

Country Paper - Pakistan

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Significance of Financial Inclusion

Access to a well-functioning financial system empowers individuals, in particular poor people, allowing them to better integrate into the economy, actively contribute to improving their livelihoods and protect themselves against economic shocks. In addition, financial services provide budding entrepreneurs with the opportunity to create jobs for others in the community to earn livelihoods as well. Therefore, creation and expansion of financial services targeted towards poor and low-income populations, has become a key policy priority for Pakistan to promote inclusive economic growth.

The United Nations newly adopted Sustainable Development Goals (SDGs) framework also recognizes the importance of promoting financial inclusion as a key enabler for attaining the SDGs. There are more than 2 billion people worldwide who lack access to basic financial services, like savings accounts, loans or insurance products. Globally, 25 countries have been identified as priority countries including Pakistan. Pakistan accounts for 5.2% of the world's unbanked population.

State Bank of Pakistan (SBP) being the apex policy & regulatory body has been striving to promote access to formal financial services for achieving policy inclusiveness which is a prerequisite for wider distribution of the economic growth across all regions and segments of the population. In pursuit of this objective, SBP has been driving 'Financial Inclusion' as a strategic goal through a three pronged approach, which covers agile & innovative regulations, development of market information & infrastructure and capacity building of providers & clients.

Pakistan developed and launched its National Financial Inclusion Strategy (NFIS) in May 2015. The goal of the NFIS is to enhance formal financial access to 50 percent of the adult population by 2020. The NFIS lays out the vision, framework, action plan, and target outcomes for financial inclusion. Financial inclusion is a strategic goal for SBP and the country has recently made great strides to prioritize improvement of access to finance. This paper presents Pakistan's progress on financial inclusion and shares its future plans towards achieving universal financial inclusion in the country.

PAKISTAN- Overview of Inclusive Finance Landscape

Pakistan is host to over 191 million people living in geographically diverse areas where the majority (60 %) of the population resides in fundamentally financially underserved rural regions. Endowed with critical strategic potential, Pakistan is a pivotal south Asian economy with a vast market of diverse resources and economic potential.

Since the early 1990's, Pakistan's financial sector has undergone considerable reforms that have significantly strengthened its soundness, profitability, efficiency and diversity. Prior to reforms, the financial sector had been dominated by a handful of nationalized banks that suffered from poor performance and asset quality. As of December 2015, the sector is comprised of 35 commercial banks; 11 regulated Microfinance Banks (MFBs); 39 Microfinance Institutions (MFIs); 46 Nonbank Finance Companies (NBFCs); 50 insurance companies of which, 40 non-life insurers, 9 life insurers and 1 non-life reinsurer; and 3 stock exchanges which have been recently unified in Pakistan Stock Exchange. Banks and MFBs are also involved in branchless banking in partnership with mobile network operators (MNOs).

Financial inclusion is a core component of SBP's financial sector development strategy. It envisages transforming the financial market into an equitable system with efficient market-based financial services to the otherwise excluded poor and marginalized population including women and young people.



GENERAL COUNTRY INFO

Size	796,095 Sq. km.
Capital	Islamabad
Currency rate	\$1US = PKR105
Population (FY-2015)	191.7 million inhabitants
Literacy rate (FY-15)	58 %
Population growth rate	1.49% (Globally ranked 6 th by population)
GDP growth FY15	4.4 %
GDP (FY-2015)	US\$ 270 Billion
GDP Per Capita (FY-2015)	US\$ 1,457
Size of Economy	41 st largest in the world in terms of GDP (at current prices)

SBP's Approach towards Financial Inclusion

Financial Inclusion plays a pivotal role in promoting inclusive economic growth through enhancing livelihoods and enterprise activities. Given its significance, SBP is striving to create an inclusive financial system that offers access to basic financial services for all in the country. In pursuit of this objective, SBP has been driving 'Financial Inclusion' as a strategic goal through a three pronged approach, which includes:

- Creating an enabling legal & regulatory framework based on proportionality between competing objectives of Inclusion, Stability, Integrity and Protection, allowing innovative alternatives for promotion of financial inclusion through microfinance and branchless banking, agri finance, Islamic banking etc,
- Implementing policy initiatives to enhance credit, market information and infrastructure to promote financial inclusion on sustainable basis, and
- Building partnerships and alliances for capacity building and advocacy of financial inclusion agenda.

To improve financial inclusion in the country, several landmark initiatives have been launched, including:

- ✓ Creation of a regulatory framework for Microfinance Banks (2001);
- ✓ Expansion and modernization of online credit information bureau (e-CIB, 2005);
- ✓ Issuance of branch licensing policy mandating banks to open 20% of branches in rural areas (2005);
- ✓ Establishment of the Pakistan Interbank Settlement System (PRISM) (2008), the development of inter-operable inter-bank card payments platforms;
- ✓ Adoption of Branchless Banking Regulations (2008, amended in 2011);
- ✓ Establishment of a specialized Microfinance Credit Information Bureau (MF-CIB, 2011);
- ✓ Launch of a nationwide Financial Literacy Program (2012);
- ✓ Development of Inclusion, Stability, Integrity, and Protection (I-SIP) methodology in policy making (2014);
- ✓ Review of Regulatory Framework for MFBs in June, 2014 to promote sustainable growth of microfinance in the country.
- ✓ Enhancement of Biometric Infrastructure to aid real-time account opening.
- ✓ Payment Systems Interoperability of MFS platform with Core Banking Accounts through financial switch (1-Link) enabling ATM, POS and Interbank funds transfer facilities through m-wallets;
- ✓ Adoption of National Financial Inclusion Strategy (NFIS) setting a vision and action plan for universal financial inclusion (2015);
- ✓ GoP accepts membership of the UN's "Better than Cash Alliance" (2015);
- ✓ Introducing ASAAN (Easy) Accounts to facilitate low income segments (2015); and
- ✓ A number of credit enhancements facilities aimed at encouraging financing to the underserved sectors including the Microfinance Credit Guarantee Scheme (MCGF) and the Credit Guarantee Scheme for Small and Rural Enterprises.

Financial Inclusion Outcome

SBP's efforts for promotion of financial inclusion have been yielding significant results. The Access to Finance Survey (A2FS) 2015, which is a nationally representative demand side survey, indicates that access to formal financial services has increased from 12% in 2008 to 23% in 2015 and adult population with a bank account has increased from 11% in 2008 to 16% in 2015. Particularly, women's access to financial services has expanded considerably, as 11% now have access to a bank account, compared with merely 4% in 2008.

Access Strand in Pakistan		
Percentage of Adult population that has:	A2FS 2015	A2FS 2008
A. Bank accounts	16%	11%
B. Other formal	7%	1%
Formally Served (A+B)	23%	12%
C. Informally Served	24%	32%
Financially Served (A+B+C)	47%	44%
Financially Excluded	53%	56%

Today, Pakistan is considered as one of the fastest growing markets for branchless banking due its innovative policy approach which has helped catalyze business model and technological innovations to build banking channels for low income households. Pakistan's efforts have been recognized internationally. International development agencies and media have now been highlighting Pakistan for its market and institutional environment for branchless banking. In 2011 and 2012, Pakistan's microfinance regulations were ranked best in the world by the Global Microscope report, and recently Pakistan was ranked number 5 amongst 55 countries in the Global Index on Financial Inclusion. It is encouraging to note that these countries were drawn from five diverse regions namely; Eastern Europe & Central Asia, Middle East & North Africa, Latin America & the Caribbean, Sub-Saharan Africa, and East & South Asia, and represent a good mix of emerging, middle and low income economies.

Access to Finance by Region

	Global Index Database 2014 (World Bank)						Pakistan 2015 Access to Finance Survey (A2FS)
	World	Developing economies	OECD countries	South Asia	Middle- East	Pakistan	
Percent of adult account users	62%	54%	94%	46%	14%	13%	16%
Percent of adult women using accounts	58%	50%	94%	37%	9%	5%	11%

Despite these sustained efforts, the level of financial inclusion remains very low. Just 16% of Pakistani adults have access to a bank account, well below both the South Asian average of 46% and the average for all developing countries of 54%. While SBP has been very proactive in promoting an inclusive financial sector, many of the issues that need to be addressed fall outside of its regulatory mandate.

National Financial Inclusion Strategy 2020

In line with the country's requirements and global trends, Pakistan has recently developed a broader National Financial Inclusion Strategy (NFIS) in collaboration with the World Bank which was formally launched in May 2015. The strategy now provides the basis for coherent and sequential reforms needed to address both demand and supply side issues to help tackle financial exclusion in an integrated and sustained manner by 2020. Championed by the Honorable Finance Minister, with shared ownership from the SBP, the Securities and Exchange Commission of Pakistan (SECP), and other relevant stakeholders, NFIS's objectives are fully consistent with the Government of Pakistan's Vision 2025, which calls for enhancing access to credit for SMEs and focusing on financial inclusion and deepening. Successful implementation will require the commitment and active engagement of key stakeholders from both the public and private sectors.

NFIS sets the vision that, “**Individuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness**”. NFIS covers priority areas such as Branchless Banking (BB), Digital Payment Systems, Agri. & MSME Finance, Housing Finance, Islamic Finance, Consumer Protection, Financial Literacy, Insurance Pensions etc. The strategy comes at a particularly opportune moment as new technology and the rapid expansion of branchless banking offer unprecedented opportunities to transform financial inclusion in Pakistan.

The implementation of NFIS will be focusing on the following key reinforcing actions:

- Promote Digital Transaction Accounts (DTAs) and reach scale through bulk payments
- Expand and diversify access points
- Improve capacity of financial service providers, and
- Increase levels of financial awareness.

NFIS Coordination Structure

To implement the strategy, NFIS coordination structure has been set up with participation from both, the public and private sectors' stakeholders and it envisages the following governance bodies:

- **NFIS Council** is the primary platform for achieving Pakistan's financial inclusion objectives and vision. The Council is functioning as the guiding body for governance and coordination and also oversees the implementation of NFIS and is chaired by Honorable Finance Minister
- **NFIS Steering Committee** has the overall responsibility of implementing the NFIS. This will be functioning under the guidance of the NFIS Council and with support from various technical committees to drive the agenda of financial inclusion. The Steering Committee is chaired by Governor - SBP and with the participation of senior technical level representatives from public and private institutions
- **Technical Committees:** 7 Technical Committees have been formed to develop detailed implementation plans, resolve technical issues and propose solutions to the Steering Committee.

In addition, a fully functional **NFIS Secretariat** is housed at SBP to facilitate NFIS coordination, implementation and monitoring of the targets.

Progress since adoption of NFIS

All levels of the NFIS coordination mechanisms have become fully operational. NFIS Council has met twice to review the progress on NFIS. The recent NFIS initiatives taken by SBP are:

- Issuance of Guidelines on Low Risk Accounts namely “Asaan Account” with simplified due diligence to expand the outreach of banking services to underserved segments of the society through conventional and innovative channels
- Establishment of Centers of Excellence in Islamic Finance Education to ensure adequate supply of trained human resource to the industry
- Launch of Credit Guarantee Scheme for Small and Marginalized Farmers (CGSMF) with the funding support of Govt of Pakistan to share the losses with banks against their collateral free financing to small and marginalized farmers.
- Development of Mark-up Free Financing Scheme for Solar Tube-Wells.
- Installation of biometric infrastructure to aid real-time account opening at discounted price structure.

NFIS Steering Committee has constituted various Technical Committees in NFIS focus areas, as follow:

- Digital Financial Services & Payment Systems
- Microfinance, Agricultural finance, & Housing finance
- SME finance
- Islamic finance
- Financial Literacy and Consumer Protection
- Insurance, and
- Pensions

These Technical Committees will propose detailed implementation work plans, including assignment of responsibilities, timelines, milestones, and resource requirements to the Steering Committee.

Headline Progress in Development Finance Sectors

State Bank of Pakistan has developed diverse and thorough sector specific strategies to implement policies and special initiatives to advance financial inclusion. In addition to strategic policy support, SBP is managing a number of programs funded by GoP and other donors including DFID, ADB, etc. to promote financial inclusion in Pakistan. These programs are playing a pivotal role in the development of financial markets to serve the unbanked low income segments, especially the poor and women through sustainable models.

Sector-specific progress over the last 5 years in areas of SME, Microfinance, Agricultural Finance, Islamic Finance and Housing Finance is summarized below:

Progress on Financial Inclusion Indicators						
Area	Indicators of Access to Credit	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15
Microfinance	Gross Loan Portfolio (PKR billion)	28	34	47	61	81
	No. of borrowers (in thousands)	2,030	2,232	2,635	3,144	3,507
SME Finance	Outstanding SME Finance (PKR billion)	271	258	234	253	261
	No. of SME Borrowers (in thousands)	157	149	144	134	158
Agricultural Finance	Agricultural credit disbursement (PKR billion)	263	294	336	391	516
	No. of Agri borrowers (in thousands)	1,445	1,960	1,990	2,151	2,185
Islamic Finance	Total Assets (PKR billion)	560	711	903	1,089	1,495
	Deposits (PKR billion)	452	603	771	932	1,281
Housing Finance	Outstanding Housing Finance (PKR billion)	62	57	52	53	59
	No. of borrowers (in thousands)	95,553	87,059	79,478	74,894	70,498

A. Microfinance

Policy support: To promote access to financial services for livelihood activities and microenterprise development, the Government of Pakistan and SBP created a separate legal and regulatory framework for microfinance. The Microfinance Institutions Ordinance 2001 and prudential regulations for microfinance banks (MFBs) specifically deal with incorporation, regulation and supervision of MFBs in Pakistan. These regulations have been strengthened over time to facilitate savings mobilization, increase minimum capital requirements for institutional strengthening, and promote transparency & consumer protection. The Microfinance sector has continued its positive long-term growth as a result of greater private investment, supportive policy environment, vibrant market infrastructure, increased use of innovative technologies, and improved operational performance.

Key special initiatives: In addition to the policy support, SBP has been implementing a number of special initiatives to improve microfinance environment and fundamentals. Some key initiatives are as follows:

- **Microfinance Credit Guarantee Facility (MCGF)** - a credit enhancement facility to attract long-term, market based funding for microfinance institutions, which has mobilized more than Rs.18 billion from commercial bank and capital markets/ retail investors for onward lending to more than 700,000 micro borrowers.
- **Institutional Strengthening Fund (ISF)** - a capacity building grant facility for microfinance banks and institutions. The ISF grants were provided to enhance institutional and human resource capacity, develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives. The Fund Committee has approved grants for 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector.
- **Grass-root level Training Program for Credit/Loan Officers of Microfinance Banks/ Microfinance Institutions (MFIs):** The program aims to provide capacity building support to the industry. The training programs aim to develop understanding within the industry through mutual sharing of knowledge and ideas besides setting stage for much-needed capacity building of microfinance industry in Pakistan. The first phase of Grass Root Level Microfinance Training Program was completed by conducting 40 training programs at different locations across the country in which around 1,000 loan and field officers were targeted.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP has been supporting establishment of Nationwide Microfinance-exclusive electronic Credit Information Bureau (MF-CIB) that will help microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and loan defaults. The MF-CIB is being established with the objective to electronically store all past and present credit transactions of all microfinance borrowers, to minimize the instances of over-indebtedness, bring financial discipline in microfinance sector and to improve the loan portfolio quality of (MFPs).

Sector's Performance: Over the last 5 years, through the appropriate policy support and strategic initiatives, the Microfinance Sector has continuously flourished. The Table below shows key indicators of the Microfinance Industry (as of end June 2015 with amounts in Rs 000's) to showcase the 5 year progress in the sector.

Financial Indicators	2011	2012	2013	2014	2015
Borrowers (in thousands)	713,563	767,904	902,175	1,095,960	1,296,204
Gross Loan Portfolio (PKR million)	13,524	17,293	25,367	33,479	45,582
Deposits (PKR million)	11,167	16,609	28,605	36,923	52,016
Depositors (in thousands)	1,149,835	1,561,335	2,311,627	4,331,079	11,598,523
Equity (PKR million)	6,393	8,202	12,014	13,452	16,705
Assets (PKR million)	26,497	34,622	51,673	62,419	82,838
Borrowings (PKR million)	7,762	8,498	7,469	7,936	8,948

B. Branchless Banking

Policy Support: Pakistan witnessed successful emergence of various branchless banking (BB) models through the promulgation of the Branchless Banking Regulations in 2008. In the year 2009, SBP licensed the first BB model namely 'EasyPaisa' by Tameer MFB and now there are nine branchless banking providers operating in the country. The market is still growing and new banks are keen to become part of this innovative banking either through partnerships with telcos or through establishing their own BB model. SBP in partnership with UKAid has also facilitated the early adoption of Branchless Banking in Pakistan by supporting a number of technology-driven innovative projects as well as knowledge sharing events to showcase the opportunities to the market. SBP issues a Branchless Banking Newsletter on quarterly basis which includes facts & figures related to branchless banking and a detailed analysis of the ongoing trends and growth patterns. Further, institutionalizing the industry dialogue, SBP set up a Branchless Banking Consultative Group to tackle the developmental challenges of branchless banking market. In addition to promote easy account opening, lower biometric verification costs have been negotiated with the National Database and Registration Authority (NADRA). Financial services providers are also being pushed to mobile wallet-level interoperability agreements for which the regulatory space already exists.

Key initiatives:

Some key initiatives to enhance access and usage of branchless banking services are as follows:

- **Financial Innovation Challenge Fund (FICF)**, was launched by SBP in May 2011 under FIP with the aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The fund holds specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. The **1st Challenge Round of FICF** was held on promoting "Financially Inclusive Government to Person (G2P) Payments" through branchless banking models. Under this round, FICF supported Punjab Pension Fund, Employees Old-age Benefits Institution, UBL, and NADRA for a number of pilots for adoption of innovative approaches and solutions to deliver affordable and convenient financially inclusive G2P payments. The projects funded under the 1st Round facilitated the provision of financially inclusive G2P payments including, salaries, pensions and welfare payments to around 2.0 million beneficiaries. .
- Government of Pakistan has become a **member of the Better than Cash Alliance** global initiative. The contribution of branchless banking is significant when it comes to the channelizing Government-to-Person payments. Currently, the G2P payments to millions of beneficiaries of Benazir Income Support Program, Internally Displaced Persons of Waziristan, Watan Card and Bait-ul-maal are being instantly channelized through branchless banking deployments. The Government is keen to gradually transform the remaining space of government payments/receipts through branchless banking models. Going forward, digitizing payments for pensions, salaries, and tax will provide a great impetus to digitizing the overall payment landscape in Pakistan.

Performance: In line with the impressive growth in microfinance banking, the coverage of the branchless banking network is also expanding significantly with persistent double-digit growth and presence across most of the country's districts. With presence of nine players, the BB industry has been adding vast, easy-to-access alternative distributional channels in the sector. The table below provides a snapshot of how the branchless banking industry has progressed over the last 5 years.

Indicators	June 2012	June 2013	June 2014	June 2015	Jul-Dec* 2015
Number of Agents	29,525	93,862	168,615	251,865	301,823
Number of Accounts (in thousands)	1,447	2,643	4,238	10,881	15,322
Deposits as of date (PKR million)	753	2,391	6,219	8,553	8,827
Number of transactions during the year (in thousands)	90,102	153,102	245,740	310,668	202,544
Value of transactions during the year (PKR million)	338,516	635,913	1,063,149	1,608,051	1,011,907
Average Size of Transaction (in PKR)	3,746	4,178	4,323	5,176	4,996
Average number of transaction per day (in thousands)	250	425	683	851	1,130

*Data for six months

C. Agricultural Finance

Policy support: SBP has taken numerous initiatives in collaboration with stakeholders to address market bottlenecks that restrict access to financial services in the rural areas. Some of these programs include a) Credit Guarantee Scheme for Small & Marginalized Farmers, b) Crop & livestock insurance Scheme for borrowers, c) Warehouse Receipt financing, d) Guidelines on Value Chain Contract Farmer Financing to encourage banks to extend credit to small and marginalized farmers (e) Capacity Building and farmers' awareness programs, etc.

Key Initiatives:

- **Credit Guarantee Scheme for small farmers-** Giving due importance to small farmers, SBP has launched the credit guarantee scheme for small farmers. The scheme was announced in June 2014 by Government of Pakistan in its budget 2014-2015. Under the scheme, the government has been providing a 50 percent credit guarantee cover to the commercial and microfinance banks for extending agriculture financing up to Rs. 100,000. The scheme aims to provide an estimated 300,000 loans to small farmers with a loan portfolio of Rs. 30 billion. The scheme being is implemented through Participating Financial Institutions (PFIs). Farmers with land holding up to five acre in canal-fed and 10 acres in rain-fed areas are eligible to apply and the objective of the scheme is to encourage Participating Financial Institutions (PFIs) to lend to small farmers without collateral to meet their working capital requirements.
- **The 2nd FICF Round** was held in March 2014 to promote innovative rural and agricultural financial services. Under this round, 10 projects have been supported to test innovations on various cross cutting themes like Agriculture Value Chain Financing, Warehouse Receipt Financing against agricultural commodities, use of third party service providers by the banks' agri staff, green agricultural financing, Islamic microfinance, use of ICT solutions for agricultural finance and price information ,etc. Most of the projects have successfully been completed and based on their learnings, these innovations are being replicated on a larger scale.

- **Livestock Loan Insurance Scheme for Borrowers:** Livestock Loan Insurance Scheme for Borrowers (LLIS) was launched on November 1, 2013 which covered all livestock loans up to Rs.5.000 million for purchase of animals where borrowers are covered against death of animals due to disease/natural, death due to flood, heavy rains, wind storm and accidental death
- **Crop Loan Insurance Scheme:** To mitigate the risk of losses of farming community due to natural calamities, mandatory Crop Loan Insurance Scheme (CLIS) was launched in 2008 for five major crops viz. wheat, rice, sugarcane, cotton and maize.

Performance: SBP has been continuously promoting access of formal financial services in the rural and remote areas by adopting multiple strategies. To ensure sufficient flow of financial resources to agriculture sector, SBP sets indicative targets for annual credit disbursement. As per the table below, agricultural disbursements have been exceeding the allocated targets.

Institutions	FY14		FY15	
	(PKR billion)			
	Target	Actual	Target	Actual
Five Big Commercial Banks	188.0	195.5	252.5	262.9
Specialized Banks				
ZTBL	69.5	77.9	90.0	95.8
PPCBL	10.0	8.8	11.5	10.5
Domestic Private Banks	90.4	84.8	115.5	108.7
Microfinance Banks	21.6	22.8	28.2	33.0
Islamic Banks	0.5	1.5	2.3	5.0
Total	380.0	391.3	500.0	515.9

D. SME Finance

Policy support: State Bank of Pakistan has been endeavoring for the improvement of development finance in the country with special focus towards SMEs. An increased flow of finance in SME sector coupled with enhanced credit exposure is a driving theme for the regulators to achieve the targeted inclusive growth. SBP has taken numerous initiatives in collaboration with stakeholders to address supply side issues in the SME sector, with a particular focus to catalyze “small” businesses through an enabling policy environment and government facilitated schemes.

Key Initiatives:

- **Credit Guarantee Scheme (CGS)** - for Small and Rural Enterprise Guarantee Scheme aims to enhance credit to small and rural enterprises through commercial banks. Under CGS, the participating banks have sanctioned loans of Rs 6,328 million and facilitated more than 16000 SME borrowers.
- **Prime Minister Youth Business Loans Scheme** - Prime Minister Youth Business Loans (PMYBL) Scheme was launched by the Prime Minister on December 7, 2013 for promoting youth entrepreneurship in the country.
- **Mark up Subsidy and Guarantee Facility for the Rice Husking Mills** - The objective of the Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh is to help the sponsors of rice husking mills of Sindh to undertake projects increasing efficiency of their mills. Under this Scheme, SBP and Sindh Enterprise Development Fund (SEDF) provide mark up subsidy of 6.25% and credit risk sharing facility of up-to 30% against the long term loans extended to rice husking mills of Sindh.

Progress:

- The number of borrowers showed an increase of 15 percent from June, 2014 to June, 2015.
- SME outstanding finance was showing a declining trend up to 2013; however, after launch of revised prudential regulations in May, 2013, coupled with other initiatives for SME Finance promotion and development by SBP, SME outstanding financing has picked up pace and has been increasing year on year basis especially in absolute terms. SME financing increased by 3.19 percent from June, 2014 to June, 2015.

E. Islamic Finance

Policy support: SBP is continuously refining and improving the regulatory framework to meet the evolving industry dynamics. Recent measures taken by the central bank include (i) the downward revision of paid up capital requirement for Islamic banking subsidiaries from Rs 10 billion to Rs 6 billion to encourage investors (ii) the conclusion of the very first Shariah Compliant Open Market Operation for Islamic banking industry to provide level playing field for liquidity management (iii) issuance of Shariah Governance Framework for strengthening of Shariah compliance on part of Islamic banking institutions and (iv) the Strategic Plan for Islamic Banking Industry (2014-18). The plan focuses on initiatives necessary for improving public perception of Islamic banking and promoting it as a distinct and viable system to address the financial services need of the public and improve access of financial services for those which are unbanked due to faith sensitivity.

Initiatives:

- **The 3rd FICF Round** was launched on 9th January 2015 to establish Islamic finance education and research infrastructure in partnership with leading higher education institutions in Pakistan to serve the Islamic finance industry in meeting its growing human resource and knowledge requirements through quality and value added services and knowledge products. Under the round, SBP partnered with three top-tiered higher education institutions namely Lahore University of Management Sciences (LUMS), Institute of Business Administration (IBA) Karachi and Institute of Management Sciences (IMS) Peshawar to establish Centers of Excellence in Islamic Finance (CEIF). These centers have become fully operational and started activities in terms of imparting program based education, conducting research and establishing linkages with local & international Islamic finance stakeholders for creating conducive knowledge & research environment in their Centres.

Progress:

- Islamic banking industry in Pakistan has grown significantly since its re-launch in 2001. The industry now accounts for nearly 10 percent of the country's banking system. Presently 22 Islamic Banking Institutions (IBIs) (5 full-fledged Islamic banks and 17 conventional banks having Islamic banking branches) are operating in the country with a network of over 1,400 branches. Islamic banking sector in Pakistan is likely to double its share in the banking system by 2020.

F. Consumer Empowerment and Protection

Policy support: Taking lead, State Bank of Pakistan has taken initiatives to empower the consumers. A dedicated Consumer Protection Department (CPD) is an initiative of the State Bank of Pakistan to promote culture of social responsibility in banks/Development Finance Institutions/Microfinance Banks for amicably resolving disputes, thereby protecting the rights of

the financial consumers. In addition, since Pakistan's majority population has low levels of financial literacy, SBP has taken initiatives for MFP's to be transparent in their pricing and uphold rights of the customers as well as to make the consumer more aware and empowered.

Initiatives:

- **Nationwide Financial Literacy Program (NFLP)** was launched in January 2012 to tackle the issue of gaps in financial literacy amongst the masses. The program delivered financial education on basic financial concepts such as budgeting, savings, investments, debt management, financial products, branchless banking and rights and obligations of consumers etc. to about 50,000 beneficiaries in various provinces, regions and districts with emphasis on low income strata. The program plans to scale up in 2015 to a national level to financially educate 1,000,000 low income people.
- **Launching of Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector:** SBP has also been supporting Pakistan Microfinance Network (PMN) to develop a holistic microfinance transparency and client protection intervention at the industry level. The key objectives of the initiatives were to monitor client protection measures in place at Microfinance service providers in accordance with globally accepted benchmarks as well as standardization of calculating and communicating product prices to clients.