

First High-Level Follow-up Dialogue on Financing for Development in Asia and the Pacific

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Distinguished delegates and participants, let me first thank UN ESCAP and Ministry of Foreign Affairs, Republic of Korea for inviting State Bank of Pakistan to participate in this important Dialogue on Financing for Development.

SBP has been driving 'Financial Inclusion' as a strategic goal through a three-pronged approach, which includes:

No.1 Creating an enabling legal & regulatory framework based on proportionality between competing objectives of Inclusion, Stability, Integrity and Protection.

No.2 Implementing incentive schemes and initiatives to enhance credit, market information and infrastructure to promote financial inclusion on sustainable basis, and

No. 3 Building partnerships and alliances for capacity building and advocacy of financial inclusion agenda.

This three-pronged approach has allowed the market to develop innovative alternatives for promotion of financial inclusion through microfinance, branchless banking, agri finance and Islamic banking. I would like to emphasize that financial inclusion requires out of box thinking. It is important to enable innovations and new business models to meet the unmet demand for financial services through need based products and services which are not only convenient but affordable for the unbanked people. As a result of these initiatives, Pakistan has witnessed substantial growth in financial inclusion. For example in case of Microfinance Sector.

Number of borrowers has reached 1.42 million from 0.7 million in 2011.

Deposits of microfinance banks rose to Rs. 63.10 billion from Rs.11 billion.

Number of micro depositors has reached to 10.52 million from 1 million.

Pakistan is considered as one of the fastest growing markets for branchless banking due to its innovative policy approach which has helped catalyze business models and technological innovations to build banking channels for low income households.

- **Number of BB Agents** has reached over **three-hundred thousand** from nil in 2008. These access points are now an integral part of financial sector foot print and are located in every nook and corner of Pakistan.
- **Number of branchless banking Accounts** have crossed **15 million** reflecting a very healthy pickup among the people.
- **Average size of BB transaction** is just under 50 US Dollars reflecting the fact that these services are being used by the low income people.

Pakistan's efforts, particularly in microfinance and branchless banking, have been recognized internationally. In 2011 and 2012, Pakistan's microfinance regulations were ranked best in the world by the Global Microscope report, and recently Pakistan was ranked number 5 amongst 55 countries in the Global Index on Financial Inclusion.

The three-pronged SBP approach has also provided facilities and incentives for formal financial institutions to enhance financial services to households and firms that have no access to such services. Some of these facilities are as follows:

- **Microfinance Credit Guarantee Facility (MCGF)** is a credit enhancement facility, which incentivizes commercial banks to provide wholesale funds to microfinance banks and institutions for on-lending to poor and marginalized groups.

This facility has mobilized more than 18 billion Rs. from commercial banks, capital markets, and retail investors and provided access to credit to 700 thousand new micro borrowers. The facility has helped provide the missing link between micro borrowers and formal financial institutions.

- **Institutional Strengthening Fund (ISF)** is a smart grant based capacity-building facility for microfinance banks and institutions. The ISF grants were provided for 26 projects supporting 15 microfinance providers representing more than 60 percent of the microfinance sector.

The ISF support has been transformational; it has helped graduation of NGO Microfinance institutions (MFIs) to Microfinance Banks (MFBs) and has put the industry on a more sound footing. In addition, ISF has helped a number of institutions to be sustainable and efficient in financial service delivery such as the Tameer Bank in launching Easy Paisa Branchless Banking product.

- **Financial Innovation Challenge Fund (FICF)**, is a smart grant based facility, which aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the demand for financial services. The fund has been holding specialized challenge rounds to foster financial inclusion through innovations that market proposes to undertake to alter the scope and reach of financial services. So far 17 projects involving an amount of around Rs. 600 million have been funded in the areas of Financially inclusive G2P Payments, Innovative Rural + Agricultural Financial Services and creation of Centre of Excellence in Islamic Finance.

SBP's efforts for promotion of financial inclusion have been yielding results. The Access to Finance Survey (A2FS) 2015, which is a nationally representative demand side survey, indicates that access to formal financial services has increased to 23% in 2015 compared to 12% in 2008.

Despite these sustained efforts, the level of financial inclusion remains very low. Just 16% of Pakistani adults have access to a bank account, well below both the South Asian average of 46% and the average for all developing countries of 54%.

Recognizing the gaps leading to persistent financial exclusion Government of Pakistan has launched a comprehensive National Financial Inclusion Strategy (NFIS) in May 2015 which lays sound foundations and goals for financial inclusion for the next 5 years with the staunch commitment of all stakeholders as well as a dedicated implementation and monitoring structure, to ensure we reach our goals as a country.

- A key goal is to increase the percentage of adults with access to a bank account from 16% to 50% by 2020; on the road to achieve a long term vision of universal financial access.
- The second objective of the strategy is to improve usage of financial services for which we have proposed a diverse product ecosystem with increased SME lending.

- Thirdly, we plan to enhance capacity and incentives for need based product offering and increased consumer awareness and literacy to allow consumers to understand their financial needs and solutions effectively while knowing that SBP is maintaining sound oversight.

State Bank of Pakistan serves as the secretariat for NFIS implementation and we hope to reach a destination by 2020 where everyone can reap equitable rewards of an inclusive financial system.

Thank you