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SBP devising five-year strategic framework for development of microfinance sector in the country: Kamran Shehzad

Mr. Muhammad Kamran Shehzad, Deputy Governor State Bank of Pakistan has said that the central bank is formulating a five-year (2010-2015) strategic framework for the development of microfinance sector in the country. 'This framework will serve as a roadmap for growth of the sector after its approval by the Federal Government', he added.

He was addressing a seminar on Program for Increasing Sustainable Microfinance Accessing Capital Markets - Promoting Financial Inclusion organized jointly by Pakistan Poverty Alleviation Fund (PPAF) and International Fund for Agricultural Development (IFAD) at a local hotel in Karachi today.

Mr. Kamran said that the State Bank has adopted a holistic approach towards financial inclusion with several targeted policy measures and carefully designed interventions supplemented by donor support for promoting a dynamic and sustainable microfinance sector. "These measures are not only focused on policy, legal and regulatory framework for the microfinance industry, but also, strengthening the necessary infrastructure and supporting mechanisms to promote diversity and sustainability in the microfinance business," he added.

Referring to various initiatives taken by the State Bank, Mr. Kamran said that SBP has implemented a flexible prudential regulatory regime for Microfinance Banks (MFBs) which allows innovation and organic growth without abandoning prudential objectives. Industry wide minimum regulatory standards on similar lines are under consideration, he said and added NGOs have been encouraged to restructure themselves into legally established companies, preferably licensed by central bank, so that they can operate under effective and transparent ownership with adequate capital base.

He said that innovative business models based on technological solutions are being facilitated by SBP for bringing in cost efficiency, better risk management as well as enhancing outreach to poor clients on a sustainable basis in partnership with nonfinancial institutions. Similarly, microfinance institutions are encouraged to have alliances with commercial financial institutions in order to meet funding needs of the sector.

Mr. Kamran said that smart subsidies through donor based programs for providing infrastructure and capacity building support to the sector are being provided under the Financial Inclusion Program (FIP). Under the program, funds have been established which provide subsidies on matching grant basis. Institutional Strengthening Fund (ISF) is used to enhance capacity of MFBs and MFIs which are undergoing transformation to maximize potential for growth, achieve depth in outreach by improving human resource quality and enhancement of services and standards to potential clients.

He also informed the participants that a Financial Innovation Challenge Fund will soon be launched for encouraging product innovation to expand access to financial services towards the low income end of the market.

SBP Deputy Governor said that both SBP and PPAF are addressing the funding constrains of the sector by encouraging institutions to look for funding resources which are diversified, private, owned and domestic. SBP has issued guidelines to commercial banks for providing wholesale lending to the microfinance sector, he added.

Going forward, Mr. Kamran stressed that microfinance industry needs large-scale transformation to become dynamic participant within the overall banking system and to reach out to millions of un-served clients in the country. "This transformation would require energy, creativity, and commitment of all stakeholders. However, fundamental drive and dynamism must come from microfinance players themselves," he added.

"Let us be clear that the complacency, inefficiency, and exclusive reliance on traditional approaches will worsen the problem rather than solving it. The institutions need to develop internal technological resources which provide effective information systems and robust service delivery channels," he stressed. Mr. Kamran said that every institution needs to have long-term business plan which generate revenues to meet all business costs and the approach for perpetual dependence on subsidies is neither sustainable at industry level nor acceptable among the ranks of policy-makers.

Mr. Kamran reiterated that policy makers are committed to provide enabling environment and appropriate support structures to microfinance players. "The sector, however, needs to discontinue dependence on external catalyst and focus on improving its financial and operating performance by setting dynamic targets of borrowers, depositors, portfolio quality, and self-sufficiency," he said and added that the success in achieving the targets will come only if microfinance players align their business plan, management talents, technology resources, and governance structure to best standards.
