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SBP devising new Microfinance Strategy with greater focus on inclusive financial services: Yaseen Anwar

Mr. Yaseen Anwar, Acting Governor, State Bank of Pakistan has said the central bank is working on a new Microfinance Strategy with a greater focus on 'inclusive financial services' that will enable the microfinance sector to cope with emerging challenges.

Speaking at the Swiss Agency for Development and Cooperation Partnership for Microfinance Experience Sharing Event held at a local hotel in Karachi today, he said the new strategy will emphasize upon the industry to strengthen its fundamentals by developing infrastructure required for sustainable and inclusive growth. "The new strategic framework is intended to help the sector get back on its growth trajectory while stressing on new initiatives in the areas of deposit mobilization, up-scaling loan sizes, developing partnerships, and encouraging successful provincial / regional Microfinance Banks (MFBS)," Mr. Anwar added.

Mr. Anwar disclosed that the State Bank is also working with stakeholders to develop a response to the recent floods. The State Bank has already started to conduct a survey of the financial institutions to determine the extent of losses, he said and added that based on the Financial Needs Assessment (FNA), SBP will devise measures to facilitate financial institutions to absorb the losses and jump start fresh financing for revival of economic activities in the affected areas.

He observed that the growth in microfinance sector that accelerated in 2007 and 2008 at an average rate of 43% per annum has remained stagnant for one and a half years as the industry lacks capacity to take benefit of the recent policy and support measures. Outlining the main factors behind this stagnation, he said the sector is faced with funding constraints due to lack of adequate deposit mobilization. Given the sector's dependence on wholesale credit lines, the rising interest rates created difficulties for MFBS/MFIs in terms of their access to commercial debt, he said and added that overall, the MFBS' mindset is still credit-driven.

He said the next two years are likely to be a crucial period for individual institutions and for the microfinance industry as a whole. "This scenario will allow strong institutions to stand out," he said and added that the critical success factors for organizations will be institutional dynamism, organizational structures, and managerial capacity.

Highlighting the vast untapped potential of the sector, SBP Acting Governor said that Pakistan is among the few countries in the world where microfinance activities have been gradually mainstreamed into the formal financial system. "The microfinance sector has come a long way from its humble beginnings which is reflected by the number of MFBS and overall outreach. However, given the fact that the sector caters to less than 10% of the potential

market, there is a need for better understanding of the underlying issues and a coherent policy response," he added.

He congratulated the Swiss Agency for Development and Cooperation (SDC) for successfully completing its partnership with State Bank of Pakistan and the leasing sector, and bringing the microfinance and leasing sectors together to share their experience of the partnership. "I believe the event has highlighted key lessons for the future which will go a long way in promoting sustainable financial services for the poor and marginalized segments in Pakistan," Mr. Anwar added.

Recounting the several initiatives taken recently by the State Bank for promoting the microfinance sector, he said SBP facilitated legal amendments offering 5-year income tax holiday and allowed home remittance business to MFBs. "Regulations were revised to allow this sector to raise funds through mechanisms such as subordinated debt and foreign currency loans; introduced policies to allow alternate delivery channels in the form of service centres, kiosks at 3rd party premises, Point of Sale (PoS), mobile phone, ATM etc ; flexibilities were created in loan limits, borrowers income eligibility, and loan provisioning criteria; one MFB was able to get access to an Interbank Payment System, others are also in the pipeline", SBP Acting Governor added.

Mr. Anwar said that a Microfinance Credit Guarantee Facility (MFCG), worth GBP 10 million is now in place. The facility is aimed at increasing wholesale funds for MFBs and MFIs. "Likewise, the Institutional Strengthening Fund (ISF) has been established to fund capacity development in MFBs and MFIs to undergo transformation by developing systems and controls, human resource quality, quality of services and service availability to potential clients. In addition, Improving Access to Financial Services Fund (IAFSF) aims to improve financial & basic literacy amongst microfinance current/potential clients," he added.

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