

Forex & Development Finance



Development Finance Support Services



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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/Units at 16 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, ensure collaboration with regional stakeholders, and obtaining of grassroots level feedback for consideration and realignment of policy interventions by SBP, if required.

3.2 Access to Finance

DFSD rolled out the National Financial Literacy Program (NFLP), a key initiative of SBP to increase financial inclusion in the country, which is one of its goals under its National Financial Inclusion Strategy. This is a five-year project being undertaken, in collaboration with commercial/microfinance banks and partner institutions (Non Governmental Organizations (NGOs), Micro Finance Institutions (MFIs) and Rural Support Program (RSPs)), with a target of imparting financial literacy curriculum to one million beneficiaries. DFSD and SBP BSC Field Offices facilitated the holding of 4,270 classroom sessions, teaching a comprehensive curriculum to the most underserved segments of society, which were attended by more than 100,000 participants, thereby surpassing the target set for the first year. These sessions enabled more than 47,000 participants to open Branchless banking/ Asaan accounts on the spot, thus allowing them to enter the financial system. SBP BSC officers monitored these sessions using both on-site and off-site monitoring mechanism devised by DFSD. SBP BSC officers also held 21 Training-of-Trainers sessions for bankers under the supervision of DFSD, where 382 bankers were trained as Field Trainers. There are plans for expansion of the program in the upcoming year, including a higher target and inclusion of more districts in the program.

Box 3.1: Performance Highlights for FY18 – Access to Finance

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 1,001 billion indicative target set by SBP for the agriculture sector in FY18. Disbursement during the year was Rs 973 billion, which is around 38 percent higher than the disbursement made in last year.
- Conducted 4,270 sessions for the National Financial Literacy Program in collaboration with banks and partner institutes. These sessions were collectively attended by more than 100,000 participants.
- Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas was launched by IH&SMEFD at SBP BSC Quetta, and meetings of its Monitoring and Evaluation Committees were conducted at two SBP BSC Field Offices.
- 89 Focus Group meetings were organized till 30th June 2018, which included 20 for SME Finance, 19 for Microfinance, 17 for Agri. Finance, 17 for Islamic Banking, 11 for Housing Finance, 1 for Islamic SME Finance and 4 Joint sessions.

Keeping geographical and cultural constraints in mind, DFSD liaised with various Non-Governmental Organizations/ Microfinance Institutions/ Rural Support Programs, including Orangi Pilot Project, Pakistan Microfinance Network, Pakistan Poverty Alleviation Fund, Akhuwat, Kashf Foundation and

The Citizens' Foundation in order to benefit from their outreach at the grassroots level for mobilizing beneficiaries for NFLP sessions, especially females in rural communities. Moreover, DFSD maintained constant contact with the participating banks in order to monitor the sessions effectively and resolve issues, if any, in a timely manner. DFSD referred urgent matters to the NFLP Implementation Committee for guidance and approval so that a consensus may be reached amongst all stakeholders.

A shared directory was introduced by DFSD where SBP BSC Field Offices could place relevant information in order to address the need to streamline collection of data from different sources. DFSD has also submitted a Business Requirements Document to SBP's Information Systems Department (ISD), for the designing of an online Data Acquisition Portal (DAP). This would allow direct reporting by banks and total digitalisation of end-to-end processes, thereby reducing the workload of SBP BSC Field Offices. DFSD has developed an information portal which contains a comprehensive overview of NFLP targets and achievements. The portal has been placed on the electronic board, while efforts are underway to equip the portal to report information in real time. A quarterly virtual newsletter has also been compiled for more detailed reporting of the progress. This newsletter includes key statistics and photographs of the classroom sessions, along with observations made by the participants and is meant to be disseminated to internal and external stakeholders. Moreover, DFSD regularly reports new developments in the Program in the State Bank News every month.

During FY18, DFSD rolled out the NFLP Student Ambassador Plan, which engaged university students to deliver lectures at NFLP sessions in their summer and winter vacation. Twenty-eight Training-of-Trainers sessions were conducted through SBP BSC Field Offices during which 322 student Field Trainers from 32 universities across the country were trained; these students have conducted 702 classroom sessions till June 2018 for around 16,000 participants.

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**). Special focus was made on facilitating Agricultural Credit & Micro Finance Department (AC&MFD) of SBP in monitoring of Rs 1,001 billion target set for disbursement of agri-credit for FY18. Loans worth Rs 973 billion were disbursed by PFIs in FY 2018 against the indicative target and DFSD rigorously monitored their performance through 13 SBP BSC Field Offices. Meetings were conducted by SBP BSC Field Offices with special focus on banks that were found to be lagging in order to encourage them to improve their performance. DFSD is also in the process of developing an Online Data Portal jointly with AC&MFD in order to simplify the process of collection of data from banks. For this purpose, DFSD has developed a Business Requirements Document collaboratively with AC&MFD and the same has been provided to ISD for required development.

S.N	Activity	Number of	
		Activities	Participants
1	Awareness Programs	173	12,256
2	Capacity Building	107	2,153
3	Linkages with Govt. and Others	84	-
4	Focus Group Meetings	89	-
5	Seminars and Workshops	33	1,748
6	Agri. Target related meetings	21	-
7	Fair, Conference, Exhibition etc.	11	2,300
8	Linkages with Academia	9	-
9	Research Activities	3	-
Total		530	18,907

Under the supervision of DFSD, SBP BSC Field Offices continued to hold Focus Group meetings for the priority sectors (Agriculture finance, SME finance, Microfinance, Housing finance, Islamic banking and Islamic SME finance). DFSD also liaises with focal persons identified at head offices of all banks from time to time in order to improve effectiveness and monitoring of Focus Groups.

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.

Box 3.2: Performance Highlights for FY18 – Management of Refinance Schemes

- Total Rs 737.7 billion disbursed under Export Refinance Schemes:
 - Rs 605.3 billion under EFS
 - Rs 132.3 billion under IERS
- Rs 11.7 million received charged as penalty from 25 participating banks on account of violation of EFS/IERS instructions.
- Rs 41.6 billion disbursed under LTFF.

3.3.1 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 FY18, Refinance Scheme Units (RSUs) disbursed a total amount of Rs 737.7 billion under the Export Refinance Schemes of SBP, out of which Rs 605.4 billion were disbursed under EFS and Rs 132.3 billion under IERS. Of the total amount disbursed, Rs 30.2 billion were disbursed to SME exporters.

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 FY18, onsite verification teams completed compliance verification of 12,532 loans, with total refinance of Rs 559.6 billion that was disbursed to 25 banks in FY17.

As a result of various violations of instructions of the Scheme observed during onsite verification visits, SBP BSC Field Offices imposed a total penalty of Rs 11.7 million on banks. Penalty against violations pertaining to Part-I category of EFS/IERS accounted for 50.1% (Rs 5.8 million) of the total amount, while the remaining 49.9% (Rs 5.8 million) was against Part-II category. The total amount of penalty charged in FY17 has decreased by Rs 5.8 million, or 33.5%, as compared to Rs 17.5 million during FY16, 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 FY18, Rs 41.6 billion were disbursed through banks under LTFF.

3.4 Financial Inclusion

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 encourage banks to grant 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 Schemes

DFSD 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. During FY18, 7,395 loans for a financing amount of Rs 6,934.0 million were processed for up to 60% guarantee issued to 18 Participating Financial Institutions (PFIs), including commercial banks and microfinance banks under CGS-SRE; 26,404 loans for a financing amount of Rs 1,654.3 million were processed for issuance of 50% guarantees to seven PFIs (commercial & microfinance banks) under CGSMF. In addition, 30% guarantee has been issued against the financing amount of Rs 10 million under Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh. So far, CGS claims of Rs 44.2 million have been reimbursed to concerned PFIs against recoveries of Rs 15.9 million since inception of the Scheme in 2010. Highlights of CGS are presented in **Box 3.3**.

Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 70,332 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 844 million
- 7,395 loans for a financing amount of Rs 6,934.0 million were issued guarantees to 18 Participating Financial Institutions (PFIs) directed towards 60 sectors under CGS for Small and Rural Enterprises.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- CGS claims of Rs 44.2 million have been reimbursed to concerned PFIs against recoveries of Rs 15.9 million since inception of the Scheme
- Guarantees were issued to seven PFIs under CGSMF for 26,404 loans with a total financing amount of Rs 1,654.3 million.
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 10 billion approximately were managed by DFSD.

The review of CGS-SRE shows that loans were granted to mainly 60 different sectors to borrowers from 92 districts of Pakistan. Fresh borrowers constituted 84.7% of the total borrowers while farmers, Small Enterprises and Microenterprises constitute 39%, 11% and 50% of the total loans sanctioned respectively. Rural versus Urban sanctioned loans remained at 32.7% and 67.3% respectively. Since inception of CGS, 35,659 guarantees were issued against lending of Rs 28.0 billion to 19 PFIs.

3.4.2 Prime Minister's Youth Business Loan Program

DFSD is also entrusted with the responsibility to process claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by the Government of Pakistan (GoP) in the light of instructions from SBP. During FY18, eleven banks submitted their subsidy claims under PMYBL. About 70,332 PMYBL related transactions have been processed for subsidy amounting to Rs 844 million for onward submission to Finance Division, GoP.

3.4.3 Fund Management

DFSD manages funds of around Rs 10 billion under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/reinvested in T-bills only in consultation with Domestic Markets and Monetary Management Department (DMMD) of SBP. One hundred and ninety-five investments on account of these funds have been undertaken in FY18.

3.4.4 SME Finance Awareness Sessions

To augment DFG's objectives set in 'Policy for Promotion of SME-Financing-2020', SBP BSC is playing a vital role through dissemination of the Policy among financially excluded SMEs across Pakistan in general, with more emphasis on smaller cities and towns. Before kick starting this activity, three Training-of-Trainers (ToT) sessions were arranged for SBP BSC officials. A standard presentation was also shared for delivery during these sessions along with post session assessment questionnaires. A booklet containing all relevant and up to date information regarding definition of SMEs, scope, eligibility criteria and terms of financing on all SBP schemes for SMEs Sector has also been prepared and will be distributed among stakeholders in future programs. A target of 150 programs per year has been set until December-2020. So far, 89 programs have been held in 50 cities across Pakistan and over 5,221 stakeholders, including representatives from Small & Medium Enterprises attended these programs during 1HCY2018.

3.5 Developmental Initiatives

1. A comprehensive review of operational practices under the Export Finance Scheme was undertaken during FY18 to identify redundancies and operational gaps in EFS operations in SBP BSC Field Offices. Appropriate recommendations / corrective actions to address those gaps have been proposed.
2. To have a more focused approach towards Islamic SME Financing, Islamic-SME Focus Groups at SBP BSC, Lahore and SBP BSC, Peshawar have been established during FY18.
3. DFSD developed a Business Process Manual for the Department. In addition to ensuring that routine tasks are carried out in a clearly defined and optimum manner, the Manual also serves as a useful succession planning guide.
4. Provided detailed feedback to DFG on "Policy for Promotion of SME Finance" and "Housing Finance Policy", based on international best practices.
5. Prepared a concept paper on SME Finance Demand Survey, shared it with Infrastructure Housing and SME Finance Department (IH&SMEFD) of SBP and is being launched through funding from World Bank.
6. Prepared a comprehensive progress report on SME/ Agri. Awareness Sessions and shared it with DFG.
7. Developed an information portal for SME/ Agri. awareness drive.
8. Being front-end Department for implementation of SME schemes/programs, DFSD's feedback was sought on 14 major DFG initiatives/ schemes during FY18, which resulted in significant improvement in these initiatives/schemes.
9. Prepared detailed Impact Assessment Report on Micro Credit Guarantee Facility (MCGF) following its discontinuation in 2017. The Report took a multifaceted approach to look at the outcomes of the facility by analyzing the performance of Microfinance Providers (MFPs) and documenting feedback of key stakeholders. The Report is an attempt to provide valuable insights to the users and policy makers as well as serve as an important tool for formulation of similar programs in future.

3.6 Future Outlook

1. DFSD will be performing its role in augmenting SBP's efforts to achieve National Financial Inclusion Strategy (NFIS) targets.
2. In view of the enhanced awareness creation mandate of the Department, especially with regard to Agriculture and SME, DFSD will focus on ensuring implementation of various schemes/ initiatives of DFG.
3. As per the automation requirements of the Department, DFSD, in coordination with Information Technology Department (ITD) and Information Systems Department (ISD) SBP, is developing informative dashboards/ online portals that will capture data in real time for existing projects. Automation of these processes will significantly improve process efficiencies and reduce manual workload of DFSD and SBP BSC Field Offices.
4. Further expansion of NFLP is planned over the next four years in order to reach the target of reaching one million people for imparting financial literacy.
5. DFSD will be focusing on implementation of refinance schemes in order to plug the operational gaps identified, and endeavor for timely issuance of guarantees.
6. Efforts will be made to utilize the trainers identified for NFLP and SME awareness sessions as optimally as possible in different capacities.