

Finance for Growth Development Policy Credit (FGDPC)

The World Bank (WB) has a long-lasting and ongoing engagement working on the development of Pakistan's financial sector. The engagement is a combination of financial, advisory, knowledge, and convening services and is complemented by investments and private sector engagement by the International Finance Corporation (IFC).

The overall engagement is grounded in Pakistan's Country Partnership Strategy (2015-19) which identifies access to finance and business environment as critical for reducing poverty and achieving equitable growth. Pakistan is also among the 25 countries the World Bank Group and partners are prioritizing as part of the efforts to reach Universal Financial Access by 2020.

About 100 million adults in Pakistan don't have access to formal and regulated financial services. This number represents about 5% of the world's unbanked population, which stands at 2 billion. Pakistan, with support from the WB, launched its National Financial Inclusion Strategy (NFIS) to achieve its financial inclusion goals in May 2015. By 2020, the NFIS goal is to expand financial access to:

- 50% of adults (from 13-16% in 2015) and 25% of women (from 5-11% in 2015)¹
- 15% of private sector credit going to Small and Medium Enterprises (SMEs) (from 7% in 2015)

The FGDPC supports policy actions in three broad areas. Firstly, to enhance financial inclusion, launching a national Digital Transaction Accounts Scheme aims to facilitate expansion of accounts and financial products. Modernizing the Central Directorate of National Savings (CDNS) aims to support better utilization of existing access points in the country². Approving the Companies Bill allows for a better regulatory framework for SMEs to set up and grow and get access to credit. The Deposit Protection Act inspires confidence in deposit-taking financial institutions.

Secondly, to address gaps in intermediation of long-term finance, developing a national infrastructure finance policy creates a vision and framework to identify the funding challenge to meet Pakistan's growing infrastructure needs. Issuing Prudential Regulations for long-term finance streamlines the regulatory framework for the financial sector to tap various sources of financing to meet the funding challenge. Overall, availability of long-term finance is necessary for the government (e.g. for infrastructure), private sector (e.g. for productive investment), and individuals (e.g. for housing finance).

Thirdly, financial sector transparency is likely to be enhanced by the Benami Transactions Prohibition Bill, conducting a National Risk Assessment for Anti-Money Laundering and Combatting Financing of Terrorism (AML/CFT), assessing corporate governance of state-owned insurance corporations, and launching a registered prize bonds scheme, will all contribute towards enabling the financial sector to play an enhanced role in the economy.

The FGDPC is based on recently completed analytical groundwork such as the NFIS, Financial Sector Assessment Program (FSAP), Insurance Sector technical assistance, and National Payments Systems review. In addition, the operation is being complemented by the Financial Inclusion and Infrastructure Project, and ongoing analytical, advisory, and capacity building support being provided through the medium-term Financial Inclusion Support Framework Pakistan Country Support Program.

¹ Financial access data differs as measured by World Bank's Financial Inclusion Database - Findex (2015) and Pakistan's Access to Finance Survey (2015). However, both surveys indicate that the level of financial inclusion is low.

² CDNS operates over 370 branch offices and serves over 7 million saving account holders.