

Ashraf Mahmood Wathra: Promoting innovative rural and agriculture finance in Pakistan

Welcome address by Mr Ashraf Mahmood Wathra, Acting Governor of the State Bank of Pakistan, at the launching ceremony of the Financial Innovation Challenge Fund 2nd Challenge Round on “Promoting Innovative Rural and Agriculture Finance in Pakistan”, Islamabad, 6 March 2014.

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Hon’ble Federal Minister for Finance, Revenue, Economic Affairs and Privatization,
Senator Muhammad Ishaq Dar,
His Excellency UK High Commissioner, Mr. Philip Barton,
Head of DFID Pakistan, Mr. Richard Montgomery,
Distinguished Guests, Speakers, Colleagues, Ladies and Gentlemen,

Assalamu alaikum and very good morning!

I would like to express my gratitude to all the distinguished guests: the Chief Guest, Honorable Finance Minister Senator Ishaq Dar, representatives from the diplomatic community, development partners and agencies, government officials, agriculture chambers, representative of all Banks, non-governmental organizations and agriculture sector stakeholders for joining us today.

It is my great pleasure to extend a very warm welcome to all of you to this auspicious ceremony held to commence the launch of 2nd challenge round of Financial Innovation Challenge Fund, aiming to promote financial innovation for development of rural and agriculture sectors in Pakistan.

Ladies and gentlemen!

To quote Thomas Edison *“There’s a way to do it better – find it”*

While defining innovation, this quotation clearly emphasizes on doing things in a unique and better way. Therefore, tackling poverty also demands fundamental rethinking and innovation. The alleviation of poverty is a universal goal, to ensure prosperity, we as a society need to focus on inclusive growth, which requires fundamental innovation in designing financial models aimed at the poor segment of the society.

Distinguished guests!

Improving financial access to alleviate poverty is a global challenge. More than 2 billion adults in the world do not have access to formal or semi-formal financial services. At the same time, one billion people with mobile phones do not have even a basic bank account. As the costs of information and communications technology have now shrunk, the time is ripe for using technology to address financial exclusion. Therefore, financial inclusion is one of the key pillars of the G- 20’s development agenda. The G20 leaders at their Korea Summit in 2010 included “innovation” as one of the key principles for promoting financial inclusion. While urging the developing countries to cultivate a broad based government commitment to financial inclusion to help alleviate poverty, the G20 Principles urge them to promote technological and institutional innovation as a means to expand financial system access and usage. Since financial exclusion is particularly pronounced in Pakistan, both the Government and the State Bank of Pakistan are addressing this challenge using innovative policy approaches and actions. There is a full commitment of the government to provide sustainable financial access to the under-served economic and geographic segments including youth, women, and SMEs. In this effort, the role of multilateral institutions and

bilateral donors particularly the UK's Department for International Development (DFID) has been critical.

Ladies and gentlemen!

In Pakistan rural population is above 60% and most people living in rural areas derive their income directly or indirectly from agriculture. It employs around 45 percent of our total labor force. If we were to develop any logical linkage between the economic development of Pakistan with any of the sectors, that sector would most probably be agriculture.

Agriculture plays a strategic role in ensuring food security, generating economic growth, reducing poverty & inequality. To combat poverty in rural sector, financial innovation needs to be targeted towards the productivity of the agriculture sector specifically to the productivity of "small farmers", improvement in farmer's education, and better availability of fertilizers, and agriculture equipments. Financial services outreach in the rural sector can play the most indispensable role in this regard.

Ladies and Gentlemen!

Promoting financial inclusion by developing agri credit market, rural SMEs and microfinance sector is one of the top priorities at SBP. Over the past few weeks, State Bank has taken some ground-breaking initiatives to uplift financing to the farmers and small and medium entrepreneurs:

- State Bank has revamped Prudential Banks for Agricultural Financing whereby banks have been advised to formulate all-inclusive agri. finance policies and set up dedicated agri divisions within banks. Under the revised PRs, the scope of agri. financing has been widened to include value chain financing and Islamic mode of financing.
- We have just revised the per acre Credit Limits for crops, orchards and forestry which were previously set in 2008. This was done to meet the enhanced credit requirements of farmers and also increase the agri credit portfolio of banks manifold. Farming community and banks have been overwhelmed by this initiative.
- We all know the significance of livestock that accounts for 55 percent of agri. GDP. However, the share of credit to livestock is disproportionately small due to high risk perception. Therefore, to address this issue, SBP has introduced a Livestock Insurance Scheme for borrowers to mitigate risk of loss of livestock due to disease, natural calamities & accidents.
- To ensure diversity of agri. financing institutions, SBP has included Microfinance Banks and Islamic Banks into the agri. Indicative Target scheme of SBP.
- The Agricultural Credit Advisory Committee (ACAC), which is the apex consultative forum for agri financing with representation from all the relevant federal & provincial departments, farming community, banks and experts, has been re-activated.
- The ACAC met on 17th February 2014 which supported my six-point agenda to boost agri financing. This includes:
 - Launching of the 2nd Round of Financial Innovation Challenge Fund (FICF) under the UKAID-sponsored Financial Inclusion Program, to promote innovative techniques in agri and rural financing (for which we have gathered today).
 - Further, the ACAC approved my proposal of upward revision in the agri credit disbursement target from Rs. 360 billion to Rs.380 billion for the current year, which is 13 percent higher than the actual disbursement of Rs.336 billion in last year.

- SBP is going to launch a country-wide Internship Program for 100 top graduates in agriculture to be funded under the ADB's Improving Access to Financial Services Endowment Fund.
 - Banks have been assigned targets for outstanding agriculture portfolio and number of borrowers to have high impact of financing at grass roots level from the current year.
 - SBP has made agricultural finance a key indicator of performance of banks which will be reflected in their supervisory ratings.
 - And, finally a working group of ACAC has been formed to review the state of affairs of small farmers financing and make recommendations for improving financial access to small farmers.
- Recognizing the economic significance of rural SMEs, State Bank has revised the Prudential Regulations for SME financing to put focus on 'S' part of SMEs. Further, following incentives for SME exporters have been introduced in the Export Finance Scheme (EFS).
 - Banks will allocate at least 10% of their EFS limits for SMEs.
 - For SMEs availing Export Finance under the Performance-based System, the mark-up rebate has been increased by 0.5 percentage point.
 - Further, to incentivize banks to provide more financing to SMEs their spread has been increased from 1% to 2% for SME borrowers WITHOUT changing prevailing end user rate for exporters.
 - SBP has also provided regulatory support in designing and launching of Prime Minister Youth Business Loans. SBP has issued instructions to the banks for participation in PM's Youth Business Loans and report financing under the scheme in their Annual Reports under CSR initiatives.
 - For successful implementation of the PM Scheme, SBP is closely monitoring the progress of participating banks. SBP has also conducted twelve (12) training workshops on the Program across Pakistan and AJK to sensitize banks for their active participation in the PM Scheme.

Ladies and Gentlemen!

Now, SBP under the flagship 'Financial Inclusion Program', funded by the UK Aid, is about to unveil the Financial Innovation Challenge Fund round on innovative rural and agricultural financial services. The successful implementation of this challenge round requires utmost commitment and support from everyone who is present here. Our Deputy Governor and my colleague Mr. Saeed Ahmad will share with you the objectives and modalities of this Fund and the SBP-managed FIP in more details.

I thank and welcome you all once again and hope that the stakeholders will join hands in getting behind this latest initiative to further enhance rural financial inclusion in Pakistan.

Thank you!