

## **6th Pakistan MICROFINANCE Country Forum 2012**

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### **Inaugural Address by Mr. Kazi Abdul Muktadir, Deputy Governor SBP**

Mr. Menin Rodrigues, [President, Shamrock Communication (Pvt) Limited]

Mr. Nadeem Hussain, [CEO, Tameer Microfinance Bank ]

Distinguished Guests,

Ladies and Gentlemen – Assalam o Alaikum and a Very Good Morning!

1. I am indeed delighted to be at the **6th Pakistan Microfinance Conference**. At the onset, I would like to congratulate *Shamrock Conferences international* for organizing this important conference and providing a platform to the stakeholders of microfinance industry to interact and find new ways to accelerate outreach of the banking sector to larger population especially the unbanked segments. I believe that today's event will greatly help to shape the future of microfinance industry in the country.
2. According to a recent ADB report<sup>1</sup>, about 2.7 billion people or 70% of the adult population in developing countries have no access to formal financial services such as savings or checking accounts. The working poor who live below \$2 a day comprise more than 60% of the total labor force in emerging markets. As a large segment of the population, they are critical for socio-economic development of their countries. In my view, financial inclusion must be a key when designing an agenda for broader economic growth of the developing countries.
3. Pakistan has a population of almost 180 million with around 130<sup>2</sup> million adults and a labor force of 59 million<sup>3</sup>. On the contrary, there are only 32 million

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<sup>1</sup> ADB – Special Evaluation Study September 2012, 'Microfinance Development Strategy 2000: Sector Performance and Client Welfare'

<sup>2</sup> Economic Survey 2011-12, [Table 12.9](#) (129.84 million)

depositors and around 5.7 million borrowers (banks/DFIs have 3.4 M, and MFB/MFIs have 2.3 M borrowers as of June, 2012). Population per branch stands at as high as 16,607 people indicating limited retail capacity of financial sector. As per demand-side estimates, the incidence of financial exclusion is estimated around 86-88% of the total adult population who remain unattended by formal financial institutions.

4. Cognizant of high financial exclusion in the country, SBP has been fully committed to transforming the existing banking system into an equitable system that offers efficient market-based financial services especially for marginalized population including women and young people. Therefore, 'financial inclusion' has progressively assumed greater priority in SBP's financial sector development strategy.
5. In the year 2000, SBP initiated a process of mainstreaming microfinance into the overall financial system. A pioneer microfinance bank namely Khushhali Bank was established in 2000, and a separate microfinance law was promulgated in 2001. Thereafter, SBP put in place a separate regulatory framework for microfinance banks. I think it is important to mention that SBP has been following a consultative and collaborative approach towards development of regulation for the microfinance sector since inception. Specifically, we pursued an approach which ensured proportionality in regulations for a sector in its evolution. The regulations focused on institutional viability, broadening access, financial integrity, and pro-consumer practices. Since 2001, the regulations for MFBs have gone through significant improvements from time to time on the basis of feedback of key stakeholders and assessment of the evolving needs and conditions of the sector. Owing to this approach, the State Bank of Pakistan has gained international recognition for its regulatory role in microfinance and branchless banking. The world-renowned newspapers and journals, Financial Times and The Economists, as well as the World Bank have recognized SBP for

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<sup>3</sup> Economic Survey 2011-12, [Table 12.9](#) (59.33 million)

its innovative approaches in expanding the access to financial services for the unbanked and underserved population of the country.

6. As the sector evolved, so did the capacity of SBP in the supervision of microfinance banks. In the year 2005-06, SBP developed manuals and systems for supervision of MFBs. This enabled SBP inspection teams to conduct extensive offsite exercises for loan portfolio and transaction testing. Besides reviewing credit/operational manuals and assessing operational and financial performance of loan portfolio, the teams also used customized questionnaires to interview borrowers for ascertaining the effectiveness of lending methodology onsite. The SBP's supervisory methodology also offers a specialized rating system based on such key indicators and ratios which effectively capture risk and performance of MFBs.
7. In pursuit of sector development, SBP moved beyond its traditional role, and took necessary measures to modernize the market infrastructure and improve risk management framework for microfinance industry. In 2007, SBP formulated the national Microfinance Strategy that envisaged initiatives to commercialize microfinance by promoting competition, innovations in product development and delivery on the basis of sustainable models. These initiatives not only channelized domestic capital for the sector but also attracted international players to venture into this area in Pakistan.
8. Globally, Pakistan is amongst the few countries that have national strategies which not only identifies drivers and challenges to growth but also provides an implementation plan drawn along side with industry stakeholders to monitor progress against the identified targets. In 2011, a new microfinance strategic framework was released, based on the progress made under the preceding national strategy (2007-10). The framework was aimed to address new challenges faced by sector. The framework provides a medium term plan for attaining growth up to 2015. Specifically, it recommended measures to channelize funding, use of mobile phone technology for alternative delivery

channels, establishment of national credit information bureau for the microfinance sector, strengthening corporate governance and improving institutional capacities. It is heartening that considerable progress has been made on most of these initiatives.

9. I should also mention that for SBP working simultaneously on several strategic initiatives would have not been possible without the assistance of key stakeholders especially donors. While in the earlier phase of the sector, the donors supported the small-scale and subsidy-driven projects. However, as the market evolved, the donors' role became more dynamic and constructive. On its part, SBP also convinced different donors to support only market-based initiatives. Here, I would like to acknowledge the role of donors and our international partners who have supported us in playing a leadership and strategic role in developing this sector on sustainable footing. In particular, SBP partnered with the UK Department for International Development (DFID) with whom to launch a GBP 50 million "Financial Inclusion Program" (FIP) in 2008 to accelerate efforts for addressing financial exclusion through a variety of supply-side funds and interventions. FIP focuses on market-based, sustainable financial services for low income people and small enterprises and to move away from a donor dependent model. In addition, FIP aims to enhance delivery of financial services through technology based branchless banking solutions, financial innovation, and remittances. I would also like to mention the Asian Development Bank for its role in providing support from the beginning, and their continued partnership with us.
  
10. Under various programs sponsored by these donors over the years, a number of market interventions have been managed by SBP. In particular, substantial investments have been made for establishing and expanding microfinance-specific Credit Information Bureau, launching nation-wide Financial Literacy Program, carrying out various market surveys & studies and channeling wholesale commercial funding for MFBs through credit enhancement schemes

for lending to new borrowers. As of this day following program interventions are underway:

- Financial literacy is the basis to improve the consumer confidence which will lead to inclusion and ultimately towards financial stability. Financial literacy complements regulatory efforts towards protecting the rights of the customers. Accordingly, a dedicated fund namely “The Improving Access to Financial Services Fund (IAFSF)” was launched in December 2008 to build capacity of MFPs and their clientele. Under the IAFSF, a Nationwide Financial Literacy Program (NFLP) was launched earlier this year in collaboration with private sector implementing partner. NFLP has now concluded successfully targeted about 50,000 beneficiaries in various provinces, regions and districts with emphasis on low income strata and its effectiveness is currently being evaluated. The program was the first ever initiative of its kind to promote financial literacy among the general public with focus on poor, women and the under privileged segments at the national level. The contents and key messages of the program were publicized through TV and radio channels, street theatres, print media and mobile network operators besides field training. The program intended to create awareness about basic financial concepts such as budgeting, savings, investments, debt management, financial products and branchless banking. On favorable assessment (results and recommendation), the program will be scaled up to the national level in its next phase.
- The Institutional Strengthening Fund (ISF) a UK £10million grant facility to strengthen institutional & human resource capacity of MFB/Is. The ISF has thus far approved Rs. 632 million for 13 microfinance providers including top and middle tier MFBs and MFIs. Under the arrangements, the ISF will support 20 projects for investment in HR, IT, product development, Risk management systems, business plans and branchless banking development. Also, under ISF, the Pakistan Microfinance Network (PMN)

was provided funding support to conduct research and develop the industry's infrastructure such as the testing of pilot microfinance Credit Information Bureau (CIB) in Lahore and its expansion CIB to the national level.

- The Microfinance Credit Guarantee Facility (MCGF) a £10 million guarantee facility was launched to mobilize wholesale funding on a commercial basis for microfinance providers by offering partial guarantees to banks. The facility has been instrumental in mainstreaming microfinance providers and resolving some of their funding constraints. The facility has so far mobilized commercial funding of Rs.6,325/- million for four microfinance providers for onward lending to around 200,000 new micro borrowers. Going forward, the facility will aim to raise commercial debt from non bank sources, diversifying sources of commercial capital for microfinance providers.
- Another initiative is the Financial Innovation Challenge Fund (FICF) which is also a £10million grant facility to provide grants to foster innovation and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the larger demand for financial services. The first round of the Fund which was held to promote the "Government to Person (G2P) Payments" has now been successfully completed by deciding to award Rs. 505 Million to six projects being undertaken by the applicant institutions. The 2nd FICF Round would be held on *rural financial services* including agricultural finance and broad based financial services projects using telecommunication infrastructure to promote micro payment for people who are not part of financial services.

Ladies and gentlemen, we believe that these efforts have helped to keep the growth trajectory of microfinance as positive despite the fact that many challenges arose along the way.

11. As a result of developments that I have just outlined, ten MFBs are now operating in Pakistan. These MFBs have recently gone through new round of capital injection with an aim to strengthen their capital base. All these MFBs are privately owned and reflect diversity of ownership and approaches to microfinance banking. Considering that the market has potential and the regulatory framework is supportive, three largest mobile network operators (MNOs) have majority stakes in MFBs; and the ownership in MFBs has flowed in both from local and international investors including banks, development agencies, investment funds, mobile network operators, and large domestic MFIs. In addition, two globally largest MFIs i.e. ASA and BRAC are also operating successfully in Pakistan since 2008. It is encouraging that the investors' enthusiasm in microfinance has been on the rise especially in last couple of years, and one of the major drivers for investors is the opportunity to enter the branchless banking space.

12. In 2008, the State Bank issued Branchless Banking Regulations after extensive deliberations with stakeholder. With the commercial launch of branchless banking by Waseela MFB and Askari bank in the last month, now four branchless banking providers are operating with full range of services. With regard to the success of branchless banking, let me highlight that the brick and mortar retail network of the entire financial industry stands at around 11,000 outlets after 65 years whereas within a short span of 2½ (two and a half) years' branchless banking retails agents' network has grown beyond 30,000 agents. At these agent outlets, customers can deposit, withdraw or transfer funds besides making utility bills' payment. With almost 1.8 million mobile banking accounts branchless banking customers conducted more than 28.4 million transactions worth of Rs. 115.3 billion during the quarter ending June 2012. The number and value of transactions per quarter are growing rapidly. The average size of transaction is Rs 4,065 which shows that the technology is helping 'financial access' of the unbanked. To foster further market development, State Bank of Pakistan (SBP) has established a Consultative Group on Branchless Banking. The Group draws members from key stakeholders such as Pakistan Telecommunication Authority,

NADRA, commercial and microfinance banks, mobile network operators and Technology Solution Providers. In addition, SBP has issued a quarterly “Branchless Banking Newsletter” starting from September 2011 to disseminate various developments taking place in area of branchless banking.

13. Mobile phone banking has emerged as new market niche for both banks and Mobile Network Operators. Entry of new players in branchless banking market proves its acceptance as a viable business proposition. It is our firm belief that existing growing agent network will fast expand to reach to all rural and remote geographic locations across the country. The State Bank envisions branchless banking as a great opportunity for safe, faster and efficient provision of financial services to the un-served segments of the society.

#### **Towards Conclusion .....**

Ladies and gentlemen

14. Despite the early successes in microfinance and branchless banking, the fact remains that financial exclusion is still very high. Currently, microcredit is reaching only 2.3 million borrowers which is less than 10% of a target market that is estimated to be around 30 million. This high level of financial exclusion offers enormous opportunities to the microfinance operators in the country to benefit from a favorable market environment, and grow fast while becoming an important participant within the overall financial sector that would serve the millions of underserved and unbanked people. In particular, MFBs should emphasize on savings mobilization and cost reduction by developing new strategies & infrastructure such as branchless banking. Moreover, lending operations must be extended to different economic and geographic segments. I would like to assure that the regulatory environment and market interventions would continue to support all these developments.

In the end, I hope that speakers and participants in this Conference will deliberate on these issues, and develop some important recommendations to facilitate both the industry and regulator. Thank you!