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SBP Governor Salim Raza highlights role of Microfinance institutions in poverty alleviation

Syed Salim Raza, Governor State Bank of Pakistan has said that microfinance banks/institutions have a key role to play in creating economic opportunities for the poorest sections of the society by broadening their outreach.

Delivering a keynote address on “Economic Empowerment for the Base of the Pyramid” at the Acumen Community Gathering held at a local hotel in Karachi today, Mr. Raza said that the regulatory role develops infrastructure of service delivery, cross fertilizes from researching and encouraging use of successful global practices, and guides the provision of rules and oversight that would enable Microfinance Institutions (MFIs) build sources of public funding and deposits. “In developing economies, the symbiosis between the regulators and the operators will be a critical underpinning for this vital function to pull its weight as a major solution to poverty,” he added.

Referring to SBP role in supporting the development of microfinance in the country, he said the State Bank is facilitating setting up a microfinance-exclusive credit information bureau to reduce risks associated with microfinance operations and their clients. SBP has encouraged mobile-banking by issuing branchless banking guidelines and funding a pilot to provide access to remote areas of Pakistan, he said and added that SBP is a pioneer in regulation in branchless banking in South Asia.

He said several initiatives have been taken by the State Bank to support low income financial development. These together form a strategy, which includes measures to address most common causes of banking exclusion; to facilitate and create an enabling environment for banks to address needs of underserved and un-banked segments through dedicated prudential regulations, and through guidelines for Microfinance, SME finance, Agricultural finance and other areas; and to provide alternative finance models such as Islamic Banking which can operate in parallel with conventional banking.

Mr. Raza said that MFI Ordinance 2001 has been instrumental in catalyzing growth, creating investor confidence and protecting depositors. State Bank has recently amended the Prudential Regulations for Microfinance Bank (MFBs) removing regulatory bottlenecks pointed out by the industry. He said now MFBs have an increased ceiling on lending limits and relaxed borrower criteria to allow for client graduation. MFBs can now extend micro loans of up to Rs 150,000/- for general purpose and Rs 500,000/- for housing-loan.

Similarly, he pointed out that NGOs are encouraged to restructure into licensed banks, so that they can operate transparently with an adequate capital base, while providing comfort

to depositors and borrowers. To encourage transformation of NGOs into MFBs, the Federal Government in June 2007 allowed a five-year income tax holiday to such institutions and now some large NGOs are in process of transformation into Banks.

SBP Governor also talked about central bank's partnership with the UK department for International Development for a Financial Inclusion Program, which promotes market development through well considered subsidies. A Microfinance Credit Guarantee Facility (MFCG), worth GBP 10 million has already been launched, he said and added that facility is aimed at increasing wholesale funds for MFBs and MFIs. Moreover, SBP has recently allowed the microfinance banks/institutions to raise foreign currency loans from international financial institutions and from other social and commercial investors, he added.

Mr. Raza stressed that developing strategic alliances is increasingly important for MFIs to partner with the wider private sector or public sector entities. As these arrangements capitalize on the comparative advantages of vastly different institutions, they can take many different forms, he said and added that in this context SBP encouraged partnership between the post office (PO) network and MF providers. Post offices already manage over 4 million savings accounts, mainly small accounts below Rs 10,000, through more than 12,000 branches, he added.

Mr. Raza pointed out that social entrepreneurs act as the agent of change for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur comes up with new solutions to social problems and then implements them on a large scale, he said and added it is through these new, innovative solutions that we will be able to achieve economic empowerment for low-income populations. He pointed out that one of the biggest obstacles to the growth of micro, small, and medium enterprises is lack of credit – making this available to the poor has the ability for large scale impact.
