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SBP pursuing multi-pronged strategy to tackle the challenge of financial exclusion in Pakistan: Yaseen Anwar

Mr. Yaseen Anwar, Governor, State Bank of Pakistan has said that the SBP is pursuing a multi-pronged approach to tackle the challenge of high financial exclusion in the country. 'In particular, SBP is aiming to develop an efficient and sustainable market-based financial structure meeting the financial needs of the marginalized population of the country including women and young people,' he said while addressing the Closure Ceremony of Term Finance (Sarmaya) Certificate (TFC) of Tameer Microfinance Bank at a local hotel in Karachi this afternoon.

He said that the issuance of this TFC will go a long way in diversifying funding for the microfinance sector. 'I strongly encourage all the financial market players to develop a long term vision for making the financial sector in Pakistan more inclusive,' SBP Governor added.

Mr. Anwar observed that the estimated microfinance market of 25-30 million clients may not necessarily just need credit services. 'It is of utmost importance that the industry should aim to provide holistic and appropriate financial services, including deposit, credit, insurance and remittance services,' he said, adding that the SBP is well aware of the fact that the industry is beset with a number of challenges in the way of achieving this high objective. 'SBP is actively engaged with all stakeholders to address the sector specific challenges in a sustainable manner,' he said.

He noted that the financial sector in Pakistan remains restricted in its outreach both in terms of its depth and breadth. According to the Access to Finance Study of 2008, hardly 12% of the population has access to formal banking services and another 32% is informally served whereas 56% of the adult population is totally excluded, he said adding that similarly in Pakistan, the estimated size of the microfinance market is in the range of 25-30 million clients which indicates that the current level of microfinance access at 2.4 million clients is only 10% of the potential market.

Mr. Anwar said that the SBP with the help of UK's DFID had launched the Microfinance Credit Guarantee Facility (MCGF) in 2008 to match the massive scarcity of funding to the majority of the microfinance market. 'Prior to the launching of this Facility, and apart from one-off funding deals between the few Microfinance (MF) providers and commercial banks, the commercial funding market was nonexistent for microfinance providers and the microfinance industry was severely handicapped and highly donor dependent for its funding needs,' he added.

SBP Governor said the scope of the Facility has recently been enhanced to allow microfinance providers to mobilize non-bank financing from capital markets, further diversifying sources of

financing for micro borrowers, he said, adding that it is heartening to see that a number of microfinance providers, including Tameer Microfinance Bank, while benefitting from the MCGF, has helped the facility to attain this objective.

He briefly shared with the audience that the MCGF of UK £ 15 million has been instrumental in relaxing funding constraints of the microfinance sector in Pakistan which are as under:

- So far, 25 guarantees have been issued under MCGF, mobilizing over Rs. 7 billion for 5 leading MF providers, enabling microcredit access to around 350,000 new micro borrowers.
- The Facility, due to its risk sharing structure has achieved a leverage of 3 times, mobilizing an additional Rs. 5 billion from private capital markets, establishing that microfinance may not be that risky as a business proposition, and
- Most of all, the Facility has engaged 16 commercial banks and recently retail investors in funding the microfinance providers.

Mr. Anwar said the MCGF has helped build links between micro borrowers and banks/DFIs. The familiarization of the banks/DFIs with the client will eventually lead to mainstreaming and graduation of the micro borrower.

The SBP Governor said the Facility has introduced microfinance business to banks/DFIs as banks have to evaluate the microfinance providers which must have helped them develop their own sense of the risks involved in microfinance. As a result, banks are now more willing to invest in micro banking.

Mr. Anwar said the Facility has helped microfinance providers to offer small ticket sizes for retail investors. This has offered small retail investors an alternate channel for investing their savings and earning relatively higher returns, encouraging the concept of micro-savings,' he added.
