

27th June, 2006

STATE BANK ISSUES GUIDELINES FOR COMMERCIAL BANKS TO UNDERTAKE MICROFINANCE BUSINESS

The State Bank of Pakistan today issued guidelines for commercial banks to undertake microfinance business. This will serve the dual purpose of deepening and broadening of financial access in the country alongwith providing an additional avenue for banks to undertake socially responsible and commercially viable business proposition.

These guidelines envisaged four modes through which commercial banks can enter into microfinance services which include, i) establishment of microfinance counters in the existing branches, ii) designating standalone microfinance branches, either through conversion of existing branches or opening of new microfinance branches, iii) establishing independent microfinance subsidiary with independent and professional board and management under Microfinance Institutions Ordinance 2001 and iv) developing linkages with Microfinance Banks (MFBs) licenced by SBP and non-government organizations – microfinance institutions (NGOs-MFIs) that are not licenced by SBP to extend wholesale funds for onward lending.

The microfinance operations of the commercial banks to be conducted under modes (i), (ii) & (iv), as envisaged in the guidelines shall be subject to a separate set of Prudential Regulations issued under the powers vested in Banking Companies Ordinance 1962. However, the microfinance operations through independent subsidiary with independent and professional board under mode (iii) would be governed by Microfinance Institutions Ordinance 2001 and Prudential Regulations for Micro Finance Banks.

It may be pointed out that realizing the growing acceptability of microfinance as an effective tool for poverty alleviation and a viable business proposition, the State Bank of Pakistan had already formulated a regulatory framework for establishing Micro Finance Banks. Although there are also a number of other NGO-MFIs in the unregulated sector, that provide micro credit facilities to the poor but the combined outreach of MFBs and NGOs-MFIs is around half a million loan clients, that is less than 10% of the potential market of 6.5 to 7.0 million poor households.

To tap this huge un-served market, the State Bank has issued the above guidelines for commercial banks having huge branch network across the country and stable sources of funds to undertake the microfinance business.

For detailed Guidelines and Prudential Regulations, please visit our website: www.sbp.org.pk.