

# Forex and Development Finance



# Development Finance Support Services



## 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) to meet its strategic objective of promoting an inclusive financial system in the country.*

### 3.1 Overview

Development Finance Support Department, along with its Development Finance Divisions (DFDs) at 15 SBP BSC Field Offices, performs a crucial role in implementing and monitoring of SBP's policies and initiatives for the promotion of an inclusive financial system in the country. SBP BSC Field Offices provide a platform for information dissemination, collaboration with regional stakeholders, and obtain grassroots level feedback for consideration and realignment of policy interventions by SBP, if required.

### 3.2 Access to Finance

The ongoing commitment of SBP to encourage flow of credit to the agriculture sector can be gauged from the fact that disbursement target of Rs 700 billion was set for 52 Participating Financial Institutions (PFIs) in FY17, an increase of around 17 per cent over the previous year's target. It is pertinent to mention here that, for the first time, these targets were also allocated to 16 Microfinance Institutions (MFIs). Performance of PFIs was actively monitored by 13 SBP BSC Field Offices through regular meetings along with rigorous follow-up.

#### **Box 3.1: Performance Highlights for FY17 – Access to Finance**

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 700 billion indicative target set by SBP for the agriculture sector in FY17. Disbursement during the year was Rs 704.5 billion, which is around 18 per cent higher than in FY16.
- Conducted four awareness sessions for promotion of Housing Finance in different regions of the country as advised by IH&SMEFD-SBP. These sessions were collectively attended by more than 1,000 participants.
- Facilitated IBD-SBP in conducting 5-day awareness sessions on Islamic Banking through each of the four SBP BSC Field Offices.
- Facilitated IH&SMEFD-SBP in conducting half-day awareness sessions on Green Banking and Finance at two SBP BSC Field Offices to support SBP initiative for promotion of green/ sustainable banking as a tool for addressing energy shortfall and climate change.
- Management Information System (MIS) for biannual Focus Group meetings was developed for improved monitoring.
- Facilitated NIBAF and AC&MFD in conducting 3-day Executive-level Training Programs on Agri-financing at six SBP BSC Field Offices.
- 86 Focus Group meetings were organized, which included 21 for Islamic Banking, 19 for Agri. Finance, 17 for Microfinance, 15 for SME Finance, 7 Joint sessions and 7 for Housing Finance.

The year under review also witnessed significant progress regarding the National Financial Literacy Program (NFLP), which is a five-year project with a target of one million beneficiaries, of which 100,000 are to be targeted in the first year. This project, which was piloted earlier, has been planned in collaboration with banks across all districts of Pakistan. The measures taken this year included bringing all banks selected for NFLP on board, collecting their views regarding the program and obtaining nominations for lead and regional focal persons. Moreover, 336 Field Trainers and 23 Master Trainers, identified from SBP - BSC Offices, facilitated in imparting training to 87 Field Trainers from banks in three programs held at NIBAF, Islamabad. The NFLP is now scheduled to commence in FY18.

DFSD also developed an implementation plan for NFLP Student Ambassador Plan. The plan proposed to engage university students during their summer and winter vacations in order to deliver the NFLP

finalized curriculum to the target beneficiaries. Chief Managers of SBP BSC Field Offices also held meetings with the Vice Chancellors of selected universities to introduce and discuss the modalities of the program in order to facilitate its commencement in their areas during FY18.

The Development Finance Coordination Committee (DFCC) remained active and held three meetings during FY17 in which issues of common interest between DFSD and DFG were deliberated upon that included making a country-wide list of progressive farmers, economic mapping at Union Council-level, NFLP etc.

Holding of biannual meetings of Focus Groups for each of the five priority sectors (i.e. agriculture finance, SME finance, housing finance, microfinance and Islamic banking) is one of the key activities of SBP BSC Field Offices. In order to improve conduct of the same, DFSD wrote letters to the CEOs/ Presidents of all banks to seek nominations for Senior Focal Persons from their Head Office. These Focal Persons are contacted by DFSD for resolution of issues/ concerns with regard to the regional management of banks from time to time.

The Department, in order to promote the housing finance sector, also initiated the formation of Housing Finance Focus Groups at five more SBP BSC Field Offices, based on the housing finance portfolios of banks in those regions.

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

### 3.3 Management of Refinance Schemes

To fulfill credit requirements of the critical sectors of Pakistan's economy including agriculture, trade, manufacturing and energy, the State Bank of Pakistan 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 SBP BSC Field Offices across the country. The provision of refinance facility to commercial banks/Development Finance Institutions (DFIs) and timely recovery of principal and mark-up are the responsibilities of respective disbursing office of SBP BSC.

#### 3.3.1 Export Finance Scheme

Export Finance Scheme (EFS) is the most prominent among all refinance schemes of SBP. It was introduced with the objective to boost country's value added exports by providing access to low cost funds to the exporters in order 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.

During FY17, SBP BSC Field Offices disbursed a total amount of Rs 605.29 billion under different financing schemes of SBP. Rs 506.74 billion were disbursed under EFS, while Rs 98.55 billion under IERS.

**Table 3.1: Summary of Activities Arranged and Participated by SBP – BSC Field Offices during FY17**

S. No.	Activity	No.
1	Focus Group Meetings	86
2	Awareness Programs	81
3	Capacity Building	63
4	Agri. Target related meetings	12
5	Fair, Conference, Exhibition etc.	13
6	Seminars and Workshops	21
7	Linkages with Academia	12
8	Linkages with Govt. and Others	36
9	Others	7
<b>Total</b>		<b>331</b>

#### **Box 3.2: Performance Highlights for FY17 – Management of Refinance Schemes**

- Total Rs 605.29 billion disbursed under Export Refinance Schemes:
  - Rs 506.74 billion under EFS
  - Rs 98.55 billion under IERS
- Rs 17.59 million charged as penalty to 27 participating banks on account of violation of EFS/IERS instructions against loans disbursed during FY15.
- Rs 47.25 billion disbursed under LTFF.

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP on the subject and that the funds disbursed are utilized for value-added export purposes, DFSD supervises the onsite verification process every year. During FY17, onsite verification teams completed compliance verification of 13,068 loans, whose amount of refinance stood at Rs 516.61 billion that was disbursed to twenty seven banks in FY15.

As a result of various violations of instructions of the Scheme observed during onsite verification visits, SBP BSC Field Offices charged a total penalty of Rs 17.59 million. Penalty against violations pertaining to Part-I category of EFS/IERS accounted for 35.5% (Rs 6.24 million) of the total amount, while the remaining 64.5% (Rs 11.35 million) was against Part-II category. The total amount of penalty charged in FY16 has decreased by 66.7% compared to last year when Rs 52.80 million were charged, showing that the purpose of conducting compliance verification is, by and large met, as banks have been ensuring compliance to the instructions issued by SBP under the Export Finance Scheme.

### 3.3.2. Long Term Financing Facility

The Long Term Financing Facility (LTFF) provides finance to exporters for adopting new technology in production process and/or upgrading their existing plants and machinery. This scheme is also available to Islamic banks, but is subject to approval of SBP Shariah Board. Loans are repayable within 3, 5 or maximum 10 years. During FY17, Rs 47.25 billion were disbursed via banks under LTFF.

### 3.4 Financial Inclusion Scheme Management

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. The purpose of these schemes is to induce banks to take risk by granting loans to priority sectors like agriculture, infrastructure, housing, SME, microfinance and Islamic banking. Details of Credit Guarantee and Subsidy Schemes managed/ implemented by DFSD are given below:

#### 3.4.1 Credit Guarantee Scheme for Small & Rural Enterprises

With a view to motivating the banks to lend towards collateral deficient borrowers, which would not have access to credit under normal circumstances, SBP has launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises with the assistance of GoP and DFID in 2010.

During FY17 (July-Dec), 7,463 loans for a financing amount of Rs 6,049 million were issued guarantees to 15 Participating Financial Institutions (PFIs) as per PFI limits approved by the Technical Committee on Credit Guarantee (TCCG). So far, 194 claims of Rs 23.7 million have been reimbursed to concerned PFIs since inception of the Scheme. Highlights of CGS are presented in **Box 3.3**.

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

- 37,356 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 495.1 million
- 7,463 loans for financing amount of Rs 6,049 million were issued guarantees to 15 Participating Financial Institutions (PFIs) under CGS for Small and Rural Enterprises.
- 107 claims amounting to Rs 12 million have been disbursed to concerned banks under CGS.
- Financing of Rs 1,850 million have been disbursed by various banks/DFIs to MFBs/MFIs under MCGF.
- Guarantees were issued to six PFIs under CGSMF for 44,694 loans with a total financing amount of Rs 1,450 million.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 9.2 billion approximately were managed by DFSD.

The comprehensive Developmental Impact Review of CGS presented to TCCG showed that loans were granted to mainly 52 different sectors to borrowers from 108 districts of Pakistan. Fresh borrowers constituted 91% of the total borrowers and 98% of the loans were sanctioned to Sole Proprietors/Small Enterprises in CY16 by PFIs. Farmers, Small Enterprises and Microenterprises constitute 62%, 11% and

27% of the total loans sanctioned respectively. Rural versus Urban sanctioned loans remained at 47% and 53% respectively. Since inception of CGS in 2010, 25,860 guarantees were issued against lending of Rs 18,387 million to 16 PFIs.

#### 3.4.2. Credit Guarantee Scheme for Small and Marginalized Farmers

To enhance access of small and marginalized farmers to formal credit, SBP launched the Credit Guarantee Scheme for Small and Marginalized Farmers (CGSMF) with the funding support of Government of Pakistan in FY17. The scheme offers 50% partial guarantee on the outstanding amount of loan, which is classified as substandard as per Prudential Regulations (PRs), to banks for their lending to eligible borrowers.

The limit of Rs one billion for CY17 has been allocated to seven PFIs by Agricultural Credit and Microfinance Department (AC&MFD) of SBP. During Q2, Q3 and Q4 of CY16 and Q1 of CY17, 44,694 loans for a financing amount of Rs 1,450 million were issued guarantees by six PFIs.

#### 3.4.3. Microfinance Credit Guarantee Facility

Microfinance Credit Guarantee Facility (MCGF) was launched by SBP in December 2008 to incentivize commercial banks and DFIs towards provision of commercial capital to microfinance providers for onward lending to their clients with funding support from DFID (UK-AID). During FY17, the focus of MCGF lending remained towards the weaker Microfinance Providers (Tier-II). Guarantees were issued against a financing amount of Rs 1,850 million to banks/DFIs against their wholesale lending to six MFBs/MFIs.

After the establishment of Pakistan Microfinance Investment Company (PMIC) to meet the funding needs of microfinance sector, the SBP has ceased to issue MCGF guarantees effective from April 13, 2017. Highlights of MCGF are presented in Box 3.4.

##### Box 3.4: Successful Closure of Microfinance Credit Guarantee Facility (MCGF):

- Since Inception of MCGF in 2008, a total of 61 guarantees have been issued against lending of Rs 21,850 million to 12 Microfinance Banks/Institutions.
- Among MFBs/MFIs, 7 were Tier-I institutions while 5 were Tier-II Institutions.
- 21 Banks/DFIs availed MCGF by sanctioning bilateral as well as syndicated finance facility, thus familiarizing them with Microfinance Sector.
- Two Term Finance Certificates for Rs 1,000 million were also issued backed by MCGF funding.
- More than 75% of the funding was availed for medium to long term loans, thus reflecting developmental impact and better planned availment by MFBs/MFIs.
- As per maturity profile, all existing guarantees are expected to expire by March, 2020.

#### 3.4.4. Prime Minister's Youth Business Loan Program

DFSD is entrusted with the responsibility to process claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by GoP in the light of instructions from SBP. During FY17, twelve banks submitted their subsidy claims under PMYBL, while few more banks have shown their interest in disbursing loans under PMYBL. During the year, 37,356 PMYBL related transactions have been processed for subsidy amounting to Rs 495.1 million for onward submission to Finance Division, Government of Pakistan.

#### 3.4.5. Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched the Mark-up Subsidy & Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh during March 2013 with a view to modernizing and upgrading rice husking mills of Sindh through funding support from Sindh Enterprises Development Fund (SEDF). During FY17, a financing amount of Rs 10 million has been processed by SBP BSC, Sukkur Office.

#### 3.4.6. Fund Management

DFSD manages funds of Rs 9.2 billion (approximately) under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/reinvested in T-bills at given

maturities. There are significant funds available to be used as a cushion against the guarantees issued to PFIs. Sixty-one investments on account of these funds have been undertaken in FY17. So far, total value of funds received has increased to 64% to reach 9.1 million from 5.6 million.

#### **3.4.7. Developmental Initiatives**

1. A project to prepare feasibility studies for establishing fruit pulp-making units for two fruits (mangoes in Sindh and apricots in Gilgit-Baltistan) was undertaken during the year. The feasibility study on mangoes was developed by DSFD with assistance from SBP BSC, Multan whereas the one on apricots was prepared by SBP BSC, Peshawar and supervised by DFSD. Based on the information gathered through interaction with external stakeholders as well as desktop research, both feasibility studies contain detailed information regarding project inputs/ requirements, pulping process, project economies etc.
2. A project titled 'Economic Mapping' was also initiated to carry out detailed mapping of the country at union council level in order to facilitate policy makers, researchers, business owners and other stakeholders in decision-making process. Further possibilities, such as collaboration with external stakeholders, are being explored.
3. A project to encourage preservation of artisans' craft through banking sector support was initiated with the objective of encouraging the financial sector to develop a market for artisans' products. The project was worked out in detail with execution plan and identification of artisans at regional level with the help of external stakeholders. The idea will be taken up at Pakistan Banks' Association (PBA) meeting for implementation.
4. DFSD has also developed a Business Requirement Document (BRD) to help in the creation of an interactive portal, comprising agriculture credit disbursement targets and achievement, to be updated on a monthly basis. The portal will contain regional-level target achievement details across different sectors and will be available for AC&MFD-SBP, DFSD and SBP BSC Field Offices to facilitate monitoring and can also be used for reference purpose.
5. SME Finance Mela to promote SME sector was arranged at Bahawalpur, Sukkur, Peshawar, and Quetta in collaboration with respective Field Offices. The events were well-attended and brought together stakeholders from chambers, trade bodies, SMEs, banks and academia etc.
6. DFSD has developed a comprehensive Manual on On-site Verification Process for SBP BSC officials to ensure consistency and improve the level of quality in onsite verification of EFS cases.
7. DFSD provided important feedback to DFG for various existing/ upcoming schemes since it has first-hand experience of managing such schemes/programs, which included:
  - a. Revamping the Credit Guarantee Scheme for Small & Rural Enterprises for better targeting and enhanced developmental impact.
  - b. Finalization of Frequently Asked Questions (FAQs) on PMYBL and CGSMF
  - c. Preparation of data reporting formats under CGSMF which include socio-economic indicators as well.
8. Automation project was initiated for soft loans under Prime Minister's National Health Program.
9. A developmental impact analysis of Credit Guarantee Scheme for Small & Rural Enterprise was prepared.
10. Awareness Sessions were conducted for commercial banks as under:
  - a. CGS at Sialkot, Multan and Faisalabad for 90 participants.
  - b. CGSMF at Learning Resource Centre, Karachi.

#### **3.4.8. Future Outlook**

1. With a view to implementing SBP's aim of increasing financial literacy in the country, DFSD through the help of PFIs, plans to achieve the target of 100,000 beneficiaries in the first year of NFLP.

2. The project to encourage preservation of artisans' craft through support of banking sector will be pursued further by taking up the matter at the next PBA meeting.
3. The need for capacity-building of commercial bankers and other relevant stakeholders has been re-emphasized and for this purpose DFSD has written a letter to NIBAF seeking its support in this regard.
4. DFSD plans to organize and conduct awareness sessions regarding various refinance facilities across the country especially in the underutilizing areas.
5. To increase operational efficiency and reduce workload of Field Offices, DFSD has undertaken automation projects pertaining to the verification of EE/EF-1 statements, which is under testing phase. Further, Business Requirement Document automated offsite monitoring of EFS cases has already been submitted to the Information Systems Department (ISD)-SBP.
6. The reporting/processing under every credit and subsidy scheme is being automated with a view to meeting the existing resource of HR and increasing number of schemes as well as workload challenges in coordination with Information Technology Department-SBP.
7. PMNHP launched by GoP with the prime objective of extending health insurance facility to the poorest segment of population.
8. Awareness and capacity building programs on credit guarantee and subsidy schemes for banks'/DFIs' officials will also remain one of the focus areas to enhance reporting quality and better serve the target sectors.
9. DFSD is also expected to initiate operational implementation of various initiatives announced through Federal Budget for FY18.
10. On overall basis, DFSD will be performing its due role in augmenting SBP's efforts aimed at implementation of National Financial Inclusion Strategy.