agriculture Sector, 16 sessions related to Microfinance, and more than 130 sessions related to SME

3.4 Operational Performance

3.4.1 National Financial Literacy Program

NFLP was rolled out in September 2017 as a key initiative of SBP to increase financial inclusion in the country under the ambit of its National Financial Inclusion Strategy. The program aims to provide basic financial education to one million unbanked / underserved population comprising of an equal mix of males and females between the age of 18 to 60 years across rural and urban areas of the country over a span of five years.

Despite the fact that FY21 was a challenging year due to the ongoing COVID-19 pandemic, BSC proactively continued on-ground NFLP activities in an efficient manner while adhering to COVID-19 SOPs and surpassed all targets set for the fiscal year. Under NFLP, 362,223 participants were given financial education during FY21 against the target of 180,800 beneficiaries, through 12,487 classroom sessions. This comprised of 70% participants located in rural areas with significant female participation (58% against the target of 50%). The number of participants who opened a bank or mobile account at the end of these sessions reached 90% against the target of 80%. Since the initiation of NFLP in September 2017, financial education has been imparted to more than 900,000 adults.

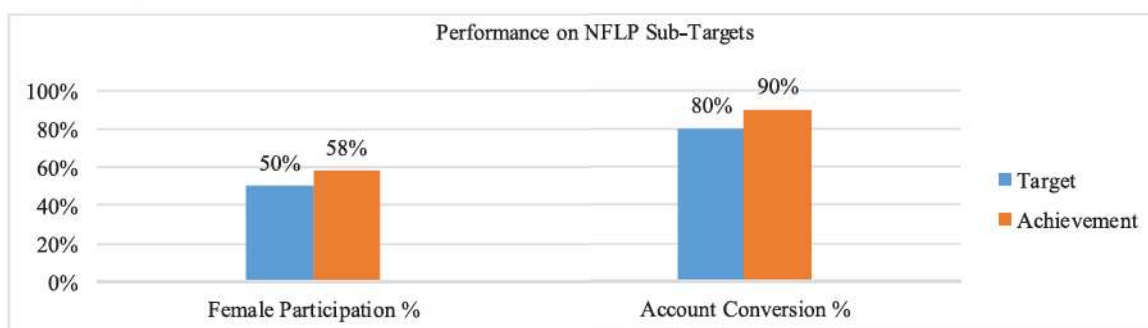


Fig 3.1 Performance on NFLP Sub-Targets

Furthermore, BSC has taken steps towards inclusive economic growth through enhanced access to finance. For this purpose, BSC has collaborated with organizations like Unilever Pakistan and All Pakistan Women Association to enhance overall level of financial literacy and entrepreneurship among females. On similar lines, BSC is also endeavoring to join hands with other organizations for the cause of improving financial literacy and inclusion in the country.

3.4.2 Management of Refinance Schemes

BSC continued to manage various short and long term concessionary refinancing schemes offered by SBP to fulfill credit requirements of the critical sectors of Pakistan's economy i.e. agriculture, exports, manufacturing, and energy. The performance of these schemes is tabulated below:

Sr	Scheme Name	Total Disbursements	% age Change from FY20
1	EFS	1,394.54	27.21%
2	LTFF	54.57	-22.26%
3	Financing Scheme for Renewable Energy	39.62	415.21%
4	FFSAP	2.61	133.04%
COVID-19 Related Schemes (since Mar-April 2020)			
5	Refinance Scheme for Payment of Wages & Salaries	178.08	376.28%
6	TERF	123.28	N/A*
7	RFCC	4.57	425.29%
Grand Total of Disbursements all Refinance Schemes		1,797.27	48.10%

* No financing was disbursed under TERF during FY20

Other Refinance and Credit Guarantee Schemes

3.4.2.1 Refinance and Credit Guarantee Scheme for Women Entrepreneurs

Under the scheme, 19 banks were allocated limits of Rs. 2,500 million during the year. As of June 30, 2021, over 900 active borrowers were availing the scheme, whereas the amount disbursed since the scheme's inception was Rs. 796 million. The scheme witnessed considerable growth with cumulative disbursements growing by 70 percent in FY21 as compared to last year.

To create awareness of this scheme among potential women borrowers, 21 sessions were conducted by field offices during the year. Further, a webinar was arranged to promote dialogue on the challenges faced by women in availing financing and the steps taken by SBP, BSC, and commercial banks to address this issue. This webinar was attended by participants from field offices, banks / development finance institutions, regional women associations and foundations, chambers of commerce, Small and Medium Enterprise Development Authority, and women entrepreneurs. Similarly, coordination with provincial government bodies was increased in order to propose absorption of mark up under the scheme to facilitate women borrowers.

3.4.2.2 Refinance and Credit Guarantee Scheme for Rice Husking Mills in Sindh

Under this facility, 12 banks were allocated limits of Rs. 1,000 million till end of FY22. As of June 30, 2021, an amount of Rs. 127.42 million was outstanding against 18 borrowers while ten new borrowers were added during the year. Further, to promote the scheme, BSC closely interacted with the relevant stakeholders i.e. banks, concerned associations, and rice millers for their feedback, based on which amendments in the scheme have been proposed to the competent authorities.

3.4.2.3 Refinance Scheme for Modernization of SMEs

Cumulative disbursement since inception of the scheme reached Rs 2.07 billion on June 30, 2021 against Rs. 1.11 billion for the same period last year. 20 banks have been allocated limits of Rs. 8.275 billion under the Scheme and limit utilization by banks on their cumulative financing stood at 25.03 percent at the end of the year.

3.4.2.4 Prime Minister Youth Business Loan Scheme

BSC is entrusted with the responsibility of processing claims of banks under Prime Minister's Youth Business Loan Program launched by the GoP in 2013. During FY21, subsidy claims and credit loss subsidy claims amounting to Rs 1.112 billion were processed and forwarded to the Finance Division, GoP for payments to the concerned banks.

3.4.2.5 Prime Minister Youth Entrepreneurship Scheme

During the year, a dedicated DAP was developed to facilitate swift processing of claims received from banks under Prime Minister's Youth Entrepreneurship Scheme. This facility enabled banks to upload data of subsidy claims directly on the portal followed by its reporting to Ministry of Finance for timely payments of subsidy and loss claims. During FY21, subsidy claims amounting to Rs 34.6 million were paid to three banks.

3.4.2.6 Credit Guarantee Scheme for Small and Rural Enterprises

CGS-SRE was launched by SBP with the funding support of the UK's DFID for lending to marginalized and collateral-deficient segments by providing an opportunity to financial institutions to share their credit risk. Under the scheme, guarantees amounting to Rs. 327.5 million were issued against 310 loans for FY21. An analysis of the guaranteed portfolio, since inception of CGS-SRE, shows that 47,468 guarantees were issued against lending of around Rs. 40 billion to 25 PFIs. Moreover, the loans were granted to borrowers from 60 different sectors covering 150 districts of the country.

3.4.2.7 Credit Guarantee Scheme for Small and Marginalized Farmers

SBP introduced CGS for Small and Marginalized Farmers with the assistance of Government of Pakistan in January 2016 to provide an opportunity to PFIs to explore the financing potential in the underserved farming community. The scheme provides 50 percent risk sharing to PFIs against their collateral-free lending to small and marginalized farmers. During FY21, guarantees amounting to Rs. 700 million were issued against 20,096 loans to six PFIs under the scheme.

3.4.3 Agriculture Finance

To meet the credit requirements of farmers and to boost the agricultural activity, BSC monitored agriculture credit disbursement target of Rs. 1,500 billion allocated to 50 PFIs for FY21. During the year, credit amounting Rs. 1,365.8 billion was disbursed by the banks with a credit expansion of 12.4 percent in comparison to FY20.

A three day mega event was arranged by DALFA (Dairy, Agriculture & Livestock Farmers Association) titled "DALFA Cattle Show-2021" to promote non-farm sector. This event brought all agriculture-related stakeholders under a single roof thereby enabling exchange of knowledge, networking, and exploring of investment options. BSC supported the event in collaboration with SBP. During the said event, the banking industry also showcased its products and briefed visitors about the availability of financial products. Further, a seminar was also arranged to brief participants about the steps taken by SBP to promote agriculture and related subsidy schemes.

3.4.4 Microfinance

Microfinance sector is the largest contributor towards financial inclusion at the base of the societal pyramid in Pakistan. It is also a major engine for poverty reduction and employment for the unbanked and underserved segment of the economy. For capacity building of bankers and public in the microfinance area, field offices collectively conducted 16 awareness sessions and focus group meetings.

Further, to equip BSC teams with the necessary knowledge on priority sectors of SBP, a two-day training workshop on the microfinance sector was organized with the objective to orient participants with the latest information and global trends in the sector. Around 60 BSC officers belonging to OG-2 - OG-4 cadre participated in the training.

3.4.5 SME Finance

BSC facilitates in implementation and monitoring of SBP's refinance and credit guarantee schemes aimed at providing low-cost financing for SMEs. Under the refinance schemes for SMEs, more than 1,200 loans were refinanced with an amount of Rs. 3.5 billion up to June 30, 2021.

For promotion of SME Finance, more than 130 awareness sessions were conducted during FY21. For first-hand knowledge of regional SMEs with respect to their banking inclusion, field offices prepared SME financing profiles of their respective regions on half-yearly basis. Moreover, they also followed 'Sector-of-the-Year' approach and conducted SME Clinics for their selected sectors. To augment the promotion of SBP schemes, banks were mandated to place promotional material in their branches / ATM vestibules, which was monitored by BSC cash monitoring teams. During the year, eight monitoring cycles were completed and analyzed for necessary policy decisions. To evaluate the regional performance of banks with respect to different aspects of SME Finance including their portfolio under SBP's SME schemes, 22 meetings of SME Finance Focus Groups with regional bankers were also held across field offices.

3.4.6 Islamic Finance

Considering the influential role that local religious scholars can play in creating awareness of Islamic Banking amongst the masses, a series of workshops on Islamic Banking were conducted for local Muftian / Ulema. So far, more than 700 religious scholars have participated in such sessions, which facilitated in addressing their concerns and misunderstandings regarding the current Islamic Banking practices and SBP's focus on facilitating an Islamic economic system.

During the year, field offices created Islamic Banking profiles for their respective regions which depicted an overview of the Islamic Banking infrastructure, potential, portfolio, and products available across the regions. The profiles were used to identify various trends in terms of deposits and financing in different regions, as well as opportunities and challenges for the promotion of Islamic Banking.

To augment SBP's efforts in building the capacity of all stakeholders, field offices conducted training sessions in the provincial capitals for officials of selected provincial departments and ministries.

3.4.7 Housing Finance

SBP announced G-MSS in October 2020 in order to enhance formal credit to low-cost housing sector. BSC was given the responsibility of coordinating with banks for resolution of complaints for which the MSSP was developed. The portal is accessible to the public for lodging their queries and complaints against banks regarding the scheme. BSC's senior management and Chief Managers were closely involved in the complaints' resolution mechanism.

Further, BSC has been constantly coordinating with commercial banks' focal persons to equip and train their staff to handle complaints on the MSSP, helping them in resolution of concerns of potential G-MSS customers, and to facilitate public in availing low-cost housing finance. During the year, over 4,000 complaints lodged on the portal were addressed. In addition, Housing Finance Helpdesks were established at all field offices to facilitate the public where over 10,000 queries with respect to G-MSS were received, whereas BSC officials were also accessible to the public via telephone for any assistance regarding the scheme. Throughout the year, field offices were also involved in Mystery Shopping exercise for ascertaining the knowledge and service delivery of regional bank staff regarding G-MSS.

During FY21, four Housing Finance conferences, one in each provincial capital, were conducted by BSC Lahore, Peshawar, Quetta, and North Nazimabad field offices. Conferences were attended by diverse groups of stakeholders, including banks, Pakistan Mortgage Refinance Company, builders and developers, architects, local development authorities etc.

3.5 Developmental Initiatives

3.5.1 Deployment ofNFLP Data Acquisition Portal

To streamline the reporting and payment mechanism under NFLP, a DAP was developed and deployed to enable the banks to provide error-free online information to BSC. Moreover, the payment mechanism was also centralized for timely processing. To familiarize NFLP teams of banks with DAP-NFLP, an orientation session was conducted and detailed SOPs and User Manual were shared with banks for guidance and facilitation.

3.5.2 Analytical Study on the Utilization of Accounts opened under NFLP

An internal analytical study on the utilization of bank / mobile accounts opened under NFLP in the first three years of the program was conducted. It revealed that 74% of bank / mobile accounts opened during NFLP are active.

3.5.3 Strengthening of Off-site Monitoring of Export Finance Scheme Cases

To strengthen the off-site monitoring of EFS and IERS cases, new reports were developed in the system for detecting and calculating the specified penalties for various irregularities under the schemes.

3.5.4 ‘Sector of the Year’ – Sectoral Interventions by Field Offices

‘Sector of the Year’ initiative continued during FY21. Under the initiative, various stakeholders were engaged to improve access to finance, collect regional data from banks, organize trainings / orientations for banks and promote SBP schemes. During promotion of rice sector, Hyderabad Office helped to finance ten new rice mills during FY21 under Markup Subsidy and Guarantee Facility for Rice Husking Mills in Sindh. While mobilizing stakeholders, Lahore Office facilitated the IT sector in terms of encouraging banks to introduce accounts for freelancers.

3.5.5 SME Finance Clinics

To enhance the awareness of SMEs on available financial products / services offered by various banks and to address their financial needs, 49 sessions under SME Finance Clinics were conducted during the year which were attended by more than 1,000 SMEs. These sessions facilitated approval of 97 loans amounting to Rs. 1.14 billion. Moreover, participation of banks proved to be conducive towards gaining insights on the issues faced by SMEs, while providing opportunities to address their concerns and giving banks the chance to pursue potential leads.

3.5.6 Targeted Intervention for Agriculture Sector

To enhance availability of agricultural credit to underserved districts of Pakistan, BSC identified six districts across the country including the Gilgit-Baltistan region for targeted intervention. Around 20 meetings were conducted with the regional teams of relevant banks and ten one-to-one meetings were held

with the Agri Heads of selected banks. As a result of these focused interventions, banks have initiated an analysis to review existing financial products and HR requirements in the identified districts.

3.6 Future Outlook

Promotion of development finance is a rapidly evolving area for BSC and it will therefore continue contributing in achieving all the major goals set out under SBP's vision for the provision of sustainable financial services to priority segments, such as Housing, Agriculture, SME and Islamic Banking etc. In this pursuit, BSC will identify new opportunities besides working on current initiatives to increase access and usage of financial services for marginalized sectors like potential women entrepreneurs, physically challenged persons, small businesses and financially underserved areas.

Another key priority of BSC is to facilitate SMEs for their mainstreaming into the financial system by promoting and implementing SBP's schemes for SMEs, particularly newly launched 'SME Asaan Finance' or SAAF, a clean lending facility. Further, with respect to the 'Sector of the Year' initiative and positive impact of the same observed during FY21, the approach will be continued for the next year with special focus on promotion of renewable energy amongst SMEs through all field offices. To achieve these goals, BSC will further increase interactions with concerned government departments, chambers of commerce & industry & trade associations, as well as other stakeholders with the aim for creating broader awareness and seeking enhanced consultation & feedback.

BSC will remain an integral part of SBP's ongoing strategy and its efforts to develop a strong and robust housing finance market in the country. For this purpose, BSC will expand its current facilitative role for housing finance and coordinate with major stakeholders at grass root level for increasing their awareness and seeking their feedback on issues and possible solutions. Furthermore, BSC will follow-up with banks with large number of complaints in improving their service delivery with respect to MSSP. Moreover, BSC will take steps to increase awareness of the MSSP amongst the public in order to facilitate them in resolving their issues in availing financing under the housing scheme.

Promotion of Islamic banking is another key focus area for BSC. To address the issue of misperception about Islamic banking amongst masses and religious community, BSC will increase scope of its awareness and capacity building programs across the country in line with SBP's Strategic Plan for Islamic Banking Industry 2021-25.

Since NFLP is scheduled to conclude in FY22 after completing its five years, BSC aims to explore avenues for increasing the outreach of financial literacy through a sustainable market-led strategy. It is envisioned that further collaboration with private and social organizations shall be undertaken to expand the financial literacy campaign in the country.

In addition, BSC plans to automate and delegate functions under EFS to participating banks. The main objectives under this initiative are centralization of EFS functions, automation of processes, and electronic submission of data by banks. For this purpose, a portal hosted by BSC will be developed for electronic submission of all export refinance transactions resulting in elimination of extensive paperwork. This will also allow BSC to effectively monitor the banks' activities under refinance facilities and make refinance functions more HR efficient across the organization.

Moreover, in line with the management's decision to transfer certain operational functions from SBP to BSC, the management and supervision of call center of Banking Conduct & Consumer Protection Department, SBP will be operationalized from Lahore.