

11th March, 2004

**State Bank issues Guidelines for Transformation
of NGOs-MFIs into MFBs**

The State Bank of Pakistan today issued guidelines to Auditors for reviewing credit portfolio of Non-Governmental Organisations (NGOs) - Micro Finance Institutions (MFIs) which are interested in transforming themselves into Micro Finance Banks (MFBs).

The objective of issuing these guidelines is to ensure a reliable assessment of the portfolio quality based on pre-defined parameters. The guidelines, however, prescribe the minimum requirements/parameters to be completed during the review process, the auditors may apply additional procedures and tests to reach at a reliable assessment of the portfolio quality and adjustments required, if any.

It may be pointed out that the peculiar nature of MFIs credit portfolios e.g. small tickets but large volumes, large number of small disbursements and recoveries, dispersion over wide geographic areas, non collateralized nature and practical difficulties in legal enforceability of claims on borrowers, necessitates a different approach and methodology and test procedures to review the portfolios.

It may be recalled that the legal framework for MFIs was enacted in October 2001 with the objective to allow private sector entry into banking with the poor. The framework provides for and encourages NGOs-MFIs, which have demonstrated ability to manage the MFIs on sustainable basis and have capacity to mobilize local savings and expand outreach, to transform into regulated Microfinance Banks. The MFIs licensing policy and criteria prescribed by the Central Bank under legal framework allows NGOs to contribute up to 50% of required capital in the form of credit, investments and other assets portfolio (free of losses) subject to review by a Chartered Accountancy firm from amongst the panel of auditors maintained by State Bank of Pakistan.

The detailed guidelines to Auditors for reviewing credit portfolio of NGOs-MFIs interested in transformation into MFBs are on our website: <http://www.sbp.org.pk>
