

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
	World	Developing economies	High income OECD countries	South Asia	Middle-East	Pakistan	Access to Finance Survey (A2FS)
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.

预览已结束，完整报告链接和二维码如下：

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