



# PAKISTAN BANKS' ASSOCIATION

## Monthly E-Newsletter

December 2024



### News In-FOCUS

## Transforming Pakistan's Financial Ecosystem: PBA, Finance Ministry, and SBP Discuss Actionable Steps

Monday, November 18, 2024

PBA, under its priority sector initiatives, is leading a range of strategic projects aimed at fostering a more inclusive and sustainable financial ecosystem in Pakistan. These initiatives were presented by PBA Chairman Zafar Masud during a high-level meeting convened by the Federal Minister for Finance and Revenue, Senator Muhammad Aurangzeb. The meeting was attended by Jameel Ahmad, Governor - State Bank of Pakistan (SBP), alongside senior representatives from participating organizations.

Zafar Masud outlined several initiatives developed in close consultation with the SBP to address critical challenges in key sectors, including agriculture, small and medium enterprises (SMEs), and digital and technology. The proposals included:

- Electronic Warehouse Receipt Financing: To enhance liquidity in the agricultural sector.
- Corporate Farming Financing: To modernize agricultural practices.
- SME Index Creation: To monitor and support the growth of SMEs in Pakistan.

In the digital and technology domain, the Chairman emphasized the importance of establishing a venture capital fund to drive fintech innovation, reviving agricultural cooperatives to boost rural financial inclusion, and developing a financial data exchange to enable data-driven financial solutions. These initiatives have the potential to significantly transform and strengthen Pakistan's financial landscape. The PBA also underscored the need to prioritize short-term, high-impact initiatives, including:

- Fan Financing: To promote energy efficiency.
- Electric Vehicle (EV) Financing: To support sustainable transportation.



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- Solarization of Tube Wells: To enhance agricultural productivity.
- Markup Subsidies and First-Loss Coverage: To encourage SME financing.

Governor SBP recognized the progress made on PBA's proposals and assured regulatory support for their effective implementation. He committed to issuing necessary notifications to facilitate these initiatives. The Finance Minister lauded the collaborative efforts of PBA and SBP and emphasized the urgency of finalizing high-impact projects by December, with a rollout planned for early next year.

The meeting concluded with a strong commitment from all stakeholders to mutual collaboration. Chairman PBA stated, "Building an ecosystem for priority sector initiatives to thrive and deliver results is a long-term process. It requires time, and the benefits will become evident only later, so we must remain patient and persistent in our efforts. This is the first time the banking industry has collectively undertaken such a significant initiative, and we will soon begin to see the outcomes of these efforts."

## **2. PBA Collaborates with InfraZamin Pakistan and SBP to Host Seminar Advocating Green Bonds for Sustainable Finance**

**Friday, November 08, 2024**



InfraZamin Pakistan, in partnership with the PBA, SBP and Private Infrastructure Development Group (PIDG), organized a seminar titled **"Enabling Green Financing and Green Bonds via Credit Enhancement Solutions."** The event convened senior leaders from the SBP, Ministry of Finance, and top executives, including CEOs and investment banking heads from major commercial banks, to explore the role of green financing—especially green bonds—in driving sustainable economic growth with private sector support.

Jameel Ahmad, Governor – SBP, highlighted the regulator's role in fostering climate resilience through direct and indirect measures. Under direct measures, SBP's renewable energy refinancing schemes disbursed Rs. 94.7 billion by June 2024, funding over 4,500 projects with a total energy capacity of 2,061 MW. Indirect measures include issuing 'Guidelines on Green Banking' to help regulated entities manage environmental risks as well as collaborating with the World Bank to develop a Green Taxonomy for standardising green and transitional activities.



The presentations shared by InfraZamin and PIDG speakers during the event underscored the importance of advancing green finance in Pakistan through structured frameworks and strategic initiatives.

Drawing on lessons from other emerging markets, the speakers explored ways to incentivise green financing, reduce associated costs, and derisk green projects to encourage private sector participation. The discussions also emphasized the need for capacity-building to support the growth of green finance and to navigate the ever-evolving landscape of sustainable investment.

Representing the sector's perspective on the initiative, Muneer Kamal, CEO and Secretary General - PBA, said, **"As a nation on the frontlines of climate vulnerability, Pakistan needs more than just incremental changes. Sustainable finance is not merely an option—it's a responsibility we, as an industry, must embrace. PBA stands committed to supporting green financing solutions and driving investments toward a low-carbon economy. Multistakeholder partnerships like these are critical for transforming the financial sector, ensuring a future where economic progress aligns seamlessly with environmental stewardship."**



### **3. Efficient Banking Sector Pivotal for Pakistan's Growth: PBA Partners with CERP & Alchemy Technologies**

**Wednesday, November 27, 2024**



Innovation, financial inclusion, SME lending and forward-thinking banking regulations are key to boosting the efficiency of Pakistan's banks, according to a new analysis by CERP and Alchemy Technologies, supported by the PBA.

At the launch of **Banking on our Banks: Aligning Growth with Development**, industry stakeholders highlighted the vital role of the banking sector in driving growth and development. While the sector has shown great improvements, it is important to move beyond measuring profitability and growth as the



only relevant performance indicators for evaluating the competitiveness of our banks.

The growing performance disparity with regional counterparts, overdependence on specific economic sectors, regulatory constraints, and limited incentives for people to use formal banking channels create an environment that hinders innovation, limiting the growth potential of Pakistan's banks.

Jameel Ahmad, Governor SBP during his keynote address, stated, **"Our banking sector is well positioned in terms of solvency, asset quality, and profitability to contribute to the economic growth and development of Pakistan by embracing technology and fostering innovation. While remaining focused on governance and risk management, we can enhance the capacity and resilience of our banking sector to serve all segments of the economy."**



During a Q&A session, highlighting the perspective of the banking industry, Zafar Masud - Chairman - PBA said, **"It is important to recognise that Pakistan's banks operate in a challenging environment, with 52% of the undocumented economy and many sectors actively avoiding the tax net. Despite these challenges, the banking sector continues to contribute generously to the national exchequer and fiscal deficit, with a willingness to do even more through income-based taxes than the taxes on balance sheet like the ADR. This level of commitment is rare, especially in emerging economies like ours, and deserves recognition and applause."**

Banks are incentivized to lend within well-trodden paths, prioritizing uncompetitive sectors like energy, agriculture, logistics and textiles while ignoring industries with long-term potential. Absence of competition discourages new product development and the ability to take bets on newer sectors. Cumbersome approval processes and predictable returns make innovation a losing bet not just at the regulator but also within banking boardrooms.

**"The truth is that changing rules doesn't change behaviour, incentives do. With the right data and solutions, we can build a unified banking ecosystem ready to fuel Pakistan's economic recovery,"** said Maroof A. Syed, President and CEO of CERP.

To foster sustained growth, participation in the formal economy has to be incentivized. In order for banks to help small businesses to thrive, regulatory frameworks have to reconsider tax strategies.



Banks, too, need to evolve their boards to be more diverse and supportive of new visions. All three sectors need each other to drive the reforms necessary to make Pakistan's economy competitive and complex enough to withstand global challenges.

The event also included panel discussions where the joint analysis was debated by Maheen Rahman,



CEO - InfraZamin Pakistan, Ahmed Khan Bozai, Vice Chairman, PBA & Citi Country Officer, Citibank N. A., Pakistan, Asif Ali Qureshi, CEO, UBL Funds and Mutaher Khan, Co-Founder, Data Darbar and a way forward was charted out by Shahid Mustafa, Co-Founder, Tameer Microfinance Bank & CEO, Pakistan Microfinance Investment Company (PMIC), Khursheed Kotwal Vice President, The Institute of Chartered Accountants of Pakistan and Atif Muhammad Ali, Chief Commercial Officer, Engro Fertilizers Ltd.

The event discussions highlighted regulatory challenges, the high costs associated with digitalization and the resulting overreliance on unprofitable sectors. However, with well-implemented and strategic reforms, these issues can be addressed, reducing frictional costs and enhancing banks' long-term competitiveness.

The event concluded with Mr. Muneer Kamal, CEO & Secretary General PBA, expressing his appreciation for CERP and Alchemy Technologies for spearheading this important dialogue. He also reaffirmed the sector's commitment to stimulating economic activity and emphasized that PBA's ongoing collaboration with the Ministry of Finance and the SBP on key development areas will eventually drive sustainable progress and promote long-term growth for Pakistan.



## Project Updates

November 2024

### 1. Priority Sector Initiatives

#### i) Application process for SME financing:

Under the directives of the Prime Minister's Committee on SME Development, and in collaboration with the SBP and Small and Medium Enterprises Development Authority (SMEDA), the PBA developed a streamlined single application process for SME financing. This initiative is designed to simplify the traditionally cumbersome loan application process, making it more accessible for the average customer. The effort aligns with the goals of the Sub-Committee on Access to Finance, which is focused on bridging the financing gap, promoting financial inclusion, and enhancing the collateral regime to support SME access to finance. Through these measures, PBA is contributing to the growth and development of SMEs, fostering a more inclusive and supportive financial ecosystem.

#### ii) Raast Person-to-Merchant (P2M) Payment Acceptance Service Deadline Announced:

As per recommendation of PBA Digital & Technology Task Force, The SBP issued PSP&OD Circular Letter No. 01 of 2024, dated 29-Nov-24 directing all regulated entities (REs), including banks, MFBs, EMIs, PSOs, and PSPs, to ensure that existing account holders providing in-store and online shopping services are enabled for Raast P2M digital payment acceptance by March 31, 2025.

Additionally, all new-to-bank merchants must be onboarded with Raast P2M services as part of their onboarding process. REs may provide these services directly or through partnerships with regulated EMIs/PSOs/PSPs. Monthly progress reports are to be submitted to SBP starting January 5, 2025. Non-compliance may result in penalties under the Payment Systems & Electronic Fund Transfer Act 2007.



## 2. Electronic Know Your Customer (eKYC)

Out of the nine banks that volunteered for the first wave of implementation, eight have successfully completed System Integration Testing (SIT), signed off on User Acceptance Testing (UAT), and deployed their Production Environment. These banks are now prepared to demonstrate the push and pull of KYC information via the blockchain network. An independent vendor has conducted Vulnerability and Penetration Testing (VAPT) on the platform, and once the identified issues are resolved through a patch, these banks will go live on the platform. Meanwhile, PBA and its vendors are actively working with the remaining banks to initiate the second wave of the project rollout.

## 3. Pakistan Banking Summit:

Preparations are underway at the PBA for the Pakistan Banking Summit set for **February 24 and 25, 2025**, with further updates to be shared with members soon.



### Meetings Held

November 01 - November 30, 2024

<b>1. Executive Committee Meeting</b>	on 18/11/2024
<b>2. Sub-Committee Meetings</b>	
Accounting & Taxation	on 21/11/24 via Zoom
<b>3. Pakistan Banking Summit Steering Committee Meetings</b>	
Pakistan Banking Summit	02/11/24, 07/11/24, 08/11/24, 14/11/24, 21/11/24, 28/11/24
<b>4. Meetings of the Forums</b>	
Fraud Prevention	on 29/11/24 via Zoom
<b>5. Working Groups</b>	
eKYC Working Group	05/11/24, 28/11/24
Taxation Group Heads	05/11/24, 11/11/24
<b>6. Priority Sectors' Task Force Meetings</b>	
Task Force Meetings	04/11/24, 13/11/24,
<b>7. Other Meetings</b>	
1. Meeting with Ministry of Finance, SBP & PBA	on 18/11/24 via Zoom
2. Meetings with SBP	on 07/11/24, 25/11/24, 27/11/24, 29/11/24