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State Bank allows MFBs to lend Micro- enterprises up to Rs. 500,000/

The State Bank of Pakistan (SBP) has decided to allow Microfinance Banks (MFBs) to lend to microenterprises any amount upto Rs. 500,000. This decision of SBP will help in addressing the credit needs of a large microenterprise market which has traditionally remained unbanked, and will also provide an opportunity to microfinance banks to upscale their credit operations. Earlier, MFBs were allowed to lend up to Rs. 150,000/- for general purpose loans to individuals.

With a view to improving access to finance for microenterprises the State Bank has amended Prudential Regulations 10 & 11 for Microfinance Banks (MFBs) pertaining to “Maximum Loan Size, and Disclosure of Basic Terms & Conditions of Financial Products”, and “Maximum Exposure of a borrower from MFBs / MFIs / other Financial Institutions/ NGOs”.

For the purpose of the above mentioned regulations, the term ‘microenterprise’ shall mean projects or businesses in trading/manufacturing/services/agriculture sectors that lead to livelihood improvement and income generation. Moreover, these projects/businesses are undertaken by micro-entrepreneurs who are either self-employed or employ few individuals not exceeding 10 (excluding seasonal labor).

The aggregate exposure of a borrower who is eligible to avail both general and micro-enterprise loans shall not exceed Rs. 500,000/-. Further, MFBs shall restrict their exposure under microenterprise lending at maximum 40% of their gross loan portfolio ensuring a fair share of lending to each economic segment of the target market.

MFBs shall apply to Director-AC&MFD for seeking approval of SBP before undertaking ‘microenterprise’ lending. SBP shall grant approval based on satisfactory assessment of the Capital position and readiness level of the applicant MFB, says AC&MFD Circular No. 02 of March 16, 2012.

MFBs shall henceforth also obtain CIB reports for all types of credit facilities on mandatory basis, the circular said and added that MFBs shall ensure meticulous compliance of the above instructions and non-compliance shall be dealt with in accordance with the provisions of the Microfinance Institutions Ordinance, 2001.
