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New Microfinance Strategic Framework to promote financial inclusion in Pakistan: Yaseen Anwar

Mr. Yaseen Anwar, Governor, State Bank of Pakistan today said the central bank has laid down a detailed strategy to promote sustainable growth of the microfinance sector in its new Microfinance Strategic Framework 2011-15, which will foster a pro-poor and sustainable development in the country.

In his inaugural speech at the 5th Pakistan Microfinance Country Forum at a local hotel in Karachi this morning, he said that the strategy's effectiveness and success hinges on growth dynamism fundamentally coming from microfinance operators themselves. The State Bank will continue to work with all stakeholders, in order to support this nascent industry, which is expected to be a key driver in expanding financial services to all over Pakistan', he added.

He said that the role of SBP is to develop the banking infrastructure, encourage the use of successful global practices, and provide the regulatory and supervisory mechanism to enable Microfinance Banks (MFBs) to develop viable business models. 'SBP will issue regulatory guidelines to MFBs for up-scaling of loans, and develop a reporting structure to assess the geographic distribution of microfinance growth,' he added.

Mr. Anwar said that the success of microfinance in Pakistan has widely been acknowledged by the international community. 'Our microfinance regulatory framework has been ranked globally at the top in 2010 and 2011 by the independent "the *Economic Intelligence Unit*" an arm of UK's 'The Economist' magazine, he added. The evolution or trajectory of microfinance has so far remained positive despite many challenges, he said, adding that presently, nine MFBs are operating in Pakistan.

SBP Governor said that the recent development in mobile phone banking is highly encouraging. The expansion in the retail network of microfinance has been brought about overwhelmingly from agents and mobile phone channels, he said and added that within a span of just two years, there are now almost 18,000 branchless banking outlets surpassing the 10,000 conventional bank branches.

He said the combined daily transaction volume of the two prominent branchless banking models 'Easypaisa' and 'Omni' now averages over 175,000, with an average size of Rs 3,700. As per an independent World Bank - CGAP study, the small size of the transaction indicates enhanced access to finance by the poor and the marginalized unbanked people, an important milestone for financial inclusion, he added.

Mr. Anwar lauded the role of UKAid and Asian Development Bank in the development of microfinance in Pakistan and said that under the programs sponsored by these donors, a number of market interventions are managed by the State Bank of Pakistan.

He said the Institutional Strengthening Fund (ISF), a UK £10million grant facility launched in December 2008, is intended to strengthen institutional & human resource capacity of MFBs/MFIs to enhance scale and sustainability of microfinance services. 'The ISF has thus far approved Rs. 522 million for 11 microfinance providers including top and middle tier MFBs and MFIs, he said, adding that under the arrangements, the ISF will support 15 projects for investment in HR, IT, product development, risk management systems, business plans and branchless banking development.

Under ISF, the Pakistan Microfinance Network (PMN) was also provided funding support to conduct research and develop the industry's infrastructure such as the testing of pilot Microfinance Credit Information Bureau (MCIB) in Lahore. 'Going forward, ISF will consider how to further support important systemic areas such as upgrading CIB to the national level,' he added.

SBP Governor said that the Microfinance Credit Guarantee Facility (MCGF), a UK £10 million guarantee facility, was launched by SBP in December 2008 to mobilize wholesale commercial funding for microfinance providers through partial guarantees to commercial banks. 'The facility has thus far mobilized commercial funding of Rs. 3225.0 million for four microfinance providers for onward lending to around 200,000 new micro borrowers,' he added.

Going forward, the facility will aim to raise commercial debt from non bank sources, diversifying sources of commercial capital for microfinance providers, he said, adding that the facility will be instrumental in mainstreaming microfinance providers and resolve some of its funding constraints on a permanent basis.

Similarly, the Financial Innovation Challenge Fund (FICF), a UK £10million innovation grant facility, was launched by SBP in May 2011 to provide grants to foster innovation and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the larger demand for financial services, he said, adding that banks, public sector institutions, microfinance institutions, government agencies, pension funds, and academic institutions were invited to apply for the promotion of financial inclusive G2P payments through bank accounts at branchless banking outlets and also provide other financial services to the G2P payments beneficiaries. A number of applications have been received from these institutions, which are now being evaluated for the first round of G2P payments challenge, he added.

He disclosed that SBP has started a pilot Financial Literacy Program (FLP) with the private sector as an implementing partner. The Program is the first ever initiative to promote financial literacy among the general public at the national level, he said and added that the dissemination will be made through TV channels, regional Radio, print media and mobile network operators.

'In addition, field training and street theatres will also be used to target beneficiaries,' he said, adding that the program will impart knowledge about basic financial concepts such as

budgeting, savings, investments, debt management, financial products and branchless banking. 'The pilot phase will target about 50,000 beneficiaries with emphasis on low income strata, he said and added that after completion of the pilot, an impact assessment of the pilot will be conducted and based on the results and recommendation the program will be scaled to the national level.

Mr. Anwar said that though early successes in microfinance industry are laudable, they have yet to create a major dent in the widespread financial exclusion. 'Currently, microcredit is reaching to only 2 million borrowers whereas the size of the target market is estimated to be 25 to 30 million, he said and added that Pakistan has one of the lowest financial penetration levels in the world with 56% adult population totally excluded, and another 32% informally served.

'I would like to reaffirm the need for microfinance development for fostering a pro-poor and sustainable development in Pakistan,' he said and added that microfinance sector needs to discontinue dependence on external catalysts and focus on improving its financial and operating performance by setting targets for borrowers, savers, portfolio quality, and self-sufficiency. 'Considerable work still needs to be undertaken to ensure that all microfinance banks and institutions are acting responsibly. It is also important for the industry to continue to innovate, create new partnerships with the growing branchless banking networks, and to evolve and provide financial access to the unbanked,' he concluded.
