

# **Microfinance and Financial Inclusion in Pakistan**

**Address by the Chief Guest  
Mr. Riaz Riazuddin  
Deputy Governor, SBP**

**Pakistan Microfinance Review (PMR) 2014 Launch Event organized by the  
Pakistan Microfinance Network (PMN)**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Distinguished Guests, Ladies and Gentlemen!

Assalamo Alaikum and Good Afternoon!

1. It is my great pleasure to be here today in the launch Ceremony of Pakistan Microfinance Review-2014 and microfinance industry's risk map. I appreciate the PMN team for arranging today's session which will facilitate knowledge-sharing about microfinance industry and associated risks alongside their mitigants. The PMR has become an effective tool in annual assessment of the Microfinance Industry in Pakistan by highlighting the overall macroeconomic situation in the country and its impact on the industry, the financial performance of MFPs, and challenges and opportunities faced by them.
2. Let me take this opportunity and give you a brief overview of State Bank's and Government's endeavors for promotion of microfinance and financial inclusion in the country. These efforts have undoubtedly assisted in broadening of financial services access to the poor and un-bankable people.

## Ladies and Gentlemen!

3. Role of microfinance is pivotal for inclusive and sustainable economic growth, livelihood creation, and grass-root level development. Although microfinance sector emerged in Pakistan with a delay of more than two decades, the sector has recently grown tremendously, outpacing the early entrants in South Asia region. Pakistan has a well-recognized legal and regulatory framework for microfinance. Pakistan is being ranked among the top countries for Microfinance Regulations by the Economist Intelligence Unit (EIU) of the Economist Magazine.
4. Encouragingly, microfinance sector in Pakistan has a strong tradition of trust and cooperation among the stakeholders in Pakistan. Since inception of microfinance-banking in 2001, State Bank has been supporting the microfinance sector and implemented various strategic initiatives for the promotion of the sector. Through this consultative process, State Bank developed two national microfinance strategies (in 2007, and 2011) which provided road-map for the growth and development of the sector. To implement the road map, State Bank under its Financial Inclusion Program has brought significant improvements in market infrastructure for microfinance.
5. The impact of SBP reforms on market structure and performance is significant and quite visible.
  - Today, microfinance market is characterized by healthy competition, led entirely by strong private sector players, growth of inclusive financial services, and emergence of innovative business models. Presently, ten MFBs are operating in Pakistan. All these MFBs are privately owned and reflect diversity of ownership-and-approaches to

microfinance banking. The ownership in MFBs has flowed both from local and international investors including banks, development agencies, investment funds, mobile network operators, and large domestic MFIs.

- The weak institutions have been bought by experienced international investors and now they are emerging as strong players under the new ownership with strong capital footing. These MFBs have now better governance-mechanisms in place.
  - Innovation and partnerships are leading the sector in new dimensions such as branchless banking, micro-insurance, and enterprise lending.
  - Three leading MFIs of Pakistan have been transformed into MFBs; and these are now among the top-5 MFBs.
  - Pakistan is one of the few countries in the World which have a national microfinance credit information bureau.
  - Microfinance credit guarantee facility has provided MFBs and MFIs with the access to commercial funding sources such as banks and capital market.
6. We should be pleased on what we have achieved so far. But, microfinance sector has a long way to go. In few years from now, this sector can become the most important segment within our overall banking system to serve the largest number of borrowers. Besides lending, this sector holds the promise of providing deposits and remittance services to millions of customers particularly through branchless banking channels. The sector has already showed a remarkable growth during the past few years.
7. Now let me take you very quickly through State Bank's vision for financial inclusion. Our aim is to ensure access to financial services for all segments of the population, particularly poor & marginalized groups and micro & small enterprises through sound financial institutions working in an enabling policy environment. Hence, while microfinance will remain instrumental in achieving rapid financial inclusion, State Bank has focused on

strategies and programs to promote other important financial inclusion areas including rural and agricultural credit and SME finance.

### **Ladies and Gentlemen!**

8. SBP strongly believes in the potential of **branchless banking** to build retail capacity of financial institutions through agent network and reduce service delivery costs. This would also help in the digital transformation of our economy and reduce reliance on cash-based transactions. Since issuance of **branchless banking**-regulations in 2008, market has shown tremendous growth. Until now, eight players have launched the full-scale branchless banking operations, and few others are in pilot phase. These initiatives have developed the retail network of almost 204,000 agents spread all across the country. These channels are offering **various financial services** including account opening, money transfer, bills payments, and G2P payments. Just to give you an idea, during the Quarter Oct-Dec- 2014, around 72 million transactions worth Rs 372 billion were processed, with an average size of Rs 5,181. The achievements in the Branchless Banking services have put Pakistan at the global centre stage of Financial Inclusion and innovation.

### **Ladies and Gentlemen!**

9. As they say, there is lot of room for improvement in broadening the access of formal financial services to un-bankable segments of our population. Considering this and in line with our country's requirements and global trends, State Bank, in collaboration with the World Bank, has developed a broader **National Financial Inclusion Strategy (NFIS)** for Pakistan. The Strategy has been agreed to at the national level.

10. Globally, more than 50 countries have adopted financial inclusion strategies with explicit financial inclusion targets. Evidence suggests that having a NFIS is likely to double the pace of progress on financial inclusion targets besides a number of benefits such as:

- NFIS has provided a **national financial inclusion vision** along with a set of national targets to commit over the implementation period of the strategy to help realize universal financial inclusion;
- NFIS has been developed through a consultative process which has **identified factors, policies and market interventions** along with a time bound action plan with clear roles and responsibilities of each stakeholder for implementation. The action plan would help in guiding and monitoring progress on various financial inclusion initiatives; and
- The strategy has created a **national platform for all stakeholders** from both public and private sectors for consultation and implementation of the reforms and various initiatives for financial inclusion under the strategy.

11. Broadly, the **NFIS covers priority areas such as Branchless Banking, SME Finance and Infrastructure, Microfinance, Rural, and Agriculture Finance, Housing Finance, Islamic Finance, Digital Payment Systems, Consumer Protection and Financial Literacy, Insurance and Pensions**. Besides, the **Secured Transaction Law** will facilitate establishment of Registry Office in the country to register charge on assets, especially moveable assets of the borrowers.

**Ladies and Gentlemen!**

12. The strong foundations for a high-growth microfinance sector have been laid down in the country. Now an equally strong commitment from market players will lead our country to a

stage where all individuals will have ready access to financial opportunities for their improved socio-economic wellbeing.

13. At this juncture, let me highlight few potential risks and challenges that the microfinance sector will have to address for continued sustainability and stability of the sector. Going forward, imprudent lending by some microfinance players can worsen market discipline, and lead to higher credit risk for the entire sector. Also, natural calamities can create potential high credit risk. Lack of systems and controls especially the in the wake of growing deposits may pose operational risk. On the challenges side, serving the most under-served segments remains the biggest issue in Pakistan. MFBs will have to develop and offer cash-flow based lending and Shariah-based microfinance services. Also, consumer protection for millions of customers in the market will require both commitment and investments by the industry. Let's not forget that long term sustainability can only be achieved if financial services have positive impact on the lives of low income customers. Finally, those MFBS exploiting technology to advance financial inclusion will have to manage the associated risks.

### **Ladies and Gentlemen!**

Let me now relate the broader objectives of financial inclusion to a few verses from Surah number 90 of the Holy Quran. The title of the Surah is Al-Balad. Select verses from this Surah are as follows.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ  
﴿٧﴾ أَلَمْ نَجْعَلْ لَهُ عَيْنَيْنِ ﴿٨﴾ وَلِسَانًا وَشَفَتَيْنِ ﴿٩﴾ وَهَدَيْنَاهُ  
النَّجْدَيْنِ ﴿١٠﴾ فَلَا أَفْتَحَمَ الْعُقَبَةَ ﴿١١﴾ وَمَا أَدْرَاكَ مَا الْعُقَبَةُ ﴿١٢﴾  
فَكُ رَقَبَةٌ ﴿١٣﴾ أَوْ إِطْعَمٌ فِي يَوْمٍ ذِي مَسْغَبَةٍ ﴿١٤﴾ يَتِيمًا ذَا  
مَقْرَبَةٍ ﴿١٥﴾ أَوْ مِسْكِينًا ذَا مَتْرَبَةٍ

صَدَقَ اللَّهُ الْعَلِيُّ الْعَظِيمُ

Translation of these verses is as follows:

Did we not bestow upon him two eyes, and a tongue and two lips, and guided him to the two ways (of good and evil)? But he has not attempted the steep ascent. And what will convey to you what the steep ascent is? It is to free one who is in bondage, and to give food on the day of hunger, to an orphan near of kin, or the needy man in desperate straits.

### Ladies and Gentlemen!

Let us pray that we continue to attempt to climb the steep ascent referred to in above Surah and which is our objective of microfinance and financial inclusion. And let us remember that we need Ishq, ilm, and amal to climb this steep ascent. You may already know that the three values of Ishq, Ilm, and Amal, or passion, knowledge and action are the three emblems of Pakistan Poverty Alleviation Fund.

14. Finally, I would like to reiterate that State Bank will continue to extend its full cooperation and play due role for the development of the microfinance sector in Pakistan. We will work with the industry and other stakeholders to ensure further strengthening of the industry structures and transparency in financial transactions and exposures.

Thank you!

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