

SBP allows Microfinance Providers to mobilize funding from non-bank sources/capital market

The State Bank of Pakistan (SBP) has allowed microfinance providers (MFPs) to mobilize funding from non-bank sources/capital market under the Microfinance Credit Guarantee Facility (MCGF) by issuing revised Guidelines on MCGF today to all banks/ Development Finance Institutions (DFIs)/ Microfinance Banks (MFBs).

The revised Guidelines on MCGF stressed upon the MFBs/MFIs to explore other local currency funding opportunities such as raising capital by issuance of Redeemable Capital from capital market, thereby increasing funding availability and diversification of sources.

SBP has been encouraging the viable microfinance providers, both the Microfinance Banks (MFBs) and Microfinance Institutions (MFIs), to mobilize local currency funding from banks/ Development Finance Institutions (DFIs) for lending to microfinance borrowers to enhance microfinance outreach. However, it has been observed that funding requirements of MFBs/MFIs have been partially met by banks / DFIs. The revised guidelines have been issued with a view to further easing the funding constraints of the microfinance sector.

SBP has advised all banks/DFIs/MFPs to finalize their funding deals under the MCGF and submit their cases to SBP Banking Services Corporation (SBP BSC) for issuance of Guarantee as per procedure envisaged in the revised Guidelines on MCGF.

It may be recalled that the Microfinance Credit Guarantee Facility is a credit enhancement facility to attract long-term and market-based finance for microfinance institutions. MCGF was launched by the State Bank in December 2008 with £10 million funding support from the UK Department for International Development (DFID) under the £50 million Financial Inclusion Program (FIP) which is being managed by SBP.

The facility offers 25% first loss or 40 percent partial guarantee (*pari passu*) coverage to Banks. The facility is focused on market development and has significantly helped in reducing the risk-perception of banks towards the microfinance sector, thus introducing poor borrowers to mainstream financial institutions.

The facility has successfully overcome some funding constraints of the microfinance providers as 15 guarantees have so far been issued mobilizing private capital of over Rs.4 billion from commercial banks for onward lending to around 200,000 new poor and low-income borrowers. As such the facility is now well positioned to mobilize non-bank financing from capital market and further diversifying sources of financing for micro borrowers.

The revised Guidelines on MCGF have been issued by SBP through AC&MFD's Circular No. 3 dated the 21st June, 2012. This supersedes all earlier instructions/guidelines issued in this regard, the Circular added.

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